Helping State Agent to understand the Private Sector

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Abstract

This paper´s main purpose (based on author´s own experience) is to allow to the public organization's agent to get a better understanding of how the private sector works**.** It seems crucial as the private sector is the state´s principal supplier, acting as its counterpart in an almost daily negotiation.

Since the article is destinated finally to state agents (seldom management experts), a colloquial language is vastly used, avoiding as much as possible any very tough academic definitions.

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Introduction

Usually, for state agents, all companies seem the same: just privates.

Reality has taught the opposite. Indeed, the current business world often arises the big question: what differentiates one firm from another, allowing them to achieve diverse success level, when at first glance both companies seem (to outsiders) almost identical.

Many explanations only offer a partial solution and quite constrained in time. When comparing companies according to its resources, structures, markets objectives or strategies, is being ignored that reality is always changing, what prevents businesses, (as living organisms), to remain static.

Two private organizations never will be absolutely "identical", although they try to imitate each other. As said: never the same person may cross the river twice, since having traversed it once, he doesn´t remain the same individual that crossed previously. Now he has the "know how". When imitating, the aim is to make the same, not considering if the circumstances are different, as well the stakeholders, not to mention that the follower is always one step behind the leader.

For many of those who work in the public sphere, some codes of private business behaviour might be incomprehensible or even incorrect. In our current reality, state administration´s main suppliers are from the private sector, therefore it´s essential for the state agent to understand the behavioral patterns of its counterpart.

Mistakenly is often assumed that all state agents are properly internalized regarding the industry that they must deal with, and the involved companies.

This is a qualitative, exploratory, subjective, case study interpretative research. Serving just as an example, here is described the case of a food manufacturing and distribution company. It will be shown how it interacts with the other actors involved in its industry. This paper will be focused on the customers, deferring the relationship with suppliers and competitors to future articles.

Customer´s strategic management

For the military, strategy is simply the science and art of using armed force of a nation to achieve aims determined by their leaders. Management strategy basically means the adaptation of resources and skills of the organization to the changing environment, taking advantage of opportunities and evaluating risks according to its objectives and goals. Firms use the strategy in uncertain situations, non-structured, non-controllable, situations where its counterpart's behavior cannot be predicted.

To be clear about the current and future business it's crucial, in order to manage properly a company.

The concept of strategy, can be analyzed taking three elements that complement one another and form a whole. These elements are:

A-*Vision*: One of the main tasks of leadership is to be sufficiently eloquent to communicate firm´s vision to its members, in terms that can articulate the vision until it becomes part of the culture of the organization.

What products are offering the market?

Do we think that they are "different"?

What benefits will bring these products to the customers?

How are we going to structure our relationships with providers?

How are we going to organize the distribution of products?

How we develop our value proposition to employees?

Why should they work for us?

B-Positioning. Strategy must choose the positioning required for the company and its products in consumer's mind, and to occupy it before the competition. This action results from two strategic maneuvers: segmentation and differentiation.

Position is to cut out the market in segments by specific demand, in order to be considered by the potential customers as "the" company that can offer the solution to their needs.

The vision and positioning allow to set objectives and targets: *Strategic Plan.*

Firm strategy should be adjusted to the environment where it operates.

The main technique used to analyze the competition in the industry environment is the five forces model: The rivalry with existing competitors, the power of negotiation of customers, the bargaining power of suppliers, the threat of new competitors and at last the threat of products or substituted services. Another elements to be considered in the competitive battle, are the barriers of entry and exit to the market.

Leadership based on real costs lower than all competitors is related to the productivity and operational efficiency that has the company and which distinguishes it from others.

Leadership based on the differentiation is the sense of a singularity, having a competitive advantage that can be maintained over time and is difficult to imitate. In our example, the firm finally implemented differentiation strategy.

In this article will be analyzed just a few highlights of its relationship with the customers, leaving for future papers the study of their link with suppliers, competitors, environment, state agencies and internal strategy (organization chart, treatment of assets and liabilities, human resources, etc).

The approach to customers reflects well the culture of each company, so it is a very useful tool to reveal the strategy adopted. The following is a brief overview of some confidential internal guidelines:

1- To provide the best product available on the market. Since the company has adopted a differentiation strategy (quality, identification) not a cost one.

2-*To dispatch exactly as requested in the P.O. sent by mail.* This shows that the compliance has been assumed as a primary factor. As a cosequence of this decision, the costs involved to achieve high rates of effectiveness, will be inevitably lead to higher prices. In addition, it evidence the strength of the relationship with the customer, by requiring written purchase orders, unlike the usual phone calls, often a great source of errors.

3- *Total compliance of timing at any cost.* For an industry that operates 24/7 an out of time delivery can lead to the rejection of the whole purchase order. As told in the previous point, the price, incorporates accomplishment, quality and excellent service as well.

4-Agreement to develop customized products. The compromise to keep a permanent product development line, makes more expensive the production process, but it is essential to convince the customer to outsource its bakery and pastry requeriments. Exclusivities and personal designs are needed.

5-*Maintenance of confidentiality.* This is a crucial factor, because it´s impossible to access to the intimacy of a customer, in case he fears that his trade secrets might be leaked

6-Total flexibility for daily customers last minute requirements, andl to refuse all out of time P.O. sent by occasional customers. Although it might sounds drastic, it is a clever strategy to achieve loyalty. There are a lot of incremental costs when these unscheduled purchase orders are satisfied. Then the message transmitted to the client is "you´re with us or alone", since no other company is capable to sort this kind of problem. Although the refusal will generate immediate discomfort, the idea is not to solve this occasional customer issue, because when the problem disappears, then everything returns to its previous state. By rejecting the order, it remarks current supplier inability, and delivers better tools for a future negotiation.

7-Firstly to solve customers' complaint asap, and later to analyze responsibilities to bear the costs. This is a great difference with other high bureaucratized companies, or with ill-defined responsibilities inherent in charge. Often taking a small cost prevents millions in losses.

8-To priorize customer's retention over the incorporation of new ones, and to be focused only on those that fit to company policies regarding purchases and collection terms. This reflects the philosophy of the firm: not to look at the neighboring houses, while someone might be stealing from in own backyard.

9-Organic growth is conditioned to own resources. The company accepts to modify its products, but not its way of acting, thus customers that cannot be alligned to the firm strategy, should be not incorporated. This point is fundamental to understand the level of success achieved. Similar cases can be found in several industries: for instance airlines that uses only one aircraft model.

10-*Not to accept P.O. which might not be served on time.* Is critical to explain in advance to the customer the technical feasibility or to warn him regarding the risks of non-compliance. In the private sector this is not only risky, but lethaly harmful. By accepting a P.O. that it is impossible to accomplish, the responsibility is transfered from the customer to the supplier, since the client assumes that his requirements will be fully satisfied

11-To avoid any informal relationship with the customer, since it can be misinterpreted, or adopted as standard. This means a head-on collision with the behavior accepted in the local environment. The misunderstanding to this stance, lead to seriously reconsider whether it was really feasible to implement it. Favors, gifts, and hide mistakes, have formed an intrinsic part of the chilean market culture. It has been demonstrated that a customer never was lost while keeping the counterpart in a formal relationship frame. Once the seller accepts "special requeriments" it might be assumed as a supplier´s duty by the purchaser. Bluring the boundaries finally damages the relationship, declininig the trade, and passing from love to hatred, with the consequent drop of the transacted amount.

12-Price list charged to a client should be the highest he can afford. The previous is specially hard to understand by the state agent. Every company is founded to make money, through to satisfy a market demand that has been appropriately identified. Therefore, it is a race against the time, against its competitors, and even against its own customers, which will inevitably vary in the near future their tastes and preferences. Thus, private cpmpany should sell to anyone who allows earning generation, but not when by accepting one deal it provokes to lose others more profitables in a long term view.

13-All orders that can not be delivered complete, require a prior notification to customer, and to search jointly for agreed substitutes or the P.O. cancellation. This mechanism, avoids misunderstandings, transferring the issue to the competitors, with no damaging at all the relationship with the customer.

14-Our prices must always be the most expensive of the market due raw materials used, craftsmanship and service quality. As previously stated, prices convey customer's fully satisfactions. As an anecdote, it is worth to remember that once the manager received a customer's phone call claiming because the prices were 5% more expensive than the competitors. Manager´s reaction was to thank the client for the provided information, and immediately to increase this client price list another 5% at least, because 10% was the gap assessment due differentiation.

15-There will be no discounts or promotions, but each customer will handle a price list previously negotiated, fixed for 6 months. For a private company, its prestige does not only refers to the quality of its products and services, but also to trade compromises fulfillment.

16- Customers who purchase products from our competitors will not be accepted, arguing technical excuses. Purchase orders can be rejected, arguing lack of stock, logistic problems, credit issues, etc. This is an extremely controversial point, but must be emphasized that by not participating, it also provides a good reason for the buyers why not to trade with competitors.

17-Customers who only purchase commodities will not be accepted. due its very poor added value. This statement can be considered even suicide, because normally trade relationship in the food service industry starts from basic sku. By adopting this stance, the company filters those customers who eventually might become to big buyers of low margin contribution products, demanding a large use of resources

Conclusions

No doubt the author indeed has an intrinsic interest in this particular study. Since each case is unique, so no one is typical of another, therefore the first criterion should be, as sustained by Stake (1995), to maximize what can be learned from the research.

Simons (2009) sustains that "*given sufficient detail and rich description, a reader can discern which aspects of the case they can generalize to their own context and which they cannot* ".

The singularity of any firm is usually perceived by customers, suppliers and employees, as the knowledge of a very complex blend of secret procedures and products (and/or services) development, led by its directors with a vast network of contacts and broad know-how, that provide to the company several sources of competitive advantage, which allows to adopt a certain corporate culture and strategy.

Therefore, although it can be perceived initially as like many others private companies, the previous listed business practices transformed this firm into a singular case, with its own label. The same is valid for any private sector company. Any state agent must to assume that he´s not capable to know in advance his counterpart internal information, as it was revealed in this case. The highlights of any private company will be partially unveiled during the negotiation. This paper's merit, therefore, might consist of decoding some of these codes, in order to help to state agent to achieve better negotiation conditions, impeding him to cross red lines.

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