

Supplier Relationship Management: Small, Non-Replaceable Suppliers and Close Customer-Supplier Relationships

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Abstract

Due in part to the very high proportion of value creation at suppliers outside of the company, especially in the case of manufacturing companies, the development of the company is strongly influenced by them. Suppliers are increasingly involved in processes of their customers or even take over processes by themselves. As a result, the management of supplier relationships through purchasing is important. Above all, the management of “small, non-replaceable” suppliers is a challenge. Therefore, the type of cooperation with such suppliers as well as the implementation of special management activities is examined. Furthermore, the effects of close customer-supplier relationships are determined with regard to readiness for change. One finding is that the majority of companies work with “small, non-replaceable” suppliers and closely control them to quickly intervene in case of performance deviations. With regard to cooperation with suppliers, with whom there is a close relationship, it should be noted that in the case of big differences in purchase prices compared to the market and in the case of major quality or logistics problems, the close relationship does not protect against a change of supplier.

Keywords

Customer-Supplier Relationship, Innovation, Logistics Problem, Quality Problem, Supplier Relationship Management

1. Introduction

The management of supplier relationships has become increasingly important in recent decades, as companies have focused more on their core competences and shifted value creation to suppliers in order to generate higher value contribu-

tions and to shift risks in parallel (Hofbauer *et al.*, 2015, p. 3 [1]). According to information from the Federal Statistical Office in Germany, the share of material consumption including merchandise and wage labor in the gross production value in manufacturing is on average 58.0% and in mechanical engineering 53.9% (Federal Statistical Office, 2018, p. 278 and p. 301 [2]). The cost of materials thus represents the largest cost block in the manufacturing industry, from which the necessity of an efficient and systematic Supplier Relationship Management is derived.

However, there is not always a high demand from suppliers to obtain easily, in particular, when working with relatively small suppliers, which are important for the company solely due to special competences and are fundamentally not replaceable. Likewise, not every customer-supplier relationship is the same. Differences may arise due to personal contacts or due to long-term and good cooperation and/or be characterized by intense trust, which may affect the willingness to change. Dedicated Supplier Relationship Management is explicitly displayed in both cases.

This paper consists of five sections. Section 1 explains the importance of Supplier Relationship Management and the structure of the paper. Section 2 discusses not only the conceptual classification of Supplier Relationship Management, but also aspects concerning the influence of purchasing and procurement. Section 3 describes the structure and realization of the written survey as well as the objective with regard to the findings from the respective questions. Section 4 explains the results of the survey and graphs them. This paper concludes with Section 5—with conclusions and derivations—from the respective findings.

2. Supplier Relationship Management

The term Supplier Relationship Management (SRM) is described by Appelfeller and Buchholz (2011) [3] on p. 4f.—characterized by information technology providers. In addition to this information technology influence, the SRM is also influenced by Supplier Management and strategic procurement and thus focuses not only on information technology solutions, but also on cooperation and partnership with suppliers (Freiwald, 2005, p. 28f. [4]). Consequently, Supplier Relationship Management is to be understood as a strategy-oriented, holistic and cross-company approach, with which the processes at the interface with suppliers are comprehensively organized (cf. Hess *et al.*, 2010, p. 21ff. [5]). Appelfeller and Buchholz (2011, p. 7ff.) [3] also describe the holistic approach of the SRM using a 3-level model, which starts with the procurement overall strategy and continues through the procurement process at the material group level up to the operative procurement process.

The holistic view is also described by Wildemann (2000, p. 23ff.) [6] in the context of purchasing potential analysis, by Rüdrieh *et al.* (2004, p. 11ff.) [7] in relation to Material group management or by Rast (2008, p. 162) [8] with the process framework as well as by various other authors (e.g. Monczka *et al.* 2015, p. 49f. [9]).

In addition to the SRM model, it is also necessary to clarify the point of entry and to define the mode of cooperation between the companies, which are in interdependent relationship (Appelfeller & Buchholz, 2011, p. 10ff. [3]). There are different approaches, but general characteristics such as the geographic structure of the supplier base, the required number of suppliers within a material group, the cooperation intensity (e.g. involvement of suppliers already in product development) on a vertical level and the scope of value added that the supplier should ultimately provide.

Furthermore, a supplier relationship is characterized by the respective materials that are procured, in particular with regard to the degree of standardization and the possibilities for quantity bundling that can be derived from this. Collaboration or integration can also be supported in the context of integrating partners or procurement service providers on a horizontal level. In addition, the concrete procurement process between company and supplier is described by the process-related characteristics.

According to a study by Reiss and Präuer (2003, p. 31) [10], the three most important factors or coordination mechanisms of a functioning partnership are an existing basis of trust, the transfer of responsibility to the supplier and a performance-related remuneration for the supplier. A functioning information technology support is indispensable (Appelfeller & Buchholz, 2011, p. 127 [3]).

3. Methodology and Research

The investigation was conducted between August and November 2017. A total of 628 companies were contacted in writing via a standardized and structured questionnaire. The contact was made by email, LinkedIn or personal delivery. 68 questionnaires were answered, which corresponds to a response rate of 10.8%. The main reasons for this response rate are general non-participation in surveys of some questionnaire recipients, too small size of the company, the company is not part of the manufacturing sector or questionnaire recipients have currently too much workload.

In order to receive qualified feedback, explicitly experienced purchasing representatives, some of them from middle or higher management, were addressed. In addition, it must be clear that the company belongs to the manufacturing sector. This industry focus has been chosen because the requirements of different industries sometimes differ greatly. The classification or branch is carried out according to the definition of the main industrial groups of the European Community (Official Journal of the European Communities, 2007, p. 4ff. [11]).

Furthermore, due to the query of the sales figures or the purchasing volumes, a different behavior between small and medium-sized enterprises (SMEs) and groups may be derived. The definition of SMEs is based on the Recommendation of the European Union (Official Journal of the European Union, 2003, p. L 124/39 [12]), which was also based on the Institute for SME Research Bonn in terms of turnover; the further gradations are determined on the basis of personal

experience.

The purchasing volume is based on an average material quota of 50% and is classified analogously to sales. However, it is highly industry-dependent. The question of connecting purchasing within the organization allows conclusions to be drawn about the strategic importance and classification of the purchase.

The purchasing agents participating in the survey have 80.9% of purchasing experience of more than ten years. This is a total of 55 out of 68 participants. 77.9% (53) have completed a study. 82.4% (56) of the participants in the respective companies stated that they held a managerial position. Of the participating companies, 72.1% (49) were in the industrial goods sector (66.2% (45) of the companies were mechanical engineering alone) and 14.7% (10) were in the intermediate goods sector. 94.1% (64) of the companies generate a turnover of less than €5.0 billion and at 97.1% (66) the purchasing volume is less than €2.5 billion. For 97.1% (66) of the companies, purchasing is linked to the Executive Board, the Management Board or C-Level or represented therein.

The aim of this survey is to gain insights that explicitly relate to cooperation with “small” suppliers. These are suppliers whose business turnover in relation to the share of the customer’s purchasing volume is very low, but these suppliers are very important due to their special competences. A substitution is not possible or only by very high use of funds. These suppliers are also aware of their position, which may require “arranging” the customer and making SRM activities more difficult or more limited. The answers should allow conclusions to be drawn as to whether the type of cooperation with such suppliers may be “different”.

Close cooperation over several years (e.g. longer than five years) or due to personal contacts with a supplier may reduce the willingness to change, even though there are reasons for a change and alternative suppliers are available. At this point, it is therefore asked what the willingness for a change of supplier is under appropriate conditions.

4. Results from the Survey

4.1. The Position of “Small, Non-Replaceable” Suppliers

This section aims to examine the position of “small, non-replaceable” suppliers. In particular, the type of cooperation with such suppliers is learned in order to work out possible problem areas. The question of individual measures, which may be implemented in cooperation with these suppliers, should shed light on whether in practice a special focus is placed on the management of “small, non-replaceable” suppliers.

Of the companies surveyed, a total of 73.6% (50 out of 68 companies) said they would work together with such suppliers. **Figure 1** shows the assessment of cooperation with such suppliers. By far the biggest problem area (80.0%) reported by the surveyed companies is that the supplier’s difficulties quickly materialize. In second position, at 68.0%, the high proportion of sales of the “small”

supplier is mentioned, which brings with it a high supply risk.

86.0% (43 out of 50) of these companies that work with such a supplier implement special measures; 14.0% (7 out of 50) do not do that. As the most important measure, 76.7% of the companies cite close control of the supplier, e.g. due to controlling data. 72.1% of the companies intensify the exchange via regular/disproportionate visits, appointments, telephone conferences and web meetings as the second most important measure. In third position follows as a measure the contact from management to management (60.5%) and in penultimate position internal, cyclic reporting to interface partners (53.5%) is indicated. By contrast, only 25.6% of own employees are permanently at the supplier's location (Figure 2).

4.2. Effects of a Close Customer-Supplier Relationship

This section examines the effects of a “tight” Customer-Supplier Relationship. In total, 92.7% (63) of the companies say that they are working with at least one supplier with whom there is a close relationship. It is questioned under which conditions a change of supplier might be considered. The questions cover the parameters purchasing costs, quality, logistics and innovations/ideas.

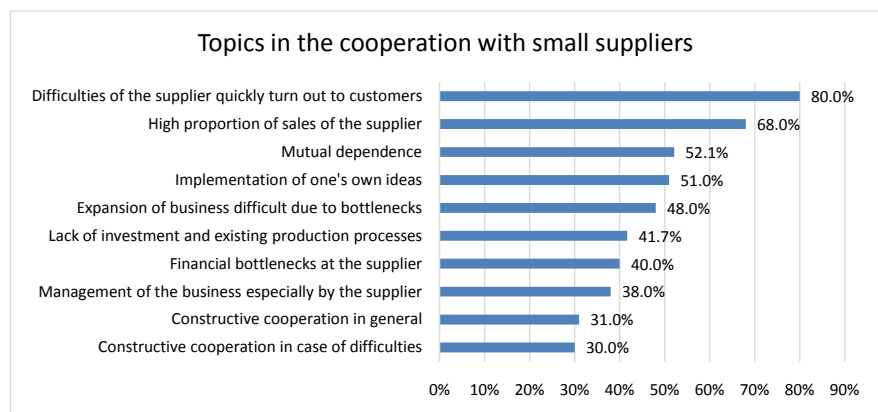


Figure 1. Assessment of the cooperation with “small, non-replaceable” suppliers.

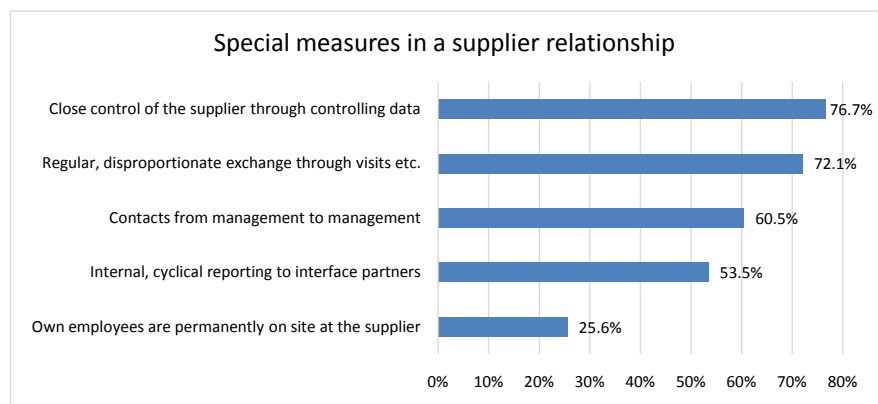


Figure 2. Implementation of special measures in the cooperation with “small, non-replaceable” suppliers.

4.2.1. Exchange Readiness for Purchasing Cost Disadvantages of the Current Supplier (Figure 3)

If another supplier offers a cost advantage of over 30%, 92.2% of the companies surveyed will consider switching suppliers. If the cost advantage is between 20% and 30%, the percentage stays with 91.8% nearly on this high level and with an advantage of more than 10%, at least every second company (54.1%) has plans to change. With a cost advantage of less than 10%, only every fourth company (26.3%) currently has an intention of switching.

4.2.2. Exchange Readiness for Quality Problems of the Current Supplier (Figure 4)

For quality issues that occur regularly and have a big impact, 93.7% of the companies consider switching suppliers. The intentions to change are also very high, both with sporadic occurrence of Quality problems with high impact (71.0%) and with regular occurrences with small impacts (63.8%). Only at sporadic occurrence of Quality problems with small effects is the willingness to change against “0”.

4.2.3. Exchange Readiness for Logistics Problems of the Current Supplier (Figure 5)

For Logistics problems that occur regularly and have a big impact, 92.1% of the companies consider switching suppliers. The intentions to change are also very high, both with sporadic occurrence of logistics problems with high impact (60.0%) and with regular occurrence with small impacts (56.1%). Only at sporadic occurrence of Logistics problems with small effects is the willingness to change against “0”.

4.2.4. Exchange Readiness for Missing Innovations/Ideas of the Current Supplier (Figure 6)

Missing innovations/ideas of current suppliers justify change intentions as well. Compared to purchasing costs, quality or logistics issues, however, these are weaker. For example, if no other ideas for cost reductions are proposed by current suppliers, only 55.9% of the companies want to consider switching suppliers. In the absence of technical or process innovations, 40.7% of the companies and in the absence of product or service innovations, 38.3% of the companies have an intention of switching.

5. Conclusions

The high share of value added in the manufacturing industry, which is provided externally by suppliers, underpins the importance of Supplier Relationship Management. In doing so, purchasing must find the best suppliers for the company. For a majority of companies, these include both “small, non-replaceable” suppliers and suppliers with whom there is a close relationship.

The problem with “small, non-replaceable” suppliers is, in particular, that topics quickly penetrate and there is a high supply risk due to the high proportion of sales of the supplier. Mutual dependency is greater and it is more difficult

for client companies to enforce their own ideas. Therefore, measures are explicitly implemented with regard to the management of such suppliers. The essential activity here is a close control of the supplier in the sense of a “man covering”, especially due to controlling data. This is necessary in order to be as well informed as possible about these suppliers and in case of a performance deviation to become immediately active and to be able to work in case of any difficulties without delay in a focused way. An intervention of the client company in the processes of these suppliers by for example own employees on site will not be favored and thus the responsibility will remain with the suppliers.

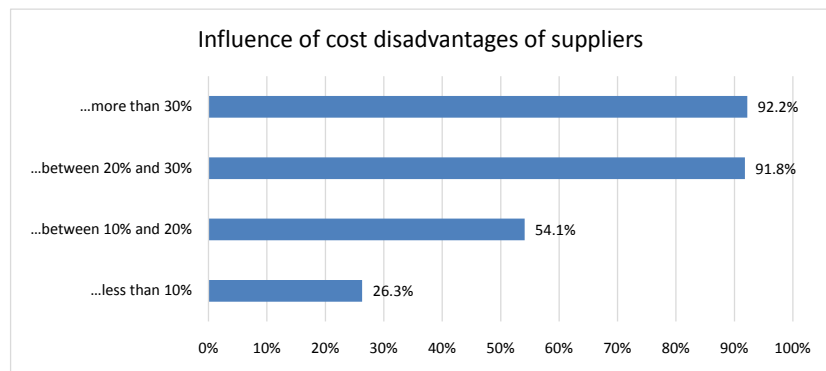


Figure 3. Importance of cost disadvantages of suppliers with regard to change readiness.

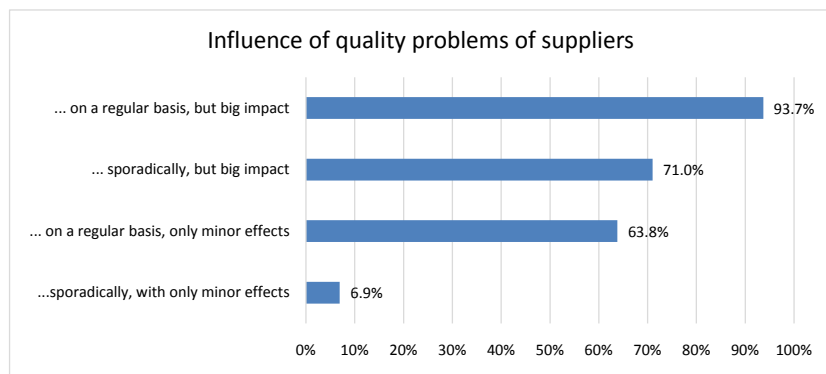


Figure 4. Importance of quality problems of suppliers with regard to change readiness.

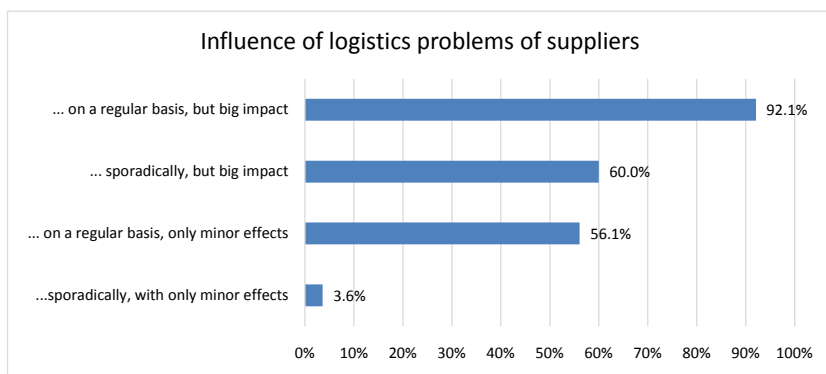


Figure 5. Importance of logistics problems of suppliers with regard to change readiness.

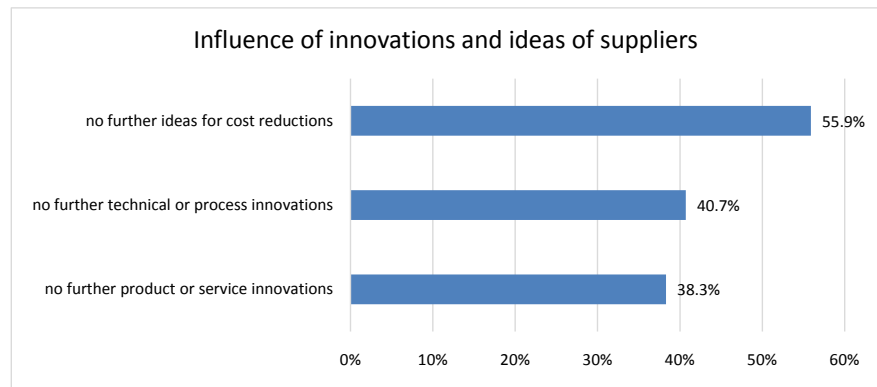


Figure 6. Importance of innovations and ideas of suppliers with regard to change readiness.

In the case of a close customer-supplier relationship, a supplier change is considered in the case of significant weaknesses of a current supplier. This is particularly the case when suppliers are not competitive and when there are regular major quality and logistics problems. A close personal relationship no longer exists when there are suppliers on the market who offer significantly better performance. Each of the three listed topics is sufficient for big differences or problems alone to initiate a change of supplier. That is, a low purchase price cannot compensate for poor quality or inadequate delivery performance. Suppliers must therefore implement an attractive overall package in order to be able to supply a company sustainably. Suppliers' ability to innovate is in the background compared to the three other parameters.

The deductions apply to companies regardless of size. Special emphases in the individual size classes, in particular with regard to the company turnover or the purchasing volume, could not be determined. Therefore, it makes sense to do a further research in order to find out other criteria which eventually will identify different behaviour.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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