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STRATEGIC DEVELOPMENT OF SUPPLIER RELATIONSHIP COMPETITIVE ADVANTEGE

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ABSTRACT

This paper provides a structure for analysing the current understanding of supplier development strategies, its impact on performance, and buyer and supplier relationship approaches.

Supplier development programme need to be a major focus of organisations who manufacture products, have supply base because they lead to batter overall relationship with suppliers, and will improve communication, quality, and timing as a result. Supplier development is nearly related to supplier relationship management.

Strategic development of supplier relationship is much needed to get the maximum advantages are improved collaboration between organisation and supplier, increased customer satisfaction, full transparency between organisation and supplier etc...

KEYWORDS

Supplier management , supplier policies and procedures, buyer-supplier relationship improvement, supply chain management, supplier development

INTRODUCTION

In-house equipment manufacturers cannot manufacture all components in-house, so some components/processes must be out sourced to the supplier base. To be competitive in the market, the buyers supplier based must be self-sufficient and developed. This type of vendor development can be achieved by implementing different vendor development practices according requirements. Now with supplier development, improving between buyer and supplier plays a vital role in gaining a competitive advantage. This article discusses the frame work for improving buyer supplier relationships through supplier development and verifies the scale required to measure all structure. In order to test the impact of improving buyer supplier relations through supplier development practices and buyer relationship practices.

The term “supplier development” describes the efforts of manufacture (buyers) to increase the number of viable supplier and improve their performance. More specifically, supplier development is defined as any effort made by an industrial purchasing company to improve the performance or capabilities of its supplier.co-operation with suppliers can make the buyer more efficient, so that the goods can be purchase at a lower price, and also allows the buyer to find their basic competitiveness to stay competitive. Supplier development is a type of co-operation between the buyer and the supplier to seek continues improvement of the suppliers performance in order to make

the buyer competitive. Vendor development can be further link to relationship development and improved competitive advantage. This efforts will lead to profitability for buyers and suppliers. These supplier Development efforts focus more on supplier performance, buyer competitive advantage, and improving the buyer-supplier relationship. Supplier development is an emerging and feasible solutions for buyers, because it is a feasible solutions to buy a new and manufacture all products internally at all times. The strong relationship between buyer and supplier has positive impact on supplier performance, and the supplier performance is positively correlated with organizational performance. There is growing need for strategic co-operation between buyers and suppliers to established stronger and more lasting relationships.

LITERATURE REVIEW

Through a critical review of the literature, it was found that 17 of the factors primarily contribute to vendor development practice(SDP) and relationship practice apply to SDP, and 810 factors apply to relationship practice. Buyer-supplier (BSRP)

Training and education : buyer-assisted supplier development plans can be considered buyer- supported training. The right kind of training can improve supplier performance, which in turn encourages more buyer supported training [8,9]. Automotive companies use training and education aspects in their supplier development plans, and suppliers have the opportunity to directly experience new production method [10].

Evaluation: the first step in supplier development is a supplier evaluation, because after that, the buyer can determine the areas that the suppliers needs to improve. Supplier evaluation and feedback have been used to improve supply capabilities [1114]

Rewards : recognition and rewards of excellent suppliers can be used incentives to improve supplier performance [15]. Appropriate improvement incentives must be developed to ensure that improvement work is not limited to a single process [1617].

Effective communication : effective communication between buyers and suppliers leads to misunderstanding and minimize clarity of objectives . buyer supplier information exchange, buyer supplier performance feedback, and buyer investment information technology across organizations are key factors driving the buyers openness to supplier communication [18,19].

Asset specificity : dedicated investing provides tangible evidence that partners can be trusted, care about relationships, and are willing to make sacrifices through such investments, thereby enhancing Trust and relationships [20,21].

Joint action : the concept of joint action then appears in which the supplier participates from the beginning, which also provides the buyer with the additional advantage of supplier innovation [22]. For joint action to achieve better results, providers must be capable, committed and loyal. Early involvement of providers can save time and costs improve quality [23,24].

Top management support : top management involvement and continuous monitoring of the supplier development plan led to the success of sustainable development plan [15]. Top management has been found to be a key promoters of supplier development plans based on the companies competitive strategy [78].

Trust : in a competitive environment, a high degree of trust is necessary to establish a results oriented process relationships [8-11]. The importance of trust in supply chain relationships has been recognized in the literature [35]. Trust refers to degree to which partners believe the others are trust worthy and friendly [10].

Long term commitment : long-term cooperative efforts between the purchasing company and its suppliers to improve the suppliers technologies, quality, delivery and cost capabilities and promote sustainable development. It cultivates the quality attitude of workers and managers, and continuous to focus on quality in design, production, and performance [15,8].

The suppliers point of view on the buyer-supplier relationship : the supplier needs to provide value to the customer and, at the same time, needs to obtain benefits from the customer. To maintain an improved relationship and gain a competitive advantage, the buyer must also consider the suppliers point of view [9,10].

IMPROVEMENT OF BUYER-SUPPLIER RELATIONS

the buyer's SDP initiatives and continuous monitoring from the supplier's perspective have led to the improvement of BSR. Therefore, more cooperative and lasting relationships can be obtained from supplier development plans [25]. Enhanced BSR helps to effectively implement new advanced technologies [26].

COMPETITIVE ADVANTAGES

The competitive advantages discussed here are technological adaption, innovation, risk minimization and operational excellence.

TECHNOLOGY ADAPTION

Suppliers suggest adopting new technologies, such as CAD/CAM, manufacturing resource planning, robotics, group technology, flexible manufacturing systems, automated material handling systems, and computer numerical (CNC) machine tools to maintain competitiveness [21,22].

INNOVATION

The buyer's supplier base must be innovative and competitive in R&D, product and processes, supplier's innovation always has a positive impact on the manufacture's performance in multiple dimensions, and is always appreciated by manufacturer [9,10].

RISK MINIMIZATION

Companies should choose different management mechanism for different suppliers based on the significant attributes of individual suppliers and their relationships with buyers, instead of relying on a single supply chain practice [1215].

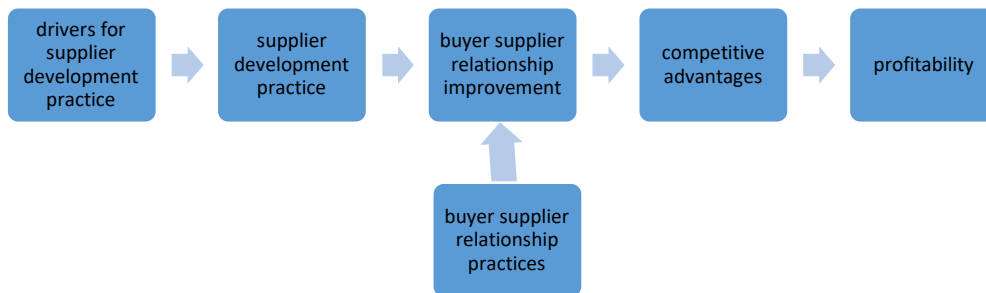
OPERATIONAL EXCELLENCE

Improving the suppliers operational performance focuses on improving quality, delivery, cost, inventory, delivery time, and the introduction rate of new products [26]. Improved operation and performance will bring competitive advantages, such as improving quality, reducing cost, and accelerating product development. SDP and supply chain practices can improve competitive advantage, including improved operations [27].

PROFITABILITY

Increase profitability has led to openness between suppliers and buyers, thereby better understanding and appreciating each other's contribution to the relationship. A profitable project, especially from a supplier's perspective, will led to future business growth and satisfaction [711].

PROPOSED FRAMEWORK OF RESEARCH



This section summarizes the theoretical framework (figure). The research work has been classified in 6 part as

- 1) Drivers for supplier development practices (drivers for SDP)
- 2) Supplier development practices (SDP)
- 3) Buyer-supplier relationship practices (BSRI)
- 4) Buyer supplier relationship improvement (BSRI)
- 5) Competitive advantages (CA) and
- 6) Profitability (PR)

1) DRIVERS FOR SUPPLIER DEVELOPMENT PRACTICES (SDP)

Drivers of supplier development listed below

- Production
- Inventory
- Transportation
- Facility location
- Information

2) SUPPLIER DEVELOPMENT PRACTICES (SDP)

Supplier development is closely related to supplier relationship management. It is a process of cooperating with certain suppliers individually to improve their performance for the benefit of the purchasing organization.

3) BUYER-SUPPLIER RELATIONSHIP PRACTICES (BSRP)

The buyer-supplier relationship refers to the commercial transaction between organizations to purchase and supply goods or services. For the contract manager/end user, maintaining a good supplier relationship should be as important as getting the best price.

4) BUYER-SUPPLIER RELATIONSHIP IMPROVEMENT (BSRI)

- Consistent communication
- Use technology to achieve mutual benefit
- Understand (and comply with) contractual obligations
- Periodically review deliverables and performance
- Become a company that the company wants to do business with.

5) COMPETITIVE ADVANTAGES (CA)

Competitive advantage is an advantageous position in which an organization seek to obtain more profits than the competition. For example, if a company advertise a product at a lower price than a similar product from competitor, the company likely has a competitive advantage.

6) PROFITABILITY

This report allows you to easily analyse the execution of your project by the supplier. This can help you effectively determine where to get the best return on your investment.

RESEARCH METHODOLOGY

Research methods are an important part of research and help researcher to achieve their goals. Rigorous statistical methods are used to evaluate and validate the constructs. The methods used are: content validity, reliability, exploratory factor analysis (for factor structure and initial validity) and confirmatory factor analysis.

To develop the survey tool scale, an extensive review of the literature was first conducted to determine the highly valid and reliable scale used in previous studies. It is determined from the literature that the key variables of supplier development practices, buyer-supplier relationship practices, improved buyer-supplier relationship, and competitive advantage have content validity, because the literature extensively reviewed. When selecting projects, and then industry professionals. A discussion on a applicability of these variables in the Indian context. Content validity indicates the suitability of sampling for a specific content domain (structure).

THE three buyer-supplier relationships

The first supplier, supplier 1, is the component supplier. Second supplier, supplier 2, is a subcontractor, and a third supplier, supplier 3, is a supplier of additional OEM products, ready-to-use finished products and essential parts of the system is provided by the social case. Supplier 1 has high-tech capabilities and the ability to develop both products and processes with the business case. Supplier 2 acts as a capability provider and also collaborates in product development. Supplier 3 is a global OEM company. The volume of cash purchases is relatively high across all of the 4,444 triple relationships and all globally active suppliers, serving the company's manufacturing sites worldwide.

Table 1: Key figures of the three buyer-supplier relationships

Volume	Supplier 1	Supplier 2	Supplier 3
Type of supplier	Component supplier	Contract manufacturer	OEM
# of Items	500 SKU:s	5500 SKU:s	standard configurations, 600-1000 units annually
Purchases of total spend %	1,6	2,6	0,8
Purchasing order lines	Thousands / year	Over 10000 /year	appr. 500-1000 /year
Relationship coverage	global	global	global

Regarding buyer/supplier relations when we consider the situation of power dependence in relationships (table2), the difference between suppliers becomes apparent. In the relationship with vendor 1, there is a strong dependency, especially for custom components. The vendor was described as “ready and quick to implement changes”, “can deliver advanced technology products”, “can offer multiple post-models” need” and “capable of e-commerce”. Supplier 2 is one of case company’s largest suppliers. It has some factories located near case company factories that act as capacity buffers for case company. The companies maintain close partnership in product development, design, and new product introduction (NPI) activities. The supplier is very flexible and can supply variable volumes; typical variation between months can be 70% to +150% load average. This supplier described as “flexible”, “easy to do business” and “ready to implement changes in the business model”. In the relationship with supplier 3, the dependency is the weakest. Supplier 3 is considered a technology leader in its field. For the supplier, the company’s purchase volume is relatively small compared to the supplier’s total sales. Comments are used to describe this provider as “not easy to change due to inflexible trade agreements” and “average performance quality”. We also analyse relationships in the recent framework for capturing buyer-supplier relationships, developed by Hald et al. (2009). They analyse the relationship through four angles

- Adaption
- Specific investment
- Communication
- Institutionalization

Table 2: Buyer-Supplier relationship analysis

	Supplier 1	Supplier 2	Supplier 3
Adaptation	Tightly aligned product architecture	Tightly aligned and integrated business processes	Standard configurations, buyer adapting to fit supplier operations
Specific investments	Yes: R&D driven collaboration, joint action plans	Yes: dedicated assets and resources especially by the suppliers	No dedicated assets, investments some process development activities
Communication	Extensive communication and contacts	Extensive communication and contacts, shared budget and action plans	Regular communication, limited coverage especially on supplier side
Institutionalization	High level of personal and formal relationships	High level of personal and formal relationships	Medium level of personal relationships, formal relationship management

Operational supply chain management processes based on our case analysis, it is possible to see how the case company is changing the three supplier interfaces within the existing strategic supplier role and the long-term relationship, so the focus is on interaction with suppliers at the operational level.

We can identify four generic processes that connect buyer and supplier that can be modified in a relatively modular way.

The processes are:-

- Communication processes , including operational communication and management execution support
- Strictly standardized supply chain planning processes, monthly enterprise-wide processes that collect customer information and transform delivery schedules for suppliers
- Fulfilment processes, that is physical material flow including order, logistics and inventory management
- Performance management, including KPL and verification methods and the resulting improvement measures

within each of the processes, differentiation is made through:

- Configuration: selection of activities that take place in each of the four processes (yes/no decision or selection of the operating mode, for example, implementation of VMI vs classic purchase)
- Frequency: frequency of the selected activities (monthly/ weekly/ daily/ hourly)
- Depth: unilateral, that is, based on “information diffusion”, or if 44 44 activities are truly collaborative- in both directions- involving several people in both organizations, and therefore are oriented to common shares. By modifying these four processes, the case company has created three different operational

interfaces, each of which is tailored to the operational situation of the business. In certain respects, the company in question made similar selections with vendor 1 and 2, but differentiated for vendor 3.

Table 3: Summary of modifications of operative supply management processes in the case company relationships

		Supplier 1	Supplier 2	Supplier 3
Communication	Configuration	systems + follow-up calls twice/week	systems / weekly calls + daily email communication	system-based, regular calls
	Frequency	weekly/daily	daily/hourly	Bi-weekly calls
	Depth	56-60 people involved, cross-functional	broad cross-functional involvement, dedicated people	A few contact points + account team
Planning	Configuration	13-month forecast + demand visibility	13-month forecast + manual weekly updates + demand visibility	13 month forecast based on planning items
	Frequency	weekly	weekly	monthly
	Depth	Collaborative	Collaborative	One-directional
Fulfillment	Configuration	classical purchasing, 3rd party WH, VMI	Classical purchasing, VMI	Direct delivery to customer
	Frequency	no / weekly ordering, deliveries weekly	daily ordering, daily buyer-coordinated deliveries	daily/weekly ordering and daily buyer-coordinated deliveries
	Depth	collaborative management	collaborative management	customer specifies
Performance management	Configuration	shared metrics	shared metrics	shared metrics
	Frequency	regular discussions	regular discussions	monthly reviews
	Depth	cross-functional involvement, supplier proposing actions	cross-functional involvement, corrective actions agreed	account team

LIMITATION AND SCOPE FOR FURTHER STUDY

This research is conducted in an environment where the product is stable and mature. The buyers and suppliers selected here have established and produced the corresponding products for a long time.

The end user should select a product from the available range. The innovation under consideration is incremental innovation, not sudden/dramatic innovation. Research can be conducted to include effects of demographic variables in the model. It is also possible to conduct research by distinguishing responses from Indian companies and foreign companies located in India to find out the impact of responses in the model. In addition to the automotive sector and machine/component manufacturing sector, research can be conducted to analyse new factors that are unstable in the product market and require sudden innovation to attract customers.

FUTURE IMPLICATIONS

In the future most organizations maintain relationships and develop key strategies to achieve sustained competitive success. In the supplier development process, buyers and suppliers should consider the amount of investment and adjust processes and culture to improve supplier performance and capabilities. After the buyer-supplier relationship is formed, buyer must be aware of the structure of maintaining a reasonable relationship with better suppliers and how to develop their long-term relationship. On the other hand, suppliers must be proactive, pays attention to the common interest of buyers and the development process.

Analysis of the buyer-supplier relationship with transaction cost and social exchange theory as variables will help organizations to understand in detail the sustainability of supplier development and the buyer-supplier relationship. Additionally, future empirical research will help organizations from cross-functional teams. Involves senior management roles, examines alternative rewards and recognitions, determines standards for to identify better vendors, and strives to maintain long-term relationships with vendors. For this purpose, the structural factors of the economy of transaction costs (that is, bilateral investment in specific assets to reduce the transaction costs and increase transaction value) and social factors (that is, integrity and information sharing) will help the academic community understand vendor development. In fact, understanding the social factors and the structural agreements of the buyer relationship leads to a reduction in the cost of the transaction and an increase in the value of the transaction, which will help managers to effectively manage the relationship with the buyer and his development.

CONCLUSION

In the current era of globalization, the movement of goods across geographic borders has become easier. Trade liberalization has significantly increased the level of competition and consumer expectations. Therefore, the efficiency of the supply chain management helps to improve the competitiveness of the organization. Since the organization purchases most of the products from the supplier, the supplier has become an important stakeholder who makes a significant contribution to the success of the business, so it is necessary to establish a strong relationship with the supplier. By enabling entities to gain a competitive advantage, strong, long-term relationships with suppliers have been found to play an important role in ensuring the success of the organization. In the contemporary business environment, business organizations that organize global procurement of products and services face risks associated with global procurement. The risks associated with the full-scale acquisition process include technical risks. Therefore, to gain a competitive advantage by providing high-quality products at internationally competitive prices, it is necessary to release value through supplier relationship management and cooperation with major strategic suppliers.

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