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What factors determine the number of trading partners?

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### Abstract

Most studies on buyer-supplier relationship have focused on the nature of interfirm relationships from the viewpoint of the assembler of managing suppliers as partners. The flip side of this relationship, that is, the supplier's customer strategy and performance, has rarely been considered or examined. The purpose of the paper is to provide a simple game theoretical model explaining buyer-supplier relationships and show what factors determine the number of trading partners. We investigate buyersupplier relationships from the viewpoint of suppliers. We show that when the supplier is able to determine the number of trading partners, the optimal number of trading partners is small for the supplier if the supplier's bargaining power with its trading partners is weak, the economy of scope concerning the supplier's variable costs is significant, and its sunk investment has a firm-specific nature. The result might be consistent with the formation of Japanese buyer-supplier networks.