

## Chapter 4

# A PORTFOLIO OF RELATIONSHIPS

BA 477 Purchasing and Supply Management

Dr. Timothy L. Smunt



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## LEARNING OBJECTIVES

1. Recognize how suppliers are best connected to customers.
2. Understand buyer-seller relationships, including transactional vs. collaborative relationships.
3. Understand where alliances are beneficial.
4. Learn about power levels in buyer-seller relationships.



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## A TRANSFORMATION IN RELATIONSHIPS

- The transformation from reactive and mechanical purchasing to proactive procurement and on to strategic Supply Chain Management parallels a similar transformation in relationships between buyers and suppliers
- Prior to the 1980s most purchasing relationships were reactive
- Interaction between vendor and purchasing resulted in outcomes where one's gain would be the other's loss



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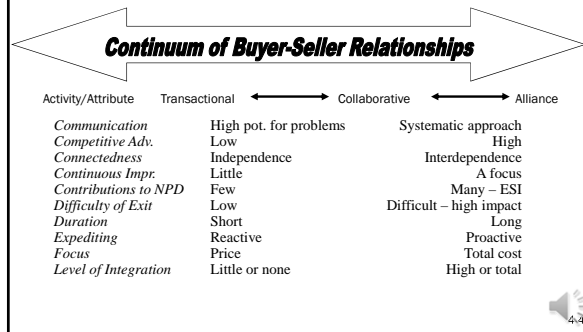
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## CONTINUUM OF BUYER-SELLER RELATIONSHIPS

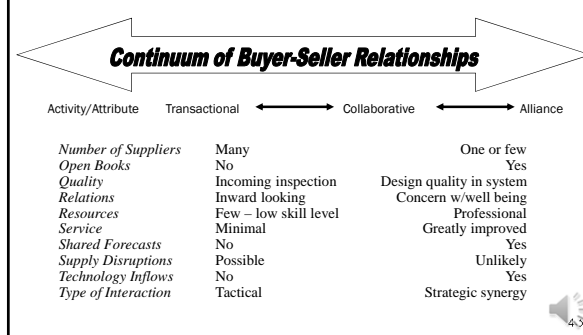
Figure 4-1



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## CONTINUUM OF BUYER-SELLER RELATIONSHIPS

Figure 4-1 Continued



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## TRANSACTIONAL RELATIONSHIPS CHARACTERISTICS

- An absence of concern
- One of a series of independent deals
- Costs, data and forecasts are not shared
- Price is the focus of the relationship
- A minimum of purchasing time and energy is required to establish prices
- Transactional purchases lend themselves to e-procurement



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## ADVANTAGES OF TRANSACTIONAL RELATIONSHIPS

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- Relatively less purchasing time and effort are required to establish price
- Lower skill levels of procurement personnel are required



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## THREE SUCCESS FACTORS

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- Researchers Stanley and Pearson found that the three most important factors in a successful buyer-supplier relationship are:
  - (1) two-way communication,
  - (2) the supplier's responsiveness to supply management's needs, and
  - (3) clear product specifications



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## COLLABORATIVE RELATIONSHIPS

- Typically used for the procurement of non-commodity items and services
- A collaborative relationship frequently is an appropriate first step on the road to a strategic alliance



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## SUPPLY ALLIANCES

- The fundamental difference between collaborative relationships and supply alliances is the presence of institutional trust in alliances
- The failure to develop and manage institutional trust is the principle reason that so many supply alliances fail



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## ALLIANCE ATTRIBUTES

- Continuous improvement
- Interdependence and commitment.
- Atmosphere of cooperation
- Informal interpersonal connections
- Internal infrastructures to enhance learning
- Openness in all areas of the relationship



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## ALLIANCE ATTRIBUTES CONTINUED

- A shared vision of the future
- Ethics take precedence over expediency
- Adaptable in the face of change
- Supplier certification
- Win-Win negotiations
- Executive level commitment
- Avoid terms that could prove destructive
- A living system



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## WHICH RELATIONSHIP IS APPROPRIATE?

- Are there many relatively undifferentiated suppliers providing what amounts to inter-changeable commodities?
- Does the potential supplier possess economic power which it is willing to employ over its customers?
- If there is recognition by both parties of the potential benefits of an alliance, but adequate qualified human resources are not available at one or both firms?



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## THE SUPPLIER'S PERSPECTIVE

- Supplier's want good customers
- Several issues affect their assessment, among them are:
  - + Cash Flow
  - + Openness and Approachability
  - + Availability
  - + Professionalism



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## THE ROLE OF POWER

- Power is at the heart of all business relationships
- Power plays a key role in two important subclasses of buyer-supplier relationships:
  - + Captive Buyer: buyer is held hostage by a supplier free to switch to another customer
  - + Captive Supplier: makes investments in order to secure a portion of the buyer's business, with no assurance of sufficient business to recoup the investment




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## NEW SKILLS AND ATTITUDES REQUIRED

- Developing and managing collaborative and alliance relationships require supply professionals that possess the following skills and attitudes:
  - + Recognize the benefits of collaboration
  - + Ability to identify, obtain and use data
  - + Able to work in chaos and uncertainty
  - + Agile, flexible, and highly adaptive




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## TRUST

- Trust is one of the key factors that differentiates the three classes of relationships.
- The simplest definition of trust is "being confident that the other party will do what it says it will do."
- Some level of trust must be present in all three types of relationships
- The level of trust increases with collaborative relationships and becomes an essential characteristic with strategic alliances




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## ATTRIBUTES OF INSTITUTIONAL TRUST

- Developed over time
- Trust and relationship are viewed as investments
- Partners have access to other's strategic plans
- Relevant costs and forecasts are shared
- Sharing information is a means of developing trust



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## ATTRIBUTES OF INSTITUTIONAL TRUST

- When key individuals leave, fingerprints are left behind that hold the relationships together
- Informal agreements are as good as written
- Relationship is adaptable in the face of change



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## ATTRIBUTES OF INSTITUTIONAL TRUST

- Senior managers from both firms commit
- Both CEO's make a personal investment



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## TAKEAWAYS

- A Transformation in Relationships
- Types of Buyer-Supplier Relationships
  - ✓ Transactional Relationships
  - ✓ Collaborative Relationships
  - ✓ Alliances
- The Supplier's Perspective
- Developing and Managing Collaborative and Alliance Relationships



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## TAKEAWAYS

- The Role of Power
- A Portfolio Approach
- New Skills and Attitudes Required



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