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Buyer-Seller Interactions in Mature Industrial Markets: Blurring the Relational-Transactional Selling Dichotomy

Susi Geiger* and John Finch**

Abstract

Sales practitioners continue to come to terms with the selling conditions of mature consumer and business markets. Mature markets display signs such as cost-focused competition, similarity in the perceived functionality of offerings, and multiple suppliers vying for highly knowledgeable and powerful customers. While researchers have noted that in mature industrial markets the relationship to sales personnel can be an important differentiator for buyers, sales research has not specifically examined the consequences of market maturity on the conditions and modes of selling in these markets. In addressing this gap in research, this paper examines the effects of market maturity on the relationships between selling personnel and their customers by presenting case study research from a mature industrial market for chemistry products: the North Sea Oil Industry.

Keywords: Relationship selling, sales management, industrial markets, market maturity

*Corresponding Author: Susi Geiger (PhD, Dublin City University), Associate Professor, Marketing Group, University College Dublin Business School, susi.geiger@ucd.ie.

**John Finch (PhD, Lancaster University), Professor of Marketing, Strathclyde University, john.finch@strath.ac.uk
buyer-seller interactions in mature industrial markets: blurring the relational-transactional selling dichotomy

Maturity in industrial markets conjures up images of commodities and companies engaging in price-based competition, where margins in the supplier network are squeezed by cost-focused buyers (Carr and Ng 1995) and where attempts at achieving superior economic performance play against the background of globalized hyper-competition (Wiggins and Ruefli 2005). For sales organizations, these characteristics of maturity could signal a turn to transactional selling modes. Recent research in industrial dynamics however shows maturity to be a much more complex and diverse setting for sales personnel. Customers of different sizes and ways of doing business may be entering or exiting the industry, engaging in radical or incremental innovation, merging and engaging in alliances, and instigating distinct policies in outsourcing and managing their networks of suppliers (Malerba 2006). In such environments, close buyer-seller relationships may represent a significant stabilizing force for both parties. Not only can the quality of service and of sales personnel be influential differentiators for buyers seeking risk minimization, but a focus on building relationships may also help suppliers overcome power asymmetries with their buyers. However, Narayandas and Rangan note that relationship development in such markets is “complex” (p. 75) and speak of “rough seas” (p. 74) where the buyer-seller relationship is ultimately tested on performance measures.

This paper investigates buyer-seller interactions in a mature industrial market with the aim of (1) tracing the consequences of market maturity dynamics for sales organizations and (2) examining how transactional and relational selling strategies can be balanced in such environments. Our
contribution is to show that mature industrial markets are settings in which sales personnel play a crucial role in helping their company cope with the environmental dynamics faced by suppliers and buyers. We illustrate how salespeople can adapt their selling strategies when faced with these dynamics by presenting a case study of two buyer-seller dyads based on a chemicals supplier to the North Sea Oil Industry.

The paper is organized as follows: In the following two theoretical sections, we discuss characteristics of mature industrial markets and reflect on how salespeople may respond to these environmental characteristics. On the basis of this theoretical argument we present our research design before discussing the empirical findings of the two buyer-seller dyads under study. The discussion section then develops a theoretical framework and propositions on the basis of the empirical findings, and we conclude with a set of recommendations for sales managers confronted with the task of selling in mature industrial markets.

**Characteristics of Mature Markets**

Sales strategies and processes are only occasionally discussed in light of specific environmental conditions in the sales literature. This omission is surprising, given that sales people as boundary spanners are directly affected by and involved in shaping market dynamics. In this paper, we examine relational and transactional selling strategies specifically under the market conditions of maturity. Maturity is a cumulative process played out at the levels of product and product class, but equally occurring in industries and markets (Lambkin and Day 1989). Many proponents of standard life cycle models describe maturity as a phase of relative stability where dominant designs feature large and where leading firms enjoy relatively stable market shares that are
maintained through a gradual and incremental improvement of the “standardized product-process nexus” (Windrum 2005, p. 1047). In such an environment, it is reasonable to assume that sales personnel of supplier firms would compete with an equally stable set of competitors for the share-of-wallet of few large and well-established buyers mainly on promises of cost efficiencies, which would help their customers to further increase barriers to entry for potential competitors. Yet, evidence has accumulated over the past decade questioning the accuracy of such life cycle models and showing mature markets to be much more dynamic business environments than had previously been assumed (Klepper 1997; Malerba 2006).

It appears that market maturity can lead to a significant degree of uncertainty for buyers and sales personnel by precipitating three major dynamics. First, as standard life cycles would predict, many mature markets display a significant level of buyer concentration (for example Hofer 1975). Concentration among buyers happens when successful companies accumulate surplus capacity through economies of scale and scope, which they can use to acquire the productive capacities and market connections of others. While in many industries such market selection mechanisms favor mature incumbents over younger firms, late entrants can successfully populate and occupy niche categories because of advantages in innovativeness, reactivity and flexibility (Windrum 2005; Bellone et al. 2008). This means that in mature settings, sales personnel can expect to contend with a small number of large, successful and acquiring customers, but should also be ready to engage with a fringe of marginal and often highly innovative buyers, the continued existence of any one being precarious because of their specialization and dependence on niche survival.
Second, Windrum (2005) points out that life cycle approaches often hinge on the assumption of a single round of product and process innovation, with product innovations dominating at the start of the cycle and slowly being replaced by process innovations. Evidence however shows that many markets display repeated rounds of both product and process innovation and that particularly the mature phase frequently accelerates innovative activity in both areas, be this radical (Colarelli O’Connor and Veryzer 2004) or incremental (Thölke, Hultinka and Robbenb 2004). Process innovation is often caused by a need for cost efficiency (Hofer 1975); product innovation is caused by increasingly heterogeneous needs of end customers. Sales personnel acting in mature markets should therefore prepare for innovative shifts by their customers; they should also anticipate increased pressures to develop their own process and product innovations leading to cost efficiencies for their customers and for their own companies. In this vein, Bartos (2007) notes that productivity gains in the mining sector have in recent years originated in its supply network.

Third, mature markets often see buyers regularly revisiting their outsourcing strategies and how they manage supply chains and networks (Dibiaggio 2007). In a development of the analysis of transaction costs, Langlois (1992, 2006) argues that managers change their companies’ boundaries as the relative advantages of undertaking tasks in-house and of contracting with others to do those tasks change. These changes are dependent upon the relative advantages that potential suppliers have compared with the particular focal company in learning how to perform a given activity, which is part of the process of maturity. Furthermore, because we expect companies to differ in how they learn we can expect companies involved in similar activities to draw their boundaries differently (Araujo, Dubois and Gadde 2003). Thus, in mature markets,
sales personnel should expect to encounter different and changing versions of boundary delineation among their customers.

Sales Strategies in Mature Markets

Given the conditions in mature industrial markets described in the previous section, how should sales forces engage with customers in these environments? Rackham and DeVincentis (1999) have noted that some industrial buyers are solely interested in price and convenience and do not see any potential added value in maintaining relationships with suppliers. In dealing with these buyers, a sales organization is often limited to what many call ‘transactional selling’, namely a dominant focus on providing commodities at the lowest possible price. At the opposite end of the sales spectrum is relationship selling, seen as a strategic and sustained effort by the sales force to maintain and strengthen deep ongoing relationships with buyers (for example Crosby, Evans and Cowles 1990; Jolson 1997; Weitz and Bradford 1999; Wilson 2000; Beverland 2001).

The conventional life cycle approach would suggest that in mature industries, high levels of productivity pressure and standardization in products and services would lead to a transactional selling environment where large customers can exert significant cost pressure on suppliers. Yet, a handful of studies have indicated that a relationship selling strategy can be greatly beneficial in dealing with buyers in mature markets. Narayandas and Rangan (2004) argue that boundary personnel such as sales people are able to create interpersonal trust, rather than having to rely to a greater extent on explicit contracts, to manage relationships in mature commodity markets. They suggest that an emphasis on relationship development may also mitigate against the power differential between large customers and smaller suppliers. Rangan, Moriarty and Swartz (1992)
report that skillful account managers can prevent price-sensitive customers from bargain-hunting and switching suppliers in the steel commodity market. In an early study, Wilson and Lichtenthal (1985) argue that contrary to expectations, salesperson attributes increase rather than decrease in relative importance compared to price and product attributes when industrial markets mature; they also found that sales people can be instrumental in customer retention in such environments.

Returning to the three dynamic features of mature markets listed above, we saw that such markets are often dominated by a small number of large buyers, which have successfully accumulated buyer power in the industry. Losing any one of these big accounts could be fatal for suppliers in the industry; most sales organizations will therefore have developed a relational strategy in servicing these accounts. At the same time, smaller disruptive entrants may survive in such markets by adopting novel business process models. While some of these smaller entrants may be more price sensitive and purchase smaller volumes than the larger buyers – prompting transactional selling strategies – they may be open to developing relationships with their suppliers as a means of gaining access to supply networks and industry knowledge. Such relationships could provide a significant counterweight to the dependence on larger buyers for suppliers operating in mature markets. Further, in a mature market with relatively low innovation rents, the value of innovations will often be attained only through co-creation in a concerted effort of firms across an extended industrial network, which points toward the necessity of a relational orientation for both parties (Lusch and Vargo 2006; Cova and Salle 2008). At the same time, Pillai and Sharma (2003) raise the specter of customers who turn their backs on established supplier relationships when embarking on innovation projects. Finally, the different levels and modes of outsourcing may represent an important opportunity for suppliers who can act as quasi-
entrepreneurs on behalf of their buyers (Wilson 2000). On the other hand, buyers’ regular reviewing and revising their corporate boundaries will also make a relational approach more problematic to maintain, because such boundary work will represent valuable opportunities for competitive sales forces to disrupt established relationships.

To summarize this theoretical review of selling approaches in mature market environments, evidence is scarce and inconclusive as to whether a relational or transactional approach is required, or indeed how a sales force may succeed in balancing both approaches. The following empirical study will examine this issue further.

**Research Design**

Given the lack of published findings on the questions raised, this paper’s empirical research has been developed in an inductive spirit. Thus, a qualitative, clinical field research methodology has been employed (Bonoma 1985; Eisenhardt 1989). As reported in Ardalan (2003, p. 1042), “the clinical methodology starts with the idea that, instead of observing reality from outside, one should attempt to understand it from within”. Within this empirical approach, a single case design was chosen to provide richness of empirical findings and to ensure a thorough understanding of the industrial setting (Yin 1994; Weick 2007). Our use of the single case is consistent with an aim of inductive theory generation because we seek to understand how selling is shaped by and adapted to the dynamics of mature markets (Eisenhardt 1989; Eisenhardt and Graebner 2007; Siggelkow 2007). We recognize that single case studies imply a mode of inference rather than generalization, which is suitable when researchers demonstrate that a research theme is at an early stage of development. In the discussion section, we formulate our
findings in the form of research propositions, through which we combine recent research in the areas of sales and industrial dynamics with our own empirical findings.

The paper’s empirical setting is of sales personnel employed by an industrial chemicals company offering a range of products and services to oil companies concerned with the production in oil and gas fields. Within this single supplier case, we deploy a contrastive ‘sampling’ method where we examine two buyer-seller dyads in greater detail, namely the case company’s supply relationship with one of the long-established main players in the industry and its most important customer, and its relationship with one of the new entrants in this mature market. We undertook research with the case company during 2006 and 2007. For each buyer-seller dyad we conducted face-to-face interviews with the sales director as well as with the respective sales and technical account personnel, lasting from 45 minutes to over two hours in length. We also engaged in non-participant observation where we attended an account review meeting each between the sales organization and the two customers chosen as a sample for this study. For each dyad, we followed these meetings up with interviews with the customers themselves. To match the interviews conducted in the supplier company, we interviewed the technical buyer and the commercial buyer in both client companies. Overall, as listed in Table 1, we conducted 20 semi-structured interviews and two half-days of observation.

Interviews were audiotaped (except for observations, where extensive field notes were taken), transcribed verbatim and analyzed using the qualitative software package QSR NVivo8 as a data management tool. Initially, the researchers analyzed their data separately, proposing categories

-----------------------------INSERT TABLE 1 ABOUT HERE----------------------------------
through coding all of the data individually with an emerging coding scheme. Researchers then reviewed these schemata collaboratively through comparing data entries, node structures and coding memos, resolved divergences in the individual coding structures and developed common categorizations in an iterative process. Reflective memos and emails were used throughout to document the emergent categorization.

Rigor of the findings was attained by the following strategies: In order to ensure validity of the data analysis, member checks were conducted with interviewees where access was available; this led us to a further refinement of key themes and categories. Multi-investigator and multi-method triangulation was also used to validate findings. Reliability of the categories was ensured by two processes: a third, independent researcher reviewed the data analyzed and the categories obtained once categorizations had become stable. This third researcher checked all key themes against the data that had led to their formulation and suggested minor alterations to some of the codes and excerpts coded; overall, inter-rater agreement ranged between 79 and 100 percent per code (as percentage of text coded identically by the two original coders and the third coder). Further, a chain of evidence consisting of memos and tree node structures emerging over time was documented (see Table 2). Table 3 charts the final coding categories against the transcripts that were coded with them.

Case Analysis: Two Buyer-Seller Dyads in a Mature Market

Company and Market Backgrounds
The case company ChemSales (names of companies and research participants have been altered for confidentiality reasons) is a globally operating oil chemicals company of around 500 staff within a much larger, trans-national chemicals group. We focus specifically on its operations in the North Sea (UK and Norwegian) sectors of the oil industry. This particular research setting was chosen because a significant trend in the North Sea oil industry is with oil companies coping with maturity. Offshore exploration in the region began in the early 1960s and production commenced in 1975, with a peak of production in the early 1990s: “in 1993 the [UK North Sea] top 40 assets comprised over 80% of production, but accounted for around 25% of production in 2004. Half of these top assets have been sold and many more have changed hands through company mergers and acquisitions.” (UKOOA 2005, p. 27) The mature oil and gas fields have provided the basis of a specialism among a subset of oil and gas companies to extend the life of these mature fields through reinvesting in production infrastructure and developing process innovations to enhance production (Finch and Acha 2008). Thus, maturity in this industry has been manifest through 1) post-peak production; 2) process innovation to enhance production levels; 3) industry consolidation through mergers and acquisitions; and 4) entry into the industry of smaller independent competitors.

ChemSales is currently organized into three main divisions of operations, technical group and sales. The technical group provides chemical testing and diagnosis services and formulates chemical products, which operations manufacture and distribute. The sales department is organized into an account management group (around 30 people) and a dedicated business development team (three staff). Account managers provide day-to-day services to customers but are also drawn into tender writing and other business development activities. A sales director
oversees both the UK and Norwegian sectors. For the sales personnel, the conditions of selling in this industry are shaped by the materiality of their customers’ oil and gas fields as well as by the entries, exits and mergers among their customers in this mature market. In particular the arrival of new, mainly low-cost entrants purchasing second-hand oil fields has changed the mode of interaction between the oil companies and their chemical suppliers, as ChemSales’ sales director Richard points out:

“The majors introduced long term contracts and emphasize relationships among the supplier base. The newer companies are fickle. They sign agreements but then bring in competitors to challenge. This is how life is in a mature market, with contracts for one to three years.” (Richard, T 3)

The following two sections present in-depth analyses of the interactions between ChemSales’ sales force and two of its customers on the basis of the observational and interview data gathered. Throughout these analyses, verbatims and references to field observations are cross-referenced with the number of the transcript of origin and the alias of the research participant as featured in Table 1. To compare and contrast how ChemSales’ salespeople interact with different customers, one of the analyzed dyads is with one of the oil majors dominating the North Sea oil production and ChemSales’ most important key account, judging by the value of annual sales. The second dyad studied is with a newer entrant into the sector, operating on a lower cost base and quickly expanding its value extraction processes in the North Sea. This account was chosen because it is ChemSales’ highest growth account and, by virtue of its business processes is representative of a new wave of customers that ChemSales are interacting with. The subsequent discussion will bring the separate analyses together into an empirical model of selling in this mature industry.
**Dyad 1: ChemSales and Major Oil**

Major Oil is a vertically integrated global oil company and forms part of a small, dominant group of ‘super majors’ in this industry. It has been active in the North Sea’s petroleum industry from the beginning of production and is an important agent of maturity in the industry through its mergers, divestments, acquisitions and outsourcing strategies. It has a formal policy in developing and managing its supply networks and dedicated performance managers to oversee them. Major Oil is a significant customer for ChemSales and has been so from its beginnings. ChemSales vies for its business with another five trans-national chemistry suppliers recognized by Major Oil through Global Framework Agreements. In the North Sea, Major Oil has divided its chemistry purchasing across two Chemicals Management Services (CMS) contracts of five years duration; in the past decade Major Oil has twice awarded one of these two CMS contracts to ChemSales. From Major Oil’s perspective, a CMS contract outlines its corporate boundaries and accounts for a large proportion of its supplies in production chemistry. From ChemSales’ perspective, it means that the buyer-seller relationship is more or less secure for this length of time; key account managers are embedded at Major Oil and both a minimum volume of chemical sales and a significant service fee are guaranteed. The contract acts as a way of standardizing the ways in which ChemSales delivers its chemicals and chemistry services to Major Oil’s business units. It delineates and formalizes the relationship and prescribes deliverables and performance indicators. It also offers some insurance that should Major Oil encounter a problem related to chemistry that threatens the continuation of production, ChemSales will offer a solution as a priority.
Above and beyond these everyday contractual sales and service interactions, the contract also provides an opportunity for individuals to develop shared experiences of working together on Major Oil’s production facilities through co-location of key account managers. Because of their physical embeddedness at Major Oil’s assets, ChemSales’ account managers are in a unique position to identify endemic chemistry-related problems and propose longer-term projects to solve these problems beyond routine product deployment and servicing. While such innovative ‘opportunity spotting’ needs to be balanced against Major Oil’s field managers’ risk perceptions, it is explicitly encouraged by its performance manager Andrew.

However, representing both an instrument by which a supplier’s day-to-day performance delivery is managed, and as a way of encouraging innovative solutions, the CMS contract shapes the buyer-seller relationship in often inconsistent ways. This became apparent in the quarterly review meeting observed (T12) and during a follow-on meeting (T13). Following the researcher’s field notes from the meetings, “What [Major Oil] was striving for was some mechanism to show value delivery. Richard’s agenda was in trying to further understand [Major Oil’s] needs”. (T12) In these different agendas, two interpretations of a buyer-seller relationship in a mature market emerged. Major Oil was shaping maturity as a set of commercial practices by which all of their supply chains were assessed through similar key performance indicators as well as through instigating practices to deliver value, as expressed mainly in cost savings. At the same time, Major Oil’s performance and purchasing managers Andrew and Jack were aware that key performance indicators were not particularly apt at capturing or encouraging the innovative activities expected from its suppliers in order to create long-term value beyond cost savings. Alongside the KPIs, the success of the relationship was also measured along the fairly abstract
dimensions of ‘being proactive’ and ‘being innovative’, especially in ‘designing chemistry solutions that require fewer inputs’ (Andrew and Jack, T12 and T13):

“Historically, the benefit of the CMS has been that companies are driven to take action to be in place for the next contract, and also for geographical expansion. Performance gains had been in improved costs leading to more efficient production for Major Oil. The drivers have changed in between contracts. Instead of costs, the emphasis is now on performance management. Major Oil has to drive performance through technology development.” (Jack, T12)

Andrew and his colleagues felt that ChemSales could do better on these dimensions, but failed to explain to Richard and his ChemSales colleagues exactly what it is they were looking for. In addition, innovative activity was often only reluctantly accepted by Major Oil’s field managers, who were often highly risk averse, with whom ChemSales key account managers stood in daily contact, and who ultimately scored ChemSales personnel on the KPI score cards. For these production managers, the contract was an insurance policy for the present and they rarely saw the value of longer-term technology development.

The tension of the buyer-seller relationship seen simultaneously as an instrument for buyers to drive short-term performance improvements and as a mechanism for more long-term value creation was visible in how ChemSales’ sales personnel understood the CMS contract. Being in a CMS contract influenced their behavior and the behavior of their Major Oil counterparts by reacting to each others’ immediate concerns rather than following a strategic trajectory in their relationship development. Yet, the same personnel often had to interact in both formats – strategically and operationally – with each other. This became evident in an interview with two of ChemSales’ chemists when asked about the advantages of being in a CMS:
“Because we are the CMS holder, we are talking to Major Oil on a daily basis. We are in the assets and we can get information about the assets. We know what is going on and we have direct contacts with the senior chemists.” (Greg, T10)

While this verbatim indicates their primary concern for the smooth day-to-day running of oil production, both chemists also worked closely with science personnel at Major Oil on a longer-term project, developing a chemistry solution iteratively over a period of two years:

“So you move onto another phase, you do some more tests. … You hit another wall and it is a continual thing and you want to have the best product possible there. And they [Major Oil’s chemists] were aware that it would take a long time”. (Greg, T10)

This verbatim indicates another way in which maturity provides a complex setting for sales personnel: they have to convince buyers that ChemSales has the capabilities to develop solutions for complex projects that take longer to develop and simultaneously they need to convince technical personnel in both companies that they should commit resources to such longer-term projects.

Regarding corporate boundaries, ChemSales’ key account managers work as a unit with Major Oil chemists, at times against the resistance from other personnel within their respective companies. The CMS contract implies that Major Oil offers this level of access to account managers over a five-year period, but as a trade-off expects something extra pertaining to the length of contract and relationship, loosely formulated as “being innovative”. How these additional deliverables are defined, measured and remunerated, seems a matter of contention between buying and selling personnel. ChemSales’ sales people recognize that being in a long-term contract offers them the opportunity to change-out the legacy chemistry products of other
companies with their own, subject to demonstrating superior value, and thereby increasing their return on the relational investment. Regarding the question of innovation, ChemSales is on-site and should be in a position to anticipate problems, but can only act on these if at the same time they can communicate the likely value of introducing a modified chemicals treatment to Major Oil personnel and if they can convince their own technical team to engage in innovative activities. Account managers thus play an important role in influencing the question of what is considered as value adding activity both for internal colleagues and their buyers in Major Oil.

**Dyad 2: ChemSales and Indie Oil**

Established in the early 1990s as a North-American based oil and gas production company, Indie Oil has been active in the North Sea as an independent operator since the mid-1990s. Much of its growth during the past decade has stemmed from its aggressive expansion strategy in this region, starting with three oil fields and quickly expanding by acquiring other oil companies’ established oil and gas fields and by undertaking its own exploration and development of new fields. Currently, Indie Oil is a large independent operator in the region with more than 40 oil fields and a projected $1 billion investment per annum over the coming years (Company website). Indie Oil, as one of a wave of late entrants into this mature market, prides itself on having a business model in place that is unlike those of the traditional oil companies: “Indie Oil has been quite successful to date doing what they’ve done how they’ve done it, if we arrive at the stage that we’ll be looking like [Major Oil] we will have failed.” (Declan, T20) Part of this business model is to “produce as much oil for as cheap as we can” (Declan, T20); this cost focus is representative of the new entrants who in the past decade have competed on a strict cost-reduction basis, as the following remark from account manager Chris (T11) shows:
“They [the new entrants] are markedly different to the traditional companies which operate in the North Sea, the oil majors. They are very target driven. Some figures were quoted as when [a new entrant] took over this one oil field from [one of the majors] production was at around 20,000 barrels per day. And two years later it was quoted at being something like 85,000 barrels per day. … And they just claimed to have optimized the process and at the same time cutting costs as well.”

From ChemSales’ perspective, this focus on costs and process optimization has meant that unlike the traditional relationships to the oil majors, much of the business with the new entrants has happened through a transactional rather a relational selling approach. In contrast to ChemSales’ relationship with Major Oil described above, where salespeople are co-located on the client’s premises and to some extent subsumed into its organization, the boundaries between the new entrants such as Indie Oil and their suppliers are set much more firmly. Chemical regimes of production facilities are controlled by their own chemists who put out regular tenders for chemical products as required. This return to a transactional focus has come as an initial shock to ChemSales’ sales force: “We put a lot of work in the tender process, in the design and in everything, so sometimes to find out that all that mattered at the end of the day was how cheap you were, can be a bit frustrating.” (Garreth, T8) Although Indie Oil has recently awarded a long-term contract to ChemSales, the cost focus remains a dominant feature of the relationship, as evident in the quarterly account management evaluation system, where cost reductions were a focal point of discussion (field notes, T17).

The arrival of low-cost entrants has forced ChemSales’ sales personnel not only to adapt their selling approaches to radically new business models, where cost reduction features large, but
also to develop an additional focus on business development. This is seen by ChemSales’ sales director Richard as a major challenge: Observing that some of his account managers are still uncomfortable with “having to sell”, he states that “they are used to talking technical with other technical people. They have the same background. But with selling without [a long-term contract], they are talking to process engineers. Not many of our people are really good at that.” (Richard, T3) The company has recently instigated sales techniques training for all account managers to boost the team’s business development and transactional selling skills.

With a somewhat diminished focus on value-added services and an increased level of business development activities, the arrival of new entrants such as Indie Oil has forced ChemSales to refocus their value proposition on their process innovation strengths:

“Rather than being able to market yourself as a company providing a suite, a package, of chemicals, personnel and solutions, when you are literally fighting for business on product-by-product basis, having innovative technology and R&D is really I guess going to come to the fore in terms of picking up new business.” (Chris, T11)

Despite this transactional focus, relational aspects have recently emerged in the ChemSales-Indie Oil dyad for two reasons. For one, process improvements that make production from mature oil fields viable for operators such as Indie Oil have a significant chemical component, thus presenting an important opportunity for chemical suppliers to add value to these customers. Second, extracting value from such oil and gas fields requires great emphasis on the stability of the operations. In order to ensure operational stability, Indie Oil has recently started to move away from a multiple-vendor and purely transactional purchasing stance. Indie Oil awarded its
entire North Sea chemical business in 2004 to two main contractors, namely ChemSales and one of its competitors. According to Karl, Indie Oil’s chief chemist, the company’s decision to move to longer-term contracts with a small number of vendors rather than continuing with a transactional purchasing format was chiefly driven by the need to minimize risks of operational failure:

“You’re trying to mitigate against as many risks as you can and one of those risks is when finger pointing comes from six or seven people claiming it’s not their fault, it’s somebody else’s fault. So you get nowhere. So the contract really moves from a chemical supply and service to a chemical management contract which is quite different.” (Karl, T20)

Longer-term contracts afford a modicum of stability to the sales relationship, but process innovation pressure remains at the foreground of the interaction: “we’re trying to challenge these people who supply us to come up with perhaps [continuous innovations] or at least look at alternatives to what we’re currently doing.” (Declan, T20) Innovation cycles in this industry are often upwards of nine months and require an intimate knowledge of the entire production system in place at any particular site. While the length of innovation was one of the reasons why Indie Oil (maybe reluctantly) moved to longer-term relationships with their chemical suppliers, it remains a matter of contention even within the contractual arrangement. Indie Oil puts significant pressure on ChemSales’ account managers to exchange incumbent chemical products as quickly as possible with better or cheaper ChemSales products. If ChemSales does not deliver incremental innovation fast enough, perhaps due to capacity constraints in their laboratories, Indie Oil reserves the right to go back to the market to look for a better or cheaper product. Thus, even when engaging in a (contractually stabilized) long-term supply relationship, Indie Oil’s
buyers retain the threat of calling on competition, keeping the market alive and the boundary between buyer and seller company more clear-cut than was the case in ChemSales’ relationship with Major Oil. The market threat and constant innovation pressure, paired with the late entrant’s cost focus, makes for a challenging sales context. Sales director Richard however perceives the potential value in this approach for ChemSales, as becomes apparent in the observed business meeting between the two organizations (T17):

Richard: “To increase margin we have to look into the efficiency of products, maybe new technology but also looking at some sort of innovation, innovation perhaps. So that if there’s additional value being created for Indie Oil, perhaps we could share a little bit of that.”

Declan: “Indie Oil would be reasonably receptive to that, yes. …what I was going to say to Richard just flippantly is if you can find products that you can supply to us, what’s the word, better and cheaper and more effective than we’re currently using you can have 75 per cent of the difference that you can supply. Does that increase your margin? Probably does actually.”

A further issue in ChemSales’ sales interactions with Indie Oil was the question of outsourcing: “We ask a lot of chemical vendors intentionally, it’s back to we don’t want to build an organization as big as [Major Oil] so we have to put a lot of effort on ChemSales’ shoulders.” (Karl, T20) While in many industries outsourcing is a further indication of maturity and a turn to a strict cost focus, outsourcing as perceived by these two proponents is a considerable opportunity to add value to both buying and selling companies. Some oil majors may have as many as 30 or 40 in-house chemists, whether as selling personnel contracted through a CMS or
as internal staff, but many of the new entrants have much lower knowledge and appreciation of the role of chemicals in the oil production system. ChemSales’ sales force sees their challenge in convincing the new entrants of the value that they can add in offering a service and knowledge, thus moving away from transactional selling toward a level of mutual dependency. Its relationship with Indie Oil, the largest of these independent oil producers in the North Sea, is interesting in that it is probably the most advanced of its relationships with the new entrants; while the minutiae of selling to this particular client are still vastly different from the selling mode to Major Oil described above, the company has successfully managed to overlay a valuable relational aspect on a predominantly transactional buyer-seller exchange.

Discussion

Case Summary

At first glance, we can expect sales personnel in mature markets such as the one studied to develop relationships with buyers as ways of differentiating what may otherwise become commodities. Just as sales personnel seek differentiation as means of giving buyers reasons to choose and retain them, so buyers evaluate sellers’ differentiated offers as means of addressing their particular problems. In our case, the final products, oil and gas, are commodities that companies transport to refineries. Hence, oil companies compete by series of processes, including exploration, production and transportation. The two buyers studied in this case, one a smaller independent oil company and one a major global player, have displayed substantially different business models to create value in these competitive processes. Within these business models, the two customers’ expectations of their chemical suppliers are similar in some dimensions, while clearly divergent in others. For both, chemistry suppliers such as ChemSales
support oil companies’ production and transportation processes most clearly in contributing to the “up-time” and the smooth running of oil companies’ production facilities. Both customers have instigated long-term contracts as an insurance policy of sorts to have a relationship with a one-stop supplier of their chemical needs who is answerable and responsible for any emergent problem in this process.

Beyond these everyday needs, both buyers relate to ChemSales’ sales operation in very different ways. Indie Oil has moved from a transactional stance to a closer buyer-seller relationship that is shot through with transactional elements, such as cost pressure and the ever-looming threat of competition. At the same time, it has slowly started to trust ChemSales and to outsource more and more processes to this supplier, all while focusing on the return on this relational investment. Major Oil, on the other hand, has moved from a relational engagement with a very limited number of suppliers to a situation where it now evaluates these supply contracts under a strong performance lens designed to work with all aspects of procurement. While it had previously outsourced almost its entire chemistry regime to an embedded contractor such as ChemSales and while it continues to work closely on a number of long-term projects with ChemSales personnel in a boundary spanning organization, it has started to critically assess the value of such projects under its strategic performance criteria.

Figure 1 captures the processes of maturity in the industrial market observed. It is drawn from the empirical analysis, represents the perspective of ChemSales as the focal sales organization and includes Major Oil and Indie Oil as representatives of the two types of buyers. Figure 1 indicates, in the jagged areas, some of the pertinent market dynamics under which the buyer-
seller relationships play out. It also represents three interaction processes as additional ‘nodes’ that are common across large and small buyers: outsourcing, discrete (non-contract or transactional) purchasing and innovation. These three processes represent an important context in which the everyday sales interactions with both large and small customers in this industry take place. The behaviors of the sales organization, represented in the boxed arrows, have an important influence on the quality of interactions and on buying decisions. Likewise, judging from our case analysis, different types of buyers will attempt to deal with the inherent uncertainties in different contractual and non-contractual arrangements (indicated by the double-headed arrows). In the following sections, we will discuss our results in more details under the headings of the three activities that shape the context of buyer-seller relationships: outsourcing, discrete purchasing and innovation. This discussion will demonstrate that the dynamics found in the industry under observation may also be indicative of those in other mature industrial markets. For this purpose, we formulate our findings in the form of research propositions that can be investigated in other contexts.

Sales Strategies and Buyers’ Outsourcing Decisions

For outsourcing decisions, a sales organization’s aim is to convince buyers to engage in long-term contractual arrangements with a strong service component (Wilson 2000). In order to achieve this aim, sales personnel can adapt to particular buyers initially by judging: where they are on the distribution of large and small companies likely to be found in a mature market; what the customer’s policy is on outsourcing and so managing its boundary with its suppliers; and the
ways in which individual buyers seek to manage the risks of market dynamics. By knowing intimately the buyer’s specific material problems, corporate strategy and individual risk perceptions, the relational seller’s task, in this context, is to convey the required confidence in the supplier’s competence levels to encourage outsourcing decisions.

While the extant literature has emphasized the significant role of salespeople in establishing buyers’ trust (Doney and Cannon 1997; Narayandas and Rangan 2004), our data show just how high the level of uncertainty attached to outsourcing decisions in mature markets can be. The uncertainty stems from the buyer attempting to balance a decrease in transaction costs and an increase in specialized knowledge in an outsourced relationship with the ambition of maintaining profitability by extracting the lowest possible prices from the market. As the economic literature reviewed at the beginning of this paper has indicated, uncertainty also stems from companies’ learning about their own and suppliers’ productive capabilities. Our first dyad represented an example where the buyer-seller boundary had been ‘deintegrated’ (Wilson 2000) by embedding key account managers into the client organization. In relation to this question of ‘who can do what most competently and most cost-efficiently’, our data also demonstrate that once contracts and boundaries have been drawn initially, salespeople are still in a position to literally ‘push’ corporate boundaries in their favor by clearly articulating their value contribution to the buyer, which was a process observed in our second buyer-seller dyad. The seller’s task with regard to a buyer’s outsourcing decisions therefore is to engage the buyer in an ‘integrative’ relationship (Wilson 2000) with strong systems and service elements to encourage outsourcing in the first place while at the same time continuing to emphasize value extraction through a strong performance focus. Unlike Wilson’s (2000) prediction that ‘deep’ buyer-seller relationships will
make business development, and by extension sales people, redundant, we would therefore argue that:

P1a: Due to accelerated learning effects among buyers and suppliers, customers in mature markets will frequently review their boundaries and outsourcing decisions.

P1b: Frequent boundary reviews will require a continuous business development effort on the part of the relational sales person throughout the outsourcing contract, emphasizing specifically performance achievements and value extraction.

Sales Strategies and Discrete Purchasing

The relational-transactional selling dichotomy is typically portrayed as a simple dual. Wilson (2000) has indicated that where costs become a focus for customers, such as in mature markets, the size of the supplier base typically shrinks and the remaining suppliers work more closely with the buyers. On the other hand, Pillai and Sharma (2003) argue that when the quality of supplier alternatives increases, as is often the case in mature markets, buyers may move away from a relational to a more transactional stance. In concurrence with Narayandas and Rangan (2004), our empirical findings reveal that the relational-transactional dichotomy requires careful interpretation in practice. In both dyads studied in this inquiry, part of sales people’s effort is in developing relationships operationally with their immediate client interfaces. At the same time and often in parallel, developing new business occurs continuously through seeking to change out the products of previous incumbents, by tendering for shorter contracts or contracts for
specific types of product, or by challenging another supplier’s solution when outside a longer-term contract.

Narayandas and Rangan (2004) have demonstrated across three mature industries that buyers often prefer informal agreements to contracts, a strategy which leaves them more maneuvering space and an easy exit if required. In our case, the two buying companies vary in the extent to which they organize the normal sales relationships contractually, and to which they allow transactions over and above the pre-determined contractual levels with the contract supplier or others. In the case of the first dyad with the large account, the relationship was an integrative one, with embedded sales personnel, but increasingly shot through with transactional elements. In the second dyad, the smaller independent operator retained a transactional stance but allowed for relational elements to enter the buyer-seller exchange. Our data suggest that in mature markets, rather than segmenting customers along a transactional-relational dimension, sales personnel require a wide range of selling strategies in addressing any one customer. Our data also corroborate Beverland’s (2001) argument that the precise combination of relational and discrete selling behaviors needs to be adapted to a range of contextual factors. In our case, the blending of transactional and relational selling took place in the interactions with both smaller and larger customers, but the ways in which sales personnel combined both approaches varied according to a customer’s characteristics and corporate strategies.

Proposition 2a: In mature markets, sales personnel are less likely to rely on either a purely relational or transactional selling orientation and more likely to incorporate transactional selling strategies into continuing relational activities.
Proposition 2b: In mature markets, selling into larger accounts will be mainly relational, with transactional elements allowing sales people to address buyers’ cost concerns and performance metrics.

Proposition 2c: In mature markets, selling into smaller accounts will be predominantly transactional, with relational elements allowing sales people to mitigate buyers’ risk perceptions.

Sales Strategies and Innovative Activity

Pillai and Sharma (2003) argue that in extended buyer-seller relationships, buyers may perceive a lack of innovativeness on the part of their long-term suppliers. The flipside of this argument is shown in Narayandas and Rangan’s (2004) observation that extra-contractual actions such as proactive innovations are a powerful demonstrator of a supplier’s performance and commitment. In the sales organization studied in this paper, sales personnel are regularly involved in proposing innovative solutions to buyers. Within a long-term contract, the quarterly reviews and key performance indicators articulate the buyer’s expectation that sales personnel will be proactive in identifying or anticipating problems. In situations of incremental innovation, sales personnel are seeking to encourage buyers to accept innovation in the context of dynamic material and market regimes, and at the same time trying to persuade their technical colleague to accept the innovations as development projects. Sales managers carry out a risk assessment of a project as they seek to develop it internally and externally. Two major issues in this assessment are the uncertainty of a pay back of the innovative process should a buyer refuse to accept it, and the transferability of potential competence gains to other buyers, especially where a customer’s
continued presence in the market may be doubtful. During these processes, sales personnel are required to translate buyers’ needs to their internal interfaces of technology group and manufacturing, who often experience their company’s encounters with customers only indirectly. The importance of sales personnel in understanding and anticipating market and customer dynamics serves to reverse the importance of R&D and sales respectively as drivers of innovation compared to earlier stages of the life cycle. Sheth and Sharma (2008) argue that sales research needs to investigate how salespeople engage in internal marketing activities to obtain resources from their own organization. Our data indicate just how important these internally-focused activities are in order to encourage innovation in a mature setting.

Proposition 3a: In mature markets, sales personnel represent an important innovation driver by promoting innovative processes to both buyers and technical colleagues in their own organizations.

In relation to innovative activities, a final and very important theme across both buyer-seller dyads studied was the question of value articulations. When selling in a mature market, a salesperson is addressing their own company’s and their various buyers’ ways of perceiving and articulating the value of an exchange. Customers’ valuations of their suppliers’ offers are valued to the extent that they allow customers to create value for themselves (Grönroos 2006). The crucial question for buyers is how to compare possible solutions, especially where the technically second-best is cheaper or well established. From an internal perspective, value articulations will depend on the likelihood that a customer will leave the mature market, or change their outsourcing or supply chain policies, and on the possibility of re-using customized offerings for
other buyers. Sales personnel have to work out how much initiative they should show in suggesting new or highly customized products or services and how to demonstrate the value of such products in the context of their continuing business relationships. Our data corroborates the suggestion that salespeople are instrumental in formulating what Cova and Salle (2008, p. 270) recently called a “customer network value proposition”, both to their internal and customer constituencies.

Proposition 3b: In mature markets with uncertain innovation rents, sales personnel are instrumental in shaping, articulating and reconciling different value perceptions across a number of external and internal constituents.

**Conclusions**

To summarize our investigation of relational and transactional selling in a mature industrial market, emphasis needs to be given to the significant and often unacknowledged levels of uncertainty inherent in buyer-seller interactions in mature markets. Our empirical analysis has shown that this uncertainty pertains to: the composition of the market and the size and organizational structure of the buyers; the ways in which buyers draw their corporate boundaries through their supply contracts; the precarious nature of innovation, even where incremental; and expectations of performance and articularations of value. Our findings demonstrate that from a sales perspective, these uncertainties require a careful and contextually sensitive balance of relational and transactional selling strategies.
While we acknowledge the limitations of a single case study, the fusing of our exploratory research with extant literature into propositions not only allows readers to gauge this case’s transferability to other contexts, but it also allows propositions to be tested in different environments in the future. With more and more global markets in a state of maturity, we argue that the dynamics of selling described in our case can be applied to a variety of industrial contexts internationally. Future research may consider, for instance, the impact of buyers’ performance metrics on the dynamics of long-term buyer-seller relationships. Such research should also study how salespeople communicate innovative requirements and/or possibilities between the buyer and seller firms, and how they articulate their claims of value to buyers, end users and internal constituencies. In addition, we would call for longitudinal research to observe changes in selling approaches when industries move from one life cycle stage to the next.

Practically, our case analysis demonstrates a number of important issues that sales management in mature industrial markets should be aware of. For one, dynamic regimes of outsourcing and redrawing corporate boundaries will require sales personnel who can adapt their service levels and competence claims and who are intimately knowledgeable of a buyer’s business model and performance issues. Second, where longer-term contracts represent the prevalent mode of interaction between buyers and sellers, these are most likely supplemented by regular transactional exchanges and also subject to a strong performance focus in mature markets. Sales personnel thus have to be trained to incorporate both transactional and relational selling skills into their repertoire. Third, much of the value added for both supplier and buyer firms in mature markets will stem from incremental innovation. From the selling firm’s perspective, strong collaborations between sales and Research and Development departments are necessary to
convince buyers of the value of innovations and to make them commercially viable in industries with uncertain future returns. Finally, clear articulation of the value of a supplier’s offers will be even more central to salespeople’s buyer interactions than in less dynamic markets.
References


