AN EVALUATION VENDOR RELATIONSHIP AND PROFITABILITY

BY

David Abel Fuoh

Bursary Dept

&

Jidda Mohammed

Dept of Accountancy

SABS Suntai

Abstract

This study was carried out to examine the topic: evaluation of vendor relationship and profitability. The main objective of the study was to evaluate vendor relationship and profitability and the specific objectives are to determine: the extent to which vendor relationship maximize manufacturers profits to its maximization level, Vendor's ability to get good depends on its access to quality products. As market factors change, vendors also need to change. This is particularly true in competing global markets; this paper adopted quantitative research methodology and decided to have a size number of this study, and sampling technique method was used to select a sample of fifty (50) vendors from the study population; the result of this study found that the vendor-manufacturer relationship vendor-customer relationship as well as discount and credit also the customer enjoy Compensation Policy has a positive impact on the vendor profit level; however the main objective of business is to maximize profit and minimize cost; recommended that vendors should establish mutual relationship with both the manufacturers and customers in order to keep their profit level high; both the manufacturer and vendor should have provision

Introduction

Vendor's ability to consistently deliver quality and complete largely depend on its access to quality products and services (CIPS, 2013). As market factors change, vendors also need to change. This is particularly true in competing global markets. However vendors are constantly under pressure to find ways cost and increase profits through engaging in strategic supplier selection process and evaluation (Weber, 2008). According to Nadi (2012) supplier evaluation is a process which provides the buying firm with a better understanding of which suppliers perform well and which suppliers do not perform well? Studies reveal that few of them have carried out in-depth supplier evaluation, appraisal coupled with the enactment of Public Procurement and Disposal Act (PPDA) of 2005 and other policies on supplier evaluation.

The concept of marketing is not a recent phenomenon; vendors have been in existence since ancient times and civilizations when one reads accounts of travelling merchants who sold their goods in their town by going from house to house but they also traded in neighbouring countries through. Perhaps ancient and medieval civilizations were tolerant to these wandering traders and this is why they flourished but in modern times we find that street vendors are rarely treated with high measure of dignity and tolerance, but rather they have been targeted by municipalities and police in the urban areas as illegal traders. The urban middle class complains constantly how the vendors make urban life a living hell, blocking the pavements, traffic and also engage in anti-social activities (through [illegible]), the same represent [illegible] for buyers from street vendors the goods which they are cheaper though quality might not be as good as those in the over priced department stores and shopping malls).

Thus, small businesses need goods to operate. There is one thing business persons cannot neglect: supplier management. The natural focus of companies is on fostering customer loyalty but that's only relationship nurturing. A good relationship with both your suppliers and customers is also important. It is crucial whether making or running your business or driving a family car, your suppliers and customers and vendors are critical to your success in the market and your profits, so you might consider important to effectively manage your relationships with them.

Statement of the Problem

Vendors are important stakeholders whose operations impact on the overall performance given to goods. The choice of vendors or suppliers should be guided by an elaborate evaluation of the potential suppliers which can impact the performance of Procurement function. Delayed deliveries, poor quality products or services, completion of order and delivery threats, litigated orders, delayed payments is a common scenario experienced by public institutions. Report by PPOA indicates that 30% of procurement inefficiencies in the public sector in Kenya are attributed to supplier's performance issues.

In supply chain management, vendor-customer relationships are critical to the success of the strategic profits of the business and in order for a vendor to keep track of his profit. A supplier-customer relationship is complex for manufactures involving in both learning and innovation to jointly create value, but also self-interest bargaining to claim value being created by vendors (Ghosh & John, 1999; Subramani, 2004). Due to the fact that global competition has increased vendors' interest in using market mechanism to attract profits, and that buyer-supplier relationships are often asymmetric with the power dependence position favoring the large industrial customer, there is a reason to be concerned for the profitability and survival of smaller suppliers (Gomes-Casseres, 1997; Forrest, 1990). However, inefficiencies still exist ranging from supplies being made halfway or even termination of contracts before conclusion from the manufactures side and lack of brand loyalty from the customers' point of view.

Thus, is against this backdrop that this study is been carried out to evaluate the vendors relationship with his suppliers and customers, and how it affects his sprofitability level.

Objectives of the Study

The major objective of this study is to evaluate the vendor relationship and its profitability. The specific objectives include:

1. To determine the extent to which vendor's relationship with manufacturers affects his profits maximization level.
2. To determine the extent to which vendor's relationship with customers affects his profits maximization level.
3. To proffer policy recommendations that would help in curbing the menace of vendor relationship and profitability.

LITERATURE

Theoretical Review

Previous study has illustrated various theories used to explain the relationship between buyer-supplier relationships on procurement performance such as resource-based view theory (RBV), social exchange, and transaction cost theory among others. This study is anchored on the social exchange theory. Based on the social exchange theory a business network may be seen as a type of exchange network (Blakenburg&Johanson, 1992), and can be defined as a set of interconnected exchange relationships (Prenkert&Hallen, 2006). This is directly linked to supply relationships, and underlines the importance of the supply network within the business network context. An alternative approach to the social exchange theory perspective is the market exchange theory perspective (Easton &Araujo, 1994), which builds on the concept of organized behavioral systems also reinterpreted by Bagozzi (1974). Alajoutsijarvi, Tikkanen (2001) even point out the perspective of networks as business systems, where the business network is understood as an organized behavioral system of exchange.

Eriksson, (2001) argues that the main focus of such a system is on the transformation and exchanges of resources, and less on the social exchange component. It is from this perspective that buyer-supplier networks sometimes referred to as supply networks are most frequently analyzed. These relationships are however usually embedded in various networks of interconnected buyer-supplier relationships, where both market exchange transformation and exchange of resources, as well social exchange perspectives trust, collaboration, etc. should play equal parts. However, despite this, there still exists a gap in the existing literature in appropriately balancing both of these perspectives in the study of buyer-supplier relationships. Thus, while the marketing literature has so far focused mainly on the impact of trust and commitment on satisfaction and loyalty, supply chain management has focused narrowly on the hard determinants of flexibility, like i.e. information optimization and inventory management Claro (2004) also emphasizes how business networks, supply chains networks and buyer-supplier relationships are all types of business relationships raging from a web of connections to a dyadic relationship with often blurred boundaries.

Communication and Procurement Performance

Effective communication is a critical component of buyer-supplier relationships. Procurement professionals utilize a variety of media to communicate with sup-pliers, including phone, fax, face-to-face, mail, email, Internet, and electronic data interchange (EDI) thus improving procurement performance.(Rodrigo, 2001) Goodman, (2001) define communication as the formal as well as informal sharing of meaningful and timely information between firms. Cannon and Perreault (1999) suggest more open sharing of information is indicated by the willingness of both parties to share important information.

Cooperation and Procurement Performance

Cooperative Procurement is a term that refers to the combining of requirements of two or more public procurement entities to leverage the benefits of volume purchases, delivery and supply chain advantages, best practices, and the reduction of administrative time and expenses thus improving procurement performance. (Benton, 2000) According to Maloni, (2000) the power of a supplier over a retailer is increased by the level of retailer's cooperation the supplier. Cooperation results from the need to maintain the channel relationship to achieve desired goals and reflects the essentiality and replace-ability of the goods and services provided by the supplier thus successful outcomes of procurement actions.

Research Methodology

This paper adopted quantitative method to data gathering of data on how to evaluate vendor relationship with the population, the population to be studied comprises vendors of soft drinks around A.T.C and Roadblock in Jalingo metropolis. And the size number for this study, and sampling technique was used to select fifty (50) vendors from the study population.

The sample of this study was drawn from the population of this paper was through questionnaire distributed around A.T.C and Roadblock in Jalingo metropolis while the secondary sources were journals, textbooks, internet. Data collected were analyzed using simple percentage and frequencies.

Data Analysis

The analysis of this study was based on the fifty (50) completed questionnaires returned with responses which were in line with the objective of this study.

Table 1

To determine the extent to which vendor relationship with manufacturers affects maximization level.

Questionnaires Items	A	SA	D	SD	Total
Manufactures sells to vendors with discounts.	25(50%)	13(26%)	7(14%)	5(10%)	50 (100%)
Manufactures offers vendors goods on credits.	13(26%)	25(50%)	5(10%)	7(14%)	50 (100%)
As a vendor my manufacturer is concern with my customers satisfaction which is also their priority and this has effect on my profits.	21(42%)	12(24%)	10(20%)	7(14%)	50 (100%)
My manufactures has provision of Compensation Policy for vendors.	27(54%)	10(20%)	7(14%)	6(4%)	50 (100%)
Total	86(43%)	60(30%)	29(14.5%)	25(12.5%)	200 (100%)

Source: Field work 2017

The above table shows that the respondent, 43% accept the relationship marketing facilitates profit maximization. While 30% strongly supporting, 14.5% and 12.5% disagreed and strongly disagree with the fact.

Table 2
To determine the extent to which vendor relationship affects profit maximization.

Questionnaires Items	A	SA	D	SD	Total
As a vendor you encourage your customers to buy more goods by giving discounts.	30(60%)	5(10%)	9(5%)	6(4%)	50 (100%)
As a vendor you offer goods to your customers on credits.	23(42%)	5(10%)	10(20%)	12(24%)	50 (100%)
As a vendor my customers satisfaction has been my priority and this has effect on my profits.	26(52%)	5(10%)	11(22%)	8(16%)	50 (100%)
As a vendor you have provision of Compensation Policy for vendors.	21(42%)	7(14%)	10(20%)	12(24%)	50 (100%)
Total	100(50%)	22(11%)	40(20%)	38(19%)	200 (100%)

Source: Field work 2017

The above table shows that 50% of the respondents accept the fact that vendor relationship affects profit maximization. While 22% strongly supporting, 40% and 38% disagreed and strongly disagree with the fact.

Conclusion

In supply chain management, vendor-customer and vendor-manufacturer relationship is the critical success of the business. In order for a vendor to keep track of Good supplier relationships, he can... that you can avoid discount at the trade date. Give prompt payment discount in line of your cash discount, for example, settle the invoice within 30 days. Finally, decide to set a fair price of the goods purchase from the manufacturer and then sell to the customers.

Recommendation

Based on the findings of the study the researcher made the following recommendations:

1. Since the main aim of every business is to maximize profit and minimize cost it is recommended that vendors should establish mutual relationship with their manufactures and customers in order to keep their profit level high.
2. Customer's satisfaction should be a major priority to both the manufacturer and the vendor by encouraging them more so they can increase their profits level respectively from the consumers constant patronage.
3. Both the manufacturer and they vendors should develop provision of Compensation Policy for their customers, for example warranty.

References

Amin, S.H. (2011). Supplier selection and order allocation based on fuzzy SWOT analysis. Expert Systems with Applications, 38(1), 334-342.

Aspu, M.o., (2015). Supply Financial Analysis: By the Numbers. Institute for Supply Management.

Bello, D.C., Lohtia, R. and Dant, S.P., 1999. Collaborative relationship for component development: the role of strategic issues, production costs, and transaction costs. Journal of Business Research 45(1), 15-31.

Buvik, A. and Halskau, Ø., 2001. Relationship duration and buyer influence in just-in-time relationships. European Journal of Procurement & Supply Management 6(7), 111-119. Cox, A., 2001.

Understanding buyer and supplier power: a framework for procurement and supply competence. The Journal of Supply Chain Management 37(2), 8-15. De Jong, G. and Nooteboom, B., 2000.

The causal structure of long-term supply relationships - an empirical test of a generalized transaction cost theory, Kluwer Academic Publishers, Boston. Frazier, G.L. and Antia, K.D., 1995.

Exchange relationships and interfirm power in channels of distribution. Journal of the Academy of Marketing Science 23(4), 321-326. Gadde, L.E. and Snehota, I., 2000. Making the most of supplier relationships. Industrial Marketing Management 29(4), 305-316.

Handfield, R.B. and Bechtel, C., 2002. The role of trust and relationship structure in improving supply chain responsiveness.

Industrial Marketing Management 31(4), 367-382. Heide, 1.B. and John, G 1988, "The Role of Dependence Balancing in Safeguarding Transaction-Specific Assets in Conventional Channels", Journal of Marketing, vol. 52, no.January, pp.20-35.

Johnsen, R.E. and Ford, D. 2001. Asymmetrical and symmetrical customersupplier relationships: contrasts, evolution and strategy. The 17th Annual IMP Conference, Oslo, Norway, 1-20, http://web.bi.no/imp2001 .

Johnson, 1.L. and Pharr,S. W. 1997, "Control, Communication, and Decision Making Uncertainty in Asymmetric Channel Relationships", Journal of Business-to-Business Marketing, vol. 3, no. 4, pp. 1-26. 'Kim, K., 2001.

On the effects of customer conditions on distributor commitment and supplier omitment in industrial channels of distribution. Journal of Business Research 52(2), 87-99.

Kiong, T. C. and Kee, Y P. 1998, "Guanxi Bases, Xinyong and Chinese Business Network", British Journal of Sociology, vol. March, 49, no. I, pp. 75-96. Laseter, T., 1998. Balanced sourcing: cooperation and competition in supplier relationships.Jossey-Bass Publishers, San Francisco. Lee, D. J., Pae, J. H. and Wong, Y. H. 2001, "A Model of Close Business Relationships in China (Guanxi)", European Journal of Marketing, vol. 35, no. lI2, pp. 51 -69.

Corporations in Kenya. Nairobi: University of Nairobi. CIPS. (2013). Monitoring the Performance of Suppliers - CIPS Position on Practice. CIPS.

Danese, (2013). The determinants of supplier selection and evaluation in Pakistan's Telecom industry.

Dobos, I. (2013). Supplier selection and evaluation decisions considering environmental aspects, 1-23.

Donaldson, T. &. (1995). the Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. The Academy of Management Review, 20 (1); 65-91.

Donaldson, T. & Preston, L. E. (1995). "The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. Academy of Management, 65-91.