

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY



University of the
West of England

I-RELATE

Research into the factors that buyers consider and deploy when interacting with external suppliers. Covering both the UK public and private sectors with a supporting toolset to give guidance on elements to consider within a variety of relationship scenarios.

ORACLE®

The issue of collaboration and the impact on interaction and relationships between organisations and their suppliers have been extensively discussed by a large body of literature. Proximity with suppliers has, for instance, been perceived as encouraging frequent interactions that lead to closer relationships which, in turn, can affect the exchange and flow of information and knowledge.

Growing complexity of technologies and global competition are often presented as requiring more collaborative activities with suppliers, involving them much earlier and more extensively in product development. This has led firms to rethink the scope of their organisational boundaries, with many using collaborative relationships as a cornerstone of strategic competitive advantage. This means developing a clear understanding of how to manage relationships between buyers and suppliers. This research defines relationships as a process made up of variable elements that drives or facilitates changes in behaviour that can either be positive or negative depending on how they are used.

Overall Aims and Objectives

The research project focuses essentially on buyer–supplier relationships. It aims to investigate the importance of relationship management that can impact on performance. It proposes to identify and assess the underlying determinants enabling the development of good and effective relationships.

The objectives include:

- Reviewing the literature to identify the theories, tools, models and determinants that allow practising managers to consider the strategic complexities of managing intra-, inter- and extra-firm relationships in order to deliver the maximum value for their transaction
- Examining the main models, theories and methodologies
- Identifying the determinants (enablers and inhibitors) for the main types of relationship management (Table 1)
- Identifying the different types of buyer–supplier relationship (Table 2)

- Examining how the determinants differ across differing relationship types at both pre-contract and post-contract stages
- Producing a toolset and brochure suggesting approaches to establish, manage, sustain and cease relationships
- Concluding with implications for managers and offering some suggestions for future developments of relationship management strategies

Table 1. I-RELATE Relationship Determinants

Determinant Grouping							
	Pre-Contract <i>Relationship Considerations</i>	Pre-Contract <i>Performance Considerations</i>	Pre-Contract <i>Proximity Considerations</i>	Pre-Contract <i>Commitment Considerations</i>	Post-Contract <i>Performance Considerations</i>	Post-Contract <i>Responsibilities Considerations</i>	Post-Contract <i>Risk Considerations</i>
Potential Elements	<ul style="list-style-type: none"> • Specification collaboration • Supplier reputation/ financial performance • Supplier experience • Supplier size • Long-term development potential • Power • Likeability • Relationship building 	<ul style="list-style-type: none"> • Price • Quality • Delivery • Duration • Flexibility 	<ul style="list-style-type: none"> • Geography • Culture • Technology • Social • Sector • Values • Goal sharing 	<ul style="list-style-type: none"> • Resources • Investment • Time • Intellectual capital • Information sharing • Equity stakeholding • Responsive-ness • Capacity planning 	<ul style="list-style-type: none"> • Price • Quality • Delivery • Duration • Re-engagement • Flexibility • Termination • Service/ account management • Likeability • Relationship building/ establishment/ development 	<ul style="list-style-type: none"> • Governance • Environmental • Sustainability 	<ul style="list-style-type: none"> • Longevity • Stability • Dependency • Power balance

Participants

The research was conducted by professionals from the Bristol Business School at the University of the West of England (UWE), The Chartered Institute of Purchasing & Supply (CIPS) and Oracle Corporation, who have previously collaborated together on the four highly acclaimed I-Series research projects: I-SAVE; I-ADAPT; I-EXCHANGE; and I-INNOVATE.

Research Methodology

As shown in Figure 1, a research framework was developed from an extensive literature review on the subject of buyer–supplier relationships. The broad categories of literature reviewed drew on several academic disciplines and included the nature of relationships, social capital, buyer–supplier relations and customer relationship marketing.

One of the main outcomes of the literature review was to identify the relationship determinants which formed the basis of a structured quantitative pilot questionnaire. This was circulated to over 500 purchasing practitioners with experience of working in either the public or private sector. Responses and feedback were collated and the pilot was amended to form the main survey. This feedback helped provide a response rate of 11%. Figure 3 shows the breakdown of this response by both industry and business sector.

As was the case with the pilot, the main survey was circulated via the internet and was based on quantitative questions. It was also sent to a wide range of UK-based purchasing practitioners from the public and private sectors. The respondents were from throughout the UK detailing experience in purchasing across all six relationship elements. The respondents were essentially senior managers with job titles such as Director of

Table 2. Relationship Categories – Expanded Definitions

One Time/Spot Buy

Where you are typically working on the premise that (often by necessity) you will need to buy a product or service from a supplier, however it is likely to be the only such transaction. Any formal agreement on price/delivery/specification will be established at the time of order.

Infrequent Purchases

Where you occasionally trade (maybe by necessity) with a supplier, however you/they have no forward visibility of future purchases. You are unlikely to have any formal trading agreement in place. Price etc is established when the requirement is known.

Single Order with Scheduled Multiple Deliveries

These are occasions where you are able to make a single commitment to a supplier covering the multiple provision of goods/services over a given time period. Usually supported by agreed terms and conditions and occasionally a formal specific contractual agreement.

Multiple Orders Supporting Multiple Requirements.

These are occasions where you have, by necessity, a more complex trading relationship that is typified by multiple products/services being ordered on a relatively frequent basis. These orders are usually purchased against agreed terms and conditions and often supported by a formal contract between the two parties.

Single Order – Significant Joint Ownership/Management of Deliverables

This relationship is typically formed to support a major project, significant capital acquisition or a purchase designated a 'strategic product/service'.

It usually involves detailed and ongoing dialogue/cooperation between the two parties throughout each step of the procurement cycle. They often have complex terms and conditions and service level agreements that are passed down the supply chain to subcontractors/partners. They may well include supplier personnel spending time/being stationed within the buyer's organisation. They will almost always be subject to protracted contract discussions/negotiations/agreements.

Multiple Orders – Significant Joint Ownership/Management of Deliverables

These have all the characteristics of the Single Order variety above, the primary difference being that they are repeated with the same supplier across a number of significant purchases. A key identifier is that the buyer and supplier have entered into a 'strategic partnership' or similar involving key executives from both sides.

Procurement, Purchasing Director, Group Procurement Manager, Regional Procurement Manager and Managing Director. 38% of the respondents were from the public sector, with the remaining 62% coming from such private sector areas as manufacturing, professional services, utilities and telecommunications.

I-RELATE Buyer–Supplier Relationship Framework

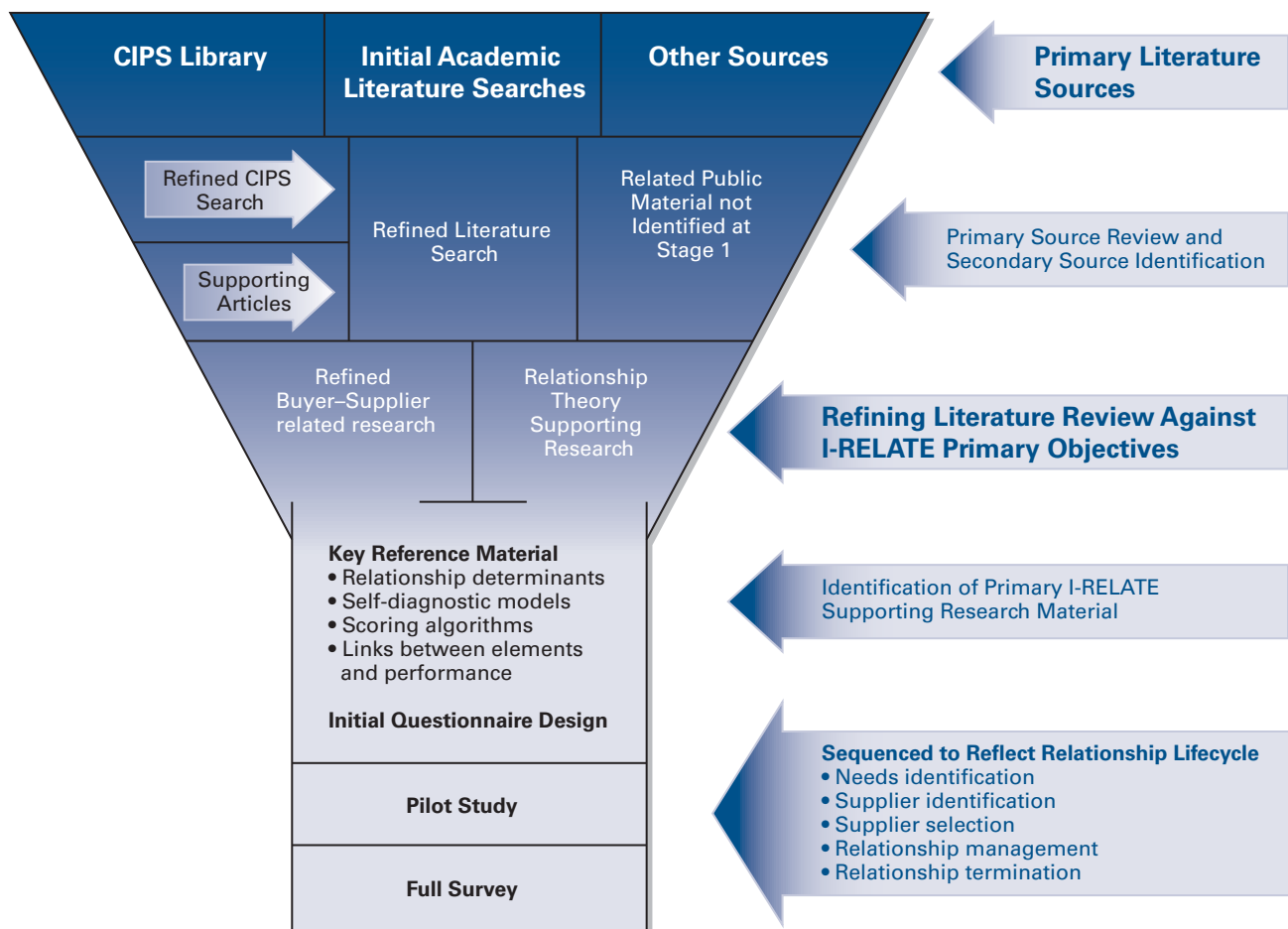


Figure 1. I-RELATE Literature Review and Questionnaire Design Methodology

Managing buyer–supplier relationships is a complex task. The key issues include the management of dependencies and the management of risk or certainties and the frequency of exchange. A buyer may have different types of relationship with a supplier depending on the importance of the product, the amount of risk that is being taken and the balance of power/dependency within the relationship. The management of relationships is not only about setting up an agreement. A new way of managing the relationship may need to be introduced. Relationships and strategies are dynamic and need to be managed over time. At different stages, they may require different people/skills to manage them. This can

develop a competitive advantage that derives from firm-level resources and from difficult-to-imitate capabilities embedded in network relationships as suggested by Nahapiet and Ghoshal (1998).

There are many differing forms of relationship between buyers and suppliers. Part of the rationale for developing relationships is that ‘relationships within a firm’s network, particularly with suppliers, can become a valuable source of innovation and profits’ (Cousins, 2006, p10). However, Cox et al. (2003) outline that not all buyer–supplier relationships are a source of innovation for the buyer. The type of relationship to be chosen would depend on what strategy the buyer wishes to follow.

Our thinking about developing the relationship determinants was influenced by the work of Lambert et al. (1999, 2004), who identified the importance of drivers, facilitators and management culture. Drivers are the motivations of each party to partner, they must be sufficient to initiate and continue with the relation. The analysis of drivers and facilitators is useful to anticipate failure, to select partners and to specify the most convenient relation agreement.

Building on this approach, we developed the framework set out in Figure 2, which identifies key relationship characteristics, categories and successful determinants.

I-RELATE Buyer–Supplier Relationship Framework

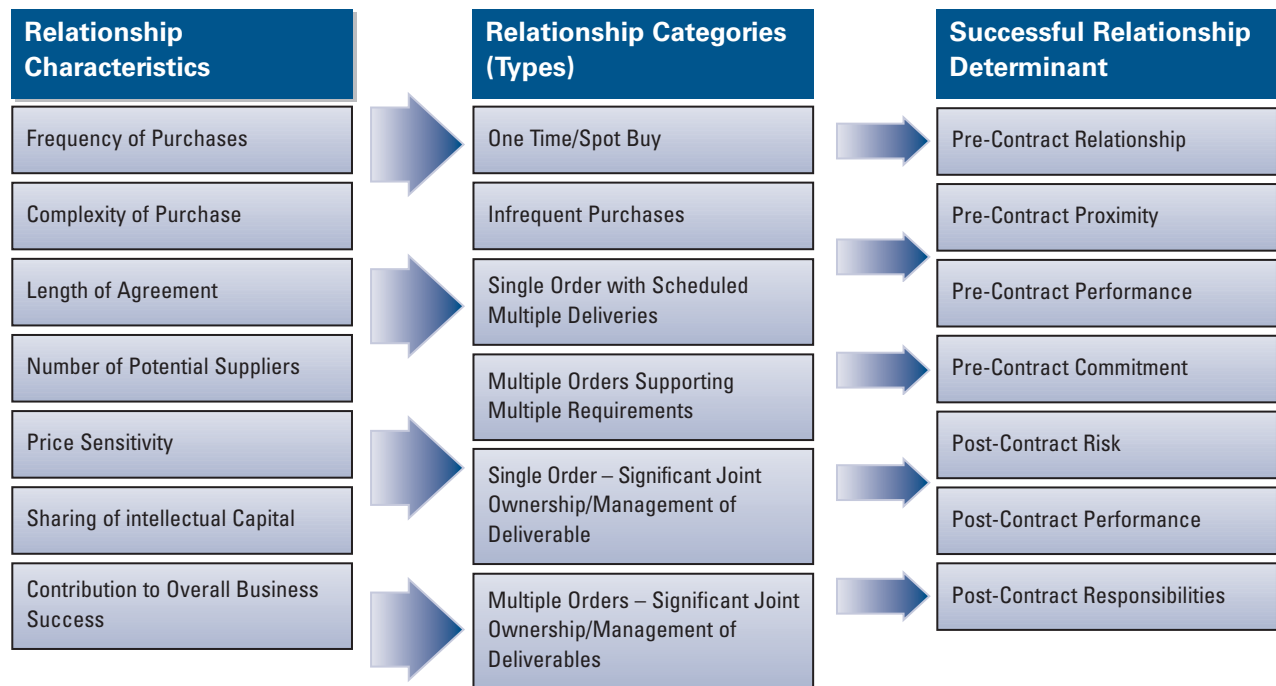


Figure 2. Plotting the Path to a Successful Buyer-Supplier Relationship

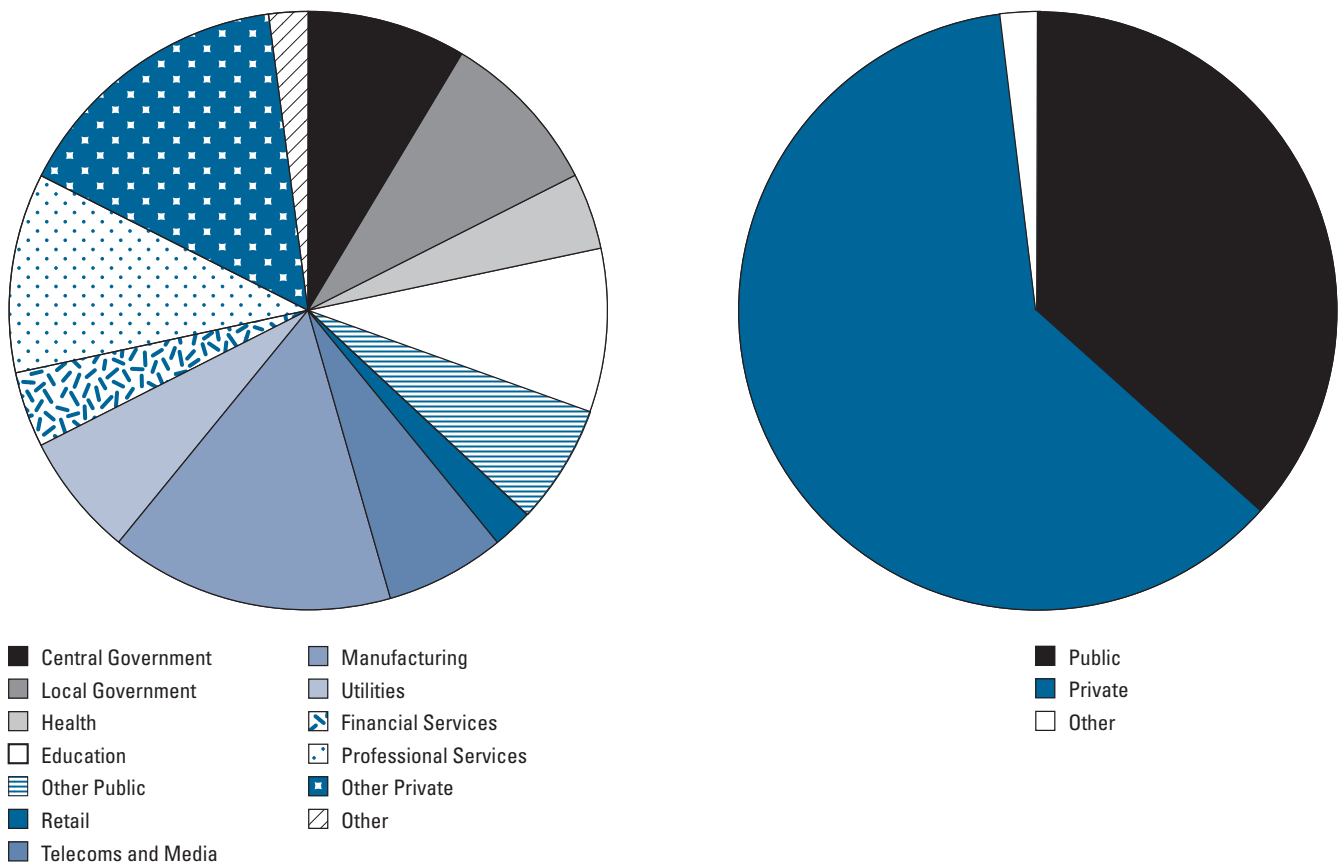


Figure 3. Respondents by Industry Sector

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Results and Analysis

The results and analysis are discussed in two sections: the first dealing with responses related to pre-contract and the second to post-contract considerations.

Pre-Contract Considerations

This section looks at responses reflecting how the traditional purchasing elements of price, quality and delivery are viewed across the relationship categories.

The responses for these three elements (Figure 3) showed an important consistency regardless of transaction type. All results had an average that, at the very least, rated on the scale as 'important'. Price was fairly constant in the important/very important range and quality/delivery scaled up from important to very important as the complexity of purchase increased. This indicates that these three traditional values continue to be at the core of all supplier selection decisions whatever the nature of the purchase. This behaviour is in line with themes that were emergent from our initial literature review.

The second part reviews results where the level of importance increases as the relationship categories increase in complexity.

As can be seen in Figure 4, areas such as flexibility and mutual site visits both rise in importance once the purchasing complexity/frequency increases. Meanwhile, supplier size, specification collaboration bargaining power and development potential are used with increasing frequency as we move away from one-off or infrequent purchases.

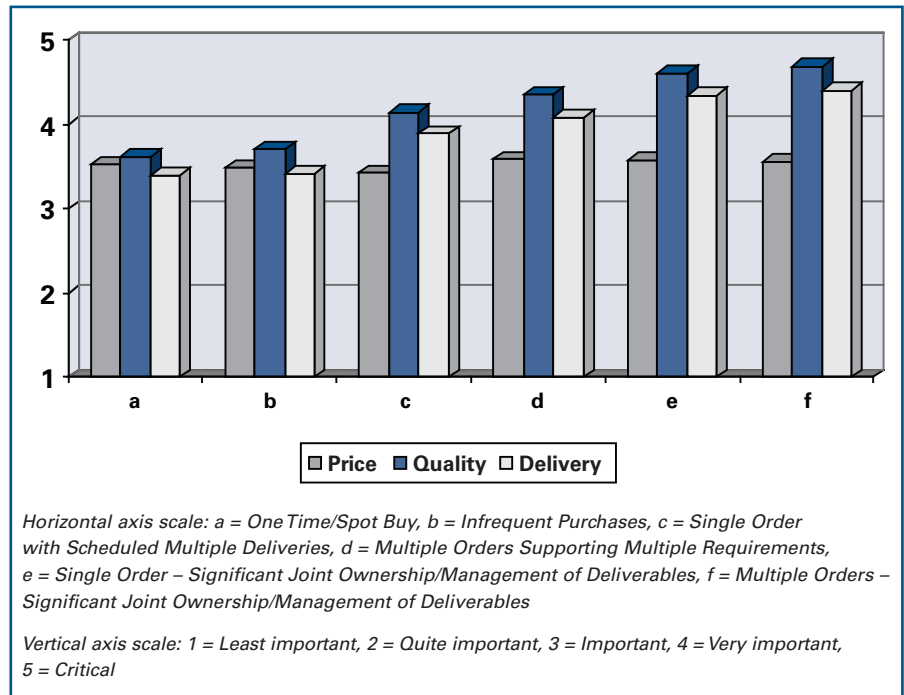


Figure 3. The importance of Performance in Supplier Selection

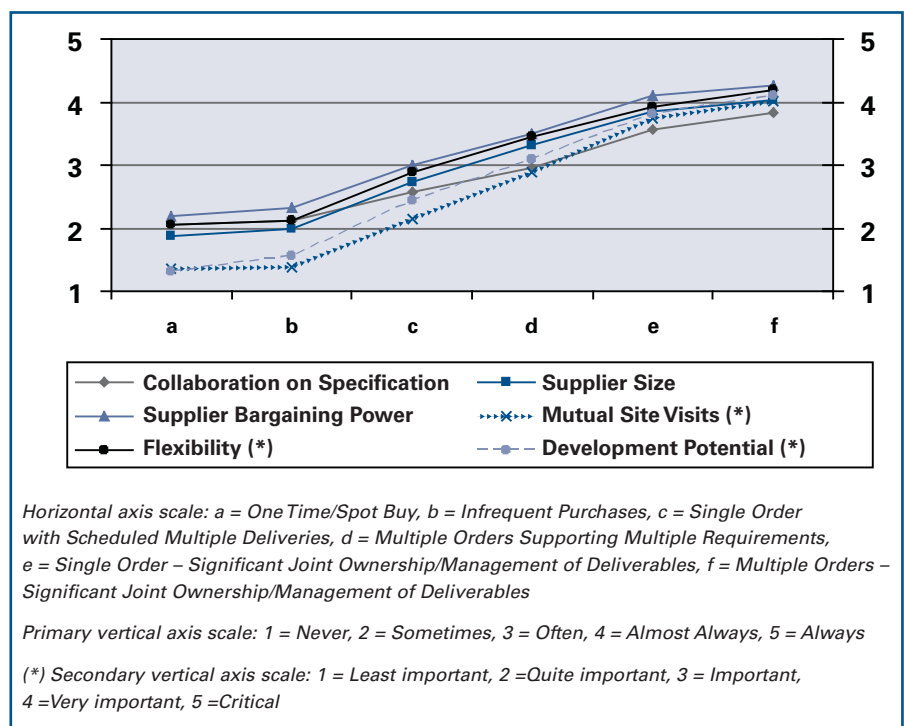


Figure 4. The Rate Supplier Characteristics are Considered During Selection

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Results and Analysis

Our third part reviews those results that require more interpretation and explanation. Here we specifically concentrate on what draws a buyer to an organisation.

Figure 5 shows consistently high-scoring positive factors drawn out by the research. These covered the suppliers' experience both articulated by the supplier and others as well as previous positive supplier experiences within the buyer's organisation. In addition, we observed fairly positive findings in respect of suppliers' compatible values (ethics, principles, etc), way of working and technological compatibility. The findings suggest that all these elements are frequently considered on all purchases and almost always considered on the more complex ones. This also suggests that these elements have become a core addition to accompany price, quality and delivery.

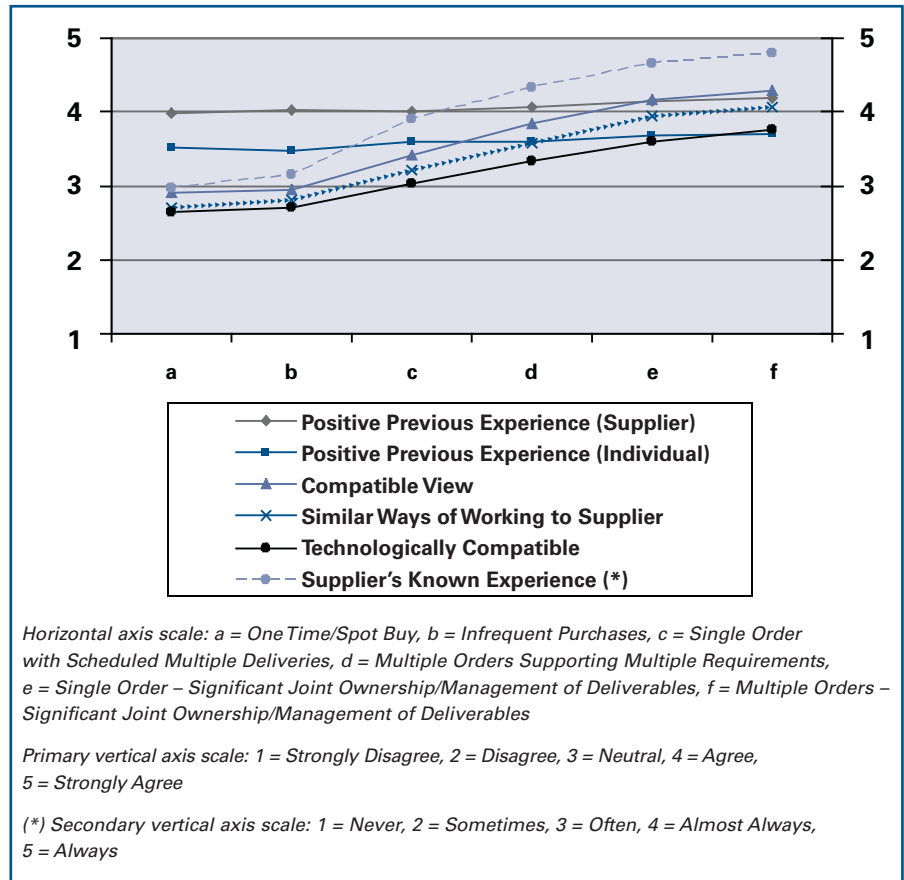


Figure 5. Consistently High-scoring Factors

In contrast, Figure 6 illustrates areas that do not play a significant part in supplier selection almost regardless of the category of purchase. These elements include: geographic proximity; industry sector; and the 'likeability' of the salesperson from a prospective supplier. This sends out a clear message to suppliers that whilst these factors may come into play under certain circumstances it is the positive areas above on which they need to focus.

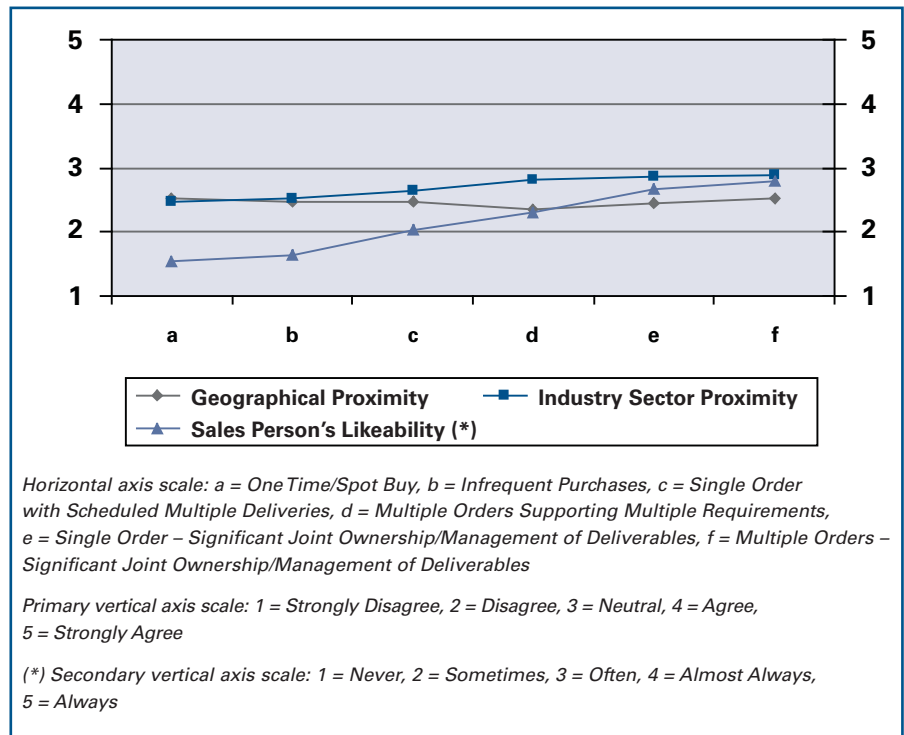


Figure 6. Consistently Low-scoring Factors

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Results and Analysis

Post-Contract Considerations

This section compares our initial pre-contract consideration findings in the core purchasing elements of price, delivery and quality performance. It shows that both quality and delivery considerations post-contract retain a high level of importance across all relationship types whereas price falls away in importance understandably for the one-time buy/infrequent purchases (Figure 7). This behaviour is also in line with themes that were emergent from our initial literature review.

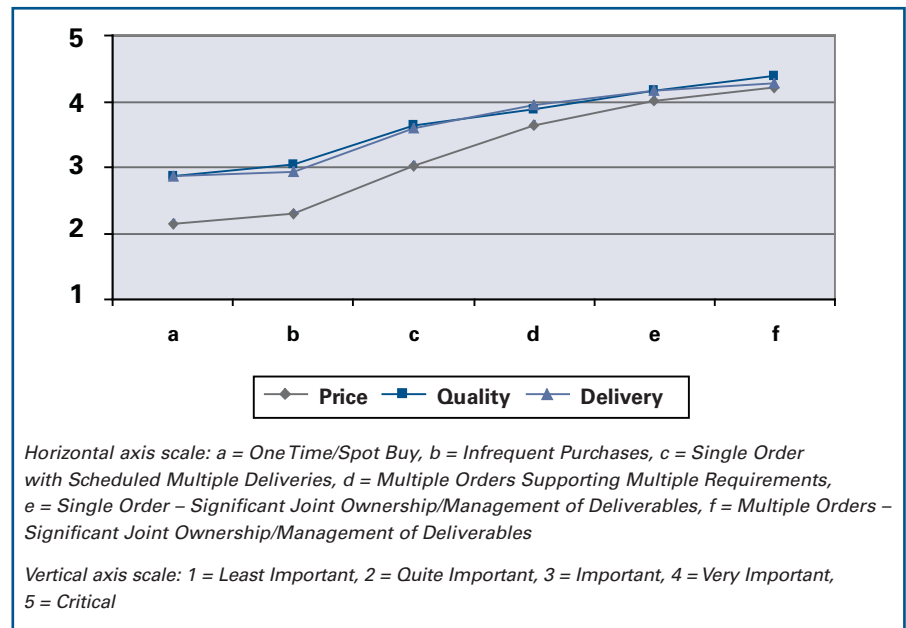


Figure 7. The Importance of Performance in Supplier Evaluation

Again, there are some results where the level of importance increases as the relationship categories increase in complexity. These are shown in Figure 8 and cover the element of joint relationship meetings, dispute resolution, ongoing supplier stability, flexibility and account management.

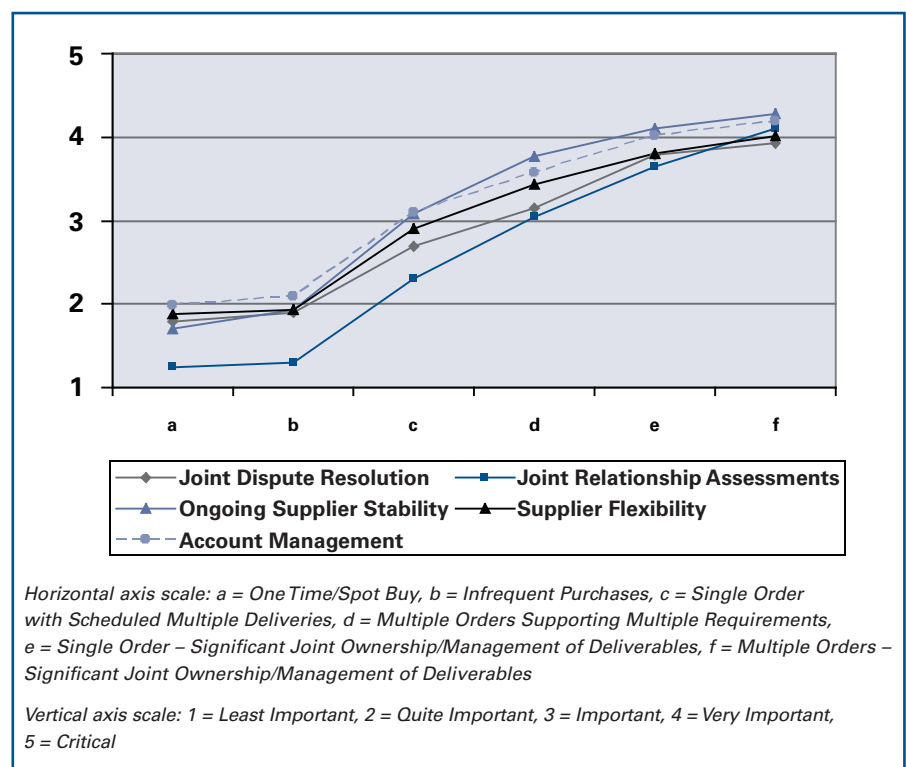


Figure 8. Supplier Selection Factors Differ Significantly Across Relationship Elements

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Results and Analysis

Our third part again reviews those results that require more interpretation and explanation. Here, there is focus on three elements: environmental impact; creating a win-win relationship; and the likeability of the supplier's representatives.

Figure 9 shows an increasing, but not overwhelming, desire to take into account the environmental impact of goods/services provided. Of course in some areas such as logistics, packaging and chemicals these are highly significant, however this seems to indicate that, although a fast-rising topic, environmental concerns have yet to make it into the 'core package' when identifying potential suppliers.

Figure 10 highlights the buyer's desire to achieve a win-win relationship with their contracted suppliers. The results are quite startling. When considering one-time buys and infrequent purchases, the concept of a win-win relationship has very little importance. This somewhat ambivalent approach continues until the purchases are in the most significant categories (e and f) and even then it does not reach the 'very important' status. This can suggest that buyers are taking the view that they want to retain the upper hand in terms of bargaining power. The findings in the pre-contract phase, in respect of bargaining power, support this view.

Figure 11 cross checks earlier work in this research in respect of the 'likeability' of a supplier's representatives. The results completely corroborate our conclusion of the pre-contract phase, namely that buyers are not taking into account the likeability of individuals when making an assessment as to a supplier's potential or current worth to them. This is different from the circumstance where individuals from a supplier have performed well as this circumstance does gain recognition in a buyer's future consideration. However, being 'nice people' does not get you business!

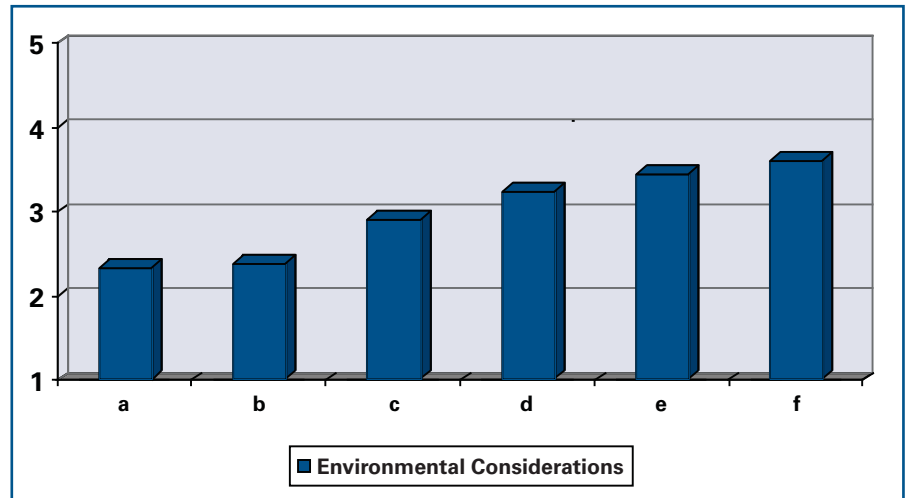


Figure 9. Further Points of Interest I

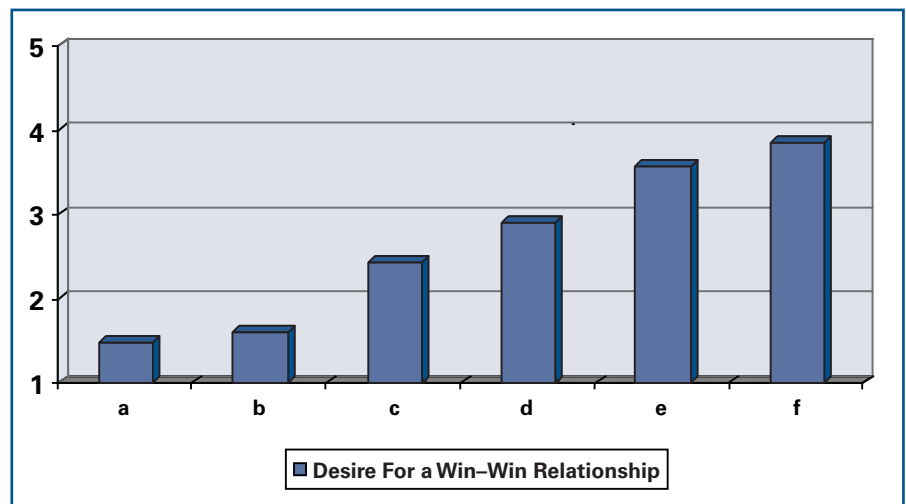
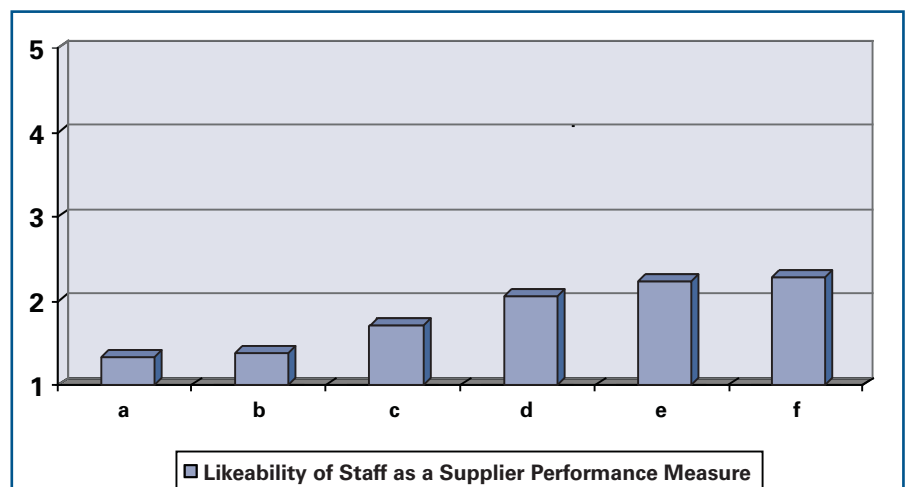


Figure 10. Further Points of Interest II



Horizontal axis scale: a = One Time/Spot Buy, b = Infrequent Purchases, c = Single Order with Scheduled Multiple Deliveries, d = Multiple Orders Supporting Multiple Requirements, e = Single Order – Significant Joint Ownership/Management of Deliverables, f = Multiple Orders – Significant Joint Ownership/Management of Deliverables

Vertical axis scale: 1 = Least Important, 2 = Quite Important, 3 = Important, 4 = Very Important, 5 = Critical

Figure 11. Further Points of Interest III

I-RELATE Conclusions

As with all of our I-Series research projects, we aim to present our academic research in a way that helps purchasing practitioners in improving their day-to-day activities as well as innovating and introducing new ways of approaching their role. In addition, we always seek to contribute to the body of academic literature that supports our chosen subject matter.

The I-RELATE research has investigated the importance of relationship management and identified the underlying determinants enabling the development of good and effective relationships.

From an extensive literature review, the research has developed a framework for practitioners that suggests a number of relationship types (Table 2) and the range of potential determinants (Table 1). These different relationship types were refined during the pilot study. Most responses gave a reasonable assurance that they resonated with the vast majority of participants. This formed the platform to explore the assumption that the 'strength' of relationship determinants would vary depending on the relationship type.

What existing literature did not show was which elements vary under which circumstances and typically by how much. The purpose of this research was to determine how the elements varied. The results and

interpretation set out on pages x- x illustrate our findings.

The particular areas of interest in respect of **pre-contract considerations** in the findings include:

- The core elements of price, quality and delivery that have been the cornerstone of procurement teaching to date play a significant part in all relationship types from low-level, one-time buys through to highly complex strategic products and services
- There appears to be the emergence of a new set of additional core elements that have a significant bearing on all relationship types. These elements were happening when:
 - The buyer or the buying organisation had a previous good experience from a supplier
 - A supplier has known experience in the target subject matter
 - Suppliers are compatible in respect of their overall views/values/ways of working
 - Suppliers are compatible in respect of their technology

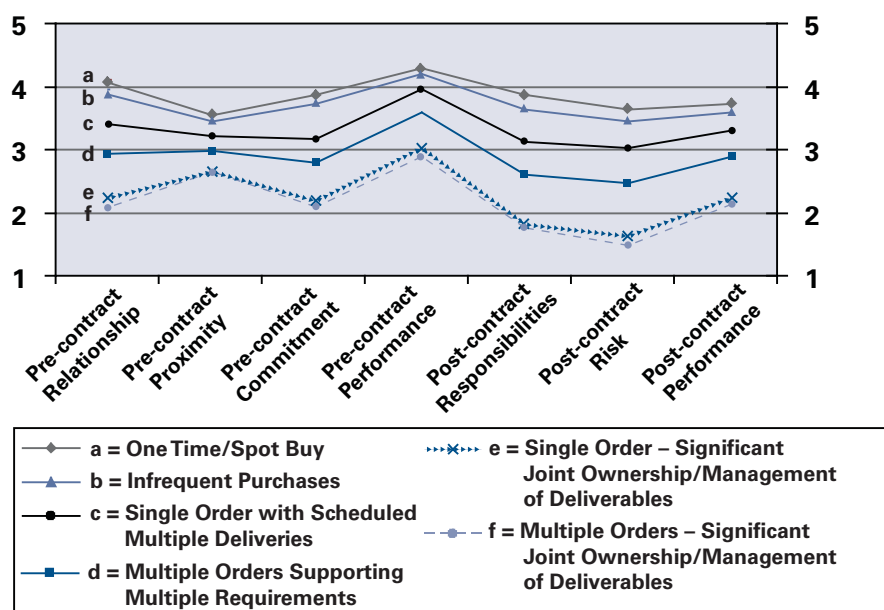
This suggests that buyers are carrying out a more detailed analysis of potential suppliers and the available technology (internet, etc.) supports the availability of information that allows such analysis.

- The research also suggests that determinant elements that may have been expected to play a significant part in at least some of the relationship types (such as geographic proximity, the industry sector and the likeability of the salesperson) are low contributors in respect of supplier selection

All of the above suggests some very interesting messages to suppliers, namely that it is the knowledge and reputation of the organisation (not necessarily the people who you employ to sell your goods/services) coupled with the ability to compete on price, quality and delivery that will lead to being selected as a preferred supplier.

The particular areas of interest in respect of **post-contract considerations** in the findings are:

- A buyer's desire to achieve a win-win relationship with their contracted suppliers appears to vary significantly depending on who holds the power in the relationship. When considering one-time buys and infrequent purchases, the concept of a win-win relationship has very little importance. This somewhat ambivalent approach continues until the purchases are in the most significant categories (e and f) and even then it does not reach the 'very important' status. This can suggest that buyers are taking the view that where they believe they have the upper hand in terms of bargaining power they are prepared to exploit it to their unilateral advantage. Thus supporting the view held by some suppliers that buyers can sometimes display a somewhat 'aggressive' tendency
- There was some desire to take into account the environmental impact of goods/services provided. In some areas such as logistics, packaging and chemicals this is highly significant. However, this seems to indicate that, although a fast-rising topic, environmental concerns have yet to make it into every buyer's 'core package' when identifying potential suppliers



For more information on this research, please visit: www.oracle.com/start and enter the keyword I-RELATE.

The research is conducted by the Bristol Business School at The University of the West of England and the Chartered Institute of Purchasing and Supply in association with Oracle.

The above results have supported the development of a self-analysis toolset that allows a buyer to compare, either by supplier or relationship category, their current practice against the research findings. This allows the display of the research findings as a 'menu' of most common practice by relationship category and allows practitioners to identify elements that they appear to be either over- or under-emphasising within their current practices. The results are presented in tabular and graphical form comparing results by sector as well as total respondents. Figure 12 shows results by determinant grouping.