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Reasearch paper

Challenges in gaining supply chain competitiveness: Supplier response strategies and determinants

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ABSTRACT

This study aimed to explore suppliers' response strategies to their biggest challenge when they are dealing with brand name manufacturers and uncover the driving forces underlying such strategies. Based on face-to-face interviews with 1075 electronic component suppliers in China, we identified suppliers' biggest challenges and classified their response strategies into these categories: strategic marketing, operations and human resources, and economic. Drawing from the resource-based view of the firm, interorganizational relationship theory, and transaction cost economics, coupled with the results from our in-depth interviews, we argue that the type of supplier response strategies depends on the type of challenge faced as well as various transaction and customer characteristics. Our empirical study demonstrated that these driving forces significantly affect suppliers' strategic responses in different ways. Our study contributes to the literature on brand management in the B2B setting, by investigating how suppliers effectively tackle their biggest challenges from brand name manufacturers to gain competitive advantages.

1. Introduction

With the advent of time-based management strategies (e.g., just-in-time purchasing and electronic data interchange), the pace and the manner in which companies/suppliers respond to the time-sensitive requests of the business to business (B2B) customer presents an important and difficult challenge (Choi & Krause, 2006; Walters, 2008). For example, a B2B company's customers and their buying patterns are more complex compared with those of business to consumer (B2C) customers, requiring specific strategies on the part of suppliers to differentiate themselves via customer experience.

To this end, researchers have examined long-term value creation mechanisms, such as supplier development strategies, wherein the B2B customer invests resources in its suppliers (e.g., goal setting, supplier evaluation, performance measurement, supplier training, and other related activities). However, research on the benefits of supplier development strategies and close collaboration has so far produced mixed results. Unprofitable customer relationships have been found to exist among suppliers (Bunkley, 2006; Chung, Wang, Huang, & Yang, 2016; Gosman, Kelly, Olsson, & Warfield, 2004; Helm, Rolfes, & Günter, 2006), leading researchers to question the rationality of suppliers and their choice of continuing a relationship where profits cannot be made (Kalwani & Narayandas, 1995). While the research to date has focused on the customer supply chain strategy and the value-creating methods used to manage suppliers, very little is known about suppliers' response strategies, given their capabilities and their pressing challenges.

Researchers in the channel management literature have explored the use of control mechanisms in coordinating complex supply networks (Choi & Hong, 2002; Choi & Krause, 2006). Indeed, the focus of these studies has been to understand how to manage the supplier's commitment and responsiveness to the time-sensitive requests of the focus company. The behavior of suppliers in terms of their responsiveness is found to be less a function of competitive pressures and more a function of close relationships and open communication between the focus company and its suppliers (Liker & Choi, 2004). While this body of literature provides critical insights on supplier development strategies employed by the customer, two critical issues remain unresolved in the literature. First, virtually no prior study has systematically examined suppliers' response strategies in relation to their biggest challenge. Second, few studies have investigated suppliers' response strategies with regard to their relationship with major brand name customers (e.g., Eloot, Huang, & Lehnich, 2013). For instance, what factors would prompt suppliers to choose to develop new products and brand names in response to their biggest challenge; and what factors

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would lead them to focus on re-engineering and process improvement initiatives instead? Understanding the suppliers' response strategies is, likely, a step towards helping suppliers gain efficiency improvements and achieve superior brand performance.

To address the above two critical issues, we first conducted in-depth interviews with over 1000 electronic component suppliers to identify and classify their biggest challenges and corresponding response strategies. Based on the results from our in-depth interviews, we grouped the suppliers' response strategies into three general categories: strategic marketing (marketing strategy), reengineering (operations and human resources), and restructuring (economic). We classified a range of challenges faced, in terms of external market-based, internal operations-based, and input cost-based, and we argue that the supplier's strategic response will depend on the type of challenge faced. Drawing from transaction cost economics, the resource-based view of the firm, and interorganizational relationship theory, we further posit that a supplier's strategic response is also a function of the level of strategic market fit, customer integration and development practices, and customer exchange risk.

2. Supplier response strategy framework

Supplier strategic response mechanisms are the actions of suppliers for adapting to substantial, uncertain and fast-occurring environmental changes that have a meaningful impact on the organization's performance (Aaker & Mascarenhas, 1984). Response management, along with demand management, plays a critical role in satisfying customers in the supply chain (Walters, 2008). The management literature describes three key strategic response mechanisms—business marketing/brand positioning, business re-engineering, and restructuring—which suppliers can use to improve their market-related performance and better position themselves vis-à-vis their customers.

Marketing or brand positioning is a strategic response that is focused on sustaining current customer market relationships as well as seeking out new markets. Component suppliers' marketers can invest in relationship marketing activities with original equipment manufacturers (OEMs) (i.e., direct influence strategies) and/or invest in building a component supplier brand with end customers (i.e., indirect influence strategies). The former strengthens OEM–supplier relationships, and analogous with push strategies, focus on how the supplier can help improve OEM products, enhance margins, and reduce costs and risks for OEMs (Neill, McKee, & Rose, 2007). Conversely, by building the component supplier brand (e.g., developing a strong brand image among end customers to foster brand loyalty), component suppliers can also bring end customers to OEMs, in a manner similar to pull strategies in consumer markets. To this end, many suppliers in business-to-business (B2B) or industrial markets have begun investing systematically in their brands, with the idea that branding strategies can help them stabilize or grow their profits in increasingly competitive markets (Wise & Zednickova, 2009).

Hammer and Champy (1993) outline the role of business engineering directed

towards improving the workflow and process integration to enhance operating performance. Business engineering is focused on monitoring and reduction of internal costs by modifying the ineffective production activities (Wei & Chen, 2008). To illustrate, analogous to the practice of just in time purchasing in which OEMs keep all necessary parts for production at suppliers' warehouses till the time when the demand is certain, and the firm is ready to manufacture, suppliers can closely work with customers to enable the keeping of less inventory (Gonzales–Benito & Spring, 2000). Further, process re-engineering led via improvements in human resources, skill improvements or automation is a common strategy to create value inside the firm (Wei & Chen, 2008). Accordingly, we refer to business engineering activities as operations and human resources initiatives.

The strategic response of restructuring comes from the literature on post-merger integration between two parties, which refers to the integration and coordination between the firms involved (Larsson & Finkelstein, 1999). Kato and Schoenberg (2014) have identified six actions on the part of merging firms which impacted their relationships with customers: operational consolidation, operational standardization, sales force integration, IT integration, organizational restructuring, and marketing integration. Applied to the supply chain context, restructuring refers to a strategy focused on gaining scale economy benefits associated with bulk purchasing and the benefits of outsourcing production and administration activities. Accordingly, we refer to restructuring activities as economic initiatives.

Given these three strategic responses, we propose a model which predicts that the supplier's strategic response will be a function of (i) the supplier's major challenge and (ii) the supplier's major customer characteristics. We group the supplier's major challenges in terms of market-based (the market that they are competing in, such as competition and sales growth), operations-based (product development and human resources management), and input costs-based (the cost of factor inputs such as materials and labor). We group the major customer characteristics in terms of strategic market fit, customer integration and development practices, and customer exchange risk. Fig. 1 presents the model and research hypotheses that are developed in the next section.

3. Hypothesis development

3.1. Major challenges and supplier strategic responses

The challenges facing suppliers can be grouped into three main areas—marketing, operations, and input costs. While these factors are interrelated, such as when competition impacts on operational cost initiatives, we derive hypotheses for the suppliers' response to these factors separately. In line with our focus group interviews and relevant literature, we develop hypotheses that predict how suppliers' responses are expected to be directly linked to what they perceive to be their biggest challenge.

3.1.1. Market-based challenges

Market-based challenges refer to competition that suppliers face in current markets, and lower than expected sales growth in the current markets that they are supplying to. Market competition has forced suppliers to incorporate new features and new product offerings as well as to focus their marketing efforts on building their brand name (Eloot et al., 2013). As market competition increases and sales growth begin to slow, suppliers that perceive these factors to be their biggest challenge

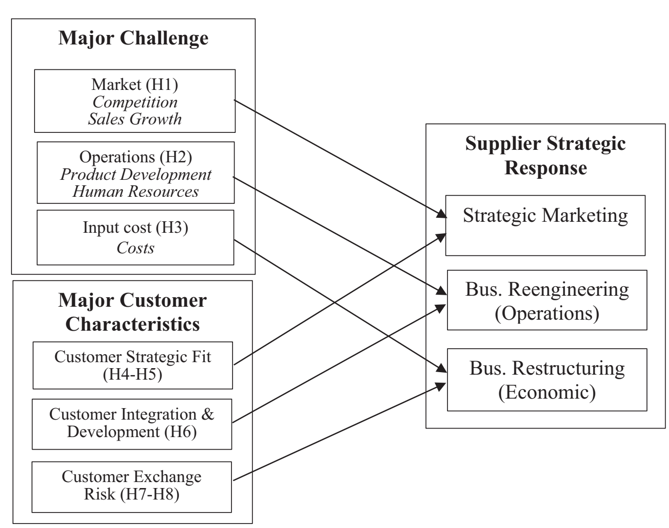

Fig. 1. Supplier strategic response framework.