AN INSIGHT INTO THE CHANGING NATURE OF CUSTOMER-SUPPLIER RELATIONSHIPS IN COMMODITY MARKETING IN AUSTRALIA

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ABSTRACT

Today, factors such as deregulation and the increasing demands of customers are changing the way that businesses such as the electricity supply companies need to operate. Electricity supply companies need to understand the factors that influence supplier selection, particularly with the emergence of intermediaries such as brokers that can be used to assist in the selection of suppliers. This paper provides an exploratory investigation into the changing nature of customer-supplier relationships in commodity marketing in Australia, by examining the effect of intermediaries on the purchase decision for electricity, giving marketers an understanding of the complexity of the decisions faced by large, multi-site companies.

INTRODUCTION

Recently, there has been much discussion about the effects of globalisation and the convergence of markets across a range of different industries due to factors such as deregulation and the changing demands of customers. To remain successful, service providers need to understand what their customers want and what influences their decision, particularly in an industry such as electricity where loyalty is not high [2]. Since the 1970’s, the electricity industry around the world has undergone rapid changes due to deregulation and privatisation. In Victoria, Australia, until 1995 the electricity industry was a monopoly and customers could not choose their electricity supplier. Since 2002, deregulation and privatisation have meant that all businesses and households in Victoria have been free to choose their electricity supplier. Moonan [4] correctly predicted that deregulation would change the public utility paradigm, and he noted the importance of understanding the decision making process in the electricity industry. The buyer decision making process helps marketers and service providers (supply businesses) understand more about what their customers need and want, and then deliver these needs and wants effectively to their customers. A customer’s choice of a supply business is dependent on factors such as what information is available, how the information is presented, and how it ‘stands out’ from the information provided by other companies. The importance of keeping existing customers is well documented, as this is correlated with the high profitability of an organisation [3].

Understanding how companies buy and source goods and services requires understanding the structure of the organisational buying group. Sheth [5] discussed that organisational buying behaviour is changing, partly because the procurement function has been reorganised from a decentralised function to a centralised strategic function in many organisations due to industry restructuring through mergers, acquisitions and alliances. Outsourcing of support functions has further intensified this, combined with an increased global competitiveness and the use of information technologies, meaning many organisations have reduced their number of suppliers by aggregating their purchasing, often on a global basis. The traditional process of identifying suitable suppliers involved the customer approaching the supply companies, which can be time consuming if there are many suppliers to contact. One option for customers is to use different channel contacts to assist in their information search, including intermediaries which make tender documents available online and act as intermediaries to assist in the
selection of suppliers for a wide range of products, including electricity. Such intermediaries mean that businesses need to be open to new ways of doing business with supply companies, as intermediaries know 'more about customers, have a greater knowledge about local markets, carry a broader product line within a category, and carry multiple product categories' [1, p. 381]. Therefore, instead of needing to contact multiple supply companies, an intermediary can reduce this to just one contact, thus saving the buying group a lot of time and effort. With these issues in mind, the research question was posed: how is the nature of customer-supplier relationships changing in commodity marketing in Australia? This research has been predicated by the fact that only a limited body of research existed in such a setting. In order to see the world from the customer's viewpoint, a case study approach using depth interviews with large users of electricity in Victoria was deemed appropriate to obtain a deeper understanding of the variables and key relationships. The research for this paper is based on a comparison of two of the depth interviews conducted by the author. The first of these interviews (first company) was conducted with a company that was involved in manufacturing and retailing throughout Victoria. This company had formed a strategic sourcing team especially for selecting an electricity supplier for their operations throughout Victoria. The second of these interviews (second company) was conducted with a company that was involved in the leisure industry throughout Victoria. The informant was the procurement manager, who was supported by a small team of decision makers, and like the other company, they had changed suppliers each time their electricity contract had been renewed. At the time of the interview this company had just consolidated their largest sites into one electricity contract. The processes they went through were slightly different, and one of the main factors affecting these differences was that the second company was interviewed nearly two years after the first company. While it could be argued that the generalisability of depth interviews is limited, this research provides an interesting insight into elements of a very complex and detailed process, and is part of a much larger study of the electricity industry in Victoria.

FINDINGS FROM THE RESEARCH

Both the companies interviewed had been involved in the decision making process for an electricity supplier on at least 3 occasions, and for the operations of both companies, electricity was considered to be a very important commodity. For both companies, switching suppliers was not an issue, and therefore loyalty and having a good relationship was not a factor in their decision to choose a supplier. The first company said that they had spent a great deal of money and time (2 to 3 months) deciding on their electricity supply company. They had eight people on the decision-making team, as they regarded the decision as being very important. The processes they used were formal, starting off with writing a letter to all the main suppliers requesting them to express an expression of interest in the electricity supply for this company. This was our first opportunity to put all the big ones together and just say right we are sending them all out. We approached it in a specific way, we wrote to all the suppliers we were interested in and made an appointment. Despite some suppliers not being very interested in tendering for the business others spent a lot of time and effort in trying to win the business. Next they detailed their requirements to the interested companies, emphasising that they were interested in the supply of both gas and electricity. A couple of them were very interested and you know a couple of the bigger ones put together teams to work on the tender because we did have gas and electricity.

In comparison to the detailed processes that the first company used just to get to the supplier selection stage, the second company’s behaviour was quite different, as they spent very little money and time in deciding on their service provider, preferring instead to use a broker. Further, when the decision was made, rather than using a collaborative approach, the informant was the only decision maker. For the second company, once their electricity contracts had expired, they felt that they were being bombarded
with suppliers wanting their business. The main decision maker felt uncomfortable about this and decided instead to use the Internet to help them make the decision. They (the contracts) expired, we needed a new contract, everybody was pushing and pushing and pushing, and then a part solution was either to go to the Internet, which I looked into very favourably. Both the companies had a good knowledge of the electricity supply companies when they started their search, however, recent changes in the market structure, particularly mergers made the second company feel uncomfortable, and they decided that rather than send out RFP’s they would use a broker to do this. We have a good idea of who are they. In the mean time some of them were bought out and there was consolidation and a lot of unruliness in the market. I would say that’s led me to the decision to say “Bugger this. Either we go out ourselves and tender or I find somebody who can do it for us”. The informant believed that this would save a lot of effort, time and money. You see? To go out myself and write letters would be an effort so I used a broker. In terms of resources and effort, just picking up the phone, giving the details and say go and do. The outcome was tremendous. We invited all the 5 or 6 major companies into the tender process and the outcome was just tremendous.

It was interesting that price dominated the decision making process [6] with both companies saying that price was rated nine out of 10 in terms of importance (with 10 being very important and one being not at all important). For the first company, when making the decision, price was easily the most important criteria, however, they recognised that other factors such as service and an energy management program may become more important decision-making criteria in the future than now. The second company was so price focussed that they gave no consideration to any factors other than the lowest price because they believed that electricity was a commodity. You know, I guess the fact our decision was made purely on price I can tell you that. Because it is a commodity. For me it is a money thing. Further, they did not even want to pay the broker a fee. I will not pay a cent so they can make money. It seems that intermediaries could be changing the structure of the industry, and to cover their costs the broker charged the potential supply companies a fee to be included in the tendering process, and not the customer. You see, the suppliers of electricity are paying. Therefore, the research suggests that customer-supplier relationships in commodity marketing could be changing for electricity purchasing. In both companies interviewed, the procurement function had been reorganised to a centralised strategic function. However, the second company had outsourced their support functions including electricity purchasing, allowing them to reduce the number of suppliers they used. This has largely occurred because they decided that using a broker would be a better way to spend their time and money. This reflects a significant change in the mindset of the decision makers between the two interviews, and suggests that more research could investigate the extent of this change and to explore the overall effects of this on the tendering process and the decision-making process.

REFERENCES
(More references are available on request)