NORTH-HOLLAND

Making the Most of Supplier Relationships

Lars-Erik Gadde
Ivan Snehota

The supply side is on top of the management agenda in most companies, reflecting an increasing strategic attention to benefits that can be gained from cooperation with suppliers. In particular, partnering has been suggested to be the superior solution for making the most of supplier relationships. It is argued in this paper that this recommendation oversimplifies the issues involved and, if followed blindly, may be bad for practice. Developing partnerships with suppliers is resource-intensive and can be justified only when the costs of extended involvement are exceeded by relationship benefits. The article examines the economic consequences following from different degrees of involvement with suppliers. Our conclusion is that a company can be highly involved with only a limited number of suppliers and needs a variety of relationships—each providing its different benefits. Furthermore, it is discussed how the extent of involvement relates to the economic importance of the supplier, the continuity of the relationship and the sourcing strategy of the buying firm. The core of our argument is that the capacity to cope with a variety of relationships in differentiated ways has a profound impact on performance. When the approach of the buying firm shifts from purchasing to making the most of supplier relationships, a richer analytical framework is required to deal with the complexity of the new task.

THE CHANGING SUPPLY SIDE IN BUSINESS

The strategic importance of the supply side in companies increased considerably during the two last decades of the 1900s. These changes are commonly referred to as a shift from purchasing to supply management [1]. According to this perspective, competitive advantage no longer resides with a company's own innate capabilities, but rather with the relationships and linkages the firm can forge with external organizations [2]. Forging these linkages required a revision of the prevailing perspectives regarding purchasing efficiency and the role of suppliers [3]. It has been particularly emphasized that buying companies tend more and more:

Address correspondence to Lars-Erik Gadde, Department of Industrial Marketing, Chalmers University of Technology, SE-412 96 Gothenburg, Sweden. E-mail: laga@mot.chalmers.se

Industrial Marketing Management **29**, 305–316 (2000)

655 Avenue of the Americas, New York, NY 10010
0019-8501/00/$–see front matter
PII S0019-8501(00)00109-7

No general "best" type of relationship exists.

- to outsource non-critical activities;
- to establish close "partnership" relationships with suppliers;
- to reduce and trim their supplier bases.

Our impression is that these changes in supply strategy reflect a growing awareness of the role supplier relationships can play in a company's strategy and are an attempt to better exploit this potential. This evolving perspective on purchasing efficiency has been beneficial to many companies and has been generally received by researchers and consultants with acclaim [2].

Outsourcing to suppliers is linked to business strategies aiming at enhanced specialization and at a focus on core competence. Increasing technical complexity and diversity make it more and more difficult for a company to stay at the cutting edge in several different areas of technology at the same time [4]. Earlier recommendations of arm's length relationships to suppliers to avoid dependency and keep prices down have been replaced by an emphasis on the benefits that can be reaped from close relationships [5]. Today, it is argued, companies " . . . both large and small are making partnerships with suppliers a foundation of their supply strategies" [6]. Furthermore, many companies have reduced their number of suppliers considerably [7] because partnering is resource-intensive and can be managed only with a limited number of suppliers.

The problem is that, in many cases, these changes have been presented as transitions from something old and obsolete to something new and up-to-date. In particular, there has been a tendency to portray close relationships to suppliers as the superior solution for making the most of supplier relationships. We believe that such a view is often based on blurry assumptions, oversimplifies the issues involved and may be bad for practice. Outsourcing, partnering with suppliers and reduction of the supplier base can be effective options in a supply strategy, but they are not always the only means that companies have to make good use of suppliers. A more nuanced and balanced view is required.

In this paper, we argue that a more differentiated approach is needed to make the best use of supplier relationships. A framework is developed for analysis of the dimensions in supplier relationships that are important for choices of supply strategy. The main argument presented is that the most critical element of supply strategy is a company's capacity to handle various types of supplier relationships.

LARS-ERIK GADDE is a Professor at the Department of Industrial Marketing at the School of Technology Management and Economics, Chalmers University of Technology, Gothenburg, Sweden.

IVAN SNEHOTA is an Associate Professor at the Department of Marketing at the Stockholm School of Economics, Sweden.

COPING WITH SUPPLIER RELATIONSHIPS

Making good use of suppliers is a complex task for at least two reasons. The first is that the economic consequences are difficult to assess. The critical supplier relationships of a company are often complex in terms of the range of products and services supplied and people involved. The second is that companies can exercise only limited control over a vendor. Suppliers pursue their own business logic in relationships to customers. Buyer–seller relationships are interactive and solutions applied are continuously changing—the resulting uncertainty and ambiguity cannot be escaped. Problems that arise between the supplier and the customer are solved in interaction. Any substantial intervention in a supplier relationship is likely to have a number of rather complicated consequences.

There is a common illusion that choices that add up to the profile of a company's supply strategy are an outcome of distinct "strategic decisions," taken periodically by top management. This is, at best, a rationalization in hindsight. Even if, and when, such decisions are taken they are almost always immediately amended, modified, and changed as managers involved discover that something either does not work or could be done better. Im-

> Assessing relationship consequences is difficult.

pulses for these changes come to large extent from interacting with suppliers and the solutions adopted add up to changes in supply strategy. However, this does not mean that strategizing (i.e., reviewing the way in which the supply side is handled in a broader perspective) is pointless. On the contrary, it is important to take a wider look at the complex set of operational activities on the supply side as guidance to the decisions and choices. So strategizing makes sense when it is based on realistic pictures of how the supply side in companies works.

Companies make different use of supplier relationships, depending on the nature of their business, the kind of technology used and the context in which they operate. The supply side is characterized by continuous changes in these relationships. Over time, companies modify the *scope of supplies*. They rely on external suppliers to varying extents. For some companies the added values are high and the incidence of purchasing in relation to the total cost is only limited; for others, purchasing is the dominant portion of the total costs. Further, buying firms change the *configuration of the supplier base*. Some companies have thousands of suppliers as their operations make use of many different items. Typically, however, few materials or components dominate, account for the major portion of purchasing costs and are concentrated to only a limited number of suppliers. Finally, companies develop different *postures of supplier relationships*, i.e., ways of handling and dealing with individual suppliers. In some relationships there are close interpersonal contacts, in others vendors are kept at arm's length distance. Joint product development projects are undertaken with some suppliers, while others are typical subcontractors relying on customer specifications. Certain suppliers deliver just in time, while buffers and inventories characterize the material flow in other relationships.

On the whole, it appears to be justified to have different types of supplier relationships coexisting within one and the same company. This fact makes generalized solutions problematic to apply and implies a need for a set of criteria to provide guidance for effective supply strategy development. Such criteria have to be based on the business logic and insight into the cost-benefit consequences of supplier relationships.

Economy of Supplier Relationships

No business can do without suppliers and, as a rule, there is a notable continuity in relationships to suppliers [8]. The set of suppliers a company uses reflects the nature of its operations. The actual supplier relationships represent one of the most important assets the company can make use of. As with all other assets, the value is not absolute but context dependent.

Some supplier relationships are important because of the volume of business they represent, others because they affect the future of the company in that they are sources of technical development and important for product quality and performance. The impact of a specific supplier relationship depends on how it fits into the operations and the strategy of the buying company and how other supplier and customer relationships are affected. This means that the role and value of a particular relationship cannot be assessed from its product/service content only.

Various technical, commercial and organizational solutions in a supplier relationship, and any change in the actual arrangement, ultimately affect costs and benefits of both companies. Some consequences are quite easy to expose, measure and quantify; others are less obvious, more indirect and more difficult to measure, but no less important. Our impression is that the recent changes on the supply side of companies have been spurred by the fact that some of the important but less obvious and immediate economic consequences have been revealed.

In order to develop effective supply strategy, companies need to understand the multiple economic consequences of changes in relationships. This approach makes it necessary to consider the costs they entail and the benefits to which they can give rise. The broad categories of costs and benefits of supplier relationships are illustrated in Figure 1.

High involvement is costly.

The most obvious item on the cost side is what shows up on the invoice from the supplier, i.e., the "direct procurement costs." These costs are generally easy to identify and measure. The direct procurement costs have always been the focus of purchasing attention. But there are other costs that originate in supplier relationships as well. Every purchasing transaction is associated with other expenses such as costs of transportation, goods handling, ordering, etc. These costs, "direct transaction costs," may be more difficult to measure, but as a rule they can be traced. Other costs cannot be directly related to specific transactions but to an individual supplier. Some relationships require lots of continuous interaction—and thus costs—for maintaining the relationship and sometimes for investments in terms of adaptations among the counterparts. These costs depend on the extent of involvement with individual suppliers and are identified as "relationship handling costs." Finally, the customer sustains costs that cannot be attributed directly to particular suppliers or specific transactions. "Supply handling costs" are structural and common costs for the purchasing organization as a whole, including communication and administrative systems, warehousing operations, process adaptations, etc.

Assessing the benefits of supplier relationships is a more difficult task than assessing the costs, because the benefits show up less clearly in company accounts. Two categories of relationship benefits can be distinguished—cost benefits and revenue benefits. "Cost benefits" are savings in various costs of operations that can be related to collaboration with suppliers. Numerous examples have illustrated supplier contributions to efficiency improvements through, for example, joint efforts in product development and integrated logistic operations. Cost benefits are tricky to measure—and even to identify—owing to interdependencies between various types of costs and benefits.

The second type of relationship benefits are the "revenue benefits" which represent the economic consequences of supplier relationships that are related to the income side of the financial statement. Revenue benefits arise when a solution in a relationship increases the revenues of the buying company. They are extremely difficult to assess, as they are usually indirect and linked to improvements in product quality or performance that affect the competitiveness of the customer. While there is no systematic evidence of these benefits, there are many examples of companies that have achieved substantial product innovation and quality improvements by making better use of suppliers [1, 2, 3, 4, 5].

We have shown that not all the various costs and benefits related to a supplier relationship can be calculated. In spite of this a management assessment of potential consequences is imperative when any major intervention in a relationship is being considered. Trying to balance all the various cost and benefit consequences of a potential change in strategy can lead to radically different decisions than those based on a partial evaluation.

One major point that becomes apparent is that the economic consequences cannot be evaluated only from the content of the relationship. The value of a supplier relationship stems to large extent from how it fits into the operations of the customer and its other relationships. The

Relationship costs	Relationship benefits
- Direct procurement costs	- Cost benefits
- Direct transaction costs	- Revenue benefits
- Relationship handling costs	
- Supply handling costs	

FIGURE 1. **Economic consequences of supplier relationships.**

Partnership benefits are not reaped automatically.

economic consequences of one and the same solution will be different in different companies and are likely to change over time as the company operations and its other relationships change. The critical aspect of supply strategy in this respect is the posture of each individual relationship.

The Posture of Supplier Relationships

A review of the current literature reveals a general consensus on the importance and merits of "partnership posture" in supplier relationships. It has even been remarked that the type of relationships firms develop to suppliers will be the main source of future competitive advantage [9]. At the same time, feelings of confusion have been voiced about what exactly a partnership is [6] and in a recent review of the purchasing field [10], we found a warning for overselling "partnership" as a buzzword:

> . . . used by all which read something about management or had attended some seminar or conference and then applied the new label to existing practice in an attempt to look trendy and aware as well as to demonstrate that they had really always behaved in the newly desired way.

There is no easy answer to the question about what makes a relationship a partnership. Common suggestions that partnership is a "close" relationship are vague and do not offer much help. Ford et al., argue that in order to give meaning to "closeness" one has to consider the degree of integration between the buying and the selling company [11]. A recent study [12] shows that the extent of integration between customer and supplier, expressed in terms of the specific investments made by either partner, has a clear impact on the performance of the relationship. A distinction is made between tangible assets (buildings, tools, equipment, and processes), and intangibles (time and effort spent on learning the business partner's practices and routines). There is significant evidence that the size of investments dedicated to a specific counterpart " . . . significantly correlates with practices commonly associated with strategic partnerships, such as long-term relationship, mutual trust, cooperation, and wide-scope relationships" [12].

Focusing on integration is an important step toward a better understanding of the critical dimensions of supplier relationships. It requires consideration of the actual behavior in relationships, rather than relying on a notion of partnerships as a matter of vaguely defined positive attitudes. We need to elaborate further on the extent of integration in relationships, and so we propose "involvement" as a relevant concept. We have found it useful to distinguish three dimensions of involvement that affect outcomes in supplier relationships: coordination of activities; adaptations of resources; and interaction among individuals. We refer to the degree of involvement in the three dimensions as activity links, resource ties and actor bonds [8]. First, the activities carried out at the supplier and customer companies can be more or less tightly coordinated. Examples of tight activity coordination are integrated delivery systems developed to reduce the costs of capital equipment investments and of the material flow. Second, the resources of the companies can be more or less specifically adapted to the requirements of the counterpart. Joint development of customer specific products and dedicated processes, common in many supplier relationships, exemplify the case of extensive resource adaptations. Third, the individuals in the companies may interact more or less intensely. Close interaction among individuals in the two organizations make their choices more interdependent and affect both commitment and trust in the relationship, which in turn impacts on coordination and adaptations.

Some supplier relationships score high on all three of the relationship dimensions and others only on one or two. Let us take an example of supply of a high-volume commodity, such as cement, where intense interaction takes place between many individuals at different production plants and sites, particularly about deliveries, wastage and returns. The production scheduling of the two companies is tightly coordinated, but there are few, if any, adaptations in the products supplied. Another exam-

Low involvement is a viable option.

ple is delivery of specialized components, where we find extensive mutual product and equipment adaptations, but only limited contacts and interaction between individuals and a moderate degree of activity coordination. A third example is a supplier relationship that involves "just in time" deliveries and entails very tight coordination of the activities of the two companies, while the products and processes of both companies are standardized and there is only limited interaction with other functional areas in the companies. The actual variation in terms of links, ties and bonds is, in practice, very large.

High and Low Involvement Relationships

The existence of strong links, ties and bonds describes the degree of involvement of the companies in a relationship. We prefer the concept of involvement rather than integration, because it makes possible a distinction between supplier involvement and customer involvement. In the analysis we refer to relationships characterized by extensive activity links, resource ties or actor bonds as high-involvement relationships and to those that score low on all three as low-involvement.

Focusing on the degree of involvement brings us back to the economic consequences of supplier relationship postures. High-involvement relationships are costly because coordination, adaptation and interaction entail costs. Increasing involvement usually means a substantial increase in relationship and supply handling costs, but may, under certain circumstances, lead to lower direct procurement and transaction costs. However, the main rationale for high involvement is either to achieve cost benefits in terms of reduced costs in production and materials flow, improved flexibility and service levels, or revenue benefits, for instance, through taking advantage of supplier skills and capability to improve the quality of the customer's end product. Increased involvement makes sense only when the consequently increased relationship costs are more than offset by relationship benefits. Reaping these benefits most often requires non-standardized solutions and customer specific adaptations. High-involvement relationships are associated with investment logic.

Low-involvement relationships have their rationales as well. They can be handled with limited coordination, adaptation and interaction costs. Generally this is the case when the context is stable and the content of the relationship can be standardized. In these situations the requirements of the customer can be satisfied by use of existing solutions. This means that no specific product or service adaptations are needed, implying that resource ties are minimized. When activity coordination can be limited to standardized shipments and order processing, the activity links are weak. Finally, when interaction among individuals in the two companies involved can be contained to sales and purchasing administration, the actor bonds will also be limited. The low-involvement relationships are potentially cost effective and require lower relationship handling costs. In practice, however, there may be hidden costs in these relationships. Low-involvement relationships may lead to higher direct procurement costs and transaction costs. On the buyer side, there may be costs for adapting internal resources to fit with what suppliers have to offer. In the absence of tight coordination, the buyer might be obliged to build up inventories to buffer against possible risks. Furthermore, in order to assure availability of supplies, the customer might tend to use many suppliers, resulting in increased supply handling costs.

THE VARIETY OF RELATIONSHIP POSTURES

Most companies make use of a variety of supplier relationships characterized by different degrees of involvement. In a recent study Bensaou found that firms " . . . balance a portfolio of different types of relationships rather than rely on one type" [12]. Companies need both high- and low-involvement relationships, in part because differing degrees of involvement lead to different costs and benefits, in part because the resources that can be dedicated to management of supplier relationships are limited. Accordingly, Spekman et al., have observed that " . . . not all suppliers are created equally, nor should they be" [13].

There is thus an increasing awareness of the need to differentiate the approach to supplier relationships,

Largest suppliers are not always the best partners.

which is in contrast with generalized recommendations to pursue the partnership posture. Dyer et al., advise firms to avoid a "one-size-fits-all" strategy for procurement and argue for supplier segmentation [14], mainly because the best utilization of suppliers requires that resources be allocated to relationships in proportion to expected potential outcomes.

Following the line proposed by Kraljic [15], various criteria have been suggested to establish supplier segments and relationship portfolios. Recent examples include product, market and supplier characteristics [12], and product complexity and commercial complexity [13]. These criteria tend to link differentiation to market or product variables rather than to relationship features. Therefore, they provide only limited guidance for increasing or decreasing the level of involvement in a specific supplier relationship. Our stance is that in order to settle the issue of the degree to which involvement is appropriate, we have to turn the attention to relationship specific features in the actual context of the buying company.

The particular issue of whether and when high-involvement in a supplier relationship is appropriate is often only implied. There are three relationship characteristics that tend to be considered relevant in this respect. The first is the monetary volume of business in the relationship. The second is the continuity of the relationship over time. The third is whether or not the supplier in the relationship is used as a single source. It has been argued that partnership, i.e., a high-involvement approach, is appropriate in supplier relationships with significant business volumes, characterized by stable, long-term relationships, and coinciding with single sourcing. It is further implied that relationships with small volumes of business are best handled with a low-involvement approach and possibly by adopting short-term based multiple sourcing. Below we show that such recommendations tend to oversimplify the issue and do not lead to the best use of supplier relationships.

Involvement and the volume of business in the relationship

In order to explore the relationship between the degree of involvement and the importance of a supplier relationship in monetary terms, we consider the options illustrated in Figure 2. It is generally suggested that high involvement is desirable in supplier relationships that represent major volumes of business for the buying company (A). It is further recommended that low involvement can be practiced in relationships with minor volume of business (D). It is also hinted that (B) and (C) are less appropriate combinations of posture and volume of business.

We argue that both (B) and (C) are viable alternatives in a company's supply strategy. A buying company can only handle a limited number of high-involvement relationships because they are resource intensive. Therefore the customer faces the choice of which of its major relationships should be of type (A) and which must be handled in other ways. Low involvement with a major supplier (C) is appropriate when the potential gains from further involvement are limited, which is often the case

Posture of relationship	**Volume of business with the supplier**	
	Major	Minor
High involvement	A	B
Low involvement	C	D

FIGURE 2. **Relationship posture and volume of business with the supplier.**

Overly detailed specifications kill innnovation.

where standardized product and solutions are concerned and when the supplier lacks the motivation for a high-involvement relationship. The latter imbalance of interests has been shown to be quite common [16]. Savings from reducing the degree of involvement in a large volume relationship can be substantial.

Increasing involvement in relationships with minor volumes of business (B) is an effective approach when the supplier has particular skills and capabilities that are critical to the buying company's own offerings or that represent great development potential. This situation is well illustrated by the example of large pharmaceutical companies that establish high involvement relationships with small innovative companies in biotechnology [11].

The core of our argument is that for decisions regarding the degree of involvement, the current volume of business is an insufficient criterion. The balance of interests and economic consequences owing to changes in involvement has to be explored and assessed. Such assessments may indicate both low-involvement relationships to major suppliers and high-involvement relationships to minor suppliers as viable and effective strategies.

INVOLVEMENT AND RELATIONSHIP CONTINUITY. Several studies have shown that many high-involvement relationships are of a long-term nature [8, 17]. This is mainly because it takes time to develop strong resource ties, activity links and actor bonds and once they have been established they represent investments of major value which makes it worthwhile to continue the relationship. These characteristics provide the rationale for relationships of type (E) in Figure 3.

However, it does not follow automatically that the long lasting supplier relationships of a company are always the obvious candidates for increased involvement, nor does it necessarily mean that short-term supplier relationships are to be handled with a low-involvement approach. Nevertheless, short-term relationships with low involvement characteristics of type (H) are common in many companies because they make it possible to easily switch from one vendor to another. Bensaou's study [12] identified a further type of what was classified as "market exchange." Some buying firms used short-term contracts with suppliers where the relationships " . . . had actually lasted for thirty years with intermittent periods of no business together." This means that even long-lasting relationships can be effectively managed with limited involvement (G). Dyer et al., also observed the existence of "durable arm's length relationships," characterized by " . . . less face to face communication, less assistance, fewer relation specific investments and frequent price benchmarking" [14]. Furthermore, under certain circumstances (F) represents a rational alternative. High involvement in short-term relationships is common, and apparently effective, for example, concerning procurement of equipment and investment goods.

Summarizing the argument with respect to posture and continuity of a supplier relationship we find that high involvement often coincides with long-term relationships. However, not all long-term relationships do require high involvement and in some short-term supplier relationships high involvement may be an effective approach.

Posture of relationship	Continuity of relationship	
	Long term	Short term
High involvement	E	F
Low involvement	G	H

FIGURE 3. **Relationship posture and continuity of relationship.**

Increasing involvement can increase conflict.

INVOLVEMENT AND SOURCING POLICY. High involvement is commonly associated with single sourcing policy and low involvement with multiple or parallel sourcing, i.e., alternatives (J) and (M) in Figure 4. Single sourcing tends to be regarded as a prerequisite for extended integration, as it can be motivated in terms of reduced supply handling costs. Yet, buying firms seem to stick to multiple sourcing for several reasons and argue that by using parallel suppliers they can avoid dependency on individual vendors and limit the risk of discontinuity of supply. Furthermore, multiple sourcing is supposed to promote healthy competition among suppliers as the customer can easily shift orders between different suppliers, which may reduce the direct costs of procurement. However, multiple sourcing can increase hidden costs. By splitting orders between two or more suppliers, a customer will increase its relationship handling costs and be unable to take advantage of any one supplier's economies of scale. This may also prevent the buying company from deriving potential benefits from high involvement. Furthermore, as pointed out by Hahn et al., competition is always associated with certain costs [18].

On closer examination, however, the issues involved appear more complex. There is no straightforward association between the actual posture and the sourcing policy, even if most texts on management of supplier relationships today recommend that companies move toward high involvement with a single supplier. There are good reasons for both high involvement and single sourcing, but the other alternatives in Figure 4 also represent viable and perfectly sound options. Some companies still rely on low involvement and multiple sourcing (M) because it is efficient for them. It has been shown that many purchasing professionals " . . . continue to manage the procurement process with a tactical price-based mentality" [19]. There are documented cases of movement from single sourcing to multiple sourcing and reduced involvement. For instance, a recent survey indicates that 43% of purchasing managers say they have been, at times, forced to change back from single- to multiple-source supply arrangements [20].

The other combinations in Figure 4 are not only possible but also common and desirable. A buying firm may develop high-involvement relationships with two or more suppliers of the same product or service (K) because its customers prescribe which supplier to use. Low-involvement relationship with a single source (L) is another representation of the durable arm's length relationships identified by Dyer et al., [14]. They argue that the traditional notion of arm's length relationships—buyers that frequently rotate purchases across multiple sources—is no longer an economically sensible approach. First, the administrative costs associated with managing a large number of vendors outweigh the benefits and by using single sourcing the supply handling costs can be reduced. Second, dividing purchasing across multiple sources reduces both the ability of suppliers to achieve significant economies of scale and the bargaining power of the customer. This means that low involvement and single sourcing (L) may be preferred when direct procurement

Posture of relationship	Sourcing policy	
	Single	Multiple
High involvement	J	K
Low involvement	L	M

FIGURE 4. **Relationship posture and sourcing policy.**

costs account for most of the total costs. If the buying firm is small it may try to be perceived as a more interesting business partner by allocating the whole of its business to one supplier. However, if concerned about the vulnerability, it may avoid high involvement to retain the option of changing to another supplier.

MANAGING IN RELATIONSHIPS

Any company uses a set of supplier relationships as part of its business system, which impacts on its performance in different ways. The core of our argument is that the economic consequences of supplier relationships depend on the postures developed and, in particular, on the degree of involvement in each specific relationship. The capacity to cope with various types of relationships in differentiated ways has a profound impact on performance. Bensaou's portfolio analysis of supply management principles found no major performance differentials among the four types of relationships [12]. These findings support the argument that there is no such thing as a generally best type of relationship. Both high- and low-involvement approaches have their pros and cons. However, Bensaou's study also showed that each of the four postures contained both low- and high-performing relationships depending on the way they were handled. Obviously, management principles matter.

Effective managing in relationships requires careful assessment of the economic consequences of prevailing postures and possible changes in the degree of involvement. While different models for assessing relationships have been presented [21], it remains a fact that, all too often, effects of relationships are only loosely assessed. For example, Cousins found that firms " . . . appear to be pursuing supplier reductions without a clear assessment of the costs and benefits involved" [7]. Kapour and Gupta observed a relationship where the customer " . . . had been overpaying for services in the name of partnerships, the terms and the benefits of which could not be identified, let alone quantified" [22]. A balanced assessment requires a wide-angle perspective on the costs and benefits of the relationship along the lines of the framework outlined in this paper.

There is huge potential in better exploiting the opportunities offered by coping with suppliers. However, potential benefits are not reaped automatically. The success stories presented point out the necessity of reconsidering many of the existing purchasing practices and show the risks of overly generalized, undifferentiated solutions. Our discussion on managing in supplier relationships highlights three issues: the need for monitoring and changing postures; the interactive nature of managing within relationships; and the impact of the relationship atmosphere.

The prevailing degree of involvement characterizing a relationship must never be considered a permanent solution. Modifying the posture in the light of changing conditions is the critical issue in supply management. Changes in the contexts of relationships must be continuously monitored and analyzed in relation to the question of what is an economically justified degree of involvement in a specific relationship. If this is not done properly, buying firms may end up in either over- or under-designed relationships, both of which have been shown to be paths to failure [12]. Over-designed relationships evolve when more resources than necessary are put into a relationship. Over-designed relationships are not only costly, but also tend to be risky because of the specific investments. High-involvement relationships are liabilities. There are times when it becomes necessary to reduce the degree of involvement. Sometimes substantial economic gains may be achieved by relying on standardized low-involvement relationships. At the other end of the spectrum—under-designed relationships—the movement needs to go in the opposite direction, because potential benefits may be achieved through higher involvement. Both increases and decreases in involvement are thus always options when considering changes of posture and neither applies generally, but only within the specific context of the ongoing relationship.

When changes in the degree of involvement are considered, it has to be kept in mind that supplier relationships are two-sided, implying that the input and output of both customer and supplier determine performance. Interests and resources of both parties must be considered. In many cases, however, the role of the supplier tends to be decided only from the perspective of the buying firm. We agree with Quinn who argues that one of the most crucial issues in effective supplier management is to shift the buyer outlook toward managing the desired output rather than the operations of the suppliers. If the buyer imposes overly detailed requirements about how the job should be done " . . . it will kill innovation and vitiate the supplier's real advantage" [4]. Similar arguments are presented by Araujo et al., regarding how relationship productivity and innovativeness are affected by the way customers choose to access supplier resources [23]. Effective managing within relationships requires a perspective that takes both customer and supplier into consideration, rather than the one-sided perspective often reflected in supplier development programs.

Our final element is the relationship atmosphere. Even in this case, we believe generally held attitudes need reconsideration. There are special risks in viewing arm's length relationships as conflictual and portraying the partnership type of supplier relationships as friendly. All relationships—whether of the high- or low-involvement type—are characterized by a mixture of conflict and cooperation. It may be of interest to observe that high-involvement relationships tend to involve more conflict than arm's length relationships. It is true that in low-involvement relationships there are frequent and heated discussions about prices, delivery terms and quality levels, but on the whole there is not so much else to argue about. The higher the level of involvement between companies the greater the interdependence, and the more pronounced becomes the potential for conflicting interests. In high-involvement relationships the decisions concerning joint investments and product adaptations usually call for compromises on both sides. However, the presence of conflict is not only negative. On the contrary, diversity of goals and convictions are often mentioned as prerequisites for innovation and creative development. Strong conflicting interests and heavy commitment sharpen the focus of the parties and tend to guarantee that only solutions effective and acceptable to both parties are adopted.

Managerial Implications—Making the Most of Supplier Relationships

Making good use of suppliers is different from buying well. Suppliers can do much more than delivering reasonably priced items on request. The supplier relationships represent some of the most important assets of a company and should thus be considered and treated with a similar logic to other types of investments. Exploiting some of the potential of a supplier requires that the operations of the two companies become more closely integrated in the various facets of the relationship. This involves extensive and intense interpersonal interaction, coordination of various activities, and mutual adaptations of resources, which entail costs for both companies.

It would be a mistake, however, to apply the investment logic across the board. Heavy involvement with a supplier is not always feasible or desirable. First, it takes two to effectively integrate operations and the supplier may lack the necessary motivation and interest. Second, in some situations potential relationship benefits are exceeded by the investment costs that are incurred. Third, there are always limits to the investments a company can afford and every investment competes with other opportunities. In practice, it means that companies are confronted with a variety of situations in relation to suppliers and have to deal with them through different postures. Furthermore, the buying company will have to reconsider the degree of involvement in each relationship in the light of changing conditions.

We have argued that the ability to handle the relationships requires understanding, monitoring, and assessment of their economic consequences, as well as an insight into their interactive nature and in the forces driving the change. It is important to recognize that both the origins of changes and their implementation are always at least partly out of the company's control.

Even when the analysis is focused on only two parties, it is clear that coping with a relationship is a complex task. Yet, if we are to understand the interactive nature of customer–supplier relationships in business markets and their dynamics, the scope of analysis needs to be broadened. Each relationship is interdependent with a number of other relationships, together forming a network. Studies of business networks have documented the impact of customer–supplier relationships on the development of companies and have shed some light on the interdependencies management has to cope with. Hakansson and Ford have discussed the changing reality facing managers today pointing to three paradoxes in business networks [24] that we find effective also when managing the supplier relationships.

The first paradox regards the need to balance the involvement in the relationships a company has to suppliers and customers. Applied to the supply side of the company, the first paradox is:

> Well-developed, high-involvement supplier relationships are at the heart of a company's survival and the basis of its growth and development. But the high-involvement relationships also tie the company into its current ways of operating and restrict its capacity to change. Supplier relationships are, for a company, both the impulse to development and the cage that imprisons it.

The second paradox relates to the interactive nature of relationships. We have emphasized the need to take the supplier's situation into account when considering appropriate postures for the buying company in order to reap the desired benefits. Applied to supplier relationships, the second paradox is:

> The supplier relationships of a company are the outcome of its strategy and its actions. But at the same time, the company is itself the outcome of the relationships and what has happened in them. It is, therefore, necessary to consider the position of the buying company from the premise that it forms its supplier relationships but also that it is itself formed by these. Both premises are equally valid.

Finally, the third paradox refers to the aspirations to control what is going on in the relationship. We have argued that the buying company should avoid imposing restrictions and specifications on suppliers because this may limit their creativity and innovation. In particular, it may prevent them from making use of solutions emanating from their other relationships. The third paradox in managing supplier relationships is:

> Both the supplier and the customer try to control and manage the relationship so as to achieve their own aims. This ambition is one of the key forces in development of the relationship and of the entire network. But the more that one of the companies is successful in its ambition to achieve control, the less effective and innovative will be the specific relationship and the whole supplier network over time.

Once the logic shifts from buying well to making the most of supplier relationships, the focus of "management" has to be modified toward managing within relationships. Managing within relationships is about coping with interdependencies. More complex and subtle issues than normally associated with purchasing management will face the management when the ambition becomes to make the most of supplier relationships. That is the consequence of recognizing the link there is between the supply management and the overall business strategy of the company.

REFERENCES

1. Davis, T.: Effective Supply Chain Management. *Sloan Management Review* **Summer,** 35–46 (1993).
2. Lewis, J.: *The Connected Corporation*. The Free Press, New York, 1995.
3. Gadde, L.-E., and Hakansson, H.: The Changing Role of Purchasing – Reconsidering Three Strategic Issues. *European Journal of Purchasing and Supply Management* **1(1),** 27–36 (1994).
4. Quinn, J.: Strategic Outsourcing: Leveraging Knowledge Capabilities. *Sloan Management Review* **Summer,** 10–21 (1999).
5. Carlisle, J., and Parker, R.: Beyond Negotiation. Redeeming Customer–Supplier Relationships. John Wiley and Sons, Chichester, 1989.
6. Minahan, T.: Is Partnering a Shame? *Purchasing* **June 4,** 68–69 (1998).
7. Cousins, P.: Supplier Base Rationalization – Myth or Reality? *European Journal of Purchasing and Supply Management* **5,** 143–155 (1999).
8. Hakansson, H., and Snehota, I.: *Developing Relationships in Business Networks.* Routledge, London, (1995).
9. Sheth, J., and Sharma, A.: Supplier Relationships. Emerging Issues and Challenges. *Industrial Marketing Management* **26,** 91–100 (1997).
10. Macbeth, D.: Partnering – Why not? Proceedings of the 2nd Worldwide Research Symposium on Purchasing and Supply Management. London, 1998.
11. Ford, D., Gadde, L.-E., Hakansson, H., Lundgren, A., Snehota, I., Turnbull, P., and Wilson, D.: *Managing Business Relationships*. John Wiley and Sons, Chichester, 1998.
12. Bensaou, M.: Portfolios of Buyer–Supplier Relationships. *Sloan Management Review* **Summer,** 35–44 (1999).
13. Spekman, R., Kamauff, J., and Spear, J.: Towards More Effective Sourcing and Supplier Management. *European Journal of Purchasing and Supply Management* **5(2),** 103–116 (1999).
14. Dyer, J., Cho, D., and Chu, W.: Strategic Supplier Segmentation: The Next 'Best Practice' in Supply Chain Management. *California Management Review* **40(2),** 57–76 (1998).
15. Kraljic, P.: Purchasing Must Become Supply Management. *Harvard Business Review* **61, September–October,** 109–117 (1983).
16. Krause, D., and Ellram, L.: Critical Elements of Supplier Development. The Buying Firm Perspective. *European Journal of Purchasing and Supply Management* **3(1),** 21–31 (1997).
17. Gadde, L.-E., and Mattsson, L.-G.: Stability and Change in Network Relationships. *International Journal of Research in Marketing* **4,** 29–41 (1987).
18. Hahn, C., Kim, K., and Kim, J.: Costs of Competition: Implications for Purchasing Strategy. *Journal of Purchasing and Materials Management* **22(4),** 2–7 (1986).
19. OEM-Buyers Are Up to the Same Tricks. *Purchasing* **June 4,** 68–69 (1998).
20. Single Sourcing – Some Love It, Some Fear It. *Purchasing* **June 3,** 22–24 (1999).
21. Lamming, R., Cousins, P., and Notman, D.: Beyond Vendor Assessment. Relationship Assessment Programmes. *European Journal of Purchasing and Supply Management* **2(4)**, 173–181 (1996).
22. Kapour, V., and Gupta, A.: Aggressive Sourcing: A Free Market Approach. *Sloan Management Review* **Fall,** 21–31 (1997).
23. Araujo, L., Dubois, A., and Gadde, L.-E.: Managing Interfaces with Suppliers. *Industrial Marketing Management* **28**, 497–506 (1999).
24. Hakansson, H., and Ford, D.: How Should Companies Interact in Business Networks. *Journal of Business Research* (2000 forthcoming).