Abstract:

In a context of liberalisation, occurring in the European Union, French major electricity users developed a new collective purchasing strategy, based on political sponsorship. The mobilisation of non-business actors as a purchasing strategy, and in particular, the way a business firm managed to obtain the sponsorship of major political actors to defend its interests, retained our interest.

The purpose of this paper is to contribute at analyzing this political sponsorship process. It is based on the in-depth analysis of the purchasing strategy developed by large manufacturers and their professional union to secure the access to electricity and control price risks.

Based on the Industrial Network Approach and in particular, on the strategic positions and identities of actors in the network, our analysis contributes at understanding the process of managing and influencing relationships in turbulent markets and negotiations.

Key words:

Position in networks, role of politics in S/C relationships, power play, strategic identity, group buying, deregulation, energy.

INTRODUCTION
Energy procurement is a key issue for many industrial firms. For most of them, this strategic supply has been raising a growing concern over the last 10 years, mostly due to the price instability (price increase) and the deregulation process that affects both electricity and gas markets. As a consequence, selected energy-intensive manufacturers have developed a proactive purchasing strategy, through collective group buying, in an effort at increasing their control over such supplies and to reduce uncertainty. The implementation of such purchasing strategies has had major consequences on the way customers manage their relationships with their energy suppliers so as to gain more power in the relationship.

In a context of liberalisation, occurring in the European Union, the French major electricity users developed a new collective purchasing strategy, based on political sponsorship. The mobilisation of non-business actors as a purchasing strategy, and in particular the way, business firms manage to obtain the sponsorship of governments or major political actors to defend their interests, has received a recent interest in the IMP publications but has not yet been studied in much depth (Easton & Araujo, 1992; Cova, Mazet, Salle, 1996; Hadjikhani & Sharma, 1999).

The purpose of this paper is to contribute at further analyzing this political sponsorship process. It is based on the in-depth analysis of the purchasing strategy developed by the French electro-intensive manufacturers since 2000 to secure the access to electricity and control price risks, in a context of market deregulation. Our work is based on an in-depth knowledge of the electricity market, which enabled us to carry out a longitudinal and in-depth case study (Yin, 1994) of the French electrical market. The four years position of one of the authors as competitive intelligence analyst in a European electricity producer gave us access to a considerable and very rich amount of information on this market and to observe the market dynamics from “inside”. Our study is focused on the French electricity market during the 1999-2007 period, which corresponds to the beginning of the deregulation process to the current situation.

It illustrates the role of political actors in the management of strategic supplies as well as the strategies developed by key accounts to obtain political support and increase their power in their relationship with suppliers.

The paper starts with a presentation of the review of existing theory related to the mobilization of the network actors as a way to modify the supplier-customer relationship (I). It then presents a case study detailing the various steps characterizing the dynamics of the relationships between French energy-intensive manufacturers and their electrical supplier(s) (II). The third part is devoted to the analysis of the case study using the INA framework (III). The final part will draw the implications in terms of network research and in particular, the role and mobilisation process of non-business actors. It also addresses its managerial implications in terms of the procurement of strategic supplies (IV).

I. THE CONCEPTUAL FRAMEWORK

The Industrial Network Approach (Hakansson, 1982; Hakansson & Johanson, 1992) will serve as a conceptual framework to analyse the various interplays between the business and non-business actors of the French and European electricity market, in an effort to modify the power position between key players (Mattsson, 1984; Thorelli, 1986) and secure price risks. According to several authors, the embedded context within which inter organizational relationships occur should be taken more into account while analyzing business relationships (Granovetter, 1985; Anderson & al., 1994).

In the Industrial Network Approach (INA), the development of relationships with certain key actors is described as one way to obtain a certain amount of control over resources (Hakansson, 1982) and to reduce uncertainty. If we accept the fact that what happens in one relationship can affect all connected relationships (Hakansson & Ford, 2002), we can imagine a voluntary use of the network to modify a particular relationship. For Hakansson & Ford (2002) the network is “both a way to influence and to be influenced” and companies within a network “are not free to act according to their own aims, or to circumstances as they arise”. If the management of business relationship is a key determinant of the success and performances of the firm (Ford & al., 1998), the management of non-business relationships can thus, also appear as strategic.

Hence, a firm’s purchasing strategy can be viewed as an attempt at better controlling the access to various resources through the development of cooperative relationships with selected actors.
Abstract preview

Figure 1 shows how a focal relationship is connected to several different relationships that either the supplier or the customer has (Anderson & al., 1994). The interesting point is linked to the fact that some of those relationships are developed with the same third parties. It could then be possible to obtain the help of such actors to influence the setting of a particular kind of relationship with business partners.

The third parties in common can belong to the business arena (customers, suppliers, members of the value chain) as well as to the non-business arena, forming the “milieu” (Cova, Mazet, Salle, 1996) or the wider economic environment in which the business relationships are embedded such as trade associations, governments, employees, political groups or lobbies…(Easton & Araujo, 1992; Hadjikhani & Sharma, 1999; Anderson & al, 1994). In the environment of the firm, pressure groups are more and more able to influence the relationships that a given customer and supplier can develop (Coen, 1998; Clark, 2001; Sarne & Kraus, 2003) States and NGO’s (Non-Governmental Organization) influence business relationships, through several means such as legislation, information provided to the public, or competitive intelligence strategies (Beyers, 2002; Harbulot & Baumard, 2007).

Figure 1: Connected Relations for Firms in a Dyadic Relationship

The ability to control a relationship is related to the perceived power of the two parties. Hence, a customer's capacity to influence its suppliers depends on the level of stakes it represents for each supplier (Turnbull & Valla, 1986; Pardo, 2004 ), as well as its resources and position in the network (Mattsson, 1984). Some authors view the concept of position as an indicator of an actor’s power over or dependence upon one or several other actors (Mattsson, 1984; Thorelli, 1986). According to Thorelli (1986), power must be understood as the capacity to influence other actors’ position or decisions, i.e., an actor’s capacity to modify in its own favour its position or the position of other actors with whom it is involved. Therefore, an actor’s strategy can be looked upon as a change of its network position (Mattsson, 1984). For Johanson and Mattsson (1990:472): “A micro-position refers to the relationship with a specific individual counterpart. A macro-position refers to the relations to a network as a whole or to a specific section of it”.

According to Axelsson and Easton (1992), an actor’s position in a network can be approached from two perspectives:

- A functional perspective corresponding to an actor’s functions and activities in the production system
- An identity perspective establishing an actor’s position through the perception and representations that other actors have of its role. Hakansson & Johanson (1988) refer to the concept of strategic identity defined as: “the views –both inside & outside the firm- about the firm’s role and position in relation to other firms in the industrial network”.

According to institutional theorists (Scott, 1987), as well as the IMP researchers, "environments impose pressure on organizations to appear in agreement with the prevailing norms, rules, beliefs, or expectations of external constituents" (Oliver, 1990: 246). Hence, each actor is expected by the other firms in the network to
behave according to the norms associated with that position (Mattsson, 1984). Collective action can then be seen as a result of the environment’s characteristics (Mizruchi & Koenig, 1991; Larson & Sandholm, 2000).

Based on the INA framework, we will in particular use the concepts of power, position and strategic identity, to analyse the French electro-intensive manufacturers’ tactics to modify their power in their relationship with the electricity providers through the mobilisation of a third, non business actor: the French government. We will in particular see how these customers manage to first modify their strategic identity towards the French government (network approach) so as to be placed in a better position to obtain a political sponsorship and hence, to increase their power towards their main electricity provider.

The customers’ tactics (Hakansson, Johanson & Wootz, 1976) also relates to the various forms of coordination that can be used: cooperation (network), hierarchy (such as vertical integration), or pure market mechanism (Richardson, 1972; Thorelli, 1986). Cooperation relies on several essential elements (Ring & Van de Ven, 1994): shared purposes, values or expectations, trust, commitment, and reciprocity.

II. THE EXELTIUM CASE STUDY

The case deals with the management of relationships between the major French electrical supplier –EDF- and its key customer accounts i.e. the French electro-intensive manufacturers. Such relationships usually represent high stakes both for the customers and for the supplier (Pardo, 2004) and are usually characterized by a high level of interdependence (Mazet & Pardo, 1994).

2.1. The liberalization of the French electrical market

Before the late 1990s, the French market was characterized by a monopolistic situation between the state-owned electrical supplier (EDF) and its customers. At that time, the prices for electricity were defined by the state for a given period of time and non-negotiable. These prices could be characterized as low in France as compared to other countries. This was due to two main reasons: the high reliance on nuclear electricity which is the cheapest after hydroelectricity and the price regulation which prevented the electrical supplier to adjust its prices based on the level of offer and demand.

In a context of the EU’s economical and political integration, and hoping to obtain the positive effects of competition on prices thanks to market liberalization, major energy users lobbied at Brussels in favour of the deregulation and the end of power asymmetry with the monopoly of EDF. The demand for lower prices and the need for the freedom to choose a supplier were at that time the global arguments in favour of the liberalisation. As a consequence, former state monopolies had to open the market access and let new entrants develop their business (Finon, 2003).

2.2. Between 2000 & 2003 - The predominance of market coordination mechanisms in a newly deregulated market – prices decrease

The liberalization process started effectively in France in February 2000 with the national law on the modernization and the development of the electricity public service. Following a step-by-step process, an eligibility threshold was fixed allowing very large and then large energy consumers to choose their suppliers and eventually switch from the former monopoly.

As a consequence, the price of energy was no longer set and regulated by governments but directly by the energy producers. New energy providers willing to conquer new customers granted important price incentives for switching. At the same time, large European buyers increased the price pressure by centralising their purchases and issuing global competitive bids. Their individual bargaining power increased and enabled them to obtain price reductions. Even if the power of large firms is more and more important, allowing them to influence political decisions (Coen, 1997, 1999; Hadjikhani, 2000), the setting of a collective strategy was indeed the best way to develop this potential influence (Olson, 1965). At this stage, the market form of coordination was dominant and relied mostly on competitive bidding procedures and arms-length transaction with suppliers.

2.3. 2003 – Prices start increasing and suppliers form a “competitive network”

However, in 2003, the general trend started reversing. This was due to several factors impacting the market:
• The declining of fossil resources (Bertoli & Atanasiu, 2007),
• A lack of production capacity. The growth of the demand for commodities used to produce electricity (oil, gas, coal…) raised production costs. These increasing costs combined with the former low regulated prices prevented suppliers from investing in new production capacities (Spector, 2007). Hence, the evolution of production capacity has not been proportionate to the rise of the demand.
• The growth of demand that was not compensated by the various efforts developed to make savings (Bertoldi & Atanasiu, 2007),
• The former electricity monopolies had succeeded in developing their European presence and to diversify their customer portfolio. Hence, they were less willing to conquer new customers than to maintain their power on their domestic market and to develop a geographical sphere of influence around it (Cateura, 2007).

As a consequence of the open market, EDF levelled its nuclear-based energy price to that of its German competitor, which led to a major price increase for French industrial customers (see Figure 3).

![Figure 3: French Electricity Regulated Tariff (96-00) then Market Price (00-06) for a Large Industrial Site Base load Cal+1, (green tariff)](source: CRE Annual Report 2006, p. 65)

2.4 From 2003 to 2004 – A first network reaction of Major Energy Users – the mobilisation of a non-business actor – the electrical professional union

This price increase threatened the competitive positions of French-intensive electrical consumers and, consecutively on that of many other European companies. Customers felt cheated and started complaining about an “anti-competitive conduct” and unfair agreements between producers. However, their bargaining power with the energy providers remained low. As a consequence, they tried to group their forces and mobilise a non-business actor representing the professional union of electro-intensive companies – the UNIDEN\textsuperscript{1}. The resources provided by that actor proved however insufficient to reach their objectives and the negotiations failed.

The Major Energy Users then looked for an alternative solution to improve their power in the negotiations with their energy suppliers. Conscious that one of their major strengths came from their economic and social power in the French industry (in terms of turnover, and number of people directly or indirectly employed), they naturally identified that the sponsorship of the French State and the intermediation of the MPs and Ministries would be a key resource to defend their interests.

2.5. From 2005 to the creation of the EXELTIUM consortium

The Exeltium consortium was formed on the 1\textsuperscript{st} June 2006 by seven firms composing the most energy-intensive industrial groups in France\textsuperscript{2} (chemical companies, aluminium and steel producers as well as a paper

\textsuperscript{1} UNIDEN : Union National des Industries Utilisatrices d’Energie
\textsuperscript{2} Even if French energy users were the most concerned by the rising prices (since prices were traditionally low in France), this innovative mechanism is also developing in other European countries. In Belgium, seven key electricity-intensive industrial
manufacturer). They are all active members of UNIDEN, and are led by Laurent Chabannes, a former Pechiney (now RioTinto-Alcan) executive. Together, they managed to enrol 40 others industrial groups who make a definitive commitment to the deal.

Taking the example of the closing down of a large aluminium plant in France severely impacted by the rising energy prices, they started threatening to close down factories and relocate in low-cost countries (Les Echos 2002 - 2005). Their leader claimed “tens of TWh of industrial consumption are under the threats of the end of existing contracts”. As a consequence, “these plants could be forced to be closed” if no solution is found. The government thus took their threatening of divestment from France and relocation in other countries very seriously.

Helped with the intermediation of MPs, a political solution was found. As stated by Reverdy (2007): “It is clear that the French State, the main shareholder in EDF, brought pressure to ensure that EDF would align to more customer-friendly prices. The industrial manufacturers justified the State’s action by putting forward the argument that the French industry (and more broadly speaking, their employees) must benefits from the nuclear energy option”.

The negotiation was based on the following deal (see figure 4 below). Electricity-intensive industrials could obtain a competitive and predictable delivery price but would help finance new nuclear production capacities, through partnership with selected banks (billions of euros). As stated by Philippe Huet, Trading and Upstream-Downstream Optimization Director at EDF “through a reasonable risk sharing, we found a contractual mechanism satisfying all the actors. Precisely, these commitments extend over 15 to 24 years and cover maximum volumes of 18 TWh by year 2012, which is considerable”.

companies joined their forces to set up a consortium called Blue Sky representing approximately 30 000 direct jobs and a total annual electricity consumption of 14 TWh i.e. 15% of Belgium’s total consumption.
III. DISCUSSION AND ANALYSIS

Understanding the functioning of supplier-customer relationships involving high industrial stakes constitutes an important aspect of business-to-business marketing and purchasing, which has raised an increasing interest in the research community among the last 10 years (Mazet & Pardo, 1994; Pardo, 2004). The case described above is particularly interesting for the rapid and radical evolution of buyer – supplier relationships involving key accounts.

Table 1. Characteristics of the customer-supplier relationship at each stage of the process

<table>
<thead>
<tr>
<th>Dates</th>
<th>Characteristics of S/C relationships</th>
<th>Dominant Coordination Mechanism</th>
<th>Strategic moves</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>Prices start increasing</td>
<td>Market coordination</td>
<td>Selective withdraw of late entrants and small competitors</td>
</tr>
<tr>
<td>2003-2005</td>
<td>Prices are rising rapidly</td>
<td>Competitive network through multi-market competition - Informal co-operation between producers: mutual forbearance.</td>
<td>Network strategy - Customers mobilise the UNIDEN – the professional union of electro-intensive firms (failure of negotiations). Lobbying – threat of divestment and relocation</td>
</tr>
<tr>
<td>2006</td>
<td>Political pressure (hierarchy) =&gt; The supplier is compelled to negotiate with the customers by its major shareholder</td>
<td>Co-operation between customers in a formal network: Direction between the State and the electrical supplier</td>
<td>Creation of the EXELTIUM consortium</td>
</tr>
</tbody>
</table>

In less than a year (2003), the relationships have changed radically. The negotiation power has switched from one side to the other. Table 1 summarizes the key steps characterizing the evolution of the relationships between the French electrical supplier –EDF- and its key account customers – the Major Electricity Users.
The creation of the EXELTIUM consortium: changing identity to obtain political support

After the failure of their first network attempt to regain power over their suppliers through the mobilisation of UNIDEN, the electro-intensive manufacturers develop a collective strategy to mobilise the French Government, which is the major shareholder of the French electrical supplier.

In this case, the strategic move of the customers has been developed in two steps:

1. The creation of a consortium “Exeltium” to represent the customers’ interests and increase their legitimacy towards the French state to enter into negotiations. According to Möller and Wilson (1995: 39), “the legitimacy motive refers to creating business relationships for the enhancement of a company’s reputation and presence.” In this case, their legitimacy towards the State mostly comes from their collective economic and social power, which entitles them to discuss with the highest level of public authorities. These major industrial buyers actually occupy a strategic position in the French industrial network, which gives them a lot of power. These energy intensive industries are at the beginning of the supply chain serving other strategic sectors such as the automobile, the aerospace, or the packaging industries. Their competitiveness and economic health hence directly impacts the global competitiveness of other European leaders on the international scene. They thus have the power to modify the position of numerous other industrial firms relative to their competitors in their international network. Hence, it can be argued that the EXELTIUM alliance acted as the “network vehicle” to reinforce their negotiation power of the customers.

2. Once the support of the State obtained, the consortium benefited from an increased legitimacy and power to negotiate with the electrical suppliers – and in particular with EDF-. As Thierry de Bresson, an active member of UNIDEN, said: « At the opening of the market, we were able to negotiate a 5 year contract with EDF… but it’s over since 2003… To be able to talk seriously with producers about prices, we needed the intervention of a Minister, inviting them to sit at the same table with electricity-intensive manufacturers”. This power mostly came from the plural position and strategic identity of the State in the French industrial network.

In terms of position, the position of the French State is twofold both functionally and in terms of identity (Axelsson & Easton, 1992).

- Functionally - The state remains the majority shareholder of EDF and as such is able to “hierarchically” influence the supplier’s behaviour (what Richardson 1972, refers to as “direction” in terms of coordination);

- In terms of identity -The consortium insisted on the role of the State as the “defender” of the French economy on the international scene”. Even though this support could be challenged by the European Union as an anti-competitive conduct (a price advantage as compared to its European competitors), the argument was powerful enough to convince the French government to interfere in the negotiations.

In this case, the French State was faced to a dilemma generated by its ambiguous and multi-functional position in the European electrical network:

- On the one hand, the French State is expected by the French people and industries to defend the French employment and economy,

- On the other hand, as member of the European commission, the French State is expected to promote a free market, open the home market to competition, and prevent anti-competitive conduct,

- Finally, as dominant shareholder of EDF, the State is expected to defend the interests of the company and its employees.

In this case, the interests of all these stakeholders in the network could not be combined simultaneously and the State had to decide which interests had to be privileged. A compromise was made to combine both the interests of the Major energy users with the long-term interests of the electrical provider but to the risks of creating a major regulatory hurdle with the EU for anti-competitive conduct.
This meant that the State accepted to substitute itself to the customers in order to legitimate the solution found at the EU. Using a network approach, we could argue that the French State took that option probably on the hypothesis that its own situation in the EU network was strong enough to be able to legitimate the deal. This was all the more possible that most of the French companies concerned by the deal also have industrial activities in other major European countries and that the development of new nuclear-base production capacities could benefit other European customers.

IV. CONCLUSION: MAIN CONTRIBUTION AND DIRECTIONS FOR FURTHER RESEARCH

This case describes the influence tactics developed by some industrial firms (Hakansson, Johanson & Wootz, 1976) to mobilise the State to help them negotiate with one of their key suppliers, in spite of a strong pressure from the European Union against it. The deal obtained is unique both in terms of content (size, volume involved) and in terms of the way it has been obtained and managed (actors involved in the negotiations).

- This exceptional mobilisation of a political actor to increase their power in the negotiation with the French electrical supplier was made possible due to the ambivalent and plural position of the French state in the European electrical network i.e. to the variety of its roles and strategic identity in the network. The French state can be considered both as the major shareholder of the former electrical monopoly (semi-hierarchy), but also as the "defender" of the French economy. The Exeltium consortium managed to exploit this plural and somewhat ambivalent "strategic identity" (Hakansson & Johanson, 1988) to their advantage. The consortium increased the legitimacy of the French customers towards the Government and acted as a network vehicle to negotiate its political sponsorship. This suggests an interesting hypothesis for further research related to the strategic identities of the parties involved in the deal. We have seen that the consortium exploited the role of the state as "defender of the economy" to convince the government, and then once this obtained, it indirectly exploited the role of the government as EDF’s major shareholder. Similarly, the customers had to change their strategic identity to be able to implement this strategy. As individual customers, the electro-intensive manufacturers were not legitimate to negotiate with the State. They similarly had to form a consortium and hence, change position and identity in the network to be able to negotiate with the government.

Concerning network theory, this case suggests or confirms several research findings:

- It confirms the relevance of the Industrial Network Approach as a powerful framework to analyze the influence of both business and non-business actors in the dynamics of supplier-customer relationships. Among these non-business actors, the role of political institutions can be decisive. This role has particularly been highlighted by researchers from the International Network for Project marketing (INPM) who emphasized the existence of a “milieu” of stakeholders influencing business deals (Van Winder, 1983; Cova, Mazet, Salle, 1994). These new relationships are all the more important that political institutions are trying to develop their influence on business by new means (Eising, 2004, 2007). In so doing, they contribute to the setting of “embedded negotiations” (Eising, 2002).

- The multi-functional or plural position of a given actor in a network can act as a lever to help the mobilisation process of political actors. Due to their role in the economy, political actors occupy a macro-position and identity in the network. The case thus suggests that the successful mobilisation of a non-business actor such as the State occupying a macro-position in the network requires developing a similar macro-identity. In our case, this was achieved through the creation of a major consortium that could be perceived as being representative of the French major electro-intensive manufacturers and of the French industrial interests (as the starting and founding link in several industrial supply chains”).

- In terms of purchasing tactics, the case has clearly illustrated the way industrial customers envision the network structure as a tool to increase their power over suppliers. They have integrated the formal and informal connections (hierarchical, functional, in terms of identity) between various actors in the network and developed their own to have access to other actors. This is a good illustration of what could be called a “connectedness tactic”. The concept of connectedness defines the “extent to which exchange in one relation is contingent upon exchange (on non exchange) in the other relation” (Cook
& Emerson, 1978: 725). In our case study, the customers created the Exeltium consortium (a formal network) to have a privileged access to the State (a central actor in the network), which in turns gave them a privileged position towards the supplier.

- Concerning the various forms of coordination, this research has confirmed that cooperation (i.e. relationship and network approach) and/or hierarchy is/are a preferred mode of coordination with suppliers in case of high stakes (impact of competitiveness) and uncertainty (concerning the price of electricity for example). The case has shown that when group buying is not sufficient to negotiate stable prices with the suppliers in an open market, the creation of a formal “network” in the form of a consortium can act as a “network vehicle” to increase their power and legitimacy in the offer network and to have a privileged access to central network actors such as the State.

This starting research could be deepened by a larger analysis of the conditions leading industrial buyers to require the support or sponsorship of political institutions (Bonardi, Hillman & Keim, 2005). Regarding a strategic supply, large electricity users decided to mobilize all the means and ways to defend their competitiveness. In a context of high unemployment rate, slow growth, European scepticism and international competition, large companies have a real power while threatening to pursue relocation and divestment.
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