

Buyer-Vendors Relationship: From Purchasing Management to a Supplier Relationship Management Approach: Case Study: Mobile Telecommunications Company in Ecuador S.A.

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Abstract: This paper analyses the relation between a buying company and its vendors from the traditional approach of Purchasing Management (PM) to the strategic perspective of Suppliers Relationship Management (SRM). For this purpose, the research includes a literature review on the development of purchasing activities, criteria to generate a supplier's portfolio and the key dimensions of behavioural and attitudinal dimensions of relationship management. Correspondingly, the empirical approach is settled on the Procurement Department of a Mobile Telecommunications Company in Ecuador-South America (MTC); where the problem statement and research questions assess the approach of the company towards the management of its buyer-vendors relation and evaluate its alignment with the perception of the MTC's suppliers' portfolio.

Keywords: buyer-vendors relationship; behavioural and attitudinal characteristics

I. Introduction

The professional significance of this research is framed by the actual improvement of the procurement activities, from being a set of traditional or clerical functions concerned mainly with order placing activities, monitoring orders and generating bids with a short term perspective; towards a group of strategic processes concerned with information flows, product flows and relationship management with a long term approach [28] [3] [34]. Nowadays, to view procurement as a '...cost saving activity only, is to sentence one's company to competitive failure' [7, p.21]. In this context, [15] as well as [27] regard globalization, information technology and customer's requirements as the drivers towards defining a strategy for managing procurement; its philosophy and procedures.

The increasing strategic role of purchasing is supported by the change in the organizations' perception towards their suppliers, 'moving them from a link in a "chain" to a vital relation' [33, p 5].

As [32] suggest, the actual business trend of reducing the number of vendors to increase the buying volume with a set of strategic suppliers, requires both parties to build an effective relation that will be the foundation of future objectives.

Regarding the industry's context of the investigation, the changing environment in the telecommunications sector introduces additional pressure over the companies to fulfil the market requirements [1]. Among the possible strategies, the development of an integrated supply chain and an efficient buyer-vendors relation is supported by factors, such as the increased use of outsourcing of manufacturing and maintenance, shorter product life cycles, compressed time-to-market and shorter lead times [8] [29] [1]. According to [1], a key feature of the telecommunications industry is the uncertain demand that makes it difficult to produce reliable forecasts; forcing the companies to work strategically with their suppliers; where improving the buyer-vendors relation is imperative.

II. Objectives and Research Questions

The aim of the investigation is to analyse the approach of the MTC towards the management of its buyer-vendors relation (BVR), and evaluate if it is aligned to the perception of the company's suppliers portfolio. Therefore, the objectives are:

1. To compare and contrast the management of the buyer-vendors relation under Purchasing Management (PM) or traditional approach, and under Suppliers Relationship Management (SRM) or strategic approach.
2. To analyse the key dimensions of relationship management.
3. To analyse the MTC's strategy towards the management of its buyer-vendors relation.
- 4.

III. Limitations of the Research

As [5] suggest, relationship management is a multi-dimensional construct, where there is always the possibility to add new dimensions to the studies surrounding the topic. However, due to practical concerns about data collection and analysis, the investigation's research methodology favours the selection of a representative sample of characteristics under the behavioural and attitudinal dimensions of this research.

An additional limitation relies in the generalization of the results from the investigation; whereas [35] suggests, "the real business of case study is particularization not generalization" (ibid, p. 8). Nevertheless, the design of a stochastic methodology is intended to enhance the validity

through a triangulation approach. Hence, the methodology is strongly related and based on the literature review of Procurement Management adding external validity to the study, and building the bridge for the generalization of the conceptual findings. However, in the subject or relationship management, as acknowledged by [2], any research will give just a snapshot of the situation due to the constant evolution of the relation between the parties over time.

IV. Literature Review

From Purchasing Management to SRM

The contributions from [24] [10] [7] [32] and [5] support a natural development from Purchasing Management to SRM, as shown in Figure 1. These authors suggest a progression of the purchasing functions towards the strategic model, where this transition is the basis for the change towards Supply Management, in other words, an evolution from clerical functions to value added activities in an organization.

Moreover, [24] incorporates a model in which an organization starts with a traditional relation with its suppliers and develop its approach towards a final phase, called the partnership relation.

On the other side, the contributions of [11] [37] [8] [38] [39] suggest a coexistence of both the traditional and strategic approaches inside an organization. These authors sustain a necessary coexistence of the models, where the application of one or the other will depend on the capabilities of the supplier. Therefore, it is considered that a company could choose to have a PM relation with part of its suppliers and a SRM approach with the other. To decide the suppliers to be managed through one model or the other, [38] include internal factors such as product, technology and competence; and external issues such as the industry’s environment, market and competitive situation.

Correspondingly, [11] indicate that not every supplier is a good candidate for developing a strategic approach; buyers must analyse the business situation as well as the vendor’s capabilities to decide either to continue on a traditional basis or to start a collaborative long-term relation. In addition, [8] suggest reviewing the different situations inside the business to business relation before selecting an approach, in other

words, “there is no single way of managing business relationships for a buyer that is always appropriate in all circumstances” [9]. [p. 346]. In addition, this analysis should consider the cost of maintaining a relationship model; where the benefits must compensate the time and effort that the parties incorporate [14] [9]. Therefore, to support the selection of core vendors that will be part of a SRM strategy, [14] [38] [39] incorporate the concept of suppliers portfolio.

Supplier Portfolio

The development of a supplier’s portfolio (SP) is an answer to the suggestion that not all the vendors are suitable to form close relationships with the buyer [9]. The decision of which companies could be part of the strategic portfolio is the first step towards a SRM strategy. As a result, the portfolio is an optimized suppliers base ...’assembled by the firm with the intent of managing risk and optimizing returns’ [39, p.718]. Therefore, and considering the limitation of resources, a portfolio definition allows a company to allocate its efforts efficiently and effectively. Hence, the company manages its time, financial funds and administrative tools with a selective group of suppliers generating a set of relations with particular characteristics and fulfilling the company’s requirements in different ways [14][27].

The portfolio is defined according to the factors that the buyer consider important to sustain competitive advantage, economic performance, or both. The buyer should maintain a SRM approach with the companies that supply possible bottleneck products for the overall operation and with the suppliers of strategic goods and services [4] [38].

In a different perspective, [14] suggest a criteria involving target variables; such as number of suppliers, quality certifications, and regional dispersion of vendors, among others. On the other hand, [39] are focused on selecting the suppliers that will contribute in the accomplishment of the buyer’s strategic objectives. Similarly, [38] develop an approach introducing the concepts of customization and differentiation, where PM is for suppliers that provide standard services and SRM is the model for the vendors of strategic inputs.

Overall, a mutual statement among authors for the selection of suppliers is that the standard criteria of price and delivery

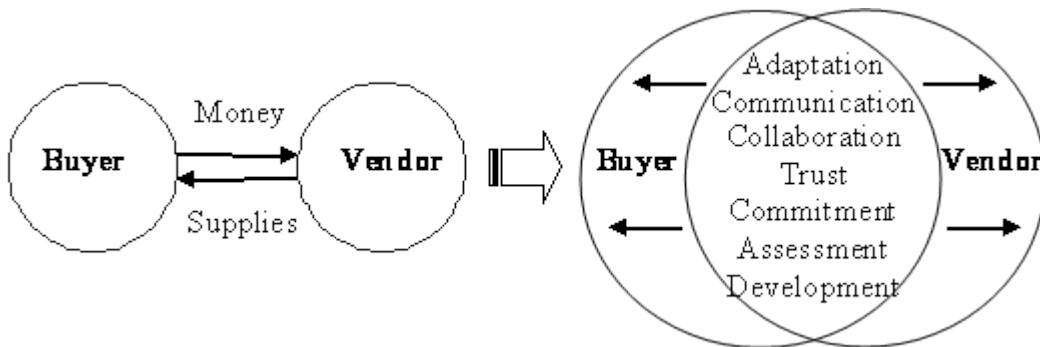


Figure 1. From traditional to mutual relationship (SRM)

are parameters oriented to the traditional approach of short term and transactional purchases. For a SRM implementation, factors that include long-term future performance, potential for innovation and improvement, commitment, openness and trust are crucial for the relation to succeed [8].

Considering that in the implementation of a SRM approach with a portfolio perspective, the first step is the definition of the vendors that will be part of the SP; the second step is the specification of an individual relation with each core vendor. The latter is crucial to let the supplier perceive the effort of the buying company towards the relation and to align the vendor in the new culture of collaboration [13]. Therefore, the next section of this paper incorporates to the analysis the most important dimensions of relationship management.

Key Dimensions of Relationship Management

Authors regard different aspects to be the most crucial dimensions in the management of the BVR. For example, [13] suggest that the critical elements are two way communications, top management involvement, cross functional teams, and larger purchasing power. Likewise, [34] and [12] state that trust, commitment, adaptation and collaboration are the key dimensions for managing the relation with strategic suppliers. Consequently, the dimensions for the management of the buyer-vendors relation can be analysed under two general categories: behaviours and attitudes [28] [13] [12]. The main behavioural dimensions are adaptation, communication and collaboration, while trust and commitment are the main attitudinal dimensions. Regarding the behaviour inside the buyer's organisation, the assessment of the suppliers' performance and the generation of suppliers' development programs are considered to be the most significant.

Some authors give more importance to a set of dimensions over others and generate different cause and effect relations. In addition, the definition of the most important characteristics will also depend on the industry's environment and the objectives of the BVR [38] [19] [17] [39].

Buyer-vendors' Behaviour

The main dimensions in the behavioural category are adaptation, communication and collaboration [7] [12] [32] [20]. The first one is related to the concepts of flexibility, dependence and integration. Vendors adapt the provision of supplies to fulfil the buyer's needs, as well as the buyer can adapt its requirements to the capabilities of strategic suppliers. The adaptation of the parties depends on the importance of the supplies and the customer, the existence of limited alternatives, and the existence of exit barriers [13] [12].

Communication is the share of meaningful information in a timely manner that leads to better informed partners and a confident relationship [19]. For [17], the assessment criteria and the expected performance levels is the most important information to share. For [5], the final goal of strategic purchasing is developing sources of strategic advantage like tacit knowledge, which is created by a deep communication

between the buyer and supplier. Correspondingly, [6] affirm that a major benefit of sharing accurate information is the adequate matching of supply and demand throughout the supply chain at a lower cost.

According to [32], the analysis of communication has four categories: content, medium, feedback and frequency. Content refers to the type of information transmitted and how it intends to influence the recipient. The quality of the information includes aspects such as accuracy, timeliness, adequacy and credibility [12], while medium is the method that the parties use to share information. Feedback covers a two way communication system in which both parties relies to let the other know their perception towards the operations; it is an opportunity that "enhances the suppliers perception of the buying firm's cooperation and commitment to the supplier" [32, p. 58]. Finally, frequency is the number of times in which a communication exchange takes place between the parties [32].

The dimension of collaboration involves the parties working together to achieve mutual goals [20]. Collaborative exchange is shown in the integration of decision making between the buyer and vendor, the presence of planning together towards the future and the acceptance of adaptation [33]. Therefore, collaborative behaviours are: joint responsibility, shared planning and flexibility, where a "hallmark of many cooperative relationships is the provision of information to the other party" [20, p. 25]. The opposite of having a collaborative relation is developing and opportunistic one. The later is focused mainly on price reductions with a short term approach [7]. The result of requesting the supplier to focus mainly on price is the absence of innovation or other value adding skills to the operation as a whole [5].

Buyer-Vendors' Attitude

[13] [20] and [5] include trust and commitment as the main dimensions in the attitude of the parties towards their relation. According to [15], trust is a critical element to maintain an efficient supply chain. Moreover, the presence of trust is the result of the confidence each party has in the other's reliability and honesty [22] and involves "a belief that each stage is interested in the other's welfare and would not take actions without considering their impact on the other stage" [6, p. 493]. Developing trust is a main concern especially when the market has conditions to develop opportunistic behaviours [18]; in which case, trust is the road to keep the parties working together to achieve mutual goals [5]. [13] suggest that an additional benefit is the reduction of the buyer's decision making uncertainty when the suppliers demonstrate trust and commitment in the relation [23]. [38] agree that the predictability that trust gives to a relation is also a critical factor for its future success. For [36], effective SCM relies on trust and communication as twin pillars.

Regarding commitment, [12] define it as the willingness of the parties to enhance their performance on behalf of their strong relation; it is an attitude that can only be built on

actions not on promises [19]. Commitment is considered to be formed by three main components in the buyer-vendors relation: investment in having the party as a customer or as a supplier, the affective side of the relation, and the expectation of a future relation [32]. Furthermore, the buyer's commitment will influence the suppliers' commitment and vice versa [20].

Buyer's Behaviour

In this category, the main dimensions are: suppliers' performance assessment and development programs [25] [21] [32]. According to [31], the former should incorporate the perspective of both parties towards their business relation and should be part of the general supplier assessment [25].

The generation of development programs is the vehicle to transform the information obtained in the assessment of the supplier into a process of helping the vendor to improve its performance [25]. These programs are defined by [32] as activities focused on measuring and improving the goods and services that the suppliers provide. Only with the knowledge of discrepancies between the supplier's performance and the buyer's expectations, the supplier will be able to enhance its efforts. According to [17], the development programs can be focused on training, provision of technological support, exchanging personnel between the two companies, evaluating supplier performance, and recognizing the supplier progress in the form of awards.

The critical factors in this dimension are communication, top management involvement, cross-functional teams and larger purchasing power [21]. [25] affirm that the buyer's willingness to develop the supplier is also affected by its perception of the supplier's commitment, the continuity of the business relation and the level of communication between the two companies, in other words, the expectation of future growth and joint cooperation.

The link between performance assessment and supplier development is the sharing of information. Therefore, communication is the bridge for the transition from assessment to development in order to improve the vendors' performance as an indirect way to enhance the buyers' operations [19] [32].

V. Discussion of Findings

The discussions will develop the results and main conclusions from the analysis of the literature review in the field of operations, the MTC's internal procurement procedures and strategy, and the key dimensions in the relation between the buying company and its supplier's portfolio.

MTC's Procurement Strategy and Suppliers' Portfolio

The first research question assessed the MTC's approach to procurement management and the BVR. Hence, the empirical analysis revealed primary information regarding the company's structure under a centralized model and the

corresponding processes. The MTC centralized its acquisitions as a result of the operational disadvantages of decentralization, as well as the strategic benefits of economies of scale and the definition of a unified policy [26] [27]. In addition, according to the contribution of [27], the MTC's strategy is set between stage 2: procurement, and stage 3: supplier management. Even though part of the strategy is SRM, the analysis of the company's actual procedures revealed a set of back office duties that can be summarized as: find the supplier, buy and pay; which are traditional non value added activities [21] [27].

Even though, the MTC made efforts on performance appraisal and commitment with a focus on a SRM strategy, there is an absence of important activities in a strategic perspective, such as supply planning, sizing up suppliers, or relational strategies [26]. Consequently, the MTC's approach can be defined as a coexistence of both the traditional (Purchasing Management) and strategic (SRM) models, where the company designed different procedures for the acquisition of goods and services according to the amounts of expenditure.

Considering that a company can execute a strategic approach to procurement management with a set of core vendors or suppliers portfolio [14] [[38] [39]; this concept was associated to the empirical approach of this investigation. Hence, the responsible of the Procurement Department built a portfolio choosing vendors according to how strategic are their supplies to the MTC's overall operation.

An important question during the interviews was if the procurement activities are considered to be strategic for the MTC or not. The answer was positive and reinforced with arguments like "it can introduce innovation to the company's processes", "speed in the purchasing operations" and "maintain fairness in the processes". But the mentioned benefits are less than the five value added outputs of SRM according to the contribution of [10], which are: defect free quality, strategic cost management, time, technology and continuity of supply. In addition, the benefit of reduction in the buyer's decision making uncertainty [13] [23] was not even realized. Furthermore, the expected benefits that the MTC is willing to obtain are not reachable if the company fails to align the strategy with the suppliers' perception.

VI. Conclusion

The results of this investigation provide compelling empirical support to argue that the MTC wants a Procurement Department that can perform a strategic role in the company through the management of purchasing and the buyer vendor relation; but there is a mismatch between the MTC's intention and the definition of the drivers for its purchasing procedures. A key factor for the presence of this mismatch is the Procurement area's performance appraisal, which is to buy at the lowest possible price; factor related to the traditional purchasing approach. Moreover, the buyers in the MTC are assessed according to the level of savings that they

generate, which is a condition that inhibits the deep value of a SRM approach, especially in the adoption of innovative schemes.

The findings of this investigation highlight the importance of decreasing uncertainty to increase the vendors' commitment through focusing on a strategic long term relation. There is a need to move from the "show me the money" mind set perceived in the interview to the Procurement Department's responsible; to encourage the foresight that a relationship development model like SRM requires in order to sustain competitive advantage and enhance innovation in the MTC's operation.

The in-depth knowledge of the requirements and their link to the potential benefits of the strategic approach to procurement is a prerequisite in the MTC in order to manage its BVR and align its strategy with the core suppliers' perception.

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