

**SUPPLY CHAIN DYNAMICS, AGILITY
AND RELATIONSHIP MANAGEMENT:
BSS 421**



**WEEK 11: TYPES OF SUPPLY CHAIN
RELATIONSHIPS
BY
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Task for Last Week's Topic



1. What is the role of ethical behaviour in buyer -supplier relationship and supply chain dynamics?

Ethical buyers and supplier honour their contracts, pay on time, and do not use their position to exploit each other. This ensures longer survival of business.

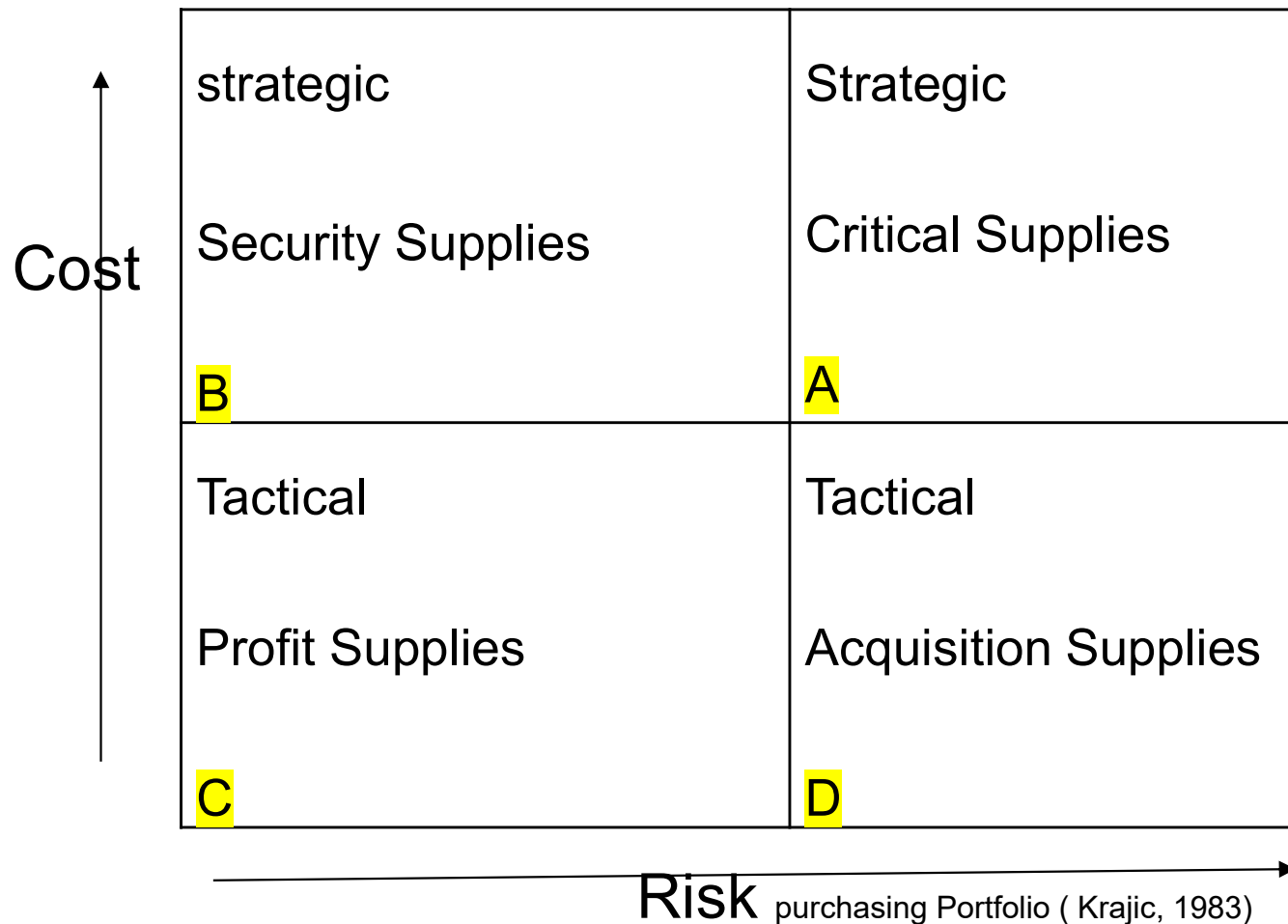
2. How does Knowledge help an entrepreneur in appreciating the importance of being genuine in business relationship?

- **Acknowledge importance of compliance to business expectations e.g. legal and relational matters.**
- **Build a rich organizational culture.**
- **Helps employees make ethical decisions.**
- **Anticipate consequences of illegal and unethical behavior.**

Recap of Last week's Topic



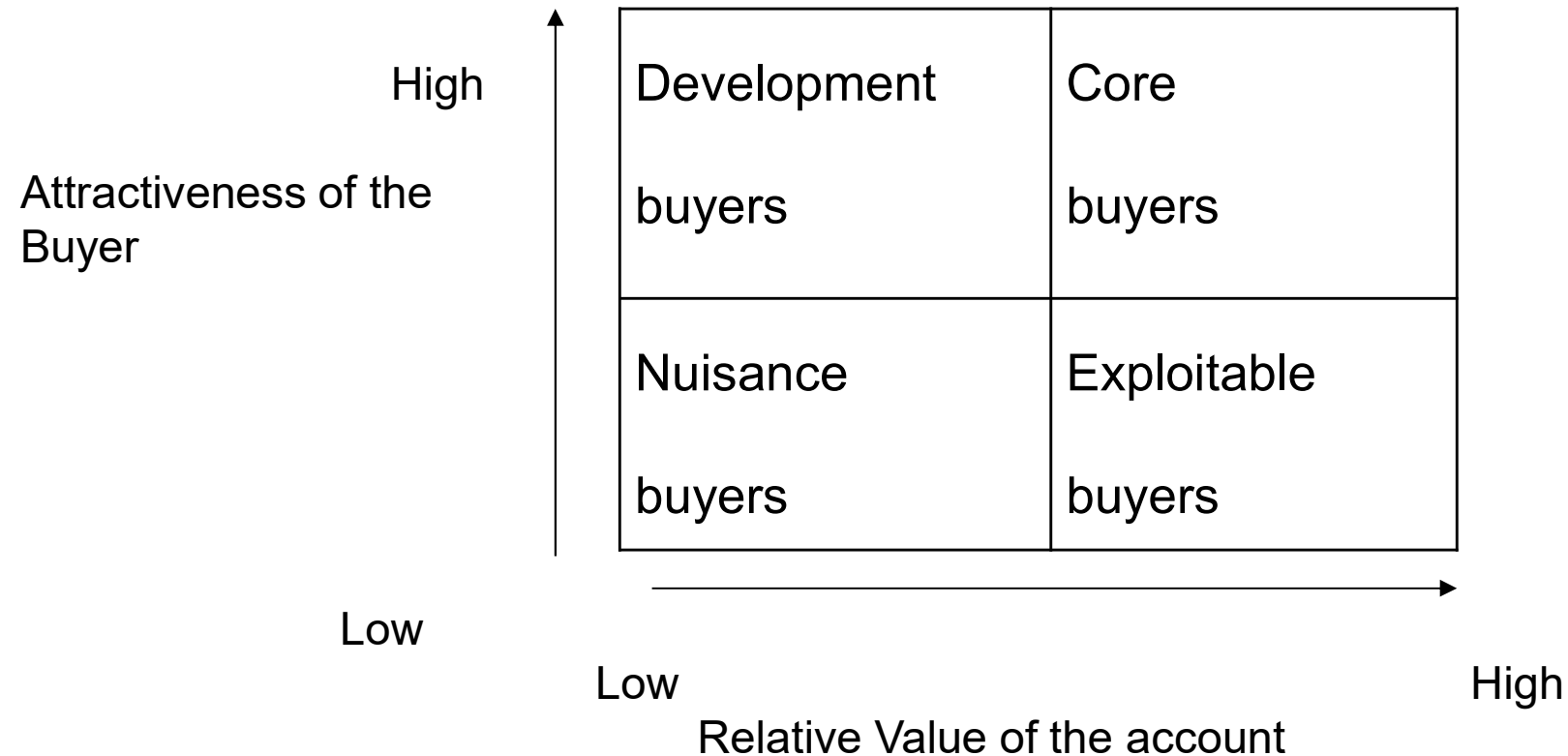
Review of the supplies classification by Kraljic Matrix



Recap of Last Week's Topic



Review of Supplier Preferencing Model



Objectives of this Week's Topic



Overall objective is to describe various types of supply chain relationships and how they influence supply chain dynamics

Specific objectives are ;

1. To describe buyer-supplier transactional relationships and the implications to supply chain dynamics.
2. To describe buyer-supplier purchase relationships and implication to supply chain dynamics.
3. To describe buyer-supplier partnerships and implication to supply chains.

Introduction to Supply Chain Relationships



- Lysons & Farrington (2006) p223-224 explains that business relationships originated from discipline of marketing where it is defined as a connection between seller and customer beyond the point of sale. Procurement takes the same view except that buyer – supplier relations go beyond selling to survival in the longer term.
- In procurement buyer - supplier relationships can be broadly divided into ; **Transactional relationships and purchasing relationships**

Transactional Relationships are concerned with 6Rs of acquisition of supplies namely right price, right quantity, right quality, right time of delivery, right source of goods and delivery to right place.

Characteristics of transactional relationships

1. They are often a one off purchase.
2. There little information exchange.

Introduction to Supply Chain Relationships



Characteristics of purchasing relationships

1. Are concerned with trust and commitment.
2. Significant sharing of information.
3. There is high level of contact.
4. There is effort to develop interdependence.
5. Buyer and supplier acknowledge that money is at the end of the supply chain.

Lysons, K. and Farrington, B. (2006) Purchasing and Supply Chain Management. 7th Edition, Prentice Hall, London. pp 223-240 Note there is 2012 and 2020 editions

Buyer –Supplier Relationships



Fogg (2006) p2 defines. **Buyer – supplier relationship as a business relationship, with deferent levels of closeness between people of different organizations for the supply of goods, works materials and services with the objective of benefiting the organization and normally there is motive of profit for at least to one party. The definition has the following characteristics;**

1. Different levels of closeness
2. Involvement of people
3. Benefit for everyone involved
4. Profit motive exists somewhere within the relationship.

Classification Buyer-Supplier Relationships



Fogg (2006) pp7-8 divides buyer–supplier relationships as tactical, closer tactical and partnerships.

Ahmed et al,. (2017) provides the following classification; transactional relationships: process focused relationships, New Product Development (NPD) focused relationships and integrated relationships:

- Development of literature on business relationships and supply chains indicates an emphasis on degree of integration which is an aspect of value addition in the in the supply chains. These have evolved over time. Example, Mandal (2023) p5 explains that, customer relationship levels should also put into account digital and social media customer engagement.

Classification of Buyer-Supplier Relationships



This topic adopts Fogg (2006) classification of Relationships and because

1. classification that followed have only tried to explain relationships in the context of the discipline by putting into consideration the complexities brought about complicated supply chains, globalization, technological advancement and social cultural changes.
2. It is easy to understand.

Terpend et al., (2008) shows the development and factors that have shaped buyer –supplier relationships between 1978-2008.

1. Fogg, M. (2006). Managing purchasing and supply relationships
PMMS Consulting Group.
The Chartered Institute of Purchasing and Supply, SL UK
2. Ahmed, M., Kristal, M., Pagell, M., & Gattiker, T (2017) .
Towards a classification of supply chain relationships:
a routine based perspective. Supply Chain Management International Journal
DO - 10.1108/SCM-04-2017-0142
3. Mandal, P. C., (2023) .Engaging Customers and Managing Customer Relationships:
Strategies and Initiatives. Journal of Business Ecosystems (JBE) 4(1), p 14
DOI: 10.4018/JBE.322405
4. Terpend, R. Tyler, B., Krause, D., Handfield, R., (2008)- Buyer-Supplier Relationships:
Derived Value Over Two Decades. Journal of Supply Chain Management. Vol. 44 (2) p28-50

Description of Buyer-Supplier Relationships Cont'd



Tactical relationships include adversarial, arm's length and transactional buyer- supplier.

Adversarial relationships

1. Both seller and buyer provide information on the need basis. They do not warn each other when changing to other suppliers or buyers.
2. Either buyer or seller does what they believe is suitable to achieving their objective but not what has been agreed upon.

Description of Buyer-Supplier Relationships

Cont'd



characteristics of the adversarial relationship cont'd

3. In the event of a negotiation threats are used as a form of negotiation tactics.
4. They limit their concerns to their needs.
5. They exhibit inconsistent behaviour. They make promises but do not fulfil them.
6. Treat each other with lack of care and sometimes show outright hostility and aggression.
7. They are unsure as to the extent that trust exist between them and they feel the need to keep checking on what had been promised by the other party.

Description of Buyer-Supplier Relationships

Cont'd



Positioning of the adversarial relationship

The relationship is found in the tactical profit quadrant where the cost and risk of supplies is low.

Risk management of adversarial relationship.

It is limited to basics like managing the price, delivery, quality and quantity required. Investment in risk management is not necessary because the goods and services have standard specification and many suppliers.

Challenge of the adversarial relationships to the buyer organization

Securing goods and services from a buyer on short term relationships at lowest cost possible. The seller tries to maximize the revenue and profit from a given deal.

Description of Buyer-Supplier Relationships

Cont'd



Arm's length relationships

The buyer buys infrequently from a supplier and does not have high volume or need for a closer relationship. The deal is worth more than the relationship.

Characteristics of the arm's length relationships

1. Buyer – supplier provides information only when needed.
2. There is minimum warning before a competitive process starts.
3. Goes as far as the agreement has been made with the buyer with no additions.

Description of Buyer-Supplier Relationships Cont'd



Characteristics of the arm's length relationships cont'd

3. Buyer limits the concerns to their own needs but want to ensure that the supplier is around for them in future.
4. Buyer and supplier treat each other with respect but recognize that business is transient.
5. Buyer seller trust each other to keep the side of their bargain but do not expect them to go beyond it.

Description of Buyer-Supplier Relationships

Cont'd



Positioning of the arm's length relationship

It is found either in the tactical profit or tactical acquisition. The buyer organization tries to leverage the power and spend with selective competitive methodologies such as tenders and electronic reverse auction but not in an extreme case as that of the adversarial relationships.

Risk management of arm's length relationship.

No need of investing in the relationship but seller should not go to the extreme in dealing with arm's length supplier like adversarial.

Challenge of arm's length relationships to the buyer organization.

Is to get goods and services without being adversarial and without being committed to long term relationship. The buyer keeps the supplier at arm's length and calls only when needed.

Description of Buyer-Supplier Relationships

Cont'd



Transactional relationship.

Focuses on successful completion of ordinary transactions which deliver low-value, low risk goods and services by a competent supplier. Both the deal and the relationship are of almost equal importance. E.g. a mason working in a building construction.

characteristics

- 1.The buyer wants the supply and the relationship to succeed and is ready to invest time and effort in achieving this success.
- 2.The supplier exhibits consistent behavior. The buyer realizes that the supplier can take some of the administrative work reducing the costs.

Description of Buyer-Supplier Relationships

Cont'd



characteristics of transactional relationship cont'd

3. The buyer invests time in setting up and planning with the suppliers to ensure that it works.

4. The supplier may be considered for a long term relationship if the supplier has been consistent.

Risk management of transactional relationship.

The buyer is price sensitive in the management of the relationship. Some of the suppliers in this relationship work so hard that they become indispensable while retendering could be beneficial to the buyer.

Description of Buyer-Supplier Relationships Cont'd



Positioning of the transactional relationship

The relationship is found in the tactical acquisition.

Challenge of transactional relationships to the buyer organization.

The buyer seeks short term relationship but if the supplier performs well can be allowed to organize the supply hence the relationship can be long term.

Description of Buyer-Supplier Relationships

Cont'd



Closer tactical relationships can be divided into closer tactical relationship and single sourced relationships.

Closer tactical relationships

It is one where the a competent supplier focuses on the successful completion of low risk transactions and coordinates from other suppliers such as a second tier supplier. A trusted supplier is chosen to coordinate a big number of either arm's length or transactional suppliers.

characteristics

1. Both seller and buyer are prepared to work hard to make the relationship succeed.
2. Both invest time and resources together to develop the relationship to the required status.

Description of Buyer-Supplier Relationships Cont'd



characteristics of Closer tactical the relationships cont'd

3. Exhibit consistent appropriate behavior which values and respects the other party.

4. Considers risks and risk management together.

5. Seller and buyer trust each other with the business

Challenge for the buyer organization.

Is to get another organization to do little or much for nothing. The offer is made attractive by increasing the volume of the business to the suppliers.

Risk Management for closer tactical relationship

To keep the supplier when there is no extra work for them and have them do extra administrative work.

Description of Buyer-Supplier Relationships

Cont'd



Single sourced relationships

The purchasing organization forms an exclusive agreement with one supplier for the supply of range of specified items usually at a fixed unit price for a specified period of time.

Characteristics

1. Seller and buyer invest time and resources to make the supply and the relationship succeed in meeting the objectives of the relationship.
2. Give priority to each other.
3. Exhibit consistent behavior.
4. Trust each other to take care of the interest of the other.

Description of Buyer-Supplier Relationships

Cont'd



Positioning of the single sourced relationship

Its for supportive purpose or when the skill is not available in the organization.

Risk management of single source relationship.

Only a certain percentage of business should be given to a single source and part of the core business.

Challenge of single source relationships to the buyer organization.

The buyer organization expects to gain results of better cooperation, low costs and preferential treatment in terms of delivery, service and continuous improvement. The seller on the other hand expect to utilize resources of buyer fully and to have continuous uncontested business.

Description of Buyer-Supplier Relationships

Cont'd



Strategic Relationships.

These include outsourcing relationship, strategic partnership relationship, partnership relationship and co-destiny relationship

Outsourcing Relationship

The buyer organization retains the responsibility for the services but devolves the day today performance to an external organization under contract with agreed standards, costs and conditions. The supplier has the expertise or is able to deliver the services at a lower cost than the buyer. The out sourced activity is not part of the core business of the organization.

characteristics from buyer perspective

The buyer seeks the supplier to-;

- 1.Reduce the costs of operation
- 2.Provide service excellence
- 3.To free the buyer to concentrate on the core business.

Description of Buyer-Supplier Relationships Cont'd.



Characteristics of the outsourced relationships cont'd

The buyer seeks the supplier to-;

4. Provide technical excellence and competence.

The suppliers seek the following from the buyer.

1. To make profit.

2. Utilize their economies of scale.

3. Expect extras within the contract.

4. Provide standardization among their customers.

5. In the long term give the opportunity to their employees to gain competence that would make.

Description of Buyer-Supplier Relationships

Cont'd



Positioning of the outsourced relationship

It exists in strategic critical goods quadrant. The organization must be careful not to outsource the activities that offers competitive advantage. Sometimes some services in the tactical could be outsourced but this is not wise because it makes it difficult for the organization to take advantage of the market conditions.

Risk management of out source relationship.

To ensure that the supply does not give confidential information to the competitor.

Challenge of the outsourced relationships to the buyer organization.

Is securing goods and services from a short term relationships at lowest cost possible. The seller tries to maximize the revenue and profit from a given deal.

Description of Buyer-Supplier Relationships

Cont'd



Strategic partnership relationship.

It is a buyer- supplier relationship where they work together for the mutual benefit. They ally together for the whole or part of the product portfolio a given geographical area, a given market or for defensive purpose. Buyers are part of the alliance that compete with another alliance knowingly or unknowingly. The relationship is more important than the deal.

Expectations of strategic partnerships

The alliance may be for-;

1. Part or whole of the product portfolio.
2. Advance the interest in a given geographical area.
3. Advance the interest in a given market segment.
4. For defensive reasons where another player is entering or has entered the market posing a serious competition.

Description of Buyer-Supplier Relationships Cont'd



Positioning of the strategic partnerships

The relationship is in the strategic quadrant where a close collaboration is required between the buyer and the supplier. For example purchase of an Enterprise Resource Planning System requires close cooperation between the buyer and the seller. The relationship is more important than the deal. It has the highest level of trust and has the longest duration of existence

Description of Buyer-Supplier Relationships

Cont'd



Challenge of the strategic partnerships

1. The challenge is faced from the other buyers who are not a member of the alliance. They try to offer better prices to work with a good supplier and so commitment is not guaranteed.
2. The other partner may be economical with the information. For example if the other member of the supplier is a consultant, the buyer may not be able to know the suitability of the other sources of the business recommended by the consultant because the supplier could be giving the consultant better terms.

Description of Buyer-Supplier Relationships Cont'd



Partnership relationship.

It is a mutual commitment between the buyer and seller to a long term relationship based on trust and clear mutually agreed objectives. These could be ;

1. Continuous improvement.
2. An improved competitive position.
3. Elimination of waste.
4. Acceleration of innovation.
5. Expansion of markets
6. Growth of market share.

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Description of Buyer-Supplier Relationships

Cont'd



Characteristics of the partnership

1. There is optimal information sharing and transactions flow.
2. Buyer and the supplier know the cost structure of each other.
3. Problems are highlighted as soon as they appear and the solutions are discussed.
4. Teams work together to solve problems.
5. Electronic collaborative systems are used by the parties.
6. Buyer and seller focus on each other instead of focusing on the market. They exclude the other buyers and sellers in business approach.
7. Risk identification and risk management are done jointly.

Description of Buyer-Supplier Relationships

Cont'd



Positioning of the partnerships relationships

It is found in strategic critical goods quadrant.

Challenges for the organization.

1. For the purchasing organization to select an appropriate partner and to invest in the relationship to make it work, improve and develop. Note relationship may not involve selection but it can evolve with time.
2. A special offer or an advantage provided by another buyer to the supplier in partnership is very tempting.

Description of Buyer-Supplier Relationships

Cont'd



Co-destiny relationship

- It is a relationship where buyer-supplier involved choose to share common destiny in all aspects of their business for mutual gain.
- The relationship relies on total trust and both organization become fully interdependent on each other and hence fail or succeed together. A co-destiny is more than a partnership relationship.
- Buyer and supplier cannot do without each other. An example in Kenya is the co-destiny of Kenya Power (KP) and KENGEN companies.
- KENGEN generates electrical power and KP distributes.

Description of Buyer-Supplier Relationships

Cont'd



Characteristics of co-destiny relationships

1. The business of the buyer or the supplier cannot exist without the other.
2. Trust is very high and the relationship is considered to be eternal.
3. Information and transaction flow are optimized with an integrated electronic system.
4. Potential problems are sought and prevented before they occur.
5. Teams work together in all the aspects.
6. Risk identification and risk management is jointly undertaken.
3. The question of working with another parties does not arise.

Description of Buyer-Supplier Relationships Cont'd



Positioning of the co-destiny relationships

It is found in strategic critical and strategic security quadrants.

Challenges for the organization.

It is to live up to the expectations of the relationships. The supply chain dimensions must be considered so that there is a deliberate effort to keep the relationship. The challenges of partnerships also hold for co-destiny.

Buyer Supplier Relationships and Supply Chain Dynamics



1. Distortion of the demand of fast moving manufactured goods. These are purchased under adversarial and arm's length relationships where the seller maximizes the gain. Majority of sellers add abnormal profit mark up which decreases demand.
2. Under transactional relations the goods in this category move as result of mainly recommendation by the supplier of services. E.g. electrical and plumbing supplies.
3. Out sourced relationships distort the demand for manufacturers because of negotiated deals.
4. In the 2020s companies should rethink out sourced relationships with the aim of terminating and introduce new lines of business.

Types of Buyer Supplier Relationships and Supply Chain Dynamics



5. Foreign companies of FMCG cannot compete with domestic markets without huge incentives to sellers at retail level. They are dominated by adversarial relationships.
6. Sales of strategic critical supplies and strategic security supplies is predictable and manufacturers should take initiatives to know the suppliers who dominate certain geographical locations.
7. Strategic relationships are key in gaining competitive advantage because of the last mile logistics that are territorial.
8. Demand and revenues cannot be modelled in board rooms because of relationships. Research is key to determining what is happening on the ground.

Task for the Week



1. Do you think of the manufacturer of goods you buy at the retail outlet?
2. Explain why you visit certain retail outlets for the goods you buy and not others.
3. Identify industries where you experience adversarial behaviour and explain why that happens.
4. Explain how you go about carrying out repairs of any kind in your home.
5. Identify the goods that you do not purchase without seeking advise first.

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*THANK YOU ALL
WISHING YOU WELL
HAVE A LOVELY WEEK*