

Title of the Paper

**“SUPPLY CHAIN RELATIONSHIP MANAGEMENT –
RAISING THE LEVEL TO TRUE PARTNERSHIP OF
BUSINESS.”**

Author Details:



Mr. SATYANARAYANA ANKOLU

M.Tech, PGDMM.

Manager (Opex)

SBU-IP (Silvassa)

Email: ankolu.s@balmerlawrie.com

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ABSTRACT

With the globalization sweeping every part of the world, the mantra of success is competitiveness. The competition in future will not be among companies but between supply chains. It is possible that one company may be in several competing supply chains and yet be loyal and dependable to all of them. This makes the relationship among the members of a supply chain extremely crucial for the success of the chain as a whole. Most supply chains perceive their relationship with others as naturally contractual. Even after several years and decades of business they keep trying to improve the contract document to make it clearer and trouble free. Thus the contract improves but the relationship remains where it was, where it all started. Therefore it is necessary for every company to understand, analyze and nurture this relationship to take it to the true level of partnership for achieving long-term success of the supply chain as a whole.

Key words: Supply chain, SCM, Partnership, Contract, Business.

1. INTRODUCTION :

The globalization is sweeping through the world. No matter that few countries try to control the spread of globalization by means of few protection measures and other trade barriers, it would be impossible to stop it from being spread everywhere. True globalization leads to free competition which in turn means the product with competitive edge will sell. Customers will choose the ones which gives them ‘true value for money’ no matter in which country it comes from. In such a situation ‘fierce’ or ‘ultimate’ will be the competition in every area of products & services. Customers would be the kings and their will and grace alone will prevail.

Under such circumstances no individual company can succeed, if it does not look ‘outwardly’ into the entire ‘supply chain both on the upstream and the downstream. The supply chain management [SCM] is thus the bedrock of the future success of managing business. The supply chain management is a process where a business enterprise includes several others in their business process such that the final or core product or service is provided to the ultimate customer at ‘optimum’ price. And the customers in turn perceive having got ‘real value for money’.

So, far business success in globalization and free competition each business entity join hands with several business entities, outside its enterprise which account for major portion of the cost which is part of the price. Gone are the days when a member of the supply chain took a view that its price for a component or sub-assembly & sub system is final and ‘take it or leave it’. Now the entire chain

members need to join together, decide their share in the ‘cost pie’ and allocated the mutually agreed price. And in the process earn a decent profit out of operations.

This makes the concept of SCM highly complex. Several individual and independent companies have to join in the true spirit of operational success under the single important philosophy of ‘together we succeed or else we perish’. The SCM requires each member to continuously exchange each & every information, however sensitive & explosive these may be, with each other. Continuously all of the them operate flexibly as an agile chain ready to modify any aspect of manufacturing or other management activities with the sole goal of capturing the ‘market’ and earning the ‘operational profit’.

2. TRANSITION TO SUPPLY CHAIN MANAGEMENT:

In the past one of the most popular strategies was ‘vertical integration’ by which a company manufactured every item within the company. It involved several different technologies, processes that had to be managed. In the globalised economy, the customer expects to get the ‘best value for money’ which means a company vertically integrated need to be best in all what it does. In the present days of intricate technologies and intense specialization, it may not be possible for a single company to be ‘best’ in all areas. So the concept of joint ventures, joint programs become relevant. Presently the company manufacturing the final product is not more than an ‘integrator’ or ‘assembler’ and does not get into other activities such as casting, forging, machining ,pressing etc .The dependence for all these is on supply chain, which is in complete consonance with the company. This strategy heavily relies on supply chain management and as such management of relationship between and among the members of the chain assumes importance in the overall success of any company.

Supply Chain is the integration and management of supply chain organizations and activities through cooperative organizational relationships, effective business processes, and high levels of information sharing to create high- performing value systems that provide member organizations a sustainable competitive advantage.

Second is the shift in the type of relationship itself. Long back a leading industrialist patriarch was quoted saying ‘If a penny has to be made, it is to in my company,’ meaning thereby the suppliers are to be necessarily squeezed hard such that they make very little profit. Many companies considered vendors as ‘slaves’ or ‘pests’ and thought vendors to be solely dependent on the mercy of the big brother ‘buyer ‘. This scenario also has considerably changed in the recent past. Companies today

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recognize that vendors also need to make decent profit for their survival and for growth just like the buyer company. Interdependence is the buzz word and mutual respect is the order among them. No matter how big or small the entities are each one need to be treated like equals and with respect. That is the bedrock of the philosophy of supply chain Management.

Activities under the concept of Materials Management [MM] functions, historically, meant to look at the limited perspective of considering supplier as a mechanical object or a robot. The understanding was that when the supply 'switch' is put on with placement of order, the supplier should comply, look at the delivery sought in the order and automatically ship the ordered items. The pricing of course should be the best bargain for the buying company. The idea is to select the supplier whose price is the lowest and does not take into account the suppliers' capacity availability at the time of ordering or circumstances which might have changed the costing drastically since the price quote was submitted. There is also an urge to negotiate with the supplier to beat down further as if the relationship is akin to a boxing bout. Above all it does not address the 'emotional quotient' of the supplier vis –a-vis the orders from this particular customer. For long buying activities looked at only two flows, one of materials from supplier to buyer and the other the compensation/ payment from buyer to supplier. These several limit the development of in-depth and close relationship between the two entities, even if they were doing business with each other for long time. The relationship and bonding was more short term, repeated several times and therefore only short sighted.

The concept of SCM revolutionized this aspect of interaction. The objective of SCM is to increase the competitive advantage of the supply chain as a whole, rather than increase the advantage of any single firm. Apart from movement of materials and payment of money between the supply chain members the flow of information that too both ways is the specialty added by SCM to the age old practice of MM.

In the ear of world competition MM cannot bring business success. The competitiveness of the entire chain along can bring competitive edge. This can be achieved only by application of SCM concept between each supply chain members thereby make the whole chain woven by the beautiful fabric of SCM. This kind of chain knitted by the SCM and continuously being improved is the only recipe for successful and profitable operations in the future.

A visual framework for Supply chain decision making in Fig 1.1

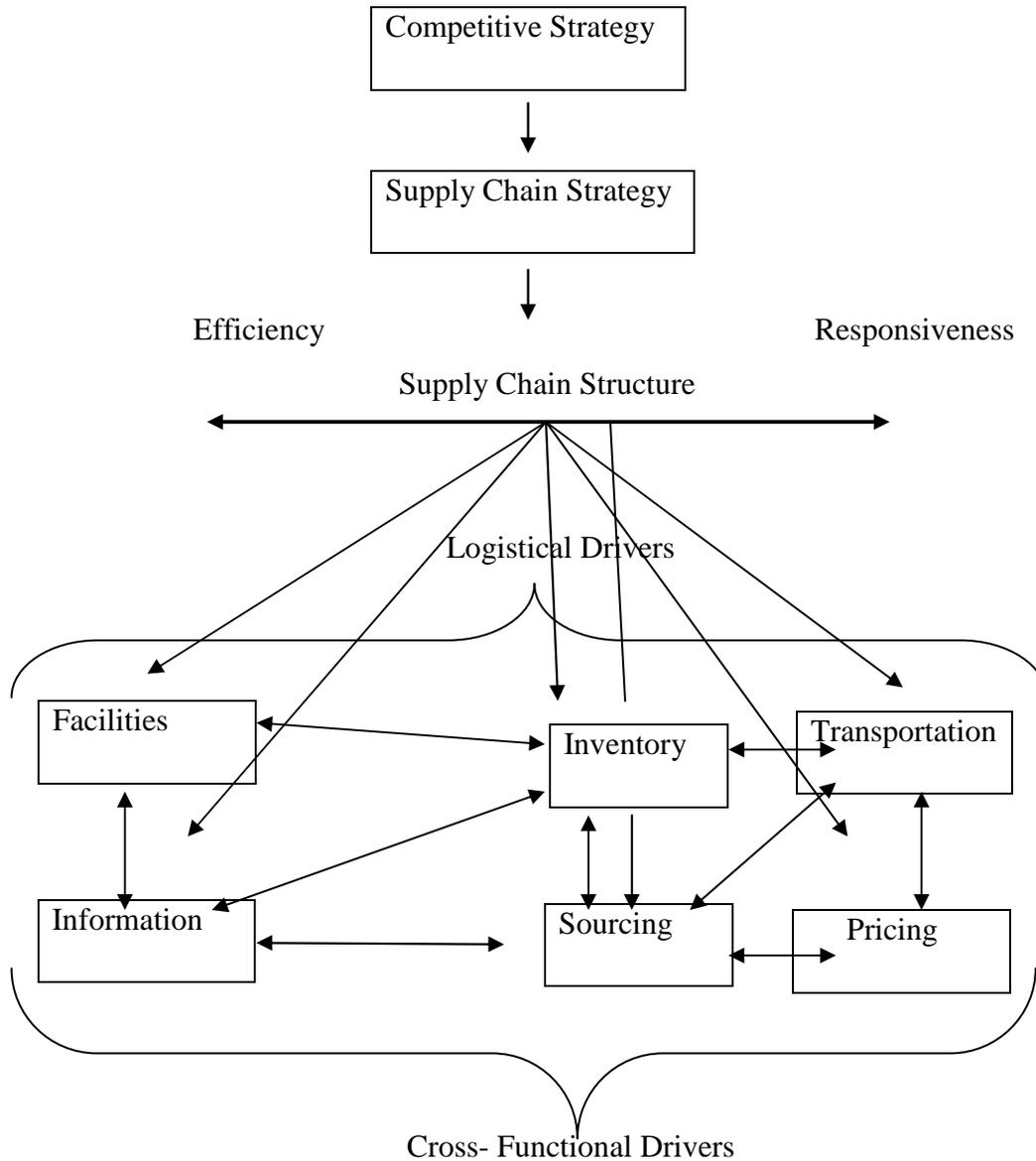


Fig 1.1 Supply Chain Decision-Making Framework

3 .IMPORTANCE OF TRUST IN SUPPLY CHAIN MANAGEMENT:

Supply Chain Management at its strategic level requires a change in the mindset and shift focus from operations to customer from COSTS to VALUE FOR MONEY from Customer Delight to Customer Preference & Trust. Supply Chain Management is the only way of going in globalization and keep bottom lines growing. In Globalization, anyone can buy or sell anywhere in the

world, World is a borderless market, Quality performance being basic, economic criteria will decide the buying.

Chain: The processes, transactions & information that takes product or service from suppliers thru. Manufacturing & distribution to the end consumer. Network is A group of organizations in a market-place that interact to buy, sell, deliver goods and services (client-server processes & activities).

This brings to fore the need for high level of *TRUST* among all the entities of the supply chain. Trust is not something that can be developed overnight or with one single buy-sell contact. Trust is far superior to that achieved by one or few deals of supply. Trust is far more deep rooted wherein every chain member feels and acts as if they are all irrevocably ‘joined’ for the purpose of the specific business for which their chain is formed.

Take the example of a supplier of a Steel coil, HGHH Paint, Fittings and bungs, metal caps for a MS Steel -Barrel manufacturing company. The Supplying Company may be a member of several supply chains of Barrel manufacturing companies. Yet as a member of a particular brand of product, this company is privy to so much varied information both technical and market oriented pertaining to that Barrel. But the information has to be kept in such confidence and away from members of a supply chain of different products, of which this company also may be a member.

On one hand trust, by itself, is a higher level of bonding among companies. On the other hand, having information pertaining to several competing supply chains and yet keep it away from others require very high level of ethical and operational integrity. Achieving such a level of closeness among supply chain can not happen routinely but needs understanding analysis, carefully development and parent-like nurturing. This activity of fostering excellent bonding among supply chain is put under the banner of ‘Supply chain relationship management, [SCRM].

Supply Chain may involve a variety of stages, each stage in a supply chain is connected through the flow of products, information and funds. These flows often occur in both directions and may be managed by one of the stages or an intermediary, stages including the following:

- Customers
- Retailers

- Wholesalers/distributors
- Manufacturers
- Component/Raw material Suppliers

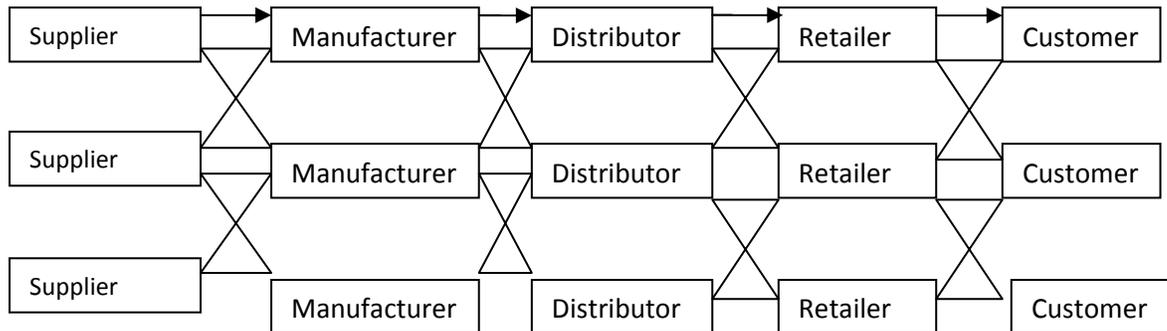


Fig1.2 SUPPLY CHAIN STAGES

In order to foster, develop and nature a mature SCRM it is essential to understand the process of bonding among supply chain members. It does not happen overnight, it can not happen without efforts and its nurturing requires carefully thought out steps & safeguards. The process develops normally after several deals big or small, fully successful or nominally good.

A supply chain consists of all parties involved, directly or indirectly, in fulfilling a customer request. The supply chain includes not only the manufacturer and suppliers, but also transporters, warehouses, retailers and even customer themselves. Within each organization, such as a manufacturer, the supply chain includes all functions involved in receiving and filling a customer request. These functions include, but are not limited to, new product development, marketing, operations, distribution, and finance and customer service.

The objective of every supply chain should be to maximize the overall value generated. The value a supply chain generates is the difference between what the value of the final product us to the customer and costs the supply chain incurs in filling the customers request.

Supply Chain Surplus = Customer Value – Supply Chain Cost.

The following analysis of different levels of relationship will give some insights into what is to be done to achieve the top level. This analysis describes four distinct levels of relationship, the lowest or first being most basic to any deal CONTRACTUAL.

The highest on the top is **PARTNERSHIP**. In the middle are **LONG TERM TIE – UP** and **INTERDEPENDENCE** while contractual relationship is natural to raise it to higher levels require efforts, very well thought – out and implemented strategically. The target or the final objective is ‘Partnership’. Achieve ‘Partnership’ is only a journey as the competition continuously ensures that partnership needs continuous improvement. The main Objective of any Supply Chain is: “CYCLE TIME REDUCTION” between the ‘need identification’ and ‘delivery of goods.’ A Supply Chain is nothing but an integration of internal functions and the external agencies. Its success depends on how well one translates the cross functional teaming in to cross organizational teaming and then, performing the activities aimed at achieving the SC integration.

The four levels of relationship are naturally placed to show the level of efforts required to achieve and also the intensity of the bonding among the members.. Stronger the contract was, probably drafted & revised by legal experts; it was believed that the business was strong foundation. Little did they realize that the legal relationship never bonds and lives from one contract to another. Every movement upwards in these levels has to be carefully charted and the method of achieving higher levels has to be planned & executed with care .It has to start with long term view and a strategic approach to action.

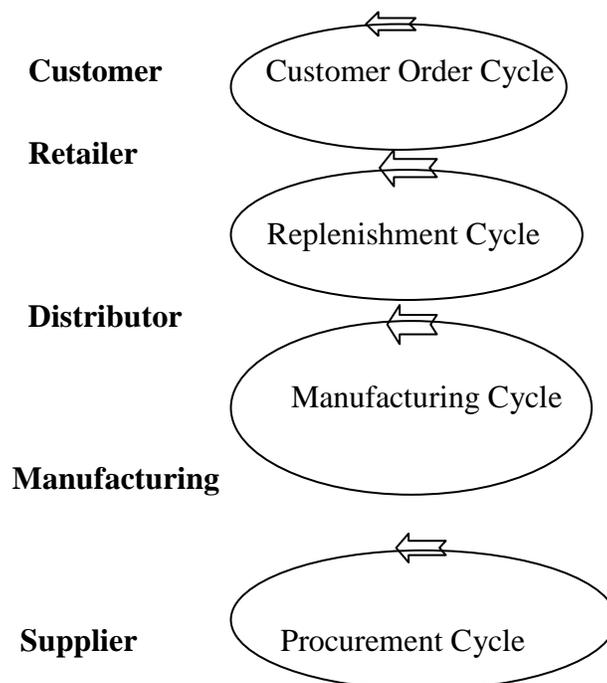


Fig: 1.3 Supply Chain Process Cycles

This paper analyses the intensity of relationship among supply chain members and groups this into four levels. At the top is the ‘partnership’ level which is the ultimate for effective relationship. The aim of every company should be to work hard for a ‘partnership’ relationship, to successfully face other competing supply chains.

4. LEVELS OF RELATIONSHIP:

The four levels of relationship are naturally placed to show the levels of efforts required to achieve and also the intensity of the bonding among the members. To move up from one lower to a higher level, it needs lot of strategic thinking and mutual sacrifice .Going up the level also means higher level of mutual trust among the supply chain entities. At the top level only trust becomes the foundation of relationship and all other activities of supplies, payments and exchange of information comes naturally and automatically. For long time most companies were not only happy with the strictly contractual relationship but also believed that this was the ultimate. Strongly the contract was, probably drafted & reviewed by legal experts; it was believed that the business was on strong foundation. Most companies did not realize the legal relationship never bonds and lives from one contract to another. The Figure gives 1.4 gives the four levels of relationship among the supply chain members.

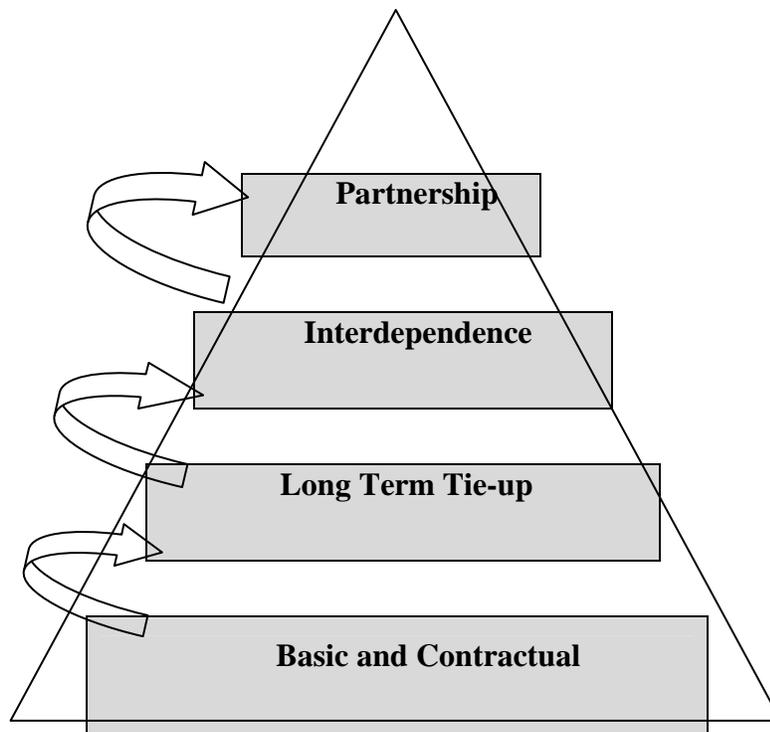


Fig 1. 4 Levels of Supply Chain Relationship

Every movement upwards in these levels has to be carefully charted and the method of achieving higher levels has to be planned & executed with care. It has to start with long term view and a strategic approach to every action. More important is that this process should be understood and driven by the top management. In supply chain perspective thinking, it is the best means today for meeting the goal of designing quality into a product and services.

4.1 Level 1- Basic and contractual:

When two companies enter into business for the first time what prevails is the lack of clarity, low level of trust and relationship builds business. Both the parties look into contractual obligations for every activity and disputes. The business environment is full of agreements between businesses and individuals. While oral agreements can be used, most businesses use formal written contracts when engaging in operations. Written contracts provide individuals and businesses with a legal document stating the expectations of both parties and how negative situations will be resolved. Contracts also are legally enforceable in a court of law. Contracts often represent a tool that companies use to safeguard their resources. This relationship looks at each order or contract as ‘one off’ or ‘in isolation’ even if there have been several orders and many years of business relationship. This is a basic form of relationship and as such natural to rely on contract for every activity. But this approach also puts severe limitations on synergy and cohesiveness required to face competition. If the price or cost needs to be reviewed to face competition and if one party shows reluctance and sticks to contract the whole chain may fail to grab the market opportunity. The contracts are good to rely on when the business on a roll, but can not produce the results when the competition is fierce. The loosest form of bonding between entities is to treat each order as beginning and end of relationship and consider every aspect of business as contractual. All contracts, no matter how carefully we are or prepared, can be subject to some form of dispute or disagreement among the parties. Contracts establish the perimeters by which two or more parties agree to perform a certain activity by a specified date.

The business environment is full of agreements between businesses and individuals. While oral agreements can be used, most businesses use formal written contracts when engaging in operations. Written contracts provide individuals and businesses with a legal document stating the expectations of both parties and how negative situations will be resolved. Contracts also are legally enforceable in a court of law. Contracts often represent a tool that companies use to safeguard their resources.

4.2 Level 2- Long Term Tie – up:

From the basic contractual relationship the companies graduate into long term relationship with suitable agreement binding each other for the success of business . It helps both the parties to realize that for a given project / product the two of them will work together. This will give stability to the mutual cooperation and make them formidable to face the competition. Most companies today work at this level satisfactorily but not good enough when the going in the market is tough.

This form of interaction certainly makes organization to underplay contractual obligations and look at issues on a long term perspective. Any deficiency may be condoned in the interest of business relationship. For example if the warranty is just over by say a few weeks the supplier accepts to attend a quality complaint free of cost, even though strictly as per the contract it is not required. Such small positive responses will create a tremendous amount of goodwill which cannot be valued in monetary terms. A satisfied customer can bring a repeated business or can be instrumental in getting new business. So a long term tie- up will enable companies to feel well jointed for specific product / service of work as a single entity and exchange resources , views, technology and best practices.

4.3 Level 3 –Interdependence:

When the competition is fierce, the members of a supply chain realize that they need to face the situation together like a cohesive group. At this level all the entities fully appreciate ‘interdependence’ is the only way by which they can lead to effective pricing, quality improvements, market reach and face all marketing hurdles. At this stage the level of exchange of information is very high and mutual consultation among supply chain happens automatically. This is a level of mutual trust wherein each member is ready to share technology, processes, vital information without any hesitation. All members of the chain work like a close- knit enterprise for the specified product, even though each one may be members of several chains. ‘Openness’, keeping ‘confidentiality’ is the hallmark of this level of interaction.

Every member consciously understands the fact that each one is dependent on the other in isolation no individual entity can survive or prosper. Companies have to realize that this mutual interdependence and respect for other chain members on whom their operations and growth plans are dependent is unavoidable .They make their strategic plans taking fully into account these factors.

All supply chain processes can be classified into three macro processes as shown in Fig.1.5

Customer Relationship Management (CRM): All processes that focus on the interface between the firm and its customers. Like markets, price, sell, call center, order Management.

Internal Supply Chain Management (ISCM): All processes that are internal to the firm, activities of strategic planning, Demand planning, supply planning, Fulfillment, Field Service.

Supplier Relationship Management (SRM): All processes that focus on the interface between the firms and its suppliers. Activities are Source identification, Buy, Negotiate, Design Collaboration and Supply Collaboration.

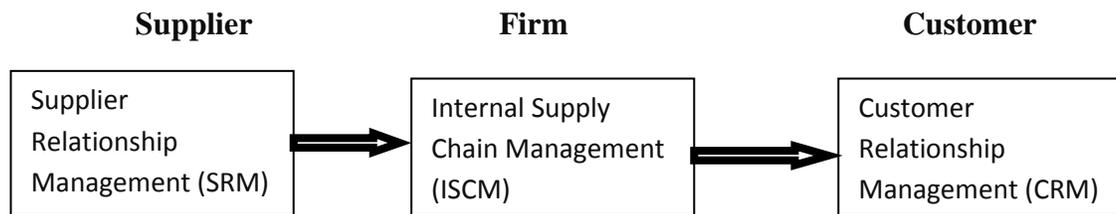


Fig 1.5 Supply Chain Macro Process

4.4 LEVEL 4- PARTNERSHIP :

At the top of these levels is true PARTNERSHIP spirit among entities when the entire chain works as if was a single entity while dealing with the specified product. In the spirit of Partnership the response to market situations is unified among all members and their core objective in business success. The members exchange all relevant information, as if all of them belong to a single company without any hesitation. In short, though they all may belong to different organizations in different countries they look and act like a single entity. That is true partnership and the only way to succeed in highly competitive market.

In partnership concept the two or three parties merge with each other for a project / product. They may share resources, manpower, machines, and finance. They may also exchange information on market threat perceptions and business risks. And at the end distribute the profits also proportionately. All operations among them are conducted very transparently within the chain and ‘strict’ ‘confidentiality’ is maintained with the chain.

5. CONCLUSION:

Future business success requires that every organization takes note of this approach and puts in resource and effort to reach the level of partnership with their counterparts in the supply chain. With the entire supply chain acting as true and responsible partners in business it be will possible to face fierce competition in globalised environment where whole world is fast becoming a single market segment. In future every business success requires that every organization takes note of this approach and foster a

level of partnership among the organizations in the supply chain. It is therefore necessary to recognize the importance of supply chain relationship and put in necessary resource into fostering this relationship to reach and maintain partnership level, in letter and spirit.

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