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Parker, Melina, Bridson, Kerrie and Evans, Jody 2006, Advances in buyer-supplier relationship understanding, *in Academy of Marketing Conference, 4-6 July 2006 : hosted by Middlesex University Business School, London, Middlesex University, London, England.*

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## **Advances in Buyer-Supplier Relationship Understanding**

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### **Abstract**

Academics and industry alike have acknowledged the move from adversarial to more cooperative relationships between buyers and suppliers. This paper examines associations between the relationship that exists between trade partners, relational antecedents and the external environment. Whilst extant literature compartmentalises relationship elements, in-depth interviews identified that, within the Australian fresh produce industry, an holistic view is mandatory. In addition, perceptions regarding the relative importance of obligatory and discretionary relationship elements are gleaned. The research reveals that the trading offer and strategic offer impact the relationship elements and are, in turn, impacted by them. This suggests that an integrative view of relationship elements and antecedents is necessary.

### **Introduction**

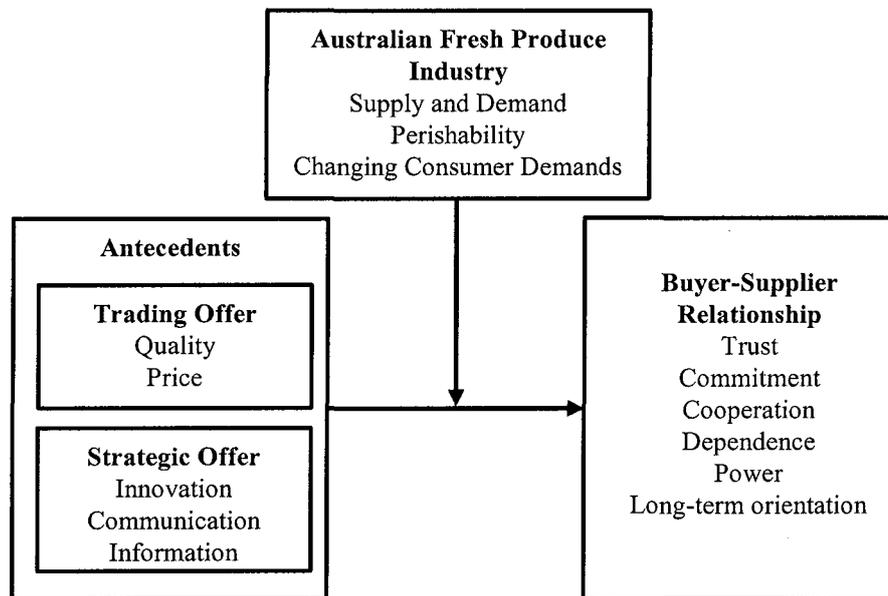
The past decade has seen the beginning of a paradigm shift for both marketing theory and practice (Morgan and Hunt 1994). The traditional transaction cost analysis approach where cost savings dictated whether a relationship was deemed successful (Robicheaux and Coleman 1994) has been surpassed by relationship marketing; ironically “a return to the ‘roots of trade and commerce’” (Grönroos 1999, p.328). Buyer-supplier relationships have been identified as a core opportunity for providing a sustainable competitive advantage (Hoyt and Huq 2000). Whilst other forms of governance in addition to relationship development are addressed within the literature, the trend for buyers to purposefully develop single source suppliers as the best means by which to increase quality, reduce inventory, develop just in time systems, decrease time to market and remove costs from the supply chain (Kalwani and Narayandas 1995; Wilson 1995), is the focus of this paper.

Whilst this shift is acknowledged, research has resulted in confusion, due primarily to the difficulty both academics and practitioners have experienced in explaining the relationship phenomenon. Buyer-supplier relationships have been considered in terms of their key defining elements, performance outcomes, antecedents and development process (Dwyer, Schurr and Oh 1987). Research has identified copious relationship elements, which has created some confusion. This confusion is attributed to the difficulties academicians have experienced in classifying the relationship elements as antecedents, variables or performance outcomes of the buyer-supplier relationship. In fact, Fontenot and Wilson (1997) argue that the sheer volume of relationship defining variables has prohibited the encapsulation of all factors within one model. As a result, the majority of buyer-supplier relationship literature focuses on only one or two key variables.

Limited focus upon the impact of contextual factors has also resulted in inadequate research outcomes (Heide 1994). In particular, there is conflicting information regarding those variables that are most relevant to the development of a buyer-supplier relationship. Wilson (1995) suggests that the defining elements of a buyer-supplier relationship are, perhaps, context specific, requiring further investigation of contextual variables that may influence relationships. Thus, we suggest that buyer-supplier research has now reached the stage where an holistic view of the buyer-supplier relationship requires greater understanding. It is proposed that such a view facilitates an analysis of the importance of various relationship

elements, in terms of which elements are deemed obligatory or discretionary in the relationship. We further propose that the importance of such elements is impacted by the context specific trading (quality and price) and strategic offer (innovation, communication and information). Such elements were determined through exploratory pilot interviews with industry participants. Using the Australian fresh produce industry as our research context, we incorporate commonly cited constructs within one organisational model. The conceptual model below (Figure 1) indicates the relationship between the relational antecedents, buyer-supplier relationship and the external environment.

**Figure 1. Conceptual Model**



The trading and strategic offer antecedents are directly related to the context within which the research takes place. Inclusion of the external environment as a moderating factor is increasingly important, especially within highly regulated, or tumultuous, economic climates, such as the Australian fresh produce industry. Consequently, details of the Australian fresh produce industry will now be outlined.

### Contextual Background

The Australian fresh produce industry has witnessed an increase in numbers of buyers and suppliers strategically developing direct relationships with their trade partners. Boehlje, Akridge and Downey (1995) highlight ten key changes within the agriculture sector that are pertinent to all members of the supply chain. These include globalisation; increasing environment regulation and liability; changing size and scope of organisations; increasing need for organisations to pursue niche markets and be adaptable; fewer distribution firms; need for integration, coordination and partnering and the proliferation of boundaryless firms. Moreover, generic drivers for the development of direct relationships include developing supermarket strategies, food safety legislation (Grant 1995), rationalisation of the supply base (Knox and White 1991) and innovation (Feame and Hughes 1999).

Whilst such generic drivers exist, there are also particular motivating factors for buyer and supplier groups. Specifically, buyers recognise the role of the fresh produce category in developing customer loyalty and influencing store choice (White 2000) and improving gross sales and profitability (Hughes and Merton 1996). Similarly, suppliers recognise the

importance of developing direct relationships with their trade partners. Vertical coordination allows suppliers year round access to large retailers, heightened security, additional information, programming advice and feedback on variety acceptability and new product development (Hughes and Merton 1996). The inequitable power balance between suppliers and the two major retail buyers in Australia, Coles and Woolworths, also bears mentioning. However, it may be considered that the prolific number of smaller retailers present in the market allows, to a limited degree, suppliers to spread their risk.

### **Relationship Antecedents**

Within the Australian fresh produce industry there has been minimal research with regard to antecedents of buyer-supplier relationship development. These are of particular significance, however, as they outline the organisational offer upon which buyers and suppliers place greatest importance. Trading and strategic offers are considered within this context. First, we propose that trading offer refers to the actual product characteristics deemed important to the buyer and supplier. These are considered mandatory before a relationship is considered. However, in certain circumstances, such as limited product availability, their importance is reduced. Key trading offer antecedents include price and quality.

Robicheaux and Coleman (1994) discuss the former predominance of the transaction cost analysis approach with regard to relationship marketing. Whilst the universal appropriateness of this approach is in demise, the importance of cost control remains important within buyer-supplier relationships (Fearne and Hughes 1999). Price considerations are an easily recognised benefit for organisations operating within direct relationships. Inherently, by eradicating the use of intermediaries, suppliers can offer more competitive prices to their buyer. The increasing presence of the ever-discerning end consumer has led to both parties aiming to create a joint advantage. This is achieved through the pursuit of value-creating strategies, largely at the cost of traditional price-based strategies.

Price and quality are quite often considered together. ‘Quality’ considerations are largely context specific, with the term meaning different things to different trade partners. Those partners seeking quality focus less upon cost savings (Tracey and Tan 2001). However, as discussed by Hatton and Matthews (1996), competitive industries allow buyers to demand high quality in association with a low price. Thus, quality assurance and quality control requirements are becoming more robust, requiring greater commitment from each supplier. Consideration of price and quality as trading offer antecedents, leads to the generation of the following research question: RQ1a: Does trading offer influence the importance of relationship elements?

Second, we propose that strategic offer refers to the more intangible basic offerings of the buyer and supplier. Within this context, innovation, communication and information are considered of most importance. Commodity markets are not typically renowned for providing innovative and flexible solutions, however, the demand for this is increasing (Fearne and Hughes 1999). In fact, “survival will depend on the ability to carry out extensive market research as a basis upon which to improve communications with other links in the supply chain. New product development should be a priority” (Grant, 1995, p.35). There appears greater interest in value creation and new product development with the interchange of innovative ideas providing motivation to remain in a relationship with trade partners.

Within any relationship, conflict is inevitable and may result in tension, hostility and bitterness (Morgan and Hunt 1994). Communication and bargaining skills determine the

success of conflict resolution (Perry, et al 2002). Communication is believed to directly impact conflict, trust, commitment and cooperation and be aligned with information exchange (Anderson and Narus 1990; Mohr and Spekman 1994). Effective communication must be bilateral, but need not be strategic (Jap, Manolis and Weitz 1999; Price and Arnould 1999). Communication can comprise both informal and formal information exchange and is the best means of improving understanding and performance (Dwyer, et al 1987; Sethuraman, Anderson and Narus 1988).

“Different information exchange is fundamental in the partnership model” (Hatton and Matthews 1996, p.44). It is documented that information exchange promotes trust and may also reduce transaction risks inherent in volatile markets (Hoyt and Huq 2000). Key to information exchange is reciprocity (Price and Arnould 1999). Both trade partners must learn to generate, capture and share knowledge and apply it to their specific context (Dawson 2000; Hoyt and Huq 2000; Hughes and Merton 1996). Despite the clear advantages in generating and sharing information, there remains evidence of non-disclosure. Fearne and Hughes (1999) discuss the limited information sharing evident in the UK fresh produce industry. However, they make the valid point that, “it is not what you know that gives you competitive advantage but how you interpret information and use it strategically” (p.125). Consideration of the aforementioned strategic offer antecedents (innovation, communication and information) leads to the generation of the following research question: RQ1b: Does strategic offer influence the importance of relationship elements?

### **Buyer-Supplier Relationships**

The elusive nature of ‘the relationship’ has continued to create difficulties for academics in determining a concrete understanding of its dynamics. However, the necessity remains for better understanding those factors important to the development and maintenance of close buyer-supplier relationships (Metcalf, Frear and Krishnen 1992). The variety of defining characteristics is, largely, dependent upon the nature and focus of the parties involved within the relationship. Various conceptualisations and measurement tools have been developed. Some have only been conceptualised (Robicheaux and Coleman 1994), whilst others have undergone rigorous empirical testing (Dion, Easterling and Miller 1995; Svensson 2002).

In response to the need for such understanding, practitioners and academia have moved away from the actual “exchange” to theories involving, for example, trust (e.g. Morgan and Hunt 1994) and social and technical ties (Perry, Cavaye and Coote 2000), all of which might, in some way, facilitate such “exchange”. However, as a result of this change in focus, it appears that, rather than consolidating knowledge, theorists have introduced yet more variables in defining the buyer-supplier relationship. Conceptual and empirical models often focus on different components or aspects of the relationship, but use similar key constructs (Lindgreen 2001). Often, the constructs are individually measured as an antecedent and/or performance outcome (Jap, Manolis and Weitz 1999; Morgan and Hunt 1994). Commonly cited relationship elements can include trust, commitment, cooperation, dependence, power and long-term orientation.

As a central defining construct of buyer-supplier relationship research, trust is often closely associated with commitment, an implicit, or explicit, promise of relationship continuity (Dwyer, et al 1987). Cooperation refers to “...the process by which...organisations interact...for mutual gain and benefit” (Smith, Carroll & Ashford 1995, p.10). It can occur in different forms including long-term contractual agreements, divulging personal information and adapting buying processes to assist a trade partner (Palmer 2000). Asymmetrical

dependence of partners renders them vulnerable to the misuse of power and the likelihood that the relationship will fail (Ganesan 1994). Thus, transactions and goals should be mutually beneficial (Hatton & Matthews 1996). Similarly, power imbalances can result in relationship failure. The "...exercise of power to gain acquiescence...destroys trust and commitment which decreases cooperation and inhibits long-term success" (Morgan & Hunt 1994, p.35). Buyers and suppliers having "...a long-term orientation focus on achieving future goals and are concerned with both current and future outcomes" (Ganesan 1994, p.3). These brief construct definitions highlight their complex interrelatedness.

Ambiguity caused by the interrelated nature of these relationship elements has led to the development of the following research questions. These aim to define the inherent elements within direct buyer-supplier relationships and to clarify their relative importance. The research is specific to the Australian fresh produce industry. RQ2a: Which elements within the relationship are deemed obligatory by buyers and suppliers when developing and maintaining a direct relationship? RQ2b: Which elements within the relationship are deemed discretionary by buyers and suppliers when developing and maintaining a direct relationship? For the purpose of this research, *obligatory* elements refer to those variables considered mandatory for trade partnership development and continuation. Comparatively, *discretionary* elements are those that may enhance the relationship, however are not quintessential to relationship conception and/or continuation.

### **Methodology**

Qualitative research is considered most appropriate for consideration of the relationship within its natural environment (Lindgreen 2001). Epistemological, ontological and practical considerations, as part of the wider philosophical debate, determined that an interpretivist research approach was preferred in addressing the proposed research questions. Eighteen exploratory depth interviews were conducted in two Australian states (Tasmania and Victoria). Initial respondents were industry contacts. Subsequent snowball sampling meant that buyers and suppliers initially contacted were requested to recommend other organisations with which they were familiar and deemed suitable respondents. These were required to be a buyer or supplier managing a direct relationship with a trade partner within the Australian fresh produce industry. A semi-structured interview protocol was used to guide the interview process. Respondents undertook interviews of approximately one hour. To ensure accuracy of information, all interactions were digitally recorded. Data analysis began with the first case examined and continued throughout the data collection process (Strauss and Corbin 1998), allowing follow-up of emergent ideas throughout the interview process. Whilst a level of interpretation began upon meeting respondents and conducting interviews, the majority of data analysis occurred upon completion of the interviews and their subsequent transcription. Data were coded on an individual basis. Cross case analysis techniques were then used to compare the data of the buyer and supplier groups (Lindgreen 2001).

### **Research Findings**

In consideration of research questions RQ1a, RQ1b, RQ2a and RQ2b, the research highlights the labyrinthine relationships existing between buyer-supplier relationship variables and proposed antecedents. Given the large number of variables and constructs considered within buyer-supplier relationship theory, six were predominantly mentioned by buyers and suppliers within the research context. These included trust, commitment, cooperation, dependence, power and long-term orientation. Each will now be discussed.

### **Consideration of Trading Offer Antecedents**

**Quality** Throughout the extant literature, quality is predominantly associated with price (e.g. Hatton and Matthews 1996). Similarly, respondents link the two. *“What they wanted and the price they were prepared to pay and the tolerances [quality specifications] were so tight it was just not worth your while doing it”* (Nick, Tasmanian Supplier). In acquiring quality fresh produce, large buyers have little choice but to *“...squeeze costs out of the supplier chain”* (Fearne and Hughes 1999, p.122). Pressure is being felt by suppliers as demand for quality remains constant, whilst prices fluctuate. Those suppliers that remain are *“...fewer, larger, technically efficient and innovative”* (Fearne and Hughes 2000, p.122). Such pressures endanger the relationship. These may be counterbalanced if suppliers perceive themselves as being valued. Incentives might include increased volume growth. Furthermore, there is an implication from large buyers of an association between quality and power. *“Potential partners need to understand we are very structured. This is how we buy our product. This is the specification. If it has any defects we won’t accept it”* (Thomas, Victorian Buyer). Here, Thomas emphasises the rigidity of his retail organisation, indicating little tolerance for variety which is commonplace within the fresh produce category.

**Price** Buyers and suppliers agree that price setting, within the Australian fresh produce industry, is reliant upon supply and demand. Thus, when the commodity is scarce, price increases and when there is superfluous volume, the price decreases. However, this is often limited by large buyers, through the adoption of price ceilings and floors. This minimises the financial risk to the supplier. The research indicates that both buyers and suppliers recognise the importance of the relationship with regard to price setting. Good relationships stymie any likelihood of exploitation. As discussed by Gerald (Tasmanian Buyer),

*“It comes back to trust...when the price [increases] and product is worth \$20 and the supplier agrees to \$10 for the year, what happens? Does all of a sudden ‘I haven’t got any this week’ and he sends them off to the market to get \$20 or does he still supply you at \$10...The trust has to go both ways, because when product is worth \$5, he is the first one to put 20 pallets on your door at \$10”.*

Price can be associated with communication (Zsidsin and Ellram 2000) and the quality/price ratio (Hatton and Matthews 1996). The research supports this. For Nick, price relates strongly to communication. *“It’s not like most other industries whereby people have contracts and fixed prices...it’s all done on an informal basis which makes contact so important”* (Nick, Tasmanian Supplier). In addition, respondents associate price with other constructs. Hans discusses price in association with power. *“We are usually price takers”* (Hans, Tasmanian Supplier), indicating the limited power Hans feels he has in influencing the relationship(s) he operates within.

In response to Research Question 1a, the research finds that the trading offer is an important antecedent to the direct buyer-supplier relationship. Quality and price are mandatory to the establishment of a direct buyer-supplier relationship and continue to impact all other relationship elements. In fact, there is a reciprocal impact from the buyer-supplier relationship construct back to its antecedents.

### **Consideration of Strategic Offer Antecedents**

**Innovation** Current literature indicates that the exchange of innovative ideas and solutions provides increased motivation for partners to remain within a relationship (Fearne and Hughes 1999). The research reveals that innovation can be linked with long-term orientation and cooperation. *“If we develop or hear of new innovations from overseas, then we’ll share it*