

Improving Vendor-distributor Relationships of an ICT Case Distributor with Vendor X account

Linh Vu

Bachelor's Thesis
Degree Programme in
International Business
2015



Degree programme in International Business

<p>Authors Linh Thuy Vu</p>	<p>Group GLOBBA13</p>
<p>The title of your thesis Improving vendor-distributor relationships of an ICT case distributor with vendor X account</p>	<p>Number of pages and appendices 54 + 4</p>
<p>Supervisors Hanna Harilainen, Soile Kallinen</p>	
<p>The aim of this thesis is to firstly, give reasons as to why vendor relationship management with vendor X is important to the development of procurement and, in the long term, the sustainability of growth at the case company, an ICT case distributor. Secondly the thesis introduces a theory framework and aims to establish a vendor relationship management system.</p> <p>In this thesis, a theoretical framework linked to the procurement maturity model and the stage of supplier integration supports the evaluation of the current situation at the case company. Information on the distributor business model and vendor relationships in distribution provides insights into distribution, the industry that the case company is working in. The SAME (Select-Align-Measure-Exchange) framework, product portfolio and CMROWC (contribution margin return on working capitals) theories provide guidelines for the case company to establish and pursue long-term relationships with vendors.</p> <p>The thesis is based on qualitative methods. Data was collected by interviews with three interviewees at the case company and secondary data included books, reports and the author's observation during an internship period.</p> <p>The findings indicate that the current procurement at the case company is between "cost driven" and "integration" models, the company is in the "broadline" distributor segment and its relationship with vendor X is between "Going steady" and "Living together". Based on the theory of the SAME framework, the product portfolio and CMROWC, recommendations are given to develop the current situation.</p>	
<p>Key words Procurement development, vendor relationship, supplier relationship management</p>	

Table of contents

1	Introduction.....	3
1.1	Case Company.....	3
1.2	Research Question.....	4
1.3	Demarcation.....	6
2	Definition.....	7
3	Theoretical Framework.....	8
3.1	Purchasing Function.....	8
3.2	Supplier Relationship Management.....	10
3.2.1	Stage of Supplier Integration.....	10
3.2.2	SAME Framework.....	12
3.3	Distributor Business Model.....	14
3.3.1	Types of Distributor.....	14
3.3.2	Product Portfolio.....	17
3.3.3	Contribution Margin Return On Working Capital (CMROWC).....	19
3.4	Vendor Relationship from Distributor Perspective.....	20
3.5	Author's theory framework for Case Company.....	23
4	Research Method and Vendor background.....	25
4.1	Research Method.....	25
4.2	Vendor X.....	26
5	Findings.....	29
5.1	Purchasing Maturity Model.....	29
5.2	Type of Distributor.....	37
5.3	Leverage/Bargaining Power.....	39
5.4	Stage of Supplier Integration.....	40
6	Challenges.....	44
6.1	Challenges in Management.....	44
6.2	Challenges in Operation.....	45
7	Recommendation.....	47
7.1	Implementation of SAME Framework.....	47
7.2	Implementation of CMROWC.....	49
7.3	Implementation of Product Portfolio.....	50
7.4	Vendor Negotiation and Supplier measurement.....	52
8	Conclusion.....	53
	Bibliography.....	55

Appendices	57
------------------	----

1 Introduction

With the growth of mass production, comes the huge increase in volume of goods and merchandise all around the world. Therefore, the work for distributor in retail arena has increased and evolved over time rapidly, tailored to specific segment of consumers. Beside all tasks and functions, the ultimate goal of any distributor company is taking on various tasks to distribute goods to consumer while retail operation remains profitable.

Nowadays, distribution business has become more competitive with new players joining the market frequently and the profitability is directed to be sustainable rather than short-term win. This came down to long-term strategy implemented from management to operation such as developing procurement by improving supplier/vendor relationship management.

Therefore, there are researches related on strategy to develop procurement and improve vendor/supplier relationship in management. However, with different case company, industry, and country come different perspectives, analysis, recommendations and results.

This thesis aims to analyse current situation of procurement and vendor relationship with one key vendor in an ICT distributor in Vietnam, then giving suggestion to improve this partnership.

1.1 Case Company

According to this thesis's commission agreement, both the case company and vendor's identity stay anonymous and the author does not have access to obtain or use actual number from business operation. However, information revealed during interviews with company's personnel can be mentioned and used as primary data.

The case company in this thesis is a Vietnamese trading company in distributor role. The company specialises in distributing Information and Communication Technology (ICT) products from of popular brands. The products are namely CPU,

laptop, mobile phone, server, cloud service, computer software, hardware and so on.

The case company operates under a corporation that specialised in building solution and product in ICT field. From now on, this corporation would be referred as “the Corporation”. The case company were established officially over 10 years ago but has had over 20 years of experience in distribution; and has seen gradually and constantly rise in sales with margin over 9% annually. (Mr T. 02.10.2015)

The case company is currently in top 5 ICT distributors in Vietnam, with 60 official vendors who are world famous ICT manufactures: Microsoft, IBM, HP, Cisco, Asus, Acer and so on. Among those, it has strategy to remain a strategic alliance with Vendor X and contributes to promote Vietnam as one of a key location for X’s operation. (Appendices 3, f.)

The thesis author has worked as intern in this case company and has seen the need to improve the current relationship with its key vendor - X. Thus, this thesis would serve the purpose of giving recommendation and direction toward such goal. Management board has approved this topic and commission agreement has been signed between two parties.

1.2 Research Question

The research question is designed and formed as:

How to improve the vendor-distributor relationship with Vendor X in an ICT case company?

It was divided into investigative questions (IQs) as follows:

IQ 1. Why the company need to improve its vendor relationship with Vendor X at the moment?

- How is the procurement managed?
- How is vendor relationship managed?

- How is the relationship between Vendor X and the company?

IQ 2. What are the key developments in vendor management?

- What are main challenges in management perspective?
- What are main challenges in operational perspective?

IQ 3. What recommendations to improve this vendor relationship?

Table 1. Overlay matrix

Investigative question	Theoretical Framework	Methods	Results
1. Why the company need to improve its vendor relationship with Vendor X at the moment?	Maturity of Procurement Stage of supplier relationship management. Vendor negotiation	Interviews, observation, desktop study	Situation of procurement management. Situation of Vendor X account. Company leverage in relationship
2. What are the key developments in vendor management?	Maturity of Procurement Stage of supplier relationship management. Product portfolio	Interview, observation, desktop study	Challenges in management levels Challenges in operational levels
3. What recommendations can be made to improve this vendor management?	S.A.M.E framework. Product Portfolio CMROWC Vendor negotiation and supplier measurement.	Interview, desktop study, observation	SAME implementation in combination with Product Portfolio and CMROWC. Actions to increase negotiation power.

1.3 Demarcation

This thesis focuses on improvement in vendor-distributor relationship with Vendor X from strategy perspective rather than detail operational activity. However, recommendation on actions are given as combination of both management and operation level.

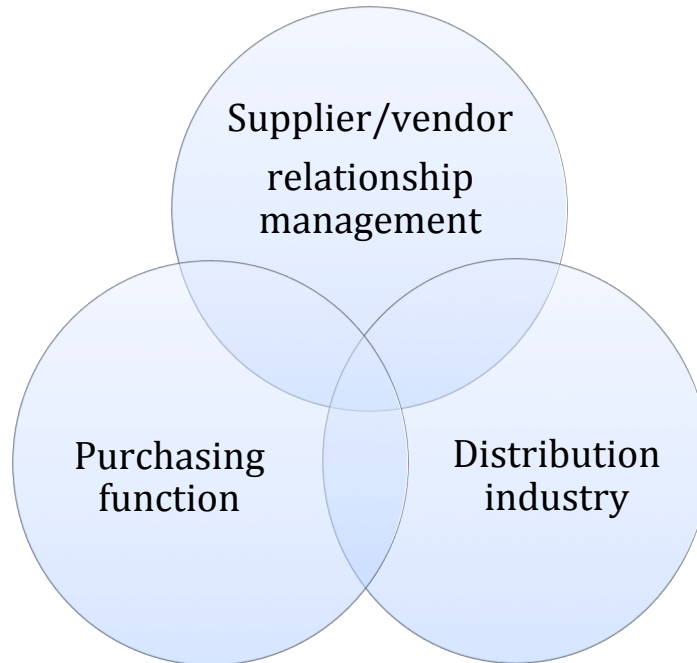


Figure 1. Three topic areas in this thesis

The main focus is in supplier/vendor relationship management as it is explicitly presented in research question. While the Purchasing function area gives rationality for why the case company should develop its current relationship management. And all of these fall in the context of Distribution Industry.

The intersection of these three areas is where the research topic located. In section 3.5, figure 5 would demonstrate in more clearly how the thesis topic is demarcated by these three areas.

2 Definition

Below is collection of definitions that will be mentioned and discussed frequently.

Purchasing is defined as

The management of the company's external resources in such a way that the supply of goods, services, capabilities and knowledge which are necessary for running maintaining and managing the company's primary and support activities is secured at the most favourable conditions. (Weele 2010,8.)

Procurement is defined as

All activities required in order to get the product from the supplier to its final destination. It encompasses the purchasing function, stores, traffic and transportation, incoming inspection and quality control and assurance, allowing companies to make supplier decisions based on total cost of ownership, rather than price. (Weele 2010, 6.)

Supplier relationship management is defined as

An approach between two parties to work towards the integration of the organisations, where that integration will bring greater value for money for the customer and enhanced margin for the supplier and will assist in meeting the strategic objectives of both. (Lysons & Farrington 2012, 218.)

Vendor is one type of supplier, the party in the supply chain that makes goods and services available to other links. The term vendor is typically used to describe the entity that is paid for the goods that are provided, rather than the manufacturer of the goods. A vendor, however, can operate both as the supplier of goods (seller) and the manufacturer. (Investopedia, 2010.) The use of "Vendor" and "supplier" would be considered the same in this thesis.

Distributor is regarded as an intermediary that services other tier in a supply chain; their role includes both customer and supplier. They are customer to vendor and supplier to final-tier players. All in all, distributor role in supply chain is being a channel to the market for supplier/vendor and demand fulfilment for buyer (final-tier player like retailer). Their position is special that it leads to some special features in relationship with vendor. (Dent 2008, 25-29.) The next part of the thesis would focus on what those features are.

3 Theoretical Framework

This chapter cover all theories used in the thesis. Purchasing maturity model, stage of supplier relationship and SAME framework are theories applied generally, industry-wise. While Distributor type, Product portfolio and Contribution margin return on working capital (CMROWC) are theories particularly in Distribution fields.

Section 3.5 would explain how the author establishes a very own theory framework by coordinating and adapting theories above to analyse in the case company.

3.1 Purchasing Function

Nowadays, the purchasing function is ever important, with averagely over 50% of cost of goods sold are from purchasing value (Weele 2010,12). Of course, the percentage varies from industries, however, the essential of an effective structured strategy in purchasing department cannot be stressed enough.

The number of strategies set for purchasing activities is not small; they are also applied and modified to fit in different company cases and industries. One core meanings guideline is that an effective purchasing strategy has to align with the company/organisation business strategy, which is supported by all other functions, namely sales, marketing, R&D, Human Resources. (Weele 2010, 185-186.)

For instants, if a company pursuits cost leadership, meaning the focus is in cost reduction in every aspects, then the purchasing main mission is to drive spending to minimum by low price material sourcing, economic of scale is utilised when negotiating with supplier to drive price down. In another hand, when the strategy is differentiation, meaning there is less attention to cost, but more in quality and service. Therefore, purchasing would focus ideally on selecting supplier with short lead-time and high quality materials. (Weele 2010, 185-186.)

Appendices 1 describe the maturity model - a result of many researches on the development stages of procurement (Mena, Hoex & Christopher 2014, 10-11). Keep in mind that procurement is a wide term that covers purchasing.

For the purpose of this thesis, the author wish to understand how the company moving from one stage to other, particularly from “Cost driven” to “Integrated”. Feature of each stage would be discussed in more detail below.

When procurement in “Cost-driven” phase, the ultimate goal is easily spotted: minimise cost and expenses. When entering this phase, central purchasing department are established to utilise the benefit of economics of scale to reduce cost: this means negotiating better deals with supplier, smoothing the procurement process from when customer place their demand till when the materials needed arrive in inventory. Those practices are result from somewhat intentional strategy but it may not align with the organisation and may vary with different product/materials account. (Mena et al. 2014,12.)

At this phase, purchasing is managed as a specialist function. Personnel, who are mostly purchasing specialist are assigned for a product/materials groups, concentrate on negotiating and getting a good deals, which cover the materials price, delivery time and contract terms. (Weele 2010, 69-70.) All in all, the purchasing function importance stresses on adding dollars to the bottom line.

The opinion that every dollar saved in purchasing is one dollar adding to the bottom line is true to some extent. But now, with the development and mature in some industries and regions, purchasing is not only about saving cost but also non-financial issue like risk, innovation and development. It is about contributing to sustainable competitiveness by, for instant, create and maintain long-term relationship with partner like supplier/vendors; which is the next stage of the maturity model: Integrated procurement. (Mena et al. 2014,12.)

“Integrated” procurement is when it had set a clear strategy that is well linked and support the organisation’s to focus on value creation rather than just cost. It is translated into integrating and aligning both strategy and process with stakeholders: other internal (sales, marketing, accounting) and external functions (consumer and supplier). With other functions, this stage aim to harmonise the purchase process cross-functionally; which could be able by organising such process around the internal “customer”. More important, with supplier, the emphasis is on solving problems like driving the total life cycle cost down and not just the unit cost of ma-

materials/products, via calling for key suppliers as joint problem solver. Therefore, building close and long-term relationships with key suppliers would be a prerequisite for the company to shift to value creation goals. (Mena et al. 2014, 12-13; Weele 2010, 70-71.)

The benefits of having strong relationship with vendors come in main aspects. The company has better position and can be prioritised during critical period of time. The company also have gateway to supplier’s information, which can drive business development for both side. It can also help company tap into the supplier network and utilise supplier connection to create business idea and expand current business line. Another aspect is that it brings a sustainable competitive edge, something that the competitors cannot easily imitate. (Mena et al. 2014,4.)

3.2 Supplier Relationship Management

The benefit of a strong supplier relationship is clear. In order to build such relationship, it is essential that the buyer know where they stand with their supplier at the moment. Stage of supplier integration model is one popular tool to use.

3.2.1 Stage of Supplier Integration

Johnson and Tinsley’s stage of supplier integrations, referenced here by Lysons & Farrington (2012) is a popular theory and demonstrated in table 2. Among five stages, the author would like to study in detail on two continuous stages: “Going steady” and “Living together”.

Table 2. Five stages of supplier integration adapted to Lysons & Farrington (2012)

	One-night stand	Regular date	Going steady	Living together	Marriage
Nature	Competitive leverage	Preferred suppliers	Performance partnerships	Strategic alliances	Co-business integration

Explanation	Bids, tenders and tactical negotiation on an ongoing basis	Proven track record in quality, delivery and cost, hence smaller supplier base, less frequent bidding	Benchmarking still applied to assess value but now joint supplier and purchaser fusion teams with specific improvement objectives, some job rotation	Single sourcing and joint investment strategies interdependence becomes the driving force	Core competences totally aligned, such that rationalisation will release added value
-------------	--	---	--	---	--

“Going steady” is the stage when there are certain patterns and business practices between buyer and seller in quality, cost/pricing, contract term, delivery time. The relationship might have been established for years. Buyer have a priority to seller and vice versa. Contracts are typical one-year and automatically renewed unless some changes are added. Buyer receives marketing materials or training from seller when a new product are introduced. And seller can easily introduce and suggest new product/materials and get approvals from buyer. Certainly some objectives are discussed and specified between two parties. Their relationship are both promoted and visible to publicity as a marketing tactics. (Arlbjørn 2010, 263-264; Lysons & Farrington 2012, 222.)

“Living together” is the stage when buyer choose to buy a certain product/materials from only a supplier, so the priority is moved up to a higher level. The buyer-seller partnership is consolidated by investing significant resources and become more interdependent. As a result, there are programs, projects or even joint company to work on their collaboration, solving cross-functional problem, reducing cost, creating new products/product lines and optimising the supply chain; all are done with common objectives. These programs which based on trust and loyalty, act as driving forces forward the business by adding intangible value for both parties. (Arlbjørn 2010, 263-264; Lysons & Farrington 2012, 222.)

3.2.2 SAME Framework

When moving from one stage to another in Supplier stage of integration, there are structures that help buyer to accomplish such change, in other words, enforce a stronger supplier relationship management. One of them is the SAME framework developed by Procurement Intelligence Unit (PIU) in 2011, referenced here by Mena et al (2014)

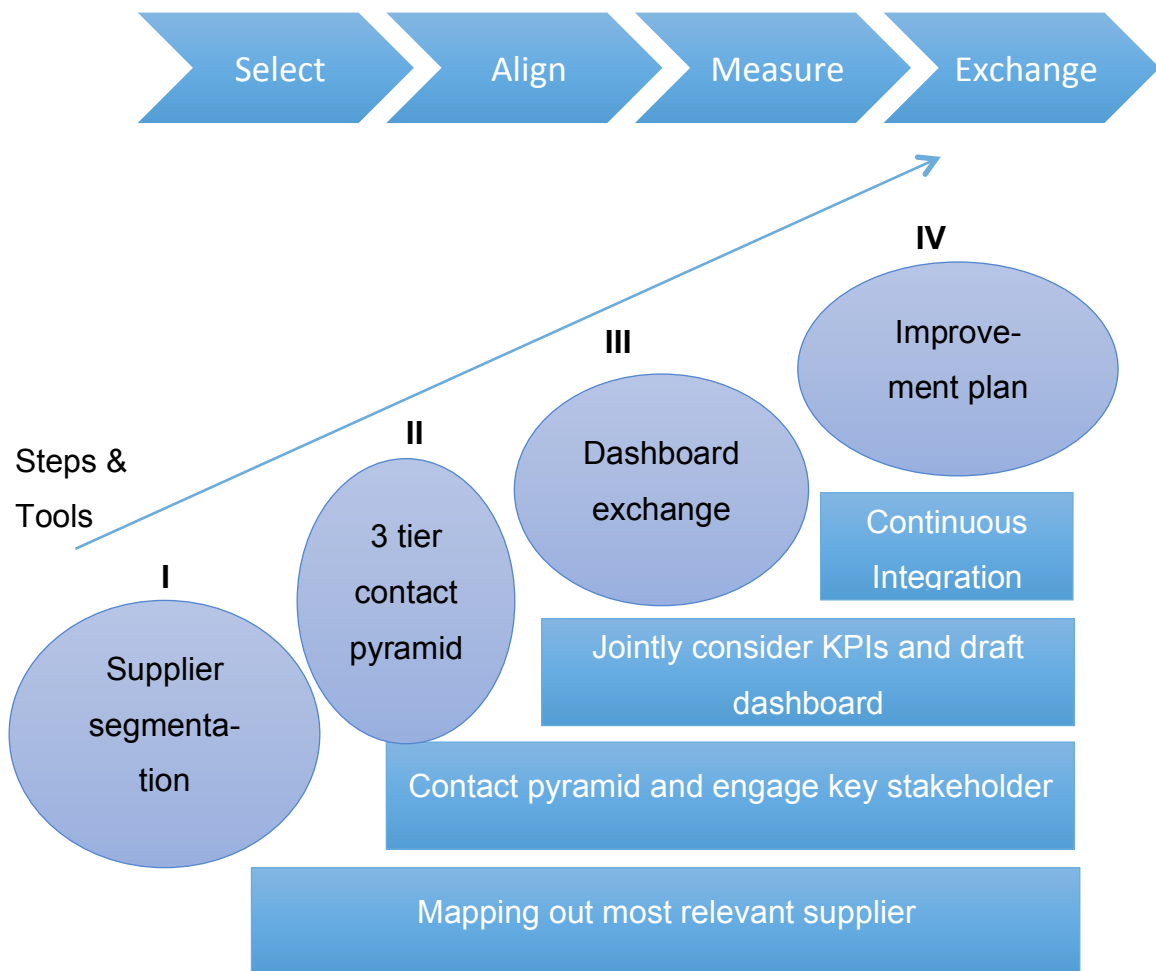


Figure 2. SAME framework to build Supplier Relationship framework adapted to Mena et al (2014)

S.A.M.E stands for four basic steps to implement Supplier Relationship Management (SRM): Select key suppliers, Align organisations, contact personnel and relationship governance, Measure performance with a scorecard exchange, Exchange improvement opportunities and efforts. (Mena et al. 2014, 66.)

The first step is selecting key suppliers. Each company have a limited resource: time, money or personnel or all of them. And in reality, it is nearly impossible to have all suppliers as key vendors, if so; the meaning of close relationship would be missed. As a result, it is essential to select a few key suppliers to establish true collaboration with the sense of intensity and exclusiveness. (Mena et al. 2014, 66-69.)

The second step is aligning organisationally. The question is then what to align? Those are contacts, in operational, relationship and sponsorship level. In operational contacts, the specific person/team is appointed to manage day-to-day activities in project/program and business operation. In relationship level, interactions stay in business period timeframe involving with reviewing the progress of integration, or working on new solution's step. In the last and highest level, the frequency of interaction would be less, as personnel involved are mostly senior-top leader. They are given responsibilities to sponsor, oversee and promote this collaborative relationship. Three contact-points create a contact pyramid; and personnel involved are key stakeholders regarding this relationship. By assigning responsibility clearly, the management is somewhat more oriented and taken more seriously from both side. (Mena et al. 2014, 69.)

The next step is to measure performance of supplier. This way, buyer has a starting point to any progress and result from the collaborative relationship with supplier. Supplier dashboard is suggested. Carrying the main purpose of an assessment of progress and performance, the most important part is the Key performance indicators (KPIs) on improvement and relationship priorities. These KPIs would be constantly focused and discussed overtime by three contact-points. The board also is for discussion, so as a result, it should be exchange between two parties to remain consistent and unbiased as recent incident and interaction may reflect poorly and damage long-term relationship. By following and monitoring KPIs, stakeholder are more engaged in continuous integration and able to map out this long-term relationship in the future; present winning results and giving decisions based on facts rather than opinions. (Mena et al. 2014, 71.)

The last step is to Exchange Improvement plan. In order to come till this step, both parties have been investing a significant amount of time from operational to strategically level. Improvement activities and results may firstly on operational levels like increase in materials quality, reducing lead-time and so on. After a certain time, they move to higher level of integration like creating new solutions, early involving in new product, smoothing the supply chain and so on. Improvement plan then changes and evolves with an emphasis on investment and sponsor from top level in the contact pyramid. By exchange these improvement plans, both sides show their opinions in opportunities and desired result, so that they could then decide mutual objectives for their relationship and continue to work on achieving those goals. (Mena et al. 2014, 71.)

S.A.M.E is a make-simple of a long-term and highly demanding type of management. Each step would be divided into sub-steps that are tailored to each case companies and different regions. Moreover, going along with this framework requires real devotion from management board and different skill sets for procurement personnel like ability to communicate clearly, give constructive feedback and motivate other contacting point. (Mena et al. 2014, 74-75.)

3.3 Distributor Business Model

Having discussed the general theories, this section is dedicated to discuss Distributor business model and distribution industry related issues. The reason why distribution industry is different and thus, dedicated a significant part in this theory framework, is due to distributor's unique role: a channel for manufacturer, and their stress on financial profit margin to survive in demanding market environment.

3.3.1 Types of Distributor

There are different types of distributor, but one ultimate function remains: being the route that lead to end-user for vendor. Distributors generate demand and at the same time purchase vendor product and distribute them to final-tier player. Typically, by buying in bulk, then breaking it to smaller volume to sell to smaller buyer, they take advantage of the cheaper price and funding from vendor then sell

to buyer with a higher price. (Dent 2008, 25.) During operation, they also provide additional touch like introducing new player/new brand to the market, organising technical support, warranty.

This seems fairly simple and safe business model, however, it is a capital intensive (they have to pay vendor first to get the products, then wait for long time till product is distributed and finally receive payment from customer) and receive thin margin (as a result from the nature of high-volume and low-value-added business). Therefore, balancing the profitability and resources/working capitals for product range is the key to success in distribution industry. (Dent 2008, 25.) Different type of distributor has different value proposition and strategy, hence different definition of balance. Julian Dent has generalised three types of distributor base on revenue/volume and their margin. They are Value added distributor, "Broadline" distributor and Fulfilment distributor. (Dent 2008, 29.)

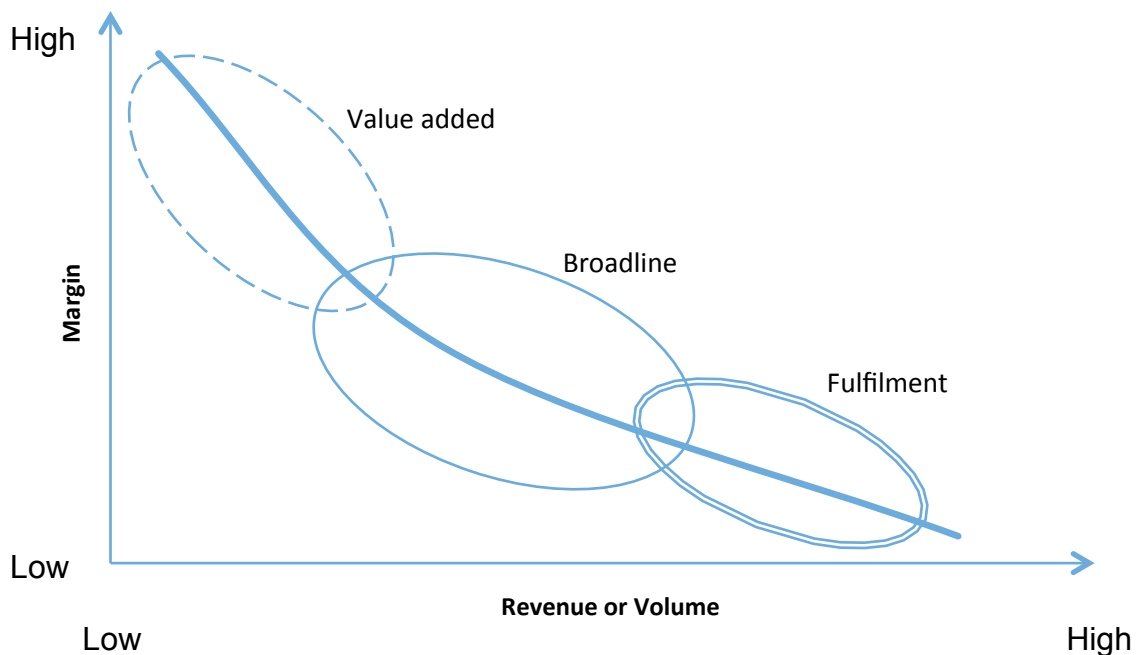


Figure 3. 3 types of distributors in terms of Margin and Volume

Value added distributors profit from high margin but low volume. So they focus on products that are limited in quantity because of their innovation feature or exclusive distribution right. In this model, distributor would aid vendor in finding the final tier player (often specialist) to reach the right customer segment (for example new

technology early adopter). Their attraction or value proposition to vendor is ability to develop market and create demand. Distributor could take responsible in marketing and pre-sales activity like technical training and support for final-tier player, co-selling. All these activity request not a small investment from distributor therefore, a rich margin is expected for their compensation. (Dent 2008, 30.)

“Broadline” distributors, on the other hand, aim for mainstream products to cover the whole market share. Their attraction lies in high visibility in the market. Their market access is attractive as they have established almost all channels a vendor needs by having wide relationship with final-tier and developing effective marketing and communication tools like websites, catalogue, exhibition... Mostly, market leader product brands work with these “broadline” distributors to maximise their market coverage and are willing to even give exclusive distribution right to gain favoured focus of distributor. There would be a few number of huge distributors compete together in the market so lower margins are understandable. (Dent 2008, 30-31.)

Fulfilment distributors play in the fields of aftermarket products (for example: spare parts, accessories, and components for motor vehicles). There is little to none budget for marketing and low price is the driven forces to sales. Distributors aid the vendor in logistics part mostly with low margin but high volume to ensure sufficient profit. (Dent 2008, 31.)

Having explaining the different types distributor, their business model characteristics affect the way they balance their margin and resource invested. And in order to do it successfully, information extracted from operation sales and inventory (for example EDI or report) will be used to calculate revenue, cost of good sold, margin and many more (Dent 2008, 34). The deeper, distributor getting down on analysing these information, the more they understand their product profitability as well as investment ,and have actions to reign their business to be more efficient.

3.3.2 Product Portfolio

Distribution is among the industry that gain a thin percentage of profit margin, between two huge numbers of sales and Cost of Goods Sold. (Dent 2008, 36.) No matter how large their connection network is, how they are “good friends” and “nice” with their vendors, if the business does not profit, then the distributor business model/strategy has failed. Therefore, profitability measurement is fundamental to marvel business in distribution.

Typically, gross margin is mentioned in any annual report and is used as a measurement for business efficiency. The higher margin, the more the business is running efficiently. However, in his book for Distributors, Julian Dent promotes the use of contribution margin instead of gross margin (Dent 2008, 71).

The reason is because the nature of distribution industry is working with a mix of product range, customer and vendors that together contribute to their thin margin. The clearer each of them affects the margin, the better distributor build strategy to unlock and maximise benefit extract from them. Gross margin may give a holistic view when benchmarking distributors in one market. But contribution margin, when calculated for each customer, vendor or product, show impact of each in profitability of one distributor. So when looking at internal operation, the board of management should analyse this measurement carefully and frequently.

$$\text{Contribution margin \%} = \frac{\text{Sales} - \text{COGS} - \text{Variable costs}}{\text{Sales}} \times 100$$

Contribution margin accounts for more factor than the Gross margin. Variables cost list are varied between distributors: expense from pre-sale support, special handling, expensive logistics and so on. (Dent 2008, 48.)

In detail, the author would discuss about the “Earn” and “Turn” measurement ,which define the product portfolio, in this section and Contribution margin return on working capital of product in the next section.

Contribution margin return on inventory is more related to “earn” and “turn” characteristics of each product.

$$Earn = \frac{Contribution\ profit}{Sales} \times 100\%$$

$$Turn = \frac{Sales}{Inventory}$$

“Earn” presents how profitable the product is, without being misled by its sales figure. While the “Turn” shows how fast the product is out of the inventory, meaning it measures how effective the working capital is used in distributing the product. (Dent 2008, 69.)

Together with Contribution margin for products in one brand, distributor can then profile a portfolio management to have a view of products’ impact on productivity, categorise them and based on that direct tactics and actions toward more efficient management. In a product portfolio, there are four categories: Winner, Traffic builder, Sleeper and Loser (Dent 2008, 72).

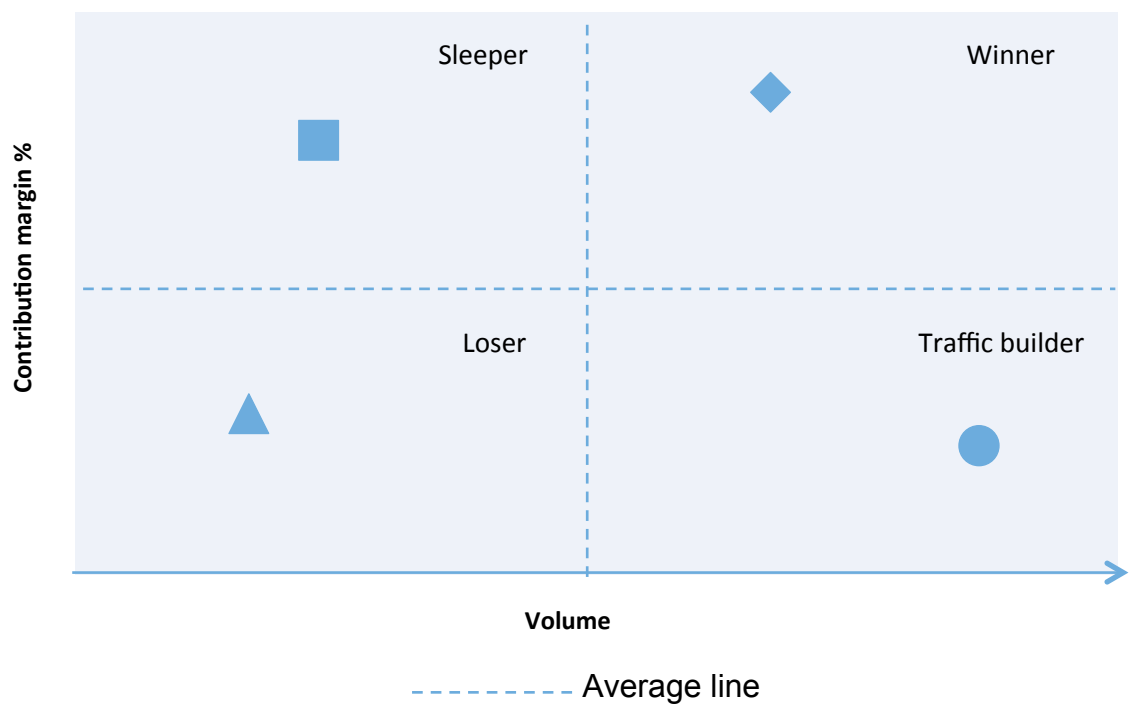


Figure 4. Product portfolio, according to earn and turn adapted to Dent (2008)

“Winner” is product with contribution margin and sales better than average contribution margin and average sales volume in the company. They have this high-earn and high-turn profile and are typically small in number compare to other categories. (Dent 2008, 71.)

“Traffic builder” is product with low-earn but are frequently bought. They are mostly strong brands that final-tier player would buy in large quantity, but favour intense discount. (Dent 2008, 72.)

Products in “sleeper” categories are like potential “traffic builder”. They have a high contribution margin but are sold in low volumes in the moment. They could possibly be product of new breakthrough technology or in early phase of its life cycle. This type of product, if promoted effectively by sales and marketing, can move to the category “traffic builder”. (Dent 2008, 72-73.)

The last group is “loser” – products that drag down the overall gross margin with lower contribution margin and lower volume sales than average. With this group, distributors are advised to review them more frequently and consider raising price or eliminating them from product range. (Dent 2008, 73.)

3.3.3 Contribution Margin Return On Working Capital (CMROWC)

CMROWC is in an even higher level of measurement as in addition to inventory aspect of working capital. It includes financial components which is account receivables and account payables.

$$CMROWC = \frac{\text{Contribution profit}}{\text{Working capital}} = \frac{\text{Contribution profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Working Capitals}}$$

$$\text{Working capitals} = \text{Inventory} + \text{Accounts receivables} - \text{Accounts payables}$$

This single measurement has been praised to be the best indicator for one brand in distributor product range ‘s performance (Dent 2008, 75). It could be used even for benchmarking between brands, even geographic regions; and tracking productivity and profitability of brand overtime in short term and long term. The reason is

because the calculation builds in all dimensions of economics performance of one brand as figure 5 demonstrated.

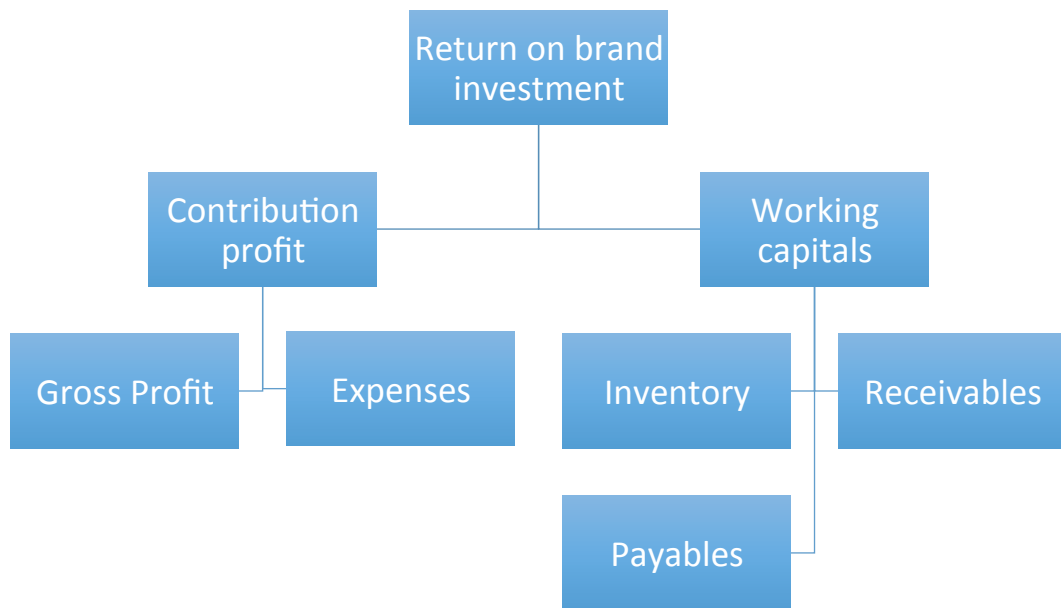


Figure 5. How components in CMROWC is positioned adapted to Dent (2008)

Some distributors have adopted CMROWC calculation under the term “Return on brand investment”. Using the same calculation, they compare results for one brand in one distributor or one brand in one country. The calculation has proved to be excellent in monitoring the performance of vendor and benchmarking between brands in one distributor, between countries for one brand. (Dent 2008, 75-76.)

In order to calculate this specific measurement, a strong EDI system is a prerequisite; so that information of all working capital elements that have been allocated to each product can be extracted and feed to the algorithm (Dent 2008, 92). Once these algorithms are set, information needed would be automatically input and the review and tracking would happen monthly or quarterly as the distributor wish. (Dent 2008, 92.)

3.4 Vendor Relationship from Distributor Perspective.

There is a lacking of theory over how distributor should develop and improve vendor relationship, verified by small amount of books, journals, going detail in this topic.

In this thesis, the author has found a report from Oliver Wyman Consultancy Company in 2014 that demonstrate their findings from consulting practice with distributor in improving operational efficiency and capability in vendor relationship.

The report points out that in distribution and wholesaler, cost reduction is still the number one concern. (Wyman 2014, 2-3.) However, in such demanding environment, close partnership with vendor is the sustainable solution in long-term to achieve success in distributor business.

The report shows that Distributor should learn from two links in the supply chain that itself is constantly connected to: retailer and manufacturer. Top retailer use elaborated negotiation to achieve best possible benefit from its suppliers, which is distributor in many case. While leading manufacturers work side by side with supplier to find new gain in efficiency. (Wyman 2014, 2.)

There are various approaches to facilitate these strategies of drive down Cost of Goods Sold figure and foster critical vendor partnership. The distributors are advice to deploy several tactics, approach to suit its products and vendor characteristics. And from their experience with client, Oliver Wyman advises typical distributor to start from left side and move gradually to the right side. In other words, it is best, first to master negotiation skills with vendor, and then focus on the cost base by working along with vendor in topic of product specification and innovation. (Wyman 2014, 5.)

Table 2. Two cluster of approach to drive down cost and build relationship adapted to Wyman (2014)

“Retail approach” cluster		“Manufacturer approach” cluster	
Maximise negotiation	Optimise supply base	Shrink Total cost of ownership (TCO)	Redesign the system
Information superiority	Vendor consolidation	Vendor led TCO innovation	End user demand engineering
Bargaining power analysis	Target pricing	Logistics optimization	Network redesign

Benchmarking	Strategic supply alliances	SKU / catalogue rationalization	
Research and market intelligence			

The report also pointed out that in order to make the first step of the left side then moving on to the right side, going from retail approach to manufacturer approach. Meaning a deep insight of current situation with vendor is the starting point, to maximise negotiation and optimise supply base.

Starting from Maximising negotiation: by preparing real analysis: about how the market is changing, how vendor is performing, how is their margin compared with competitor and so on, the distributor ripe the benefit of information superiority.

First, the distributor would understand about it leverage, its bargaining power in the relationship, their strength that its key vendor needs. Also, research and market intelligence analysis gives distributor a step ahead. Distributor could use them, as a potential bargaining tool, the added value that vendor cannot obtain from anywhere else.

Moreover, with other vendor performance analysis, they can develop category strategy base on brand performance, minimise push back from vendor by robust and fact-based report and analysis, not irrational opinion during aggressive negotiation. (Wyman 2014, 5-7.)

Also, by building these reports internally, they could develop sharable version with vendor, and therefore, they have evidence and logical ground to require explanation of why a vendor decreased performance or a product's contribution margin is below distributor's average margin. (Wyman 2014, 5-7.)

One important note mentioned in the report is that, success with negotiation depends on the fact that vendor believe that their business channel is at risk if they do not comply with the new set of game rule. Typically, between giant manufacturer and smaller distributor, the distribution side feel they have little ground to nego-

tiate. However the report reflects that these approaches above can still be deployed with equal effectiveness, of course with the correct analysis, process and tools. (Wyman 2014, 8.)

3.5 Author's theory framework for Case Company

All theories used in this thesis are demonstrated above. In this chapter, the author would like to show how they are going to be used and what the findings will concentrated on each "shape" below.

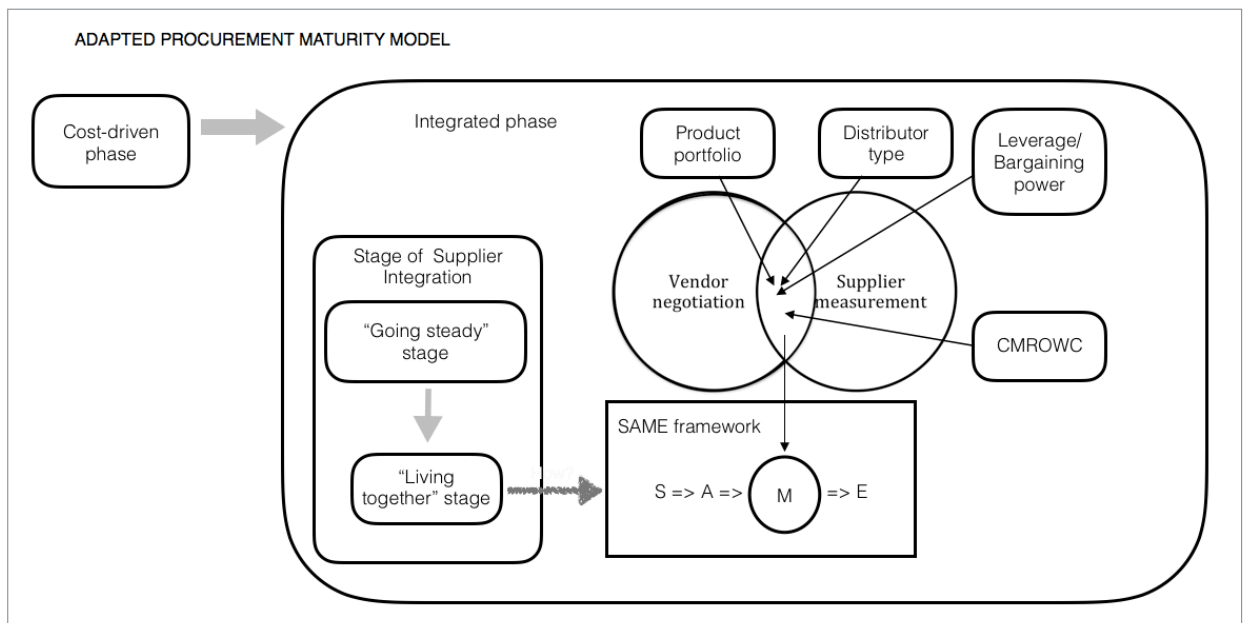


Figure 5. Procurement maturity model adapted to Dent (2008), Lysons & Farrington (2012), Mena et al (2014) and Wyman (2014)

This is a framework that the author, by adapting different models and theory, together build up. The maturity of purchasing encompasses the whole model, including the mitigation from "Cost-driven" and "Integrated". In the "Integrated" phase, the thesis focus on the Stage of Supplier Integration, to see if the case company is moving from "Going steady" to "Living together" stage.

Other theories are used to analyse and give recommendation for improvement and development if the case company is in evolution mission. S.A.M.E framework for supplier relation ship management acts as an outline with four steps Select, Align, Measure and Exchange. In the Measure step, the combination of Vendor negotia-

tion and Performance measurement are discussed. The case company is recommended to not only assess the vendor performance but also the company leverage/ bargaining power and market analysis to make ground for negotiation.

Also, in order to measure performance, Product portfolio theory can provide a financial contribution view and insight of products and brands, which lead to proper short-term idea for improvement; while CMROWC is marked as a single best measurement to record and monitor the change and effectiveness of strategy in short and long term.

Those shapes all fall in the intersection of three areas in section 1.3, figure 1. Purchasing maturity model belongs to Purchasing function area. Stage of Supplier relationship and SAME are within the bounds of Supplier/Vendor relationship management. And finally, Product portfolio, Distributor type, Leverage/bargaining power and CMROWC, all fall under Distribution industry field.

Therefore, the theory framework has followed the demarcation established in the beginning of this thesis.

4 Research Method and Vendor background

This chapter explains the research method used and introduces Vendor X background.

4.1 Research Method

The research method is qualitative. And in data collection, both primary research and secondary research is used in supporting this thesis.

Qualitative method is suitable for research topic that requires deep understanding of a situation, a problem; and the data collection is conducted in a biased and subjective manner to explain the situation. In qualitative method, small sample, in depth questions are used. (Creswell 2005, 39 & 54.)

The thesis aims to understand and assess the current situation of purchasing function and vendor management as well as relationship with vendor X of cased company. A clear understanding of this subject is required. Also, only a small number of personnel, employees are involved in the purchasing process and working with Vendor's products. Therefore, the qualitative method is best suited in this situation.

In data collection, both primary and secondary research is used. The author use personal interview by email and observation to obtain primary data, and secondary data is collected via books, reports, company websites and the Internet. Primary data collection supports most of the empirical part (findings) in chapter 5 and the secondary data collection is used in theory framework and in findings.

The interviews in primary research were conducted in semi-structure; the questions included are open questions and sent via email. The author sent different set of questions to three interviewees; some are added later on, in order to obtain more detail from previous answers.

The interviewees' names will be hidden to provide privacy and anonymity for the case company. Their position and years of experience are listed below.

Table 3. List of interviewees with position and year of experience

Name (in abbreviation)	Position	Year of experience
Ms. L	Deputy of Procurement Department	+12 years
Ms. T	Purchasing specialist	+7 years
Mr. T	Analyst in Financial Analysis & Control Department	+10 years

The first interviewee works in management level and is able to access higher management level information. The other interviewees are personnel who work and have contact with Vendor X's products and information about products frequently. Therefore, the three interviewees are able to provide a view both from management and operation level in purchasing Vendor X's products and relationship with this vendor.

The language used in questions is Vietnamese as it is the working language in the case company and it is easier for interview to express their answer. Some secondary data collected from the company websites and some articles in the Internet are also in Vietnamese. Appendices 2 describe the questionnaires outline in English language for reader to follow. And Appendices 3 lists all the sources from company websites and the Internet that is information sensitive and cannot be published.

4.2 Vendor X

Vendor X is a corporation with history dated back in 70s, is a leader in technology industry globally, especially computing products and service. The company has successfully developed, licensed and supported a wide range of computer hardware and software that are used widely all around the world. (Annual report of vendor X, 2014.)

As regard to their products, with many technological intellectual inventions and products, the revenue and margin of commercial licensing - enterprise software licensing to government entities and businesses constantly remain top contributor

to total revenue (Appendices 3,). This makes it the profit driver for X. Example of commercial licensing would be providing license to its computer system in computer, laptop of government's entities, license to use cloud service for enterprises.

With such large sales and demand world wide, complex level of reselling license partners X has established five Regional Operations Centres (ROCs) in three regions: Americas, EMEA and APAC (SPA 2011, 3). In three ROCS in APAC region, Singapore unit is responsible for providing license for countries in Asia Pacific except China and Japan. Therefore, distributor in Vietnam in would work with MRS in term of delivery and billing.

Table 4. Regions and ROCS respectively adapted to Exhibits (2012)

Regions	ROCS
The Americas (North, Central and South America)	Americas Operations Center (AOC) in North Dakota, USA
EMEA: Europe, Middle East and Africa	Europe, Middle East and Africa Operation Center (EOC) in Dublin, Ireland
APAC: Asia Pacific	X Regional Sales Corporation (MRS) in Singapore.
	X (China) Company Limited (MCCL) in Beijing, China.
	X Japan Co., Ltd. (MSKK) in Tokyo, Japan.

Their distributor and reseller segmentation was described in the figure below. There are five main segments. License solutions partners mainly work with large organizations while distributor work in smaller scale, typically resale to the VARs, OEMs and retailer.

Regard to distributor, there are three areas that X has authorized distributor to license its product & service. X authorized distributor is responsible for support activities: assistant in configuration license, marketing and training service. X authorized cloud distributors have specialists that provide preparation, training and activation, technical and licensing, and account management support for cloud technology. X authorized software full-package distributor would help activate X soft-

ware preloaded on your new PCs by provide license. Finally, X authorized OEM (Original Equipment Manufacturer) is partners who provide licenses for pre-installation on hardware of OEM and resale.

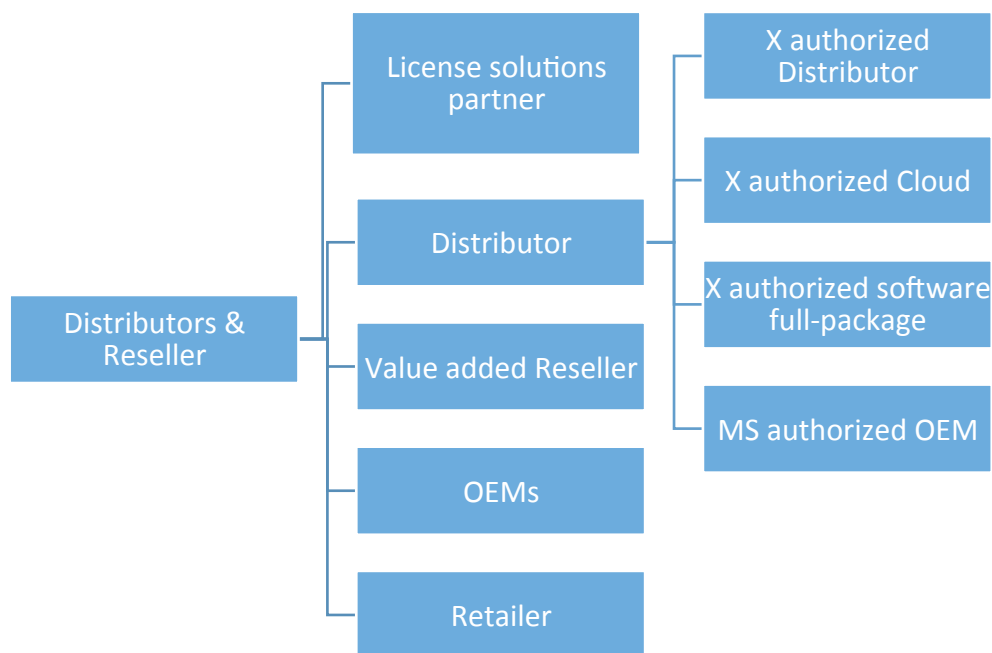


Figure 9. Channel partners segmentation of X

In order to become as X's distributors, companies have to meet certain requirements. Generally, they have to demonstrate a complete business model elaborately, with well-trained personnel and flexible information systems. Also, well equipped technology and modern management software, as well as certain quality standards achieved of financial accounting systems, human resources management, warehouse systems, distribution dealers and agent management, are obligatory. (Ms L. 30.09.2015.)

Most importantly, the vendor focuses on Sales capacity and potentiality of the company. It is also essential conditions that X demands and frequent report and sends experts to inspect time after time. Distributor (as well as other partners) are directed to join X Partner Network where their profile and information of sales, revenue, partnership activities, and so on; are requested, stored, checked and renewed regularly. (Mr T. 02.10.2015.)

5 Findings

This chapter presents findings about current situation of procurement: purchasing activities and stage of supplier integration; also insight of the case company as a distributor and its relationship with Vendor X. As a result, this chapter provide elaborate answer to IQ1.

5.1 Purchasing Maturity Model

According to the theoretical framework, the first question to be examined and analysed is what is the situation of the purchasing function of the case company, and Maturity model is used to serve this purpose.

Alignment with strategy

Some facts have already been presented in the introduction, the case company is a subsidiary of a much more large-scale corporation working in ICT industry. The company has been re-structured several times and the most recent evolution was ignited by the desire to centralise and utilise power and synergy as well as the use of resources for the whole corporation.

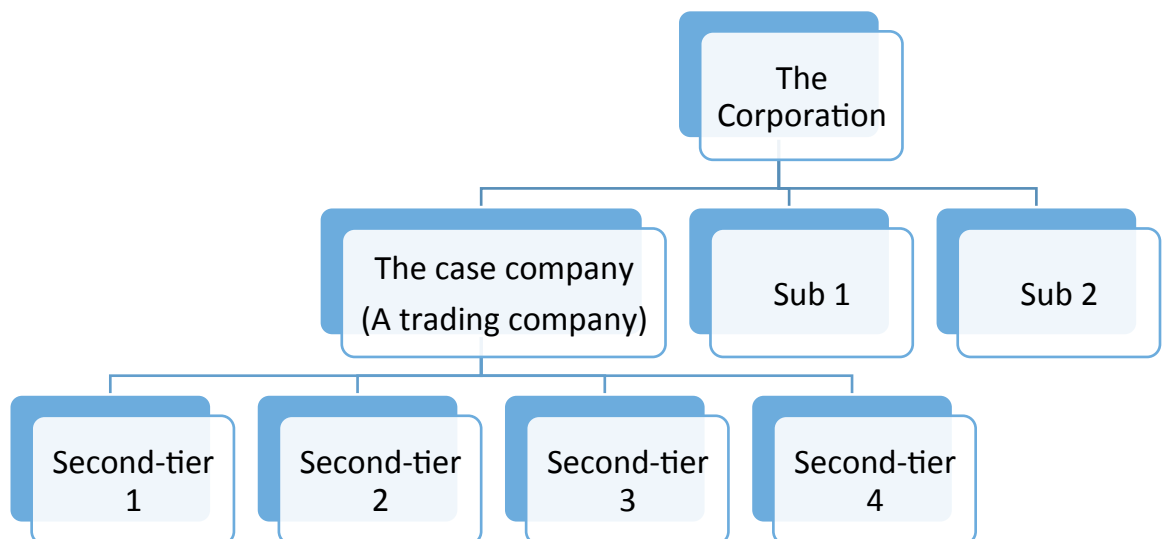


Figure 6. Structure of the Corporation and the case company adapted to Appendices 3 k.

Before this evolution, each second-tier subsidiaries: 1, 2, 3, 4 managed one own back office and one location of inventory. So for example Second-tier 1, which distributes Lenovo phones products, had its own purchasing department, Import & Export, Inventory, Accounting and so on. And each second-tiers used a different inventory location. (Appendices 3, a.,)

After restructuring, now, four second-tiers share one Back office which include Procurement, Import& Export, Accounting department and so on. In detail, the procurement department 's responsibility, which is explicitly stated in the company document, is to taking care of procurement activities for the trading company (case company) as a whole. (Ms L. 30.09.2015.) This move fosters the strategy of centralising the procurement to maximise the image as top distributor, increase efficiency of one procedure for each activity: purchasing, inventory and delivery and the use of human resource.

All in all, the procurement strategy has been strategized to align with corporate long-term strategy. However, because it is still in early stage of the long-term strategy so the procurement department will constantly adapt to align itself to the long-term strategy.

Scope of activities

It is stated in the current official company document, that the procurement department is responsible for ordering and settling payment with vendor, monitoring and managing the delivery of goods together with logistic transporter, obtain import permission and product conformity certificate and support other activities under board of director's request. So the most important function of this department is to secure purchasing order with vendors and support other functions until ordered product arrive the inventory premise.

Purchasing specialist's main task is to assist the procurement process: they interact with vendor, initiate transaction and troubleshoot if any problem and human mistake happen along the way. Decisions such as contract terms and price are not in their specialisation. The board of director for negotiated and signed long-term

contract and the vendor send price request in catalogue. Decision of which products and quantity is from sales unit in each second-tier. Therefore, their work tasks are mostly routine. (Ms T. 01.10.2015.)

In support for the procurement department, there are accounting department for billing, Import and Export to work with Vietnam custom office and Inventory department to deliver to Sales department of each second-tier. Also Analysis and Control department provide figure, report for internal and external use that related to the procurement activities. Collaboration of several back office departments contributes to a smooth flow of procurement activities.

Relationship management

The strategic decisions like how to manage supplier or vendor and how internal functions work together are decided and managed mostly in management level. Supplier relationship management in the case company is in developing stage. (Mr T. 02.10.2015; Ms L. 30.09.2015.)

In general, the case company is constantly seeking new opportunities to win-win situation in co-operating with vendor. For example, together with vendor X, they open a showroom in Hanoi. In here, consumers are offered popular and high quality products like phones, tablets, laptop and software. In this collaboration, the case company would distribute product, also provide pre sales, post sales support and personnel while the vendor provide training and funding for the establishment. (Appendices 3, b.)

From managing vendor relationship, the company expect long lasting, mutual beneficial and stable relationship. When negotiating, the case company aim at assurance of improving or maintaining top quality and variation of products from vendor. (Ms L. 30.09.2015.)

The fundamental and foremost important expectation from vendor is in supplying ability: assortments of products are delivered correctly at the right time and quantities. Moreover, vendors as partners have to also show goodwill by providing technique support like giving training guide and explanation about new product; and approve of reverse logistics or resale if their products are not consistent with the

contract (wrong product type, quantity, quality) or because the products have stay too long in the inventory.

The case company also committed to sit down together with vendor in a regular meeting preferred once a year to discuss the company commitment as well as vendor's and orientation plan for the up coming year. (Ms L. 30.09.2015.)

All in all, vendor relationship management to the board management is about making sure the company get vendor's support, their priority when producing such products and a good price. In exchange, vendor get distribution channel for their product, attain a part of Vietnam ICT market.

There is however, no priority in vendor base, no key vendors and no specific vendor management programs. The case company only monitors vendor performance via financial figures. Sales, gross profit, Expense, EBT (Earning before tax), Cash Cycle are the most important and popular measurement. (Mr T. 02.10.2015.)

Also, the products are currently categorized due to their nature, whether they are phones, tablet, laptop, server or software. There is not any other product category management tool being used.

As for Interaction between function, centralised accounting, procurement and import and export are aimed to draw synergy for the whole trading company. The connection is strongest between accounting and procurement. Information of price and VAT% is shared in Oracle ERP system, together with Certificate of Origin and Custom related document, the accounting department can work with bank to open L/C or use other methods to pay supplier/vendor credit. Import & Export is also well connected with the procurement department because their tasks are the continued steps in the procurement process and they would have to contact the purchasing specialist for any troubleshooting and interaction with vendors.

Balance Scorecard (BSC) and Key Performance Indicator (KPI) in corporation and Case Company

Until few years ago, after the decision to restructure business model, reallocate personnel, and unify Back Office in each subsidiary; BSC is implemented for the first time in this corporation. This resulted to a four-year strategy to transfer the corporation policies, which affects all levels of member companies in all business fields. BSC is a promising tool that aims improve the corporation's success in term of globalisation and growth but also, present difficulties when implementing as it changes the usual way of operating and require fully periodic measurement and compliance of every level. (Ms T. 01.10.2015.)

Leaders of the corporation together with its subsidiary created strategic maps during implementation. Each strategic map is divided into three topics: new products/project to change the corporation (Transforming), Improving existing businesses (innovating Current Business) and Administrative efficiency (Operating Excellence). Each topic is analysed in four elements, in which two external factors (Finance, Customer) are balanced with two internal elements (Internal Processes, Learning & Development).



Figure 7. From strategy to balance scorecard and KPI

On the map, scorecard consists of strategic objectives, measurable indicators, and corresponding action plans together with who is responsible for each indicator. All indicators are shown in colours: Green (gain of 100% or more), Gold (reaching from 80-99%), Red (from 20-80%), Purple (below 20%), Grey is for project yet to come to evaluation time.

A special feature of the strategy map is to allow leaders understand the operations of second-tier subsidiary and beyond. For example, if an indicator of a second-tier

is Red, that of the subsidiary follows. Leaders just take a look and click wherever “red” to see detail why. Then the person in charge of this measurement, must explain the causes and treatment outlined actions and remedying to prevent this result again. Responsibility of planning and reporting this map falls in top leader of subsidiary. And synthesis of subsidiaries’ scorecard, plus activities to ensure rapid and sustainable growth of the corporation will create the scorecard of the whole corporation. (Appendices 3, d.)

With BSC, corporate and subsidiaries sit down and analyse, "lift up and put down" each figure, index in a reasonable manner. The subsidiaries have to answer satisfactorily the question "Why?" for increase or maintain the target in the next fiscal year, as well as the reason that lead to unreached results in the end.

The case company management has been one of the first in line to embrace the change, plan and implement the BSC project, finish the strategic maps as well as the balance scorecard. They are also the first subsidiary to send officers to BSC training programs organised by the corporation. Management Board got the evaluation from the corporation that they together with second-tiers have worked seriously and dedicatedly to map out business plan with target and personnel in charged, identify clear indicators and receive consensus from employees. (Appendices 3, e.)

In detail, the below is an example of strategic map in the past of the case company. This map includes five BSC (numbered from one to five). Each scorecard contains four elements: Finance (F), Customer (C), Internal Performance (IP) and Learning & Development (LD). F1, C1, IP1 and LD1 belonged to BSC number one.

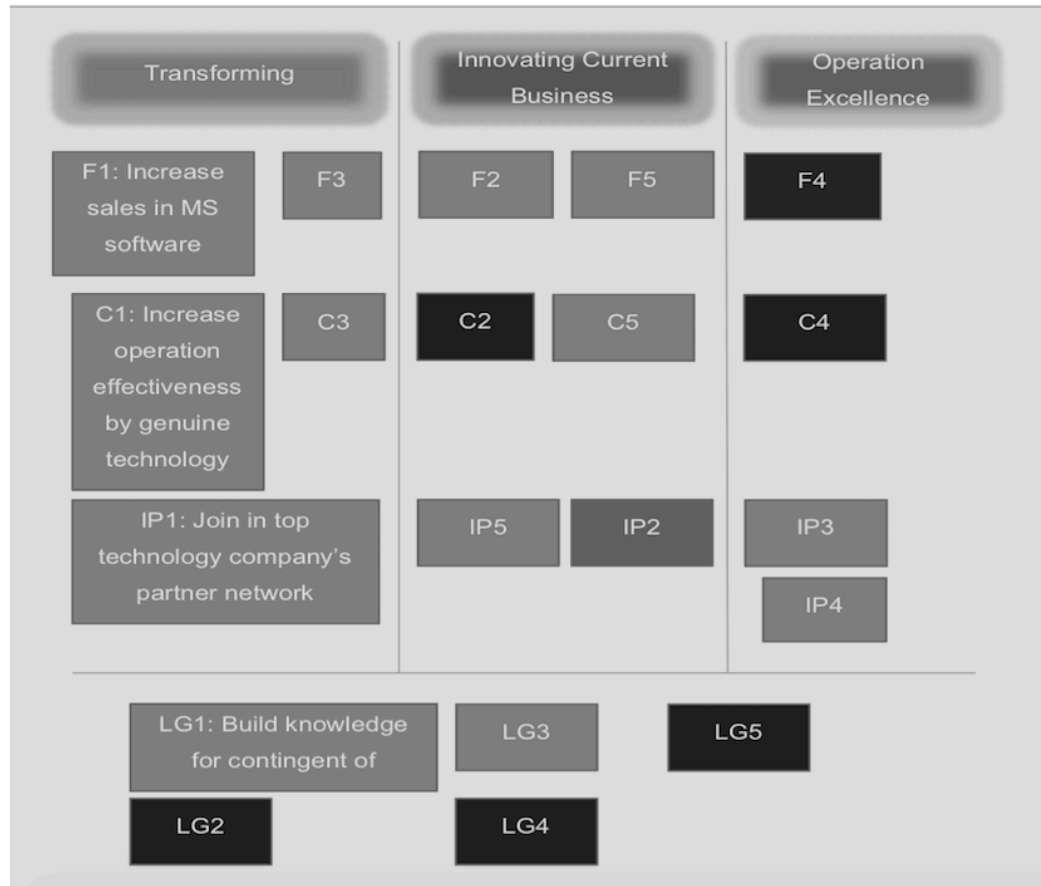


Figure 8. Example of strategic maps adapted to case company website (2015)

Each element would include measure (KPIs), target, responsible person and according actions. In BSC number 1, the result of KPIs in each element compared to their target was 100% or more, so they are coloured green. Example of KPIs would be sales of MS software, number of transaction per quarter, number of technique update per quarters. Example of according action would be: projects to open representative office in foreign market, projects to distribute new smartphone using windows system, and so on.

Use of technology

The ERP system used in case company are Oracle and EPO.

Oracle is used to create products description and connect between procurement, the accounting department and inventory department. Oracle has been used over 5 years ago and most importantly to find information about and run customised financial report.

EPO is a management system written for case company and its distribution network. It is more visible than Oracle as it is online. When purchasing team decides which products they are going to order from vendor X, they put a code name for that order in EPO, so that personnel with granted access (name and password) can search for that code and find list of what is going to be ordered, quantity and price. One important feature of EPO is that it records the dates of incoming and outgoing order; later on the Analysis & Control department would use this to calculate Cash Cycle, Gross sale, Expense, EBT.

In conclusion, after assess five aspects, according to the table in appendices 1, the author evaluate that the findings have similarity with Procurement maturity model theory and that the case company purchasing is in the phase “Cost driven” and is showing sign of mitigation into the next phase “Integrated”.

There has been activities and recognition to support the change. The procurement has follow and support the trading company strategy of synergy by centralising purchasing function in all second-tier subsidiaries. Along with that, internal integration between functions is strengthened, accounting department and marketing department together with procurement department. They work side by side with each other in the same location, same building and share a same information database. And the procedure stay mostly the same for all product categories so the visibility internally is high, meaning for example procurement’s personnel understand procedure in accounting department and vice versa. By implementing BSC and KPIs, data extracted through ERP are utilised better. Vendors is managing through fairly simple and modest measurements.

In order to further develop and complete transformation of procurement in case company, a consolidated supplier/vendor relationship management is essential. The lacking of such management has hindered long-term profitability and limited the potential benefits cultivated from close partnership/relationship with key vendor - Vendor X.

5.2 Type of Distributor

In this section, the insight of case company as a distributor model are present, as well as the analysis about its bargaining power/ buyer leverage.

Working in distribution industry, the case company carry role of both supplier to dealer/reseller/retailer and customer of IT technology manufacturer.

The case company provide mainstream products in the market. They have mostly all that their customers ask for. Their product range varies from telecommunication like phone, smartphone, laptop, CPU till IT component, ware and spare part, accessories, and authentic license software. Each range covers a number of products with over 60 different brands/partners: Microsoft, HP, IBM, DELL, Asus, and so on (Appendices 3, f). Those partners are mostly premium brands and market leaders in their fields: Microsoft is famous for their software and system; IBM produces world-leading server and HP, DELL and Asus are all popular laptop brands.

The case company also attains and maintains a healthy percentage of market shares since its founding time. Staying in top 3 ICT distributors in Vietnam, the company continues to growth with over 10% of profit value before tax from 2012 till 2014 (case company's annual report 2014). Having said that, the gross profit margin of the company remains mostly the same in the same period of time, between 2% and 3% (Mr T. 02.10.2015.). This is not an attractive figure when evaluating business, however, with very large scale and market maturity still in developing stage, the business still brings a generous amount of value in the present and in the future.

The case company also covers most of distribution channels for vendors. Even though officially established less than competitor, however their network has run deep for 20 years up until now. Their customers are final tier players: dealer, retailer, OEM (Original Equipment Manufacturer) and large-scale project customers. The company has a network of over 1000 dealers in all regions of Vietnam, together with representative offices in some South East Asia nations (Appendices 3, c). The company also have a close bond with top three retail chains in ICT retail sector. Because these retailers chain sell to end-user or consumer, their orders

are frequent even daily. OEMs are also important customers of case company. OEM is manufacturer who has installed Vendor X software in their machinery and IT product, now need to activate the software by authentic license number and receive genuine Vendor X license certificate to bring out in the market.

For example, companies who produce phone or produce customized CPU running X system software would buy licenses from the case company to be able to activate Windows/Linux system to sell their products. As regard to project customer, they possibly also customers of an IT solution provider and are directed or advised to purchase product in large scale from this distributor. In projects, the customer is more concern about the origin and quality of products, time delivery; rather than pricing.

Moreover, the case company have long developed its marketing and communication competences. The company has websites to showcase their current products with detail information and demonstration of selling special feature, technical feature, warranty and locations where viewers can purchase. They have organized campaigns to boost the warranty, post-sale support for popular or new products, offer discount price for old model of smartphone. Marketing department in this company also runs market research and competitors research quarterly for each product range, in order to create campaign and update information for sale units and dealers.

By remaining a good performance with both vendor and customer, the case company has a top reputation and high visibility in the market. As a result, they are offered exclusive right from vendors who seek to gain their attention and dedication to their products. The case company has been exclusive distributor of certain products of Symantec, Asus and so on. (Appendices 3, g)

In conclusion, the case company is a “broadline” distributor with great power in the market, according to distributor type theory framework. To leading supplier, they also hold certain leverage as well. The leverage of the case company would be discussed in the next section.

5.3 Leverage/Bargaining Power

By understanding which type of distributor the case company is, they understand more of what their competence is, that other distributor type cannot afford to have. Therefore, it would benefit them during engaging in negotiation.

As mentioned above, the case company has a strong network connection with final-tier player in the supply chain and various distribution channels. That is properly the strongest key competence of the company.

Another strength is their outstanding financial capability. They have a good sales competences and a good balance between working capital and profitability. The company is praised and received a good number of rewards from vendors for their ability to generate stable demand monthly and quarterly; and to trigger, promote and develop new trends and technology as well as new product market share (Appendices 3, h). They are also respectable partners with strong and secured financial status which is linked with its parent corporation in the IT industry.

Moreover, the case company is led by an experienced management board with strategy linked and aligned with the corporation strategy. The distributor's management has its own mission and develops its strategy together with the highest management of the corporation level. They have directed and managed the case company through business restructurings successfully, driving the business forward with continuous growth. BSC project and Back Office centralisation has shown great results to the company growth rate. (Annual report of case company, 2014)

The reason for their success is their management capability and their constant investment in personnel and information management. Their sales representatives and technical support teams are well trained and sent to vendor conferences and training programs to update with new technology and improve competences. Their information management has been automated and improving to update real-time information. Before purchasing specialists were the only information sources for any information required from vendors and customers. Now mostly all information can be easily found online through ERP systems in the company.

Another well-noted strength is the case company's connection with other two subsidiaries in figure 6: sub 1 and sub 2. One specialised in develop application software, ERP service and the other is IT solution outsource provider which develop software, maintain and perform Quality Assurance. These three subsidiaries often work in collaboration in huge projects with the government (Appendice 3, b)

The case company not only supplies and distributes products to Vietnamese but also expands market to Malaysia and Singapore and other countries in the neighborhood, specially Myanmar where ICT industry is in early developing stage. Particularly, ICT corporations have taken interested in the country recently. Cisco has been actively promoting and establishing ICT academy in Myanmar since 2013, and series of "giant" American technology like HP, Intel and Microsoft are also keen to expand partner relationships in Myanmar, a potential area of Asia (MyanmarTimes 2013). In Myanmar, the corporation has a good reputation and receives attention from even the government of Myanmar. There has been visit exchange between two entities and public press about Myanmar desire to collaborate with the corporation in application of technology in economic development and establish ICT infrastructure in Myanmar (Appendices 3, h).

As mention above, their broad and deep connection in the IT industry, together with long-time reputation and branding of parent corporation, secure their visibility in the market. This is especially important for vendors who want to enter Vietnam market - a market still in developing stage with huge amount of demand and potential users. It is reported that in global market, Vietnam generates an attractive demand for ICT products. (Business Monitor International 2012, 5.)

5.4 Stage of Supplier Integration

The history between Vendor X and the case company went back since the 90s before the case company was officially established. In the 90s, the corporation (that include the case company nowadays) has started distributing ICT assortment contain Vendor X products (Appendices 3, f). However, the casual trade between

two corporation become more serious until the early of 2000s when the Corporation became golden partner as an IT Integrator and solution supplier in designing, building and providing solutions using different Vendor X's system in Vietnam.

This led to later on a three-year strategic alliance partnership program, in which the corporation will promote and assist the migration of Vietnamese enterprises' mainframes or central IT systems to Server Family; and Vendor X would train and certify a huge amount of the partner's employee, improve partner's access to Vendor X partner network in South East Asia and provide support in large infrastructure management and government projects. (Appendices 3, i)

After that, the corporation is officially recognized as a high level of sales partner of Vendor X in Vietnam and is authorized to perform the contract to use Vendor X Office software license for the whole of the computer system affiliated agencies and local governments. From Vendor X point of view, the corporation is an important partner. This is illustrated by many visits from senior officer: executives, regionals president, and Vendor X representative in Vietnam to both the corporation and later on the case company in special occasion like introduction of new products or new position. (Appendices 3, j.)

During those critical time periods, the distribution of Vendor X software has been expanding and when the case company is established as a subsidiary of the corporation, it is immediately recognized as X Authorized OEM Distributors – highest level of distributor (Appendices 3, 2015). To understand more in detail about the relationship between the case company and Vendor X, the stage of supplier integration model is used.

Over a decade of working together, a record of trading and business pattern between two entities has been recognized with stable quality, delivery time and common objectives: to improve stability and consistency of partnership, and increase sales, volume of licensing Vendor X products related to cloud services. (Ms L. 30.09.2015; Ms T. 01.10.2015.)

Products that are currently distributed is Vendor X genuine software and solution. The case company get access to license through Vendor X regionals sales in Sin-

gapore only as commented in 4.2; in other word, case company has single sourced Vendor X licensing through this ROC. By sourced licensing, this means the case company will receive certification in hard copy of product list above. Typically, this will be a paper stating that the software ordered is genuinely from Vendor X with activate number/ license number for a certain number of user and warranty valid internationally.

The contract with this ROC is called X Authorized OEM Distributor Channel Agreement, valid in one-year and automatically renewed if no change is applied. This mean that delivery term and payment term including the payment methods and credit period are kept for every order procurement department of case company makes. Many regulations in the contract are under totally Vendor X control. (Ms L. 30.09.2015.)

In detail, these licensing papers are delivered by air (to ensure no damage by natural environment) within 20 days after the signing date of the contract. The incoterm used is always Cost and Freight (CFR)- which means X would pay for the carriage of the goods up to the named port of destination. Risk transfers to the case company when the goods have been loaded on board the ship in the country of Export and distributor is responsible for buying insurance.

The payment is by T/T method for 100% contract value within 90 days after date of invoice provided by Vendor X regional sales in Singapore. So the case company would have to pay 100% of the value of goods in advance, with complete trust of vendor and claim later if mistake and errors happen in the software certificate.

Working constantly with this vendor are personnel from Procurement, Analysis & Control, and Marketing & Partner relationship Department. Procurement department takes care of the purchasing function and has most regular contact. Analysis & Control provides report for internal use and external use (sent to Vendor X as their request). While Marketing & partner relationship department manages the rebates funding as well as the vendor relationship in general.

As for the vendor management from case company side, the company monitors Vendor X performance by figures: sales, gross profit, EBT, Cash Conversion Cycle

and expenses. And there is report for each product type and report for Vendor X as a brand. Such reports are prepared by Analysis & Control Department, with information extract from Oracle and EPO. From 2013 until now, the case company has record a decrease in sales of Vendor X as a brand. Sales of Vendor X product contributed 40% for case company sales in 2013. And last year, this figure is 20%. (Mr T. 02.10.2015.)

All in all, there is a certain close bond between two organisations Vendor X and Case Company. This reflected by the stability of distribution channel and contractual term, consistency of business pattern and a mutual objective to increase the use of cloud service and develop IT infrastructure for Enterprise or large organisation such as government bodies and banking. However, their partnership is motivated mainly in term of performance. Vendor X is looking for a channel to distribute their products in Vietnam and EMEA countries and the case company earn profit from resale to final tier player and take advantage of vendor's funding. There are efforts from both sides to increase this bonds but more strategic investment is needed. The stage of supplier Integration shows that in order to move forward in this relationship, from "Going steady" stages - what they are in, to "Living together", planning and investing resources in a supplier relationship program and is a necessity.

6 Challenges

This chapter aims to answer IQ2: key development in management and operational level that during studying the findings the author could assess.

6.1 Challenges in Management

Along with the desire to growth and expand of the corporation the trading case company have its share to contribute, meaning they also have to grow in not only revenue, profit but also mature in business specialisation and expertise. With regard of this topic of purchasing function and vendor-distribution relationship, the author see main challenges in management is to move to the continuous stage in the maturity model of procurement and supplier integration, mentioned in chapter 5

As evaluate and analysed in section 5.1 the case company's procurement is in the transformation from "Cost-driven" to "Integration" stage. However, there is still need for action if the case company would like to develop to "Integration" stage.

One main challenge is the lack of hard-cored Supplier or Vendor Relationship management, not just some measurements and evaluation. This would demand a serious attention and commitment. Not only does the company have to produce a long-term investment, plan, put a program in place, but also initiate, negotiate and willing to share internal information with vendor. This is important as presented in the beginning because Supplier Relationship Management ensure the sustainability of the case company and contribute to the dependence between corporation and MS.

It is true that there are only a limited number of companies qualified as X Authorized OEM Distributors, but in order to stay in top priority with vendor, if the case company does not suggest any relationship management activities, others competitors may realize the opportunity and take the initiative. It is also the case company that make the first move with Vendor X, not the other way, because they are in a higher position than the case company in this relationship, in other word, the company depend more on MS and MS products. Therefore, by making the first

move the case company would show earnest commitment to improve the relationship by actions rather than words.

The challenges of moving from “going steady” to “living together” in supplier integration, is also involved with supplier relationship management. It is true that the two entities publicly recognized each other as important partner. There are evaluations in place to secure each position in the other’s: the case company met a high standard of X Authorized OEM Distributors, and also MS is measured and evaluated constantly to ensure profitability for the case company. The case company has always been single sourcing X products from regional sales office. And to boost this relationship to the next level, a joint investment strategy should be in place, rather than some visit, recognitions, rewards and so between two partners.

A joint investment between case company and X would increase interdependence between distributor and vendor, making X depend on the case company more and increase the company position in this relationship. The case company would not only be a distributor but also a partner that can contribute to a success of a profitable investment: a business idea, a project or a program. Moreover, the case company has one scorecard of joining into eco-systems of ICT “giant” globally. They are already a distributor but what is the possibility to contribute more value and play a more important role in such eco-system. This could be the initiative that both are looking for.

6.2 Challenges in Operation

Little focus in supplier relationship, meaning the most important factor in operation is to distribute the product at the right time, right price and with as low cost as possible. The procurement department therefore, just follow the sales’ order and strive to make no mistake in ordering the product and troubleshoot any problem regards to delaying in delivery or wrong products. Purchase specialists work almost as a routine in purchasing process and there is little motivation for change or innovation to happen.

Another point is that, the current management of no product portfolio lead to the fact that procurement personnel could not possible adding value to the sales teams, and connection between sales and procurement is one-way street. So the real challenges in here is to utilise the data collected from purchasing process, together with other department: accounting, inventory, sales. That way, when the calculation is done, products falling in four groups. When sales team order a product in “loser” group, the procurement would then report back that suggesting cross sales to other products.

In addition, even though BSC and KPIs has emphasis and promote better use of information. The measurement used to monitor products performance and vendor performance is still modest and simple; and should be developed.

One challenge that emerges from the desire to move up one stage in the maturity model in procurement is the connection between Partner management and Analysis & Control Department. Whether they could work together, follow a set of “rules” that the management has set out for MS account while still maintain a huge workloads with the changing in BSC report guideline and over 300 KPIs every quarter.

7 Recommendation

The author would recommend the far most necessary action to do is to set out and publicly release statement about a clear supplier/vendor relationship management program targeting Vendor X.

First thing to notice that there is high chance that X has already has such program in place, which is used to measure the case company and the relationship between two organisations. Therefore, by express desire to build a program of vendor management, the case company may receive advice and some assistance from the vendor side.

The use of SAME framework, product portfolio, CMROWC are highly recommended. The author understand that, if the theory of CMROWC and SAME are presented in chapter 3 - Theoretical framework, then the author should provide concrete actions and contribution in implementing those theories in the recommendation. However, due to limitation from the case company side and no access to actual figure, the author can only recommend certain activities and give reasons to them. Those theories' frameworks are presented in this thesis, so that the case company's officer (as a reader) can understand and follow such frameworks and actually start the implementation.

7.1 Implementation of SAME Framework

The author would recommend the use of SAME framework as it demonstrate a clear path of continuous action and the KPIs has been familiar to some extent in the case company which saves the training and adaptation time to the program.

In more detail, the first step - selecting key supplier or vendor, which is X in this case. In the future, if the program succeeds, it could be utilised in other key partner the case company is having at the moment. Reasoning to this selection is also mentioned in the introduction that Vendor X's products has been contributing to the profit increase and the case company would like to increase its partnership with this ICT giant.

The following step as explained in section 3.2.2 is to align contact in both sides in three levels: Operational, relationship and sponsorship levels.

In operational levels, personnel who are constantly working with Vendor X's product might be in procurement, or in analysis and control department. The person or the team would include personnel working closely with Vendor X. So the nominees for this position would possibly be in procurement, who constantly makes order, communicates with vendor X's representative. He or she would know the price charged and new products immediately when the catalogue is sent, also troubleshoot problems that occur during the process and communicate and report with accounting, partnership management and analysis and control departments. Another idea would be, that if such workload is heavy for one person, there should be a cross-function team that takes care of Vendor X's transactions and monitors activities.

In relationship levels contact, probably, the perfect candidate would be the manager of partnership management. He would not spend time and effort with his contact points in X every day, but only monthly or quarterly. He would also receive report from operational level and keep contact with X's relationship contact point.

And in operational levels, the operation manager or higher level, general manager would take the responsibility to sponsor the relationship between case company and Vendor X. They would be the one to negotiate this program with Vendor X, and ideally, there would be written documents, even a signing ceremony to emphasize the important of this program. Moreover, they would be the one getting report from relationship levels, decide important decision that need negotiation with Vendor X's side.

By assigning three contact points such as above, the work of managing Vendor X relationship would not fall only in the shoulder of top managers, who also have many responsibilities. And operational levels also have a clear idea what they can contribute in improving productivity and efficiency for the company's procurement development.

The last two steps are the most important: Measuring the supplier performance by scorecard exchange, and Exchange improvement plans.

In measuring the supplier performance, the supplier dashboard is the barometer of progress and performance. The authors would suggest a small amount of KPIs that focus on the improvement areas rather a large amount of KPIs. The author would suggest the use of Return on brand investment measurement or CMROWC in the dashboard.

Exchange improvement plan is the last step. It occurs in measurement activities that there are problems recorded in the supplier dashboard, for example: sales of one X's software decrease in a period of time. The first contact point may report this to the relationship level; also together find out why, for example, which sales channel has decreased, or all sales channels has decrease. What are the reasons and what is the plan to fix it? Will there be a new marketing campaign or discount to compete with other software brands? In long-term, both sides may also give thought to new channel to reach final-tier players,

Vendor X may suggest a new channel that other distributors have used that the trading company have potential to follow. Also, they could give support to make a market research about IT software trend in Vietnam. This is one of many win-win plots that two partners can together achieve if they invest in the partnership management program.

7.2 Implementation of CMROWC

As mentioned above, the author strongly suggests the use of Contribution margin return on working capital (CMROWC) measurement in the supplier dashboard.

Because this figure is the combination of all-important measure to distributor, it would evaluate the success or failure of improvement plan executed from both side. Therefore, it is worth to be monitored by the relationship and sponsorship contact level. Moreover, the calculation could be used for each product under brand Vendor X. If they fall in each group of the product portfolio, there should be

improvement plan in long-term, for example, to promote product from “sleeper” to “traffic builder”, or decision to cut “loser” products

The calculation that support product portfolio is already presented in section 3.3.1. The purchasing department together with Analysis and Control should work together to categorise, at this moment, Vendor X products, later, could be all other brands’. This way, there is a clear target and clear view of what is “trouble maker”, what should be accelerates in marketing and sales.

It is understandable if the case company does not want to share details of how the CMROWC is calculated as some information such as contribution profits and working capitals are sensitive. However, they can only show the result of the calculation, not all of the contribution to the algorithm. Or even with higher level of privacy and business secret protection, they can still monitor this measurement internally, to see how their investment in vendor relationship with Vendor X has profited or fail to return any value; in long term and short term.

In order to obtain comprehensive information for this measurement, the case company should strictly record information and constantly enter information in the EDI system. Currently Oracle system is being used to monitor VAT, pricing, volume, but some options are still unexploited like in Inventory and warehouse. And some information is stored in the old way, which is by excel files. This dispersed way of information collection should not continue and information should be recorded in one comprehensive and complete database so that purchasing, analysis & control, partnership management department, and three contact-points can access easily.

7.3 Implementation of Product Portfolio

As mention above, product portfolio is a good way to analyse the current situation of blended margin in Vendor X products. Which products generate a high or low earn/turn? And what can the distributor and vendor together do to increase the turn and earn of those products.

In section 3.3.2, a chart with information of contribution margin and sales/volumes would be used to create the product portfolio. A careful assessment of cost, spending analysis on each Vendor X product type to allocate cost of sales and variable cost is key. Naturally, without a correct input, contribution margin would not reflect real situation. Having said that, the current KPIs and EDI, which are where the information could be extract, have been in place and frequently review. Therefore, the work on calculating contribution margin would not be starting from zero.

There has not been a strategic way to categorise the products, they are simple being put in software or hardware groups, this product portfolio is a good way to start, and because it depends on the earn and turn, it reflects a nature of productivity (turn) and profitability (earn) of each product type. And promote the strategy that relate to those two key aspects in a distribution business.

For example, if a server product, falls into group “sleeper” because of low turn. The case company then would concentrate on moving it to the “traffic builder” or “winner” group by accelerating its sales. Marketing campaign in all channels or new channel is a solution, for instant by aggressive advocate the use of database management in government, organise event such as discussion and conference about the use of server in managing information in multinational-corporation and large organisation together with Vendor X specialists and IT Solution provider players.

Another benefit of product portfolio is that it increases the connection between purchasing department and sales department. If the sales unit order a product that falls in the “loser” group or “traffic builder” and there is a possible switch that lie within the “sleeper” and “winner” group, the purchasing department would then communicate back with the sales team, highlight them about the switch choice and advise them to aggressive cross-sales with the customer in order to increase the turn of such product. The information would be a two-way street and the collaboration internally is strengthening between two departments.

A product portfolio would be introducing to the vendor, or managed internally. The choice depends on distributor naturally. Either way, by monitoring the moving of

each product “point” as demonstrated in figure 4, and also the changes in Contribution margin and volumes, the company can access and evaluate the effectiveness of their improvement plan and short-term, as well as long-term strategy.

7.4 Vendor Negotiation and Supplier measurement

During the “measurement” step, the case company should not only evaluate the vendor, but also itself, their own leverage in a detail and statistically reports. Some suggestions in table 2 section 3.4 are already presented. Activities such as benchmarking and information superior emphasise on the use of market and competitor analysis. Particularly, when the sales of Vendor X in case company has been dropping constantly, these research results would served as an “added value” in the relationship, and support the collaboration between two organisations.

There is one point in section 5.4 that mentioned total control of Vendor X over sensitive issue like unit price, payment condition and delivery. This is where the negotiation could start. After benchmarking with vendor’s competitors, studying market movement and forecast, the case company could suggest revision of their long-term X Authorized OEM Distributor Channel Agreement.

Information collected would also support case company’s negotiation in the exchange plan in the final steps of SAME framework during its vendor relationship management program.

Together with all the measurement of supplier performance, and own understanding of case company distributor type and leverage, two contact points: relationship and sponsorship would have a fact-based report, document during negotiation with Vendor X, either in reducing price and cost, in initiate new contract regulations, or reduce/increase the product types that the company is distributing.

8 Conclusion

Purchasing or procurement in general, plays an important role in contribution to the sustainability and profitability of a company. In distribution industry, it is even more important because of the nature of thin profit margin gain of distributor. The purchasing function and procurement activity and strategy in distribution should receive more attention from scientific research and continue to be analysed and improved in business practice.

This thesis studied the purchasing management of a trading company in Vietnam and furthermore, its relationship with key vendor- X. The study has revealed several key findings. The case company's purchasing is maturing from the phase "Cost driven" to "Integrated" and in its supplier/vendor relationship management with Vendor X, the company is heading to "living together" stage. In the current situation, the company- a "broadliner" distributor in nature, certainly have leverages and firm ground to run a supplier/vendor relationship management program and ask for collaboration from X.

The author also assesses challenges in the case company management and operational level: lack of product portfolio, lack of targeting key supplier as well as supplier management program and joint investment initiative. Without a clear move from management level, the operational level works like a routine in order to assure that the sales departments get the products they ordered.

Improvement idea in order to overcome these challenges is demonstrated properly in the recommendation. By using SAME framework, the company can build up a program/system to manage its relationship with Vendor X. The product portfolio, which categorise product by volumes and profit margin, would give more focus on profitability improvement and support the SAME framework establishment. The figure of CMROWC is one of the best figures in evaluation supplier/vendor performance and it should not be missed out when the case company evaluate and monitor Vendor X and its products' performance. The recommendations are based on theory, studied data and interview.

Certainly, if the program proved to be a success with X, similar process and activities can be organised with other key vendor.

All in all, some area is covered not in detail or information in the findings is written with a general view. This is due to the commission contract between author and the case company. They have requested to maintain a high level of privacy and business secret protection, so that the company identity stays anonymous.

Bibliography

Annual report of case company. 2014.

Annual report of Vendor X. 2014.

Arlbjørn, J. 2010. Supply chain management: sources for competitive advantages. Academica. Aarhus.

Business Monitor International. 2012. Vietnam Consumer Electronics report Q3 2012. Business Monitor International Ltd. London.

Committee on Homeland Security and Governmental Affairs. 2012. Exhibits hearing on Offshore Profit Shifting and the U.S. Tax Code. pp. 19-23. Washington.

Creswell, J. W. 2005. Educational research: planning, conducting, and evaluating quantitative and qualitative research / John W. Creswell. 2nd edition. Pearson Education. Harlow.

Dent, J. 2008. Distribution Channels: Understanding and Managing Channels to Market. Kogan Page. London.

Investopedia. Definition of vendor. URL: <http://www.investopedia.com/term>. Accessed: 20/09/2015.

Lysons, S & Farrington B. 2012. Purchasing and supply chain Management. Pearson. Harlow.

Mena, C., Hoek, R. & Christopher, M. 2014. Leading procurement strategy: Driving value through the supply chain. Kogan Page. London.

Mr T. 02.10.2015. Analysis and Control Officer. Case company. Email message.

Ms L. 30.09.2015. Deputy Manager of Procurement Department. Case company. Email message.

Ms T. 01.10.2015. Purchasing specialist. Case company. Email message.

MyanmarTimes. 2013. USAID and Cisco partner up to support ICT Development.

URL:

<http://www.mmmtimes.com/index.php/business/technology/4599-usaid-and-cisco-partner-up-to-support-ict-development.html>. Accessed: 15/10/2015.

Weele, A. 2010. Purchasing and Supply Chain Management. Cengage Learning. Andover.

Appendices

Appendices 1: Procurement maturity model adapted to Mena et al (2014)

Aspect	Transactional	Cost driven	Integrated	Leading
Alignment in strategy	No strategy	Have strategy but independent from organization's	Support organization's strategy	Provide strong input to value and strategy
Scope of activities	Administrative One-off deal Order processing Hardly any tendering	Commercial activities Tendering Getting the deal	Outsourcing Global sourcing Strategic sourcing Supplier relationship management (SRM)	End-end supply chain management SRM
Relationship management	No SRM No involvement with other functions	Limited SRM Moderate integration with internal functions	Portfolio approach to relationships Engage in SRM Extensive internal integration	Seen as customer of choice by supplier Engage with other stakeholders Close internal alignment
Key performance indicators (KPIs)	No structured targets and limited follow-up Focus on number of purchase order, volume metrics and order process compliance	Targets and reviews focus on financial results Focus on price reductions and contract coverage	Balanced Scorecard Focus on total cost of ownership and business alignment	Comprehensive Balanced Scorecard Continuous monitoring Focus on TCO, innovation, sustainability and continuous improvement
Use of technology	Ad hoc use of IT	Automation of clerical activities to reduce cost	Investments in ICT, e-procurement	Extensive use of e-procurement and internet technologies.

