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PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

Tenth Edition



Pearson

Procurement and Supply Chain Management

relationship, the basis of such relationships is power equivalence and a high degree of complementarity.

6.7.2 The Bensaou model

The Bensaou model is based on a study of eleven Japanese and three US automobile manufacturers. Bensaou¹⁴ suggests a framework for managing a portfolio of investments for the purpose of enabling senior managers to answer two questions.

Q1 Which governance structure or relational design should a firm choose under different external contingencies?

This is a strategic decision because it affects how a firm defines its boundaries and core activities.

Q2 What is the appropriate way to manage each different type of relationship?

This is an organisational question.

Bensaou suggests four buyer relationship profiles:

- market exchange
- captive buyer
- captive supplier
- strategic partnerships.

For each profile, Bensaou identifies distinguishing product, market and supplier characteristics.

Finally, he suggests that the four profiles can be arranged in a matrix to indicate whether the buyer's and the supplier's tangible or intangible investments in the relationship are high or low. Tangible investments, in this context, are buildings, tooling and equipment. Intangible investments are people, time and effort spent in learning supplier–purchaser business practices and procedures and information sharing.

The Bensaou matrix, as adapted, is shown in Figure 6.4.

Bensaou also identified three management variables for each profile, which are:

- information-sharing practices
- characteristics of 'boundary-spanner' jobs
- the social climate within the relationship.

The management practices that high performers in each cell use to match the coordination, information and knowledge exchange requirements presented by the external context are shown in Figures 6.4 and 6.5.

Bensaou concluded the following:

- Many large firms in manufacturing are moving away from traditional vertical integration and towards the external contracting of key activities.
- As interfirm relationships increase, firms cannot manage with one design for all relationships and so need to manage a portfolio of relationships.
- There are two kinds of successful relationship: high requirement–low capabilities and low requirements–high capabilities. There are also two paths to failure: under-designed

Figure 6.4 Supplier's specific investment

High	<p>Captive buyer</p> <p>Product characteristics:</p> <ul style="list-style-type: none">■ technically complicated■ based on mature, well-understood technology■ little innovation and improvement to the product <p>Market characteristics:</p> <ul style="list-style-type: none">■ stable demand with limited market growth■ concentrated market with few established players■ buyers maintain an internal manufacturing capability <p>Supplier characteristics:</p> <ul style="list-style-type: none">■ large supply houses■ supplier proprietary technology■ few strongly established suppliers■ strong bargaining power■ car manufacturers heavily depend on these suppliers, their technology and skills	<p>Strategic partnership</p> <p>Product characteristics:</p> <ul style="list-style-type: none">■ high level of customisation required■ close to buyer's core competency■ tight mutual adjustments needed in key processes■ technically complicated part or integrated subsystem■ based on new technology■ innovation leaps on technology, product or service■ frequent design changes■ strong engineering expertise required■ large capital investment required <p>Market characteristics:</p> <ul style="list-style-type: none">■ strong demand and high growth market■ very competitive and concentrated market■ frequent changes in competitors due to instability or lack of dominant design■ buyer maintains in-house design and testing capability <p>Partner characteristics:</p> <ul style="list-style-type: none">■ large multiproduct supply houses■ strong supplier proprietary technology■ active in research and innovation (R&D costs)■ strong recognised skills and capabilities in design, engineering and manufacturing	
Low	<p>Market exchange</p> <p>Product characteristics:</p> <ul style="list-style-type: none">■ highly standardised products■ mature technology■ little innovation and rare design changes■ technically simple product or well-structured complicated manufacturing process■ little or no customisation to buyer's final product■ low engineering effort and expertise required■ small capital investments required <p>Market characteristics:</p> <ul style="list-style-type: none">■ stable or declining demand■ highly competitive market■ many capable suppliers■ same players over time <p>Supplier characteristics:</p> <ul style="list-style-type: none">■ small 'mom and pop' shops■ no proprietary technology■ low switching costs■ low bargaining power■ strong economic reliance on automotive business	<p>Captive supplier</p> <p>Product characteristics:</p> <ul style="list-style-type: none">■ technically complicated products■ based on new technology (developed by suppliers)■ important and frequent innovations and new functionalities in the product category■ significant engineering effort and expertise required■ heavy capital investments required <p>Market characteristics:</p> <ul style="list-style-type: none">■ high growth market segment■ fierce competition■ few qualified players■ unstable market with shifts between suppliers <p>Supplier characteristics:</p> <ul style="list-style-type: none">■ strong supplier proprietary technology■ suppliers with strong financial capabilities and good R&D skills■ low supplier bargaining power■ heavy supplier dependency on the buyer and economic reliance on the automotive sector in general	
	Relationship investment	Low	High

Figure 6.5 Management profile for each contextual profile

<p>Captive buyer</p> <p>Information-sharing mechanisms:</p> <ul style="list-style-type: none"> ■ 'broadband' and important exchange of detailed information on a continuous basis ■ frequent and regular mutual visits <p>Boundary-spanner tasks' characteristics:</p> <ul style="list-style-type: none"> ■ structured tasks, highly predictable ■ large amount of time spent by buyer's purchasing agents and engineers with supplier <p>Climate and process characteristics:</p> <ul style="list-style-type: none"> ■ tense climate, lack of mutual trust ■ no early supplier involvement in design ■ strong effort by buyer towards cooperation ■ supplier does not necessarily have a good reputation 	<p>Strategic partnerships</p> <p>Information-sharing mechanisms:</p> <ul style="list-style-type: none"> ■ 'broadband' frequent and 'rich media' exchange ■ regular mutual visits and practice of guest engineers <p>Boundary-spanner tasks' characteristics:</p> <ul style="list-style-type: none"> ■ highly ill defined, ill structured ■ non-routine, frequent, unexpected events ■ large amount of time spent with supplier's staff, mostly on coordinating issues <p>Climate and process characteristics:</p> <ul style="list-style-type: none"> ■ high mutual trust and commitment to relationship ■ strong sense of buyer fairness ■ early supplier involvement in design ■ extensive joint action and cooperation ■ supplier has excellent reputation
<p>Market exchange</p> <p>Exchange-sharing mechanisms:</p> <ul style="list-style-type: none"> ■ 'narrowband' and limited information exchange, heavy at time of contract negotiation ■ operational coordination and monitoring along structured routines <p>Boundary-spanner tasks' characteristics:</p> <ul style="list-style-type: none"> ■ limited time spent directly with suppliers' staff ■ highly routine and structured tasks with little interdependence with supplier's staff <p>Climate and process characteristics:</p> <ul style="list-style-type: none"> ■ positive social climate ■ no systematic joint effort and cooperation ■ no early supplier involvement in design ■ supplier fairly treated by the buyer ■ supplier has a good reputation and track record 	<p>Captive supplier</p> <p>Information-sharing mechanisms:</p> <ul style="list-style-type: none"> ■ little exchange of information ■ few mutual visits, mostly from supplier to buyer <p>Boundary-spanner tasks' characteristics:</p> <ul style="list-style-type: none"> ■ limited time allocated by buyer's staff to the supplier ■ mostly complicated, coordinating tasks <p>Climate and process characteristics:</p> <ul style="list-style-type: none"> ■ high mutual trust, but limited direct joint action and cooperation ■ greater burden put on the supplier

and oversized relationships. *Overdesign* takes place when firms invest in building trust as a result of frequent visits and cross-company teams when the market and product context call for simple, impersonal control and information exchange. Such overdesign is both costly and risky, especially in terms of the intangible investments in people, information or knowledge.

- Building or redesigning relationships according to the Bensaou model therefore involves the following three analytical steps:
 - 1 the strategic selection of relational types to match the external conditions relating to the product, the technology and the market (see Figure 6.4)
 - 2 the identification of an appropriate management profile for each type of relational design
 - 3 matching the design of the relationship, which could be overdesigned or underdesigned, to the desired management profile.

6.8 Supplier relationship management – a critique

The Rand Corporation¹⁵ in 2012 produced a report ‘Best Practices in Supplier Relationship Management and their early implementation in the Air Force Material Command.’ As always with the Rand Corporation there is impeccable research, analysis and conclusions. The report is highly recommended to our readers.

Six practices are shown as characterising best SRM practices:

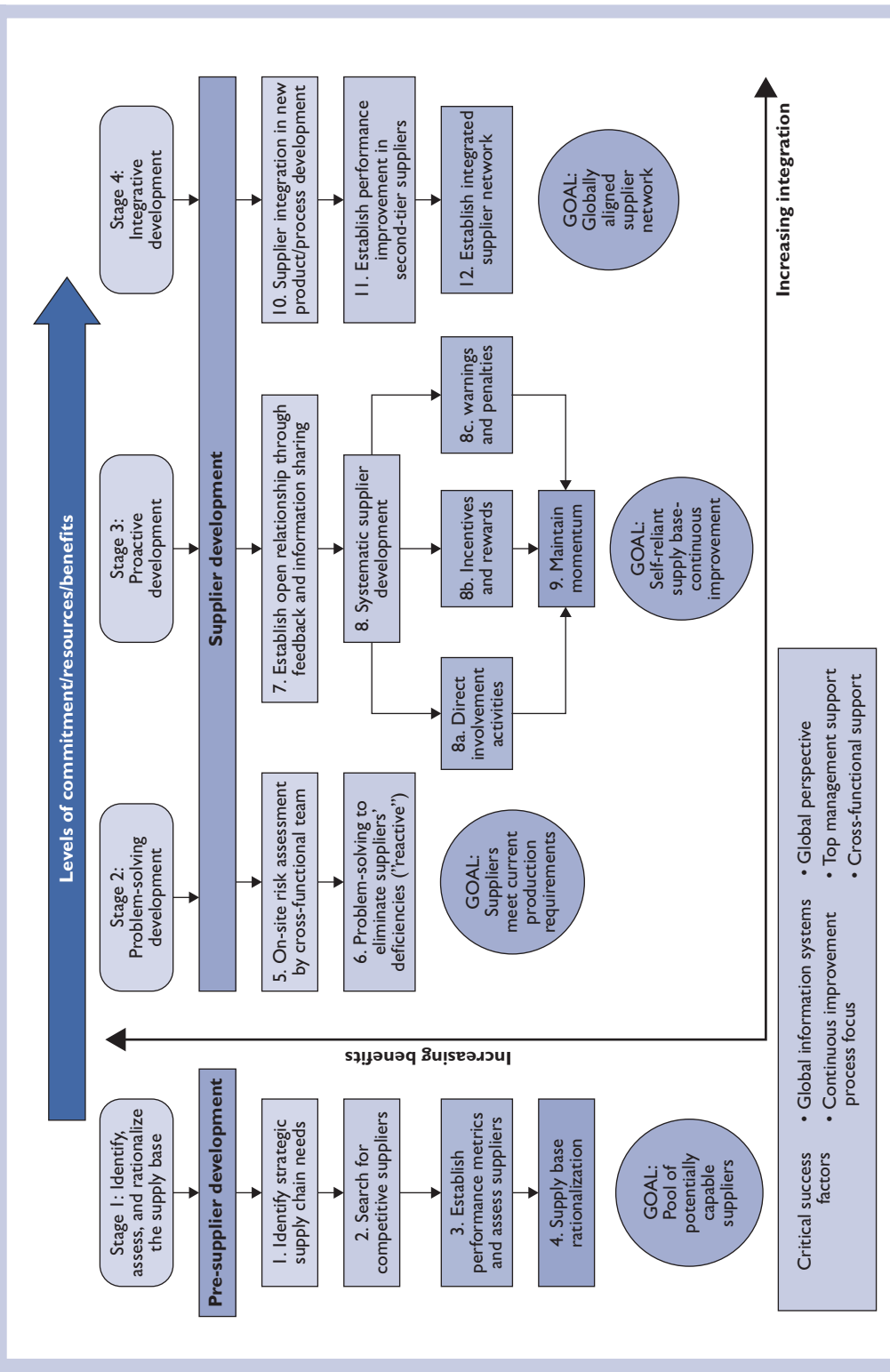
- 1 Manage total business with each supplier (consolidate contracts, tie future business to performance)
- 2 Measure and shape supplier performance (establish performance measurement system, rank suppliers, set targets, reward performance)
- 3 Involve key suppliers early in product design (leverage their design capabilities and knowledge of manufacturability and innovation, reduce complexity)
- 4 Host high-level meetings that promote dialogue with suppliers (demonstrate mutual commitment to the relationship, promote dialogue on expectations and what's to improve, share future plans and technology roadmaps, present awards)
- 5 Recruit skilled personnel (recruit experienced personnel who have the right qualitative and quantitative skills)
- 6 Develop personnel so they have a thorough knowledge of suppliers (educate personnel so they know suppliers' processes, costs, capacities and capabilities, and can work with and help suppliers fix processes to meet current needs and continually improve).

Rand expound the view that although price is a consideration for SRM, so are non-price costs, including:

- internal business cost
- transportation
- warehousing
- inventory carrying costs
- purchasing administration
- factory yield
- damaged field product
- joint supplier/company/customer life cycle cost
- production capacity
- research and development (R&D)
- specifications
- expediting.

Rand refer to the Krause and Handfield Supplier Development Model, reproduced in Figure 6.6.

Figure 6.6 Krause and Handfield Supplier Development Model



Source: Adapted from Krause and Handfield, 1999, Institute for Supply Management and W.P. Carey School of Business at Arizona State University

6.9 The termination of relationships

No relationship can or should be expected to last forever as organisations operate in a dynamic environment. The ending of a relationship does not necessarily mean failure and there may be positive as well as negative outcomes for one or both of the parties involved.

6.9.1 Reasons for termination

Mitchell¹⁶ describes how it is possible to detect that a relationship is changing:

A primary tip-off that the nature of the relationship is changing can be seen in requests that are made by you or by the supplier. Are multiple requests necessary before action is taken? Are requests necessary for items or service that used to be offered without asking? Perhaps the request is granted, but the requester feels like he or she is cashing in on his or her last favour with each request . . . When you start to work out issues and compromises and you get the impression that your partner is nickel and dimeing you all the way you know that your alliance is coming to an end.

Mitchell also points out that, although partnering principles and objectives can be well outlined at an organisational level, success is often dependent on individuals:

All individuals for both organisations must be committed and resistance can begin on either side of the fence. If the problems have roots in the purchasing and supply organisation, at least the purchasing supply manager will be able to take an active part in determining the cause and correcting it. . . If the problem seems to stem from the supplier organisation, the outcome is a bit more unpredictable.

In practice, most partnership break-ups derive from:

- inadequate understanding of what 'partnership' means
- rapidly changing circumstances that cause one or both parties to revise their priorities and concentrate on achieving their own organisational objectives at the expense of the partnership.

Such circumstances, as identified by Southey¹⁷ in the UK and Campbell and Pollard¹⁸ in the USA, include:

- *changes in business direction(s)* – an existing partnership may no longer have value if either the procurement or supplier organisation has shifted its strategic direction
- *product obsolescence* – the product or service provided by the supplier is becoming obsolete without any replacement options
- *the supplier is unable to meet service levels* – certain objectives basic to the partnership can no longer be met
- *short-term attitude* – either partner may consider that the long-term benefits of the partnership have not been realised sufficiently quickly or have been insufficient to warrant a continued commitment to a particular supplier/purchaser
- *economic factors* – a supplier has become 'at risk' financially, with the danger of potential liquidation
- *external economics* – a recession may force suppliers to cut back on product development, training and other resources, such as product engineers, and, consequently, they will be unable to meet the 'continuous improvement' objectives of the partnership