

Value Procurement: Building Strategic Relationship with Suppliers

Nitya Agarwal¹, Pooja Modi²

¹MBA - (INTERNATIONAL BUSINESS)

²School of Business Studies and Social Sciences, Christ (Deemed to be University), Bengaluru, 76, India

Abstract: Supplier Relationship Management (SRM) is long term planning and management of all supplier interactions to optimize their value. Its application ranges from construction to healthcare systems, and investment banks to aviation industries. A variety of scholars and analysts have recorded different buyer-supplier partnership models, as well as product selection and appraisal approaches. This paper discusses the value of strategic supplier collaboration in supply chain management in the manufacturing industry in India, in association with product quality production and business performance. No wonder, product quality efficiency and market results are becoming critical factors in signaling corporations' longevity and competitive advantage in today's demanding business environment. This study's findings provide the value of SCM's strategic supplier relationship in India's industries in enhancing its quality control and market performance.

Keywords: Supplier relationship management, manufacturing industry, quality control, value procurement.

I. INTRODUCTION

The involved parties often work in their own highly trained silos with traditional methods of project procurement. Consequently, the ones at the end of the project step series are to handle all the mistakes that have been created up to that point. Unnecessary mistakes may be produced at each step. To respond to this silo-thinking, customer satisfaction can also diminish. As overall uncertainty and the need for project coordination rises, new procurement approaches are needed. With the early intervention of vendors, where the groups are combined under one unified contract, a remedy to these common problems is addressed. After the consumer has defined his requirements to be addressed, the seller must be the specialist to recognize the threats throughout the whole chain. Vendors should look outside of their silos to coordinate by identifying and minimizing the effect of risks from the beginning to the end. It is here that Best Value Procurement (BVP) takes root.

Best Value

Best Value (BV) is an effective and efficient method that optimizes complex wasteful interaction and information, creating a mutually beneficial situation for both the customer as well as for the contractor; the maximum value at the lowest cost, high seller profit, and minimal operational expense and time differences. BV discusses numerous factors that must be addressed in procurement processes in order to enrich the manufacturing long-term efficiency and significance. BV emphasizes quality, value for money and requirements for success. It focuses on establishing best practices for organizations in the public sector, such as developing verifiable standards and developing suitable contractual arrangements for providing services to the community.

The best value method can be differentiated from traditional method in several ways. Like best value method focuses on minimizing vendor management and control as it makes use of the expert knowledge of professionals in the industry. Experts can understand the owner's best interest, think in a related area, recognize the challenges associated with the project, and be aware of the implications of decision making. Because the owner of the organization is not an expert, it is the expert vendor's responsibility to perform the project assignments and compete on the capabilities to recognize and resolve the issues with their corresponding prices. The provider then clearly explains in detail the protocols to be followed

to fulfill the client's standards, depending on the experience. There are various factors which affect value procurement such as cost, quality, project risk, past performance, health and safety and many more.

Supplier Relationship Management

Supplier Relationship Management (SRM) is strategic planning and management of all customer relationships to optimize their interest. Its function varies from production to healthcare systems and financial institutions to aviation. It is also defined as the process of organizing, integrating, improving and managing the current and prospective supplier business relationship. Provider management main activities are product selection and assessment, supplier control, supplier development and supplier integration. Supplier selection is seen as the foundation of effective procurement and supply management in order to maintain and boost their competitiveness. Quality is considered as the most common factor for supplier selection followed by availability, size, manufacturing capabilities, operations, management, technology development, finance, versatility, credibility, relationship, threat and security and the environment.

Operational Efficiency

Operational efficiency is an organization's ability to offer products or services as cost-effectively as possible to its consumers while still maintaining the high quality of all its products, support and services. It is often accomplished by streamlining the core processes of a company in order to respond more cost-effectively to the constantly changing market forces. To achieve operational efficiency an organization needs to reduce duplication and waste while maximizing the tools that mostly contributes to its success and making efficient use of its workforce, existing as well as new technology development and business processes. It helps organizations to utilize the resources to its full extent and minimize the losses or wastage of resources.

II. OBJECTIVES

The overall objective of this study is to understand and analyze the importance of suppliers' relationship management for best value procurement in the manufacturing sector of India for the purpose of achieving economies of scale in business operations.

The specific objectives of the study are:

- To Determine various factors being responsible for Supplier- Buyer Relationship
- To identify the criteria for supplier's performance Management keeping into various parameters considered for manufacturing sector.
- To determine whether Value Procurement from suppliers improves Operational efficiency of the firm.

III. REVIEW OF LITERATURE

The Supplier relationship starts with the strategic intention of the buying organizations. The buying and selling organizations; compatible goals, skills, culture and ability to share risks for formulating synergies between two organizations. It increases in profitability that contributes to the product or service, lowers the cost of output, generates a sensitive supply chain and reduces the risk for both businesses. Continuous analysis, feedback system to this mode of operation brings the partnership Power. This drive is one of the main factors in relationship development and of the entire network. If one of the firms succeeds in gaining leverage, the less effective and successful will be the other organization in a specific relationship and over time the entire supply network.

The design of supplier performance measurement systems is where savings can be made. It is an important strategic tool as trade is global nowadays. Performance Measurement is the process of quantifying effectiveness and efficiency of action. Effectiveness is the extent to which customers' requirements are met while efficiency measures how economically a firm's resources are utilized.

The Following Literature Reviews tells us the different prospects of researchers with regards to SRM, Buyer Supplier's strategic relationship to achieve goods at best value and achieve operational efficiency in the supply chain.

Ntayi (2011) explored the relationship of Uganda's Small and Medium Enterprises (SMEs) to procurement activities, collaborative partnerships and supply chain efficiency. Findings showed that procurement activities and collaborative partnerships were major predictors accounting for 29.6 percent of the 19 performance variance of SMEs in the supply chain. These findings have implications for SME owners / managers as well as on policy makers, such as setting up

systems to support cohesive connections and improve supply chain practices to ensure excellence to affect the performance of the supply chain in terms of timely delivery, versatility and customer satisfaction. **Muhittin & Reha (1990)** in their study concluded that to achieve operational efficiency an organization needs to minimize duplication and waste while maximizing the tools that contribute most to its success and making the best use of its workforce, technology and business processes. **Knudsen (1999)** stated that procurement success begins with acquiring efficiency and effectiveness in the supply chain function to change from reactive to proactive in order to achieve set levels of performance within an entity. **Jeong et al. (2013)** focused on SCM in the manufacturing industry. They created a framework known as MSROM for SCM. Dynamic supplier lead time and appropriate safety stock levels and weak supplier review process are critical issues found in SCM. **Yeniyurt et al., (2013)** found that if a sourcing entity aims to achieve outstanding supplier working relationships, it should always be distributed across its geographical locations with experienced global and regional procurement staff who communicate effectively with the suppliers of the business while working together in a structured way to achieve a globally sensitive supply chain. **Oghazi et al.(2016)** in the research gave different factors that prevent and reduces the pace of integration of SRM. These factors were degree of formality, lack of willingness, lack of communication, undefined goals, etc. **Tabibzadeh & Prokopets, (2006)** tells us about the five key elements of Supplier Relationship Management which are Supplier Stratification, Supplier Development, SRM Systems, Performance Management, Governance and Organization. Each of them (e.g., SRM Systems) are interrelated in terms of the benefits. For example, SRM Systems can improve supplier's accountability as same as the element. **Ford (1980)** presents five stages in buyer seller relationship evolution-pre relationship, early stage, development stage, long-term stage, and the final stage. Early stage: In this stage, uncertainty is high, distance between supplier and buyer is high, there is a low level of perceived and actual commitment and Cost saving, negotiation is also found to be low. Development stage: The level of uncertainty reduces, distance between buyer and supplier also reduces but commitment from both the parties increases. Contract signing, large scale ordering etc. becomes a part of this relationship. Long term relationship stage: At this level of uncertainty is minimum and institutional development takes place and actual commitment level is more. Major purchasing and large-scale delivery take place along with cost efficiency. Final stage of relationship: Business practice is now based on code of practice and ethics. It indicates long term established stable markets. **Campbell (1997)** defined four types of relationship which are predominant between buyers and suppliers which are- self-centered (focus on firm needs), mutual investment (long-term commitment for strategic advantage) , loyalty and political control (mutual dependency and high levels of integration). **Dyer &Singh (1998)** analyzed that value is centered the most in Buyer- Supplier relationship. Value is not only the output/input, but also the organization's gain from working with another. Basically, the Comparison as to "what you get" or expect to get and "what you give" or expect to give. He also focuses on "time reduction" to leverage the supplier's ability to achieve high market responsiveness, in product development and execution of supply chain. **Lyman and Wisner (2002)** tells that for supplier performance measurement the following are to be considered • The assessment on Product and delivery • Capacity assessment • Information assessment to participate in new product development and value analysis. **Hwa (2005)** reveals that quality, delivery and performance history areas the most important criteria in supplier selection while other important criteria are warranties and claim policies, production facilities and capacity and price. This also indicated that price is the most important criteria, followed by delivery and quality. **Akarte et.al (2000)** tells that for any manufacturer supplier assessment to be based on four criteria i.e. Product development capability, quality capability, manufacturing capability and cost and delivery capability.

IV. RESEARCH METHODOLOGY

An Exploratory research design has been used in this study where qualitative and quantitative data has been analyzed. It basically deals with finding out different factors and criteria responsible for Buyer and supplier relationship. The Suppliers Performance Measurement to achieve operational efficiency has also been analyzed.

Sampling Design:

Target Population: Our target sample would be the Manufacturing Plants

Sampling Technique: The Technique used here is convenience sampling.

Sample Size: The Sample size is 10.

Data Collection- Data will be collected through structured questionnaires.

V. DATA ANALYSIS AND INTERPRETATION

Data has been analysed using SPSS and MS-Excel. The statistical tools such as descriptive statistics (Mean) and Pie-Chart to interpret and analyze the data

Objective 1: Buyer-Supplier Relationship



Fig: 1.1

This Figure shows the importance of relationship Building with suppliers for effective supply chain management. According to the data we could understand that all respondents have agreed that relationship building with suppliers is crucial , out of which 60% strongly agree.

Particulars (Priority for Supplier Selection)	Mean
Place (Supplier's Location)]	3.40
Cost	4.50
Quality	4.60
Time Of Delivery	4.20

Fig 1.2

From the above data we can see that the mean of quality is highest which is 4.60 compared to other factors The first priority for supplier selection is quality then cost then time of delivery and then at last the location of supplier which is of least priority for the buyer.

Particulars (Buyer- Supplier relationship)	Mean
Requirements of the manufacturing organization	4.10
Supplier Performance	3.90
Mode of Operation of supplier	3.80
Personal Relationship with supplier	3.90

Fig 1.3

To know which factor is responsible most for buyer-supplier relationship, in the study three quantitative and one qualitative factor was chosen. According to the above figure it can be seen that the specific requirements quoted by the manufacturing organization was most preferred as the mean for the same is highest (4.10) followed by the supplier performance (having the mean of 3.90). Requirements of the manufacturing organization indicate the specifications of raw materials that manufacturing organizations provide for raw materials and the ability of the suppliers' to supply products according to the specifications.

Objective 2:Supplier’s Performance Management

<u>Particulars</u>	<u>Mean</u>
Logistics ability	4.30
Delivery Flexibility	3.80
Responsiveness of the supplier	4.10
Trust and Commitment	4.50
Sustainable business practices	2.90

Fig 2.1

From the above data we can see that trust and commitment plays a major role in identifying suppliers’ performance requirements. As the mean for the same with 4.50 tops the list followed by logistics ability, responsiveness of supplier, delivery flexibility and least important factor that is considered by industries is sustainable business practices adopted by the suppliers.

Objective 3:Value Procurement: Operational Efficiency

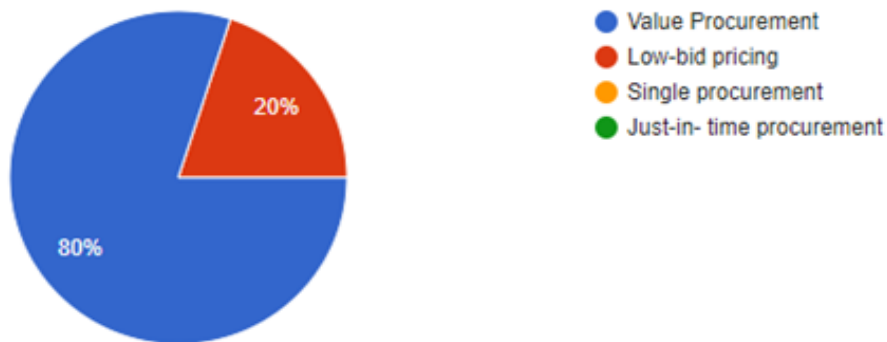


Fig: 3.1

This Figure shows that out of the different types of procurement methods used by the manufacturing plants i.e, Value Procurement, Low Bid Procurement, Single Procurement and Just in time Procurement , 80% of our respondents prefer Value Procurement Method and 20% prefer Low Bid Pricing Procurement method which focuses on getting products from suppliers at low cost by bidding with different contractors and finally select the contractor with the lowest cost but the demerit in this is they ignore the quality which reduces the Operational efficiency. whereas in Value Procurement, the supplier’s price, expertise, Quality etc is also being looked upon while selecting them.

Particulars (Operational Efficiency)	Mean
Reduced Cost	4.10
Minimum Price Volatility	3.40
Outsourcing Certain Activities	3.40
Continuous improvement of Operations	4.20
Consolidation Of supply chain	4.10

Fig 3.2

From the above data we can conclude that the mean of 4.20 means the factor which impacts mostly on the operational efficiency when it comes to suppliers' performance is the continuous improvement of operations by suppliers i.e, adapting to new trends and technology , adopting to green business practices. The Factor which is of least efficient is Price volatility as its mean is 3.40 which shows that even if a supplier changes its price but other factors are in place, the price component does not affect the operational efficiency of the organisation.

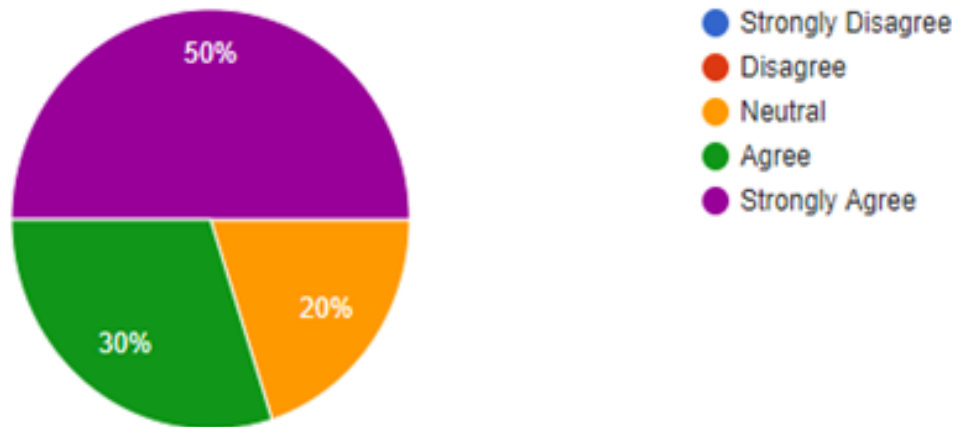


Fig: 33

This Figure Shows that Yes Value Procurement Method from suppliers improves operational efficiency of the Vendor. Here 50% of the respondents strongly agree to this whereas 20% are neutral where they mean that Operational Efficiency is not only impacted by Value procurement but also by other factors.

VI. LIMITATIONS

- In this Study, the analysis is only from a Manufacturing Industry perspective, where we saw the importance of Value Procurement when it comes to building relationships from suppliers. The Analysis can be also done from various other sectors.
- The Number of respondents were only 10. For a much broader perspective, more number of respondents can also be analysed for the study.
- The study was not limited to specific product in manufacturing sector. This was general study on manufacturing Industries in and around us.

VII. RECOMMENDATIONS/FUTURE SCOPE

The Future study can be further done on a specific product of a particular industry, Example - cement Industries.

VIII. CONCLUSION

This paper provides answers to various questions in the area of value procurement and what factors helps the most to build a relationship with the suppliers. There are many talks on the fact the industries should give priority to quality over the cost of the products. And in this study it was seen the quality is being given higher preference but still there are many manufacturers who look for cost as a factor. It was also seen that most of the manufacturers believe in a relationship building with suppliers' and they prefer value procurement over any other types of procurement. The manufacturing units are moving more towards the customised procurement as the demand and specifications of a product change very frequently. As now supply chain is moving from 2PL to 3PL, 4PL,5PL it was also seen that manufacturers look for the suppliers' who can provide logistics facility and sustainable business practice is still not being considered. Even Though there are many mandates by the government and green supply chain have come into the picture, still some manufacturing industries do not focus on sustainable practices.

REFERENCES

- [1] Akarte, M. M., Surendra, N. V., Ravi, B. and Rangaraj, N., (2001). "Web based casting supplier evaluation using analytical hierarchy process". *Journal of the Operational Research Society*, Vol-52, 511-522
- [2] Campbell J, Blois, (1997), "Trust in business-to-business relationships: an evaluation of its status", *Journal of Management Studies*,36(2),197-215.
- [3] Dyer, J. H., and Singh, H., (1998). "The relational view: Cooperative strategy and sources of inter-organizational competitive advantage", *Academy of Management Review*, Vol-23,660-679.
- [4] Ford, D. (1980), "The development of buyer-seller relationships in industrial markets", *European Journal of Marketing*, Vol-14, Nos. 5/6, 339-53.
- [5] Jeong, J.G., Hastak, M., Syal, M., Hong, T.,(2013). Framework of Manufacturer and Supplier Relationship in the Manufactured Housing Industry , *J. Manag. Eng.* 29, 369–381.
- [6] Knudsen, K.D., (1999). The struggle for accountability: The World Bank, NGO, and Grassroots Movements, *Massachusetts Institute of Technology. ISBN 0-262- 56117-4*.
- [7] Liu, H.F.F and Hai, H.L., (2005). "The voting analytic hierarchy process method for selecting supplier", *International Journal of Production Economics*, Vol.-97,308-317.
- [8] Muhittin, O. Reha, Y. (1990). An empirical study on measuring operating efficiency and profitability of bank branches, *European Journal of Operational Research* 46, 282- 294
- [9] Ntayi, B.N.,(2011). "Assessing knowledge assets: a review of the models used to measure Intellectual capital", *International Journal of Management reviews*, 3(1),41-60
- [10] Oghazi, P., Rad, F.F., Zaefarian, G., Beheshti, H.M., Mortazavi, S.,(2016). Unity is strength: A study of supplier relationship management integration, *J. Bus. Res.* 69, 4804–4810
- [11] Tan, K.C., Lyman, S.B. and Wisner, J.D., (2002). "Supply Chain Management: A Strategic Perspective", *International Journal of Operations and Production Management* 22(6) ,614-631.
- [12] Yenyurt, S., Henke, J.W., Cavusgil, E.,(2013). Integrating global and local procurement for superior supplier working relations, *Int. Bus. Rev.* 22, 351–362.