Becoming Customer of Choice in the Healthcare Supply Chain

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Abstract

There is often a tacit assumption that in a buyer-seller relationship elements of value are the same for both parties. Using the concept of dynamic capabilities, and extending from existing research on customer perceptions of (supplier) value, this paper details a research project to investigate customer value from the supplier’s perspective. This has not been widely explored in the literature and in this paper an argument is developed to demonstrate that such a perception is a different, though equally important phenomenon to that for customers. The context of the study is the Australian healthcare supply chain in which there is a dearth of current information. Major research questions have been developed for the study, and the expected outcomes will include a ranked list of the elements of value that suppliers expect from buyers.

Introduction

Much of the current marketing research on value focuses on customer perceptions (eg. Ulaga 2003; Ulaga and Eggert 2006), even though value is perceived by both sides of the dyadic relationship (Ramsay 2005). Porter’s (1985) value chain points in the direction from the supplier to the customer, privileging the perception of value derived by the customer or buyer. Yet, as Porter highlights, situations exist where suppliers have a higher degree of industry power, making the supplier ‘king’. In these situations the emphasis will be on customers developing strategies to make themselves attractive to suppliers (Christiansen and Maltz 2002; Ramsay 2005).

Supplier satisfaction perceptions and measurement (e.g. Ghijsen, Semeijn and Ernstson 2010; Essig and Amann 2009) have been studied extensively, and while suppliers satisfied with their current relationships are more likely to trust their customer, be prepared to improve their relationship management practices and strengthen the commitment between the two parties (Essig and Amann 2009) satisfaction is not necessarily value. Research concentrating on supplier perceptions of value also varies in the results obtained (see: Purchase, Goh, and Dooley 2009; Ramsay and Wagner 2009; Walter et al., 2001; Christiansen and Maltz 2002).

Small to medium sized customers especially, need to consider how to make themselves ‘valued’ by larger suppliers, particularly when their buyer power is low. Since they compete with each other to gain priority treatment such as early access to new technology, preferential delivery times and schedules, improved relationship collaboration, and improved resource allocation (Capon, Potter, and Schindler 2006) they have to achieve more than simply an exchange relationship with the supplier; they must gain preferential status over their other buyers, and must do so in an environment of a powerful supplier.
Elements of Supplier Perceived Value

There is no broad consensus on how actors within business relationships perceive value (Lindgreen and Wynstra 2005) but most marketing literature focuses on value as a trade-off between benefits and costs (Woodall 2003; Lapierre 2000; Walter et al. 2001). Perceptions of value differ between buyers and suppliers, and therefore the results obtained for customer perceived value are unlikely to be transferable to supplier perceptions (Lindgreen and Wynstra 2005).

Supplier perceived value can be categorised into functions of direct benefit, capturing the dyadic benefits (for example, profit and volume), and indirect benefits which capture the network or connected benefits of being positioned within a supply network (for example, innovation, market, scout and access). Direct functions appear the more significant influence on relationship value (Walter et al., 2001; Walter et al., 2003; Purchase et al., 2009). Differences in perceived value benefits (Table 1) may be attributed to business context of value in use (Ramsay and Wagner 2009; Christiansen and Maltz 2002).

Table 1: Summary of Potential Value Benefits:

<table>
<thead>
<tr>
<th>Walter et al., 2001; Walter et al., 2003; Purchase et al., 2009</th>
<th>Grocery Supply Chain (Ramsay and Wagner, 2009)</th>
<th>High Technology Industries (Christiansen and Maltz 2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Profit</td>
<td>• Finance</td>
<td>• Innovation – improved product development/ pre-test capabilities</td>
</tr>
<tr>
<td>• Volume</td>
<td>• Efficiency</td>
<td>• Market opportunities</td>
</tr>
<tr>
<td>• Safety</td>
<td>• Trading nations and communications</td>
<td>• Improve specialised competencies</td>
</tr>
<tr>
<td>• Innovation</td>
<td>• Ethical behaviour</td>
<td>• Improve capacity planning</td>
</tr>
<tr>
<td>• Market opportunities</td>
<td>• Risk and uncertainty</td>
<td>• Reduced inventory</td>
</tr>
<tr>
<td>• Information</td>
<td>• Technology</td>
<td>• Buyer support marketing</td>
</tr>
<tr>
<td>• Access</td>
<td>• Trading linkages</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Corporate image</td>
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</tr>
</tbody>
</table>

Dynamic interaction between customers and suppliers

Value is not static. It varies over time, place and situation (Ramsay 2005), and is a manifestation of inter-firm interactions fundamental to commercial environments. While interaction among firms creates awareness of the rules, routines and procedures that should be followed to learn from each other and the market (Dyer & Wujin 2000; Gulati et al. 2000; Huemer 2004) and allow a firm to learn to detect, select, create and resource positive new market opportunities (Cunha and Cunha 2006; McEvily, Eisenhardt & Prescott 2004; Døving & Gooderham 2008) in an environment which is subject to rapid, unpredictable changes and market complexities (Hitt et al., 1998; Hong, J., Kianto, A. and Kyläheiko, K. 2008; Minzberg, 1994; Powel, 1990; Stacy, 1991). While some authors (Døving and Gooderham, 2008, p.845) see these as “enduring routines, systems, and processes that are visible, known, and managerially intended as a means to achieving new resource configuration”, others (eg. Winter, 2000) suggest some capabilities may be invisible and unknown to the management.

Teece, Pisano and Shuen (1997, p.516) defined such dynamic capabilities as “the firm’s ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environment”, developed further by Eisenhardt and Martin (2000, p.1106), suggesting that resource configuration, not the capabilities themselves are important, and that the role of dynamic capabilities is as “the organisational and strategic routines by which firms achieve new resource configuration as markets emerge, collude, split, evolve and die” (Eisenhardt & Martin 2000, p.1107).
Healthcare Supply Chain Characteristics

Health Care Supply Chains are distinct from those of other industries (Pedroso and Nakano 2009). They are complex and highly customised to suit regional and customer needs, and present operating and design challenges (McKone-Sweet, Hamilton and Willis 2005). Burns (2002) highlights that one of the major issues facing the health-care supply chain is the lack of understanding of value generation within the industry. Value improvements within the supply chain have not been forthcoming, particularly with the distributors or suppliers of pharmaceuticals, where cost (reduction) is a more common focus (Rivard-Royer et al, 2002). Research into healthcare supply, particularly in the US and Canada has resulted in modified supply chain management practices (McKone-Sweet, Hamilton and Willis 2005) but has not been heavily researched in the Australian context.

Research Questions

As shown there is little research conducted on the “reverse” supply chain flow of value, and this is particularly true of the health care supply chain. The industry specific nature of value benefits portfolios (Ramsay and Wagner 2009; Christiansen and Maltz 2002) therefore precludes reliably extending previous supplier value research to this industry and demands that such a portfolio be compiled.

Additionally, the dynamic nature of such value relationships has not yet been explored well in any industry, and this will provide much deeper understanding of the phenomenon.

To address this, the following research questions have been developed:

- **What value benefits do suppliers receive from their customers?**
- **How do these value benefits differ between different network actors?**
- **How do these value benefits change over time?**
- **Which benefits are derived from within the dyad and which benefits are derived through connectedness with other network actors?**
- **What do suppliers learn from their customers?**
- **What changes (including resourcing) do suppliers make within their firms in response to the requests of their customers?**

Proposed Methodology

The study will focus on the Australian pharmaceutical supply chain and implemented in two stages.

Stage one includes semi-structured in-depth, semi-structured interviews focused on the research questions, with relevant purchasing staff of four end-members of the health care supply chain; a pharmacy which is a member of a large chain, a supermarket selling pharmaceutical products, a medical centre/hospital-based dispensing pharmacy, and an independent pharmacy. The suppliers for these pharmacies will then be interviewed (again, with focus on the research questions). These interviews will establish the framework and
factors of supplier value, and also highlight differences in perception (of the same relationships) by different groups.

In stage two, to explore the dynamics of value, respondents will be re-interviewed after a 6 month period, highlighting changes in the factors determined in stage 1. This data will be analysed by using a repertory grid technique (Franzella, Bell & Bannister, 2003) which applies factor analysis to identifying differences in perception of the value phenomenon by different actors.

References


Woodall, T. 2003 Conceptualising ‘value for the customer’: an attributional, structural, and dispositional analysis, Academy of Marketing Science Review, 12, 1-42.