As indicated in the discussions above, there is a relationship, or connection, between a buyer and each of the individual suppliers. The first three chapters also provided an overview of a fundamental change, in which purchasing companies have gradually been making a transition from ‘looser’ to ‘more solid’ connections. Because the concept of ‘solid’ connections is far from simple or homogeneous, we devote this chapter to a discussion and analysis of some of its central elements. This chapter is divided into eight sections. The first section characterizes supplier relationships, and identifies six of their specific features, to each of which a subsequent section is devoted. The first of these features is the complexity of these relationships in terms of the multifaceted contacts between the companies. The second is the long-term nature of the relationship, which often stretches over decades, and the third is the scope of adaptation of individual relationships required, from both the technological and organizational points of view. A fourth main characteristic, because it emphasizes the informal nature of the relationship, is the low degree of formalization, indicating that the firms do their best to safeguard themselves against unpleasant surprises through reciprocal trust rather than through formal agreements. The fifth characteristic is the power/dependence balance in the relationship, and the sixth and final one is the simultaneous presence of conflict and co-operation, with one conclusion being that effective relationships must contain elements of both.
In the coming sections, the attributes identified above, the complexity, long-term nature, adaptability, informal social processes and power/dependence, as well as the existence of conflict and cooperation in relationships, will be discussed one by one. When we do this, it is important to keep in mind that relationships are entities, and their holistic nature implies that they do not easily succumb to being classified into different dimensions. We consider these classifications useful primarily from a pedagogical point of view.

COMPLEXITY

In one of our studies, there was a supplier relationship in which roughly 600 people in the purchasing firm were in regular, significant contact with no fewer than 200 people in the selling firm. This extreme case gives some indication of the complexity of relationships in terms of sheer numbers of people involved. At another large mechanical engineering company, the purchasing manager admitted that he had held his position for a whole year before learning that two large meetings were held annually at which the technicians at his firm met with the technicians from one of their main suppliers and discussed technical issues. Apparently, since the technicians thought that ‘no commercial issues were discussed’ at these meetings, they did not see any reason to involve the purchasing department. These examples indicate that, in many cases, there are extensive contacts with many officials from various departments on both sides meeting to discuss and solve more or less advanced problems. Even if these problems are solved independently of one another, though, this does not mean that they are independent. Rather, they are interconnected in many ways, and improved contacts between the firms would undoubtedly be very important. Figure 4.1 depicts the complexity that may be found in an extensive relationship.

Thus it can be seen that a particular extensive relationship may be highly complex, and require substantial co-ordination of operations at the purchasing firm. One interesting solution, seldom applied today, is appointing a specific person to manage co-ordination of a given supplier relationship. At many firms the purchaser fulfils this function indirectly, but as he is concurrently responsible both for many suppliers and other tasks as well, it is often not possible for him to be an effective co-ordinator in practice.
The complexity of personal contacts and patterns of communication discussed above is, of course, attributable to complexity at a deeper level, relating to dependence with regard to each individual supplier relationship, and the interdependence among them. First, there is dependence in relation to the way the production technology, logistics and administration of the purchasing firm work. All supplier relationships have to be coordinated with regard to the technical and organizational resources of the purchasing firm. The solution found in relation to one supplier also affects this function in other relationships as well, which means that solving a problem with regard to one relationship may give rise to consequent problems in others.

Second, the relationship of the purchasing firm with supplier A may be contingent on how well relations with supplier B or customer C work, and vice versa, i.e. the purchasing firm may use its relationship with A to affect a third party. This means, for example, that the purchasing firm may discuss a technical
development project with one supplier in order to get that supplier to behave in a certain way in relation to another party the buying firm wishes to affect. The more concentrated the network the individual firm works within, the more elaborate this type of behaviour has to be.

The type of complexity related to co-ordination of an individual relationship with others is considerably more difficult to handle than the type of complexity which arises with regard to co-ordination within one relationship. This is because there is an infinite number of ways of implementing the former type of co-ordination, and a conspicuous absence of simple solutions. It should be an appropriate first step to have the executives in the purchasing department identify the main connections and then, in systematic discussions with other executives, raise the awareness both of the current and the potential connections, so that they will both respect and take advantage of the opportunities arising from various situations.

Generally, we find that the complexity of the supplier relation can be explained by the fact that the ‘coupling’ in the relationship is complex in itself from a technical, organizational and social point of view, i.e. a large number of officials are involved. This in turn creates a large number of problems of communication and co-ordination. Secondly, the complexity is attributable to the fact that there is dependence on other relations. We return to these problems and the possibilities for dealing with them in Chapter 5.

RELATIONSHIPS AS INVESTMENTS – THEIR LONG-TERM NATURE

One very important element of relationships is that they are of a long-term nature. Deep relationships are often decades old. In other words, there is always a history which affects and is affected by the current interplay. Furthermore, there are often more or less overtly expressed expectations. Every action in a relationship must, therefore, be seen in a time perspective. Table 4.2 illustrates the relevant kind of time dimension by recapitulating the duration pattern of a number of supplier relationships for technical development (Håkansson 1989).

One of the classic ways of accounting for the time dimension in economics is to examine activities with long-term effects as if they were investments. The difference between an investment and a
cost, in principle, is that the revenue accruing from them is expected to take different courses in time. An investment is made on one occasion (in one period of time), and is expected to provide return over several periods, while a cost is associated with an activity the return on which is expected to come during the same period.

If we begin by examining the costs in a supplier relationship, we find that there are many items, and that they can mainly be divided into two groups: contact/information costs and adaptation costs. The contact/information costs of a relationship are high in the initial stages, when the buyer is getting to know the suppliers and their abilities and expertise, and these costs fall later. During certain later episodes contacts may need to be supplemented, which is associated with short-term additional costs, but generally the lower cost level may be maintained. Adaptation costs are all of a one-off nature, but as they arise successively, there is some natural adaptation over time, although there is a tendency for them to crop up early in a relationship. All the elementary adaptations necessary for the buyer to use the supplier must be made initially, which means that neither of the two main categories of costs is evenly distributed over time, and that the introductory period is liable to be a costly one.

We have discussed revenues which result from relationships above. Such revenues may include rationalization benefits or contributions to technical development. Some benefits (such as price benefits) may occur from the very first day, while many others, such as development benefits, take time. Studies made to date indicate that for two parties to venture to take the step of initiating joint development work, they need to have a long shared history. In other words, the return on a relationship also changes over time, but in the other direction, compared with costs.

If we examine the cost and revenue aspects in overview,
Figure 4.2 Cost/revenue structure in customer–supplier relationships
we find that relationships very clearly have some of the same characteristics as investments. The costs arise in an early stage (the investment), while the revenues are accrued over a longer period of time. Figure 4.2 illustrates this relationship from the perspective of a selling firm. The figure shows changes in customer profitability over time. In the first few years, costs are slightly in excess of revenues, which do not exceed costs until the fourth year. If the figures are accumulated, it can be seen that the relationship is not profitable until year seven. According to this report, from an Italian consultancy firm, it appears to be more effective to retain and maintain old customer relationships than to seek out new ones. The cost/revenue distribution is probably similar for a purchasing firm.

Another way of seeing relationships with regard to investments is to ask whether a relationship is a resource which can be taken over. The answer is not completely clear. It is difficult to transfer a relationship to some other unit. If a firm acquires another firm, and somehow takes over operations, relationships may come along as part of the package. This is not necessarily simply an advantage, as it may pose an obstacle to implementing changes. If, however, the purchasing firm wants to take advantage of the established relationship it can easily do so, and this may be a cheaper way of getting into a new network than trying successively to build up new relationships.

One important corollary is how to maintain these relationships, and how much exploitation they can withstand. Maintenance is obviously important, and there are infinite examples showing how quickly a relationship is undermined when it ceases to develop. This means that day-to-day activities must remain at a relatively high level. This places demands in terms of creativity and continuity in day-to-day work with suppliers. With regard to exploitation, there are two possibilities. If, during a given period, a firm does not maintain its connections, it may still keep much of its position, thanks to inertia. If, on the other hand, a firm is experienced as systematically attempting to over-exploit its connections, the effect may be both very rapid and painful. In other words, having some problems and difficulties is acceptable, but consciously abusing one's established connections is not.

ADAPTATIONS

Adaptation is one of the characteristic phenomena associated with relationships. In principle, adaptation in a relationship means that
a certain supplier is handled in a unique way, either to give lower total costs or to give that supplier priority in relation to others. If all the parties involved — suppliers or customers — looked identical, purchased the same volumes and quantities, and had the same technological structure, adaptation would be irrelevant. Thus the degree of adaptation stands in direct proportion to the differences between the parties: the greater the differences the greater reason to make specific adaptations, and these may be seen as the means available to a firm to take advantage of the unique attributes of its supplier. By discovering and making use of these unique attributes, the purchasing firm may achieve a number of positive effects.

For instance, some specific attributes may be associated with the technology used by the supplier. Various suppliers may use the same technology and thus have some of the same attributes. Consequently, some adaptations may mean that a firm adapts not to a single supplier but to a certain category of supplier, with interchangeable members.

We now go on to discuss three particular aspects of adaptation. First we describe and exemplify various types of adaptation: technical, knowledge-based, administrative, economic and legal. Second, we analyse the way adaptations take place by distinguishing major adaptations occurring on isolated occasions from gradual, incremental adaptations over time. Third, we discuss some of the factors affecting the demand for and content of adaptations, primarily those relating to the technological structure of the firms and products concerned.

There are many types of adaptations. This has been shown in our previous discussions of effectiveness measures and elsewhere. One very important type is the technical ones. Buyers and sellers on industrial markets have plants and equipment with specific technical attributes, and their relationships are intended to bind them to one another effectively. Naturally, this places demands on and opens potential for technological adaptations, both in terms of the product sold by the supplier and the product manufactured by the buyer, as well as in terms of the production processes of each. In one large study we found that the purchasing firms primarily had technological co-operation with materials suppliers (Håkansson 1989). In other words, materials adaptations appeared to be the most common type of adaptations, and we found this somewhat surprising. It may be explained by the fact
that, from a production point of view, input goods are often the main cost factor. Of course we also found a number of adaptations regarding components and equipment.

Knowledge-based adaptations gain in importance the more development issues are emphasized in supplier relationships. In this respect as well, one may easily speak in terms of the necessity for a purchasing firm to market its needs. Buyers who encourage their suppliers to increase their knowledge of the buyer’s application of technology, give themselves an important developmental boost. But in doing so the purchasing firm also commits itself, as it becomes better and better at using the technology of the supplier in question. Thus two bases of knowledge, that of the buyer and that of the supplier, proceed to approach one another, with reciprocal adaptation. Probably they should not be allowed to become too similar. There is some advantage in retaining a modicum of ‘friction’, as the differences between them become a point of departure for future developments. This potential may be more positive if the two units remain separate.

There may also be adaptations of administrative routines. Planning, supply and communications systems may need to be adapted so the firms can work together effectively. Chapter 8 provides a number of examples of how firms have developed joint communications systems.

Such adaptations take the form both of major one-off measures and small, successive steps over time. As a rule, major adaptations are highly visible ones which the parties involved consider strategic, while smaller adaptations are handled ‘locally’ in the organization, and are considered natural measures necessary to facilitate collaboration. Frequently, such adaptations are substantial, although this may not be evident until one of the parties want to implement a major change. The size and value of these successive adaptations are thus often difficult to overview, and there is a general tendency to underestimate their significance.

The need for adaptation will clearly depend on the attributes of the two parties. First, the need may arise because of specific characteristics of the seller, for example if the seller is a foreign company the buyer may demand local warehousing or some kind of local service. Second, the need may arise because of unique demands made by the purchasing firm. These may come up because the buyer is, in turn, subjected to unique demands from his customers or is working under special conditions for some
other reason. Thirdly, the combination of seller and buyer and their interaction may create both demands and potential for specific adaptations.

The nature of these adaptations also depends on the type of product involved. Some products (such as some equipment) are routinely adapted, while others (such as material and standard components) tend to appear in standardized versions. Some customers purchase in such volumes that supply and inventory adaptations are important, while others (such as materials supplies) may be marked by considerable variation in both content and volume, making administrative adaptation of interest. This implies that product type and adaptation type are closely interrelated.

RECIPROCAL TRUST RATHER THAN FORMALITY

One of the things that characterizes business deals is that they always contain uncertainty. Some of this is about the future, and is genuine, i.e. it can never be reduced, only handled with more or less sophisticated assessments. Other aspects of insecurity are directly related to the other party in the transaction. For example, there is often a time lag between the transaction itself and the delivery. In addition, it is impossible to specify or measure all the functions or characteristics of a product, even at a specific delivery. Instead, they become visible gradually. Unexpected events may also mean that the content of the business deal must be adjusted, and the technology may be both complex and difficult to assess in advance. Thus there are a number of factors which are difficult to overview at the point when the deal is made. These difficulties are so great that it is often pointless – or far too costly – to try to formulate agreements to cover all conceivable situations. Instead, the relationship has to provide the security. Table 4.3 demonstrates that the degree of formalization in a relationship is generally low and, even when the relationship has developed to include substantial technical development, this is only established to a limited extent through formal agreements.

Security in a relationship cannot be created on a single occasion, but must develop over time. The connection must be built up through a process of interaction in which reciprocal trust can successively be deepened. Interaction may lead to the development of a learning process in which both sides gradually get a better idea of the situations in which it is suitable to do business.
Table 4.3 Use of formal contracts in supplier/customer relationships involving technical development

<table>
<thead>
<tr>
<th>Type of relationship</th>
<th>Customer relationships</th>
<th>Supplier relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual contracts</td>
<td>20%</td>
<td>11%</td>
</tr>
<tr>
<td>Long-term contracts</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Joint corporation</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>21%</td>
</tr>
<tr>
<td>Informal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing relationship</td>
<td>51%</td>
<td>67%</td>
</tr>
<tr>
<td>Other informal pattern</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>65%</td>
<td>79%</td>
</tr>
<tr>
<td>Totals</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Håkansson 1989: 113

The typical process follows a course in which the two parties first test one another through small business deals, and then move along to more complete deliveries. In addition to its being important to get to know one’s counterpart well, it is also important to facilitate that party’s learning about one’s own operations. In other words, it is important to create different types of social situations in which the personnel in the functions needing contact with one another get to know their counterparts and their problems. There is even an example in which these contacts have been extended to comprise all personnel at a given unit. In one particular case, a supplier brought his whole staff to see a major customer so that all those involved would gain understanding of the consequences of delays, and failure to meet quality standards.

The benefits of and the need for personal contacts in building up confidence cannot be too much stressed. This is often recommended from a marketing point of view, but it is certainly equally important for purchasing. We might even claim that the personal-contact network is one of the most important personnel resources, and that it should therefore be taken into consideration in recruitment of purchasers.

What happens, then, in situations in which one of the parties implements a measure which has a negative effect on the other? The answer will depend on how the other side sees that measure. If there are persuasive arguments for it, the dissatisfaction may be short-lived, but if the measure is interpreted as a long-term change of attitude, even a small shift may have grave consequences. This
is where personal contacts between individuals at both firms become most important, as these may serve to give the other party a far more complete picture of why a certain measure is necessary. With such a personal network, a relationship can withstand substantial strain occasionally if the underlying policy remains the same. However, even small changes may impact greatly on the relationship if they are interpreted as shifting this underlying position.

POWER AND DEPENDENCE

Power and dependence are important aspects of supplier relationships. At least for large firms, the most important supplier relationships always involve large volumes, and are thus the principal ones for both parties from an economic point of view. They also affect both parties in a number of indirect ways, which further increases their significance. Significance creates dependence, and the way in which the power/dependence issue is handled thus becomes an important aspect of purchasing work. In the past, it was recommended that purchasers should try to behave in such a way that dependence did not arise. Independence was a key objective. As purchasing has begun to work more systematically with long-term relationships, dependence is now more accepted, and the question has become how to handle the various dependence situations. We discuss this change in the way purchasing is viewed in greater detail in the final chapter.

One of the problems associated with power/dependence relationships is that they are seldom symmetrical. As a rule, they are unbalanced with regard to individual dimensions. For example, the relationship may be more important to the seller than to the buyer from a volume point of view, or vice versa. However, a certain amount of imbalance in one dimension may be set off against the equivalent but opposite imbalance in another dimension. If this is not the case, it is important for the buyer to attempt to create such imbalances. If a purchasing firm wishes to try to get priority from one supplier despite the fact that it is not one of that firm’s major buyers, it must begin by trying to make itself interesting in some other way, for instance from a technical point of view. The firm must try to set off its volume disadvantage with some other advantage. This type of ‘balancing act’ is an important aspect of handling suppliers.
Another characteristic attribute of the power/dependence relationship is that it usually varies with the general state of the economy. The seller may have more power during a boom, as may the buyer when supply exceeds demand. It may be tempting to exploit this variation for short-term gain, and there are examples from the Swedish steel industry of such behaviour between manufacturers and wholesalers (Gadde 1978). But a firm which tries to take advantage of such opportunities runs the risk of reprisals. If a buyer abuses his position during a recession, his firm may very well suffer when an economic upswing ensues. Handling of pricing issues is very important in this respect. Klint (1985) describes how buyers and sellers of paper pulp built up reciprocal trust through their behaviour in different business cycles.

There are no simple solutions to recommend to the problem of imbalance in the power/dependence relationship arising, for instance, as a result of changes in the economy. It is not easy to say what the best strategy is in any individual case. Certainly, though, awareness of the problems and regular, systematic discussions are a first step towards learning to handle these questions better.

**CONFLICT AND CO-OPERATION**

The parties in a business relationship have both contradictory interests and shared ones. If they do not learn to deal with the contradictory ones, conflicts arise. In the classic model of purchasing, relationships have been fraught with conflict. One typical example is this subcontractor, who characterizes his customers in the automotive industry as follows:

They are nasty, abusive and ugly. They would take a dime from a starving grandmother. They steal our innovations, they make uneconomic demands, like ‘follow us around the globe and build plants near ours. We need good suppliers like you but if you can’t do it we’ll find somebody else’.

(Helper 1986: 17)

There are an endless number of such examples, and both sellers and buyers have plenty of examples of dirty tricks they have played on one another, and they tend to blow their own trumpets about them. Needless to say, this type of behaviour does nothing to promote close relationships.
Reciprocal trust is a prerequisite for long-term relationships, adaptations, and joint investments. Realization of this fact led one representative of the automotive industry to make the following statement with regard to an essential change in existing relations:

We need new relationships with what we have to think of as a family of suppliers. We need to throw off the old shackles of adversarial confrontation and work together in an enlightened era of mutual trust and confidence.

(Berry 1982: 26)

The description and aspiration is so heavenly that it almost makes one want to close with an ‘amen’. At the same time, it is probably an erroneous appraisal of the ideal content of collaboration and conflict in a relationship. Unfortunately, there are altogether too many people who believe that elimination of all conflict in a relationship is a prerequisite for developing new supplier relations. It is important to point out that this is a misunderstanding. Of course effective relationships require some collaboration, but they require an equal measure of conflict. Figure 4.3 depicts the ideal relationship.

The figure describes one dimension of collaboration and one of conflict. If the degree of both are low, the relationship will not be especially meaningful to either party – such relationships are characterized as marginal. If there is a high degree of conflict and a low degree of collaboration, the relationship will not work very
well. Significant relationships come into being with a high degree of collaboration. A relationship with a low degree of conflict tends to be somewhat too ‘nice’. The parties place too few demands on one another. Provided that it can be handled well, raising the degree of conflict in such a situation enables a better climate for innovation and development.

It seems that the desirable type of relationship is one in which conflict is handled constructively. In this, we agree with Gemünden (1985: 405) who says that ‘buyer and seller should neither smooth over existing conflicts nor let them escalate’. There will be conflict as long as both parties remain independent, because they will never have identical goals. There will always be conflicts of interest between buyers and sellers, because there will always be the distribution problem: the profits generated by their joint work will have to be shared. This problem of distributing profits is mainly accentuated when their shared processing value falls. For these reasons, collaboration must continually develop so as to keep shared revenues at least at a constant level. Continuous development of collaboration to achieve ‘mutual profits’ or ‘mutual success’ (Hay 1988) is thus an effective way of preventing the escalation of conflict. Increased openness appears to be a prerequisite for this, particularly in relation to strategic issues. Expressions of this openness should include involving the supplier in the product-development process from an earlier stage than has previously been the case.

In conclusion, there is good reason to believe that there are many measures for improvement of the fundamental working climate between buyers and suppliers which can contribute substantially to future development of purchasing work. As indicated in the discussion above, this does not mean that a firm must neglect its own aims or interests. On the contrary, the only possibility for establishing long-term working relations is for all the parties involved to have the courage to work on the basis of their own ambitions at the same time as they accept the fact that their collaborators have different ones, and that these must also be taken into account.