

Exploring Supplier Negotiation Best Practices and Supplier Relationships Strategies in South Africa

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ABSTRACT

Negotiation is a powerful tool for concluding supplier agreements. Entering into an agreement with suppliers can be the first step in building a long-term supplier relationship. Strategies to build the long-term supplier relationship are advisable if businesses wish to be competitive.

A quantitative study was conducted via 165 self structured questionnaires to 200 businesses (small-, medium size and large) using convenience sampling with a response rate of 82.5%. It was found that all businesses regard negotiation best practices and strategies for ensuring long-term suppliers relationship as desirable. However differences were noted between small-, medium size and large businesses in terms of the importance of supplier negotiation best practices and strategies to ensure long-term supplier relationships. Small businesses focus more on the negotiation process while large businesses are more focused on creating a long-term supplier relationship. Medium size businesses regard the negotiation best practices and creating long-term supplier relationships as equally important. All businesses should consider that only once a sound supplier agreement is in place they can consider creating a long-term supplier relationship. It must be regarded as an integrated business approach and businesses doing so can reap the benefits of being able to effectively compete both locally and globally.

Keywords: negotiation; supplier agreement; long-term supplier relationships; best practices

1. INTRODUCTION

The objectives of the purchasing function are to purchase goods and services of the right quality from the right supplier at the right price in the right quantity, delivered to the right place at the right time (Hugo & Badenhorst-Weiss 2011:76). As competition in the 1990s intensified and markets became global, so did the challenges associated with getting a product and service to the right place at the right time at the lowest cost (Li, Ragu-Nathan, Ragu-Nathan & Rao 2006:107).

The internet has begun to change the search cost for appropriate suppliers. For instance, business-to-business exchanges allow businesses to access a larger pool of suppliers so that they can compare capabilities and capacities of suppliers and benefit from higher bargaining power with competitive bidding among the suppliers with minimum cost implications (Kleindorfer & Wu 2003:1613; Murthy, Soni & Ghosh 2004:629; Şen, Başlıgil, Şen, & Baracli 2008:1843). A

growing emphasis on supply chain risk calls into question the wisdom of reducing a firm's supplier base and depending on a key supplier (Tang 2006:455).

The supplier selection process is based on the principles of a long term business partnership instead of focusing on short term business imperatives that lead to cutting corners and lowering the quality of products, rather than taking into account innovative capabilities and cost management (McNulty & Ferlie 2004:1389). Entering into a short-term contract may provide a business with flexibility in responding rapidly to changing market conditions by switching to other suppliers when needed (Peleg, Lee & Hausman 2002:465; Talluri & Lee 2010:7317).

Negotiation is a powerful tool for concluding supplier agreements and build supplier relationships (Giannakis & Croom 2004:28; Hugo, Badenhorst-Weiss & Van Biljon 2011:237; Zachariassen 2008:764). With the development of traditional purchasing management into Supply Chain Management (SCM), the purchaser's range of responsibility enlarged from pure negotiation with suppliers and the accompanying administrative workload, to managing large contracts and commodity groups and the responsibility regarding purchasing negotiation also changed (Atkin & Rinehart 2006:49; Hugo *et al.* 2011:237). Concepts and approaches used in modern purchasing, such as JIT, partnering, strategic alliances, cross-functional teams and many more, demand a new approach to negotiation (Hugo *et al.* 2011:237). This reinforces the need for superior negotiation, both with suppliers and with other internal clients (Leenders, Johnson, Flynn & Fearon 2006:246; Hugo *et al.* 2011:237).

The purpose of this paper is to explore the supplier negotiation best practices and the supplier relationships created beyond this supplier agreement in South African businesses. The problem statement and objectives of the study are provided, followed by a theoretical overview of how to negotiate good supplier agreements and creating long-term beneficial supplier relationships. Thereafter, the research methodology of the study will be highlighted. The research results will follow, and the main conclusions will be given. The paper will conclude with guidelines on negotiation best practices for supplier agreements and how to go about creating beneficial supplier relationships for South African businesses.

2. PROBLEM STATEMENT

Practitioners and researchers often assume that purchasing practices that work in larger businesses are also appropriate for use in small businesses (Adams, Khoja & Kauffman 2012:20; Gibb 2000:26). It can be argued that supplier relationships may not be as developed in small and medium enterprises (SMEs) simply because they are small and lack specialised organisational resources (Morrissey & Pittaway 2006:273).

A vital part of the supplier selection process is the decision to use a single supplier or to make use of multiple suppliers. According to Berger, Gerstenfeld and Zeng (2003:10), many successful businesses are reducing their supplier base and making use of long-term partnerships to attain the same benefits that multiple sourcing provides. Single-sourcing strategies rely on partnerships between buyers and suppliers that are based on cooperation in order to achieve benefits for both parties (Burke, Carrillo & Vakharia 2007:96). However, if inadequate suppliers are selected, the results can be catastrophic, specifically for a firm that has decided to purchase from a single supplier (Swift 1995:105). Burke *et al.* (2007:97) argues that multiple sourcing is

less risky, as it provides greater assurance of timely delivery. In addition, Berger *et al* (2003:10) warns that multiple-sourcing plays one supplier against the other, increasing the level of competition among suppliers, ultimately providing the buyer the opportunity to obtain lower prices. Dealing with a number of suppliers requires that more time be spent in the negotiation process, and as a result, this may delay production schedules. Managing more than one source is therefore more cumbersome than only dealing with one supplier (Burke *et al.* 2007:97).

The complex choice of using single or multiple suppliers is of great importance especially when the risk exists that suppliers will not be able to provide the necessary supplies, either due to incapability or unavailability. In contrast to single sourcing, multiple sourcing allows a buyer to switch the order to another supplier, without having to waste time searching or negotiating with new suppliers. (Constantino & Pellegrino 2010:28).

Research on negotiations and its impact on buyer-supplier relationships in supply chain management (SCM) is sparse (Giannakis & Croom 2004:27; Zachariassen 2008:764). This is an important area, because at the heart and core of SCM lies the need to reach common consensus through mutual understanding between the members of supply chains. The effect of negotiation practices on buyer-supplier relationships has been largely unexplored. The process of negotiating these transactions can lead to satisfaction or dissatisfaction with the relationship on the part of the supplier and the business buyer. Businesses actively seek to adopt programs that promise to develop closer or longer-lasting relationships in order to achieve lower product costs, reduced time-to-market, improved quality, advanced technology, and improved service and delivery (Atkin & Rinehart 2006:49). Fundamentally a great part of managing supply chains essentially has to do with communicating and negotiating effectively with supply chain members (Zachariassen 2008:764).

The current business environment finds many businesses engaged in business-to-business relationships that are not being optimised from a supply chain perspective. Managers need guidance on how to best accomplish supplier relationships. Negotiation can contribute to developing successful supplier relationships. (Atkin & Rinehart 2006:63).

This has led to the research in question:

Are businesses negotiating sound supplier agreements and which strategies do they employ to establish beneficial long-term supplier relationships?

In the next section the objectives of this paper is highlighted.

3. OBJECTIVES OF THE STUDY

The primary objective of this study is to explore supplier negotiation best practices of businesses in Nelson Mandela Bay, South Africa as well as strategies to create long-term supplier relationships. Secondary objectives are to:

- Provide a theoretical overview of negotiation best practices of supplier agreements and strategies for creating long-term supplier relationships;
- Explore what Nelson Mandela Bay, South African businesses perceive as best practices when negotiating supplier agreements;
- Explore strategies employed by businesses in Nelson Mandela Bay, South Africa to create

- long-term supplier relationships; and
- Provide guidelines to businesses in South Africa on supplier negotiation best practices and strategies for fostering long-term supplier relationships.

In the next section the concepts used in this study is defined.

4. CLARIFICATION OF CONCEPTS

The next sections clarify some key concepts used in this paper.

4.1 Supplier agreement

A supplier agreement is an agreement between a business and an external supplier for the delivery of a defined set of products and services. It is a legal agreement and is used as the basis upon which to measure the supplier's performance. In addition to listing the items to be supplied, the supplier agreement states the timeframes, responsibilities, pricing and payment clauses needed to administer the relationship. (Benton 2010:48; Leenders, Johnson, Flynn & Fearon 2006:246, 460).

4.2 Negotiation of supplier agreements

Negotiation as an SCM technique is a management process whereby two (or more) parties with common and, at times, contradictory concerns multilaterally bargain resources for mutual intended gain (Hugo *et al.* 2011:238; Zachariassen 2008:770). The parties strive to reach a joint understanding on specific contractual terms by making effective proposals, face-to-face or via electronic means that give rise to collective understanding, and pave the way for a relationship and future agreements (Hugo *et al.* 2011: 238).

4.3 Supplier relationship

Supplier relationship management is the business process that provides the structure for how relationships with suppliers are developed and maintained (Lambert & Schwieterman 2012: 337). Individual members of a supply chain cannot function without the economic, quality and service performance of the other supply chain members (Benton 2010:27). The quality of the relationship between each supply chain member will determine which businesses survive in a competitive environment.

In the next section a theoretical overview of supplier negotiation practices is given.

5. THEORETICAL OVERVIEW OF SUPPLIER AGREEMENT NEGOTIATION BEST PRACTICES

Negotiation is central to the decision-making process through which a supplier and a customer establish the terms of a purchasing agreement (Atkin & Rinehart 2006:51). When negotiating the parties strive to reach a joint understanding on specific contractual terms by making effective proposals, face-to-face or via electronic means that give rise to a collective understanding, and pave the way for a relationship and future agreements (Hugo *et al.* 2011: 238). Business-to-business negotiation should aim to have a compromise agreement that enables on-going business relationships (Ng 2012:172).

The following sections elaborate on some negotiation best practices.

5.1 Collect information prior to negotiating

The success of negotiations is determined by the thoroughness with which information is collected as without knowledge the negotiation team cannot prepare for negotiations (Leenders *et al.* 2006:248). This is done by gathering relevant information and then generating, analysing, evaluating and selecting alternatives. Some of the most important elements about which information must be collected are the following (Hugo *et al.* 2011:244; Hugo & Badenhorst-Weiss 2011:212):

- Information about previous agreements and negotiations with the relevant business;
- Market prices for the product or service;
- Other potential suppliers and what they have to offer;
- Financial position of the supplier;
- The facilities of the supplier; and
- The supplier's strong and weak points.

Several authors (Araz & Ozkarahan 2007:586; Choy, Lee & Lo 2002:285; Dulmin & Mininno 2003:177) add in addition to the previously mentioned considerations, the following to reflect on:

- quality management practices;
- long-term management practices;
- technology and innovativeness level;
- suppliers' cooperative attitude;
- supplier's co-design capabilities; and
- cost reduction capabilities.

The purpose of negotiation is to resolve issues so that a mutually satisfactory contract can be signed (Hugo & Badenhorst-Weiss 2011:212; Leenders *et al.* 2006:248). It is important to take note that an element such as cooperativeness is established prior to negotiation as it will have an effect on negotiation practices (Atkin & Rinehart 2006: 59). The cooperative orientation of the negotiator will have a significant effect on the degree of contract formality achieved in the negotiation. Higher levels of contract formality increase the satisfaction of the relationship (Atkin & Rinehart 2006:59).

5.2 Set specific objectives prior to negotiation

Meaningful objectives and plans of action should be devised and drawn up (Benton 2010:335; Hugo *et al.* 2011:245). The objectives should be expressed in quantitative terms and should also be realistic and attainable. Common objectives for the supply chain such as lowest total cost of ownership, eliminating non value-adding activities, integration of systems and strategic alliances should be strived for. (Hugo *et al.* 2011:246).

5.3 Know your own and suppliers' strengths

The strengths of a business are often derived from factors such as (Hugo *et al.* 2011:244):

- competition in the market;
- the thoroughness of preparation;

- knowledge of the cost structures of the product concerned.

The process of analysing strengths prior to the negotiation process helps businesses to establish negotiation points, helps avoid setting unrealistic expectations, and may reveal ideas for strategies (Hugo *et al.* 2011: 244; Hugo & Badenhorst–Weiss 2011:212).

It is also important to determine the supplier's strengths in terms of their capacity, backlog and profitability. The following questions need to be asked (Leenders *et al.* 2006:248):

- Is the supplier confident in getting the contract?
- What is the urgency of the purchaser's needs?

If well prepared and the business knows its strengths and those of the supplier, it allows the business to prepare counter arguments (Leenders *et al.* 2006:249). The negotiator should be well prepared and aware of the customs, strengths and weaknesses of the other cultures it is negotiating with and differences should be respected (Hugo & Badenhorst-Weiss 2011:216).

5.4 Plan the negotiation strategy

The negotiation strategy should be based on the list of obtainable objectives set out in the information collection phase (Benton 2010:335). A written document needs to be compiled and priorities arranged (Hugo & Badenhorst-Weiss 2011:213). A decision should be made on which issues to discuss first and where the business buyer will be willing to compromise. Although the success of a cooperative relationship depends largely on how the parties develop the relationship over time, negotiation and planning of the initial agreement is critical in setting the stage for subsequent development of the exchange relationship (Rognes 1995:13; Atkin & Rinehart 2006:62). Although competitive negotiations in purchasing and supply can take place, constructive negotiation and the building of stable, long-term relations with suppliers and strategic alliances with the key suppliers is the most important (Hugo *et al.* 2011:240). Atkin and Rinehart (2006:61) warn that aggressive strategies use high levels of coercion and can have a negative effect on relationship satisfaction. The supplier must be treated with understanding and courtesy and not coerced into an agreement.

5.5 Develop tactics prior to supplier negotiation

It is important to develop tactics on how to achieve the negotiation strategy (Benton 2010:335). The use of tactics in negotiations at the right time can lead to a better result for negotiators. It can also rescue them from a difficult situation and help them to achieve negotiating objectives (Hugo & Badenhorst-Weiss 2011:215). Furthermore, tactics accelerate the decision-making process because they compel people to make decisions. From the data collected, more than one bargaining solution must be prepared (Leenders *et al.* 2006:249). Thorough cost analysis is important (Leenders *et al.* 2006:248). It is frequently a matter of sound tactics to address the low priority issues first, thus making concessions which would create a conciliatory atmosphere. The negotiator must continually emphasise the positive outcomes of the agreement rather than the differences (Hugo & Badenhorst-Weiss 2011:213). High-priority issues will then be negotiated when a positive cooperative atmosphere has already been created. (Hugo *et al.* 2011:245).

5.6 Use a team-based approach

Using a team for negotiations is normal practice in a business with a SCM approach (Hugo & Badenhorst-Weiss 2011:212). The team normally consists of a purchaser, engineer and

representative of operations, logistics and marketing (Atkin & Rinehart 2006:60). Furthermore, is it important to determine who should lead the negotiation as it can affect the general direction of the negotiation outcome. Personality, temperament and the ability to work together with team members are of crucial importance (Leenders *et al.* 2006:249). A manager should be aware of the personal characteristics of each team member and recognise when members may benefit from some additional negotiations training (Atkin & Rinehart 2006:60).

It is important to keep the negotiating agreement on track from inception to completion ((Hugo *et al.* 2011:247; Hugo & Badenhorst-Weiss 2011:214). Continued negotiations in the implementation phase are aimed at ensuring that the negotiations conducted become a reality (Hugo & Badenhorst-Weiss 2011:214; Hugo *et al.* 2011:247). Furthermore, the maintenance and control of the commitment and performance of both parties in the relationship is important.

6. THEORETICAL OVERVIEW OF STRATEGIES FOR CREATING LONG-TERM SUPPLIER RELATIONSHIPS

The continuity of business relationships can be affected by negotiation as businesses attempt to reach decisions and agreements on disputable issues (Ng 2012:166). Negotiation is an important success factor for supplier relationships and is a means to develop a long-term relationship. If it is poorly managed, it would destroy the business relationship. Satisfaction with the initial negotiation may be an early indicator of the subsequent maintenance of long-term relationships between the parties (Atkin & Rinehart 2006:59). Establishing long-term relationships with a supplier base is considered as an important purchasing strategy (Chen, Lin & Huang, 2006: 289-301).

The following sections highlight some strategies for creating long-term supplier relationships.

6.1 Keep a small supplier base

Many businesses are reducing the number of suppliers on their list of qualified suppliers. Businesses increasingly strive to develop closer, more cooperative relationships with key suppliers (Benton 2010:160). They seek to gain benefits by maintaining trading relationships over a longer period of time with key suppliers (Benton 2010:160; Ng 2012:172). There is a need to develop closer relationships with key suppliers who can provide their expertise to develop innovative new products and successfully market them. While management should forge close, cross-functional relationships with a small number of key suppliers, they should maintain more traditional buyer and salesperson relationships with others suppliers (Lambert & Schwieterman 2012:338). However, appropriate relationships with several product category suppliers should be established (Benton 2010:162).

6.2 Agreement formality

Research on supplier relationships have shown great interest in the role of formal and informal agreements, with a particular focus on the level of loyalty, cooperation, trust, and success that the agreement affords (Frankel, Whipple & Frayer 1996:60; Atkin & Rinehart 2006:55). Ring and Van de Ven (1992:493) proposed that informal contracts would serve as a substitute for formal contracts when trust was exhibited. Written contracts were ranked as low contributors to relationship success. Informal contracts on the other hand built more trust and were stronger contributors to relationship success (Frankel *et al.* 1996:61; Atkin & Rinehart 2006:55). Some

studies found that suppliers favour external safeguards and formalised contracts over exclusive reliance on trust in uncertain environments (Ring & Van de Ven 1992:493; Atkin & Rinehart 2006:56).

6.3 Keep records of suppliers

The business should have a process for managing performance and giving feedback to the strategic suppliers (Benton 2010:172). Supplier profiles need to be established for each strategic supplier (Benton 2010:167). Relationships with suppliers must be developed in order to meet standards and contribute to continuous improvement goals. Specific communication strategies include supplier training and education, feedback and frequent site visits (Benton 2010:162). Records must also be kept of how suppliers resolved complaints (Benton 2010:72). Items such as key management contacts, a business overview and their strengths, weaknesses, opportunities and threats should be included (Benton 2010:167).

6.4 Collaboration practices

When a supplier is unable to conform to the expectations of a business, it must be determined which is the most appropriate action to resolve the issue (Benton 2010:175). The manager must find a way to communicate the problem and motivate the supplier to change its results. Specific communication strategies should be designed and an attempt must be made to resolve disputes by discussion. Businesses could use a cost tracking tool such as total cost of ownership and link it to performance measurements as this could lead to improved communication between the business and the suppliers (Zachariassen 2008:777). Businesses should assess and act to safeguard the viability of critical suppliers (Hughes & Weiss 2009:1).

6.5 Evaluation of supplier relationships

Suppliers should be evaluated on dimensions such as price, quality, customer service, products, service technology, speed in new product development, delivery reliability, delivery speed, environmental friendliness, competing on a global scale, and supply chain competitive advantage (Krause, Handfield & Scannel 1998:47). Supply market analysis can assist in evaluating existing suppliers on a continuing basis by measuring their performance (Atkin & Rinehart 2006:61; Ng 2012:165). A formal supplier performance reporting procedure should be implemented and communication must be initiated with supplier's management (Krause *et al.* 1998:49). Businesses should also systematically analyse their major supplier agreements and determine where there is a legitimate basis for renegotiation (Hughes & Weiss 2009:1). Poor-performing suppliers should be monitored and if in default on a continuous basis they should either be eliminated from the supply base or be invested in to prevent poor performance (Krause *et al.* 1998:50).

The above are only some of the best practices in literature. Only these best practices were explored in this study. In the next section the research methodology will be highlighted.

7. RESEARCH METHODOLOGY

The research methodology in this study is described next.

7.1 Research paradigm

The research paradigm adopted in this study is the quantitative research paradigm. The main

approaches followed are exploratory- and descriptive research aimed at exploring and describing the negotiation best practices when entering into supplier agreements and strategies for creating long-term beneficial supplier relationships.

7.2 The sample

The population of this study could be regarded as all businesses in South Africa. The scope of the survey was across the Nelson Mandela Metropolitan area, Eastern Cape Province in South Africa. A non-probability convenient sample was drawn. Stratified sampling was used where it was attempted to include more or less an equal number of small-, medium and large businesses in the sample. As there is no existing database of the population available, it could not be determined beforehand what the size of the sample would be. An attempt was made to interview as many businesses willing to participate in the survey. Due to time constraints the final sample comprised of 165 respondents, of which 57 were large businesses, 47 medium-size businesses and 61 small businesses.

7.3 Data collection

Secondary data was collected by means of a literature search, including textbooks, journal articles and the Internet, and primary data by means of a survey. Ten fieldworkers have conducted the interviews during business hours depending on the availability of the respondents. They either conducted the interview (if respondents had time for it) or left the questionnaires with the respondent to be completed. A specific time was given for the return of the completed self-administered questionnaires. A business card was attached to the questionnaires to contact respondents in event some questions were not answered or incorrectly answered.

7.4 Research instrument

A self-administered structured questionnaire was used to collect the data. Care was taken with regards to the wording in the questionnaire so that the respondents could understand it. The measuring instrument (questionnaire) consists of the following two sections:

- Section A investigated the supplier negotiation best practices and strategies for creating long-term supplier relationships using a five point Likert scale which indicate the extent of agreement with each statement (strongly agree, agree, neutral, disagree and strongly disagree);
- Section B canvassed the biographical data of respondents and their businesses using nominal data categories.

7.5 Data analysis

A thorough editing process resulted in some questionnaires being discarded due to incompleteness. Data was captured on an Excel spreadsheet and descriptive statistics were used to analyse the results using the statistical function in Excel. The results were presented in tables indicating the frequencies of responses, means and standard deviation.

7.6 Reliability and validity

Both face- and content validity were also ensured. Face validity was ensured as experts in the purchasing and management fields reviewed the questionnaire. Content validity was ensured as the questionnaire contained questions based on the literature review. To ensure reliability, a pilot study was conducted with five small, five medium size and five large business owners. As the

contact details of respondents were available (attached business card), respondents could be contacted to validate answers, if necessary. The outcome of this study could be applied to any other businesses in any region of South Africa as they normally have similar negotiation practices for entering into supplier agreements and strategies for creating long-term supplier relationships.

8. EMPIRICAL RESULTS

This report gives a useful estimate of the negotiation best practices for entering into supplier agreements and the strategies employed to create long-term supplier relationships, but not precise values as any sample survey is subjected to error. Sampling errors were mostly eliminated as incomplete questionnaires were discarded from the analysis.

8.1 Results of the biographical data

A total number of 200 questions were distributed and the final sample comprised of 165 businesses in the Nelson Mandela Metropole, South Africa. Table 1 shows the results of the biographical data of the respondents and their businesses.

Table 1: Biographical data of respondents

Biographical data		%	Biographical data		%	
Gender	Male	72	Business sector	Manufacturing	19	
	Female	28		Retailing	48	
Age	18 - 25	1		Wholesaling	6	
	26 - 35	12		Financial, insurance, real estate	2	
	36 - 45	36		Architecture	1	
	46 - 55	28		Catering and accommodation	2	
	56 - 65	16		Construction and engineering	4	
	> 65	6		Transport/Travelling	1	
	Undisclosed	1		Communication	2	
Highest education level	Grade 11 or less	2		Leisure and entertainment	2	
	Grade 12	27		More than one industry	13	
	National certificate/diploma	34		Ethnic group	Black	22
	Bachelor degree	22			White	48
	Postgraduate degree	11			Coloured	20
	Other	3	Asian		10	
Not disclosed	1	Number of years employed in business	< 1	10		
Form of ownership	Sole trader		16	1 - 5	44	
	Partnership		8	6 - 10	33	
	Close corporation		23	11 - 15	10	
	Private company		34	> 15	3	
	Public company	15	Customer offerings	Products and services	60	
	Trust	4		Products	30	
Size of	Small	37		Services	10	

Biographical data		%	Biographical data		%
business	Medium	28	Position in business	Owner	22
	Large	35		Manager	74
				Employee	4

More males (72%) than females participated in this survey. Nearly half of the sample was white respondents (48%), with more or less the same number of Black and Coloured respondents. A small percentage of the sample was of Asian descent. Most respondents are in the 36 to 55 years of age category (64%), with a few younger than 26 years or older than 55 years. Either the younger respondents were still at school, or are furthering their education and did not yet enter the job market. Those older than 55 years have probably retired. More than half of the sample (56%) had a post matric qualification of either a degree or post graduate qualification. A small percentage did not have a matric qualification or due to embarrassment did not want to disclose their qualifications. Nearly half of the sample had businesses in the retailing sector (48%), followed by manufacturing sector (19%), or have businesses in more than one sector (13%). The remainder was spread between many industries. More managers (74%) than owners (22%) were interviewed. A few employees in the large businesses which dealt with purchasing completed the questionnaire. Close corporations (23%) or private companies (34%) were a popular choice for form of ownership. A few were partnerships or even a trust. The large businesses were public companies and some were private companies while the smaller businesses were mostly sole proprietors or close corporations. Forty six percent of the respondents were employed in the business for longer than five years; thus employed in well established businesses and respondents could give a true reflection of the required results. Most businesses were selling products and services. More small than medium size businesses were interviewed. It was attempted to include the same number of small, medium size and large businesses in the sample.

8.2 Results of the descriptive statistics

In this paper both negotiation best practices of supplier agreements and strategies for creating long-term supplier relationships as explored in literature were tested by means of 12 statements each. The results of the descriptive statistics are presented in Table 3.

Table 3: Results of the descriptive statistics

Factors	Mean	Standard deviation
Negotiating supplier agreements	4.15	0.88
Supplier relationships	3.95	1.08

It seems that the means of both factors clustered around point four, indicating that respondents apply the negotiation best practices when entering into supplier agreements and also applied the strategies for creating long-term supplier relationships. The least utilised negotiation best practice is to renegotiate their supplier agreements quarterly (mean of 3.65). This indicates that once they have entered into a suppliers' agreement they do not review this agreement regularly. The most applied best practice is that businesses plan their objectives prior to negotiating with suppliers (mean of 4.39). This indicates businesses are well-prepared to determine precisely what they want to achieve in the negotiation process.

The least utilised strategy engaged in to create long-term supplier relationships is to create a supplier portfolio (mean of 3.01). It seems businesses are not sure what a supplier portfolio is or are uncertain if it can be regarded as a best practice. The most applied strategy is to review suppliers based on price, delivery, quality, service and technology (mean of 4.48). It seems businesses link their relationship with suppliers to the suppliers' performance.

It must be noted that the standard deviation for negotiating supplier agreements were below one while for supplier relationships were above one. The biggest variances for negotiating supplier agreements were to have more than one negotiation solution when bargaining (0.96) and that suppliers performance are evaluated continuously (0.92). This indicates that businesses regard more than one bargaining solution as important while others do not, which could be linked to lack of bargaining flexibility. The lowest variance was to negotiate the best possible terms with suppliers (0.61). With regard to supplier relationships, the biggest variances were to establish appropriate relationships with several product category suppliers (1.21) and to create a supplier portfolio (1.50). It seems the businesses surveyed have a small supplier base and therefore regard a supplier portfolio as unnecessary as they know their suppliers well. The lowest variances were to make a significant effort to manage supplier relationships (0.81%). This is in congruence with the previous findings as due to their smaller supplier base they can focus more easily on managing the relationships with the few suppliers.

When comparing the results of the small-, medium- and large businesses there are distinct differences as can be seen in Table 4.

Table 4: Results of the descriptive statistics according to business size

Factors	Mean			Standard deviation		
	Business size			Business size		
	Small	Medium	Large	Small	Medium	Large
Negotiating supplier agreements	3.97	4.13	4.20	1.03	0.84	0.87
Supplier relationships	3.82	4.18	4.19	1.12	1.51	0.84

It seems that for the small businesses the means of both factors clustered around point four, indicating that respondents apply the negotiation best practices when entering into supplier agreements and also applied the strategies for creating long-term supplier relationships. The least utilised negotiation best practice when entering into agreements is to have more than one negotiation solution when bargaining (mean of 3.59) while the most applied is to plan their objectives prior to negotiating with suppliers (mean of 4.44). The least utilised strategy engaged in to create long-term supplier relationships is to create a supplier portfolio (mean of 2.80) while the most applied is to keep records of how suppliers resolved complaints (mean of 4.52).

It seems that for the medium size businesses the means of both factors clustered around point four, indicating that respondents apply the negotiation best practices when entering into supplier agreements and also applied the strategies for creating long-term supplier relationships. The least utilised negotiation best practice when entering into agreements is to renegotiate suppliers contracts quarterly (mean of 3.47) while the most applied is to plan their objectives prior to

negotiating with suppliers (mean of 4.45). The least utilised strategy engaged in to create long-term supplier relationships is to create a supplier portfolio (mean of 3.94) while the most applied is to review suppliers based on price, delivery, quality, service and technology (mean of 4.55).

It seems that for the large businesses the means of both factors clustered around point four, indicating that respondents apply the negotiation best practices when entering into supplier agreements and also applied the strategies for creating long-term supplier relationships. The least utilised negotiation best practice when entering into agreements is to renegotiate suppliers contracts quarterly (mean of 3.18) while the most applied is to negotiate the best possible terms with suppliers as well as to have strategies in place prior to negotiating with suppliers (means of 4.56). The least utilised strategy engaged in to create long-term supplier relationships is to implement information sharing programmes (mean of 3.95) while the most applied is to keep up to date records of each supplier (mean of 4.49).

When comparing the small-, medium size and large businesses responses it can be seen that the medium and large businesses had higher means for both factors than the small businesses. It seems that as the business size grows negotiation of supplier agreements became more important. There was however much variation in the responses of the small businesses (standard deviation of 1.13) indicating that some regard the negotiation process with the suppliers prior to entering into an agreement as more serious than others. The small businesses especially did not seem to focus much on strategies to ensure long-term supplier relationships. However, the highest variation in responses (standard deviation of 1.12 and 1.51 respectively) was amongst small and medium size businesses for engaging in strategies to create long-term supplier relationships.

Further analysis indicates the ranking of the respondents in terms of the two factors: to apply negotiation supplier agreement best practices and strategies for creating long-term supplier relationships. The ranking of the total sample as well as for small, medium size and large businesses is indicated in Table 5. The ranking are based on the highest combined strongly agree and agree percentage scores. The percentages were calculated by dividing the frequency by the total number of responses of the statements in a particular variable.

Table 5: Ranking of the factors per business size

Factors	Ranking based on agree score			
	Sample	Small	Medium	Large
Negotiating supplier agreements	2	1	1	2
Supplier relationship	1	2	1	1

Interesting findings were obtained when analysing the ranking of the two factors. As can be seen in Table 5, small businesses regard negotiation of supplier agreements as more important in their businesses as opposed to strategies to create long-term supplier relationships, whereas large businesses have opposite views. It seems that small businesses are focusing on achieving short term benefits, in other words more on their daily activities. Large businesses however apply strategic thinking, therefore has a long-term focus. Medium size businesses however, regard both factors as equally important. It seems that as a business grows the tendency is to move toward strategy thinking. When considering the results of all the businesses, it is shown in Table

5 that respondents viewed the creation of long-term supplier relationships as more important than engaging in the negotiation process to obtain sound supplier agreements.

9. LIMITATIONS AND FURTHER RESEARCH

Finally, although this study has made a contribution to the body of knowledge on how South African businesses view the negotiation process for supplier agreements and strategies to create long-term supplier relationships, due to its sample size (165), there is a need to expand the study to include businesses from other provinces. It would be interesting to compare the differences between the provinces, although it is anticipated that these results mirror the finding of businesses in South Africa. The failure rate for new small businesses in South Africa in particular is high and the results of this study could provide insight into whether this is caused by a lack of strategic thinking in terms of creating long-term supplier relationships. More advanced statistical analysis could also provide more information whether ethnic affiliation, age of business, business sector or form of ownership is influencing the respondents' views.

10. CONCLUSIONS AND RECOMMENDATIONS

For the purpose of this study the negotiation process of entering into supplier agreements and strategies to create long-term supplier relationships were explored. Most of the statements testing the two factors were agreed with, so it seems that respondents view these two factors as important. However, there are differences in the views of small, medium size and large businesses on the two factors tested.

All businesses strongly agree that it is important to negotiate the best possible terms with suppliers. They agree that they plan their objectives, develop strategies and tactics prior to negotiating with suppliers. They agree they focus on their strengths when negotiating terms with suppliers and are aware of their suppliers' strengths prior to the negotiation process. They agree to a lesser extent that they drive the negotiation process with suppliers based on the number of competitors in the market place. They also to a lesser extent use a team approach when planning their negotiation strategy and tactics. They agree they possess more than one negotiation solution and select a skilled negotiator to represent the business in the negotiation process. When deciding on which supplier to enter into an agreement they do not base it on a combination of price, delivery, quality, service and technology. The findings are in congruence with literature findings.

No respondents strongly agree with any of the statements with regards to creating long-term supplier relationships. They agree that they renegotiate their suppliers' contract quarterly and keep a record of suppliers defect rates, how suppliers resolved conflict and use discussion as a means of resolving supplier disputes. They forge close relationships with suppliers and focus on collaborative cost management between them and their suppliers. To a lesser extent they evaluate the performance of suppliers continuously and have up-to-date records of each supplier. Respondent agree that they make a considerable effort to manage their supplier relationships. Not all respondents agree that they implement information sharing programmes or a supplier performance reporting procedure or establish appropriate relationships with several product category suppliers. Most respondents were undecided whether they create a supplier profile. It seems that respondents are not totally in agreement with previous literature findings. Further analysis confirmed that small businesses are more concerned about negotiation sound supplier

agreements whereas large businesses are more concerned about creating long-term supplier relationships. This is in line with logic and literature findings. Medium businesses are regarding negotiating sound supplier agreements and creating long-term supplier agreements as equally important. Not much research is conducted on medium-size businesses. It is recommended that businesses pay equal attention to negotiating supplier agreements and engaging in long-term supplier relationships. Building long-term supplier relationships should be the aim of entering into a supplier agreement. In the next section these two recommendations are further elaborated on in terms of managerial best practices for supplier negotiations and relationship strategies.

11. MANAGERIAL BEST PRACTICES FOR SUPPLIER NEGOTIATION AND SUPPLIER RELATIONSHIP STRATEGIES

Table 6 provides some managerial best practices for negotiation and supplier relationships.

Table 6: Managerial best practices for supplier negotiation and supplier relationship best practices

No.	Supplier negotiation best practices
1	Plan objectives prior to negotiation
2	Develop strategies for negotiation
3	Select tactics to achieve negotiation strategies
4	Negotiate the best possible terms with suppliers
5	Focus on own strengths and be aware of suppliers' strengths
7	Conduct a competitors analysis to determine negotiation strategy
8	Use a team-based approach when planning the negotiation process
9	Have more than one negotiation bargaining solution
10	Send the best skilled negotiator to negotiate
11	Focus on collaborative cost management
12	Re-negotiate suppliers' agreement at least yearly
No.	Long-term supplier relationship strategies
1	Keep up-to-date supplier records
2	Create a supplier portfolio
3	Keep records of how suppliers resolved complaints
4	Keep record of the suppliers defect rate
5	Resolve disputes with suppliers by discussion
6	Evaluate suppliers based on price, delivery, quality, service and technology
7	Evaluate suppliers performance continuously
8	Forge close relationships based on a formal agreement
9	Make a significant effort to manage all supplier relationships
10	Implement information sharing programmes
11	Implement a supplier performance reporting procedure for suppliers
12	Ensure the business have relationships with several product category suppliers

To conclude:

The two best practices in terms of negotiating sound supplier agreements and strategies to create long-term supplier relationships are dependent on each other. South African businesses have to realise that it is not enough to negotiate sound supplier agreements but to go beyond it and create

long-term supplier relationships if wishing to be locally and globally competitive.

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