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INTRODUCTION
REVIEW OF LITERATURE
NEED/IMPORTANCE OF THE STUDY
STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
REFERENCES
APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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VENDOR DEVELOPMENT PROCESS: AN EMPIRICAL STUDY

DR. R. K. KUSHWAHA
ASSt. PROFESSOR
FACULTY OF MANAGEMENT
SURAJMAL COLLEGE OF ENGINEERING & MANAGEMENT
KICHHA

SHYAM SUNDER PARASHAR
MANAGER (VENDOR DEVELOPMENT)
TATA MOTORS LTD.
RUDRAPUR

DR. ALOK SINGH
PROFESSOR
FACULTY OF MANAGEMENT
DR. OM PRAKASH INSTITUTE OF MANAGEMENT & TECHNOLOGY
FARRUKHABAD

ABSTRACT

An analysis of the academic literature explicitly looking at vendor development shows that research in this domain has a long history in India. For seeking to provide a more differentiated view of vendor development process and activities currently applied by SIDCUL Industries in Rudrapur, India. An empirical study was conducted based on a review of previously published research on vendor development and case studies with SIDCUL industries in Rudrapur, India. The survey responses from 100 industries were factor-analyzed to explore various dimensions of vendor development and their interrelationships. Furthermore, an industry-level analysis was performed. SIDCUL Industries are reluctant to develop vendors. Two dimensions of direct and four dimensions of indirect vendor's development were observed. Providing human and capital support to vendors (i.e. two dimensions of direct vendor's development) is strongly related to formal vendors evaluation, structures and processes for evaluating vendors as well as communication (i.e. three dimensions of indirect vendors development). Future studies should incorporate the perspective of the vendor's industries, include small and medium-sized enterprises, and approach pressing questions related to performance implications for the buying firm and sharing of the benefits achieved in vendor's development activities.

KEYWORDS

buyers, vendors relations, sidcul industries, Indian industries.

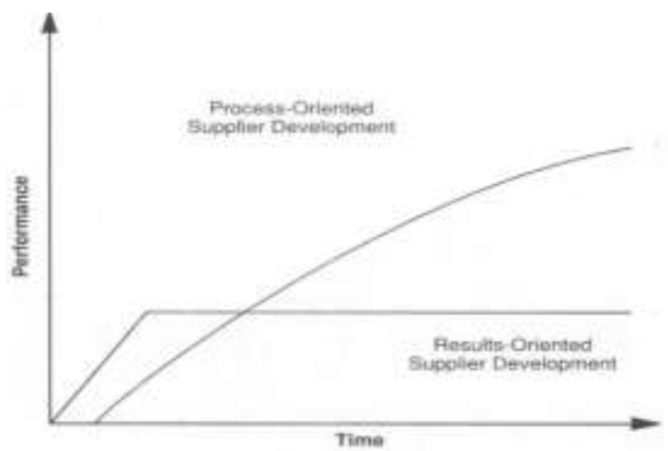
INTRODUCTION

The term "Vendor Development" was first used by Leenders (1966) to describe efforts by manufacturers (Buyer) to increase the number of viable suppliers and improve Vendor's performance. More specifically Vendor development has been defined as "any effort by an industrial buying firm to improve the performance or capabilities of its suppliers". Much of the Vendor development literature focuses on the automotive industry either in the US, Europe, Japan or elsewhere and is performed primarily on large firms.

This is especially true in the automotive manufacturing industry in view of the fact that in the automotive industry up to 75 % of the cost of a vehicle comes from parts sourced from outside Vendor. Hence auto firms cannot be competitive in the world market unless they deal with suppliers who share similar objectives and have the same level of performance. So to help Vendors to make them more competitive and efficient will automatically helps buyers to become more competitive and efficient.

Vendor development refers to an organization's efforts to create and maintain a network of competent suppliers. From a narrow perspective it can be defined as identifying new sources of supply where no adequate ones exist. However, Vendor development also involves a long-term cooperative effort between a buying firm and its suppliers to upgrade the suppliers' technical, quality, delivery, and cost capabilities and to foster ongoing improvements. Simchi et al. (2000) in their book of designing and managing the supply chain- concepts strategies and case studies categorized levels of supplier integration as none, white box, gray box, and black box as per increasing involvement.

FIG. 1: GRAPH OF PROCESS AND RESULT ORIENTED SUPPLIER DEVELOPMENT



Source: Hartley and Jones, 1997

STEPS TO A SUCCESSFUL VENDOR SELECTION PROCESS IN INDIA

India, the outsourcing capital of the world offers services from software development, to photo editing, to engineering and research to global companies across the world. Today, you can outsource almost any service to India. However, finding the right vendor in India for your business can be a daunting task if you are new to outsourcing. The success of an outsourcing project depends on how well you can manage the process before and after signing the outsourcing contract.

While outsourcing to India, many companies opt for the lowest bidder without undertaking a complete vendor selection process. When you do not have the right vendor, you will soon experience bad customer support, poor quality or even missed delivery dates. Going through all the phases of a vendor selection process can ensure success in your outsourcing venture.

The first step towards selecting an Indian vendor is to analyze your business requirements. After the task of searching and selecting a prospective Indian vendor, you must develop a contract negotiation strategy to avoid contract negotiation mistakes. Here are five steps to help you choose the right offshore vendor from India.

1. ANALYZE YOUR BUSINESS REQUIREMENTS

It is important to first analyze your business needs before you even begin to search for a vendor in India. Assemble a vendor selection and evaluation team who would be given the responsibility of finding a suitable vendor from India. Discuss with your management and vendor selection team about what your company wants to outsource. Define in writing, the service or the product that your company wants to outsource to India. Once your company has finalized on what should be outsourced, you have to define the business and technical requirements that the outsourced service /product would require. Finally, decide on the requirements that the prospective Indian vendor should have. Ask your management team to analyze all the requirements and create a final document stating your business and vendor requirements.

2. SEARCH FOR A VENDOR

With clearly defined business and vendor requirement, your vendor selection team would be able to easily find a suitable vendor in India, who can deliver the service /product that you wish to outsource. Ask your team to compile a list of possible Indian vendors, but remember that not all vendors would meet your requirements. After conducting interviews and researching on suitable vendors' background, you will have to select a few vendors from whom you would like more information. Your vendor selection team can then write a Request for Information (RFI) and send it to the selected vendors. The next step would be to evaluate the responses from the vendors and create a short list of Indian vendors.

3. WRITE A REQUEST FOR PROPOSAL (RFP) & REQUEST FOR QUOTATION (RFQ)

Now that you have analyzed your business requirements and shortlisted a few Indian vendors that you wish to evaluate, you have to write a Request for Quotation or a Request for Proposal. The Request for Proposal should contain sections, such as, submission details, an introduction and executive summary, an overview and background of the business, detailed specifications, assumptions and constraints, terms and conditions and selection criteria.

4. EVALUATING THE PROPOSAL & SELECTING THE VENDOR

To begin with, conduct a preliminary review of all your vendors' proposals. The next step would be to state your business requirements and the vendors' requirements. Discuss with your management team and assign an importance value for each requirement. Next, assign a performance value for each requirement. Now all you have to do is calculate a total performance score and choose the winning Indian vendor.

5. CREATING A CONTRACT NEGOTIATION STRATEGY

Creating a contract negotiation strategy is the final step in the Indian vendor selection process. Rank your priorities along with alternatives. Clearly define benchmarks and time constraints. Evaluate your risks and liabilities. Also state the level of confidentiality required. Remember to mention changes in the requirements. Understanding the difference between what you want and what you need, from the outsourcing contract, can help you create a better strategy.

VENDOR RATING

Industry has to depend upon outside vendors due to following:

- Cost consideration including economy of scale.
- Impossibility of total vertical integration.
- Specialization, some time leading to proprietary products and patents processes.
- As an alternative or stand by and for load leveling.
- Standardization
- Social considerations like government regulations, obligation to
- community, etc.,
- Decentralization
- Strategic reasons

The number of vendors who can satisfactorily meet all the requirements of the industry and be able to operate economically is few. This is because of following:

- Lack of capital.
- Unsteady marketing conditions.
- Lack of entrepreneurship.
- Non-availability of specialized listing facilities.
- Availability of trained manpower.
- Non-availability of know-how i.e. drawings, specifications, techniques, etc.

VENDOR DEVELOPMENT ACTIVITIES

Sanchez et al. (2005) classified vendor development activities into 3 parts on the basis of buyer's resource involvement parameters like personal, capital and time. Basic vendor development- Basically this will deal with supplier's evaluation and giving feedback to him. Vendor qualification is having more importance than supplier certification. Vendor base will be less in number with standardized parts and increased volume of business with limited vendors

Basic Vendor Development	Moderate Vendor Development	Advanced Supplier Development
• Evaluation of • vendor 's • Performance and feedback to vendors. • Sourcing from a limited • Number of vendors. • Parts standardization. • Vendor qualification.	• Visiting vendor' plants. Awards and approval of vendor's performance Improvements. • Collaboration with vendors in Materials improvement. • vendor certification	• Training to vendors. Collaboration with supplier. • Involvement of vendors in the buyer's new product development process. • Intensive information exchange with vendors.

VENDOR DEVELOPMENT PROCESS

Hartley and Jones (1997) have focused on vendor development processes and they found vendor development as a four step process as, assess the vendor 's readiness for change, build commitment through collaboration, implement system-wide changes, transition out of the vendor's organization, establish follow-up and recognition procedures.

Handfield et al. (2000) in their article of "Avoid the Pitfalls in vendor Development" proposed a process map for vendor development. They mentioned 7 steps for vendor development such as identify critical commodities, identify critical vendors, form a cross-functional team, meet with vendor's top management, identify key projects, define details of agreement, monitor status and modify strategies.

- Vendor development practices
- Buying from a limited number of Vendors per purchased item
- Vendor performance evaluation and feedback
- Parts standardization
- Vendor certification
- Vendor reward and recognition
- Plant visits to Vendor
- Training to Vendor
- Intensive information exchange with Vendor
- Collaborating with Vendor in materials improvement and development of new materials
- Involvement of Vendor in the buyer's new product development process

REVIEW OF LITERATURE

Even though the basic notions of vendor development can be traced back to ancient times and consumer and military buying aspects (Leenders, 1966), it was used more intensively during and after World War Two by Toyota in Japan. In 1943, Toyota joined a supplier association (renamed thereafter Kyoho Kai) to assist a number of subcontractors in the Tokai region in improving productivity (Hines, 1994). From then on, vendor associations within the Toyota supply network and collaboration between Toyota and its vendor grew constantly (Dyer and Nobeoka, 2000; Hines, 1994). With some exceptions, such vendor development played little part and was not widespread in the Western economy until the 1990s (Hines, 1994). From then on, firms in the automotive industry pressed ahead with this practice and turned it into a popular and powerful approach to improve supply chain performance in Western industries (Lamming, 1993; Womack et al., 1990).

An analysis of the academic literature explicitly looking at vendor development shows that research in this domain has a long history in North America. A doctoral dissertation dealing with this topic was published as early as 1965 (Leenders, 1965). Soon after, the first article by Leenders (1966) reporting on the vendor development activities of an industrial firm in Canada appeared. Years later, when the business environment forced firms to pay more attention to quality management issues, supplier development emerged as a prominent method. So the "first wave" of vendor development research (1989-1991) was initiated by researchers in the quality management field. The "second wave" covers the period when researchers picked up on relationship management issues (since 1995). The few large-scale empirical studies in previous years (mainly in the United States) were the basis for a number of publications. As such, Krause's survey of 527 industrial and service firms in the United States is most influential (Krause, 1997; Krause, 1999; Krause and Ellram, 1997b; Krause et al., 2000; Krause and Scannell, 2002). These publications were devoted exclusively to supplier development practices. In Europe, on the other hand, only a few surveys and analyses touched supplier development issues while investigating supplier relationship, supply chain, or quality management issues (De Toni and Nassimbeni, 2000; Lascelles and Dale, 1989; New and Burnes, 1998; Quayle, 2002). Hitherto, large-scale empirical research focusing on supplier development in European countries has not been published.

Watts and Hahn (1993, p. 12) define supplier development as "a long-term cooperative effort between a buying firm and its suppliers to upgrade the suppliers' technical, quality, delivery, and cost capabilities and to foster ongoing improvements". Likewise, for Krause and Ellram (1997a, p. 21), vendor development encompasses "any effort of a buying firm with its supplier to increase the performance and/or capabilities of the supplier and meet the buying firm's supply needs". Although most researchers agree with and regularly cite these definitions, several different facets of supplier development have been distinguished in the pertinent literature.

First, a few rather general supplier development processes that support firms in identifying, evaluating, conducting and following up on supplier development projects have been recommended. For example, Krause et al. (1998) described a generic ten-step process model ranging from the identification of critical commodities for development to the systematic institution of ongoing continuous improvement. Furthermore, it was proposed that process oriented rather than results-oriented supplier development may be more effective, because it increases the supplier's ability to act on its own and improvement efforts will continue once the buying firm finishes its activities (Hartley and Jones, 1997).

The second distinction concerns the supplier to be developed. If the goal is to develop a new source of supply – that is, a supplier that has not delivered products to the firm before – vendor development was considered to take a "narrow perspective" (Hahn et al., 1990) or was termed "reverse marketing" (Blenkhorn and Banting, 1991; Leenders and Blenkhorn, 1988). On the other hand, if a firm develops a supplier who currently supplies products, the firm takes a "broad perspective" (Hahn et al., 1990).

Third, efforts can vary according to the buying firm's motivation in its initiation and implementation of supplier development measures. Firms taking a "reactive approach" initiate measures only in case of poor supplier performance and to eliminate existing deficiencies, i.e. when problems have already occurred. By contrast, with a "strategic approach" firms try to improve supplier performance actively and for the long-term, i.e. before performance problems actually occur (Krause et al., 1998).

Fourth, vendor development can be distinguished by the role the buying firm plays, i.e. according to the resources committed to a specific supplier. In the case of "direct" (Monczka et al., 1993) or "internalized" (Krause et al., 2000) supplier development, the buying firm plays an active role and dedicates human and/or capital resources to a specific supplier. From a transaction cost perspective, direct supplier development refers to a transaction-specific investment by the buying firm (Williamson, 1985, 1991). Direct vendor development includes activities such as on-site consultation, education and training programs, temporary personnel transfer, inviting the supplier's personnel, as well as the provision of equipment or capital (Krause, 1997; Krause et al., 2000; Monczka et al., 1993). However, direct supplier development poses problems in terms of the potential for opportunistic behaviour on the part of the supplier. Hence, the firm must safeguard its supplier-specific investments, for example by establishing long-term buyer-supplier relationships. The buyer-supplier relationship will shift from abstract to relational (Frazier et al., 1988; Heide and John, 1988). Contrariwise, the buying firm commits no or only limited resources to a specific vendor in case of "indirect" (Monczka et al., 1993) or "externalized" (Krause et al., 2000) supplier development. Instead, the firm offers incentives or enforces vendor improvement, and hence makes use of the external market to encourage performance improvements. This is frequently done by assessing suppliers, communicating supplier evaluation results and performance goals, increasing a vendor's performance goals, instilling competition by the use of multiple sources or promising future business (Krause, 1997; Krause et al., 2000; Monczka et al., 1993; Prahinski and Benton, 2004).

OBJECTIVES OF THE STUDY

1. To Study Vendor Development Process and activities in Automobile Industry in SIDCUL (Rudrapur) India.
2. To Study Vendor Selection and Evaluation criteria in Automobile Industry in SIDCUL (Rudrapur) India.
3. To find out current Vendor development practices employed by Automobile Industry in India.

RESEARCH METHODOLOGY

RESEARCH DESIGN

Research Design is a map or blueprint according to which the research is to be conducted. In the present study, the research design will be Descriptive Research Design. Descriptive research includes survey and fact finding enquiries. The research design specifies the method of data collection and data analysis.

DATA COLLECTION METHOD

A research design is an arrangement of conditions for collection and analysis of Data in a manner that aims to combine relevance to the research purpose with Economy in procedure. It constitutes the blueprint for collection, measurement and analysis of data.

a) Primary data: These are those data which are collected afresh and for the first time, and thus happen to be original in character. We will be using the structured questioners.

b) Secondary data: These are those which have already been collected by someone else and which have already been passed through the statistical process. We will collect it from the sources like internet, published data etc.

SAMPLING PLAN

SAMPLING TECHNIQUE

First step in sampling plan is to decide the Sampling Technique, Universe or Population.

We will be going to choose the sample according to the "**Convenience Sampling**". Once the universe is decided the researcher must concern himself to find:

- What sampling unit should be studied?
- What should be the sampling size?
- What sampling procedure should be used?

UNIVERSE

The first step in developing any sample design is to clearly define the set of objects, technically called the universe. In present research, universe will be the ultimate respondents (vendors) of SIDCUL Industries (Rudrapur, Uttarakhand).

GEOGRAPHICAL LOCATION

The present research will be conducted in SIDCUL Rudrapur.

SAMPLING UNIT

The basic thing is to be decided in sampling unit who is to be surveyed. In the present study, the sampling units will be the respondents who are the ultimate vendors of the 20 SIDCUL industries in Rudrapur, India.

SAMPLE SIZE

The second issue is to be decided is 'The Sample Size'. The whole of the universe can't be studied in a single research work. The researcher has to select a relevant fraction of the population or universe. In the present study the sample size will be of 100 Respondents.

DATA ANALYSIS & INTERPRETATION

DIRECT SUPPLIER DEVELOPMENT

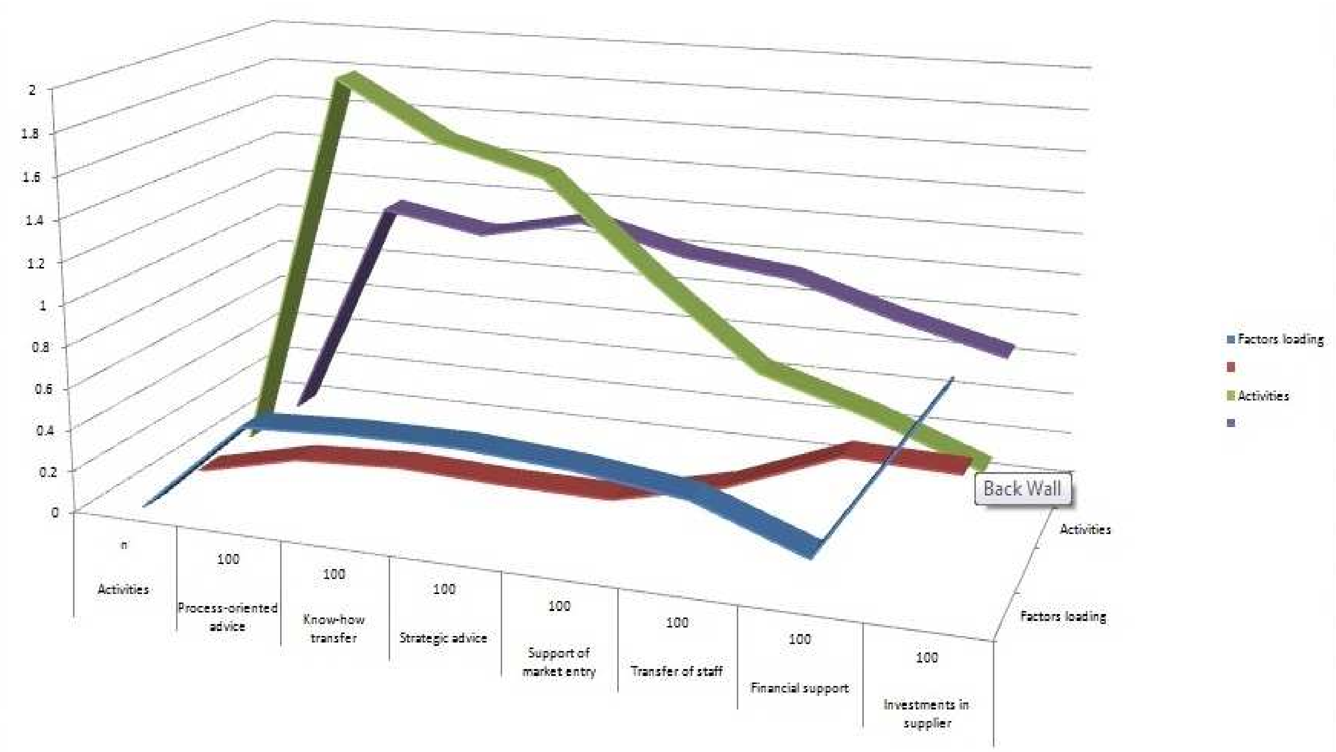
Survey respondents were presented with a list of direct vendor development an activity that was compiled based on the existing literature (Krause, 1997; Krause and Ellram, 1997b; Monczka et al., 1993) and was augmented through the case study interviews.

Next, exploratory factor analysis was performed. The basic idea of this technique is that variables belonging to a common factor have some of their structure determined by an underlying common dimension. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, which tests whether the partial correlations among variables are small, was sufficiently large to justify factor analysis (KMO 0:483). The results of the factor analysis of direct supplier development variables yielded two factors, or dimensions. The two factors explain 62 per cent of the variables 'variance and all variables load significantly on their factors. Factor loadings and means of individual variables and composite dimensions are all shown in Table.

TABLE 1

		A. Factors loading		Activities	
Activities	**n**	**A1. Human**	**A2. Capital**	**Mean**	**SD**
Process-oriented advice	100	0.456	0.121	1.89	1.12
Know-how transfer	100	0.481	0.148	1.61	1.03
Strategic advice	100	0.483	0.128	1.48	1.14
Support of market entry	100	0.446	0.123	1.03	1.01
Transfer of staff	100	0.378	0.249	0.63	0.95
Financial support	100	0.182	0.458	0.47	0.79
Investments in supplier	100	0.98	0.443	0.27	0.66

FIG. 1



INDIRECT VENDOR DEVELOPMENT

The list of vendor development items was also derived from the literature (Krause, 1997; Krause et al., 2000; Monczka et al., 1993; Prahinski and Benton, 2004) and the case studies. As with direct supplier development variables, an exploratory factor analysis was also performed for indirect supplier development. With a Kaiser-Meyer-Olkin (KMO) measure of 0.483, factor analysis can be attempted. The analysis resulted in four uniquely interpretable factors. The explained variance of these four factors was 45 percent. Table shows the factor loadings, means and standard deviations of individual variables and composite dimensions.

The variables that load high on the first factor are the firm's efforts to evaluate vendor in temprarory manner on various performance parameters, and hence this factor was denominated as "temprarory". The factor mean is 1.89. Items for formal evaluation of performance and the evaluation of vendor performance shortcomings on firm performance are summarized in the factor "casual". As such, while the first factor is a measure of occasional vendor evaluation or evaluation in response to unforeseen problems (e.g. delivery problems, quality problems), the second factor is a measure of regular, planned and proactive vendor evaluation. With an average of 1.28, firms are more actively evaluating their vendors formally than on temprarory basis. The first two factors express the frequency and content of a firm's vendor evaluation practice.

The third and fourth factors are associated with how the firm evaluates vendor and communicates with them. As such, the variables that load high on the third factor ("evaluation") cover the firm's supplier evaluation system and process. They relate to the adaptation of the system to the company's particular characteristics, the level of detail and the feedback of evaluation results to suppliers.

The industries use criteria to evaluate vendors ranging from technological capabilities to the worldwide availability of after-sales service. Based on these evaluations, the tractors industries develop so-called "vendors roadmaps" and uses them to check whether vendors are capable and committed to fulfilling the firm's current and future expectations. Vendor's roadmaps highlight the criteria for which vendor's improvement measures are necessary. One of the automotive and automobiles vendors combines the following sub-processes to the primary vendor's management process:

- vendors pre-selection;
- vendors selection;
- vendors evaluation; and
- Vendor's development.

The combination of these four processes – which includes the vendors development process – indicates that indirect and direct vendors development dimensions are strongly related and conducted consecutively in corporate practice.

The results from the quantitative and qualitative inquiries show that several indirect Vendor development activities casual, origin, and communication) are closely linked with direct Vendor development activities (human and capital support).

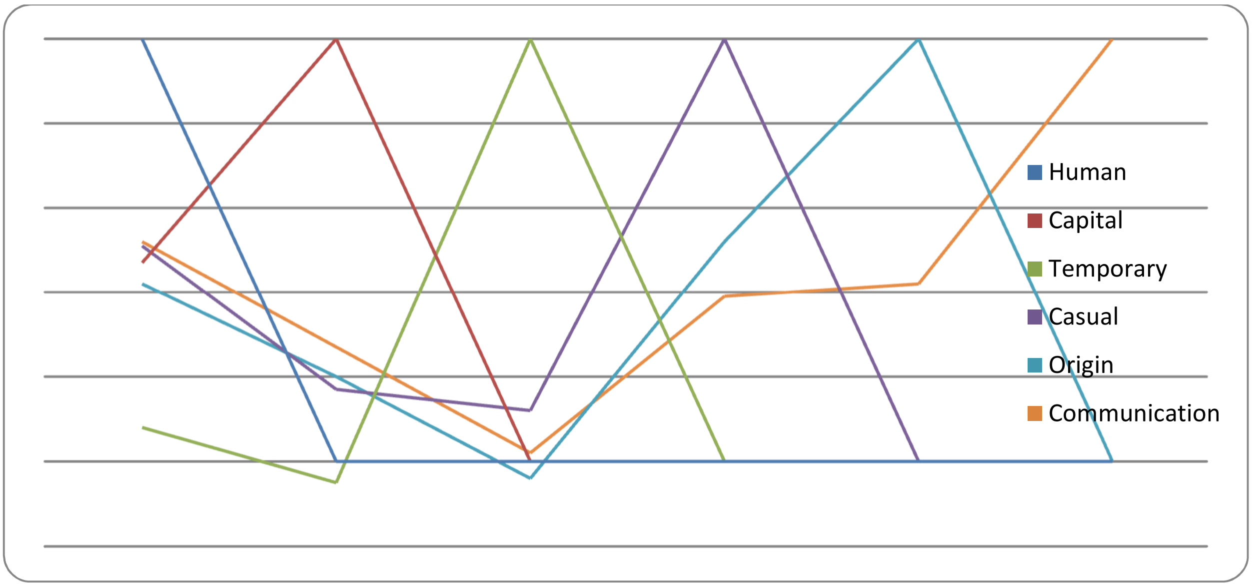
TABLE 2

Correlation matrix

	Human	Capital	Temporary	Casual	Origin	Communication
Human	1					
Capital	0.47	1				
Temporary	0.08	-0.05	1			
Casual	0.51	0.17	0.12	1		
Origin	0.42	0.2	-0.04	0.52	1	
Communication	0.52	0.27	0.02	0.39	0.42	1

Note: *Correlation is significant at the 0.01 level (one-tailed)

FIG. 2



FINDINGS & DISCUSSION

The objective of the study was to further explore the relationships between various dimensions of vendor development and to investigate vendor development from the perspective of Indian industrial firms. In particular, six dimensions of supplier development have been analyzed, that is, four indirect dimensions (identified as temprarory, casual, origin, and communication) and two direct dimensions (identified as human and capital).

Some industries, such as automotive, automobiles and high-tech, have already embarked on the journey of providing active support to their vendor. They demonstrate a higher level of commitment to overcoming vendor performance problems. Outsourcing to vendor, partnering with other firms in a supply chain and building up global supply networks have a long history in these industries. Firms from the process and primary industries, however, still have a long way to go. These firms have to become more professional in their vendor management practices as markets become less protective, customer demands higher and competition stronger. The facilitation of vendor partnerships and consistent vendor management practices will be vital. Benchmarking with and learning from the more advanced industries might be economically justified in today's competitive business environment, where "supply chains compete against supply chains", instead of "firms against firms" (Rice and Hoppe, 2001). Vendor development through human resource commitment is highly correlated with how vendor are evaluated and how firms communicate with their vendors, a firm should first tailor its vendor origin criteria to the firm's requirements.

CONCLUSION

In India, large companies do not, in general, try and build long-term relationships with vendors. They do not provide the kind of support that Sidcul Automobiles provided. Relations with vendors are no different than those between any buyer and seller. The importance of improving the vendor's quality, productivity and cost levels, as a means of improving one's own competitiveness, is not generally recognized. Indian automobiles policies were developed on the basis of Japanese experience, where car companies have financial stakes in many vendors and vendors are treated as being part of their family. Of course, vendors also realize that they have to constantly work to make their principal competitive and profitable.

Outsourcing is a very major system of improving competitiveness and reducing investment requirements and risk levels. Companies have to approach outsourcing as an activity requiring sustained attention. This is possible only if there is a structured vendor development process, and it is accorded high priority by the top management. Most vendors in India are small or medium sized industries. They cannot easily access technology, or implement modern lean management practices. Their ability to introduce information technology is virtually zero. They cannot engage consultants for introducing quality system.

Buyers and suppliers should view the vendor development as a win- win process in order to take advantage of all its results. The following framework for initiating a vendor development program is recommended, this framework was first developed by Handfield et al. (2000) after scanning vendor -development strategies used in more than sixty organizations (Chavhan et al., 2012), the model consisted of seven steps, figure is a modified model to suit the situation in the automobiles industries.

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