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A Maturity Model for Customer-Dominated Relationships
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A Maturity Model for Customer-Dominated Relationships

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Introduction

In recent years, the relationship between buyers and suppliers has received considerable attention. There is a growing recognition that the management of buyer-supplier activities offers significant opportunities for firms to create strategic advantage and achieve extraordinary financial performance. Traditionally, supply chain function was restricted to just the purchasing activity, where the relationships between suppliers and buyers tended to be adversarial. However, with an acknowledgment of the strategic impact of supply chain domain many organizations are now moving towards a more collaborative approach.

Market pressures for increased product complexity and variety based on a wide range of technologies and response at higher levels of quality and reliability but declining cost have demonstrated that few, if any, organizations can do it all by themselves. Consequently, they need to supplement their core competencies by allying with other providers of complementary competencies to satisfy their customers. The real productivity, design and quality improvements are not obtainable unless the supplying partners innovate to the best of their abilities in conjunction with them. Hence, many organizations recognize that their ability to become world-class competitors is based to a great degree on their ability to establish high levels of trust and cooperation with their suppliers.

The objective of the study is to find the factors that define a buyer-supplier relationship in a customer dominated environment. These factors will then be explored to find the stages through which this asymmetric relationship moves towards symmetry. This model can be used to assess the present level of relationship and steer it towards a more symmetric power balance. The primary research design used is the multiple case study method. A group of 3 dyads (supplier-customer) will be analysed in a case study format to validate the research questions and the model. The primary actor of analysis for this research is the supplier.

Review of Existing models

Supply chain relationship models first emerged in the purchasing and supply sector in the mid-1990s. In this paper 3 such models have been reviewed. Starting with the supply chain position matrix described by Hines (1994). Hines' supply chain position matrix is an early model developed in the purchasing and supply sector. It is characterized by a generic customer-supplier relationship. The Hines' model is a continuous representation model having 4 levels of maturity. It represents two levels of relationship and two levels of partnering.

The model of partnering (Ellison and Miller, 1995) focuses on the working relationship in a client-contractor type of supply chain relationship. The model has its bearings in the construction

business. This model also has 4 levels of maturity in which a relationship spectrum is from transactional to partnership level. The model focuses on the approach of joint problem solving as a key criterion to gauge the position of a relationship on the transactional to partnership spectrum.

The third model is the power regime in supply chain model (Cox et.al, 2004). The model focuses on the dyadic relationships across the supply chain from the initial supplier to the final customer. The alignment and misalignment of the supply chain relationships given the power regime of the structure is discussed. The author illustrates the relationships and discusses the alignment through 12 case studies. Finally the model classifies all strategies on the basis of adversarial-non adversarial and arm's length and collaborative spectrums.

Research Questions and Proposed Framework

The literature review and the analysis of the frameworks used for assessing the maturity of customer-supplier relations clearly shows some gaps in the present form. Majority of the frameworks assume the customer and the supplier to wield equal power in the relationship. All the frameworks also ignore the impact of the industry domain in which the relationship rests. In most of the frameworks that were analysed it seems that all factors have to be met for a firm to move from one stage of maturity to the next. However this may not be the case in reality. It may so happen that a firm may be displaying variable levels of maturity for different factors of the model.

Given this background the approach taken to determine the maturity model for the customer dominated is centred around answering a few critical research questions.

Research Question 1:

What are the factors that capture the maturity of a buyer-supplier relationship in a customer-dominated dyad?

Based on an extensive literature review on the subject of supply chain relationships and relationship models it was found that the following factors best capture the extent of maturity in a relationship:

- Objective Alignment
- Trust
- Level of Support
- Communication
- Risk Allocation
- Continuous improvement

- Flexibility orientation
- Increasing bargaining power

Research Question 2:

How do the maturity levels of a buyer-supplier relationship in a customer dominated dyad evolve?

The literature review and analysis of frameworks used in the extant literature on the maturity models leads to the formation of four levels of maturity. In the new model, four maturity levels are adopted to describe the progression of relationship improvement from confrontation, through limited cooperation and short-term collaboration, to close and long-term collaboration. They are named “Transactional”, “Co-ordination”, “Co-operation,” and “Collaboration.” The first two levels represent traditional relationships whereas the last two levels represent strategic relationships. The second level, “Co-ordination,” can be regarded as a transition from traditional to co-operative. Such a division also provides an appropriate balance between traditional relationships and strategic relationships.

Research Question 3:

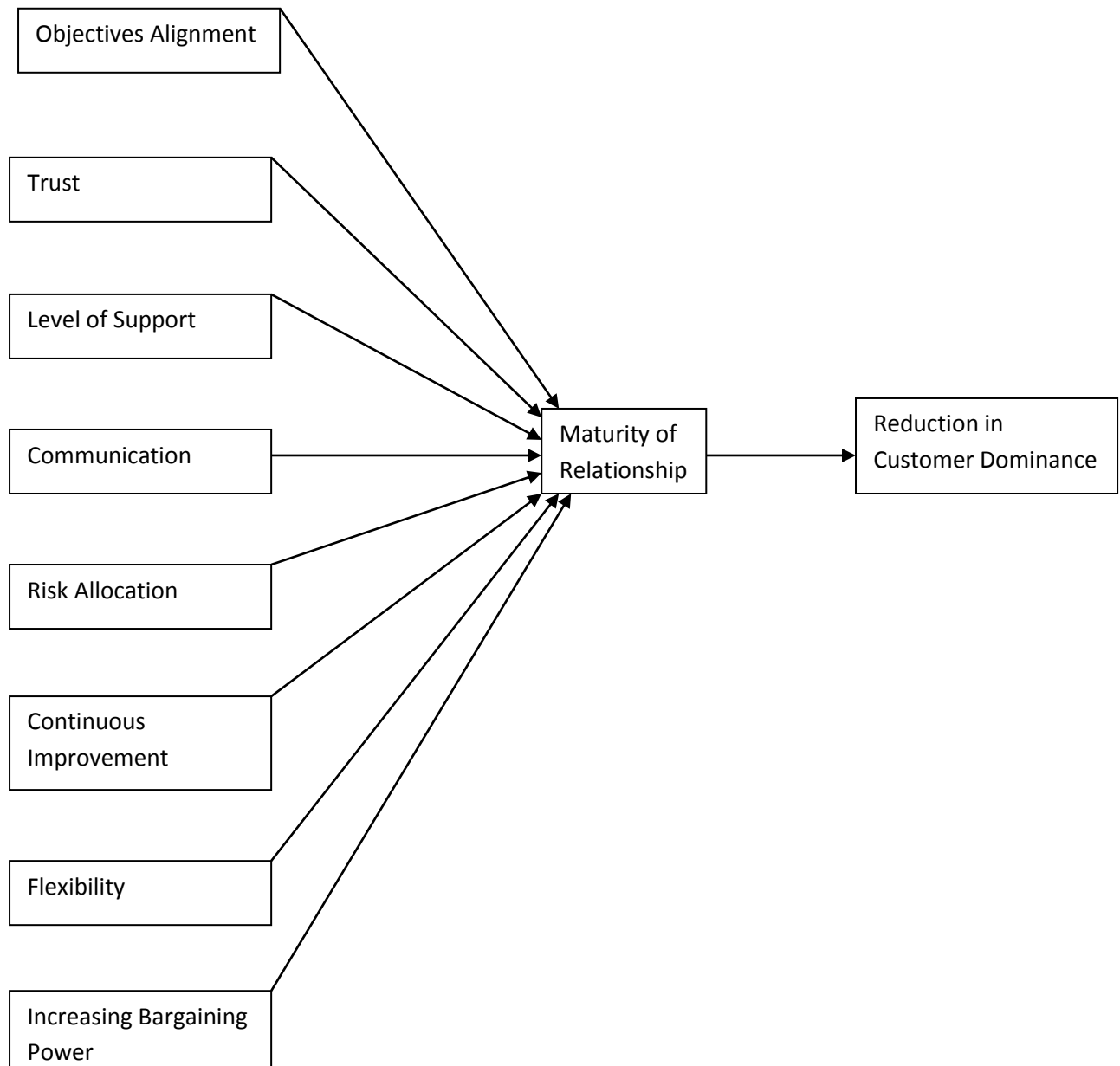
How can a supplier assess its level of maturity according to the model? How can it progress from one level to another?

Unlike the other models of maturity that have a water-tight compartmentalization of the different stages this model follows a flow based transition. Thus a firm need not confirm on all the 8 criteria and the sub-criteria to qualify as being in a particular stage in its relationship. A firm that is qualifying for a majority of the criteria of a level may consider itself placed in that level. However it needs to work on the non-qualifying level criteria according to the level it finds itself in. For example, a supplier in a customer-dominated dyad may observe that it qualifies 5 of the 8 criteria of Level 2 so broadly it has reached level 2. However it needs to work on the rest of the criteria, according to the level in which the criteria fall.

The progress from one level to another can only be ascertained if 5 of the 8 criteria make it to a level. As a representative case of a supplier who has 5 criteria in level 2 and 3 criteria in Level 3 the firm is broadly believed to be in level 2 of its relationship. To move from level 2 to level 3 at least 2 of the criteria from level 2 should move to level 3. In an extreme case where a firm has 2 criteria in each of the 4 levels the firm should treat the broad level of its relationship as the level in which the majority of the first 4 levels fall. In case even the first 4 criteria are evenly split the firm

should find where the level in which the fifth criterion - ' risk allocation' falls and should take this as the broad classification of its relationship level. It also is possible that the firm degrades in its position from one level to another and thus should follow the same rules as above to find its overall relationship level.

Conceptual Model



Key Insights

The key insights that this research gathered are listed below:

- 1) The higher the alignment of objectives more mature is the relationship in a customer dominated dyad thus decreasing the dominance of the customer.
 - i) As the benefits of a relationship increase the relationship becomes mature and the customer dominance decreases
 - ii) As the transactions/work in a relationship becomes more continuous the relationship matures and the customer dominance decreases
- 2) The higher the trust between the two parties to a dyadic customer-dominated relationship the higher is the level of maturity and the lower the dominance of the customer.
 - i) The more highly ranked the supplier status of your firm is the more mature is the relationship and the less is the customer dominance
 - ii) As a relationship has the nature of contracts move from bidding and tendering process to negotiations the relationship matures and the customer dominance decreases.
 - iii) The need for third party enforceability of contracts decreases as relationships mature and the customer dominance decreases.
- 3) The extent and level of support increases as the relationship in a customer-dominated dyad matures. This also leads to reduction in customer dominance.
 - i) As the working relationship changes from adversarial to non-adversarial the relationship matures and the customer dominance decreases.
 - ii) As the culture evolves from 'blame-game' type to a 'problem solving' type the relationship matures and the customer dominance decreases.
- 4) As the level of communication between the partners of a dyad increase the relationship matures and the customer dominance decreases.
 - i) As the informational exchange increases and become more structured between the partners of a customer-dominated dyad the relationship becomes mature and the customer dominance decreases.
- 5) As Risk allocation practices improve in the partnership the relationship in a customer-dominated dyad evolves and becomes less customer dominated.
 - i) As the parties start sharing risk the relationship matures and the customer dominance decreases
 - ii) As the allocation of risk changes from adversarial to joint allocation based on risk handling capability in the long term the relationship matures and the customer dominance decreases.
- 6) As the continuous improvement efforts in the relationship increases in a customer-dominated dyad the relationship matures and becomes less customer dominated.

- i) As common measures for performance measurement evolve the relationship matures and the customer dominance decreases.
 - ii) As the frequency and the level of feedback increases the relationship matures and the customer dominance decreases.
- 7) As firms in a customer-dominated dyadic relationship become adept at being flexible the relationship matures and the customer dominance decreases.
 - i) The higher the delivery flexibility offered by the suppliers and accepted by the customers the more mature is the relationship and lesser is the customer dominance.
 - ii) The higher is the after sales support by the supplier the more mature is the relationship and lesser is the customer dominance.
- 8) The more efforts the supplier puts in increasing its bargaining power with the customer the higher is the maturity of the relationship in a customer dominated dyad and the lesser the customer dominance
 - i) As a supplier makes mergers and acquisitions to generate relational rents the relationship becomes mature and the customer dominance decreases.
 - ii) If a customer -supplier relationship changes into a Joint Venture (JV) the relationship matures and the customer dominance decreases.
 - iii) As a cross exchange of board members between the boards of the buyers and suppliers happens the relationship matures and the customer dominance decreases.

Conclusion

Based on an in depth study of the dyadic relationship of three dyads in a customer dominated scenario several points on such relationships come to light. There needs to be a clear benefit perceived by both the parties for the relationship to work. Relationships in which the benefits are clearly understood are stronger. Continuity of work too is important and irons out indifferences that may exist between the customer and supplier. Objective alignment thus is an important foundation for moving towards maturity in a relationship. The case study evidences also point out a decline in customer dominance as objective alignment improves.

Trust is a derived value that gets generated over a series of positive encounters between the customer and the supplier. In all the cases it may not be necessary that a customer bestows a special supplier status to any of its suppliers but there is an implicit classification followed by every customer for its suppliers. Some suppliers are treated better than others based on the volume and value of transactions. Tendering, open bidding, reverse auctions are all types of contracting techniques used by customers when they have no relationship or very arm's length transactional relationship with their

suppliers. Use of joint planning, long term contracts and negotiations are all signs of a maturing relationship. Enforceability in most cases is kept internal, as the partners do not want a costly third party enforcer to arbitrate in their transactions. By involving the supplier in the planning process the customer creates a more empowered role for the supplier thus leading to a decline in customer dominance.

A collaborative relationship is underlined by non-adversarial relationships. The partners to a dyad understand the total value that can be created by each one of them working individually and collectively. Therefore both parties make trade-offs that lead to a win-win situation for the relationship overall. As the parties move away from a blame game type of culture to a more problem solving environment the relationship seems to mature faster. This does not mean that there are lesser problems that come up in the relationship it just means that most of the problems are solved instead of being sidestepped.

In most relationship communication forms a bedrock of success. Information is very critical and guarded heavily by most companies however companies who can learn to share the necessary information with their partners can have a more fruitful relationships. Most firms however seem to be more open about knowledge sharing compared to informational sharing. The direct benefits of knowledge sharing routine in these case studies however could not be established with conviction. However, the partners to a dyad do feel that improvement in communication helps the relationship and helps set right expectations for both the partners in a dyad. The suppliers also feel that open communication does lead to a decline in customer dominance.

Risk is inherent in most dyadic relationships that have a transaction of money and material involved. The risk can be divided into credit risk, position risk (commodity risk), currency risk and counterparty risk. Most of the partners believe that by sharing risk they are able to secure their interests in the relationship better. The partners in this case study also feel that by improving risk allocation their relationship has become stronger. Most partners feels that by following robust risk allocation practices their relationship has matured. The suppliers feel that risk sharing has lead to a decline in customer dominance.

It seems that joint efforts like Six Sigma, Kaizen, 5S and other such continuous performance improvement efforts do not get espoused in the same way by suppliers as they are by the customers. It is also clear that performance improvement matrices or frameworks are extremely important to both parties and have some common features. These performance measures may not be laid out explicitly. However, both parties tend to gain relational advantage as they share the performance measurement criteria and use them to improve. Thus periodic feedbacks seem to benefit both the parties whether these feedbacks are planned or unplanned. The case studies did not give a clear idea about how incentives are useful in the continuous improvement efforts of both the parties. Thus the impact of

continuous improvement efforts in developing mature relationships and reducing customer dominance could not be clearly proved.

Flexibility is an aspect that most suppliers felt can be clearly used as a tool to level the relational playing field. Customers demanded flexibility in the quantity, time and location of delivery and felt that they had a better relationship with suppliers who were able to fulfil these demands. The level of after sales support however was restricted to just taking back and replacing the poor quality stock from the customer. Thus by offering higher flexibility especially in delivery to the customer the supplier was able to reach a higher level of maturity in the relationship. However, the customer dominance still remained as most of the customers demanded this flexibility from their suppliers.

Mergers and Acquisitions (M&A) and Joint Ventures (JVs) were both important parts of cementing the relationship and generating additional rents from the relational assets (Dyer, Singh, 1998). The board membership however only seemed to work in the case where the supplier and the customer were a part of the same conglomerate. The organisational alignment for generating additional rents from existing relationships did lead to a higher level of maturity. It also brought the customer and the supplier at the same pedestal thus reducing the customer dominance.

Final Maturity Model for Customer Dominated Dyads

Criteria/ Sub-Criteria	Level 1 <i>Transactional</i>	Level 2 <i>Co-ordination</i>	Level 3 <i>Co-operative</i>	Level 4 <i>Collaborative</i>
Objectives Alignment				
Benefits				
Continuity of Work				
Trust				
Supplier Status				
Contracts				
Enforceability				
Level of Support				
Working relationship				
Culture				
Communication				
Informational exchange				
Risk Allocation				
Risk sharing				
Allocation principle				
Continuous Improvement				
Performance measurement				
Feedback				
Flexibility				
Delivery flexibility				
After sales support				
Increasing Bargaining power				
Mergers and Acquisitions				
Joint Ventures				
Board Memberships				