

Hoa Nguyen

Supplier Selection Process in Café Industry

Case: X Coffee vs. Starbucks

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Author(s)	Hoa Nguyen
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With the competitiveness of today's business environment, customers are becoming more demanding. Value-added quality is of their first concern due to the recognition of defect-free products. Those result in the competitive role of the supply chain to provide the market with high-quality products or services with competitive prices and fewer risks. This is totally achievable, based on the efficiency of the firm's production as well as the inputs from right suppliers. The study, through an investigation into the purchasing process at X Coffee, gave an identification of how the process of supplier selection, with a development of comprehensive selection criteria could improve the company's situation.

A literature review on related concepts, including supply chain, purchasing and supplier selection process was conducted as an important knowledge base for the empirical research implementation. The author adopted qualitative research method with semi-structured interviews and the authors' observations at X to achieve the study's objectives. The benchmarking tool was used to give a closer look at Starbucks – the leading coffee chain's success with well-developed supplier selection guidelines, based on which X recognizes drawbacks in its selection process and plans for potential improvements. The result of this thesis is of benefit to X Coffee and parties interested in the supplier selection process. However, the suggestions are limited to the area of cafés industry.

The result shows that an effective and optimized supplier selection process is of pivotal importance not only for manufacturing organizations, but for all the organizations in any

competition. The decision of choosing a right supplier can help reduce purchasing risks, maximize value, increase total quality management productions, or all of them. The author's suggestions for X Coffee include a broader search for potential suppliers, an implementation of a supply base, the development of predefined selection criteria and a tool for disciplined selection evaluation.

Keywords

Supply chain management, purchasing, supplier selection process, supplier selection criteria, competitive advantage

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1 Introduction

1.1 Background

The coffee shop industry in Finland is growing day by day. Recently, the arrival of the two big chains Starbucks and Espresso House in this niche market has made the industry more and more competitive. Besides big players like Starbucks, Espresso House, Coffee House, Robert Coffee and Wayne's, other medium and small local cafés are also fighting against each other to survive. Changing interior designs, training more professional staff, improving customer services, or launching new products is regularly taken by shops' or chains' managers. Those players mostly focus on changes in marketing activities, or personnel development, but forgetting competitive advantages of the supply chain, especially the supplier selection process. The thesis's target is to present the pivotal roles of supply chain and how buyers can select the right and optimal suppliers. This is significantly important since only optimal suppliers can deliver the best quality of products, maximizing the supply chain value. For coffee shops, the quality of coffee beans or food & beverage ingredients will increase the competitive advantages of the company.

The author has spent more than two years working in the industry of coffee shops and recognized the importance of supplier selection process towards the end-product quality, which directly has an impact on competing force. The thesis author would like to initiate the topic "Supplier selection in café industry" with a purpose to find out the most influential factors in selection process, from which a decision of the right suppliers is made. The thesis started with a literature review on related concepts. In the later part a qualitative research was done with the help of semi-structured interviews, which were delivered directly or indirectly to managers, staff and customers of X Coffee. Data received were analysed. A proposal plan was created for enhancing the foods and drinks' quality as well as the coffee shop's competence in order to kick off the buying force.

1.2 Objectives, scope and methodology

The research aims at qualifying factors that mostly influence the process of supplier selection in the coffee shop industry in Finland, especially in Helsinki. By going through case companies, doing wide-range literature reviews and recording author's own observations from working in the field, the thesis provides findings on the benefits of optimizing supplier selection and identifying most influential factors, which are believed to create competitive advantages at a coffee shop.

In the world of globalization, new policies and regulations will force new entrances of many suppliers. Supplier selection process is considered one of the most important steps of supply chain management in business. In a Journal of Applied Business Research, a statement of Cheraghi, Dadashzadeh and Subramanian (2011: 91-108) is shown as below:

For many organizations effective supplier evaluation and purchasing process are of vital importance. As the pace of the market globalization quickens, the number of potential suppliers and the number of factors to consider when selecting suppliers increases.

It is clearly that in the past years, the competitive advantage of supply chain management, especially selecting suppliers is neglected. Britt (2007) also emphasized this fact by saying: "Companies preferred changes on competing services and products, but not processes".

The thesis takes into account the process of choosing the right supplier, including setting pre-qualifications and making the decision of the best supplier. The stages afterwards such as contracting or evaluating, etc. are of purchasing department's responsibility, which are not discussed here.

As mentioned earlier, the research aimed at identifying the important roles of supplier selection process towards the end-product quality and the competitive advantage of a coffee shop; as well as the factors that have impacts on the process. Based on that, the research questions are as follow:

Main question:

How could the quality of supplier selection process improve the competitive advantage of the coffee shop?

Sub questions:

1. What are the market and the competition of coffee shop business in Finland like? How has the demand developed in Finland?

The question helped to identify the current situations of the café market. Since it was quite expensive and time-consuming, own research with statistical data was not shown in the thesis. Instead, the author presented an analysis of growing competitions through data collected from secondary sources. Besides, there was an explanation on the growth by analysing market demand, opportunities and challenges of coffee shop business. Five forces of Porter analysis tool was adopted for the market study.

2. What are the competitive advantages of coffee shops in Finland? How have they performed?

Competitive advantage was regarded as a weapon to thrive in doing business. It could come from quality, experience, or price, etc. To answer this question, the authors focused on the performance of coffee shops operating in Finland by examining the way they distinguish themselves from the rivals. The semi-interview conducted at X also gave a clarification on what the X's owner perceived as their competitiveness.

3. What makes the supply chain management (SCM) as a key driver to improve company's competitiveness?

This sub-question played an important role in supporting the base of literature reviews in the thesis. It figured out the factors that make SCM & purchasing a key driver of success. Besides, impacts of SCM & purchasing on competitive advantages were presented.

4. What are the main factors that influence the supplier evaluation and selection process? How those factors affect each other?

The author investigated the role of supplier selection and its influence on an effective SCM & purchasing. An explanation on the process of supplier selection was presented. A list of criteria that affects the decision of right suppliers was introduced. The thesis also provided analyses on real-life case studies.

Secondary research was adopted to make literature reviews on the studied subjects. Method used for the empirical research implementation was qualitative research method, with the help of semi-structured interviews and the author's own observations during years working in the industry. The author chose X Coffee as the main studied case. Besides, in order to give insights into how X has done in supplier selection process compared to the current leading competitor in the industry – Starbucks, bench-marking tool was also employed. More details on rationalization of each method and how they were implemented are discussed in chapter 2.

1.3 Limitations

Qualitative research in this study involves a small size of participants that it is unlikely to apply as generalization or for academic use. Besides, case study analysed by the author may be true in the chosen market in Finland with the particular condition. The case generality may not be used as explanations for similar problems at any other organizations. Therefore, it is suggestive to do additional further research for verification elsewhere. Lastly, the research was done by a Vietnamese student in Finland; hence, the language and culture barrier could be mentioned as one of the limitations when conducting the research. However, the author has tried her best in communication as well as explaining the solutions and findings with the help of supportive supervisors. The limitations are more discussed in chapter 2.5.

1.4 Case companies

Case study was adopted to analyse the research problems mentioned in chapter 1.2. The author used two case companies: the main case is X Coffee – a family-owned

coffee chain in Finland and the second one is Starbucks – one of the biggest coffeehouse chains in the world. In this thesis, Starbucks was used for bench-marking, figuring out possible improvements for X Coffee in the future.

1.4.1 X Coffee

X Coffee is a new coffee shop that belongs to Y Capital Oy, which was established in December 2011. This company mainly operates in the field of café & restaurant and provides catering services. Besides, Y Capital Oy also involves in business areas such as supplying services of housekeeping, cleaning, web services or retailers. The coffee shop, formerly, was known as a franchise of Wayne's Coffee. In 2012, it stopped franchising relationship with Wayne's and started as a family-owned café under the name X Coffee. Since then, X has operated in downtown Helsinki with the two stores located in Kaisaniemi and Kamppi.

As a small family-owned coffee shop, the organizational structure has quite a simple pyramid style: the CEO, the management team (store managers), and staff. Management activities are mostly operated by the CEO – store owner, who makes decisions related to marketing, human resource, supply chain and purchasing activities, etc. She directly deals with suppliers and manages the control over the quality of products and services. The two store managers also support those activities, involving in the supplier selection process through regular assessments of the supply quality and customers' feedbacks. (X Coffee's owner 2016).

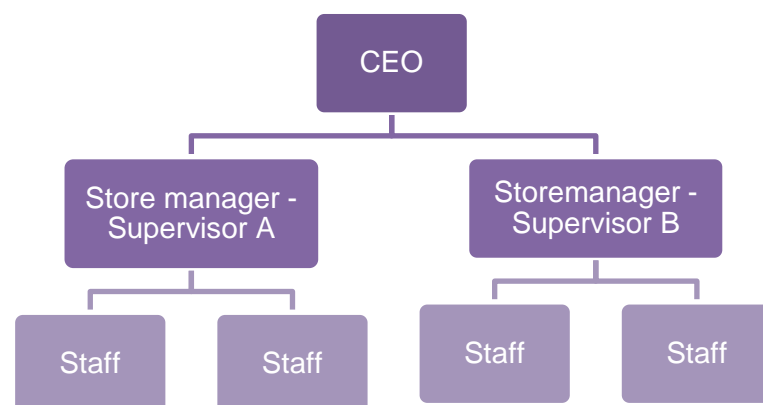


Figure 1: X Coffee's organizational structure

Though X Coffee is quite new compared to other big competitors in the market, such as Robert Coffee, Wayne's, Espresso House and Starbucks, it has drawn customers' attention to the spacious and convenient locations in centre Helsinki, a wide range of foods and beverages with an up-to-date menu, especially highly-recommended coffee, and exceptional services. However, in order to compete with big players mentioned above and even more to come in upcoming years, X Coffee needs to gain more competitive advantages. The thesis, based on the influences of globalization and the developing role of supply chain management, selecting the right suppliers, would demonstrate comprehensive recommendations for future improvements at X.

1.4.2 Starbucks

Starbucks was established in 1971 with a single store located in Seattle's Pike Place Market. Nowadays, Starbucks is present in 70 countries with more than 24 000 retail stores all over the world. With a mission "to inspire and nurture the human spirit – one person, one cup and one neighbourhood at a time", Starbucks becomes the best known chain of coffeehouses that serve every customer not only the best coffee possible but a feeling of connection at stylish and conveniently-located stores. Starbucks' goal is an ability to confidently ensure that coffee must be grown under highest standards of quality. (Starbucks' official website 2016).

In May 2012, Starbucks Coffee Company and SSP, the leading dedicated provider of food and beverage brands in travel locations worldwide, declared the opening of the first Starbucks store in Finland. The store is located in the Arrivals Hall 2B (Terminal 2) at Helsinki Airport. With a convenient location (around 30 minutes bus from the city centre), it is accessible to both the passengers and the visitors from the city. At the moment, Starbucks has totally 5 stores, which are located in Helsinki – Espoo – Vantaa areas. The stores offer a wide range of foods and exceptional beverages, which includes freshly-brewed coffee, espresso-based drinks, tea, non-coffee blended beverages, and specialty beverages (e.g. Frappuccino). They also serve small portions of breakfast, lunch, or snacks like yogurt and fruit cups, muffins, cakes, baked pastries, bagels, sandwiches and Starbucks Petites. (Starbucks's New Room 2016).

Starbucks is named as the “reigning king”, who is consistently on the top of the retail coffee and snacks industry, in the popularity contest (Hennessey 2012). In order to achieve this, Starbucks has years focusing on well-run supply chain (Cooke 2016) with an aim to reassure the quality from a coffee bean to a good cup of Starbucks coffee delivered. Indeed, coffee served to customers has been transformed under many strict processes of gathering, drying, roasting, grinding, suspecting, etc. However, before those processes take into progress, the foremost step is to select the right suppliers, who have gathered best coffee beans in the world. Starbucks continually updates its key guidelines in Supplier Guidance Global Requirements, which could be regarded as one of the most important component of Starbucks’ success. (Starbucks’ Official Website 2016).

2 Research implementation

This chapter introduces methods that author used for the research. Research implementation explains the arrangement of each stage in the research from collecting raw data, doing analysis till proposing comprehensive findings.

2.1 Research design

The research aims at answering the main question “How could the quality of supplier selection process improve the competitive advantage of the coffee shop?”. There will be two main problems that need to be solved:

- to analyse the main criteria that influence the process of supplier selection;
- to find the relationship between those criteria and the competitiveness of the coffee shop.

Vaus (2001: 9) compared that to conduct a research is like to construct a building: both needs to have first a design or a structure, based on which such research can be smoothly developed or a building can be grown with plan-sketching, permits-obtaining, and work-scheduling. A research design helps to explore information and knowledge, to brainstorm the specific outline of the research topic, to finalize methods, techniques and instruments (Boeije 2010: 19) with a purpose to clarify given research question(s) unambiguously (Vaus 2001: 8).

The research gathered data through primary sources and secondary sources. Since the process of selection supplier is an interesting topic and was studied in many earlier studies, the author found no difficulties to initiate literature reviews before sketching the research plan. Various **second data resources** were accessed. Boeije (2010: 55) also suggested reading theoretical literatures, or talking to field experts is also a way to do reviews. Besides, in order to gather information involving observations, experiences, and opinions about the research issue, **primary data collection** was chosen as the most compatible tool (Hox & Boeije 2005: 594).

The method used was **qualitative research**. As mentioned previously, the research question concerns “how” and “why”: How the quality of supplier selection process can influence the competitiveness of X Coffee in Finland, **case study approach** was preferably employed for an explanatory purpose (Yin 1994: 6), with two case companies: X Coffee and Starbucks. **Interviews** were conducted for experience, thoughts, and personal views on the studied phenomena.

2.2 Data sources

In this thesis work, using secondary research was such vital to approach literary knowledge that supported the research topic. Secondary data was then reused for evaluating and examining if it was useful for answering research questions. Secondary data was categorized as two types: internal (e.g. company’s records, archived documents) and external sources (e.g. books, internet, and published materials). Doing secondary research helped the author to save time, cost, and efforts with an easy access. However, when using secondary data, the reliability of the information was of the author’s responsibility. (Ghauri & Grønhaug 2005: 91).

In some cases, secondary data might not available for the author’s purpose. Using primary data was necessary to enhance the convincing level of the study. Primary data took more time and costs than the secondary data. However, it was regarded as more consistent and reliable with the research topic since it was designed under the control of the author. (Ghauri & Grønhaug 2005: 103). In this study, primary research was conducted under the two main forms:

- The author’ observations;
- Semi-structured interviews with managers, employees, and customers from companies in the coffee shop industry.

2.3 Qualitative research

Qualitative research does not employ numerical data or any measurement but insights, or understandings from the respondent’s point of view, by observations, by interpretation or generalization from cases (Reichardt & Cook 1997). The author chose

qualitative research method due to own consideration of the research problem as well as the main purpose, which was to study how influencing criteria of supplier selection process on company's competitiveness. Griffin (2002:6) reckons that this method is regarded with flexibility of unstructured interviews, and observations, which helps shortening the distance between researchers and respondents, enhancing respondent's trusts, and encouraging responses to sensitive or difficult topics. Despite a small scale of sample size and observations, each observation was studied under many aspects. Therefore, the thesis could have the benefits of an in-depth analysis with better understandings of the given context.

2.3.1 Case study

Ghauri (1983), Bonoma (1985) and Yin (1994) agreed that "the case study approach is often associated with descriptive, explanatory or exploratory research, without being restricted to these areas" (as quoted in Ghauri & Grønhaug 2005: 114). Ghauri (2005:115) also stated that case study research is not applied to all kinds of research, but chosen on the base of the research objective and problem incurred. When using case study method, data is collected through many channels as primary sources, like a collection of company's archives, financial reports, a formal speech, observations, or interviews. In this thesis, case study was used to get opinions, behaviours, and experiences on the important role of choosing the right suppliers from different views of managers, staff and the end-customers. Findings from case study were useful for the clarification of testing and developing theories (Ghauri & Grønhaug 2005: 115 & Yin 1994: 13).

Firstly, X Coffee (in Finland) was chosen for identifications of given research problem. Since this is quite new coffee shop business in Helsinki that the small size would help the author to save time and resources to conduct in-depth studies and analysis (Ghauri & Grønhaug 2005: 118). Moreover, since the author has two years working in the organizations that own observations and communications with work fellows, customers and the management group on studied objects were easily taken. Studied factors were analysed within smaller units of the organization, relating to purchasing activities. Besides, since the thesis objective is to produce generalizable knowledge about how the supplier selection process in a coffee shop influences competitiveness, and the

importance level of different selection criteria, etc. in different organizations; therefore, **comparative case studies** method was adopted. Comparative case studies involve analysing both similarities and differences across two or more cases, which share common goals or focus (Goodrick 2014: 1). Starbucks (Finland) was collected as the second case in the research. Choosing a big coffee chain is to provide in-depth information on the studied problem (van der Meer-Kooistra 1993, cited in Ghauri & Grønhaug 2005: 119). Moreover, the author would like to make an evaluation on Starbucks' success, based on which X Coffee could have a lesson and strive in the Finnish coffee shop business. There are some phenomena systematically questioned and identified in both organizations so that comprehensive conclusion and practical recommendations are drawn in the end (Ghauri & Grønhaug 2005: 116).

2.3.2 Interviews

Semi-structure interviews were employed to collect primary data. Since it benefits from structured and unstructured interviews, semi-structured helps reduce the weaknesses and limitations from those two (Ghauri & Grønhaug 2005: 132). In this research, respondents were determined in advance. They are managers, who have main responsibilities in purchasing activities; staff and customers, who experience quality level of the coffee shops. Besides, using open-ended questions interviewers could give respondents a comfort to discuss the topics, having opportunities to approach further edges of data by giving more hints or probing into interviewees' behaviour or experience on questioned issues (Mathers, Fox & Hunn 1998: 2). In this case, the open-ended question enabled flexibility and freedom of choices.

Due to the limits of time and few presents of the researcher in Finland, **interviews** were done both face-to-face (personal interviews) and through email. The interviews were conducted in small sample size, with predetermined personnel: X Coffee's owner, store managers, staff and regular-visit customers. The questionnaire can be found in the appendix 3.

2.4 Data collection

Data were collected through the author's own observations, experiences in the industry as well as semi-structured interviews taken at the coffee shops. The researcher had around 10 days in Helsinki, from 23rd March 2016 to 2nd April 2016. Due to a tight of time, some interviews were done face-to-face, the others were conducted through email and with the help of X Coffee's staff (See table 1).

Table 1: Interviews implementation at X

Position	Interview dates	Interview methods	Purpose of the interviews
The owner	26.3.2016	Face to face	To analyse the SCM at X, in term of the supplier selection process and selection criteria.
Store manager 1	28.3.2016	Face-to-face	To ask for the perception on some selection criteria; the reactions from customers.
Store manger 2	10.4.2016	Emails	To ask for the perception on some selection criteria; the reactions from customers.
14 customers	varied	Face-to-face	To ask for opinions on criteria let them back to repurchase at X.

The first interview was done face-to-face on 26th of March 2016 with the informant named A, who is the owner of X Coffee. The interview lasted for around one hour with the questionnaire (appendix 3) and a criteria-scaling survey (appendix 4). Besides, the coffee shop's owner happily suggested a discussion on a few more issues related to the research topic, such as an expansion plan and a desire to enhance the supply quality.

There were two interviews conducted with the two store managers in Kaisaniemi and Kamppi. They are responsible for the quality of purchased products. One interview was

conducted at the coffee shop on 28th March 2016 with the store manager 1. Due to time limit and the manager's vacation leaves, the other was done through email. Though the questionnaire was sent on 10th April 2016, a quick but detailed answer was received in 5 days.

There were face-to-face interviews with staff working as the barista in the break time. Each interview took around 20-30 minutes with few questions regarding current coffee quality as well as their views on the selection of coffee suppliers.

Customers' opinions were mostly asked through quick interviews at the shop. The sample size was supposed to be around 10-15 customers due to a limit of time. Besides, the staff at X Coffee also helped the researcher to collect some written responses during the time the author was away. The total time for conducting the interviews and recording the responses was nearly 3 weeks. These interviews were quite short, but revealed research issues under customers' perceptions, which were different from the managerial views.

2.5 Validity and reliability

Reliability, according to Ghauri & Grønhaug (2005: 81) refers to "the stability of the measure". Improving this, Kananen (2011:95) states that reliability is the fact when tested results are repeated and consistent when using same methods and measurements.

Validity is defined as "the extent to which a study measures what it purports to measure" by Kimberlin and Winterstein (2008: 2278). There are different types of validity. Supporting this definition, Ghauri & Grønhaug (2011: 216) mentioned the four types of validity in quantitative research: descriptive, interpretative, theoretical, and generalizable. The first one, descriptive validity refers to the adequacy and objectivity of the collected data. In this thesis, interviews were recorded and accurately transcribed in the report. The bias of respondents was limited by using semi-structured interview method with carefully-prepared open-ended questions. The second type, interpretative validity, is regarded as the accuracy when researcher interprets data into results. This is also another reason why the research adopted many open-ended

questions to probe the interviewees. In this way, the researchers had more opportunities to accurately understand the participants' viewpoints, opinions and thoughts, especially in difficult or sensitive questions without subjectivity. Next, the theoretical validity is the degree to which researcher's explanation adequately fits the collected data. It is clearly that the level of understanding the phenomenon and the ability to suggest a true 'theory' is of importance for both the stakeholder and the (further) study. Lastly, generalizable validity defines whether the research result is truly applicable to other situations. As mentioned in section 2.3, the qualitative research was conducted with a comparative case study method with two organizations: Starbucks and X Coffee. Bench-marking tool was employed to deeply study the given problem in specific details. The interviews' participant number was 17 people from the organization and customers; however, each interview was regarded as a profound discussion with widened topics.

3 Supply chain management and purchasing

The history of the concept “purchasing” was traced back to late 1980s, when purchasing was a name of a firm’s department in railroad business. Not until the World War I and II did purchasing become more important and turn into a key determinant of the organizational success since raw materials and supplies were vitally critical for running mines and factories (Leenders, Johnson, Flynn & Fearon 2006: 3, Wendy 2013: 12). Over years, purchasing gained recognitions and was functionally refined. There were more professionals working in this field. Concepts of quantity, quality, timing, dependability made purchasing become pivotal as an organization’s competitive advantages. In late 1990s, building, managing and controlling relationships with suppliers were started with more long-term contracts. (Wendy 2013: 13). See a detailed timeline in appendix 1.

It is clearly that purchasing used to be regarded as a simple, “comfortable and predictable” progress. When there is a need to purchase, requests are sent to suppliers for bids; contracts are then discussed for “not-too-demanding” conditions of performance measurements. (Monczka, Handfield, Giunipero & Patterson, 2011: 6). However, in the past 25 years, the role of purchasing has changed quite a lot. Purchasing exponentially grows from simply buying goods and services into the management of many functions in a purchasing process (Butter and Linse 2008).

According to Collis (2013) globalization, an over-two-decades economic trend is one of factors that drive the frame of an organization, including supply chain management and the purchasing functions. Supporting this statement, Wendy (2013: 13) contends that companies need to improve their supply management to survive in the globalization. He continues on emphasizing the existence of competitions in all the markets, which forces companies to compete with continuous improvements and sustainable long-term relationships with partners in the supply chain.

3.1 Supply chain and value chain

A network through which participants are collectively transforming raw materials into finished products, which will be valued by the end customers is named **a supply**

chain (Harrison & Hoek 2002: 7). In other words, a supply chain assures the three activities from the organization that are the supply of raw materials from suppliers to manufactures, the manufacturing process, and the distribution of products or services to the end customers. Such organizations that relate to those activities create a supply chain. In a supply chain, there are flows of information, products, materials, and funds moving along the stages. (See an example of a coffee bean supply chain in figure 1)

A supply chain is a set of three or more organizations linked directly by one or more of the upstream or downstream flows of products, services, finances, and information from a source to a customer (Monczka et al. 2011: 12).

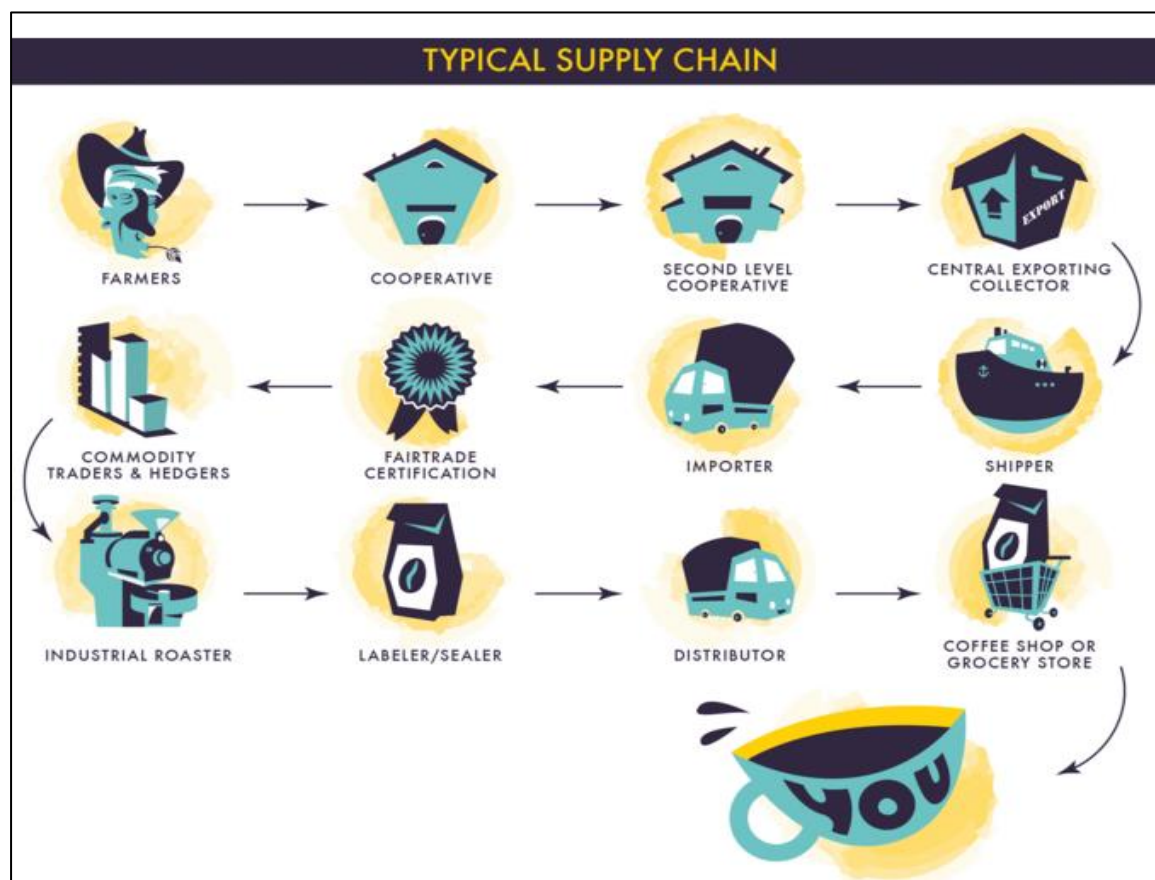


Figure 2: A typical supply chain of coffee beans (Field 2014).

While supply chain includes all activities related to fulfil a customer request, a **value chain** involves activities that a company used for creating competitive advantages, which will be discussed later in chapter 5. As presented by Porter in the 1980s, each firm has a collection of activities that are performed to design, produce, market, deliver, or support its product. These activities are presented using a value chain. A

value chain displays total value and consists of value activities, by which firms can deliver product with greater value to customers, and margin, which is the difference between total value and the collective cost of performing the value activities. (Porter 1985: 38). Value activities are grouped into two large categories: primary and supportive activities, as illustrated in figure 3.

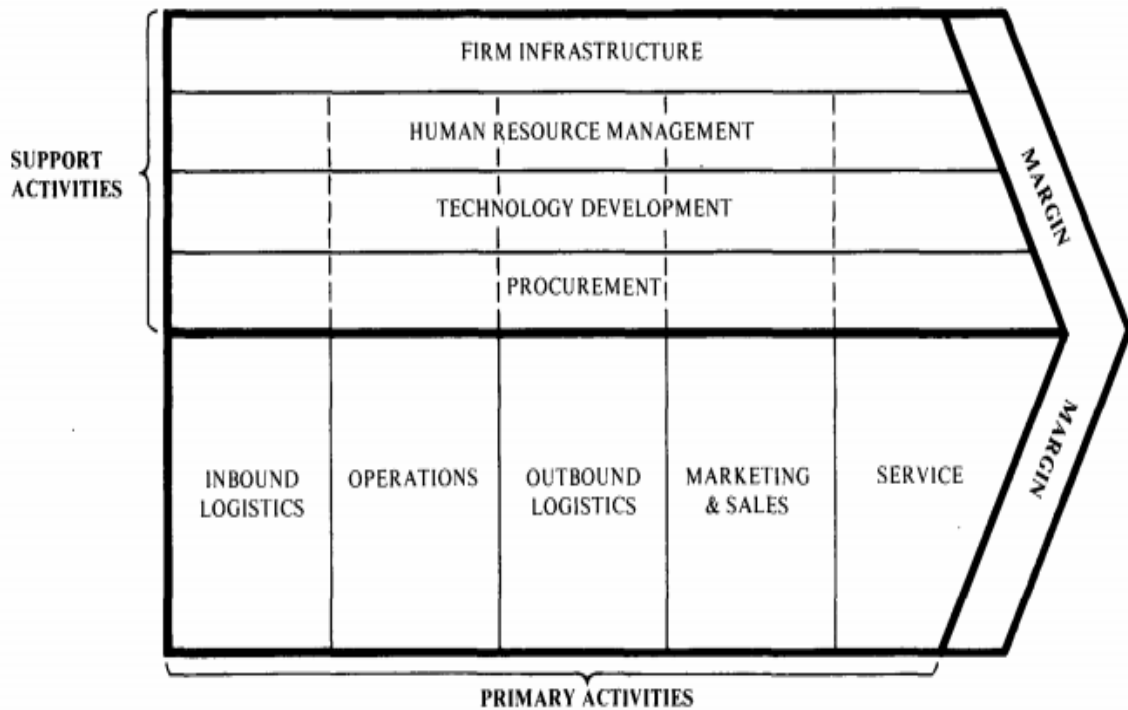


Figure 3: The generic value chain developed by Porter (Porter 1985: 37).

- Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and customer services;
- Support activities include firm infrastructure, human resource management, technology development, and purchasing.

3.2 Supply chain management

As defined earlier, supply chain consists of companies linked with each other through activities. The more effectively they operate and integrate with each other, the more efficient the supply chain will be. The process of sending goods from suppliers to customers will be enhanced. End products and services will be sent to customers with higher satisfaction. Therefore, in order to assure the optimization of supply chain,

organizations need to practice crucial supply chain management. (Canadian Supply Chain Sector Council 2016).

Supply chain management, then, endorses a supply chain orientation and involves proactively managing the two-way movement and coordination of goods, services, information, and funds (i.e., the various flows) from raw material through end user. According to this definition, supply chain management requires the coordination of activities and flows that extend across boundaries. Organizations that endorse a supply chain orientation are likely to emphasize supply chain management. (Monzka et al. 2011: 12).

Trade globalization together with the development of information technology is making customer demand increase, which creates stricter competitions in international markets. In order to stay competitive among rivals, supply chain is believed to be controlled and coordinated in a way that end-users' satisfaction is well met or surpassed.

3.3 Purchasing and purchasing process

Purchasing and procurement are used interchangeably (Leenders, Johnson, Flynn & Fearon 2006: 4). Being both a functional group (i.e. a formal entity on the organizational chart) and a functional activity (i.e. buying goods and services) (Monczka et al 20011: 10), strategic purchasing is a company's process of planning, implementing, evaluating, controlling and operating purchasing decisions (Carr and Smeltzer 1997). Purchasing activities are managed to meet companies' capabilities and long-term goals.

Another explicit definition from Weele (2013: 3) that emphasizes the important role of purchasing are:

The management of the company's external resources in such a way that the supply of all goods, services, capabilities and knowledge which are necessary for running, maintaining and managing the company's primary and supportive activities is secured at the most favourable condition.

In the supply chain, purchasing is responsible for driving the organization to “get the right product or service to the right place at the right time – in the right quantity, in the right condition or quality, and from the right supplier at the right price” (Grant, Lambert, Stock & Ellam 2006: 96; Monczka et al. 2011:10). The key role is to source reliable supplies and to keep companies’ activities operating smoothly, i.e. assuring supply continuity, managing the sourcing process efficiently and effectively, developing supply base management, developing aligned goals with internal stakeholders, and developing integrated purchasing strategies (Tate 2013). Besides, purchasing activities play an important role in maximizing total customer satisfaction. Since customer satisfaction mostly depends on suppliers’ performance (Leenders et al. 1994: 97), understanding customers’ continually-changing needs and requirements would help the process of supplier selection more guided and strategy-driven. Main stages of a purchasing process are described as in figure 4.

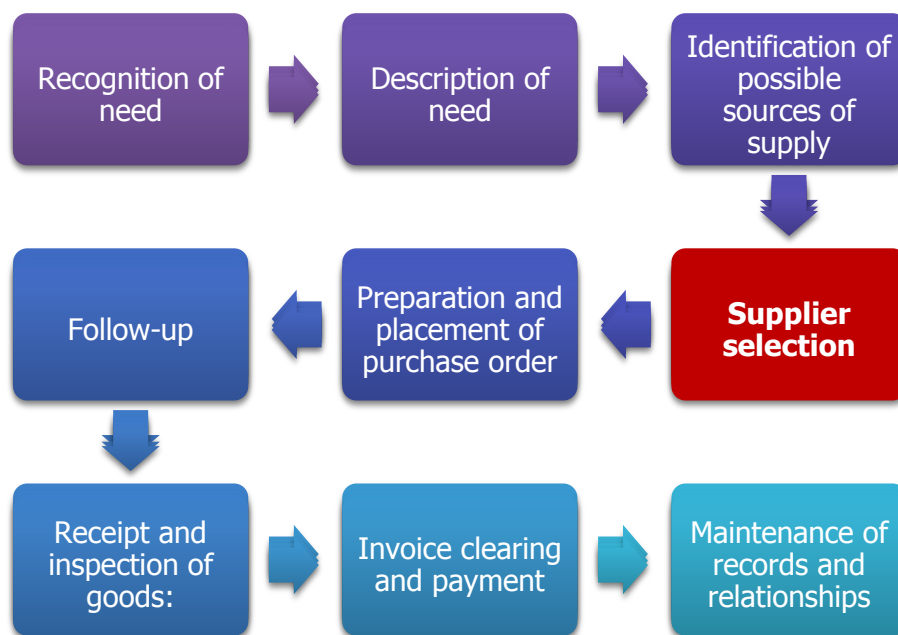


Figure 4: Purchasing process (Leenders et al.1994: 61-62).

3.4 Sustainability in supply chains

Customers are organizations’ assets. They are key determinants that grow the potential of a company. The latest research on the customer’s trend in sustainability

(SolarCity 2013) proves that no company could ignore the fact that sustainability is such a key market strategy.

72% of customers want to learn more about corporate sustainability initiatives
 75% of consumers would be more likely to buy a product or service if the company is making an effort to be sustainable
 82% of consumers are more likely to purchase a product that represents Corporate Social Responsibility than one that does not
 (SolarCity's Report on Customer Trends in Sustainability 2013)

Wollmuth & Ivanova (2014) figure out a noticeable increase of stakeholder pressure on sustainability in supply chain from investors, shareholders, customers or non-profit organizations. Sustainability is usually linked to the corporate social responsibility (CSR), which is about the business ethics. Organizations with social responsibility have to guarantee that their operations are ethical and have minimized impacts on the society, such as aspects of fair trade, good employment practices, appropriate relationships with suppliers and other stakeholders. (Grant et al. 2013: 31, 181). Sustainable supply chain is defined by the United Nations Global Compact (2010: 7) as "the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the lifecycles of goods and services" (as illustrated in figure 5).

ENVIRONMENTAL, SOCIAL AND ECONOMIC IMPACTS EXIST THROUGHOUT EVERY STAGE OF SUPPLY CHAINS.¹

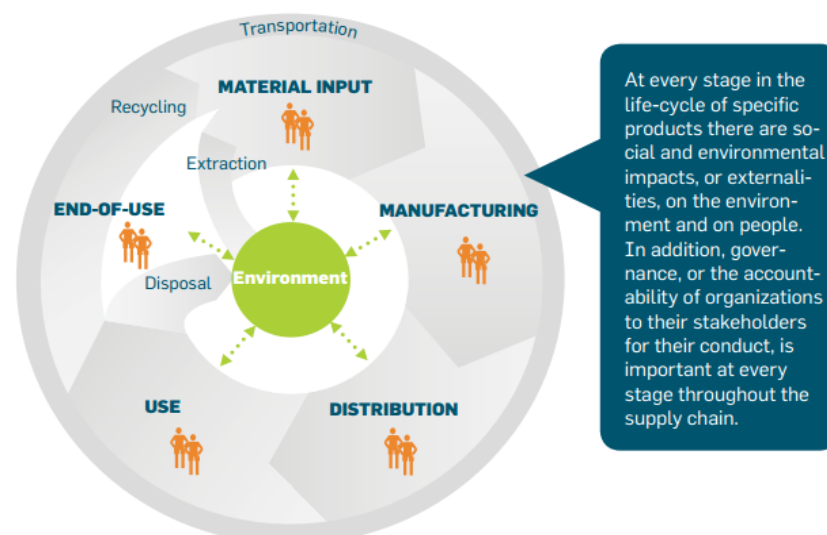


Figure 5: An illustration of environmental, social and economic impacts in the supply chain (Business for Social Responsibility, as cited in United Nations Global Compact 2013: 7).

Supply chain sustainability draws an increasing consideration from organizations since the more sustainable practices are done through the supply chain, the less negative impacts that are caused on society, environment and the economy, which guarantees the companies' compliance with laws and regulations as well as fulfilling the customer's growing expectations. Besides, involving sustainability in all upstream and downstream activities contributes to the creation, protection and growth of long-term environmental, social and economic value for all stakeholders involved. Long-term feasibility of the business and a social license to operate are secured and maintained. (United Nations Global Compact 2010:7). Agreeing on this opinion, Wollmuth and Ivanova (2014) add that companies can conserve resources, optimize operations and processes, enable business innovations, minimize costs, maximize productivity and enhance values of corporation. As mentioned in the Global Corporate Sustainability Report (United Nations Global Compact 2013: 4, 7), more and more companies are discussing issues of supply chain sustainability as well as setting their sustainability expectations for suppliers. As a result, besides traditional criteria used for selecting the right suppliers (see chapter 4.3), it is suggested that sustainability policies is becoming efficient criteria when accessing suppliers' sustainability performance (Clift 2003: 241).

4 Supplier selection process

With the competitiveness of today's business environment, customers are becoming more demanding and the recognition of defect-free products with value-added quality is first concern. Those lead to the fact that an organization needs to stay competent by delivering high-quality products or services to the market with competitive price and fewer risks. This is totally achievable, based on the efficiency of the firm's production as well as the inputs from right suppliers. Therefore, an effective and optimized supplier selection process is of pivotal importance not only for manufacturing organizations, but for all the organizations in the age of industrial competitions. The decision of choosing a right supplier can help reduce purchasing risks, maximize value, increase total quality management productions, or all of them. (Pal, Gupta & Garg 2013: 2667).

In this chapter, concept "supplier selection" will be discussed with its benefits as part of purchasing process. A pool of influencing factors is explained in more details. Finally a simple but common supplier evaluation method is also introduced.

4.1 The importance of supplier selection

In a supply chain, an organization that supplies goods or services to another organization is named as a supplier. This supplier plays an important role in the supply chain that it provides materials together with added value for the manufacturing process. (Accounting tools 2016). It is acknowledged by Muralidharan et al (2002) that supplier is one of the best intangible assets of a business corporation. Supplier selection hence is crucial to the manufacturing process, which starts from buying raw materials until delivering the end product to consumers (Gencer & Gürpınar 2006: 2475).

Supplier selection has become an interesting topic of many researchers with different definitions since 1960s. In 2014 Weele revised this concept in a simpler way as:

Supplier selection relates to all activities, which are required to select the best possible supplier and includes determining on the method of subcontracting, preliminary qualification of suppliers and drawing up the 'bidders' list', preparation of

the request for quotation and analysis of the bids received and selection of suppliers (Weele, 2014:9).

A right choice of supplier is believed to increase the competitiveness of the organizations (Davis 1993). The most suitable supplier is the one providing products that satisfy all the criteria requested by the organizations. Those products are viewed as the best inputs of the production process. A right supplier hence, maximizes value to the organization, which then delivers products with maximized value to the end customers. Supporting this, Paul (2015: 657) emphasizes the role of supplier selection for all the organizations through high quality products and cost savings, which meet the organization's expectations; create customer satisfaction and increase profitability.

However, there are potential risks in supplier selection that could pose risks to the whole supply chain, such as a bad outcome due to a fail of identifying business needs and objectives, a breakdown in the supply chain due to a delay of inputs, discontinuity in supplies, a reputation damage, etc. (SourcingSpeak 2011). Accordingly, a well-prepared and controlled supplier selection process is crucial to mitigate risks of purchasing.

Furthermore, a good management of supplier selection would guarantee 'Just-in-time' (JIT) supplies. JIT philosophy basically aims to eliminate wastes and work-in-process stocks in order to increase efficiency and reduce cost of inventory.

If made-in parts are produced in just the quantity required for the next stage in the process, just in time for the next operation to be carried out, then work-in-progress stocks are almost eliminated (Baily, Farmer, Crocker, Jessop & Jones 2008: 177).

Threats of JIT supplies mostly have an involvement in suppliers' quality: low quality of raw materials, delays, wrong forecasts of lead time, flexibility and availability of suppliers. Accordingly, a confirmation on JIT supplies or on the constant rate of productions depends much on the supplier selection process. (Baily et al. 2008:178, Harrison and Hoek 2005:223).

4.2 The supplier selection process

No business plays solely in the market. Each is operating in the cluster of organizations linked to each other with mutual relationships, such as buyer-supplier, buyer-customer, supplier-customer, etc. The more competitive the market is the more players are thriving to compete to be standout. A firm that aims at providing customers with high-quality products and reasonably lower costs needs to be really careful and professional in having a competent group of suppliers (Weber, Current and Benton 1991). Successful supplier selection process is a must to get right suppliers. The process is basically described in figure 6.

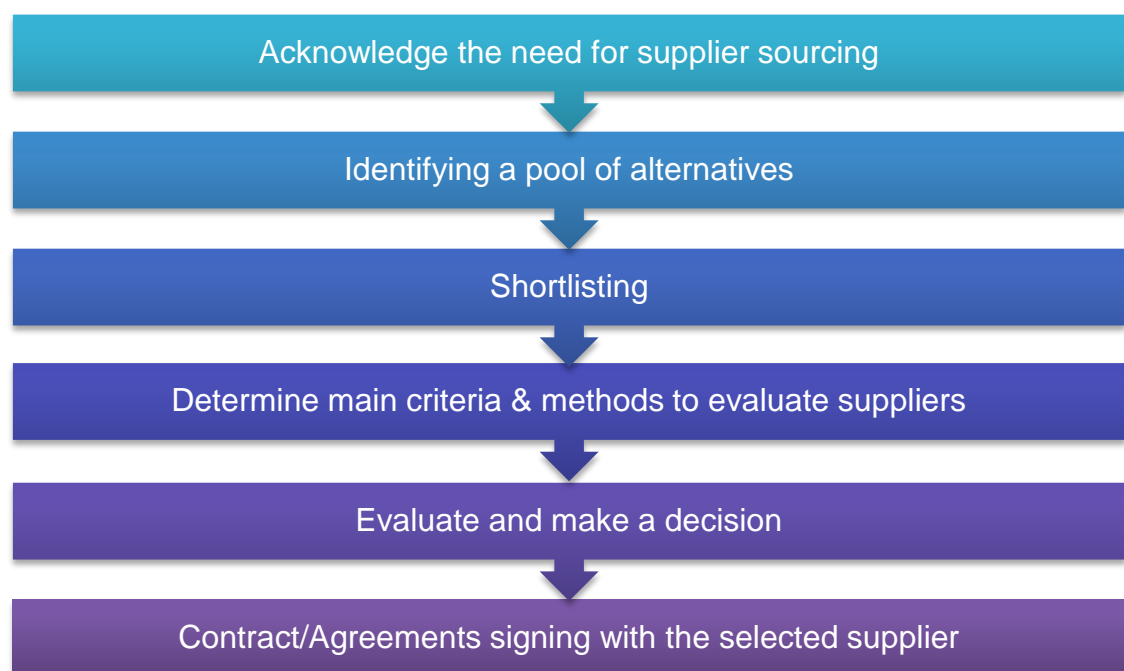


Figure 6: Supplier selection process (Monczka et al. 1998, as quoted in Abdolshaht 2013: 2; Leenders et al. 2006: 258-269).

Organization's need is specified when there is a need of purchasing. At this point, the information of what, how much, and when it is needed is acknowledged. Based upon this, accurate and comprehensive descriptions or specifications of the purchase are created so that the purchaser, the purchasing team or purchasing organization all know exactly what need to be purchased. The specification is then shared with suppliers (Leenders et al. 2006:62-63).

After the need is described, Leenders et al.'s writes (2006: 258) that identifying sources of potential suppliers is the next key step of the process. A list of alternatives is generated based on an organization's purchase order specification, which includes prequalification requirements (Weele 2014: 34). Each of alternatives has its own set of uncertainties and consequences, thanks to which the buyer is forced to thoroughly examine and look at the problem from many angles (mindtools 2016). According to Ahmed & Omotunde (2012: 52), the ability to find out the best suppliers depends on the ability to find out as many good alternatives as possible. Tate (2014: 16) suggests that a comprehensive base of alternatives can be created by using following sources of information: online sources, supplier catalogues, trade journals, trade directories, sales representatives, a database of supplier and commodity, visits to suppliers, samples, colleagues, and references.

When a list of potential suppliers is ready, the next step is to narrow down and create a supplier shortlist. As provided by Leenders et al (2006: 63), there are two key questions to be kept in mind:

- Does the supplier meet all the purchaser's requirements in short and long term?
- Are they motivated to supply these requirements in a way that purchasers expect in short and long term?

Potential suppliers will be contacted and sent a request on information (RFI) with references related to their capabilities, experience or past performance. RFI is used to see which supplier is interested in and qualified for the purchase order (Beil 2009). Besides, though time-consuming, the purchaser can pay direct visits to suppliers' premises so as to get additional information on the suppliers' capability. Based on the data collected as well as purchasing organization's evaluations, a narrowed list of promising suppliers then is sent a request for quotation (RFQ) and proposal (RFP) if applicable. After the purchaser has done researches on suppliers, assessments, comparisons, and negotiations, etc. the decision on the right supplier will be made. (Weele 2014: 35).

Ellram (1990), Weber et al. (1991), Min (1993), Dickson (1996), and Ghodsypour & O'Brien (1998) claim that the selection of the best supplier is made from the multi-criteria decision making process, which is influenced by lots of tangible and intangible

factors, which are cost, quality, service level, performance, etc (cited in Enyinda et al. 2010:26). These factors and pre-qualification requirements have to complement each other. The purchaser uses all the determined factors to give an assessment on each individual supplier. (Grant et al. 2006:102-103). Leenders et al. (2006: 263-265) figure out additional determinants that influence purchasers' decision, such as technical, engineering, manufacturing, and distribution strengths; management and financial evaluation. More details on each criterion will be clarified in chapter 4.3. Leenders et al. also notice that choosing the most suitable supplier will have an impact on the buying organization over the life of the purchasing contract. Therefore, organizational and category strategies are of importance when considering potential suppliers. They are single vs. multiple sourcing, manufacturer vs. distributor, geographical location of sources, supplier size, social, political, and environment concerns, joint purchasing with supplier, purchasing for company personnel, risk assessment, and strategy development, etc. (Leenders et al. 2006: 269-271). When all the comprehensive factors are defined, it is suggested to assign a weight to each factor by analysing its relative importance to the particular situation of purchasing order (Grant et al. 2006:103). The more essential the criteria, the more it weighs on the final evaluation.

It is additionally added by Grant et al. (2006:101) that there are possibly a wide range of evaluation procedures to select the most suitable supplier. The selecting method and approach is also different for every organization with every purchasing order. They also emphasize that the objectivity of the process will increase due to the consistency and a commitment to specific procedures.

4.3 Main factors influencing supplier selection process

The fast-growing of technology, sophisticated production processes and the increasing number of competitions, according to Shil (2010: 58), result in the fact that purchasing organizations have to face making decisions among a pool of potential suppliers, which explains for a need of selection criteria and compatible methods. Approving this opinion, Murali, Reddy & Phaneendra (2014: 533) and Senvar, Tuzkaya & Kahraman (2014: 21) mention: "Supplier selection is considered as a multi-criteria decision making problem". It is purchasing organization's different strategies that define different criteria of selecting suppliers with focus or weighting factors. Identification and examination of factors that influence the selection of right suppliers have been of high interests and attention of researchers.

Dickson did his early study (1966) with a survey of 273 purchasing managers in different countries in North America. The survey introduced a list of 23 critical factors. As shown from his research, the most important criteria were quality, delivery and performance history. Weber et al. (1991) published an article which claimed that the four most important ones with highest percentage were analysed as net price, delivery, quality, production capacity and localization. Ellram (1990) reckoned the four most critical criteria to be the financial statement of the suppliers, the organizational culture, the strategy of the supplier, and the technological state of the supplier. Barbarosoglu and Yagac (1997) listed the four principal criteria as supplier's performance, the supplier's technical capability, financial strength, and suppliers' quality system. O'Brian and Ghodsypour (1998) analysed the three most important criteria in supplier selection to be cost, quality and service. In a survey conducted in many industries, Stanley and Wisner (2001) concluded the two most important factors, which contributed to the evaluation of purchasing performance, were quality and on-time delivery. More criteria are shown in the appendix 2.

In summary, 23 criteria found from Dickson's work have been covered in most of the later work that studies the criteria influencing supplier selection. Cost criteria are of vital importance to organizations. However, purchasing organizations must consider other factors such as delivery and quality – which were ranked as the most important criteria in most of studies and research work (See appendix 2).

In the thesis, the author gives an explanation on most common criteria and how it critically influences the process of supplier selection and the whole purchasing practice. The suggested criteria are costs, quality, service level, supplier's profile, and global factors (Tektas & Aytakin 2009; Stanley & Gregory 2001). Figure 7 gives an overall look of those criteria.

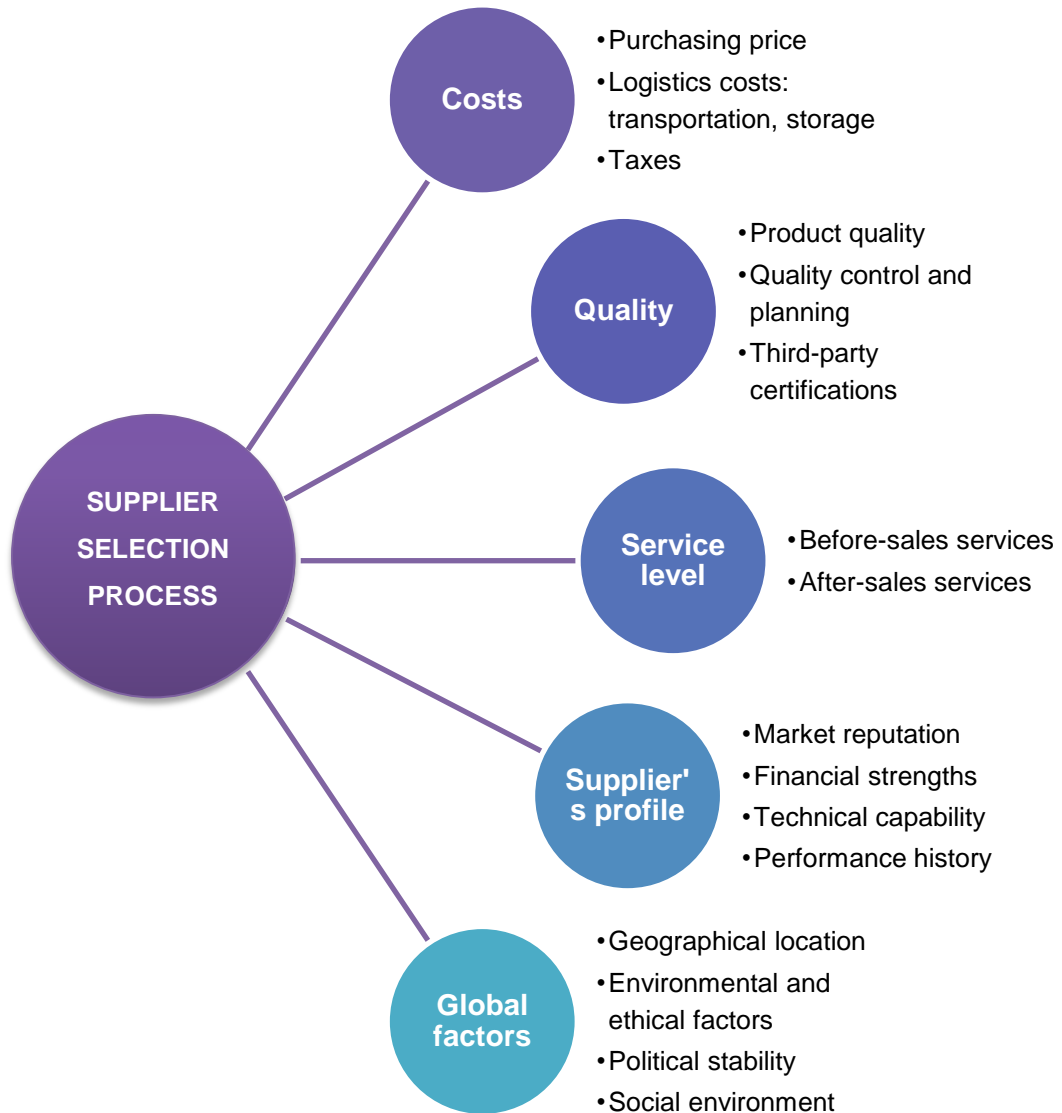


Figure 7: Common criteria influencing the supplier selection process (Tektas & Aytakin 2011; Stanley & Gregory 2001).

4.3.1 Cost criteria

In most of the researches cost is a top-ranked factor. Suppliers providing products or services with minimal costs will be preferable due to the cost pressure in competitive markets. There are many types of costs associated with a product. Based on these costs purchasers will draw a decision on the most suitable supplier. Hence the first step is to identify those cost elements. According to Kahraman, Cebeci and Ulukan (2003: 385), purchasing price, transportation costs and taxes are the most common related costs.

Profitability is regarded as the first concern of the buyers (Johnson 2010); accordingly, buyers try to seek for minimum price of products in order to maximize profitability. Competitively priced suppliers are attractive options. Clearly, there is not much the purchaser can do to control suppliers' product price. However, negotiations during the supplier selection process may help to minimize the price offered from potential suppliers. Some tips for purchasers in order to get good deals with suppliers can be explained below:

- Quote multiple suppliers. It is good to have at least three suppliers in consideration. Practice competitive pricing by letting the supplier know that the purchaser will come with the best price offer;
- Do not accept the first price offer, since you still have the other potential supplier waiting for negotiations. Do not rush and try to show the supplier that you "want it the least" (quoted by Mr. Lorenzen, from Lorenzen Capital);
- Discover areas of mutual gain. Increasing mutual gains can be a motive for supplier to think on price minimization, or other benefits like down payment, warranty length, etc. which also help to minimize buyers' expense. To achieve that goal, the purchasing organization needs to do research on the suppliers' goals;
- Help them save. It is essential to treat the suppliers well. Help them to save money means to help the purchasers to minimize costs. Hence understanding the suppliers' business as well as organization' strategy is of vital need;
- Make the suppliers feel ease when doing business with. The purchasers should have their deposit available. Be willing to offer big deposit, such as 50-70 percent to encourage suppliers to feel safe and less concerns of risks. The

higher the purchaser goes for, the higher bargaining power is increasing. Hence a deal on price is more likely to be made.

(Young Entrepreneur Council 2012; Kearns 2015)

It is worth mentioning logistics costs, especially costs of transporting and storing products. Transportation accounts for the significant part in the selling cost of products. For particular products, e.g. perishable products, providing low transportation costs with in-time delivery would be a competitive advantage to attract purchasers. (Grant et al. 2006: 200). Hartman (2016), by regarding logistics costs as such a key determinant to define production costs, suggests that it is essential to have a considerate thought of logistics and detailed costs related so as to maximize margins and minimize total costs.

4.3.2 Quality assessment

Quality means the ability of suppliers to supply adequate products in the conformance to specifications (Leenders et al. 1994: 124). Quality, as same as cost, is suggested as the first concern in supplier selection criteria list, by 98% of the researchers (Shil, 2010: 63). This criterion is essential to the purchasing organizations since it defines the quality of end products delivered to customers after production. When a product's quality does not adhere to the organization's defined specifications, the first to receive complaints from consumers is the purchaser. Hence, holding strict and continual quality assessment on suppliers' performance is of essential need.

According to Garvin (1987), Professor of the Harvard Business School, the term 'quality' covers following dimensions: performance, features, reliability, durability, conformance, serviceability, aesthetics, and perceived quality. There is another added dimensioned, named by Mwikali et al. (2012: 126) – procurability, which explain the products' availability on the market with reasonable price and continuous improvements. Doing quality assessment means to do the assessment on all the aspects of quality such as management commitment, suppliers' product development, product improvement process, quality on supply chain, production, inspection and experimentation, and even staff qualification of the suppliers (Tarofder & Haque 2007:4).

Third-party certifications, defined by Baily et al. (2008), are under the form of qualification assessments or certifications that can be used worldwide. Those certifications are made from outside organizations or parties, apart from buyers or sellers. Such certifications are available as good indicators of the supplier's qualification in quality standards (Tektaş & Aytekin 2011).

4.3.3 Service level

Besides providing products which meet organizations' specifications, suppliers improve their competitive capabilities by offering standard services to the manufacturers. Suppliers must have ability in providing back-up services that goes with products supplied. There are before-sales services (e.g. prompt and accurate quotations, ease communication with supplier contacts) and after-sales services (e.g. delivery, lead-time, guarantee service, technical advice). Service level is to measure how well suppliers must perform these services at a timely basis to assure that they meet or exceed organization's requirements. High-quality and reliable services help purchasers to reduce workload in boosting availability of supplies, minimizing disruptions in production thereby lessening indecisiveness in purchaser's decision-making process. (Cheraghi, Dadashzadeh & Subramanian 2011: 98; Baily et al. 2008:205).

Christopher (1992, as quoted in Baily et al. 2008:186) argued that though price remains a critical criterion of buying decision, the cost of time – the costs while waiting for delivery is suggested as another key factor to choose suppliers. Late delivery places a severe impact on purchasing. When materials arrive later than expectation, production process is halted; customers are dissatisfied; and sales are lost. Baily et al. (2008: 187) continues that late product supplies will influence the organization's profitability by slowing down the cash-to-cash cycle. In the fast-moving market, a good delivery service must assure timeliness, accessibility, responsiveness, and flexibility.

Lead time is an estimate of the time between customers' releasing an order and their receiving that order (Wijayya & Purwanto 2013: 4). Long or short lead time influences the schedule of production. Lead time is assigned in the contract and must be tracked regularly for in-time adjustments. A supplier that provides long lead-time is judged as less efficient than the other competitors. According to Beamon (1999), long lead time

might mean that supplier takes too many orders from customers, but they could not manage all of them, which leads to delayed deliveries.

Communicating with an organization outside the company can become further strained (Oxford College of Procurement & Supply 2016); therefore, pre-assuring an ease of communication with suppliers is crucial to the process of selection. A qualified supplier is the one whose communication channels are assessable and the person in authority is reachable when needed, stated by Baily et al. (2008: 205). During the partnership, the communication is the best way to exchange information, which could be about products' specifications, purchasers' needs, service requests, informs of unexpected circumstances, or ideas of improvements. In order to create a mutual understanding as well as preventing any risks before, during or after the production, there must be the supplier's willingness to give regular and constant communications with the purchasing organization (Smith 2014).

4.3.4 Supplier's profile

Market reputation and creditability, financial position, performance history, and technical capability are influential criteria needed when assessing suppliers' profile (Chris, Dunu & Hanyes 2010: 29; Tektas & Aytakin 2011:4). Besides, depending on different sourcing purposes, the buyer could request for more information before starting the evaluations of suppliers, such as innovation capability, duration of collaboration, or flexibility (Tektas & Aytakin 2011: 4).

Baily et al. (2008:150) also emphasizing that: "a good reputation for quality can be a valuable asset", which are assessed based on the performance of the suppliers in the market and usually by the experienced customers, other than any marketing tools or activities of publicity. Having a reputation in the market place can help a business to gain good preference from customers, to stay competitive compared to their rivals, to gain supports and values for the future development (Bracey 2016). Backing this opinion, Pavlou (2002: 400) highlights that reputation and credibility have an influential impact on the likelihood of transactions or the success of long-term relationships between suppliers and buyers. In order to access supplier's reputation and trustworthiness, Alves, Campos & Oliveira (2012: 678-679) suggest that an

organization should have several checks on lots of determinants like past and experiences, international presence, brand, business network dimension, client-supplier relationship duration, specialization, product's quality, deadline fulfilment, affectivity or familiarity, monitoring, accreditation, legal bonds, feedback, cooperative norms, or organizational strength and economical.

Moreover, Gordon (2005: 21) asserts that selecting a key supplier also depends much on that supplier's financial health. In order to evaluate how good the financial position of potential suppliers is, the purchasing organization would have to take into consideration the following attributes: sales, profitability, and liquidity. It is advised by Lee (US.News & World Report 2015) that financial status can be defined through data of debt level, credit score, and savings. Financial data might be hard to be obtained; hence, a direct request for information from the supplier would be an option. Besides, asking for references from previous customers or partners is applicable. Financial status also can be analysed by purchasing organizations through evaluating operational activities of suppliers (Gordon 2005:21).

In a search of the potential suppliers, buying organizations should carefully check suppliers' profile under the part of past performances to see whether it was well dealt or not. According to Baily et al. (2008: 150), past performance is an important criterion when assessing suppliers, especially when the quantity of orders is large. A record of quality performance may include quantitative data, such as price, delivery, service and related information. Such performance records clarify the suppliers' experience, number of contracts handled, number of problem resolved, or annual turnover. It is reckoned by Kibe (2000) that suppliers which are more stable in the field are usually more experienced ones, which have many years operating in the market and possess firm market knowledge. Meanwhile, it might be more difficult to access historical performance of newer suppliers, since they lack of experience with no past performance recorded. For such players, other criteria play more important roles in the scale.

The fast-pace development of technology and its applications have confirmed the essential position of technological criteria in assessing the potential suppliers. The suppliers could be evaluated based on both current and future prospects of technological capability, which performs in related areas: infrastructure, IT service

management, design and planning, development and maintenance, and technical support, etc. (Chereaghi et al. 2011: 99). Updated technologies are suggested to enable improvements in exchanging information upstream and downstream the supply chain by enhancing the communications between suppliers and buyers (Gilaninia et al. 2011: 494). Chereaghi et al. (2011: 99) additionally emphasizes the role of technological development by adding that it guarantees improvements in the production of new products and the fast-moving capability of materials from the vendor to the buyer thereby assuring quick product launch to customers.

4.3.5 Global factors

Gordon (2005: 22) highlights the significant role of risk factors when assessing suppliers. This means a qualified supplier must have an ability to understand and control risks involving global factors. In some cases, sourcing raw materials internationally enables more risks to purchasers than sourcing domestically. Risks occurred involves geographical locations, operational performance environment, politics, or workforce, etc. Depending on the case, risk levels are different, which influences supplier selection in different ways.

The supplier's location imperatively influences the supply chain since the further it is located from the buyer, the slower end products are introduced to customers (Nottinghamshire's Center of Manufacturing and Logistics 2014). Supplier's location decides the transportation costs, products' delivery quality, or risk occurrences. Critical checks and considerations on where the supplier locates, where their factories are, how far it is from the destinations of products, and what will be expected risks helps not only minimize costs and risks but also guarantee the on-time delivery without any disruptions (Tektaş & Aytekin 2011: 6; The ResellerNetwork 2015). In addition, it depends on the buyer's sourcing strategy (local, national, or international sourcing) that the supplier's location is chosen. Location also determines policies or terms related to the transportation (Queensland Government 2015).

Min (1993) contends that the current globalization leads to changes in many companies' strategy from domestic sourcing to global sourcing. Besides, the century of information technology has improved the quality of supply chain coordination,

developing more advanced means of communication, and transportation. Distance will create no constraints in the supplier-buyer relationship. Such growing trends forecast a reduction in the importance of supplier's location towards the supplier selection process. (Cheraghi et al. 2011).

Regarding political stability, Chan et al. (2008) reckon that the political environment and its influences on business in the supplier's country might have particular impacts on maintaining buyer-supplier relationship. Groznik & Xiong (2012: 35) also highlight that political uncertainties increase the number of risks for suppliers (e.g. changes in strategy or business related decisions), which might result in risks for buyers (e.g. changes in contracted terms, a disruption of production). Tektas & Aytekin (2011) advice that suppliers from countries whose government is politically stable are preferable since the buyer-supplier relationship will not be affected by frequent changes in policies.

Grant, Trautrim and Wong (2013:11) draw an attention to environmental issues by saying that these issues have been "an area of growing concern for business on a global scale". This is truly proved by many companies' regulations and controls made in the activities of transportation, production, storage and the disposal of hazardous materials. Supporting this idea, Golinska and Romano (The European Financial Review 2012) emphasize the significant role of environmental friendly supply chain management, which mainly focuses on the post-consumption phase of the product after production, from the manufacturer to the end customer and finally to disposal site. The two writers firmly conclude that such suppliers, who possess managerial activities with a concern of environmental consequences, will help contribute to the buyer's competitive advantages, enhance the quality of customer services, flexibility, and maximize profitability.

4.4 Supplier evaluation method

After determining supplier selection criteria, the evaluation process will be conducted on the short-listed suppliers. It is suggested by Grant et al. (2006:103) that these criteria and sub criteria needs to be weighted according to the importance of each criterion in a particular situation. There is a 0-5 points scale used for rating the

importance level of each criterion: 5 = highest importance and 0 = no importance. After the scale is defined, each criterion is rated and points are accordingly assigned.. Rating scores for each criterion also ranges from 1 to 5: 5=highest rating and 1=worst rating. (Grant et al. 2006:103).

When all the criteria with assigned points are ready, it is necessary to develop "a weighted composite measure" for each factor. This is done by multiplying the evaluation of supplier by the factor's importance level. The result is named the "weighted composite rating". The sum of all composite ratings of a potential supplier is used to compare with the other suppliers'. The higher composite rating the supplier scores, the more commitments to the buyer' requirements it has. An example of the evaluation method is seen in table 2. (Grant et al. 2006: 104).

Table 2: A form of supplier evaluations in manufacturing firm (Grant et al. 2006: 104)

Factor	Rating of supplier	x	Importance of factor to your firm	=	Weighted composite rating
Supplier A Product reliability Price Ordering convenience • • After-sale service Total for supplier A		x		=	Total:
Supplier B Product reliability Price Ordering convenience • • After-sale service Total for supplier A		x		=	Total:
Supplier C Product reliability Price Ordering convenience • • After-sale service Total for supplier A		x		=	Total:

5 An optimal supplier selection process as a competitive advantage

It is Gencer & Gurpinar's contention that in a world of many competitions, supplier selection is regarded as a critical factor for the company's success (2007: 2475). Supporting this idea, Paul (2013: 657) claims that such an appropriate supplier selection process is believed to create high-quality products at relatively lower costs, to gain customer satisfaction and then to achieve profitability. This, according to Michael Porter (1985), is competitive advantage.

5.1 Competitive advantage

5.1.1 What is competitive advantage?

According to Amadeo (2016) competitive advantage makes a company distinguished from its rivals and stand out in the market. Anything can be defined as one company's competitive advantage, such as higher profit margin, brand reputation, or greater return on investment (Jurevicius 2013). Every company must find out their own competitive advantage in order to compete in the market; otherwise, their rivals will take the leading position and outperform. Achieving competitive advantages, a firm can deliver customers superior values and create itself superior benefits.

Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price." (Porter 1985: 3).

Barney (2007: 17) defines competitive advantage based on the number of economic value it can create. The more value it creates compared to competitors, the more competent it will be.

Economic value is simply the difference between the perceived benefits gained by a customer who purchases a firm's products or services and the full economic cost of these products or services." (Barney 2017: 17)

Micheal Porter, in his book of competitive advantage (1985: 11) points out the two traditional types of competitive advantage that firm can possess: cost leadership and differentiation.

- Cost leadership or cost advantage means an ability that a firm can deliver their customers the same products like their competitors with comparable value but a lower price;
- Differentiation means that a firm can deliver customers products with comparable price but superior quality or values than any other rivals.

When a firm is holding an above-average performance over its competitors during a long time period, based on Porter's definition (1985:11), it has sustainable competitive advantage.

5.1.2 Competitive strategies

Based on the two basic types mentioned in chapter 5.1.3.1 and the scope of activities that firm are seeking for in order to achieve competitive advantages, there are three strategies to become sustainably competitive in the market, as illustrated in figure 8.

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Figure 8: The generic strategies to achieve competitive advantage (Porter 1985: 12)

Cost leadership: Using cost leadership means that the firm has to strive for taking the position of a low-cost producer in the industry. In order to do this, firm continuously seeks for varied sources of cost reduction, such as the pursuit of economies of scale, proprietary technology, preferential access to raw materials, and an improvement of operational efficiency. Amadeo (2016) mentions common ways that firm can lower prices, which are to pay workers less with a provision of intangible benefits (e.g. stock options); and to take advantages of un-skilled labor surpluses. When a firm achieves and sustains the cost leadership in the industry, with an equivalent or lower price than the competitors, it becomes an above-average performer and receives higher returns. The strategy is evaluated as the clearest among the three. However, since sources to achieve at or near industry average are approachable for every business in the market, competitors can get the cost reduction strategy and take the cost leadership position. It is advisory that firm needs continuously seek for new ways of minimizing costs. (Porter 1985:12).

Differentiation: A firm adopting this strategy has to show that it is unique in the industry by an ability to deliver customer exceptional values compared to competitors. It means that a firm can choose one or more attributes that are perceived widely by the customers and uniquely position itself to meet them all. Hence, this strategy results in a premium price, with a higher margin. How to be uniquely different from the other competitors depends on the industry's nature and the products or services. It is suggested that the differentiation is based on product features and benefits, locations, the delivery system by which it is sold, the marketing approach, operating procedures, customer services, or staffs, etc. If the industry has more than one attribute valued widely by the customers, there would be more than one successful differentiation strategy. (Porter 1985:14).

Focus: Focus strategy is different from the other two mentioned above that a firm focuses on a narrow portion of a market rather than a whole market. Approaching such a niche market, a firm needs to understand the dynamics of the market and the customer needs in order to develop one of the two alternative strategies: cost focus and differentiation focus. Same as explained in the previous two strategies, a firm seeks for a low-cost position or differentiation but in a target segment. The target segment is chosen based on: 1) it must have buyers with unusual needs, or 2) the system of production and delivery that best serves the target market must not similar

to that of other industry segments. The cost focus strategy imposes on the differences of buyers' cost behaviours in the chosen niche market. The differentiation focus strategy imposes on the buyers' unusual needs in its certain market. (Porter 1985:15).

5.2 An optimal supplier selection process as a competitive advantage

In the world of an accelerating economy, businesses are fighting against lots of competitions. Customers are becoming more and more demanding. Technology has encouraged new entrants to the markets, which has significantly shortened the product lifecycles (Schmidl 2012). Price is steeply declined due to the rapid obsolescence (Dediu 2010). In order to be successfully competitive, a solution is to be in collaboration with satisfactory suppliers, who can help to cut costs and improve the product quality (Weber et al. 1991, as cited in Sagar and Singh 2012:34). The role of supply chain execution, supply base leverage, and especially the supplier selection process hence turn out to be an increasingly important concern in many manufacturing companies. (Sagar and Singh 2012:34).

Competitiveness advantages, as explained in chapter 5.1.1, include risk management, cost effectiveness, reputation, brand images, customer satisfaction and an improved return on investment, etc., which all can be reached by improving the qualification of promising suppliers, enhancing the contribution of the supply to the organizational objectives (Leenders et al. 2006:8-11).

First of all, a well-designed of supplier selection is important to avoid suffering supplier risks, which lead to risks for an organization, which include financial, operational, or reputational risks. It is contended by Culp (2013) that supply chain disruptions' frequency and the level of severity are forecasted to continually increase. Such disruptions in term of energy, service, direct or indirect requirements can strongly influence the productivities by delays or unexpected contract terminations. The company's reputation is affected due to, for instant unethical practices of suppliers. Secondly, a competitively-selected supplier offers competitive products with relative low prices, which minimizes costs of productions, delivering low-price products to end customers. Thirdly, when a supplier is strictly scanned before selection, the organization can assure that suppliers' activities comply with the organization's

standards and expectations. Any suppliers' practices in productions, staff, working labour, etc. has an influence on the purchasing organization image and reputation. Fourthly, it creates the competitive advantage by enabling the access to a wide range of special resources. They can be vital materials or services in a period of shortages, a better-quality or lower-priced products or services, a new technology, innovative management systems, or resources gained through an active exploration of both international and domestic markets. In short, with all the advantages mentioned above, an effective supplier selection process, who finds out the best satisfactory supplier, helps any business to gain customer satisfaction through product quality, price, or reputation, which then facilitates an improved return on investments. (Leenders et al. 2006: 8-11, 527-528).

6 Café in Finland

In Finland, coffee is a national social drinking, which is one of the three most famous things people know about Finland (the other two are the sauna and a high rate of mobile phone user) (Larry 1998). Larry (1998) additionally regards drinking coffee as both a Finnish culture and a Scandinavian tradition. It is highlighted by Ojaniemi (2010) that there is no place in the world that coffee breaks are statutory, which means Finns have a right to enjoy a cup of coffee at any time at work. Coffee is also treated as a polite manner to home's visitors. However, in an interview with Robert Paulig – the President of Robert Coffee, he said that people gradually love to go out for coffee, which lead to the fact that coffee was less drank at home. A research done on magazines at that time shows that more and more cafés are opened in downtown Helsinki under many forms like full-service cafés with a gourmet restaurant (e.g. Fazer, La Torrefazione, Il Birrificio), cafés for students hanging out (e.g. Steam Coffee, Think Corner Café), or traditional coffee places, etc. Paulig additionally claims that: "The market for drinking at home is declining, while the market for drinking outside is rising". (Larry 1998).

Coffee shops are serving for the consumption on the premises or for takeout. They offer coffee drinks, including brewed coffee or specialty espresso-based drinks, such as latte, cappuccino, macchiato, tea, ice-blended drinks, or ice-cream, etc. Besides, there are more options on other food and beverages, such as bagels, sandwiches, bread, salad, soup, etc. Many coffee shops sell whole or ground coffee for customers' home consumptions. Some also offer coffee or espresso-making equipment, mugs, grinders, and many accessories (e.g. Starbucks).

6.1 An overview of the industry

It is claimed by Piano (2015) that coffee shops, which grow 7% year on year, are the largest growing section of the restaurant business all over the world. In Nordic countries, coffee shop business is also massively growing. Sweden and Norway with the highest number of coffee outlets are the two largest Nordic markets, followed by Finland and Denmark. The total Nordic coffee shop market (including Denmark,

Finland, Norway and Sweden) is forecasted to reach 1023 outlets in 2015 and is worth €436m (Allegre Events 2015).

According to Jordan Piano – a Digital Marketing Manager (Coffee Tasting Club 2015), it is so surprised that coffee assumption per year (per capita) in Finland since 2010 is highest with around 12kg of coffee (European Coffee Federation 2014), which is over twice the amount of most other Europeans (Ojaniemi 2010), as shown in figure 9. Pauline Curtet (this is Finland 2015) states that this amazing record has made Finland become the second-largest country in the world for per capita coffee consumption, exceeded by Luxembourg. Data collected by European Coffee Symposium (2015) shows that the number of outlets Finland had was 205, ranked the second among Nordic countries, while Sweden took the first position with 269 branded shop outlets. Finland is in the important stage of the coffee shop business development. The country is the next target of global and local multi-national chains for the new market entry and brand expansion (Piano 2015). Recently, the arrival of international coffee chains, such as the American coffeehouse chain – Starbucks (in 2014), the Nordic Starbucks – Espresso House (in 2015) and their vast expansions in big shopping malls and centres around Helsinki have confirmed this growth more.

Per capita coffee consumption - in kg -			
	2010	2011	2012
<i>European Union</i>	4,89	4,82	4,84
Austria	6,45	7,95	9,00
Belgium	4,78	5,09	4,96
Bulgaria	3,21	2,94	3,10
Croatia	5,11	5,10	5,02
Cyprus	4,03	4,33	4,53
Czech Republic	2,67	3,24	3,86
Denmark	8,72	8,20	8,60
Estonia	4,84	3,10	4,84
Finland	12,07	12,17	12,00
France	5,42	5,63	5,43
Germany	6,72	6,85	6,40
Greece	5,37	5,52	5,81

Figure 9: Per capita coffee consumption (in kg) in selected EU member states from 2010 to 2012 (European Coffee Federation 2014).

6.2 Café business in Finland: An analysis of 5 forces of Porter

In order to study more about the market of coffee shop business in Finland, especially in the area of Helsinki, the method of Porter's Five Forces was employed. This model was introduced by Michael E. Porter in 1980 in his book named *Competitive Strategy: Techniques for Analysing Industries and Competitors*.

Five Forces of Porter was applied to coffee shop business in Finland with an aim to discover the 5 main forces influencing the competitive position of X Coffee in the market (figure 10). Understanding the implications of these forces, an organization can quantify its strengths and weaknesses, find itself a powerful position by influencing the market's forces, learn to be profitable buy exploring strategic structure areas, or diversify (Porter 1980: 4-5).

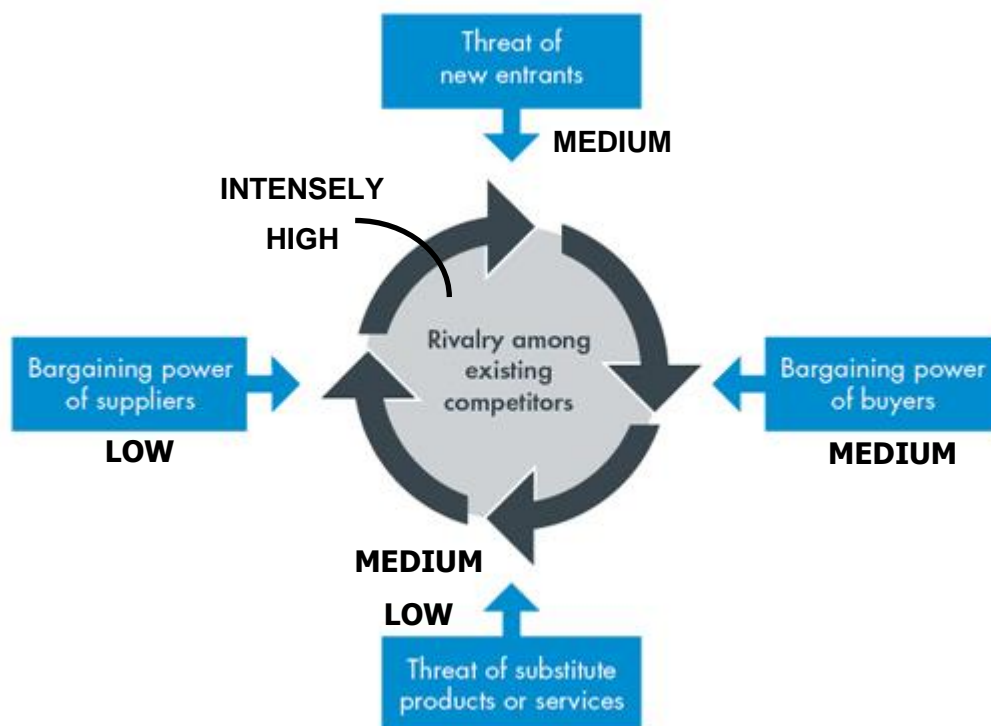


Figure 10: Porter's five forces of competitive position analysis of Finnish café industry (modified from CGMA 2013:51).

Threat of New Entrants: The power depends on how easy for new entrants to join a particular market. Threats are built upon the entry barriers, which defined as characteristics that make it difficult for a new business to begin operating in the

market. When the barriers are reduced (i.e. the costs to enter are low, many firms enter, and industry's profits fall), the threat of new entrant is high. In order to boost a firm's competitive advantages, barriers to entry can be influenced in many ways. Suggested by Porter (1980: 7-13), sources to reduce barriers are economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale, and government policies.

As mentioned earlier, Finnish are coffee-drinkers with the second highest consumption of coffee in the world (Curtet 2015). Besides, the demand of out-of-home coffee of Finns is going up, according to the President of Robert Coffee - Robert Paulig (Larry 1998). There is always a possibility to open a new coffee shop in Finland. Besides, one significant problem to consider when opening a coffee shop in this market is that current brand names like Starbucks, Espresso House, Robert Coffee, Wayne's are well-known coffee chains, which recall the image of reliably well-established brands. Meanwhile, X coffee is newly operated. However, X Coffee is strategically located in the two most convenient and attractive positions in downtown Helsinki (Kaisaniemi and Kamppi). The high-quality of coffee, the differentiated foods and beverages offered and cosy in-store design result in the high customer switching cost. Hence, in overall the threat for new competitors to join Finnish market is relatively medium.

Threat of Substitution: This depends on customers' ability to find substitute products or services. Porter (1980) in his study mentioned "substitution" as substitute products in other industry, which have same functions of the product in the operating industry. When the industry's products are easily and successfully replaced by substitutions, the power of threat is high.

X Coffee operates in a market of close substitutes. It is because it serves customer with nearly same products as other competitors: freshly brewed coffee, espresso-based coffee, patisseries, and baked pastries. However, X Coffee differentiate itself from other coffee chains by offering a wide range of Nordic dishes with an elegant touch of Asian taste (e.g. Banh Mi, Asian Noodle Soups) and especially Vietnamese Iced Milk Coffee. Substitutes to such products can be found in a very few number of small local coffee shops around Helsinki. This results in a high consumer switch cost. Another possibility for the substitution is that the customer could make their own coffee cup at home with espresso machines. It is calculated by Seattle Coffee Gear

(2016) that the money saved when using home espresso equipment to enjoy an own cup of espresso, americano, cappuccino, and latte per day instead of going to a café is \$1.11, \$1.36, \$2.15, \$2.65 respectively. It sounds cost-efficiently; nonetheless, the quality cannot be compared to the one made at stores. Using an espresso machine to make, for instant, a cup of cappuccino needs skills and techniques of pulling the perfect espresso shot, steaming the milk rightly and pouring the finest latter art (the kitchn 2016). Besides, Waxman (2006: 36) mentions in his study that the attachment to a place involves a set of feelings that emotionally make someone connected to that place. The five design considerations he revealed in his research, such as cleanliness, appealing aroma, adequate lighting, comfortable furniture and a view to the outside make it different between feelings of enjoying a cup of coffee when at home and when in a café. An experience at a coffee shop is unique. In short, the threat of substitution is expectedly medium-low.

Supplier Power: The power of supplier is influenced by suppliers' ability to drive price and quality. Bargaining power of suppliers is defined by the number of suppliers in the industry; the level of differentiation of provided products or services; the importance of suppliers to the industry; the importance of suppliers' products to buyers' business; a supplier's threat of forward's integration. (Porter 1980: 17-28).

All the aforementioned factors are considered when analysing the power of supplier in the Finnish coffee shop business. With an easy approach to search engines, lots of coffee suppliers are found in Finland. Among those, Paulig is regarded as the market leader in Finland and the Baltics with strong brands like Paulig, Santa Maria and Risenta (Paulig's Official Website 2016). Besides, there are also many suppliers outside Finland, which are from the neighbour with a similar high coffee consumption – Sweden. Recorded by the International Coffee Organization (2010), Sweden is ranked as the second large importer of organic coffee in EU (2007-2008). Therefore, the supplier has taken a low bargaining power.

Buyer Power: Ones of important players in the market are buyers, who also have power to turn price up or down (Porter 1980: 24). Hence the power of buyers depends on the number of this group in the industry, or how influencing they are on the industry's price. This power is high in particular situations, suggested by Porter (1980:24-27): buyers are fully informed about products; industry's products are

standard or not differentiated; buyers are concentrated; buyer has a threat of backward integration; etc.

As mentioned earlier, besides identical products to other coffee shops', X Coffee develops a variety of customized drinks and dishes with a unique Asian taste. Product differentiation with a commitment to high quality makes buyers at X Coffee become less price sensitive (stated X's owner). Besides, X has a number of loyal customers, who have repeated their purchases at X Coffee for years. According to Al Mamun, Rahman & Robel (2014:4) and Brown (1974), loyal customers are less price sensitive than non-loyal customers. One thing to be well considered is that drinking coffee is a culture in Finland that Finns are among people with great knowledge and experiences on coffee. They are strict and demanding on coffee quality. Therefore, buyers fairly have power in bargaining.

Competitive Rivalry: Rivalry exists when there is a pressure and there is a profitable position that a firm can fight for (Porter 1980: 17). Players in the market strive for competitive advantages. The intensity of rivalry is impacted by the number of competitors and their capabilities. Being highly or lowly intense, defined by Porter (1980: 18-20), results from following factors: numerous or equally balanced competitors, slow market growth, costs of storage or fixed costs, differentiation level or switching costs, capacity augmented in large increments, high exit barriers, and high strategic stakes.

The rivalry among competitors in the coffee shop business in Finland is highly intense. The number of competitors is increasing. The current competitive rivals are Starbucks, Espresso House, Robert Coffee, Wayne's and lots of local cafés (table 1). They are big coffee chains with stores all over the world. They also gain a big coverage in the areas of Helsinki. The number of their outlet stores is illustrated in the table 3. Additionally, the demand of gourmet coffee and specialties are increasing (Larry 1998); hence, the number of coffee shops is also on a rise.

Table 3: X's competitors in the café industry in Finland

	Name of the coffee chain	Year of entry	Number of stores
1	Robert Coffee	1992	32
2	Wayne		7
3	Starbucks	2014	6
4	Expresso House	2015	6
5	Local coffee shops		>300

Products offered by those competitors are nearly the same, which are listed as brewed coffee, espresso-based coffee and brewed tea. Though each chain also introduces their specialty or seasonal drinks and beverages, it does not really count when Finnish national drink is coffee thereby orders are mostly brewed coffee or espresso coffee. Price offered for each drink ranges from 3,00 € to 5,50€ averagely. The switching cost for customers; hence, is not high.

7 Data analysis and results

The thesis objective is to analyse main factors that influence the supplier selection process, with regard to the management decisions on the best supplier. This chapter will make an illustration of semi-structured interviews conducted with X's owners, 2 store managers and regular customers. The result is figured out with a base of theoretical knowledge reviewed in previous chapters. The later part of this chapter presents a benchmark against the leading competitor – Starbucks, having a closer look at how Starbucks manages its supply chains, and suppliers in order to call for specific recommendations for X's development.

7.1 X Coffee

Have been newly operated in coffee shop business for around four years, X has drawn customers' attention to the differentiated coffee drinks with a high quality experience. Clarified on this success, the owner stated that the company knew how to satisfy the most demanding customer with a best cup of coffee.

We really understand the Finnish tastes of lightly roasted coffee. We really cared for the customers' perceptions on quality of coffee suppliers. We really pay a significant attention to purchasing activities, especially how to find out the best coffee supplier with the best coffee quality possible. (X's owner 2016)

She continued on the supplier selection process and the reasons for the important relationship with X's key coffee supplier – johan & nyström during the past four years.

7.1.1 A brief of X's current supplier - johan & nyström

X Coffee has maintained the relationship with johan & nyström for around 4 years. This is the only supplier of roasted coffee at X. johan & nyström also provided X with a wide range of organic tea and some barista tools.

johan & nyström was founded in Sweden in 2004 by a group of coffee-lovers. With a vision of a better coffee world, these friends aim at promoting the craft by roasting tastier, more fun, and more sustainable coffee. Coffee beans are roasted under the

artisanal process named “slow roast”, which means that coffee’s flavour and aromas are guaranteed to be developed inherent to the carefully selected beans. johan & nyström especially plays a focus on The Concept Store, where exhibits all the coffee & tea products with amazing fresh tastes; accessories; and coffee equipment. There also locates a coffee & tea bar. People working at johan & nyström are ones with innovation, passion, lifestyle and great expertise in coffee. (johan & nyström’s Official Website 2016).

The brand is so well-known to customers. johan & nyström’s products can be found not only in Sweden, but also in many Nordic countries. With a wide range of finest roasted coffee beans and innovative perceptions in coffee quality, johan & nyström has gained lots of awards and good references from customers. (johan & nyström’s Official Website 2016).

- Sweden’s Best Café 2014 – White Guide
- Second best café in Europe – Alegra Awards
- Second best café in Sweden – White Guide 2013
- One of the world’ five best coffee shops - Expressen
- Super Company 2011, Business Week 97 of 317
- Finalist Supplier of the Year 2012, Fast Food Award 2012
- 2013 Award for ‘Outstanding Contribution to the European Coffee Industry’ at the European Coffee Awards 2013

7.1.2 Purchasing strategy of X Coffee

X Coffee’s owner stated in the interview that she had experienced the market of cafés and restaurants in downtown Helsinki for a long time before officially opening X. She critically figured out main challenges, such as a rising demand of gourmet coffee, a saturation of undifferentiated food and drink products, and especially Finnish taste of lightly roasted Arabica coffee. According to her, most of big coffee chains, i.e. Robert Coffee, Starbucks’, Espresso House, have practiced vertical integration in the supply chain. Having a vertical integration model basically means that the company buys and roasts all its own coffee and sells it through own stores. The company hence can handle and control the success of the supply chain, reducing the dependence on

outside partners. (The Economist 2016). In order to compete with them, X needs to prioritize its supply chain of coffee.

Focusing on purchasing activities, X emphasizes the important role of coffee supplier over its supply chain. In order to maximize the value delivered to the end customers, X adopts following purchasing strategies:

- International purchasing – global sourcing: Roasted Coffee is sourced from Sweden with an aim at high quality coffee with a comparative price;
- Sustainability in purchasing: Environmental, Ethical, and Economical issues are of owner’s considerations in all the activities of the supply chain. Sustainability is also increasingly considered as an important factor when choosing X’s suppliers. (See chapter 7.1.3).

7.1.3 X Coffee’s supplier selection process

Being aware that suppliers are the best intangible assets of the business operations (Enyinda et al. 2015:25), especially in the competitive café business in Finland, X Coffee has continuously developed a process of supplier selection, as shown in figure 11. Though adopting global sourcing helps X to get approach to a wider source of suppliers with varied capabilities from all over the world, the process of supplier selection still has room for weaknesses and threats that reduce the whole process’s efficiency.

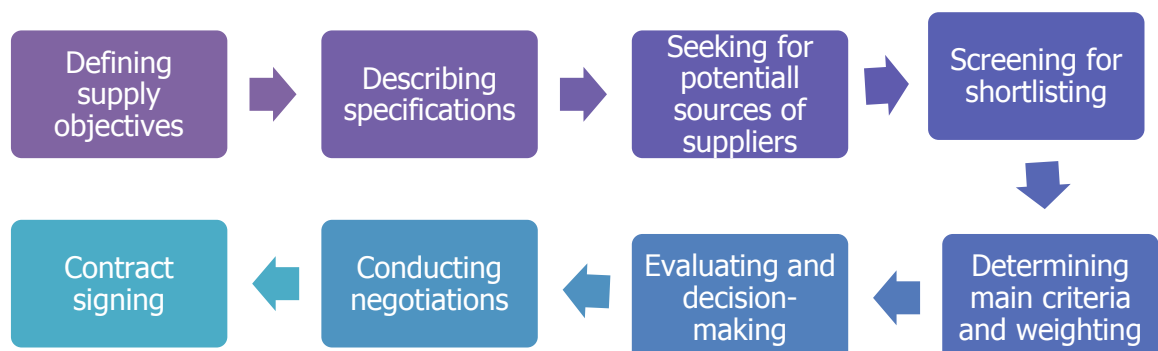


Figure 11: X Coffee's process of supplier selection.

At an early stage of the process, X does not have an analytical system of potential supplier identification, which deters X to exploit the big pool of many more promising suppliers. As mentioned in chapter 4.2, a missing of an alternative would reduce the probability to find the best one (Ahmed and Omotunde 2012: 52). Usually, suppliers visit X to promote products directly through face-to-face discussions with the owner, or indirectly through email marketing. It is recognized that sources of potential coffee suppliers are found mostly based on the references, which are collected by the owner's experience on coffee, a research on competitors' products, a research on a wide range of coffee available on market's shelves, or supplier contacts suggested by acquaintances. Although there is a lack of wide searches through bigger sources, such as trade directories, sales representatives, coffee fairs or festivals, a search through direct communications with referred suppliers is believed by the owner to avoid risks of misunderstandings, time-consuming, unexpected costs, and especially unreliability.

When the list of potential suppliers is ready, the owner does screening to shorten this list. At this step, basic factors contributing to the supplier qualifications are used for a quick evaluation. The screening at this stage is based mostly on the suppliers' reputation and reference checks in term of location, quality, delivery time, etc. Previous customers or the owner's networks in the coffee industry are contacted for suppliers' past performances.

The owner emphasized the importance of determining and weighting main criteria for the process of decision making. Based upon the owner's experience and own researches on coffee markets, foremost criteria are listed as quality, costs, additional services, payment terms, suppliers' experience and expertise, and sustainability. These criteria are rated according to the qualification level of the supplier compared to X's requirements.

The evaluation has been conducted for many times until the best supplier is selected. After the negotiation with the supplier, a long-term contract is award. At the moment, X has a long-term contract with the supplier of roasted coffee - johan & nyström. The order is made regularly every two (or three weeks) with 50kg to 80kg coffee per order per store. The amount of order is differently each time, depending on seasons (i.e. peak or off-peak). Averagely, the coffee consumed every week is around 17kg each type (i.e. brewed coffee or espresso coffee) in peak season, from September to March.

In off-peak season, from April to August) there is a consumption of 10kg per three week each type. In 10 days after the order is placed, the coffee is delivered at stores.

7.1.4 Most influential criteria for X's supplier selection

In order to analyse determinants that have an impact on the decision of the best supplier at X, the author first used interview questions (appendix 3) and later asked the owner to fill in a small survey by scaling the criteria. The survey result is illustrated in the appendix 4.

When asked, the owner listed the most 4 criteria she rated most significant: quality, price, the lead time of delivery, and surprisingly the suppliers' expertise and experience in coffee. The first three criteria are common ones when considering the selection process of suppliers; while the remaining was out of the author's expectation and was not listed in the pre-determined criteria-scaling survey. Besides, the owner also mentioned other factors used, which were financial data, reputation, capability and offered services, etc. The owner then rated criteria prepared by the researcher. An illustration of criteria listed by the owner and rated criteria from the survey is shown in table 3. These criteria can be divided into 5 categories, as evaluated by X's owner: extremely important (rated 5), very important (rated 4), important (rated 3), fairly important (rated 2) and least important (rated 1).

Table 4: Criteria scaling perceived by the owner of X Coffee

Extremely important	Very important	Important	Fairly important	Least important
<ul style="list-style-type: none"> • Quality • Packaging • Punctuality • Expertise, Experience and passion in coffee • Flexibility • Price 	<ul style="list-style-type: none"> • Reputation & the brand image • Geographical location • Sustainability • Prospective long-term relationship 	<ul style="list-style-type: none"> • Capability (in production, technology) • Financial factors • Ease of communication 	<ul style="list-style-type: none"> • Payment terms • Additional services 	<ul style="list-style-type: none"> • Products' range

Firstly, the extremely important group includes quality, purchasing price, the punctuality and reliability of the delivery, packaging, flexibility and an expertise in coffee. They are evaluated as most important criteria of supplier selection in many researches (chapter 4. 3). According to the owner, X's main target are mostly the older Finns, who are very sensitive to the taste of coffee (especially freshly brewed coffee), officers and young students, who are fans of espresso-based dinks. "A cup of cappuccino with a low-quality espresso shot or a cup of poorly-brewed coffee would make them immediately change to our competitors" – said by the manager B. The owner additionally reckoned that they always asked for coffee samples from any new suppliers for carefully testing its quality before comparing and making decisions. The manager B then emphasized the crucial role of good packaging for roasted coffee. At X, the package does not need to have attractive designs, but the packing material must protect not only the coffee quality but the smell. Goldberg (2015) analyzes that sealed and one-way valve foil bags with pinholes, which let no air in, help to keep roasted coffee bean stay fresher longer than paper craft bags with thin lining. Next, reliability in delivery was highly rated by people from the management group. This criterion is linked to the quality of roasted coffee beans. At this point, the manager B clarified that their coffee shop did not want to have too many stocks in its warehouse. X Coffee guarantees to serve customers the best and the freshest cup of coffee possible. Therefore, small orders of 50kg or 80kg roasted coffee beans are made one

at a time for every 2-3 weeks. Perceiving price to a pivotal criteria, the owner hopes to offer a premium cup of coffee with a competitive price.

Nowadays, the instability of the world's economy has partially influenced the economic development in Finland, which then impacts the Finnish personal income. Facing a wide range of undifferentiated products, our Finns are, of course so price sensitive. X Coffee wants to share that burden with our customers! (The owner, interviewed 26.05.2016).

Furthermore, flexibility is considered as the suppliers' ability to adapt to unexpected problems occurred during the transactions with X Coffee. Flexibility can be counted in many other criteria, like delivery system, service support, etc. Regarding the owner's interests in suppliers' expertise and coffee passion, she prefers suppliers that have a good knowledge of coffee, an ability to distinguish coffee categories and the passion for those "bitter but sweet" beans. Suppliers' attitude of reverence towards coffee is highly expected. Sharing love and knowledge of coffee would create a mutual understanding between buyers and suppliers, enabling the long-term relationship. According to Bellissimo Coffee InfoGroup (2016), suppliers with experience and a mind of a coffee-lover are ones who can support buyers with specialized knowledge, the quality control and the commitment to continuously improving products, additional services and processes.

The second group named "very important", according to the owner, includes sustainability, supplier's reputation, location and a prospective long-term relationship. For quantifying sustainability in suppliers, the owners highlighted the importance of certifications, which are the most common means of demonstrating compliance with corporate social responsibility criteria (CBI Ministry of Foreign Affairs 2016). The current supplier – johan & nyström is qualified for sustainability and corporation social responsibility (CSR) with proofs of certifications, such as SE-EKO-01 (organic EU certification for environmental standards), FAIRTRADE label compiled by FLO International - Fairtrade Labelling Organizations, and DIRECT TRADE label (figure 12). Reputation and brand image of the coffee supplier is evaluated as inevitable considerations of many customers. According to the research, 9 out of 14 customers interviewed (64%) rated this factor as a reason for their visit at X. Brand image is built based on quality, value, variety and the customers' shopping experience; while reputation is defined as the public's opinion about a company's corporation actions,

which simply means whether the company is a good or bad guy (Bruno 2015). Over the period working at the two stores, the author made observations on customers' buying behaviours. The author found out that many customers, especially the middle-aged, asked for the brand of coffee before ordering. Most of them were happily satisfied and willing to take a cup of brewed coffee after receiving the answer "johan & nyström". Lately in the interview, the owner expressed an intention to find a supplier with a prospective long-term relationship. At the beginning, X was quite new and not so strong at financial position; therefore, X did not want to risk having one-time contracts, which was costly and time-consuming. Building a deep relationship with the supplier can create long-term benefits: mutual trust, complementary competencies, sustainable payoffs, brand loyalty, higher-joint profits, strategic advantages through product differentiation, and technology superiority due to the exchange relationships (Jap 1996:5); or maximizing time, resources and cash investment (Blanchard 2007).



Figure 12: Certifications of sustainability practices at johan & nyström (johan & nyström's Official Website 2016)

Factors rated as important and fairly important include capability (in production, technology), financial position, communication, additional services, and payment terms. A wide range of products is viewed as the least influential criterion in the survey. Those criteria partially influence the owner's decision, but not always regarded as her compulsory determinants in making a choice of supplier. Also, depending on cases, the owner has different sets of criteria to source the most capable supplier. Since the selection system at X is not systematically designed and the owner's decision mostly depends on her own contacts' references, the result of supplier selection process is not constant and may have defects due to the missing of any critical criteria. Though the current supplier is evaluated as the best one, there should be an

improvement in building a key group of selection criteria, which are used not only for strictly evaluating new suppliers, but also continuously controlling the permanent ones.

7.1.5 Methods used for supplier evaluations at X Coffee

The company X has not adopted any analytical or computerized system to scale criteria in evaluating and selecting suppliers. Explained by the owner, the pool of supplier alternatives after initial search is not so big; besides, the quantity of roasted coffee is relatively small with around 50-80 kilos per order. The first filtering is done basically by own searches through related web pages and references from the owner's networks. In the later stage, the remaining candidates are screened with vital important criteria mentioned by the owner: quality, price and delivery. Explained by the owner, the short-listed group usually consists of 2 or 3 most potential suppliers; hence, evaluation method does not need to be so complicated. For suppliers around Helsinki, X's owner visits supplier's factories, coffee retailers or concept stores so as to directly experience, try the coffee and start rating. For international suppliers, depending on cases, visits will be paid; coffee samples are requested; or all are implemented. When data collected from visits, samples, references, or available information on the Internet are not enough for quantifying, the owner will send RFIs (Request for information) to suppliers. The one with most stand-out performances on predefined criteria is chosen for a contract award.

7.2 Starbucks' Coffee

Operated in Finland since 2012, Starbucks has become one of the most leading competitors of X in the café business. Comparisons regarding the supplier selection process between X Coffee – a small family-owned coffeehouse and Starbucks – an international coffee chain with lots of stores all over the world are made with the aim of pointing out best practices for Starbucks' success, based on which the author could make recommendations for the future improvements at X. In this chapter, Starbucks' supply chain is studied through data collected from secondary sources:

- Starbucks Official Websites
- Annual reports and published materials

7.2.1 Starbucks' supply chain

Starbucks Chairman and CEO Howard Schultz, at the Annual Conference of the Council of Supply Chain Management Professionals (CSCMP) in San Diego (2015) addressed the significant importance of elevating supply chain in any business. He highlighted that it was supply chain and technology relevance that was the global nature of Starbucks business. (Berman 2015).

Vertical integrated supply chain

One of Starbucks' strategies is to build a vertical integrated supply chain (Morris 2006), Defined by The Economist (2009), vertical integration is "a merging together of two businesses that are at different stages of production". Merging in the production can be backward (backward expansions on the production path) or forward integration (forward expansions on the production path). The CEO Howard Schultz expresses the business model of Starbucks as "vertical integration to the extreme", which means owning and controlling the whole value chain (Favaro 2015), as shown in figure 13.

- Starbucks' backward integration: The company moves upstream the supply chain to control the means of production, which then supplies Starbucks' business. Starbucks grows coffee on its farms (e.g. China, Costa Rica), or buys coffee cherries from coffee growers, and sends those raw materials to its roasting, manufacturing and packaging plants.
- Starbucks' forward integration: The company moves downstream the supply chain to manage the way that products are delivered to the customer. High-quality roasted coffee is displayed and sold at the company-owned stores.

Vertical integration helps to tightly control the supply chain and retail stores, which means a tight control over the inputs – coffee cherries and the outputs – roasted coffee, with regard to cost, quality and delivery. Therefore, the production efficiency is maximized. (The Economist 2009).

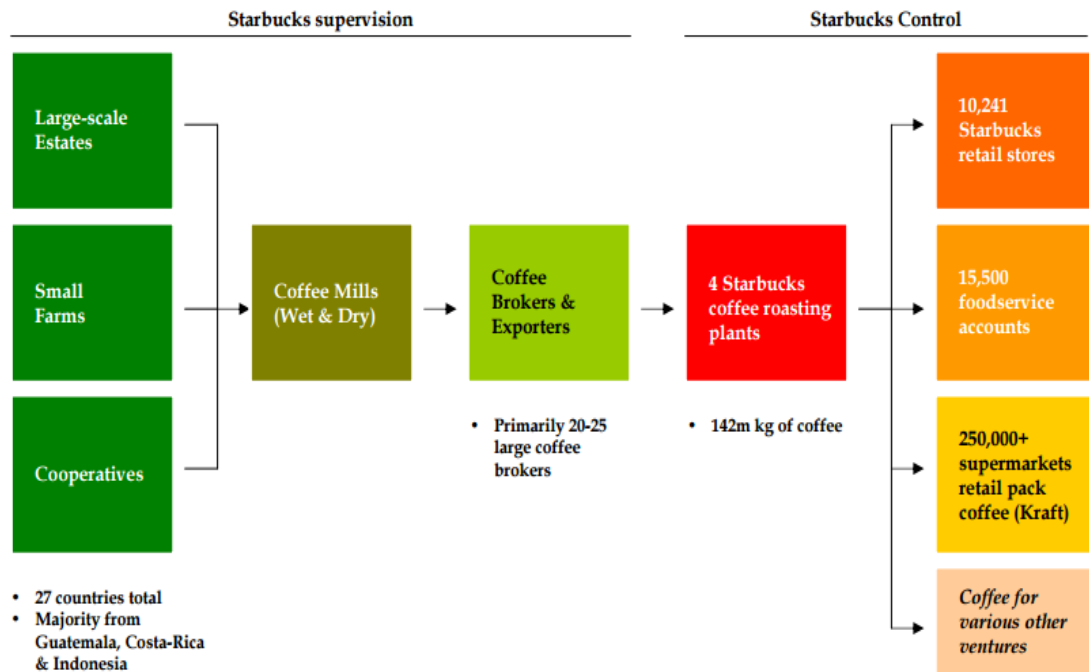


Figure 13: Starbucks supply chain structure (Morris 2006).

Regarding the forward integration, Starbucks has its own stores or licensed stores. Licensing takes place as an alternative to vertical integration since there are locations that Starbucks would not have access to, for example hospitals, airports, and grocery stores (Kerry 2009). Starbucks licensed stores increase customer accessibility to Starbucks' products and brand, allowing customers to experience great coffee and handcraft beverages with a full coffeehouse experience (Starbucks' Branded Solutions 2016). In Finland, Starbucks announced milestone licencing agreement with SSP to open the first Starbucks stores in the airport in 2012 (Starbucks Newsroom 2016). In 2015, Starbucks signed a new licencing agreement with Kesko Food to open Starbucks coffee in K-stores (KESKO 2016). One was opened in Sello (in 2015) and the upcoming one is opened in Myyrmäki in spring 2016 (KESKO 2016).

Green and sustainable supply chain

An explosion of supply chain management along with the implementation of ecolabels has demonstrated the management's considerations of assuring customers in buying sustainable products (SupplyChain247 2013). Starbucks is not beyond such a global trend. In 2015, at the Annual Conference of CSCMP (in San Diego) the president and

CEO Howard Schultz emphasized the pivotal role of incorporating sustainability into Starbucks' supply chain (Berman 2015). For years, Starbucks has proved its commitments to sustainability and corporate social responsibility (CSR) over the supply chain through following activities (Global Responsibility Report 2014): ethical sourcing, green retail environment, and community involvement.

Ethical sourcing: Starbucks guarantees to provide the market with the highest quality coffee with an awareness of ethical practices: "a journey to 100% ethically outsource" (Starbucks' Official Website 2016). According to Dr.M. Sanjayan (Global Responsibility Report 2014: 3), till 2014 the king of coffee chains has achieved an extraordinary goal that around 96% of Starbucks purchases are sustainably grown, which means an assurance of nature protections and farmers' livelihood enhancement. This achievement is reached thanks to Starbucks' launch of the Coffee and Farmer Equity (C.A.F.E) practices in 2004, which sets the cornerstone in the coffee industry. The first comprehensive set of environmental, social and economic guidelines to source ethical coffee – C.A.F.E. includes practices of responsible purchasing, resilient supply chain, collaboration with farmers, farmer loan program and community investments. By ethical sourcing, Starbucks' goal is to serve the customers the best cup of coffee possible while supporting the livings of farmers, enhancing their community, protecting the planet and importantly securing a long-term supply of high-quality coffee.

Environmental stewardship: Starbucks cares for the environment and is aware of the impacts of retail activities on the company's goal, which is to mitigate influences on natural environment and to improve life quality, according to the CEO and Founding Chairman – Rick Fedrizzi. Hence, company practices reducing environmental footprints and implementing changes that help create sustainable changes. Activities consist of building efficient stores and facilities; conserving water and electricity; seeking for renewable energy solutions; developing recycling systems and making sustainable cups.

Community involvement: As one of the main global employers, with around 150,000 partners (employees) and more than 300,000 green-apron-wearing staff all over the world, Starbucks is aware of the significant importance of those people to their business operations. Starbucks has place a focus not only on developing human assets to leverage the business but also on providing more opportunities to the society.

Starbucks' mission is to aim at inspiring and nurturing the human spirit, as said by the Chairman and CEO: "one person, one cup and one neighbour at a time" (Starbucks' Official Website 2016).

To keep the supply chain green, Starbucks also sets sustainability standards for suppliers and continually works with them through the practices of C.A.F.E., or Supplier Guidance Global Requirements. The third party is employed to verify the practices and evaluate the qualification of suppliers. The business relationship will be immediately ended if suppliers have problems related to such prerequisite standards. (Starbucks' Newroom 2016).

7.2.2 Starbucks' guidelines of requirements and expectations for potential suppliers

Suppliers are ones who share the Starbucks' commitment to enhancing the Starbucks Experience for the customers and the communities it serves. Becoming Starbucks' suppliers has never been easy: "it takes a special bean to become Starbucks coffee" (Starbucks' Official Website 2016). It is estimated by Starbucks that in order to find out the best Arabica coffee, more than 150,000 cups are sampled; however, only 3% of them can satisfy Starbucks' standards. Additionally, the average time spent for visiting coffee growers and suppliers is stated as up to 18 weeks, around 4.5 months. It is clearly seen that the sustainable relationships with suppliers are regarded as a critical issue to maintain Starbucks' leading position in quality and coffee progresses. According to Howard Schultz, the number of green beans (unroasted) sourced per year is approximately half a billion pounds, accounting for 3% of the world's coffee supply. The number of suppliers is recorded as 300,000. (Gryley and Patton 2014). Becoming Starbucks' supplier, one needs to meet all the critical standards, requirements and expectations from this giant coffeehouse chain (see table 4).

Supplier selection at Starbucks is conducted in an analytical system with a pre-defined set of standards and the corporate expectations, which are periodically updated. These guidelines are determined and explained in a comprehensive structure for all the potential suppliers, who would like to start a coffee journey with Starbucks. At the moment, all the guidelines are made available on the Starbucks' Official Website (starbucks.com) for any suppliers' interests.

Table 5: Starbucks' guidelines for suppliers (modified from Starbucks' Official Website 2016)

Guidelines	Version	Last updated
Coffee and Farmer Equity (C.A.F.E) Practices	3.3	December 2014
Supplier Guidance Global Expectations	1.1	June 2015
Supplier Guidance Global Requirements	2.3	March 2016
Supplier Guidance Global References	2.4	March 2016

Supplier Guidance Global Requirements comprises all the critical criteria, whose main objective is to ensure safety, security, and streamlined operations. Besides, there are additional guidelines which may be required for customer needs and requirements in specific regions. (Supplier Guidance Global Requirements 2016).

- Supplier Code and Conduct
- Supplier's status & conduct
- Quality
- General policies
- Business process and procedures
- Packing and shipping requirements
- Transportation
- Shipment documentation
- Customs and import clearance
- Carriers and Shipping modes
- Delivery appointments – Supplier-Managed freight
- Supplier performance – Packing & Shipping requirements

Supplier Guidance Global Expectations clarifies expectations and aspirations for Starbucks itself and the current or promising partners it works with. Falling out of these expectations, the relationship between Starbucks and supplier will be influenced, which might lead to the termination. (Supplier Guidance Global Expectation 2015). The guidance mentions following factors:

- Service orientation
- Technology
- Business stability
- Supplier security protocol
- Production location security
- Business continuity planning
- Business courtesies
- Conflict of interest
- Business process and procedures

Supplier Guidance Global References is a helpful guide for acknowledging suppliers, both current and potential ones, to operate ordinary day-to-day business. The references includes all the comprehensive information related to Starbucks' operations, audit line, archived purchase documents and even specialized acronyms and definitions used during the partnership. (Supplier Guidance Global References 2015).

In addition, Starbucks recently has launched **Supplier Diversity Program**. The program is believed to enhance Starbucks' commitment to diversity beyond the company to the partnered suppliers. To be accepted to the program, a supplier has to qualify following criteria:

- Be located in United States or Canada, its territories or possessions; and the owners must be US or Canadian citizens;
- Satisfy Starbucks' guidelines for requirements and expectations;
- Be eligible for "diverse" certification, which is certified by the third-party agency.

(Starbucks' Official Website 2016)

In overall, Starbucks play a focus on quality – a critical criterion, environmental considerations, social issues and the economic transparency. It is clearly seen that besides quality, sustainability is of extremely importance for sourcing at Starbucks, which is proved by the commitment to the C.A.F.E. practices. The company would like to communicate and share the best practices to players in the coffee industry, even

their competitors with a goal to improve coffee producers' practices in developing long-term sustainability. (Starbucks' Official Website 2016).

8 Conclusion and recommendations

The chapter aims at giving a summarization of all the work done in the thesis. The research outcomes and recommendations from the author are concluded. Besides, research's limitations are reviewed in order to give suggestions for further research and development.

8.1 Discussions

The research's objective was to make a thorough study on how the quality of supplier selection process could improve the competitive advantages of the coffee shop. Qualitative research methods was adopted with an implementation of semi-structure interviews and the author's own observations in order to gain a more accurate and clearer picture of the supplier selection process as well as influential selection criteria used at X Coffee. The author additionally employed benchmarking method with the second case company – Starbucks to see what kind of X's improvement can be called for. The research additionally made use of the secondary data, which included books, journals, and published materials for an empirical knowledge base that could support the findings. The results illustrate a framework for developing supplier selection process and figuring out a comprehensive set of selection criteria. The research met the author's goal: X both has a thorough look at their current operations in selecting the right suppliers as well as the whole purchasing practices and is aware of what need to be improved before the expansion plan was implemented.

For 4 years operated in the industry of café business, X, though a small family-owned coffee chain in Finland with only two stores in downtown Helsinki, has gained customers' attention to its superior Finnish-based café concept. Still, the current management system is quite simple and solely influenced by the owner's subjective decisions. Regarding current supplier selection process, selection criteria, and the method of supplier evaluation, the system could be comprehensively applicable to X's operations at the moment in term of a small and medium-sized business. However, for the future expansion, as regarded by the owner in the interview, there needs to be a stricter control over the selection process, and a more designated or even a computerized system for the management of selection criteria and suppliers. The

criteria-scaling survey designed can give X's owner a suggestion to enhance the situation.

Starbucks, since 1971 has become an international coffee chain with 24,000 stores located in 70 countries all over the world. Starbucks has years protecting its leading position in the industry. The existence of Starbucks in Finnish café industry is such a fear to other coffeehouses, including X. Through an implementation of benchmarking in the thesis, the author's intention was reached, which was to present how Starbucks well controlled the supplier selection with updated and well-managed guidelines of consistent requirements for suppliers. Based upon that, the author was able to give comprehensive recommendations to improve X's current situation.

8.2 Recommendations

Conducting a broader search for potential suppliers

It was found that in an early stage of the selection process, potential suppliers were chosen mostly based on the owner's networks and references. The search hence was limited to acquainted suppliers in the café industry. This source of suppliers might be reliable and assure the qualification of the potential suppliers; however, there would be a missing of totally new suppliers elsewhere. As explained in chapter 4.2, a missing of alternatives can lead to the missing of the best supplier possible. It is suggested that X could get approach to other supplier sources, for example coffee fairs and exhibitions regularly held in Helsinki or neighbour Nordic countries (i.e. Helsinki Coffee Festival, World Coffee Events, etc.), trade directories, or sales representatives for a wider range of promising suppliers. There might be costly and time-consuming, but it would guarantee a better supplier pool for the selections.

An improvement of efficiency by developing a long-term supply base

The implementation of supplier selection is costly and time-consuming due to the multiple criteria involving in the decision making process (O'Brien & Ghodsypour 1998; Mwikali et al. 2012). Besides, X Coffee serves not only coffee drinks, but also a wide range of foods and beverages. Those products need ingredients which are sourced

either domestically in Finland or internationally in neighbour countries (e.g. Sweden). The supplier selection process; therefore, has been operated continuously in order to outsource the best-quality products possible. At the moment, X has more than 6 suppliers, who provide X with different products, such as roasted coffee, organic tea, cacao, matcha powder, syrups, soft drinks, patisseries, Asian ingredients, etc. Among them, the biggest two are Johan & Nyström and the syrups supplier. The number is not small and it is still increasing when X has an expansion plan in a few years. If there is not a tool to manage and control the groups of potential suppliers, it would take much time and costs for each implementation of supplier selection.

The author suggested that X should implement a long-term supply base, which is believed to increase the performance efficiency, cut operating costs and save time (Beil 2009). A supply base is defined as a record of qualified suppliers, who pass buyers' requirements and are eligible for the contract award. The supply base keeps track of those pre-qualified suppliers in case it is needed later. X can take advantage of the supplier base in both long-term and short-term contracts, suggested by Beil (2009):

- If X does short-term contracts with suppliers and frequently repeats purchases of same products: Pre-qualified suppliers in the supply base will compete against each other for those contracts.
- If X does long-term contracts with one supplier for one particular product and infrequently calls for the purchase: the supplier can bid for providing any other products that are up for bids.

When there is a need X only has to check the supply base to see which one they can select as the best supplier for a particular product or a group of products. Furthermore, the supply base is treated as a back-up plan, when the current supplier does not meet the selection criteria any more, or when there is unexpected termination of the current contract, etc. The supply base is also useful for future sourcing when there is a new product launch.

However, when adopting a supplier base, X has to assure regular supply base management (SBM). SBM includes management of major suppliers, management of minor suppliers, scouting – continual searching for new suppliers instead of waiting them to approach and transition management (Charter Institute of Procurement &

Supply 2016). The supply base is viewed as a business environment with a rule: the current existing suppliers often leave (e.g. due to changes in the strategic direction, bankruptcy) and the newer, the more attractive and qualified suppliers can enter (Melnyk et al. 2010).

A development of supplier criteria

The interviews conducted with X management group found out that the company does not have any disciplined set of criteria when doing supplier selection (See chapter 7.1.3). The owner's selection mostly depends on main criteria, such as quality, purchasing price, reliable delivery and supplier knowledge. Most of the decisions are based on references from networks in the industry. Besides, these criteria when used are not weighted according to its importance level to X Coffee. The decisions, though based on pre-defined selection criteria, are relatively subjective.

It is suggested to pre-define a list of the selection criteria before conducting the selection process. Those criteria are set based on the needs of X Coffee, the specifications of the order, and the company's strategies (See chapter 4.2). These criteria can be computerized under a form of a comprehensive guideline, similar to what Starbucks has done. This guideline should clarify the prerequisite requirements as well as X's expectations on suppliers, for each product. X can view Starbucks' guidelines as references for developing their own criteria list. The guideline needs to be frequently updated and strictly controlled so as to meet changes in market demands and company's strategic direction.

A design of supplier evaluation method with specific rating scales

According to the research result, X has not adopted any tool for weighting selection criteria. At the moment, since the business is relative small and there are currently 6 suppliers, two of which are big ones, a selection based on internet search, references from the owner's networks and experiences are still applicable. However, there is a need to adopt a more analytical method to assess promising suppliers. The method can be practiced many times till the best supplier is found.

The author suggests X should apply the simple weighting assessment method, which is clarified in section 4.4. When applying this method, an important consideration is that each of criteria defined in the guideline needs to be weighted with a specific rating scale. Scaling the criteria is based on the importance level of each criterion toward the customers' preference, the business's strategic operations, or the industry's trend. The scaling range could be decided according to X's preference. A suggested scale, ranging from 1 to 5 points is discussed in chapter 4.4. Base on scaling criteria, and total weight composite rating, the decision on suppliers will be more convincing. The multi criteria decision making approach through weighting scale is best used for structuring and solving decision involving multiple criteria, providing X with the best alternative from a big pool of promising suppliers (Murali et al. 2014).

8.3 Further research and development

First of all, the research results were mainly drawn from the managerial views on influential supplier selection criteria of X's owner and the store managers. Since customers are the ones mainly drive the market's demand and supply, the author suggests widening the research area, giving a study on critical criteria of supplier selection through a view of customers.

Secondly, this research was conducted with qualitative research method with the help of semi-structured interviews on a small-scale sample, and the author's observations. Besides, the research had a focus on the area of café industry in Finland with X Coffee and Starbucks. The result hence did not assure the applicability to other organizations in other industries. Statistical data was absent and the financial factors were neglected in the study's analysis. There would be rooms for later researches to exploit such data and to give a more objective and scientific look on scaling productivity of supplier selection process and its relationship with the company's success. The future research can take advantage of the quantitative research method and the use of financial factors to give more structured and formulated findings.

Lastly, the research findings and suggestions were based on the author's knowledge and experience working at X Coffee. The suggestions may be theoretically compatible to X; however, there needs to be a real application in X's operation to see how it fits

this café business. The author wishes to have more time for the demonstration and revision.

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Appendixes

Appendix 1. A revolution of supply chain management

Period	Status
Late 1890s	Purchasing rarely used as a different department except in the railroad.
Early 1900s	Purchasing considered clerical work.
World War I and II	Purchasing function increased in importance due to the importance of obtaining raw materials, services, and supplies to keep the mines and factories running.
1950s and 1960s	Continued to gain stature, processes more refined, and more trained professionals. Still considered order placing clerical in a staff-support position.
Late 1960s–early 1970s	Integrated materials systems introduced, materials became part of strategic planning, and importance of department increased.
1970s	Oil embargo and shortages of basic raw materials turned the focus of the business world to purchasing.
1980s	Advent of just-in-time with an emphasis on inventory control and supplier quality; quantity, timing, and dependability made purchasing a cornerstone of competitive advantage.
Early 1990s	Value proposition of purchasing continued to increase; cost-savings became the buzzword.
Late 1990s	Purchasing evolved into strategic sourcing, contracts were more long term, and supplier relationship building and supplier relationship management started.
2000s	Purchasing shifted its myopic focus on cost to much broader terms. Some of the widely used developments: spend analysis, low-cost country sourcing, procurement technology evolved (ERP, e-sourcing), procurement outsourcing evolved (P2P), total cost of ownership, data mining and benchmarking, and lean purchasing.

Source: Wendy (2013:12)

Appendix 2. A summary of criteria for Vendor Selection

Authors (Years)	Criteria
Dickson (1966)	Quality, delivery, performance history, warranties and claim, policies, production facilities and capacity, price, technical capability, financial position, procedural compliance, communication system, reputation and position in industry, desire for business, management and organization, operating controls, repair service, attitude, impression, packaging ability, labor relations record, geographical location, amount of past business, training aids, reciprocal arrangements
Cardozo and Cagley (1971)	Net price, delivery, quality, reputation and position in industry, past business
Lamberson et al. (1976)	Quality, delivery, performance history, production facilities and capacity, net price, technical capability, financial position, management and organization
Monezka et al. (1981)	Quality, delivery, performance history, production facilities and capacity, net price, financial position, reputation and position in industry, management and organization, labor relations record, geographical location
Bragg and Hahn (1989)	Delivery, production facilities and capacity
Browning et al. (1983)	Delivery, net price, technical capability, production facilities and capacity
Buffa and Jackson (1983)	Quality, delivery, performance history, net price
Bender et al. (1985)	Quality, delivery, production facilities and capacity, net price
Ansari and Modarress (1986)	Quality, delivery, net price, geographical location, attitudes, packaging
Hahn et al. (1986)	Quality, delivery, production facilities and capability, net price, technical capability, geographical location
Soukup (1987)	Quality, delivery, production facilities and capacity, net price, technical capability, financial position, desire for business, management and organization, attitude, geographical location
Burton (1988)	Quality, delivery, production facilities and capacity, net price, technical capability, packaging ability, geographic location, training aids, management and organization, operational controls
Bernard (1989)	Quality, delivery, net price, management and organization, service
Chapman (1989)	Quality, delivery, production facilities and capacity
Güler (2008)	Product quality and performance, lead time, price, punctuality, quality practices, flexibility, level of cooperation

Source: Shil (2010:60)

Appendix 3. Interview questions

For the X's owner: The interview was done face-to-face with the following questions

1. When did you start your business?
2. What is your shop's target market?
3. Who is your main supplier for coffee?
4. When did you start the customer-supplier relationship with them? Is it a long-term or short-term relationship? How long so far?
5. Which is the average amount of coffee consumed per month? Per year?
6. How much of coffee in kilos you purchased from the supplier in average?
7. Who was your previous supplier? (if applicable)
8. How did you get to know the current supplier? (e.g. from recommendations, any advertising channel)
9. What were the criteria that mainly used for the selection?
10. Could you generalize the method you used to select the supplier? Could you explain how the process goes? How do you rank suppliers?
11. What are the positive changes that can be seen after changing the coffee supplier (if applicable)? How was the customer reaction at that time?
12. The supplier locates overseas. Have you found any risks in the relationship with this supplier? Any back-up plan?
13. Do you keep on trying to find new potential suppliers for better quality coffee?

For the two store managers: One was done face-to-face and one was done through email.

1. How long have you worked here? How many shifts do you have per week?
2. How could you rate the quality of coffee products at the shop?
 - Excellent
 - Good
 - Fair
 - Poor
 - Bad
3. What kind of work related to purchasing are you involve in?
4. How do you perceive the qualification of the current coffee supplier? (quality, delivery, packaging, service, etc.)
5. What will be the most influential criteria when you choose coffee suppliers? For what reasons?

For customers:

6. Are you a new or a loyal customer of the shop? For how long?
7. How often do you visit X coffee?
8. How would you scale the coffee quality at X compared to the others around Helsinki?
 - Excellent
 - Good
 - Fair
 - Poor
 - Bad
9. What makes you come back? (quality, cosy environment, etc.)
 - Quality: the coffee quality is exceptional
 - Cosy environment
 - Good customer service
 - Location: it is near my work place/university/etc.
 - Other factors:.....

Appendix 4. A criteria-scaling survey (rated by X's owner)

No	Criteria	Rating				
		5: Extremely important	4: Very important	3: Important	2: Fairly important	1: Least important
1	Quality (coffee, service)	x				
2	Product's range: brewed coffee, espresso coffee, tea, decaf tea, decaf coffee, etc.					x
3	Punctual and reliable delivery	x				
4	Packaging	x				
5	Reputation & Brand image		x			
6	Purchasing price					
7	Capability (e.g. technology)			x		
8	Long-term relationships		x			
9	Geographical locations		x			
10	Capability (production, technology)					
11	Flexibility – an adaptation in unexpected situations	x				
12	Additional services offered				x	
14	Terms of payment				x	
15	Sustainability		x			
16	An ease of communication: easy to access, prompt reply			x		
17	Financial factors			x		

Other factors: suppliers' expertise, experience, passion and love in coffee

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