

DIFFICULTIES OF THE CUSTOMER-SUPPLIER RELATIONSHIP AT SMALL ENTERPRISES

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Abstract

It is vital for customers to build coordinated and cooperative long-term relationships with other companies. According to Mohr and Spekman (1994) a partnership is such an intended relationship of strategic importance between two independent companies which have shared goals, strive for mutual benefits and there is strong interdependence between them. Like in any relationship, there are difficulties, problems, and conflicts in the relationship between the members of the supplier chain, as the parties try to promote their interests. In the course of this process, there might be disagreement, difficulties and problems, which should not be ignored, and some kind of a solution must be found. In this study, we deal with the problems of small enterprises.

Keywords: *difficulty, problem, small enterprises, supplier, relationship*

JEL classification: *M16; L22*

LCC: *T175-178*

Introduction

If we hear the word "relationship", thoughts of such feelings cross our mind, which two people can have for each other such as mutual attraction and respect, consideration, dependency, etc. These are aspects which emerge only if certain conditions are fulfilled. It refers to intermittent interaction between two or more people (Hinde, 1979). Poesz and Raaij (1993) expand on it as follows:

- Interaction must take place between at least two parties where the activities of one of the parties influence those of the other and vice versa.
- The relationship must be characterized by a certain degree of continuity as past interactions affect interactions in the present and the future; relationships must extend over a long term.
- The effects of interactions depend on the present events.

Starting the discussion of the topic in the field of psychology, it differentiates primary and secondary relationships. The first type of relationship is a long-term interpersonal relationship, and it is based primarily on emotional bonds and mutual commitment. In such a relationship, those involved in it cannot be replaced by another party so easily (Smit et al, 2007). Secondary relationships, such as those between a customer and the supplier, are relatively short-term interpersonal relationships with a limited degree of social interaction and they are characterized by fairly clear rules of etiquette and well-defined social roles. The transitional area between primary and secondary relationships is quite large (Peelen, 2005).

In specialized literature there is agreement - as it is acknowledged by several experts (Cannon and Perrault, 1999; Clements et al. 2007) - that it is vital for the companies to build coordinated

and cooperative long-term relationships with other companies. According to Rinehart (2005) it is possible to reduce the product cost and production time if there is strong cooperation between the parties, in addition, improvement can be achieved in product quality, service and delivery (Morauzski and Lajos, 2016). Companies put more emphasis on building relationships with their suppliers because this can have a positive effect on the cost effectiveness, efficiency, and competitiveness of the company, to mention but a few (Sheth and Sharma, 1997). The supplier relationship is of great value if there is more to it than simple product delivery and it turns into an important partnership for both parties.

Supplier relationships

In the past one hundred years, the customer-supplier relationship has gone through several phases in the automotive industry. The new period of cooperation between car companies and their suppliers started around 1980 (Figure 1). It is clearly shown that automaker groups are gradually leaving the production process. The activities listed in the figure list the tasks of the car manufacturers. As a result of present-day outsourcing strategies, car companies are giving up not only a bigger part of the production processes but they also entrust their suppliers with other activities, which means that different tasks are done by the suppliers in the fields of development, logistics and system integration. It can be seen, OEMs are getting fewer and fewer tasks, so suppliers are getting a larger percentage of the tasks. While in 1980 90% of the tasks were carried out by car manufacturers, by 2010 this was reversed and suppliers carried out 70% of the activities. Car companies would like to reduce their involvement in the production itself and their goal is to concentrate on their key tasks. What manufacturers consider to be their top priorities are brand and image development (Weis and Huber, 2000; Abend, 2001; Dannenberg, 2003; Gottschalk, 2003; Ebel et al., 2004).

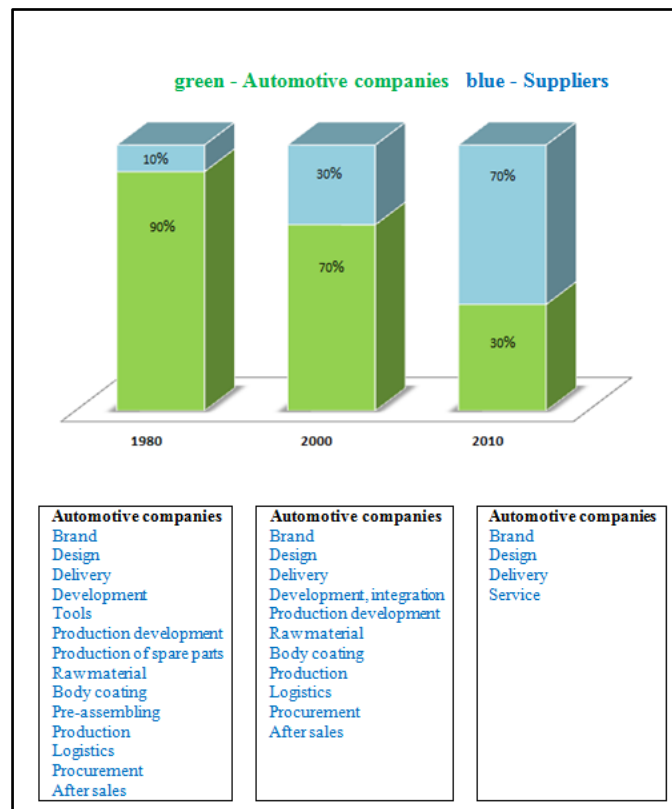


Figure 1. The role of OEMs and their suppliers in the production process

Source: Edited by author (2014)

Some car factories outsource some of the manufacturing of spare parts to another company („*Spin-Off*”), although the owners of these companies are the car companies themselves, such as General Motors (GM) – Delphi, and Ford – Visteon (Svéhlik, 2005). Several car companies have such a spare part manufacturing factory which does not produce “brand car units” that has any relevance to their future production strategy. Car factories set up companies together with their suppliers or another possibility is that the given field is completely taken over by their suppliers, which might be the foundation of a long-term partnership and as a result they may be able to generate continuous profit (Svéhlik, 2005).

The tasks which are taken over by the suppliers involve the production of different spare parts, complete units and modules. The cooperative willingness of the suppliers usually means that they are ready to provide the buyer with extensive information about their company and their products, which is an important prerequisite of expressing their communicative willingness. To build cooperation based on trust, there is a need for mutual exchange of information (Sarkis and Talluri, 2002). There is increased cooperation between the customer – purveyor – industry – supplier. The cooperation between the purchaser and the supplier can be described by the word *austerely* in several cases, not to say that the cooperation is often limited to some cooperation measures and some short-term pilot projects. However, cooperation is of greater and greater importance especially in trade, which is proved by the following tendency, as well:

- The procedures are more complex.
- The cooperation agreement reaches beyond the boundaries of the company.
- It is always costly to develop innovations.
- The prospects for success are diminishing in the ever increasing competition.
- The suppliers turn into competitors among themselves.
- The special functions are often given by the suppliers to their own suppliers, or they are outsourced to a third party (Disselkamp and Schüller, 2004).

The cooperation between the customer and the supplier is of crucial importance and what contributes to it is how a supplier tackles a problem, what problem-solving skills they demonstrate when they deal with questions of strategic importance. We can observe a tendency in industrial companies in the past few years that they have been reducing the “production depth“ vertically, which means that they have been purchasing more and more added value by involving external companies (Hartmann, 2006). However, this means that the companies are highly dependent on suppliers. If they want to reduce the risk, they must not ignore the supplier management including the relevant development measures (Hartmann and Reutner, 2009). Whenever they launch a new supplier development project, a detailed analysis must be carried out about the current status, where it is not the parameters of the usual price and shipping loyalty that are given. Moreover, they need to provide credible data about the innovation and growth potential, the available technical Know-How, the condition of the manufacturer equipment and last but not least about the financial situation of the supplier. An ideal way to collect these data is an on-site audit. The development goals must be defined along with the supplier and decisions must be made as to the appropriate measures (Hartmann, 2006). It is of vital importance who is responsible for these measures. Depending on the nature of the problem, there are several measure catalogues to choose from. In some companies, it is enough to make some reference to the optimization options (in production and logistics processes) to bring some kind of improvement, development.

Partnership management will define the quality of contact with the suppliers. This is one of the biggest challenges in the field of purchase these days, an important element of the procurement strategy. The following methods are applied:

- the orders are given to several different suppliers if possible
- the enhancement of the entrance of alternative sources
- the promotion of standardization
- the sustenance of vertical integration opportunities
- the minimization of the costs of changing suppliers

Strategic partnership is a mutually beneficial, long-term cooperation in the course of which the activity integration of the different parties is achieved to a certain degree based on the knowledge, tools and resources available to the alliance. It is important that there should be coordinated cooperation between the two parties as complex purchases must be made together. They can launch a joint product development program, which enables them to reduce the time needed to develop a new product. They can share confidential information with each other, for example, information about their financial situation, cost structure, and production plan. The partnership between the members of a supply chain that is the customer-supplier partnership has two important elements:

- the relative importance of the purchaser to the supplier
- the relative importance of the supplier to the purchaser

The dependency (Figure 2) grid (*Power Matrix*) clearly shows the nature of the partnership between the customer and the supplier. In distant partnerships, the two parties try to maintain their independence from the other, while there is interdependence between the parties in close cooperation (Balázs, 2014).

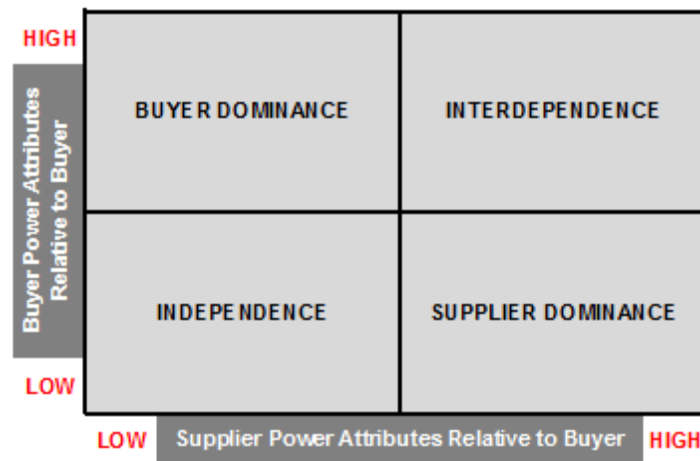


Figure 2. The purchaser – supplier dependency grid (Power Matrix)

Source: SZEGEDI and PREZENSZKI (2003)

Several factors may influence how close a partnership is, these factors include the length of the supply chain, the duration of the cooperation, and the longevity of the partnership. The nature and quality of the partnership with the suppliers, in other words relationship management is of greater and greater importance as logistic and marketing objectives and the expectations change. According to Szegedi and Prezenszki (2003), the following three types of supplier partnerships are the most typical models:

Transaction-oriented model (the traditional one)

The top priorities are prices and procurement transaction, its objective is to achieve the lowest price and to ensure continuous supply. This partnership is not based on business confidence, but it is one where the customer takes advantage of its position of power. The supplier is treated as an opponent. Such partnerships can have only one winner. It is a short-term, occasional partnership. It was preferred in the early phase of procurement development.

Relationship-oriented model

This is the most common type of partnership. In this case, the selection of the supplier is preceded by negotiations and tender. The supplier is treated as a business partner by the customer and the partnership is based on trust. The problems are solved together and the information flow is good between the parties. This model is typical when there are only a few or only one supplier and as a result the goal is to create a win-win situation. The individual suppliers also serve as a source of information to each other.

Strategic partnership

The role and number of strategic partnerships have increased due to the changing technological standards, the shorter product life-cycles, the changes of the production depth and the growing market competition. This is a mutually beneficial, long-term cooperation in the course of which the activity integration of the parties is achieved to a certain degree. The coordinated cooperation of the two parties is of crucial importance as complex purchases are to be made together. There is a need for frequent communication since the parties are interdependent. A smaller circle of suppliers (one or two suppliers) are easier to control; the time which needs to be devoted to finding new suppliers is reduced (Majoros, 1999). Table 1 shows a summary of the characterization of the three models mentioned above.

Table 1. A summary of supplier relationships

	<i>Transaction-oriented</i>	<i>Relationship-oriented</i>	<i>Strategic Partnership</i>
<i>Objective</i>	Lowest price and ensuring continuous supply	A win-win situation	Mutually beneficial cooperation
<i>Basis</i>	Not based on business confidence	Based on business confidence	Based on business confidence
<i>Length of the relationship</i>	Short-term	Long-term	Long-term
<i>Application</i>	Applied in the early phase of the procurement development	Frequent	Frequent
<i>Relationship between the parties</i>	The customer tries to take advantage of its position of power	The supplier is treated as a business partner	There is interdependence between the parties

Source: Edited by author (2018)

Difficulties encountered during the customer-supplier relationship

According to Mohr and Spekman (1994), partnership is such an intended relationship of strategic importance between two independent companies, which have shared goals, strive for mutual benefits and there is strong interdependence between them. As any relationship, the relationship between the members of a supply chain involve difficulties, problems and conflicts, as the parties try to promote their interests. In the course of this process, there might be disagreement, difficulties and problems, which should not be ignored, some kind of solution must be found. This chapter focuses only on the two most important “characters”, that is on the problems arising between the customer and the supplier. As suppliers manufacture a wide range of products and they fulfil different functions in the life of companies, each supplier needs to be controlled separately. As long as the identification, assessment and further development of a supplier is not successful, the following risks may be incurred.

- high failure rate (on the side of the supplier)
- high purchase costs
- quality and performance risk

These risks create major headaches not only for big enterprises but for small and medium-sized businesses, as well. The root cause of this is that small businesses do not have sufficient “savings” to avoid supply shortage or overly increased procurement costs in the long term. For this reason, these companies need a systematically-built supplier management, which enables them to choose the right partner and make improvements if necessary. Talking about the development of a customer-supplier relationship, we can encounter problems and risks not only on the side of the supplier, but also on the side of the customer, which means several types or risks should be expected. One of the most dangerous risk factors is if the company becomes insolvent. In this case, the loss is not only the value of the goods or service which has been ordered because additional costs may incur, such as the cost of temporary storage, redirection, etc. This is called *commercial risk* in specialized literature, which the customer may have to face but it may be an important factor in a partnership. If there is a long space of time between signing the contract and fulfilling it, there is a risk that the costs and prices change (*price-risk*). This may have a significant effect on the success of the prospective business partnership. *Political risk* can be mentioned as a contributory factor concerning the supplier as well as the customer as we must not ignore the fact that there might be such changes in a country’s internal politics or economic policy which can have a negative effect on the success of the partnership. The most common type of risk is the *product risk*, though, as the product may suffer damage during delivery and storage (Csont, 2007). To prevent this, it is advisable to provide appropriate packaging and to give detailed instructions as to how the products should be handled, stored and moved. There are companies which give clear descriptions of the means of transportation to be used and in some cases even the shipping route is also given. These terms and conditions are summarized in the contract.

Summarizing these risks, it is clear what those companies are involved in, which compete for a potential status in a supplier selection process. The entrepreneurs who have failed will have to face not only the financial consequences of the failure but the public response will also be quite strong (Vaillant and Lafuente, 2007). Enterprises are given the opportunity to restart the business in a relatively short time in the United States thus they can consider failure or bankruptcy to be a part of the learning curve. In contrast, those companies which have failed are regarded to be “losers” in Europe.

According to Little and Marandi (2005), international markets are open to domestic suppliers due to the continuous technological improvement. The advantage of this is that Hungarian

suppliers can enter the international market if they comply with the requirements imposed by the market but at the same time they need to contend with the rival competitors in their home country.

Material and method

The present research deals with the difficulties of the customer-supplier relationships that is what kind of problems customers need to face when they work with companies which have already gained the status of a supplier. We looked at small companies, small enterprises (N<50 people). We summarized the results of 21 companies in the sample available.

Our investigation was divided into two parts so that we can make a distinction between the existing and the new suppliers. By existing supplier we mean supplier companies which are already members of the given supplier database and they are already in a contractual relationship with the purchasing customer. In contrast, by new supplier we mean those supplier partners who would like to be part of a given supply chain in other words their goal is to build a contractual relationship. The analysis was carried out only among existing suppliers as no such information is available in case of the new suppliers.

The issues examined were selected based on the in-depth interviews. A six-point Likert scale (1-very rarely; 6- always) was used during the research, which enabled the companies to assess which problems they encounter in their partnership with the given supplier group and what needs to be corrected and improved in a long-term partnership.

The sub-sample results of small companies and small enterprises

It is important to emphasize before the assessment of the test results of this type of companies that we talk about companies where the number of employees is under 50. The companies involved in our research employ 13-30 people. The supplier base of these companies are of a similar size. It is quite common that the partnership contract is made based on an already existing friendship between the partners and that is how they enter into a partnership with each other. This leads us to suppose that the buyer companies mentioned above will give a more biased characterization and assessment of those supplier partners with whom the partnership was established this way. The research question was the following: Please rate how much you agree or disagree with the following statements about your suppliers on a scale between 1 (I totally disagree) and 6 (I totally agree).

The first criterion in the research was the following: *The suppliers are flexible if there is a change in the product specification* (Table 2.). 23,8% of the companies totally agree with the assumption that the given supplier base will respond with flexibility if some kind of change is introduced in the product range. The first criterion was given relatively high points by the respondents (Likert scale 4,18).

Table 2. Cumulative test results for small companies (N=21)

<i>Criteria</i>	<i>Average rating</i>	<i>I totally agree (%)</i>	<i>I Disagree (%)</i>
The suppliers are flexible if there is a change in product specification	4,18	23,8	0
The PPAP products and the documentation made by the suppliers are good	5,31	66,6	0
Communication with the supplier is positive	6,00	100	0
The communication with the supplier has a positive outcome in difficult situations or in times of crisis	4,18	28,6	0
The way suppliers handle complaints is proper	2,72	0	42,8
The short-term and long-term action plan of suppliers is adequate in case of complaints	2,44	28,6	0
The accessibility of the existing strategic suppliers is effectively ensured	5,18	85,7	0
The quality of the supplies offered by the suppliers is appropriate	4,81	76,2	0

Source: Edited by author (2018)

The next criterion can be linked to this one, which claims that “*The PPAP²⁵ products made by the suppliers and the documentation are good.*” The respondents rated this very highly (Likert 5,31). Only three of the companies taking part in the research said that they had no such expectations towards their suppliers. Around two thirds of the companies involved claimed that they totally agree with the statement, which means that the documentation meets their requirements. If there is product change, then the given supplier company has to make the PPAP documentation prior to the quantity production. Companies can create some kind of trust with the supplier partners by using PPAP documentation. In addition, the product-related risk can also be reduced before they start the quantity production. It is the supplier’s responsibility to create the given documentation since they need to prove that the product manufactured by them fulfills the requirements. The manufacturing of the products can start only after the approval of the customer.

Another question we tried to find the answer to during our research was what kind of communication is between the supplier partners and the customers, in other words how much the parties understand each other. We would like to point out as a curiosity that this was the only statement in the research (*Communication with the supplier is positive*) with which the respondents unanimously agreed with (100%). The average rating was also very high (Likert 5,63). A possible explanation for this rating is that information is power and it is impossible to create, foster and improve a stable long-term partnership without communication – no matter how good the supplier base of a given company is.

²⁵ **PPAP** (*Production Part Approval Process*): It is the industry standard that ensures engineering design and product specification requirements are met. Through the PPAP guide book, suppliers and customers understand the requirements to obtain part approval of supplier manufactured parts. It was developed by AIAG (Automotive Industry Action Group).

This statement is linked to the next one: *Communication with the supplier has a positive outcome in difficult situations or in times of crisis*. We are convinced that this is closely related to the statement we looked at before, since if the parties can discuss all the issues with each other, then this can only be an advantage in difficult situations. It is also an interest of the customer that everything should operate smoothly at their supplier partner and unexpected obstacles should not crop up during production. Almost one third of those asked said (Likert scale 4,18) that they totally agree that communication with the supplier is positive in times of crisis. The analysis of accessibility of the suppliers was also included in this group of questions. 87,5% of the respondents said that *“The accessibility of the existing strategic suppliers is effectively ensured”*. This statement was rated 5,18 on the Likert scale in the average rating.

Statements related to handling customer complaints were given low ratings compared to the positive response to questions about communication. We can ask the question what the reasons might be for this phenomenon. In our view, handling customer complaints is a complex procedure as it involves much more than continuous communication with the customer. It also involves making decisions about improvements, corrective and preventive actions in several cases. Even though the customer is continuously informed about the complaint process by the supplier, the companies are not able to handle complaints error free. Nearly half of those asked (42,8%) said that they did not agree with the statement that *“The way suppliers handle complaints is proper”* (Likert scale 2,72).

There are difficulties concerning the short-term and long-term measures taken to deal with complaints (Likert scale 2,44). However, around one third of the respondents do not detect any problems related to the measures taken. Only two companies said that they totally disagree with the statement that *“The short-term and long-term action plan of suppliers is adequate in case of complaints”*, and four other respondents said that they do not analyze the measures taken by the suppliers or the effectiveness of these measures.

We could have started the presentation of the results with the last statement that is *“The quality of the supplies offered by the suppliers is appropriate”*. 76,2% of those involved in our research totally agree with this statement. It is not only the quality of the product which accounts for this kind of response, but services and logistical criteria must have been taken into consideration as well since the performance of the suppliers was given an overall rating (Likert scale 4,81).

Conclusion

Cooperation between the customer and the supplier is of crucial importance and one of the contributing factors in this process is how a supplier deals with a given problem, what their problem solving skills are like when it comes to strategic issues. We concluded based on the research findings that there are problems and difficulties in the supplier partnership even in small companies regardless of the number of employees (N<50 people) and these problems need to be resolved. Another finding of this research is that continuous communication with the suppliers is less of a problem but there is room for further improvement in measures taken to handle complaints, where technical expertise may be required. The relationship with the supplier is of real value if it is not simply about the delivery of products but it turns into such a positive partnership which is good for both parties. We believe that the partners share the following goals: they would like to encounter as few obstacles and difficulties as possible during the production process since there are no manufacturing or assembly supplier companies, which can control the manufacturing processes 100% error-free.

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