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The internal client relationship, demand management and value for money: A conceptual model

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Abstract

This article examines the cross-functional nature of the purchasing process in industrial markets. The authors take the view that on many occasions conflicts of preference will emerge between the purchasing department and its internal clients and affect the ability of the organisation to obtain value for money. This view is explored with reference to the problem of the fragmentation of spend—that is, where an organisation spreads its demand for a product across many suppliers. In the article, a conceptual model for interpreting the internal client relationship is presented. This is illustrated by a case study drawn from the UK's National Health Service.

Keywords: Internal client relationship; Organisational power and politics; Demand management

1. Introduction

It has long been noted in the industrial marketing and purchasing literature that the organisational purchasing process is a cross-functional activity (Webster and Wind, 1972; Sheth, 1973). For some this is not a cause for concern. Trent and Monczka (1994), for example, argue that the cross-functional nature of purchasing merely requires managers to undertake the technical task of compiling an effective cross-functional team. Trent (1998) argues that creating an effective team involves finding the right balance of functional representation, the right team size and the right leader, and then supporting that team with appropriate training.

Others, however, are less sanguine and believe that the involvement in the purchasing process of managers from many different functions inevitably means that there will be conflict over both the ends and means of an organisation's purchasing strategy (Sheth, 1973; Ryan and Holbrook, 1982; Jackson et al., 1984; Kohli, 1989; Ronchetto et al., 1989; Smeltzer and Goel, 1995). This conflict, it is argued, will often have a significant impact on the value for money (vfm) outcome achieved by the buying organisation, as it will often affect the manner in which the organisation presents itself to the supply market. For example, it is said that conflict between the purchasing department and its internal client can lead to over-specification, maverick buying, the premature establishment of the specification and the fragmentation of spend (Watson and Lonsdale, 2003).

These two different perspectives on the cross-functional nature of the purchasing process reflect a broader divide within the management literature.[1] Either side of the divide

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[1]Some observers would add a third perspective to the two broad approaches outlined above—what might be called the professional perspective (Freidson, 1986). This perspective is, in some respects, a hybrid of the other two. This is because the possession of specific technocratic/professional expertise on the part of particular functional specialists would appear to imply that some members of an organisation are better placed than others to take decisions on a scientific basis. This is certainly what many professionals would claim. And, indeed, on the face of it, the argument appears to have some merit. The reason one uses a plumber, electrician or doctor, for example, is because the professional 'knows' more than the non-expert does. However, to many writers within the professional perspective, an uncritical acceptance of the claims of the expert ignores the fact that much of their knowledge is partial, incomplete and highly contestable. Such an acceptance would also ignore the fact that the professional may seek to use his or her professional status to extend his or her influence into areas where he or she has no particular claim for being competent. In this sense, formal knowledge is simply another

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are those that see organisations as acting in an essentially rational manner and those that believe that organisations are essentially political entities that usually proceed on the basis of conflict and bargaining (Pfeffer, 1981). The authors fall firmly into the latter camp. Consequently, this article explores the existence and consequences of conflict in the purchasing/internal client relationship. It does so with particular reference to the problem of the fragmentation of spend, defined here as a situation where, to varying degrees, the demand of an organisation for a particular category of good or service is divided between many different suppliers.

Some degree of fragmentation in an organisation's spend is only to be expected, arising as it does from the divergent technical and organisational requirements of different departments. However, problems arise for organisations when fragmentation exceeds its 'natural' level. Two consequences are particularly important. First, excessive fragmentation can inflate transaction costs, as the organisation has to establish and execute trading relations with an unnecessary number of suppliers. Second, and of most interest to this article, the excessive balkanisation of an organisation's spend can reduce its leverage over its suppliers. This is because fragmentation can lead to an organisation providing neither a high volume of demand nor an account that is easy to service. In the worst case scenario, an organisation can come to be seen by a supplier as a 'nuisance customer' (Michels and Yakos, 2003). Such customers, not surprisingly, usually receive poor vfm.

The article is in two parts. First, the authors outline their model concerning the cross-functional nature of the purchasing process, particularly in relation to the problem of spend fragmentation. Second, the authors illustrate the operational implications of their model by presenting a case study. This is taken from the UK National Health Service (NHS). The case shows both the organisational causes and commercial consequences of the fragmentation problem in the health organisation concerned. It should be noted that the role of this case study is merely to assist readers in their understanding of the model. There is an argument to be had as to whether the problems contained within the case are common across the NHS. That argument is beyond the scope of this essentially theoretical article.

2. Organisational demand management and the problem of fragmentation

The starting point for effective purchasing and supply management is effective demand management. It is critical that buying organisations develop appropriate specifications, avoid unnecessary changes to specifications, adopt regular demand patterns where possible and rein in the amount of purchasing that takes place outside of its commercial rules—often referred to as 'maverick buying' (Supply Management, 2001; Cox et al., 2003). It is also critical that buying organisations do not excessively fragment their spend for particular goods and services—that is, spread their demand across an unnecessarily large number of suppliers (Walker et al., 2003). This is partly because of the transaction cost implications. However, it is mainly because fragmentation can affect the way in which the buying organisation is viewed by its supplier. Suppliers segment their customers. Although during face-to-face contact it might appear that they treat all customers alike, behind the scenes they rank their different customers in accordance with the contribution that each makes to their commercial objectives.

Whilst volume is not everything (Johnson, 2003), if we look at the criteria that the sales and marketing teams of suppliers use to undertake customer segmentation, the dangers of the excessive fragmentation of spend can be clearly identified. A standard method of segmentation sees customers being classified on the basis of the attractiveness of the account they provide and the value of the account they provide. The first criterion relates to the ease with which the account can be serviced, and the extent to which the account furthers the strategic objectives of the supplier. The second relates to the contribution that the account makes to the supplier's turnover (Turnbull and Volkiewski, 1995; Michels and Yakos, 2003).

Where customers provide accounts that are both attractive and high value, they are deemed 'core' customers. Under such circumstances, the supplier will look to delight the customer by offering high levels of service and product functionality. Suppliers will make great efforts to retain such customers. They will behave in a similar manner in the case of a second category of customer—those customers that provide accounts that, whilst small in financial value, are attractive to service. Such customers are termed 'development' customers and the aim is to increase levels of business with them.

A third category of customers, termed 'carriage trade', provides the supplier with an account that is moderate, both in terms of volume and attractiveness. Such customers assist suppliers in spreading their fixed costs and, therefore, whilst not being priority customers, receive reasonable service. A fourth category presents suppliers with something of a dilemma. These customers, termed 'exploitable', provide the supplier with a high volume of business, yet of a type that is relatively unattractive to service. Such customers, once identified by the supplier, may well experience, if the supplier's overall customer portfolio permits it, a reduction in the vfm they receive. This is because the supplier may well be prepared to lose such customers' business rather than continue with such unattractive accounts.

(*footnote continued*)
mechanism for extending one's power (Johnson, 1972; Freidson, 1986). It is the contention of the authors that it is this that is happening in the context of many procurement decisions. As such, the authors see the professional perspective as a sub-set of the broader 'political' approaches, rather than as a distinct alternative.