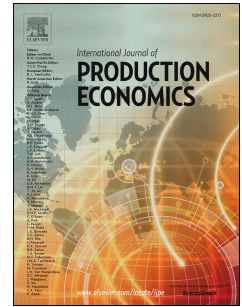


# Accepted Manuscript

Inventories and the concentration of suppliers and customers: Evidence from the Chinese manufacturing sector

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PII: S0925-5273(17)30227-X

DOI: [10.1016/j.ijpe.2017.07.010](https://doi.org/10.1016/j.ijpe.2017.07.010)

Reference: PROECO 6766

To appear in: *International Journal of Production Economics*

Received Date: 9 November 2013

Revised Date: 23 May 2017

Accepted Date: 8 July 2017

Please cite this article as: Casalin, F., Pang, G., Maioli, S., Cao, T., Inventories and the concentration of suppliers and customers: Evidence from the Chinese manufacturing sector, *International Journal of Production Economics* (2017), doi: 10.1016/j.ijpe.2017.07.010.

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## **Inventories and the concentration of suppliers and customers: Evidence from the Chinese manufacturing sector**

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### **Abstract**

This study investigates the links between supplier- and customer-base concentrations, and inventory holdings in the Chinese manufacturing sector. Using financial data from a cohort of 516 companies, we find that firms that face higher supplier density - benefiting from better coordination with suppliers - hold fewer inventories, whereas firms with higher customer density retain larger inventories, as a result of the bargaining power exercised by customers. We then extend the analysis by investigating the impact of account payables, receivables and bad debt reserves, finding that inventory holdings are positively associated with the two forms of financing, and negatively associated with bad debts. This last relationship, however, becomes less severe when firms have access to large volumes of payables. Finally, we show that the above results hold – with varying degrees of similarity - also when we partition the dataset into six homogenous industrial segments. Overall, this study contributes to the growing literature on inventories and the structure of the supply chain by shedding new light on the importance of both supplier and customer densities, as well as the volume of payables and receivables, for inventory management.

Key words: Supplier-base concentration; Customer-base concentration; Inventory holdings

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