GLOBAL ACCOUNT ATTRACTIVENESS: THE SHIFT IN THE “GIVE AND TAKE” NEGOTIATION PROCESS WITH “STRATEGIC” SUPPLIERS.

PURPOSE OF THE PAPER
Recent research shows that a new typology of suppliers is emerging, defined by some global accounts, creating an additional level of segmentation: the "strategic" supplier or “partner”, which is unique (for each product line): it offers its global customer a unique competitive advantage in terms of costs (Total Cost of Ownership), product, or services. In this context, the global account must “attract” the "strategic" supplier to enter into a specific relationship. This article therefore examines the determinants of global account attraction and their impact on commercial negotiation and the characteristics of these negotiations.

We present the state of literature on negotiation and bargaining power (Walton and McKersie, 1965; C. Dupont, 2004; Hunt and Nevin, 1974; Caniëls and Gelderman, 2007) in the context of our study.

RESEARCH METHOD
We chose to work on two case studies, represented by two FMCG companies. We chose the point of view of two global accounts, which recently created a new supplier segmentation by introducing the concept of "strategic" supplier and carried out in-depth interviews with one or two informants in purchasing (one decision-taker at strategic level and a product line manager); users or influencers of purchased products and part of the "buying centre"; key account managers or directors from suppliers.

RESEARCH FINDINGS
The first consequence of the "strategic" supplier status during negotiation is the change in the object of negotiation: the price of the product is no longer at the heart of the negotiation. Thus, global account attractiveness will be the ability of the global account to shift the “give and take” negotiation process from price to final product margin sharing. It will be the commitment for cost transparency, not only from the supplier, but also from the global account. In short, the global account will be attractive to the supplier if it agrees with providing a true integrative negotiation process that will allow both parties to get a fair share of value, as the value appropriation process will take place at the far end of “cumulative” value. The shift of the negotiation from the price to the sharing of the downstream value is key to define global account attractiveness.

CONTRIBUTION OF OUR RESEARCH
Our study on the emerging status of "strategic" supplier, lays the foundation for a new form of "interest-based" negotiation (Fisher and Ury, 1981), which moves the subject of negotiation in the downstream of the value chain and which does occur in a situation of relative equilibrium in which supplier and global account find themselves highly interdependent: the uniqueness of the supplier’s value proposition entices the global account to think of itself in terms of “attractiveness” in the relationship and negotiation process with the supplier.

Keywords: “strategic” supplier, global account “attractiveness”, negotiation

* "A Global Account is one that is of strategic importance to the achievement of the supplier's corporate objectives, pursues integrated and coordinated strategies on a worldwide basis and demands a globally integrated product/service offering from its suppliers" (Wilson & al, 2000)
INTRODUCTION

Recent research (Lacoste, 2009, 2010) show that beyond the traditional supplier segmentation as studied by Dyer et al. (1998), which opposes transactional suppliers (arm's length relationships ") to suppliers who develop a "preferred" relationship with their customers, a new typology of suppliers is emerging, defined by some global accounts ¥, which complicates the previous approach by creating an additional level of segmentation: the "strategic" supplier or “partner".

Although the terms can be confusing (the term "partner" is overused in the business world), the "strategic" supplier is different from the "preferred" one. There may be several preferred suppliers, whereas only one supplier will be "strategic" per product line. The “preferred” supplier may be the one that won a tender or came on top of the list after rounds of tight negotiation: it offers, according to contractual terms defined by the global account, the best price / relationship benefit (Ulaga, 2003) ratio. Several suppliers can be first tier suppliers in charge of the global account’s new developments or products (often by getting them in competition with each other for every new project). The "strategic" supplier is unique (for each product line): it offers its global account a unique competitive advantage in terms of costs (Total Cost of Ownership), product, or services.

The global account can have several “preferred” suppliers and, in addition a "strategic" supplier. Some major international groups, recently started to develop this new type of supplier relationship (Les Echos 10/26/2009* ¥).

Figure 1 (based on the verbatim p 7) shows the different characteristics of these two types of "preferred" and "strategic" suppliers.

We will stress that the length of the contractual relationship with the "strategic" supplier is longer and that the relationship goes far beyond the selling/buying dimension, since it encompasses a true strategic alignment between supplier and global account. Furthermore, the global account wants to get the exclusivity of the relational benefits offered by the supplier, which involves a high level of “attractiveness” from his side for the supplier to be interested in providing it with such exclusivity.

Hald et al. (2009: 968) “propose to understand attraction as the force fostering voluntarism in purchasing and marketing exchanges, and further pushing a buyer and supplier closer together in a mutual advantageous relationship”.

In the present situation, the contractual agreement between the supplier and the global account will be a trade-off between the determinants of the account attraction versus the requested scope of exclusivity.

In this context, we studied the type and characteristics of negotiation as the global account and the "strategic" supplier sign a multi-year contract that will define their specific relationship.

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*¥ "PSA Peugeot Citroën wants to tighten their relationships with their major suppliers », article from Denis Fainsilber, published in Les Echos newspaper 26/10/09.
This article therefore examines the determinants of global account attraction and their impact on commercial negotiation and the characteristics of these negotiations.

First, we will present the state of literature in the context of our study, then we will present our research methodology, the two studied cases and the main results of our research. In conclusion, we discuss the contribution of our research.

**Literature review: Bargaining power and negotiation**

By the early 1960s, Walton and McKersie (1965) define two opposite concepts to characterize negotiation: distributive bargaining (zero-sum) and integrative bargaining (win-win). Distributive bargaining is mostly used when there is an asymmetry of power between the parties. However, the "strategic" supplier provides its global account with a unique competitive advantage and could be in a situation of "dominant power" because of a unique or almost unique offering. Caniëls and Gelderman (2007) highlight the asymmetry of power in favour of the supplier when the product of the latter is considered as "strategic" (according to the typology of Kraljic, 1983), but these researchers recognize the iconoclastic aspect of their research results and describe it as even "provocative" (p 227), because the supplier is perceived as dominant in a relationship which is described as satisfying by both the supplier and the global account. If the supplier has a higher level of power over its global account by its "strategic" position, the latter also keeps a high level of bargaining power. As a global account, it centralises its purchases and owns (actually or potentially) a high market share in its industry (Stevenson, 1980), being an almost "inevitable" account for the supplier. In addition, in the terminology of Hunt and Nevin (1974), the global account, has the power to reward (possible allocation of a high and increasing wallet share for the supplier) and a reference power (power from its corporate brands or its product trademarks, which are sometimes brands generating over a billion in sales). These sources of non-coercive power strengthen the bargaining power of global accounts, which make the global account and its "strategic" supplier interdependent because both finally end up with a strong but relatively balanced power.

Within this configuration, integrative bargaining is one that is most likely to be used by the global account and its "strategic" supplier. Indeed, the choice of a "strategic" supplier is, a priori, a strong signal that the contract negotiations will not distributive, but integrative, as the mutual intent is not to "share" a piece of the pie (Jap, 2001) but rather to work together to "increase" the pie share (Jap, 1999; Wagner, 2010).

This "pie increase" lies on building an exclusive competitive advantage for the global account and the question arises whether this supplier – global account collaboration is really going through a negotiation process.

**Literature review: Collaboration or negotiation?**

By the early '80s, Zartman and Berman (1982) define the conditions necessary to open the door to negotiation. According to C. Dupont (2006: 39), they emphasize "the way of an exchange that can be shaped only by negotiation" and "the ability to create individual earnings that can only be obtained jointly".

The supplier that will be selected to become "strategic" is often already a “preferred” supplier, which means a supplier who has already been working for some time with the global account.

Thus, the change in status could be viewed as an extension of an already intensive exchange. However, the exchange will change in nature as the outcome of a new negotiation and
individual earnings may suddenly increase, but, as defined by Zartman and Berman (1982), this increase is only possible with a joint or rather interdependent approach. The conditions of such interdependence will be at the core of the negotiation process. On the one hand, the supplier will negotiate the exclusivity of the relationship benefits; on the other hand, the global account will negotiate a compensation for this exclusivity, that is to say, the value of the competitive barrier that the supplier will enable it to build. We are here far from a simple distributive bargaining on price, but we are on a very specific form of negotiation (Fisher and Ury, 1981) where the “give and take” process of the negotiation will be most innovative to ensure fairness of transaction, as demonstrated by our case studies.

**RESEARCH METHODOLOGY**

To measure the reality of organizations, Mintzberg (1979: 586) advises not to use laboratory simulations, nor questionnaires and insists on collecting field data (“out into the field, into real organizations”). Following the plea from Mintzberg, data collection from a qualitative field research seems most appropriate to our subject. Yin (2003: 12) cites Schramm (1971) to define the case study as “it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented and with what result”. Yin goes on to define case study as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident."

We therefore chose to work on two case studies, represented by two FMCG companies. We chose the point of view of two global accounts, which recently created new supplier segmentation by introducing the concept of "strategic" supplier. Each company is an MNC (multinational corporation) and both are listed as "leaders" in their industry. Our study focuses on industrial companies, we do not address the retail sector.

We chose within the same industry two companies buying similar products. Organisational differences in each firm did not allow us to contact informants with exactly identical functions. Nevertheless, our goal was to contact:

- One or two informants in purchasing (one decision-taker at strategic level and a product line manager, whenever possible);
- A user or influencer of purchased products and part of the "buying centre";
- Key account managers or directors from suppliers.

Each interview lasted about 1:30 and was recorded. We adopted the method of “mixed interviews”, as described by Romelaer (2005: 114), which begins with a centred semi-structured interview (ESDC) and ends with some guided questions. This method leads the researcher to let the informant to express oneself spontaneously, after launching the theme of the interview from a first sentence, then only to guide the interview by rephrasing and reminders. There is little directivity from the researcher, which allows the collection of data that the researcher would not have thought of, while remaining within the scope of research.

We chose to take into account the interpretations of the informants, and thus had a rather inductive methodological approach: our codes are not derived from our theoretical approach, but set mainly in vivo, from the materials to be analyzed. We therefore opted for a thematic coding, followed by a finer work and coding analysis to deepen the conceptualization (Miles and Huberman, 2003).

**The presentation of the case studies**
Presentation of the first case study:

This group of European origin is a leader in its industry. Its 2010 revenues amounted to 84 billion euros and they employ over 283,000 people worldwide. 70% of their turnover comes from outside Europe.

We met:
- The European Purchasing Group Manager - Packaging Category
- The Corporate Packaging Manager
- The Corrugated Sourcing Manager (recently retired)
- A supplier of corrugated cardboard and a coding equipment supplier

This MNC, known for seeking consensual relationships with its suppliers, however, has recently restructured its purchasing strategy. It has evolved from a purely partnership like relationship (since mid-1990), with tacit partnership contracts of 5 years, without any tendering during the length of the contract (by national markets), to a bottom-up approach with selective partnerships at European level (since 2003).

A first geographic dimension divides purchases. Strategic purchases are made at European level, with the implementation of a Supplier Relationship Management process. Operational purchases are under the responsibility of the local level. They are dealing with purely local projects. This geographical dimension is intertwined with a supplier segmentation, which is based on a pyramid approach. This segmentation entices the supplier to move from a transactional relationship based on prices and costs towards a quasi-integration. Suppliers, within their capabilities, are encouraged to move from “standard” towards “preferred” supplier status, and few of them arrive at the ultimate status of “strategic” supplier (two or three product categories).

Each "business" (business unit) manages its suppliers according to the same segmentation, but in terms of marketing strategy and purchased product, the focus can be on “preferred” suppliers and one “strategic” partner or standard supplier (search for 'low cost' products).

The formal “buying center”, which role was important in the late 1990’s, did not survive the European organization. However, the choice of “preferred” partners and especially "strategic" ones cannot be done without the support of stakeholders. Todate, a European technical organization has been set up in parallel with the purchasing organization.

Presentation of the second case study:

This French group is a leader in its industry. Its 2009 revenues amounted to nearly EUR 15 billions and it employs over 80,000 people worldwide. It generates 44% of its turnover outside Europe.

We met:
- The global VP Purchasing (all products)
- The Purchasing Director (packaging)
- A sensory panel Manager - R & D
- Suppliers of corrugated cardboard

Since the late 1990s, this global account has changed its purchasing strategy according to three sequential phases. The first phase (until the early 2000s) was strictly focused on cost reduction, with a price-oriented process and widespread use of transactional tools (tenders,
reversed auctions). The second phase was the logical follow-up of the first one, with a shortlist of suppliers to build a supplier segmentation, which has been consolidated with the third phase, which is taking place since 2006. This third phase is the one that now relies on creating value through seeking the best-cost structure (the concept of TCO, Total Cost Ownership) and innovation provided by suppliers. Since 2006, this group has established strategic partnerships with dozens of suppliers (the goal is to reach 20 strategic partnerships). Such suppliers, who can now provide the global account with an exclusive innovation (that is able to create a competitive barrier with its competitors), enjoy this specific status of "partners". The three phases of the purchasing strategy evolution, we have just described, are not only sequential, but they keep on overlapping with each other and allow the global account to gradually build a segmentation of suppliers from a purely economic criterion to achieve a relationship of interdependence with the suppliers.

This large company, long known for feeding adversarial relationship with its suppliers, has now chosen to select a few suppliers to develop partnership-like relations in order to help enhance the value of its brands to create a firewall around these competitive brands. This evolution took place through an appropriate level of strategic alignment at the top of the business (coordination between the three vice-presidents purchasing, marketing and R & D).

INTRODUCTION TO THE CONCEPT OF STRATEGIC SUPPLIER – EMPIRICAL DATA

Case study1_Corporate Packaging Manager:
"What is the best principle according to the market and my products? You can be in a "partnership" if you are in a strategic business for us and enter into a partnership for 10 years as part of a business development. But (for more basic products) on the European market, you'll retain "preferred" suppliers and "challengers" as suppliers.

Case study1_European Purchasing Group Manager:
"When we tackle the strategic approach which will involve 1 or even 2 or 3 suppliers: we are in a different concept. We are in a partnership, but on the global value of the procurement chain: production, purchasing, logistics, etc.. We work transparently, that is to say as far as costs are involved: we know exactly the structure of manufacturing costs, we'll even share these (production) costs; we will compare our production costs with the suppliers' ones. We sign contracts that will last 5 years and it is on a European scale, we develop together (with the suppliers) capacities, investments. We will align our business strategies. What does the strategic supplier want to do in the future? Where do we go? What can we do together? Here, we have an integrated organization (KAM / SRM), that is to say, homogeneous structures, but also people from the supplier who will work in our factories. We have trust and reciprocity."

Case study2_Purchasing Director:
"The "partner" is the ultimate level. It's about 10 to 15 suppliers in a group that has perhaps 6000 suppliers, I say anything, because anyway the number is huge."

The creation of this "ultimate" status is both a desire for "exclusivity", but also a desire for differentiation, within the Porter meaning, which should lead to the construction of a genuine
The global account seeks above all to prevent its own competitors to catch up in terms of innovation and competitiveness.

Case study 2, global VP Purchasing:
"I will choose suppliers with scientific or technological capabilities, the best in the world. I’ll give them a wallet share on my blockbusters. I guarantee that they 2-digit growth over the next 5 years. In counterpart, I ask them about their world exclusive developments in my line of products, not only I speed up, but I catch the best capabilities in the world and I create a competitive barrier against my competitors. I use my size to create global sourcing strategies that are very difficult to access for my small local competitors. None of my small local competitors have the ability to attract a supplier solely on the growth prospects of business that can offer and I am the only one who can do that.

The idea is:
1 = Accelerating
2 = Have Access to Science
3 = Build competitive barriers upstream

[...] In other words, if my name is X or Y (competitors) and if tomorrow I want to launch a product similar to mine, I’ll have to work with No. 2. It will not work with the No. 1, the world leader, which makes things more complicated for it."

The construction of these competitive barriers requires building new relationships with suppliers who can provide the global account with a very high level of innovation. It is no longer there to be part of a "club" of suppliers, but to become “unique” to the global account.

**THE IMPACT OF “STRATEGIC” SUPPLIER STATUS ON NEGOTIATIONS WITH THE GLOBAL ACCOUNT**

The first consequence of the "strategic” supplier status during negotiation is the change in the object of negotiation: the price of the product no longer is at the heart of the negotiation. In most cases, the product price is not really negotiated because the "strategic" supplier is recognized as such, as having the best cost structure in the market and providing the global account with the best ratio price / quality. The core of negotiation is thus shifted towards other relational benefits, for which negotiation is facilitated because the issue is less important for the buyer. The latter will be prone to find more easily a compromise favourable to the supplier (billing additional services or additional products), because the negotiation will focus on the sharing of extra cumulative value.

Case study 2, Purchasing Director:
"We have suppliers who have a real competitive advantage over their competitors and work with us with a very high level of margin. Why? They have technological advantages in their production processes that allow them to be unbeaten on price. In that context, I have the best price, I work without passion, because I'm concentrating on reducing packaging weight and I give them a better margin."

In other cases, the product price is not directly negotiated because it is the whole value chain that will be subject to negotiation, if the supplier owns its “strategic” supplier status to its
integrated value chain.

Case study1_ European Purchasing Group Manager:

"[...] So we try to work to get the best possible global price. It can also happen with (vertically) integrated suppliers that we negotiate their internal transfer price of the raw material."

This is a supplier’s quasi integration. The term "quasi-integration" has been used in the work of Aoki to describe the linkages of Japanese firms and Houssiaux’s one, in the late 1950s, to analyze sub-contracting relationship. We're here close to the definition of Monteverde and Teece (1982) when they explain that ‘quasi-vertical integration differs from full vertical integration in that the downstream firm still contracts with a supplier for the actual manufacture of the component ». Except that since the 1980s, this notion of "quasi-vertical integration" has evolved to include more than just physical production operations. Today we are rather with a concept of “extended firm” as the global account is keen to integrate suppliers' competitive advantages in terms of innovation and cost, thus to include products and intangible services (knowledge, skills, etc…) throughout a fully integrated value chain (from raw materials to finished products of the supplier's account).

The strategic partnership involves aligning corporate strategies to maximize value creation and work with "open books" (at least for the supplier...). It is therefore not just a supplier who is "privileged" by its global account, but also a supplier who provides a unique competitive advantage as well as an ability to integrate the value chain of its global accounts.

In another case, the price is not negotiated because it cannot be: the market does not exist....

Case study2_ global VP Purchasing:

"We work on solutions for differentiation. We want to steeply boost the differentiation of our brands to boost the “topline” and there, if we develop unique solutions, with a strong differentiation and that we own, we are in an agreement that is specific, as we are the only ones, with no competitors offering the same solution. We offer a unique solution to the consumer, that is cost + premium (depending on the margin of the product). At the opposite, the supplier who sells us the aroma, which is lambda, which is not differentiated, which is not exclusive or does not specifically belong to us. We consider such product as a commodity and there, it is essential that such product should be competitive and we buy with tenders."

Thus, the "strategic" supplier which allows the global account to bring a unique product on the market will be rewarded by receiving part of the margin of the final sold product, because there is no notion here of prices, since the notion of market itself disappeared with the character and unique differentiating the supplier's offer.

The core object of negotiation has been changed: the discussion is no longer on the price, but on sharing the margin of the final product. Here we find the concept of integration, this time with the product itself: the vendor's product is completely integrated into the final product of his client and we are really in sharing value on the downstream market.

The global account shares a part of the final value of the product and this retrocession symbolizes a certain transparency and fairness of the division, especially if the value creation is high and that the "share" of each partner is important.
This value optimisation of the global account's product is made possible thanks to the supplier’s leadership and innovation capacity:

Case study2 _ global VP Purchasing:

"The core of our business, it is..., and ... Everything around it, is not our core business, so if you want to continue to innovate and accelerate the innovation tomorrow, because the speed is key, we must innovate with our suppliers. [...] Putting together external expertise to leverage our drive in innovation, with the capacity to do the assembly work with suppliers, which are leaders in their field. I will choose suppliers with scientific or technological capabilities, the best in the world."

Negotiation is therefore based on the estimation of both parties (global account - supplier) concerning the level of technological "capital" and innovation the supplier will make available to its global account in return for sharing part of the margin on the final product.

Thus, global account attractiveness will be the ability of the global account to shift the “give and take” negotiation process from price to final product margin sharing. It will be the commitment for cost transparency, not only from the supplier, but also from the global account.

In short, the global account will be attractive to the supplier if it agrees with providing a true integrative negotiation process that will allow both parties to get a fair share of value, as the value appropriation process will take place at the far end of “cumulative” value.

The shift of the negotiation from the price to the sharing of the downstream value is key to define global account attractiveness.

CONTRIBUTION OF OUR RESEARCH

Our study on the emerging status of "strategic" supplier, lays the foundation for a new form of "interest-based" negotiation (Fisher and Ury, 1981), which moves the subject of negotiation in the downstream of the value chain: the price is not subject to negotiation, but the sharing of the value of the final product. Moreover, this negotiation does not occur in a power asymmetry in favour of the global account, but in a situation of relative equilibrium in which supplier and global account find themselves highly interdependent: the supplier provides a unique competitive advantage, while the global account can provide revenues and the sharing of a high margin.

Nevertheless, the uniqueness of the supplier’s value proposition entices the global account to think of itself in terms of “attractiveness” in the relationship and negotiation process with the supplier.

Our study is positioned in a disciplinary field that seems to have been little explored until now: how the link between the supplier status in a purchasing typology and characteristics of the negotiation derive from some reversed roles, whereas the global account is the one that has to be “attractive” to the supplier. We relied on two detailed case studies, but we have just laid the foundation of a field of investigation that needs to be explored further.
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| “Preferred” supplier          | Innovation  | Maintain market competitiveness |
|                              | E-supply capability |                              |
|                              | Supply across markets |                              |
|                              | Sustainable competitiveness |                          |
|                              | TCO |                              |
|                              | Contract (2-3 years) |                              |
|                              | KAM organisation |                              |
|                              | Pro-active |                              |
|                              | Back up supply capability |                |
| “Strategic” supplier         | Total value chain partnership | Outperform market competitiveness |
|                              | Full cost transparency |                              |
|                              | Contract (3- years) |                              |
|                              | Development capability |                              |
|                              | Alignment of strategies |                              |
|                              | Integrated partnership/ Joint investment |                        |
|                              | Organisation: integrated representation |                    |
|                              | High level of trust and confidence |                  |

*Figure 1 – The characteristics of the “preferred” and “strategic” supplier*