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Master Degree Project in International Business and Trade

Preferred Customer Status:

Attractiveness in Buyer-Supplier relationships

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ABSTRACT

The importance of acquiring preferred customer status with suppliers has risen over the past years, as the majority of innovations in high technological sectors today come from suppliers. Coupled with this is a shift of bargaining power toward suppliers, as several segments experience mergers and acquisitions that make the suppliers fewer and larger. It is therefore important for buyers to be attractive to their suppliers in order to secure a sustained competitive advantage through a preferential access to innovation and resources from the few highly competitive suppliers. Recent research has mostly focused on how buyers work with acquiring preferred customer status, what they regard as preferential treatment and what they find attractive in suppliers. There is however a lack of research into what suppliers find attractive in their buyers, and how their respective views on the subject differ. This study aims to remedy the lack of focus on suppliers and facilitate a holistic understanding of attractiveness in the preferred customer status context by analyzing their differing views and find what suppliers find attractive. The research is based on 8 interviews with 11 sales representatives and purchasers at linked buying and supplying firms within the same high technological industry segment. The result of our study shows that what buyers think suppliers find attractive in them differs from what suppliers actually find attractive, and that buyers need to focus more on building trust and commitment as well as developing relational aspects. Further, our study provides a new model that shows the interaction of the factors that creates attractiveness, as well as the development of preferred customer status as a dynamic concept.

Keywords: preferred customer status, customer attractiveness, buyer-supplier relationships, social exchange theory, satisfaction, trust and commitment, B2B relationships, dynamic relationship development.

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.....
Helena Beddari

.....
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ABBREVIATIONS

TCA	Transaction Cost Theory
SET	Social Exchange Theory
CL	Comparison Level
PCS	Preferred Customer Status
RBT	Resource-Based Theory
PSM	Purchasing and Supply Management
PSS	Preferred Supplier Status
PC	Preferred Customer
PS	Preferred Supplier

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1. Introduction

In the first chapter of this thesis, the importance of preferred customer status is first discussed. Secondly, the purpose and research questions are presented, and lastly, delimitations of this study are dealt with.

1.1 Background

It is commonly argued, both in academia and by professionals (highlighted by the literature review of Schiele et al. (2012a)), that to successfully sell a product or service, a supplier attempts to become as attractive as possible to potential buyers. The other side of the same coin is buyers trying to become as attractive as possible to suppliers in order to obtain the best resources from them. This may seem counterintuitive considering the classical marketing approach that suppliers should make themselves attractive to buyers in order to sell more of their products. The importance of customer attractiveness cannot be ignored as this relatively new phenomenon has started to draw attention from both researchers and professionals. The ultimate goal for the buyer is to achieve what is called “preferred customer status” (PCS) with a supplier. A buyer holding a PCS gains competitive advantages by receiving greater benefits from a supplier’s resources and capabilities, compared to competing buyers. It is therefore of high importance for firms to find out what makes them attractive to a seller in business to business (B2B) relationships (Schiele, et al., 2012a).

There are several explanations to why customer attractiveness is important for buying firms. To begin with, there is an ongoing major change in supply organizations that assigns increasing responsibility to suppliers. This change has coincided with a decreasing number of suppliers in many B2B markets, which has led to supplier scarcity. The activities that used to be considered core competencies, and therefore were produced in-house, has now been outsourced to suppliers. Hence, the competence level of suppliers has increased over time, and therefore it has become important for firms to cooperate with the best suppliers to engage in collaborative development projects. Suppliers do not have unlimited resources to create alliances with all partners, and many partners are therefore excluded. Companies do not wish to be part of that group of excluded customers, and this is especially important in industries reliant on high-technological solutions (Schiele, et al., 2012a).

Secondly, events over the last few years have illuminated the risks involved with disrupted supply chains following events such as the tsunamis or the Arab spring. Suppliers in affected areas are then faced with the problem of high demand and low supply forcing them to prioritize their customers when production can be resumed. Additionally, certain components are only produced in these areas, disabling customers from continuing their own production. In case of disrupted supply chains, supplier scarcity becomes exceedingly clear as suppliers become highly selective. Suppliers prioritize the preferred customer and less preferred customers have to wait in line, which may have significant effects on the customer's own production (Schiele, et al., 2012a).

1.2 Purpose and Research Questions

It is apparent from previous research reviewed by the literature review of Schiele et al. (2012a) on the topic that supplier satisfaction, supplier attractiveness and preferred customer status has been researched separately. The aim is to study these subjects in a more intertwined manner as these factors support each other and therefore can be linked together. In more general terms, this study will contribute to literature on preferred customer status and customer attractiveness. The objective of this thesis is also to provide companies with insights regarding how they can attain PCS with their suppliers. Through achieving PCS they gain competitive advantages by receiving greater benefits from suppliers than competing buyers.

Research is done through experience surveys with the aim to answer the following research questions:

- 1) How do buyers' think that they can make themselves attractive to their suppliers in order to achieve PCS? What do they expect from PCS?
- 2) How does buyers' and suppliers' perception of customer attractiveness differ?

1.3 Delimitations

This thesis is industry-specific, focusing on a high technology industry. The purpose of this study is therefore not to be able to generalize the results and give an absolute solution to the problem in question. The purpose is not to evaluate companies' performance on the subject either. The geographical focus is Europe, but the national origin of companies interviewed may differ from that focus.

Buyers were chosen based on the industry they operate in, and suppliers were chosen by buyers so as to be able to use the relationship as the unit of analysis. In a more extensive study, suppliers can be chosen based on specific criteria such as their preferred customer status with the buyer. Considering the scope of the study and the time constraint, a more selective process was not considered necessary.

2. Theoretical Framework

In this chapter, a theoretical discussion will be presented. It will start with an overview of the resource-based theory and social exchange theory. These theories presented in the first sections provide the foundation of the PCS model developed in the last section of this chapter.

2.1 Resource-based theory

2.1.1 Definition of RBT

In order to define the scope for RBT the term “resources” has been divided into resources and capabilities, of which the former refers to the fundamental for example financial and physical capital. Capabilities refer to a firm’s ability to utilize those resources to implement strategies. They are generally regarded as non-transferable. When viewed in this light, several other theories may also be regarded as a part of the RBT, as knowledge for example should be regarded as a capability and a resource in this view. Thus knowledge-based theories of superior performance may also be regarded as a part of RBT. Considering competitive advantage in RBT, a firm is regarded as being in possession of a competitive advantage if it generates a higher profit than the marginal competitor in the market. This competitive advantage is regarded as sustained when it cannot be duplicated by other actors on the market or that could be a part of the market, and thus lays the foundation for a sustained superior performance (Barney & Clark, 2007).

Competitive advantage

The factor (or resource) required to gain a competitive advantage vis-à-vis other companies and to reach sustained superior performance is found in its strategic factor market. All the resources used to conceive or implement a product strategy are connected to a strategic factor market. When that market is perfectly competitive, the profit generated by a resource will be equal to the cost of appropriating said resource, and it will therefore not create a sustained superior performance. Furthermore, an accurate evaluation of the value that a resource will create is essential when acquiring or developing resources to be utilized in order to implement strategies. It is therefore generally only possible to acquire superior performance by exploiting a company’s pre-existing resources since market analyses will rarely provide a firm with superior performance (Barney & Clark, 2007).

Strategic Resources

RBT also rests on two basic assumptions, namely that firms may be heterogeneous in respect to what strategic resources they control and that those resources are not perfectly mobile across firms. RBT thus contradicts some of the basic economic concepts namely that heterogeneity between firms should be short-lived, as competition forces due to reasons such as resource mobility etc. (Barney & Clark, 2007).

The value of resources is determined by whether a resource is valuable in the opportunities it may exploit, and if it is rare, imperfectly imitable and to the extent it can be exploited in the firm's organizational processes. If a resource possesses all four of these attributes it may serve well to create a sustained competitive advantage for the firm. These attributes can be used to develop the *VRIO model* (Value, Rarity, Imitability, Organization) shown in figure 2.1 and further explained in table 2.1. This model gives a visual representation of the relationship between resource heterogeneity and mobility, the resource evaluation parameters and a sustained competitive advantage (Barney & Clark, 2007).

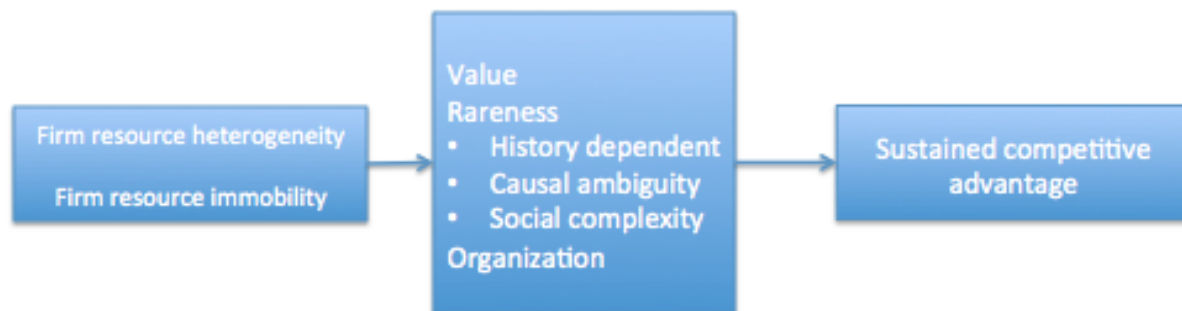


Figure 2.1 The relationship between resource heterogeneity and immobility, value, rareness, imperfect imitability, and organization, and sustained competitive advantage
Source: Barney and Clark, 2007.

Trust and Opportunism

It has been asserted that most partners in an economic exchange are trustworthy, but that it is difficult to determine which potential partners actually are trustworthy and which partner is prone to opportunistic behavior. However, since most partners are trustworthy, trust cannot be defined as a competitive advantage, due to its lack of rarity. Trust is not always distributed equally between partners, and it varies between different stages. The first degree is a weak form of trust that arises due to the limited opportunities for opportunism. This degree is very limited in scope as it does not cover deeper relations and will only arise in very specific situations. When parties are exposed to vulnerabilities that might be exploited through

opportunism, a semi-strong form of trust may emerge, which will be managed primarily through governance tools such as contracts. This type of trust entails costs through these governance devices, though they will ensure that the cost of opportunistic behavior is greater than its benefits. The final form of trust is strong trust that emerges independently to the significant exchange of vulnerabilities in which opportunistic behavior would violate the values and principles of the relationship. Unlike the other forms of trust, strong trust is not very common, especially not between firms where the concept is implausible. However, contacts between firms are primarily undertaken between a limited number of people, who may, over time, develop a strong form of trust between each other. In this manner, firms may build strong forms of trust between each other through this contact, though the firms may not actually be trustworthy (Barney & Clark, 2007).

Out of these three forms of trust, only semi-strong and strong would be valuable, but semi-strong trust would only create a competitive advantage if the firm possesses a rare and costly to imitate governance skill, while otherwise only generating a competitive parity. Strong trust is only valuable if none of the parties acts opportunistically and forces the parties to erect governance protection, thus creating a semi-strong trust instead. Strong trust is more likely to develop in exchanges with either small or substantial expected gains, as in former the vulnerabilities are limited and the price of governance is too large in relation to profit. In the latter, governance cost will increase substantially, as the vulnerabilities are substantial. It may be reasoned that at least in some markets a strong form of trustworthiness will create a competitive advantage, while in others it will merely be a competitive parity, as some markets demand that strong trust be utilized in exchanges (Barney & Clark, 2007).

2.2 Social exchange theory

During the 1960s a distinct method called social exchange theory (SET) emerged in social psychology and sociology. Emerson (1976) claimed that SET is not a theory, and that it should rather be seen as a frame of reference within which different theories can speak to each other. The term *social exchange* is limited to actions that are reliant on rewarding responses from others. This implies that there is a two-sided, mutually rewarding, and mutually dependent ongoing process that involve transactions or exchanges of some sort (Emerson, 1976). Dependence is an important construct in SET, as interdependence is seen as an important factor driving trust and commitment. It also affects the governance of the

relationship. Research have found that high levels of interdependence decreases the degree of relational governance, but unilateral dependence leads to more detailed contracts governing the relationship (Lambe, et al., 2001).

SET brings a quasi-economic mode of analysis to noneconomic social situations, and it was therefore clear already in the 1970s that SET could be used to analyze areas outside psychology. It was then argued that SET was useful in explaining behavior in non-western economies and in western economies that were not characterized by perfect competition (Emerson, 1976). The theory has, after that, been used in diverse areas such as social power, networks, board independence, and leadership among others (Cropanzano & Mitchell, 2005).

Furthermore, SET was developed based on four premises; (1) exchanges result in social and/or economic outcomes, (2) these outcomes are compared to other exchange alternatives so that the dependence on the relationship can be determined, (3) positive outcomes increase the parties' trust and commitment to the relationship, (4) and over time positive outcomes produce relational norms that can govern the relationship (Lambe, et al., 2001). Point three and four are discussed below.

Trust and commitment are particularly important in the social exchange theory because it contributes to increase the level of connectedness of the relationship. The development of trust also means that firms can move from discrete transactions towards a deeper relationship and exchange. Going in the other direction, there is a causal relationship between trust and commitment that stems from the principle of generalized reciprocity, which states that mistrust leads to mistrust, which in turn leads to decreased commitment and a shift towards more short-term exchanges. Trust means that party A has belief in party B's reliability and integrity, and that party B's word is to be trusted and that party B's obligations will be fulfilled. Trust has been found in research to be positively correlated with commitment, cooperation, communication, and shared values. It has also been found to be negatively correlated to conflict, opportunism, and uncertainty (Lambe, et al., 2001).

Norms are agreed upon rules for how to behave and these rules can be explicit and/or tacit in nature. They are developed over time between the parties in the relationship as they interact with each other. In SET, norms are important as they significantly govern social exchange. The reason behind is that instead of using a troublesome governing tool such as power, norms

offer mutually agreed upon means of governing behavior. This preferable, because it reduces the degree of uncertainty as the way in which interaction takes place is agreed upon by both parties. Norms seem to work well because parties in a relationship tend to adhere to set norms because they believe it will be rewarding (Lambe, et al., 2001).

2.2.1 Basic concepts

The vocabulary of SET comes from a mix of terms from psychology and economics. Even though there is a large number of terms related to SET, the basic concepts are few and their meaning is relatively stable (Emerson, 1976).

To begin with, reinforcement is probably the simplest and most important point of departure for all other SET concepts. It can for example be useful when describing the term *value*, as the value of a unit of some stimulus is the extent of reinforcement influenced by that unit. For an economist who is used to using utility, the term value means the same thing in SET. Also, for an economist, reinforcement simply means exchange. The value concept has resulted in three central conceptions; comparison levels, diminishing marginal utility, and cost (Emerson, 1976). We will discuss primarily the concept of comparison levels, as well as the concept of bargaining power as these concepts are highly relevant to SET, and primarily our study.

Comparison levels

The extent to which a party is satisfied with an exchange during a series of transactions, over time becomes neutral on the value scale. In social situations, for example, people express anger/happiness when the actual reward is lower/higher than the expected neutral level. The best known concept was developed by Thibaut & Kelley (1959) under the name of *comparison levels (CL)* and comparison level of alternatives (CL_{alt}) (Emerson, 1976). CL stands for the reward standard that a party perceives is deserved in a given relationship and this is compared to the actual outcome received from the relationship. An example would be the purchasing agent considering the prices set by a supplier compared to what the agent feels is reasonable. If the price is above that level, dissatisfaction will occur, and if it is below that level, a certain degree of satisfaction will be experienced. CL_{alt} on the other hand is used to determine whether a party should continue or terminate the exchange relationship. It represents the overall benefit available from the best alternative to the existing exchange relationship. This comparison will in turn determine the party's dependence on the exchange relationship because as long as the benefits from being inside the relationship gives greater

benefits than being outside the relationship, the party will want to stay. If another supplier can offer greater benefits than the current supplier, the buyer will switch supplier. Consequently, CL_{alt} represents the lowest level of rewards a party can receive from a relationship without exiting it (Lambe, et al., 2001).

Bargaining power

Bargaining power is another important concept in SET. It is seen as the potential to influence the other party's actions. In SET, the hypothesis concerning bargaining power would be the following: If person A (with resource x) possess more power than person B (with resource y), then the exchange ratio x/y will decrease in the following transactions until power is distributed equally, or until x/y has decreased so much that it has reached the subsistence level of person B. At the subsistence level person B will leave the relationship (Emerson, 1976).

2.2.2 SET in Business-to-Business Relationships

Essentially, SET explains how underlying variables add to a business-to-business' exchange (that is mainly characterized as relational exchange) governance structure. The dependent variable in SET is therefore the extent to which the governance tool is relational. The independent variables come from SET's fundamental premises, namely; social/economic outcomes from the exchange, outcomes derived from CL/CL_{alt} , and trust and commitment. It is common in research to use the independent variables as "outcome variables" in order to determine the underlying variables (Lambe, et al., 2001).

Many researchers have tried to define factors that operationalize SET. Variables that have been presented in leading marketing journals, and have regularly been utilized in marketing literature are dependence, trust, commitment, cooperation, satisfaction, and relational norms (Lambe, et al., 2001).

The social exchange theory illuminates different issues, one of which is the issue of rationality in human behavior. Exchange behavior is defined as voluntary actions made by people assuming that there will be positive returns. According to this definition, people make choices based on self-interest, but both in business and in private life people do things that are not motivated by the returns they expect to get back. In the long run however, people tend to act rational in order to maximize returns and minimize costs. In SET, the question whether a person is rational or not is not a hinder in the discussion. Rationality is seen as an orientation

people sometimes take, depending on the social relationship with the other party (Emerson, 1976).

2.2.3 The Strength of SET Compared to Other Theories

There existed already in the 1970s an economic exchange theory, but by using SET instead one can easily avoid the assumptions that economic exchange theory makes. For example, economic theory assumes a perfectly competitive market, but SET does not make this assumption. By assuming a perfectly competitive market, social constructs in the exchange process are troublesome in economic analysis, and the economic theory loses its power by trying to incorporate the imperfect social construct in the analysis. In contrast, SET is built formed to incorporate imperfect social constructs in the analysis. SET therefore allows long-term relationships between parties, and power does not have to be equally distributed as in perfect competition (Emerson, 1976).

Transaction cost theory (TCA) is an example of an economic theory used to explain B2B exchange. TCA states that companies are alternative forms of governance and that exchange governance is motivated by companies' desire to minimize the direct costs and the opportunity costs of exchange. These costs are called *transaction costs*. TCA has been used by researcher to explain why certain firms choose certain governance styles based on the governance problems that they face. One of the central issues in TCA is that the risk of opportunism in a relationship decreases the effectiveness of governance in the relationship. However, researchers have concluded that governance in the form of personal relations or norms is often very effective. TCA therefore lacks the ability to explain relationship-based governance that is developed over time between partners. SET on the other hand acknowledges that if parties perceive that the outcome of the exchange is positive, trust and commitment between them will increase, and over time norms that can govern the parties' exchange interactions will be developed. In fact, SET states that social obligations as governance tool is much more important than contracts in social exchange (Lambe, et al., 2001).

2.2.4 Limitations to SET

Empirical studies have not been successful in proving that relational norms as a governance tool can completely replace formal governance. This is therefore a limitation in SET's explanatory strength in B2B exchange relationships (Lambe, et al., 2001).

Another limitation in SET is that it does not recognize the risk of opportunism. TCA is criticized for assuming universal opportunism, but SET has the opposite problem – it assumes that relational exchange is not subject to opportunism. There are at least two things that can breach the relational governance put forward by SET, even if both parties experience high levels of trust and commitment. These two are: differences between the relationship partners, and the negative effects on the trustworthiness of the parties that occasionally occur in long-term relationships (Lambe, et al., 2001).

SET also lacks the ability to explain relational governance in a short-term exchange relationship. The problem here is that the number of such relations seems to be increasing. Some relationships are deliberately short, and SET fails to explain these exchanges since it requires transactions over a longer period of time. Research in this field suggests that four years of interactions is required to establish working norms. In such cases, TCA would be a necessary complement in order to explain governance tools in short-term relationships (Lambe, et al., 2001).

2.3 Preferred Customer Status (PCS)

Schiele et al (2012b) define PCS as the situation in which the buyer receives a preferential resource allocation by the supplier in comparison to its competitors. The buyer is then regarded as more attractive than its competitors, as the supplier is prioritizing that relationship above its other clients. This specific status has become increasingly important to firms as the availability of high quality suppliers is limited and suppliers may even be scarce in some industries. These types of issues become increasingly important in the cases when supply chains are disrupted due to factors such as when natural disasters limit the availability to supplies, or during boom markets when suppliers may be unable to deliver the supplies in time. Holding a PCS in such circumstances will then give the buying firm a competitive advantage over its competitors, as it will be able to act faster and take advantage of the situation more potently. Additionally, Steinle & Schiele (2008) has previously found that not all customers have the same access to suppliers even under normal conditions. This serves to increase the importance of actually acquiring these supplier contracts. Further, Schiele (2012) found that supplier's role in innovative tasks is becoming increasingly important, as the number of patents filed by suppliers is rising. In fact, the automotive industry, for example, has experienced such a significant shift that suppliers are responsible for most of the patents.

More importantly these patents primarily originate from a small number of suppliers that are also highly attractive to the competitors. Thus the importance of PCS is intensified, as these suppliers are not easily replaced. Linked to this is Schiele et al's (2011) finding of an innovation paradigm shift following the turn of the millennium, in which the share of firms relying on external sources for innovation has increased from 20% to 85 %.

Acquiring a PCS also provides the buyer with a number of other benefits. For example, Nollet, et al. (2012) found that 75% of suppliers regularly offered rare products or services to their preferred customer, 82% reported that the preferred customer received access to innovations first and 87% offered better prices to preferred customers. As Schiele et al (2011) noted, this seems quite contradictory following the buyer's increased dependency on a single supplier as this should lead to a loss of bargaining power and a risk of increased prices. They found that the buyer instead utilizes an increased attractiveness, as compared to its competitors, to displace their lost bargaining power and that this attractiveness is one of the reasons as to why a firm becomes a preferred customer. Schiele et al (2012b) found that another important aspect for attaining PCS is satisfaction, as the supplier must be satisfied in order to be willing to intensify the relationship. Thus a supplier awards a customer with PCS when it finds the customer to be both more attractive and satisfactory than its other clients, who would then gain a preferential resource allocation by the supplier. Furthermore, as Emberson & Storey (2006) noted, the existence of high switching costs between suppliers, as is the case of custom-made parts, ensures that the buyer will be more inclined toward developing existing relationships as opposed to founding new ones.

Nollet et al (2012) provided an illustration of the process of attaining PCS from a supplier's perspective as illustrated in Figure 2.2. Their model consists of initial attraction, in which the supplier must be aware of the purchaser. This phase is fueled by customer attractiveness. Once a purchaser has been elected, the second phase, performance, is initialized in which the customer is esteemed based on how it satisfies the supplier's expectations. Ellegaard & Ritter (2006) would view this as the customer fulfilling the potential future value expected by its attractiveness. This will in turn give the supplier stronger confidence in the customer's potential to fulfill its future expectations. The customer would then become a recurrent customer and enter the third phase of engagement, which entails investments from both parties as the relationship intensifies. It also becomes increasingly important for the customer to consistently meet and exceed the expectations of the suppliers and prove its superiority *vis-*

à-vis its competitors. In general, it seems like a good method for a customer to achieve PCS is to be the first to invest, as supplier development tends to lead to supplier commitment. Should the customer be chosen as a preferred customer (PC), the relationship will then move into the fourth phase; sustainability. This implies that although a customer has attained PCS it is not guaranteed to keep this position, as it will continually be reevaluated *vis-à-vis* its competitors based on the supplier's current needs and requirements. However, the close relationship and communication between the preferred customer and supplier will give the customer an edge *vis-à-vis* its competitors as it can become more aware and responsive to the supplier's needs (Nollet et al, 2012). It is also important to understand that several supplier development projects focus on setting demands upon the supplier, which serves to demotivate the supplier and a fruitful development should be a joint development making both parties commit and improve (Ellegaard & Ritter, 2006). A more detailed discussion on supplier development can be seen in chapter 2.3.1 on satisfaction.

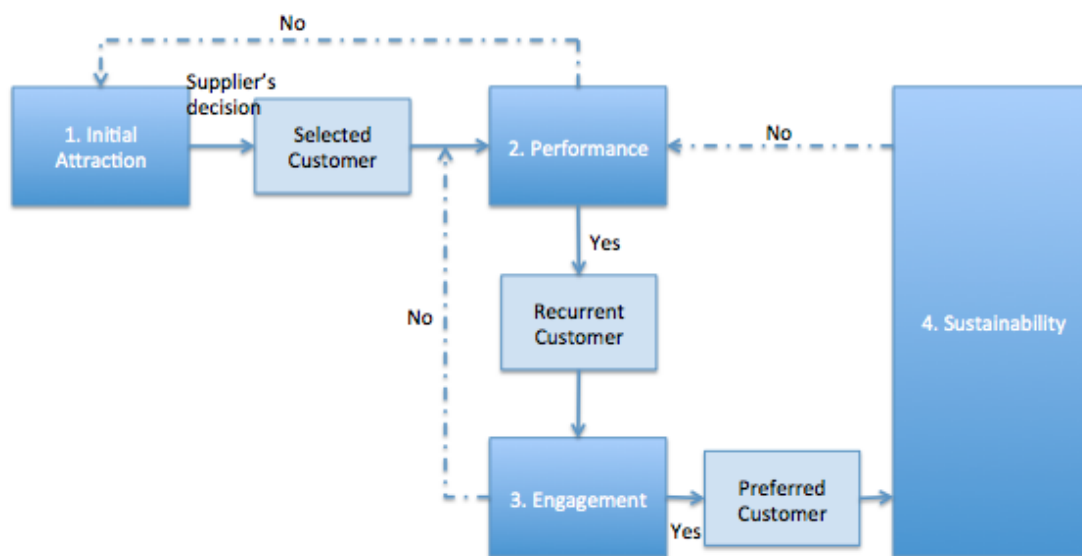


Figure 2.2 The four steps in the process of becoming a preferred customer
Source: Nollet et al, 2012.

While a supplier with which the firm has PCS is an important supplier, it is rarely the only supplier. In fact, a study of a firm by Schiele (2012) revealed that 10-30% of a firm's turnover was attributed to one supplier. While this is a quite large amount, it makes it likely that the firm has other suppliers as well. It therefore stands to reason that not all suppliers are ones with which the firm has a PCS which could originate from a conscious decision from either party. In order to navigate the different suppliers in an effective manner a portfolio model has

been developed and is illustrated in Figure 2.3. The figure clearly distinguishes whether the firm is a preferred customer with the supplier on the vertical grid and the competitiveness of the supplier on the horizontal to create the four different options “King”, “Squire”, “Black Knight” and “Quacksalver” and offers corresponding generic strategies.

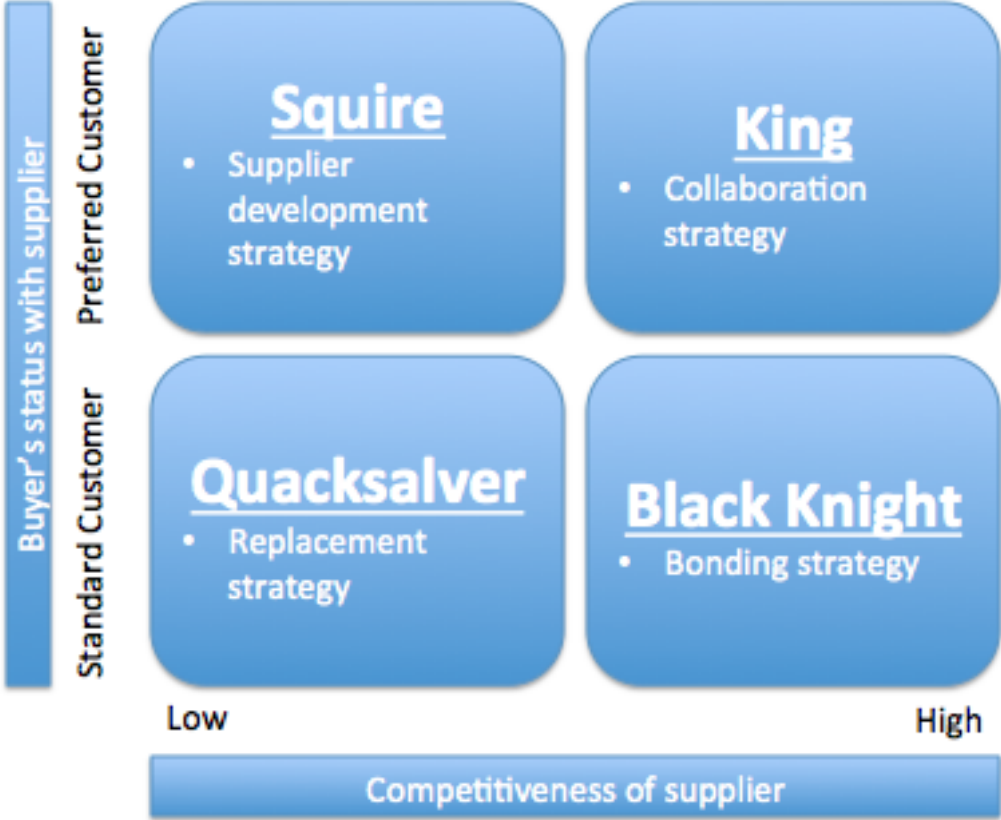


Figure 2.3 Preferred customer matrix and generic strategies for the buying firm
Source: Schiele, 2012.

Kings are highly competitive suppliers granting the firm PCS and the firm should pursue a collaborative strategy in order to use the access to their capabilities to gain a competitive advantage *vis-à-vis* their competition. Squire-suppliers are suppliers with which the firm has a PCS, but the suppliers are not highly competitive. These are suppliers that should be developed as it will not only award the firm with continued PCS but will also become a competitive supplier that is more loyal to the firm. The black knight is a highly competitive supplier with which the firm does not have a PCS. This entails that the supplier grants a competitor PCS and therefore becomes a threat to the firm. The firm should therefore pursue a bonding strategy by which it ties the supplier to itself in order to receive PCS. The last grouping is referred to as a Quacksalver and is a supplier that is neither competitive nor one with which the firm holds PCS. These should be replaced, especially if it is responsible for a

critical component as it is not fruitful to develop a supplier that does not consider the firm a preferred customer (Schiele, 2012).

Following these arguments it can be concluded that attractiveness and satisfaction are important aspects to the concept of PCS and that PCS is important for a firms' competitive advantage in a world facing an evolving value chain. These concepts have thus been given a more detailed analysis within the context of PCS in the sections below.

2.3.1 Satisfaction

There is not much research done on suppliers' satisfaction in relationships between buyers and suppliers, and the few contributions that do exist are primarily conceptual. There are some articles that address the satisfaction suppliers experience and ways to measure this satisfaction. One of the few contributions is by Ghijsen et al (2010) who researched methods buyers can use to affect supplier satisfaction. The few other reports on the topic were not based on a clear theoretical foundation. They rather viewed satisfaction as a stand-alone concept and did not relate satisfaction to its potential drivers, attractiveness and preferred customer status. Using SET makes it possible to establish links between these conceptions (Schiele, et al., 2012a). The concept *Comparison Level* integrates satisfaction into SET, as it allows a party to evaluate another party both compared to expected outcome of an exchange and compared to exchanging with another party. Schiele et al (2012a) use SET to connect attractiveness, satisfaction and preferred customer by utilizing comparison levels, see Figure 2.4.

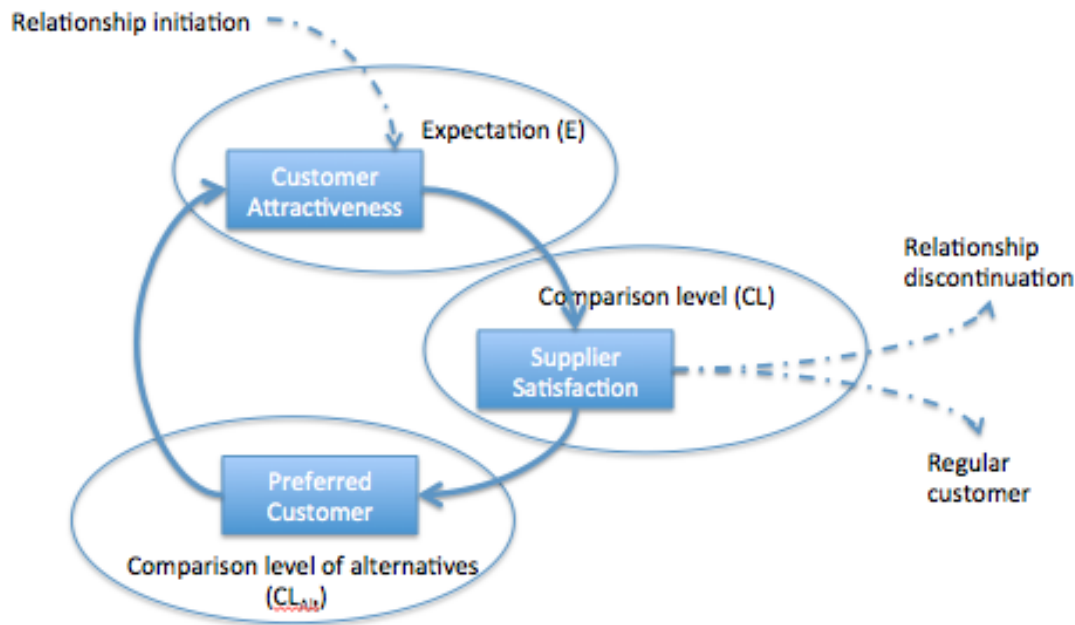


Figure 2.4 The cycle of preferred customership
Source: Schiele et al, 2012a

As stated in SET, it is the difference between what the supplier expects from the buyer, and what it actually receives that determines the level of satisfaction of the supplier. It is the level of satisfaction that determines whether a supplier wants to stay in the relationship or exit it. Satisfaction is therefore of high importance in the supplier's decision-making process. A buyer achieves supplier satisfaction when the quality of outcomes from the B2B relationship either exceeds or just meets the supplier's expectations. The level of expectations may vary between suppliers, but as long as the buyer meets these expectations, satisfaction will be the outcome. Important factors in suppliers' evaluation are attractiveness, the degree to which expectations are met and the resulting level of satisfaction (Schiele, et al., 2012a). If a supplier is dissatisfied, its contribution to the relationship may not be large, and this can in turn influence the buyer's performance (Ghijssen, et al., 2010).

Supplier development

There are different strategies used by buyers to influence the behavior of the supplier and its development towards better performance. Such strategies are mostly based on the communication a firm has with supply chain members in order to affect decision-making or the behavior of that member. Any effort to increase a supplier's performance made by a buyer in order to meet the buyer's supply needs is defined as supplier development. Indirect supplier development means that the buyer only invest limited resources in supplier development, but

direct supplier development means investing capital and human resources in a supplier. Both types of development strategies seem to have a positive impact on supplier satisfaction according to Ghijzen et al (2010). Supplier satisfaction increases significantly with capital-specific developments. It seems to be that suppliers appreciate that the buyer provides capital for investments or equipment for process developments. Direct supplier development through capital investments is only available to a few of a buyer's suppliers because such an investment would increase the buyer's dependence on the relationship. Because it increases the buyer's dependence on the relationship, the supplier's satisfaction increases because the investment is seen as a long-term commitment (Ghijzen, et al., 2010).

As argued by Schiele et al (2011) and Schiele et al (2012a), supplier satisfaction is very important because together with customer attractiveness and preferred customer status it determines whether a buyer can receive privileged treatment from its supplier.

Drivers of supplier satisfaction

Research on the drivers of supplier satisfaction often takes the form of a quantitative analysis, which can be seen as an indicator for supplier satisfaction being a more developed topic than for example customer attractiveness. Authors in the supplier satisfaction genre identify a number of different dimensions and often divide these into different categories, such as business-related factors and communication-related factors. Several authors have found that cooperation is a better promoter for supplier satisfaction than competition. Buyers might be more focused on performance factors, but suppliers seem to view relationship atmosphere and development of norms as more important factors in a relationship. Operational excellence and an attendant mode of interaction also appear to be major drivers of supplier satisfaction (Hüttinger, et al., 2012).

An interesting note is that the factors leading to supplier satisfaction can be found in different functions of a company. Factors can be influenced by the purchasing department, but also be the responsibility of the production facility or R&D department. It is therefore evident that a buyer must use a cross-functional approach to achieve supplier satisfaction. Cross-functional collaborations are more likely in a mature firm, and therefore we can expect more mature firms to have more satisfied customers (Hüttinger, et al., 2012).

2.3.2 Attractiveness

The concept of attractiveness within the scope of PCS has been researched on multiple occasions but still dispersed views of this rather important concept persist. For instance, Hüttinger et al (2012) propagated the importance of market factors, customer's competitive position, financial and economic factors, technological factors and sociopolitical factors. They also argued for the importance that geographical proximity has had in evolving PCS relations and the fact that human relationships are embedded in the interaction. Steinle & Schiele (2008) concurs with the latter argument for geographical proximity, as a customer in the same geographic area as its supplier is more likely to both acquire and to maintain a PCS than a firm that is not within the same area. Mortensen (2012) by contrast, claims that attractiveness focuses on the expected future value of the relationship. Unlike most authors, who regard attraction as a factor that is of importance primarily in the initial stage, Mortensen (2012) argue that attractiveness must be present throughout the entire process due to its future orientation. He does support attractiveness as crucial in the initiation of the relationship, but also in maintaining and developing relationships as it incorporates past, current and future economic, resource-based and social rewards. The link between attraction and satisfaction is made clear by the causal relationship of satisfaction as the realization of the perceived attractiveness which in turn increases the firm's attractiveness. Ellegaard (2012) also links attractiveness to future expectations, and further places a strong emphasis on the importance of expectations in the evaluative process, which strengthens the importance of attractiveness even concerning satisfaction. This view on attractiveness as a future oriented factor is further supported by Ellegaard & Ritter (2006) as they claim that firms invest in relationships based on their attractiveness. They further address attractiveness as a stabilizer in the relationship, as the attractiveness changes due to either confirmed or disconfirmed expectations. This conversely leads to a trap, as high expectations makes individuals prone to disappointment, and as expectations are continuously surpassed disappointment becomes a long-term certainty which will lower attractiveness. However, closer relationships still hold a higher value creation potential as communication and information exchanges paves the way for organizational innovations.

Ellegaard & Ritter (2007) argue for the existence of both supplier attractiveness and customer attractiveness as an important aspect of PCS. Their model is displayed in Figure 2.5. Further, Hald (2012) claims that customer attractiveness and supplier attractiveness are so interlinked

that it is not possible to separate the two. It is therefore important to consider the view of the customer within PCS as well. This definition of attractiveness in 2.5 thus takes into consideration Rocca et al's (2012) finding that customer attractiveness is not a function of neither the customer nor the relationship but a property of the attracted. Thus, attractiveness can only be defined in relation to a specific partner but it also depends on the supplier's ability to properly rank the different options relative to each other. The fact that such a strong emphasis is given to social and non-rational factors can be explained by Ellegaard's (2012) finding that the primary cause for purchasing decisions are social and not rational. Giving those kinds of decisions a stronger emphasis than rational economic in the attractiveness models is thus reasonable.

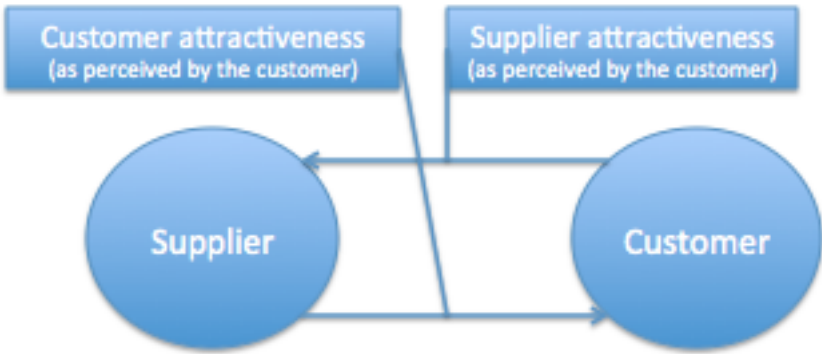


Figure 2.5 Attractiveness in a supplier-buyer relationship
 Source: Ellegaard and Ritter, 2007.

Ellegaard & Ritter (2007) defines attractiveness as consisting of primarily potential future value creation, interaction processes such as trust and commitment, and emotion to account for the irrational aspect of the dyadic relationship. Figure 2.6 shows these interacting factors in a more visual sense. These variables will be discussed more in details in the following paragraphs.

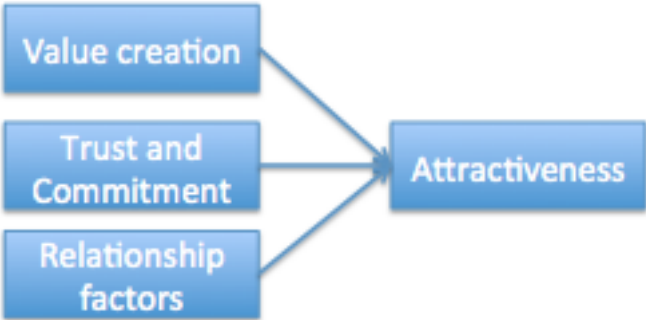


Figure 2.6 Dimensions of attractiveness
 Source: Own elaboration based on Ellegaard and Ritter, 2007

Value creation

The value creation variable is defined as the potential value that a customer can create for the supplier (Ellegaard & Ritter, 2007). The value can be both monetary and non-monetary. It is regarded as the essential reason for a customer and supplier to have a relationship. Walter et al (2001) separates value creation into direct and indirect function for value creation. The direct functions are *profit*, *volume* and *safeguard*. The volume function means that the customer helps the supplier to secure a certain production volume so as to be able to operate profitably. The customer delivers the profit function through a positive cash flow to the supplier. Lastly, the customer provides the safeguard function through giving the supplier stability and control in their sales. The indirect functions are *innovation*, *market*, *scout*, and *access*. The innovation function is obtained through giving the supplier technological know-how. The market function means getting access to new markets. The scout function means that the customer provides critical information to the supplier. Lastly, the access function means that the customer provides access to a third party and make the third party reachable and open (Walter, et al., 2001).

Trust and commitment

Interaction process variables are mainly trust and commitment. A committed party thinks that the relationship with the other party is worth working on to guarantee that it endures indefinitely. Trust in this context means that one party believes in the other exchange party's integrity and reliability (Morgan & Hunt, 1994). They are both seen as variables needed for the supplier to decide whether or not to maintain a certain relationship with a customer. Specifically, commitment supports the supplier's decision to continue with a supplier-buyer relationship. Commitment does not only lead to maintenance of the relationship, it can also lead to the supplier dedicating more resources in order to strengthen and develop a specific customer relationship (Ellegaard & Ritter, 2007). As Morgan & Hunt (1994) put it, trust and commitment works as mediating variables and are key in the supplier-buyer relationship. Both variables work to (1) keep relationship investments through cooperating with your partner, (2) resist short-term options in favor of the anticipated long-term advantages of staying with your existing business partner, and (3) view possibly high-risk actions as being sensible because there is a belief that their business partner would not act opportunistically. Trust and commitment are therefore key to understanding the relationship development process (Morgan & Hunt, 1994).

Relationship factors

Ellegaard & Ritter (2007) use emotions as the third factor explaining attractiveness in a B2B relationship. In this thesis, the broader term “relationship factors” is used to extend the factor. Emotions cover the irrational, but essential, part in explaining decision-making. Value-creating and interaction process factors can be discussed rationally, but emotional aspects cover those areas that are not covered in rational arguments. Anger, fear, sadness, shame, contentment, happiness, love and pride are listed as emotions present in business relationships. These emotional factors may not be acknowledged by management, but they have explanatory power when a rational decision is questioned, based on “having a bad feeling” for example (Ellegaard & Ritter, 2007).

Considering the relationship factors further, the development of a long-term relationship between two organizations is often dependent on personal relationships between the employees of the respective organizations. Personal relationships are therefore seen as key in determining the nature and strength of the purchasing process (Lian & Laing, 2007). Purchasing has also gained a larger importance in organizations and has therefore developed from an administrative function into a more strategic function. Therefore, strategic skills are becoming more important in purchasing professionals than straightforward buying skills. Because of purchasing’s more strategic role, it is important for organizations to recruit professionals with the right skillset in order to maximize the purchasing department’s contribution to the goals of the company. New research therefore suggests that strategic purchasing has to be extended into relationship management in order to gain sustainable competitive advantage. Being more strategic in a firm’s purchasing department means that the demands on the individual purchaser have increased. A valuable purchaser is defined as a person who approaches the purchasing job from a strategic perspective when dealing with suppliers (Giunipero, et al., 2006).

2.5 Theoretical Discussion and Model

As the previous discussions have shown, acquiring PCS and competitive advantage from suppliers could provide a sustained competitive advantage, which contradicts the traditional view of competitive advantage. Thus, it becomes important for firms to acquire the right supplier, and highly competitive suppliers are few in number. Becoming a preferred customer is therefore a crucial undertaking for many companies. Previous research has shown that many sourcing decisions are influenced more by social and irrational factors than by pure

rational and economic factors. To properly study the underlying emotional factors in this social exchange is therefore important.

Previous research also shown that the perceived future value of the relationship is important in the evaluation of the relationship and that this future value is influenced by the trust the partners have in their partner fulfilling its expected value. From these discussions we can therefore derive two models, Figure 2.7 and Figure 2.8.

The first clearly show the relationship between Attractiveness and Satisfaction as they interact in developing the buyer-supplier relationship towards receiving PCS. Initially, attractiveness alone drives the process, as the supplier has no past experience to base its decisions on. The supplier therefore has expectations on the value of the exchange, both from a pure rational economical view and from a relational view, and we therefore use both RBT and SET as a basis for our models. Should the firm be able to fulfill or exceed these expectations the supplier is likely to be satisfied with the exchange and choose to continue with the relationship. The satisfaction of the supplier also serves to increase its future expectations on the exchange, and therefore the buyer will be perceived as having a higher attractiveness. Should the firm continue to fulfill or exceed its expectations in the recurring exchanges, the increased satisfaction and attractiveness would cause the supplier to wish to intensify the relationship into engagement, in which PCS would be achieved. Engagement tends to be reciprocal, however, and both relational and value creating investments are expected from the buyer. Achieving PCS with a supplier would also serve to increase the attractiveness and expectations on the exchange, especially as a high degree of trust and commitment are required from both parties. The buyer will therefore be perceived as highly attractive, especially in relation to new firms whom the supplier does not grant PCS.

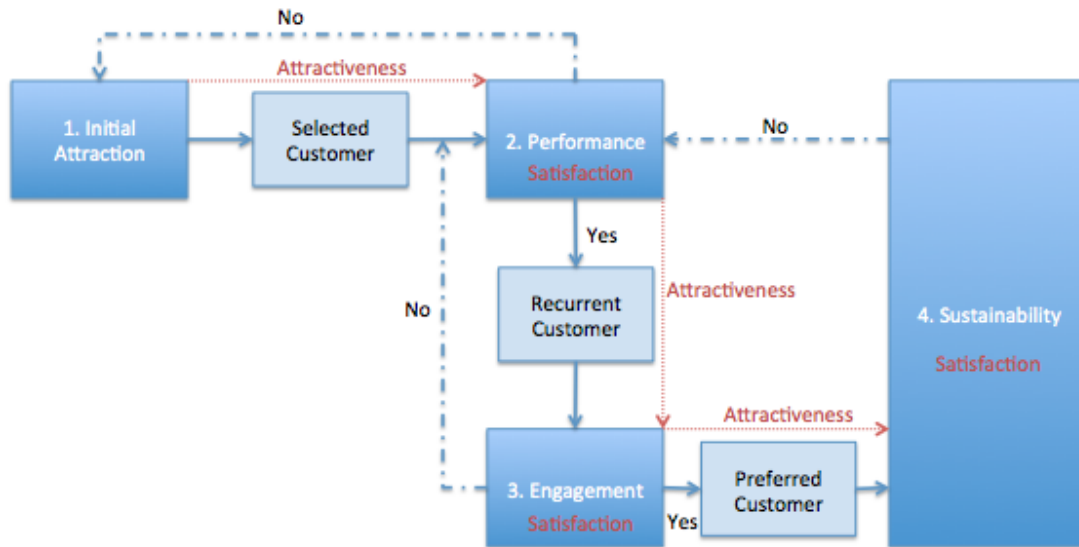


Figure 2.7 PCS relationship development model
 Source: Own elaboration based on Nollet et al, 2012.

This relationship between attractiveness and satisfaction is also described in Figure 2.8, in which the steadily increasing expected future value is reflected by a continuous interaction between attractiveness and satisfaction. This continues until the received value and expected future value are high enough for the supplier to grant PCS to the buyer. Achieving this position in turn dramatically increases the attractiveness of the buyer which causes the relationship to develop further. As mentioned previously, steadily rising expectations will eventually rise to levels that the buyer is unable to fulfill, which in turn will cause the buyers attractiveness to decrease. However, given the buyers status and the high satisfaction in general for the relationship, failing to fulfill very high expectations does not immediately cause the buyer to lose its PCS.

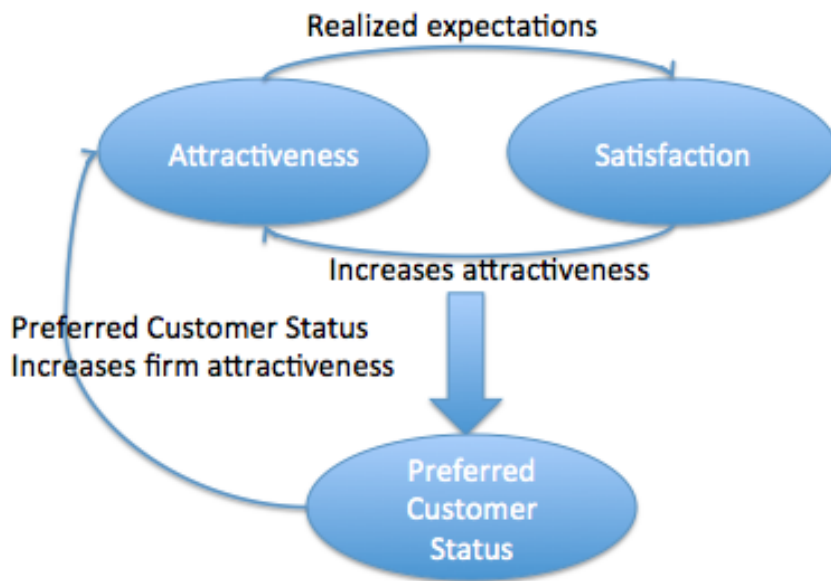


Figure 2.8 The dynamic PCS model
Source: Own elaboration based on Schiele et al, 2012a.

3. Methodology

This chapter outlines the methodology undertaken in acquiring the findings on which this thesis rests. It also outlines the methods taken in analyzing the data and reaching the conclusions we aim to contribute to business' understanding of buyer-supplier relationships.

3.1 Research approach

This study focuses on the role of customer attractiveness in achieving PCS, specifically on the differences between how buyers work with becoming attractive and what suppliers find attractive. Research on PCS remains quite limited to this day, and mostly limited to the buyer's perspective. By delving into the relationship aspects, and especially the supplier's perspective, we aim to have an exploratory study because of the lack of previous research in this area. Experience survey studies generally allow for exploration of areas that are less developed, and would therefore provide a good foundation for this area of research. As this thesis is exploratory, the aim is not to provide a definite answer to the research question (Collis & Hussey, 2009). Furthermore, this study can be considered abductive research as a conceptual framework is developed which is later continuously modified because of the empirical findings. An abductive research approach has given us a fruitful cross-fertilization between pre-existing theory and our empirical findings in order to develop the theory in this relatively new research field (Dubois & Gadde, 2002).

The unit of analysis is the buyer-supplier dyad, and in order to give an in-depth picture of the buyer-supplier dyad we have opted to use a focused experience survey study. This will enable us to get a stronger validity in our findings, as we may include the positions of several experienced professionals in our results. Further, we also opted to utilize an excluding factor of national differences, in order to ensure that our results were not overly affected by national differences in the PCS area or control if such factors are perceived to affect the area by professionals. An experience survey was chosen since it would provide us with insightful information on this relatively new the research topic. Because of the exploratory nature of this study, we are more interested in deeper insights from respondents than in getting a representative sample (Blumberg, et al., 2008). We therefore have opted to use 4 dyad-observations, 3 buying companies (6 purchasing agents) and 4 supplying companies (5 sales representatives).

Since the PCS concept is relatively new and somewhat under-researched in B2B literature, we found qualitative research to be the most suitable method of data collection. Further, as our main focus lies on the relationship we have opted for interviews as a primary collection method, as it allows the interviewee to give an in-depth depiction of the relationship and what impacted it (Yin, 2011).

3.2 Sampling

The sampling of buying companies was undertaken in order to show the typical, or representative, cases, and all three were therefore chosen among companies with Swedish headquarters active in the same industry segment. The industry in question is a highly technical manufacturing industry characterized by high investment costs, secrecy and technical complexity of the products. Suppliers were sampled based on availability of suppliers by the buyers interviewed, in order to properly show the relationship between buyers and suppliers. The suppliers were companies of various decent, such as Japan, Germany, Great Britain and Sweden, of which some had local subsidiaries and others did not. When contacting the purchasing department of a company, the topic was briefly explained, and the representative was asked to provide us with an appropriate interviewee. 4 interviews were held with purchasing professionals, and 4 interviews were held with sales representatives. The reason for the disparate number of interviews and buying companies is due to the fact that two of the purchaser's interviews were held with the same firm concerning two different suppliers (Yin, 2009).

3.3 Data Collection

The primary mode of data collection for this study consists of interviews with buyers and their suppliers. Our interviews were based on the aim of either confirming or disproving our theoretical conceptualizations by interviewing multiple buyers and suppliers. An overview of the interviews held can be found in Appendix 3. The interviews are considered to be semi-structured in nature, but an interview guide was provided to the interviewee before an interview took place. Since previous research has provided basis for both models of attractiveness and PCS we have opted for structured interviews, as opposed to more open ended interviews. These focused interviews have followed the two interview protocols attached in Appendices 1 and 2. In order to minimize the biases and inaccuracies due to reflexivity, poor recall and response bias we opted to have two representatives present

whenever possible. In order to avoid bias due to poorly constructed questions, the interview protocol were reviewed by both authors, as well as by the supervising professor. However, as this is in some respect still an exploratory study some questions were intentionally open-ended and different venues of inquiry were pursued when fitting. The full transcripts of the interviews have not been provided in the appendix of this thesis, as doing so would compromise the anonymity of the firms interviewed, and are thus kept confidential (Yin, 2009).

3.4 Data Analysis

The interviews were transcribed by one of the interviewers, and the reliability of the transcriptions was tested through having the other interviewer listening and correcting errors in the transcription. The transcriptions were then analyzed through meaning condensation, where the sentences expressed by the interviewees were abridged into shorter formulations. Long statements were compressed into shorter texts in which the main message of what is said was rewritten in a few words. These compressed versions constitute the “natural meaning units” of the text, and constitute a shorter version of the transcription in which all unnecessary information is removed. The natural meaning units were then assigned a theme according to what the researchers perceive as being the interviewee’s viewpoint. In the last step, the themes are put together in a “descriptive statement”, and the descriptive statement form the empirical material to this thesis. Both authors controlled these themes in order to confirm the veracity of the assignment (Kvale, 2007). The buyers and suppliers are divided into Buyer A, B, C, D, and Supplier A, B, C, D according to the number of interviews held. Important to note is that Buyer A is not necessarily connected to Supplier A. Furthermore, in order to keep respondents anonymous the number of interviewees present during an interview is not disclosed in the empirical material.

4. Empirical Findings

In this chapter, the empirical material gathered throughout the interviews is presented. The data is presented in two separate sections; one section represents the buyers' perspective and the other represents the suppliers' perspective. Firstly, the respective sides' perspective on PCS, PSS and preferential treatment is presented, followed by supplier development. Then follows the presentation of Attractiveness, and the factors that attractiveness consists of. The chapter is concluded by the parties' views on national differences.

4.1 Buyers

4.1.1 Preferred customer status

In order to achieve PCS, Buyer D regards the long-term relationship and business aspects the most important aspects, while the relational aspects are seen as issues that will be solved regardless (D, 2014).

According to Company A, it is more or less considered a requirement to achieve a preferred situation due to the limited amount of suppliers and because the bargaining power of suppliers is so strong and the component is complex and very costly to replace (A, 2014).

Value creation qualities, well-functioning interaction processes and a relationship with shared values are all important for achieving preferred customer status, according to Buyer B. Buyer B says that all factors need to be in place in order for them to gain a PCS. It also differs between products and companies, Buyer B thinks. If you have long relationships with your suppliers, then shared values might be more important than if you have short-term relationships (B, 2014).

If the preferred status is reciprocal varies between suppliers for Company C. It depends on how big they are and how much of the supplier's turnover the company contributes to. It might also be that the supplier values other things, that Company C gives them something that no one else can give them. It is important for the buyer to keep track of how important Company C is to a certain supplier (C, 2014).

4.1.2 Preferred supplier status

Buyer D defines a strategic supplier as a supplier for a strategically important component with whom company D has a long-standing relationship. These long-standing relationships pertain large deals that are rather difficult to change quickly, as the components are complicated and crucial for the production. Not only are suppliers of core and technologically complicated products considered strategic, suppliers that supply components that match Company D's core values are also considered strategic due to their importance of realizing these values. However, in order to become a strategic supplier, the most important aspects are to be able to showcase innovations and new products. While Company D has suppliers that are preferred, they also have a number that are not preferred. Due to the large size of some of their suppliers, Company D cannot always dictate the conditions of the relationship, but must accept the supplier's strategies and demands. Mergers over the last few years have created fewer and stronger suppliers, especially among those that deliver components that are considered strategic to Company D. Buyer D confirms that some suppliers do not offer preferential treatment in spite of preferential treatment being offered by them (D, 2014).

Though all suppliers receive some form of preferential treatment from Company A, some get extra services and treatment. A number of factors are important in order to achieve a status as a preferred supplier. It is important that the two companies match strategically, such as the supplier's product portfolio, their level of knowledge in the field, innovation and quality performance. It is also important that the supplier wants to be a partner to the firm, as the reciprocity between the two firms is a crucial factor to build the desired open and honest relationship, as trust is very important. In fact, those relationships are "extra" preferred due to the equal nature of the relationship. In one case, another buyer is receiving more resources, which limits that supplier's preference slightly, in other cases the "extra services" are withheld, as no preferential treatment is received. These suppliers still receive the same preferential treatment as is required. It is also important to the buyer that the supplier exhibits fairness in price and contract discussions, especially since they are awarded a high share of their business in the segment. Some of Buyer A's suppliers receive less preferential treatment than others, concerning a smaller dedication of resources, fewer meetings and providing a smaller amount of information. These suppliers do not offer the buyer any particular preferential treatment either, emphasizing the need for reciprocity. In one case, the preferential treatment received has been questioned as an effect of another buyer eclipsing this buyer. In order to handle this situation, a small amount of business has been awarded

another supplier in order to develop a new relationship. As these relationships take a long time to develop, this is mainly to “test the waters”. These relationships tend to take a long time to develop partly because it takes time for the supplier to understand what is expected in for example technical specification and quality procedures, and partly because it takes time to get to know each other (A, 2014).

Buyer B defines a preferred supplier as a supplier aiming at zero defects, no disturbances in deliveries and that they should be leading in technology and application competence. It is also important that the supplier views them as a preferred partner. One of the benefits of being a preferred supplier to Company B is that you get to put tenders on new projects. Being a preferred supplier to Company B comes with some conditions; they need to be transparent with their costs and strategy because Company B wants to know if they will be able to match their strategy. Their suppliers also need to be proactive when it comes to innovation and reducing costs. Buyer B also wants suppliers to handle their own suppliers in a professional manner since Company B is dependent on them. 80% of the supplier base is considered to be preferred suppliers, but even if they are preferred it does not mean that they behave as the buyer expects them to behave. Buyer B states that they do have suppliers that are not preferred for different reasons. One reason could be that the supplier is present in an oligopoly market, and there are therefore no other alternatives. Company B prefers long-term relationships and has contracts of at least three years with their suppliers because of their long product cycles. It is therefore almost like a marriage when they have signed a contract with a supplier. If the relationship does not work, you are willing to put a lot of time and effort trying to fix it before you end it. What makes a supplier attractive to Buyer B is if they can provide a better turnover, profitability, good future prospects, ease of doing business, long-term commitment, but the personality of the representative from the suppliers also matters (B, 2014).

To be a preferred supplier to Buyer C, many factors have to be in place. The relationship has to work between the two companies and it is important with quality and price. It is also an advantage if the supplier is global since the company is global. Company C defines a strategic supplier as a supplier that has a technical solution that not that many suppliers have. It is also important that the supplier is able to cover larger product areas in order to become a complete system supplier. Buyer C states that there are divisions of this company that may have a different point of view since other divisions are not as technically advanced as this particular

division. It is important to Buyer C that suppliers develop on their own, or at least have the competence and experience to be able to do that. Not everybody holds that knowledge and experience, and therefore few of their suppliers are strategic suppliers. Those who are strategic suppliers have technical knowledge that others lack. Buyer C says that one could almost say that the R&D department decides who becomes a strategic supplier. It is not the price that determines who becomes a strategic supplier because it is easy to compete on price, but once a deal is done with a supplier they can suddenly act differently. Over time Company C has noticed that their strategic suppliers have become quite large. Suppliers have therefore started to act on their increased power. There has been one incident of divestiture from a strategic supplier before, but it is not common. Company C did it because of the price the supplier was offering and because their owner wanted to put the supplier in place (C, 2014).

4.1.3 Preferential Treatment

Buyer D defines the most important aspects of preferential treatment received as price cuts and innovation, but also promotes good terms of payment, logistics and packaging. Buyer D views new firms with whom the company has not contracted with before as more willing to offer preferential treatment, as the supplier wants to secure the contract. While Buyer D has had no issues of suppliers seizing to offer preferential treatment, Buyer D has had colleagues that have phased out products from suppliers that seized to offer preferential treatment (D, 2014).

“In more specific terms, it’s preferred pricing, it’s preferred delivery conditions, it’s first access to technology, it’s open communication from our side.”

-Buyer A, 2014

Buyer A defines preferential treatment given from suppliers as holding a higher priority than its competitors, specifically via pricing, delivery conditions and early access to innovation. The open relationship constitutes a considerable part of this. In return, they are clear that they expect the best prices, deliveries and to be prioritized over their other customers (A, 2014).

Even if a supplier does not view Company B as preferred, Company B has to treat them as preferred suppliers, otherwise they will get even worse treatment from them. Company B is trying to set a higher moral standard and hoping that it will pay back in the long term. The

purchasers believe that trying to get to know your supplier is the best way to receive preferential treatment. If you know their needs you can adapt to them, and it will pay back. Their definition of preferential treatment is good price, priority over other customers, and access to new technology. The preferred treatment also depends on the supplier. If it is a supplier you can easily replace, the price is more important. However, they always expect to get attention from and be prioritized by their suppliers when the supplier views them as a preferred customer. The way they know that they are prioritized is if problems are solved quickly and if the supplier is eager to help you (B, 2014).

Buyer C continuously works on receiving preferred treatment from their suppliers. They for example try to lower prices and improve all other possible areas as well. Innovations are key to this company, and the suppliers that provide the company with innovations are their strategic suppliers. Buyer C indicated that it is hard to know if they receive preferential treatment from their suppliers, but they do know when a supplier does not deliver what was promised. Suppliers not offering preferential treatment are not considered to be strategic suppliers to this company. Buyer C define preferential treatment as being prioritized above the supplier's other customers (C, 2014).

4.1.4 Supplier development

Although Buyer D does not personally work extensively with supplier development, there exist a number of different programs for supplier development programs at the company. A classification system is also used, in which the highest level is claimed by a small number of strategic suppliers, while at the other end there are the entirely exchangeable suppliers. Company D attempts to support suppliers by finding new subcontractors or packaging options or processes for example (D, 2014).

Company B works to develop their suppliers in the long term. Buyer B says that they understand that there are ups and downs for their suppliers, and that they try to help them when there is a downturn (B, 2014).

The relationship between Company C's R&D department and the supplier's R&D department is crucial when it comes to supplier development. Suppliers are dependent on the Company C's R&D department to develop, according to Buyer C. Company C also contributes through

stating what it is that they want their suppliers to develop. By giving them excellent specifications of what the company wants their suppliers to develop, they help their suppliers to develop new products (C, 2014).

For Company A, meetings serve as the primary forum for supplier development, coupled with performance reviews (A, 2014).

4.1.5 Attractiveness

Buyer D regards the primary incentive for receiving preferential treatment from their suppliers is to open up the potential for the supplier to make offers in other projects and be a part of potential new segments and projects in the future. This is, according to Buyer D, perceived as preferable for the supplier, as it allows the supplier to secure a place in the next production cycle, even if it is 10 years in the future. In spite of Company D's small size in comparison to its competitors, it is viewed as attractive due to high quality and prestige in supplying the firm, as it aids the supplier's portfolio (D, 2014).

"I think that business aspects dominates, and to sign big, long-term contracts. To sign deals really. To work on the other aspects are not as important, I think."

-Buyer D, 2014

Buyer A believes that their prestige is an important factor that makes them attractive to their clients, but that the clients with whom they deepen their relationships with are generally attracted by their fairness and attentiveness and that they go a step further to provide information to help the suppliers' internal planning. Buyer A considers pure economic factors, such as pricing, to only be attractive to the suppliers' in so far as to achieve a level of survivability. As it is important to the buyer that the suppliers focus on new innovations rather than cost-cutting measures, this survivability becomes crucial also for the buyer to warrant. As long as new innovations are the focus, the relationship is headed in the right direction (A, 2014).

"...I think it's probably the fairness, the fact that we reward these thing with as much business as possible and, you know, give them new opportunities when they arrive and things like that."

-Buyer A, 2014

Company B says that they are dependent on their suppliers, and that means that they have to make the suppliers willing to work with them. They do that through behaving professionally, and working with interesting products. Their products are challenging to make and it means that they put higher technical demands on their suppliers, and most of them like that. Buyer B says that it is important to be an attractive customer, but to be attractive you have to know your partner and what it is that they want from the relationship. The supplier might want to do business with Company B because they want Company B in their portfolio to use as reference. According to Buyer B, most suppliers want to work with customers so as to sign new deals, and as a purchaser you are also kind of a salesman because you are selling the fact that they want to deliver to the price you are willing to pay (B, 2014).

Buyer C thinks that their suppliers value that they are easy to work with. When there is a problem they want to help their suppliers, while other customers may not be as willing to help. If suppliers have a problem Company C wants to help their suppliers because they are their end customer, and by helping them they help themselves. The company believes that a long-term relationship is the most important factor for the supplier. Suppliers want to have as many deals as possible, and the longer the contracts are, the better. If you, as the buying firm, are also willing to pay a high price, it is evident that you become a preferred customer. It might also be that the supplier values other things, that the buyer gives them something that no one else can give them (C, 2014).

4.1.6 Communication

In later years, Buyer D claims that Company D has become more open in communication as well as becoming firmer in demanding reciprocity in that area. Specifically, the company has been firmer in pursuing certain criteria in order to deal with their supplier. As Company D was rather late in adopting this approach, the suppliers have accepted it as necessary as many other companies have already adopted similar approaches (D, 2014).

Buyer A has 5-10 suppliers and engages a lot in communication with them to maintain a good supply base, and the managerial level also regularly engages in communication. Company A, further, has regular contact with the suppliers through monthly meetings attended by employees of several different functions. These meetings that are characterized by open

discussions held on matters such as upcoming technologies and innovations, the results in benchmarks strategies and other confidential information in order to further develop and deepen the relationship. Communication on receiving preferential treatment is conducted regularly, particularly with one of their suppliers that receive the lions' share of their business (A, 2014).

Buyer B thinks that it is important to say what it is you expect from your supplier, or you most likely will never get it. However, Buyer B says that you have to get to know your partner. Company B may not talk to their suppliers openly on how to receive preferential treatment, but when you have enough experience you can read between the lines what it is that they want, and if you give them what they want, they may give you what you want. However, if your relationship with the supplier is good enough you may ask the sales representative: "what it is that you need to present internally to give us what we want?" (B, 2014).

Company C does not communicate that often with their suppliers about how to receive preferential treatment. There are strategy meetings with suppliers once a year, but it is not solely for discussing preferential treatment. It is rather more common to discuss the treatment when it is needed (C, 2014).

4.1.7 Trust and commitment

Buyer D's perspective is that new suppliers tend to promise more than they are capable of delivering. For this reason, it is regarded as crucial that all agreements and commitments be put into paper and carefully drafted contractually, though the level of familiarity causes this to vary. Buyer D also considers it easier to trust their claims, as their level of exaggeration is known and therefore their claims are easier to verify. The less familiar the supplier is, the more research the purchaser must undertake in order to verify their claims and quality. Buyer D thinks that the most difficult thing in these relationships is to find suppliers that do not relax after receiving contract, but continues to work with innovations. Considering the personal relationship between Buyer D and the supplier contact, Buyer D reports a personal relationship between the two, as well as between both of their superiors. The interviewee regards this relationship as important, specifically that their superiors trust each other. While the involvement of their superiors are considered important, Buyer D does not consider its

own involvement as important, as its role is more accurately that of a gatekeeper to ensure that Company D's standards are met (D, 2014).

For Company A, the buyer-supplier relationships have been positive on all levels for most of their shared history, fueled by open and honest communication, as well as by trust. It requires a lot of resources in order to develop a relationship to a preferred level, and there are limits to how much the buyer can work with this issue. It is also important that the corporate cultures of the buyer and supplier match properly. In the buyer-supplier relationship, trust and commitment are considered extremely important to Buyer A, and is strongly linked to their need and requirement for open and honest communication. If they are unable to trust the supplier, and vice versa, it is very difficult to share information of such confidential nature as strategies and developing technologies. The buyer is also locking a significant amount of their business with the supplier, and being able to trust that the supplier will not take advantage of this situation is important, as it is a difficult process to exchange the components. The need for reciprocity is particularly emphasized, as the supplier must be as committed to the relationship as the buyer to have a good and honest relationship (A, 2014).

According to Company B, you have to communicate to the supplier what it is that you want in order to receive it, and therefore transparency is valued quite high. When it comes to trust and commitment in the buyer-seller relationship, Buyer B states that it is important, but only to a certain extent. It is not your best friend sitting across the table, and you are both there because you are interested in the money the deal will bring you. It might therefore be more important to be aware of your supplier's situation so that you can adapt to it (B, 2014).

“You can trust them to a certain extent, but what's even more important is to find out their driving force because then you can adapt to them, because if we're sitting at the same table there is a mutual interest. They are interested in the money and we are interested in the product.”

-Buyer B, 2014

Buyer C does not work actively with developing the relationship with their suppliers. Buyer C states that it is rather the supplier's concern because the supplier wants to sign the next deal, and you have a better chance to get the next deal if you have a good relationship. Buyer C states that there are companies that change buyers to avoid that situation. Buyer C thinks it is

very important to be able to trust the supplier. If you have a deal you have to be able to trust that the supplier will deliver according to the contract. It is also very important that the supplier shows commitment. If the supplier does show commitment, they are often more willing to negotiate the terms of the contract internally at their own company. It is however not wise for buyers to show too much commitment since it is a part of the game, it is a strategy, according to Buyer C. In case of a bad-behaving supplier, you show the supplier that they are not behaving as they should by not showing any commitment and stating that you are willing to use another supplier. In the case of a very large supplier, it might be that you show even less commitment to make them believe that they will not get the deal, even if you as a buyer know that they will (C, 2014).

4.1.8 National differences

Most of the suppliers to Buyer A are global in nature, and only two are strictly local – one Chinese and one Japanese. While the local market knowledge of these smaller suppliers is used extensively through intensive communication upon entering their markets, it is more important for the buyer to access the more extensive innovation of the MNCs. The MNC's ability to ensure access to the same technology worldwide is also very important, outweighing their more extensive bureaucracy, especially since the locals still have a lot of catching up to do. There are, however, some cultural differences between the MNCs, based on their home country. The Japanese value managerial commitment more highly, whereas the British, for example, focus on well-working relationships. The Germans and Japanese are most alike, as they emphasize honesty, attention to detail and are both careful, whereas the British are more likely, and willing, to take risks. This may cause the Germans to miss out on significant opportunities, but the certainty of the product and what it can do is always assured, whereas the British may discuss technologies long before they are finished and potentially cause delays at later stages (A, 2014).

Buyer C thinks there is a cultural difference between their local supplier and global suppliers. The local suppliers are seen as more naïve in that sense that they might not be up to speed when it comes to new international standards for example. It is however not due to the nationality, it has to do with the fact that when Company B looks for partners abroad they will not look for small suppliers. They want to have large, knowledgeable suppliers. Local partners might not have the right systems or certifications because they are too small (B, 2014).

According to Company D and Company C, there are no differences in working with national or global suppliers. If there is a difference between suppliers, it is not because of their nationality (C & D, 2014).

4.2 Suppliers

4.2.1 Preferred customer status

A preferred customer is, to Supplier C, someone who they can develop a long term partnership with. The relationship should be open and built on an exchange of information so as to be able to develop the right products at the right time. The partnership should concern technology development and long term strategies. All long term customers are preferred customers to Supplier C. Supplier C considers it to be a part of their job to establish partnerships, and deep and long-term relationships with customers. Over a 10-year period, the relationships with their customers have become deeper, and there is more open communication and collaborations. Supplier C works with developing the relationship with their customers through dedicated client teams, and in some cases even through opening an office close to the client to be able to have a tight collaboration – it is an international strategy to be where the customer is. Furthermore, Supplier C has never experienced an unbalanced relationship where they give more than they receive and has therefore never ended a relationship with a preferred customer. Sales Representative C states that it is probably a result of the technically complicated industry they are in (C, 2014).

Supplier D's PCs represent 90% of their turnover. In order to reach a PCS a long-term relationship characterized by cooperation is important. It is also important to not only share a past, but also to be able to look a number of years ahead for security and stability. The relationships of Supplier D's PCs has developed differently over time, as one relationship has experienced a disconnect, while another has deepened. The former has become increasingly commercial, while losing its intimacy, while the latter relationship has become more involved concerning product development and technical cooperation. The latter has also been served by an increased business-mindedness and commercial focus and has deepened as time passes (D, 2014).

According to Supplier A, a good customer is someone you have good relations with on different levels of the company, and someone who has a sustainable long-term strategy. Supplier A does not like changeable customers. Sales Representative A states that if you have a history together with the customer, it is easier to see a future with them. 90% of this supplier's customer base is considered to be PCs, but they work in a similar way with all customers and they have an aim to give the best customer support (A, 2014).

“It's a client who is willing to establish a long-term buyer-supplier relationship. It's a client who can showcase openness and honesty and someone who can handle it when given that in return. It's like a marriage.”

-Supplier A, 2014

Supplier B considers a long-term cooperation and large business volumes to be important aspects of a customer in order to grant them PCS, although if the customer uses the supplier exclusively for specific components it increases their chances of preferred customer status (B, 2014).

4.2.2 Preferential Treatment

Sales representative C thinks that customers are open about receiving preferred treatment, and that there is an ongoing dialogue about the next product cycle and what it should contain, and the terms for the next project. To Supplier C, preferred treatment means that you have an open exchange of information. It is important to get to know each other because then you can find a solution that fits both companies. Depending on how long you have been in a relationship with a customer, you may or may not receive preferential treatment. It takes some time to build up a relationship with a customer, and they may not give you preferred treatment from the start. Even if a customer does not give Supplier C preferential treatment, they offer their customers preferential treatment to prove that they are highly competent and to show the customer what they can offer. When receiving preferential treatment, the sales representative expects to be involved in the future product portfolio of the customer and be involved in finding the right technical solutions on time to fit the market demand (C, 2014).

Supplier D has had a case in which they offered preferential treatment in which they were not offered the ensuing deal, though prototypes had been developed at considerable costs.

However, this experience was more than a decade ago, and no similar events have recurred. In other cases, the supplier develops prototypes that no client has yet requested and then offers these products to their preferred customers, as well as potential clients in order to be proactive in their development process (D, 2014).

According to Sales Representative A, preferred treatment from customers manifests itself through receiving the right information first, and early in the process. The supplier also expects to see openness from the customer. The customer should have trust in the supplier to share information. According to Sales Representative A, a supplier knows if they receive preferential treatment if the customer proves that they are willing to invest in a long-term relationship with the supplier. If a supplier receives information early in a product cycle, they can develop the right product instead of guessing what the customer needs. Supplier A and the customer are then able to develop the product and solve problems together. Those customers who have cutting-edge technology are the customers who receive preferential treatment from Supplier A. The preferential treatment offered is testing- and development resources that are not offered to other customers. Some customers work on receiving preferential treatment, and some are not interested because they do not want to be a company with cutting-edge technology, those customers might prefer a safe card. Customers show that they want preferential treatment through being open with their intentions. If they are early with telling the supplier what their next strategy is, they are signaling that they want preferential treatment in the sense that they want to know the supplier's strategy. Supplier A states that when the supplier and customer are aware of each other's future strategies, they can work together to achieve their goals. This particular supplier offers preferential treatment to customers even if the customer does not offer them preferred treatment in return. Supplier A does that to show the customer what they have to offer if the customer decides to grant them preferential treatment (A, 2014).

Although all customers to Supplier B receive preferential treatment, about 10-15% receives extra preferential treatment compared to the others as the treatment offered must be in relation to what they get from their customers. Additionally, resource constraints force the supplier to favor its long-term PCs, who are giving the impression of preferring the supplier as well. Supplier B defines preferential treatment as getting early access to new technology that this supplier develops, as well as getting preferred access to their buffer capacity in the case of market fluctuations. The supplier also provides fast access to their own board if issues need to

be resolved, information on development and share business intelligence information on several levels. When giving preferential treatment, the supplier expects to be making business for at least the coming 5-10 years. They are not interested in 2 year-contracts. The supplier is used to giving more than the customer when it comes to preferential treatment, Sales Representative B states that it is part of their role as a supplier. They have, however, had some poor experiences with customers. In those cases they usually had a different view from the customer on the relationship and how they were working, and therefore the relationship suffered. Sometimes it depends on individual decision makers that take strategic decisions that may end an entire relationship. However, these situations are very uncommon (B, 2014).

4.2.3 Supplier development

Supplier D's perspective on supplier development efforts from their customers is that it is an intense process that puts firm restrictions on their liberty. It is regarded in a generally negative light, as it raises demands on quality and costs, as well as increasing the administrative work significantly. It also becomes an issue when every client requests the information in very different ways, although the information is actually readily available (D, 2014).

“It's very time-consuming and you have to know your field in order to manage the burden of proof for a specific project. You do get questioned, and if you don't have a good answer you'll end up in a bad bargaining position.”

-Supplier D, 2014

Certain customers pose new demands that Supplier A does not feel are relevant. The last couple of years, there have been more of these non-relevant demands from customers. The demands may not contribute to any benefits for the customer or the supplier. Supplier development programs can be both good and bad, according to Sales Representative A. It would be better if customers could custom-make the programs to their suppliers since the suppliers all have different needs. Small suppliers might need more development than large, global suppliers for example. Supplier A also has its own development program and to incorporate many different supplier development programs from customers might clash with their own program (A, 2014).

Supplier B distinguishes between cost-related and non-cost related supplier development programs, of which the latter is seen in a more positive light. The non-cost related programs implies that the customer share information and views, as well as develops the relationship long-term. Supplier B, together with the customer, creates a platform for joint development in these cases. Cost-related development is further viewed in two ways, one in which the customer and supplier look at common processes to identify non-efficiencies in the interface. The other kind is mainly aimed at lowering supplier prices, which is viewed the least positive program (B, 2014).

Supplier C perceives development programs as being positive in general. There is a mutual benefit of having supplier development programs (C, 2014).

4.2.4 Attractiveness

According to supplier C, long-term thinking makes a customer attractive. Sales Representative C compares the supplier-buyer relationship with a marriage – in good times and bad times. The representative explains that this was evident during 2008 when Supplier C, together with their customers fought through the crisis and they both came out on the other side in good condition. Supplier C's customers actively work with becoming more attractive. It is in the customer's interest since product cycles are long and there is long development time for new products. It is therefore important also for customers to be open about what will happen in the future and work together with the supplier to find a solution that fits both. Customers are working actively on becoming more attractive to Supplier C through inviting the supplier early in the project's phase to be able to develop their future products (C, 2014).

In general, Supplier D does not perceive their customers as working with becoming more attractive to them. In fact, the only way this supplier considers their customers to attempt to acquire preferential treatment from them is by offering continued business and maintained high order volumes. The long-term nature of their engagement is an important factor for the supplier, which the buyer maintains. However, it is difficult to distinguish any other primary attempts to appear attractive, as the customer is continually pressuring the supplier on prices. Supplier D considers the climate to be harsher and requests more open and honest dialogue between the parties as it would yield increased profits for them both. This would also include sharing more information, which would enable the supplier to start building new prototypes

earlier. Supplier D would view both these characteristics as highly attractive. Furthermore, Supplier D puts a strong emphasis on the desire of being a system-supplier for the entire segment of a customer (D, 2014).

Projects Supplier A currently works on are a couple of years away, and therefore long-term thinking is very important. Clear messages and honest relationships are valued high. A customer who is willing to establish a good, long-term buyer-supplier relationship is attractive to Supplier A. The customer should be open and honest, and should be able to handle openness and honesty when given back to them. Some customers do try to be attractive, but some customers send out a detailed quotation request (which is not attractive). Sales Representative A states that there is open communication on what they perceive as attractive in the customer. There are meetings where they do not talk about projects, but only about the relationship and what can be improved. Sales Representative A requests the customer to be aware of what is going on outside their own company and be perceptive. If the customer is aware of the supplier's product portfolio there might be more areas to collaborate on, and larger chances of creating win-win situations. As a supplier, it is important to know your customer, but it is also important for the customer to know the supplier. This supplier wants to emphasize that long-term thinking, openness and honesty are key to create trust and win-win situations (A, 2014).

Customers that look toward shorter business cycles or are more interested in switching suppliers to optimize projects in the short term are not interesting to Supplier B, who greatly values the long-term perspective. Supplier B thinks that buyers who are interested in long-term cooperation are working on their attractiveness, as they see the benefits of the preferential treatment offered. These customers are also willing to make efforts to maintain preferential treatment. It is very important to the supplier to be able to rely on and trust their customers as investments and commitments are long-term. For this reason, a long-term cooperative relationship is highly attractive. It is also attractive if the customer is open with their long-term perception of the relationship. For this reason, transparency is also very attractive (B, 2014).

4.2.5 Communication

According to Supplier C, you cannot understand each other's needs without open communication. Sales Representative C has a very open relationship with their customers, and they exchange opinions on how the collaboration is working and what they want from each other. Sales Representative C thinks that both the supplier and buyer should be open about their strategies and their future plans (C, 2014).

While Supplier D believes that they could perform better in this area and increase their level of communication, it is a difficult subject to broach, as the first to do so could be taken advantage of. For this reason, the supplier D requests that their customers could issue a survey to find out what their suppliers actually think. Occasionally, the buyer and supplier have meetings to discuss their relationship and cooperation (D, 2014).

Supplier A works on development of the relationship through meetings and discussions that concern topics outside the day-to-day problems. The sales representative sees the importance of being open towards their customers and to focus on their mutual future strategy. A common supplier-buyer strategy is important to have in place when the supplier wants to communicate that they want to be a large supplier to a certain customer for example. If the supplier is open with their intention they expect to get advice from the customer on how to reach these goals. It might not only concern lower prices, it might be technical support or something else that the customer wants (A, 2014).

Supplier B does not view PCS as static, and perceives it as developing based on establishing communication channels on topics such as technology, commercial level and between the management. It is important that this communication is on both a personal and on a business-related level. The supplier has communication with their preferred customers about what they find attractive, but the non-preferred customers may not receive as much of this communication. The supplier communicates what they find attractive and regards it as important that they are transparent in what they want. They receive openness, transparency and long-term thinking in return (B, 2014).

4.2.6 Trust and commitment

Trust and commitment is the base of Supplier C's relationship with their customers. Commitment means that the customer involves the supplier early in the different phases, and vice versa. It is important that the supplier and customer share their future plans with each other (C, 2014).

“Commitment... When I think about it, it's about involving each other early on in the product phase, the products we are working on, and have an exchange with our clients about our plans for the future and that's where commitment becomes very important.”

-Supplier C, 2014

Reciprocity is claimed to be the single most important factor in order to build trust and commitment with Supplier D, who also emphasizes the importance of personal relationships as it fuels reciprocity. It is also easier to trust the buyer when an individual relationship is well developed, and they may even be more willing to provide additional services not covered by the contract. When the individual has worked with a buyer for a long time it is easier for them to offer such services, as they can be certain they will eventually be reciprocated. Supplier D may, for example, be willing to ship out goods prior to receiving the order and consider this part of the preferential treatment they offer their preferred customers. They become less willing to do so when the personal relationship is lacking, and more focused instead on covering their expenses. In spite of this, they have noticed a trend among their customers to change their buyers frequently, though they acknowledge this as potentially being a part of a deliberate strategy. Further, honesty is also considered to be very important to improve the relationship, both technically and commercially. This would help the relationship develop and decrease development problems to reach cooperative solutions that profit both parties (D, 2014).

There have been instances when Supplier A perceived a project to be a collaborative project with a customer, when suddenly the customer opted to withdraw without warning. Not giving the information about their intention to withdraw damages the relationship and the trust the supplier had for the customer. Such a situation is handled through pointing at the bad behavior during the next project, and not be as trusting as before. According to Supplier A, trust is something that has to be covered throughout all departments of a company. Commitment is also very important, and as a supplier you will commit more to a customer that shows respect.

There are customers who think that they are superior to the supplier, and do not respect the supplier. In these cases the supplier does not show as much commitment to the customer compared to a customer who treats a supplier with respect. It is important that the customer also shows commitment (A, 2014).

As stated before, it is very important to Supplier B to be able to trust their customers as investments and commitments are long-term. The supplier believes that if there are two people negotiating that do not trust each other, then there can be no constructive communication and the relationship is unlikely to end well. The discussion will fail and they will be unable to rely on what they agree on. Supplier B considers the most important part of building trust to be to only make statements that you are able to commit to and to be honest when they are unable to commit to something. They are clear about never making promises that will have to be corrected afterwards. Commitment from the customer is regarded as important, though the supplier understands their inability to give strong commitments. What is crucial is that they are able to trust the customer's statements (B, 2014).

4.2.7 National differences

Supplier D generally considers geographically close relationships to be favorable to geographically distant, as this proximity increases the common factors and differing cultural factors become less prominent. A distant relationship also increases the need for frequent communication as well as the need to be very precise in discussions. In spite of this, the supplier aims to provide the best service to all of their clients, but communication becomes more complicated to geographically distant customers (D, 2014).

It is easier to have an open communication with Swedish customers than foreign customers, according to Supplier A. Swedish customers are more honest than foreign customers who might be more prone to "play games", while Swedes are more open about their strategies. Certain foreign customers play a game where suppliers are eliminated throughout the negotiation phase. A global customer can act differently depending on who you are talking to in the organization. There are cultural differences too. Two extremes are Japan and the US. In Japan they are very dependent on a good relationship, while in the US you can change supplier without reason (A, 2014).

While Supplier B and Supplier C confirms that there are some differences between cultures in how they do business, there are no substantial differences regarding the preferred customer relationship (B & C, 2014). The major difference is between US and Japan. This is because US customers are more prone to change rapidly, whereas in Japan the relationship in itself holds value (B, 2014).

“With regard to this kind of question we are talking about, preferred supplier/customer status, I think that it’s not a huge impact on which nationality you have.”

-Supplier B, 2014

5. Analysis

In this fifth chapter, the empirical material is analyzed together with the theoretical framework. In order to compare buyers' and suppliers' answers, answers are analyzed based on topics, first in sections focused on buyers' and suppliers' answers respectively, and then through a third section comparing answers from buyers and suppliers. The last part of the analysis works as a summary of the analysis in order to analyze the answers in respect to the model developed in the theoretical framework.

5.1 Preferred Customer/Supplier Status

In this section, buyers' and suppliers' view on how to achieve PCS and PSS are discussed and compared to the theory presented in the theoretical framework.

5.1.1 Buyers

Preferred customer status

Buyer B considers value creation factors, trust & commitment, and relational factors equally important in achieving a PCS. Buyer D, on the other hand, thinks that value-creating factors are more important than relational aspects. Buyer D's point of view is in line with Hüttinger's (2012) argument that customers have a tendency to focus more on value-creating factors than on relationship factors.

Buyers A states that it is necessary to achieve a PCS with their suppliers because of the high bargaining power suppliers hold in this industry. Holding a PCS should mean that the buyer becomes more dependent on the supplier and therefore loses bargaining power, according to Schiele et al (2011). Buyer A seems to substitute this lost bargaining power with attractiveness to make the relationship work, which is in line with Schiele et al's (2011) contribution. Buyer C opposes to Buyer A's story by describing that whether or not a buyer can achieve PCS depends on the size of the supplier and how much of the supplier's turnover the buyer contributes to, i.e. how high the supplier's bargaining power is. As suppliers become larger and attain larger bargaining power than the buyer, unilateral dependence develops between the parties. In relationships with unilateral dependence, trust and commitment become harder to develop and it therefore also becomes hard to achieve a PCS. It can, however, be overcome by using Buyer A's strategy to substitute lost bargaining power with attractiveness.

Preferred Supplier Status

There are several factors that influence which suppliers are awarded with PSS from the different buying companies interviewed, and while they value different things in their suppliers some factors are very similar between the three companies. These factors shall be analyzed in the following paragraphs.

For all firms innovative capabilities is one of the most important factors in order for a supplier to attain PSS. This is primarily due to the highly technically complex product that defines the industry segment researched, and is consistent with predictions from theory, as Emberson and Storey (2006), Schiele et. al. (2011) and Nollet et. al. (2012) pointed towards the great importance of innovation in the area of PCS especially in more complex industries such as the automotive industry. The importance of technological capabilities is emphasized by the demand for high level of technological competence and knowledge in their field that a majority of the buyers expressed in the interviews. For example, Buyers A, B and C explicitly point toward the importance of superior technological capabilities and unique technical solutions, whereas Buyer D implicitly point to it due to its demands on quality and innovation within its very technically complex product range.

Due to the high development and exchange costs of suppliers and the long production cycles for the customer, all companies interviewed highly value a long-term relationship with their PSs. This coincides with previous research by Emberson and Storey (2006) which supports such decisions.

Further, all firms described a situation either developing or apparent in which the bargaining power of their suppliers were increasing, as the number of active suppliers are shrinking due to mergers and other causes. In several cases buyers expressed that they had suppliers that they do not prefer, and who in turn do not prefer them. This is a potentially dangerous development for these companies, as it implies that these suppliers prefer other customers to them, and therefore offers their competitors more preferential treatment and access to resources. Their higher bargaining power also implies that they are highly competitive suppliers within the industry, as they are able to dictate the terms of their relationships. In Schiele's (2012) portfolio model of suppliers, these suppliers would be denoted as "Black

Knights”, which should either be handled through a bonding strategy, or a divestiture in favor of better prospects. Due to their previously mentioned preference for long-term relationships with their suppliers, these buyers are, to some extent, bound to their suppliers in the short-term making divestiture costly and impractical, if not impossible because of the small amount of alternatives available. In the case of Company D, an unfortunate mix of the merger of two suppliers and dedication of further resources to that supplier shifted the balance of power significantly in the supplier’s favor, whereas Company C is experiencing a situation where their suppliers are starting to act on their increased bargaining power. By contrast, the Black Knights that Company B face are the result of oligopoly markets on the global market. Most interestingly is Company A’s approach who are experiencing a situation in which one of their former “Kings” is developing toward becoming a “Black Knight”. In order to respond to this development, Company A has been giving small amounts of their orders to a smaller firm - a so-called “Squire” - in order to develop them into becoming a “King”. Not only would this enable Company A to relatively risk-free develop their relationship, it could also potentially provide them with a more loyal supplier which is congruent with the supplier development and divestiture strategies recommended in this situation. While Company D hasn’t reported any significant changes like those Company C reported, the experiences of Company C does contradict the finding of Schiele et al (2011). His findings showed that suppliers with whom the company holds PCS tend not to utilize their standing. It therefore stands to reason that Company C does not hold PCS with those suppliers, or that the attractiveness that is supposed to displace the lost bargaining power is not strong enough to do so.

Concerning the aspects of dissimilarity between the companies, transparency and openness was emphasized only by Buyers A and B, where both also put a strong emphasis on reciprocity in the relationship and that the PS view them as a PC. Considering the view of Hald (2012) highlighting the importance of reciprocity in the PCS relationship, a higher degree of consensus on this factor would have been expected. However, most buyers have put forth views and conceptions on their PS that imply that reciprocity is preferred. It should also be noted that the buyers not putting forth this view are forced to deal with a situation in which the suppliers hold a stronger bargaining power. It therefore becomes difficult for them to demand reciprocity or expect similar treatment in return, and reciprocity becomes less important compared to acquiring a preferential development situation.

Buyers A and D emphasized the importance of strategy for PSS, though Buyer D pointed more toward the strategic importance of the components, whereas Buyer D pointed toward a strategic match. While the others have not explicitly stated this, their intentions are quite clear in their demands for long-term relationships and openness, along with their focus on unique and leading technology. This does point toward the strategic importance of acquiring the right suppliers that Schiele et al (2012a) and Steinle and Schiele (2008) outlined, especially for the buyers interviewed that face issues with suppliers that are stronger than they are. It becomes especially clear when considering the increasing importance of relationship management within the purchasing processes, as purchasers must be strategic and relationships must be utilized in order to sustain competitive advantage (Giunipero et al, 2006).

Commercial aspects, such as price, were emphasized heavily by Buyer D and, to some extent by Buyer C, though for the latter it is not the deciding factor. This is simple to understand, as the prices to which their firm purchase is affected by its supplier, which in turn affects the end result for the firm and their unit. However, in theory this aspect is more closely related to preferential treatment expected from being a PCS and thus will be thoroughly discussed in section 5.2.

5.1.2 Suppliers

Preferred customer status

There are several factors that influences which of the suppliers' partners become PCs, and while some of them are similar between the companies, there are also differences in their emphasis of different aspects. The most common factors are the long-term relationships, both in that they have a good history with their customers but also in that they are able to see a future with them. Similarly to the customers, there are several costly and time consuming efforts that must be undertaken in order to develop and deliver the components to the customers. Relying on short-term clients would therefore be very risky, as return on investment is not guaranteed and the customer could easily switch to another competitor. Being able to envision a future is therefore a prerequisite for suppliers in this industry. Coupled with this is the need for a joint long-term strategy, or to be able to look forward in the relationship, that all suppliers except for Supplier B expressed, although Supplier B's preference for exclusivity and large business volumes do suggest the same kind of cooperative strategizing with their customers. This indicates that suppliers are affected in a

similar way to buyers when relating to Emberson and Storey's (2006) study, as they are more inclined to develop existing relationship than to build new ones. However, this should be taken with some criticism, as suppliers have another interest in expanding operations by finding new customers, although in this industry the long-term orientation seems to have a stronger impact than expansion. Further, the emphasis of joint strategies and long-term relationships also points towards a sharing of innovations prior to new customers, as is indicated by Supplier B's offer of exclusivity, however this matter is more thoroughly handled under section 5.2 Preferential Treatment.

Only one of the firms emphasized their job as creating open relationships based on exchange of information and technological development with their suppliers. However, as most suppliers mentioned and emphasized these factors as attractive, and that this primarily plays into the Interaction, Trust and Commitment and Attractiveness factors of our model, it will be further discussed in those sections respectively.

5.1.3 Comparison of responses

The clear emphasis on long-term relationships posited by both buyers and suppliers clearly indicates its importance for the industry segment researched. It therefore stands to reason that its importance, both for the PCS and the PSS, gives evidence for previous research. Further, it stands to reason that the specific demands of the industry might therefore influence the other factors somewhat. Coupled with this is that it is noteworthy that while commercial aspects were emphasized by almost half of the buyers, only one supplier mentioned commercial aspects, and in that case it was more related to exclusivity and business models. This disparity is most likely linked to the fact that prices and other commercial aspects may be included in the preferential treatment that is offered to the clients, whereas Supplier B likely mention these aspects in order to emphasize the importance of being able to sustain a long-term relationship with its PC's. For these reason, those aspects will be dealt with in 5.2. There was also some disparity when looking into the specific matter of strategy, as the suppliers emphasized the need for a joint strategy requiring higher degrees of communication, whereas the buyers did not emphasize aspects like openness or reciprocity to the same extent. This emphasizes the perspective of the customers on how the suppliers fit their strategy and company, rather than how they can develop their joint relationship. It is not surprising as the suppliers have a natural need for developing the relationship in order to sustain the

relationship. However, it must be acknowledged that most buyers have established well-functioning systems for cooperation, and that the suppliers have disparate views as well.

Further, the buyers emphasized, through their descriptions of dealings with clients, that bargaining power is a very important concept for their relationship with their PS. No similar views were brought from suppliers, most likely due to the fact that many of them have a high bargaining power which allows them to dictate the terms, which is shown in the customers' responses. Also, it is telling that of all the suppliers and buyers, only one interviewee emphasized the importance of price cuts for PCS or PSS, which clearly indicates the preference for quality and technological excellence.

5.2 Preferential Treatment

This section will analyze the views and expectations customers have of reaching PCS, and what the suppliers have of granting it respectively, that is what kind of preferential treatment does PCS entail.

5.2.1 Buyers

Concerning the buyers' view on what constitutes preferential treatment received, all of the buyers emphasize an early access to supplier innovations and new technology, and Buyer C regards this as the most crucial aspect to their business. In a high-tech industry such as the one in which the interviewees act, innovation is crucial. With the increased amount of innovations originating from suppliers, as found by various researchers (Nollet et al, 2012; Schiele et al 2011; Schiele, 2012), it is therefore not surprising that all buyers regard this as important preferential treatment expected to be received in PCS. Further, all buyers except Buyer D regarded higher priority than other customers as the most favorable preferential treatment, which points towards Steinle and Schiele's (2008) findings that not all buyers have equal access to suppliers. Buyers A, B and C are therefore expecting to limit the access of their competitors to a supplier which gives them PCS, as well as access to limited resources in time of demand variance (Schiele, 2012). While Buyer D did not explicitly emphasize priority in this fashion, they did emphasize the best prices and logistics terms as expected from PCS, as did all buyers except for Buyer C. This does point to a prioritized situation as mentioned previously, although it is implicit. Buyer C, on the other hand, did not value price as highly as the others, as technology and quality are more important for them in PCS situations.

5.2.2 Suppliers

Concerning what kind of preferential treatment the supplier offer their buyers, one that recurred among all the suppliers was an open exchange of information, which is regarded as important for the suppliers to receive as well. This information encompasses new innovations, business intelligence and strategies and it is reasonable to assume that this is a rather rare service that is only offered to some suppliers, as this kind of information is highly sensitive and constitutes the driving factor in this technology-driven industry. This open exchange is a very rare preferred service that these firms offer to their PCs which would then coincide with Nollet et al's (2012) finding of suppliers offering their PCs rare services and access to innovations. Further, two of the suppliers additionally offer testing and development processes to their PCs that they do not offer other clients, and for some occasions with some PCs it has even been offered free of charge initially. This is a clear reference to very rare services offered clients, as they are even willing to take greater initial financial risk for their PCs. It is, however, clear that this is a service offered to very few, and when those customers do not act in a reciprocal way predicted by their relationships, such additional services are often limited to send a message about what is acceptable in the relationship.

5.2.3 Comparison of responses

When considering both the responses from buyers and suppliers it becomes clear that access to innovations and development are what both parties constitute as highly preferred preferential treatment, cementing the dependence on this factor by the industry. Prioritized treatment in a PCS situation is expected by a majority of both groups, which further serves to solidify the results of previous research in this field. Reciprocity is also emphasized by both parties, and behavior outside what is accepted in the relationship is met by seizing to offer preferential treatment.

5.3 Supplier Development

This section analyzes the view that buyers and suppliers have on supplier development, how they work with it and what they consider to be good supplier development.

5.3.1 Buyers

The buyers' views on supplier development are varying, as no two buyers have similar methods for it. Buyer B does not work with it extensively, although their company has a number of programs, whereas Buyer D provides support for locating subcontractors or developing packaging solutions. Buyer C is mostly characterized by cooperation between R&D departments and developed specifications, whereas the supplier development by Buyer A is conducted primarily through regular meetings. Most of these manners in working with supplier development are to be considered indirect supplier development, as Buyers D and A likely only invests limited resources in their development programs, although Buyer A likely invests more than Buyer D due to the frequency and extensive scope of the meetings undertaken. Buyer B, conversely, does not have any particular supplier development program within the segment, and is therefore nonexistent. In stark contrast with the other three buying companies, Buyer C has rather extensive supplier development programs, as more intense cooperation between R&D departments require not only more extensive share of knowledge and strategy, but also requires more resources, as a larger number of people are cooperating and should therefore be considered direct supplier development (Ghijssen et al, 2010). These specific companies highlight how firms in the same industry segment can work with supplier development. It is further interesting that the extent of the supplier development programs is one of two extremes - either it is very extensive, as is the case of Buyers C and A, or it is very limited, as is the case of Buyers B and D, which shows an awareness of the hurdles that was posited by Ellegaard and Ritter (2006). However, Buyer C posits a greater focus on administrative processes in their preference for very specific specifications, which may cause pure demands to be placed on the supplier.

5.3.2 Suppliers

The suppliers have varying views on supplier development, but Suppliers D and A have a generally negative view of supplier development, as it raises demands unduly, several customers have different needs and procedures that they have to adapt to, and that different supplier development programs tend to clash. Coupled with this is the fact that the suppliers themselves have their own development programs and long-term technological strategies. The views of these suppliers are consistent with the findings of Ellegaard and Ritter (2006), who warn that if supplier development projects focus on setting demands on the suppliers they will likely serve to demotivate them. A similar position can be found in the perception of Supplier

B, who regards supplier development programs that solely focuses on costs at the supplier level, and such programs tend to primarily set demands on the supplier and not develop them in any larger extent. However, Supplier B does also posit positive views on programs that either concern common processes or are not related to costs, as those entail sharing information and deepening the relationship. Similarly, Supplier C has a generally positive view of supplier development programs, as they are mutually beneficial. This view more correlates with those of Ghijsen et al (2010) in that increases performance and satisfaction within the supplier. In their case, it also correlates with Nollet et al (2012) in that supplier development also leads to supplier commitment, as a committed customer finds it easier to encourage the supplier to commit. These examples further show that most suppliers seem to be positive to supplier development programs as long as they are not simply administrative or putting demands on them.

5.3.3 Comparison of responses

The result of both these analyses shows that there are very different ways in which buyers and suppliers may engage in supplier development, and that their views highly differ. This may be due to different experiences of the results and demands of these programs, as Supplier B posited the position that different kinds of programs warrant different reactions. The buyers within the segment seem to have picked up on these reactions, as most of their actions seem to avoid overly administrative and taxing processes, to instead involve and focus on what the buyer and supplier both can do in order to develop their processes and technology. However, this may still be called into question, seeing as several suppliers still posit negative positions on supplier development programs. However, these same suppliers have previously stated the requirement of open communication and joint strategic processes for technological development, indicating that supplier development programs focused on such measures are ones that would be accepted as positive. These kinds of development programs may not necessarily be what these suppliers have defined as supplier development, but rather as preferential treatment from their PCs. For this reason, the result of this analysis would be that buyers within this segment should focus on supplier development programs that are not overly focused on administrative aspects, but rather on joint processes that serve to contribute to both parties. It would seem that most buyers have adopted this stance, or have limited their supplier development programs.

5.4 Attractiveness

In this section, suppliers' and buyers' view on what they consider to be attractive in order to grant or achieve PCS is discussed in relation to the theoretical framework.

5.4.1 Buyers

All but one buyer (Buyer A) stresses the importance of showing commitment to a long term relationship in making themselves attractive towards their suppliers. Buyer B, C and D all think that the supplier is interested in long contracts and securing a place in the next product cycle. This is in line with Mortensen (2012) Ellegaard (2012) who stated that the future value of the relationship is the most attractive factor to suppliers. According to Ellegaard & Ritter's (2007) definition of value creation, this factor can be considered to be a direct function of value creation as long contracts affects profits and volume, and therefore has a direct positive effect on the supplier's competitiveness.

Mortensen (2012) also emphasizes the emotional and irrational aspects of the relationship as important in making a customer attractive to a supplier. This is reflected in Buyer A and B's views as they perceive it as important to be fair, attentive, and behave professionally towards their suppliers. Another factor based on irrational aspects of the relationship is Buyer C's perception of what makes them an attractive customer; it is easy to work with them. Buyer C thinks that suppliers appreciate that Buyer C makes them feel like they have the buyer's support when problems arise, that they are not left to struggle by themselves when experiencing difficulties.

Three buyers also mention prestige as an important factor for attractiveness. Prestige in this context means that a supplier will be able to add the customer's name to their portfolio to show other future customers. This is seen as attractive since it creates future value for the supplier as it might facilitate new deals to have a specific buyer in their portfolio.

Only one buyer taps on the irrational aspect of attractiveness through marketing an interesting product. Buyer B believes that they do not have many value creating factors that attracts suppliers, except for offering long contracts, and that they therefore have to make themselves attractive through emotional factors. Since their product is technically advanced, they are able to attract suppliers who appreciate the challenge and are interested in their product.

Noteworthy is that none of the buyers mentioned any variables connected to the interaction process, namely trust and commitment, when asked directly about attractiveness.

5.4.2 Suppliers

The suppliers interviewed for this thesis seem to find the same factors attractive in their customers as their answers were quite homogenous.

All suppliers answered that a long-term relationship is attractive to them. Customers showing a willingness to commit to a supplier over a long time period are therefore preferred over customers only interested in short-term commitments. The attractiveness to a long-term relationship exists because of the prospects of value creation in the future, according to Mortensen (2012). It is connected to the direct functions of value creation as a long-term relationship signals profit and continued order volumes to the supplier. Supplier D also mentioned a desire to become a system supplier to a customer, and this is also seen as a value-creating variable as it increases the supplier's profit.

Connected to the long-term relationship is the desire from suppliers to have an open dialogue about the future of their relationship. Three out of four suppliers mention the emotional aspect openness as an attractive factor in their customer. Other emotional factors that suppliers value are honesty and transparency. All three emotional factors; openness, honesty, and transparency, are seen to be important coming both from the supplier and the customer.

Also connected to the long-term nature of the relationship is the suppliers' desire for customers to share information with the supplier. According to Nollet et al (2012), information sharing is a way of showing commitment in a B2B relationship, and can therefore be considered as an interaction process factor driving attractiveness.

Another interaction process factor mentioned by one of the suppliers is trust. Supplier B wants to be able to trust their customer because investments and commitments in this industry are long-term. According to Ellegaard & Ritter (2007) trust is seen as one source of commitment.

According to the suppliers interviewed, all factors of Ellegaard & Ritter's (2007) framework seem to be important for customer attractiveness.

5.4.3 Comparison of responses

There are some major differences and some similarities in what customers perceive as being attractive to suppliers, and what suppliers actually think are attractive. A comparison of the suppliers' and customers' view on attractiveness will follow.

Buyers and suppliers seem to both agree that long-term orientation makes a customer attractive. It is quite natural for a supplier to desire a long-term relationship since it increases their long-term profit and therefore improves their competitiveness.

What seems to come as less natural to customers is the importance of interaction process factors such as trust and commitment. Suppliers receiving commitment from their customers sees it as a signal to continue the exchange relation, and it should therefore be of high importance. It is reflected in suppliers' answers on attractiveness as both commitment and trust are mentioned, but no interaction process factors are mentioned among customers.

Suppliers seem to emphasize emotional factors to a larger extent than customers do. Customers perceive value-creating factors as being the most important factors for customer attractiveness. Even though all suppliers mention at least one value-creating factor, all suppliers also mention some kind of emotional factor, which means that customers' focus should not only be on value-creating factors, but also on emotional factors. This result is in line with Hüttinger et al (2012) who stated that buyers might be more focused on performance factors, and supplier might value a good relationship atmosphere higher than buyers do.

5.5 Communication

In this section, the level, importance, and/or type of communication occurring between buyers and suppliers are discussed from their respective perspectives.

5.5.1 Buyers

Over time, Buyer D has become more open in their communication with suppliers. The company has also started to become firmer in demanding reciprocity in open communication. According to Lambe et al (2001) communication is correlated with trust in a relationship, so Buyer D's efforts towards more open communication could stem from a desire to build stronger trust in the buyer-supplier relationship. Demanding that suppliers become more open in their communication reflects Buyer D's desire to be able to trust the supplier as well.

Buyer B on the other hand is not as open in their communication with suppliers. This could be a result of their suppliers being present on oligopoly markets and holding greater bargaining power than the buyer. Buyer B, however, state that communication is essential in order to receive what you need from your suppliers, and in cases where the buyer-supplier relationship reaches a certain standard, the buyer might be able to have a more open communication with the supplier. The same kind of situation seems to be present with Supplier C.

Communication is crucial to Buyer A's relationship with suppliers. Communication between suppliers and buyers are important, as well as communication at the managerial level. Buyer A is able to exchange confidential information with their suppliers on innovation for example. Communication is used as an outspoken strategy of Buyer A to deepen the relationship with suppliers. As Nollet et al (2012) state, communication is used to keep the PCS a buyer has with a supplier, and it seems to be working in the case of Buyer A. Buyer A's exchange of information on innovations (and the following collaboration in this area) confirms Ellegaard & Ritter's (2006) statement that information exchanges makes organizational innovation possible. Buyer A stated that their buyer-supplier relationships are fueled by open and honest communication, and also confirms that this open communication is very closely linked with trust in the relationship.

5.5.2 Suppliers

Supplier D thinks that they could perform better in this area, but that it is risky to be the one initiating more open communication since you could be taken advantage of in that position. Supplier D does, however, occasionally have meetings with buyers to discuss the relationship, but to increase supplier satisfaction, buyers to Supplier D should increase their level of communication in order to increase Supplier D's satisfaction with the buyer, as communication-related factors drive supplier satisfaction according to Hüttinger (2012).

Supplier B recognizes, as Nollet et al (2012) states, that a PCS is not static. The relationship needs to continue to develop even after PCS has been achieved. This is, according to Supplier B, developed through communication between the supplier and buyer. This becomes even more evident with Supplier B's statement that non-preferred customers do not receive the same amount or type of information that preferred customers do.

A similar situation is seen with Supplier A who has meetings with their customers to discuss topics outside day-to-day problems. Supplier A also confirms Nollet et al's (2012) theory that PCS is maintained through communication as there is a lot of communication concerning their mutual future strategy between the supplier and buyer.

Supplier A and C both emphasize the importance of reciprocity in the communication between suppliers and buyers. Supplier C thinks that it is important that both the supplier and buyer should be able to communicate openly about their future intention. To enable both parties to be open about their future intention, some degree of trust must exist between the two since communication is correlated with trust according to Lambe et al (2001). Since Supplier C has fairly open communication with their customers, trust seems to be present in their relationship. They are able to communicate with their customers on how the relationship is working and also understand each other's needs in the relationship.

5.5.3 Comparison of responses

It seems like, in general, both suppliers and buyers value open communication as it increases the level of trust between the parties. Therefore, both parties are willing to work on improving communication so as to improve the relationship. In those cases when communication is not as open as desired, the step towards more open communication seems to be a difficult one to take, as it leaves the party taking the initiative vulnerable.

Some customers have acknowledged that communication with a supplier facilitates the maintenance of the PCS the customer holds. It is also evident in supplier's treatment of customers as they do not share the same information with non-preferred customers as with preferred customers.

5.6 Trust and commitment

In this section, buyers' and suppliers' view of the importance of trust and commitment in the buyer-supplier relationship is analyzed.

5.6.1 Buyers

Buyer D states that in the case of a new supplier, drawing up contracts becomes more important than with a supplier that you know from before. This is in accordance with SET as parties that know and trust each other will build up common norms that govern the

relationship instead of using detailed contracts. With a new supplier, norms are not yet developed and therefore a detailed contract may be necessary to govern the exchange.

Buyer A states that their buyer-supplier relationships are fueled by trust, and that trust is closely linked to open and honest communication. Buyer A verifies Lambe et al's (2001) statement that the development of trust leads to a deeper relationship, as it seems like Buyer A has a well-developed relationship with the suppliers they trust.

Buyer B on the other hand states that trust and commitment only are important to a certain extent. Buyer B's point of view may stem from the fact that they are more dependent on their suppliers than their suppliers are dependent on them. As Lambe et al (2001) stated, in cases of unilateral dependence, contracts become more important than trust.

Buyer C acknowledges the importance of trust, but states that not showing commitment is a strategy to make suppliers believe that the buyer has more bargaining power. By using this strategy, Buyer C is prevented from building a deeper relationship with its suppliers.

5.6.2 Suppliers

All suppliers interviewed perceive trust and commitment to be very important in their relationships with customers. Personal relationships and trust being present in all departments of a company is also emphasized by most suppliers.

As stated in Lambe et al's (2001) discussion on SET, Supplier B specifically acknowledges that only making promises you can keep leads to positive outcomes, which in turn increases trust and commitment in the supplier-buyer relationship.

Supplier A also verifies Lambe et al's (2001) statement that mistrust leads to mistrust, which in turn leads to decreased commitment from the supplier and a negative development towards short-term exchanges.

5.6.3 Comparison of responses

In general, both suppliers and buyers value trust and commitment in the buyer-supplier relationship. However, some buyers do not value these variables as high as suppliers do. In these cases, it is explained by unequal distribution of bargaining power as suppliers in this industry tend to be large and often operate on oligopoly markets. This makes customers more

dependent on their suppliers, and according to Lambe et al (2001) contracts replaces trust in cases of unilateral dependence.

5.7 National Differences

In this section, buyers' and suppliers' opinions on the importance of national origin in a PCS relationship is analyzed.

5.7.1 Buyers

Both Buyers D and B have not noted any significant differences in their dealings with suppliers, and those that exist are not dependent on the nationality of the suppliers. However, most of their suppliers supply them on a global basis. Contrary to these two, Buyer A have experienced some differences between the different nationalities of even their global suppliers, as the Germans are perceived as more averse to risk and detail oriented, while the British are considered more willing to take risks. Buyer C has experienced some difference between its local and global suppliers, but this is rather related to their differing sizes than any cultural aspects, as Buyer C only looks for large, global suppliers internationally. The pattern is therefore that cultural aspects are of little importance to Buyers within the industry segment, as only one buyer indicates any primary differences.

5.7.2 Suppliers

Suppliers C and B indicate no significant differences in PCS due to cultural differences in their buyers, although they do indicate that differences do exist. Supplier D considers geographically close relationships preferable, as there are more common factors, and more distant relationships require more intense communication, but do not posit any significant cultural differences. This, in turn, is supported by Hüttinger et al (2012), who claim that geographical proximity is very important in order to develop the PCS relationship as the human connection requires closer contact to develop. Supplier A also finds it easier to do business with Swedish customers, as the communication is more honest and open and lacks the “game” aspect that other nationalities may use. Cultural differences are mostly felt through the extremes, however, as Japanese buyers place a value on the relationship, whereas the American buyers may opt to change supplier with no apparent reason. In general, most of the suppliers do not indicate any major differences in the buyers based on their nationality.

5.7.3 Comparison of responses

The majority of both the suppliers and the buyers do not indicate any significant differences due to nationality within the PCS situation. However, the suppliers seem to put a greater emphasis on national differences than the buyers do, though this may be primarily related to a desire for proximity to the buyer to facilitate communication. In general, we are therefore justified in not making national differences a primary concern in our model of attractiveness and PCS. It could, however, still be fruitful to look deeply into the role of nationality in the communication and personal relationship aspects of PCS, as it would likely have a larger impact if looked strictly within those boundaries than it does when considering the entire situation.

5.8 Model Analysis

As our analysis in sections 5.1, 5.2, 5.4, 5.5 and 5.6 show, most of the respondents answers correlate with the theory that we have based our model on. It appears that suppliers are very keen on receiving satisfactory outcomes from their relationship with their customers in stage 4 in the PCS Relationship Development model, and several have posited situations in which they have limited their offered preferential treatment upon failure to comply. Further, we have seen that it is very important for suppliers that their customers are attractive in order for them to grant them additional preferential treatment. This attractiveness can be either a long-term relationship on a business related level, or relational level where both trust and commitment are regarded as highly attractive. We therefore posit that the interaction of Attractiveness and Satisfaction that were added to form the PCS Relationship Development model are highly relevant to explain the evolution of buyer-supplier relationships within the PCS context, and even for relationships concerning recurring customers. It is important to realize that not all customers can become “true” PCs, as the resources of the suppliers are far too limited to allow such treatment of all customers. Even though some suppliers posited that all customers received preferential treatment, some always received more and are to be regarded their true PCs. Due to these reasons, the PCS Relationship Development model will not be altered, as it seems to accurately depict the reality of these relationships.

When considering the second model we developed, the Dynamic PCS model, it seems to be confirmed by our analysis. Attractiveness makes firms enter the Engagement part of the PCS Relationship Development model, and the satisfying outcomes of that engagement increases

the attractiveness of the customer enough in order to offer PCS. However, as our analysis shows, sometimes suppliers act first in order to attract the customer and make them offer them preferential treatment in return. This therefore indicates that the relationship is not static, but in constant flux and development, rather than being static and driven by one side alone. The need for reciprocity stated by both parties shows that engagement and development on both sides is required for a fruitful PC or PS situation. By many, it is regarded as crucial that their preferred partner prefers them in return. Unlike our PCS Relationship Development model, our analysis allows us to specify our model further, as the input of both buyers and suppliers shows that Value Creating qualities, Trust and Commitment, and Relationship factors are not linked in a static additive manner, but are part of their own internal dynamic development that constantly influences one another. As the value creation increases over time, as the exchange becomes more financially solid, the firms become more able to trust each other and willing to commit to the relationship. As an effect, the relationship develops further and the parties gain a stronger emotional attachment to one another, allowing more economic value to be garnered from the relationship as each partner is more engaged in sustaining the relationship. Further, our analysis shows that satisfaction, the realization of the expectations of firm attractiveness, influences one specific aspect of attractiveness, namely Trust and Commitment as they become more able to trust their partner when its expectations are met or exceeded. The dynamic relationship between the factors of Attractiveness and Satisfaction further may lead to a PCS or PSS situation, as the attachment between the firms is considered strong enough. This status, which previously was shown as influencing Attractiveness, more specifically influences the value-creating factors, as more preferential treatment is both offered and gained due to the reciprocal nature of the relationship. Due to this reason, we have revised the Dynamic PCS model into the Dynamic Attractiveness Driven PCS model shown in Figure 5.1 in order to highlight how these changes impact the model. Though the original model is still confirmed by our analysis, the revised model conveys the interaction of the factors of the model in a more detailed fashion.

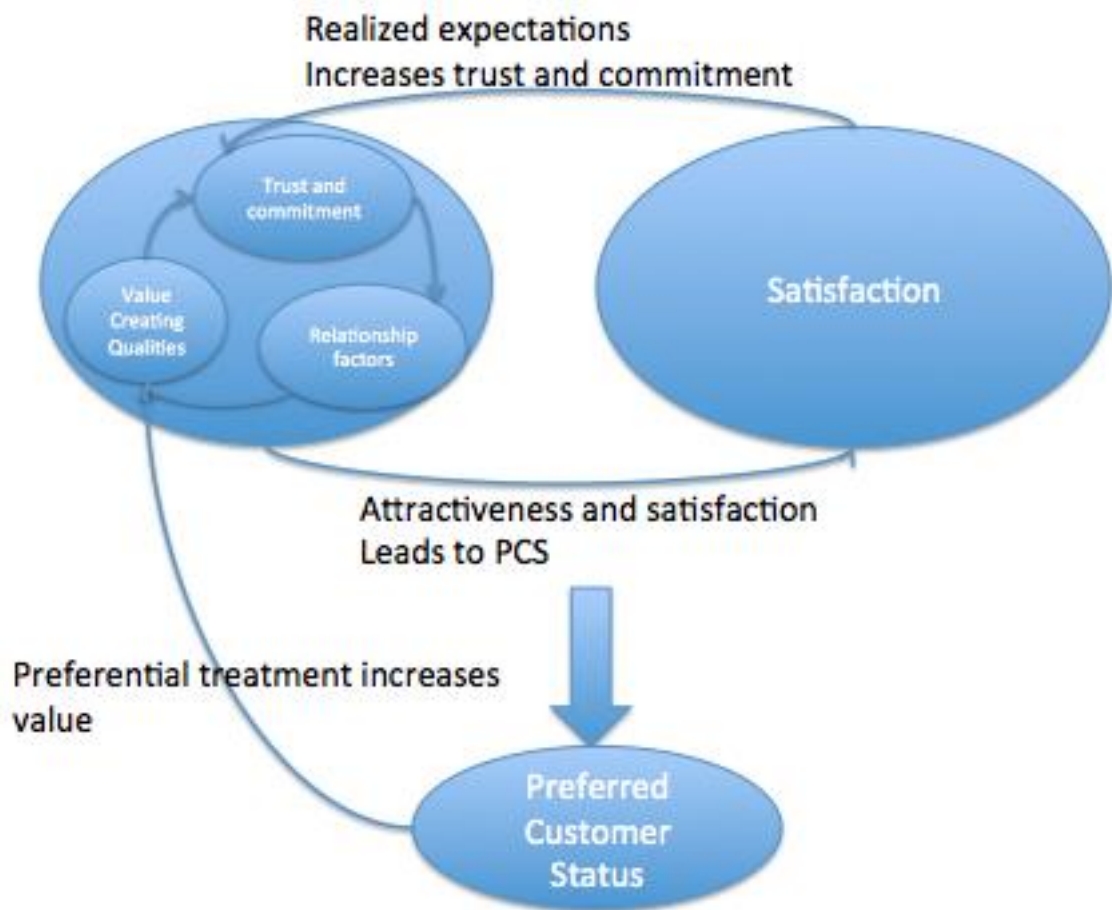


Figure 5.1 The dynamic attractiveness-driven PCS model
 Source: Own elaboration based on Ellegaard & Ritter, 2007, and Schiele et al., 2012a.

6. Conclusion

In this final chapter, conclusions are presented to answer the research questions on customer attractiveness. Implications for managers are also presented, as well as this thesis' contribution to literature on the topic. This chapter ends with suggestions for future research.

6.1 General Conclusions

Our research shows that there are a number of different qualities that buyers think their suppliers find attractive in them. One of the primary qualities is the potential future value of the relationship, as they believe that the suppliers find long-term contracts and ability to offer on the next cycle to be highly attractive. Further, the buyers believe that it is important to have a fair and professional relationship, as well as being attentive. It is therefore clear that buyers perceive their attractiveness to be based on the value-creating factors of our model. Further, buyers have stated a secondary preference for the interaction processes of Trust and Commitment, though it is clearly not as important as Value Creation. In general, it shows that buyers believe that by integrating Value Creating factors and an open discussion they may make themselves more attractive to their suppliers and achieve PCS. By achieving PCS, the buyers intend to acquire a preferential position by securing superior resources in terms of innovative capabilities, as well as becoming prioritized in comparison to their competitors with the most competitive suppliers. In order to realize a more preferential position, the buyers tend to lean towards different strategies concerning different portfolio positions, as highlighted in section 5.1.

As the industry researched have several supplier markets characterized by either current or emerging oligopolies, buyers become highly dependent on their suppliers. It becomes difficult to attain a PCS because trust and commitment are harder to develop in relationships with unilateral dependence. Some buyers have, however, realized that it is possible to substitute lost bargaining power with attractiveness, and thereby attain a PCS despite the shifting bargaining power in the sector. Likely, this shift is not currently creating an unequal shift, but rather creating a bilateral dependence between the parties.

Both buyers and suppliers have emphasized the long-term relationship as an important factor explaining what suppliers find attractive, but the lack of emphasis on Trust and Commitment by buyers is significant. In contrast, suppliers find Trust and Commitment very important, as

well as Relationship factors. In fact, most of the suppliers interviewed find these two factors as outshining value-creating factors, which they do not view as equally important. Value-creating factors are actually only viewed as important to ensure survival, and the long-term nature of the relationship is concerned with building a sustainable and open relationship, and should not be considered a value-creating factor in this case. This shows a sharp contrast to the buyers interviewed, whose emphasis on Value Creation, even in the one factor that unites them, is very different from suppliers' focus on interaction and relationships. It is important to note, as mentioned in our literature review, that it takes time for trust to develop and, in fact, it is earned. Companies can therefore not simply pursue a strategy of granting trust, but they may put themselves in situations where trust can be earned.

Further, the expectations of PCS from both the buyers' side, and the suppliers' side, seem to match concerning preferential treatment, thus further cementing the importance of innovation in PCS-situations. On this subject, our findings correlate with literature.

6.2 Managerial Implications

Our study finds that buying firms in this segment should develop their way of working with becoming attractive to their suppliers. Not only is this segment experiencing a shift in bargaining power towards suppliers, thus requiring a larger attentiveness to their needs to acquire primary access to their innovations and resources, it is also characterized by differing perspectives on customer attractiveness. Buyers believe that they are attractive based on value-creating factors, whereas the factors that suppliers actually find more attractive are trust and commitment and relationship factors. The suppliers have shown to be more attentive to customers that possess these characteristics, and less so to customers that do not. It is therefore important that managers work with building the relationships with their preferred suppliers, or loose the position of PC to their competitors, making the competitive suppliers "Black Knights", where the competitive supplier grants competitors PCS, instead of "Kings", who are competitive and grants the company PCS. The former is a great liability to the firm, as they will grant others innovation and resources before them, and the other will enable them to become more competitive. Considering the importance of a small number of suppliers in business development of high technological sectors, securing preferential resource allocations of these suppliers is crucial in sustaining a competitive advantage.

6.3 Contributions to Literature and Recommendations for Future Research

PCS as a concept is relatively new in research. This thesis has contributed through filling a gap in the literature where attractiveness, satisfaction, and PCS were not connected to each other. This study has shown the importance of connecting these three factors in analyzing preferred situations. By connecting these variables, we have been able to show how these factors influence each other in a dynamic manner, as opposed to earlier research that studied each factor separately and assumed a static environment. Acknowledging the dynamic nature of these variables by using SET enabled us to link these variables, resulting in the Dynamic Attractiveness-driven model of PCS.

Prior research has focused on the buyer's perspective on PCS, and by using the relationship between suppliers and buyers as the unit of analysis, we provide a more holistic and dynamic view of the PCS concept than has been provided previously. This allows our study to confirm several theories on the subject geared more toward suppliers, which has yet to be thoroughly analyzed, at the very least for the segment of our study.

While our study has contributed to a better understanding of PCS, there are still many areas to be researched in order for PCS to be truly understood as a holistic concept. Our recommendations for providing a deeper understanding include studying attractiveness at either a macro or micro level, as a macro-level research would allow a holistic and encompassing understanding of attractiveness in PCS and business situations to be gathered. A micro-level study could delve deeply into the conceptualizations of attractiveness in PCS, specifically in the relationship and trust and commitment aspects, to fully find how PCS emerges as a dynamic concept. A more holistic understanding of the concept would benefit from a multi-level study as well, as both micro and macro concerns could be examined more thoroughly. In order to develop a more mature level of understanding to PCS-research, future researchers could undertake a large quantitative study, sending a survey to suppliers for example.

Another subject that is still lacking within PCS research, in spite of the results of our study, is a study focused on preferred suppliers and their perspective entirely. It is difficult to entirely move away from the buyer-perspective within PCS research, as it encompasses most of the current literature available. A more exploratory study of the motivations and developments at the supplier level would therefore hold the potential of providing significant contributions to

scientific research of PCS. Another area that would contribute to future understanding is to study where in the organization PCS decisions are taken. Is it a process and a decision driven by the sales representative, or at the managerial level? Finally, very little research focuses on why firms are driven to become PC, and what the purpose of attaining this status is. Exploring the decision-making process, and the reasons that is driving that development would provide a better understanding of the motivations of buyers, and could alter the conceptualization of attractiveness as well.

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APPENDIX

1. Interview guide - customers

- How many suppliers do you have?
- What is your definition of a preferred supplier?
- How many of your suppliers do you view as preferred suppliers?
- Do you have suppliers that you do not view as preferred? Why?
- How has your relationship with your preferred suppliers developed over time?
- How do you work with supplier development?
- How do you work with acquiring preferential treatment from your suppliers?
- Do you have suppliers that do not offer you preferential treatment? Do you offer preferential treatment to these suppliers?
- What kind of qualities do you think are attractive to your suppliers?
- How do you work with fulfilling these qualities?
- Do you communicate with your supplier on how to achieve preferential treatment?
- What do you think are most important in achieving preferred customer status; value creation qualities based on past performance, well-functioning interaction process or a long rooted relationships with shared values?
- How do you define preferential treatment?
- What are your expectations of achieving preferential treatment? What kind of preferential treatment do you expect to receive?
- Have you had any experiences that questioned the preferential treatment you received, and the preferential treatment you offered?
- Have you ever divested from a preferred supplier, or has a supplier ever stopped offering preferential treatment to you? Why?
- Are there any differences in your relationship between national and foreign suppliers?
- Are the suppliers you receive preferential treatment from supplying you on a global level, or a national level?
- What is your view on your international suppliers in relation to domestic suppliers? Why? How has this view developed?
- What is your view on trust and commitment in buyer-supplier relationships?

2. Interview guide – suppliers

- How many customers do you have?
- What is your definition of a preferred customer?
- How do you define preferential treatment?
- How many of your customers would you view as preferred customers?
- How has your relationship with your preferred customers developed over time?
- How do you work with developing the relationship?
- What is your view on supplier development programs?
- Do you think your customers work actively with acquiring preferential treatment from you?
- Do you have customers that do not offer you preferential treatment? Do you offer preferential treatment to these customers?
- What kind of qualities do you think are attractive in your customers?
- Do your customers seem to try to fulfill these qualities? How?
- Do you communicate with your customers about what you regard as attractive?
- What is important for you to consider a customer a preferred customer?
- What are your expectations of receiving/granting preferential treatment? What kind of preferential treatment do you expect to receive?
- Have you had any experiences that questioned the preferential treatment you received, in relation to the preferential treatment you offered?
- Have you ever divested from a preferred customer? If yes, why?
- Has a preferred customer seized offering preferential treatment to you? Why?
- Are there any differences in your relationship between national and foreign customers?
- Are the customers you receive preferential treatment from purchasing from you on a global level, or a national level?
- What is your view on your international customers in relation to domestic customers? Why? How has this view developed?
- What is your view on trust and commitment in buyer-supplier relationships?

3. List of interviews

1. Buyer A: Interview held with a buyer from Company A 2014-03-26. Length of interview: 35 min

2. Buyer B: Interview held with two buyers from Company B 2014-03-07. Length of interview: 1h 6min.
3. Buyer C: Interview held with two buyers from Company C 2014-03-06. Length of interview: 44 min.
4. Buyer D: Interview held with a buyer from Company D 2014-03-07. Length of interview: 31 min.
5. Supplier A: Interview held with a Sales Manager from Supplier A 2014-04-14. Length of interview: 34 min.
6. Supplier B: Interview held with Vice President of Supplier B 2014-04-04. Length of interview: 35 min.
7. Supplier C: Interview held with a Sales Manager of Supplier C 2014-04-22. Length of interview: 23 min.
8. Supplier D: Interview held with a Commercial Manager and a Customer Relationship Manager from Supplier D 2014-04-07. Length of interview: 35 min.