

Trusted suppliers may recommend good but not best when referring rivals

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New research conducted by Distinguished Professor of Management Science Gary Lilien explores the dynamics of business-to-business referrals. Credit: Smeal College of Business, Pennsylvania State University

In business-to-business (B2B) transactions, customers often seek referrals from trusted suppliers. Those referrals may involve those suppliers' competitors, putting suppliers in the difficult position of referring their most important clients to their competition.

According to Gary Lilien, distinguished professor of management science at Penn State's Smeal College of Business, those trusted suppliers tend to give at least good referrals to protect the customer-[supplier](#) relationship but are often unlikely to offer the best recommendations so they can stay ahead of their competition.

The researchers published their findings in the *Journal of Marketing Research*. The work, Lilien said, will likely become more relevant as recent supply chain disruptions drive customers to seek more horizontal referrals and avoid becoming overly reliant on a single or small number of suppliers.

"When we interviewed people for the study and asked them how often they sought horizontal referrals, about 70% of the respondents said it happens all the time," said Lilien, who also co-founded the Institute for the Study of Business Markets (ISBM).

"Companies may have a policy, for example, to avoid having more than 60% or 70% of their business dependent on a particular supplier. We observed this problem during the recent supply chain disruptions. This creates a situation called 'coopetition'—where you're competing, but also cooperating with your competitors."

Considering the significant economic value of B2B transactions and the importance of agile supply chains, these referrals are extremely valuable to the overall economy, Lilien added.

"These are not small transactions—they involve decisions that could be

worth tens of millions of dollars in some cases," Lilien said.

To better understand the decision-making process for referrals and the resulting impacts, Lilien and an international research team—including two Penn State alumni—conducted a series of studies to explore the dynamics of B2B referrals. They found that many customers do indeed seek out horizontal referrals from their long-time trusted suppliers. For example, a smartphone manufacturer's largest supplier of displays is display manufacturer A. The smartphone manufacturer, concerned about overdependence on a single supplier, asks display manufacturer A for a horizontal referral for another display manufacturer. In this case, the display manufacturer ended up licensing some of its technologies to the referred-to firm.

"The takeaway from the paper is that businesses should be aware that dependent suppliers may benefit financially from giving good instead of great recommendations," Lilien said. "Dependent suppliers, those who rely heavily on a business relationship, may provide a good recommendation, but not necessarily the best possible one. If your policy is to ask your most dedicated suppliers for referrals, understand that it puts them in a conflict of interest, torn between their role as a friend and their role as a businessperson to do what's best for their company."

To understand how horizontal referrals work in practice, the researchers conducted initial interviews with 132 referring suppliers and then designed three experiments. Study 1, with 387 respondents, revealed that referring suppliers sometimes act as friends and give the best possible referrals, but they also sometimes act as businesspeople and give good but not best referrals.

Study 2, with 363 respondents, narrowed down the reasoning underlying these decisions. Study 3, with 818 respondents, determined that if the customer detects a suboptimal referral, it can jeopardize and possible

sever the customer-supplier relationship. All participants had at least two years of work experience in B2B industries.

Lilien collaborated with Arnaud De Bruyn, professor of marketing at École Supérieure des Sciences Economiques et Commerciales, a business and management school in France; and Mahima Hada, associate professor of marketing at Baruch College, who served as the first author of the paper. Both De Bruyn and Hada obtained their doctoral degrees from Penn State Smeal College of Business.

Lilien emphasized that this research builds on a legacy of B2B research at Penn State.

"We have a distinct strength here at Penn State in the field of business-to-business marketing due to the ISBM, founded at Penn State in 1983. The ISBM is a pioneering research institute in the B2B industry and the premier research institute in the B2B domain globally," said Lilien.

According to Lilien, this research and other work supported by the ISBM has opened new avenues for understanding and optimizing B2B relationships, enabling companies to develop stronger partnerships and drive mutual success.

More information: Mahima Hada et al, Horizontal Referrals in B2B Markets, *Journal of Marketing Research* (2023). [DOI: 10.1177/00222437231175415](https://doi.org/10.1177/00222437231175415)

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