

Relationship between buyers and suppliers research paper example

[Business](#), [Company](#)



The relationship that exists between a buyer and seller is a strategic relationship. The relationship between a supplier and a customer greatly depends on mutual success of the two parties. The role of management in the adaptation, maintenance and establishment of the buyer-supplier relationship is very important. In Industrial markets where the buyers are comparatively less and where some buyers are significantly important to the health of suppliers, the role of strategic management between the two is of greater importance. For example, Unilever (buyer) and ICI (supplier) work together in the European market to become more efficient. In some cases, relationships between the two parties are made stronger by the supplier side to protect their wellbeing. Similarly, an urge for stronger relationships may be initiated by the buyer's side to maintain the continuity of supply, just-in-time operating programmes or economies of scale. Chungwa, a Taiwanese electronics manufacturer is an example of it, where many suppliers built their facilities around their plant in Lanarkshire. Joint awareness of mutual dependence is important from both the sides (Donaldson & O'Toole, 2007). A critical asset can only be truly owned and controlled effectively to leverage value if there is a dominance of one party in an exchange relationship over another. To properly understand the rent-earning capacity of any supply chain resource, the relative power attributes of both buyers and their suppliers must be assumed. In the recent years there has been an increased attention drawn by the buyer-supplier relationship. The buyer-supplier relationships conventionally were considered as confrontational. Nonetheless, this relationship is heading towards a more collective approach. Such a change has been caused by a gradual conviction that suppliers are

vital sources to achieve competitive advantage in world markets. They can lend their area of expertise, knowledge and their ability to share risks which makes their role indispensable (Donald, 1996). In the background of business-to-business purchasing and supply chain management practices the relationships between buyers and sellers, can sometimes get tense due to variances in expectations or actual performance associated to pricing (Emiliani, 2003).

Suppliers and buyers generally have conflicting objectives. For example, increased flexibility is the primary objective when buyers outsource the manufacturing of various components. However, this object is in direct conflict with the supplier's objective of long-term, firm and stable commitment from the buyer. Another instance of a case of conflicting objectives between the two arises when buyers insisting on flexibility like to solve design problems as quickly as possible, whereby the suppliers focus on cost reduction that signify their insensitivity to design changes (Simchi-Levi, Kaminsky & Simchi-Levi, 2007).

The various types of conflicting objectives arising between the buyers and suppliers can be avoided by adopting certain techniques. For example, through risk management and marketing support.

Latest developments like shortened product and technology life-cycles and decreasing degrees of value added are leading to complex and differentiated supply chain structures swelling the strategic vulnerability of many companies. With a decreasing degree of value added and the saturation of the western consumer markets, many firms experience a bigger exposure to externally controlled risks and the need to incorporate their normally globally

distributed suppliers into their risk management activities. Hence, the suppliers are nowadays perceived as a source of risk but they can also fund the buying firm in avoiding risks, minimizing the impact of risks within the supply chain. The suppliers' risk management activities are a gradually important part of their overall show whereas all possible sources of glitches caused by suppliers go to the negative risk aspects (Moser, 2007).

Financial risk minimization is built on the reduction of apprehended financial risks. Strategic suppliers can support buying firms through the combined development and application of countermeasures to recompense for negative financial results due to unpredictable market developments.

Operational risk avoidance through strategic suppliers concentrates on the integration of buffers in each value creation step in order to avoid any kind of negative impact of operational problems on the supply chain.

Consequently, efficiency considerations and risk management events have to be balanced. Positive risk management practices such as risk avoidance or impact minimization can add to the generation of competitive advantages (Moser, 2007).

Another technique adopted to avoid the conflicting objectives between buyers and suppliers is that of Single Sourcing. Single Sourcing is pursued on the intent of reducing materials costs. It is a situation in which a company within a certain category with clear intent buys from just one supplier. This policy is adopted because it is easier to negotiate better conditions with just one supplier. However, this policy has its own drawbacks as well. In general, it leads to increased supply risk and dependency on one supplier. It is therefore always advised to the big companies that the responsibility to

deploy purchasing policies and procedures to the technical specialists and the line managers. This is one of the biggest measures to overcome the problem of conflicting objectives between purchasing professionals and their internal customers.

The continuous development of the value-added services is one of the most important objectives of the purchasing function. It means that a firm must integrate purchasing objectives and policy to develop procurement strategies for each supply market, internal functions to develop and enforce purchasing strategies, supplier alliances to develop long-term strategic advantage, logistics for effective purchasing operations and long-term strategic purchasing planning that is closely integrated with corporate planning (Ross, 2003).

References

Donald, M. (1996). Buyer-Supplier relationships: How to build Successful Partnerships. Retrieved online on Sep 22, 2012 from [http://www. siteglobal. com/Portals/0/Library/cite/M. Donald. pdf](http://www.siteglobal.com/Portals/0/Library/cite/M. Donald. pdf).

Donaldson, B., & O'Toole, T. (2007). Strategic Marketing Relationship: From Strategy to Implementation. Chichester: John Wiley and Sons Ltd.

Emiliani, M., L. (2003). The inevitability of conflict between buyers and sellers. Supply Chain Management: An International Journal. Vol . 8 (2), pp. 107-115.

Moser, R. (2007). Strategic Purchasing and Supply Management: A Strategy-Based Selection of Suppliers. Wiesbaden: Gabler Edition Wissenschaft.

Ross, D. F. (2003). Distribution: Planning and Control. Norwell, Massachusetts: Kluwer Academic Publishers.

<https://assignbuster.com/relationship-between-buyers-and-suppliers-research-paper-example/>

Simchi-Levi, D. & Kaminsky, P. & Simchi-Levi, E. (2007). *Managing the Supply Chain: Definitive Guide*. New York: The McGraw Hill Companies.