

Strategic Supplier Partnership: A Source of Competitive Advantage

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Abstract - This study tries to determine the status of supply chain management along strategic supplier partnership among the hardware and construction supplies' enterprise operating in Naga City, Region V, Philippines. It aims to identify strategic supplier partnership practices in the retail industry and its relationship to obtaining competitive advantage through price and cost, value to customer, and delivery dependability. In a highly competitive retail market environment, strategic supplier partnership can be an instrument of building maximum competitive advantage. A qualitative research approach was used to explore specific data with greater understanding of their context through an unstructured key informant interview aided by an open-ended questionnaire. A purposive sampling was used as there were 72 registered stores but only 7 maintains warehouses with independent logistics and inventory management system. Significant findings were: (1) hardware companies rarely engage in strategic partnership with its suppliers; (2) there is a positive relationship between strategic supplier relationship and competitive advantage; (3) there is a need to revisit supply chain strategies in improving competitive opportunity and harnessing relationships among different units within the supply chain. The result of the study is a benchmark to validate other components of supply chain management and whether these supports competitive advantage that is held within the supply chain. Propose to local government a framework that will support logistics processes through strategic supplier partnership that can provide a sustainable ecosystem.

Keywords – Delivery Dependability, Price and Cost, Supply Chain, Value to Customer.

INTRODUCTION

Today's competitive marketplace and ever changing market has challenged different industries. While manufacturing industry utilizes strategies in response to the demands of the market which resulted in either lowering cost or eliminating wastes thus improving products and services. The retail industry on the other hand made it possible that supply chain management (SCM) practices should likewise be implemented. SCM plays a vital role in gaining maximum competitive advantage in today's business world. Competition has always been the reason to continuously improve products and services. It has found to be not coming from the external environment but from the internal environment and within the enterprise. This has been the oversight of Supply Chain Management. SCM includes a set of approaches and practices to effectively integrate suppliers, manufacturers, distributors, and customers for improving the long-term performance of the individual firms and the supply chain as a whole in a cohesive and high-performing business model, [1]. An integrated supply chain has a clear advantage on the competitiveness of the individual companies. As a result,

the chain-chain competition has started to take over the enterprise-enterprise competition. It was found out in the study of McGinnis and Vallopra [13], that competitive advantage is an impact of the role that purchasing unit plays in process development/improvement practice and strategy. Purchasing unit as a subset of supplier partnership. The supply chain concept is theorized from the formation of a value chain network consisting of individual functional entities committed to providing resources and information to achieve the objectives of efficient management of suppliers as well as the flow of parts [2]. SCM does not only aim in achieving higher profits, moreover, this is an opportunity to reduce cost, provide value to customers, and improve return on investment. One of the dimensions of SCM is supplier relationship management (SRM) who works on strategic supplier partnership (SSP) practices which is the focus of this study. Strategic Supplier Partnership (SSP) is found to be a mediator of organizational performance. SSP fully mediates the relationship between a lean supply chain strategy and responsive supply chain [2]. The relationship of SSP and organizational performance which is an impact of competitive advantage has a

positive relationship among the manufacturing enterprise. The study of Agus, Makhbul, and Hassan [3], suggests that strategic supplier partnership practice and implementation have significant associations with product quality performance and business performance. Strategic supplier partnership in SCM has been reported to yield organization-specific benefits in terms of financial performance [1], [2].

The result of the structural equation modelling of the study of Agus and Hassan [4] suggests that SSP determinants namely 'Continuous improvement programs with suppliers', 'Jointly problem solving with suppliers', 'Planning and goal setting with suppliers' and 'Emphasis on high quality suppliers' appear to be of primary importance and exhibit direct impact on product quality performance and ultimately business performance. This is a striking demonstration of the importance of strategic supplier partnership in SCM and in enhancing its product quality performance and business performance. The items for strategic supplier partnership were generated based on previous SCM literature [1], [2], [5], [6].

In a very dynamic and oftentimes subjective competition among the retail enterprise in Naga City, Philippines growth and survival is as intense as losing the business. Growth and survival in today's retail world totally depends on sustainable competitive advantage and developing it requires serious commitment and a customer oriented attitude [7]. The City of Naga has earned the respect of local and national chamber of commerce because of its commitment to support different industries more specifically the retail industry of hardware and construction supplies. There are only few local big players in this particular industry, and the researcher found it interesting to deal with how they implement supply chain management along strategic supplier partnership. How they face the emerging multi-national companies occupying a huge space in the locality. Supply chain integration is about coordinating and making an effort for each other in all enterprises of supply chain to enhance the overall competitive strength [8], [9]. In retailing industry in order to manage more and more products and services effectively, retailers and companies in supply chain should change traditional business model, rebuild supply chain system and realize the integration of supply chain [8], [10], [11], [12].

Companies compete on the basis of innovation, customer experience, quality, and cost according to Cohen and Roussel [16]. In their book, Strategic Supply Chain Management, they have presented that leading companies choose only one to be their primary basis of

competition in a chosen market and use the others to support that competitive positioning. The best companies understand that they can't be all things to all people. The key is to choose where to focus and achieve the best in supply chain performance. It is therefore the goal of this study to assess whether the organization exhibit an effective strategic supplier partnership to gain competitive advantage.

OBJECTIVES OF THE STUDY

There is a dearth of literature which can support local small and medium entrepreneurs in the region specifically within the City of Naga, Philippines, along strategic supplier partnership practices. While SCM practices is all over different industries, the researcher found it necessary to visit and immerse on the processes and distribution of products and services between a buyer and supplier. The purpose of the study is to identify the supply chain practices along strategic supplier partnership and whether these practices has significant relationship with competitive advantage in terms of price differentiation, value to customer, and delivery dependability.

METHODS

The survey questionnaires were collected from different literatures which have underwent reliability and validity test in forming the constructs of supply chain management. The items for strategic supplier partnership were generated based on previous SCM literature. However, the present study focused only on strategic supplier partnership as agent of competitive advantage. Data for the study were collected from 7 hardware and construction supplies' enterprise. They were selected based on the actual registered wholesaler of hardware and construction supplies as of December, 2018 by the Metro Naga Chamber of Commerce, Inc. under the category of small and medium enterprise. A key informant interview was facilitated with an open-ended questionnaire for convenience and validation of responses. Percentage and frequency distribution were used to display the percentage of observation for a 5-point Likert scale survey question. It allowed the respondents to express how much they agree or disagree with a particular statement. To capture important information called for this research, the study measures the experience of the proprietor, purchasing manager and/or logistics officers of the strategic supplier partnership practices and its implications to the enterprise' competitive advantage. The survey tool was personally administered in each company and they were

given consent with further information. A qualitative approach had been recommended due to the size of the population. The study of Li et al [11] assesses the reliability of the instrument which are all greater than 0.70, and are considered acceptable.

RESULTS AND DISCUSSION

The hardware and construction supplies enterprise in Naga City may have been practicing the traditional ways of buyer-supplier relationship. Partnerships are different in nature than traditional buyer-supplier relationships, and thus require the consideration of factors in supplier selections, such as but not limited to the following indicators: 1) Reliance on few dependable suppliers; 2) Emphasis on high quality suppliers; 3) Quality as number one criterion in selecting supplier; 4) Establish long-term relationship with suppliers; 5) Support to suppliers for product quality improvement; 6) Continuous improvement programs that include its key suppliers; 7) Include key suppliers in its planning and goal activities; 8) Involve key suppliers in new product development processes; 9) Regularly solve problems jointly with its suppliers [13].

Percentage frequency distribution of SCM practices along strategic supplier partnership is shown in Table 1. It would be noted that among the nine indicators of SSP, striving to establish a long-term relationship with its key suppliers is their utmost concern. Seven out of seven respondents attested that they would prefer long-term relationships with existing suppliers even if there are emerging suppliers trying to combat their present supply chain.

Some respondents were honest to say that they may be relying on few dependable suppliers but they would still look for other sources to serve other market segment who prefer cheap products regardless of the quality. One

respondent said that it is important that they give feedback to their suppliers and support product development process to meet the demands of their customers. However, it would be observed that they seldom interfere with the planning, goal-setting, problem-solving, and other similar activities of their suppliers. It was further emphasized that they consider suppliers as long-time partners, their boss, by providing supplier prices and activities of the same item in the market. So that suppliers may also evaluate and analyze the pricing scheme at their end. They may be serving multiple market segments yet they consider quality as priority according to the demand of each segments.

Industrial economists had been collecting an enormous amount of empirical evidence and material on which factors actually did affect competitive strategy, which Porter’s *Competitive Strategy* was able to draw on [14]. What Porter recognized was that the forces that could bring competition into losing all edge competition could be a value-adding competitive strategies. All of these five forces can change the perspective of buyer-supplier relationships into somewhat value-enhancing partnerships that each of them would benefit. SCM through SSP implementation may result to competitive advantage in the course of pricing and costing; value to customer or quality, dependable delivery, product innovation, and time to market [1], [5]. Competitive advantage comprises capabilities that allow an organization to differentiate itself from its competitors and is an outcome of critical management decisions [2]. According to Pretorius [15], the future does not belong to any single firm, no matter how large or well entrenched in a market. Instead, it belongs to the value delivery network that shares the same goals in giving the best value to specific markets and customers.

Table 1. Percentage Distribution of Strategic Supplier Partnership Practices

Practices	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Reliance on few dependable suppliers (1)	89%	0%	0%	11%	0%
Emphasis on high quality suppliers (2)	56%	33%	11%	0%	0%
Quality as number one criterion in selecting suppliers (3)	89%	11%	0%	0%	0%
Establish long-term relationship with suppliers (4)	100%	0%	0%	0%	0%
Support to improve product quality (5)	56%	33%	0%	11%	0%
Continuous improvement program with suppliers (6)	33%	56%	11%	0%	0%
Planning and goal setting with suppliers (7)	12%	33%	44%	11%	0%
Suppliers are involved in new product development process(8)	38%	38%	25%	0%	0%
Joint problemsolving with suppliers (9)	11%	11%	56%	22%	0%
Average	54%	24%	16%	6%	0%

Table 2. Percentage distribution along Price and Cost

Indicator	Strongly agree	Agree	Neither agree or disagree	disagree	Strongly Disagree
Competitive price (1)	89%	11%	0%	0%	0%
Lower price than competitors (2)	44%	56%	0%	0%	0%
Flexible pricing scheme for loyal customers (3)	78%	22%	0%	0%	0%
Average	70%	30%	0%	0%	0%

Table 2 shows the percentage frequency distribution of pricing and costing as a result of SSP. In fostering good supplier partnership, pricing scheme is the top most concern. Better relationships and increased interaction may lead to lowering costs and other incidental costs which are often unforeseen during the value chain network activities. Competitive price and costing advantage is a manifestation of an improved communications with suppliers as they come to better understand each business goals more effectively [4]. And because of suppliers’ adaptability to the needs of each members of the supply chain it eliminates redundancy throughout the streamlined process.

The more value an organization creates; the more profit is likely to occur. In the process of creating value to customers, organizations are building competitive advantage. Consumers may demand tangible attributes of a product but the ultimate desire of a customer longing for quality not just in tangible form but consider their pot-purchase experience. Buts and Goodstein defined customer value as the emotional bond established between a customer and a producer after the customer has used a salient product or service and found the product to provide an added value [20]. Customer value is therefore inherent in the quality of a product based on customer’s perceived value [18], [19]. Table 3 shows the percentage frequency distribution along quality or value to customer. In the implementation of SSP practices it can be drawn that organization is becoming capable of offering product quality and performance that creates higher value for customers. In the fulfillment of customer satisfaction, one respondent said that their products would not only define quality according to their perception of quality but on the basis of the customer’s demands. They may provide the best and guaranteed products, however, customers would prefer low-priced at the expense of product quality.

Table 3. Percentage distribution along Value to Customer

Indicator	Strongly agree	Agree	Neither agree nor disagree	disagree	Strongly disagree
Able to compete based on quality (1)	100%	0%	0%	0%	0%
Offer products that are highly reliable (2)	100%	0%	0%	0%	0%
Offer products that are very durable (3)	78%	22%	0%	0%	0%
Offer high quality products to our customer (4)	67%	33%	0%	0%	0%
Products and services are market-driven (5)	78%	22%	0%	0%	0%
Average	84%	16%	0%	0%	0%

While we are trying to associate quality products that is inclusive of timely delivery, some customers would separate delivery with quality. One of the respondents would ignore the efficiency of supply chain for as long as it is responsive to the demands of their customers. These proponents have a forward looking orientation on maintaining customer relationships while at the same time establishing a long-term relationship with suppliers. The respondents may have agreed on their capabilities to compete in terms of reliability but not so much with durability and high quality. This may be due to their flexibility in offering too low prices at the expense of the quality. In the study of Kumar [10] and Woodruff [22], customer delight is possible if and only if retailers are able to satisfy specific and special needs with a personal touch by offering excellent price/quality ratio. Therefore, maintaining customer value is also about understanding how they behave in an instant.

Table 4. Percentage frequency distribution along Dependable Delivery

Indicator	Strongly agree	Agree	Neither agree nor disagree	disagree	Strongly disagree
Deliver customer order on time (1)	89%	0%	11%	0%	0%
Provide dependable delivery (2)	89%	11%	0%	0%	0%
Average	89%	5.5%	5.5%	0%	0%

Table 4 shows the percentage frequency distribution along delivery dependability as a result of the SSP practices. One of the respondents noted that establishing long-term relationship with key suppliers is also a

commitment to promising dependable delivery at all times. However, the study of Li et al [5] has observed that delivery dependability has the least order for competitive advantage. Among the three indicators, the strongest to take on competitive advantage is price and costing while value to customer has the second edge, and the least in the order is delivery dependability.

CONCLUSION AND RECOMMENDATION

This paper observed that supply chain management has not been fully utilized and implemented among big players of hardware and construction supplies' enterprise in Naga City. However, to prove general probability, further study is recommended and find out whether this is true across other cities and municipalities in the region. Their understanding of SCM through the mechanics of strategic supplier partnership is just the common and traditional buyer-supplier behavior within the business-to-business concept. SCM is not yet mature in the locality specifically in the hardware and construction supplies industry. However, there are already existing practices specifically in establishing long-term relationship with suppliers in their goal of increasing efficiency and eventually improving revenue growth. In maintaining a preferred buyer status it should be noted that new supplier may provide lower cost but the long-term relationships built with strategic partners generate more value than the short-term gains. In this premise the author would like to propose attention to several issues within the enterprise:

- 1) Implement strategies on supply chain network that would improve supplier relationships.
- 2) Build seamless communication with key suppliers, and cascade issues and minor problems to avoid recurring costs and incurring failures.
- 3) Design flexible supply chain that is responsive to the ever changing conditions.
- 4) Adopt corporate social responsibility that is capable of adding value to products and services that is saving costs to both buyer and supplier through a proposed supply chain paradigm.

As business educator, the output of the study would benefit the students to thorough their appreciation on the significance of supply chain management in operations and support their general framework on supply chain as integral component of business education. This will also benefit micro and small businesses in the region across different industries in fostering long-term supplier relationships in order to effectively deliver high quality products and services to final consumers. A healthy and competitive industries would not just create profit among

business owners but ultimately satisfied customers who gets the value of their money and increase their economic capabilities thus creating sustainable communities.

The present study evolved only on the three variables, the price and cost, value to customer, and delivery dependability which has significant impact on gaining maximum competitive advantage [1], [5], [23].

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