

Chapter 66

Being a Preferred Customer of Leading Suppliers and Its Impact on Supplier Contribution to Innovation

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ABSTRACT

In this chapter, the authors introduce the concept of preferred customer status as a means for creating supply-side induced advantages in highly competitive supplier markets. For the authors, being a preferred customer means that a buyer is awarded preferential treatment of important suppliers compared to what their other customers receive. Taking this into account, having Preferred Customer Status might also have a positive impact on the generation of innovation upstream the supply chain. As there is a lack of knowledge of what motivates suppliers to serve selected buyers better than others, the research presented here focuses on the suppliers' evaluation of customers and how it can be influenced by buyers. Based on an extensive literature review, an overview is provided of recent contributions on customer attractiveness and supplier satisfaction as the prerequisites for becoming a preferred customer of strategic suppliers. Furthermore, the authors stress the importance of being a preferred customer particularly in a new product development context by empirically testing the impact of preferred customer status on supplier innovativeness in a buyer-seller relationship. They conclude that implementing a preferred customer policy in buying firms can improve the conditions for innovating with suppliers.

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INTRODUCTION

The role suppliers play in business success of firms and - in connection - the importance their benevolence may have for buyers have substantially increased in the last decade. A prominent case here is the issue of innovation. Innovations are one of the basic ways in which a business can build and maintain a competitive advantage in the marketplace (Drucker, 1954). New product and process development has increasingly been analyzed from an 'open innovation' perspective, based on the argument that innovations are developed through the interplay of different parties from different organisations (Chesbrough, 2003; Edquist, 1997; Freeman & Soete, 1997; Steinle & Schiele, 2002; Trott & Hartmann, 2009; von Hippel, 1988). Still, the upstream part of open innovation (i.e., innovativeness of the supplier in the sense of successful early supplier integration in innovation processes with the buyer) has received less attention (Johnsen, 2009). To access external sources of technology, buyers strive for a network of 'innovation-suppliers' and willingly enter into close relationships with such suppliers (Clark, 1989; Handfield et al., 1999; Hartley et al., 1997; Primo & Admundson, 2002; Ragatz et al., 1997; Schiele, 2006; Tracey, 2004; Wagner, 2009; Wasti & Liker, 1997). However, identifying, cultivating and taking advantage of a wide variety of external sources for innovation poses several new managerial challenges:

The first challenge managers thereby face is to find suppliers who exhibit the required capabilities and expertise for innovation. As highly competent supplier markets are often characterized by an oligopolistic market structure, suppliers are scarce and hard to find.

The second challenge buying firms have to deal with is the problem that strategic collaboration increases supplier specificity. This is the case, when a supplier deepens his knowledge of the product or technology during innovation processes. The buyer and other competitors run the

risk of gradually losing their full understanding of the progress that the supplier has made in solving the problem at hand (Cohen & Levinthal, 1990). This phenomenon eliminates potential competitors and alternative sources of supply and makes the (non)competitive market situation even worse (Laaksonen et al, 2008).

Due to the scarcity of high-skilled, innovative suppliers, the latter may not dedicate their resources equally to all customers, and become highly selective. In order to ensure that suppliers offer up innovative ideas in product development and manufacturing processes, buying firms must be more attractive for these suppliers than their competitors are. In this highly competitive environment, being a preferred customer is very important for buying firms and, potentially, essential for future success. This means that achieving preferred customer status with key suppliers could be one solution for the challenges the current supply market situation poses to upstream supply chain innovation. It creates the best conditions for innovating with supplier and competing with rivaling customers. We argue that a firm is preferred customer of its supplier, "if the supplier offers the buyer preferential resource allocation" (Steinle & Schiele, 2008, p. 11). Therefore, buyers may benefit from taking into consideration factors that motivate suppliers to award preferential treatment to selected customers and ultimately from answering the question of what can be done to become the preferred customer of leading suppliers.

Despite the apparent significance of preferred customer status, its drivers and impacts on supply chain performance remain largely unexplored in current literature. Although there have already been some attempts to study the antecedents of preferred customer status such as customer attractiveness or supplier satisfaction, there is still a lack of theoretical understanding and empirical analyses. Some authors show that a high level of customer attractiveness and supplier satisfaction helps to ensure the prime commitment of capable suppliers (Christiansen & Maltz, 2002; Ellegaard

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