



NORTH-HOLLAND

Making the Most of Supplier Relationships

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The supply side is on top of the management agenda in most companies, reflecting an increasing strategic attention to benefits that can be gained from cooperation with suppliers. In particular, partnering has been suggested to be the superior solution for making the most of supplier relationships. It is argued in this paper that this recommendation oversimplifies the issues involved and, if followed blindly, may be bad for practice. Developing partnerships with suppliers is resource-intensive and can be justified only when the costs of extended involvement are exceeded by relationship benefits. The article examines the economic consequences following from different degrees of involvement with suppliers. Our conclusion is that a company can be highly involved with only a limited number of suppliers and needs a variety of relationships—each providing its different benefits. Furthermore, it is discussed how the extent of involvement relates to the economic importance of the supplier, the continuity of the relationship and the sourcing

strategy of the buying firm. The core of our argument is that the capacity to cope with a variety of relationships in differentiated ways has a profound impact on performance. When the approach of the buying firm shifts from purchasing to making the most of supplier relationships, a richer analytical framework is required to deal with the complexity of the new task. © 2000 Elsevier Science Inc. All rights reserved

THE CHANGING SUPPLY SIDE IN BUSINESS

The strategic importance of the supply side in companies increased considerably during the two last decades of the 1900s. These changes are commonly referred to as a shift from purchasing to supply management [1]. According to this perspective, competitive advantage no longer resides with a company's own innate capabilities, but rather with the relationships and linkages the firm can forge with external organizations [2]. Forging these linkages required a revision of the prevailing perspectives regarding purchasing efficiency and the role of suppliers [3]. It has been particularly emphasized that buying companies tend more and more:

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No general “best” type of relationship exists.

- to outsource non-critical activities;
- to establish close “partnership” relationships with suppliers;
- to reduce and trim their supplier bases.

Our impression is that these changes in supply strategy reflect a growing awareness of the role supplier relationships can play in a company’s strategy and are an attempt to better exploit this potential. This evolving perspective on purchasing efficiency has been beneficial to many companies and has been generally received by researchers and consultants with acclaim [2].

Outsourcing to suppliers is linked to business strategies aiming at enhanced specialization and at a focus on core competence. Increasing technical complexity and diversity make it more and more difficult for a company to stay at the cutting edge in several different areas of technology at the same time [4]. Earlier recommendations of arm’s length relationships to suppliers to avoid dependency and keep prices down have been replaced by an emphasis on the benefits that can be reaped from close relationships [5]. Today, it is argued, companies “. . . both large and small are making partnerships with suppliers a foundation of their supply strategies” [6]. Furthermore, many companies have reduced their number of suppliers considerably [7] because partnering is resource-intensive and can be managed only with a limited number of suppliers.

The problem is that, in many cases, these changes have been presented as transitions from something old and obsolete to something new and up-to-date. In particular, there has been a tendency to portray close relationships to suppliers as the superior solution for making the most of

supplier relationships. We believe that such a view is often based on blurry assumptions, oversimplifies the issues involved and may be bad for practice. Outsourcing, partnering with suppliers and reduction of the supplier base can be effective options in a supply strategy, but they are not always the only means that companies have to make good use of suppliers. A more nuanced and balanced view is required.

In this paper, we argue that a more differentiated approach is needed to make the best use of supplier relationships. A framework is developed for analysis of the dimensions in supplier relationships that are important for choices of supply strategy. The main argument presented is that the most critical element of supply strategy is a company’s capacity to handle various types of supplier relationships.

COPING WITH SUPPLIER RELATIONSHIPS

Making good use of suppliers is a complex task for at least two reasons. The first is that the economic consequences are difficult to assess. The critical supplier relationships of a company are often complex in terms of the range of products and services supplied and people involved. The second is that companies can exercise only limited control over a vendor. Suppliers pursue their own business logic in relationships to customers. Buyer–seller relationships are interactive and solutions applied are continuously changing—the resulting uncertainty and ambiguity cannot be escaped. Problems that arise between the supplier and the customer are solved in interaction. Any substantial intervention in a supplier relationship is likely to have a number of rather complicated consequences.

There is a common illusion that choices that add up to the profile of a company’s supply strategy are an outcome of distinct “strategic decisions,” taken periodically by top management. This is, at best, a rationalization in hindsight. Even if, and when, such decisions are taken they are almost always immediately amended, modified, and changed as managers involved discover that something either does not work or could be done better. Im-

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