Cooperative and competitive business relationships: A case study within the transportation industry

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Abstract

The importance of cooperative behaviour in long-term buyer-seller relationships has been emphasized in relational marketing research (e.g. IMP-studies) since the late 1980’s. In this research tradition, competition has even been seen as a negative factor in relationship development. In real business life, however, almost every relationship includes cooperative as well as competitive elements. Consequently, cooperation and competition can be viewed as interacting dimensions of a relationship continuum, where either cooperative or competitive strategies are dominating. But, despite the great number of relationship studies, there is still a lack of research on the synthesis of these two interacting elements.

The purpose of this study is to evaluate how cooperative and competitive elements live in parallel in a long-term buyer-seller relationship. To be more precise, the aim is to investigate how these two types of behaviour affect each other, and what are the specific characteristics of cooperative and competitive behaviours. The empirical context of this study is transportation industry, where we have chosen a revealing and representative case for the purpose of our study.

1: Introduction

The importance of cooperative behaviour in long-term buyer-seller relationships has been emphasized in marketing research since the late 1980s. Firms make interfirm agreements and form alliances with their customers or suppliers, and the growing trend is away from short-term, adversarial relationships. (e.g. Möller and Wilson 1995). In order to obtain competitive advantage buying and selling companies have to work together as well as have shared goals and interests. Many studies have proved that close buyer-seller partnerships have provided a strategic source of efficiency if they are managed well. It has been argued that cooperation and trust between a customer and a seller is a prerequisite for the successful business relationship. Competition has been seen as a negative factor for the relationship’s development. According to this view it is impossible to combine these two opposite types of behaviours in one relationship. Consequently, business relationships are either cooperative and trusting or competitive and opportunistic (Wilkinson and Young, 1998).

In reality, however, every relationship includes cooperative as well as transactional or competitive elements. In fact, it can be argued that without competition a relationship is ineffective. According to Wilkinson et al. (1998) cooperation and competition are not independent but interacting dimensions of a relationship. No matter how collaborative the relationship is, there are also competitive forces affecting the relationship.
The traditional purchasing culture requires buyers to seek multiple bids from different suppliers to ensure competitive prices. It seems like some kind of social pressure among buyers that demands adversarial behaviour toward suppliers in order to show the effectiveness in purchasing. In addition to the price, customers may be concerned about the partnering supplier becoming complacent and thus less creative and innovative (Nowak, Boughton and Pereira 1997). One concern that customers have is, of course, the fear of becoming too dependent on one supplier. This view of traditional purchasing culture is supported also by Sakki’s et al. (1996, 15) who find that traditionally a buyer’s task has been to carry on tight negotiations, the purpose of which has been to minimize the seller’s profit. The only criterion for decision making has been the contract price.

Thus it is quite justified to argue that every vertical long-term business relationship contains both cooperative and competitive elements, which also change over time. Consequently, the synthesis of these two elements deserve more research.

1.1: The purpose of the study

![Diagram of Buyer-seller relationship changes/development](image)

**Figure 1**

Definitions

Schneider, Schoenberger White and Paul (1997) use the term relationship-oriented marketing strategies, by which they refer to strategies that have been adopted from the relationship marketing. The purpose of these strategies is to make the customer feel important and unique. By using customized products, customized service and customized delivery the organizations are able to establish long-term customer relationships.
relationships. In this study the cooperative behaviour refers to the kind of marketing strategies in which psychological care, concern and empathy predominate. The competitive or adversarial behaviour, in turn, refers to more transactional or competitive strategies predominated by efficiency and price.

The purpose of this study is to describe and explain how cooperative and competitive modes of behaviour exist side by side in a long-term buyer-seller relationship. The emphasis will be on the individual level. The empirical context of the study will be a relationship of a buyer and a seller in the transportation industry. The buyer-seller relationship will be studied as a processual phenomenon.

The research questions are as follows:

1. What are the specific characteristics of cooperative and competitive behaviours in the chosen industrial setting?
2. How do these two types of behaviours affect each other?

In Figure 2, I have described more closely the possible outcomes of the relationship when the buyer and the seller use cooperative and competitive strategies.

![Figure 2: Cooperative and competitive behaviour at different levels](image)

1.2: Cooperative and competitive behaviour at different levels

Organizational levels

In this study the purpose is to investigate if there are any differences in cooperative and competitive behaviour at different organizational levels in the buyer and seller firms. It is quite possible that the management at the top level support cooperative strategies toward the counterpart whilst the middle management, which in practice makes the deals, wants to use more aggressive strategies e.g. in price negotiations. On the other hand, the pressure from the top management may force the middle management to ask competitive biddings from several suppliers in order to ensure the lowest prices. Sometimes there are also personal interests affecting the behaviour.

The lowest level, the stock personnel and drivers in this study, consists usually of those people who have the daily contacts with the counterpart. Because the interaction is
frequent, this also means that the possibility of conflicts increases. All the information concerning the satisfaction or dissatisfaction with the actions of the counterpart affect also the decision making at the higher management levels.

The level of talk and practice

In addition to different organizational levels, it is interesting to study also the differences in talk and practice concerning cooperative and competitive behaviour. The importance of cooperation in business relationships has been realized in companies, but sometimes there is a gap between talk and behaviour. In their talks parties may stress the cooperative behaviour, but in reality they do not behave according to their promises. On the other hand e.g. buyers may say that they have asked or they are going to ask competitive biddings from several suppliers, even if they have no intention to do that in practice. It is just the way of using power over the partner.

Interaction levels

The third way of observing relationships is to study the cooperative and competitive behaviour at different interaction levels. Holmlund (1997) uses the term interaction level to refer to a certain aggregation level and time frame for interactions between two parties. In her categorization she has divided interactions into five types of interactions: actions, episodes, sequences, relationships and partner base. The classification is based on the idea of interconnectedness of interactions.

Actions are at the lowest level in the categorization and refer to individual initiatives by the firms (e.g. a phone call or a visit). Episodes, in turn, are comprised of several interconnected actions, and e.g. a negotiation process can be considered as an episode in a relationship. The next aggregation level consists of interrelated episodes and is called a sequence. The sequence may be defined in terms of a time period, a product, a campaign, a project or a combination of these which determine the boundaries for analysis. The sequence means also the time when the partners make evaluations of their relationship. The relationship is at the next hierarchical level. It includes all the sequencies, all the episodes and all the actions within a particular relationship. The largest entity is a partner base or a customer portfolio, which consists of all the relationships of a particular firm. (Holmlund 1997, 94-97)

In the network literature there has been discussion about cycles which can be short- or long-acting. These cycles are intertwined, because every network actor has their own small activity cycles, which, in turn, relate to many different kinds of long, slow and far-reaching bigger cycles in the whole network. (Raatikainen 1994, 36). The cycles are within each other and thus form an exponential continuum, just like in Holmlund’s hierarchical categorization. This kind of a continuum depicts also interaction levels, where every relationship includes many sequencies, and every sequence includes many episodes. Episodes, in turn, consist of many actions.

1.3: Strategies in service businesses

Relationship-orientation is necessary for service firms, because the customer and the provider of the service create the service together. Especially in service businesses the relationship marketing strategy is applicable. (Grönroos 1995; Boström 1995). The level of cooperation depends naturally on the type of service - some services require more
cooperation - orientation of both parties than others. In transportation business, for example, cooperative behaviour is important, so that the products would leave the manufacturing firm on time and the recipient would know exactly when they will arrive. Even if transportation companies are not considered to belong to the traditional distribution channel, nowadays they are an integral part of the distribution system. Especially the notion of JIT-deliveries and the development of logistics have made their position increasingly important.

Because a relationship usually includes both relationship-oriented elements and competitive or transactional elements, the business relationship can be viewed as a continuum where either relationship-oriented elements or transaction-oriented elements dominate (Grönroos 1995, Webster 1992). Schneider et al. (1996) call the synthesis of these two forces a relationship marketing space. To me this continuum depicts the mixture of relationship-oriented elements and transaction-oriented elements of different degrees, which vary in intensity and in the course of the relationship life cycle. This gradual variation can be described, for example, in colours. Every time the partners are forced to talk about price the relationship turns red, whereas the collaborative period is blue.

Cooperative or collaborative strategies can also be defined as a means of achieving both parties’ goals at the same time. This win-win principle means that when one party succeeds in his/her business activities also the other party profits from it. Thus, there is a close interdependence between the parties and they increase value for each other.

On the other hand, competitive strategies mean that either the buyer or the seller views the other party as an adversary. There is always a tug-of-war between the parties about who will be a winner and who will lose the game. The object of such traditional way of managing business relationships is to minimize vulnerability to supplier opportunism (Spekman 1988). Competitive behaviour can also mean that the other party is reluctant to do anything for the good of the relationship, if they immediately do not see any benefits from their “sacrifices”.

The competitive or adversarial behaviour in purchasing products or services is typical for the transactional approach. Because the price is the decisive factor in decision making the main purpose of adversarial behaviour is to minimize the price. (Spekman 1988) There are three characteristics that best describe the adversarial model. First, the buyer has many potential suppliers on the marketplace that can be played against each other. Second, the buyer allocates specific amounts to suppliers to keep them in line. Third, the buyer maintains an arms-length relationship and uses only short-term contracts (Spekman 1988; Nowak et al. 1997). The underlying assumption in this model is that all the suppliers are able to provide equal service and product quality as well as customer satisfaction.

Transport

Transport play an essential part in business life, because it determines the place and time for the departures and arrivals of products (Pouri 1997, 137). Consequently, transportation companies are one loop in the distribution channel. Gadde and Håkansson (1992, 171) distinguish between four different actor types in a distribution channel, which have specific dependencies between each other. These distribution channel actors are the producers, the middlemen, the consumers and other actors.
Transportation companies belong to the last group, which includes all those companies and organizations which directly or indirectly influence the other channel members or are a part of the total division of work. Manufacturing companies usually buy outside transportation services, because transport does not belong to their own competence area. The transportation companies are responsible for the efficiency of transport which is controlled by competition prevailing in the field.

There are many different things which determine the choice of transport type. The usual criteria are the size, weight, volume, value, fragility and the liability to deterioration of the goods. Other important factors are distance, required supply speed and frequency, communications and costs. Because the needs are different, transportation companies also have to specialize in different transports. This, in turn, requires special hauling equipment. For example, chemical and oil industry require quite different type of hauling equipment than food industry, where hygiene and temperatures are essential indicators in measuring the quality of the transport. In this study we concentrate on studying road transport and a buyer-seller relationship in this context.

The efficiency of transport depends on the filling grade of loads. The ideal situation is to get full loads in two-way flow of goods. The trend is to form "transport pipes" which decrease the need for extra work in handling the goods. Nowadays, a company that needs transport services wants to buy the total service, not only transport from place A to place B. This means that the service provider must be able to control the whole channel system including IT-systems.

The success factors in transportation business are quality, innovations, internationalization and customer-orientation (Pour 1997). The concept of quality, in turn, comprises safety, promptness, credibility, flexibility, rapidity and creativeness.

1.4: Buyer-seller relationships within the transportation industry

Transportation business was selected as the research object because of its highly competitive nature. Recently, the entrepreneurs have even been worried about the unhealthy competition prevailing in the field. Another typical feature in the field is asymmetrical relationships between buyers and sellers. The customers are usually large, powerful organizations, whereas the service providers are small or medium sized enterprises. The unbalanced power setting can be seen especially in situations, where the customer requires special services but is reluctant to pay for them.

A typical feature of the transportation industry is that there are usually no long-term contractual commitments, but the contracts are made only for the time being. On the one hand this means that there is a long-term orientation between the participant firms, but on the other hand it creates uncertainty. However, investments on hauling equipment are remarkable, which puts pressure on the service provider to succeed in developing and maintaining the relationship in the long-term. Usually a buyer-seller relationship in the transportation business lasts at least two years.

The previous studies concerning the transportation business have been mainly related to technical, political and economic issues, and they have been conducted from a macro perspective (Hertz 1993, 6).

1.5: Previous research

During the past ten years many studies have been conducted about cooperation and competition in business relationships. The focus has been on long-term interaction, cooperation and coalitions between participant firms in both vertical and horizontal business relationships. Increased competition, as well as demands for efficiency and flexible manufacturing systems have been the driving forces for many firms to adapt more cooperative behaviour. (Möller et al. 1995; Gummesson 1997) According to previous studies firms are turning from discrete, adversarial exchanges toward long-term, collaborative exchanges with fewer suppliers than earlier (Spekman 1988, Nowak et al. 1997). The main reason for this is that the level of trust, commitment and information sharing that leads to mutual goals cannot be reached with each of large base of suppliers who compete mainly on price (Spekman 1988). Another reason is that customers have realized that suppliers create value (Sheth and Sharma 1997).

Alliances and partnerships are examples of organizations that have resulted from long-term interaction and cooperation. They are relatively new organization forms that can be characterized by flexibility, specialization and emphasis on relationship management instead of market transactions. (Webster 1992) This kind of collaboration means that partners engage in transactions within ongoing relationships and determine prices by negotiating rather than playing the market. However, network’s competitive forces are always affecting price negotiations in these collaborative relationships, too. Gummesson (1997), for example, stresses the importance of finding the right balance between cooperation, competition and institutional structures in managing relationships (see also Teece 1992). Although cooperation is important, competition is the force that keeps the network efficient. Despite the great number of relationship studies there is a lack of research on the parallel existence of cooperative and non-cooperative or adversarial behaviour in long-term buyer-seller relationships.

Most studies have focused on the explaining different types of relationships (e.g. Campbell 1985; Easton and Araujo 1992; Webster 1992; Alajoutsijärvi 1996; Wilkinson and Young 1997) or to segment customers in different groups in terms of behavioral modes (e.g. Anderson and Narus 1991). Also different kinds of relationships between competitors have been investigated. The recent work of Nalebuff and Brandenburger (1996) has introduced a new concept "co-opetition", which means a combination of cooperation and competition between competitors in the same relationship (see also Bengtsson and Kock 1997). They use the game theory as a theoretical framework to explain the success and failures in business life, and to show how important the interplay of these two behavioural modes is in a relationship.

Campbell (1985) has classified buyer-seller relationships in terms of power-dependence into three different types: independent, interdependent and dependent relationships. These types again result from marketing and purchasing strategies that companies use in their mutual interaction. They are called competitive, cooperative and command strategies. The strategy that the firm has adopted depends on many different factors related to the company characteristics, industry characteristics, product characteristics and types of individuals working for the company. Campbell’s model has been developed for the industrial markets, but because of its general nature it can be applied to many kinds of relationships. (see also Alajoutsijärvi 1996) This model, however, identifies merely different types of market situations but ignores the parallel existence of cooperative and adversarial behaviour in a dyadic vertical relationship.
The cooperative and competitive nature of business relationships has been described also by Wilkinson and Young (1997). They have found four types of interfirm relations, which can be divided into high and low cooperative and competitive groups. Relations with low levels of cooperation and competition indicate the partners’ independence and are more “transaction-based” type. A combination of low cooperation and high competition is a typical adversarial type of a relationship, in which price is the decisive factor and parties are very self-interested. The third group includes both high cooperation and high competition. These kinds of relationships are seen very effective, because cooperation and competition are in balance. The last group consists of relations with low competition and high cooperation, which indicates the ideal form of a relationship. The authors use “dance” metaphor to describe the interfirm relations, because it allows a large range of types of interaction to be easily envisaged.

1.6: Transactional vs. collaborative relationships

There are always some kind of working relationships between suppliers and customers. This can be best described with a continuum, where purely transactional relationships are at one end and purely collaborative relationships at the other (Spekman 1988; Anderson et al. 1991; Webster 1992; Nowak et al. 1997). In purely transactional relationships all the activity between a supplier and a customer is conducted as a set of discrete, market-based transactions at highly competitive prices (Anderson et al. 1991; Webster 1992). Purely collaborative relationships, in turn, refer to fully integrated organizations, which are bound together in long-term relationships based on reciprocity (Webster 1992). Collaborative relationships are also called partnerships, in which mutual commitment and trust replace adversarial assumptions.

This continuum can be considered as a starting point when viewing the synthesis of relationship-oriented and transaction-oriented elements. It can be argued that every long-term ongoing business relationship includes elements from all these relationship types presented in Webster’s continuum. Only the amount and the importance of the elements vary.

According to Webster (1992), in a pure transaction there is no brand name, no preference, no loyalty and no differentiation of one producer’s output from that of another. Each transaction is also independent of all other transactions in the marketplace. In reality, however, pure transactions are rare, because most transactions take place in the context of ongoing relationships.

According to Webster’s (1992) typology of relationships one step away from pure transactions is repeated transactions between buyer and seller. Although there is no meaningful, ongoing relationship between a selling company and a customer, trust and credibility are still present. This phase is actually a precursor of a relationship, because the foundation of loyalty has been developed.

When moving along the continuum the next step is long-term relationships, which are typical for industrial markets. Although relatively long-term contractual commitments tie both the parties together there is, however, the adversarial side that pits the customer against the seller in a battle focused on low price. (Webster 1992) One reason for customers engaging in opportunistic behaviour even though they are happy with existing suppliers is the fear of becoming dependent on smaller set of suppliers (Sheth et al. 1997). On the other hand, prices are negotiated, which manifests mutual
dependence between parties. This kind of balancing between adversarial and cooperative behaviour is very typical for buyer-seller relationships in transportation industry. Long-term relationships have also become important because of total quality management (TQM) philosophy, which stresses the importance of value creation to customers (Sheth et al. 1997).

The other end of the continuum consists of collaborative relationships. These relationships are based on relational rather than transactional exchange. Spekman (1988) has defined collaboration as follows: "Collaboration is a process by which partners adopt a high level of purposeful cooperation to maintain a trading relationship over time." The mutual dependence is strong, because the buyer and the seller create firm and extensive social, economic, service and technical ties over time (Webster 1992; Anderson et al. 1991). The most important reason to form a collaborative relationship is to guarantee competitiveness and control uncertainty and risk in the long-term. (Spekman and Celly 1995) The other benefits that can be gained through partnership are, for example, access to technology or complementary assets. Also mutual trust and commitment as well as a balanced power relationship are essential to maintaining a long-lasting business relationship (e.g. Moller et al. 1995).

2: The Research Design

The empirical part of the study will be a qualitative case study. The context of the study will be a relationship of a transportation company and its client company. In order to answer the research questions – How does the cooperative behaviour transform to competitive behaviour and vice versa, and what are the specific characteristics of cooperative and competitive behaviour in the chosen industrial setting? – it is necessary to take the processual approach to study the phenomena. According to Pettigrew (1988, 5) the study of strategic change in organizations involves consideration of three aspects: the content of the phenomenon, the process of change and the context in which it occurs. Referring to the research questions the ‘how’ of change can be understood from an analysis of process and the ‘what’ of change is encapsulated under the label content.

The study will be conducted as a longitudinal study, which is an appropriate method, when the purpose is to describe different kinds of development or change processes in a dyadic relationship. A case study is also a preferred strategy when there is a need to understand complex social phenomena over which the researcher has only little or no control (Yin 1989, 14) One important advantage of using longitudinal research is the possibility to establish causality. Furthermore, it facilitates the researcher to become familiar with the both parties of the relationship, which, in turn, makes it possible to understand the course of events more deeply. (Halinen and Törnroos 1993, 25).

The data will be collected from the transportation company and its industrial client which operates within the food industry. The relationship has lasted for six years now. The appropriate client for the study was selected together with the service provider. One principle in selecting the client company was that the relationship had continued for at least five years. Such a long period guarantees that different kinds of phases have already occurred in the relationship (Halinen 1994). Every relationship has its ups and downs and many critical points can either change the direction of the relationship development towards competition or strengthen the cooperative direction.
The reason for selecting the transportation business as the research object was my personal interest in this particular field. I have been working in a transportation company and I also have personal relations with some people working in the field. The good access was naturally an important criteria in choosing the case company, but there was also another very important fact affecting the choice: the transportation business is one of the most competitive businesses at the moment, and because of intense competition many transportation companies have gone into bankruptcies during the last few years.

In June and August 1998 I have made a pilot study, in which I have interviewed both parties. So far I have made only a general case description to get some kind of preliminary understanding of the relationship. The next step is to go through the relationship’s development in temporal order, so that I can divide the relationship in different phases.

Halinen and Törnroos (1993, 25) have distinguished three different types of methodological approaches that can be used in studying long-term buyer-seller relationships. These are historical studies, follow-up studies and future studies. In this research I aim to use both the historical and the follow-up approaches, because it is necessary to know what has happened in the past in order to be able to understand present events. Halinen and Törnroos (1993, 27) state that comparing and investigating several events even in a single case provides good preconditions for theory development.

In follow-up studies the researcher investigates current events and uses real-time data. This guarantees better access to the research object, because the researcher is able to make observations of several phenomena simultaneously. When the contextual factors can be taken into account it is easier to understand the behaviour of organizations and individuals. (Halinen and Törnroos 1993, 25-27).

My purpose is to use mainly interviews and discussions for data collection, but in addition, I also use written documents like contracts, minutes of meetings, reports and every kind of written material available. In the follow-up study the researcher gets familiar with real-time events, which means that she can as an observer participate in, for example, meetings and negotiations between the service provider and the client.

2.1: Preliminary case description

Because the analysis of the interviews of the case companies is still in progress I am able to present only some general features about the relationship in question. So far I have interviewed both parties once in order to get a general picture of the content of the relationship. Both interviews were recorded on tape. Two persons, the marketing manager and the administrative manager, were interviewed on the seller’s side and the export manager on the buyer’s side.

The transportation company has specialized in the temperature-controlled transports of foods which require special hauling equipment. All the customers operate in the food or dairy industry. The customer company which has been selected to this study manufactures meat products. The relationship between the transportation company and the manufacturing company has lasted for over six years now. The cooperation started in the spring 1992, when some food manufacturers were planning a new logistic system.
in order to make the distribution and the relating transports more effective. Before that parties had not any common business activities.

Both parties consider the relationship very important and also very cooperative. According to the buyer cooperation has become deeper and deeper during the years. However, the seller finds features which refer to the buyer’s adversarial behaviour. According to the seller company, the they find alarming the situations where the buyer mentions a competitor by name or asks for price negotiations. Also the customer’s minor allusions, for example, about the number of the office personnel in the transportation company have been interpreted as an indication of inefficiency, which is reflected in high prices.

Even if the buyer stresses the collaborative nature of the relationship, he asks for competitive biddings every now and then, in order to be aware of the prevailing market prices. He thinks that competition is necessary for cost control and efficiency. However, he has never wanted to end the relationship, because the parties have always been able to agree on prices. On the other hand the customer seems to be very dependent on the transportation company, because he uses only occasionally other transportation companies. In fact, the buyer says that they do not have any actual substituting system for this transport. In addition, he thinks that, for example, timetables and the quality of transports are more important than the price.

There have been some critical points in the relationship when the seller has had to raise the prices of all freights. In that situation the seller was forced to say that it would be impossible to continue the relationship if the prices were not raised. At the beginning there were also some difficulties to get the customer to finish the relationship with a competitive transportation company, which had handled the transport before.

The customer stresses the importance of trust and honesty in the relationship and even if he is very dependent on the seller he does not see any opportunistic behaviour from the seller’s side.

On the basis of the first interview it seems to me that cooperation is the prevailing feature in the relationship and competition is just a way of frightening. In this case the concept of competition is perhaps too a strong expression and instead, the concept of control is more appropriate to depict the behaviour in the relationship.

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