

Supplier Relationship Assessment

Xi Zeng*

Hubei Open University, Wuhan, Hubei 430074, China.

Abstract: To assess supplier relationship, we should know the classification of supplier relationships and key elements influencing supplier relationships. This paper focused on these two themes. Firstly, we divided supplier relationships into six types, and also discussed the characteristics of each kind. Secondly, we proposed nine key elements which can influence supplier relationships. Thirdly, we studied the effects of the elements on each type of relationships further.

Keywords: Supplier Relationship; Key Elements; Partnership

1. Relationship Classifications

Supplier relationship management is not only the key point of strategic management of supply chain, but also the core of supply chain management. Till now, scholars have carried on a large number of researches on the characteristics of supplier relationship. On the basis of relationship marketing, we divide supplier relationships into three: traditional transaction relationship, partnership and strategic alliance.

1.1 Traditional transaction relationship

This kind of relationship is manufacture-based, which means supplier relationship is in the secondary or adjunctive position. There is little communication between enterprises, not to mention cooperation. The competition mode of this kind of relationship is driven by price, and its characteristics are shown as:

Manufacturer orders goods to several suppliers at the same time, to obtain price advantage through the competition between suppliers;

Manufacturers, through assigning the quantity of purchasing among suppliers, to control them;

Manufacturers and suppliers keep a short-term contractual relationship;

To take risks alone^[1].1.2 Partnership

Partnership, usually be considered as the kind of relationship that is based on long-term written contracts but can share information, risks, profit together within a relatively long period^[2]. Under partnership, parties usually stabilize the relationships by written contracts, rather than alter easily. To establish partnership means to develop new product/technology together, interchange data and information, share the market opportunities and risks. The characteristics of it are:

To some extent, it possesses trust and commitment;

Information sharing concentrates on technical files correlated with products;

Willing to share risks a certain extent among nodal enterprises;

Suppliers have certain words right in cooperation construction.

Product-based supply chain design means we must design supply chain matched with the characteristics of products. Supplier relationships are the same. We must establish relationship matched with the products, too. According to this thought, we divided partnership further into four kinds:

1.2.1 General contractual partnership

To deal with suppliers who supply office supplies, standard components and other products. They are wide in variety, frequent but small quantity of demand each time, and taking up a little fund, also they had little influence on manufacturer's final products. So it is quite difficult to set up close partnership between this kind of suppliers and manufacturers, while establish general contractual partnership is feasible.

1.2.2 Competitiveness/technical partnership

To deal with suppliers who provide ordinary raw materials, such as some auxiliary raw materials, fuel, etc. Suppliers providing such products confronted with numerous rivals in the same industry. As to manufacturers, they demand a lot for such kind of products, and need more funds to purchase them, but they have many choices and the product quality has only a little effect on the quality of its final products. This kind of products and services belongs to low value and service, and relatively low proportion

Copyright © 2020 Xi Zeng

doi: 10.18282/1-e.v9i4.1739

This is an open-access article distributed under the terms of the Creative Commons Attribution Non-Commercial License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits unrestricted non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

in the whole purchase of manufacturers. But because of exclusive or particularity of technology in a certain aspect, it has hard to substitutability, to some extent. So the manufacturers need consuming a large amount of time and energy while purchasing them. Manufactures generally desire less to auxiliary raw materials and fuel, etc., and demand a lot, so, they possess price control to this kind of suppliers. The suppliers, at this time, are in passive status in price. Here, the price of products often plays a decisive role, and should be put in the first place to be considered, to reduce the cost correlated with transaction.

1.2.3 Powerful partnership

To deal with suppliers who offer some bottleneck parts, such as special-purpose parts, import parts, etc. The demand of manufacturers to this kind of products is small, but the quality of them exerts a tremendous influence on the quality of final products. Meanwhile, there are few suppliers in this kind of markets, which means few competitors for suppliers. So, there is no space for bargaining for manufacturers to this kind of products. Suppliers occupy the favorable status in this kind of partnership. While dealing with this kind of partnership, suppliers should hold the sense of propriety of generating strategy according to their own profit, avoiding manufacturers looking for another supplier.

1.2.4 Strategic partnership

To deal with suppliers who supply key raw materials which are large in consumption. Manufacturers demand heavy on such products, setting aside more funds for purchasing them, and the quality of such products plays an important role in the quality of manufacturers' final products. So manufacturers need choosing among a great deal of suppliers, leading to suppliers facing try out. Therefore, manufactures is glad to establish close cooperation with this kind of suppliers, setting up strategic partnership. By comparison, during the process of bidding for suppliers, price is a secondary factor. It is whether to have long-term competitiveness that is the primary task. In this case, both sides would like to sign long-term cooperative contract, keep good partnership, communicate regularly, and help and support mutually when necessary, hoping to grow up together. Generally speaking, the cost of developing and changing this kind of suppliers is relatively high to manufacturers, which requires manufacturers establish long-term, steady relationship with few suppliers. Now, the degree of mutual dependence between suppliers and manufacturers are relatively high, and they are in the relative equal status^[3].

1.3 Strategic alliance

Strategic alliance is a kind of loose network, in which two or more organizations with equal capability combine together. The joint effort can involve anything from getting a better price for goods by buying in bulk together to seeking business together with each of you providing part of the product. The basic idea behind strategic alliance is to minimize risk while maximizing your leverage in the marketplace.

Strategic alliance is mostly spontaneous, non-compulsory, and each party in alliance still keeps management independence. The remarkable characteristics of this kind of relationship are:

- Contract duration is long;
- More cooperative;
- The number of suppliers reduces greatly;
- Widely application of information techniques;
- Supplier participating earlier in new product development.

2. Key "distinguishing" elements of relationship To fully understand supplier relationships, they should be characterized in terms of distinguishing elements. These attributes are discussed in detail below.

2.1 Status in relationship

Status in relationship is determined by the status in its industry and bargaining, etc. Generally speaking, the status of parties in relationship will be comparatively equal if in a perfect or nearly perfect competitive market, and also they are non-monopolized in this market. On the contrary, if one party has stronger market strength, it will get the higher status. The higher status, the stronger ability of bargaining it will have. As a result, it can earn more profit from their relationships.

2.2 Organizational investment

Generally speaking, the ability that enterprises earn profit relates to the characteristics of resources of production. The more it is scarce, the more difficult to be imitated, and the greater its potential value will be. The degree of dependence lies on the relationship-specific investment. The more one company invests in specific relationship, the higher degree of dependence to relationship it will be. Relationship-specific investment is a kind of sunk cost. Once relationship stopped, higher cost will be loss to the one that invest more.

2.3 Business volume

Interaction frequency at the organizational level is based on the amount of business transacted between parties. For example, a customer that has a large concentration of retail stores generating greater volumes of product sold to ultimate consumers can demand greater support in the form of more frequent deliveries and guaranteed product availability from its suppliers. Therefore, the large volume of transactions and resulting revenues reflects the influence that the customer can have over the supplier.

2.4 Commitment

Resource dependence theory specifies the conditions under which one unit is able to obtain compliance with its demands when dependence between the parties is present. Expectation to relationships is quite important to concern the views lasting to the relationship of both sides. If the manufacturer thinks one supplier's prestige is good, product quality is reliable, it will take a fancy to this supplier, and then the status of this supplier is comparatively high. As such, if the supplier thinks some manufacturers have good credit; it will also maintain a positive attitude to keep relationship with them of course^[4].

2.5 Competition

When in an uncertain, dynamic, fierce and complicated market, the transaction cost will increase along with uncertainty. Here,

enterprises under such conditions tend to establish closer relationship to its both upstream and downstream enterprises, which can save transaction cost and avoid risks.

2.6 Trust

Geyskens, Steenkamp (1995), etc. regarded that it is the trust that is the foundation of relationship commitment; meanwhile, trust can improve the will of cooperation^[5]. Ulrich (1989) deemed that only totally promised manufacturers can set up long-term, faithful relationship with suppliers. And only when of the two sides trust each other, the relationship-specific investment will progress. The investment may be unable to regain while relationship breaking down, which form obstacle to the relationship break down^[6].

2.7 Harmonization

Carruthers (1996) thought companies in supply chain could gain profit only when their objects harmonized^[7]. The basic thought of supply chain management is enterprises in supply chain have common goals. Besides, culture should be in harmony, too. As we know, culture is a kind of competitiveness, which is hard to be imitated. To cooperate with other companies requires dealing with different cultures. Culture conflict is always the headache of managers in supply chain.

2.8 Communication

Success in a supplier relationship is partly based on how frequently the parties interact. At the personal level, communication frequency affects each party’s perception of the value created by the other through time spent communicating with the other party. At the organizational level, interaction frequency is characterized by the amount of business transacted between the parties^[8].2.9 Contract attribute of relationship

It means whether the relationships of both sides are based on contract with certain force adefect, and the completeness of contract terms. If the relationship is on the basis of signing up, then, the ending of the relationship will be restricted; meanwhile, the strictness of contract terms has certain influence on the nature of relationship^[9].

3. Influence analysisFrom the above, we know there are nine key elements affect supplier partnership. Here, we us diagram to show the different influence on each kind of supplier relationships.

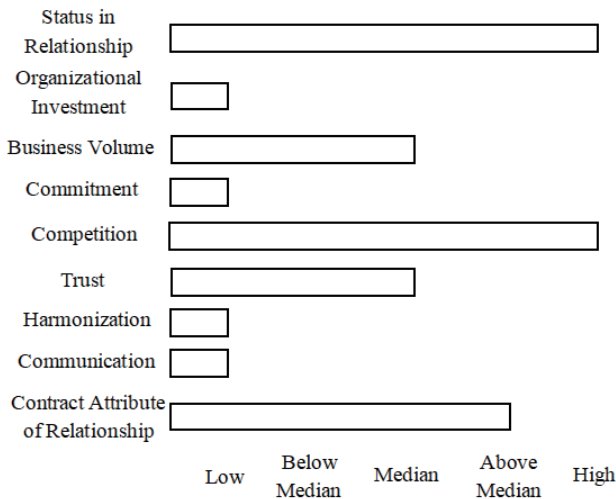


Figure 1. Influences on traditional transaction relationship

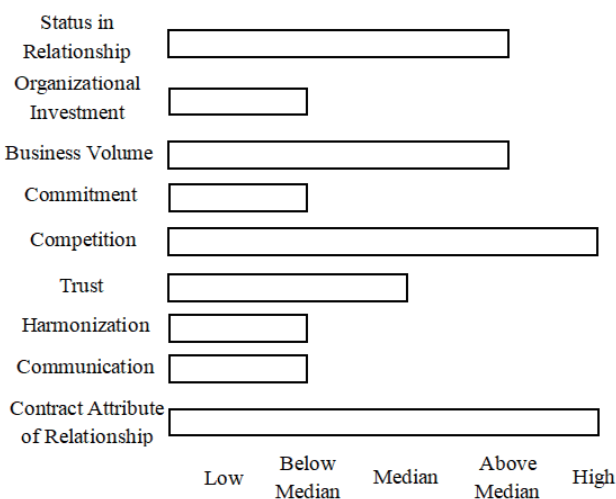


Figure 2. Influences on general contractual partnership

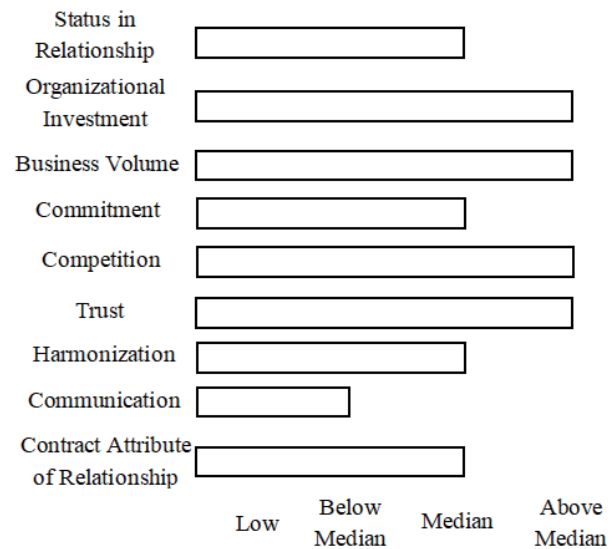


Figure 3. Influences on competitiveness/technical partnership

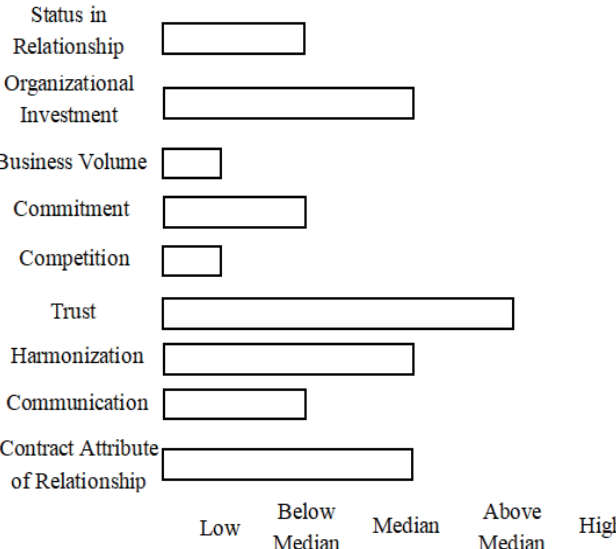


Figure 4. Influences on powerful partnership

(Note: In the column of status in relationship, the higher the bar, the more powerful the manufacturer is, vice versa. The median bar means manufacturer and supplier has equal status in relationship. In competition column, the height of bar means the competition that suppliers confronted with.)

4. DiscussionEach of the six types of relationships identified in this research will be discussed in terms of distinguishing elements as shown in figure 1. The elements are described in relative terms based on the diagrams of each of the six relationships (shown as figures 1 to figure 6).

4.1 Traditional transaction relationship

Traditional transaction relationship is the simplest one of the six relationship types, which has the lowest on organizational investment, commitment, harmonization and communication. In addition, traditional transaction relationship is median for business volume and trust. Only contract attribute of relationship is identified as being above the median. As to status in relationship and competition, traditional transaction gets the highest.

4.2 General contractual partnership

Status in relationship and business volume are above the median for general contractual partnership. Besides, general contractual partnership is below the median for organizational investment, commitment, harmonization and communication. Only trust gets the median. While general contractual partnership has the highest on competition and contract attribute of relationship.

4.3 Competitiveness/technical partnership

Competitiveness/Technical partnership is mainly focuses on the median, which has no lowest or highest bars. Status in relationship, commitment, harmonization and contract attribute of relationship are the truly median. While has above the median for organizational investment, business volume, competition and trust. Of the nine elements, only communication stays in the position of below the median.

4.4 Powerful partnership

Powerful partnership is similar to competitiveness/Technical partnership, to some extent. It also focuses on the median. Organizational investment, harmonization and contract attribute of relationship are in median indeed. Status in relationship, commitment and communication are below the median, while trust is above the median. There is one point, that is powerful partnership has the lowest on business volume and competition, which is as the result of the products it provides.

4.5 Strategic partnership

Strategic partnership is somewhat similar to strategic alliance. It only gets the highest on business volume. The rest of elements are mainly stay in the median. Strategic partnership has the above the median on organizational investment, commitment, trust, harmonization and communication. While, only competition requires below the median. When it mentioned to status in relationship and contract attribute in relationship, strategic partnership gets the median.

4.6 Strategic alliance

Of the six relationship types, strategic alliance is the most complex one, which requires more than the other relationship types. Strategic alliance requires the highest on organizational investment, business volume, commitment, harmonization and communication. It also needs the equal status between manufacturer and supplier, resulting in the median for status in relationship. Besides, status in relationship, contract attribute of relationship is in median, too. Meanwhile, strategic alliance gets the lowest in competition.

5. ConclusionIn reality, when relationship assessment, first, to judge whether the present type of relationship is matched with the type of products, if match, find out the most significant ones in the nine key "distinguishing" elements, then adopt the corresponding tactics; If not, look for suitable type of relationships, then according to the nine key "distinguishing" elements, to establish the relationship you decided to.

Reference

- [1] Jingfang Li, Nanfang Cui, Gradual Management of Supplier Relationship, Industrial Engineering and Management, No. 5, 2003, pp.54-55.
- [2] Hon Yan, Xiangdong Chen, A Study of International Supply Chain Cooperative Relationship in View of Supplier's Benefit, Industrial Engineering and Management, No. 4, 2002, pp.24.
- [3] M. Bensaou, Portfolios of Buyer-Supplier Relationships, Sloan Management Review, 1999. pp.36.
- [4] Lloyd M. Rinehart, James A. Eckert, Robert B. Handfield, Thomas J. Page, Jr. & Thomas Atkin, An Assessment Of Supplier Customer Relationships, Journal of Business Logistics, Vol 25, No. 1, 2004. pp.29-33.
- [5] Geyskens, I. and Steenkamp, J.B., An Investigation into the Joint Effects of Trust and Interdependence on Relationship Commitment, EMAC Proceedings, 1995.
- [6] Ulrich, D., Tie the Corporate Knot: Gaining Complete Customer Commitment. Sloan Management Review Summer, 19-27, 1989.
- [7] Carruthers, N., Principal-Agent Relationships, in Relationship Marketing: Theory and Practice, F. Buttle, ed., Paul Chapman Publishing, London, 29-39, 1996.
- [8] Naude Pete & Francis Buttle, Assessing Relationship Quality, Industrial Marketing Management, Vol. 29, 2000, pp.351-361.
- [9] Yan Zhang, Peiqing Huang, Research on Customer-Supplier Relationship and Characteristics, Foreign Economics & Management, Vol. 23, No.3, pp.22-24.