

# Motivations for Long-Term Business Relations in the FMCG Sector

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**Abstract:** This study shows the result of a recent survey which focuses on corporate networks and long-term business contracts that constitute the main elements of networks. Within this context we examine the incentives for long-term customer and supplier relations in Hungarian corporate practice in the system of contacts for domestic and multinational chain stores and their suppliers as well as the areas of co-operation and characteristic features of businesses with differing motivations in respect of their long-term market relationships. This study is justified by the subjective opinion of the authors, pursuant to which the network of corporate relations may be examined through market relations. The most important such relationships are long-term partnerships related to business activity in the supply chain, constituting long-term fundamental connections in the corporate relations network.

*Keywords:* Supply chain management, logistics, partnership, cooperation, motivation, FMCG sector.

## 1. Introduction

The success of business ventures has been an emerging topic for researchers. Several scientists agree that it is influenced more and more not only by their own performance but the performance of their business partners and the success is dependent on their relationship, see: [1],[2]. Other studies state that factors such as the size of the company matter as well [3]. In this study we will focus on business relations which may become important value-adding factors, contributing to success, may also be value-destructive if the performance and/or cooperation of partners is inappropriate or the management of the relationship is unsuccessful or simply just too expensive (inefficient).

Among types of corporate network relationships in order to expose differences in attitude and values represented by businesses the study concentrates on long-term

business contracts and motivations for such. The study presents the most characteristic areas of cooperation with partners, and the most important features of company groups with differing motivations in respect of long-term business relations as developed using cluster analysis. The results obtained are – when appropriate - cross-checked with results of the research programme “Competing with the World 2004-2006”, coordinated by Prof. Attila Chikán, BCE (Budapest Corvinus University).

Our paper is based on the data from our survey of 110 businesses of FMCG supply chain members. The survey was conducted between September 2008 and February 2009, with the help of students majoring in Logistics at Szent István University and at Budapest Business School. 24% of these businesses are large commercial chain stores. (In the food sector 13% of the sample are traders, 24% are producers. In the non-food sector 33% of the sample is involved in trading and 6% in manufacturing.)

## 2. Long-term business relations

Figure 1 illustrates the study's results for the ratio of businesses' long-term sales and purchasing relationships. In comparison with the results of the BCE 2004 survey [8] it may be stated that the ratios had improved by 2009 in particular on the supplier side where the ratio of businesses with long-term contracts is under 20%, having fallen from 41% in 2004 to below 14%. Almost one third of businesses on the sales sector have a share of less than 20% with regard to long-term contracts (45% in 2004), constituting businesses that strive to adopt a multifaceted approach. On the other hand, more than 61% of sales and purchasing is carried out on the basis of long-term contracts for almost half all businesses, representing a considerable improvement by comparison with 2004 values, where the ratio was almost one third. At the same time, such sales transactions currently represent more than 81% in around one fifth of businesses, and a similar share of purchasing trade for almost one third of companies. By comparison with 2004 this shows a significant improvement on the purchasing side given that the share of businesses holding more than 81% long-term purchasing contracts was less than 13% at that time. This demonstrates that businesses, acting as customers, had previously tried to avoid excessive commitments but that this approach has now changed.

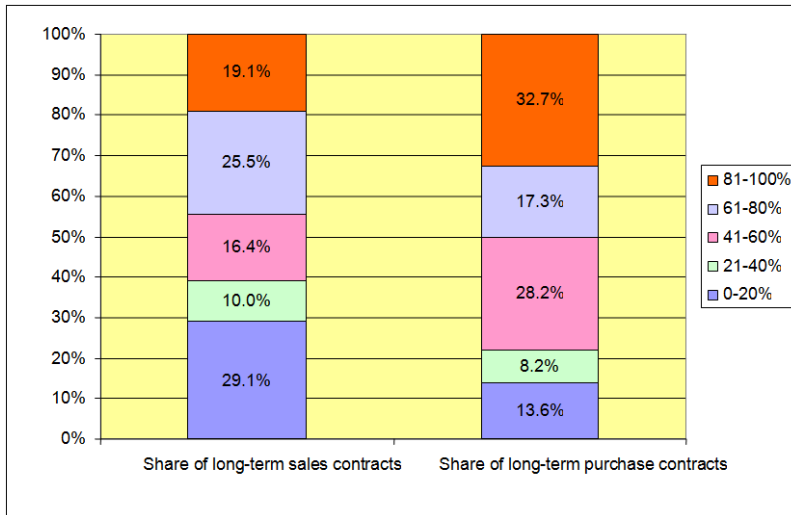


Figure 1. Share of sales and purchases carried out based on long-term contracts, 2009  
(Source: personal compilation)

In summary therefore, based on results from the two surveys, there has been a certain degree of realignment in the ratio of long-term market relationships towards larger-scale application. This confirms that long-term market relations represent substantial links to corporate relation networks regarded by companies as important in implementing corporate strategy.

### 3. Motivations for long-term business relations

Table 1 shows current reasons for concluding long-term contracts with customers. With regard to ranking it may be ascertained that the demand for stability, computability and cost reduction provides the greatest incentive for businesses to conclude long-term agreements with customers. These criteria are important, or particularly important, for more than 60% of businesses. In 2004, managers essentially highlighted the same criteria [8] but their importance fell slightly by comparison with 2004. In summary this means that traditional operational factors related to corporate functions continue to shelter in the background of concluding long-term customer contracts. On the other hand, in case of “modern cooperation factors” [4] linked to business relations - such as joint problem solving, common strategy, and development cooperation - the situation has not changed compared to the previous survey these factors remain less characteristic reasons for concluding long-term contracts with customers. To some extent this refers to the lack of a strategic approach in respect of partnerships, since the factors indicated by businesses - related to corporate operation - as most motivating may also be the criteria in a short-term relationship. Nevertheless it may be said that the importance of these factors - with the exception of the opportunity for development cooperation - has increased by comparison with 2004, with nearly 48% of businesses (32% in 2004) regarding the common strategy option, and almost 47% (29% in 2004) regarding the

opportunity for joint problem-solving as important or of decisive significance in developing long-term customer contracts.

*Table 1. Motivations for long-term customer relationships, 2009  
(Source: personal compilation)*

	<b>Average valuation</b>	<b>“of decisive significance” (5)</b>	<b>“Important” (4) and “of decisive significance” (5)</b>	<b>Standard deviation</b>
1. Stable gross revenue	3.59	45.7%	83.0%	1.73
2. Provisional knowledge of anticipated quantity and quality expectations	3.48	43.6%	74.5%	1.73
3. Stable capacity utilisation	3.38	37.2%	72.3%	1.71
4. Customer reliability	3.30	23.4%	70.2%	1.59
5. Future additional contracts	3.29	25.8%	74.2%	1.67
6. Calculable contracts	3.22	25.8%	72.0%	1.69
7. More favourable supply and storage options	3.12	29.8%	61.7%	1.71
8. Cost-reduction options	3.02	21.3%	57.5%	1.64
9. Exclusion of competitors	3.01	24.7%	60.2%	1.70
...				
13. Joint problem-solving opportunity	2.87	16.0%	46.8%	1.56
...				
16. Common strategy option with the customer	2.78	16.3%	47.8%	1.62
17. More reliable information	2.77	16.1%	49.6%	1.65
18. Development cooperation options	2.47	10.6%	31.9%	1.51
19. Sharing the best industrial sector solutions	2.44	8.6%	24.7%	1.46

Table 2 contains the current most characteristic motivations for concluding long-term purchase contracts with suppliers. This reveals - as on the customer side - that motives related to the demand for stability, computability and cost savings constitute the most important criteria in business value judgments<sup>1</sup>. With regard to cooperation factors it

<sup>1</sup> The same was also true in 2004. [8] Their current outstanding average value - over 4.00 - and the fact by comparison with 2004 that a substantially larger share of businesses assessed these motives as important or of decisive significance shows that these factors are currently being given a more accentuated role in business operations. By comparison with the 2004 results it can also be said that cooperation factors have emerged among the most characteristic reasons for long-term

should be highlighted that - in case of customer and supplier relations - the ratio of businesses considering the joint problem-solving and common strategy option important, or of decisive significance, has now increased while on the supplier side the ratio of businesses that still consider the development cooperation option important, or of decisive significance, also shows considerable growth, since this ratio increased by almost 24% in case of the common strategy option, and by 19% for the development cooperation option.

Table 2. Motivations for long-term supplier relations, 2009 (Source: personal compilation)

	Average valuation	“of decisive significance” (5)	“Important” (4) and “of decisive significance” (5)	Standard deviation
1. Reliable provision, greater purchasing stability	4.31	61.5%	95.2%	1.20
2. Higher servicing standards, more reliable and shorter lead times, reliable and known quality	4.25	57.7%	92.3%	1.21
3. Calculable contractual terms, purchasing costs	4.25	59.6%	91.3%	1.24
4. Lower, more stable prices	4.18	60.6%	87.5%	1.31
5. Cost-reduction options	3.98	49.5%	81.6%	1.35

In summary therefore it may be ascertained that greater emphasis is being placed by businesses on traditional operational motivational factors related to assuring their functioning in their long-term supplier and customer contacts. However, based on the results for the examined businesses, it may be said that whereas motivational factors that assist and extend cooperation options were previously just beginning to emerge, they are now beginning to gain ground.

#### 4. Inclusion of business partners into supply chain processes

Another important consideration in the classification of partnerships is an examination of the areas in which businesses cooperate with their partners. Coordination between

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purchasing contracts which were still included under less characteristic causes in 2004 [8]. By comparison with the previous survey - in addition to an increase in average values for motivational factors - the standard deviation also increased on the customer and supplier side, statistically proving that managers are presently more uncertain in their assessment of motivational factors than they were in 2004.

partners may be implemented in planning decisions and in material flows. Figure 2 illustrates the importance of individual coordination areas on the customer side.

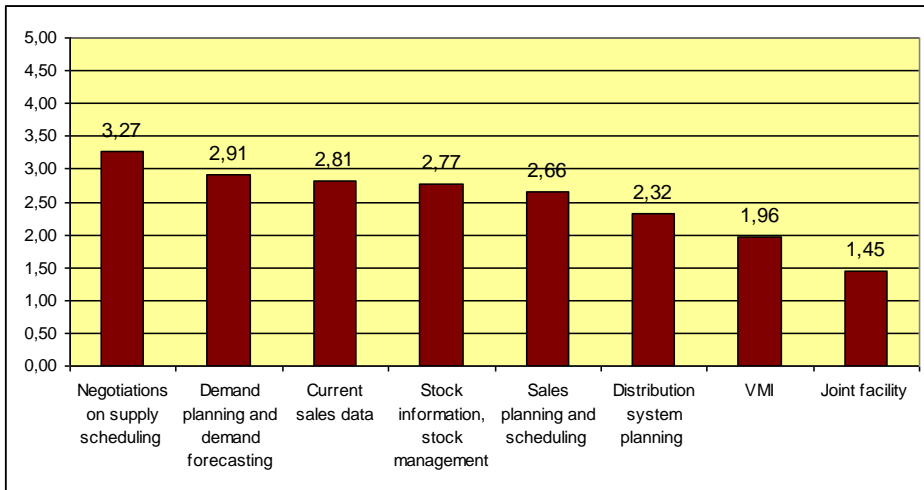


Figure 2. Inclusion of customers in supply chain processes, 2009  
(Source: personal compilation)

The diagram shows that businesses include customers to the greatest extent in the area of negotiations on scheduling supplies. Other areas are less characteristic in respect of cooperation with customers (average values under 3.00); although the sharing of information related to these areas would also be an essential condition for partnerships. This conforms to the expectations of companies' customers since expectations that promote the formation of effective mutual partnerships with customers are squeezed into the background. By comparing the results obtained with the results of the 2004 survey [5] it can be said that there has been no change in the order with regard to the most important coordination areas but average values have increased, i.e. the extent of customer inclusion has now increased. Comparing the current customer-side results with the supplier side it is immediately noticeable that average values are higher here, i.e. businesses are cooperating with suppliers to a greater extent in order to coordinate their processes<sup>2</sup>. However, it is also possible to list joint planning of the distribution

<sup>2</sup> Here too, negotiations on scheduling supplies is in first place, as was the case in 2004 [5] but, moreover, companies are also improving cooperation with their suppliers in connection with purchasing, sales, warehousing and production processes. As on the customer side, this conforms to the business expectations of their suppliers, since business managers have highlighted expectations in relation to suppliers' professional skills, reliability and costs as the most important criteria. Criteria that facilitate development of a higher level of partnership are revealed as less important expectations, as also shown by the fact that the least characteristic area of coordination on both the supplier and customer side is establishing and operating joint facilities, with regard to their greater demand for starting capital, possible longer periods for return on investments and greater associated risk.

system and the use of suppliers' inventory management here which is noticeable in view of the fact that companies characteristically share sales and inventory data with their partners. To some extent this reflects the fact that businesses are putting less thought into their supply chains than into just ensuring their own operation the cost efficiency of which would be improved by using vendor managed inventory (VMI) [6]. Figure 3 demonstrates the importance of areas of cooperation with suppliers.

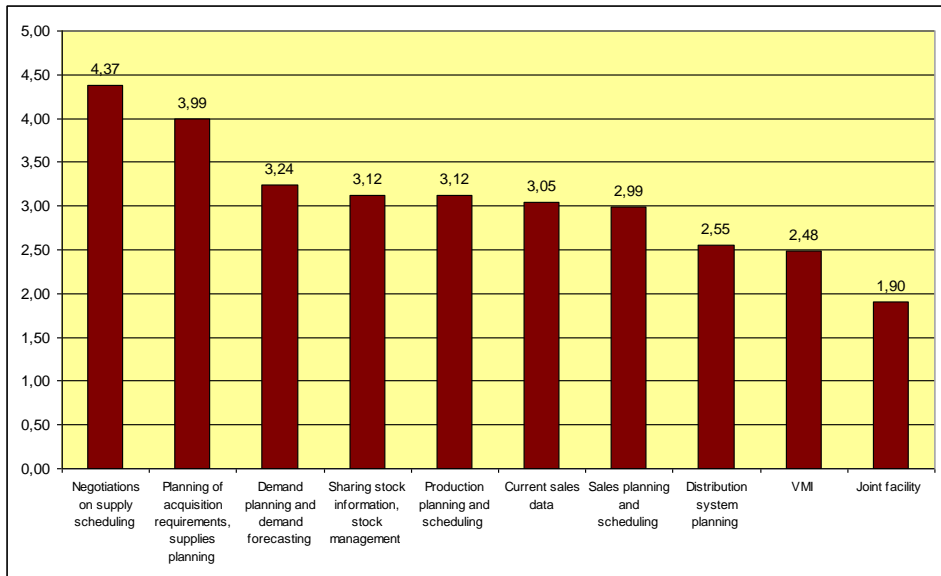


Figure 3. Inclusion of suppliers in supply chain processes, 2009 (Source: personal compilation)

Comparing the results for coordination areas with suppliers, as examined in our study, with the results of the 2004 survey a similar conclusion can be drawn as on the customer side: the present higher average values show a greater extent of supply partners' inclusion.

## 5. Motivations for long-term business relations and the connection with corporate performance

We have also examined whether any difference can be discovered between performances of businesses with varying motivations in respect of long-term market relationships. In this case the question is whether or not those businesses, the motivations of which include placing greater emphasis on opportunities for cooperation options with partners, reveal improved results. In order to explore this correlation we conducted a cluster analysis forming the basis for motivational factors by means of which the examined business sample may be broken down into groups that substantially

differ from one another in terms of motivational factors. As a result of the employed K-centred cluster analysis, we have separated businesses into three groups, as follows:

1. Cluster (n=17): Operation-oriented businesses
2. Cluster (n=40): Cooperation-oriented businesses
3. Cluster (n=42): Neutral businesses.

These motivational clusters have the following characteristics:

### **5.1. Operation-oriented businesses**

One characteristic of these businesses is that they link the main driving force of their long-term market relationships with the assurance of corporate function. Accordingly, factors related to stability and reliability are granted the most important role in their partnerships, i.e. exploiting the opportunity for reliable information, reliable and familiar quality, stability of supply, and time and cost savings, the opportunity for availability of lower and more stable prices, and more favourable supply and storage opportunities. Moreover, they are motivated by exploiting the implied benefits of maintaining contacts with customers, and the opportunity to employ joint developments with them or in other relationships. These businesses are not motivated by developing a common strategy with their suppliers and customers, joint problem solving, improved coordination of their processes, joint developments with suppliers, and opportunities to employ such developments in other relationships. In this regard they include customers in most areas and to the greatest extent in respect of sales processes. On the supplier side they are at the forefront in the area of inventory management since the sharing of inventory data, and the application of suppliers' inventory management are most characteristic, as this enables them to reduce the quantity of inventories produced in their supply chains, and to promote the avoidance of considerable inventory shortages or surpluses, thereby allowing for more stable and cost-efficient operation [7].

### **5.2. Cooperation-oriented businesses**

In the case of these businesses above-average values were generated with regard to every motivational factor however cooperation with their partners provides the greatest incentive to develop long-term relationships. They have an attachment to their suppliers and flexibility within the available contractual budget: this constitutes an important driving force. These businesses are motivated by creating a common strategy with their customers and suppliers and by joint elimination of problems as well as sharing the best industrial sector solutions and the use of joint developments in other relationships. They also try to coordinate processes linked to their suppliers and to exploit implied informational and other benefits of closer contacts. They are less motivated by exploiting the operational benefits resulting from partnerships. By virtue of their orientation they include their suppliers in processes in most areas and to the greatest extent but emphasis must be placed on the motivation for customer-side cooperation and inclusion, which - in their case - indicate above-average values of coordination.



### 5.3. Neutral businesses

Businesses in this grouping are characterised by “under-motivation” in their long-term market relationships, both on the customer and supplier side, i.e. above-average values for each motivational factor. Based on these values factors that promote exploitation of the implied benefits of maintaining contacts with customers and suppliers and the opportunities for cooperation with them are least motivating for their long-term market relationships. Among such relationships, development of partnerships is least motivated by the acquisition of reliable information, development of a common strategy, sharing the best industrial sector solutions and the opportunity to apply joint developments in other relationships. Examining their under-motivation in detail, it is possible to state that this appears least often in respect of factors that may be linked to corporate functioning. In compliance with the under-motivation of these businesses, their partners are included in supply chain processes to the lowest extent in all areas of coordination.

## 6. Summary

Based on the research results individual motivational clusters show a deviation in respect of different performance characteristics. Figure 4 illustrates the connection between clusters and performance characteristics.

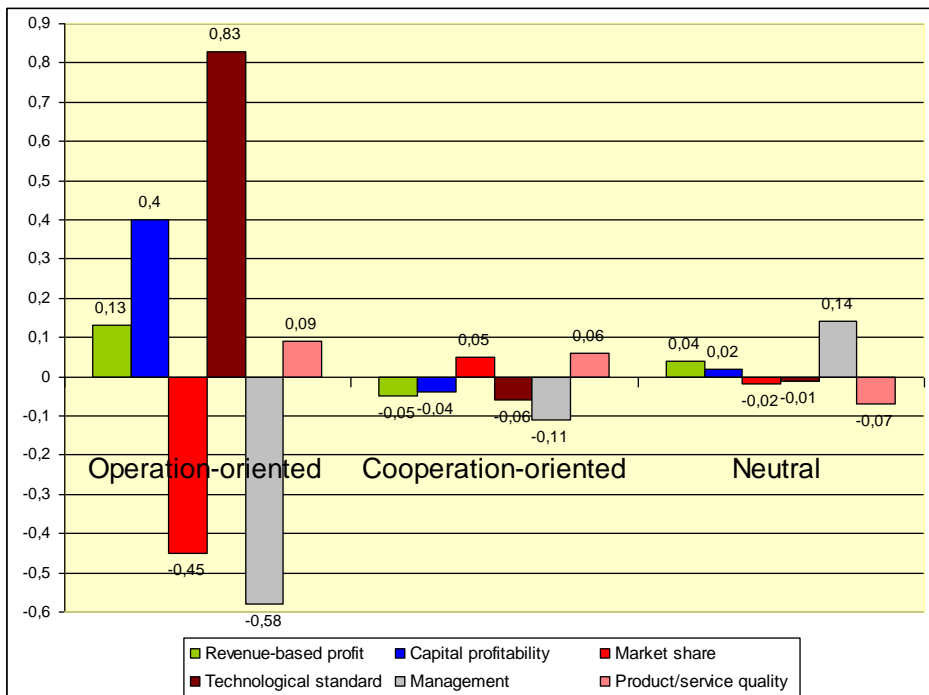


Figure 4. Performance characteristics of individual clusters (Source: personal compilation)

Performance characteristics depict the evaluations of managers in relation to the level of their own industrial sector average. According to the results operation-oriented businesses which provide a better than average performance for 4 of the 6 examined indicators reflect the top performance. In relation to the central element of their motivation, performance is outstanding from the perspective of technological standards but their product quality and financial performance - including their revenue-based profit and capital profitability - are also the best. Nevertheless, their market share is the furthest below average and the evaluation of management's work and level of grounding is easily the worst and neutral businesses provide the best result in performance of the latter factor. In respect of product quality the performance of these neutral businesses is the weakest while demonstrating above-average values for other performance characteristics. In respect of market share cooperation-oriented businesses have the best performance presumably maintaining this level provides them with an incentive in their relationships with partners but the above-average quality of their products may also provide a stimulus to motivations for cooperation with partners just like the weaker than average assessment of their technological standards and revenue-based profit.

The results of the analysis towards motivations for long-term customer and supplier relations and corporate performance therefore refer to the fact that businesses which, alongside the implementation of operational objectives, attribute greater significance to cooperation and have more favourable performance characteristics.

Finally, it may be stated that primarily the "traditional, operational functions" will continue to guide the companies in developing their long-term business relations. While the motivations for long-term business relations have diversified, in addition to operational criteria, the objectives that encourage improved exploitation of market conditions – such as the "corporate attitude towards targeting closer cooperation among partners" - have emerged.

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