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A framework for supplier relationship management (SRM)

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ABSTRACT. We perceive growing expectations concerning the impact of the purchasing function and the suppliers on overall value creation of a firm. Purchasing is the gateway between the external suppliers and the internal functions creating and delivering value for customers. This shift has incredibly enhanced the importance of the supplier base. While the old arm length collaboration is perfectly suitable for some suppliers others should be treated as close partners. However, an overall framework of Supplier Relationship Management (SRM) integrating such different types of suppliers along the course of the relationship remains desirable. Our research aims to contribute by developing a framework for Supplier Relationship Management. For this purpose we are adapting and applying insights from Customer Relationship Management (CRM) as well as existing findings in supplier management literature. Finally, managerial implications and future research avenues are discussed.
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CHANGES IN PURCHASING AND SUPPLIER MANAGEMENT

Purchasing was treated as a more or less separate, strategically insignificant function within the firm (Reid and Plank 2000) for a long time and was, therefore, not recognized as a source of competitive advantage (Kaufmann 2002). Reactive fulfillment of requests of other functions like production, design, research and development was considered the main task of purchasing. Recently, this perception has shifted: The purchasing function has transformed itself from a tactical function without influence on the overall performance into a competitive function with a major impact (Carter and Narasimhan 1996). Purchasing is the gateway between external suppliers and the internal functions creating and delivering value for customers. Thus, the *strategic importance of purchasing* has fundamentally increased during the past decades (Reid and Plank 2000; Carter and Narasimhan 1996).

Therewith the relation between at least some suppliers and the purchasing firm has changed: *a shift from an antagonistic transaction-oriented to a relationship-oriented perspective of cooperation*. Hence, the attention of academic literature and business practice regarding the management of purchaser-supplier relationships has increased (Homburg and Kuester 2001). According to the antagonistic or arm length model, the goal is to extract the best out of relationships, sometimes by playing one supplier off against the other (Wilson 2000). Actors in this model consider each other as adversaries competing for a larger share of resources (Watts et al. 1992), whereas in most cases suppliers find themselves in the weaker bargaining position and are, therefore, the ones that have to carry most of the disadvantages of this antagonistic model. Nevertheless, this model equally has serious disadvantages for purchasing firms: if important suppliers are constricted too much, they will be unable to deliver quality and service in the long run (Cova and Salle 2000; Matthyssens and Van de Bulte 1994). This often leads to instability in supply and to stagnation in the development of the market offering. Furthermore, this form of cooperation comprises the risk of wasting resources by competing for short-term benefits rather than focusing on value creation. According to the antagonistic model purchasing has often been assessed by savings of purchasing and transaction costs (Chen et al. 2004). Nevertheless we agree to Gadde and Snehota (2000) pointing out: "Suppliers can do much more than delivering reasonable priced items on request."

As a result many firms have realized that treating all suppliers according to the antagonism model in purchasing predominantly leads to short-term savings (Matthyssens and Van de Bulte 1994). Existing research often emphasizes that both partners tend to have an increasing long-term perspective, that firms cooperate more intensively and that cooperation gets less antagonistic (Biemans and Brand 1995). Thus, in many cases, arm length relationships have lost their strength for the purchasing firm, because effective value creation in order to deliver superior value for one's own customers involves cooperation with at least some suppliers (Wilson 2000). Aiming to constantly improve products is most promising when supplier and purchasing firm cooperate (Loch et al. 2003). This is even more important as it is very difficult–if not impossible–for the purchaser to stay up-to-date with different technical areas, which enhances the probability of collaboration (Jap 1999). Additionally, Chen et al. (2004) prove in their study strategic purchasing increases the responsiveness of the supplier, which leads to enhanced financial performance of the purchasing firm. Pointing in the same direction Jap (1999) highlights that collaboration can lead to reduced unnecessary inventories, redundant purchasing agents, cost savings for the purchasing firm, increasing business and information about competitors for suppliers.

This aspect is supported by the fact that many purchasing firms have reduced their supplier base in order to cooperate closer with the remaining ones (Institute of Management and Administration 2002). Boeing has, e.g., cut its key supplier base from 3,800 to 1,200 firms in recent years (Avery 2006). Volkswagen (VW) has even established a Group award to recognize successful cooperations. Those cooperations between VW and their suppliers are assessed regarding five categories: excellence in development, product quality, logistics, entrepreneurial performance and environmental awareness (Sanz 2005).

However, Gadde and Snehota (2000) warn against treating each supplier as a close partner and indicate this view as oversimplifying and bad for purchasing. Equally Dyer et al. (1998) recommend to avoid a "one-size-fits-all-strategy" for purchasing. Additionally the current state of a supplier portfolio and relationship closeness should never be considered as a permanent solution, because the circumstances constantly change (Gadde and Snehota 2000).

Managing such different types of relationships in the course of time is a much more complex task than assuring supply or managing single purchasing transactions with different suppliers. Thus relationships with suppliers need to be managed actively within a Supplier Relationship Management by the purchasing firm in order to make the best out of every relationship.

So far management-oriented literature has been treating SRM solely with a focus on supply (Bragg and Kumar 2003; Choy et al. 2003; Cox et al. 2003; Jones 2002; Martin 2004). However, this research has focused on emphasizing the importance of SRM but does not propose a framework. Anyway, a lot of research is done in special areas of supplier-purchaser-relationship, like supplier selection, segmentation or governance. But to the best of our knowledge, a framework is missing which integrates those major insights from extant literature and illustrates how strategic purchasing can treat their different suppliers along the course of the relationship. Ultimately valuable insights regarding Customer Relationship Management (CRM) have not been applied to the supply side in order to set up a framework for Supplier Relationship Management (SRM).

Our research aims to develop such a framework for SRM. We aim to illustrate the premises, components and implications of SRM. We will build this framework by integrating existing findings in supplier management literature and by adapting and applying insights from the field of Customer Relationship Management (CRM).

SUPPLIERS AS SUBJECTS OF RELATIONSHIP MANAGEMENT ACTIVITIES: SUPPLIER RELATIONSHIP MANAGEMENT

An important assumption of Customer Relationship Management is that customers differ in their value contribution to the firm (Gupta et al. 2004; Venkatesan and Kumar 2004). This value contribution partially depends on their positions in a *customer relationship life cycle*, which means that customers have different requirements throughout their relationships regarding goods and services (Bruhn 2003). Applying this customer relationship life cycle and common definitions of CRM (e.g., Dwyer et al. 1987; Reinartz et al. 2004) to the supplier side, the following definition can be provided:

> *Supplier Relationship Management (SRM) is the process of engaging in activities of setting up, developing, stabilizing and dissolving relationships with in-suppliers as well as the observation of out-suppliers to create and enhance value within relationships.*

SRM can be subdivided into the following three main and sequential phases:

1. Out-Supplier Management,
2. In-Supplier Management and
3. In-Supplier Dissolution Management.

OUT-SUPPLIER MANAGEMENT

The main aspect of Out-Supplier Management is the *observation* of suppliers who do not yet have a relationship with the purchasing firm, so-called *out-suppliers*. The intention of such Out-Supplier Management is to keep relationships with the best suppliers available on the market, as the current state of a relationship should never be considered as a permanent solution (Gadde and Snehota 2000). This implies evaluating and acquiring out-suppliers.

In CRM the acquisition of new customers is often stressed too much. This comes along with the fact that acquisition is emphasized much more than bonding of existing customers (Buttle 1996; Vavra 1992). The contrary can be observed regarding supplier acquisition: If the in-supplier(s) satisfy the requests of the purchasing firm, we assume that Out-Supplier Management is being completely neglected by the purchasing firm. Especially in case of a single sourcing strategy this can lead to serious supply problems, e.g., in case of a sudden loss of suppliers or complications in the relationship or in case of sudden demand surges or changes in legislation.

In contrast to CRM, which aims to *maximize* the amount of profitable customers or the "share of wallet" (Choy et al. 2003) of individual customers, a main task of Supplier Relationship Management (SRM) is to *optimize* the existing portfolio of suppliers. This means weeding out-suppliers that do not meet companies needs (Bragg and Kumar 2003). An example of a supplier portfolio and related managerial implications is given later on (see Figure 2). As the customers' demand determines the purchasing firms' demand of input from suppliers, a maximization aim would not apply. Regarding new and current orders, optimization implies that out-suppliers are systematically integrated into the search (Bragg and Kumar 2003). Following the insights of exchange theory (Thibaut and Kelley 1959), purchasing firms should always try to achieve the first best solution in which the supplier reaches the satisfaction level and is the best possible alternative on the market. "Buyers may also reopen the business to all bidders at longer time intervals to ensure that their long-term suppliers still have the lowest costs and best capabilities" (Dyer et al. 1998, p. 70). In line with exchange theory and supplier management literature there is a danger of neglecting the alternatives and resulting in a suboptimal supplier portfolio.

However, two aspects have to be pointed out: (1) Out-Supplier Management in general and especially the acquisition of an out-supplier are costly, thus the advantages should prevail the financial disadvantages, (2) a comparison of an in-supplier and an out-supplier is a difficult task.

Firstly, Homburg and Kuester (2001) demonstrate in their study that an increasing complexity and financial importance of the purchase situation as well as an increasing number of available suppliers increase the number of suppliers. Still, the number of suppliers is associated with different costs. Three cost types are associated with a supply: purchasing price, acquisition costs and operations costs (Homburg and Kuester 2001). According to Homburg and Kuester (2001) the purchasing price will correlate negatively to the number of in-suppliers. Furthermore we assume that the price will even be negatively correlated to the perceived number of in- and out-suppliers in the relevance set of the purchaser. In contrast to the purchasing price the acquisition and operating costs rise with increasing number of suppliers. Following, optimizing the number of suppliers in the portfolio represents a trade-off between purchasing price and acquisition and operating costs (Homburg and Kuester 2001). Replacing a supplier due to Out-Supplier Management is reasonable if the expected benefits from the new cooperation are greater than the acquisition and initially higher operating costs (Cox et al. 2003).

Secondly, estimating the expected benefits with an out-supplier respectively comparing in- and out-supplier is yet a difficult task. This can be attributed to the information asymmetry between the supplier and the purchasing firm in general. This general information asymmetry is even higher regarding the out-supplier in comparison to the in-supplier. Replacing a supplier is a decision involving a comparison of the old in- and the potential new out-supplier. Due to experience, information about capabilities and conducts of in-suppliers is more intense and more reliable than information about out-suppliers. This is in line with Wathne et al. (2001) as it supports their assumption that a close interpersonal relationship is negatively related to the likelihood of switching, whereas we assume that an interpersonal relationship is associated with more reliable information. However, the personal relationship is not that important that it affects the likelihood of switching influenced by a lower price and a better product range of the out-supplier (Wathne et al. 2001).

To overcome these information asymmetries between supplier and purchaser various supplier selection approaches identify different selection criteria. Many firms still decide about the strategic importance of a supplier along the lines of the old transaction-oriented model and prefer "hard" selection criteria, such as capability of in-time delivery, fulfillment of quality requirements or prices. For those firms "soft" selection criteria like cultural similarity or organizational flexibility of potential partners are of minor importance (Kannan and Tan 2002; Min 1993). However, they should not be neglected within an SRM, since gaps between expectations and fulfillment of the purchasing firm regarding hard and soft criteria, soft criteria can give an impression of the supplier's potential to adapt to these expectations. Cannon and Homburg (2001) show that, e.g., flexibility of a supplier as a soft factor can also reduce the costs of the purchasing firm. This holds true because soft criteria like shared values and communication do have a positive impact on the development of trust, and therefore build commitment (Morgan and Hunt 1994) which helps firms to cooperate at lower cost.

Concluding a systematic Out-Supplier Management is a necessary element of SRM. Literature assumes that it has a positive effect on the competition among in-suppliers as well as between out- and in-suppliers and thus increases their performance (see Gadde and Snehota 2000). We still need to consider that evaluating out-suppliers is difficult and costly.

IN-SUPPLIER MANAGEMENT

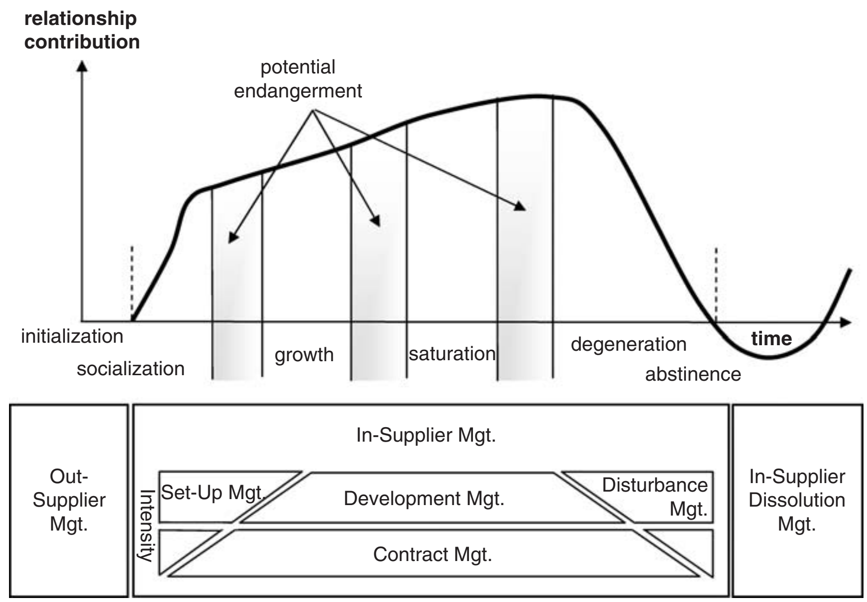
With the beginning of the first transaction, a former out-supplier changes status to an in-supplier. The objective of In-Supplier Management is building up and maintaining relationships with the in-suppliers to enhance value creation. However, suppliers have different potential to enhance value and thus have to be treated unequally. This is consistent with Gadde and Snehota (2000), who emphasize that a close relationship is by far not the only means to make the good use of a supplier and that literature oversimplifies this task in unilaterally recommending close relationships. Hence, we will consider these differences within SRM. As shown in Figure 1 it can be subdivided into the following sub-elements: (1) *Set-Up Management,* (2) *Development Management,* (3) *Contract Management* as well as (4) *Disturbance Management.* The first element of Set-Up Management serves to establish a relationship in the very beginning, whereas the latter three elements serve to develop and stabilize a relationship.

Set-Up Management takes into consideration that partners usually need to invest in setting up a relationship. CRM literature as well as transaction cost theory indicate that it can be valuable and necessary to invest in the setting up of a relationship to a new supplier (Dyer et al. 1998; Hogan and Armstrong 2001; Sheth 1996). As such, Set-Up Management involves specific investments from supplier and purchasing firm alike, whereas the mutuality safeguards them (Jap and Ganesan 2000). Investments are regarded as specific or idiosyncratic, when they are only valuable in a specific relationship (Williamson 1985). Specific investments are, e.g., associated with setting up and developing special competencies, organizational conditions and trust and commitment. They aim to enhance joint value creation, economic performance (Corsten and Kumar 2005) and competitive advantage (Jap 1999).

Which new suppliers are chosen for a close cooperation involving specific investments at the beginning of the life cycle depends on the evaluation within Out-Supplier Management and the potential future value of the relationship. According to Heide (1994) this goes ahead with different areas of Set-Up Management: Whereas strategic suppliers would receive a value training, less important suppliers would predominantly receive a more skill-oriented training. As indicated in Figure 1, Set-Up Management can be variously intense. As such, the amount of specific investments equally depends on the evaluation of the suppliers. Specific investments will be more likely when the relationship is aimed to be close and cooperative, because otherwise they would be lost. Such a close cooperation is characterized by the exchange of sensitive information about operations (Anderson and Narus 1991; Dyer et al. 1998), an increasing flexible adjustment of activities from the partners (Wilson and Nielson 2000), and at best a melting of value activities, implying the blurring of partners' organizational boundaries.

Jap (1999) exposes that arm length relationships which are typically characterized by nonspecific investments, minimal information exchange and low interdependence are incapable of realizing competitive advantages because of their lack of inimitability. As such specific investments are even considered as a core necessity for a strategic value enhancing partnership (Dyer et al. 1998). Jap and Ganesan (2000) find

FIGURE 1. The Supplier Relationship Life Cycle and Corresponding Management Tasks



out in their study that specific investments especially in the set up phase are a powerful signal for relationship commitment. The signal provides confidence for the partners, because each will sustain economic consequences in case of relationship termination and thus reciprocal actions tend to be reinforcing (Jap and Ganesan 2000).

The costs of acquiring new customers in CRM exceed the costs of maintaining them, making customer retention more efficient than customer acquisition (Blattberg and Deighton 1996; Rust and Zahorik 1993). Besides external instances the investments at the beginning of a supplier relationship are expected to exceed the expenses later on. This is due to the fact that (1) specific infrastructure may be needed to be set up and (2) the amount of mutual trust to the relationship is lower. After a socialization phase, the level of mutual trust with suppliers can rise. This reduces control and safeguarding costs, because the partners can act as if the future would be more certain (Zajac and Olsen 1993). Additionally trust can be seen as prerequisite to sharing relevant ideas, information and clarifying goals and problems (Jap 1999 and cited literature). Furthermore trust can decrease the perception of inequity in case of specific investments by the partners (Corsten and Kumar 2005).

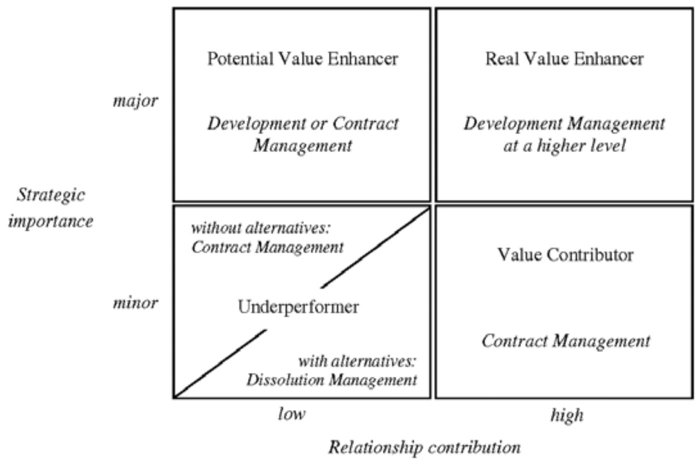
In the above illustrated situation the qualification or potential satisfaction of a purchasing firm is the reason for Set-Up Management and specific investments. The necessity to invest in a new supplier can also be caused by the absence of alternatives. To maintain a certain quality level throughout the purchasing firm, this absence can be the cause for investments into so far unsatisfactory supplier relationships. This can be labeled an endangered situation because the current relationship to the supplier is below the satisfaction level of the purchaser, but better alternatives among the out-suppliers are lacking.

Changing market conditions result in changing demands on the purchasers' side which can be an additional reason for the necessity of specific investments during the course of a relationship. To ensure an enduring valuable relationship a permanent Development Management is the second stage of the In-Supplier Management.

In the course of *Development Management* potential areas of improvement are identified, evaluated and enhancing activities can be undertaken. In a similar matter as in the set-up stage specific investments can occur within the Development Management. In contrast to the set-up phase within the course of the relationship they are usually more and more safeguarded by relational norms, like solidarity, information exchange and participation (Jap and Ganesan 2000). Specific investments per se and their amount must be justified and depend on the strategic importance of suppliers (see Figure 2).

Similar to CRM the different actual and potential future contributions to the relationship of suppliers need to be recognized within Development Management. According to Ulaga and Eggert (2005), relationship value in business-to-business markets is a multidimensional construct containing five benefit dimensions (product benefits, service benefits, Know-how benefits, time-to-market benefits, social benefits) and two sacrifice dimensions (price and process costs). We consider relationship contribution as a construct of how much relationship value the partner adds to the collaboration. For the assessment of the strategic importance of in-suppliers the criteria from Out-Supplier Management can be applied. In contrast to an evaluation within Out-Supplier Management an evaluation within In-Supplier Management can be based on more information, because of various

FIGURE 2. Managing the Supplier Portfolio within SRM



experiences with this supplier. Based on those experiences it is possible to classify suppliers into a supplier portfolio (Figure 2).

Strategically important suppliers need to fulfill "hard" as well as "soft" criteria, such as punctuality, price and quality of the delivered goods on the one hand and innovativeness and responsiveness on the other hand. Non-strategic suppliers predominantly have to fulfill "hard" criteria (Dyer et al. 1998). Besides those different static criteria, the assessment can also cover the advancement of the supplier and thus the future tendency of development. Empirical research demonstrates that the contribution to value creation from key suppliers increases moving through the life cycle (Bowman and Narayandas 2004; Eggert et al. 2006). If deficits regarding the supplier value contribution are identified, purchasing firms can act differently, depending on the strategic importance of the supplier and potential future value which could be generated for the purchasing firm.

In case of *major strategic importance* of the supplier, a professional *Development Management* has to be applied in most cases.

- Suppliers that have a *high relationship contribution*, the "*Real Value Enhancers*," are usually subject of development management activities at a high level. This is due to the fact that the purchasing firm needs to keep these suppliers and has to make sure they neither shift their activities to competitors nor terminate the relationship.

- Those strategically important suppliers currently *contributing a low level* are still "*Potential Value Enhancers*." They can nevertheless be subjects of development management activities because they might contribute on a higher level during the course of a long and prospering relationship.

Development Management requires corresponding activities from both partners, whereas the perception of trust and commitment of the partners can be assumed to be a precondition for a fruitful cooperation and the willingness to invest in the relationship (Morgan and Hunt 1994). In this regard the reciprocal action theory (Goulder 1960) which has been empirically tested and proved in the Business-to-Business Context has to be mentioned. It emphasizes that there is a tendency of firms to reciprocate behaviors (Frazier and Rody 1991). Thus the perception of trust and commitment is assumed to be returned by the partner. Findings of Heide (1994) support this by recommending internal self-control governance modes for bilateral relationships.

Against this background a willingness to invest on the side of the purchaser cannot be assumed for every supplier relationship (Dyer et al. 1998) although it might be a strategic important supplier. In this case relationships are dealt with by *"Contract Management,"* which implies a relatively high level of contractual agreements and a low level of specific investments. This is consistent with the findings of Heide (1994) who recommends external monitoring procedures of predominantly output-oriented tasks for such relationships. According to Wuyts and Geyskens (2005), contractual agreements can be seen as a substitute for a close partnership in avoiding opportunism in relationships. The purchasing firm is best when selecting only one governance mode otherwise opportunism will be triggered rather than prevented. These findings are consistent with our recommendations in Figure 2. The contributions to value creation from those suppliers which are regarded within Contract Management are usually secured through contractual agreements. In contrast suppliers which are examined within Development Management contributions are usually secured by mutual specific investments.

Suppliers of *minor strategic importance* can be described either as Value Contributors or as Underperformers:

- If value is generated with this kind of suppliers, they are still operatively important because they are *"Value Contributors*." These relationships can be subject of Contract Management, where spe-

cific investments are reduced to a minimum because of small potential benefits and the danger of their potential loss. As Dyer et al. (1998) state, some suppliers are just not worth specific investments. As indicated in Figure 1 this can already come along with absence of willingness to invest in Set-Up Management.
- If strategically less important suppliers do not contribute to joint value generation, they can be described as "*Underperformers*." Depending on the existence of alternatives, the purchasing firm can act in four different ways. In case of an underperformer without any alternatives the purchasing firm has four possibilities: (1) the underperformance can be regarded within Contract Management, (2) the purchaser can try to remediate underperformance with major relationship investments as described within the Development Management, (3) the purchaser can either develop an alternative supplier, or (4) work on an insourcing alternative. In the last two cases he is probably not willing to invest in the unsatisfactory relationship with the current supplier. However, when the purchaser has no alternatives, the relationship cannot be dissolved immediately.

Within the scope of *Disturbance Management* the purchaser tries to avoid breakdown of continuous relationships. Nevertheless this attempt of avoidance is not always feasible, because relationships can also end without any purposeful decision taken by one of the partners (Halinen and Tähtinen 2002). Diverse reasons like, e.g., bankruptcy or the natural ending of a product type can bring a continuous relationship to an end, without the possibility of the partners' taking activities against the potential ending. Thus three types of endings can be distinguished regarding continuous relationships: (1) a chosen ending, which means that one partner takes the purposeful decision to end the relationship, (2) a forced ending, which is caused by external circumstances and (3) a natural ending, which entails that the need for business exchange has gradually become obsolete (Halinen and Tähtinen 2002).

As such Disturbance Management addresses the first case and the problems and conflicts that can occur in such relationships with suppliers. Disturbance Management precedes the potential dissolution of the relationship in an idealized supplier relationship life cycle. Nevertheless, as indicated in Figure 1, relationship endangerment because of disturbances can occur throughout the whole life cycle.

However, depending on the type of conflict they do not necessarily have to be harmful. As Amason et al. (1995) emphasize for Management Teams conflicts regarding issue related different opinions can be very fruitful for the relationship. Still most conflicts between supplier and purchaser are assumed to lead to an endangerment of the relationship up to the intention of supplier replacement. Whereas switching in consumer markets is often impulse and easily reversed, switching the supplier or decreasing the share of one supplier often harms the relationship and is neither easily reversed nor quickly recovered (Bowman and Narayandas 2004). Even more than for customer relationships it proves true that many stages in between an existing and a nonexistent relationship with a supplier do exist and those stages need to be recognized. For example the purchaser can reduce the share of a certain supplier, which can be carried out by moving from a single sourcing to a multiple sourcing strategy. This can be a valuable strategy to react on perceived disturbances with the supplier. This is in line with Jap and Ganesan (2000) who recommend besides relational norms the additional use of explicit contracts in the decline phase. Such suppliers can be labeled underperformers regarding the supplier portfolio (Figure 2).

The identification of potentially problematic aspects within the relationship allows the proactive and careful management of these disturbance aspects and an early employment of de-escalation instruments like cooperative meetings or renegotiation of contract conditions. As such different potential problems with suppliers are mentioned. A close cooperation is aimed to realize synergies by partner disposing over complementary capabilities and thus create value that could otherwise not be created by either firm independently (Zajac and Olsen 1993). However, allocating such jointly created value (Zajac and Olsen 1993) or the amount of specific investments within collaboration (Corsten and Kumar 2005) can be a source of conflict, as is can lead to perception of inequity. The study of Morgan and Hunt (1994) identifies commitment and trust as most important factors for a fruitful cooperation, leading to the assumption that their absence will lead to major disturbances. Additionally in business-to-business contexts a control level above average can be a sign for a general distrust and unwillingness regarding specific investments can be a sign for a low level of commitment. In contrast to these findings, which mainly cover soft factors of the relationship, Johnston (1995) indicates that demand, price, availability and product are the main fields where disturbances occur in relationships to suppliers. Eighty percent of the disturbances can be attributed to demand, for example a sudden change in the quantity of order and the price of the product. All these aspects should be regarded within the Disturbance Management of SRM.

IN-SUPPLIER DISSOLUTION MANAGEMENT

In case of the chosen ending the purchasing firm can begin to look for potential new suppliers (Out-Supplier Management). In-Supplier Dissolution Management covers the evidence that an unwanted relationship–for whatever reason–has to be brought to an end. In this context a relationship end is defined as a state in which no resources are transferred between the partners (Giller and Matear 2001). Some purchasers even establish cross functional teams that streamline the supplier base. Many purchasers tend to reduce supplier base for several reasons: improving quality and service, entering long-term agreements, devoting efforts towards top suppliers, establishing a partnership or becoming more customer centric (Institute of Management and Administration 2002).

Although dissolution is a common task the importance of dissolution management is often underestimated in research as well as in management practice. Because of the specific investments and melted value creating activities of the partners, dissolution can be a complex task (Giller and Matear 2001), which may require a lot of resources and time on both sides (Halinen and Tähtinen 2002). Morgan and Hunt (1994) point out that in marketing literature often only the switching costs to a new supplier are focused upon, and the costs of termination of the relationship with the old supplier are not being considered.

Depending on the strength of relational bonds, the type of relational infrastructure and the network in which the relationship is embedded (Halinen and Tähtinen 2002), different strategies for ending a business relationship are proposed by Alajoutsijärvi et al. (2000). They differentiate between direct and indirect exit strategies. The two *indirect exit strategies* of business relationships are disguised exit and silent exit. Within a *disguised exit* the purchaser hides his real intentions and changes the relationship conditions in a way that will most likely induce the supplier to end the relationship himself. When the purchaser does not explicitly voice the ending it is named a *silent exit*. A silent exit can be associated with a major disagreement, problems in supply or quality or any other kind of negative incident, so that the partners may share an implicit anticipation of the ending.

In contrast to the indirect exit strategy the purchaser will communicate the intended ending directly to the supplier within the *direct exit strategy*. Such a direct exit of a business relationship follows different stages of communication (Halinen and Tähtinen 2002): First of all the exit is communicated within the management circle (*dyadic communication stage*). This usually initiates the *disengagement stage* on the side of the supplier, in which the management distributes the disengagement information within the firm. Additionally, this stage implies that the business exchange between purchaser and supplier declines and thus resource ties begin to weaken. It can be associated with a larger amount of necessary communication between supplier and purchaser, because the partners have to adjust the decline and negotiate about contract disengagement, property rights and copyrights as well as final invoices. To avoid harmful and costly legal disputes this stage is of major importance within Dissolution Management. On the side of the disengager, in our perspective the purchaser, the disengagement information has usually been discussed before the dissolution decision is made. Regardless of the stage, the purchaser can analyze the breakdown of the relationship to avoid future breakdowns. Following or parallel to this disengagement stage the *network communication stage* commences, because the ending may change the network structure and thus the disengagement can be communicated within the network. To stabilize the network Halinen and Tähtinen (2002) lay emphasis on reinforcing the other network relationships after a break-up.

In conclusion, we put strong emphasis on the importance of Dissolution Management within a professional Supplier Relationship Management (SRM). This is consistent with Halinen and Tähtinen (2002, p. 163): "For the effective management of business relationships, managers should not only know how to establish a relationship but also how to end one."

CONCLUSION

Since market conditions have fundamentally changed during the past decades, adjustments of the relationship and cooperation between supplier and purchasing firm have become necessary. An increasing strategic importance of the purchasing function has occurred within most organizations and has led to a closer cooperation between the purchasing function and selected suppliers. As the dependence on those suppliers and therefore their importance has increased enormously, a need for professional Supplier Relationship Management (SRM) has been identified.

The term "SRM" is once in a while used in literature, mainly within management oriented literature from a supply and purchasing perspective (Bragg and Kumar 2003; Choy et al. 2003; Cox et al. 2003; Jones 2002; Martin 2004). However, an overall framework covering the different tasks of a relationship, treating different suppliers, along the course of their relationship remains desirable. As such, we aimed to contribute by proposing a Supplier Relationship Management framework (see Figure 1) regarding those challenging aspects. To consider the course of time of a relationship we have integrated the supplier life cycle into our framework. In order to consider differences of suppliers a supplier portfolio is proposed which allows purchasing firms to identify the status of their suppliers to allocate resources adequately (see Figure 2). We have drawn our primary inspiration from common concepts and theories of CRM, which are transferred to the supplier side and findings from the purchasing and business-to-business marketing literature.

Managerial implications that can be drawn out of our research are various. First of all our research takes into account and emphasizes the *importance of the purchasing function and of the supplier base* for the overall success and value creating potential of purchasing firms. In doing this we take a distinct view on the supplier base: we are not recommending arm lengths relationship with all suppliers, nor a close cooperation with each supplier. This has long time been neglected in literature, first arm length relationships have been overemphasized whereas nowadays literature already warns that close cooperations are seen as universal remedy.

Managerial recommendations regarding specific SRM elements are given. Within the *Out-Supplier Management* we emphasize that out-suppliers have to be systematically integrated into supplier selection in order to optimize the supplier portfolio. However, it has to be regarded that Out-Supplier Management is costly, especially because the assessment of out-suppliers is not as easy as the assessment of the in-suppliers, as information is not as available. Purchasers need to be careful that the benefits of Out-Supplier Management prevail in the long run.

Within the *In-Supplier Management* we consider how to stabilize different types of relationships. In this regard we generally consider that resources of the purchaser are scarce and as investments are necessary to set up and hold on to close cooperation, we point out which suppliers are worth such a close cooperation and how they are usually treated. Still, we do equally illustrate what to do in case of a missing alternative supplier. Additionally, we highlight the selection criteria to apply for different types of suppliers, the effects of trust and commitment for the relationship and the possibilities of safeguarding these investments under the different circumstances. As endangerment is the precursor for dissolution, but can equally occur within the course of the relationship, we further highlight the most important issues, i.e., endangerment can occur and lead to major disturbances. Disturbance of a relationship can lead to the intention of supplier replacement. However, we equally place emphasis on the fact that many stages between existing and non-existing supplier relationships exist.

The main management implications which arise from *Dissolution Management* are that it is frequently underestimated in terms of effort and costs. As such we shed light on the different possibilities to exit a relationship.

Within the elements of SRM different activities are directed towards the suppliers, whereas usually different functions and persons are associated with those activities. As such it is of utmost importance to adjust activities directed towards suppliers. Improvements of the collaboration can be realized if the accountancy knows, if a certain supplier is regarded as Value Enhancer or Underperformer and if there is actually a perception of disturbance. Within the SRM Framework former separate activities can be integrated to detect potential to enhance efficiency and effectiveness In-Supplier Management.

We assume that purchasing firms that act according to the SRM Framework have a *better supplier base*, because they systematically integrate out-supplier into their search. SRM assures that the actual supplier portfolio is not seen as permanent solution. The SRM Framework sets an incentive for purchasing agents not to maintain relationships because of convenience reasons. Equally Out-Supplier Management enhances competition within the supplier base and enhances their responsiveness.

Further we assume that purchasing firms that act according to the SRM Framework are able to *cope with major supplier problems more easily*. In case of a breakdown of a supplier, Out-Supplier Management displays possible alternative suppliers. The Disturbance Management makes purchasing firms prepared which tasks are likely to cause conflicts.

Additionally purchasing firms which dispose over a SRM Framework will *act better coordinated and more consistent* towards the suppliers. The different persons and functions have more transparency according to the status of the suppliers. This enables to make the best out of every relationship including generosity towards important suppliers and rigidness towards the less important ones.

As shown treating suppliers according to the SRM framework can be advantageous in many aspects. Thus we assume that applying the SRM Framework will overall *enhance value creation for customers* of the purchasing firms and thus increase customer satisfaction.

This paper has *limitations* that must be considered. We had to leave out some aspects. Cooperative relationships identified within Supplier Relationship Management (SRM) imply a loss of power in combination with increasing dependencies, which uncover the negative aspects of cooperation. The danger of being taken advantage of by opportunistically acting parties always lingers. Another risk of close and long-term cooperation is that involved parties sometimes develop in different directions, which can result in the need for more and more specific investments up to the point where the relationship is no longer profitable.

A further limitation of the paper is that our perspective is purchaser oriented, assuming all suppliers being willing to fulfill the orders given by purchasing firms, and that these also choose the intensity of cooperation. Although the fulfillment of purchasers' expectations is a primary task for suppliers, long-term and key purchasers are often those which are most difficult to serve satisfactorily and hence the level of investment might exceed the expected pay off (Kalwani and Narayandas 1995). Therefore, it has to be taken into account that the possibility of choosing a cooperation partner is not limited to the purchaser.

For *future research* the framework can be extended in several directions. First of all research could examine whether the Supplier Relationship Management (SRM) framework holds an empirical examination. As mentioned we assume that applying SRM will have various advantages. In this context it would be interesting to investigate whether the performance could be enhanced through Supplier Relationship Management (SRM). Further we assume that excellent companies already act in purchasing and supplier management like it is pointed out in the framework.

As mentioned before, the paper has taken a purchaser perspective. As many purchasers are suppliers themselves, this would make an examination of both perspectives in interaction an interesting task. Moreover, different sub-elements of the framework can be further investigated, e.g., whether the amount of Set-Up Management influences the performance and satisfaction throughout the relationship, or the level of cooperation in different states of the relationship like the internal versus external endangered relationship.

Additionally the intensity of Supplier Relationship Management (SRM) could be seen against the background of multiple antecedents outside the firm, e.g., amount of suppliers or the dynamics of competition or inside the firm like size, general management priorities, firm's strategy or corporate culture.

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IMPLICATIONS FOR BUSINESS MARKETING PRACTICE

Since market conditions have fundamentally changed during the past decades, adjustments of the relationship and cooperation between supplier and purchasing firm have become necessary. An increasing strategic importance of the purchasing function has occurred within most organizations and has led to a closer cooperation between the purchasing function and selected suppliers. As the dependence on those suppliers and therefore their importance has increased enormously, a need for professional Supplier Relationship Management (SRM) has been identified.

However, an overall framework covering the different tasks of a relationship, treating different suppliers, along the course of their relationship remains desirable. As such, we built a Supplier Relationship Management framework regarding those challenging aspects. Since suppliers have different requirements throughout their lives, we have integrated the supplier life cycle into our framework. In order to consider such differences, a supplier portfolio is proposed which allows purchasing firms to identify the status of their suppliers to allocate resources adequately. Analogous to CRM Supplier Relationship Management (SRM) is defined as the process of engaging in activities of setting up, developing, stabilizing and dissolving relationships with in-suppliers as well as the observation of out-suppliers to create and enhance value within relationships.

Managerial implications that can be drawn out of our research are various. Overall our research emphasizes the importance of the purchasing function and the supplier base for the overall success and value creating potential of purchasing firms. In doing this we take a distinct view on the supplier base: we are not recommending arm lengths relationship with all suppliers, nor a close cooperation with each supplier. This has been neglected since arm length relationships were a common practice in many industries for a long time.

More specifically managerial recommendations can be given regarding the specific SRM elements: (1) Out-Supplier Management, (2) In-Supplier Management and (3) In-Supplier Dissolution Management.

Within *Out-Supplier Management* we emphasize that out-suppliers have to be systematically integrated into supplier selection in order to optimize the supplier portfolio. However, it has to be regarded that Out-Supplier Management is costly, especially because the assessment of out-suppliers is not as easy as the assessment of the in-suppliers, as information is not as available. As such purchasers need to be careful that benefits of Out-Supplier Management overweight costs in the long run.

In-Supplier Management contains (1) Set-Up Management, (2) Development Management, (3) Contract Management and (4) Disturbance Management. Major task is to stabilize different types of relationships by considering that resources of the purchaser are scarce.

Since investments are necessary to *set up* and to hold on to close cooperation, we point out which suppliers are strategic and thus worth a close cooperation. Supplier specific investments will be more likely when the relationship is aimed to be close and cooperative. Thus the quantity and the quality of such investments are supplier specific: Investments for training activities will usually be higher for strategic suppliers. Furthermore whereas strategic suppliers would usually receive a more value-oriented training, less important suppliers would predominantly receive a more skill-oriented training. Besides the above stated decision to invest in a supplier, the investment in a new supplier can also be caused by the absence of alternatives and thus be more or less forced to maintain a certain quality level throughout the purchasing firm.

To ensure an enduring valuable relationship a permanent Development Management is the second stage of the In-Supplier Management. Equally at this stage the quantity and the quality of investments are supplier specific. Overall, strategically important suppliers need to fulfil "hard" as well as "soft" criteria, whereas the focus for non-strategic suppliers is the fulfilment of "hard" criteria. In case of perceived deficits the purchasing firm can act differently depending on the strategic importance: either the deficits are aimed to overcome by development management or the purchasing firm accepts the deficits, but reacts upon them within contract management.

Besides the cases of natural and forced ending the purchaser usually tries to avoid breakdown of continuous relationships. As endangerment is the precursor for dissolution, but can equally occur within the course of the relationship, we further highlight the most important issues endangerment can occur and lead to major disturbances. We place emphasis on the fact that many stages between an existing and non-existing supplier relationship exist. For example the strategy to react upon disturbances is, e.g., to switch from a single to a multiple sourcing strategy.

The main management implications which arise from *Dissolution Management* are that it is frequently underestimated in terms of effort and costs. As such we shed light on the different possibilities to exit a relationship: silent and disguised exit (*indirect exit strategies)* and the direct exit strategy.

Within the elements of SRM different activities are directed towards the suppliers, whereas usually different functions and persons are associated with those activities. As such it is of utmost importance to adjust activities directed towards suppliers within a company. Improvements of the collaboration can be realized if the accountancy department knows that a certain supplier is regarded as Value Enhancer or Underperformer and if there is actually a perception of disturbance. Within the SRM-framework former separate activities can be integrated to detect potential to enhance efficiency and effectiveness In-Supplier Management.

We assume that purchasing firms that act according to the SRM Framework have a better supplier base because they systematically integrate out-supplier into their search. SRM assures that the actual supplier portfolio is not seen as permanent solution. The SRM Framework sets an incentive for purchasing agents not to maintain relationships because of convenience reasons. Equally Out-Supplier Management enhances competition within the supplier base and enhances their responsiveness.

Further we assume that purchasing firms that act according to the SRM Framework are able to cope with major supplier problems more easily. In case of a breakdown of an In-Supplier Out-Supplier Management displays possible alternative suppliers. The Disturbance Management makes purchasing firms prepared which tasks are likely to cause conflicts.

Additionally purchasing firms which dispose over a SRM Framework will be better coordinated and more consistent towards the suppliers. The different persons and functions have more transparency according to the status of the suppliers. This enables to make the best out of every relationship including generosity towards important suppliers and rigidness towards the less important ones.

As shown treating suppliers according to the SRM framework can be advantageous in many aspects. Thus we assume that applying the SRM Framework will overall enhance value for customers and thus equally increase the performance of the purchasing firm.