An Exploratory Study of Important Dimensions in Strengthening Buyer-Supplier Relationship

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ABSTRACT: Running successful business requires fulfilling the expectations of all stakeholders, which may include customers, suppliers, partners & investors (shareholders), local government etc. Among them most important is customer, who demands products and services which need to reach at right time in right form (standards) in exchange of price paid, failing which business may lose customer to competitor and will eventually losing revenue in turn causing loss to all stakeholders. To be successful, all business needs to have resources placed rightly at right time which is not possible at own level but can be efficiently managed through strong networking or chain of suppliers. The very survival of buyers & suppliers depends on their mutual relationship in business. Both the parties require finding out sustainable strategies to nurture and strengthen their relationship for mutual benefits. Hence, this research attempted to find out importance of the business relationship between buyer and supplier. This is an empirical and descriptive type of study. While this study, to carryout survey and getting the data from respondents was big challenge because of data secrecy. This study will provide strategic guidelines in developing relationships between buyers and suppliers. It will also help to understand, how business relationships impacts purchase decisions in business. It also analyzes business relationships in different business scenarios and further how to nurture it sustainably.

Keywords: Buyer-Supplier Relationship, Purchasing Decisions, Business Scenarios.

I. INTRODUCTION

Focus of study is on business relationship of buyer and seller. Present industrial scenario is very volatile due to various socio-economic reasons; ever-changing business dynamics and uncertainties compels buyers to keep harmony in relationship with their suppliers [1-3]. Traditionally vendors are supplying items as per buyer's schedule or requirements maintaining other variables such as price, delivery, quality etc [4-6]. In fact authors bring attention to point that this traditional philosophy now having paradigm shift. Suppliers are no more suppliers, but they are now business partners irrespective of value and criticality of items they are supplying to buying organization. Organizations are focusing on building long lasting relationships which yield them tangible and intangible results [7, 8].

Another aspect of business relationship is now a day's industry moving [9] to outsourcing model in “make or buy” decisions they preferring to buy over make as they intend to focus on their core strengths or products. In this process they became vendor dependent for items which they intend to outsource here this dependency directly proportional to importance of business relationship [10].

To prove the growing importance of business relationship empirically author framed this study and results are analyzed. Different types of business relationships and pillars of business relationship also discussed.

The advantage of carrying out an empirical and descriptive research using survey tool provides first hand insight. However there is always scope for further validation at different time and region [11, 12].

II. LITERATURE REVIEW

The strong relationship between buyer and supplier, for obvious is an important requirement for all sort of business, in fact the very survival of business is depend upon this relationship [13, 14]. Making product and services available to the customer at right time with required standard is necessary to be successful. If a company is not in position to ship required products it may badly affect the business and company may lose the customer, hence retaining customer with on-time delivery of product is possible through strengthening the supply chain. Having strong relationship with supplier will develop capacity and capability to be ahead of competitor and serve the market need efficiently [15].

Developing strong relationship and network of suppliers is prime importance and depends upon many parameters e.g. – price, quality, quantity, vicinity, legal and government policies etc. for all sorts of enterprise (SMEs) [16, 17].

Now days, assured or uninterrupted supply is not the only expectation from supplier but very important is the...
sustainability. The existence of business and resultant relationship between buyer and supplier must be long lasting without any social and environmental ill effects [18, 19]. In business world both buyer – supplier reaps profit by developing mutual trust and partnering collaboration [20, 21]. This relationship evolved from placing two or more supplier against each other to gain maximum benefits out of bargain [22, 23]. This approach as said above evolved with more benefits to buyer and supplier reaping maximum benefits with long term collaborative partnership relation [24]. The real challenge in this type of relationship is to develop trust and confidence in transaction because of conflicting interest of price i.e. buyer always search for lower price and press it to supplier who always want higher price. Now days going beyond price, there are some more requisites are essential like quality, on time delivery, service etc. which is possible through continues adaptation from buyer-supplier side, interdependence and joint action of buyer-supplier to partner long-term collaboration. According to Koulikoff-Sourviron & Harrison in 2006 [25] put forward seven parameters to define buyer-supplier relationship –
- Buyer-Supplier should have clear, shared and explicit goals at strategic and operational level.
- There must be open and prompt information sharing by both parties.
- Clear communication channel and interpersonal relationship.
- Formal as well as informal coordination mechanism.
- Lower and top management in decision making.
- Acceptance from top management to support and nurture the relationship.
- Compatibility of management structure and philosophy. Maintaining profitable long-term buyer-supplier relationship is real challenge in dynamic competitive world, but it is possible for both parties by following sustainability practices in business transactions [26]. Sustainability practices can provide edge over the competitors products, marketing and competitive advantage, customer and employee retention, improves brand value and reputation [27-29].

III. RESEARCH DESIGN

Though there are many research approaches but here we have used an empirical and descriptive type of study [30]. While this study, to carryout survey and getting the data from respondents was challenge because of data secrecy.

A. Scope of the Study

Considering the importance of buying behavior in B2B business setting and in different situations affects the performance and ultimately the customer value in terms of product quality and service hence need to analyze through this study [31, 32]. The scope of the present study is confined to the business relationships with respect to buyer and supplier context only in Bhosari industrial areas in Pune, Maharashtra state, India.

B. Objectives and Hypotheses of Research

The present study attempts to analyze the following objectives:

(i) To study importance of the business relationship between supplier and buyer.
(ii) To study and to analyze impact of business relationships on purchasing decisions.
(iii) To identify different types of business relationships in different business scenarios.
(iv) To identify factors with which business relationship can be developed in faster way.

For this research study following hypothesis were formulated and studied. Appropriate statistical techniques are employed to test and validate hypothesis-
- Business relationship is not important sourcing driver for any purchasing decision.
- Company turnover targets can be achieved without having healthy business relationship with business partners.

C. Data Collection

For this study data is collected from respondents involve in buying and selling activity in the company so it is based on primary data in nature. The data collected through online survey followed by personal discussions with buyers working in different industries in Bhosari Industrial Area in Pune. Choice of area is obvious as MIDC Bhosari is major industrial area and automobile and manufacturing hub. Starting with small scale there are many multinational companies situated in this area. Researcher framed a structured questionnaire and sent to multiple respondents across different companies covering not only manufacturing but IT & ITes, trading firms and service organizations. Responses received are analyzed for further study.

D. Sample technique

There are many industrial units of all sizes (small, medium and large) in Bhosari industrial areas in Pune, Maharashtra state, India. Researcher selected respondents based on convenience to access them and could collect data from 37 firms.

E. Data analysis, Results and discussions

Survey sent to multiple recipients out of which 37 responses received. Hence sample size of 37 decided for this study.

Fig. 1. Type of ownership of company.

Interference – to cover all types of companies questionnaire shared with buyers from different organizations. 36% buyers are from multinationals whereas 33% from private firms and 31% from proprietary firms due to obvious reason in MIDC there are many small-scale firms operating on their own as ancillaries to major automobile companies like Telco,
Bajaj etc. Hence this is real presentation of population covering all types of firms and variety of responses. One more important aspect for choosing different firms is different organization having different sourcing strategies and with reference to that they are exercising different business relationship with their suppliers. So, to cover all those buying scenarios multiple types of firms chosen for response.

PCMC industrial area is major hub of automobiles and many of firms are manufacturing small parts used in vehicles for automobile giant like Telco, Bajaj. There is large fabrication base also service EPC companies like Thermax, Thysen Krup, Alfa Laval, Forbes Marshall. So almost 64% buyers are from manufacturing representing sample population. 14% buyers from IT & ITes. Service and trading firms representing 11% each of pie. Author tried to cover all types of industries to have variety of scenarios and hence responses leading to logical conclusion and true representation of population.

Another way of classifying companies is MSME which is nothing but Micro, Small, Medium Enterprises. To promote entrepreneurship and start ups and to leverage working capital of small firms Government laid down norms for payments of those firms by large organizations. As per recent guideline buying organization to pay seller organization within 45 days. Pricing and payment terms are important parts of buying procedure.

Above analysis of demographics clearly shows that sample is true representation of large population and findings of study having strong base to generalize those and making common conclusion at the end of study. It is important to know size of organization. It decides buying power of organization. Buying power create dominance in business relationship. 45% companies having turnover more than 25 Cr and less than 10 Cr companies representing 36% of pie.

Based on yearly turnover every company decide purchasing budget for different commodities which gives buying power to company in market. Buying power represents attractiveness of suppliers towards buying organization and also plays important role in business relationship.

India being price sensitive market so obviously price important sourcing driver 73% of sample population casted their vote for price driver. Though there are 47% of buyers are saying quality is important parameter to be considered and 40% of them preferred delivery as criterion. Service organization buyers also considered in the survey. Response to service calls also is important parameter and cannot be ignored. Beyond traditional sourcing drivers of price, quality, delivery author intends to explore further if business relationship plays a role for purchasing decision. More than 80% buyers are of the opinion that business relationship plays crucial role for such decisions. Many of times there is stringent technical and commercial discussions but finally decisions are taken based on business relationship with that vendor or supplier.
Further digging or exploring question that why business relationship is that important and below is answer. Respondents responded with various reasons due to which business relationship if important for them in routine.

(a) Support organization in crucial times – 33% of respondents are of the opinion that suppliers value their relationship with buying organization and support it during period when that company is not doing well. In recent downturn of automobile Tata motors asked all its suppliers to reduce their prices of supplies which many of suppliers did looking at long term business relationship and support provided by Tata motors to them in all previous years.

(b) To support deliveries of urgent and priority orders – (survey response 14%) for buying organization few orders are important due to future business or first of its kind order, export order so delivery of such orders is crucial for buying organization. Suppliers support such cases by prioritizing their supplies for those orders if company is having good relationship. In nutshell suppliers changing their production schedule and priority (as they do not have only one customer) depending upon quality of relationship they exercise with buying company.

– In case of failure of other vendors – (survey response 11%) Company A placed order on company B who is new but offered low prices and attractive delivery if finally fails to deliver due to under assumption of work content and improper planning, unfocussed approach in this scenario company A re-ordered on company C who is regular supplier of company A (offered initially slight high prices than company B and realistic deliveries than company B). Company C supported very well with additional manpower and putting additional man-hours daily to finish work offloaded from company B in time. This is possible only when company A having harmonious relationship with company C.

– Lowering prices - (survey response 39%) a good business partner always plays important role by lowering prices of supplies if he is having assurance of business he can generate multiple ideas and also giving inputs in designing stage so that with optimum design price can be lowered with optimum specifications instead of over specified material.

– Improving product quality – (survey response 42%) a regular supplier having complete knowledge of customers processes and where his item/supplies can contribute or end. With his practical knowledge of available material grades, production processes he can bring improvement in final product manufactured by buying organization. This give and take of inputs only possible in case buying organization build strong business relationship with suppliers.

– Lowering lead time – (survey response 28%) with early delivery of subcomponents from supplier total lead time of final component can be reduced.

– To support sales team in Prebid – (survey response 20%) many times instant response to technical queries and as well price estimate required to salesperson who are going for offer discussion as well finalization at that point time, they require instant information on tips by suppliers. This is possible only because having good relationship with vendors.

– Realigning production processes at buyer’s end – (survey response 14%) suppliers are watchful and are aware about production processes at buyer’s end. Their inputs are quite handy in terms of kitting subassemblies so that minimum movement of material and reducing cycle time at shop floor and improvement in production throughput.

– Making production processes lean at buyer’s end – (survey response 19%) in above example of kitting subassemblies’ supplier in directly making shop floor lean and process of assembly lean.

– To support urgent delivery of important orders – (survey response 3%) few orders taken by buying organization are with very aggressive delivery. To meet those aggressive deliveries subcomponent delivery to
be aligned with main production schedule. In such scenario only business relationship works in favor of buying organization. Almost 90% of survey respondents are in agreement that business relationship works for them in crucial situation. Company's production/sourcing goals and targets can be achieved only when as buyer your exercise healthy or cordial relationship with your business partner. As explained earlier may be situation of downturn or urgent / priority deliveries or making production process lean in all scenarios inputs and active participation of business partners plays crucial role to realize company goals or targets for financial year.

Fig. 10. To drive company mission and to achieve company goals or target do you feel business relationship is important than any other factor?

For high value and critical items majority of respondents (more than 70%) are of the opinion that buying organization should make partnership with their suppliers. High level of trust and transparency expected in this type of relationship. Seamless exchange of information and problem-solving approach are key or dominating factors to decide nature of business relationship. Denser are those factors, equal intensity exits from both end in partnering with suppliers.

Fig. 11. Nature or type of business relationship.

For low value or routine items most of buyer respondents chose fixed contracts or spot purchase relationship with suppliers. Few of buyers also opted to have arms-length relationship with suppliers in such cases.

Out of different factors respondents chosen below factors as most prominent factors on which healthy or cordial business relationship can be nurtured. They are — Trust (Survey response 54%) more than half respondents agree that trust is important element of this relationship without which organization cannot make sustainable growth as suppliers are important stakeholders of any company. Entrusting them give them confidence that company believe in their capacities and capabilities and will also standby or support for mutual growth.

Fig. 13. Factors on which success of business relationship success lies.

– Transparency (Survey response 46%): another important factor. Buyer places order on supplier with trust in turn supplier places order on sub supplier. To meet target deliveries if there are any issues supplier should share same with buyer transparently. Earlier is better to brainstorm and to think alternatives/options with which situation can be combat and red flags can be brought under control but for this transparency expected from suppliers. With coordinal relationship one can expect high level of trust and transparency in any dealings.

– Attitude (Survey response 32%): any problem can be solved if there exists a problem-solving attitude. Though there is knowledge and skills available, but lack of problem-solving attitude cannot reach solution in time or to get expected results company must invest more resources and efforts.

– Price (Survey response 21%): though price is important factor it is least preferred by survey respondents. Though price is traditionally factor for pre selection of business partners it is not always workable proposition to combat crucial situation.

F. Hypothesis Testing

For the execution of research study following hypothesis are formulated and studied. Appropriate statistical techniques are employed to test and validate hypothesis:

– Business relationship is not important sourcing driver for any purchasing decision.
– Company turnover targets can be achieved without having healthy business relationship with business partners.
Hypothesis Analysis: 1

H0(Null hypothesis) – Business relationship is not important sourcing driver for any purchasing decision.

H1(Alternate hypothesis) – Business relationship is important sourcing driver for any purchasing decision.

Table 1: Is business relationship is important sourcing driver or not?

<table>
<thead>
<tr>
<th>Response</th>
<th>Observed</th>
<th>Expected</th>
<th>O - E</th>
<th>(O-E)²</th>
<th>(O-E)²/E</th>
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<tbody>
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<td>30</td>
<td>18</td>
<td>12</td>
<td>144</td>
<td>8</td>
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<tr>
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<td>6</td>
<td>18</td>
<td>-12</td>
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<td>8</td>
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</table>

\[ \text{Degrees of freedom} = (\text{rows} - 1) (\text{column} - 1) = (2-1) (2-1) = 1 \]

\[ \text{Level of significance} = \alpha = 0.05 \]

\[ \text{Chi-Square formula} = \text{Sum} [(O-E)² / E] = 16 \text{ i.e. Value of Chi Square} \]

Critical value from Chi Square table for degrees of freedom 1 and \( \alpha = 0.05 \) is 3.841

Test statistics

<table>
<thead>
<tr>
<th>Comparison:</th>
<th>Test value</th>
<th>Table value</th>
</tr>
</thead>
<tbody>
<tr>
<td>If Test value &lt; Table value, Accept null hypothesis.</td>
<td>16</td>
<td>&gt; 3.841</td>
</tr>
<tr>
<td>If Test value &gt; Table value, Reject null hypothesis.</td>
<td>16</td>
<td>&lt; 3.841</td>
</tr>
</tbody>
</table>

Hypothesis Analysis: 2

H0(Null hypothesis) – Company production turnover targets cannot be achieved without having healthy business relationship with business partners.

H1(Alternate hypothesis) – Company production turnover targets can be achieved without having Healthy business relationship with business partners.

Table 2: To drive company mission and to achieve company goals or production targets do you feel business relationship is important than any other factor?

<table>
<thead>
<tr>
<th>Response</th>
<th>Observed</th>
<th>Expected</th>
<th>O - E</th>
<th>(O-E)²</th>
<th>(O-E)²/E</th>
</tr>
</thead>
<tbody>
<tr>
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<td>31</td>
<td>18</td>
<td>13</td>
<td>169</td>
<td>9.38</td>
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<tr>
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<td>5</td>
<td>18</td>
<td>-13</td>
<td>169</td>
<td>9.38</td>
</tr>
</tbody>
</table>

\[ \text{Degrees of freedom} = (\text{rows} - 1) (\text{column} - 1) = (2-1) (2-1) = 1 \]

\[ \text{Level of significance} = \alpha = 0.05 \]

\[ \text{Chi-Square formula} = \text{Sum} [(O-E)² / E] = 18.76 \text{ i.e. Value of Chi Square} \]

Critical value from Chi Square table for degrees of freedom 1 and \( \alpha = 0.05 \) is 3.481

Test statistics

<table>
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<tr>
<th>Comparison:</th>
<th>Test value</th>
<th>Table value</th>
</tr>
</thead>
<tbody>
<tr>
<td>If Test value &lt; Table value, Accept null hypothesis.</td>
<td>18.76</td>
<td>&gt; 3.481</td>
</tr>
<tr>
<td>If Test value &gt; Table value, Reject null hypothesis.</td>
<td>18.76</td>
<td>&lt; 3.481</td>
</tr>
</tbody>
</table>

IV. CONCLUSIONS

Study reveals that irrespective of nature of business (Proprietary/Private etc.), type of organization be it small scale or multinational organization having turnover in rupees crores, or type of business (service or manufacturing or trading) buyers of all type of organizations are having consensus that business relationship predominantly serving as important factor over traditional school of thinking for sourcing drivers viz price, delivery quality etc. Quite a few reasons as one of the findings of study revealed for buyers business relationship gaining importance as their business partners are supporting the organization in crucial time like downturn and also reverse of it that company flooded with orders or situation of overbooking and chances of failure on account of maintaining schedules or agreed deliveries, in every situation business relationship work in favor of buyers. Also, key suppliers take actively participate in discussions and provide vital inputs for lowering prices, improvement in quality, reducing lead times and hence increasing productivity, throughput and making buying organization to pave strong foothold in respective markets creating mutual business opportunities. With business partners support buying organization can make their production and related processes lean and hence organization can focus on core activities and outsource non-value-added activities to business partners which is of mutual interest of business growth.

V. RECOMMENDATION

Based on findings of study authors strongly suggest to invest more and more in business relationships which will yield short term gains in tangible forms and long-lasting intangible outcomes for both organizations and which is off course of mutual interest.

VI. FUTURE PROSPECT OF STUDY

Nevertheless study aims to create importance of healthy business relationships of suppliers and buyers, this buyer-supplier relationship continuum can be further explored or studied to venture different types of business relationships and can be useful as guideline for buyers to ascertain different business scenarios and possible solutions. Exploring other possible actors on which success of healthy business relationship lies. Qualitative and quantitative framework can be arrayed as a part of further exploration of study to establish close approximation among related parameter.

VII. LIMITATIONS OF THE STUDY

This study having following limitations

– The study was restricted to Bhosari MIDC in PCMC area.
– The study is mainly concentrated on buyer supplier relationships.
– The sample of the size will be limited to time and resources.
– The result is assuming that respondents have given accurate information.
ACKNOWLEDGEMENTS

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Conflict of Interest. None.

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