

Is it an advantage or disadvantage to source materials from manufacturers

Plamena MILUSHEVA¹

¹University of Economics, Varna, Bulgaria
plammena@ue-varna.bg

Abstract. In the conditions of an unprecedented global crisis, which has affected all spheres of social, economic and political life in Bulgaria and the world, the awareness of where and from whom companies receive and will receive the raw materials, materials, goods, etc. they need is of crucial importance to prevent disruptions in supply chains. Deciding which vendor to go with is a strategic decision and requires good reasoning. In this regard, the aim of the article is, based on a study of literature sources, to derive advantages and disadvantages of working with a supplier-manufacturer and to draw conclusions based on information from a group of companies, regarding whether it is an advantage to work with a supplier-manufacturer compared to working with a middleman and if yes what are the established advantages. In accordance with the set goal, the present study targeted production and trading companies that operate on the territory of Bulgaria. The data for the study is collected during the period November 2021 - January 2022. 13 enterprises are covered, 6 of which (46%) are manufacturing and 7 (54%) are trading companies. Based on a literature review, the advantages and disadvantages of choosing a supplier-manufacturer over a supplier-intermediary are summarized. Based on collected information, the advantages of working with manufacturers have been put forward. It is noteworthy that for trading companies, the priority "lower price" when purchasing from a manufacturer is very often indicated by the interviewees, in contrast to manufacturing companies, which value most the possibility to order large quantities. With the current trends of digitization, restructuring of supply chains and the loss of trust between organizations, this type of information would serve researchers and specialists who make a choice of suppliers and take this complex decision that requires a competent and thorough analysis.

Key words: supplier, manufacturer, intermediary, distributor, supply chain, direct form of supply, material flow.

Received: 01.12.2022

Revised: 08.12.2022

Accepted: 14.12.2022

Published: 30.12.2022

1. Introduction

The suppliers of trading and manufacturing companies provide them with raw materials, materials, goods, semi-finished products and services. Both producers of the above-mentioned commodities and materials and distributors can fulfil this role. In the first case, the material flow moves directly between the producer and the consumer, and in the second, it passes through an intermediary before reaching the consumer. Accordingly, we are talking about direct and indirect form of supply to companies. The decision about the supplier's place in the supply chain (Blagoeva 2008) (Julian Vasilev & Miglena Stoyanova 2019) is made when defining the target range of potential suppliers.

Customer satisfaction is directly linked to the quality of materials, prices, order fulfillment times, quantities, etc. that manufacturers offer. On the one hand, they create the consumer value and the value of the products, and on the other hand, they carry out sales and prepare the goods for movement along the sales channels, they form single, group packaging and large cargo - handling units (Koraliev 2013).

In supply chains, intermediaries are positioned between producers (or other intermediaries) and customers, who may be producers, wholesalers and retailers, and end customers. The role of intermediaries can be played by distributors, wholesalers, intermediary agents (Koraliev, 2013), commodity exchanges. They resell to their customers goods purchased from their suppliers. The focus of these companies is on selling rather than manufacturing.

In this regard, the aim of the article is, based on a study of literature sources, to derive advantages and disadvantages of working with a supplier-manufacturer and to draw conclusions based on information from a

group of companies, regarding whether it is an advantage to work with a supplier-manufacturer compared to working with a middleman and if yes what are the established advantages.

2. Literature review

Many authors (Maikl Linders & Harold Firon 2006), (Koraliev 2013), (Wood 2017) (Sharma 2022), (Salvador 2022), etc. in specialized literature have attempted to highlight the advantages and disadvantages of working with a supplier who is a manufacturer or with a supplier who is an intermediary. According to Koraliev in the case of the direct form of supply to companies, the following is observed: improvement of the assortment and quality of supplied materials, goods, raw materials, etc.; deliveries with the exact parameters of the order, complying with the pre-agreed schedules; active participation of users in the production and delivery of materials to streamline the document flow. On the other hand, Wood believes that many manufacturers create the materials after they have been ordered, which requires more time than is necessary with the wholesaler or distributor. Linders, distinguishing between large and small customers, depending on the quantities they need, points out that most large companies often look for the opportunity to buy directly from a manufacturer, because the latter can provide them with large quantities at a trade discount. On the other hand, according to the same author, when looking for production from various small producers, they prefer to place orders with distributors who have larger quantities in stock delivered by these small producers. Small buyers with smaller needs cannot get a good deal from a large manufacturer and therefore turn to wholesale suppliers. In support of the above is Salvador's assertion that companies that need large quantities of materials can achieve significant savings if they buy from a manufacturer.

Based on the conducted research in literary sources, the following conclusions can be drawn, concerning:

Most common advantages of working with a supplier-manufacturer versus a supplier-intermediary:

- Focusing on customer needs and fulfilling orders for customized or unique products according to customer specifications.

- Buying directly from the manufacturer is associated with a lower price. Regarding this advantage, there are different opinions. There are specialists who believe that the prices of intermediaries contribute to the client's profit margin. This phenomenon is usually observed in case of small quantities of purchased materials.

- The customer has information about exactly who the manufacturer is
- Quick reaction in case of delivered defective products
- Ability of the client to exercise direct control over the quality of the goods
- Lower customer inventory costs
- Effective communication

Most common disadvantages of working with a supplier-manufacturer versus supplier-intermediary:

- Territorial distance from the client, which creates conditions for delays and taking risks related to force majeure circumstances (Stefanova, 2017; Bliznakov, 2020; Stoyanova, 2017) is collected.

- Requirement from the supplier for a minimum volume of the order below which the transaction is not possible

- Limited choice of solutions in terms of assortment of offered raw materials, materials, semi-finished products, etc.

- It takes more time to fulfil the customer's order

We believe that the following disadvantages are not included among the above-mentioned ones:

- Likelihood of order fulfilment delays for customers ordering small quantities in the presence of higher value orders

- Weak personal connections

The data for the study is collected through a 'survey study with questionnaires' in which information is collected through the personal interview method. The goal is to reach the highest possible ranks of the company. In accordance with the set goal, the present study targeted production and trading companies that operate on the territory of Bulgaria. The data for the study is collected during the period November 2021 - January 2022. 13 enterprises are covered, 6 of which (46%) are manufacturing and 7 (54%) are trading companies. Representatives of micro, small, medium and large companies are included in the survey. The conclusions that have been drawn apply to the researched enterprises. The group of production companies includes producers in the field of food industry, glass production, representatives of light industry and clothing. More than half of the trading companies carry out wholesale and retail trade, and the rest do either wholesale or retail trade.

In relation to the purpose of the research, the companies are asked what percentage of suppliers - manufacturers and intermediaries they work with. It is established that, on average, 86% of suppliers to trading firms are manufacturers. The exception is one company with 30 % and another that did not answer this question.

The remaining sources of goods are intermediaries. On average, 80% of the suppliers of the researched manufacturing companies are the manufacturers of what is purchased. Here also one company makes an exception, as only 15% of its suppliers fall into this group. The employees are asked directly "Is it an advantage or a disadvantage to work with suppliers – manufacturers versus middlemen?" The opinion of almost all participants is that it is an "advantage". An exception is one company that answered "both an advantage and a disadvantage". Confirmation of the positive opinion is also the stated intention of 29% of all surveyed enterprises to increase the share of suppliers-producers and reduce intermediaries in the next period of time. Among the remaining 71% of the companies are those that buy entirely from manufacturers. The interviewees are asked to formulate in their own words arguments for this opinion, precisely why they think it is an advantage to work with a supplier - manufacturer. In this regard, the following is established:

The trading companies pointed out the following advantages:

- Lower prices of the purchased goods: 71% of companies
- The supplier bears the transportation costs: 42% of companies
- Greater security concerning the expected quality: 14% of companies
- Quicker reaction in case of customer complaints: 29% of companies.

The manufacturing companies pointed out the following advantages:

- Large quantities of materials are offered: 50% of companies
- Lower prices of the purchased goods: 33% of companies
- Possibilities for long-term contracts: 33% of companies
- Saving time: 17% of companies
- Possibilities for deferred payment: 17% of companies
- Lower inventory costs: 17% of companies.

Among the most frequently advantages of direct procurement pointed out by the surveyed companies are lower prices compared to those of intermediaries, followed by the possibility of purchasing large quantities. Less common are benefits such as faster response in the event of a claim, the possibility of long-term contracts, the availability of deferred payment options, saving time and reducing inventory costs due to the ability of the supplier to store and fulfill orders according to customer needs. It is noteworthy that for trading companies, the priority "lower price" when purchasing from a manufacturer is very often indicated by the interviewees, in contrast to manufacturing companies, which value most the possibility to order large quantities. In connection with the obtained results, new aspects arose that are of interest to the author and may be the subject of future research. For example, what is the reason companies expect higher quality from the manufacturer compared to what is offered by the intermediary; why they have a large share of intermediaries among their suppliers, etc. In this regard, no dependence is found between the size of the enterprises according to the number of employees and the share of the two types of suppliers.

3. Conclusion

After the attempt made, based on a literature review, to derive advantages and disadvantages of working with a supplier - manufacturer or intermediary and the subsequent analysis of a group of trading and manufacturing companies, the advantages that they point out are derived and summarized. With few exceptions, we find the advantages mentioned by the studied companies among those presented in the literature analysis. With the current trends of digitization, restructuring of supply chains and the loss of trust between organizations, this type of information would serve researchers and specialists who make a choice of suppliers and make this complex decision that requires competent and thorough analysis.

4. Literature

- Blagoeva, S., Kehayova – Stoycheva, M., 2008. Supply Chains in the Bulgarian Practice. Yearbook of the University of Economics - Varna, 80, pp. 168 - 206.
- Bliznakov, M., 2020. Risk Analysis and Management in Industrial Enterprises. Varna: Iko-consult, pp. 207 - (Bibl. PhD Defended PhD dissertations).
- Glacial Wood / February 16, 2017. https://www-glacialwood-com.translate.goog/4-types-of-material-suppliers-and-their-impact-on-your-business/?_x_tr_sl=en&_x_tr_tl=bg&_x_tr_hl=bg&_x_tr_pto=sc
- Koraliev, Y., 2013. Supply Chain Management. Sofia: Economy, pp. 227-228.
- Linders, M., Firon, X., 2006. Supply and Stock Management Logistika. Saint Petersburg: Victory, pp. 279–280. <https://www.shiprocket.in/blog/vendor-vs-supplier-vs-distributor/>
- Salvador, R., https://digibuild-com.translate.goog/supplier-types-and-the-importance-of-technology-in-your-buying-decisions/?_x_tr_sl=en&_x_tr_tl=bg&_x_tr_hl=bg&_x_tr_pto=sc

- STEFANOVA, Marieta G. and STOYANOVA, A., 2017. Risk assessment during shipment and delivery of finished products by applying the requirements of the BDS EN ISO 9001:2015 standard. In: CONTEMPORARY LOGISTICS - BUSINESS AND EDUCATION Collection of papers from an international scientific and practical conference on the occasion of the 10th anniversary of the establishment of the specialty "Logistics" at the University of Economics - Varna October 19 - 20, 2017 "Science and Economics" Publishing House University of Economics - Varna. pp. 102–114. ISBN 978-954-21-0945-7.
- Stoyanova, A., Stefanova, A., Stefanova, M., 2017. Risk assessment during shipment and delivery of finished products by applying the requirements of the BDS EN ISO 9001:2015 standard. Contemporary logistics - business and education: Collection of papers from an international scientific and practical conference ..., October 19 - 20, 2017, Varna: Science and Economics. pp.102 - 114.
- Vasilev, J., Stoyanova, M., 2019. Information Sharing with Upstream Partners of Supply Chains. 19 International Multidisciplinary Scientific Geoconference SGEM 2019, Geoinformatics a. Remote Sensing, Sofia: STEF92 Technology Ltd., Vol. 19. Informatics, Iss. 2.1, 2019, 329 - 336., ISSN(print) 13142704, ISBN(print) 978-619740876-8 / Scopus.