Commercial activity and corporate performance is based on relationships, particularly collaborations between buyers and suppliers. During a macroeconomic recession, it is considered critical to reassess these collaborations in terms of strategic importance, target alignment and perceived risk of opportunism to improve the operational or financial performance of both parties. This article explains how to undertake such an assessment.
When recession takes hold, there's safety in numbers

Merging the real and virtual world

Why, and how, companies should define their digital strategy

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During the past three decades, there has been a fundamental shift in the perceived importance of buyer-supplier relationships (BSRs)\textsuperscript{1–3} in terms of financial and operational performance, as well as assumed level of risk between buyers and suppliers,\textsuperscript{4–6} especially across the supply chains of the consumer goods industry.\textsuperscript{7}

**BSR: definition and importance**

A typical BSR is defined as the interconnection of an economic collaboration of many commercial transactions, based upon the mutual trust\textsuperscript{8} of the two parties participating in this economic exchange.\textsuperscript{9} By focusing on such interfirrm relationships within a supply chain (SC), various theoretical models have been developed for classifying and managing BSRs. These include market-hierarchical governance approaches,\textsuperscript{10} portfolio models,\textsuperscript{11} simple tier-structure models,\textsuperscript{12} relationship type matrices,\textsuperscript{13,14} and partnership models.\textsuperscript{15} In addition, BSRs can be characterized by different forms and levels of collaboration. These are mainly determined by “hard” and, more difficult to quantify, “soft” factors.\textsuperscript{16}

Hard factors include such elements as resources, information and technology. Soft factors mainly relate to commitment, joint knowledge and goals’ congruence.

These factors can also define the type and level of collaboration. Consequently, buyer-supplier engagement performance can be measured either in terms of operational effectiveness and efficiency within various SC activities (e.g., demand forecasting, procurement and lead time), or in terms of combined buyer-supplier financial performance (e.g., higher turnover, reduced costs and better working capital). This performance, of course, is not solely affected by these inter-SC drivers but also by external forces, such as industry conditions and competition as well as the domestic and global macroeconomic environment.\textsuperscript{17,18}

**Buyer-supplier target alignment and its link to the potential risk of opportunism**

Target alignment between buyers and suppliers is the extent to which they
Global and domestic relationship environment (e.g., political, governmental or social condition changes)

<table>
<thead>
<tr>
<th>Hard factors that determine the form and level of buyer-supplier collaboration:</th>
<th>Soft factors that determine the form and level of buyer-supplier collaboration:</th>
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<tbody>
<tr>
<td>Resource allocation and sharing</td>
<td>Commitment (management and personnel)</td>
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<td>Management and process control and delegation</td>
<td>Type and level of communication and interrelationships</td>
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<tr>
<td>Information availability, quality and sharing</td>
<td>Level of joint knowledge (existing and created)</td>
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<td>Enabling technology (e.g., IT and networks)</td>
<td>Congruence of incentives and goals</td>
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<tr>
<td>Legal status and agreements (laws and contracts)</td>
<td>Willingness and ability to adapt and trust</td>
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<tr>
<td>Dependency level</td>
<td>Organizational and cultural differences</td>
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Macroeconomic recession (acting as moderator between factors and collaboration aspects)

- GDP contraction
- Reduced commercial activity
- Lower consumer purchasing power
- Reduced private sector bank credit

Buyer-supplier engagement performance

![Diagram of buyer-supplier relationship landscape]

Figure 1. The buyer-supplier relationship landscape

6. Organizational and cultural differences

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Buyer-supplier collaboration: reassessing the opportunities for enhancing performance in a macroeconomic recession

perceive and agree that their own independent strategic incentives and objectives are in common and will accomplish the SC objectives.20,21,22

Establishing aligned strategic targets guides the nature, direction and magnitude of the efforts of the two parties.23 This could reduce the likelihood of conflict24,25 and improve the joint engagement’s operational and financial performance because parties perceive the synergistic potential of the relationship.26,27

However, even in periods of growth or stability, at least some level of functional conflict (e.g., differing viewpoints) or dysfunctional conflict (e.g., dysfunctional behaviors, dissatisfaction and poor individual or group performance)28 is almost inevitable, as a consequence of the two firms trying to maximize their returns from the business relationship.29,30,31

Nevertheless, conflict can only be considered a lagging indicator, contributing to the nature and level of collaboration. The leading aspect is the risk of opportunistic behavior, as perceived by both parties. Risk of opportunism can be defined as an overall estimated potential loss (financial or non-financial), derived by a weighted average of the type and number of potential damaging behaviors or in terms of the probability of occurrence as well as the estimated net loss per occurrence.

Strategic importance of buyer-supplier collaboration and derived performance

According to academic research, an SC strategy could be based on efficient processes for functional products (where the demand is predictable, sold volumes are relatively high, margins are relatively low and product life cycles are long), or on responsive processes for innovative products (where demand is unpredictable, sold volumes are relatively low, margins are relatively high and product life cycles are shorter).29

Having implemented the appropriate SC strategy, a buyer-supplier collaboration (BSC) could range from a typical market transaction (where transaction cost economics apply), to a strong cooperation, where aligned strategic targets drive joint performance and result in mutual benefits.40

The level of strategic importance of BSCs is often measured by four parameters:

1. Level of specific investments being made in various resources (e.g., funds, time, effort, proprietary knowledge)41
2. Differences in industry or sector power that are broadly captured by market share, and business criticality (mostly in terms of supply or demand excludivity level)42
3. Degree of financial dependency, frequently translated as the contribution to turnover, profit margins and cash position
4. Level of trust, satisfaction and evaluation in terms of quality of services or products provided43

Thus, it could be stated that the higher the level of BSC-specific investments, power, financial dependency, trust, satisfaction and positive evaluation, the more such a collaboration may be characterized as a strategic one. In our experience, for BSCs that are considered strategic in nature, the perceived level of strategic alignment as well as the risk of opportunism between the two parties should be given significant attention. Moreover, it should be reviewed on a periodical basis, as the evolution of these aspects is quite dynamic, complex and contributes, to a great extent, to the collaboration performance, as measured by operational objectives and financial outcomes.44,45

The moderating effect of a macroeconomic recession

The importance of both buyer-supplier strategic alignment and risk of opportunism becomes critical when a macroeconomic crisis and prolonged recession occurs. This is because it not only rapidly deteriorates the general macro and microeconomic environment, but it also considerably alters the strategic targets of both parties, leading to a higher risk of opportunism and, frequently, a disruption in the BSC, resulting in reduced performance.
Consequently, beside the phenomenon of delayed payments by both the public as well as private sector (which causes cash flow problems for many companies, ceasing their operations and leading eventually to macroeconomic losses), there is also increased disruption to the BSC.40
For example, within the domestic SC of dairy products, there were cases where suppliers either postponed payments to their producers or canceled their deliveries to retailers due to payment delays. In addition, even in other European economies where the macroeconomic conditions were, and continue to be, better since 2010, such as the UK, there were many incidents of supplier maltreatment (e.g., 20% of suppliers reported experiencing mistreatment from large retailers, mostly in the form of longer payment terms, higher or retrospective discounts for prompt payment, and requested pay-to-stay fees, as well as up-front collaboration investments of different types).

Based on these examples as well as our experience, during such a macroeconomic recession, one of the most beneficial reactions by buyers or suppliers is to map and reassess the strategic importance and target alignment with their counterparties as well as the perceived, altered risk of opportunistic behavior. Subsequently, depending on the potentially adjusted strategic importance of each BSC, the next step is to define all necessary actions that may either reduce the gap in strategic alignment or minimize the perceived risk of opportunism, with the aim of increasing the resilience of their SC or improving its operational and financial performance.

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Proposed project framework, methodology and collaboration aspect matrix

The recommended methodology for initiating and managing this kind of project during such turbulent times is based on EY’s engagement approach and includes five subsequent phases, each of which has specific objectives with explicit questions to be answered and respective decisions to be taken before moving to the next phase (see Figure 2).

Figure 2. The five phases of the recommended project engagement approach

<table>
<thead>
<tr>
<th>Phase</th>
<th>Objectives</th>
<th>Key decisions per phase</th>
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<tr>
<td><strong>Phase 1: Identify</strong></td>
<td>- Define project scope and focus&lt;br&gt;- Understand moderator’s effect&lt;br&gt;- Understand supply chain&lt;br&gt;- Decide on representative sample of buyers or suppliers&lt;br&gt;- Collect relevant information</td>
<td>- Which should be the scope and focus of the project in relation to the three major collaboration aspects as well as any external dynamics?&lt;br&gt;- What is the company’s supply chain strategy, types of buyer or supplier collaborations and the operational or financial performance (on an ex- and post-crisis basis)?&lt;br&gt;- Which sample of buyers or suppliers is considered to be a representative one (to be included in the project)?&lt;br&gt;- What type of supply chain quantitative and qualitative information or data is relevant and useful in relation to the representative sample examined?</td>
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<td><strong>Phase 2: Diagnose</strong></td>
<td>- Define BSC factors&lt;br&gt;- Develop respective questions per factor&lt;br&gt;- Define measures and metrics</td>
<td>- Which hard and soft BSC factors are important to the three major collaboration aspects of the company’s supply chain?&lt;br&gt;- Which sets of questions will more accurately capture the essence of each factor and consequently the validity and relatability of the three aspects?&lt;br&gt;- What should be the measure or metric for each question, depending on its nature (e.g., Likert scale or open text for qualitative questions, or absolute volume, value or percentage for quantitative questions)?</td>
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<td><strong>Phase 3: Design</strong></td>
<td>- Categorize questions across three aspects&lt;br&gt;- Standardize metrics across each aspect’s questions&lt;br&gt;- Design final questionnaires</td>
<td>- How should the questions be categorized in relation to the three aspects measured?&lt;br&gt;- How should the metrics for each aspect’s related set of questions be standardized?&lt;br&gt;- What should be the final form and length of the questionnaire (to be used to select buyers or suppliers)?&lt;br&gt;- What should be the current mapped position, within the four quadrants, of each buyer-supplier, as assessed by the three aspects?&lt;br&gt;- Depending on each quadrant, what should be the most appropriate actions per supplier or buyer for reducing any strategic alignment gaps and risk of opportunism?</td>
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<td><strong>Phase 4: Deliver</strong></td>
<td>- Conduct the research&lt;br&gt;- Assess the current status of each buyer or supplier in relation to the three aspects&lt;br&gt;- Develop action plan and road map&lt;br&gt;- Define financial and operational KPIs that measure performance</td>
<td>- How can the data from questionnaire responses be cleansed and combined (given two responses per supplier or buyer) with existing quantitative or qualitative information for each?&lt;br&gt;- What is the current status of each buyer or supplier?&lt;br&gt;- How should the metrics be the most appropriate actions per supplier or buyer for reducing any strategic alignment gaps and risk of opportunism?&lt;br&gt;- What are the most appropriate operational and financial KPIs that define the BSC performance?&lt;br&gt;- When and how will these actions be implemented and monitored within a project management framework?</td>
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<td><strong>Phase 5: Sustain</strong></td>
<td>- Initiate PMO activities for action plan implementation and monitoring&lt;br&gt;- Record and measure related KPIs, ex- and post-implementation&lt;br&gt;- Test BSC hypotheses</td>
<td>- Who should be the internal and external sponsors of the derived action plan?&lt;br&gt;- What should be the internal and external sponsors of the derived action plan?&lt;br&gt;- How should initial hypotheses regarding each BSC be tested and, in particular, the causality direction and strength between implemented actions, improved strategic alignment, reduced risk of opportunism and enhanced operational or financial performance?</td>
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Buyer-supplier collaboration: reassessing the opportunities for enhancing performance in a macroeconomic recession

During a macroeconomic recession, one of the most beneficial reactions by buyers or suppliers is to map and reassess the strategic importance and target alignment with their counterparties as well as the perceived, altered risk of opportunistic behavior.

Figure 3. The three collaboration aspects (3CA) matrix

The representative sample should be mapped within the four quadrants of the three collaboration aspect (3CA) matrix, as Figure 3 indicates.

Depending on the number of buyers or suppliers positioned on each of the four quadrants (A-D), the actual position of each buyer or supplier, as well as the project's strategic scope, focus and priorities, specific appropriate actions should be developed per quadrant and buyer or supplier with the aim of reducing strategic misalignment and risk of opportunism.

For example, for those suppliers or buyers positioned in quadrant A, the company should develop a set of appropriate actions for improving their overall 3CA position, while for those positioned in quadrant B, it could implement directives for maintaining these positions by focusing on those suppliers or buyers whose relative risk of opportunism should be reduced. Moreover, for those positioned in quadrant C, it could consider the relative risk of opportunism before deciding on whether or not it should initialize any actions for increasing the strategic alignment of those suppliers or buyers, or consider alternative collaborations. Finally, for those positioned in quadrant D, the company could consider in which cases it is feasible, and makes economic sense, to implement any action plan for increasing their strategic importance.

As our methodology indicates, following the finalization of policies, directives and action plans, significant attention should be given to the selection of appropriate KPIs that can act as direct or indirect indicators.
for quantitatively measuring and monitoring BSC performance improvement. These can be used during, and following, the implementation of the respective actions and should result in adjustments in strategic importance as well as improvements in target alignment and risk of opportunism.

The main reason why these KPIs are considered critical is because they form the basis for testing initial hypotheses regarding each buyer-supplier adjusted collaboration type and level. Their use has value both during, and after, a period of macroeconomic recession, and, in particular, they can show the causality direction and strength between implemented action plans and the 3CAs.

Conclusion

Undoubtedly a macroeconomic recession can have numerous negative effects on any BSR. Frequently, its impact on collaborations not only reduces overall performance but also disrupts the sustainability of existing supply chains’ competitive advantage.

Our experience suggests that, during such periods, BSCs should be reassessed based on the three major collaboration aspects of strategic importance, target alignment and risk of opportunism, as defined by hard and soft collaboration factors.

Furthermore, the recommended methodology for such a project is a structured approach for conducting the respective mapping and assessment as well as developing and initiating applicable and suitable actions for improving, on a selective basis, the BSC’s performance.

By doing so, companies can improve the resilience or sustainable competitive advantage of their supply chains, following the radical changes recorded in their industries and sectors due to a macroeconomic recession.