INITIATING AND SUSTAINING DURABLE BUYER-SELLER RELATIONSHIPS: A CASE STUDY OF NNPC'S PIPELINES AND PRODUCT MARKETING COMPANY (PPMC) DEPOTS AND THEIR MAJOR/INDEPENDENT MARKETERS

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BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS ADMINISTRATION, AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA)

DECLARATION

I hereby declare that this project has been written by me and that it is a record of my own research work. All sources of information and application of other writers' views have been duly acknowledged in the references.



Signature

29/12/99

Date

CERTIFICATION

This project titled "Initiating and sustaining durable buyer-seller relationships: A case study of NNPC's Pipelines and Product Marketing Company (PPMC) Depots and their major/independent marketers," by Ahmed Rufa'i Shehu, meets the regulations governing the award of the degree of Master of Business Administration (MBA) of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation under the supervision of Mr. A.B. Akpan.

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Name and Signature of Supervisor — Date

..... 16/12/08 .....

Name and Signature of Head of Department — Date

..... 09/12/08 .....

Date

Dean School of Postgraduate .....

DEDICATION

DEDICATED TO MY AUNTY HAJIYA FATIMA (HAKURI)

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ACKNOWLEDGEMENT

All thanks are due to ALLAH (Subhanahu Wata'ala) the most omniscient, the most merciful, the giver of knowledge, may his peace and blessings be upon His exalted messenger Muhammad (SAW).

My sincere regard and appreciation to my lecturer and supervisor, Mr. A.B. Akpan who has been of immense support throughout this work and for his guidance and useful criticisms which have helped a lot in the completion of this work.

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Finally, I am highly indebted to my family for the moral support during the period.

May God reward you abundantly.

ABSTRACT

The study, "Initiating and sustaining durable buyer-seller relationships" was carried out to see how organizations initiate and sustain relationships in the process of doing their business. NNPC's Pipelines and Product Marketing Company (PPMC) Depots were chosen as a case study.

Data for this project was collected through the administration of questionnaires and through personal interviews with the staff of PPMC depots.

Among other things, the study revealed that the company under study based most of its relationships on legalistic contracts rather than strategic partnership. Its major reason for being in business is profit oriented.

In this study, emphasis has been laid on the need to get suppliers involved in the design and specification stages of the products or services. This will concretise their relationships with their buyers and will in turn minimise uncertainties in them.

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CHAPTER ONE

1.1 INTRODUCTION

Industrial marketing has been defined as "that aspect which is concerned with the marketing of goods and services to business and other organizations for use in the goods and services which they, in turn, produce," E. Raymond Corey (1976).

In this regard therefore, industrial customers include commercial enterprises, government organizations and institutions and family units.

To Stanton, industrial marketing is "the marketing of industrial goods and services to industrial users." This definition is in line with that of Corey (1976).

By the nature of industrial marketing and the characters of both the market and the participants, the development and management of an effective buyer-seller relationship becomes very necessary and important.

Generally speaking, therefore, the buyer-seller relationship is the interaction between the representatives of the buying organization and the selling organization. However, from an industrial marketing point of view, it is possible to have more than one person on either side of the relationship, but the two persons remain the cornerstones of more complex social interactions.

This study sets out to examine the nature of buyer-seller relationship in industrial marketing by taking into consideration how they can be initiated and sustained for a long time.

Chapter one deals with the way the project will be carried out, the significance of carrying out the study and the main objectives towards which the study is expected to achieve. Chapter two reviews the relevant literature that exist. Chapter three takes a close look at the Pipelines and Products Marketing Company and its depots. It examines their facilities, structure and organisation, their relationship with major and independent marketers and their line of operations. In chapter four, data collected are presented and analysed while recommendations are made in chapter five.

1.2 STATEMENT OF THE PROBLEM

The work of the industrial seller becomes more and more complex as competition increases and the nature of market continues to change. Some markets are dispersed instead of being concentrated. This dispersion brings about a great distance between the seller and his potential markets. It is therefore pertinent for the seller to find ways of interacting with and maintaining his customers. To achieve this, the establishment and effective management of a buyer-seller relationship becomes very necessary.

It is quite possible for buyers to switch or enter into situations of modified rebuys with competing firms due to increased pressure from management for them to buy the right goods at the right price and at the right time and place. The tendency to switch will be reduced if there is a good and effective buyer-seller relationship. This will encourage a straight rebuy situation.

1.3 OBJECTIVES OF THE STUDY

The purpose of this study is to find out how organizations can initiate and sustain durable buyer-seller relationships. The study will be concerned with the following objectives:

1. To find how relationships between buying and selling firms change over time.
2. The factors that encourage buyers to sustain relationships with one or a few suppliers.
3. To find the implications of close buyer-seller relationship.
4. To find the types of relationships established by both buying and selling firms.
5. To find out the problems that are likely to result from close relationship and proffer possible solutions to these problems.

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1.4 SIGNIFICANCE OF THE STUDY

It has often been observed that buyer-seller interdependence plays a vital role in industrial marketing. This is to say that industrial firms establish buyer-seller relationships which are quite close, complex and often a times long-term. These aspects of relationships have not received close attention in the literature until of recent. Emphasis was always on the analysis of the process by which buying firms arrive at individual purchase decisions and the ways in which the seller can influence this process in its favour. This study will serve as a good material for initiating and sustaining durable buyer-seller relationships, which can equally be used as a reference point for future study in this area.

1.5 SCOPE AND LIMITATIONS OF THE STUDY

This study is confined to how organizations can initiate and sustain durable buyer-seller relationships, with NNPC's Pipelines and Product Marketing Company depots as a case study. Data for this study will be collected from the personnel of PPMC and their depots. Due to limited time for the completion of this study, collection of the buyer related information will be limited to Kaduna and its immediate environment. This is why it won't be possible for the researcher to reach the Warri and Port-Harcourt refineries and their depots which will involve a lot of financial commitment and time consumption.

1.6 RESEARCH METHODOLOGY

This research will take a descriptive approach. This calls for an accurate presentation of facts about the situation as found when this study was carried out. Primary data will be collected through the administration of questionnaire and personal interviews with selected staff of NNPC Pipelines and Product Marketing Company, Kaduna.

The secondary data was got from relevant literature, books, journals, magazines and unpublished works in the area.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 THE NATURE OF RELATIONSHIPS

Not all the dealings between industrial buying and selling firms take place within close relationships. There are clear differences between the supply of paper clips and automotive components, or between the supply of lubricating oil and factory equipment. The product and process technologies are factors in determining the nature of buyer-seller relations. Also important are the buyer and seller market structures which exist and hence the availability of alternative buyers and sellers.

"Companies will develop close relationship rather than play the market, where they can obtain benefits in the form of cost reduction or increased revenues." These benefits are achieved by tailoring their resources to dealing with a specific buyer or seller, i.e. by making "Durable transaction investments." "These investments mark major adaptations by a company to the relationship." These adaptations mark a commitment by the buyer or seller to the relationship.

They can be seen clearly in such things as a supplier's development of a special product for a customer, a buyer's modification of a production process

to accommodate a supplier's product or the point establishment of a stock facility in a neutral warehouse.

According to Frederick E. Webster (1991)., "the nature of the buyer-seller relationship is a major factor distinguishing industrial marketing from consumer marketing." This further stressed that, "for strategic purposes, the central focus of industrial marketing should not be on products or on markets broadly defined, but on buyer-seller relationships." These relationships develop in the purchasing decision process and continue through negotiation of the sale and consumption of the transaction to post-sale service and repeat orders. However, "not all customers warrant the investments required for relationship marketing."

2.2 THE BUYING-SELLING PROCESS

The most recent conceptual work on industrial buying and selling differs from the earlier views about these concepts. "Traditional views of selling, such as AIDA (i.e. Attention, Interest, Desire and Action), neen-satisfaction theory, and the steps-in-the sale approach all suffer form a common weakness: They view selling as something the seller does to the prospect, and the seller as having most of the control in the interaction." More modern views of selling as inter-personal communication also suffer from this weakness. They emphasise the sales representative's activities and perceptions as the general determinants

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of the outcome of the sales interaction. Persuasion is seen to play a central role in the influence process. and the sales representative's most important characteristics are those that relate to his ability to listen carefully and turn what he hears into an effective persuasive communication. Similar observation can be made about the study of the industrial buying process. "The outcome of the buying process is seen as determined by the actors, structure, technology and goods and task of the buying organisation, processing information obtained from the environment about buying alternatives (products and vendors)".

Webster (1991) "believes that the most recent conceptual work on industrial buying and selling builds on concepts of social interaction and takes the following views:

(a) That buying and selling are the same process, two sides of the coin.

(b) That the outcome of the interaction is determined by the total process itself not by the characteristic and activities of the individual actors.

(c) That the influence process involved is negotiation not persuasion.

(d) That each actor recognises that his or her welfare is dependent on the activities and welfare of the other party in the interaction.

"This perception of mutual interdependence is a key to the nature of the interaction itself."

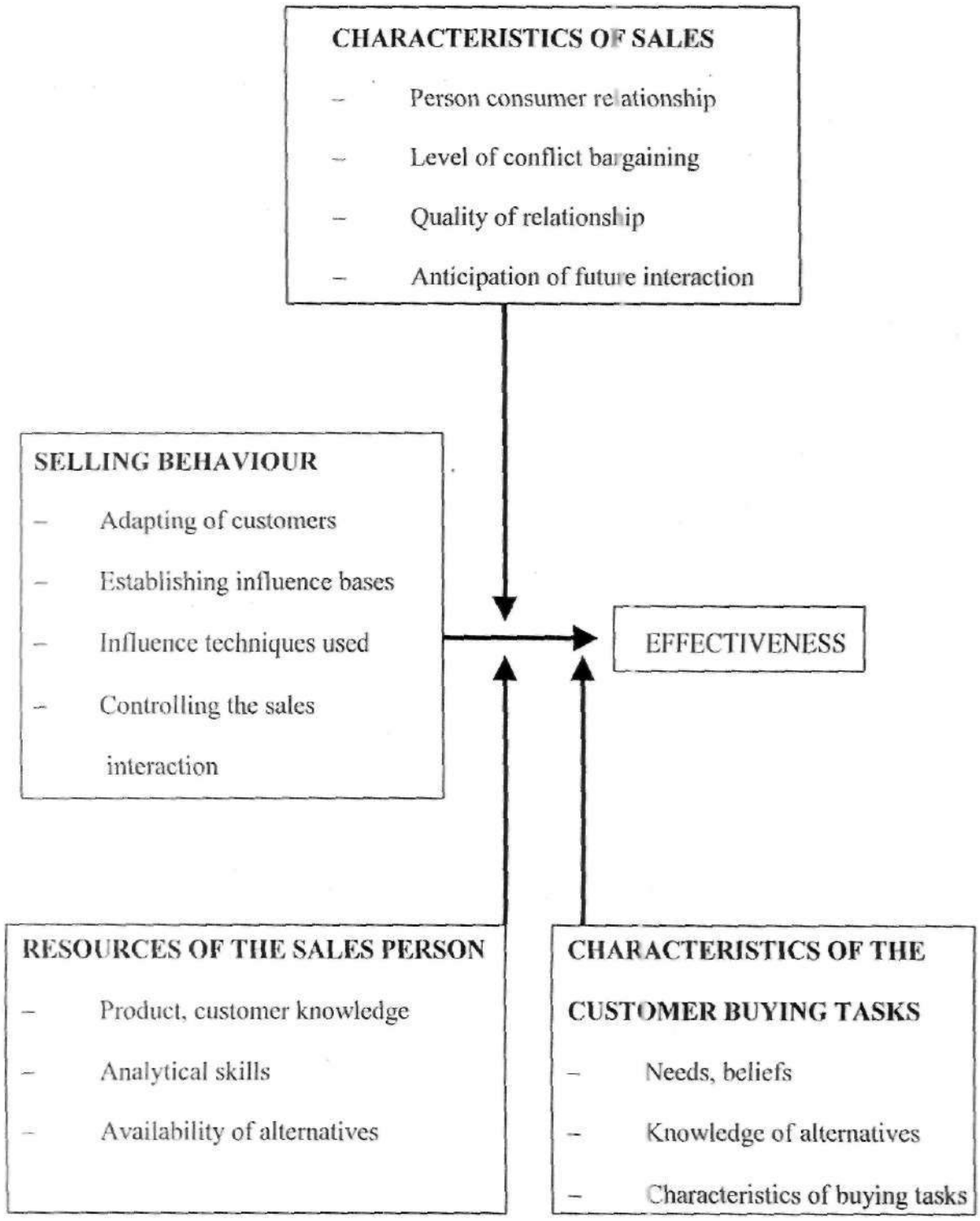


Fig. 2.1.1 a contingency model of sales representatives effectiveness. (Source: Barton A. Weitze. Effectiveness in sales interactions: A contingency framework, "Journal of Marketing, 45 (Winter, 1981), 85-103, at 90)

In the figure above, Weitze has taken these ideas and integrated them into a "contingency model." The central notion in this model is that the effectiveness of the industrial sales is contingent on these sets of variables:

(1) The resources (knowledge, skills and organizational support);

(2) The customers buying task and

(3) The nature of the interpersonal interaction itself.

Viewed in this way, the buying-seller process goes considerably beyond the simple notions of selling as persuasion and buying as a process under the control of the actors of the buying organizations. While still considering the complex view of the buying selling process, let us now consider the influence, the type of buying situation has on the interaction. After this, the different influence, process and their appropriateness in various industrial marketing situation will be reviewed.

2.3 TYPES OF BUYING-SELLING SITUATIONS

The nature of the interaction between buyer and sales is determined, to a great extent, by the type of buying and selling situation modified rebuy, or straight rebuy and the stage in the buying decision process (problem recognition, description of needed item, etc. A sales handling a new buy faces a fundamentally different challenge from that involved in a situation of straight rebuy. Consequently, Webster emphasises the fact that "different selling and

marketing strategies are required, depending on specific nature of the buying situation."

Hakanson Johnson and Wootz (1976) have proposed one classification of buying-selling situations. They define the following three types of uncertainty facing buyers.

(a) NEED UNCERTAINTY

When product need is difficult to define and measure and when product characteristics are hard to measure and specify clearly.

(b) MARKET UNCERTAINTY

When there are many sellers, sellers have markedly different characteristics, and the market changes rapidly with the opportunity costs associated with the decision.

(c) TRANSACTION UNCERTAINTY

When there are likely to be significant problems of actually getting the product from the seller to buyer, such as in cross-border transactions involving cultural differences.

According to these authors "suppliers are interested in reducing or stabilising uncertainty. Suppliers will be trying to increase uncertainty to levels where the buyer is willing to consider new alternatives."

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When need uncertainty is high, buyers place emphasis on quality than with price and are likely to show high source loyalty.

The buying center of the buying organisation will involve many people. The tendency here is for buyers to use more extended sources of information and may use the services of specialists and consultants in the relationship with suppliers. The decision process will require longer time since more people, multiple buying criteria and more information processing are involved.

In a situation of high market uncertainty, buyers will likely contact more suppliers and will seek the help of specialists both within the organization and outside who have experience with these high uncertainty markets.

In the case of high transaction uncertainty the buyer is most likely to insist on multiple sources of supply before the final decision to buy is made. Emphasis is on the supplier's ability to deliver the items in necessary quantities and with sufficient reliability.

2.4 STRATEGIC SUPPLIER SELECTION

With increasing emphasis on savings and quality, buyers have come to think about the strategic importance of supplier selection. Such savings and improved quality will enhance their competitive stance in the global market place.

Webster (1991) has observed a recent shift away from old, adversarial views of the buying-selling process towards new concepts of strategic partnership. According to him, "traditional procurement practice was built around the assumption that competition among vendors was good because it resulted in lower prices for a specified level of quality." Buyers went out for several qualified suppliers for a given item, not only to ensure lower prices but also for continuity of supply. Product specifications were tightly drawn as a control element that permitted the maximum degree of competition among available vendors. The essence was that the buyer could depend on market forces to ensure the lowest possible price. A closer look at such procurement practice reveals a leaning towards the transaction end of the continuum with the idea of a buyer-seller "relationship" limited to the development and maintenance of a list of qualified bidders in a competitive bidding or market-based procurement.

As a result of this Webster clearly noted the adversarial and impersonal views of the buyer-seller relationships.

According Shapiro (1985) "there were multiple vendors for each item; their shares of the customers business were dependent largely upon their prices.

"Hind sight suggested that this was a major cause of poor quality, because different vendors' parts and materials were in fact not interchangeable and there was little concern for quality as a total management process on the

part of either buyers or sellers. The need to develop and maintain multiple vendors and to manage multiple relationships resulted in higher purchasing costs as well as lower quality."

The early 1980s saw a shift in procurement management's attention towards an emphasis on quality and customer satisfaction. "Quality was defined from the end-user's perspective and companies developed more complex specification that included not only the product itself but terms for delivery, technical service, marketing support and so on." Fewer vendors were dependent upon for a more complete response to the company's requirements with an emphasis on doing the right things the right way, the first time.

"Interest in a concept of buyer-seller partnership, sometimes in the form of so-called, "just-in-time" supply relationships, grew rapidly in the 1980s.

The relationships are modeled on the Japanese "KANBAN" system of procurement. A few vendors, or perhaps even a sole source, collaborate with the buyer across multiple business functions including manufacturing, engineering, design, procurement and marketing. The vendor plays an active part in the design of the product and the development of specifications. There may be continuous updating and innovation. Blanket contracts and more flexible, less formalised procedures for releasing orders are common. Order quantities are likely to be smaller and shipments more frequent, in order to reduce inventory costs throughout the system. "Among the hallmarks of these procurement

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situation are greater reliance on fewer vendors, a commitment to zero-defects, vendor participation in product design, just-in-time delivery, shared communication networks (using advanced information technology), an increased service component, and a much complex buying decision process, involving multiple functions and management levels."

2.5 PROBLEMS IN STRATEGIC BUYER-SELLER PARTNERSHIP

Such interest buyer, seller relationships, at or near the strategic alliances end of the continuum are not without their problems and risks.

Webster (1991) points out that "one kind of risk-related to market and transaction uncertainty, may be reduced, but another kind of risk, that which comes from increase dependence is created."

According to him, higher level of trust and commitment between the partners does not mean that conflict will not exist, especially if there is an imbalance of power, which may be inevitable if the parties are of significant different size.

A particular problem has been noted by several marketers who have entered into strategic partnerships with customers. This is the tendency for functional managers, especially purchasing personnel, in the customer

organisation to "play by the old rules." The buyer may, for example, continue to insist on using specifications that are not developed with the collaboration of the partner, may continue to solicit competitive bids, and may emphasise low price to the exclusion of other considerations such as quality and technological innovation.

Webster (1991) stresses the fact that the design of strategic buying relationships should anticipate potential conflicts and develop mechanisms for their resolution. Dependence on legalistic contractual terms are likely to be inadequate to resolve conflicts and keep the partnership on a positive track of mutual trust and co-operation.

It has been the suggestion of experienced managers that people who will be responsible for implementing the relationship should be involved in its design as well. Exchange visits by members of both buying and selling organizations, from multiple levels of management, supervision and operations, have proven to be valuable in developing and maintaining, understanding and creating simple problem-solving mechanisms. "Dialogue and joint problem solving replace negotiation as the primary means of exchanging information and resolving conflict."

Krapfel (1990) suggested that the concept of a balanced portfolio of strategic partnerships, with resource commitments and management style tailored to each, can be a useful conceptual tool for management. Customer

development as viewed by Webster (1991) can be thought of as an investment, with investment attractiveness determined by the degree of commonality of interest between the customers and the expected value of the long-term relationship.

Krapfel, Salmon and Spekman (1990) propose that marketers use a process that consists of first typing the relationship and then selecting a management mode appropriate to that type.

It is their suggestion that in managing the relationship, importance should be attached to the fact that both the buyer and the seller have "matched" or similar management styles. They refer to this as the matching process. It is clear that problems will arise if we treat the relationship as essentially a single transaction which the other is hoping to develop a strategic partnership. (See fig. 2.1.2)

Webster (1991) proposes that part of the marketers analytical task is to determine as clearly as possible, usually with incomplete information, how the buyer receives the relationship.

In the KRAPFEL, Salmon and Spekman (1990) frame work the fourth step in strategic relationship management is signaling the exchange of information between the buyer and the seller to monitor and refine the management of the relationship. Webster (1991) strongly believes that signaling

can establish the foundation of information and impressions upon which trust, the essential glue in any strategic partnership can be built.

MANAGEMENT MODES

PARTNER	FRIEND
Higher economic investments; Higher interdependency; higher switching costs; customised responses.	Common goals; low current economic value; information sharing; limited investment; May have been or become partners; needs monitoring; joint planning.
RIVAL	**ACQUAINTANCE**
High value but low commodity of interests; want to go it alone; lots of them may be competitors or customers, to business because they "have to," not "want to," limit investment and customization; have exit plan; look for other partners.	Market-based relationship; standard products and routine procedures; minimal investment; serve through distribution instead of direct.`

Fig. 2.1.2 Managing strategic buyer-seller partnerships (Adapted form Robert Krapfel, Deborah Salmon and Robert Speckman "A strategic approach to managing Buyer-Seller Relationships," working paper, University of Maryland, June, 1990).

2.6 TYPES OF RELATIONSHIPS

VALUE OF RELATIONSHIP

HIGH LOW

ALLIANCE (PARTNER)	RELATIONSHIP (FRIEND)	HIGH	Commodity of Interest
RELATIONSHIP RIVAL)	TRANSACTION (ACQUAINTANCE)	LOW	

A function of:-

"CRITICALITY" = degree of differentiation, availability of substitute; margins, role in portfolio.

Quantity purchased.

Ease with which customers can be replaced, "switching" costs.

Cost saving resulting from buyer's practices and procedures.

2.7 INFLUENCE PROCESSES

There are a number of tactics and strategies available to the industrial marketer for trying to influence potential customers to buy and to persuade present customers to remain loyal or increase the amount of their purchases.

Webster (1991) has identified four categories - persuasion, compromise, bargaining and negotiation. It is important to note that in any actual selling and buying situation, these methods of influence are likely to co-exist in varying degrees.

(a) PERSUASION

Traditional salesmanship views persuasion as the process of convincing customers to buy. "On this old-line approach, the sales representative knows his customer and his needs well enough to know how he can be made to buy. The sales interaction is described by a series of buyer mental stages, such as awareness, interest, desire and action through which the sales representative deftly moves the buyer. In the last analysis, the essence of persuasion is to impose the will of the seller on the buyer showing him how the sellers' offering can satisfy his needs. The sale is viewed as a conquest. Webster (1991) has made the following points about persuasion:

(1) Persuasion as an influence process can be effective in the short-run.

(2) Its major weakness is that it leaves the buyer open to counter-persuasion by a competitive sales representative.

(3) It is not based on a thorough understanding of the customer organization and its needs.

(4) It lacks a long-term orientation of building strong buyer-seller relationships.

(5) It concentrates on order getting.

(6) The representative is viewed as controlling a number of variables within the sales presentation.

(7) Sales contests and incentives for sales representatives are built around persuasion models intended to stimulate sales by motivating the sales representatives to work harder and generate sales.

Webster (1991) notes that these motions of win and lose of conqueror and vanquished, seem a bit out of place in the relationship between industrial marketers and their organizational customers.

(b) COMPROMISE

Like persuasion, compromise and accommodation is short-term in its orientation and inadequate for developing effective and satisfying buyer-seller relationships.

In compromise, both parties are trapped in a situation where they must make the best of things but cannot achieve all these objectives.

(c) BARGAINING

Bargaining is strategic interaction, goal-oriented, interdependent behaviour by two or more parties, where the choices of each party are contingent upon his estimate of the actions of the other party or parties. "Bargaining theory distinguishes between situations where the actors are rational and those where they are not. Formal theories of bargaining have not found wide spread application in real world situations, however."

In industrial marketing, models of bargaining often will involve the special case of competitive bidding where price may be important to the buyer. However, other variables are also important to the buyer, such as delivery and reliability.

"The basic assumption in bargaining models is that the actors can cooperate for mutual benefit, although cooperation will not maximize the value of outcomes for either party. Buyer and seller can elect to cooperate and can increase the total value of the transaction to themselves, or they can avoid cooperation and each can try to maximise the value to himself.

(d) NEGOTIATION

In negotiation, an attempt is made to maximize the value of the interaction to both buyer and seller. Negotiation while recognising the fact that cooperation can increase the total value of strategic interaction and the inter-

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dependence of buyer and seller, also involves a long-term view of the buyer-seller relationship.

One practice-oriented treatise on negation characterises this process as that of "Win/win negotiation" with the objective of maximising profits for both buyer and seller. According to this view, there are five benefits of negotiation in comparison with other methods of influence.

(1) Recognition of the buyer as an individual who can, through his behaviour, increase the value of the buyer and seller relationship.

(2) The development of a climate of confidence between buyer and seller.

(3) The positioning of the sales representative as an advisor and counsellor to the buyer, rather than a persuader or advisory as implied by other views of the influence process.

(4) The encouragement of information exchange as necessary to develop the best long-term solutions to the buyer's problems.

(5) Its contribution to the development of satisfying long-term relationship.

(e) RECIPROCITY

Reciprocity or reciprocal dealing, is a special case of negotiation in which each party is both a buyer from and a seller to the other party, a system of mutual patronage. "Reciprocal trading is a factor which influences some industrial marks. Pressure may be exerted by the more dominant "trading partner" so that equitable reciprocal, business is not, in practice, transacted, and

there may be occasions when firms could buy more advantageously from outside supplier.

2.8 THE DEVELOPMENT OF BUYER-SELLER RELATIONSHIP

The concern of this paper is to analyse the process of establishment and development of relationship over time by considering five stages in their evolution. It is not concerned with the reasons for the choice of buyer or seller partners. The process described here does not argue the inevitability of relationships development. Relationships can fail to develop or regress depending upon the actions of either party or of competing buyers or sellers. Throughout the examination, the bilateral nature of relationships will be stressed, particularly the similarity of the buyers' and sellers' activities. The five stages are shown in Table 1. Throughout the analysis, the variables of experience, uncertainty, distance, commitment and adaptations are considered.

STAGE I: THE PRE-RELATIONSHIP STAGE

Previous authors have stressed the inertia of buying companies, when it comes to seeking new sources of supply. Buyers may continue with existing sources with relatively little knowledge or evaluation of the wider supply markets available to them. Let's take the case of a company which has grown to rely on a main supplier for a particular product purchased on a regular basis as

in the case of equipment or continuously as with a component, as our starting point. In these circumstances a decision to evaluate a potential new supplier can be the result of a particular episode in an existing relationship. For example, a Nigerian producer of consumer durable started to evaluate alternative suppliers following a major price increase by a company which had until then supplied all its requirements for a certain product. Other reasons which may cause evaluation of new potential suppliers include: a regular vendor analysis in which the performance and potential of existing suppliers is assessed; the efforts of a non-supplying company to obtain business, perhaps based on a major change in its offering, e.g. a new product introduction, some change in requirements or market conditions experienced by the buyer; e.g. a U.K. car manufacturer began evaluating overseas sources for windscreen following the move towards tempered glass for which there was a European capacity shortage.

A company's evaluation of potential new supplier will take place without any commitment to that supplier at this stage. The evaluation will be conditioned by three factors; experience, uncertainty and distance. Experience in existing and previous relationships provides the criteria by which the potential and performance of a new partner will be judged, a partner of which the company has no experience. The buyer will face uncertainty about the potential costs and benefits costs can be separated into those involved in making a change to a particular partner, e.g. in a buyer modifying its own product to suit

that of a new seller. Additionally, there are the opportunity costs involved in the continuing relationship, when compared with alternative partners, e.g. in a buyer having to accept less frequent deliveries.

THE DEVELOPMENT OF BUYER/SELLER RELATIONSHIPS IN INDUSTRIAL MARKETS - SUMMARY

TABLE 1

THE PRE-RELATIONSHIP STAGE	THE EARLY STAGE	THE DEVELOPMENT STAGE	THE LONG-TERM STAGE	THE FINAL STAGE
Evaluation of new potential supplier	Negotiation of sample delivery	Contact signed or delivery building up scale deliveries	After several major purchases or large	In long established stable markets
Evaluation initiated by particular episode in	Experience Low	increased	high	

existing relationship	Uncertainty			
General evaluation of existing supplier performance	High	`Reduced development of Institutionalisation	Minimum	Extensive Institutionalisation
efforts of of non-supplier	Distance High	Reduced	Minimum	
Other information	Commitment Actual - low	Actual- increased	Actual- Maximum	Business based on industry
Overall PolicyLow decision	Perceived Demonstrated by informal Adaptations	Perceived - Reduced	Perceived -	Codes of practice

Evaluation Adaptation High Increasing Extensive

conditioned Investment of formal and adaptations

by: Management informal cost savings

Experienced time. Few adaptations reduced by

with previous Cost savingscost savings institutionalization

supplier

Uncertainty

about potential

relationship

Distance from

potential

supplier

Commitment

Zero

The distance which is perceived to exist between buyer and seller has several aspects:

(i) Social distance, being the extent to which both the individuals and organizations in a relationship are familiar with each other's ways of working.

(ii) Cultural distance, being the degree to which the norms, value or working methods between two companies differ because of their separate national characteristics.

(iii) Technological distance, being the differences between the two companies' product and process technologies.

(iv) Time distance, being the time which must elapse between establishing contact or placing an order, and the actual transfer of the product or service involved.

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(v) Geographical distance, being the physical distance between the two companies' locations.

Technological distance is likely to be great in evaluations for the purchase of innovative products. Social distances will be considerable in all new relationships as the companies know little of each other. This is combined with large cultural and geographical distance when the companies are dealing across national boundaries.

Finally, the companies will be considering a purchase which is likely to take place for a considerable time, with consequent apprehension that will not come to fruition as desired.

We can now see the effects of these variables of experience, uncertainty, distance and commitment in the early stages of dealings between the companies.

STAGE 2: THE EARLY STAGE

This is the time when potential suppliers are in contact with purchasers to negotiate or develop a specification for a capital goods purchase. This stage can also involve sample delivery for frequently purchased components or suppliers. The stage can be characterised as follows:

(a) EXPERIENCE

At this early stage in their relationship, both buyer and seller are likely to have little experience of each other. They will only have a restricted view of what the other party requires of them, or even of what they hope to gain from the relationship themselves. No routine procedures will have been established to deal with issues as they arise, such as sample quality, design changes, etc. These issues can only be resolved by a considerable investment of management time at this stage. This investment of human resources is likely to proceed any investment in physical plant.

(b) UNCERTAINTY

Human resources investment will be made at a time of considerable uncertainty, when the potential rewards from the relationship will be difficult to assess and the pattern of future costs is undermined.

(c) DISTANCE

There will have been little opportunity to reduce the distance between the parties at this stage in their dealings.

(i) SOCIAL DISTANCE

There will be lack of knowledge between buyer and seller companies as well as an absence of personal relationships between the individual involved. This will mean that many of the judgements made of each company will be their reputation, as a substitute for experience of their abilities.

(ii) GEOGRAPHICAL/CULTURAL DISTANCE

Geographical distance is, of course, beyond the control of the seller except in so far as it can be reduced by the establishment of a local sales office or by sending staff out to the customer on a residential basis. Cultural differences can only be reduced by employment of local nationals. The lack of social relationships means that there is nothing to reduce the effects of geographical and particularly cultural distance. This can result in a lack of trust between the companies. For example, a supplier may believe that he is simply

being used as a source of information and that the customer has no bidding a relationship.

(iii) TECHNOLOGICAL DISTANCE

Inexperience of a supplier's product will emphasise any difference which may exist between the product or process technologies of the two companies.

iv. TIME DISTANCE

In the early stage of a relationship, companies are likely to be negotiating about agreements of transactions which may only come to fruition at some considerable time in the future. This maximizes the buyer's concern about whether he will receive the product in the form specified and at the promised price and time. Similarly, the seller will be concerned as to whether orders being discussed will ever materialize in the way it expects.

(d) COMMITMENT

Both companies will be aware of the risks involved and will have little or no evidence on which to judge their partner's commitment to the relationship. In fact, it is likely that the actual commitment of both parties will be low at this time. Thus, perceptions of the likely commitment of the other company are strongly influenced by factors outside the relationship such as the number and importance of its other customers or suppliers.

The actions of sellers and buyers in the future will be influenced by their initial assessment of the performance and potential of their partner. Their

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judgement of the place and importance of this relationship within the company's portfolio of suppliers or clients will also be important.

We cannot consider the development of a relationship beyond the early stage in terms of the task of building experience, increasing commitment and the associated reduction in uncertainty and distance.

STAGE 3: THE DEVELOPMENT STAGE

The development stage of a relationship occurs as deliveries of continuously purchased products increase. Alternatively, it is the time after contract signing for major purchases. Staged delivers may be made or the supplier may have started work on the item. Both buyer and seller will be dealing with such aspects as integration of the purchased products into the customer's operations or pre-delivery training, etc.

(1) EXPERIENCE

The development stage is marked by increasing experience between the companies of the operations of each other's organization. Additionally, the individuals involved will have acquired some knowledge of each others norms and values.

(2) UNCERTAINTY

The uncertainties which exist for both parties in the relationship will have been reduced by experience. In particular, the adaptations required to meet the

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wish of the partner company will have become more apparent and the costs involved in these adaptations will also become clearer. Each company will be better able to judge the adaptations to meet its own requirements. These include those made by itself and those which it should require from its partner.

(3) DISTANCE

(i) Social Distance: This is reduced by the social exchange which takes place between the companies. As well as increasing their knowledge of each other, those personal relations establish trust between individuals. Nonetheless, this trust cannot be based upon social relationships alone. It also requires personal experience of the other company's satisfactory performance in exchange of products or services and finance.

(4) GEOGRAPHICAL AND CULTURAL DISTANCE

The reduction in social distance also contributes to a lessening of the effects of geographical and cultural distance. However, in a relationship between companies in different countries, it is possible that the seller company may reduce geographical and cultural distance through the establishment of a local office and employment of local nationals as business builds up.

(5) TECHNOLOGICAL DISTANCE

The adaptations which companies make to suit each others reduce the technological distance between them. Thus, their respective products,

production and administrative processes become more closely matched with each other. This produces consequent savings for one or both parties.

(6) TIME DISTANCE

The experience of transactions means that the time distance between negotiation and delivery is eliminated in the case of continually delivered products. However in the case of irregular purchase of, for example, capital goods, then each cycle of order and delivery can be marked by similar time distances. Nevertheless, the importance of this distance decreases as the companies' mutual experience and trust of each other builds up.

(7) COMMITMENT

Much of a company's evaluation of a supplier or customer during the development of their relationship will depend on perceptions of their commitment to its development. Efforts to reduce social distance are one way for the supplier to demonstrate commitment.

However, development does not continue indefinitely. The relationship can be discontinued by either party on the basis of their assessment of its potential, the performance of the other party, or of the actions of outsiders. Even if this does not occur, the character of a relationship will change gradually. The changes which slowly develop are of vital significance to both buying and selling firms and we now turn to their description.

STAGE 4: THE LONG-TERM STAGE

It is not possible to put a time-table on the process by which a relationship reaches the long-term stage. This stage is characterised by the companies' mutual importance to each other. It is reached after large scale deliveries of continuously purchased products have occurred or after several purchases of major products.

(a) EXPERIENCE

The considerable experience of the two companies in dealing with each other leads to the establishment of standard operating procedures, trust, and norms of conduct. For example, a U.K. supplier of components to a German truck producer has arrangement for deliveries against three-month firm and six-month tentative orders. Prices are negotiated on an annual basis with an effective date of 1st January "although we often don't get round to firming them up until well in the spring, so we just apply them retrospectively. Similarly, a U.K. producer of marine diesel engine will start construction of an individual unit costing up to 100,000.00 Pounds on the basis of a verbal order from a main customer. Formal orders often follow much later from customers to others in different market segments overseas. So many aspects and operations within this relationship had become institutionalised or taken for granted that the supplier was unable to modify its procedures to suit new customers.

(b) DISTANCE

Social distance: This is also minimised in the long-term stage. There are three particular features to the close relationship established by this stage.

(i) An extensive contact pattern will have developed between the companies. This may involve several functional areas and its aim will be to achieve an effective matching and adaptation of the systems and procedures of both supplier and customer. However, in long-term stage the interactions by different functions may become separated.

(ii) Strong personal relationships will have developed between individuals in the two companies. The strength of these can be seen by the extent of mutual problem solving and formal adaptations which occur. However, it may be difficult for an individual to separate these personal relationships from business relation. Difficulties can arise when company interest are subordinated to those of the personal relationships. This has its most extreme form in the phenomenon of 'side changing' where individuals act in the interests of the other company and against their own, on the strength of their personal allegiances.

(c) UNCERTAINTY

Uncertainty about the process of dealing with a particular partner is reduced to a maximum in the long-term stage. Paradoxically, this reduction in uncertainty can create problems. It is possible that routine ways of dealing with

the partner will cease to be questioned by this stage. This can be, even though these routines may no longer relate well to either parties' requirements. We refer to this phenomenon as institutionalization. For example, discount structures may have become unrelated to developing delivery patterns, product variety may involve increased production costs for the seller whilst the buyer may be able to use a much narrower range of product.

These institutionalized patterns of operations make it difficult for a company to assess its partner's real requirements and so it may appear less responsive or uncommitted to the relationship. Institutionalized practices may also allow a company to drift into over dependence on a partner or incur excessive costs in its dealings. One company may exploit the other's institutionalized practices and lack of awareness and hence reduce its own costs at the expenses of the partner. Finally, institutionalized practices of one relationship can affect a company's whole organization and hence its development of other relationships. For example, a supplier of high grade alloys had become very heavily involved with a large domestic customer. It then attempted to transfer its experience with this. Nevertheless, the seller's company faces two difficulties over commitment at this stage.

(i) It is likely to be difficult for a company to balance the need to demonstrate commitment to a client against the danger of becoming overly dependent on the client. This was expressed by a U.K. supplier faced with a

major customer as follows; "We want them to think they are still important to us. At the same time we also want them to believe that they must work for our attention in competition with other customers."

(ii) A customer's perception of a supplier's commitment to a relationship may differ from the actual level. This is because the required investment of resources has largely incurred before the long-term stage is reached. It is also possible that the level of business between the companies has stabilised. Thus, paradoxically, when a supplier is at his most committed to a long-term and important client, he may appear less committed than during the development stage. We have reached that stable situation before evaluation of potential new suppliers which was our starting point. In this, a company may continue with existing sources of supply or customers with little knowledge or evaluation of the available supply or customer markets. However, before concluding, it is worthwhile to mention a final stage which buyer-seller relationships may enter.

(iii) In long-term stage companies may become personified in an individual representative. Indeed, it may be the seller's policy to identify closely a relationship with the person of their local representative. This may be of value in establishing a presence in an overseas market. However, it inevitably involves problems of this individual has to be replaced or acts in his own interests rather than those of the company. For example, a U.K. exporter of machinery had to re-negotiate spares prices charge to its main French customer.

These had previously been fixed by the supplier's local representative at a very low level. This had been done because the representative was greatly concerned about the effects of losing this business on his own position.

(d) TECHNOLOGICAL DISTANCE

Successive contracts and agreements between the companies lead to extensive formal adaptations. These closely integrate many aspects of the operations of the two companies. This close integration is motivated by cost reduction for both companies as well as increased control over either supply or buyer markets.

D. Monthoux has emphasised the barriers to the entry of other companies to which this close integration leads.

(e) COMMITMENT

By the long-term stage, both seller and buyer companies' commitment to the relationship will have been demonstrated by the extensive formal and informal adaptations which have occurred.

STAGE 5: THE FINAL STAGE

This stage is reached in stable markets over long periods of time. It is marked by an extension of the institutionalization process to a point where the conduct of business is based on industry codes of practice. These may have relatively little to do with commercial considerations, but correspond more to a

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"right way business," e.g. the avoidance of price cutting and restrictions on changes in the respective roles of buyer and seller. It is often the case that attempts to break out of institutionalised patterns of trading in the final stage will be met by sanctions from other trading partners or the company's fellow buyers or sellers.

2.9 PRICING

Price is, for some retailers, the most important element of retail mix. For others, such as convenience stores, the main customer benefit is not the low prices but the convenience both in terms of location and hours of trading.

Price has traditionally, been determined by the cost of goods and then adding a bit to cover profit. The establishment of an appropriate retail price on merchandise is necessary if the retailer is to cover his expenses and earn a profit. The retail price must also be one that is attractive to customers and one at which they will buy merchandise readily. The amount that merchants add to the cost price of merchandise in arriving at the retail price is called mark-up.

If a retailer knows the mark-up percentage that he wishes to achieve, he can use this knowledge in buying merchandise for resale. He can use it, for example, in determining whether he is being offered a reasonable price for an item. In practice, merchants tend to vary considerably in the pricing of

individual items. On the whole they attempt to achieve an average planned mark-up on the total of their purchases.

2.9.1 FACTORS INFLUENCING PRICING DECISIONS

There are certain factors which influence the pricing decision. These include: cost of goods, demand for goods and competition. The cost of goods sold is the amount which the retailer has paid for the supplier of goods actually sold. It is by far the largest expense incurred by a retailer who makes profit by adding on the margin from which all expenses may be paid and the net profit left must be large enough to service and replace and thus keep the retailer in business.

Wingate and Samson (1975) are of the view that the largest single factor in establishing a retail price is the cost of the merchandise to be sold. In addition to the cost, there is also the expense of handling the merchandise in terms of getting it ready for sale.

Pricing decisions should be very closely heed by the requirement of the target market. If that need is for the best possible price deal then low prices would be offered. If exclusively service and status are required, higher prices should be in order.

Cox and Britain (1993) also stated that the analysis of competitors pricing strategy will determine what pricing strategy a retailer may adopt in order to

compete effectively, and that pricing decision must be consistent with overall company objectives. However, if the price is perceived as a key element in the consumer's purchase decision, then price will be used to establish a differentiating role. Some other factors that will influence the pricing decision include intermediaries, financial institutions by altering rates of interest, suppliers may put up their prices, trade unions may demand higher wages or the government may change the legal frame.

2.9.2 SETTING PRICES

Cox and Britain (1993) also stated that the most basic method of setting the retail price is to add a standard mark-up to the cost of buying. The problem with this approach is that it takes no account of competitors price or demand for the product, but they could be crucial in determining if a line sells or not. The retailers have profound ways in setting prices. These include demand oriented price. Here prices are set according to the anticipated demand for the product or services which could be:

(a) By customer: Price discrimination is determined by the retailers assessment of what an individual customer might be willing to pay. The eventual selling price of an item will depend to some extent on the negotiation skill of the customer.

(b) Version: The price of an item in a line of product will be determined by the demand for that model.

(c) Place: There is need for the retailer to serve the needs of his or her local market place.

(d) Time: When a product is purchased may determine its price. Retailers price according to the price charged by the competitors. Most stores, however, price at or near competitors prices especially in a homogenous market.

The Multi-stage Approach:

The recommended method for setting retail price is to take into consideration cost, demand and competition, in a multi-stage approach by selecting the target market, determination of the floor price, determination of the ceiling price.

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Cox and Britain (1993) stated that price tuning could be used mostly in variety stores. Price tuning is the setting up of reduced number of distinct selling prices within a line of merchandise, goods being marketed at these points and at no others.

With many types of merchandise, customers tend to group themselves into fairly narrow buying zones. The lower the unit price, the greater the frequency of purchase, the narrower and more sharply defined will these ones be. Usually, one, two or three prices can be incorporated within the zone limits, depending on their breadth.

In setting prices, the prices of competition should be considered. They also stated that most stores use price-line policy in line with that of Cox and Britain (1993). In retailing, there are three basic price zones, namely:

1. **The prestige zone:** Very price oriented retailers will carry a few of these high priced line which will be responsible for generating 5 to 15 percent of the total sales volume of its business.

2. **The volume zone:** This mid-price zone is aimed at the typical customer and will produce at least 50% of the sales volume.

3. **The promotion zone:** Promotional merchandise is priced within this zone which may be responsible for generating 15 to 45% of the total sale volume.

CHAPTER THREE

3.0 INTRODUCTION TO PIPELINES AND PRODUCTS MARKETING COMPANY LTD.

NNPC 's Product Marketing and Pipelines activities centre around the fulfillment of the goals, objectives and mission of the Pipe lines and Products Marketing company limited (PPMC) created in the restructuring of NNPC in 1988. The main challenge of these activities is their commercialisation in an economy in which a measure of subsidy has been maintained by government and therefore, product prices to the end user have been controlled and regulated.

Prior to the mid-70s, the distribution of petroleum products to consumers in Nigeria was handled by seven petroleum products marketing companies. These companies operated small storage depots dotted across the country and they moved products into and out of these depots using tanker trucks. Most of the products were moved either out of the then Nigerian Petroleum Refining Company (NPRC), Port Harcourt, or from the marketers' facilities at Apapa, Lagos. Thus one can imagine the difficulties and inconveniences of moving a tanker truck of premium motor spirit or kerosene or diesel oil all the way from Lagos to say, Texaco's mini-depot in Maiduguri, discharging these tanker trucks into the tanks and subsequently loading the same product in order to deliver the product to a filling station at Biu. The same scenario applies to other

marketers who had their own deports dotted around the country. These erstwhile marketers, now eight in number with the establishment of ELF marketing around 1983, are the so-called major marketers in Nigeria. The others are national oil and chemical marketing company, Total Nigeria Limited, African Petroleum Nigeria Limited, Unipetrol Nigeria Limited, Texaco Nigeria limited, Agip Nigeria Limited and Mobil Nigeria Limited. By 1982, the petroleum marketing scene in Nigeria had become sufficiently demanding for NNPC to introduce the concept of independent marketers. These marketers now number more than 2000 and they operate across the length and breadth of Nigeria. Indeed some of them had recently acquired the status of credit customers.

At the conclusion of the Nigeria civil war in January, 1970, the following four years witnessed unprecedented rapid expansion of the Nigerian economy. Crude oil production and export reached the highest levels ever recorded in our history and the nation witnessed new heights of economic prosperity.

This new prosperity was reflected in our energy demand which also went up in leaps and bounds. The old method of moving fuel across the vast expanse of this country by tanker trucks soon became grossly inadequate. The demand of energy to fuel the economy, soon exposed the weakness of the fuel supply chain using mini - storage depots for distributing petroleum products into the hinterland . By 1974, this country was witnessing unprecedented queues, particularly in the cities for scarce fuel at petrol stations. The dimensions of the

fuel scarcity problem was so great as to threaten the very foundations of the domestic economy .

It was in this climate that the government finally chose one of the available options to solve this problem decisively. Of the various options considered, government decided to build major petroleum product storage depots, strategically located around the country also to inter-connect these depots with a net-work of crude oil and petroleum products pipeline system. The need to build a second refinery at Warri to augment the one built at Port Harcourt was also identified. Based on the demand forecast, the need to build a third refinery in Kaduna was also recognised. These projects, each of them gigantic by any standard in concept, financing and execution, were carried out almost simultaneously by the Murtala /Obasanjo military administration. It is a great tribute to the foresightedness of government and the dedication and patriotism of the then management of NNPC that all these projects were brought to fruition in record time. Indeed, it is a very remarkable feat that so much was achieved by so few , in so short a time span.

The resultant two refineries at Warri and Kaduna, 16 storage depots and their over 3000 kilometres of inter-connecting pipelines are scattered all over the country.

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3.1 PIPELINE AND DEPOT FACILITIES

The pipeline network is divided into five systems , made up of pipeline sizes ranging in diameter from 16 inches to 6 inches. System 2A runs from Warri via Benin and Ore to Mosimi depot near Shagamu . Part of the system 2B originates from the Marine terminal at Atlas Cove near Takwa Bay in Lagos . This terminal which was commissioned in late 1981 , handles import of refined products mainly from overseas refineries and is connected to the Mosimi depot by a 16" diameter pipeline . There are four single products (dedicated) pipelines from Mosimi to the Lagos depot , an Aviation Kerosene pipeline from Mosimi to Murtala Mohammed Airport and a pipeline from Mosimi to Ilorin depot via Ibadan depot , all in the system 2B network.

The system 2C pipeline originates from Escravos Terminal , supplies gulf crude to Warri Refinery and Gulf and imported (heavy) crude to Kaduna Refinery with intermediate storage at Warri.

System 2D consists of one pipeline from Kaduna Refinery to Kano depot via Zaria pump station from where there is a 6-inch branch to Gusau depot in Zamfara state . A second pipeline in this system also originates from Kaduna Refinery and goes to Maiduguri depot via Jos and Gombe depots.

System 2E runs from Port Harcourt refinery to Makurdi depot. Via Aba and Enugu depots. The Calabar depot which is presently designed to be

supplied by sea-going barges has since been commissioned . All the pipelines are buried underground to a minimum of one meter sub-soil cover.

In addition to the facilities described above , there are pump stations at Atlas Cove , Mosimi , Ibadan , Escravos , Warri , Abudu , Auchi , Lokoja , Abaji , Izom , Sarkin Pawa , Zaria , Jos , Gombe , Port Harcourt , and Enugu.

3.2 STRUCTURE AND ORGANISATION

Pipelines and Products Marketing Company (PPMC) , as earlier pointed out, is the latest form of organisation used in running the products marketing and pipeline activities of NNPC. It metamorphosed out of the defunct pipelines and products marketing sector by merging the defunct pipeline operations division and product marketing and Marine Transportation division into a Limited Liability Company. Although the company has the two divisions , namely; Operations and Services, Characteristics of all other NNPC subsidiaries , it operates with Headquarters organisation and four area office organisations. The area offices are headed by Area Managers who are functionally and administratively responsible to the Executive Director (operations) of NNPC. The Headquarters organisation , under the managing Director and the two Executive Directors, have the several functional department reporting either to the operations or services arm of the company. In view of this , several units under the Area Manager are also functionally

responsible to the Services Directors; some of these are; Finance and Accounts, Administration and Sales.

The cluster of depots and pump stations , together with their associated pipelines , make up an area organisation . At the area office level , the other functions that help to streamline the administration and operation of the area are ; the Operations Function , Maintenance Function, Finance and Accounts Function, the Administration Function , the Sales Function. Presently , the staff strength of an area varies from a little 400 in Warri and Port Harcourt areas to just under 800 in Kaduna and Mosimi areas. PPMC area offices are located at the local refinery centres in Port Harcourt, Warri and Kaduna as well as at Mosimi in Ogun state.

All depots are headed by depot chiefs. They are classified as high and medium volume installations with an average staff strength of about 100 people. The booster and pumping station locations have staff strengths varying from a height of 35 at Auchi to a lower of 21 at Ikeja metering stations. The two terminals at Escravos and Atlas Cove are for crude oil and products imports, respectively. The operation presently spans through eighteen of the thirty-six states of the country and serves as the main catalyst of the Nigerian economy.

3.3 RELATIONSHIP WITH MAJOR AND INDEPENDENT MARKETERS

NNPC is the sole supplier of petroleum products into the Nigerian market. However, NNPC does not own or operate any retail outlet for purposes of selling products to the Nigerian public. The task of retailing of petroleum products is squarely in the hands of our major and independent marketers. These marketers are duly licensed to deal in petroleum products by the Petroleum Inspectorate Department of the Ministry of Petroleum Resources.

The main products transported by pipe line apart from crude oil to the refineries are; Premium Motor Spirit (PMS), Household kerosene (HHK), Automotive Gas Oil (AGO) and Aviation Turbine Kerosene (ATK). Other products marketed by PPMC are Liquefied Petroleum Gas (LPG), Base stock for the manufacture of Lubricants, Low Pour Fuel Oil (LPFO), High Pour Fuel Oil (HPFO), Bituminous Products of various grades and various grades of wax. Pipeline transports only the so-called white products (i.e. PMS, AGO, HHK, and ATK). LPG is transported from the source of production at the refineries to the refilling outlets of the marketers by specialised LPG trucks. The other products are transported by rail and coastal tankers or else they are packaged into drums or other containers for easy handling of smaller consignments. The newest area of PPMC'S marketing of Petro-chemical products. The main

concern of this study will be on the operations and marketing of white products which are moved by pipelines.

All the marketing companies, whether major or independent, have product lifting agreements with NNPC. These agreements define the relationship of the marketers with NNPC, their status as to whether they are non-credit or credit customers, the maximum volume that they can lift in the case of non-credit customers. The agreement and the number of credit days allowed as well as the penalties for non-compliance. In order to operate these agreement properly, it is obvious that the two parties (NNPC and the marketers) must be in the constant dialogue. The day to day contacts with the marketers occurs naturally in the field where marketers off-take the products at the depots. However, the Commercial Services Department maintains regular contact with the marketers on issues of policy and operational guidelines and there are also regular meetings with the two parties at various levels.

3.4. OPERATIONS

3.4.1 PIPELINE OPERATIONS

With the commissioning of the pipeline and depot complex between 1979 and 1988, the handling and marketing of petroleum products in this country took a dramatic turn for the better. Close to 75% of all products used in the country were moved by pipeline almost totally reversing a trend whereby tanker

trucks were used. The pipeline is one of the two most cost effective method of moving large quantities of moving liquids from one point to another. It is neat, efficient and when properly operated very safe. Thus, the initial challenge was to put in place a viable organisation for running the pipelines. Subsequently, it was necessary to train a workforce to operate the system properly and after 10 years of operation and total Nigerianisation of the system for the past 5 years, we believe that we have acquired the technology for operating pipelines in this country.

In addition to being cost effective, the pipeline in Nigeria has enabled us to pinpoint accurately the original demand for petroleum products in the country. Thus, the data needed for programming supplies to the various depots are now readily available. PPMC meets with the refineries once a month to review the previous month's performance and programme for the succeeding months based on production quota for each refinery generated from their current operational status. The programming is sufficiently fine-tuned at this meeting to indicate what will be handled by each segment of the pipeline network as well as what will be handled by sea. In the event that domestic refineries cannot fulfil all the requirements for a particular product, imports are programmed to augment domestic production.

Products produced for pipeline handling and handed over to PPMC by the refinery locations are pumped in a batching sequence determined by PPMC in

such a manner that deliveries are made into the depots in order to avoid products outages. Pipeline dispatchers working with data supplied and updated hourly by field operators determine batch sizes and batch sequences to achieve this. The four dispatch centres are located in the area offices in Port Harcourt, Kaduna, Warri and Mosimi and it is from these four centres that all instructions governing day-to-day pipeline operations are issued. It is clear that communication with the locations in the areas is the major tool of their operations. To ensure this, radios are provided.

The recently commissioned NNPC comprehensive Telecommunication system is provided back-up telecommunication facilities where they exist. However, this covers less than half of all our locations and therefore radios will continue to be the primary mode of transmitting instructions in pipeline operations for some time to come, though with the introduction of cellular phones the trend may change very soon.

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It needs to be emphasised that the pipeline dispatcher or pipeline controller is fully responsible for the healthy operation of the pipeline network under his command. Depots are not allowed to countermand dispatching instructions without clearance with the Area Manager for the particular system. Field operators are expected to monitor operating parameters like flow rates, pressures and temperatures in the pipeline and pump-stations as well as arrival times of product interfaces. Interface monitoring is crucial to ensure that there is

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no co-mingling of different products, since this will lead to massive contamination of bulk storage tanks. Monitoring of tank levels is also critical to ensure that there is no overflow of volatile and combustible products within the tank farm particularly as this might lead to a fire outbreak. Product interfaces have their own special tanks which are called slop tanks. All slops generated within the NNPC pipeline network are re-injected into product tanks in such a way that products specifications are still maintained.

3.4.2 DEPOT OPERATION

The essence of depot operations is to receive products pumped into it in a safe, efficient and timely manner; store the products until they are required either for sale at that location or for onward pumping to another location, to deliver such products on specification where required and to ensure that the billings for product sales are made not later than one day after the products have been sold. However, there is a whole gamut of activities connected with achieving these fairly simple objectives.

As earlier mentioned, depot chief heads the depot organisation and has various units reporting to him. These units are the operations, maintenance, administration, finance and accounts, sales, security and safety. All these units operate to enable him achieve the corporate objectives at his station. As the

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chief accounting officer in that location, he is fully responsible for accounting for all stocks delivered to him.

The only interface between the corporation and the marketers is at the depot and therefore the depot facilities have been designed to provide offices and other facilities for all the marketers. For these they pay a token fee to the corporation. Regular meetings are also held between the depot chiefs and the marketers to ensure smooth operations to prevent scarcity in their depot zone. The importance of the depot chief and the sensitivity of his job comes into sharp focus whenever scarcity develops in his area of coverage. At such times it has become routine for state chief executives to visit the depot or summon him for emergency meetings. At such times the management of PPMC does everything to prevent undue pressure on the depot chief by organising a visit to brief the state governors.

The area offices collate all billing returns from the depots under that area and forward same to PPMC headquarters where the billings are consolidated, marketer by marketer, for bulk invoicing. A most refreshing development is the definition of a cut-off credit limit for all major marketers. This progressive development will ensure credit control by NNPC and prevent a situation where debits in excess of N600m are owed NNPC.

For the efficient running of the depot, the following activities must be monitored by the depot management.

(a) PRODUCTS RECEPTION AREA OPERATIONS

This area incorporates those facilities for receiving products and interfaces into the storage tanks. It invariably houses the telecommunications room for keeping in close communication with the Product Movement Control Centre at the area office. It is also part of the pump-station for those depots that have responsibility for pumping to downstream depots.

(b) TANK FARM OPERATIONS

Tanks must be fiscalised prior to and after products reception and sales for proper stocks accounting. Based on results of laboratory analysis at the depot the contents of slop tanks must be re-injected into pure products tanks, the objective being to utilise all products received into the depot for earning revenue. Products may be decanted for various reasons and products may also be transferred from one tank to another as considered necessary. The bund walls and tank pads must be kept in excellent condition to ensure their reliability and functionality.

(c) QUALITY CONTROL OPERATIONS

Every depot is equipped with a laboratory so that all products can be confirmed to have met specifications while in storage and prior to releasing any particular tank for loading operations. Flash point tests are carried out daily for Kerosene to avoid incidence of Kerosene explosion which occurred between

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1982 and 1983. Other tests are carried out on the other products to ensure they meet international specifications.

(d) TRUCK LOADING OPERATIONS

Of all the activities in the depot, truck loading operation is the most conspicuous. It is, without doubt, also the most sensitive and so management has developed very elaborate procedures over the years which are strictly followed in order to ensure safety of operation.

(e) SAFETY OPERATIONS

The depots handle very volatile petroleum products and so all activities in the depot must be carried out in accordance with approved safety procedures to ensure safety of lives and facilities. Management policy is to put emphasis on fire prevention. However, all depots are equipped with fire detection and fire fighting facilities to protect the enormous investment.

Tanker trucks admitted for loading are provided with spark arrestors and fire extinguishers and these are inspected before trucks are allowed into the depot to load. Moreover, the long-standing management objective is to ensure that every staff is fully trained in fire detection and fire fighting techniques.

(f) SALES OPERATION

The annual turnover of PPMC's products sales is close to N4 billion and in fact, it is the main source of funds for financing NNPC's operating budget. The importance attached to sales operations therefore can hardly be over-

emphasised. Procedures and checks are in place to ensure fraud-proof operation. However, it must be borne in mind that it is people and not procedures that run a system. The advent of independent marketers into the industry has compounded problems of control and monitoring. The computerized meter ticket system introduced has helped to reduce some of the manual work but more importantly, has helped to facilitate information retrieval for fraud detection and planning purposes.

(g) MAINTENANCE

The role of maintenance in any operation involving plant and utilities is crucial. Maintenance at all levels in PPMC lays more emphasis on preventive rather than breakdown maintenance. Trouble shooting and repairs are carried out as necessary to ensure availability of equipment and utilities for efficient operations.

(h) ADMINISTRATION SERVICES

With a staff strength of about 100 personnel at the depots, staff welfare has to be given prominence, not only to boost staff morale but to ensure increased productivity. The tools available to the depot administration allows for human problems to be tackled with dispatch while referring more thorny issues to the area office for resolution. Staff discipline is ensured by depot administration and in view of the sensitivity of the work at the depot, a very disciplined workforce is essential.

(i) SECURITY SERVICES

Depots are restricted areas in view of their sensitivity. The facilities must be adequately protected from unauthorised personnel as well as from errant staff. Strict security checks are carried out to ensure trucks entering and leaving the depot possess all relevant documents and that unauthorised transactions are detected to eliminate malpractices, fraud and loss of revenue to NNPC.

(k) FINANCE AND ACCOUNTS SERVICES

All sales made at the depots must be paid for in accordance with corporate guidelines on the matter. The finance and accounts function at the depots ensure that the customers are properly billed in order to ensure that the 45 days credit limit in the operating agreement with the credit customers is not unnecessarily prolonged. In addition, this function ensures that the operating funds in form of imprest at the depots are properly budget-controlled and disbursed in accordance with corporate rules and regulations.

CHAPTER FOUR

4.0 DATA ANALYSIS

This chapter deals with the presentation and analysis of data collected in the course of this study. Below is the analysis of the data:

4.1 Whether your department has a formal marketing department.

Response	Frequency	% of Total
Yes	60	–
No	–	–
Total	60	100

Source: Questionnaire

The table above shows that all the respondents agreed that there is a marketing department in the organization.

4.2 Whether there is any coordination within the company.

Response	Frequency	% of Total
Yes	50	83.33
No	10	16.67
Total	60	100

Source: Questionnaire

The above table shows that 50, representing 83.33% of the respondents said that there is coordination within the company while 10, representing 16.67% said that there isn't.

4.3 Do you conduct a marketing research into customer needs?

Response	Frequency	% of Total
Yes	45	75
No	15	25
Total	60	100

Source: Questionnaire

The above table shows that 45, representing 75% of the respondents agreed that marketing research is conducted into the needs of customers while 15, representing 25% of them said no research is conducted.

4.4 Do you consult your customers when decisions particularly on specifications and pricing policies are to be made?

Response	**Frequency**	**% of Total**
Yes	60	100
No	–	–
Total	60	100

Source: Questionnaire

The table above shows that all the respondents (100%) agreed that customers are always consulted when major decisions particularly on specifications and pricing are made.

4.5 Whether you have any relationships with your sellers or buyers

Response	**Frequency**	**% of Total**
Yes	60	100
No	–	–
Total	60	100

Source: Questionnaire

The above table shows that all the respondents agreed that they have some forms of formal relationships with their suppliers but none with their buyers.

4.6 Specify the nature of relationships

Response	Frequency	% of Total
Yes	40	66.67
No	20	33.33
Total	60	100

Source: Questionnaire

The above table shows that 40, representing 66.67% of the respondents said that they have legalistic contractual relationships with their suppliers, while 20 representing 33.33% of them said that they have strategic partnership relationship with their suppliers.

4.7 What major adaptations would you ask from your supplier, as a buyer?

To the above question, the respondents said they would make the following as their major requirements from their suppliers.

(a) That special products should be developed.

(b) That there should be a development of a joint stock facility in a neutral warehouse.

4.8 What are the factors that would encourage buyer-seller relationships in your organisation?

Response	Frequency	% of Total
Yes	–	–
No	–	–
Total	60	100

Source: Questionnaire

The table above shows that all the respondents agreed that increased revenue and reduced cost benefit would encourage buyer-seller relationships in the organisation.

4.9 What are some of the factors that may make a buyer to switch?

The respondents gave the following as the factors that may make a buyer to switch:

(i) Poor buyer-seller relationships or the lack of it.

(ii) Rise in competition.

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(iii) If more alternatives are available.

(iv) If there is pressure from management to buy the right product at the right price, place and time.

4.10 Mention the factors that influence the nature of relationships

According to the respondents the following were given as factors that determine the nature of relationships:

(a) The structures of the buyer-seller market.

(b) The product

(c) If there is availability of alternative buyers and sellers.

(d) The technology process of the two companies.

4.11 The major influence process in the buyer-seller relationships.

Response	**Frequency**	**% of Total**
Yes	60	100
No	–	–
Total	60	100

Source: Questionnaire

The above table shows that all the respondents, representing 100% said that negotiation is the major influence process in the buyer-seller relationships as against persuasion.

4.12 What determines the efficiency of sales representatives, in your own view?

To the above question, the respondents, gave the following as the factors that determine the efficiency of sales representatives.

(i) The nature of interpersonal interaction.

(ii) The buying task of the customer.

(iii) The source of the representatives in terms of skills, knowledge, organizational support.

4.13 What determines the nature of interaction between a buyer and a seller?

The respondents gave the determinants of nature of interaction between a buyer and a seller as follows:

(1) The stage in the buying decision process.

(2) Uncertainties in the buying process.

(3) The type of buying situation.

4.14 From your experience what are the disadvantages of having multiple vendors?

The respondents gave the following as disadvantages of having multiple vendors:

(a) Higher purchasing costs.

(b) The poor quality of materials.

4.15 What are some of the advantages of having few vendors or a sole source?

These were given as the advantages of having few vendors or a sole source:

(1) There will be just-in-time delivery.

(2) There will be reduced inventory costs.

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(3) There will be flexibility in procedures.

(4) The vendor will participate in the design and specification of the product.

(5) The vendor will also be involved in updating and innovation.

(6) There will be commitment to zero defect in product design.

(7) There will be increase in service component.

(8) They will share in communication networks.

4.16 Mention the major problem faced in strategic buyer-seller relationships.

These were given as the major problems in strategic buyer-seller relationships:

(a) Bigger partners dominate the business.

(b) Partners still play by old rules in terms of emphasis on low prices, competitive billing and disregard for quality, partner involvement in design issues and technological innovation.

(c) There is risk from increased dependence.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSIONS

Based on the research findings, the following summary and conclusions were reached:

(1) Though there is a formal department charged with marketing responsibilities, there isn't any co-ordination of other functional activities in terms of finance, personnel, production within the organization.

(2) There is a regular research into the needs of the customers though the employees are not aware of this.

(3) In the area of product design and specification, suppliers are always consulted and their co-operation always sought for by the organization.

(4) Relationship of the company with the suppliers is mostly based on legalistic conditions instead of strategic partnership.

(5) Buyers will require the development of products and joint stock facility in a neutral warehouse from their suppliers, while carrying out business.

(6) To encourage buyer-seller relationship, reduced cost benefits and increased revenue were given as the main factors.

(7) The major reasons identified for switching include pressure from management to buy the right goods at the right price, place and time, increased competition and the availability of other alternatives.

(8) The determinants of the nature of relationships were given as the product, process technology of both companies, the buyer-seller market structure and availability of alternative buyers and sellers.

(9) The main disadvantages in having multiple vendors include poor quality materials and higher purchasing costs. On the other hand the advantages of having few vendors or sole sources were said to include: Participation of vendor in design and specification of the product, flexibility in procedure, reduced inventory costs, commitment to zero defect in product design, just-in-time delivery, shared communication networks and increased services component.

(10) The study also identified risk form increased dependence, dominance form bigger partners, and emphasis on old way of doing business as the major problems in strategic buyer-seller relationships.

5.2 RECOMMENDATIONS

Based on the findings of this study, the following recommendations are made:

(1) There is the need to integrate totally, the functional areas of the organisation to note the customers' needs more effectively.

(2) There is also the need for the organization to pursue the goal of satisfying its teeming customers.

(3) As the case may be, more effort should be geared towards more supplier or buyer cooperation to strengthen the buyer-seller relationships.

(4) There is the need to make workers know the purpose of carrying out any research work to keep them informed and involved in the whole process.

(5) Uncertainties in the buying process should be reduced as much as possible by the selling organisation so as to build confidence and reliability.

(6) There is the need for suppliers to study and understand the products and the process technology of their buyers in order to adapt to their products and services to meet their needs to avoid cases of customer switching.

(7) The study also wish to recommend that relationships be based on strategic partnership rather than legalistic contractual obligations.

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QUESTIONNAIRE ON INITATING AND SUSTAINING DURABLE BUYER-SELLER RELATIONSHIPS

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1. Does your department have a formal marketing department?

   Yes No.

2. Is there any coordination within the company?

   Yes No.

3. Do you conduct a marketing research into customer needs?

   Yes No.

4. Do you consult your customers when decisions, particularly, on specifications and pricing policies are to be made?

   Yes No.

5. Does the organisation have any relationships with its sellers or buyers?

   Yes No.

6. Specify the nature of relationships, if your answer is yes.

7. What major adaptations would you ask from your supplier, as a buyer?

8. What are the factors that would encourage buyer-seller relationships?

9. What are some of the factors that may make a buyer to switch?

10. What are the factors that influence the nature of relationships?

11. What are the major influence process in the buyer-seller relationships?

12. What determines the efficiency of sales representatives (in your own view)?
13. What determines the nature of interaction between a bu7yer and a seller?
14. From your own experience, what are the disadvantages of having multiple vendors?
15. What are some of the advantages of having few vendors or a sole source?
16. Mention the major problems faced in strategic buyer-seller relationships.