

Chapter-I

Introduction to the Study

This dissertation develops and empirically tests a model of buyer-seller relationship to study business buyer's relationship continuity intention. The study has been approached from a buyer's perspective. The scope of the study is steel industry in India, focusing on B2B relationships. This chapter specifies the motivation behind choice of the topic, relevance of study, its objectives, scope and the expected contributions to theory development and management practices.

1.1 The Choice of Topic

Traditionally, firms have focused on selling as one time sale. Subsequently, early studies of economic theory of firm addressed issues predominately concerned with firm's economic viability, through cost minimization in resource, production and transaction. Coase (1937) in his seminal work, proposed transaction cost economizing as primary reason for existence of a firm. Hence the firm's association with other entities i.e. employees, suppliers, retailers etc. were deemed valuable only as a medium through which production and transaction costs can be reduced. The customer, perceived as having little or no direct association with the firms operation, was thus designated as being a 'passive' entity to be manipulated through crafty marketing strategies.

Today the relationship between buyer and seller has become 'strategic'. The buyer is seen as an 'active' entity who actively participates in the process of relationship development with the objective to achieve their mutual goals (Wilson, 1995). An important phenomenon related to buyer-seller relationships is that, many buyers are

developing single source suppliers because of pressures to increase quality, reduce inventory, and decrease time to market since the intensity of contact needed to for this cannot be achieved with multiple sources of supply. The changing paradigm is given in Table 1.1.

The growing de-intermediation process in many industries with the advent of sophisticated computers and telecommunication technologies has also been responsible for the shift in focus to buyer-seller relationship. Databases and direct marketing tools have given the companies means to individualize their marketing efforts. Similarly, marketers are forced to be more concerned with customer retention and loyalty (Dick and Basu, 1994; Reicheld, 1996). Several studies are beginning to indicate that to retain customers is less expensive and perhaps more sustainable competitive advantage than acquiring new ones.

Table 1.1: The Changing Paradigm of Marketing Orientation (Wilson, 1995)

Pre and early 1900	1950	1960	1970	1980	1990	2000 and beyond
Product Orientation			Kotler (1988) Consumer Orientation			Gronroos (1996) Relationship Orientation

All these developments have made the firms realize that their success in market place is largely dependent on network of relationships they maintain. Relationship marketing provides an approach that assists firms to create cooperative relationships with customers. While this approach may appear grounded in common sense, many firms have proved unable to reap full potential from their relationship (alliances), possible testimony to the fact that relationships were not deemed a strategic tool. However firms are increasingly realizing that relationship between supplier and buyer

should be treated as a strategic tool, which requires collaboration of all business functions (marketing, operations, human resource, finance) if it is to realize the benefits ascribed to it. Kotler (1988) has argued that organisations would be able to lower the transaction costs as they built trust and develop an interest in cooperating with one-another.

Buyer-seller relationships that stabilize in long-term will typically be dyadic in their structure and mutually beneficial for both parties. The dyadic balance will come from customized assets, co-operative relationship style, close proximity of parties, security, and mutual commitment.

1.1.1 Development of Long-term Relationships

Long term buyer–seller relationships have been the focus of much research during the past few years because managers and researchers believe these relationships represent one of the main resource for building sustainable competitive advantage (Dyer & Singh, 1998) for both buyers and sellers (e.g., Janda et al, 2002; Lambe et al, 2002; Wong et al, 2005). In particular, long-term buyer–seller relationships provide a firm fast access to new technologies or markets; the ability to provide a wider range of goods and services; economies of scale in joint research and production; access to knowledge beyond a firm's boundaries; bridges to other firms; sharing of risks; and access to complementary skills (Johanson & Mattsson, 1987; Powell, 1987). Over the past decade, there is growing evidence that to be competitive, manufacturing firms are moving away from traditional approach of adversarial relationship with multitude of suppliers to one of forging longer-term relationships with few select suppliers. Global firms such as Xerox, Motorola, General Electric, Ford and others are reducing their supplier base and looking to a few select suppliers to help them achieve a stronger competitive position. Supplier firm in long-term relationships are able to achieve

higher levels of sales growth compared to supplier firms using transactional approach to servicing customers (Kalwani & Narayandas, 1995). Furthermore supplier firms in long-term relationships achieve higher profitability by reducing their discretionary expenses such as selling, general and administrative over head costs to a greater extent than their counterparts who employ transactional approach. Both academics and practitioners have increasingly begun to embrace the notion that long-term collaborative relationships among trading partners are good for business and yield improved business performance. In their paper, Spekman & Carraway (2006) have noted that companies that have moved to more collaborative relationships in their supply chains grew their market capitalization by eight percent or more and were rewarded with a premium of seventeen to twenty-six percent in their valuation. For example, Toyota, a hallmark of collaborative supply-chain relationships, has helped its supplier base gain 140% greater output per worker, lower inventory by twenty-five percent, and achieves fifty percent fewer defects than rivals.

In the past two decades marketers have shifted their thinking about transactions and relationships and research has indicated a shift from a transaction to a relationship viewpoint (Dash et al., 2009). Some authors (e.g. Woo and Ennew, 2004, 2005) view quality of B2B relationships as a crucial factor in building success in the market. Retaining buyers or buyer's relationship continuity has emerged as one of the most important outcome of B2B marketing efforts.

1.1.2 The Choice of Industry: Buyer-seller Relationships in Indian Steel Industry

Indian steel industry, like the global steel industry is cyclical in nature, having characteristic of a matured commodity (Sinha and Jena, 2002). The industry quite traditionally has gone through periodic bad phases, thereby making it a low profit potential industry (Ahlberg and Schorsch, 1999) in the long-run. The major

underlying factors post 1991, contributing to this performance of the industry are; (1) reduction of entry barrier to industry, (2) increased rivalry among industry members, (3) emergence of viable substitutes and (4) the superior bargaining strength of both suppliers and buyers.

Superior bargaining power of buyers influences the prices that a firm can charge. This bargaining power has been accentuated largely due to the commodity nature of the industry. Hence the question before the industry is 'how to reduce the bargaining power of the buyers?' Sinha and Jena (2002) have suggested that the strategic action needed to decrease the bargaining power of buyer and supplier is by forging long-term relationship. This in turn can reduce the profit volatility in the industry.

Porter (1980) has observed that among purchasers of standardized commodity products, there is generally little differentiation across supplier offerings or in the buyer-seller relationship. Historically, this has been true for steel, where buyer accept a system of standardized product grades, making product differentiation exceedingly difficult. Because of this, steel manufacturers have attempted to increase their market share by achieving and exploiting a sustainable product cost advantage rather than by trying to differentiate their product offerings. Steel customers, in turn, have traditionally embraced the adversarial model of buyer-seller relationships, emphasizing intense price bargaining (McQuiston, 2004) to achieve lowest possible invoice costs.

However steel manufacturers' strategy of competing based on cost advantage by exploiting the scale economics is not sustainable since process technology for making steel is widely known and readily available. Consequently, a strong cost position may be requisite for doing business, but is not a source of long-term competitive advantage. These manufacturers should remain cost competitive while simultaneously

developing sustainable sources of differentiation (e.g offering value added services that satisfy customer needs). The alternative is to endlessly compete on price at (or below) marginal cost. Similarly, steel buyer's strategy of bargaining for lower invoice price is not without flaws, because for them hidden acquisition and possession costs typically far exceeds invoice costs. Acquisition cost include the need to negotiate price, generate purchase orders, expedite late deliveries, settle disputes and correct inaccuracies in delivery and/or invoicing. Possession cost include costs of financing, storing and controlling inventories along with the insurances, taxes and other costs associated with holding these inventories to avoid stock outs. Thus the steel buyers would be better served by attempting to minimize total costs, not simply invoice costs.

Alajoutsijarvi et al. (2001) conclude that one of the important factors contributing to cyclicity in commodity industries like steel, fine paper, copper is due to short time perspective regarding prices and volumes within the buyer-seller relationship and therefore forging long-term relationship between buyers and sellers is very important. Currently, the nature of buyer-seller relationship changes from extreme customer dominance during a bust period to extreme supplier dominance during boom period. The nature of relationship should change from short term transaction orientation to long term relationships. Thus for steel industry, long term relationship between buyers and sellers is of paramount importance. India being a growing economy steel is one of the key infrastructure industries. The National Steel Policy¹ (2005) document says that Indian's indigenous production is expected to be over 100 million tonnes (mT) per annum by 2019-20 from the 2004-05 level of 38 mT. On a ball park estimate, this will involve Rs. 300,000 Cr. (at an estimated cost of Rs. 5000 Cr. per mT). As

¹ National Steel Policy(2005), Government of India

discussed earlier, without long-term buyer-supplier relationship this investment will not yield not adequate financial returns on a consistent basis.

Suppliers in steel industry must readjust their business to business marketing strategies for establishing long term relationships with the buyers. In fact, SAIL and Tata Steel have already introduced the concept of Key Account Management (KAM) and Customer Value Management (CVM) in their marketing strategy. KAM concept involves, identification of major customers and managing the relationship with them in such a way that the identified customers remain with the company for a long period of time. The largest company in Indian, SAIL, has given strategic importance to the customer relationship. This has been reflected in its newly adopted credo statement: “We build lasting relationship with customers based on trust and mutual benefit” (www.sail.co.in). This has been a significant shift from the days when companies were having a tendency to treat customers as a competitive force, whose bargaining power needs to be contained. However the success of this new paradigm depends on the buyer’s relationship continuity intention in the buyer-seller relationships. Though buyer-seller relationship has generated lot of interest and has been the central focus in relationship marketing research, there is no empirical research of note, which has investigated the antecedent factors affecting the relationship continuity intention of buyers in a major industry like Indian Steel industry.

1.2 Purpose and Objectives of the Study

The purpose of this dissertation is to expand the current understanding of business buyer’s relationship continuity intention by developing a comprehensive model based on the previous studies done in this area. Therefore the study will try to uncover the antecedent factors that determine business buyer’s relationship continuity intention in steel industry. This model will be tested in the context of Indian steel industry so that

the results obtained can be meaningfully utilized by the practicing managers and also contribute to advancement of knowledge in this area.

1.2.1 Research Questions

The central research questions in the study can be defined as: What factors do buyers focus to develop relationship continuity with a focal supplier in steel industry? What is the relative influence of such factors on relationship continuity intention? Are there some variables that play key roles in mediating or directing other variables? How important is the role of salesperson in buyer-seller relationships in a B2B dyad?

1.2.2 Objectives

Following literature review, which has been covered in Chapter II, research gaps were identified. Our study will try to address these knowledge gaps and in the process contribute towards better understanding of business buyer's relationship continuity intention in B2B context of Indian steel industry. Towards this end, our dissertation has the following objectives:

1. To identify the key antecedent variables affecting relationship continuity intention of business buyers and develop a broad based research model based on their inter relationships.
2. To measure the relative importance of key antecedent variables affecting relationship continuity intention of business buyers.
3. To examine the mediating roles of trust in salesperson, trust in supplier and buyer's dependence between antecedent variables and buyer's relationship continuity intention.

The finding of the research will be significant for the steel industry in terms of helping marketing managers to reassess their marketing strategies, so that they start

viewing their buyers as value creating partner, rather than value dissipating competitors.

1.2.3 Scope of the Study

The focus of the work presented in this thesis is on steel industry in India. This study covers dyadic business relationship between buyers and sellers and covers variables that influence the durability of dyadic relationships. The study covers the perception of buyers only.

The study does not cover strategic network where more than two organizations cooperate with each other. The study does not map one to one views of partnering organizations. It also does not see changes in factors by types of B2B relationships. The study has taken a single buyer-seller relationship as unit of analysis and not portfolio of relationships.

1.2.4 Overall Methodology of the Study

Based on elaborate literature review and consultation with industry professionals and academicians, the research issues were identified. This was followed by a review of theory and research work in the area to identify the research variables and past results. A theoretical framework was developed, followed by a sample survey of buyers in steel industry, analysis of results and drawing inferential conclusions, to address the identified research issues.

In the process, data was collected from 137 steel buyers. Exploratory and confirmatory factor analysis was used to test the validity of the measures. The hypotheses were tested using structural equation modeling. The empirical tests included direct and mediating effects testing.

1.2.5 Expected Contribution of the Study

This study is expected to be of important significance to both academicians and practitioners for its theoretical and managerial implications. From a theoretical point of view, our study will use broad based framework involving multiple factors, namely, constrained based factors and dedication based factors to study the relationship continuity intention of the buyers. Our research will also study relationship continuity intention of buyers at three levels i.e. individual, interpersonal and inter-organisational. One of the key contributions of our work will be examining the mediating role of key relationship atmosphere variables. This research will study specifically the mediating role of salesperson trust in building supplier trust and relationship continuity intention of the buyer. This will be a departure from most research works in B2B area, which have focused trust as a firm-level impersonal construct. Our study has the potential to extend the KMV (key mediating variable) model of Morgan & Hunt (1994) by establishing the mediating role of interpersonal trust and confirm an important foundation of relationship marketing theory i.e. trust is a key relational mediator between relational drivers and consequences. The study of different relational variables contributing to business buyer's relationship continuity intention is expected to provide deeper theoretical understanding of the relevance of those variables in B2B relationships specifically in Indian steel industry context. Considering from this direction, the study is expected to contribute to the advancement of knowledge in buyer-seller relationship development.

From a managerial point of view, empirical work in this area will give the steel suppliers, a framework grounded in empirics, as regards to formulating and implementing an effective relationship marketing strategy.

1.2.6 Organization of the Thesis

The thesis is divided into six chapters. Chapter one contains an introduction to the study. Thereafter, issues related to buyer-seller relationships in steel industry and buyer-seller relationship as a strategic tool has been discussed. Later, relevance and objectives of this research are presented. Finally, an overview of the chapter scheme of the thesis has been reported in this chapter.

Chapter two deals with the literature review on long term relationship development in B2B markets. Available literature has been classified under following areas: understanding B2B relationships, inter-organizational relationships and their theoretical foundations and research in long-term buyer-seller relationships. At the end of the chapter gaps in the literature have been identified.

Chapter three, details the research hypotheses and hypothetical model of our research study.

Chapter four presents the research methodology utilized to test the model and the research hypotheses. First, an overview of measurements of the variables for testing the model is given. Next, the pretesting of the questionnaire, the data collection method and the sampling procedure are discussed. Finally the data analysis techniques and procedures are discussed.

Chapter five presents the results and analysis of the study. In the first section the pre-test of the scale items used in the study is presented including description of the sample. This is followed by a section that provides a description of the survey methods employed in this study and the demographic profiles of the final survey

respondents. At the end, data analysis steps discussed in Chapter four is presented along with the results of hypothesis testing.

Chapter six provides the discussion on findings of the study. In this chapter we also present the theoretical and managerial implications of our study. At the end we have presented the limitations and future direction of the study. The organization of thesis is shown in Figure 1.1.

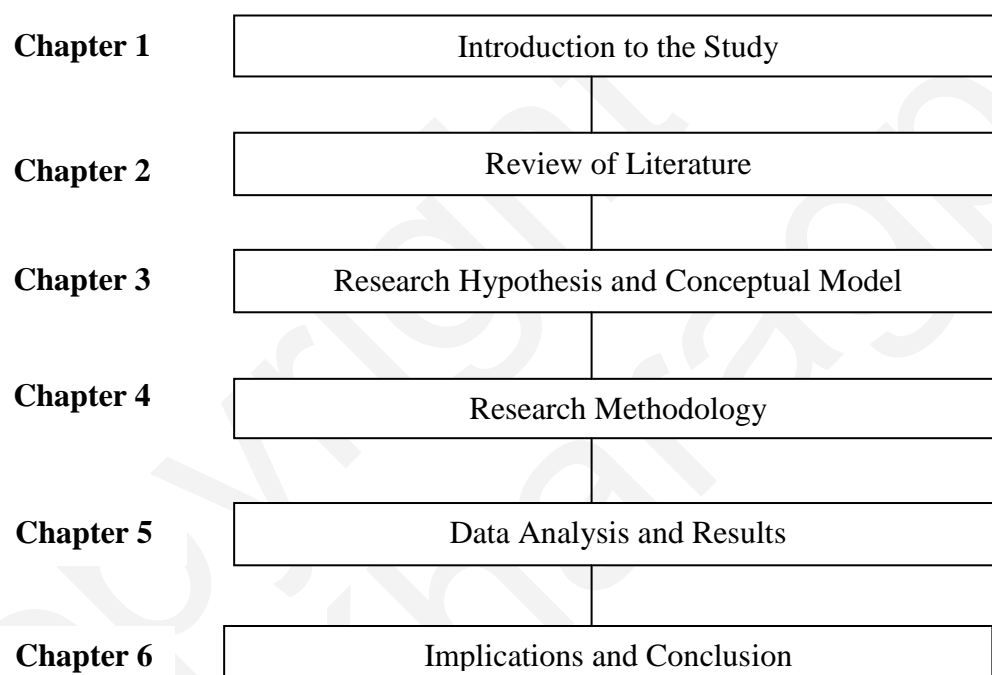


Figure 1.1: Chapter Organization of the Thesis

1.3 Concluding Remarks

Enduring organizational relationships are the engine that can propel the organizations towards excellence. In a highly competitive market situation where products are getting commoditized through competitive actions, it is difficult for organizations to survive without strong relationships with their customers. By organizing the research

objectives in a clear manner and defining scope of the research, the research problem has been defined for better clarity and focus.

In the next chapter we present a review of literature that has contributed to our understanding of long-term buyer-seller relationships. The basic objective of the next chapter is to identify the gaps in the literature which our study has tried to address.