



## A VERIFICATION OF ADVANTAGES AND DISADVANTAGES IN PARTNERSHIP RELATIONS

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**Abstract:** In the paper there were taken into consideration the potential advantages and disadvantages that are implications of cooperation in distribution channel. The particular attention was focused on partnerships and there was made a research on the clothing market. There was made survey research among representative group of enterprises of clothing industry. On that base there were indicated differences between effects that occurred in both: contractual cooperation and partner relationships.

**Keywords:** cooperation, partnership relations, distribution channels

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### Introduction

Today's market demands of enterprises create well-functioning whole supply chains make it impossible for even the largest companies to prosper independently. It is not possible to a single company to compete effectively with the extended enterprise (supply chain), which through enhanced cooperation, achieves synergistic effects that the entities cooperating only in the transactional sphere are not able to achieve (Rutkowski (red.) 2005, p. 42; Bubel 2016, p. 66). Companies become innovative not only through their own organizational capacity, but also through external contacts with their counterparts - partners. Actions to improve communication, collaboration and coordination among the various actors in the network are a prerequisite for creating and developing new products and services (Górka 2015, p. 28). Companies that are innovative in the market, or want to be innovative, need to their development a cooperation with the environment. (Seroka-Stolka et al. 2017, p. 133). The purpose of the work was to verify the occurrence of positive and negative effects, which are most often seen in the partnership. It is noted that both the main benefits and the risks, and what follows - the main negative effects of establishing partnerships in distribution channels are the same for businesses of different industries. That is the reason why the author addresses this topic to the clothing industry.

### The benefits of partnerships in distribution channels of clothing sector

In the literature of the subject there can be found many information about the effects that companies may achieve by working with other entities in distribution

channels. It is typical that cooperation based on partnerships or relationships similar to the partnership brings benefits to both parties of the market exchange - to the recipients and to the suppliers. On the perspective of recipients, this cooperation reduces uncertainty about costs of materials/products, quality, delivery periods and response rates. From the perspective of suppliers, this type of cooperation brings following benefits (Ciesielski, Długosz (red.) 2010, p. 51-52): reducing the uncertainty of the suppliers connected with market risk, understanding the needs of end-users and product specifications. On the other hand, there can be indicated also advantages from cooperation too (Jelonek 2012, p. 39-53).

The other researchers (Maloni, Benton 1997, p. 419-429) have pointed out a long time ago, that the biggest benefits of supplier and customer collaboration are: to provide higher quality products and lower transaction costs through economies of scale, reduced administration and formalization, combined efforts, launching tasks integration and coordination, and quantitative discounts. The authors have also stressed that companies will be encouraged to cooperate, if the market in which they operate is characterized by stability and balance of supply and demand (Maloni, Benton 1997, p. 419-429).

Moreover, the partnership allows (Ciesielski, Długosz (red.) 2010, p. 52; Nowakowska-Grunt, Mazur 2016, p. 43):

1. Reducing the uncertainty of both parties' efforts to increase communicability, distribution of reward and operational risk, reduction of opportunism, common goals and expectations,
2. Achieving savings from economies of scale by procurement, production, transport and administration costs, reducing change costs, integrating processes, technology and increasing resource use,
3. Increased responsiveness through joint development of both product and process, faster access to markets, and improved time cycles.

Similar benefits are mentioned by others (Harrison, van Hoek 2010, p. 354), stating that the main benefits of partnering systems are savings, resulting from the limited need for negotiating and concluding separate contracts, and controlling the reliability of the supplier, also in the sphere of supply quality. In addition, this arrangement affects not only the distribution channel, but also the entire supply chain. Partners coordinating their operations, achieve strategic advantages such as shortening production cycles, completing orders and procurements, and creating a stronger foundation for long-term investment. On the other hand, as the benefits of partnerships, where partners use electronic communication, the authors indicate: greater product availability for the consumer (which has a direct impact on increased sales of the product) increased service levels in the distribution channel, reduced costs by reducing inventory and waste, better integration of interorganizational processes (simplification, acceleration, standardization, increased predictability), and greater involvement of partners in achieving mutually agreed goals and plans for the entire channel (Harrison, van Hoek 2010, p. 339).

M. Stajniak describes in greater detail the benefits of cooperation. As positive changes occurring in the supply chain through partnership, he lists (Stajniak et al. 2007, p. 151):

- significant reduction of delivery time,
- reducing disruptions in delivery,
- improvement of quality,
- decrease in supply chain costs,
- lowering the level of damage,
- shortening of cash flow,
- ability to plan and implement strategies with partners in foreign markets,
- the ability to shaping competitive prices.

There are also advantages that occur in an economic and financial sphere (Mesjasz-Lech 2016, p. 121-132).

From the point of view of the clothing industry, the most important benefits of working with partners in distribution channels might be:

- overcoming the constraints connected with realization of effective, wide-ranging marketing or physical activities for distribution of companies products, which is especially important for the small apparel businesses that constitute the largest group of entities in the market,
- time savings, due to the limited need for negotiation and signing the contract - the clothing products even in the same collection may differ sometimes in the use of extras, which undoubtedly affects their price, but the cooperating companies already have a certain "base" of the contract, which allows them to focus on the details of the order,
- greater product availability (on store shelves), which has a direct impact on increased sales of goods, and at the same time reducing costs by constraining inventory and waste levels - this is possible due to the proper distribution of goods in a given shop network,
- increase of the level of service in the distribution channel. This is possible due to the better exchange of information between its participants acting on the basis of partnership,
- better realization (it also means a significant reduction in delivery time and reduction in supply disruptions) by subcontracting processes directly related to garment manufacturing to partners in distribution channels such as logistic centers, which realize a significant part of the tasks, i.e. labeling, ironing, sales and others,
- acquiring valuable commercial, technical and administrative information from partners,
- the ability to shaping competitive prices through more efficient logistic handling and lowering the level of damage.

Obviously, not all of these benefits may occur, some of which may appear over longer distance of time than others, and their range may vary widely.

### **Risks in partnerships in the context of clothing distribution channels**

Nevertheless, the results achieved by partnering are not identical for each partner agreement, and even for individual partners in the same network. They depend on many external and internal factors which influence companies

undertaking this cooperation. Additionally, in a dynamic environment, changing some of the terms and motives of partners can make the relationship ineffective even for both parties. Another threat to partnerships is the situation of strong dependence of companies, as in the case of supply chains. At a time when high levels of interdependence arise from the market position of partners, product uniqueness, high cost of changing the supplier / customer or the lack of other suppliers offering the same or substitutable solutions, and these factors affect only one partner, it falls into a certain type a trap associated with the crushing tender power of the partner (Witkowski 2003, p. 39).

An establishing relationships with strong relations between partners also carries many risks. The following threats are addressed to companies that cooperate on a partnership basis (Harrison, van Hoek 2010, p. 354):

- the inability to estimate accurately the value of elements of a qualitative nature, eg. design work,
- in the decision-making process leading to the choice of a partner, it is necessary to gather exhaustive, very detailed information about him,
- the risk of disclosure to foreign entities, including competing companies, confidential information,
- the danger of limiting providers to several major or even one.

It is worth noting that in every distribution channel there is a leader who connects the other participants and imposes some of their solutions in some way. Is it possible to talk about partnerships, when a leader in chain may require more from other partners, than others from the leader? All types of partnership are a manifestation of competition with other market participants not belonging to a given arrangement, but also between partners in one network, to a certain extent, occurs rivalry. In particular, partnership based on the exchange of knowledge, technology or knowledge of the market creates a negotiating struggle (Ciesielski, Długosz (red.) 2010, p. 54). Obtaining a certain range of information from a partner also makes it necessary to share some or all of the knowledge or skills with partners. Therefore, partnerships also have some limitations, especially for non-leaders or entities which haven't got strong position in the channel. The most important ones seem to be (Rutkowski (red.) 2005, p. 270-274):

- the lack of possibility of concluding contracts with other partners, ie exclusivity of the action for the partner in the distribution channel; This barrier, however, is compensated by the advantage that partners can create with already a regular consumer/partner,
- some dependence on the partner and his financial and technological results,
- uneven power of partners, which makes weaker partners surrendered to the stronger.

As noted (Benton, Maloni 2005, p. 3-6), the distribution of power in the distribution channel is not evenly and it depends on the position of the partners. In the case of the relationship between the manufacturer and the supplier, the economic strength is more on the side of the manufacturer, but between the manufacturer and the dealer is more uniform. It is obvious that the constant

maintenance of too strong power by one distribution partners creates and enhances a barrier that prevents from achieving the integration based on the principle of win-win (Ciesielski, Długosz (red.) 2010, p. 55). On the other hand, vertical integration of marketing systems (VMSs) and vertical integration of partners can be beneficial, for example by taking over some of the features of distribution channel participants.

In addition, some channel distributors strive for greater independence, which although in some cases is justified, the implementation of this process can endanger coordination that ensures overall realization, efficiency, development and, over a longer period of time, even the survival of a given channel. That is why all participants in the distribution network must work together to produce a comprehensive quality of distribution and high quality customer service that becomes a product delivered throughout the channel (Stern, El-Ansary, Coughlan 2002, p. 50).

However, the risk of conflicts between partners in distribution channels cannot be excluded. The clothing industry is no different. It is noted that there are some problems in the long run of the partnership. For example, a garment manufacturer who entrusts an outside company with the design or development of a product is released from some of the investment burdens. Thus, cooperation with such an external company leads to greater engagement in the creation of new products, which results in better use of its ability to reduce costs and improve products. As a result, however, the base company – the manufacturer – is at greater risk because of the dependence in the field of design work from the supplier, which under pressure from the competition may be inclined to opportunistic behavior. Effective and continuous communication between partners is a necessary factor in the quality of cooperation.

### **Effects of partnership in the light of the research**

On the basis of the survey, there were verified whether positive or negative effects appearing in the distribution channels of the researched enterprises. In addition, the results obtained from all entities were compared with the results gathered from the entities cooperating under the partnership principles. More than 100 entities belonging to the clothing industry, having their location in the Silesian province, participated in the survey. The selection of subjects for the study was made by means of random sampling and the verification of the representativeness of the sample was carried out by the use of a median test.

The following statistical hypotheses were used to examine the representativeness of the sample:

$H_0$  – *The sample of garment enterprises in Silesian Region has a random character,*  
on the alternative hypothesis:

$H_1$  – *The sample of garment enterprises in Silesian Region is not random.*

Because of the condition that  $n_1 > 20$  or  $n_2 > 20$ , the empirical value of the Z statistic calculated according to the pattern given above was 1.64. Because for significance level  $\alpha = 0,05$  the critical value  $u_\alpha$  for a two-sided test, read from the normal distribution table is 1.96, therefore: ( $U = 1,64 < 1,96 = U_\alpha$ ), there is no reason to reject the hypothesis  $H_0$ , that the sample is random.

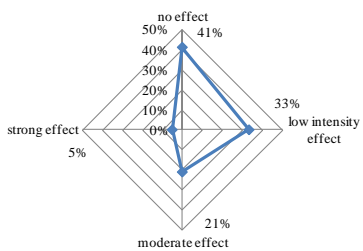
In the survey there were posted the questions concerning the occurrence of various types of effects (both positive and negative) that were observed among the surveyed enterprises. There were a total of sixteen effects and there was space for additional effects that were not included in the questionnaire. Respondents were able to select responses from 0-3, where 0 meant no effect, 1 – low intensity effect, 2 – moderate effect, and 3 – observed strong effect.

Due to the volumetric framework of the present study, there were analyzed only selected effects. However, there is made the distinction between the results obtained from the population and the results obtained from those which have partnerships. The observed benefits were: reducing the risk of activity (*Figure 4, Figure 10*), reducing the number of stocks in the surveyed companies and their distribution channels (*Figure 5, Figure 11*), improving brand recognition (*Figure 6, Figure 12*). Negative effects of the company are: dependence on the partner (*Figure 1, Figure 7*), increased risk of disclosure of important strategic information to competing companies (*Figure 2, Figure 8*) and limitation of contractual freedom with other partners (*Figure 3, Figure 9*).

The most commonly indicated effect by the surveyed enterprises, was the reduction of business risk – this situation occurred in 80% of the surveyed entities and in all which cooperate on the basis of the partnership. Moreover, in 50% of the respondents, the effect was moderately significant and among the companies cooperating in partnerships it was 68%. However, only 6% of respondents indicated that the magnitude of the reduction in business risk was high and the percentage of partners was 10%.

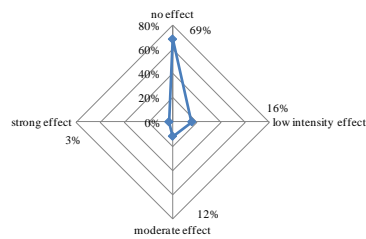
In turn, the responses to improving brand recognition among all respondents and partnerships were significantly different. This effect was not reported in only 3% of the partners, while the percentage of companies which haven't got partnerships and which reported no effect was 26%.

The effect of reducing inventory in the company and distribution channels occurred in 72% of the total surveyed companies, but a large majority (69%) indicated a weak and moderate effect. Quite similar results were noted in this regard among companies cooperating on a partnership basis. In this part of the study group the effect was 81% and 74% defined its strength as weak or moderate.



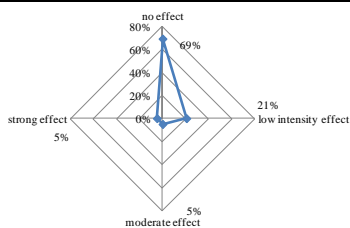
**Figure 1. Dependence on a partner**

Source: Own study



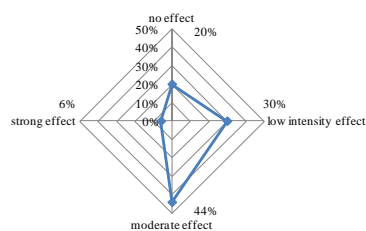
**Figure 2. Increase the risk of revealing important strategic information to competitors**

Source: Own study



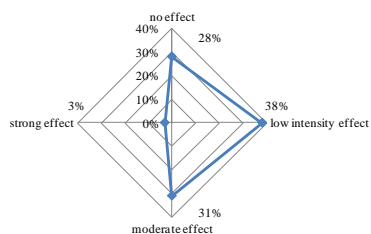
**Figure 3. The limitation of freedom for making contract with other partners**

Source: Own study



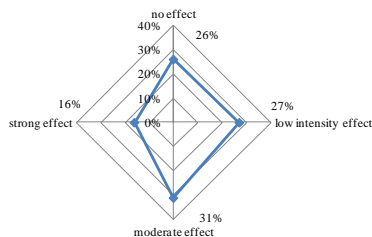
**Figure 4. The reduce of business risk**

Source: Own study



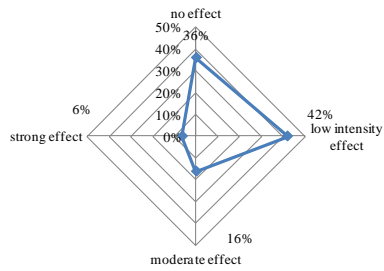
**Figure 5. The reduction of inventory in the enterprise and distribution channels**

Source: Own study



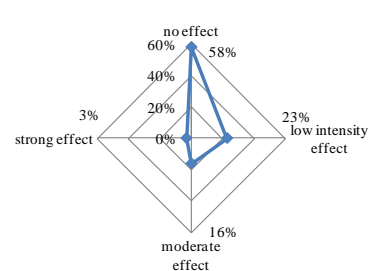
**Figure 6. Improved brand recognition**

Source: Own study



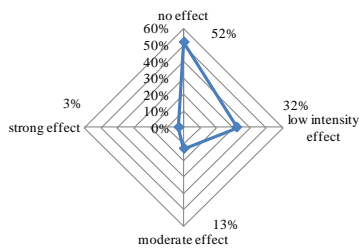
**Figure 7. Dependence on a partner in partnership**

Source: Own study



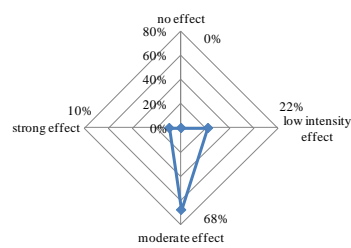
**Figure 8. Increase the risk of revealing important strategic information to competitors in partnership**

Source: Own study



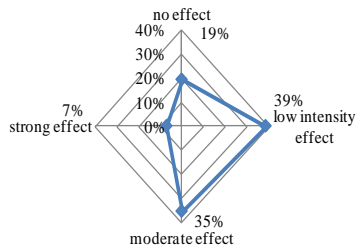
**Figure 9. The limitation of freedom for making contract with other partners in partnership**

Source: Own study



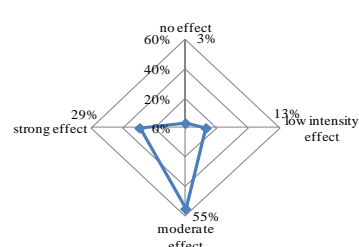
**Figure 10. The reduce of business risk in partnership**

Source: Own study



**Figure 11. The reduction of inventory in the enterprise and distribution channels in partnership**

Source: Own study



**Figure 12. Improved brand recognition in partnership**

Source: Own study



Considering the negative effects of partners' interaction in distribution channels, it is important that they did not occur in the majority of the population in question or have occurred but to a very small extent. For example, the effect of partner dependence has been observed by 59% of all respondents, and 33% indicated a weak effect of this effect. On the other hand, 64% of companies with partnerships reported that effect didn't occur, and 42% indicated that its strength was small.

In turn, 69% of the surveyed entities did not notice the increase of risk of disclosing relevant information to competitors, while the percentage of non-growth-enhancing companies was down by a few percentage points and amounted to 58%.

The threat of restricting the freedom of contract with other entities did not occur in 69% of the respondents. The percentage of companies cooperating in partnerships was much lower and amounted to 52%, but this is more than half of the respondents. Moreover, 32% of these companies indicated that this effect was minor.

## Conclusions

The issue of cooperative effects reported by companies in distribution channels is very complex. Existence of specific effects depends on a number of factors, such as the type of relationship, the type of entity with whom the business cooperates, the scope of cooperation and other aspects. In the literature you can find many descriptions of the effects of cooperation, including partnerships, which may appear at different levels of the supply chain. Some of them were presented in the theoretical part of this paper. In order to confirm the literature studies, a survey was conducted, and some of effects were presented in this article. The differences in the indications of all companies and the indications of companies cooperating on a partnership basis are important issues for gaining certain benefits or increasing risks. It has been proven that there are indeed such differences and in some cases they are significant. One example is the reduction in the risk of activity that occurred in 80% of the total population. However, among the cooperating companies in the distribution channels, this effect was observed in all respondents. On the basis of the above, it is considered that the purpose of the work has been achieved.

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## WERYFIKACJA KORZYŚCI I ZAGROŻEŃ W RELACJACH PARTNERSKICH

**Streszczenie:** W artykule poruszono tematykę potencjalnych korzyści i zagrożeń wynikających z podejmowania współpracy w kanałach dystrybucji. Szczególną uwagę skupiono na relacjach partnerskich, a problematykę odniesiono do konkretnej branży – odzieżowej. Zaprezentowano wyniki badań ankietowych przeprowadzonych na reprezentatywnej grupie przedsiębiorstw przemysłu odzieżowego i wykazano różnice w osiągniętych efektach ze współpracy, tzw. kontraktowej oraz partnerskiej.

**Słowa kluczowe:** współpraca, relacje partnerskie, kanały dystrybucji