



BUSINESS RELATIONSHIPS IN SUPPLY CHAINS

SHORT TERM BUSINESS RELATIONSHIPS

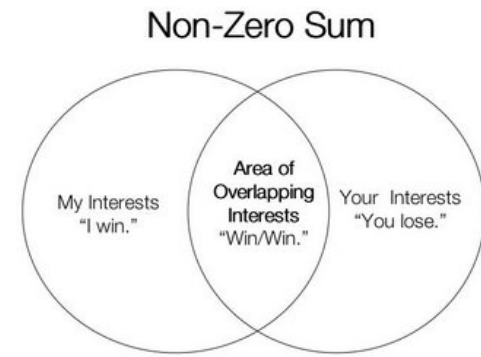
Edited by: dr. Noémi Piricz

1 EVOLUTION OF BUSINESS RELATIONSHIPS: SHORT TERM BUSINESS RELATIONSHIPS - 1



- ADVERSE **ARMS-LENGTH** TRADING
- BUYERS **DEFINED** PRODUCTION AND PROCESS SPECIFICATIONS
- **LITTLE INFORMATION** WAS DISCLOSED TO SUPPLIERS ON TECHNOLOGIES, PROCESSES AND PRODUCTION TARGETS
- **PRICE COMPETITION** WAS THE PRIMARY CRITERION ON WHICH CONTRACTS WERE AWARDED
- THE DANGER HERE IS THAT IF AT SOME POINT A COMPETITOR DEVELOPS A SIMILAR OR BETTER OFFERING, PRICE WILL BECOME THE MAIN DIFFERENTIATOR.

1 EVOLUTION OF BUSINESS RELATIONSHIPS: SHORT TERM BUSINESS RELATIONSHIPS - 2



- CHARACTERIZED BY **WIN-LOSE** TRANSACTIONS AND **MUTUAL MISTRUST**
- THE RELATIONSHIP MAY RESULT IN GOOD REVENUE BUT **PRICE** IS TYPICALLY THE DOMINANT FACTOR
- CULTURAL CHANGE, THE ABSENCE OF TRUST AND THE PREVALENCE OF OPPORTUNISM ARE MAJOR **BARRIERS** TO CHANGE IN BUYER-SUPPLIER RELATIONSHIPS



1 EVOLUTION OF BUSINESS RELATIONSHIPS:

PARTNERSHIPS AND ALLIANCES

- BY 1980'S A **PARTNERSHIP MODEL** WAS BEING ADOPTED TO REDUCE COSTS, RESOLVE SCHEDULING PROBLEMS AND OTHER TECHNICAL DIFFICULTIES.
- STRATEGIC CHANGE WAS REQUIRED TO IMPLEMENT **TOTAL QUALITY PRINCIPLES AND JIT**.
- THE PARTNERSHIP IS CHARACTERIZED BY **CLOSE OPERATIONAL AND STRATEGIC LINKS** BETWEEN BUYER AND SUPPLIER; THE PROVISION OF TECHNICAL AND MANAGED **ASSISTANCE** TO SUPPLIERS AND THE ESTABLISHMENT OF PREFERRED SUPPLIER STATUS OR SINGLE SOURCING AGREEMENTS



BUSINESS RELATIONSHIPS IN SUPPLY CHAINS

DEFINITION AND FEATURES OF STRATEGIC ALLIANCES AND PARTNERSHIPS

1 CHOOSING THE RIGHT RELATIONSHIPS



Relationship styles continuum

2 PARTNERSHIPS IN THE SUPPLY CHAIN - 1

- **THE CHARACTERISTICS OF PARTNERSHIPS**
 - MUTUAL BENEFITS AND SHARING OF RISKS
 - A RECOGNITION OF MUTUAL INTERDEPENDENCE
 - TRUST AND OPENNESS
 - SHARING OF INFORMATION
 - SHARED GOALS
 - COORDINATION AND PLANNING
 - COMPATIBILITY OF CORPORATE PHILOSOPHIES

2 PARTNERSHIPS IN THE SUPPLY CHAIN - 2

- **ADVANTAGES OF PARTNERSHIPS**

- SAVE COST OF NEGOTIATIONS
- REDUCE MONITORING OF SUPPLIER SOUNDNESS
- INCREASE PRODUCTIVITY

- **DISADVANTAGES OF PARTNERSHIPS**

- NEED FOR ORGANIZATIONS TO GATHER SUBSTANTIAL INFORMATION ABOUT POTENTIAL PARTNERS ON WHICH TO BASE DECISIONS
- RISK OF SHARING SENSITIVE INFORMATION TO COMPETITORS
- POTENTIAL OPPORTUNISM BY SUPPLIERS

3.1 STRATEGIC ALLIANCE - 1



- IT IS AN ARRANGEMENT BETWEEN TWO COMPANIES THAT HAVE DECIDED TO SHARE RESOURCES TO UNDERTAKE A SPECIFIC, MUTUALLY BENEFICIAL PROJECT
- A STRATEGIC ALLIANCE IS **LESS INVOLVED AND LESS PERMANENT THAN A JOINT VENTURE**, IN WHICH TWO COMPANIES TYPICALLY POOL RESOURCES TO CREATE A SEPARATE BUSINESS ENTITY
- IN A STRATEGIC ALLIANCE, EACH COMPANY MAINTAINS ITS AUTONOMY WHILE GAINING A NEW OPPORTUNITY

3.1 STRATEGIC ALLIANCE - 2

- A STRATEGIC ALLIANCE COULD HELP A COMPANY DEVELOP A MORE EFFECTIVE PROCESS, EXPAND INTO A NEW MARKET OR DEVELOP AN ADVANTAGE OVER A COMPETITOR ETC.
- AN OIL AND NATURAL GAS COMPANY MIGHT FORM A STRATEGIC ALLIANCE WITH A RESEARCH LABORATORY TO DEVELOP MORE COMMERCIALY VIABLE RECOVERY PROCESSES
- A **CLOTHING RETAILER** MIGHT FORM A STRATEGIC ALLIANCE WITH A SINGLE CLOTHING MANUFACTURER TO ENSURE CONSISTENT QUALITY AND SIZING
- A **MAJOR WEBSITE** COULD FORM A STRATEGIC ALLIANCE WITH AN ANALYTICS COMPANY TO IMPROVE ITS MARKETING EFFORTS



3 BUSINESS RELATIONSHIPS IN SUPPLY CHAINS

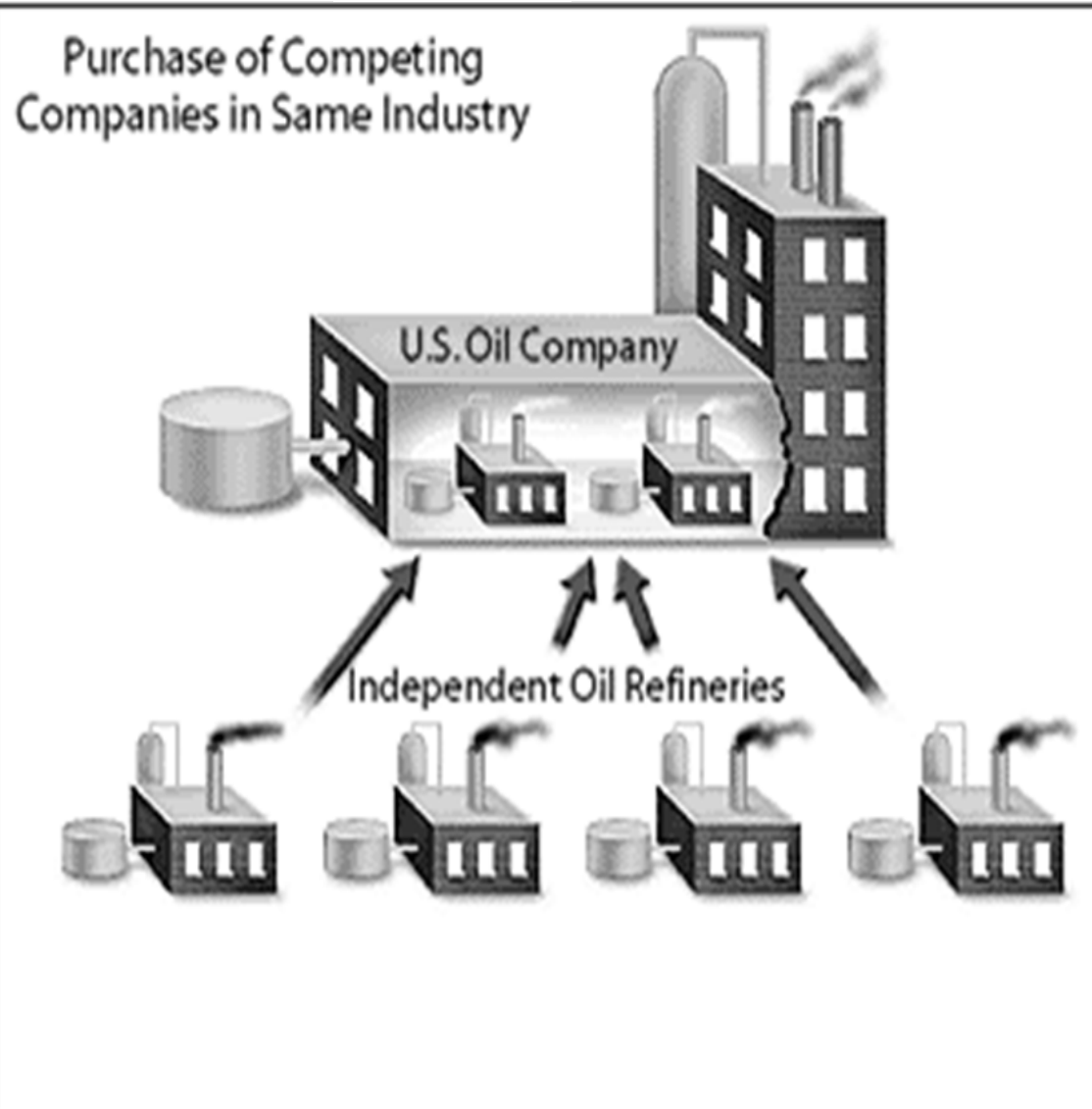
HORIZONTAL AND VERTICAL INTEGRATION



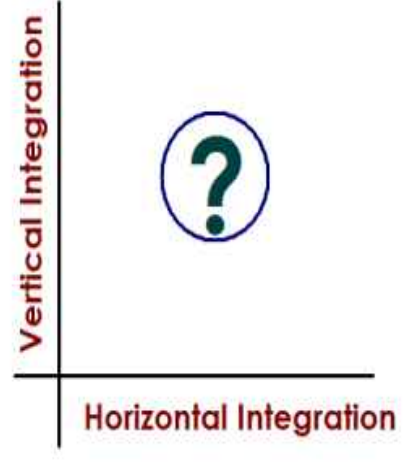
Vertical Integration



Horizontal Integration

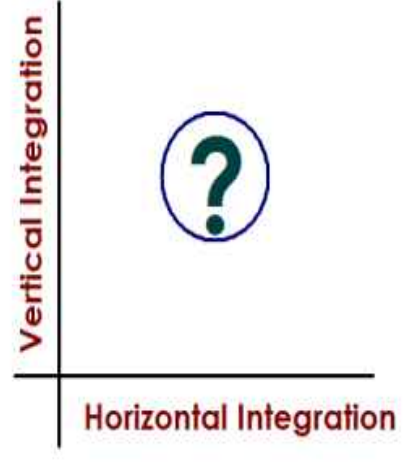


HORIZONTAL AND VERTICAL INTEGRATION -1



- **HORIZONTAL INTEGRATION: THE ACQUISITION OF ADDITIONAL BUSINESS ACTIVITIES THAT ARE AT THE SAME LEVEL OF THE VALUE CHAIN IN SIMILAR OR DIFFERENT INDUSTRIES.**
- BECAUSE THE DIFFERENT FIRMS ARE INVOLVED IN THE SAME STAGE OF PRODUCTION, HORIZONTAL INTEGRATION ALLOWS THEM TO SHARE RESOURCES AT THAT LEVEL.

HORIZONTAL AND VERTICAL INTEGRATION -2



- **VERTICAL INTEGRATION:** WHEN A COMPANY EXPANDS ITS BUSINESS INTO AREAS THAT ARE AT DIFFERENT POINTS ON THE SAME PRODUCTION PATH, SUCH AS WHEN A MANUFACTURER OWNS ITS SUPPLIER AND/OR DISTRIBUTOR
- VERTICAL INTEGRATION CAN HELP COMPANIES **REDUCE COSTS AND IMPROVE EFFICIENCY** BY DECREASING TRANSPORTATION EXPENSES AND REDUCING TURNAROUND TIME, AMONG OTHER ADVANTAGES

The background of the slide is a light gray gradient with several realistic water droplets of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance.

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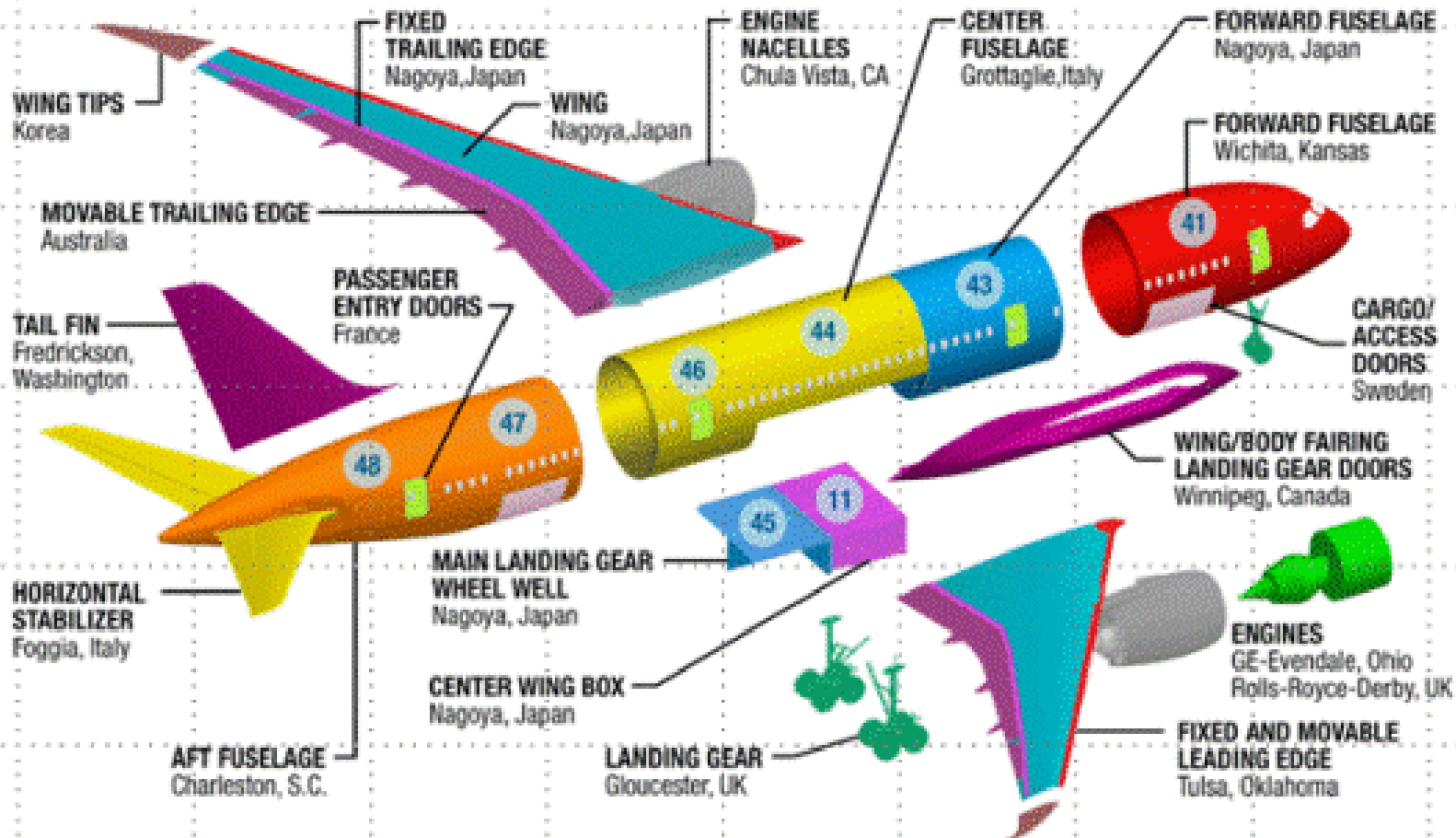
SPECIAL TYPES OF COOPERATION IN ASIA

Partners Across The Globe Are Bringing The 787 Together

1 Supplier networks

THE COMPANIES

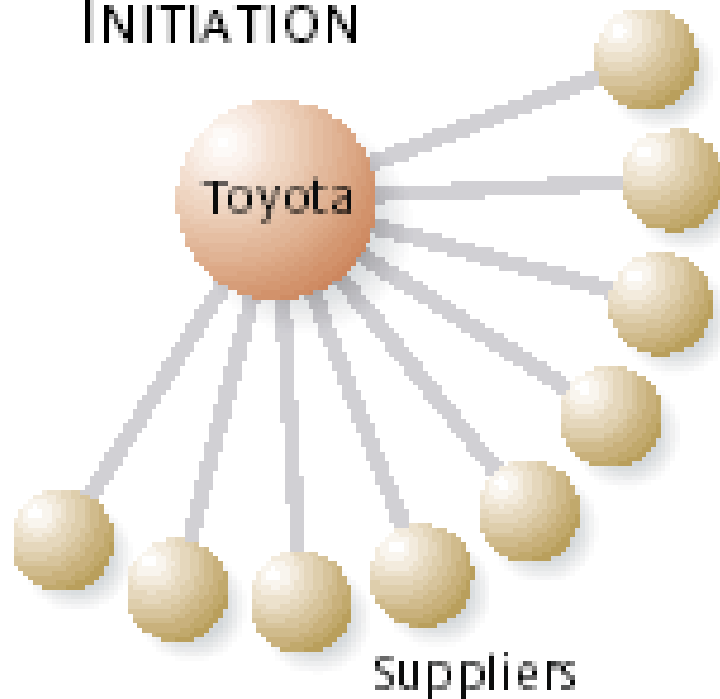
U.S.	CANADA	AUSTRALIA	JAPAN	KOREA	EUROPE
Boeing	Boeing	Boeing	Kawasaki	KAL-ASD	Messier-Dowty
Spirit	Messier-Dowty		Mitsubishi		Rolls-Royce
Vought			Fuji		Latecoere
GE					Alenia
Goodrich					Saab



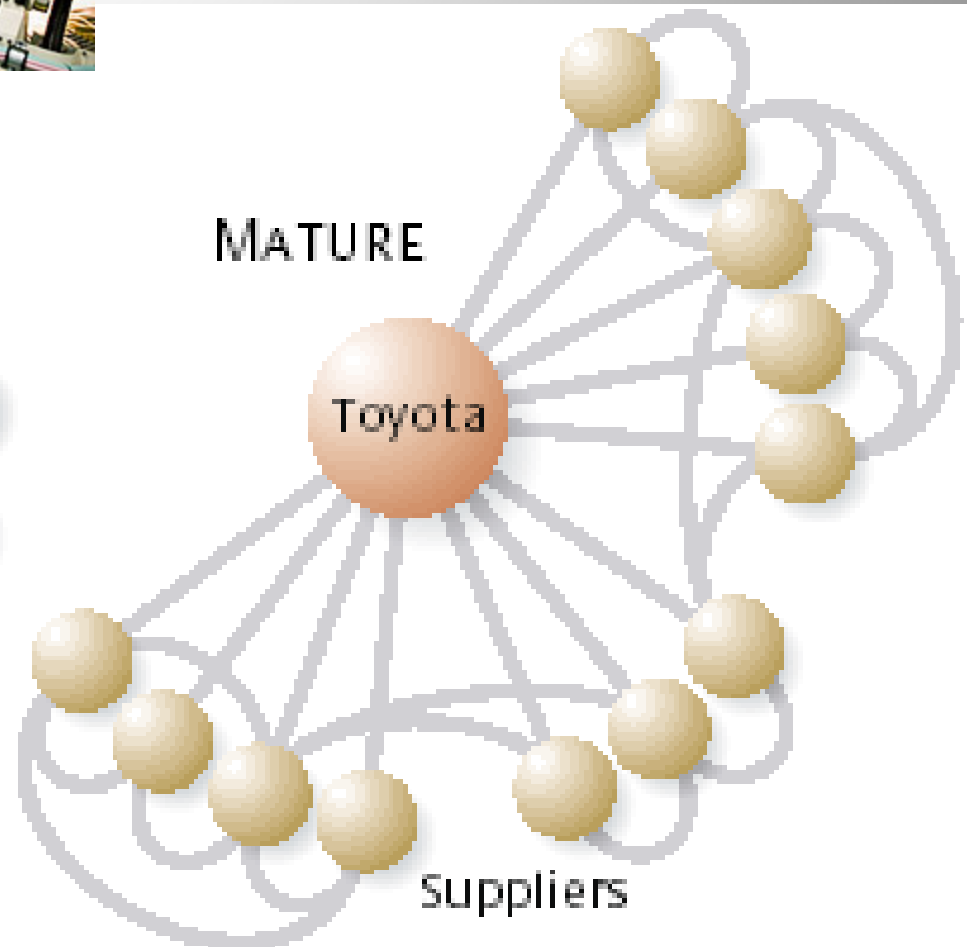


SUPPLIER NETWORKS - 1

INITIATION



MATURE



SUPPLIER NETWORKS

- **SUPPLIER ASSOCIATIONS**
 - **THE NETWORK OF A COMPANY'S IMPORTANT SUPPLIERS BROUGHT TOGETHER FOR THE PURPOSE OF COORDINATION AND DEVELOPMENT.**
 - THROUGH THE SUPPLIER ASSOCIATION FORUM THIS COMPANY PROVIDES TRAINING AND RESOURCE FOR PRODUCTION AND LOGISTICS PROCESS IMPROVEMENTS.
 - THE ASSOCIATION ALSO PROVIDES THE OPPORTUNITY FOR ITS MEMBERS TO IMPROVE THE **QUALITY AND FREQUENCY OF COMMUNICATIONS** -> A CRITICAL FACTOR FOR IMPROVING OPERATIONAL PERFORMANCE (AITKEN, 1998)

SUPPLIER NETWORKS - 4

SUPPLIER ASSOCIATIONS IN JAPAN

Automaker	Founding year	Total members (1990)
Toyota Kyohokai	1939	229
Nissan Takarakai Shohokai	1954 1966	174
Mitsubishi Kashiwakai	1971	262
Mazda Yokokai	1981	180
Isuzu Kyowakai	1962	284

SUPPLIER NETWORKS: JAPANESE KEIRETSU - 1

系列, keiretsu

- LITERALLY: *SYSTEM, SERIES, GROUPING OF ENTERPRISES*
- IS A SET OF COMPANIES WITH INTERLOCKING BUSINESS RELATIONSHIPS AND SHAREHOLDINGS
- IT IS A TYPE OF BUSINESS GROUP
- IT IS A KEY ELEMENT OF THE AUTOMOTIVE INDUSTRY IN JAPAN
- THE MEMBER COMPANIES OWN SMALL PORTIONS OF THE SHARES IN EACH OTHER'S COMPANIES, CENTERED ON A CORE BANK

SUPPLIER NETWORKS: JAPANESE KEIRETSU - 2

- AT THE EPICENTER IS A BANK AND A TRADING COMPANY
- THIS SYSTEM HELPS INSULATE EACH COMPANY FROM STOCK MARKET FLUCTUATIONS AND TAKEOVER ATTEMPTS, THUS ENABLING LONG-TERM PLANNING IN INNOVATIVE PROJECTS



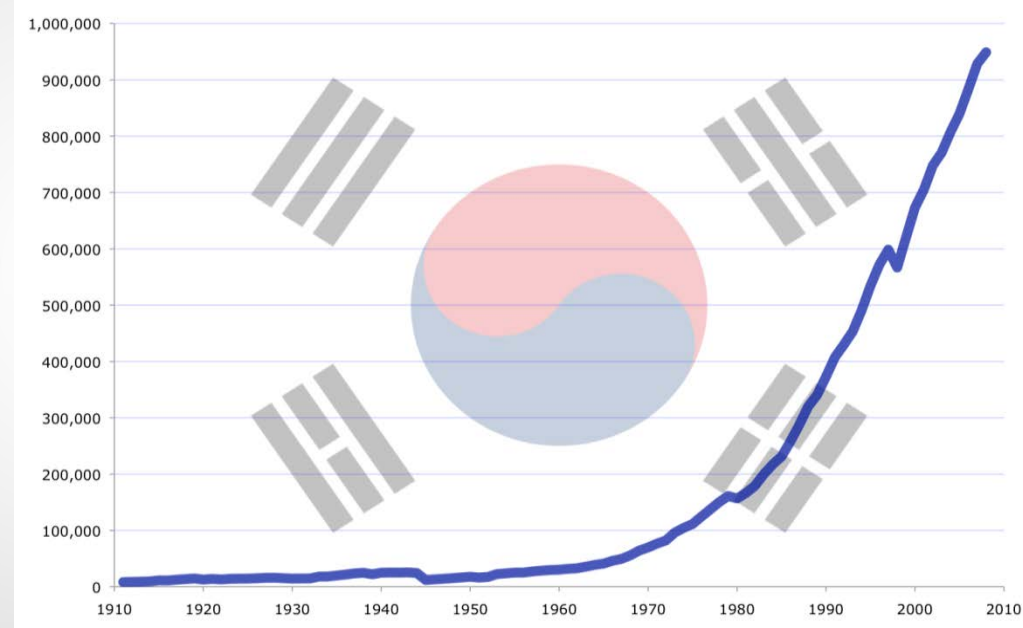
CHAEBOL

- REFERS TO A **SOUTH KOREAN** FORM OF BUSINESS FAMILY-RUN CONGLOMERATE
- THE TERM IS SIMILAR TO THAT OF THE ENGLISH WORD "CONGLOMERATE,,
- THEY ARE TYPICALLY GLOBAL MULTINATIONALS OWNING NUMEROUS INTERNATIONAL ENTERPRISES, CONTROLLED BY A CHAIRMAN WHO HAS POWER OVER ALL THE OPERATIONS



HISTORY OF CHAEBOL

- SOUTH KOREA'S ECONOMY WAS SMALL AND PREDOMINANTLY AGRICULTURAL COUNTRY IN THE MID-20TH CENTURY
- GOVERNMENT INDUSTRIAL POLICY (IN 1961) SET THE DIRECTION OF NEW INVESTMENT, AND THE CHAEBOL WERE TO BE GUARANTEED LOANS FROM THE BANKING SECTOR
- THE TERM WAS FIRST USED IN 1984





CHAEBOL

- 50% OF JAPANESE CAPITAL IS HELD BY THE 18 KEIRETSU AND
- THE TOP FOUR CHAEBOL ACCOUNTS FOR IN-BETWEEN 40% AND 45% OF THE SOUTH KOREAS GNP