

## B2B Marketing: Customer Orientation and Relationship Marketing of Suppliers in Automotive Industry

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**Abstract:** The purpose of our paper is to examine the role of marketing in suppliers of automotive industry. In the first part of our study we summarise the pieces of research of the Hungarian companies those analysed the main questions of the industry marketing. In the second part of our paper we analyse the marketing activities of the supplier companies (118) on the basis of the respondents' answers. First we explore which is typical of the concept at the automobile suppliers: the long time or short time ones in connection with the roles of marketing. We investigate one dimension associated with the market orientation, the customer-orientation. We recognize the importance of key-customers at supplier companies. After these we evaluate how the suppliers use the relationship marketing tools. Besides, we collect some essential company characteristics, namely company size, ownership, region, the width of product assortment, the level of supplier that affect various company functions.

**Keywords:** automotive industry, supplier, customer orientation, key-customer, relationship marketing tools

### INTRODUCTION

Many domestic and international research studies have dealt with the role of marketing inside a company as well as with the examination of relations between corporate competitiveness and marketing. However these studies evaluate the results concerning the entire economy dividing them into industries and do not focus on automotive industry or the analysis of the marketing activities of automotive suppliers. Within the frames of researching the competitiveness of Hungarian companies Kolos et al. [1] stated that executives of firms see tight relations between marketing activities and corporate success, and therefore marketing function has high priority in the organization of firms. Through analysis of corporate value creating processes researchers [2] assess the goals and tools as well as the degree of contribution to company success of each functional area. The respondent companies found marketing important out of value creation processes from the viewpoint of total company success, and compared to other functional areas marketing is ranked in fourth place. Gelei Andrea [3] examines the relations maintained between companies and their partners cooperating in the field of supply chain and according to her experience, the characteristic of order and supply relationships and the structure of certain types of relationships are similar to each other. It is clear that from the types of relationships defined through relation-specific investments companies operating within the frames of strategic partnership can much more

forcefully coordinate their operations with partners moreover they are considered more innovative and more flexible to changes.

The topicality of the research theme is proved by the fact that in Hungary (between 1992 and 2001) the production of road vehicles increased by 37-fold, the manufacturing of vehicle bodywork and trailers increased by 40-fold, while the production of road vehicle parts increased by 19-fold [4]. Nowadays the performance of the industry is 3000 billion HUF, and we could witness significant fluctuations in production as well as a 20% decrease. Taking into consideration the global evolution of automotive suppliers it can be said that the role of Asia (average annual growth is 14.9%) and East-Europe (average annual growth is 12.7%) has grown significantly, while production decreased in the countries of West-Europe (3.1% decrease) and North-America (1.7% decrease). Besides these, in South-America only a small increase (2.5%) could be seen [5]. It is widely known that nowadays the technical details of vehicles are so complex that companies manufacturing with their own names (so-called OEM) are not able to cover the entire component manufacturing process. The tendency is shown well by that in 2002 almost half of the finished cars were not manufactured by the primary manufacturer but by the supplier chain [6]. European and Asian vehicle manufacturers built parts manufacturing and assembly capacities in the countries of East-Middle-Europe to

exploit the competitive advantages that can be found in the region. Requirements for suppliers have become more and more complex: global participation, high quality, accuracy in delivery, price and productivity as well as technical innovation. The reason for manufacturing in Middle-East-Europe is the highly skilled labour, automotive industrial knowledge and experience, employee loyalty and education, the presence of small- and medium-sized enterprises and the compliance with material prices and the terms of contract. The low level of R&D activity can be mentioned as a shortcoming of the industry but mostly not among large companies, but among small- and medium-sized ones. Large companies haven't expanded only their manufacturing but their development too, while it is not a characteristic of medium-sized suppliers. The quality of R&D activity is vital from the point of view of suppliers' successfulness.

In automotive industry relationship management is particularly vital. Svéhlik Csaba [7] demonstrates relationship management by wide international secondary research regarding to functions and organizations. In the part of recommendation for managers he phrases that executives of companies tend to put short-term success indicators forward which impedes the development of relations between R&D and marketing. In order to have a successful relationship management approach should be changed in the first place in favour of long-term focus and in this field there is a lot to do because integration of R&D and marketing is typically on a low level compared to the expected one.

During the nationwide research<sup>1</sup> we questioned 118 companies that are considered to be the supplier of automotive industry at some level. The purpose of the research was to explore the performance of the suppliers of automotive industry as wide as possible: production features, competitiveness, R&D activity and suppliers' activity, network of relationships, market position, goals and marketing activity.

First of all we introduce those pieces of research made about domestic companies that concerned the main questions of organisational marketing. In the second part of our study we provide an overview about the corporate role of marketing and the applied relationship marketing tools. A special emphasis will be put on market orientation and within

this the customer orientation issue which indicates the development level of marketing function. Narver and Slater [8] define market orientation as a corporate culture that contributes effectively to the creation of higher level of customer value. Authors differentiate between three elements of market orientation: customer and competitor orientation and coordination among functions. According to Kohli and Jaworski [9] the followings belong to market orientation: obtaining information about consumers and competitors, information flow inside the company and response capability. Finally we evaluate the characteristic of contractual relations related to special customers.

## METHODOLOGY

This paper is a part of a large research and our objective to know the marketing activities of suppliers in automotive industry. The relationship marketing is a complex concept and it can be analysed on strategic and operative levels. The research questions in connection with relationship marketing are following:

1. How the suppliers apply approach in relationship management with customers?
2. Which do the suppliers use the relationship marketing tools?

First we explore which is typical of the concept at the automobile suppliers: the long time or short time ones in connection to the roles of the marketing. After this we investigate one dimension associated with the market orientation, the customer-orientation. Besides, we recognize the importance of key-customers at supplier companies.

The basis of the analysis is a questionnaire survey conducted in 2011 including suppliers of automotive industry. Data gathering was conducted in last June by Data collecting Institution commissioned by Research Group for Spatial Economics and Automotive Industry at Széchenyi István University. Besides basic data we collected data regarding nine topic areas. In this study one topic area is introduced which is the analysis of marketing activities of suppliers in automotive industry. As a result of questionnaire survey data were gathered from 118 companies from the whole country [10].

The regional distribution of the respondent companies shows that more than one fourth of the respondent companies operate in the Central-Hungarian region (12 of them in Budapest), whereas the rate of companies is lower than ten percent in two regions (Northern Great Plain region and South-Transdanubian region). The majority of the companies (60.2%) were set up between 1990 and 2000 and they usually have only one premise (80.5%). A significant part of the companies (88%) were set up by a kind of mechanic, in case of 53 companies the founder was domestic

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individual, whereas in case of 32 companies that was foreign company. In case of the distribution of the companies based on the size of the company (based on the number of employees) it can be stated that 3.4% of the suppliers of automotive industry are micro-sized enterprises, 70.1% of them are small- and medium-sized enterprises, the rate of large companies is almost one fourth, which significantly exceeds the rate of Hungarian large companies. Based on the annual turnover (in 2010), the rate of micro-sized enterprises is more than one third. The majority of the respondent companies (89%) operate in the form of Ltd. The followings characterise the distribution of companies based on the nature of the settlement: 12 companies operate in Budapest, 42 operate in town with county rights, 46 in other towns and 18 in municipalities. This means that 87.7% of the respondent suppliers operate in towns.

During the analysis of the data we counted descriptive statistics (frequency, mean, standard deviation) to the scale type, but besides these to explore deeper correlations we applied bivariate methods (cross-table analysis, variance analysis). In case of cross-table analysis we checked the condition of the  $\chi^2$  test, the meet of cell frequency requirements. According to the more stringent condition, cross-table analysis cannot be considered reliable until the expected value of each cell reaches 5 [11]. According to the less severe criterion the expected value can be lower than 5 in cases of maximum 20% of cells [12]. From the viewpoint of the applicability of variance analysis we examined the realisation of the condition of homogeneity of dispersion with Levene-test. So

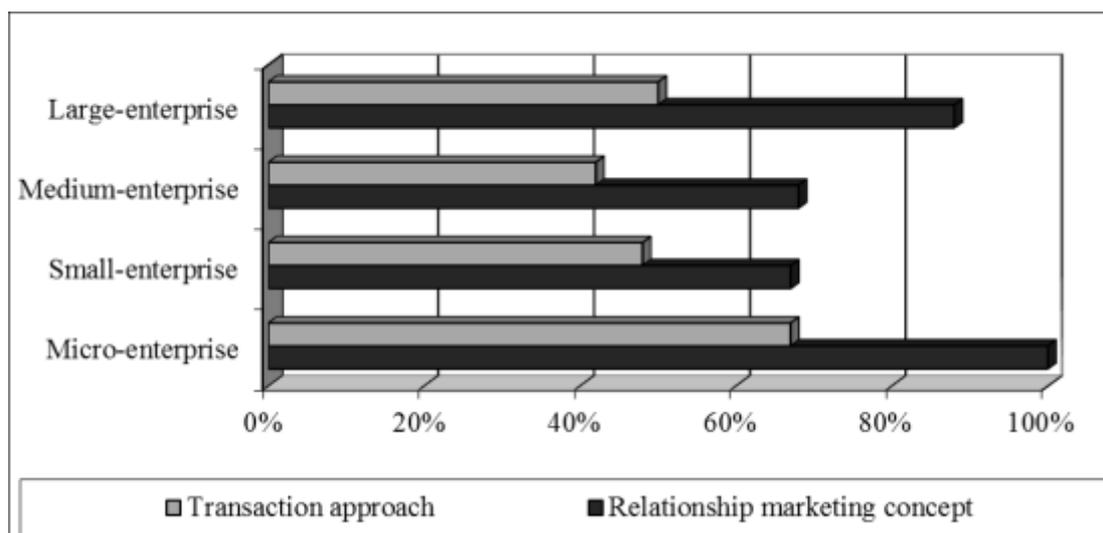
dependent variable has the same dispersion in case of different levels of independent variable [12].

## RESULTS AND DISCUSSION

### *The role of marketing at suppliers: the examination of customer orientation*

A big picture about the pieces of research examining the relations between market orientation and performance is given by Deshpande and Farley [13]. There are many empirical evidences available about domestic companies as well. Based on the research of Berács and Kolos [14] it can be seen that at the beginning of 1990s customer orientation among Hungarian managers was as characteristic as in western European countries. Once business attitude has been characterised they got an answer about to what extent business decisions were relied on customer needs and what kinds of priorities were composed. Kolos - Sz. Tóth – Gyulavári [1] stated that the relative majority of respondent companies started from analysing market needs moreover there have been a significant step forward in this area since 1999. The size of company affects business attitude. Large enterprises take more care of quality orientation and customer needs.

Within the topic of marketing in connection with market orientation we analysed customer orientation among supplier firms. Looking at Figure 1 it can be seen that suppliers take care of their customers by using relationship marketing tools (73 %) at the same time short-term transactional approach serves customers less (47%). The philosophy of relationship marketing has a key role in the customer relationship of micro-enterprises (100%) as well as large enterprises (88%).



**Fig-1: Customer orientation based on the size of the suppliers (Source: own compilation)**

Compared to our expectations customer orientation regarding to usage of relationship marketing

tools has a lower level (69%) at companies in the region of Western Transdanubia. The result of executive

evaluation of characteristics connected to the role of marketing function divided into regions can be seen in

Table -1.

**Table 1: The role of the customer orientation based on the region (%)**

Variables	Central Hungary	Western Transdanubia	Total
We apply the relationship marketing concept and tools are based on the customer orientation in case of the important customers	84 %	69 %	73 %
Transaction approach is typical of attending to the customer	52 %	50 %	47 %

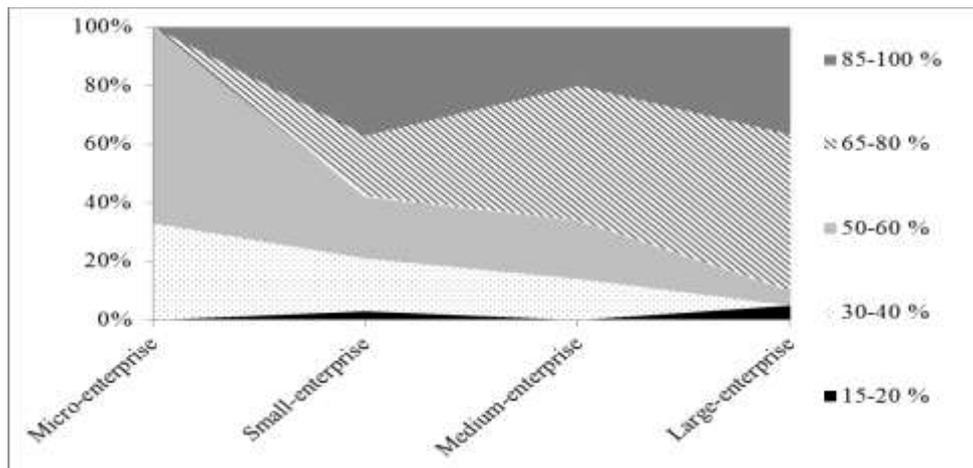
Source: own compilation

In connection with customer orientation it can be stated that the application of relationship marketing tools is more often used by companies having wider range of products (at least six product lines) (79-85 %).

**Key-customers at supplier companies**

Marketing approach of companies and the application of relationship marketing tools are highly influenced by the fact that whether the company has some key-customers or not. Within the frames of primary research we revealed as well that with how many key-customers the supplier has business relations and how much percent of sales revenue of the supplier company is

generated by these key accounts. From the companies got into the sample 97 gave an answer to this question. From the viewpoint of customer management a relevant issue could be the proportion of key-customers in total sales revenue of the company. It can be controlled whether Pareto principle prevails, which states that 80% of sales come from 20% of customers. At the third of micro-enterprises (33%) 30-40% of company's sales come from key-customers. The turnover of key-customers takes more than half of total sales at two-thirds of the micro-enterprises as well as at one-fifth of small and medium-sized enterprises.



**Fig-2: Turnover percentage of key-customers based on the size of suppliers (Source: own compilation)**

The key-customers showed a high turnover level in case of large enterprises as we have experienced a 65-80% turnover at more than half of large enterprises. At nearly half of medium-enterprises more than 65% of the corporate revenue comes from key-customers. In case of small-enterprises we have got a bigger portion in connection with the 85-100% turnover. The ratio of the key-customers' revenue based on the size of the supplier companies can be seen in Figure 2.

In accordance with our expectations the key-customers provide the substantial (72-100%) part of the

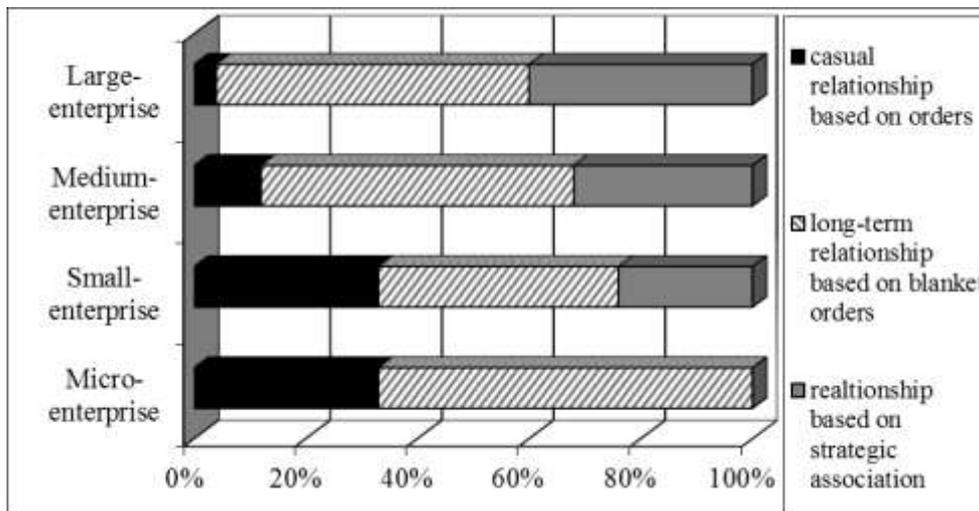
corporate income at the majority (83%) of supplier companies with a narrow product range (one product group). At the same time the turnover from key-customers does not reach 65% of the total income at 38-42% of the companies with a wider product range (11-25 product groups and more than 25 product groups).

**The customer relations of supplier companies**

We also investigated the customer relationships of automotive supplier companies regarding the duration of the relationships and their legal-economic contents. Our results clearly show the trend that with an increase in the size of the company

the number of long term, strategic alliance-based relationships also raises. As shown in the answers of supplier companies, the majority of business

relationships mean long-term relationships based on framework orders (Figure 3.).



**Fig-3: Association between the suppliers and the customers' relations based on the size of suppliers (Source: own compilation )**

We asked the surveyed CEOs to value five statements according to the usage of relationship marketing tools on a five-point scale (1= I do not agree at all, 5= I fully agree). Taking the company size into account we did not find significant deviation in case of first variable, generally supplier companies put significant emphasis on the development and maintenance of long-term relationships with the key-customers. Based on the data in Table 2 it can be stated that the application of relationship marketing tools is on the highest level at micro-enterprises and large-

enterprises. Small-enterprises pay the less attention to the operation of customer service and to the development of the informatics system to assist cooperation with the customers. From the content elements of relationship marketing the cooperation in R&D and the sharing of common goals and information with partners are on a relatively low level at medium-enterprises. The managerial evaluation results of the characteristics connecting to the application of relationship marketing tools can be seen in Table 2, based on the size of supplier companies.

**Table 2: Applying of the relationship marketing tools based on the size of suppliers**

Relationship marketing tools	Micro-enterprise	Small-enterprise	Medium-enterprise	Large-enterprise
Long-term relationship with the key-customers	4.67	4.70	4.49	4.59
Co-operation in research and development	3.00	2.88	2.65	3.59
Customer-service operating	4.00	2.75	3.13	3.74
Informatics system assists to the co-operation	4.00	3.56	4.10	4.22
Sharing the common goals and information	4,67	3.91	3.56	4.00

**N.B: We measured the usage of relationship marketing tools on a five-point scale. 1= I do not agree at all, 5= I fully agree. (Source: own compilation)**

The Hungarian-owned supplier companies put more emphasis on developing and maintaining the long-term relationships with the key-customers (mean: 4.60 – 5.00), in addition the bilateral relations are characterised by the definition of common goals and the

sharing of information (mean: 3.92 – 4.25). The foreign-owned companies pay the most attention on the operation of customer service and developing the informatics system to assist the cooperation with the customers.

Supplier companies from Central Transdanubia Region have the highest level in the application of relationship marketing tools at the key-customers. Enterprises from the Western Transdanubia Region pay less attention to maintaining long-term relationships

(mean: 3.75) and to the definition of common goals and to share information (mean: 3.50). The managerial evaluation results of the features connecting to the application of relationship marketing tools can be seen in Table 3, based on regions.

**Table 3: Applying of the relationship marketing tools based on the regions**

Relationship marketing tools	Central Hungary	Western Transdanubia	Total
Long-term relationship with the key-customers	4.88	3.75	4.57
Co-operation in research and development	2.73	2.80	2.97
Customer-service operating	3.43	3.31	3.12
Informatics system assists to the co-operation	3.97	3.94	3.90
Sharing the common goals and information	3.91	3.50	3.82

Source: own compilation

Based on the width of the product range of supplier companies it can be seen that enterprises selling only one product group make less effort to maintaining the relationship with key-customers than the companies with more product groups – from the viewpoint of all investigated tools. Primarily companies supplying directly to car manufacturers (Tier-1) are trying to cooperate in R&D with key-customers (mean: 3.34) and also make more effort to keep the informatics systems up to date (mean: 3.97).

***In the use of which relationship marketing tools does the relationship marketing philosophy manifest itself?***

We also examined whether the use of relationship marketing philosophy has an influential effect on the use of relationship marketing tools among suppliers. The findings of the questioning prove that suppliers do pay attention to customers by using relationship marketing philosophy (73%). The findings of variance analysis show that the use of relationship marketing philosophy has a statistically significant ( $F=9.873$ ,  $sig.=0.002$ ) effect on the operation of appropriate customer service, however the influencing effect is slight ( $\text{Eta}^2=0.087$ ). It can be stated that those companies that build relationship marketing conception into their corporate strategy pay more attention to a customer service that meet the expectations. Based on the findings of variance analysis it can be seen that the use of relationship marketing philosophy has a significant ( $F=8.087$ ,  $sig.=0.005$ ) effect on the development of modern IT systems, however the influencing effect is slight ( $\text{Eta}^2=0.07$ ). Thus those companies which build relationship marketing conception into their corporate strategy attach a greater importance to the development of an IT system supporting partnership cooperation. Based on the findings of variance analysis it can be seen that the use

of relationship marketing philosophy has a statistically significant ( $F=11.426$ ,  $sig.=0.001$ ) effect on the sharing of information in partnership cooperation, however the influencing effect is slight ( $\text{Eta}^2=0.095$ ). The following tendency can be observed: those companies that build relationship marketing conception into their corporate strategy pay more attention to the drafting of common goals and the sharing of information in partnership cooperation. The condition of homogeneity of variance was met in cases of statistically significant relations.

**CONCLUSION**

The study analyses the marketing activity of the automotive supplier companies. First we summarise the most important results of the survey in connection with the investigated marketing questions, then we present the marketing activity of automotive supplier companies in the two priority regions.

- Similar to previous research findings we can state that the customer orientation of automotive supplier companies shows a favourable picture. Based on the size of the enterprise and the width of the product range we have found significant differences in the market approach of the supplier companies.
- Generally supplier companies put significant emphasis on the development and maintenance of long-term relationships with key-customers. From the content elements of relationship marketing the cooperation in R&D and the sharing of common goals and information with partners are on a relatively higher level at large-enterprises. In addition we have observed differences based on the shareholder structure, the range of products and the supplier levels.
- It can be stated that those companies who build the relationship marketing concept into their strategy

make more effort on the customer service to meet the expectations, on the operation of the informatics system to support partnership cooperation, on defining the common goals and sharing the information in their partnerships.

- Based on regional comparison the following peculiarities were found regarding to automotive supplier companies:
- Western Transdanubia Region:
- Compared to our expectations customer orientation has lower level at companies in this region regarding the application of relationship marketing tools.
- Based on the results it can be stated that companies of in this region pay less attention to maintaining long-term relationships with their customers and to defining common goals as well as to share information.
- Central-Hungarian Region:
- Compared to other regions customer orientation of suppliers in this region is more favourable.
- The application of relationship marketing tools lags behind in comparison to the practice of supplier firms in Central Transdanubia Region.

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