Research and experience tells us that satisfied suppliers are more willing to provide preferential treatment to customers—treatment that can lead directly to market advantage. But what does it take to become a “preferred customer” and capture that edge? The findings presented here answer that question, offering a set of managerial actions to help buyers become the preferred customer of choice to their key suppliers.

By Robert J. Trent and Zach G. Zacharia

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The one constant that executive leaders will always face is a relentless pressure to improve corporate performance. Enlightened leaders understand that the link between positive relationships with suppliers and improved corporate performance is a strengthening rather than weakening one. And, these leaders understand that by satisfying the diverse needs of their suppliers, their firm stands a better chance of receiving preferential treatment from suppliers compared with firms with less satisfied suppliers. Consider the following high-profile examples.

Ford and Toyota are competing to become market leaders in the production of hybrid vehicles. As part of their development efforts both companies outsourced the production of a complex hybrid transmission system to the same supplier. As market demand for hybrid vehicles increased, Ford executives complained publicly that the transmission supplier favored Toyota when supplying transmission systems. Unfortunately, a demand for transmissions that exceeds the supply of transmissions prohibits the supplier from supporting the demands of both...
companies. What should be obvious here is that one company became the preferred customer while the other did not.

In another example that gained widespread attention, Airbus publicly accused General Electric of favoring Boeing during the development of engine technology for the next generation of commercial airplanes, a market estimated to be worth several hundred billion dollars. As an Airbus executive complained: “The problem we have with GE is they go to Boeing and say ‘what kind of engine should we design for your airframe?’ Then they come to Airbus and say ‘here is the kind of airframe you need to build to fit our engine.’” Complicating matters is the fact that the largest version of Airbus’ next generation of planes will compete with the largest version of a Boeing model (the 777) where GE is the exclusive engine supplier. GE officials say they will not build a new engine for an Airbus plane that will compete against a Boeing plane where GE is the sole supplier.

These two examples highlight the high-stakes competition that is taking place over who will reap the benefits of preferential treatment from suppliers. Failure to understand this can lead to some serious negative consequences as suppliers explicitly and tacitly decide who their preferred customers are. Because supplier satisfaction with a buying customer is primarily a function of a customer’s behavior and not size (something that will be explained shortly), smaller companies do not have to be at a disadvantage here.

Operating from the premise that satisfied suppliers are more willing to provide preferential treatment to their most favored customers, we present a set of findings from two studies that examine what it takes to become a preferred customer to suppliers. We also translate these findings into a set of managerial actions that will help ensure an industrial buyer becomes the preferred customer to its suppliers.

The Supplier Satisfaction Study

The findings presented here are the result of data collected using a detailed survey called the Supplier Satisfaction Survey. This survey is a reverse scorecard where suppliers evaluate and score a specific customer rather than the customer evaluating and scoring a supplier, which is traditionally the case in buyer-seller relationships.

The supplier satisfaction survey is divided into sections that explore different aspects of the supplier’s perception of a specific customer. We conducted separate supplier satisfaction studies on behalf of two major buying or customer companies. As researchers, we had complete responsibility for administering the survey to ensure the confidentiality of supplier responses and to create an environment where suppliers could freely answer questions. We were also responsible for all communications with suppliers throughout the duration of
Preferred Customer

the studies. The following describes the two companies and their suppliers.

**Company A: Transportation Equipment Manufacturer**

Company A, a wholly owned subsidiary of a European company, is a regional producer of large transportation equipment headquartered in the U.S. Its industry is characterized by intense competition and year-after-year downward pricing pressures. Supply executives at this company identified 131 suppliers that were judged to be critical to this company's success.

**Supplier satisfaction relates directly** to a customer's performance and behavior, rather than demographic or other attributes.

After identifying these suppliers, the research team forwarded an electronic invitation to an executive at each supplier requesting their participation in the study. This invitation included a letter from a vice president at Company A that identified the objectives of the study, introduced the suppliers to the research team, and requested the names of internal participants who could provide detailed information about that supplier's relationship with this customer. Of the 131 suppliers contacted by the research team, 113 suppliers participated in the study, yielding a response rate of over 86 percent.

Just over 75 percent of Company A's responding suppliers are headquartered in the U.S., 13 percent are headquartered in Western Europe, and the remaining suppliers are primarily Canadian and Mexican. Even though a portion of participating suppliers are headquartered outside the United States, 90 percent of survey respondents have a facility or facilities located in the U.S. that supports Company A.

Just under half of the suppliers in the Company A study have sales of $50 million or less annually while almost 30 percent of suppliers have sales over $500 million. The suppliers in this study are, for the most part, smaller to medium-sized firms, particularly when compared with the buying customer. Every supplier in this study provided direct materials that are assembled into the customer's final product.

**Company B: Raw Materials Producer**

Company B, also headquartered in the U.S., has facilities and suppliers located throughout the world. Its products include raw materials that are produced and consumed essentially the same way globally by customers in almost every major industry. This company also has a significant marketing and sales presence in all major regions of the world. Company B is recognized as a global leader.

As with Company A, supply executives identified suppliers that are critical to Company B's success. The research team sent an electronic invitation to an executive at each supplier requesting their participation. This invitation also included a letter from a vice president at Company B that introduced the supplier to the research. Of the 180 suppliers contacted by the research team, 131 completed the survey, yielding a response rate of 73 percent.

Almost 60 percent of Company B's participating suppliers are headquartered in the U.S., 23 percent are headquartered in Western Europe, and 12 percent are headquartered in China. The remaining suppliers are from countries such as Canada and South Korea. Overall, Company B's suppliers are more geographically dispersed when compared with Company A's suppliers.

Company B's suppliers are also larger in terms of sales compared with Company A's suppliers. Almost 40 percent of Company B's suppliers have sales over $1 billion annually, indicating that Company B deals with suppliers that are relatively large. Over 20 percent of Company B's suppliers have sales greater than $5 billion per year.

While Company A's participating suppliers are manufacturing firms providing direct materials, 75 percent of Company B's suppliers are evenly distributed among chemical, service, and industrial capital equipment providers. The remaining 25 percent of suppliers are distributed among MRO, corporate, and energy suppliers. Company B, unlike Company A, has no direct materials suppliers it is a raw material producer.

Exhibit 1 compares the two companies and their suppliers. Across every dimension these two companies share almost nothing in common. These companies are even perceived differently in terms of their aggregate performance rating provided by their suppliers. As part of the research protocol we selected two very different companies, industries, and sets of suppliers for analysis. The rationale is that if a research finding applies across two very dissimilar settings, then one could conclude inductively that the finding is robust and that it should apply to other industrial settings. The next section identifies common research findings between the two sets of suppliers and studies that should be externally generalizable to almost any industry.

12 Supply Chain Management Review • November 2012
Supplier satisfaction relates directly to a customer’s performance and behavior, rather than demographic or other attributes.

This is perhaps the major finding from the two studies. In both studies, supplier satisfaction correlates significantly with factors that relate to a customer’s behavior toward the supplier (i.e., pay on time, share relevant information, treat suppliers ethically, and so forth) rather than demographic or other factors such as supplier size or the size of a contract. Interestingly, a negative although not a strong correlation exists in both studies between the total years a supplier has worked with the customer and lower satisfaction with that customer. That is, as a supplier works with a customer for longer periods of time, the probability increases that the supplier will indicate lower satisfaction with that customer across quite a few dimensions. Other research has also revealed declining satisfaction within industrial relationships as longevity increases.7

No statistical relationship exists between the size of a supplier in terms of sales and supplier satisfaction with the buying customer. In other words, supplier satisfaction with the customer is no different for smaller suppliers as compared with larger suppliers. Furthermore, no relationship exists between the size of the contract relative to the supplier’s total sales and supplier satisfaction with the buying customer. Many companies offer progressively larger volumes to suppliers with the expectation that larger volumes will lead to more satisfied suppliers and better treatment. While that may happen to some degree, supplier satisfaction shows no statistical relationship with contract size. In both studies satisfaction relates directly to customer performance and behavior rather than the volume of sales that the customer represents. This is a welcome finding in that it suggests customers can change their behavior to improve supplier satisfaction, thereby leading to preferred customer benefits.

The relationship between supplier satisfaction and viewing a customer as preferred is extremely strong. The strongest relationship between any variables in the two studies involves the level of a supplier’s satisfaction with its customer and how that supplier views that customer. The correlation between supplier satisfaction and viewing the customer as preferred is .75 for Company A’s suppliers and .73 for Company B’s suppliers. Besides being virtually identical, these unusually strong indicators reveal a clear link between satisfaction and preferred customer status. (More advanced statistical modeling techniques conducted by the researchers confirmed this linkage). Even though we are dealing with two dramatically different sets of suppliers, the linkage between supplier satisfaction and viewing a customer as
preferred is strong and, even across two very different settings, almost identical.

A clear conclusion is that becoming a preferred customer will likely not occur if a supplier is dissatisfied with a buying customer. While these are not causal studies, logic would suggest a sequence where supplier satisfaction leads to preferred customer status. And, in both studies, a link between preferred customer status and a willingness by suppliers to provide preferential treatment is also clear, as we discuss below. The statistical linkages between supplier satisfaction, preferred customer status, and preferential treatment are unambiguous.

**Suppliers indicate clear agreement regarding the customer performance attributes that are most important to them.**

Suppliers rated quantitatively the importance to them of 25 attributes or behaviors that can be exhibited by their customer. Exhibit 2 identifies the average importance rating of the top 15 items for Company A on a scale where 0 = not important to the supplier and 6 = very important. This exhibit also shows how the top 15 items for Company A compare to the average performance ranking by suppliers for Company B.

A major finding is that agreement exists from both studies regarding the four most important items to suppliers. After these four items the lists begin to diverge, sometimes dramatically, reflecting the differences between the two sets of suppliers. The items where the two supplier segments show convincing agreement about what they want from their customers include earning a fair financial return, receiving payment in a reasonable time, opportunities for longer-term business relationships, and ethical and respectful behavior. When supplier executives ask themselves what they want most from a customer, these four items will likely be at the top of most lists.

**Satisfied suppliers are more willing to provide valuable kinds of preferential treatment to their preferred customers compared with less satisfied suppliers.**

One of the central questions underlying this research is whether satisfied suppliers are willing to provide preferential treatment to their best customers. After all, if all of the time and energy committed to developing strong relationships does not lead to tangible benefits in the form of preferential treatment, then some might question the wisdom of directing scarce resources toward the development of supplier relationships in the first place.

This research examined a set of supplier-provided outcomes across three broad groups—supplier willingness to make direct investments that only benefit a specific or limited number of customers, supplier willingness to provide internally-developed innovation to a customer, and supplier willingness to provide certain types of favorable treatment to a customer. Exhibit 3 identifies the supplier-provided outcomes that suppliers can potentially
provide to their customers. A direct relationship exists between supplier satisfaction with a customer and the willingness of that supplier to provide certain (and valuable) kinds of preferential treatment. Conversely, less satisfied suppliers are clear that they are unwilling to provide valuable kinds of preferential treatment when they are disappointed with that customer. This finding is consistent across both studies.

The three supplier-provided outcomes that the overall sample of suppliers are the least willing to provide Company A (from the total set of items presented in Exhibit 3) are direct financial support if needed, better pricing, and more favorable payment terms. Yet, the willingness to provide these items correlates the highest of all items with supplier satisfaction. In other words, as suppliers become increasingly satisfied with Company A, the more willing they are to provide these valuable kinds of preferential treatment. Satisfied suppliers are more willing to provide valuable kinds of preferential treatment to their preferred customers compared to less satisfied suppliers. As suppliers. Still, three of the four supplier-provided outcomes that correlate the highest with supplier satisfaction for Company B are also the lowest ranked in terms of the willingness to provide across the overall sample. These three items include preferential scheduling of orders, better pricing, and first allocation of output if capacity is constrained. Again, satisfied suppliers are more willing to provide valuable kinds of preferential treatment compared to less satisfied suppliers. Preferred customer status brings with it a set of outcomes that are not available to typical customers—benefits that can contribute to a hard-to-duplicate source of competitive advantage.

There is a strong relationship between a supplier's satisfaction with a customer and the level of trust the supplier perceives exists within the relationship. The findings from both studies reveal that trust is central to effective relationships and supplier satisfaction. This is consistent with other research that has focused on trust as a key element of relationship success. Our research reveals that higher levels of relationship trust directly link to supplier satisfaction. Perhaps the most important predictor of a successful relationship, trust refers to the belief in the character, ability, strength, or truth of a party. The relationship between trust—which is widely considered an antecedent of effective relationships—and the quality of a buyer-seller relationship is well known. Perhaps most importantly, the presence of trust promotes the sharing of...
information, which suppliers in both studies agree is a central component of an effective relationship.

The statistical relationship between trust and supplier satisfaction is one of the strongest relationships identified during this research. Across both supplier segments, a relatively strong correlation also exists between supplier satisfaction and the supplier’s level of trust that their customer will do the right thing during business dealings. The statistical link between supplier satisfaction and various trust-based indicators is compelling. This topic is explored more thoroughly in the managerial implications section.

**Suppliers agree strongly that customer personnel they deal with must be knowledgeable about the supplier’s product, processes, business, and industry.**

Satisfied suppliers are much more likely to view their relationship with their customer positively along a relationship continuum, perceive that the relationship has improved over the last three years, and expect the relationship to further improve.

Various models have been developed that provide logic to industrial relationships. Exhibit 4 presents the model of supply chain relationships used in this research. This model features supply chain relationships ranging from counter-productive to collaborative. Suppliers in both studies are consistent in their belief that a higher level of satisfaction with their customer correlates strongly with the cooperative and even collaborative relationships featured in Exhibit 4. And, those suppliers that indicate higher levels of satisfaction with their customer tend to agree that their relationship with that customer has improved over the last several years and will continue to improve.

A direct statistical link exists between supplier satisfaction and relationships that are cooperative and even collaborative. Research results from both studies reveal clearly that satisfied suppliers are more likely to be engaged in a cooperative or collaborative relationship with their customer.

**Suppliers agree strongly that it is critical for the customer personnel they deal with to be knowledgeable about the supplier’s product, processes, business, and industry.**

Almost every supplier in this research indicates that they have assigned an individual (such as an account manager) to be their primary contact with the customer. Furthermore, almost every supplier indicates that they are aware of a specific individual assigned by the customer who is responsible for managing the relationship. In both studies, over 90 percent of suppliers agree it is “very important” that the personnel they deal with directly at their customer are knowledgeable about the specifics of the supplier’s product, processes, business, and industry. When tasking specific individuals with the responsibility for working with a supplier, it is not sufficient to simply assign an individual with that responsibility. In the eyes of suppliers that individual must also be highly qualified.

**Managerial Implications: Call to Action**

The findings presented here reveal a clear link between a customer’s behavior, the satisfaction level a supplier has with that customer, and a supplier’s willingness to provide preferential treatment that less satisfied suppliers are not willing to provide. The following builds on these findings by presenting a set of actions that will help a customer benefit from the kinds of preferential treatment that satisfied suppliers potentially offer.

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**EXHIBIT 4**

**Supplier-Buyer Relationship Continuum**

<table>
<thead>
<tr>
<th>Counter Productive</th>
<th>Competitive</th>
<th>Cooperative</th>
<th>Collaborative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Also called antagonistic relationships</td>
<td>• Also called adversarial relationships</td>
<td>• Parties work together and share information</td>
<td>• Congruence of goals exists</td>
</tr>
<tr>
<td>• Parties work actively against the needs of each other</td>
<td>• Parties engage in competitive struggle over fixed value</td>
<td>• Closer relationships are a result of common goals</td>
<td>• Parties work together to create new business opportunities</td>
</tr>
<tr>
<td>• Neither party takes responsibility for what happens in the relationship</td>
<td>• Parties attempt to maximize value for their side</td>
<td>• Supplier and customer involvement increases</td>
<td>• Parties work jointly to identify creative solutions to problems</td>
</tr>
<tr>
<td>• Destructive conflict occurs</td>
<td>• Minimal sharing of information occurs</td>
<td>• Sharing of organizational resources may occur</td>
<td></td>
</tr>
</tbody>
</table>
Understand How Suppliers Perceive You as a Customer
Given the effort required to obtain the data, it should come as no surprise that relatively few buying customers truly understand how their suppliers perceive them as a customer. Yet, how else will a buying company be able to improve its relationships and receive preferential treatment from suppliers if it does not know where it is doing well and where it is falling short? Gaining this insight requires a commitment from the highest levels of the supply organization to solicit supplier-provided feedback. How is your company actually viewed in the eyes of your suppliers, particularly when those suppliers are offered the opportunity to provide unfiltered, objective responses? Shortly after the completion of the supplier satisfaction study, supply executives at Company B met to identify ways to incorporate the findings from the study into their strategic planning process. Objective feedback from suppliers influenced the strategic direction of the entire supply organization.

Pursue Trust-Based Relationships
The importance of trust within a buyer-seller relationship is a theme that permeates our research findings. Industrial customers can demonstrate their trustworthiness through open and frequent communication with suppliers, following through on promises and commitments, sharing relevant supply chain information, and acting legally and ethically in all business dealings. The importance of ethics and protecting proprietary information within a trust-based relationship is also a common theme across the two sets of suppliers in this research.

Trust-based relationships also feature these characteristics: the parties act on behalf of the relationship rather than self-interests; success stories and personal narratives are well publicized, especially those that enhance the standing of the other party; and information and data is treated confidentially. One outcome from a customer’s relationship efforts should be the pursuit of activities that promote frequent contact, particularly because communication frequency and the level of trust within a relationship are highly correlated.

Recognize the Importance of Knowledgeable Personnel and a Stable Workforce
As we mentioned earlier, over 90 percent of suppliers agree it is “very important” that the personnel they deal with directly at their customer are knowledgeable. Although suppliers in both segments are in almost total agreement about this point, the two sets of suppliers differ widely in their perception about the knowledge of the personnel they deal with at their customer. Company A has a reputation for having inexperienced buyers and shifting supply personnel on a frequent basis, often as a response to employee turnover. Company B tends to have a more experienced and stable workforce. It is not too difficult to predict which company’s personnel receive higher scores from suppliers.

Maintaining supply knowledge will be a challenge to supply organizations, for example, as the baby boomer generation exits the workforce. This exodus will require a set of talent management strategies that focus on acquiring and then retaining personnel with the right set of capabilities, including knowledge about how to manage critical supply chain relationships.

An important finding across the two supplier segments is a willingness of satisfied suppliers to share innovation with their preferred customers.

Avoid the Seven-Year Itch
A finding from both studies is that a large percentage of suppliers have an extended history of doing business with the customer. We’ve noted that the satisfaction suppliers have with their industrial customer (as well as many other study variables) tends to decline the longer the supplier has worked with that customer. The inflection point for this downward shift occurs around the seven-year point of the relationship. This shift could be due to complacency between the parties, a “wearing down” of the relationship as years of continuous improvement demands begin to affect the relationship, a shifting of personnel within the relationship, or myriad other reasons. The challenge becomes recognizing that this downward shift is a real possibility and then developing an action plan to reenergize the buyer-seller relationship.

Request Preferential Treatment
From this research we know that satisfied suppliers are willing to provide preferential treatment to their preferred customers. The challenge becomes one of understanding how to obtain that treatment. One way to address the subject of preferential treatment is during contract negotiations, particularly when crafting a supplier’s statement of work. Another way is to address the
Preferred Customer

topic during annual review meetings with suppliers—meetings that suppliers in both studies rate as extremely valuable. Suppliers also indicate a strong willingness to engage in various forms of executive-to-executive interaction, another logical place to engage in discussions about special treatment. Progressive companies will also have established buyer-supplier councils that feature executive-level engagement between the customer and its key suppliers. Each of these suggestions offers the opportunity to discuss the possibility of preferential treatment.

Tap into Supplier Innovation
An important finding across the two supplier segments is a willingness of satisfied suppliers to share innovation with their preferred customers. Fortunately, a variety of ways exist to tap into that innovation. These include early supplier involvement during product and technology development, technology demonstration days where suppliers are encouraged to showcase their new ideas to engineers and supply personnel, and supplier participation on customer improvement teams. If innovation is the lifeblood of growth, then it becomes a competitive necessity to tap into sources of innovation wherever they exist. Tomorrow’s market winners will be expansive in their pursuit of new sources of innovation.

Winning in a New Environment
Industrial buyers who pursue adversarial relationships with their most important suppliers will find today’s competitive environment different than years past. Those companies that fail to develop positive relationships may find their suppliers allocating limited capacity to other firms, sharing their most innovative ideas with other customers, or exiting an industry segment altogether.

A commitment to stronger relationships and satisfied suppliers offers the potential to help meet the demands of a highly competitive marketplace. The challenge becomes one of satisfying, wherever possible, the central needs of an industry segment. A central corporate objective. In particular, two actions should happen right away. The first is to assemble an executive team to convey throughout an organization the intention of becoming a preferred customer to suppliers. Second, an initiative should commence to communicate this intention to the supply community with feedback requested. Solidifying a position as a preferred customer or pursuing that position in the first place can only occur when a buying company truly understands what suppliers think about their customer.

End notes
3 Some sources use the term “customer of choice” to describe preferred customers. The terms “customer of choice” and “preferred customer” are used interchangeably here.
4 The Supplier Satisfaction Survey is a proprietary tool developed by Robert J. Trent.
5 The survey includes questions pertaining to a supplier’s beliefs about a specific industrial customer across a number of areas, including the customer’s (1) importance to the supplier, (2) comparison to an ideal customer, (3) performance feedback provided, (4) ethical and business conduct, (5) knowledge and skills of employees, (6) responsiveness to supplier concerns or questions, (7) specified quality and delivery performance requirements, (8) business-to-business relationship with the supplier, (9) quotation, negotiation, and contracting practices, (10) future business opportunities and payment terms; and (11) supply chain information sharing and transaction efficiency.
7 These 25 attributes or behaviors were identified through focus groups with suppliers and through other secondary research.
8 The scale used in the survey was 1 = Counter-Productive, 3 = Competitive, 5 = Cooperative, 7 = Collaborative.