

Don't stand so close: The downside of suppliers getting cozy with their customers

July 30 2013

Specialty suppliers such as those that cluster around the technology industry in the Silicon Valley and the auto industry in Detroit foster economic growth, right?

New research by Maxim Sytch, professor of management and organizations at the University of Michigan Ross School of Business, shows there's a downside to suppliers locating in close proximity to their customers. These suppliers eventually create demand for their services without regard to the growth of the industry cluster.

"I find the influence of this specialist supplier base is not always positive," Sytch said. "At first, they are naturally attracted to these geographic clusters because there's demand."

Sytch studied the role [intellectual property law](#) firms play as specialist suppliers of legal services to biotechnology and pharmaceutical companies. He examined the patterns of co-location among law firms' offices and the companies, the amount of [patent litigation](#) that followed and the outcome of the litigation.

Proximity allows sustained social contact with companies to influence toward aggressive and often protracted legal action. The matters are further complicated by the specialized nature of [patent law](#) and intellectual property litigation.

Patent litigation is very sophisticated and in-house counsels of

corporations—even those of biotech and pharma companies—can't always get a handle on it, Sytch said. So they rely on the expertise of nearby suppliers.

"The underlying mechanism here is [social influence](#) by lawyers as carriers of expert knowledge," he said. "This is emblematic of a more general tendency in human behavior where we rely on experts and their advice to help us deal with uncertainty."

So how can companies get a better idea of what's necessary from a specialty supplier? The less a company knows about an issue, the more it relies on a niche supplier.

Sytch said that recognizing this tendency and perhaps gaining some additional expert knowledge in a critical area—such as intellectual property in biotech and pharma—would be a good start. Full-scale outsourcing comes with risks.

Provided by University of Michigan

Citation: Don't stand so close: The downside of suppliers getting cozy with their customers (2013, July 30) retrieved 10 April 2024 from <https://phys.org/news/2013-07-dont-downside-suppliers-cozy-customers.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--