

LONG-TERM PARTNERING RELATIONSHIP IN THE SUPPLY CHAIN: A THAI EXAMPLE

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Abstract

The purpose of this paper is to study the determinants of long-term relationship between TIPCO, which is Thailand's largest grower and exporter of fruit related products, and its channel members. The paper explores TIPCO supply chain's practices and possible strategies to maximize retailers' satisfaction. Partnering between firms is an increasingly common way for firms to find and maintain competitive advantage. Both retailer and suppliers have become more conscious of the level of partnership needed for quality business relationships and are looking for continuous improvement in their buying and selling function. This study of TIPCO focuses on the main issues related to supply chain long-term partnerships and its consequences. The findings suggest that TIPCO should continuously seek to improve product and service quality.

Keywords: Thailand, Long-term relationship, Partnering, Channel management.

Introduction

For over 20 years, TIPCO has been a household name in Thailand - 'Say pineapple, say TIPCO' and the steady development of the company has seen its name become synonymous with quality pineapple products worldwide. The Thai Pineapple Public Company Limited ('TIPCO') was established in March 22, 1976 and has a registered capital of 10 million Baht. The main function of the company was to grow, process and can, pineapple products and juice concentrate, for export. Since then, the company has expanded steadily and, at present, its registered capital stands at 500 million Baht.

TIPCO is Thailand's largest grower, processor and exporter of pineapple products. The company's range includes: canned pineapple, juice concentrate, milled run pineapple juice concentrate, crushed pineapple in aseptic bags, canned tropical fruit salad as well as other tropical fruits such as longan and rambutan. In today's business, firms use supply chain management to develop partnering relationship between channel members. When appropriate, close relationships are formed to assure outstanding performance levels. In effect, "teams" of suppliers, finished goods producers, service providers, and retailers are formed to create and deliver the very best product and/or service offerings possible. These teams form the core of an integrated supply chain, which often competes against other supply chains in today's business environment.

The objective of this paper is two-fold. The first purpose is to study the determinants of long-term relationship between TIPCO and its channel members and the second objective is to replicate a study conducted by Mentzer, Flint, and Hult (2001) in the context of Thailand.

Literature Review

In order to understand the concept of retailer 'satisfaction', a certain number of factors need to be understood. Based on the literature, the following conceptual framework has been derived, where seven factors are found to impact on retailer satisfaction.

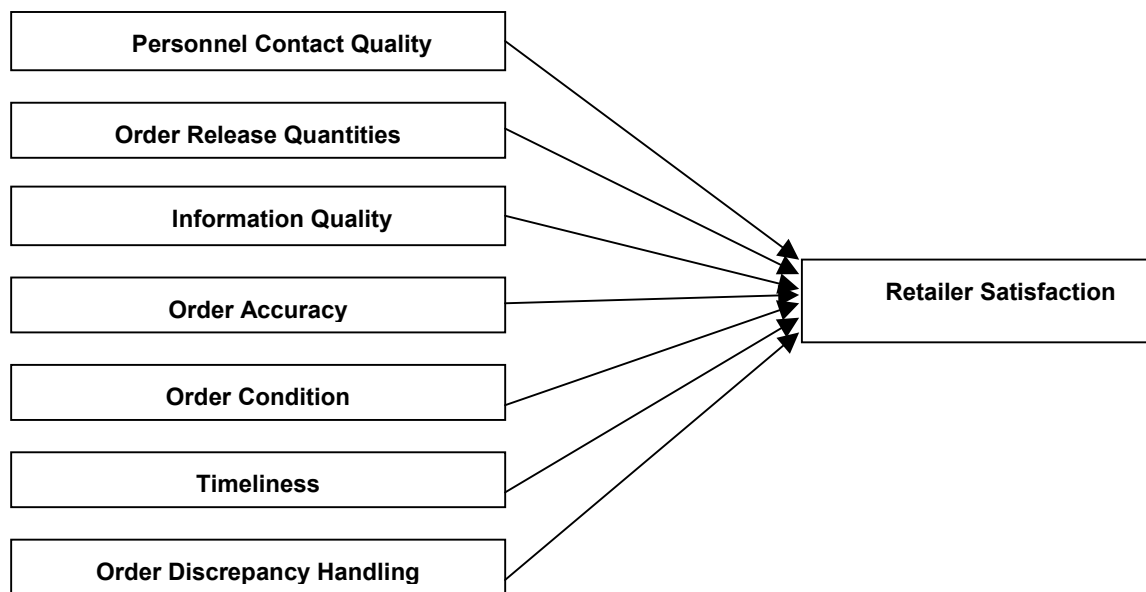


Figure 1: Factors that affects Retailer Satisfaction

Personnel Contact Quality and Retailers satisfaction

Personnel Contact Quality refers to the retailer's orientation of the company's sales contact people. More specifically, retailers care about whether the company's service personnel are knowledgeable, empathise with their situation, and help them resolve their problems (Bitner, 1990; Bitner, Booms, and Mohr, 1994; Bitner, Booms, and Tetreault, 1990; Gronroos, 1982; Hartline and Ferrel, 1996; Parasuraman, Zeithaml, and Berry, 1985). Parasuraman, Zeithaml, and Berry, (1985) have argued that in most service encounters, quality perceptions are formed during the service delivery. Similarly, Surprenent and Solomon, (1987) suggested that service quality perceptions are tied more to the service process, which involves personnel contact, than to the resulting service outcome. As such, personnel contact quality is an important aspect of the sales employee-retailer interface (Hartline and Ferrel, 1996).

Order Release Quantities and Retailers satisfaction

Order release quantities are related to the concept of product availability. The company can challenge retailers' requests if unreasonable but the company still has to ascertain the 'real' need behind their volume requests. Retailers are satisfied when they are able to obtain the quantities they ordered. The importance of product availability has long been recognised as a key component of logistics excellence (Novack, Rinehart & Langley, 1995; Perreault and Russ, 1974). Although stock outs are believed to have significant impact on retailer satisfaction and loyalty, it is difficult to quantify the financial impact of these lost sales (Keebler et al., 1999).

Information Quality and Retailers satisfaction

It is the perception of the information provided by the company regarding products from which the retailer may choose (Novack, Rinehart, and Langley, 1994; Rinehart, Cooper, and Wagenheim, 1989). If the information is available and of adequate quality, retailers should be able to use the information given to make decisions.

Order Accuracy and Retailers satisfaction

Order accuracy refers to how closely shipments match retailers' orders upon arrival (Bientock, Mentzer, and Bird, 1997; Mentzer, Gomes, and Krapfel, 1989; Mentzer, Rutner, and Matsuno, 1997; Novack, Rinehart, and Langley, 1994; Rinehart, Cooper, and Wagenheim, 1989). This includes having the right items in the order, the correct number of items, and no substitutions for items ordered.

Order Condition and Retailers satisfaction

Order condition refers to the lack of damage to orders (Bientock, Mentzer, and Bird, 1997; Mentzer, Flint, and Kent, 1999; Mentzer, Gomes, and Krapfel, 1989; Mentzer, Rutner, and Matsuno, 1997; Rinehart, Cooper, and Wagenheim, 1989). If products are damaged, customers cannot use them and must engage in correction procedures with retailers, vendors or logistics service providers, depending on the source of the damage.

Order Discrepancy Handling and Retailers satisfaction

Order discrepancy handling refers to how well company addresses any discrepancies in orders, especially after orders are received (Novack, Rinehart, and Langley, 1994; Rinehart, Cooper, and Wagenheim, 1989). If retailers receive orders that are not accurate, in poor condition, or of poor quality, they will seek corrections from the company. How will company handles these issues will contribute to retailers' perceptions of the quality of company's logistics services?

Timeliness and Retailers satisfaction

Timeliness refers to whether orders arrive at the retailer location when promised. More broadly, timeliness also refers the length of time between order placement and receipt (Hult 1998). This delivery time can be affected by transportation time, as well added back-order time when products are unavailable (Bientock, Mentzer, and Bird, 1997; Mentzer, Flint, and Kent, 1999; Mentzer, Gomes, and Krapfel, 1989; Mentzer, Rutner, and Matsuno, 1997; Novack, Rinehart, Langley, 1994: Rinehart, Cooper, and Wagenheim, 1989).

Methodology

The data was collected using questionnaires. The sampling procedure utilised was simple random sampling. A total of 150 samples were collected from our target population of retailers in Bangkok, Thailand. The location for data collection was: Bangna, Rama III, Sukhumvit, Silom, Taksin, Victory Monument, Ramkhamhaeng, Pinklao, Paknam, Bangkhuntien, which are mostly business districts. The sample is considered acceptable as a representative of the retailers in Bangkok. This study was based on the scales developed in a previous study by Mentzer, Flint, Hult (2001). The measurement scales were replicated in the context of Thailand by using TIPCO and its channel members as the main source for primary data.

Test of Hypotheses

Hypothesis 1

H1o: There is no relationship between personnel contact quality and retailer satisfaction.

H1a: There is relationship between personnel contact quality and retailer satisfaction.

Hypothesis 2

H2o: There is no relationship between the order release quantity and retailer satisfaction.

H2a: There is relationship between the order release quantity and retailer satisfaction.

Hypothesis 3

H3o: There is no relationship between information quality and retailer satisfaction.

H3a: There is relationship between information quality and retailer satisfaction.

Hypothesis 4

H4o: There is no relationship between order accuracy and retailer satisfaction.

H4a: There is relationship between order accuracy and retailer satisfaction.

Hypothesis 5

H5o: There is no relationship between order condition and retailer satisfaction.

H5a: There is relationship between order condition and retailer satisfaction.

Hypothesis 6

H6o: There is no relationship between order discrepancy handling and retailer satisfaction.

H6a: There is relationship between order discrepancy handling and retailer satisfaction.

Hypothesis 7

H7o: There is no relationship between timeliness and retailer satisfaction.

H7a: There is relationship between timeliness and retailer satisfaction.

All of the above hypotheses were measured via a five-point Likert-type scale using 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5= Strongly Agree.

Data Analysis

Inferential Statistics – Hypothesis Testing

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.936 ^a	.876	.869	.153	.876	142.766	7	142	.000

a. Predictors: (Constant), timeliness, order accuracy, order condition, information quality, personnel contact quality, order release quantities, order discrepancy handling

Table 1: Multiple Regression

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.495	7	3.356	142.766	.000 ^a
	Residual	3.338	142	.024		
	Total	26.833	149			

a. Predictors: (Constant), timeliness, order accuracy, order condition, information quality, personnel contact quality, order release quantities, order discrepancy handling

b. Dependent Variable: retailer satisfaction

Table 2: ANOVA

Coefficients ^a										
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.183	.154		1.187	.237	-.122	.488		
	personnel contact quality	.173	.036	.187	4.758	.000	.101	.244	.569	1.757
	order release quantities	7.725E-02	.032	.098	2.421	.017	.014	.140	.534	1.871
	information quality	4.530E-02	.026	.066	1.737	.085	-.006	.097	.613	1.630
	order accuracy	8.603E-03	.025	.011	.350	.727	-.057	.040	.962	1.040
	order condition	.114	.029	.141	3.862	.000	.056	.172	.654	1.528
	order discrepancy handling	.301	.041	.340	7.404	.000	.221	.382	.415	2.410
	timeliness	.298	.035	.340	8.417	.000	.228	.368	.536	1.865

a. Dependent Variable: retailer satisfaction

Table 3: Coefficients

Regression Equation:

$$Y = 0.183 + 0.173 \cdot X_1 + 0.007725 \cdot X_2 + 0.00453 \cdot X_3 + (0.00086 \cdot X_4) + 0.114 \cdot X_5 + 0.301 \cdot X_6 + 0.298 \cdot X_7$$

Analysis

The Variance explained (R^2) by the model is a good indicator of the fitness of the data for the model. Here in this study R^2 is 0.876 or it can be interpreted, as the amount of variance explained by the regression model is 87.60%, which is relatively good and acceptable in this type of research. The result from the regression analysis in the above table indicates that, model is well fitted to the data. Bagozzi (1994) described that, 'better the coefficient of determination close to 1 the better the model is fit to the data.'

Based on the above discussion of the result from the regression analysis, it can be suggested that, out of seven hypothesised relations, five have significant relationship with retailers' satisfaction. The result of this study shows that, the hypothesised relations of 'personnel contact quality', 'order release quantities', 'order condition', 'timeliness' and 'order discrepancy handling' have been substantiated while the relations of 'information quality' and 'order accuracy' were not substantiated. This implies that personnel contact quality, order release quantities, order condition, timeliness and order discrepancy are positively and significantly important determinants of retailers' satisfaction.

Hence, it can be deduced that to increase retailers' satisfaction and to improve the effectiveness of TIPCO's supply chain these 5 determinants will need to be improved in order to maintain a high level of partnership between TIPCO and its channel members.

Surprisingly, in this study the relationship between 2 determinants: 'information quality' and 'order accuracy' and retailer satisfaction was not statistically significant. This is a strange phenomenon, as both of these two factors are considered vital and critical to the success of the supply chain in general. From the result, it does not mean that, TIPCO does not have to care about performing the orders correctly or not providing or processing information properly but as long as TIPCO is able to maintain its standard of order accuracy and information quality, TIPCO will continue to enjoy good working relation with its retailers or supply chain partners.

Conclusion

The main purpose of this study was to identify potential components of service quality that are critical to TIPCO's retailers in determining long-term partnering relation in the supply chain. The research utilised the concept of logistic service quality (LSQ), which was based on a previous study conducted by Mentzer, Flint, and Hult (2001). It was found that factors such as 'personnel contact quality', 'order release quantities', 'order condition', 'timeliness' and 'order discrepancy handling' had a statistically significant positive relationship with TIPCO's retailers' satisfaction. It was also found that two factors, 'information quality' and 'order accuracy', were not statistically significant.

From the findings it can be derived that TIPCO's retailers place a strong emphasis on 'personnel contact quality' with regards to their relationship with TIPCO in order to maintain long-term partnerships. The relationship between TIPCO and its retailers is very much dependent upon the sales person. This is quite typical of business relationships in Thailand (Phelps & Krabuanrat, 1999). It would be interesting to further the study by exploring the types of relationships that may exist in the Thai retail sector and see how modern supply chain practices have impacted on traditional channel relationships.

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