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Customer Relationship and Cost Stickiness

Research Proposal

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Abstract: Numerous studies of cost stickiness have focused primarily on the company inner relationships overlooking its supply chain relationship,such as customer relationships. Built upon the theory of transaction cost and the theory of resource dependence theory, this paper investigates the negative effects of customer relationships and cost stickiness in china. And this paper intends to address the following issues: (1) how does customer concentration affect the Cost Stickiness of enterprises? (2)The second one is how can the stability of the customer relationship affect the Cost Stickiness of the enterprise? (3) how does the concentration ratio of customer relationship affect the sticky cost when there are regional differences in the degree of marketization?

Key words:customer relationships ;customer concentration ;cost stickiness; marketization

1 Introduction

1.1 Problem statement

Anderson et al.(2003) found that the changes in sales costs, general costs and management costs of US listed companies fluctuate asymmetrically with different directions of business volume. This phenomenon is called cost stickiness.From the point of view of the components and characteristics of the cost, both the capital density and the labor intensity have been proved to increase the cost stickiness(ubramaniam and Weidenmier，2003).Customer is an important factor affecting the cost and behavior of the enterprise .Customer-supplier relationships affect customer and business operating activities, cost structure and profitability (Kim and Wemmerlov, 2010). However, many scholars study on clients that focuses on the proportion of customer sales, ie, the effect of customer concentration on business operations, accounting performance and capital market performance (Patatoukas, 2012). Little concentrates on the possible impact of other customer characteristics on a business or a third party.

Therefore, this paper mainly analyzes the characteristics of customer relationship , explores the mechanism of the impact of customer relationship on cost stickiness, and puts forward two major questions. The first one is how does customer concentration affect the Cost Stickiness of enterprises? The second one is how can the stability of the customer relationship affect the Cost Stickiness of the enterprise? Besides, considering the situational factors of unbalanced development in the process of marketization in China, how does the concentration ratio of customer relationship affect the sticky cost when there are regional differences in the degree of marketization? Through data collection and empirical analysis, we hope to explore the influence mechanism of customer relationship on Cost Stickiness.

1.2 Statement of the research objectives

Accordingly, this study mainly exploits the possible negative influence of customer relationships and cost stickiness.The following tasks will be addressed: (1)explores the concept of customer relationships , (2)clarifies the effecting path of customer relationship on cost stickiness considering the process of regional marketization. (3) indicates the influences between customer relationships such as the degeree of concentration or the stability of customer relationships and cost stickiness.

2 Literature Review

2.1 Cost stickiness

Banker et al. (2010) made a summary of the empirical studies on the cost stickiness. They are three main causes of cost stickiness; one is to adjust the cost, the other is the manager's optimistic expectation and the third is the agency cost. Adjusting costs is an important factor in cost stickiness. Anderson et al. proposed that the cost of downward adjustment of resources by enterprises is higher than the upward adjustment of resources, which leads enterprises not to be willing to lower their resources compared with the same period of last year, thus resulting in cost cohesion. Some studies confirm that the higher cost of enterprise resources such as capital and labor, core assets, organizational capital and non-economic causes lead to high cost of enterprise stickiness. In addition, the scholars concerned have expounded the more stringent labor protection laws from the perspective of the labor protection contract law. The higher the cost of labor force adjustment, the greater the cost stickiness.Manager expectations are also one of the key factors in cost-stickiness. Hu Yuming (2011) argues that the higher cost of sticky delivery is the positive message that managers expect future accounting surpluses, that is, there is a high cost stickiness as business volume declines because managers are optimistic about future sales, and Wanshouyi 2011) support this view. Agency costs can also be an important incentive for cost stickiness. The Red Army (2011) verified the opportunistic factor that China's cost-viscous behavior does include management.

2.2 Customer relationships

Bonacchi et al. pointed out that customer value is significantly and positively correlated with stock price, future earnings and earnings bias of listed companies, which shows that customer value can bring incremental information to listed companies as intangible assets. Wang Xiong Yuan (2016) found that stable clients can improve the accuracy of analyst forecasts. Chen Jun et al. (2015) showed a significant negative correlation between firm's customer concentration and its equity capital cost. Clients focus on reducing the company's sales management and inventory holdings, improving asset turnover, shortening the payback period, and increasing accounting returns (Patatoukas, 2012), accelerating the supply chain (Hsu et al., 2015). Especially when the agency problem in the supply chain is more serious, clients can improve governance by cross-boarding the board of directors (Chang et al., 2015). When large clients have strong bargaining power, they can improve the soundness of the company's accounting policies and reduce the possibility of hidden bad news (Hui et al., 2015), prompting them to release more earnings forecast announcements (Cao et al., 2013).

It proves that customer concentration does bring some risks to the enterprise. Specific to the customer relationship, when the company is more dependent on the customer, the client gets a stronger bargaining power and the company loses bargaining power, so the customer will reduce the factor price (Willysson, 1985), or renegotiate a company's innovative rent through renegotiation (Hsu et al., 2015), and the company is forced to relax its credit terms and retain potential liquidity risks and costs in order to retain customers , Reduce the level of debt, to avoid the risk of customer relationship loss caused by the loss (Banerjee et al., 2008). This will bring certain financial and operational risks to the company.

2.3 Market-oriented process、Customer relationships and Cost stickiness

As for the degree of marketization and cost stickiness, Gong Qihui (2010) found that the higher the level of development of the market where the Company locates, the lower the cost-stickiness would be. Cui Ya-nan (2012) tested that the cost-sticking behavior of listed companies was negatively correlated with the degree of marketization in the locality. In addition, there are few studies on the relationship between customer relationship and cost stickiness. Wang Xiong-yuan (2017) analyzed the correlations between customer relationship and cost stickiness based on the cooperative effect or the knock-on effect. Overall, the cooperative effect is stronger than the knock-off effect. Jiang Wei et al. (2017) found that the relationship between customer concentration and cost stickiness of private-owned enterprises is more significant than that of state-owned enterprises.

3 Hypothesis

The degree of customer relationship concentration affects the Cost Stickiness by information mechanism and governance mechanism. As for the information mechanism , customer concentration is high, which results from specific asset investment. It will further promote the sharing and integration of information so that customers can obtain the supplier's private information (Schloetzer, 2012) .Only when the company take advatage of the information,can it supervise the company's operating activities, opportunistic behavior management which will reduce the cost stickiness.

As for the governance mechanism, the customer has some implicit rights, which depends not only on the size of the supplier's performance, but also with the adverse selection and moral risk management to be stuck. Therefore customers have a strong incentive to monitor supplier operations and performance (Klein, 1978). Firstly, the degree of customer's concentration is high, and the effect of the governance mechanism is limited by the opportunism of the management of the enterprise, thus reducing the stickiness of the enterprise's cost. Secondly, customers will help enterprises to face the problem of cost management, reduce the unnecessary adjustment cost of customers, and reduce the Cost Stickiness .

*H1:*The higher the degree of customer relationship concentration , the weaker the cost stickiness.

Customer relationship is not only reflected in the performance of customer concentration, but also the stability of customer relationship will have a significant impact on the production and operation activities of core enterprises. The stable relationship between the core enterprise and the customer is beneficial to reduce the production cost of the enterprise.

From the perspective of managers' expectations, because of the stability of the relationship between core businesses and customers, business managers can produce according to the needs of customers, so as to effectively reduce the cost increase caused by over production, thus reducing cost stickiness.

From the point of view of adjustment cost, if an enterprise has stable customer relationship, because the demand of downstream customers is relatively determined, the adjustment of production will be relatively small, thereby reducing the adjustment cost and reducing the cost stickiness.

From the perspective of agency cost, customers as an important stakeholder, customer concentration is easier to performance the governance mechanism effect when customer relationship is stable. The "governance effects" of these customers can reduce the "moral hazard" and "reverse selection" of the management layer (Jensen, 1986). As an important part of the external supervision, the customer will limit the opportunism of the enterprise manager to a certain extent and reduce the Cost Stickiness of the enterprise.

H2:The higher the stability of the customer relationship, the weaker the cost stickiness.

In a relatively low market area, the development of product market and factor market is relatively low, and the legal system is not perfect (Li Huiyun, 2016). with relatively few market participants and intermediary organizations, the cost is higher in the lower marketization of enterprise information search. When customer concentration is high, the effect of customer information mechanism for local enterprises and governance performance is not obvious, which will weaken the negative relationship between customer concentration on enterprise cost stickiness.

In the areas where the market is advanced, the market competition is more fair, and the relationship resources between customers and suppliers are less. At the same time, the market intermediaries in these areas are more developed, and the legal system environment is more perfect (Cheng Sheng, 2011). Therefore, companies need not rely too much on long-term contracts. The higher the concentration of corporate customers, the more reliance on legal protection and mutual trust mechanism can reduce the cost of adjusting production and operation resources and reduce cost stickiness.

H3:Compared with the less market-oriented regions, the negative correlations between the cost-stickiness and customer relationship concentration of the firms in the highly marketed regions are more significant.

4 Methods

4.1 Participants

the Shanghai and Shenzhen A - share manufacturing companies for 2009-2016 years is selected as the initial sample owning to its complexity which originates from its large customer base and its importance of cost management.

4.2 Operational definitions of main variables

This article examines whether and how customer concentration affects firm cost stickiness. Dependent variable are the changes of the cost of sales, the independent variables are the changes of the sales revenue, the decline of the sales revenue of the enterprises in the year (DD), the top five customers' concentration (CC), the stability of customer relationship (CS) And marketability index (MR).It is mainly used in the top five customers total sales accounted for the proportion of total sales to represent customer concentration..The stability of customer relationship is a dummy variable. The standard deviation of customer concentration in 3 years is lower than the industry median by 1, otherwise the value is 0.

The indicator measure of the marketization process mainly refers to the practice of Li Huiyun (2016), and selects "China Marketization Index - Market Orientation Index of All Regions" in the Annual Report 2011 of "Market-oriented Indices of All Regions in China" as the measure of marketization . The four provinces of Guangdong, Shanghai, Zhejiang and Jiangsu are regarded as highly marketed areas.,and the MR value is 1,thus the MR value is 0 in other provinces.

5 Possible results

we provide evidence that the higher the concentration of customer relationship, the less the cost stickiness.in addition,we make a conclusion that the customer relationship stability is related to the cost stickiness negatively. Compared with the low degree of marketization, the negative correlations between the cost-stickiness and customer relationship concentration of the firms in the highly marketed regions are more significant.

6 Discussion

Although the paper takes the stability of customer relationship into consideration to analyse the correlation between customer relationships and cost stickiness,but there are some limitations such as overlooking the big customer specifically. Therefore it can be included that the customer relationships overall such as customer reorganization, liquidation to investigate the further influence between the supply chain relationships and cost stickiness.

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