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**Purchaser-supplier Relationship in Third Party  
Procurement: A Case Study in Chinese Automotive  
Industry**

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## **Abstract**

The purpose of the research is to evaluate the role of third party procurement (3PP) in supply chain. The relationship between third party purchasers and suppliers will be explored and some suggestions will be proposed to improve the relationship.

The research will focus on Chinese automotive industry, so a typical third party procurement provider in this industry will be analyzed as a case study. Data will be collected mainly through interviews among the third party purchasers and their suppliers, and the data will be analyzed and interpreted in a qualitative method.

Studies have shown that outsourcing is getting more and more popular. 3PP is inevitably involved when it comes to procurement outsourcing. Due to the professional services from the third party procurement providers, not only the supply chain efficiency can be improved, but also the client firms can gain benefits from the value they create. However, 3PP also has disadvantages. It is necessary for enterprises to identify these pros and cons before outsourcing procurement. In addition, the relationship between third party purchasers and suppliers should also be paid attention. In this research, this kind of relationship will be explored and put forward some suggestions to improve the relationship and increase satisfaction of both sides.

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# **Chapter 1 Introduction**

## **1.1 Research Topic**

This research tries to explore purchaser-supplier relationship in the context of Third Party Procurement (3PP) . A case in Chinese automotive industry will be introduced.

## **1.2 General 3PP Backgrounds in China**

China has become an important global procurement and supply center because of the large-scaled foreign investment in China and the rise of Chinese manufacturing industry. Many multinational companies set procurement centers in China. The annual procurement amount has exceeded 100 billion US dollars and is increasing year by year. However, in the face of increasingly frequent global sourcing, many enterprises lack professional procurement experience, therefore, study on procurement development strategy has become an important field in national economic activities (Zhu, 2006). Tu (2004) says that as transferred from planed economy system to market economy system, Chinese enterprises procurement is undergoing a revolutionary change. Under this background, third party procurement emerged in China. However, the real third party procurement company that can step in the customer's whole supply chain management is still rare. Xu (2005) tells the reasons. First of all, because it involves the company's core business secrets, many enterprises are not accustomed to outsource logistics and procurement; secondly, most third party logistics companies are limited to simple warehousing and transportation management. They lack understanding of the entire supply chain management and practical experience; last but not least, most third party procurement company lack prospective views when developing partners. This research is based on this background, hoping that Chinese enterprises begin to pay attention to the issues related to third party procurement.

### **1.3 Research Questions/Objective**

Relationship between each enterprise in supply chain plays an important role in supply chain efficiency (Fawcett et al, 2002), so it is essential to pay attention to the relationship between partners in supply chain (Bowersox, 2010). 3PP is becoming a new approach to achieve better performance of supply chain (Chen and Xie, 2007). Third party purchasers have responsibilities to help their client firms establish and improve the relationship with suppliers. However, Adobora et al (2014) points that there is little first-hand reference on how third parties develop the relationship with suppliers. Therefore, it is necessary to explore the relationship between third-party purchasers and suppliers and find out the efficient method to improve the relationship and increase satisfaction of both sides.

Firstly, we should understand what 3PP is, what is its role in supply chain. A good relationship with suppliers plays an important role in cooperation, so how to better select and assess the partners to develop the relationship from the perspective of third party purchaser, which also needs to be discussed in this research. In addition, satisfaction is another aspect that have impact on relationship, so we also need to understand what kind of factors and /or behaviours may influence their relationship development and how to increase the satisfaction of both sides.

Case study will be applied in this research. Through the case from a typical third party procurement service provider in reality, this research will provide practical references to the related practitioners.

### **1.4 The Importance of the Research**

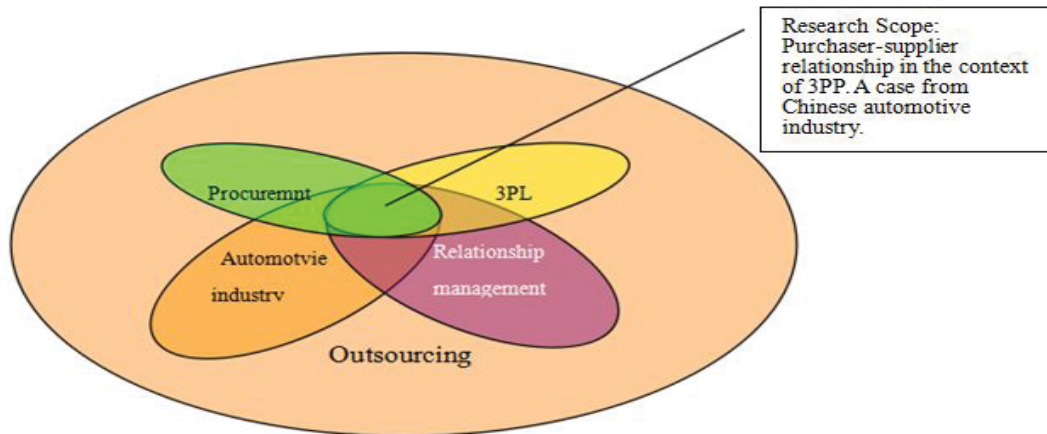
Outsourcing is a key decision in enterprise operations and supply chain management field (Luciano et al, 2013). If enterprises want to adapt themselves to the changing business environment, and gain the competitive position in the market, only relying

on their own resources is far from sufficiency, because as Prahalad and Hamel (1990) say, every enterprise lacks capacity and resources in some aspects. In order to cope with fierce competition, and maintain the core competitiveness, enterprises can consider outsourcing non-core business to the third-party service providers. With the continuous expansion of outsourcing services, people also start to outsource their procurement business to the third party, so third party procurement (3PP) is generated, and is becoming a booming industry (Chen and Xie, 2007). However, 3PP is not perfect. Before outsourcing procurement business, enterprises have to recognize its advantages and disadvantages of this kind of business model, because while 3PP bring value to customers, it might also has a negative effect. In addition, some suppliers do not realize the role of third parties, so they just want to cooperate with the ultimate clients directly, i.e., they are not willing to establish a relationship with third parties, or even if the relationship was established, they do not pay much attention to maintaining or improving it. So from the perspective of third party purchaser, it is essential to take the initiative to explore how to deal with the relationship with suppliers, which inevitably involves how to select and assess the suppliers, and how to increase the satisfaction of both sides. Sandor et al (1999) say that successful outsourcing depends largely on the management skills that third parties provide. For third party procurement enterprises, an important responsibility is to help client firms establish and improve suppliers relationship, as the stability of their relationship directly affects the efficiency of operation and total costs of enterprises. Therefore, it is significant to make a research on this topic, not only making suppliers understood the importance of the relationship with third party purchasers, but also putting forward some constructive suggestions on dealing with purchaser-supplier relationship from the perspective of third party purchaser. This research also introduces a case from Chinese automotive industry which is a thriving industry in China, to make the research more practical.

## 1.5 Scope and Boundaries of the Research

The research will focus on the purchase-supplier relationship in the context of 3PP. The following figure reflects the scope of this research clearly.

**Figure 1.1 Scope and Boundaries of the Research**



Outsourcing is a broad topic. Goldsmith (2003) points out that besides outsourcing business activities (e.g., information system user support, computer help desk services, etc.), organizations also tend to outsource whole business departmental functions (e.g., accounting, HR, IT, etc). This research will focus on procurement outsourcing. 3PL (third party logistics) is also involved in the area of outsourcing. The emergence of 3PP is due to the combination of procurement and 3PL. 3PP is still in the stage of development, so it is necessary to make research on this area. Another area is purchaser-supplier relationship management which would greatly affect the success of mutual cooperation (Jonathan, 2014). This research will explore this kind of relationship in the context of 3PP. In addition, this research will not only explain on the theory level, but also connect with practice. Through a case study from Chinese automotive industry, it will explain how to better deal with the relationship between third party purchaser and supplier in reality.

## **1.6 Research Method Overview**

The research will select qualitative approach as research methodology since the data will be collected in forms of words through interviews among selected participants rather than quantitative data. In addition, since this research will take the position of constructivism and interpretivism, the qualitative method will be more appropriate accordingly (Bryman et al, 2011). Moreover, The research will introduce a single case in depth from a typical third party procurement service provider in Chinese automotive industry. The researcher will analyze their current policies on dealing with purchaser-supplier relationship, the problems they encounter, and find corresponding solutions.

## **1.7 Potential Contribution to Knowledge**

According to Sun and Hou (2011), the concept of 3PP was first proposed in the 1980s and in the 1990s, 3PP began to develop and became a new service model. With the expansion of globalization, this concept has been more widely accepted and implemented. However, the existing research on this area is very limited. The theme of this research is to point out the pros and cons of 3PP and explore the relationship between third party purchaser and suppliers. Identifying advantages and disadvantages enables enterprises to recognize the role of 3PP and see whether 3PP could bring them real profit. As a professional third party procurement service provider, the number and the range of the suppliers they cooperate with are greater and larger, the difficulties in dealing with the relationship with supplier is naturally bigger, therefore, the requirements of their supplier relationship management are higher. This research will provide some suggestions from the perspective of third party purchaser.

## **1.8 Research Limitations**

The study is mainly based on Chinese market, so the research result might be different in other countries or areas because of different cultures and background. Since this study will introduce a single-case study from a certain industry, it cannot fully represent the real practice in this industry. In addition, the purchaser-supplier relationship can be affected by many factors, but this research will put more emphasis on certain affected factors (such as supplier selection mechanism , satisfaction).

## **1.9 Flow and Contents of Remaining Chapters**

In Part 1, some selected areas of the research, including topic, research questions and objectives, scope and boundaries, importance, method overview, potential contribution, and research limitations, have been introduced. Part 2 will provide the literature review related to the research topic including procurement in Chinese automotive industry, outsourcing, third party procurement (3PP), purchaser-supplier relationship management and suppliers selection and assessment. Two conceptual models on 3PP and purchaser-supplier relationship will be built afterwards. Finally, the research gap will be identified. Part 3 will focus on the research methodology. The research questions will be proposed first. Then the ontological and epistemological perspectives on this research will be explained and the different methods will be discussed before the researcher decide which one will be used. Ethical consideration will also be included in Part 3 followed by a brief conclusion. The collected data will be presented and interpreted in Part 4. The major findings will be explained followed by the analysis of conceptual model. Part 5 will combine the findings with previous researches, meanwhile discuss the implications according to the conceptual model and point out the what should be further researched for the latter researchers. In the end, the research conclusion will be summarized in Part 6.

## Chapter 2 Literature Review

### 2.1 Introduction

This part will review some relevant literature around the research topic. It will introduce the situation of procurement in Chinese automotive industry, outsourcing, third party procurement (3PP), then introduce the study of purchaser-supplier relationship management, and supplier selection and assessment, finally build up conceptual models on 3PP and purchaser-supplier relationship, followed by a research gap and brief summary.

### 2.2 Procurement in Chinese Automotive Industry

Chinese automotive market is the potentially largest one in the world (Ma et al, 2003). China can get huge economic benefits from the automotive industry, since this industry is becoming a backbone industry in China (CFLP, 2012). Wang (2013) points out that procurement cost accounts for 60%-70% of sales cost in automotive industry.

**Table 2.1 Procurement Leverage Effect On Profit** Unit: RMB

	Before increasing the sales volume	After increasing the sales volume	Increasing rate	Increased profit
Sales	2,000,000	2,400,000	20%	40,000
	Before reducing the cost	After reducing the cost	Decreasing rate	Increased profit
Procurement cost	1,400,000	1,360,000	3%	40,000

Source: Wang, J. (2013). *Third Party Escrow: A New Procurement mode in Automotive Industry*. *Automotive and Parts*. 20(5),45-47.



Table 2.1 shows that using procurement leverage can increase profit considerably (Wang, 2013). With the same profit of 40,000RMB, sales have to increase 20%, while procurement just needs to save 3%. So we can see that how important the procurement is for organizations, especially in automotive industry.

However, Xie and Wu (2007) conducted a survey and found that many Chinese enterprises lack necessary skills, professional knowledge and infrastructure condition in the process of supplier selection, implementation of purchasing and supply management. They sum up the following 6 main problems:

- There are nearly 70% of the enterprises that the supplier selection decisions are still made by the demand departments and workshop.
- There are nearly one-third of procurement activities implemented without contracts.
- Most of SMEs ( in China, SME in automotive industry refers to those who employ no more than 1,000 staff and/ or the annual turnover is no more than 65 million USD (2011, MIIT China)) know little on the procurement expenditure details on most strategic or the high-value products.
- Only a few enterprises have standard supplier selection process and procurement process.
- For most enterprises, it is not clear on the structure and content of the total cost of procurement.
- The purchasing department still lags behind other functional departments in the application of automation and analysis technology.

We can see from the above summaries that in most enterprises, procurement still in the condition of low operation efficiency. Due to the defect of procurement process and unreasonable procurement expenditure, enterprises would suffer from huge economic waste. Therefore, it is time for enterprises, especially in automotive industry, to focus on procurement management. One of the best approaches is to seek some more professional service providers in procurement area, letting them help operate

procurement business.

### **2.3 Outsourcing**

Brewer (2014) states that in order to maintain the core competitiveness, enterprises can entrust the non-core business to external professional companies. It can reduce operating costs, improve service quality and increase customer satisfaction. This is what outsourcing about. Studies show that outsourcing has drawn the attention of practitioners, as well as academics. Goldsmith (2003) conducted a survey among fifty-two major corporations (83% of them are U.S. firms) to find out the most important reasons for outsourcing. The top reasons include cost savings (77%), gaining outside expertise (70%), improving services (61%), focusing on core competencies (59%), and gaining accessing to technology (56%).

Outsourcing is gaining increasing popularity, which makes selecting an appropriate service provider is getting more and more important. Hall (2003) points out that about 50% of all outsourcing agreements fail because client firms do not conduct proper analyses. The quality of service that third parties provide directly affects the success of outsourcing. From the perspective of third parties, in order to attract potential clients and keep the partner relationship with existing clients, they must provide professional service through scientific management. This research will look from the third party's perspective and put some feasible suggestions on how to improve the management skills, especially in the relationship management.

### **2.4 Third Party Procurement (3PP)**

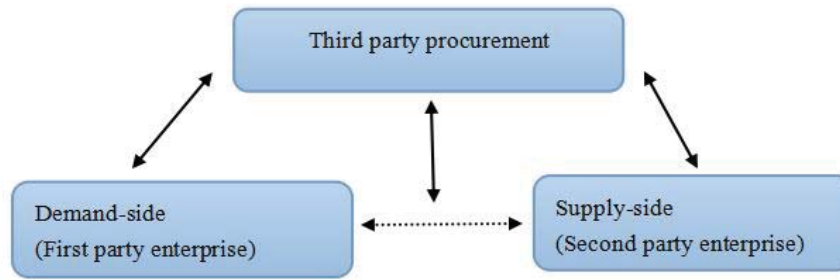
This research will focus on procurement outsourcing. 3PP is inevitably involved when it comes to procurement outsourcing.

Xie (2007) defines third party procurement (3PP) as a purchasing mode that

outsourcing products and services to the third parties who can provide professional, efficient products and services so that enterprises can minimize procurement cost, improve procurement efficiency, focus on its core competence and continuously enhance its competitive advantage. Chen and Xie (2007) describe that third party procurement providers collect small orders into large orders, so they gain an advantage and preferential price on procurement scale. At the same time, due to frequent transaction with manufacturer directly, reducing the intermediate level, the distribution costs are greatly reduced and the products quality is ensured. Wei (2007) also explains that relying on the professional services and complete varieties, they also provide procurement convenience for customers, for example, due to the huge suppliers data, third party can provide more procurement channels, which means it is more likely to get lower prices.

Hendry (1995) says that the benefits of entrusting the third parties to implement procurement services are obvious. It can help enterprises strengthen procurement management, standardize procurement operation, strengthen procurement function and improve procurement efficiency. Supply chain management emphasizes on enterprises specializing in a particular field according to their own characteristics to form their own competitiveness, which necessarily requires enterprises to outsource other non-core business to the third party service providers (Marc et al, 2005). Under this background, 3PP was generated. Figure 2.1 shows the position of 3PP. It actually plays a coordinating role between demand side and supply side.

**Figure 2.1 The Emergence of Third Party Procurement**



Luo (2009) explains operating of 3PL enterprises mainly includes procurement, transportation, warehousing, distribution, handling and packaging. 3PL enterprises use their rich logistics resources, such as various types of warehouses and transport, extensive logistics networks, modern logistics management methods to optimize each service link of logistics and meet the needs of logistics supply chain between enterprises with high efficiency, good quality and low cost. According to Zhou and Cheng (2002), among 3PL services, inventory costs about 3% of sales revenue, while transportation accounts for 3% as well. Cost of procurement comprises much more than other items, about 40%-60%. From the perspective of supply chain, procurement link can create a huge space for customer value. Enterprises can significantly reduce procurement costs, improve procurement quality and enhance procurement convenience by centralized purchasing through third party procurement organizations. Meanwhile, gathering the procurement orders can provide 3PL with large-scale demand and professional management, which promote the development of 3PL (Chen and Xie, 2007).

## **2.5 Purchaser- supplier Relationship Management**

Then how to better meet the customers' needs with lower cost? This research will try to find out some feasible solutions in terms of purchaser-supplier relationship.

3PL not only undertakes the logistics business, but also provides customers with a new resource. 3PL companies should not only saving the customer's logistics cost, but to improve the entire supply chain efficiency. At the same time, 3PL companies need to have a good sense of public relations, all public relations management should focus on customer satisfaction and establish good relations with stakeholder, especially increasing purchaser-suppliers interaction (Gadde & Hulthen, 2009).

Studies have shown that purchaser-supplier relationship can be any kind from hostile type to cooperative type (Cox et al, 2003). Liu and Li (2010) state that good relationships can improve the enterprise efficiency and quality of service, enhance the competitiveness, respond rapidly to meet customer needs, and create value for customers. No matter what relationship model purchasers and suppliers choose, it is influenced by many factors that interact each other include trust, rights, transaction frequency and the complexity of transaction ( Liu et al, 2010). Gattorna (2009) states that once the cooperative relationships fail, it is difficult to rebuild them. He believes that there are two factors to create a win-win relationships, that is 3C behaviour (Cooperation, Coordination and Collaboration) and trust.

Mary et al (2012) point out that while managing the purchaser-supplier relationship, the qualitative feedback and quantitative data should be collected and use various approaches to analyze these information. Both of purchaser and supplier must share information, and collaborate jointly to develop effective result-oriented strategies.

From the perspective of third party purchaser, supplier relationships have far exceeded the transaction level. In order to achieve the lowest cost of the whole supply chain and gain the maximum profit, many third party purchasers regard suppliers as a part of their own resources to manage. Successful relationship with suppliers is a kind of support for the ability of third party purchaser (Xie and Huang, 2009).

Due to the complementary advantages from both of purchaser and suppliers, the effect

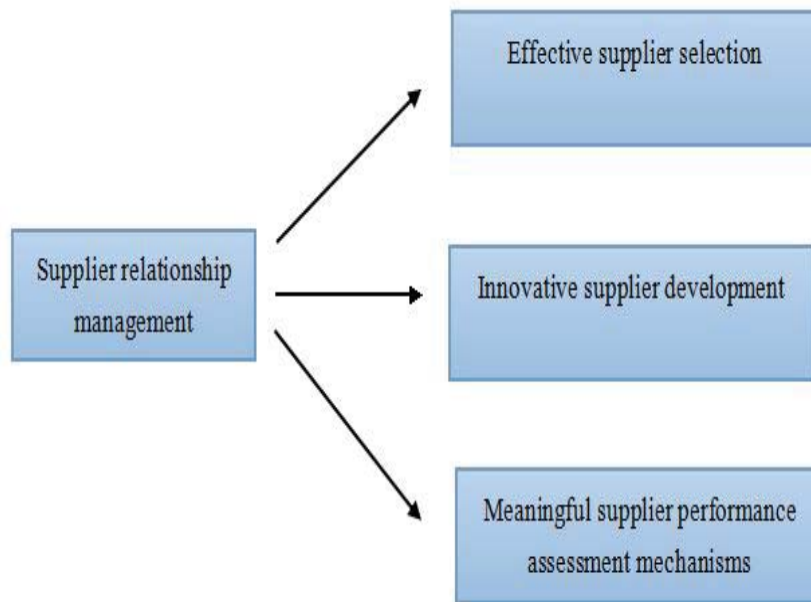
of “1+1>2” will be produced, which improve the overall efficiency of the whole supply chain (Chen and Xie, 2007). Although good purchaser-supplier relationship creates benefits to both of purchasers and suppliers (Frolich et al, 2001), building this kind of relationship is a challenging undertaking, especially in the context of 3PP. This could involve many aspects of work, such as how to better select and assess suppliers, and how to improve satisfaction.

Supplier selection and assessment is an important aspect in relationship management, so in the next section we will review this area.

## **2.6 Suppliers Selection and Assessment**

With the diversification of the market, great changes have taken place in the external environment of enterprises on purchasing, mainly including the increasing purchase channels, big price difference, difficulty in controlling the quality and big purchasing risk, which calls for the new requirements on supplier relationship management (Li, 2008). The supplier selection and assessment is a very important part of supplier relationship management. Jia (2005) believes that selection and assessment is a premise and approach to establish and maintain a relationship with suppliers. Once a good relationship is established, suppliers will have a significant impact on the product quality, cost, delivery, lead time, inventory levels, product design, so we need to establish a set of scientific and suitable supplier selection and assessment mechanisms to select the appropriate suppliers and assess suppliers performance. Vijay and Keah (2002) argue that “greater dependence on suppliers increases the need to effectively manage suppliers”. Figure 2.2 shows that supplier management is divided into three aspects, which is supplier selection, supplier development and supplier performance assessment mechanisms. This research will also discuss on how to manage supplier relationship through these three aspects in the text of 3PP.

**Figure 2.2 Three Aspects of Supplier Management**

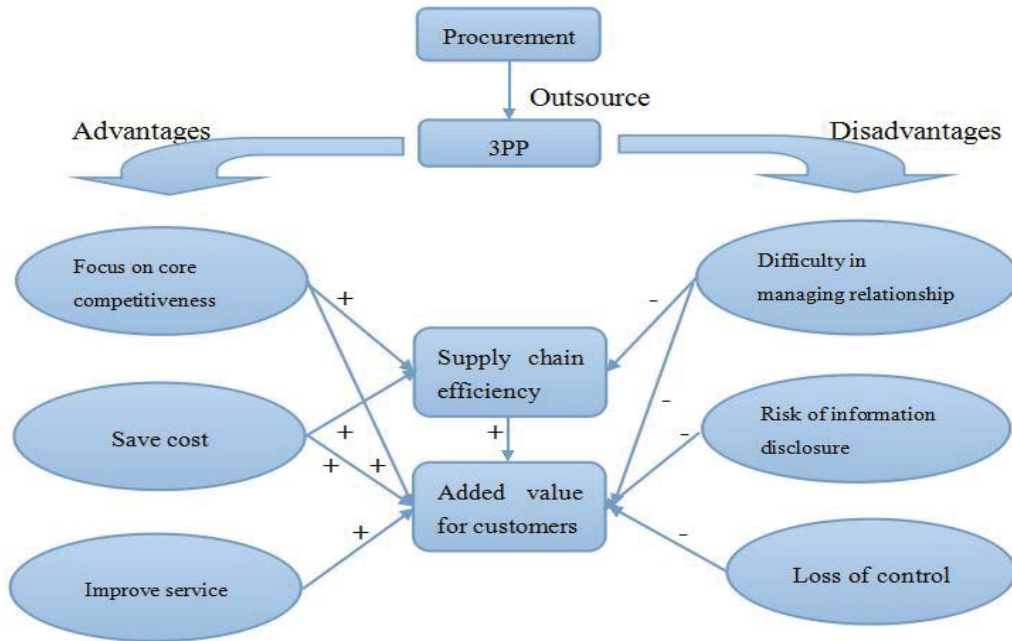


The existing researchers have identified some criteria on how to select and assess suppliers. Hahn et al (1990) state that some “hard” (quantifiable) criteria are commonly used for supplier selection and assessment, such as price, delivery, quality and service, which is also supported by many other authors (e.g.,Walton et al. 1998; Carr and Pearson 1999), whereas Ellram (1990) complemented that we can not neglect the importance of “soft” (difficult-to-quantify) factors such as management compatibility and strategic direction of the supplier, especially while establishing the strategic purchaser-supplier relationship.

As third party purchasers, establishing and keeping good relationship with suppliers is the key part of their work. However, the workload of establishment and maintenance of supplier relationships is very large, and the costs of supplier switching are particularly high (Jia, 2005), then how to better select and assess the suppliers is the matter that third party purchasers are supposed to be concerned with.

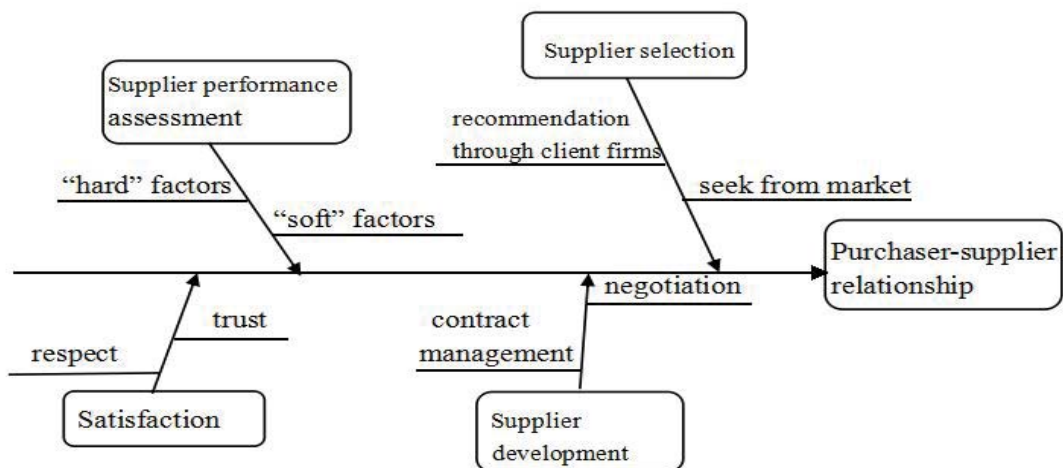
## 2.7 Conceptual Model

**Figure 2.3 The Impact of Pros and Cons of 3PP on Supply Chain Efficiency and Added Value for Customers**



Source: Wang, J. (2013). Third Party Escrow: A New Procurement mode in Automotive Industry. *Automotive and Parts*. 20(5),45-47; Xie, S.X. (2007). The Theoretical of Third Party Purchasing: Exploration and Innovation. *Purchasing & Supply Management*. 2007(11), 28-29; Goldsmith, N. M.(2003). *Outsourcing Trends*. New York: The Conference Board.

**Figure 2.4 The Factors Influencing Purchaser-supplier Relationship in 3PP**





Source: Vijay, R. K., & Keah, C. T. (2002). Supplier Selection and Assessment: Their Impact on Business Performance. *The Journal of Supply Chain Management*. 2002(11), 11-21; Hahn, C.K., C.A. Watts, & K.Y. Kim. (1990) The Supplier Development Program: A Conceptual Model. *Journal of Purchasing and Materials Management*. 26(2), 1-7; Gattorna, John, (2009). *Dynamic Supply Chain Alignment : A New Business Model for Peak Performance in Enterprise Supply Chains Across All Geographies*. England: Gower.

From the literature review, two conceptual models are created. The first model shows the impact of pros and cons of 3PP on supply chain efficiency and added value for customers. Procurement function plays an important role in enterprise operation. Enterprises can outsource procurement function (if it is not their core business) to the third parties. With the expansion of procurement outsourcing business, 3PP is becoming more and more acceptable. However 3PP is not perfect, it also has pros and cons. The advantages include that it can help client firms focus on competitiveness, save cost and improve service. Focusing on competitiveness can benefit the supply chain efficiency, since the supply chain efficiency could be improved through each enterprise specializing in some competitive fields according to their own characteristics (Marc et al, 2005), and it also can bring value to customers, because they do not need to put much effort on non-core businesses so that they can focus on their businesses. Saving cost can not only increase the efficiency of supply chain, which finally has a positive impact on the added value for customers. It also add value for customers directly. Improving service has positive influence mainly on added value for customers, because it may attract more potential clients and keep the relationship with existing clients. From the perspective of the disadvantages of 3PP, all the disadvantages including difficulty in managing relationship, risk of information disclosure and loss of control obviously have a negative impact on added value for customers, and difficulty in managing relationship will also decrease the efficiency of supply chain, since the relationship between purchaser-supplier affect the supply chain efficiency directly.

The second model shows the factors that may influence purchaser-supplier relationship. These factors include supplier selection (it can be recommended by client firms, or selected from market), supplier development (negotiation and contract management are involved), supplier performance assessment (it can be divided into “hard” factors and “soft” factors), and satisfaction (which is affected by trust and respect) of both sides. While establishing or maintaining a relationship, these factors should be taken into account.

## **2.8 Research Gap**

3PP is still developing in China. The knowledge of 3PP is very limited. The most existing researches on 3PP focus on its background of emergence, the attributions, and the scope (e.g, Chen and Xie, 2007; Xie, 2007; Zhou and Cheng, 2002), ignoring discussing the management skills from the perspective of third parties. Due to the importance of service quality that third parties provide to the success of outsourcing (Sandor et al,1999), this study will stand from the angle of the third-party purchaser to study the relationship with their suppliers, proposing how to better select and assess the suppliers, and analyzing how their behaviours will affect their satisfaction and address how to increase the satisfaction of both sides. (Vijay et al, 2002; Hahn et al, 1990; Gattorna, 2009)

In addition, most researches on relationship management are in the context of the traditional procurement mode. When it is in the context of 3PP, the situation might be different. This research will put more emphasize on some of these differences, for example, suppliers might be recommended from client firms, and the trust would be more difficult to improve.

Another gap is that the one between research and practice still exists. The most existing researches stay at the theoretical level. There are few references for third parties on improving management skills and quality of service. This research will

introduce a typical case of a third party procurement enterprise in Chinese automotive industry to analyze. It may provide an alternative practical and feasible reference to both researchers and practitioners.

## **2.9 Summary**

The procurement function develops from the simplest buying to a strategic level. An analysis of the procurement leverage effect on profit directly shows the importance of procurement for organizations, especially in Chinese automotive industry. Outsourcing mode, in recent years, has become increasingly popular. The emergence of third party procurement is due to the combination of procurement and outsourcing. Compared with the enterprise's own purchasing, third party procurement can provide more value and procurement experience, save a lot of procurement costs, help their client firms focus more on core competitiveness (Marc, 2005). Gattorna (2009) notices that “organizations spend too little time considering the relational aspect of the supply chain”, however the efficiency of supply chain can be influenced by the stability of relationships between each other. Therefore, in this research purchaser-supplier relationship in the context of 3PP will be explored. Then the conceptual models are created. The first model shows the impact of 3PP on supply chain efficiency and added value for customers. The factors influencing purchaser-supplier relationship are reflected in the second model. The purchaser-supplier relationship issue is the matter each participant in supply chain is supposed to be concerned with. This research will fill some gap between the theory and practice, and provide a reference for the researchers and practitioners.

## **Chapter 3 Research Methodology**

Before conducting the research, the ontological and epistemological perspectives will be explained, and then research methodologies will also be discussed to see which one is more appropriate to this research.

### **3.1 Research Questions**

As the research tries to explore purchaser-supplier relationship in the context of 3PP, the following questions need to be answered.

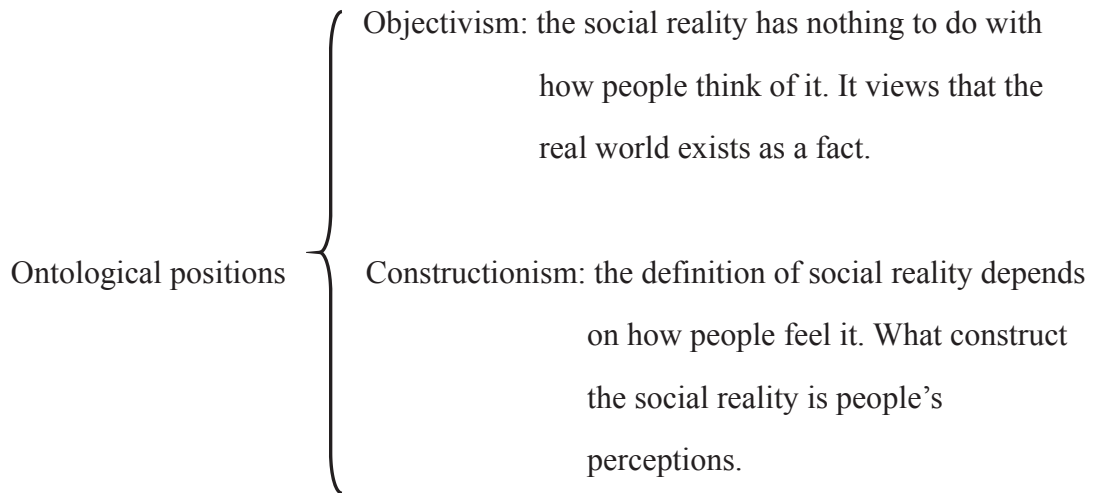
1. What role does 3PP play in supply chain?
2. What are the specific advantages and disadvantages of 3PP?
3. How can third party purchasers establish and maintain the relationship with suppliers effectively?
4. What factors/ behaviours might affect purchaser's and supplier's satisfaction?
5. How to increase the satisfaction of third-party purchaser and suppliers?

### **3.2 Ontological and Epistemological Perspectives**

Grix (2002) points out that the ontological and epistemological perspectives should be taken into account before researches are conducted, because they are “central to all social research”, and they help people how to design the questions and how to conduct the researches.

### 3.2.1 Ontological Perspectives

Ontology can be used to explain the question of “what’s out there to know” (Hey, 2002). It is concerned with “ the nature of social reality” (Blaikie, 2000), and it contains two perspectives, i.e, objectivism and constructionism. Potter (1996) and Strauss et al(1973) explain the concepts of these two perspectives as below.



Bryman et al (2011) explain these two concepts in the context of organizational environment, and list the key differences between objectivism and constructionism as follow.

**Table 3.1 Differences between Objectivism and Constructions**

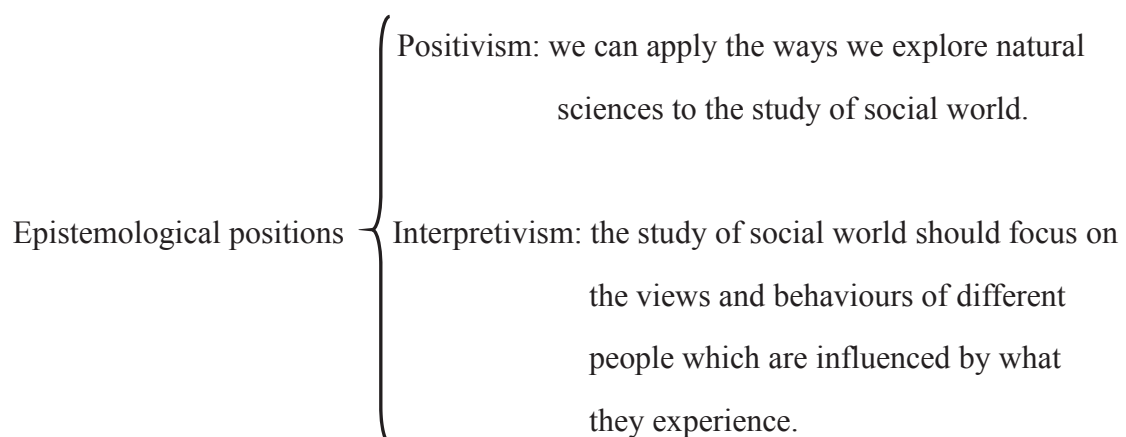
	Objectivism	Constructionism
Nature of an organization	Tangible object, external to employees	Social Construct, that arises from the interaction of individuals
Organizational drivers	Set rules, procedures, mission statements, processes and structures	Evolving negotiated order, rules and procedures act as principles leading to a community of practice
Organizational culture	Shared beliefs and values of employees who have internalize commonplace social norms	Emergent reality that is constantly being constructed and reconstructed through the interactions of the employees

From the perspective of objectivists, they regard the organization as “a tangible object” which is independent from people who work in this organization. The employees do what they are told (such as rules, procedures) by other employees. The existence of organizational culture is because of the common beliefs among the employees. But constructionists tell a different story. They argue that the organization is influenced by the interaction within the employees. The regulations and cultures of the organization can be changed and developed with constant communication among the employees (Bryman et al, 2011).

This research will take the position of constructionism because 3PP is generated by people combining outsourcing with procurement. It views 3PP as social construct to study the relationship between purchaser and supplier. People’s experiences and perceptions will be involved in this research.

### **3.2.2 Epistemological Perspectives**

Epistemological assumptions is described as “ how what is assumed to exist can be known” (Blaikie, 2000). Epistemological is also divided into two perspectives, which is positivism and interpretivism. They can be explained as below (Grix, 2002).



Bryman et al (2011) compare positivism and interpretivism in the following Table 3.2.

**Table 3.2 Differences between Positivism and Interpretivism**

	Positivism	Interpretivism
Basis	Natural science	Human Interactions
Approach to social science	Explanation and generalisation of human behaviour	Causal explanation and interpretive understanding of human behaviour
Subject matter	Nature	Social reality
The subject actions	Inanimate and unmotivated	Meaningful and engaged
Data collection	Observation, codification and measurement	Comprehend the perspective of the human subjects
Research and theory	Mostly deductive	Strong inductive leaning

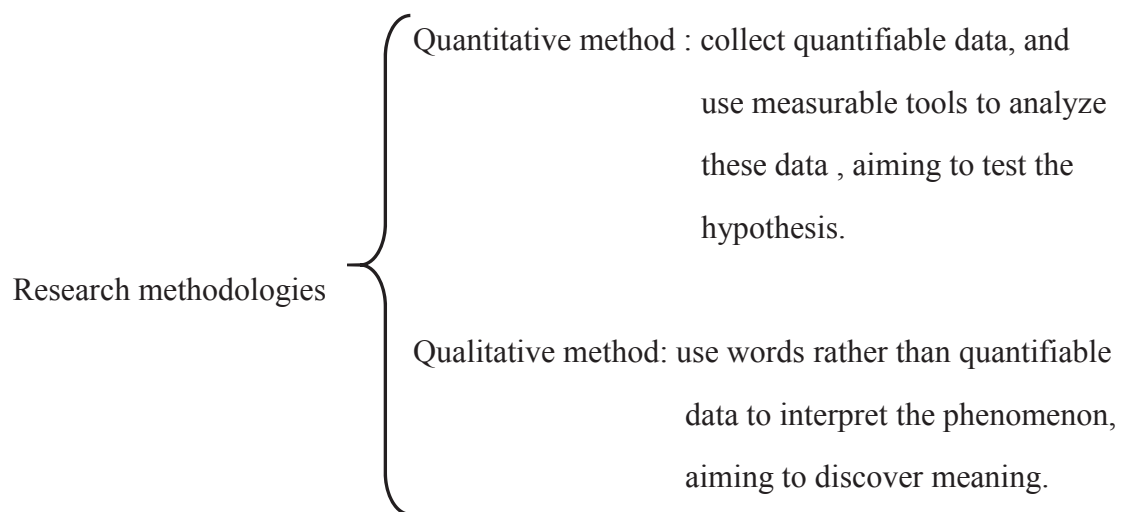
Hollis (1994) says that the positivists believe the world is objective. The knowledge must be tested by observation and measurement. The facts, such as “gravity”, is out there waiting for us to explore through scientific approaches. No matter what approaches the researchers apply, the results will be the same. In contrast, those who believe interpretivism argue that the world is subject. The knowledge comes from the different interpretation of people’s behaviours. The real world is constructed by people’s mind. Due to the differences of research approaches, researchers would draw different conclusions even on a same topic.

According to the differences of these two perspectives and the nature of this research, the position of interpretivism will be taken. As this research is mainly on the purchaser-supplier relationship in the context of 3PP, the human interactions will be involved. Views from selected participants will be collected through interviews on this topic. They will provide different opinions and suggestions according to their own working experiences, and then these data will be interpreted through an inductive way

to answer the questions that how to better select and assess suppliers, and explain what kind of behaviours may lead to high/ low satisfaction. Learning people's behaviours and motivations is a good way to explore the social world.

### 3.3 Appraisal of Alternative Research Methodologies

The research methodologies are divided into quantitative method and qualitative method. In order to better implement the researches, researchers had better choose the appropriate methods to apply. So it is essential to understand the characteristics of these two methods and tell the differences between them first. Bryman et al (2011) define the quantitative method and the qualitative method, which can be briefly summarized as below:



These two methods are different in many aspects. According to Bryman (2011), while applying quantitative methods, researchers have to put forward a hypothesis. In order to test whether this hypothesis right or wrong, researchers need to collect some measurable data, and these data will be statistically analyzed followed by the conclusion. Basically, researchers need to repeat the process again and again until they get the final result. We call this process “deductive approach”. In terms of qualitative research, the process is totally different. The aim of qualitative research is to generate theory or find meaning. Researchers tend to collect data in forms of words,



images, then this kind of data should be interpreted. With the data collection and interpretation continued, sometimes researchers will generate the new in-depth research questions, and the further data will be collected and interpreted before drawing the final conclusion. This process is called “ inductive approach (Bryman, 2012). The differences between quantitative research and qualitative research are listed in Table 3.3 (Bryman et al, 2011).

**Table 3.3: Fundamental Differences between Quantitative and Qualitative Research**

	Quantitative Research	Qualitative Research
Theory and Research	deductive;testing of theory	inductive; generation of theory; emergent
Epistemological orientation	Natural science model, in particular positivism	interpretivism
Ontological orientation	objectivism	constructionism
Purpose	test hypothesis	discover meaning
View of social reality	external, objective reality	constantly shifting emergent property of individuals' creation
Data	precise and quantitative	observation, words and images
Procedures	standard and replicable	tailored

We can not say which method is superior to the other, because each method has its own advantages and disadvantages. For example, although quantitative research is objective as the data is analyzed mathematically, it neglects people’s feeling from social world. Qualitative research can be conducted in particular fields in-depth, but the interpretation will involve the bias of researchers, which would make the result subjective.

This research will introduce a case in a specific industry , and the interviews will be

conducted among selected participants. They will provide the data from their real working experience in terms of words rather than quantitative data, and data will involve their feelings, opinions and attitudes. In addition, this research will take the position of constructionism of ontological perspective and interpretivism of epistemological perspective. Therefore, the qualitative method is more appropriate to this research.

### **3.4 Research Design Considerations**

Research design should be taken into account before conducting research, as it is “the plan and structure” of investigation that will help researchers find the answers to research questions (Cooper et al, 2008). The following will discuss the key aspects of research design in this research.

Question crystallization. The study can be divided into exploratory or formal. Exploratory studies focus on developing hypotheses or proposing research questions for latter researchers to study. Formal studies, on the other hand, try to answer the questions or test the hypotheses that former exploratory studies did not complete. The question of crystallization will be a formal study, as it will answer the questions of how to better establish and improve purchaser-supplier relationship in the context of 3PP.

The method of data collection. There are two types of this classification, which are monitoring and communication. Researchers using former study observe the activities without aiming to get responses, whereas in the latter study, researchers attempt to collect the data through communicating with chosen participants. Data will be collected through communication. Some practitioners in the 3PP industry will be selected to conduct interviews.

Control of variable. This classification distinguishes between experiment and ex post

facto design. In experiment study, the variables can and will be controlled or manipulated by researchers. The purpose of this design is to find out whether different variables have different impact on other variables. In ex post facto design, the variables can not be controlled or manipulated. Researchers can only report what they observe. This research will use ex post facto design, as the variables (e.g., the behaviours/ factors of both sides) can not be controlled. Data will be collected through observation and interviews.

Purpose of the study. Descriptive and causal are the two types in this area. In descriptive studies, researchers focus on describing “who, what, where, when, or how much”, while in causal studies, researchers tend to answer the question of “why”. This research will use both of these two studies. Not only the question of how to better deal with purchaser-supplier relationship will be explained, but also the reasons that lead to high/ low satisfaction of both sides will be found out.

The time dimension. This issue relates to whether the research is conducted at a specific time (cross-sectional studies), or last an extended period (longitudinal studies). Due to the limited time, this research belongs to cross-sectional study.

The topical scope. The approaches can be divided into statistical and case studies in terms of the breadth and depth of the research. Statistical studies put more emphasize on breadth, and they tend to analyze the data quantitatively. Case studies focus on the research topic more deeply, they usually use qualitative method to collect and analyze data. This research will introduce a case from a typical third party procurement enterprise, so case studies will be used.

The research environment. If the research is conducted under actual environment, it is field conditions. Otherwise, the research is laboratory conditions where the conditions can be manipulated. As the research will be conducted in a specific industry, it is obviously field condition.

Participants' perceptions. The outcome of the survey will be influenced by the participants' perceptions when selected participants are aware the research is being conducted because they may not work as usual. The participants of this research will be requested to provide real data and perception from their everyday working experience, so actual routine will be used.

**Table 3.4 Design Considerations**

Question Crystallisation	Formal
Data Collection	communication
Control of Variables	Ex post facto design
Purpose	Causal and Descriptive
Time	Cross-sectional
Scope	Case study
Research Environment	Field
Participants Perceptions	Routine

### **3.5 Data collection**

#### **3.5.1 Case**

David et al (2011) point that researchers can survey the whole group if the target group is small, but if the group is large, researchers had better select the typical group out of the whole group to survey. There are many 3PP enterprises serving for different industries in China, and research time and cost is limited, so it is difficult to make the survey among the entire group in 3PP in such a short time. So it would be better to introduce a case to study in depth. As this research will be conducted in the context of 3PP in Chinese automotive industry, a specific third party enterprise will be chosen as a case to explore how they deal with the relationship with suppliers currently, what

problems they encounter and what can we do to solve these problems. This organization has been established for more than 10 years, and they specialize in providing procurement services for large-scale manufacturers in Chinese automotive industry, like VW, GM, aiming to help their client firms reduce the procurement cost and enhance the competitiveness of core business. Because this enterprise specialize in providing procurement service for large-scale automotive enterprise, it is a representative third party in Chinese automotive industry. There are almost 3,000 suppliers in their supplier database, and about 40 purchasers working in this organization. Because the research will focus on the purchaser-supplier relationship, the selected participants will include the purchasers who are employed at this company and some of the suppliers (including manufacturers, agents, traders) who have businesses with them.

### **3.5.2 Data types**

Collecting data is a key step in research process. As this research will focus on the purchaser-supplier relationship, people's feelings and attitudes will be involved, and a case of a specific enterprise will be introduced, which means collection of primary data is a must, because Ghauri et al (2005) state that researchers have to collect primary data when they want to explore how people feel. In this research, primary data includes the record from interviews and observation of behaviours. Although it will cost some time and money to collect, it is necessary to communicate with purchaser and suppliers directly and immerse into their actual working environment for a period of time. Their feedback would be helpful to answer the research questions directly, because primary data "are more consistent with our research questions and research objectives" (Ghauri et al, 2005).

Secondary data, as Ghauri et al (2005) say, will save researchers a lot of time and money. So secondary data will also be collected as a supplementary reference, for example, some documentation about work flow will be selected. In addition, some

previous literature will also be the secondary data to help explain the research questions in theory.

### **3.5.3 Interviews**

As discussed in Section 3.3, qualitative method will be applied in this research, so the data will be collected in a qualitative way. Interviews will be the main approach to conduct the survey.

Interviews are used to collect data among chosen participants who are asked questions to explore their feelings, opinions and attitudes (Collis et al, 2009). Semi-structured interviews will be applied in this research, since the answers are open-ended which enable researchers to explore the participants' feelings in depth. Before the interviews start, the interview purpose will be introduced to the interviewees first. Then they will be asked some broad questions that are prepared in advance. Researchers do not have to follow them strictly. New in-depth questions are allowed to generate during the interview (Myers,2009).

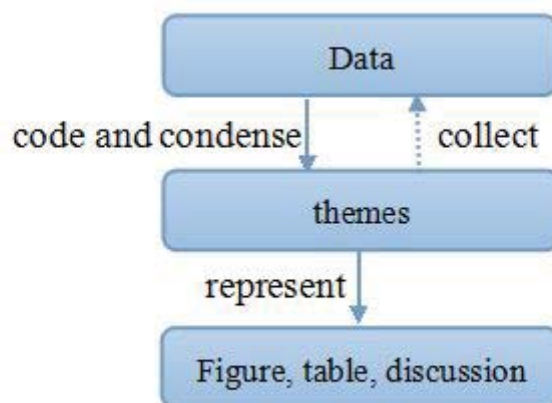
Collis et al (2009) say that “interview can be conducted with individual or group, using face-to-face, telephone or video conferencing methods”. In this research, the interview will be conducted with groups among purchasers, but the suppliers will be interviewed separately because some of them might be the competitors. Since this research is supposed to be conducted in an actual environment, the researcher will go to China to visit the selected enterprise, and spend some time with the purchasers. Face-to-face interviews will be conducted. Through this way, the researcher can not only record what they say, but also see their facial expressions and gestures which will enable the researcher to understand how they feel more accurately, accordingly the interview questions will be adjusted to improve the further communication. Besides, purchasers' behaviours will be observed, for example, how they communicate with suppliers on the phone, what about the tone of voice, and how they

treat suppliers while negotiating. Face-to-face interviews and phone interviews will be conducted among selected suppliers. Some questions will be asked to see how they feel about the relationship with third party purchaser and they can put forward some suggestions on relationship improvement.

### 3.6 Data Analysis

It is difficult for researchers to analyze data when they use qualitative method (Creswell, 2007). Some previous authors proposed different approaches, such as critical ethnography analysis, systematic analysis, and case study analysis (Madison, 2005; Miles, 1994; Wolcott, 1994). No matter what approaches researchers choose to use, they have some elements in common. Creswell (2007) proposed three general analysis steps in qualitative research as follow.

**Figure 3.1: Three Analysis Steps in Qualitative Research**



Step 1 is screening and transcribing data. Not all the data researchers collected is useful. So after collecting data, the researcher will review the whole data to see which one should be saved and which one should be got rid of because it is not relevant to the topic. In addition, some data may involve confidentiality and privacy. These kind of data will not be released. Step 2 is coding and condensing data. The data is still in a mess status after transcription. So in this step, researchers have to extract the data, and

categorize them according to different categories, themes and concepts (Creswell, 2007). With the research continued, new categories or themes might be generated. New data need to be collected. Under this circumstances, the researcher will go back to Step 1 for collection of further data. Step 3 is synthesis and display. After categorizing the data, the various categories will be combined into broader themes (Creswell, 2007). In order to make the data more understandable, diagrams will be applied.

In this research, data analysis will follow this approach. Firstly, the data will be collected by interviews among purchasers and suppliers. The selected interviewees' behaviours will also be observed. Since the data is collected mainly through interview and observation, the original data is represented in oral manner and behavioral manner. Therefore, these data will be transcribed into textual format. Then the data will be put into corresponding categories, such as advantages/ disadvantages of 3PP, procurement flow, supplier selection, satisfaction. Further interviews will be arranged if the initial data is not sufficient. The purchasers and suppliers will be asked more questions about the topic, and the further data will also be transcribed and categorized. In the end, the data categorized will be combined into broader themes, 3PP and purchasers-supplier relationship. Process map will be mainly used to display the data.

### **3.7 Reliability and Validity**

A good research is supposed to have high reliability and validity. Although reliability and validity are commonly used in quantitative research (Li, 2009), as a qualitative research, this issue will also be discussed in this section.

Reliability can be understood as “dependability or consistency” (Neuman, 2006). It concerns whether the results will be the same if the research is conducted under similar circumstances. In order to guarantee the reliability, the research will spend several weeks to conduct the survey in the actual working environment. The



interviews will be conducted as many as possible among the selected participants to see what are their common feelings. Thus, the conclusion would be more reliable.

Validity refers to authenticity, which means researchers have to provide real data and interpret data correctly (Neuman, 2006). As this research focus on the relationship between third party purchaser and suppliers, the data will be collected from the selected participants who work in third party procurement enterprise and the suppliers who have business with them. They are the right person to be asked and they will provide their real feelings and viewpoints from everyday working experience, so the data will be convinced.

### **3.8 Ethical Considerations**

Before conducting the survey, ethical issues should be taken into consideration. Cooper and Schindler (2008) state that “ethics are norms and standards of behaviour that guide moral choices about our behaviour and our relationship with others”. While conducting the researches, the researchers are supposed to protect the involved participants from any harm. The main ethical consideration of this research are:

1. Explanation of research benefits and purposes. Before the interviews start, the study benefits will be explained to the selected interviewees without overstating or understating. In order to make the participants at ease, the research purpose will also be introduced. Interviewees will know why they are being asked questions and they will be encouraged to give the answers according to their real feelings. Since this research will be conducted in a specific enterprise, the participants will be informed that the research is for academic purpose instead of business purpose.
2. Explanation of participant rights and protections. The rights of potential participants will be explained. The interview is based on voluntary, and confidentiality of selected organization will be protected. After the interview, any information that

might cause the harm to the participants will not be released. During the interviews, the right of participants' privacy will be respected. The rules below will be strictly followed (Cooper and Schindler, 2008):

- Inform participants of their right to refuse to answer any questions or participate in the study.
- Obtain permission to interview participant.
- Schedule field and phone interviews.
- Limit the time required for participation.
- Restrict observation to public behaviour only.

3. Informed consent. Before conducting the survey, researchers had better write the consent form (Cooper and Schindler, 2008). Researchers have responsibilities to let participants know what the interview is about, what will be involved in the interview, and what is the potential harm to them. The interview can be conducted only after the participants approve and sign the informed consent form.

4. Minimization of harm to any involved participants. This research focus on the purchaser-supplier relationship, which inevitably involve interpersonal feelings and behaviours. Therefore, when conducting interview, participants might feel dis-comfortable, stressful and embarrassing. The researcher will try to reduce the risks through designing interview questions carefully, for example, avoiding using some sensitive words. The importance of the research will also be explained to the participants, making the participants understood there's no offence and their interest will not be threatened.

5. Avoidance of unethical behaviours while analyzing data and writing report. Qualitative method will be used in this research. Bryman (2012) argues that “ it is sometimes difficult to establish from qualitative research what the researcher actually did and how he or she arrived at the study's conclusions”, so in qualitative research,

researchers have responsibilities to provide true data and use appropriate ways to analyze data before drawing final conclusion (Coopper et al, 2008). The researcher will try to avoid the biased perspectives influencing interview questions designing and the results of research. Cooper et al (2008) list some examples of unethical behaviours that should be avoided:

- Violating participant confidentiality.
- Changing data or creating false data to meet a desired objective.
- Changing data presentations or interpretations.
- Interpreting data from a biased perspective.
- Omitting sections of data analysis and conclusions.
- Making recommendations beyond the scope of the data collected.

### **3.9 Conclusion**

This research will explore the relationship between purchaser and supplier in the context of 3PP. The purpose of this research is to evaluate the role of 3PP and solve some problems that third party purchaser confront when dealing with the relationship with suppliers. Accordingly, several questions around this topic are proposed. Since the research focus on the purchaser-supplier relationship which involve what people think, constructionism of ontological perspective and interpretivism of epistemological perspective will be taken, and qualitative method will be applied to collect and analyze data. Besides, a single case will be introduced. Data will be collected mainly through semi-structured interviews among the selected participants who are the employees of a typical third party procurement enterprise and some suppliers who have business with them. Then three general analysis steps of qualitative method will be applied to analyze the data. The data will be interpreted and synthesized with the help of diagrams. In order to avoid risk of harm to the related participants, ethical considerations are also discussed in this part.

## **Chapter 4 Data Analysis**

### **4.1 Introduction**

This chapter will present the interview results. As this research is a case study, so firstly, the selected company's background will be introduced, including the services they provide, their work flow, followed by introduction of interviewees samples. Then the collected data will be presented and analyzed. As the interviews are anonymous, the selected company will be called Company X in this research.

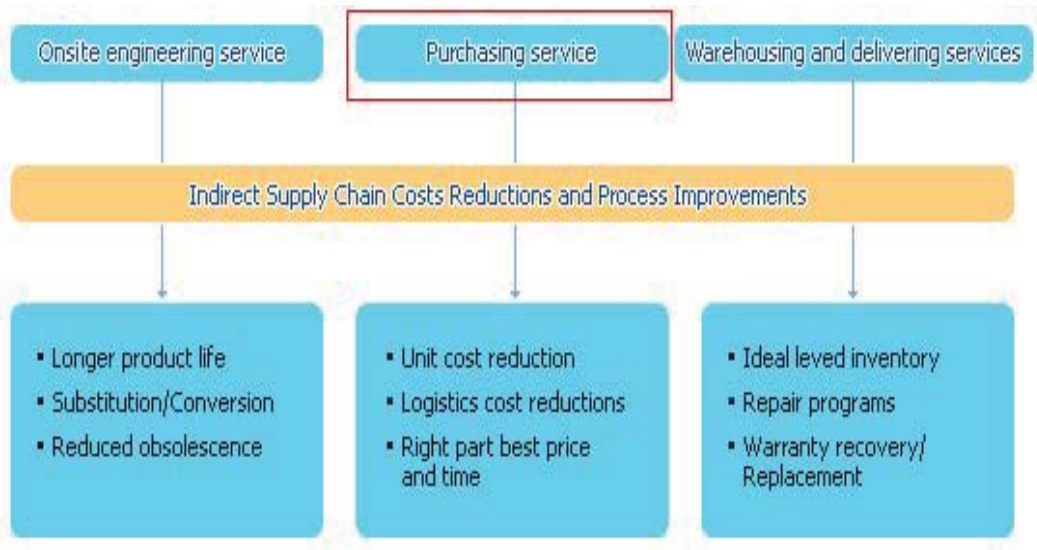
### **4.2 Overview of Data Collected, Sample Coverage**

#### **4.2.1 Company Background**

Company X specializes in providing integrated supply management services for large-scale enterprises in Chinese automotive industry. Most of the clients are top 500 companies, such as VW, GM. Company X mainly provides non-core business outsourcing service for these manufacturers, helping the client firms increase their core competitiveness and reduce the managerial costs.

As shown in Figure 4.1 (collected from Company X's official website), Company X's main businesses include on-site engineering service, purchasing service, warehousing and distributing services. Among all these services, they regard procurement service as their core business, because procurement is most likely to create the biggest space for cost reduction. Company X puts the most emphasize on this service. Normally, client firms authorize Company X to purchase products, such as equipment spare parts, consumables, safety products, office supplies, on behalf of them.

**Figure 4.1 The Main Businesses of Company X**



Company X attracts automotive manufacturers to cooperate with them mainly because of the cost saving program. Firstly, this program will assess every detail of client’s procurement process, warehousing, delivery and on-site transportation to discover where the opportunities for cost saving are. Then they will provide a report on where could be improved and which part of costs could be saved. Finally, the cost saving program will be set in accordance with client’s requirements.

**Figure 4.2 Work Flow of Company X**

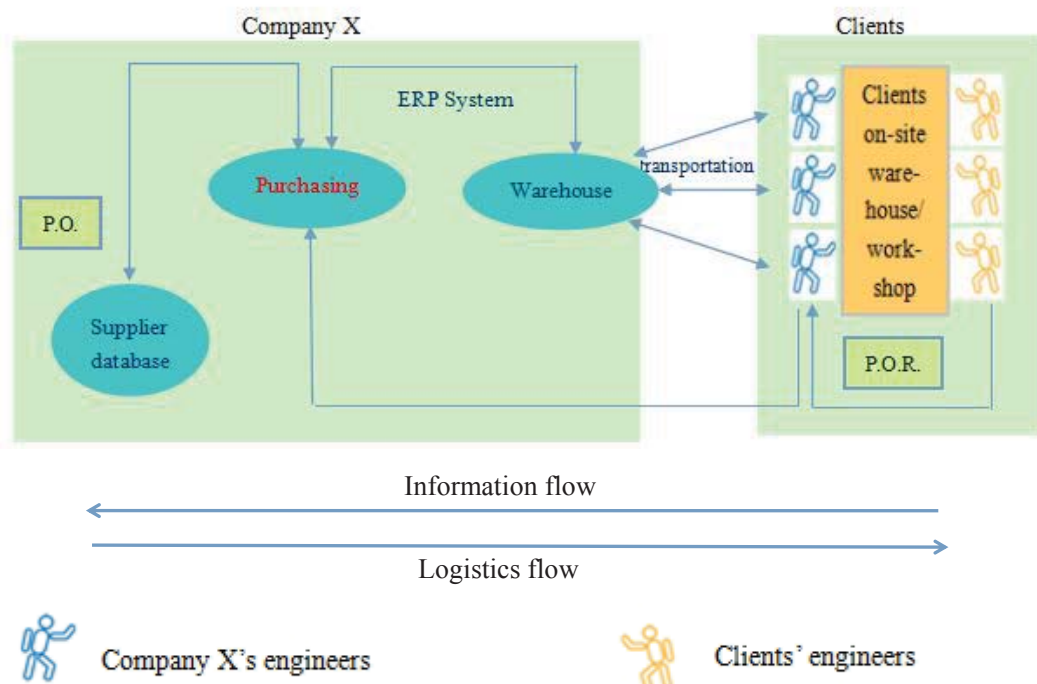


Figure 4.2 shows the general work flow of Company X. When the client firms are in need of some materials, their engineers will propose purchasing order requirements (P.O.R), according to which Company X's engineers will input the material descriptions to their ERP System where purchasers can know the relevant information of the material. Then, purchasers will take the procurement flow to find a suitable supplier from supplier database and generate purchase order (P.O.) to the supplier. The supplier should deliver the goods to the Company's warehouse according to the delivery date in the contract. After confirming the goods are qualified, Company X's engineers will use their own trucks to transport the goods to the clients' on-site warehouse/ workshop. In this stage, Company X takes the full responsibility for delivering clients' orders.

As third party procurement service provider, Company X does not raise the price, that is to say, the price they offer to their client firms is just the same as that offered by their suppliers. Normally, the final price is not supposed to be higher than the market price, otherwise, clients have rights to request Company X to negotiate with suppliers again if they discover there is lower price. The way Company X profit is to charge for service according to a certain percentage of total annual procurement amount, but normally, the percentage is lower than that they save on procurement cost. For example, they help client firms save 5% on procurement cost, they can get 3% of the total procurement amount as service charge from their clients. In this case, both of the Company X and their client firms get profit.

#### **4.2.2 Interviewees Samples**

The interviews were divided into two parts, namely Purchaser Part and Supplier Part.

From the perspective of Purchasers Part, all interviewees are from Company X. It actually has 37 purchasers, but just 33 out of them participated in the interview. These 33 purchasers have different titles depending on how many years they have been

working in Company X. Those who have worked in Company X for less than 1 year are interns. Junior purchasers and senior purchasers are those who have been in purchaser position in Company X for 1~5 years and more than 5 years respectively. The following table illustrates the distribution of different levels, which can be seen that one-third of them are senior purchasers, while those who have at least one-year working experience account for almost half.

**Table 4.1 Purchasers Samples**

Working Years	Level	No.	Percentage
<1 year	intern	6	18.18%
1~5 years	junior purchaser	16	48.48%
>5 years	senior purchaser	11	33.33%
<b>Total</b>		33	100.00%

In the Supplier Part, 32 interviewees were selected from those who are cooperating with Company X. The supplier interviewees are collected at random. But the participants cover all types of suppliers, including manufacturers, agents, dealers, traders. The suppliers are also selected from different groups which are divided by how long they have cooperated with Company X. It guarantees that not only long-term partners are interviewed, but also the new suppliers are also involved. The size of organization is also taken into account, which is measured in terms of the number of employees and turnover of a chosen year. Therefore, large-scale suppliers and small-scale suppliers are all covered in the interviews. The following table shows the distribution of selected suppliers from different categories.

**Table 4.2 Supplier Samples**

Categories		
Cooperation Years	No.	percentage
<1 year	4	12.50%
1~5 years	15	46.88%
5~10 years	10	31.25%
>10 years	3	9.38%
Types		
Manufacturer	5	15.63%
Agent	15	46.88%
Dealer	2	6.25%
Trader	10	31.25%
Number of Employees		
<100	13	40.63%
100~500	15	46.88%
>500	4	12.50%
Turnover in 2014 (¥million)		
<1	5	15.63%
1~10	10	31.25%
10~100	12	37.50%
>100	5	15.63%
total	32	100.00%

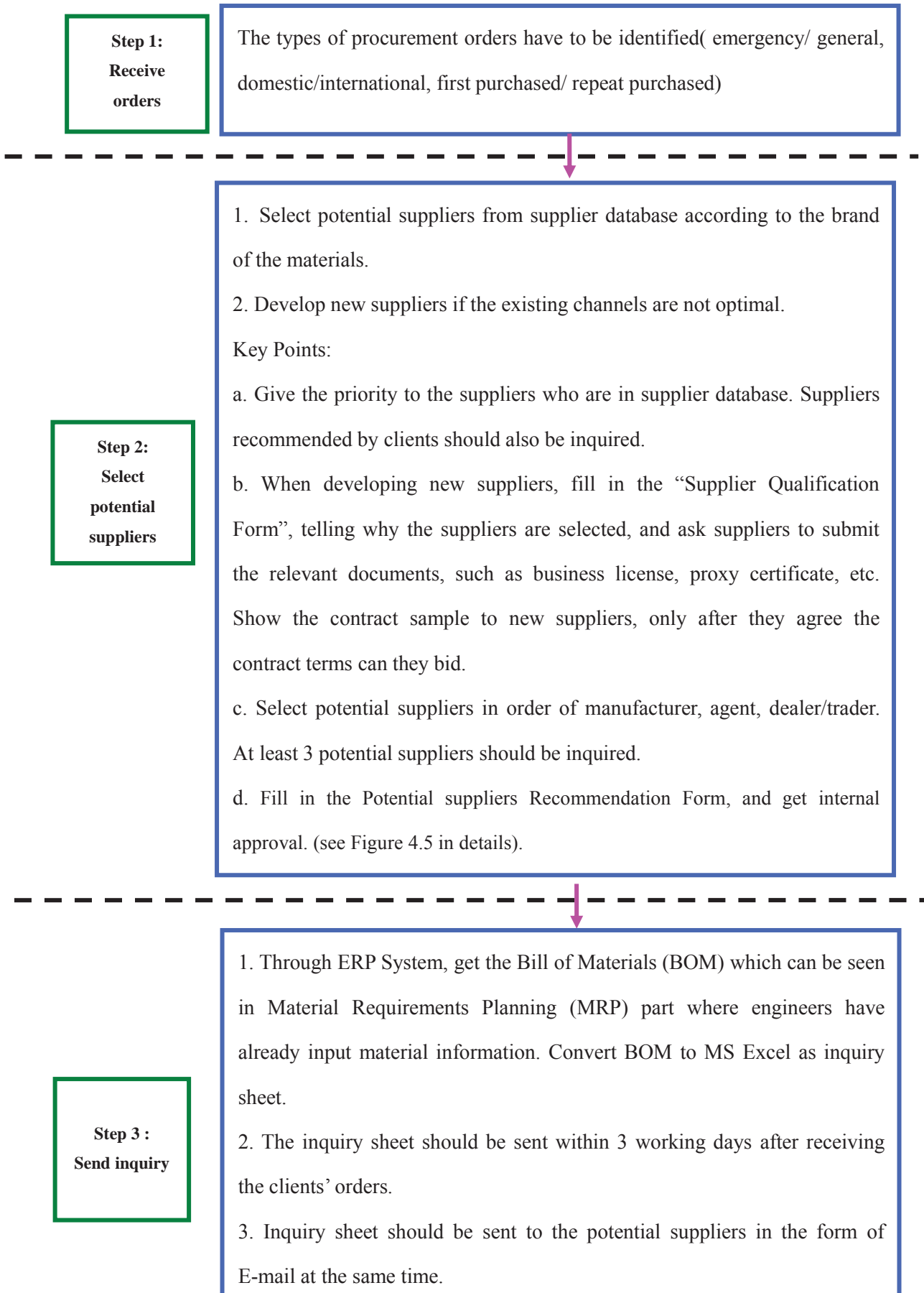
### 4.3 Visual Displays Summarizing Empirical Data

#### 4.3.1 Procurement Flow

Firstly, in order to know how Company X operates to provide procurement services, we need to know their procurement flow. Company X provided it as follows:



**Figure 4.3 Procurement Flow of Company X**



4. Tell the potential suppliers about the quotation requirements. Price, quantity, delivery date, place, term of payment, the validity of quotation should be indicated in quotation.
5. Set a deadline. Normally, 3 working days for domestic orders and 5 working days for international orders.

**Step 4:  
Inquiry  
tracking**

1. Check the quotation. If discovering the price abnormal (much higher/lower than other suppliers) , or the quotation fails to meet the requirements, ask suppliers to reconfirm the price and resend the quotation.
2. If the suppliers have not replied within 1 day before deadline, remind the suppliers to send the quotation as soon as possible.
3. If suppliers send the quotation after deadline, the price will be regarded invalid. But purchasers have rights to decide whether to send the inquiry again.

**Step 5:  
Reject the  
orders**

1. Purchasers reject the orders . The engineers have to confirm the relevant order information when purchasers find the problems such as:
  - The description of material is inconsistent with that described by suppliers.
  - The information of manufacturers is incomplete.
  - The quantity can not meet the supplier's minimum order quantity.
2. Purchasers must let the engineers know the reasons for initial rejection/ non-acceptance of the order.
3. Engineers should let the purchasers know the results. When purchasers receive the orders again, they should respond within 1 working days( resend the inquiry sheet or cancel the orders).

**Step 6:  
Price  
comparison  
and  
negotiation**

1. Complete the price negotiation with suppliers within 5 working days (domestic)/ 10 working days (international).
2. Inquire at least twice among the potential suppliers to see if there is any space for price cut. Send the target price to the suppliers if it is necessary.
3. If the the price is increased and the suppliers can not maintain the last price, ask the suppliers to provide the rational Announcement of Price Adjustment. Meanwhile, let the engineers know the current price and get their approval.
4. When the final price is 30% higher than the previous price, ask engineers to see if there is any substitute, otherwise, suppliers should provide the cost analysis.
5. Analyze and evaluate the suppliers quotations rationally and record the whole process of price comparison and negotiation.

**Step 7:  
Choose the  
final supplier  
and submit  
the data**

1. Arrange all the quotations and relevant documents. Fill in the Supplier and Price Confirmation Sheet and write down the personal opinions. Meanwhile, input the data into ERP system.
2. Choose the final suppliers according to the Principle of Best Price in the premise of meeting the clients' demand time.
3. Submit the whole set of procurement documents (hard copy, system data) to the auditors.

**Step 8:  
Get approved  
internally  
and  
externally**

1. Auditors check the documents and the system data submitted by purchasers. They have rights to ask purchasers to provide further documents or take the process again if they find anything doubtful.
2. If the order amount is less than 20,000 RMB, it's internal purchasing manager's responsibility to decide whether it should get approved. If the amount is more than 20,000 RMB, the whole set of procurement documents(hard copy, system data) should be submitted to the client firms,, letting them make the final decision.

3. The order will be returned to the purchaser if the final price is not approved or there's some problems on the documents. Purchasers need to negotiate with suppliers again or prepare the further documents according to requests.

**Step 9:  
Make out  
contract**

1. Once the orders get approved, purchasers need to print the procurement contracts out of system and submit the contracts to the auditors to review.

2. After confirmed correct, contracts need to be signed by purchasing manager, financial department and general manager.

3. Send the contracts to the suppliers. Urge them to confirm and sign the contract within 2 working days.

4. File the contracts.

Key points:

a. If suppliers fail to return the contracts in time, notify the purchasing supervisor or manager, letting them communicate with suppliers.

b. In principle, the contents of contract should not be changed. If suppliers insist on changing the contract (including the material information, contract terms), purchasers have to submit the contract modification application. The revised contract is regarded valid only after it gets approved.

**Step 10:  
Track the  
delivery  
status**

1. Update the delivery status weekly.

2. Urge the suppliers deliver the goods in time when the delivery date is approaching.

Key Points:

a. Ask the suppliers who fail to deliver the goods in time to provide rational explanation and give a specific delivery date. Inform the engineers of the latest status.

b. Ask the suppliers for a replacement if the material is substandard.

c. If there's any material difference, ask suppliers to provide difference description, and forward it to the engineers.

Figure 4.3 illustrates how Company X executes the procurement business in details. The procurement flow has to be confirmed by their client firms. There are ten steps in the procurement flow, and every step should be executed strictly.

### **4.3.2 Supplier Development Process**

Supplier development is an important link in the process of procurement. In order to help clients find appropriate suppliers, third party purchasers cannot just easily pick a supplier to cooperate with. They must strictly follow the assessment criteria of new suppliers. The following is the new suppliers development requirements and flow of Company X.

a). New supplier qualification requirements:

Registered capital:  $\geq$  USD 200,000

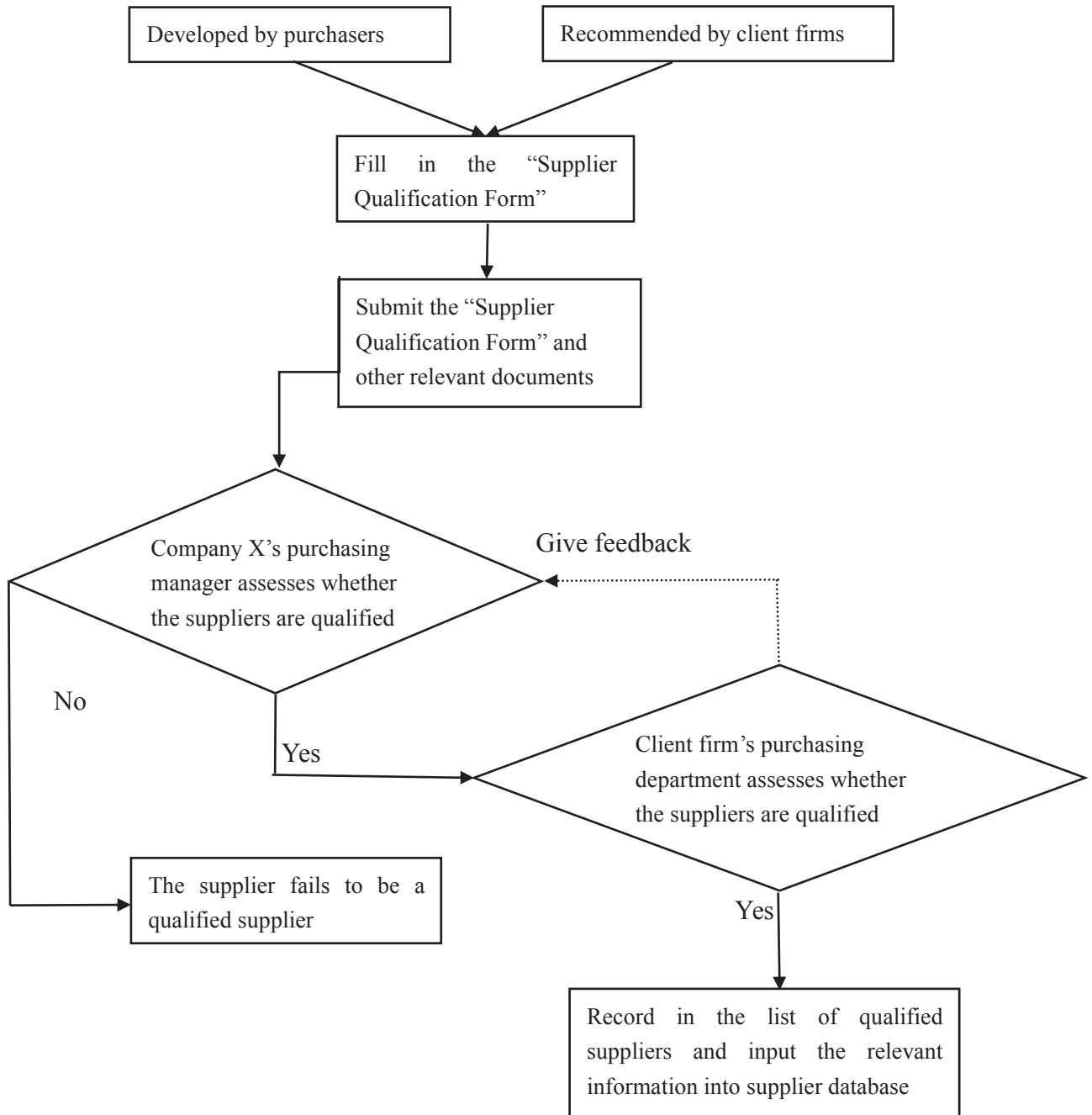
Registration time:  $\geq$  2 years

b). Documents need to be provided by suppliers:

- Supplier Qualification Form (including supplier performance, advantage brand, recommendation reasons, estimated annual procurement quantity)
- business license
- Organization code certificate
- Tax registration certificate
- Proxy certificate (Authorized agent region, validity period)
- Any qualification certificate issued by the relevant industry

c). New suppliers development flow

**Figure 4.4 New Suppliers Development Flow**



From Figure 4.4, we can see that the new suppliers not only are developed by third party purchasers, but also may come from recommendations of client firms. No matter in which way, purchasers have to fill in the Supplier Qualification Form, giving the reasons why they can be developed, and meanwhile, ask the suppliers to submit the required documents to assess. The suppliers will become qualified suppliers only after

both internal purchasing manager and external (client firms) purchasing manager approve.

### **4.3.3 Supplier Selection Process**

In order to find the best suppliers, purchasers have to select some potential suppliers for bidding and negotiate with these potential suppliers to see if there's any chance to lower the price. Some rules should also be followed when selecting these potential suppliers. The selection process of Company X is shown as follows:

a). Selection source of potential suppliers:

- Suppliers in database: these are the qualified suppliers confirmed by client firm's purchasing department.
- Temporary suppliers: purchasers look for potential suppliers from market according to material information, or client firms recommend new suppliers for bidding. If the temporary supplier wins the bidding in the end, purchasers have to introduce the supplier according to the New Supplier Development Flow (see Figure 4.4 in details).

b). The supplier selection flow

**Figure 4.5 Potential Supplier Selection Flow**

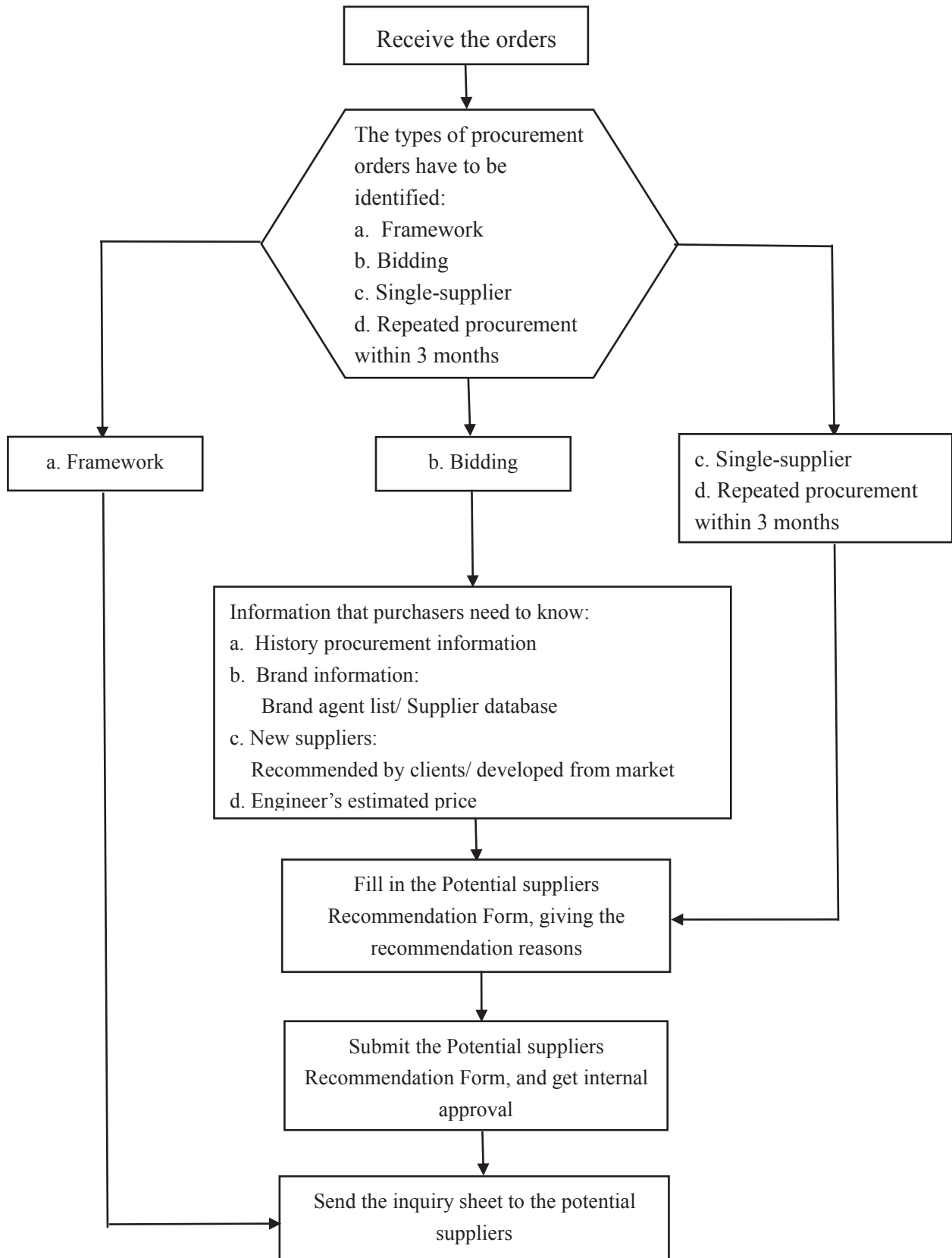




Figure 4.5 illustrates how Company X select the potential suppliers. They select suppliers in the order of manufacturers, general agent, regional agent, trader/ dealer. In principle, at least 3 potential suppliers should be included for bidding, except for the following circumstances:

- The material is listed in a valid framework agreement signed with a specific supplier.
- Engineers provide the single-supplier recommendation. But the recommendation reasons should be justified and assessed by both of third party purchasers and client's own purchasing department.
- The supplier is in the Single-Supplier List. The List should be confirmed by clients. Remarks: The single supplier is supposed to be manufacturer, exclusive agent and exclusive trader/ dealer confirmed by the sales manager or above position of original manufacturer. The written statement with authorized signature should be provided. After confirmed and approved, the supplier can be input into the Single-Supplier List.
- If the period between last procurement and current procurement is no more than 3 months, and the amount and the quantity is no more than that of last procurement, purchasers do not have to compare the price again.
- Due to the industry restrictions, there are 1 or 2 potential suppliers for bidding . The original manufacturer's written statement must be provided.

#### **4.3.4 Purchasers Working Performance Evaluation**

On average, each purchaser receives 300 orders per month. At the end of each month, the clients will evaluate third party purchasers working performance. The evaluation includes 3 parts which are:

- workload
- work efficiency
- work quality

The evaluation details are shown as follows:

Part 1: Workload (Proportion: 20%, no upper bound on score)

**Table 4.3 Workload Evaluation**

Items	Proportion	Calculation
a. Orders rate	50%	the number of orders/ department average number of orders*50
b. Contracts rate	50%	The number of contracts/ department average number of contracts*50
Subtotal	a+b	
Score	Subtotal*20%	

Table 4.3 shows how purchasers workload calculate. The workload is measured through two aspects, which are orders rate and contracts rate, and the two aspects have equal weighting. Workload occupies 20% of the whole working performance, but in this part, the score has no upper limit, which means the score may exceed 20 if the workload is huge. It encourages purchasers to deal with orders and contracts as many as possible.

Part 2: Work efficiency (Proportion: 60%, total score: 60)

**Table 4.4 Work Efficiency Evaluation**

Items	Proportion	Calculation	Target
a. Signed contract rate	50% (score:30)	The number of actual signed contracts/ the number of should signed contracts * 100%	≥90%
b. Goods arrival rate	50% (score:30)	The number of actual arrival goods/ the number of should arrival goods * 100%	≥90%

Table 4.4 illustrates how they evaluate purchasers work efficiency quantitatively. This part constitutes 60% of the working performance. The rate of signed contract and goods arrival will be calculated. The criteria are as follows:

- The time limit for procurement contracts signature flow (from Step 1 to Step 9 in Figure 4.3) :  
 Domestic orders: 30 working days  
 International orders: 40 working days
- Get full score when reaching target proportion
- Deduct 1 point with per 1% reduction
- No score when the proportion is less than 80%

Part 3: Work quality (Proportion: 20%, total score:20)

**Table 4.5 Work Quality Evaluation**

Situation	Calculation
a. Any error on relevant documents such as uncorrected amount calculation on quotations or contracts.	Deduct 1 point with per error
d. Any complaints from other departments caused by purchaser's dereliction of duty.	Deduct 2 points with per complaint
b. Any delay dealing with unqualified material or material differences that affect the normal supply, which leads to clients' production delay or own company's economic losses.	Score = 0
c. Purchasers have no abilities to meet the clients' urgent requirements, and they did not report to leaders to look for support immediately, which lead to clients' complaint.	Score = 0

The last part, work quality evaluation, is also designed to be quantified. As Table 4.5 shown, if the mentioned situations happen, the score will be deducted. Purchasers can get full mark (20 points) when they get everything well done.

#### **4.3.5 Suppliers Performance Evaluation**

At present, Company X evaluates suppliers performance quarterly. The evaluation is divided into five parts which are the speed of delivery (20 points), price (20 points), service quality (30 points), service (20 points), flexibility (10 points). Their performance is mainly evaluated by the relevant purchasers, and it will ultimately get approved by the department manager. Table 4.6 shows the Company X's criteria for supplier performance evaluation in details. There are 4 levels for the evaluation results, A (above 90 points), B (70-90 points), C (50-70 points), D (below 50 points). Purchasers will praise the suppliers who are in Level A, giving them financial reward if possible, or giving them the limited places for discount on buying cars from client firms, and send rectification notice to the suppliers who are in Level D. If the Level D suppliers do not improve their performance, and keep the bad performance constantly, purchasers will reduce the cooperation with them, or remove the suppliers from suppliers database.

**Table 4.6 Supplier Performance Evaluation Criteria**

Factors	Items	Scoring Criteria			Score
		100% 20	90%-100% 15	80%-90% 10	
Speed of delivery	On-time arrival rate	100%	90%-100%	80%-90%	below 80%
		20	15	10	5
Price	Product price	Lower than the benchmark	almost the same as the benchmark	higher than the benchmark	much higher than the benchmark
		20	15	10	5
Quality	Substandard products rate	below 2%	2%-5%	5%-10%	above 10%
		20	15	10	5
	Material differences rate	below 2%	2%-5%	5%-10%	above 10%
		10	8	6	2
Service	On-site service	Excellent	Good	Bad	Very bad
		10	8	6	2
Service	Return/replacement service	quick response	slow response	very slow response	no response
		10	8	6	2
Flexibility	Ability to adjust supply according to clients' demand change	easy to adjust	hard to adjust	very hard to adjust	can not adjust
		10	8	6	2

#### 4.4 Syntheses of Qualitative Data

From the above procurement flow and working performance evaluation criteria, we can find that it is not an easy thing for third party purchasers to complete the whole procurement flow within a specific period and ensure suppliers deliver the goods in time. In order to get a high rate in performance evaluation, purchasers have to do a lot of communication work, not only with the internal departments, but also with the external suppliers and clients. As long as one party is not cooperative, their performance evaluation will be influenced.

When asked which part of work is the most difficult and time-consuming to deal with, the purchasers reflected as follows, to name just a few:

“ Due to the pressure from client firm’s goal of cost reduction, we have to negotiate with suppliers again and again. Sometimes it seems impossible for us to complete the tasks”;

“ When introducing ourselves to the new suppliers, we feel that they do not care cooperating with us. They are more interested in cooperating with our client firms, because the client firms have higher reputations”;

“ Some suppliers do not cooperate. Every time we communicate with them, their attitude is not good, not to mention negotiating with them and asking them to lower the price”;

“ In order to get higher goods arrival rate, we have to track the delivery status from time to time. Once asking the suppliers the reasons why they delay delivering, they replied that they just forgot it, which is unacceptable. So it’s our responsibilities to remind the suppliers of delivering the goods in time. However, there are still some uncontrollable factors that may delay goods arrival, for examples, the manufacturers stop production for unexpected reasons, the Customs clearance time can not be specific, the goods are damaged during transportation”.

In summary, the following 3 difficulties are most frequently mentioned by the purchasers:

a). Negotiating with suppliers

Negotiation is not only for the price, but also related to the terms of payment, delivery time, warranty, etc. In order to meet the standard of working performance in a very limited time and meet the clients' requirements of cost reduction, purchasers have to negotiate with suppliers again and again until they reach an agreement. The goal of negotiation is to help clients get better goods/ services with lower price, and when any disputes arise (including error, incidents, losses), they can help client firms get reasonable compensation without affecting relationships. Negotiation is a very tough work especially when third party purchasers are in the weak position. For example, the suppliers are the large-scale enterprises who are in the strong position; or the goods have been sent to the workshop for emergency use; or the products can be only bought from one specific supplier; or the suppliers insist on direct cooperation with ultimate clients.

b). Developing and assessing new suppliers

It is not easy to pick an appropriate supplier from a various of suppliers in the market. Before introducing the new suppliers, purchasers have to conduct a rational assessment on potential suppliers, including "hard" factors ( registered capital, registered time, relevant certificate, etc), "soft" factors ( the clients they are cooperating with, reputation, etc). It takes purchasers a lot of time and effort to collect these information. In addition, because they are new suppliers, purchasers have to explain their procurement process to them, and require suppliers to operate in accordance with the process requirements. As third party purchasers, they also encounter some unique difficulties. Since the most of Company X's client firms are top 500 enterprises, suppliers naturally hope they can cooperate with these enterprises

directly so that they raise their recognition and reputation. Therefore, these suppliers are not willing to cooperate with third party purchasers and they do not think it is necessary to establish relationships with third party at the very beginning, which makes purchasers feel difficult to carry out development of such suppliers. Another difficulty is from the client firms. If the client firms do not approve the new suppliers to be qualified suppliers, third party purchasers have to look for a new one, which means that it will take purchasers another couple of days to collect the relevant documents and take the new suppliers assessment flow all over again.

#### c). Tracking the delivery status

Urging the suppliers to deliver the qualified goods in time is also a difficult task, because suppliers may delay delivery for various reasons. Purchasers have to track the delivery status of goods every day. Once discovering some suppliers have tendency to deliver goods late, purchasers have responsibilities to remind the suppliers of the delivery time. Delivery is not only the matter of time, but also a matter of quality and quantity. If the goods are substandard, or the quantity is not right, it is also purchasers' job to contact suppliers, urging them to replace the goods, or provide goods with right quantity.

From the purchasers' feedback of the most difficult work, it is not difficult to find that all these work is related to the communication with suppliers. Therefore, purchasers have to pay attention to the relationship with suppliers, because good relationship can facilitate communication and makes their work more efficient.

## **4.5 Explanation of the Major Findings**

### **4.5.1 3PP's Recognition and Development Trend in China**

Ma (2010) states that in the process of accelerating world economic integration, many



large multi-national enterprises start to develop their businesses in China. In order to meet the higher requirements of clients' services, Chinese enterprises began to regard procurement as an important part of supply chain management. 3PP has become one of the important means to improve the economic efficiency and increase the market competitiveness (Xie et al, 2007).

According to the interviews data from Company X's purchasers, more than half of the purchasers reflected that before entering Company X, they have heard of 3PP, and 5 out of them have previous work experience in other third party procurement enterprises. 3PP is not an unfamiliar word for them. However, most of purchasers' work is still related to sending orders, dealing with quotations, and track the delivery. With the popularization of e-commerce, this work will be replaced by computer automation sooner or later. Liu and Zhou (2005) predict that third party purchasers will act as a strategic role in the future, spending most time on strategic planning, future supply forecasting, strategic cost control, developing and cultivating competitive supply partners. Obviously, they act an increasingly important role in service value at business longevity.

From the perspective of suppliers, more than 80% of them reflected that they had to cooperate with third party because the ultimate clients asked them to do so even if they were unwilling to establish relationship with third party at first. However in the process of cooperation with third party purchasers, they gradually realized that they could also get benefit from such cooperation, for example, they can get more orders, and third party purchasers can play a coordinating role between them and ultimate clients. Some suppliers, especially manufacturers, even express that they are also considering outsourcing a part of procurement business to third party to achieve the goal of cost saving and competitiveness improvement.

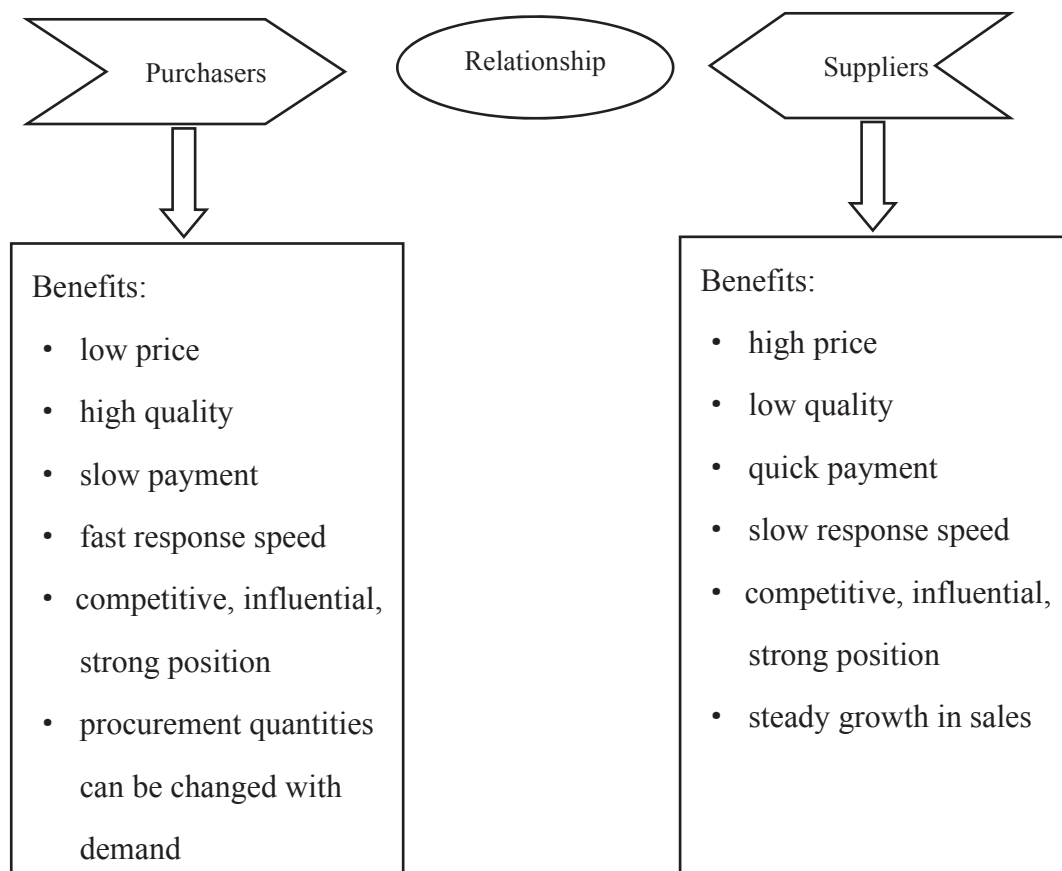
The interview results of Company X's purchasers and suppliers verified that 3PP is gradually accepted and recognized by Chinese enterprises. 3PP mode is gradually

developing towards to the mature direction in China.

#### 4.5.2 Major Conflicts in Relationship Establishment and Maintenance

Relationship establishment and maintenance is an important part of procurement process, especially for the manufacturing enterprises. The relationship between suppliers and purchasers has a direct impact on the cost, quality and response speed (Khuram et al, 2015). However, the survey of Company X has proved that while establishing and maintaining the relationship, the supplier's interests may clash with the purchaser's. Sometimes both of them need to make appropriate concessions. The following diagram shows the main relationship conflicts on price, quality, delivery and services.

**Figure 4.6 Major Conflicts in Purchaser-supplier relationship**



- **Price**

Normally, client firms set 5%~8% annual cost saving target (compared with benchmark such as the last price, the market price without discount, the engineer's pre-inquiry price) to Company X. In order to ensure the completion of this task, Company X's purchasers have to require suppliers to lower the prices. However, from the perspective of suppliers, they also have to complete the task of increasing a certain proportion of sales. Meanwhile, due to the annual increase in raw materials cost, transportation costs and labor costs, products prices increase every year, therefore price is the biggest contradiction in the process of relationship establishment and maintenance.

- **Quality**

In order to provide clients with high quality materials and services, Company X's purchasers require suppliers to strictly follow the product quality requirements and provide qualified products. Suppliers will also be required to tell the material supply channels if necessary. However, in the process of operation, due to the price factor, sometimes suppliers would provide substandard products. For such suppliers, Company X will rectify them, or in serious cases, they will cancel the establishment of the relationship with them.

- **Terms of payment**

While establishing relationships with suppliers, Company X often requires suppliers to accept the terms that payment after the goods' arrival. However, due to the pressure of capital turnover, or especially for some traders/ dealers, manufacturers ask them to pay in advance, and they are not willing to pay for the clients, being afraid of taking the financial risks. They deliver the goods only after receive the payments from clients. And most foreign enterprises require cash before export. Split on the terms of payment is also one of the main factors that hinder the purchaser-supplier relationship.

- **Response speed**

On-site services (mapping, technical guidance, etc) are often involved to the procurement in automotive industry. In order to provide convenient services for clients, Company X's purchasers certainly hope that suppliers will be on call. But suppliers also have some other clients to serve. Sometimes response speed may not meet clients' demand. In addition, when problems arise, purchasers require suppliers to explain the causes or come to solve the problem immediately. But for some reasons the suppliers can not provide a pleasant solution at once, so they may find some excuses to delay responding. Under this circumstances, response speed would also affect the relationship between the two sides.

- **Others**

Both purchasers and suppliers want to be in a strong negotiation position, which is likely to lead to the two sides refusing to compromise. Furthermore, what Company X prefers is that procurement quantities can be changed along with the change of clients' demand, while suppliers expect a steady increase in sales. It is difficult to find a balance point in these contradictions in the process of relationship establishment and maintenance.

#### **4.5.3 Differences between the Suppliers Recommended by Clients and Those Selected from Market by Purchasers Themselves**

Company X acts as the role of a third party. They buy goods on behalf of their clients, that is to say, they are not the real demand side. So in the process of procurement, especially when establishing relationship with suppliers, they often need support from clients. In the interview, Company X's purchasers reflect that it is easier to establish relationship with suppliers who are recommended by clients compared to those who are selected by themselves.

The suppliers recommended by clients tend to have higher reputation, and client firms

trust on them. In order to complete the new suppliers development flow in a shorter time, client firms will explain to the suppliers about how 3PP operate in advance so that suppliers can easily understand why they have to cooperate with third party. Under this circumstance, suppliers are tend to be willing to cooperate to complete relevant flow, and it is easy for Company X to reach an agreement with such suppliers and establish relationship with them. Normally, relationships with these suppliers are always stable.

For the suppliers who are selected from market by Company X themselves, the relationship establishment is relatively difficult. The difficulties are mainly reflected in two aspects:

① . Suppliers may not cooperate. Many suppliers have their own principles, and theses principles are sometimes contrary to the requirements of Company X, such as terms of payment. A lot of suppliers often require clients to pay in advance, but Company X is not willing to compromise on this term. At this time purchasers will turn client firms for help. Suppliers will compromise in the end because of their respect for the client firms.

② . Client firms may not accept the suppliers. The establishment of relationship need to get approved by client firms eventually, so clients' satisfaction to the suppliers plays a decisive role in whether Company X could establish the relationship with the suppliers.

#### **4.5.4 Behaviours That Make Purchasers/Suppliers Dissatisfied**

Johanson et al (1991) find that there is a great relevance between the purchaser-supplier relationship and their behaviours. They believe that the relationship is related to the level of mutual commitment and trust as well. Therefore, in the process of cooperation, purchasers and suppliers should adjust their inappropriate behaviours from time to time so that the relationship can develop positively.

In order to develop a good long-term relationship, it is essential for both of sides to identify the inappropriate behaviours and adjust such behaviours promptly. By doing so, the mutual dissatisfaction caused by behavioural problems will be reduced and the relationship will be improved.

#### • **Behaviours That Make Purchasers Dissatisfied**

During the interviews, purchasers reflected that they are satisfied with most of the suppliers. At most cases, suppliers are willing to cooperate because they want to get more orders through third party. And they want to make a good impression on third parties so that they can get higher score in supplier performance evaluation. However, there are still some behaviours that make purchasers not satisfied. The following behaviours are most frequently mentioned:

a). Sometimes suppliers do not meet the purchasers' requirements. For example, purchasers stressed repeatedly that the contract number should be indicated on the invoice. However, some suppliers still forget doing so again and again or they indicate the wrong contract number and amount, which makes financial staff often accuse the purchasers of being at fault. Purchasers require suppliers to indicate the material number and quantity on the package in order to make it easy for warehouse staff to receive the goods. The suppliers, however, often mix the different goods together, and the label is confusing. Consequently, the warehouse staff refuse to receive the goods, which might affect client firm's normal production. In addition, some suppliers' quotations do not meet the standard of quotation or they provide quotation after deadline. Purchasers have to send the inquiry sheet again and wait for another couple of days.

b). Suppliers promise they will deliver the goods at a specific time. But the truth is that they delay delivering without any explanation. What is even worse, they do not

propose any solution and they cannot promise a specific delivery time. It is likely to lead to the client firm's complaints.

c). In order to make more profit, some suppliers change the products material and provide the shoddy products. Sometimes they change the drawings without discussing with clients engineers in advance. The products are totally inconsistent with the drawings. It is a fraud. If the consequence is serious, the client firms might sue the supplier, and Company X would be definitely involved. Normally third party hold zero tolerance to this situation. They will not cooperate with such suppliers again in the future.

d). Purchasers need a quotation on a new product, and they've already known the price of this product in the market because engineers told purchasers the pre-inquiry price. When purchasers ask suppliers to quote the reasonable price, some suppliers quote much higher than the normal price.

e). Once the problems arise, some suppliers often look for excuses and want to pass the buck. Purchasers require them to analyze the problems and provide the corresponding solutions. But suppliers do not pay much attention to the problems. Even if they respond to purchasers, their answer cannot solve the problems at all.

f). Some suppliers tend to skip third party purchasers, communicating with client firms directly. It does not mean that suppliers cannot contact with client firms. The point is that they should let the third party purchasers know what happened, because it is third party purchasers' responsibilities to complete the process. Sometimes the situation is like until the last minute do third party purchasers know the problems which have already been discussed by the suppliers and the client firms, and they are asked to complete the process immediately. This kind of behaviour does not respect to third party purchasers.

g). Due to a good relationship with client firms, some suppliers are not willing to take a normal bidding process. They take it for granted that they are supposed to be the winner. But the truth is that other suppliers can provide better price and service. When the suppliers finally found that they did not get the orders, they would ask why they lost the orders and ask third party purchasers to send the inquiry again.

#### • **Behaviours That Make Suppliers Dissatisfied**

From the perspective of suppliers, they acknowledge that most of the third party purchasers are easy-going. However, sometimes they also meet the purchasers' inappropriate behaviours that make them uncomfortable. In the interviews, they list some of these behaviours as follows:

a). Purchasers show little respect to suppliers. Some purchasers regard themselves as God, and due to the pressure from work performance, they require suppliers to put their things on the first place, for example, they ask suppliers to provide quotation immediately after inquiry and deliver the goods immediately after signing the contracts. Although most purchasers are easy-going, in some cases their attitudes are arrogant. Even if they need help, they do not speak in a polite manner.

b). Purchasers require suppliers to lower the price. In order to get the order, suppliers finally offer a highly discounted price after discussing internally, but the result is that purchasers do not give the order to them. The winner is those who have a good relationship with their client firms, which makes suppliers feel unfair. Suppliers state that if third party purchasers do such unfair things to please their client firms, this third party is not trustworthy, and they lack professionalism.

c). Some purchasers deliberately make things difficult for suppliers. For example, knowing that suppliers are unable to handle quotation in a short time, they still set a



very limited quotation time; when receiving the goods, they assert that the goods are not authentic just because there's a wrinkle on the package. Even though the anti-fake marks are provided, they still insist on a replacement.

d). Qualified products are delivered on time, but purchasers delay paying the amount. Suppliers have to urge purchasers again and again. Normally, purchasers will reply "you will receive the payment very soon". But if they are asked the specific time, they can not give a detailed answer.

e). Purchasers treat different suppliers differently. They hold the humble attitude to the "strong" suppliers (top 500, large-scale companies), and show their very respect to those who have close relationship with their client firms. But to the "weak" suppliers (small-scale companies), the attitude is completely opposite, indifferent. It makes vulnerable suppliers feel discriminated.

All these behaviours will definitely have a negative effect on the relationship development. As a procurement service provider, it is necessary to pay attention to their behaviours, avoiding being arrogant and unprofessional.

## **4.6 Analysis of Conceptual Model in Light of Data**

### **4.6.1 Advantages and Disadvantages of 3PP**

- **Advantages of 3PP**

Through Company X's procurement flow, we can see that how third party provides their client firms with procurement service. Through the data collected from Company X, the advantages of 3PP can be summarized as follows:

a). 3PP helps consolidate the core business and fostering competitiveness

Enterprises outsource a part of procurement business to Company X, so that they can put more resources on their core business, such as designing new vehicles, looking for a new target market. From the perspective of Company X, their core business is to purchase products on behalf of their client firms and help solve the procurement problems that client firms encounter. Because each of the parties focus on their own absolute advantages, the efficiency of the whole supply chain is also improved. Take Shanghai GM, one of the biggest client firms of Company X, for example, in May 2011 (CAMM, 2011), the vehicle yield was 81,665, and in February 2014, it increased to 105,322 (CAMM, 2014). Procurement outsourcing allows Shanghai GM to put more effort on manufacturing. Meanwhile, due to the increase in the amount of procurement demand from Shanghai GM, Company X had more and more procurement businesses, which brought them more profit.

Prahalad and Hamel (1990) point out in the Core Competitiveness Theory that not all resources can be the source of enterprise sustainable competitive advantage. Only the core competitiveness is the key to success. If enterprises want to keep the advantage position in the market, they have to depend on the ability of other enterprises, using the core competitiveness of others to make up for their lack of capacity and resources. In order to adapt themselves to the growing market competition, enterprises can make full use of 3PP, outsourcing the non-core businesses to the third party. By doing so, they can focus on consolidating and developing their own core business, applying the limited resources to cultivation and innovation of core competence.

b). 3PP helps achieve economies of scale and save procurement cost

As Company X focuses on providing procurement services in automotive industry, the needs of different client firms might be the same. For instance, while VW needs 1,000 screws, GM needs 2000, in this case, Company X can purchase these screws form the

same supplier because they share the resources among different projects. Since different clients have common demand, the procurement quantities increase, i.e., the economies scale are achieved. Under these circumstances, suppliers tend to give certain concession on price or services. Meanwhile, due to the same demands, the procurement process will be the same, so purchasers can just take the whole process for once instead of experiencing it again and again. It saves a lot of time on comparing price and reduces the transaction cost. In addition, Company X helps client firms develop new suppliers. For an example, GM has several factories in China, such as in Shanghai, Shenyang, Yantai. Company X will develop local suppliers so that not only transport costs are reduced, but also the lead time is shortened.

Economies of Scale refers to economic gains from increasing production or business scale (Jean, 2015). According to this theory, 3PP attracts the enterprises in the same industry all together, and regards them as a whole. Through expanding procurement scale, integrating the resources and increasing the procurement quantities, 3PP can get sufficient preferential treatments that one enterprise could not gain only depending on their own capacity. Obviously, the whole supply chain will be more and more effective by doing so. At the same time, 3PP helps client firms expand the scope of suppliers, broaden procurement area, comparing prices among more potential suppliers.

#### c). 3PP helps improve the quality of services

As a 3PP enterprise, besides professional purchasers, Company X also employs engineers to provide technology services. Company X evaluates suppliers' performance quarterly and interviews the unqualified suppliers, encouraging them to improve the service quality. In order to avoid under table deal, Company X adopts the job rotation system, that is to say, one purchaser can not be in charge of the same brands for a long period of time. It is also because of this system that purchasers have more chances to access more types of suppliers in different projects. It will increase

their procurement experience. In addition, purchasers in Company X hold the regular meeting once a month. Every purchaser can share their procurement cases, which would provide references for other purchasers when they meet the same situation, for examples, how do they urge suppliers deliver the goods in time effectively, and how do they negotiate with the suppliers who are in the strong position. Through sharing the cases, purchasers are becoming more experienced very soon. It enables them to provide the clients with better service.

From what is mentioned above, we can see that 3PP can bring better service quality through flowing aspects: ①. Since 3PP enterprise takes the responsibility of product quality, they are very strict with the product quality requirements. They ask experts for help on professional knowledge and technology so that the product quality can be guaranteed. ②. In order to increase the suppliers' initiative, 3PP enterprise evaluates and monitors suppliers' performance by establishing a set of quantitative and qualitative criteria. ③. The 3PP's procurement process is more transparent, which makes enterprises avoid their own procurement staff doing under table deal. ④. 3PP enterprises provide professional ethics and business skills training for procurement staff. It can not only improve their professional level, but also help reduce procurement costs because of good negotiating skills.

#### • **Disadvantages of 3PP**

Although advantageous benefits can be gotten from 3PP, it still has disadvantages:

a). 3PP may increase the difficulty in relationship management and coordination

The implementation of 3PP implies that transactions involve three parties rather than just supply and demand sides, which naturally makes relationship management become difficult. Company X's purchasers say that suppliers are more willing to cooperate with ultimate clients directly, especially when the clients are very

well-known companies. When a third party wants to develop new suppliers and establish relationship with them, some suppliers do not understand why they have to cooperate with third party. When negotiating with suppliers, third party sometimes needs clients' help. An example for Company X is that purchasers and suppliers have split on terms of payment, but after direct communication with the ultimate clients like GM, VW, suppliers tend to make a concession because of the high reputation of the ultimate clients. It reflects that there are still some difficulties when establishing relationship between third party purchasers and suppliers.

Third party is the core of communication among the three parties. They are the communication bridge between suppliers and client firms. However, in the process of information transmission, sometimes it is likely to cause information distortion, or the important information is not transmitted in time. Therefore, the communication is not as timely and accurate as that between suppliers and clients directly. For example, when a supplier did not deliver the goods in time, if third party purchaser did not remind the supplier of delivery, or the latest status is not transmitted to the client firms, it may lead to production halts, which not only cause the client's loss, but also affect the efficiency of the whole supply chain.

b). 3PP may disclose the important information

Confidentiality of information usually ensures the enterprises retain the advantage position in the market. This information includes the production technology, product design and consumer information (Yang, 2013). If the information is public to the third party, it is possible that third party shares the information with other companies. It will definitely threaten the competitive advantage of client firms.

Due to this reason, most of the client firms of Company X do not outsource their core material procurement to the third party, such as the important components involved in the development of new car, the materials of major projects. All these key materials

are purchased by their own. And those non-core materials, such as spare parts, safety products and consumables, are trustingly outsourced to Company X.

c). 3PP may lose control over procurement process

Although client firms know third party's procurement flow, they can not control the procurement process directly. They can not guarantee third party's accuracy and timeliness. One of Company X's purchasers gave an example about a electric machinery purchased from Germany. Due to 3C (China Compulsory Certification) which is needed for Customs clearance, purchasers have to require the German supplier to provide relevant documents. But the purchaser did not follow the status of this goods because of negligence. When the client firm needed the electric machinery, it is still in "Customs clearance" status. This led to client firm 5-hour production halt.

In addition, at present Chinese enterprises still tend to make decisions based on experience and subjectiveness (Zhang, 2005). Third party procurement providers will also make mistakes on decision making because of lack of scientific methods. Take Company X for an example, when selecting potential suppliers for bidding, sometimes purchasers tend to select the suppliers based on their procurement experience, or just because they have good relationships with the suppliers. Sometimes the results can not meet the requirements of client firms (the price is high; the lead time is long). For client firms, as they can not directly control the procurement process, they would suffer from the economic damage because of third party's fault.

#### **4.6.2 Purchaser-supplier relationship**

Purchaser-supplier relationship involves in all aspects of the procurement process. Good relationship can make procurement more efficient, so in every stage of the procurement process, both of suppliers and purchasers should make efforts to create

harmonious relationships.

At the initial supplier selection stage, due to the characteristics of 3PP, new suppliers are divided into those who are recommended by clients and those who are selected from market by third party purchasers themselves. According to the feedback from Company X's purchasers, it is easier for them to establish relationships with the suppliers who are recommended by client firms, because the recommended suppliers usually had cooperation with client firms before, and the client firms are satisfied with them. Normally, client firms will communicate with these suppliers in advance, letting them understand why they have to cooperate with third party. When the third party get contact with these suppliers and establish relationships with them, it will go very smoothly. However, for the suppliers who are sought by purchasers themselves, third party purchasers need to put more time and efforts on explaining their roles between suppliers and client firms. In addition, client firms will probably set higher requirements for approving these suppliers being as qualified suppliers, which is more likely to lead to the failure of the relationship establishment.

At the supplier development stage, negotiation and contract formulation and implementation are the main factors that would affect the relationship. The purpose of negotiation is to let the two sides reach an agreement on some divisive issues, which means that at least one side has to make concessions (Thompson and Hrebec, 1996). If any party is not willing to make any sacrifices, it is likely to block the development of relationship. Like Company X, they always insist on the terms of payment, paying after the goods' arrival, but some suppliers do not accept these terms, so they have to give up the cooperation with Company X. In the process of contract formulation and implementation, it also requires mutual consultation, and if any party violates the contract clauses, the relationship will be easily broken. Among all the violations, overdue delivery happens the most frequently. If the suppliers do not deliver the goods in time without any reasonable explanation, and the situation happens repeatedly, purchasers will gradually reduce cooperation opportunities with these

suppliers, and ultimately terminate relationship with them.

At the stage of supplier evaluation, the evaluation criteria will also affect relationship maintenance of both sides. In order to make the evaluation result more convinced, “soft” criteria and “hard” criteria should be both taken into account, because it is fairer to show the supplier’s comprehensive capability (Gordon, 2008). In view of the supplier evaluation system of Company X, it has detailed criteria to grade the suppliers. It makes the evaluation result fair and transparent. What’s more, Company X gives the feedback to the the suppliers. They send the rectification notice to the Level D suppliers to push them to improve the performance, and meanwhile praise the Level A suppliers to encourage them to keep the good performance. During the interviews, suppliers reflected that through this scientific evaluation, the results are convinced, and the relationship will get better and better because of the incentive measures.

Besides, satisfaction (mainly refers to the trust and respect in the daily cooperation in this research) also affect purchaser-supplier relationship establishment and maintenance. For instance, due to the clients’ urgent demand, Company X will require suppliers to deliver the goods as soon as possible. In order to meet the clients’ urgent needs, some suppliers will deliver the goods under the circumstance that the contract has not been signed yet. Such trust will definitely improve the relationship. In addition, mutual respect can also consolidate the relationship, even if there is a problem, respectful attitude can at least not to make the situation worse.



## Chapter 5 Discussion

### 5.1 Correlation of Findings with Previous Literature

Automotive industry is a rapidly developing industry in China. Since 2006, China's automotive productions and sales have been ranking the third in the world, just following the US and Japan (CFLP, 2012). Studies have shown that due to the high requirements of JIT production and high degree of automation in automotive industry, the requirements on the efficiency of supply chain are higher. Ma (2013) points out that, at present, China's automotive industry is facing a series of challenges, such as independent brand innovation, development of new energy vehicles. But according to Xie and Wu (2007), procurement efficiency is still low in China. So how to foster the core businesses, and meanwhile improve the supply chain efficiency and realize the cost reduction? It is practical for these enterprises to consider outsourcing the non-core procurement business to a third party who can provide professional procurement services, letting them design the most optimal procurement process according to the characteristics of enterprises, and finally achieve the goal of reducing the procurement cost. The findings from the survey of Company X show that 3PP is developing in China. More and more automotive enterprises start to realize the role of 3PP in supply chain and consider looking for third parties to execute the non-core materials procurement.

Previous authors (Goldsmith, 2003; Michael, 2007) find that enterprises can gain benefits from outsourcing, such as cost saving, gaining outside expertise, improving services, focusing on core competencies, and gaining access to technology. According to the feedback from Company X's purchasers and suppliers, 3PP is also able to bring this value to the their client firms. What's more, according to Theory of Comparative Advantage (Ricard, 2009), if enterprises focus on their core businesses and outsource other non-core businesses, like procurement, to other enterprises who can provide

more professional services, which means that every one is doing what they are good at, then the labour cost will be saved and the entire supply chain will be improved. However, the implementation of 3PP may also get enterprises in trouble. From what is reflected by Company X's purchasers and suppliers, disclosure of the enterprise's important information, the difficulties in relationship management and control loss over the procurement process are the main disadvantages of 3PP.

Besides procurement, third party purchasers also help manage supplier relationship for their client firms, and this is an important part of their services. From Company X's procurement flow, their supplier relationship management is also divided into three parts, supplier selection, supplier development, supplier performance evaluation, which are consistent with what Vijay and Keah (2002) proposed. 3PP is a new business model in China. Many suppliers still do not recognize its role in supply chain. So there are some difficulties for third party purchasers to establish and maintain the relationship with suppliers at the initial stages. But through the scientific supplier relationship management, suppliers will eventually realize the specialty of third party purchaser, and they are becoming more cooperative and the relationships are also becoming better and better. In addition, both suppliers and third party purchasers listed each other's behaviours that make them dissatisfied. We can find that some of these behaviours lack mutual respect and trust. If these improper behaviours continue, the relationships will be definitely affected. As Gattorna (2009) said, trust can create the a "win-win" relationship, so in order to create a harmonious relationship, both of the sides should adjust their inappropriate behaviours to show their respect and trust.

## **5.2 Managerial/ Policy implications Based on Conceptual Model**

### **5.2.1 Principle of Procurement Outsourcing**

According to the survey findings, procurement outsourcing starts being accepted by automotive enterprises in China, because it can bring value to the enterprises and

improve the supply chain efficiency. Therefore, it is a good strategy to outsource some businesses to third party organizations. However, not all of the enterprises and procurement businesses is suitable for outsourcing. Before making a decision on outsourcing, enterprises must measure whether such outsourcing could bring real benefits, for example, is their procurement volume is large enough that outsourcing could create more cost savings (including material cost, labour cost) than the service fee that they have to pay for the third party? In addition, enterprises should also look seriously at what kind of material can be outsourced? If the material involves the core products which will affect the core competitiveness of the enterprise, this kind of procurement business is not suitable for outsourcing. Therefore, before outsourcing, enterprises have to evaluate all types of procurement businesses so as to reduce the risk of leakage of confidential information. In the process of procurement outsourcing, enterprises must be familiar with the procurement flow of third party organization and evaluate third party purchasers working performance regularly, which could help enterprises supervise the third party and prevent losses caused by third party's fault.

### **5.2.2 Get Support from Client Firms While Establishing Relationship with Suppliers**

Compared with high-reputation client firms, third party purchasers often feel that they are easily ignored. Quite a lot suppliers are still not aware of the necessity of cooperation with third party organization. It makes difficult for third party purchasers to communicate with these suppliers. However, in order to help clients get better quality products for lower prices, they have to establish relationships with these suppliers. From third party purchasers feedback, it is easier for third party purchasers to establish relationship with suppliers recommended by client firms in a short period of time. Therefore, while selecting new suppliers, third party purchasers can ask their client firms whether there is any supplier to recommend, and try to establish relationship with these recommended suppliers. When third party purchasers seek suppliers from market by themselves and encounter the suppliers who are not

cooperative, especially facing the suppliers who are in the strong position, it is necessary for third party purchasers to turn to client firms for help. Getting support from client firms, like GM, VW, and making full use of their high reputation can help suppliers attach importance of cooperation with third party purchasers.

### **5.2.3 Find a Balance Between the Interests Conflicts for Relationship Maintenance**

From the findings of the interviews, price, quality, terms of payment, response speed, and the power positions are most likely to cause the conflicts of interests. When the interests clashes, what both sides need to do is to find a balance between these conflicts instead of being in a hostile status. Purchasers and suppliers can do it through negotiation. Lewicki (2015) states that successful negotiation can help organizations reduce procurement cost, get better quality goods, receive goods in time, get more preferential projects and reduce procurement risks, and meanwhile improve bilateral relationship and create good conditions for future cooperation. As showed in Figure 4.6, purchasers and suppliers have different interests, for example, for purchasers, they hope the lower the price is ,the better, but the suppliers hope the opposite. If they want to cooperate with each other, they need to find a price that both sides accept. Normally, at least one side need to make a concession when some of their interests clash but they still want to keep the relationship with each other.

### **5.2.4 Evaluate Suppliers Performance Quantitatively and Qualitatively**

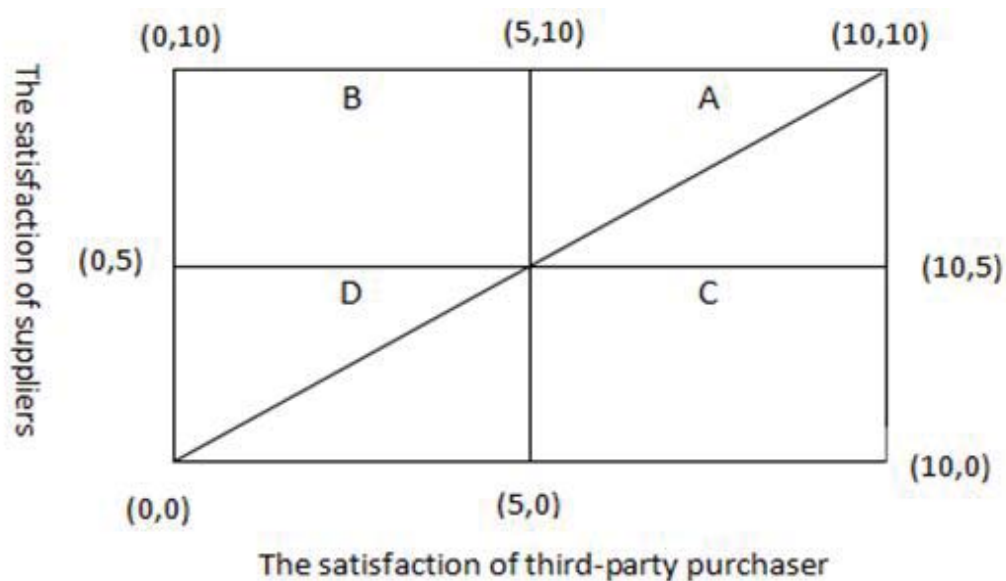
Gorden (2008) state that supplier performance evaluation is to evaluate the performance of suppliers in the past period of time, discovering the problems in the relationship with suppliers, and find out corresponding solutions. Meanwhile, take action of incentive and punishment on suppliers according to the evaluation results. Huo et al (2002) point out that it is impossible to evaluate supplier performance rationally without a reasonable evaluation system. The stability and enthusiasm of

cooperation will also be greatly influenced if the evaluation method is unfair. In view of the supplier evaluation system, they use apply mixture method of qualitative and quantitative, i.e., both “hard” factors and “soft” factors are taken into account. It prevents the results from being too objective or too subjective. After evaluation, they also give the feedback to the suppliers. From the reflections of suppliers, most of them are satisfied this evaluation method and they are convinced by the results. As such, in order to guarantee the suppliers performance evaluation fair and transparent, third party purchasers should evaluate suppliers performance quantitatively and qualitatively, and take incentive measure to encourage suppliers to work better, and if necessary, give some feasible suggestions to suppliers. Through this way, suppliers will feel that third party purchasers are helping improve their performance. Suppliers will be more willing to cooperate with third party and keep relationship with them.

### 5.2.5 Adjust behaviours to win the respect and trust

Leenders and Flynn (1997, as cited in Fogg, 2008) create a purchaser-supplier satisfaction model as followed:

**Figure 4.7 Purchaser-supplier Satisfaction Model**



This model is divided into four quadrants which refer to both purchaser and supplier are satisfied (Quadrant A), neither of them are satisfied (Quadrant D), and one side is satisfied while the other is not satisfied (Quadrant B and C). Leenders and Flynn assume that the satisfaction of both sides can be measured and the result could be in any of these four quadrants. Dissatisfied side will attempt to move towards to the satisfactory direction, and the movement will also affect the stability of relationships.

Both third party purchasers and suppliers have an obligation to take positive measures to make satisfaction be in Quadrant A so that the relationship will be more and more stable. From the interview of Company X's purchasers and suppliers, they acknowledge the importance of 3PP in supply chain and the necessary of their cooperation. Both of them can benefit from such cooperation. So in order to keep relationship, they have to increase each other's satisfaction. They proposed some suggestions on behaviours that help both sides increase the satisfaction.

- **Suggested Behaviours for Suppliers**

To some extent, third party purchaser is a coordination position. Internally, they have to work with logistics, warehouse, engineering, finance, sales, almost all departments. Externally, they need to communicate with various of suppliers and their clients. As third party purchasers, they are also the bridge between suppliers and their client firms. Purchasers deal with too much things such as quotation, delivery, quality, packaging everyday. If suppliers could understand purchasers and be cooperative, the relationship between them would be better. Purchasers proposed some suggestions for suppliers as below:

a). Do not make mistakes constantly on simple problems. It is inevitably that people make mistakes occasionally. But if they always make mistakes on the same, simple things such as invoice, amount, quantity, it is frustrating and annoying. Suppliers should never underestimate these or consider them trivial. Sometimes, a little mistake

could lead to huge trouble.

b). Reply to the purchasers when they need help. Suppliers should give feedback immediately when purchasers ask them to quote price, deliver the goods, take back substandard products, or other problems that need to be solved. If suppliers can not give the answer in a short time, at least they should let purchasers know when they will provide relevant information.

c). Do not pass the buck. For suppliers, it does not matter making mistakes occasionally. Some mistakes can be understandable. What matters is that once the problems arise, suppliers can take the responsibilities to solve the problems rather than looking for excuses and blaming the mistakes on others. Purchasers are willing to cooperate with the suppliers who have a sense of responsibility. Sometimes purchasers will even give higher marks to these suppliers because they have abilities to solve the problems.

d). Do not make a promise easily. Purchasers usually want suppliers to lower the price and deliver the goods earlier. Suppliers should not promise anything to purchasers until they can say it for sure. Once they make a promise, they must keep their word, otherwise, their credibility will be questioned. If the situation happens repeatedly, purchasers will probably not trust these suppliers and become reluctant to cooperate with them.

e). Never fool purchasers. As senior purchasers, they will discover if suppliers do shoddy work and use inferior material. The consequences might be very serious. Purchasers, especially for third party purchasers, have zero tolerance to this kind of things.

f). Communicate with purchasers immediately once problems arise. In many cases, suppliers think it is more convenient for them to communicate with the ultimate

clients directly when they meet the problems. But the fact is that because of process reasons, the third party purchasers have to be involved to deal with problems. Therefore, once the problems arise, suppliers should inform third party purchasers. Even if they want to communicate with ultimate clients directly, it is better to let third party purchasers be present, or inform them of the results of discussion immediately, which enables third party purchasers to complete the process as soon as possible and solve the problems in time.

• **Suggested Behaviours for Third Party Purchasers**

For suppliers, as previously mentioned, they also encounter the improper behaviours of third party purchasers. Third party purchasers should avoid such behaviours so as to maintain a stable relationship with suppliers. The following is the suggested behaviours for third party purchasers from suppliers:

a). Third party purchasers must pay attention to their attitudes in the daily communication with suppliers, using proper words when calling or sending email to suppliers. Neither should they be arrogant even if they are in the strong position, nor should they be the snobs that shadow under and take advantage of their client firm's good reputation. When third party purchasers meet difficulties, they should turn to suppliers for help with humble attitude, rather than taking it for granted that suppliers are supposed to be help you. Show the appreciation to the suppliers in oral or written format. Respect can help relationship get further development.

b). Third party purchasers must treat all suppliers equally, no matter how big the company is, and hold the same attitude to the ordinary suppliers and the suppliers recommended by clients. The procurement flow must be implemented strictly. Purchasers should not act extremely humble when facing big companies and be arrogant to the small companies. They should not flatter the suppliers who have a good relationship with client firms. Fairness will make the suppliers feel the



professionalism of third party procurement and generate trust in them.

c). Third party purchasers should not be aggressive while negotiating with suppliers. For example, in order to achieve the goal of cost reduction, purchasers set unreasonable (extremely low) target price, and require suppliers make commitments. Every one wants to benefit. Purchasers should realize that only when every side compromises in some aspects will they get “win-win” result.

d). After delivery, what suppliers concern is the payment from purchasers. After confirming the product is qualified, purchasers need to supervise and urge the financial staff to pay to the supplier on time according to the terms of payment. Constant delayed payment would reduce suppliers’ trust on third party purchasers, which would affect the maintenance of future relationship. Good payment records will increase trust. If clients are in urgent need of material, suppliers will deliver the goods in advance even if the contract has not been formulated and signed because they believe purchasers will definitely pay for that.

Third party purchasers and suppliers should look from the angle of each other’s position to deal with problems. Long-term and stable cooperation must be based on mutual understanding and support. The suppliers who are not cooperative and have no abilities to solve the problems will not have a good development eventually. Rude and arrogant purchasers will not be respected by suppliers.

## **Chapter 6 Conclusion**

### **6.1 Succinct answers to the research questions**

This study focuses on the development of 3PP in Chinese automotive industry, and explores how to better establish and maintain relationship between third party purchasers and suppliers in the context of 3PP.

Due to the characteristic of automotive industry, 3PP is becoming more and more accepted by automotive enterprises, and its role is also recognized gradually. Compared to the traditional procurement, 3PP can not only improve the efficiency of supply chain, but also bring value to the clients, because they helps consolidate the core business and fostering competitiveness, achieve economies of scale and save procurement cost, and improve the quality of services. However, 3PP also has disadvantages that it may increase the difficulty in relationship management and coordination, and there is more chances to disclose the important information which is involved in the core competitiveness, and it also may lose control over procurement process. Therefore, before outsourcing procurement businesses, both of the advantages and disadvantages should be taken into account.

When third party purchasers want to establish relationship with new suppliers, they can try to seek support from their client firms. Because of the high reputation of client firms, they can play a positive role in establishment of relationship between third party purchasers and suppliers. While developing the relationship, third party purchasers should understand the major conflicts between them and suppliers, and try to find the balance between these conflicts. Sometimes it is necessary for both sides to make a concession to reach an agreement. Supplier performance evaluation is an important part of supplier relationship management. In order to evaluate suppliers more fairly, third party should apply mixture methods of qualitative and quantitative.

After supplier performance evaluation, third party purchasers should give the feedback to the suppliers so that the relationship can get further development. Behaviours also affect the relationship because bad behaviours will decrease satisfaction. When communicating with each other, both of third party purchaser and suppliers should pay attention to their behaviours, adjusting the inappropriate behaviours immediately.

## **6.2 Original Contribution**

3PP is still in the stage of development in China. This research focuses on Chinese automotive industry in which 3PP has a huge potential market. More and more automotive enterprises tend to outsource their procurement businesses to third party in order to put more energy to develop the core businesses. This research points out the role of 3PP, analyzing its advantages and disadvantages, which provides references to the enterprises who want to outsource their procurement businesses. The study selects a specific third party procurement provider, introducing their procurement flow, new suppliers selection process, suppliers development process, purchaser working performance evaluation and supplier performance evaluation, and then analyzes the factors that would affect the third party purchasers-suppliers relationship, proposing some methods to improve the relationship. It provides practical references to practitioners and future researchers.

The development trend and influence of third party procurement should not be underestimated. China is still a developing country. From an objective point of view, the emergence of third party procurement has a positive meaning for a developing country in terms of attracting foreign investment, increasing job opportunities, expanding service trade, promoting the development of domestic service industry and adjusting industrial structure. Third party procurement mode is still in the rudimentary stage in China. The research's perspective of purchaser-supplier relationship in the context of third party procurement is new and pioneering. The analysis of the specific

case makes it easier for readers to understand what third party procurement is and how it works. It can help latter researchers and practitioners strengthen the research on third party procurement and its consequent economic phenomenon.

### **6.3 Limitations**

This research tries to evaluate the role of third party procurement and analyze the factors that affect the relationship between third party purchasers and suppliers. However, there are some limitations in this research.

Firstly, this study only focuses on Chinese automotive industry. Other types of industry are not taken into account. So this research might only apply to Chinese automotive industry. Secondly, due to the limitation of time and funds, this study just focuses on only one specific company in Chinese automotive industry, and the interviewees are the purchasers from this company and the suppliers who have businesses with this company. The result can not represent the whole population. Thirdly, different people have different comprehensions and feelings on 3PP and relationship, which could also affect the interpretation of the result.

### **6.4 Further research**

Chinese automotive industry is a huge industry, and 3PP mode is still developing in China, so further studies can focus on how to better apply 3PP in such a huge industry. For example, how to select third party procurement provider effectively, which should be conducted from the perspective of 3PP users.

In addition, further studies may not only be limited to automotive industry. It can be extended to other industries to see if there's any similarity and difference. 3PP has not been introduced in New Zealand yet, so further researches can also focus on whether 3PP could apply in New Zealand market, such as in dairy industry.

There's also a need to have more researches on the relationship between third party purchasers and suppliers according to the degree of their cooperation., for examples, how to classify different suppliers, what relationship types suits third party purchasers and suppliers.

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## APPENDICES

### APPENDIX A : Informed Consent

尊敬的女士/先生：

Dear Sir/ Madam,

您好！我叫刘璐莹，现在在新西兰的梅西大学攻读物流与供应链管理硕士学位。目前本人正在做一项关于第三方采购商与供应商的关系研究，并将为此开展一次访谈。我想邀请您加入本次的访谈。

My name is Luying Liu. I am a student studying in Master of Logistics and Supply Chain Management at Massey University, New Zealand. Now I am conducting a research exploring the relationship between third party purchasers and suppliers. In order to fulfill the purpose of this study, I will create interviews around this topic. I would like to invite you to participate in this interview.

我的研究目的旨在突出第三方采购在供应链中的作用以及它为顾客所创造的价值，并针对如何改善第三方采购商与供应商的关系提出一些建议。这项研究主要针对中国汽车行业，因此您被选为访谈的参与者。您的参与完全是基于自愿的。

The purpose of my study is to highlight the importance of third party procurement (3PP) in supply chain and the value they can create to the customers, and put forward some suggestions on how to improve the relationship between third party purchasers and suppliers. This research will focus on Chinese automotive industry, so you are chosen as a candidate to conduct the interview. Your participation is absolutely based on your own will.

访谈将会以匿名的形式进行，所有收集到的数据只会被用作学术交流，您的回答

将会被保密。如果您愿意抽几分钟来参与这次访谈我将会非常感激。您的回馈将对我的研究非常重要。如果您希望得到研究的成果，可以与我联系，我会尽快答复您。谢谢您的支持！

This interview will be anonymous. All data collected will be only used for academic purpose and your answers will be kept confidential. I will be very thankful if you are willing to spend a few minutes participating in this interview. Your feedback is very important to my research. If you wish to receive a copy of my research result, please feel free to contact me. I will respond to you as soon as possible. Thanks for your support.

导师 Supervisor: Walter Glass, Paul Childerhouse

学生 Student: Luying (Lisa) Liu , 电话 phone No. (0064) 02102456543

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Best Regards,

Luying (Lisa) Liu

## **APPENDIX B : Interview Questions (Purchaser Part)**

### **Introduction**

Hello, everyone. I'm very grateful that you are willing to take some time to conduct this interview. The research is about 3PP which is the area you are working in and the relationship between you and your suppliers, so I'll ask some related questions around this topic. Please give your most honest answers. There's no standard answer and you can talk as much as you wish.

### **Questions:**

#### **Part 1 Interviewees' Working Background**

1. How many years have you worked in this company?
2. Could you please describe your present routine?
3. Which part do you spend the most time on?
4. How many orders do you receive monthly on average?
5. Could you please describe your working performance evaluation? How many aspects are included?

#### **Part 2 3PP**

6. Before joining this company, do you know anything about 3PP?
7. Could you please describe your procurement flow?
8. Do you know the reasons why your clients want to outsource their procurement to you?
9. What do your clients expect you to do?
10. Having worked as a third party purchaser so far, what do you think are the advantages of 3PP? Can you also point out some of its disadvantages?

### **Part 3 Relationship with Suppliers**

11. How many suppliers do you have to manage on average?
12. Do you feel any difficulty in establishing a relationship with suppliers?
13. Did you ever turn your clients for help to establish or maintain the relationship with suppliers?
14. How often do you assess suppliers' performance? How many aspects are included? Do you give the feedback to the suppliers?
15. What behaviour of supplier makes you happy/unhappy? Could you please give me some examples?

Thanks for your time. That's all for today's interview. With the research continued, some new questions might be generated and the corresponding data will be collected, so I will probably do more interviews. We can arrange next interviews at your convenient time if you would like to. Thanks for your cooperation.



## **APPENDIX C: Interview Questions (Supplier Part)**

### **Introduction**

Hello. I appreciate that you are willing to take some time to conduct this interview. The research is about 3PP (third party procurement) and the relationship between third party purchaser and suppliers, so I'll ask some related questions around this topic. There's no standard answers. You can talk as much as you wish. And I will not leak any information from this interview to the third party company, i.e., your clients, so please give your most honest answers.

### **Questions:**

#### **Part 1 Supplier Background**

1. How many years have you cooperated with this third party company?

Less than 1 year

1~5 years

5~10 years

More than 10 years

2. What type of suppliers are you?

Manufacturer    Agent    Dealer    Trader

3. How many employees are there in your company?

Less than 100

100~500

More than 500

4. Can you tell me how much is your turnover in 2014?

Less than 1 million

1~10 million

10~100 million

More than 100 million

**Part 2 3PP**

5. How did you know about 3PP?
6. Do you cooperate with any other third party companies?
7. What makes you cooperate with third party? Do you have to cooperate with them?
8. Do you think it is necessary to set a third party between you and the ultimate customers?
9. How do you feel cooperating with third party? Is there any difference compared to cooperating with the real demand-side?

**Part 3 Relationship with Third Party**

10. Are you satisfied with the current relationship with third party?
11. If there are some problems, do you prefer to communicate with third party or with ultimate customers directly? Why?
12. What problems are you facing/ did you ever face on the relationship with third party? How are you going to/ did you solve these problems? Can you give me some specific examples?
13. What behaviours of third party makes you happy/ unhappy? Could you please list top 3 respectively?
14. Do you have any suggestion on improving the current relationship with this third party company?

Thanks for your time. That's all for today's interview. If you want to discuss more about this topic with me, please feel free to contact me. Thanks for your cooperation and have a good day.