THE EFFECTS OF SUPPLIER RELATIONSHIP AND NEGOTIATION POWER ON SOURCING PERFORMANCE: A CASE OF FASHION ACCESSORIES PRODUCTS

by

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ABSTRACT

Sourcing the right quality materials in the right quantity, at the right time and right place, from the right source, at the right price is the goal of a strategic sourcing task. Sourcing performance plays a significant role in high competitive industries since it could enhance firm’s competitive advantages by reducing production cost and lead time. For the fashion accessories industry, sourcing performance is very important since fashion accessories products are volatile, short market life cycle, and changed over time. Firms with higher sourcing performance would obtain higher competitive advantages over competitors since the right production and marketing lead time is achieved. In this study, forecast accuracy, market knowledge, negotiation power, and supplier relationship quality were considered as influencing factors of the sourcing performance. Questionnaire survey was conducted. Data were gathered from 148 SMEs in fashion accessories industry who have either partly or totally offshore sourcing. Structural equation modelling was performed. The results indicated that two dimensions of supplier relationship quality, joint planning and information sharing positively affected sourcing performance while forecast accuracy provided only marginal influence in positive direction. However, negotiation power of the buyer was found to have no impact on sourcing performance. These findings would substantially help the firms to create some strategic decisions to deal effectively with its suppliers.

KEYWORDS
Sourcing Performance, Supplier Relationship, Forecast Accuracy, Negotiation, Fashion Accessories

INTRODUCTION

Sourcing the right quality materials in the right quantity, at the right time, right place, and right price from the right source is the goal of a strategic sourcing task. It is even more important for the high competitive fashion accessories industry since its products are short market life cycle, and consumer behaviours are changed over time. Currently, fashion accessories firms source their materials from both manufacturers and intermediaries (Popp, 2000). Offshore sourcing, especially from China supply markets, is usually performed to obtain low cost materials. However, sourcing from local supply markets is still performed since material quality can be controlled and shorter delivering lead time could be ensured. Most firms in fashion accessories industry source their materials from both local and international suppliers. Developing a procurement plan as well as selecting the right suppliers from the right supply markets affects sourcing performance of the firm. However, the underlining factors that influence procurement planning and selecting those suppliers are the true factors that impact the sourcing performance of the firm. Thus, the question, “What are the factors that influence sourcing performance of the fashion accessories firms?” is focused in this study.

Relevant literatures and previous researches are reviewed in the next part. Then, research framework, hypotheses and research methodology are presented followed by research findings, conclusion & discussion, and recommendation to the future research.

LITERATURE REVIEWS

Sourcing is the act of performing that aims to acquire the required products and materials (Sánchez-Rodríguez et al., 2005). Sourcing performance can be defined as quality of buying products/materials at the right quality, in the right quantity, at the right time and right place, from the right source, at the right price. Right quality materials leads to the high quality of the finished product while the right quantity, at the right time and right place facilitates a smooth production process and the right cost would lead to the competitive price of the products offered to the market. In
addition, high sourcing performance also leads to the appropriate inventory level which does not only reduce the total cost of the product but also satisfy customers on the quality and availability of the products. As such, the key factors that influence sourcing performance are considered. Previous researches suggested that negotiation power of buyer (Vickery, 2008) and the accuracy of the demand forecasting (Mattila et al., 2002; Fisher & Rajaram, 2000; Jackson & Shaw, 2001) could importantly affect sourcing performance while Jin (2004) found that supplier relationship is another factor influencing factor of the sourcing performance of the firms in fashion industry. Therefore, the three main factors, forecast accuracy & market knowledge, negotiation power, and supplier relationship quality are focused as the key influencing factors of the sourcing performance.

Forecast Accuracy and Market Knowledge

The accuracy of the demand forecast is one of the fundamental success factors of sourcing task since it guides the firm to source materials at the right quality, quantity, and right time. Birtwistle et al. (2003) indicated that firms in fashion industry must plan for production in advance, at least 6 to 12 months ahead, to lunch seasonal products not later than the competitors. As such demand forecasting must be done based on previous sales data and, also, market knowledge. The understanding of consumer behaviour i.e. their demands for fashions and buying decision process as well as the knowledge on competitors would help the firms to forecast the customer demand accurately (Popp, 2000). Some relevant information on the update fashion, social trend, and customers demand could be shared by the suppliers. Therefore, both market knowledge and information sharing with suppliers would influence the accuracy of the customer demand forecast. Thus, the first two hypotheses could be:

**Hypothesis 1:** Market knowledge is positively related to forecast accuracy.

**Hypothesis 2:** Information sharing is positively related to forecast accuracy.

Major gains from accurate forecasting is the smooth production process, high product quality, and sufficient product availability at the appropriate inventory level without excessive inventory cost (Willis et al., 2007). Thus, forecast accuracy and market knowledge would influence sourcing performance. Therefore:

**Hypothesis 3:** Market knowledge is positively related to sourcing performance.

**Hypothesis 4:** Forecast accuracy is positively related to sourcing performance.

Negotiation Power

Negotiation is a vital part of the purchasing process (Monczka et al., 2005). Power in negotiation leads both buyer and supplier to achieve the acceptable levels of price, quality and, timely product delivery. Kennedy (1993) referred the negotiation power to a primary concern of the bargaining process. Party with more negotiating power would, finally, get the price, quality and quantity of product, delivering lead time and also relevant information that is close to their needs. Therefore, the higher the negotiation power the buyer has, the higher the sourcing performance the buyer gains. Hence:

**Hypothesis 5:** Negotiation power is positively related to sourcing performance.

Supplier Relationship Quality

Supplier relationship refers to business relationship between buyer and supplier which is based on the understanding of the needs of each party (Lang et al., 2002). Anderson & Narus (1990) stated that trust; satisfaction and communication are the consequences of the exchange of the relationship between buyer and supplier. Trust and satisfaction lead both parties to cooperate, coordinate or even collaborate. Consequently, information and resources sharing, joint planning and joint working would occur. Moreover, needs to communicate between both parties would facilitate a smooth and effective joint working. Thus, Sufficient, efficient, and effective information sharing and joint planning can be expected as the consequences of the supplier relationships (Morgan & Hunt, 1994).

Kannan & Tan (2006) indicated that close relationship perceived by the suppliers influences their service level. As such, higher delivering quality, right lead time with reasonable cost is resulted. Consistently, Ragatz et al. (1997) found the relationships between close supplier relationship and lower-priced materials. They also found the positive impacts of supplier relationship on quality and quantity of materials the suppliers supplied and their delivering service as well. Supplier relationship is necessary for volatile and short life cycle products of fashion accessories firms since it promotes information sharing, joint planning, and adjusting the plan based on the changing market context. Hence, two hypotheses could be proposed as follows:

**Hypothesis 6:** Information sharing is positively related to sourcing performance.

**Hypothesis 7:** Joint planning is positively related to forecast accuracy.

All Hypotheses can be represented in the conceptual framework shown in Figure 1.
FIGURE 1
RESEARCH FRAMEWORK OF THE SOURCING PERFORMANCE OF THE FASHION ACCESSORIES FIRMS

RESEARCH METHODOLOGY

Research Design
To test the framework empirically, a questionnaire survey was designed. Measurement items with 5-point Likert scale anchoring at 1 (strongly disagree) to 5 (strongly agree) were modified from Kannan and Tan (2006), Sánchez-Rodríguez et al. (2003; 2005), Chan et al. (2007), and Fines and Voss (2002).

Thirty five sets of the questionnaire were distributed to 35 fashion accessories firms to pre-test. The results yielded the Cronbach’s alpha coefficient of 0.852, 0.751, 0.814, 0.888, 0.778, and 0.914 for negotiation power, market knowledge, forecast accuracy, information sharing, joint planning, and sourcing performance, respectively. Since all alphas exceeded the threshold of 0.7 recommended by Nunnally (1978), the internal consistency was ensured.

Data Collection
Fashion Accessories firms were targeted as the population. However, as most firms are SMEs in which not all company names are illustrated in the official list, snowball sampling technique was applied. Purchasers of the fashion accessories firms were approached to answer the questionnaires and also introduce researchers other firms. Questionnaires were distributed via e-mail and fax as per request of each respondent. A total of 150 data sets were gathered but two were incomplete. Thus, only 148 sets of data were used for data analyses.

The respondents were 14.2 % purchasing supervisors and 85.8 % purchasers (operation level). For the company profile, 37.8 % were manufacturer, 17.6 % were traders and 44.6 % performed both manufacturing and trading tasks. Moreover, 12.8 % of them have only international sourcing while the rest 87.2 % had both local and international sourcing.

RESEARCH FINDINGS

To examine the significance of the framework and test all hypotheses, structural equation modelling was analysed. Confirmatory factor analyses were firstly performed to ensure the discriminant validity of the data. Details are illustrated in Table 1.
TABLE 1
CONFIRMATORY FACTOR ANALYSIS RESULTS

<table>
<thead>
<tr>
<th>Constructs</th>
<th>$\chi^2$/df</th>
<th>GFI</th>
<th>AGFI</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sourcing performance</td>
<td>1.132</td>
<td>0.988</td>
<td>0.948</td>
<td>0.999</td>
<td>0.03</td>
</tr>
<tr>
<td>Negotiation Power (Skills &amp; Power)</td>
<td>1.635</td>
<td>0.947</td>
<td>0.9</td>
<td>0.979</td>
<td>0.066</td>
</tr>
<tr>
<td>Market Knowledge</td>
<td>1.561</td>
<td>0.964</td>
<td>0.915</td>
<td>0.969</td>
<td>0.069</td>
</tr>
<tr>
<td>Forecast Accuracy</td>
<td>1.214</td>
<td>0.984</td>
<td>0.938</td>
<td>0.996</td>
<td>0.043</td>
</tr>
<tr>
<td>Supplier Relationship Quality (Joint Planning &amp; Info)</td>
<td>1.569</td>
<td>0.966</td>
<td>0.906</td>
<td>0.99</td>
<td>0.062</td>
</tr>
</tbody>
</table>

Remarks: Required fit indices are $\chi^2$/df $\leq$ 2; GFI, AGFI, CFI $\geq$ 0.9; RMSEA < 0.08

The results yielded satisfactory fits indicating that all sets of measurement models could identify their related latent constructs effectively.

Assessment of Structural Equation Model

Four major criteria, $\chi^2$/df, GFI, CFI, and RMSEA, were used to examine the fit of the structural model. Good fit was shown ($\chi^2$/df = 1.919; GFI = .919; CFI = .961; and RMSEA = 0.079). Squared multiple correlations ($R^2$) suggested 64% power of prediction on sourcing performance. Thus, the structural equation model was significant and usable for hypotheses testing.

FIGURE 2
PROPOSED STRUCTURAL EQUATION MODEL OF THE RESEARCH FRAMEWORK

Remarks: $\chi^2$/df = 1.919; GFI = .919; NFI = .923; IFI = .962; CFI = .961; RMSEA = .079
Standardized coefficients are shown

Hypotheses Testing
All coefficients of all structural equation relations are shown in details in Table 2 as:
TABLE 2

STRUCTURAL RELATIONSHIP ESTIMATED

<table>
<thead>
<tr>
<th>Hypotheses and Paths in the Model</th>
<th>Coefficients</th>
<th>t-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Market Knowledge → Forecast Accuracy</td>
<td>.364 (.335)***</td>
<td>4.358</td>
<td>Supported</td>
</tr>
<tr>
<td>H2 Information Sharing → Forecast Accuracy</td>
<td>.198 (.248)**</td>
<td>3.219</td>
<td>Supported</td>
</tr>
<tr>
<td>H3 Market Knowledge → Sourcing Performance</td>
<td>.255 (.170)*</td>
<td>2.453</td>
<td>Supported</td>
</tr>
<tr>
<td>H4 Forecast Accuracy → Sourcing Performance</td>
<td>.223 (.162)*</td>
<td>2.563</td>
<td>Supported</td>
</tr>
<tr>
<td>H5 Negotiation Power → Sourcing Performance</td>
<td>-.038(-.040)</td>
<td>-0.49</td>
<td>Not Supported</td>
</tr>
<tr>
<td>H6 Information Sharing → Sourcing Performance</td>
<td>.277 (.252)**</td>
<td>3.263</td>
<td>Supported</td>
</tr>
<tr>
<td>H7 Joint Planning → Sourcing Performance</td>
<td>.456 (.446)***</td>
<td>4.972</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Remarks: Figures shown in each cell indicate the unstandardized coefficients.
Figures in the brackets indicate the standardized coefficients.
t-values are significant at * p<.05 ** p<.01 *** p<.001.
SMC (Squared Multiple Correlations: R²) for Sourcing Performance is 0.64.

The first two hypotheses stating the relationships between market knowledge, information sharing and forecast accuracy (H1 and H2) were supported by the data. Significant relationships were found (=.364, t=4.358, p<.001 for market knowledge & forecast accuracy; and =.198, t=3.219, p<.01 for information sharing & forecast accuracy). The rest, H3-H7, were also significant except H5. Forecast accuracy and market knowledge as well as the two dimensions of relationship quality were significantly related to sourcing performance while negotiation power was not significant (=.223, t=2.563, p<.01; =.265; t=2.287, p<.05; =.255; t=2.453, p<.01; =.456; t=4.972, p<.001; and =-.038, t=-.490, p>.05 for forecast accuracy, market knowledge, information sharing, joint planning, and negotiation power respectively). Standardized β indicated the highest influence of joint planning on sourcing performance followed by that of information sharing.

CONCLUSION AND DISCUSSION

The key findings indicated that market knowledge, forecast accuracy and supplier relationship quality were significantly influence sourcing performance while negotiation power was not. Two dimensions of supplier relationship quality, joint planning and information sharing were found to have highest and second highest influence on sourcing performance. Thus, buyers with close relationships with the suppliers would be able to source materials or products at reasonable price with higher control on quality and quantity and gain better delivering service from the suppliers. Apart from supplier relationship quality, forecast accuracy and market knowledge were found to positively influence sourcing performance. This is consistent with the research conducted by Christopher et al. in 2004. Understanding of the market and consumers would help the firms not only to forecast the demand of the customer accurately but also to source the right products/materials at the right time, right quality and right quantity (Fisher & Rajaram, 2000). Thus, it is undoubtedly that the market knowledge provided positive and significant influences on both forecast accuracy and sourcing performance.

Negotiation power, in contrast, was found to have no significant influence on sourcing performance. This finding may contradict with the common belief in that the more the negotiation power of the buyer, the higher the control on the suppliers and the higher sourcing performance would be gained. This finding indicates that the important factor that promotes sourcing performance is the relationship between buyer and supplier, not the power of the buyer.

RESEARCH IMPLICATIONS

Buyers in fashion accessories industry, undoubtedly, should understand sufficiently the market and make an accurate foresting of the customer demands in order for the firm to plan ahead and be able to lunch their volatile fashion accessories products at the right time and right marketing strategies. Supplier relationship quality, however, must not be overlooked. Joint planning and information sharing help the firm to obtain the right materials at the right time and appropriate cost. High sourcing performance resulting from the right supplier relationship, not the negotiation, would lead the firm to gain more competitive advantages and higher profits.
LIMITATIONS AND RECOMMENDATIONS FOR THE FUTURE RESEARCH

As the research model was limited to some important constructs to achieve parsimony, some other constructs such as trust, commitment, and also other factors that are related to the collaboration can be considered as antecedents of supplier relationship quality. Also, as some details on marketing strategies and consumers behaviours that are omitted can be included in the future researches.

REFERENCES


Lang, A., Paravicini, D., Pigneur, Y. & Revaz, E. (2002), From Customer Relationship Management (CRM) to Supplier Relationship Management (SRM). Lausanne: HEC.


