

THE USE OF PARTNERSHIP IN PURCHASING

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ABSTRACT: *The partnership is now increasingly used in all areas thanks to the synergy it implies and of the benefits demonstrated. And in today's economy benefits of the partnership are widely recognized. Partnership in purchase makes no exception. This paper presents the benefits of a partnership-based purchases compared to those of traditional purchasing. Less well known is that a partnership built and/or implemented incorrectly and may result in additional costs and thus lead to disadvantages for both companies. For this reason, the paper aims to present what a partnership is, to show which steps should be taken to build a successful partnership and to exemplify through companies which have implemented correctly this type of collaboration, obtaining exceptional results.*

KEY WORDS: *partnership, individual performance, total cost, common objectives.*

JEL CLASSIFICATION: *O 12.*

1. HISTORICAL REFERENCES

The last decade of the last century was marked by a fundamental change in business philosophy. The advent/emergence of the Internet has made possible a new approach to the economy and the emergence of the online environment, Web communication offered the prospects for the long-term development of relations between suppliers, customers. These solutions which satisfy the interests of suppliers and customers alike have led to the emergence of partnership, which has become a benchmark for the practice of marketing and logistics of competitive/successful companies.

Currently, the number of companies forming partnerships is growing. (http://www.fpdl.ro/public/training_manuals/).

Values underpinning partnerships are important issues studied by managers and are considered successful strategies for any type of business.

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The importance of partnerships is also recognized by sponsors who put increasingly more often as a precondition for accessing funds. Partnership's value lies not only in strengthening the capacity of companies and their level of representation but also in terms of social capital (Putman, R., D., Leonardi, R., Nanetti, R., Y., 2001).

Peter Drucker was also one of the persons who appreciated the importance of partnership in modern society that tends to become increasingly pluralistic, atomized into autonomous and specialized companies (www.leadertoleader.org).

Looking over time on this, it can be seen that it is not the first time that society is pluralistic and atomized. For example, the European Middle Ages was characterized by the existence of cities states, fiefs, kingdoms, craft guilds, churches, customs, all of which being autonomous organizations concerned only with solving their own problems which sometimes led to their development and sometimes just to their survival.

From the fourteenth century, for 500 years, as Drucker claims, European society has evolved to destroy pluralism. The solution found was to replace pluralism with the power of local public authority, through which many of the independent organizations have disappeared or have been transformed into public institutions. The tendency of monopoly of a single public authoritarian and dictatorial government power culminated in the first half of the twentieth century but at the end of the nineteenth century there had already arisen the germs of a new pluralism in the birth of the private sector. Since then the society has evolved towards pluralism so that even public sector institutions have gained autonomy and independence through decentralization.

To maintain the advantage of pluralism, the collaboration between companies, integration and subsuming individual tasks for the common good is absolutely necessary.

2. TERMINOLOGY

According to the online dictionary, partnership is a system that associates partners from the political, economic and social points of view. (<http://dexonline.ro/definitie/parteneriat>).

In Romanian, there are also other terms that are sometimes used as synonyms, although there are slight differences of nuance.

Alliance is a connection between two or more parties to achieve a common goal, therefore it is similar to partnership. The difference lies in the degree of coordination and integration and in this respect it is considered that the alliance involves a lesser degree to the partnership.

The collaboration also involves participation with others to achieve a common action.

Cooperation is the coordination among several parties in a joint activity.

As it can be noticed, there are differences, but they are so small that these terms can be used interchangeably.

3. BENEFITS AND OBSTACLES OF PARTNERSHIP IN THE AREA OF PURCHASING

“Partnerships between people, between companies, with customers and suppliers bring value to all parties involved.” Stanley Gault.

According to Mark Stevens, author of books on marketing, creativity is now the key to success. For generations, companies have mined ditches between them and their competitors. Today, successful companies build bridges. (<http://www.actionamresponsabil.ro/parteneriatul>).

In today's economy, competition takes place increasingly more not between individual companies but between company networks.

The benefits are the main reasons for a partnership.

Partnership benefits lies in the synergy that this implies.

Synergy involves combining two or more entities so that overall performance is higher than the sum of individual efforts of entities.

Through partnerships resources will be used more efficiently and more rationally and this will help increase the efficiency of partner companies as follows:

- Duplicate activities will be eliminated and coordinated operational plans will be developed jointly;
- Operating costs will be reduced and investments' efficiency will increase;
- Management information flow will be higher.

Through partnerships the effectiveness of companies can also be increased in the sense that together they can find more creative solutions, innovative ideas on the principle of “nothing for us, without us”. At the same time, the implementation will be easier since the risks and costs are shared.

If they say that friendship between people enhances the joys and halves the sorrows then the properly constituted and implemented partnership establishes “friendship” relations between companies based on the same reality.

To be able to achieve positive outcomes targeted by the partnership relations, the following basic criteria must be met (Sima, 2011):

a) individual performance – each participant has a valuable contribution to relationship between companies, contribution based on their strengths;

b) importance – partnership relationship must have a decisive role in achieving the long-term strategic objectives of each participant;

c) interdependence – the relationship's sustainability depends on the existence of a complementarity between partners in order to make possible what they can not do individually;

d) investments – involving each party is lengthy and it means the allocation of financial resources and of other types of resources;

e) information – continuous exchange of information in both directions is a prerequisite for the success of actions carried out for achieving the common objectives of partners;

f) integration – between partner organizations there are established links at different levels, to enable communication and collaboration;

g) institutionalization – partners' responsibilities are clearly identified, in an official form, that would respond to long-term interests of the parties;

h) integrity – true partnership relationships involve conduct that would justify mutual trust and facilitate the achievement of objectives from each participating company.

Today, more and more companies have reconsidered the role of purchasing to the company's profit, giving it the role of profit center. This is explained by specialists through the leverage principle according to which the reduction, by a low degree, of purchase costs will produce a greater effect on profit than if it would have been intervened in other areas of costs/sales of the company such as, for example, reducing labour costs or increasing sales.

This led to the shift towards recognizing the contribution of purchase to value adding, of the strategic importance of purchase and the need to increase professionalism in this field. To operate optimally in this regard, partnership between supplier and buyer appeared as a saving solution given that the distinction between one category or another is relative and companies may be in a position to change their place often, and therefore turn from suppliers of certain resources, buyers of others.

Partnership in the area of purchasing is a commitment between customer and supplier, for the long-term, based on clear and commonly agreed objectives to increase capacity and competitiveness.

Working together as a team, the customer and the supplier can reduce the total cost, can improve quality, can accelerate the movement of products to the market in a much more effective way than if they were competitors.

The objectives pursued in any relationship of partnership may include:

- Improved design and product quality;
- Optimizing the delivery terms;
- Reducing the cost of production;
- Reducing operating costs;
- Optimizing inventory levels;
- Improving cash flow;
- Improving the availability of resources and skills.

Compared with traditional relations, partnership in purchase determines serious changes, summarized in table 1.

In this context, the supplier and the customer will promote the objectives of mutual interest, for the long term. If until now the lowest price was the main issue aimed by the buyer, nowadays, the attention is focused on the total purchase cost which includes indirect and hidden costs, such as those due to suspension of deliveries and honoring late deliveries of orders. The perception of quality has also changed in the sense that it is not enough to be controlled but it must also be ensured through total quality management. This reduces the number of supply sources, companies often preferring single source or at most the dual source. Partners learn to trust the performance and integrity of the parties and this will lead to the elimination of activities and thus to the decrease of the final cost.

Promotion of partnership has the purpose of adding value in the marketing channel and increasing the company's ability to come awaiting customers' wishes.

Table 1. Comparison between traditional and partnership purchase

Criteria	Purchase	
	traditional	partnership
Objectives	Competitiveness and interest in their own company	Cooperation and correlation of interests established between parties
Cost	Lowest price	Total cost of acquisition
Duration of relations	Short term	Long term
Quality	The focus centered on quality control and inspection of goods received from suppliers	Focus centered on quality assurance on the basis of total quality management (TQM) and on the "zero defects" principle
Number of sources	Multiple sources	Reducing the number of suppliers, possibly even having unique source
Communication	Formal, evasive communication	Very frequent formal and informal communication
Negotiation	Win - loss	Win - win
Exchange of information	Reluctance of the parties	Open exchanges made between multifunctional teams
Trust	Low, there is uncertainty about the performance and integrity of the supplier	High, based on mutual trust between buyer and supplier
Involvement in design	Only occasionally	Frequently, the buyer is involved in the design activities

Implementing partnership in the area of purchasing is not easy and in order to achieve the expected results, it is recommended to take the following steps:

a. Identifying the right products for partnership. New products will be considered, those with great value or those with high technical complexity;

b. Promoting partnership philosophy in your own company. It is particularly necessary for the success of the partnership that top management and the functional departments' management are convinced of its benefits;

c. Defining the mandatory standards for suppliers. Before identifying the suppliers, the purchasing company will determine its own requirements to suppliers. Such requirements may include:

- Commitment to total quality management (TQM);
- Applying the Just in time method (JIT);
- Ability to provide locally and / or globally;
- Willingness to innovate;
- Clearly defined quality standards;
- Flexibility management;

- Attitude towards work.

d. Selecting the potential suppliers. It is recommended to choose a small number of potential suppliers able to meet the requirements set out above. It is recommended to avoid simultaneous launch of multiple partnerships;

e. Promoting the idea of partnership among potential suppliers. It will be insisted on the fact that through partnership, the goals set by mutual agreement to achieve mutual benefit will be achieved;

f. Setting goals and expectations of future partners.

As objectives, there can be mentioned:

- Reducing total costs;
- Zero defects;
- Timely payment;
- JIT;
- Common research and development;

Also in this phase, the criteria needed to assess the achievement of objectives will be formulated. Examples of such criteria:

- Timely delivery;
- The value of the stock;
- The interval between ordering and receiving goods;
- Level of service.

Also in this stage, the administrative procedures necessary for the proper conduct of partnerships will be agreed upon. In this sense there can be mentioned:

- Establishment of a control group that will follow the development of the partnership;
- Setting up a team to solve any problem occurred;
- Regular meetings at all levels with the management that monitors this process for information and dissemination of results.

g. Assigning an official character of the partnership. It is recommended that the parties pay official value to the future partnership. In this sense there can be mentioned in the terms of the agreement:

- Objectives and principles underlying the partnership;
- Clear contribution of each party;
- Ensuring confidentiality of information;
- Specification of capital investment that the supplier shall realize;
- Methods of completion of the partnership.

h. The pilot project. Originally, the partnership can be established at a smaller and then it can expand if the results are favourable. The test results will be analysed in relation to the defined objectives and will be presented to the manager of the purchasing organization;

i. Developing the existing partnership. If effects are favourable, these relations can be extended and the purchasing company may involve in longer agreements and even in the strategic planning performed together with supplier partner;

j. Developing new partners for the future. For other raw materials or materials necessary to conduct their own activity, the purchasing company may initiate other partnerships.

Currently, many partnerships fail and thus they fail to achieve the expected benefits or they obtain them at much higher prices proving that they were wrong either in planning, or in the implementation of activities.

The most common obstacles in the way of successful partnership may be related to (http://www.fpd.l.ro/public/training_manuals/):

- Culture;
- Competition;
- Conflicts between missions and goals;
- Confusions and ambiguities encountered in relations;
- Control;
- Capacitate;
- Costs.

For the Italian tyres manufacturer, Pirelli, partnerships are the key to success. It pays special attention to working with its suppliers that it considers fundamental business partners in the global strategy of the company.

Pirelli procurement department consists of 135 experts worldwide, of which 40 are working at the headquarters in Milan. Annually, these persons choose and manage 12,000 suppliers, selecting them based security, innovation, quality, durability, risk management, and their efficiency within the supply chain. It is an in-depth assessment, which relates not only to direct suppliers but also to suppliers of suppliers, due to a self-assessment program from suppliers. [Revista Ziu Cargo, May 2014]. Suppliers that are key factors for Pirelli are selected, long-term relationships are built, partnerships are closed at corporate level. Prices must be sustainable for both sides, both for the provider who must be able to reinvest and for the client to have reasonable costs which he could transfer to the market. Partnership agreements are oriented specifically on creating value in the sense that the more value they bring to the company, the better they will be rewarded in the business relationship.

Among these partnerships, we may mention the project partnerships CEVA Logistics - Pirelli considered an example of collaboration, which is why it was awarded the trophy „Win - Win Collaboration Award”. To be more specific, the development of Pirelli operations within the expansion and tracking project from Slatina required a storage solution able to cope 24/7 with two different production flows, four different output flows and remote management of external deposits. All processes were supported through IT solutions, integrated in partnerships by CEVA and Pirelli teams. Currently, 95% of the production executed and delivered to the client can be identified at the level of item and landmark. Specifically, if there is on a car a tire made in 2013, it has a code that allows those from CEVA and colleagues from Pirelli to identify the batch, date of manufacture, the check-outs which it had been subjected to, the material from which it was made, delivery date, the truck that took it from the deposit and the distributor that delivered it to the final customer. The achievements of the project are remarkable because quality objectives were also achieved. The level of errors in delivery was 2% thanks to the serial scanning system of products on delivery, therefore the collaboration is certainly a Win – Win type of collaboration. [Revista Ziu Cargo, January 2014].

4. CONCLUSIONS

It can be concluded that a successful partnership in the area of purchasing, but not only, requires a carefully planned approach especially from the buyer. This does not exclude the supplier's initiative to establish a partnership as part of its marketing strategy.

Among the key elements that are recommended for the design and implementation of any partnership and which have been to the attention of Pirelli, we can mention the following:

- Content, in the sense of being provided enough details to make it relevant and useful;
- Intelligible, namely clear, understandable, unambiguous expression;
- Flexibility, that is easily changed, updated and revised;
- Usage, i.e. easy to use for monitoring and communication of recorded progress.

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