

# Cooperation and Mutuality in Procurement and Supply Chain



*Switching costs and inter-organisational trust are significant determinants of cooperation for buyers; technological uncertainty and the reciprocity of the relationship are significant determinants for the suppliers (Kim et al., 2010).*



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## Introduction

The business environment today is characterised by extreme cost competition and a long-term concern of purchasing organisations about the availability of materials. Coordination and mutuality in the supply chain can help tackle these concerns (Pooler, 1992). They rest on arrangements and conditions which are beneficial to all parties involved through tackling environmental concerns, improving efficiency, guaranteeing supply for the buyer and business for the supplier and keeping costs low (White, 2000).

Purchasing organisations increasingly recognise the advantages of having a smaller supplier base and developing closer relationships with suppliers. Cooperation often results from evolving buyer-supplier relationships from adversarial to collaborative relationships and often leads to joint efforts to improve performance, shorten lead times and reduce cost. In such relationships, buyers and suppliers work towards common goals and achieve mutuality, as suppliers have a long-term, reliable customer, and buyers have reliable suppliers that offer them good conditions of price and delivery, as well as additional benefits such as supplier input in product design and improvement (Monczka et al., 2010).

In supply chain cooperation can take various forms, including collaborative planning, forecasting and replenishment (CPFR) and vendor-managed inventories (VMI). In addition, it can help achieve efficient consumer response adoption (ECR) (Kurnia and Johnston, 2000; Monczka et al., 2010).

Research in retailer-manufacturer relationships shows that a firm's level of trust and satisfaction with the relationship is the highest where there is a high level of interdependence between companies. Trust and commitment in buyer-supplier relationships create cooperation and mutuality, and the level of interdependence increases as a consequence (White, 2000). A crucial part of maintaining and managing cooperation and mutuality is the rewarding of suppliers. Outstanding performance can be awarded with certified supplier status, a preferred position over competitors and assurance of future orders.

## Definition

Cooperation as a degree of mutuality (along with networking, coordination and collaboration) involves exchanging information, altering activities, and sharing resources for mutual benefit and to achieve a common purpose (Ham and Johnson, 2006).

## Successful Application

Time is a crucial factor in the development of co-operation and mutuality, as there are generally several stages to achieving trust and mutuality. In the pre-relationship stage the buyer usually evaluates potential suppliers. During the early stages of the buyer-supplier relationship it is important for both parties to become aware of the quality and reliability of their supply chain partner and negotiations and sample deliveries should be conducted. If both

parties are satisfied the contract is signed, regular deliveries commence, and cooperation and mutuality relationships are established. (Saunders, 1997; White, 2000).

## Steps to Successful Application

- Specify the desired outcome at business unit level (e.g. supply continuity, process improvement, process innovation).
- Let the business outcome drive the relationship (establish how well do projects contribute to achieving the outcome).
- Establish cooperation and mutuality relationship based on transactions that produced specified results.
- Maintain the relationship.

*Monczka et al. (2010)*

## Hints and Tips

- Product quality can facilitate trust and cooperation efforts and secure the delivery of that product in the future (White, 2000).
- Flexibility (ability to adapt quickly to changes) and innovativeness of a supply chain partner can result in a stable long-term relationships (White, 2000).
- Reliability of the supply chain partner is crucial for trust and cooperation (White, 2000).
- Cooperation and mutuality are a product of long-term collaborative efforts, therefore time is an important factor in building such relationships (White, 2000).

## Potential Advantages

- Cooperation and mutuality can achieve mutual benefits from long-term contracts. For the buyer these are: guaranteed supplies with agreed terms, joint improvements to give lower cost and improve performance, shared risks, access to new technologies etcetera. For the seller the benefits include long-term business that allows them to invest in new processes and equipment, and ease scheduling (Monczka et al., 2010).
- Cooperation and mutuality can achieve mutual benefits from shared information (usually through EDI). The real-time updating of information allows both buyer and supplier to base their decisions on accurate data about costs, suppliers, inventories, forecasts of demand etcetera. (Monczka et al., 2010).
- The sharing of information enables both parties to design operations that are best suited for their long-term requirements. This allows them to increase their overall efficiency and reduce their long-term operating cost (Monczka et al., 2010).

## Potential Disadvantages

- Confidentiality is currently the most often cited reason for not developing closer relationships with suppliers. This especially applies to financial, product and process information (Monczka et al., 2010).

- There might be limited interest by suppliers who may not always feel that their share of benefits is worth the necessary investment. This is especially the case with powerful suppliers, for example in situations of monopoly and oligopoly of supply for particular items (Monczka et al., 2010).
- In some industries there are legal barriers constraining the level of collaboration between buyers and suppliers (e.g. government restrictions and anti-competition laws) (Monczka et al., 2010).

## Performance Monitoring

- Lead times (Chopra and Meindl, 2007).
- Fill rates (Chopra and Meindl, 2007).
- Customer service levels (Chopra and Meindl, 2007).
- Inventory turnover/inventory days (Chopra and Meindl, 2007).
- Inventory levels (Chopra and Meindl, 2007).

## Case Studies

- To resolve a problem of stockouts of Henkel (detergent manufacturer) products which were frequent at Eroski (a Spanish food retailer) the companies introduced CPFR. This led to a 50% reduction of order errors from an average of 70% to under 20% (Chopra and Meindl, 2007).
- Through cooperation with its suppliers W.W. Grainger, a Fortune 500 industrial supply company, decreased lead times from eight weeks to less than three weeks (Chopra and Meindl, 2007).
- VMI between K-Mart and Fred Meyer has resulted in the increase of inventory turns on seasonal items at K-Mart from 3% to 11%, and from non-seasonal items from 12% to 20%. Inventories at Fred Meyer dropped by 40% while fill rates increased to 98% (Chopra and Meindl, 2007).

## Further Reading/References

### CIPS Source Downloads

- CIPS & UWE: I-RELATE
- CIPS: Collaboration Between Organisations
- Case Study: The Role of Procurement in Strategy Development - NATO

### Web Resources

- IACCM: Competition vs. cooperation in supply chains  
[www.iaccm.com/news/contractingexcellence/?storyid=](http://www.iaccm.com/news/contractingexcellence/?storyid=)
- Mutual and cooperative approaches to delivering local services - evidence from Staffordshire Council  
[www.publications.parliament.uk/pa/cm201213/cmselect/cmcomloc/112/112we04](http://www.publications.parliament.uk/pa/cm201213/cmselect/cmcomloc/112/112we04).



- KWS supply chain cooperation [www.kws-uk.com/aw/KWS/united\\_kingdom/Information1/Product\\_Development/PDC\\_Articles/~dcwh/Supply\\_Chain\\_Co\\_operation\\_is\\_Formula\\_for/](http://www.kws-uk.com/aw/KWS/united_kingdom/Information1/Product_Development/PDC_Articles/~dcwh/Supply_Chain_Co_operation_is_Formula_for/)
- A critical article in Business Week about Wal-Mart [www.businessweek.com/smallbiz/content/jul2009/sb20090714\\_270767](http://www.businessweek.com/smallbiz/content/jul2009/sb20090714_270767).

### Books

- The Relationship Driven Supply Chain, Emmett & Crocker, ISBN 978-0566086847
- Supply Chain Management, Wang, Heng & Chau, ISBN 978-1599042312
- Collaborative Planning in Supply Chains, Dudek, 978-3540921752
- Collaborative Planning, Forecasting & Replenishment, Seifert, ISBN 978-0814471821
- Vendor Managed Inventory, Spsychalska, ISBN 978-3838396422

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- White, H.M.F. (2000) Buyer-supplier relationships in the UK fresh produce industry. British Food Journal, Vol. 102(1), pp.6-17.

### Video

'Future supply chain 2016': The role of collaboration and innovation in the future of supply chains

[www.youtube.com/watch?feature=player\\_embedded&v=](http://www.youtube.com/watch?feature=player_embedded&v=)

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**CIPS Group** Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom  
T +44 (0)1780 756777 F +44 (0)1780 751610 E [info@cips.org](mailto:info@cips.org)

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**CIPS Africa** Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa  
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E [infos@ips.org.za](mailto:infos@ips.org.za)

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**CIPS Australasia** Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia  
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E [info@cipsa.com.au](mailto:info@cipsa.com.au)

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**CIPS Middle East & North Africa** Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates  
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E [mena.enquiries@cips.org](mailto:mena.enquiries@cips.org)

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