



Contents lists available at ScienceDirect

Journal of Purchasing & Supply Management

journal homepage: www.elsevier.com/locate/pursup

An exploratory analysis of the relationship between purchase category strategies and supply base structure

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ARTICLE INFO

Article history:

Received 11 July 2014

Received in revised form

23 April 2015

Accepted 26 April 2015

Keywords:

Supply base structure

Purchasing strategy

Purchase category

Multiple-case study

ABSTRACT

This article explores how purchasing strategy at the purchase category level is related to the structure of the supply base for that purchase category. We contrast cost strategies with innovation strategies, and define supply base structure as being comprised of size (number of suppliers), heterogeneity (differentiation of suppliers), interaction (competition/collaboration), time/stability (contract duration) and transparency (supplier information sharing). Examining 13 purchase categories by means of the multiple case study method, we find that supply base structures that are associated with higher purchasing performance are not only explained by differences in purchase category strategy, but also by the purchase category's impact and supply risk. We develop seven detailed propositions for future research on this complex interplay.

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1. Introduction

The importance of supply base management as a strategic tool to achieve competitive advantage is widely acknowledged both in practice and research (Choi and Krause, 2006; Gadde and Hakansson, 1994; Holmen et al., 2007). The changing role of purchasing from a clerical function to a more strategic function (Carter and Narasimhan, 1996; González-Benito, 2007; Schoenherr et al., 2012) contributed significantly to the increased emphasis on supply base management. A supply base can be defined as “the total number of suppliers that are actively managed by the focal firm, through contracts and purchase of parts, materials and services” (Choi and Krause, 2006, p.639). One of the most important strategic choices in purchasing is developing a supply base that supports the purchasing strategy (Gadde and Hakansson, 1994; Monczka, 2005). Das and Narasimhan (2000) call this “purchasing competence” which they define as “the capability to structure the supply base in alignment with the manufacturing and business priorities of the firm”.

Supply base structure can be defined by examining several characteristics of the supply base such as the number of suppliers, the degree of differentiation of suppliers, and the ways in which suppliers relate to one other (Choi and Krause, 2006; Gadde and Hakansson, 1994; Holmen et al., 2007). Among these dimensions,

size of the supply base has been investigated the most, often under the topic of ‘supply base reduction/rationalization’ (e.g. Cousins, 1999; Narasimhan et al., 2001; Ogden, 2006). Interestingly, there have not been many studies which examine multiple dimensions of supply base structure, especially in relation to purchasing strategies and purchasing performance. Being among these few studies, in their conceptual paper Choi and Krause (2006) define supply base structure by adopting a ‘complexity’ perspective, and discuss how supply base complexity might have consequences for various purchasing performance criteria such as transaction costs, responsiveness, risk, and innovation. Recently, a few studies investigated supply complexity as a moderating factor, for instance between supplier knowledge transfer and flexibility (Blome et al., 2014) and between supply chain visibility and supply chain resilience/robustness (Brandon-Jones et al., 2014). However, the main focus in these studies was not on developing a comprehensive assessment of the different dimensions of the supply base structure/complexity construct. Additionally, there is a dearth of empirical evidence about how the focus on different objectives in purchasing strategies, such as cost versus innovation, impacts supply base structure. Performance implications of supply base structure are also a rather untouched territory.

As firms have a huge variety of purchased products and services ranging from critical raw materials to office supplies, and from spare parts to transportation services, they have many suppliers which form their overall supply base. It seems plausible to argue that in line with this variety, firms also have different supply base structures for different purchase categories (Homburg and

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<http://dx.doi.org/10.1016/j.pursup.2015.04.007>

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Kuester, 2001; Luzzini et al., 2012; Trautmann et al., 2009). A purchase category can be defined as “a homogenous set of products and services that are purchased from the same supply market and have similar product and spend characteristics” (Cousins et al., 2008; Van Weele, 2010). According to Monczka’s well-known model of strategic purchasing processes (Monczka, 2005), structuring the supply base is the next step after developing commodity (purchase category) strategies. Monczka and Markham (2007) argue that structuring the supply base in line with the purchase category strategy is one of the key issues on purchasing managers’ agendas; however, interestingly there is very little knowledge in existing literature about purchase category strategies (Hesping and Schiele, forthcoming), and there is not any research at all that examine the link between purchase category strategies and supply base structure.

As a response to the research gaps identified above, in this study we aim to answer the following research questions:

- How does purchase category strategy relate to supply base structure?
- How does supply base structure relate to purchase category performance?

The rest of the paper is structured as follows: In the Literature Review, we first discuss purchase category strategies, and then elaborate on the supply base structure dimensions and how they are linked to purchase category strategies and performance. Additionally, we mention purchase category characteristics – more specifically, purchase impact and supply risk –, as they might also impact the supply base structure. Due to the limited research available about supply base structure, we adopt an exploratory approach and use the multiple case study method (Barratt et al., 2011; Voss et al., 2002; Yin, 1994). In Section 3, we elaborate on case selection and data collection, validity and reliability issues, and the case study protocol and measurement. We conclude the paper by discussing the results, arriving at seven propositions, and suggesting avenues for future research.

2. Literature review

2.1. Purchase category strategies

Defining appropriate purchasing strategies is important for firms, as such strategies guide practices and processes, and impact performance (Baier et al., 2008; Ginsberg and Venkatraman, 1985). The majority of the literature about purchasing strategies focuses on the “functional” level; however, it is increasingly acknowledged that firms do not adopt a single, overarching purchasing strategy, and that there is a need for examining purchasing strategies at more micro levels, such as the purchase category (Hesping and Schiele, forthcoming; Monczka and Markham, 2007).

Although firms might have an overall purchasing strategy, purchasing objectives differ across different types of purchases (Cousins et al., 2008; Luzzini et al., 2012; Terpend et al., 2011). For instance, while a firm pursues cost-efficiency in buying a certain type of raw material and searches for multiple suppliers offering the lowest price, for another purchase category innovation might be the key purchasing objective and thus the firm might prefer having a smaller supply base to foster more intense collaboration. There have been some studies investigating the link between cost objectives and the number of suppliers (e.g. Berger et al., 2004; Burke et al., 2007), but to the best of our knowledge the link between other purchasing objectives and other supply base structure dimensions have not been examined in a comprehensive way.

We focus on two types of purchase category strategies in this

study: cost versus innovation. We acknowledge that based on competitive priorities, there can be many purchasing strategies; however, cost and innovation strategies have been cited by many as the two key purchasing strategies that are usually associated with different governance needs and purchasing practices (Baier et al., 2008; David et al., 2002; Terpend et al., 2011). Similarly, cost and innovation performance are also considered as two distinctive purchasing and supply chain performance outcomes (Blome et al., 2013; Craighead et al., 2009). As the traditional focus of purchasing was on cost reduction (Carter and Narasimhan, 1996; Zsidisin et al., 2003), it can be stated that firms are more experienced in structuring their supply base for cost strategy. Therefore, it is especially interesting to examine how a purchase category strategy focused on innovation impacts the supply base structure.

2.2. Defining supply base structure

Supply base structure was first coined as a term by Gadde and Hakansson (1994) who discussed it as one of the three most strategic issues in purchasing (i.e. make-or-buy, supply base structure, customer–supplier relationships). They stated that “[The] issues regarding the supply-base structure can be divided into two strategic aspects: one has to do with the number of suppliers, the other with the way suppliers are organized” (p. 29). Later, in their conceptual paper, Choi and Krause (2006) broadened this definition, suggested a slightly different name for the construct (i.e. supply base complexity), and provided the following definition: [T]he degree of differentiation of the focal firm’s suppliers, their overall number, and the degree to which they inter-relate” (p.637). They argued that “[w]hether contemporary supply managers explicitly think in terms of supply base complexity, or not, we propose that it affects transaction costs, supply risk, supplier responsiveness, and supplier innovation” (p.638). It has been argued in the literature that the size and shape of the supply base are becoming increasingly important issues (Holmen et al., 2007), but the main focus has been on the number of suppliers. However, as the above definitions suggest, there are other dimensions of supply base structure. In the next sections, we elaborate on five supply base structure dimensions: size, heterogeneity, interaction, time, and transparency, and discuss how they relate to cost and innovation strategies in purchasing.

2.2.1. Supply base size

Having the right number of suppliers has been a major consideration of firms for a long time (Richardsson, 1993; Gadde and Hakansson, 1994). Quite often, the ‘right’ number of suppliers is associated with reducing the number of suppliers. It is argued that a smaller supply base has many advantages such as volume discounts, lower administration costs, and improved quality and coordination (Lemke et al., 2000). Choi and Krause (2006) argue that even though decreasing the number of suppliers may be beneficial in terms of transaction costs, it may result in lower supplier innovation. The main underlying reason behind this premise is that each additional node a firm has access to can serve as an information-processing mechanism to identify innovative solutions. Second, a small number of suppliers means increased dependence on those few suppliers and this can lock the buying company into these certain suppliers and their technologies. On the other hand, Koufteros and Marcoulides, 2007 argue that a smaller supply base enables more collaborative relationships with suppliers and closer ties which reduces fears about opportunistic behavior and increases sharing of innovative ideas. Additionally, they suggest that increased volumes for the remaining suppliers might increase their motivation to invest in technologies and get involved in new product development activities. Interestingly, they find that this effect is contingent on the type of innovations; while a smaller

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