BUYER-SUPPLIER RELATIONSHIP MANAGEMENT SYSTEMS

[SOME STRATEGIC DIRECTIONS]

R. P. Mohanty

Dr Mohanty is an internationally acclaimed academic whose work in the areas of industrial engineering and productivity related sciences is widely quoted. At present he is Chair Professor and Dean at the Institute of Technology and Management based in Vashi, Navi Mumbai. He can be contacted on rpmohanty@gmail.com

Abstract

This brief paper is born out of years of experience in the fields of management consultancy and research and seeks to investigate strategies and action plans that companies could put in place to leverage their suppliers using, what is now called: Buyer-Supplier Relationship Management Systems (BSRMS). This paper is especially relevant in the post WTO regime where structures are concurrently collapsing and change is at once nonlinear and non Newtonian. The matrix organizational structure is a reality as is the need for holistic stakeholder management. The boundary-less universe is there for all to see and barriers are being broken as easily as strategic alliances are being firmed up. In view of this fact, companies are forced to thrive on the cutting edge of competition leveraging suppliers using BSRMS is a managerial imperative. This paper seeks to make some observations and posit a set of strategic directions in this regard.

The Background : In today's extremely competitive environment, companies are investigating new means of increasing profit by implementing so called Customer Relationship Management Systems (CRM). But the needs to continually cut costs and focus on core competencies have led companies to focus on how to improve the supply chain and leverage their supply base. Many have shifted from a vertical integration model to outsourcing some or all of their production to attain the necessary competitive edge, but this inevitably creates new needs as coordination costs increases dramatically. In addition, the recent craze on e-commerce has heavily contributed to question the need for long-term buyer/supplier relationship.

The goal of this paper is therefore to investigate strategies and action plans companies could put in place to leverage their suppliers using, what is now called: Buyer-Supplier Relationship Management Systems (BSRMS).

All of us know that primarily the suppliers as well as customers are the fundamental building blocks towards the success of any business. So nurturing effective and value-building relationships with them is the top priority. Viewed in this perspective, let us try to recapitulate "how" and "what" of the experiences of the contemporary business world. They are as follows:

1. Competition for the customers is becoming more intense. Local and

national suppliers' location advantage is being eroded as trade barriers are being lifted and the established and emergent trading blocs are redefining geographic boundaries. As access to markets is becoming less localized, demands on logistics management, distribution partnering and customer service are becoming more significant.

2. Markets are becoming more fragmented. The global economies are moving from mass marketing – always associated with the condition of demand exceeding supply – through market segmentation, towards individualized marketing. This so called one-to-one marketing strategy is being based on the premise that customers will be more loyal and utter more positive word-of-mouth if value propositions are customized to meet their particular, perhaps unique, requirements.

3. Customers are becoming more demanding. Their expectations for reliable product and responsive service are becoming more extreme. Customers are demanding more and are becoming much less tolerant of failures. They are comparing their experiences against best-in-class expectations. For example, if it takes no paperwork and two minutes' interaction at a desk to hire a car, customers will want to know why it takes fifteen minutes and form-filling to check into a hotel. Expectations are a moving target not a benchmark. What used to delight customers a year ago is only likely to satisfy them today. What was once a motivator is now a hygiene factor.

4. Product quality has risen substantially in the recent past and is no longer a source of competitive advantage for many companies. Indeed, many customers tend to buy from a portfolio of more-or-less substitutable brands. Brand loyalty founded on product differentials is a relative, not absolute, matter. As product quality has risen, companies are seeking competitive advantage in closer, service-focused relationships.

5. As competitive pressures and customer and shareholder expectations continue to increase, the value of outsourcing is likely to steadily rise, as well. Many companies presently outsourcing various business functions are actively searching for additional outsourcing opportunities in other areas. Outsourcing of business processes will not only be limited to buying of materials or services but are extended beyond. Such activities will mainly come from multi national corporations and largely overseas operations. Best practice in today's world of procurement demands that companies should be working closely with all the parties involved in the supply chain. This must be constantly monitored to maintain and develop the company's competitiveness in the purchasing market and to ensure the profitability of suppliers. It is important that resources will be around in the future to service the business, and also that they will have the desire to do so.

6. Today, companies are formulating their competitive strategy, which centers on the following variables:
   - New product development
   - Extensive customer/consumer service
   - Building/maintaining brand image
   - Marketing innovation
   - Influence over distribution channel
   - Targeting unexplored segments

- Advertising
- Building/maintaining the firm's reputation
- Providing products with many features
- Premium product quality
- Operating efficiency/cost management
- Pricing below competitors
- Managing supply sources
- Trade sales promotion
- Manufacturing process improvements/innovation
- Product cost reduction
- Serving special market segments
- Manufacturing/selling customized products
- Being first to enter market
- Strict quality systems
- Accurate market forecast
- Broad product range
- Maintaining high point of sale inventory levelo

Critical Dimension of Relationship : All the above have profound implications on buyers-supplier relationship of any business. Critical dimension of this relationship will be determined by three co-related factors:

1. Relative magnitude: how much this resource constitutes either of the organization's total inputs or outputs of a category of the total. The larger this resource share, the greater the importance of relationship.
2. Functional criticality
3. Strategic criticality: a measure of the resources contribution to the organization's critical success factors.

Typology of Relationship : Based on this criticality of the resource, one can identify basically three levels of buyer- supplier relationships:

Adversarial. This is the traditional win-relinquish relationship where the buyer, squeeze the supplier for the very last bit of a discount. Buyers are determined to get the last drop! They are not focused on the cost of doing business with one another, just what they believe to be the lowest cost. This is a transactional only relationship. Characteristic features of this relationship are as follows:

- Adversarial negotiations
- Fragmentation among suppliers
- Annual bids
- "Arms length" approach
- Sporadic communication

Barometric. In a barometric buyer/supplier relationship, buyers do always check the climatic conditions such as:

- Power/dependency (Power balance)
- Co-operation/competitiveness,
- Trust/opportunism
- Commitment/non-commitment,
- Understanding/ misunderstanding,
- Closeness/distance.

These relationship parameters are monitored and measured closely. Generally, buyers have not yet developed a high level of trust with one another. It could be a single source relationship, but with a short length contract. While this relationship can grow and flourish, it can also sour quickly. Few people thrive with others constantly peaking over their shoulder. In this type of relationship, each side must still engage in CYA (cover your assets).

Complementary. This level is where true integral partnering takes place. At this level the visions and values of each overlap with one another. There is a true alignment of values in place. Each understands the needs of their alliance partner and works hard to help their partner get what they need while likewise serving their own organization. Characteristic features of this relationship are as follows:

- Partnerships Consolidation
- Long-term commitments
- Highly integrated operations
- Frequent planned communication
- Best economics

Typology of Complementarities: Normally, one can think of two types of complementarities:

1. Responsive Adaptation – supplier resource commitment as a response to buying firms' requests (i.e., securing a continuous flow of a focal product and compliance with buyer's request on cost reduction and quality improvement).

2. Proactive Adaptation – supplier resource commitment driven by suppliers' initiative in areas where suppliers can contribute to enhancement of a competitive position of customer firms (i.e., product development, dramatic cost reduction, and quality improvement).

An extent of observed supplier responsive and/or proactive adaptation determines a magnitude of moment of truth effect at buyer firms where a seed of trust begins to grow in satisfied customers at a respective speed. With the growing trend in applications of information technology and systems the complementary relationships are being strengthened such as:

- A closer business coupling between major trading partners
- Enhanced business opportunities
- Enhanced customer satisfaction by having the right products available at the right place to satisfy demand
- Reduced information technology system development and maintenance costs
- Improved cash flow through lower inventories
- Improved operational processes such as increased productivity and reduced cycle time
- Lower total supply chain costs.

A number of elements typify successful partnerships. The absence of these characteristics or lack of adherence to operating principles typically creates an unstable relationship. The following success variables may define the value dimensions of this kind of relationship:

- Commitment
- Trust
- Cooperation
- Mutual Goals
- Interdependence and Power
- Performance Satisfaction
- Structural Bonds
- Comparison Level of Alternatives
- Adaptation
- Non-Retrievable Investments
- Shared Technology
- Social Bonds

The transitional path of relationship is as follows:

Relationship management is not an instant utopia, and like so many other aspects of business it requires lots of commitment and hard work to make it work properly. A strong alliance with key suppliers and customers is the essence of successful relationship management. It does require openness and honesty on both sides, but in the long term will pay dividends for both parties.

Strategic Choice Governing Relationship-building Process : Strategic choice is the logical element of the relationship building process. The following strategic choices may be identified to maintain the internal balance within the company and external equilibrium with respect to the business environment, and continuity of such relationship:

[redacted]

For a viable strategic corporate model over the long term, there are four useful generic strategic choices that can be used in buyer-supplier relationship strategy formulation. The appropriate model to be used depends upon the kind of strategic policy one wants to emphasize in strategic complementary relationship policy. If there are no choices to be made, there can be little value in thinking about strategy at all. On the other hand, there will always, in practice, be limits on the range of possible choices. In general, small enterprises tend to be limited by their resources, whereas large enterprises find it difficult to change quickly and so tend to be constrained by their past. In large corporations, managers may find their range of choice limited because some choices are made at a higher level. In the public sector, politicians may make the genuine strategic choices so that the role of the manager is limited to devising how best to implement strategies rather than to ponder fundamental choices of future direction for themselves. Even when managers are apparently free to make strategic choices, results may eventually depend as much on chance and opportunity as on the deliberate choices of those managers. When considering future strategies, it may seem that there are clear choices to be made. When reflecting on outcomes in retrospect, it is often clear that events, and particularly unexpected events, played a major role in determining results. When considering choice, it is necessary to take a prescriptive view. Descriptive ways of thinking may help to explain the outcomes after the event.

As every management scientist (probably) knows, any process of choice rationally is divided into four steps:

1. Identify options,
2. Evaluate the options against preference criteria,
3. Select the best option,
4. And then take action.

This suggests that identifying and choosing options can be done purely analytically. In practice, it may be difficult to identify all possible options with equal clarity. Unexpected events can create new opportunities, destroy foreseen opportunities, or alter the balance of advantage between opportunities. Identifying and evaluating options is a useful approach but it has limitations. It is necessary to remember that the future may evolve differently from any of the options. Good strategic choices have to be challenging enough to keep ahead of competitors but also have to be achievable. Analysis has an important role in making strategic choice but judgment and skill are also critical. For instance, sometimes it may be better to delay making a decision whereas at other times a wrong decision may be better than no decision. Strategic choices that keep options open may be preferable in an uncertain future to defined strategies that depend for their success on uncertain events happening. Each choice can make clear what kind of strategic policies should be emphasized into order to make a particular strategic perspective dominant and visible in planning business change and new strategic business policies. Such judgments require wisdom as much as analytical skill.

However, the validation of the strategic choice will depend upon the following premises:

1. An understanding of the total value chain economics for the product.
2. Analytic process that systematically identifies and

documents "untapped" potential.
3. Senior management leadership and continuous support.
4. Multi functional task forces representing both customers and suppliers.
5. Clear understanding of the process steps leading to sustainable value.
6. Structure to perpetuate the partnership and future improvement.

The Future Agenda in BSRM for India : We may simply put some guidelines here for Indian companies to look forward and act:

- Understanding why strategic relationship management is rapidly becoming a key business priority and sets the stage for building sustainable business relationships across a company's entire supply base.
- Introducing strategies for transforming procurement from a back-office operation into a strategic corporate function.
- Outlining the organizational changes necessary to successfully realize those strategies.
- Demonstrating how software and technology can help to scope out the full potential of companies' Buyer-Supplier Relationship Management (BSRM) strategy.
- Moving on from buyer / supplier contracts: overcoming the challenges of developing collaborative supplier relationships.
- Establishing the key characteristics of a mature relationship strategy: how can deeper understandings of this directly impact bottom-line cost management?
- Understanding the need to have openness for change on both sides of the strategic relationship: the first step to a mature relationship strategy.

Giving a generic or universal solution is neither possible nor advisable so this paper has posited a few directional pointers to guide the management strategist and that is all.

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