ISSN (Print Version) 0975-3931
ISSN (On Line Version) 2278-1277

Competitive Challenge of Suppliers with Vendors in B2B

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Abstract

This study aims to discover the hidden factors of suppliers' and vendors' relationships in the Business to Business sector in Madhya Pradesh. Suppliers expect Committed Relationships from their vendors. Suppliers trust their vendors/customers. They are proud to have their customers; their buyers trust them. However, they face big competition in supplying the goods. Despite their customers (vendors) do not mind minor price changes. More price-sensitive customers are not loyal. Payment in time is an issue but not relatively important. Issues like payment on time and skipping orders in between are not important. There is a competitive environment, as they are not the only supplier. The important factors are committed relationships and a competitive environment. Factor analysis shows that committed relationships explain approximately 36% of variances, while the competitive environment explains approximately 14%.

1. Introduction

Business to Business is part of the supply chain. B2Bs are stockists, wholesalers, distributors and other dealers. They do not sell their products direct to consumers. Instead, they sell their products to retailers or other vendors who sell their products to consumers. B2B and B2C are important components of the supply chain. B2Bs deal with suppliers, but they are also suppliers. Supply chain negotiations can involve payment terms, performance indicators, prices, quantities and more. In B2B relationships, a significant level of negotiation occurs in the supply chain. It plays much more than in B2C, where consumers do not have as much negotiation power in their purchases (Lam et al., 2004).

When a company manages their stock control, it will try to optimise supply chain deliveries, and quantity amounts to suit its warehouse capacity. For example, businesses selling the products might want to send bulk shipments to the buyer on the other end.

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However, that buyer's warehouse might not be able to cope, and those quantities would impact the health of their stock control.

B2B supply chains are generally shorter than B2C. Their transactions might be more direct, and short supply chains effectively deliver what their buyers need between a few companies. Conversely, B2C supply chains often require input from more players. Their supply chain might have multiple producers, wholesalers and retailers before it lands in the consumer's hands. B2B companies usually have to manage stock control for a few key items they sell in bulk, whereas B2C companies might have more inputs from suppliers for specialised products, which means their chain gets longer and longer (Gil et al., 2009)

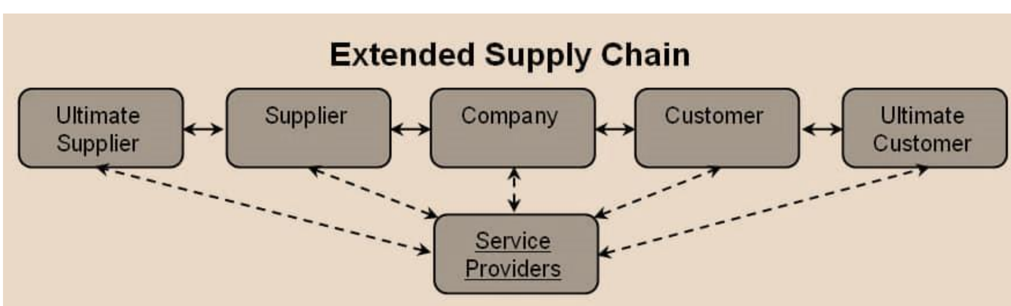
B2B has the opportunity to build close-knit relationships with those with whom they do business. There may not be many of them, but the relationships along the supply chain are important due to the economic significance that each one brings. A B2B company may only have a handful of key accounts. Each of those accounts could keep their business afloat and revenue looking good. If a relationship is managed poorly and you lose one of these accounts, it could jeopardise your business.

However, maintaining healthy supply chain relationships and seeking customer satisfaction are supremely important in B2B and B2C transactions. This paper explores the relationship between suppliers and vendors with empirical analysis. Section 2 reviews the literature, section 3 explains objectives and methodology, section 4 analyses the data, section 5 discusses major findings, and concluding remarks are given in section 6.

2. Literature Review

B2B is part of an extended supply chain. A supply chain is composed of a company and its suppliers and customers. Combining these three – supplier, company, and customer – creates a supply chain. In addition, extended supply chains contain a different kind of organisation called a service provider. The following diagram describes the flow of services.

Figure 1 – Extended Supply Chain



(Adopted from Micheal, 2018)

In extended supply chains, there is the supplier's supplier, or ultimate supplier at one end, and the customer's customer, or ultimate customer at the other end. And there are service providers that assist other participants in the supply chain. They provide services in areas such as: logistics; finance; marketing; forecasting; and information technology etc.

Distributors (or wholesalers) who can be termed as B2B in concept of marketing are companies that take inventory in bulk from producers and deliver a bundle of related product lines to vendors (who are their customers). Distributors are also known as wholesalers but they are practically somewhat different. Another category are stockists. They typically sell to other businesses and they sell products in larger quantities than an individual consumer would normally buy. Distributors (in future will be termed as dealers) buffer the producers from fluctuations in product demand by stocking inventory purchased from producers, and doing much of the sales work to find and service customer needs (Michael, 2018).

In addition to product promotion and sales, distributors also perform activities such as inventory management, warehouse operations, product movement, customer support and post sales service. A distributor can also be an organisation that only brokers a product between the producer and the customer and never takes ownership of the product. As the needs of customers evolve, and the mix of available products changes, distributors continually track customer needs and match them with products to meet those needs, (Michael, 2018).

In B2C, the goods and services are sold to a consumer who is the end-user of the product. However, in B2B, goods and services are sold between companies. The relationships are integral to businesses and it's important to understand how their supply chains vary to suit their business model, Reinartz, W.; Kumar, V. (2011) Rauyruen, P. and Miller, K. E. (2007), Michael & Avila, Ramone & Burns, Alvin. (1988)

Luis et al (2005) came out with an important theory that greater relationship performance in B2B results in better 1) relationship policies and practices, 2) relationship commitment, 3) trust in the relationship, 4) mutual cooperation, as well as 5) satisfaction with the relationship. Their findings also reveal that B2B relationship performance is positively and significantly associated with loyalty. They developed B2B-RP (Relationship Performance) scale.

Ethical values, such as the supplier showing respect for the customer, should be included in relationship policies and practices, as they contribute to the development of the relationship between customers and firms (Morgan and Hunt, 1994 in Luis et a, 2005). In fact, the extent to which partners have common beliefs about what behaviours and policies are important or not, appropriate or inappropriate, and right or wrong, is an important fact in the process of relationship development.

Since firms and marketers show increasing attention and efforts to build long-term relationships with their customers, trust plays a central role in the development of relationship performance, as trust is an essential ingredient in the creation, development, and maintenance of long-term relationships between buyers and suppliers. Trust exists when one party has confidence in an exchange partner's reliability and integrity. Once trust is established, firms learn that coordinated, joint efforts will lead to results that normally exceed what they would achieve if they acted on their own in their best interests. So, trust is a key ingredient in a working relationship, and this fact has repercussions on the firm's actions. These repercussions can be defined as the buyer's belief that the supplier will act in a way that results in positive outcomes for the buyer (Kusuma et al, (2013), Day, (1969), Curtis et al (2011). Chowdhury, (2012). Anderson and Narus (1990)).

Commitment is essential for the development of long-term relationships and is an important indicator of relationship performance. Commitment to the relationship is defined as the "desire to develop a stable relationship, a willingness to make short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship" (Anderson and Weitz, 1992: 19). Moreover, relationship commitment is a means to differentiate successful relationships from unsuccessful ones (Morgan and Hunt, 1994).

Suppliers in a committed relationship gain greater access to market information for selecting a better customer-oriented assortment (Anderson and Weitz, 1992), and buyers in an e-marketplace receive more relevant up-to-date market and product information, a better assortment choice, and order/payment automation because both parties receive new benefits from each other, each one has a stronger motivation to build, maintain, and develop the relationship through committed efforts. Hence, there is evidence that strong relationships are "built on the foundation of mutual commitment".

It is observed that distributers and other types of dealers deal with more than four suppliers. The suppliers assist distributers, wholesalers and others with man-power to sell goods and such manpower is paid salary or commission by suppliers, it varies from supplier to supplier. In general supplier provide selling assistance on commission basis.

3. Objectives and Methodology

It is observed from literature review that relationship policies and practices between suppliers, relationship commitment, and trust in the relationship, mutual cooperation, and satisfaction with relationship are major variables among suppliers and vendors. Ten questions were asked to 856 suppliers to understand their relationship with their vendors. Questions were asked on 7 point Likert scale. First relative importance index was calculated and then data was subjected to factor analysis to reduce dimensions as follows:

- Relative Importance Index: Respondents were counted with frequency, how many respondents responded with code. The frequency was multiplied with codes of 1, 2… up to 7. After all the numbers, the sum was divided with highest code that is 7 with total number of 856. That gave relative positive index. Relative Positivity Index

= $\frac{n1*f1+n2*f2+n3*f3....}{N*\sum f}$ where n1,n2 …are codes of Likert scale as 1,2,3… .f1,f2,f3…. are the frequencies for that code, N is the highest number and $\sum f = 856$. The questions were ranked based on the relative Index.

- Data was further subjected to Exploratory Factory analysis with Principal Component analysis. Hidden factors were explored by explained Variance. Hidden variables were named to explain dimension reduction. KMO and Bartlett's test analysis were done to see whether data is good and sufficient for factor analysis. Factor were explore based on eigenvalue.

4. Data Analysis

- Relative Importance Index

Table 1 shows RII (relative importance index) and ranking based on index values. It is seen that "I am proud to have such customer with highest index value as 0.80. Other important questions are "My buyers trust me", "We face big competition in supplying goods" and "We find our customers loyal to us". The lowest index value is "I am the only supplier in my area." It means suppliers don't feel much competition but environment is competitive. There appears to be paradox. Others with lowest index values are 'My customers make payment in time', 'my customers skip orders in between and buy from others', 'We get customers from others though mergers and acquisitions'.

Table 1 - Ranking with Relative Importance Index

Questions	Relative Importance Index	Rank
I am proud to have such customers	0.80	1
My buyers trust me	0.77	2
We face big competition in supplying the goods	0.71	3
Our customers don't mind minor price changes	0.70	4
We find our customers loyal to us	0.70	5
Customers who are more price-sensitive are less loyal	0.68	6
My customers make payment in time	0.67	7
My customers skip orders in between and buy from others	0.64	8
We get customers from others though mergers and acquisitions	0.60	9
I am the only supplier in my area	0.56	10

(Source: Researcher's Calculations and Counting)

- **Factor Analysis**

Table 2 shows that KMO is 0.830, and the data is quite good for factor analysis. Bartlett's test of Sphericity is statistically significant at a 1% level which means that variables are correlated to get factors. Table 3 shows that there are two factors which explain 49.95% variances. Figure 2 also shows that 2 only factors can be extracted; after 2 factors line is almost flat. Based on table 2, two factors can be renamed:

○ **Committed Relationships**: this factor has almost all questions.

○ **Competitive environment:** this factor has other elements like the presence of other suppliers and skipping of orders.

Table 2 – KMO and Bartlett's Test Results

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.830
Bartlett's Test of Sphericity	Approx. Chi-Square	2069.930
	df	45
	Sig.	.000

(Source: Researcher's Calculations and Counting)

Table 3 – Total Variances explained by Factors

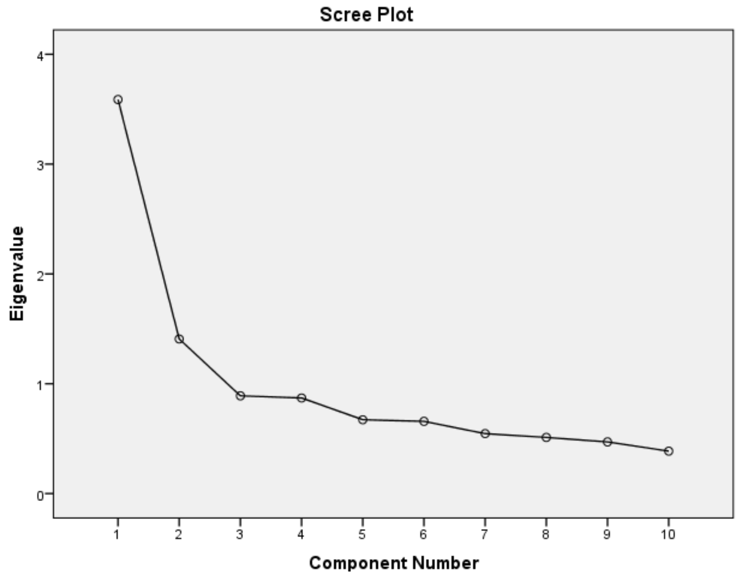
Component	**Initial Eigenvalues**			**Extraction Sums of Squared Loadings**		
	Total	**% of Variance**	**Cumulative %**	**Total**	**% of Variance**	**Cumulative %**
1	3.588	35.877	35.877	3.588	35.877	35.877
2	1.408	14.077	49.954	1.408	14.077	49.954
3	.890	8.902	58.856			
4	.870	8.705	67.561			
5	.672	6.725	74.285			
6	.657	6.575	80.860			
7	.546	5.458	86.318			
8	.511	5.114	91.432			
9	.470	4.703	96.135			
10	.386	3.865	100.000			

Extraction Method: Principal Component Analysis.

(Source: Researcher's Calculations and Counting)

ISSN (Print Version) 0975-3931
ISSN (On Line Version) 2278-1277

Figure 2 – Scree Plot showing Factors for Vendors



(Source: Researcher's Calculations and Counting)

Table 4 – Component Matrix

		Component	
		1	2
1.	My buyers trust me	.737	
2.	I am proud to have such customers	.693	
3.	We find our customers loyal to us	.691	
4.	Our customers don't mind minor price changes	.691	
5.	We face big competition in supplying the goods	.640	
6.	More price-sensitive Customers are less loyal	.537	
7.	My customers make payments in time	.512	
8.	We get customers from others through mergers and acquisitions	.511	
9.	I am the only supplier in my area		.718
10.	My customers skip orders in between and buy from others	.510	.629

Extraction Method: Principal Component Analysis.

2 Components Extracted

(Source: Researcher's Calculations and Counting)

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ISSN (On Line Version) 2278-1277

5. Discussions on Findings

We used two methods to explore variables for the relationship between suppliers and vendors in B2B. First was the relative importance index, and second was factor analysis to get hidden factors and reduce dimensions. Dealers/stockists/wholesalers are suppliers of suppliers. As they expect trust, loyalty, and commitment from their suppliers, their vendors also expect the same from them. Our analysis shows that they expect Committed Relationships from their vendors. As suppliers, they trust their vendors/customers. They are proud to have their customers; in return, their buyers trust them. However, they face big competition in supplying the goods. Despite their customers (vendors) do not mind minor price changes as per suppliers' responses. They find their customers/vendors loyal to them. More price-sensitive customers are less loyal. Payment in time is an issue but not relatively important. Issues like payment on time and skipping orders in between are not important. There is a competitive environment, as they are not the only supplier.

The preliminary tests show that our data is sufficient for factor analysis, and there is a correlation between questions so that the dimensions can be reduced. The important factors are committed relationships and a competitive environment. Factor analysis shows that committed relationships explain approximately 36% of variances, while the competitive environment explains approximately 14%.

6. Concluding Remarks

Trust generally revolves around positive financial performance, mutual exchange, social satisfaction, etc. and occurs during subsequent relationship exchanges. Trust in B2B relationships exists when one party has confidence in the other party's integrity, beliefs and reliability. Typically, trust increases when one party has a positive perception of a relationship's performance, enhanced by the belief that the other party in the relationship will not act against its interests in a way that could lead to negative outcomes. Thus, trust can be defined as one party's belief that actions undertaken by the other party will fulfil its future needs. In B2B, if intermediaries expect committee relationships from suppliers, they also expect committed relationships from vendors. Competition is on both sides of the environment.

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