

Buyer Supplier Relationship Analysis

(A Case Study of C.V. CS)

Haryanto Wiguna Kurnia (Corresponding author)

Ciputra University, UC Town, Surabaya 60219, Indonesia

E-mail: haryanto.wiguna@gmail.com

Denny Bernardus Kurnia Wahjudono

Ciputra University, UC Town, Surabaya 60219, Indonesia

E-mail: denny@ciputra.ac.id

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Abstract

The purpose of this research is to discover the factors that shape the relationship between C.V. CS as buyer and the suppliers in order to determine the most appropriate strategy to manage the relationship. This research uses quantitative method and exploratory factor analysis approach. The population of this research consists of 30 suppliers of C.V. CS. Saturated sampling is used as sampling technique in this study. Additionally, the entire population is used as respondents. Research results suggest a new factor which can be considered as a simplified version of the six research variables of communication, trust, capacity and capability, relationship continuity, dependence and commitment. This factor is called strategic partnership. Strategic partnership is considered as the most suitable strategy for C.V. CS to establish a relationship with their suppliers. The findings of this research also indicate that strategic partnership can act as relationship builder between buyers and suppliers. In order to create a perfect strategic partnership, the five forming elements must be fulfilled.

Keywords: Buyer supplier relationship, Strategic partnership, Exploratory Factor Analysis

1. Introduction

Indonesia is the biggest rattan raw materials producer in the world. Based on the data from the Ministry of Industry (2013), 61% of the world's rattan is produced by Indonesia, followed by Myanmar (16%), Malaysia (6%), China (5%) and other countries (12%). The main areas for rattan production in Indonesia are the islands of Kalimantan, Sumatera, Sulawesi and Papua.

C.V. CS engages in the processing of rattan raw materials into semi-finished rattan in South Sulawesi. South Sulawesi is believed to have a big potential and high export demand for rattan raw materials. The demand for rattan raw materials at C.V. CS reaches 70 tons each month. However, the amount of rattan raw materials obtained by the company has failed to meet the company's needs, as described in Table 1.

Table 1. Data of Rattan Raw Material Needs, Obtained Raw Materials and Sales of C.V. CS in January-December 2014 Period

Month	Needs (Kg)	Obtained Raw Materials (Kg)	Sales Data (Kg) (50% Diminution from Raw Material)	Needs Margin (Kg)
January 2014	70.000	45.724	22.862	24.276
February 2014	70.000	52.432	26.216	17.568
March 2014	70.000	47.876	23.938	22.124
April 2014	70.000	48.751	24.375	21.249
May 2014	70.000	56.453	28.226	13.547
June 2014	70.000	52.763	26.381	17.237
July 2014	70.000	49.877	24.938	20.123
August 2014	70.000	50.124	25.062	19.876
September 2014	70.000	58.733	29.367	11.267
October 2014	70.000	54.231	27.115	15.769
November 2014	70.000	49.978	24.989	20.022
December 2014	70.000	53.021	26.510	16.979

Source: Internal company data

Table 1 suggests that C.V. CS has yet to obtain the desired amount of rattan raw materials needs at the expected time. According to the Indonesian Forestry Service data in 2014 about non-timber (rattan) processed forest products during the January-December 2014 period, the monthly production average for South Sulawesi and West Sulawesi provinces is 66.343 kg and 50.455 kg respectively. With the limited availability of raw materials, C.V. CS has to compete with similar companies in Makassar to fulfill the market's needs, as shown in Table 2.

Table 2. Comparison of Rattan Raw Material Needs and Achievements of Similar Companies in Makassar

No	Company Name	Monthly Needs(Kg)	Monthly Average of Raw Materials Received (Kg)	Monthly Achievement Percentage (%)
1	CV. FW	30.000	27.730	92,43
2	CV. SW	45.000	41.670	92,60
3	CV. CS	70.000	51.663	73,80

Source: Survey, 2015

Table 2 indicates competitions with similar companies in Makassar. Since the realization result of rattan from South Sulawesi is not too big, C.V.CS needs to make extra efforts to approach the suppliers to prioritize the company in order to fulfill the company's raw material needs.

Business relation is built upon a common understanding of business needs, expected profit and relationship continuity based on common goals. The most important aspect of supply chain is the buyer supplier relationship (Mohanty and Gahan, 2012:323).

2. Literature Review

2.1. Buyer supplier Relationship

Building a business requires a relationship between the buyer and the supplier. A company's ability to create a successful supply chain is reliant upon the buyer supplier relationship (Mohanty and Gahan, 2012).

According to Mohanty and Gahan (2012), the foundation of the buyer supplier relationship consists of the following five factors:

Trust

Trust refers to the full acceptance of one's words. It is based on reputation, personality, transaction process or payment.

Power and Dependence

Power is often described as buyer's advantage. Buyers normally perform diversification to reduce the power of suppliers in their business and minimize dependence.

Capacity and Capability

Supplier selection based on operational terms is closely associated with the supplier's capacity and capability in handling order. This ability is seen as the supplier's strength.

Communication

Communication is the most essential aspect in the buyer supplier relationship. Communication consists of four categories: content, way, feedback and frequency.

Partnership

Competitive rivalry and partnership collaboration are two aspects of buyer supplier relationship. One is considered as the older style and the other is considered as the newer style. Both aspects apply in purchasing manager work pattern.

According to Paiva *et al.* (2008), the six forming factors in the buyer supplier relationship are as follows:

Commitment

Commitment includes the selection process factors associated with relationship, delivery punctuality and commitment between both parties.

Relationship Continuity

The relationship continuity factor refers to the aspects surrounding the supplier's role in the company's problem solving process, the long-term-oriented relationship formed by the supplier and the non-business relationship between the buyer and the supplier.

Communication

Communication factor emphasizes on the conversation content between the buyer and the supplier, communication method, feedback availability and the communication intensity level or frequency.

Supplier Management

Supplier management factor is closely related to the evaluation process on the investment made with the supplier, the use of formal method in selecting suppliers and the priority of long-term relationship.

Dependability

Dependability factor refers to the aspects of trust which involve payment punctuality, provision of required documents and delivery punctuality.

Perceived Security

Perceived security is associated with the company's reputation in the market, the ease of contacting suppliers and the capability in performing a search.

2.2. Strategic Partnership

Strategic partnership is building a long-term business relation with business partners to obtain investment and increase the profitability levels of both parties (Weitz *et al.*, 2009). According to Weitz *et al.* (2009), the five elements of strategic partnership foundation can be described below:

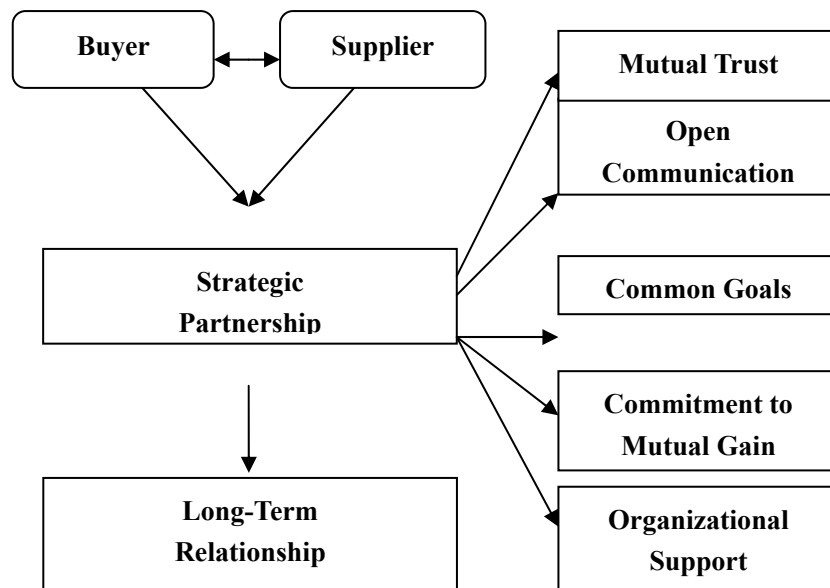


Figure 1. Strategic Partnership Analysis Model

Source: Weitz et al. (2009) and processed data

Mutual Trust

Joint partnership between two parties is based on mutual trust. It is very difficult to form a partnership when both parties have no mutual trust.

Open Communication

Open communication is the key to a successful relationship. Communication is built upon a firm relationship to create openness.

Common Goals

Partnership is based on common goals. Common goals are formed through mutual need and interdependence. Moreover, common goals are made to create a sustainable relationship.

Commitment to Mutual Gain

Partnership forming is not only performed for the sake of cooperation. It also reflects the commitment to grow and develop in the respective sectors.

Organizational Support

The ability of a company or an organization to support a partnership is very important, as it is closely related to the capacity and capability of the company.

2.3. Preliminary Survey

This research conducted a preliminary survey to six respondents, which consist of five suppliers and the owner of C.V. CS, about the basic elements of forming a buyer-supplier relationship. This preliminary survey utilized the five factors described by Mohanty and

Gahan (2012) and the six factors suggested by Paiva *et al.* (2008). In total, 10 factors are used since communication is a common factor. The purpose of this preliminary survey was to determine the research variables. The result of the preliminary survey is as follows:

Table 3. Survey Result on the Forming Aspects of Buyer-Supplier Relationship

No	Variable	Frequency	Percentage (%)
1	Communication	6 times	100
2	Trust	6 times	100
3	RelationshipContinuity	5 times	83
4	Dependence	5 times	83
5	Capacity and Capability	4 times	67
6	Commitment	4 times	67

Source: Survey, 2015

3. Analysis Model

Based on the problem formulation in this research, the research analysis model can be described as follows:

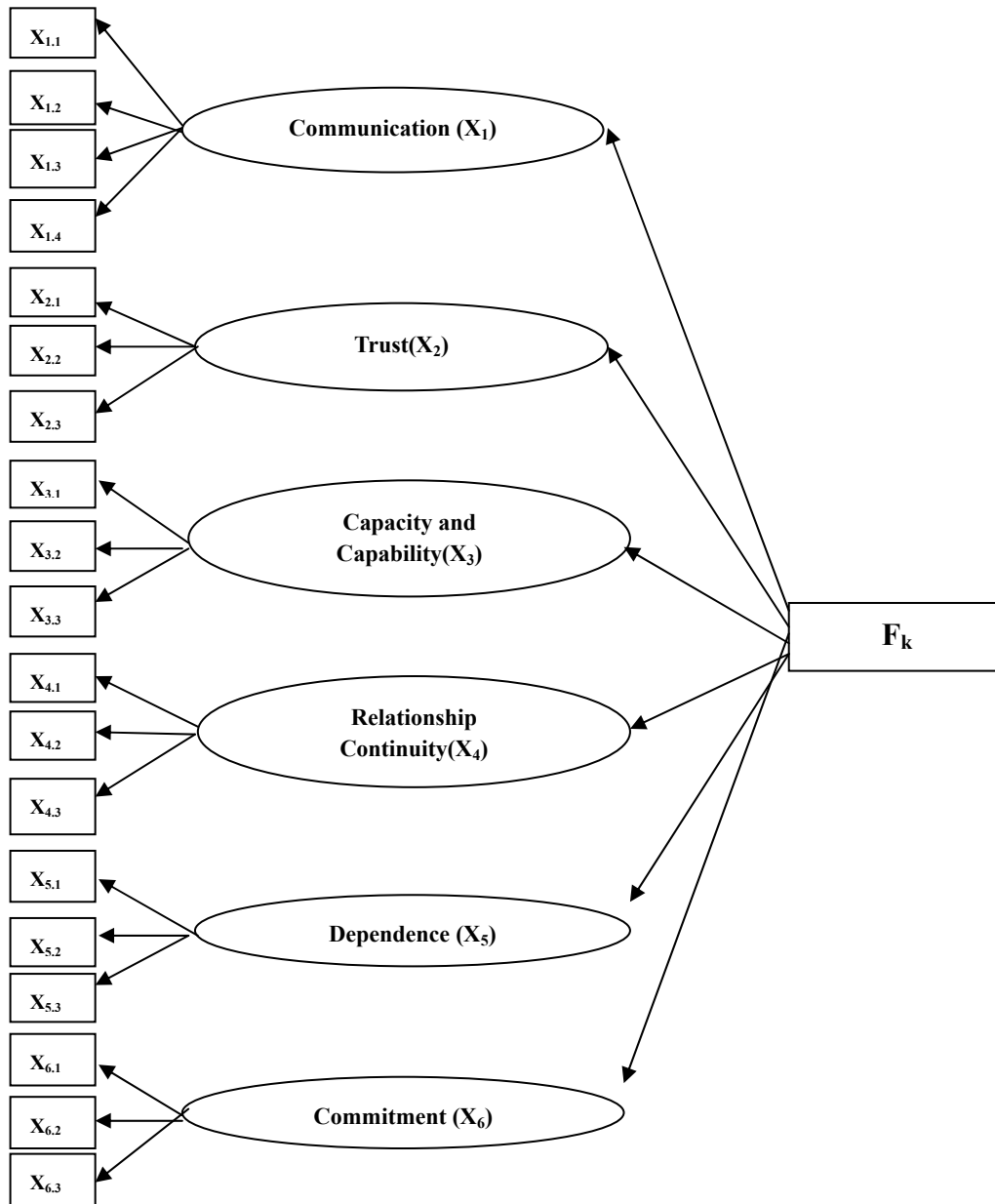


Figure 2. Exploratory Factor Analysis Model

4. Research Methodology

4.1. Research Design

The method of this research is quantitative. According to Wirawan (2011), the purpose of quantitative method is to capture quantitative data in numeric form by using validated instruments which reflect the dimensions and indicators of the variables and the data obtained through questionnaire directed at certain population or sample. This research also uses exploratory factor analysis method. The use of this method is aimed at a condition in which the relations between the observed and latent variables are unknown or uncertain (Dachlan, 2014).

4.2. Research Samples

This research uses saturated sampling. Saturated sampling is a sampling technique which uses the entire population as study samples. This technique is normally used for research studies with a relatively small number of population of less than 30 respondents (Sugiyono, 2014: 156). The samples in this research are 30 suppliers of C.V. CS.

4.3. Operational Definitions

Table 4. Operational Definitions

No	Variable	Definition	Indicator	Source
1	Communication (X ₁)	Communication is the process of delivering a message from one person to another with the aim to inform or change attitude, opinion, or behaviour through oral communication (direct) or media (indirect) (Dewi, 2013:78)	<ul style="list-style-type: none"> - Conversation content (X_{1.1}) - Conversation method (X_{1.2}) - Feedback (X_{1.3}) - Conversation frequency(X_{1.4}) 	Mohanty and Gahan (2012)
2	Trust (X ₂)	Trust is an indication of one's trustworthy reputation, both as a professional and an individual (Mohanty and Gahan, 2012:323)	<ul style="list-style-type: none"> - Reputation (X_{2.1}) - Payment process (X_{2.2}) - Trust towards individuals (X_{2.3}) 	Mohanty and Gahan (2012); Paiva <i>et al.</i> (2008)
3	Capacity and Capability (X ₃)	Capacity is the company's ability to execute or produce raw materials, while capability refers to the company's ability in handling orders and fulfilling duties (Mohanty and Gahan, 2012:323)	<ul style="list-style-type: none"> - Production capacity(X_{3.1}) - Company facility(X_{3.2}) - Payment capability (X_{3.3}) 	Mohanty and Gahan (2012)
4	Relationship Continuity (X ₄)	Relationship continuity is the willingness to build a long-term relationship with every customer (Paiva, <i>et al.</i> , 2012:80)	<ul style="list-style-type: none"> - Cooperativeness inproblem solvingprocess(X_{4.1}) - Long-term relationship (X_{4.2}) - Non-business meeting (X_{4.3}) 	Paiva <i>et al.</i> (2008)
5	Dependence (X ₅)	Dependence is a supplier's advantage towards the bargaining power over the purchasing company (Mohanty and Gahan, 2012:325)	<ul style="list-style-type: none"> - Number of customers (X_{5.1}) - Buyer status(X_{5.2}) - Supplier domination(X_{5.3}) 	Mohanty and Gahan (2012)
6	Commitment (X ₆)	Commitment is the ability and willingness to adjust personal behaviour to the needs, prioritiesand aims of an organization(Paiva, <i>et al.</i> , 2012:80)	<ul style="list-style-type: none"> - The effect of relationship on selection process (X_{6.1}) - Delivery punctuality(X_{6.2}) - Commitment to company(X_{6.3}) 	Paiva <i>et al.</i> (2008)

5. Findings and Discussion

5.1. Findings

The following are the results of the KMO and Bartlett's Test performed on the factor analysis:

Table 5. KMO and Bartlett's Test

KMO and Bartlett's Test	Result
Kaiser-Meyer-Olkin	0.848
Measurement of Sampling Adequacy.	
Significance of Bartlett's Test	0.000

From Table 5, it can be seen that the KMO value of 0.848 is bigger than 0.5. Therefore, it can be concluded that the factors forming the relationship between CV. CS and the suppliers can be predicted and analyzed further. Table 5 also displays the result of the Bartlett's Test with significance value $0.000 < 0.05$ ($\alpha=5\%$). This means that the indicators used to predict the factors shaping the relationship between C.V. CS and the suppliers are related and suitable for factor analysis.

Table 6. MSA Value

Indicator	MSA Value
Communication	0.844
Trust	0.920
Capacity and Capability	0.849
Realtionship Continuity	0.788
Dependence	0.792
Commitment	0.931

Based on the data processing result, it can be concluded that the MSA value of each indicator, which acts as the factor that forms the relationship between C.V. CS and the suppliers, is generally above 0.5. This means that the said indicators can be regarded as factors.

Table 7. Communalities Value

Indicator	Communalities Value
Communication	0.751
Trust	0.698
Capacity and Capability	0.789
Relationship Continuity	0.840
Dependence	0.703
Commitment	0.724

Table 7 indicates the communalities values of the six indicators which serve as the factors

shaping the relationship between CV. CS and the suppliers. Communalities values higher than 0.5 suggest that the selected indicators explain at least 50% of the data variance from the original variables.

Table 8. Total Variance Explained

Factor	<i>Initial Eigenvalues</i>		
	Total	% of Variance	Cumulative %
1	4.505	75.080	75.080
2	0.509	8.487	83.568
3	0.369	6.154	89.721
4	0.295	4.910	94.631
5	0.220	3.670	98.301
6	0.102	1.699	100.000

It can be seen from Table 8 that one factor has an eigenvalue >1 , which suggests the forming of a new factor that shapes the relationship between C.V. CS and the suppliers. The cumulative total of variable variance explained by the factor is 75.08%.

Table 9. Component Matrix

Indicator	<i>Factor Loadings</i>
Communication	0.867
Trust	0.835
Capacity and Capability	0.888
RelationshipContinuity	0.917
Dependence	0.838
Commitment	0.851

Table 9 indicates that the factor loading value of each indicator is >0.5 , which suggests a close correlation between the indicators and the newly formed factor. Additionally, relationship continuity indicator shows the highest value of 0.917.

5.2. Discussion

Based on the result of the factor analysis, it can be concluded that one new factor was formed. The factor analysis result model can be described as follows:

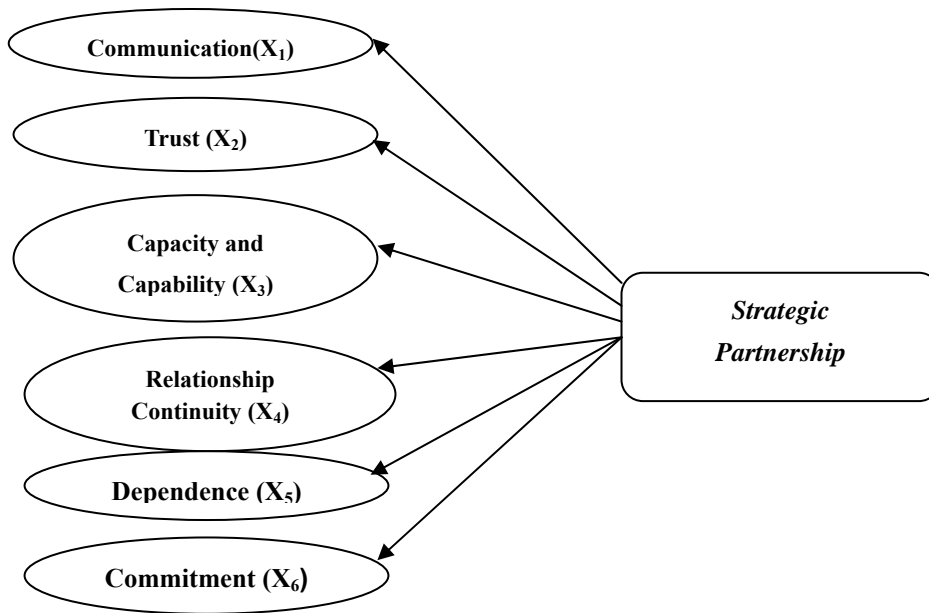


Figure 3. Factor Analysis Result Model

Figure 3 suggests that the factor analysis result formed one new factor, which was strategic partnership. The naming of the new factor suggests that the six variables of communication, trust, capacity and capability, relationship continuity, dependence and commitment are the reflection of business partnership establishment. Strategic partnership can be described as a way to build a long-term business relationship with business partners to obtain investment and increase the profitability levels of both parties.

According to Weitz *et al.* (2009:38), building a successful business partnership requires mutual benefits, mutual trust and interdependence between related parties. In order to build a long-term relationship, the following five elements of *strategic partnership* foundation must be fulfilled (Weitz *et al.*, 2009:38): (1) mutual trust; (2) open communication; (3) common goals; (4) commitment to mutual gain; and (5) organizational support. The result of this research is consistent with the opinions of Weitz *et al.*(2009).

5.3 Managerial Implication

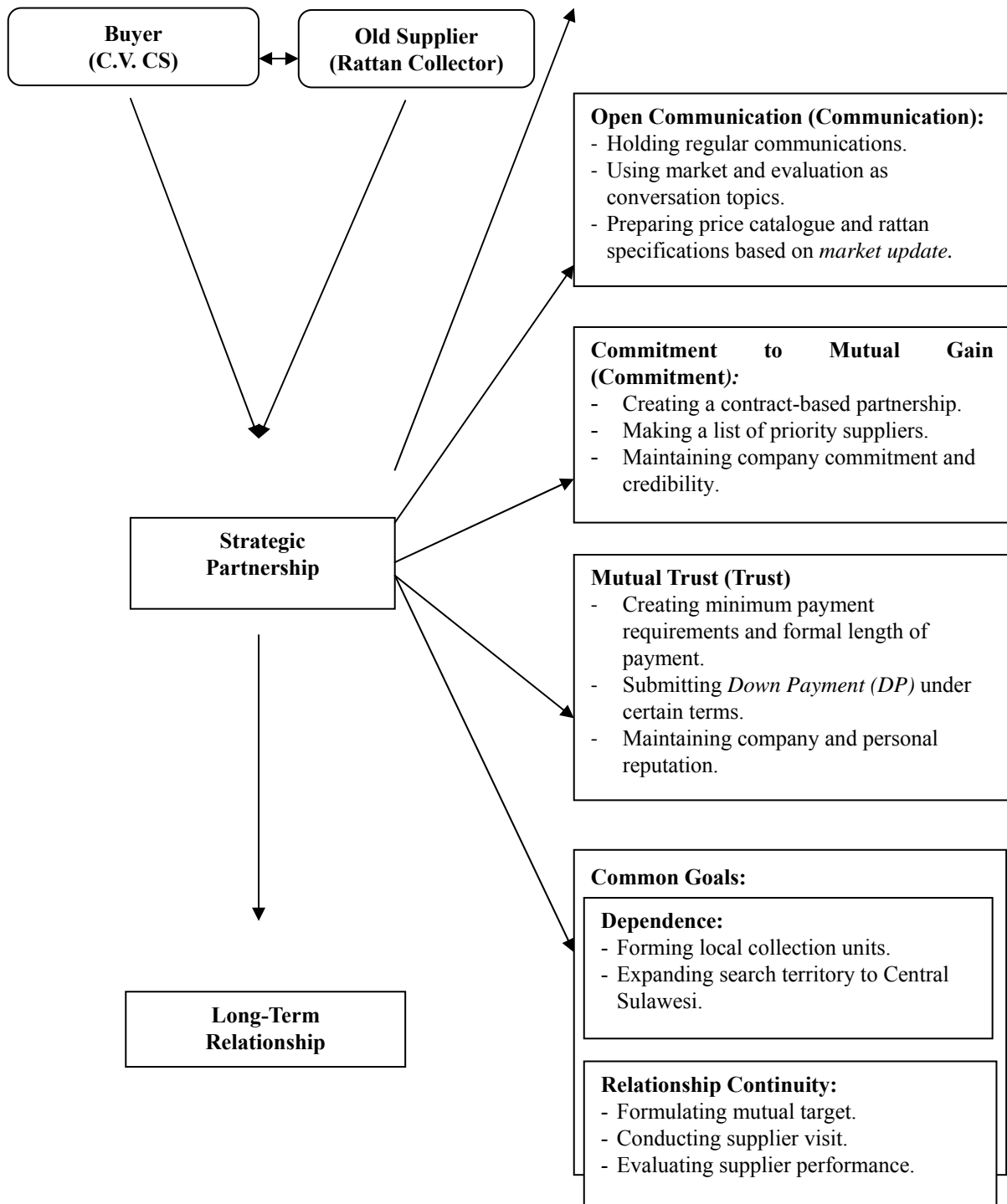


Figure4. Strategic Partnership Model to Shape the Relationship between C.V. CS and the Suppliers Based on the Findings of This Research and Weitz *et al.* (2009)

6. Conclusion

Based on the buyer supplier relationship analysis result, it can be concluded that only one new factor was formed:

(1) Strategic partnership

The strategic partnership factor consists of six variables, namely communication, trust, capacity and capability, relationship continuity, dependence and commitment. These six variables can shape the relationship between C.V. CS and the suppliers. Furthermore, this factor can be used as the company's strategy to form partnerships with the suppliers.

(2) C.V. CS uses strategic partnership as a strategy to form relationships with their supplier. The six variables of communication, trust, capacity and capability, relationship continuity, dependence and commitment have strong correlations with the formulation of strategic partnership. In order to create a common goal, relationship continuity and dependence are required.

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