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The Impact of Organisational Purchasing Practises on the Marketing of a Small Enterprise

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ABSTRACT

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This study is order-based and it concentrates on the organizational purchasing practises which affect in great deal to how marketing in the business-to-business world is and how it can be done. The aim of this study was to find out what the case company could do in order to get more clients. This problem was narrowed down into four research questions that relate to market environment, competitive field, customers characteristics and marketing practises of the case company.

The fundamental hypothesis was that client behavior and marketing have an impact on gaining new clients. Therefore the theory concentrates on theories concerning customer purchase behavior and marketing theories, namely the traditional segmenting approach and the new network approach in marketing and how these two can be combined. Theories are presented based on literature and articles. According to the network approach there are also other affecting factors than the company and its client: therefore also competition and market environment were investigated. Webpages and articles formed the base for investigating competition while market environment was explored by using secondary sources published by different organizations. The customer purchase behavior research itself was carried out in a qualitative manner with phone interview that was based on an unstructured questionnaire that consists of three main themes: customer characteristics, marketing and relationship with the case company.

The outcome of the study was that the case company could develop the traditional ways of marketing in order to improve their visibility. However they should understand that marketing itself does not guarantee success: the most important thing is to understand changing customer demands and the market trends in order to act proactively - before the competitors. It will be challenging to the case company to get new clients because industrial networks change slowly but also because of the current economic situation: there is not that much work to outsource.

Keywords Purchasing Practises, Industrial Marketing, Subcontracting, Network

TIIVISTELMÄ

Tekijä	Eveliina Uusikylä
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Työ tehtiin tilaustyönä ja se keskittyy organisaatioiden hankintakäytänteisiin, jotka vaikuttavat suuresti siihen millainen markkinointi business-to-business maailmassa on ja miten markkinointia voidaan tehdä. Tämän tutkimuksen tavoitteena oli ottaa selvälle miten toimeksiantaja voisi saada lisää asiakkaita. Tutkimusongelma rajattiin edelleen neljän kysymyksen avulla, jotka tarjoavat tietoa markkinaympäristöön, kilpailuun, asiakasnäkökulmiin ja toimeksiantajan markkinointikäytänteisiin liittyen.

Keskeinen hypoteesi oli, että asiakaskäyttötymisen ja toimeksiantajan oma markkinointi vaikuttavat uusien asiakkuussuhteiden kehittämiseen. Siksi teoriaosuus keskittyy vahvasti asiakaskäyttötymisen ja markkinointiteorioiden, kuten segmentoinnin ja markkinaverkoston ympärille. Teoriatieto esitellään kirjallisuuden ja artikkelien pohjalta. Markkinaverkostonäkemyksen mukaan on myös muita vaikuttavia tekijöitä kuin yritys itse ja sen asiakkaat: siksi myös kilpailua ja markkinaympäristöä tutkittiin. Kilpailijoita tutkittiin kotisivujen ja artikkelien pohjalta ja markkinaympäristön tutkimukseen lähdemateriaalin tarjosivat esimerkiksi erilaiset teollisuuden ja kaupan alan organisaatioiden julkaisut. Asiakkaiden ostokäyttötymistä tutkittiin puhelinhaastatteluin, jotka tehtiin kvalitatiiviseen metodiin perustuen. Haastattelu pohjautui avoimiin kysymyksiin ja siinä oli kolme selkeää teema-aluetta: asiakkaan ominaisuudet, markkinointi ja suhde toimeksiantajaan.

Tutkimuksen tulos on että toimeksiantajan tulisi kehittää perinteisiä markkinointitapojaan parantaakseen näkyvyyttään markkinoilla. Heidän tulisi kuitenkin ymmärtää, että markkinointi itsessään ei takaa menestystä: tärkein tekijä on ymmärtää muuttuvan kysynnän ja markkinatrendien tuomat muutostarpeet ja toimia ennen kilpailijoita liiketoiminnan ja tarjoaman kehittämisessä. Uusien asiakkaiden saaminen tulee olemaan haaste, koska teollisuuden hankintaverkostot muuttuvat hitaasti: toisaalta myös nykyinen talouskriisi vaikuttaa taustalla, kun ulkoistettavaa työtä on jopa vähemmän kuin yleensä.

Asiasanat ostokäyttötyminen, yritysmarkkinointi, alihankinta, verkosto

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I BACKGROUND OF THE THESIS

This chapter provides an understanding of the reasons behind writing this thesis. The research objectives and limitations are presented followed by the outline of the thesis.

To make the research challenging it was decided that the research problem should be as practical as possible. A contact with a business clinic representative was made to find a real-life research problem. Business clinic is a service that is provided by the university of applied sciences. It helps companies having a research problem to get a contact with a student who can carry out a research for them. Soon after, meetings with a company representative were held in order to define the structure the research problem and define the topic more specifically. In other words the thesis is done on order.

The supply of manufactured parts is in mature state in Finnish aluminium industry: it means that that the competition is well-established and therefore only a small opportunity for getting more clients exists (Järvi, 2009). Therefore it is vital to know how the purchasers of manufacturing companies make decisions concerning suppliers and what affects their purchases: the knowledge concerning these issues enables small supplier firms to concentrate and improve their marketing making it both effective and economical.

The case company is a micro business located in Vaasa. Its annual turnover falls between €400,000 and €900,000. The company is operating in the field of machining: it supplies aluminium parts mainly for the hospital industry and for the vehicle industry. The company's position in the manufacturing network can be better understood by having a look at Figure 1 on next page. The case company operates both in the roles of direct supplier and indirect supplier. This means that customers are provided with the needed product directly or through another company, so called "super supplier" that may provide a wide range of services to their industrial end

customer e.g. manufacturing, purchasing and assembly. (Järvi, 2009; Yritystele, 2009a.)

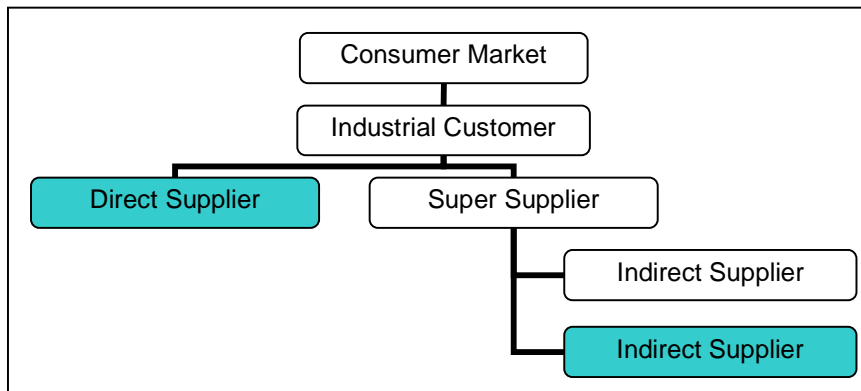


Figure 1. *The Roles of the Case Company in the Industry.*

The outstanding problem is getting new clients: many industrial suppliers face similar problems as a result of the globalization, because it leads to relocation of the manufacturing facilities to cheap-labor countries. That in turn shifts the demand of components to other geographical areas. Also the ongoing economical crisis is worsening the problems for small manufacturers: because the exports are not as great in volume as before the crisis the demand for manufactured parts is decreasing accordingly. Therefore many small suppliers are in deep trouble when the amount of orders goes down. (Bingham et al., 2005, 3; Järvi, 2009.)

From an undergraduate's point of view the topic is interesting in the light of graduate employment: the business-to-business market is a much bigger employer for school graduates than the consumer market. Another point of interest is that in school studies the majority of the marketing issues are covered by using bigger companies as examples: however not the whole theoretical content of business-to-business marketing can be applied to the operations of smaller companies: for example, whereas big companies in many cases have a marketing department with many workers, the SME owners usually carry out the marketing activities beside their daily operations. (Bingham et al., 2005, 3; Järvi, 2009.)

1.1 Thesis Objectives

The focus of this thesis is on finding out facts about organizations' purchasing and their needs that affect suppliers. It is vital to understand organizational purchasing and factors related to decision making in order to be able to understand how the supplier can effectively and meaningfully target marketing to potential clients. When looking at the case company's current marketing from this point of view there may be some actions that the case company needs to take in order to reach the potential clients better.

The present customer base is interviewed as it is important to see what kind of clients the case company is serving at the moment. With a research of its clients the case company can get an idea what is important in marketing within the segments it has: meaningful marketing can only be done by understanding the purchasing organization's decision making and factors affecting purchases (Bingham et al., 2005, 3). It is easier and cheaper for a small company to try to find clients from existing or similar target segment than develop totally new segments because reaching new segments may require new skills (know-how) or new machinery or even entering another geographical area. This means that the company wishing to establish a whole new segment may have to invest both in new workers or training to improve know-how and in new machinery in order to enable production of new products. These ideas provide the basis to the following two research questions:

1. How do the current clients make their purchasing decisions?
2. Is there something that the case company should change in its current marketing practises in order to reach the clients better?

From wider, external perspective competition and ongoing trends in the market are an important indicator of the situation of the industry. Therefore competition and they are the most relative external attributes of threats and opportunities a company can

face in finding new clients (Internet Center for Management and Business Administration, Inc., 2009). That is the reason for investigating them as well. However, because the main focus is on business to business organizational behavior and marketing these topics are presented through an overview made based on secondary sources rather than having a wide theoretical base.

3. What kind of competitors does the case company have?
4. How do the general market trends affect the case company?

After these questions have been answered the case company will be provided with some recommendations of action based on the theory frame and the research.

1.2 Limitations

As the case company is located in Finland and so are most of its clients this study concentrates on Finnish organizational buying behavior. The industry field of the case company (part manufacturing) and raw material (aluminium) also limit the companies investigated. To include as relevant organizations as possible, and to get reasonable limits to the organizations investigated, this study will concentrate only on the existing client base of the case company. By using this limitation it is possible to get an idea what kind of clients the case company should target based on its existing client base: it is always cheaper to try to reach clients with similar needs than trying to enter whole new production areas. In other words the case company can then have a general idea of what type of clients they have at the moment in terms of purchasing behavior. The competitors researched have to be named by the case company in order to keep the number of scanned competitors reasonable. This obviously is a limit as also other competitors outside Finland might exist

1.3 Thesis Outline

This thesis divided into three main parts which are Background of the Thesis, Theoretical Framework and finally, Empirical Part. After the background the reader is provided with relevant theory frame.

The theory frame includes two main themes: organizational purchasing and marketing. First of all the nature of the business markets is briefly described in order to give an idea of what the general characteristics of business markets are. Then the theoretical part provides theoretical background for understanding customers. First of all it provides information about the product types that they buy – both from supplier's and customer's point of view. The customer's view about the importance of a supplier's product is a strong indicator for the effort that the customer is willing to take for the purchase. After this the process of purchasing and the people who are likely to be active in decision making are presented: this point of view is important for instance because different people affecting the decision making may have different needs for information. Then the chapter moves forward by presenting the options where customers can find the solutions from and how the novelty of the purchase situation is affecting the supplier decisions they make. The organization of purchasing activities is affecting the decision making place: from a supplier's point of view this is important information as knowledge of the purchasing organization enables the supplier to reach the right people with its marketing communication. The customer's uncertainties are then introduced to give an idea what factors are critical to the customer and how a supplier can match these uncertainties with its own abilities. The marketing part is first introducing the traditional approach of marketing which is segment target marketing. The network approach to markets and marketing is presented next because the traditional marketing approach by itself is not sufficient in the light of today's theories. The chapter then presents the communication tools used in marketing as the use of the tools differs depending on the purchase process situation and from the duration of the customer relationship.

The Empirical part first explains the research process and the methodology that is applied. Then the validity and reliability of the research is weighted and after that the case company is introduced based on the theoretical frame. In order to give a wider perspective and a more realistic picture of the marketing realities of the case company, the market environment and the competitors are introduced next. Finally, the conclusions are presented and suggestions for further research given.

II THEORETICAL PART

2. The Characteristics of Business Markets and Marketing

There are many ways to define business-to-business marketing. However, the simplest way to put it is that it is marketing of goods and services to organizations. It means that organizations are the customers in these markets rather than the individuals. Ulkuniemi & Tähtinen add that “*market behavior includes the behavior of buyers, sellers, intermediaries, and regulators in exchange relationships and that all of these should constitute the focus of marketing*” (Ulkuniemi & Tähtinen, 2004, 2). There are three dimensions under which the business-to-business markets differ in comparison to consumer markets and these dimensions are market structure, buying behavior and marketing practise differences. (Brennan et al., 2008, 2-3; Ulkuniemi & Tähtinen, 2004, 2.)

Market structure in business to business markets is different compared to business to consumer markets. The first element under this dimension is the nature of demand which is derived. It means that “*the demand for raw materials and other means of production is indirect and is derived form the direct demand for those directly serviceable products which they help to produce*” (Brennan et al., 2008, 8). Direct demand is that of the consumers and business demand is derived from the demand of consumer markets. The second element is the demand elasticity which means the degree of which the demand is dependent on the price. In business-to-business markets the demand is less likely to decrease because of price increase. Nevertheless, reverse price easticity is more common than in consumer markets: that means that if prices go up, the businesses make bigger orders in order to guarantee that they will have enough supplies. This is a result of the assumption that there is a price increase when sufficient amount of products is not available in the markets; in other words, when the demand is higher than supply. However, in general, the price of components is less likely to influence on the bought component quantities than sales forecasts.

The third difference in market structure between consumer and business markets is that the markets are more fragmented as a result of great heterogeneity between clients as the ways how organizations conduct business and how they are structured vary greatly: from local micro businesses to global multinationals that have locations all over the world. It is also worth noticing that even though the business market size might be greater in overall value, the number of buyers is limited and they are often concentrated on the same geographic areas. Higher concentration of demand is problematic from the monopsony point of view. Monopsony is similar to monopoly with which it correlates: it means that the business has a high degree of power over its suppliers resulting from the concentrated buying power. Usually firms holding monopsony advantage possess wider share of the customer markets and therefore are big clients to their suppliers as well. That results in a position where they have great power over their suppliers. (Bingham et al.; 2005; 4-5, 8-9; Brennan et al.; 2008; 6-9, 11-14.)

Organizational buying behavior and marketing practise differences in business markets will be further introduced in latter chapters. Therefore only brief characteristics are described here. In general, the organizations are professionalized in buying resulting in more professionalized buying procedures which involve formal decision making: this is not the case in consumer markets. Also the currency amounts used in purchasing often tend to be high. Different market structure of the business and consumer markets contributes to the way how the buying behavior differs within them. Different buying behavior and market structure in turn affect the way how marketing is carried out: as a result of the differentiated buying behavior and the market structure of the business-to-business markets, the marketing tools that are used differ a lot from those that are used in business-to-consumer marketing. (Bingham et al.; 2005, 7-8; Brennan et al.; 2008; 7, 14-15.)

3. Understanding Customers

As important as it is to understand that the business-to-business world is complex, the customers, their behavior and aims also has significant importance in business-to-business marketing. Everybody in the markets are active and also affect to other companies. Therefore it is vital to know the realities of the buyer behavior: this chapter will provide an understanding of what the companies buy, how they buy it and who is involved in buying process. Also the motivations behind choosing a certain kind of supplier are enlightened.

3.1 What Do Organizations Buy: the Offering

It is hard to separate products bought in the consumer markets and in the business markets because same products are often purchased. The market differences are mainly an outcome of different customer characteristics. The business market products can be classified in two ways: by the system classification or by fourfold classification. System classification evaluates a product from the sellers (i.e. suppliers) point of view. The fourfold classification concentrates on factors that are important from the buyer's point of view: the effort (time, cost) required from the customer and risk that the buyer perceives the purchase involves. Resulting of the different orientations the two classification systems should be used in complementary way: it makes it possible to compare the seller's perception and buyer's perception of the same product. (Brennan et al.; 2008; 15,17.)

System classification gives an idea about the use of a product and the degree to which it is intergrated into the final product. The system classification is based on six types of products. *Raw materials* are basic materials needed in production, e.g. metal ores. They are unprocessed and are subject to price fluctuations. *Manufactured materials* and parts are processed goods and can be integrated into finished product directly, e.g. component parts. *Installations* require huge investments from the buyer and can be treated as investments in accounting. Because they require major

investments the customers usually carefully plan this kind of investments e.g. engineering equipment. *Accessory equipments* are smaller items but they can vary in their price so that the more expensive items can be treated as investments in accounting and the smaller are thought to be expenses, e.g. hand tools. *MRO items* (maintenance, repair and operating) are smaller items that help in running the business, e.g. office supplies, lubricants. Business services are the last sector in this classification. *Business services* can be further divided to the maintenance & repair and business consultancy services. Hutt & Speh (2004, 20-22) divide these product types into three categories: entering goods, foundation goods and facilitating goods (see Table 1 below). Entering goods are a part of a finished product and foundation goods are capital items. Facilitating goods are not integrated in the production process or into the product but they help to run the company operations. (Brennan et al., 2008, 15-16; Hutt & Speh, 2004, 20-23.)

Entering goods	Foundation goods	Facilitating goods
<ul style="list-style-type: none"> • Raw material • Manufactured material and parts 	<ul style="list-style-type: none"> • Installations • Accessory equipment 	<ul style="list-style-type: none"> • Supplies (MRO items) • Services

Table 1. *Product Division* (adjusted from Hutt & Speh, 2004, 20).

The fourfold classification concentrates on the effort the buyer is prepared to take in purchasing. *Convenience products* form the first fold. The risk and efforts perceived in this fold is little for the buyer. Therefore not much time is used in scanning the potential suppliers. MRO supplies in the system classification relate to this fold. *Preference products* require a bit more effort and involve bigger risk than the convenience products: this indicates that the price is usually higher compared to convenience goods but the perceived risk of making wrong decision is outstanding. Smaller accessory items relate to this fold. *Shopping items*, the third fold, contains both high perceived risk and high effort. Because of the higher perceived risk and

effort, buyers are likely to use time and effort to scan through the suppliers in order to find the best one. The risk is outstanding as the product can directly affect the customer's reputation in a negative way in the finished goods markets if wrong decision is made. This fold consists of products like major accessory items and manufactured materials and parts. The last, but certainly not least, is the *specialty products* folder. This fold is perceived to be the most risky and to require huge efforts from the customer. This fold differs from the former one mostly by the effort that the customer is likely to take. When the purchase amount is high and the product is complex the buyers are prepared to use lots of time and energy in order to making the right decision about the supplier and solution. This fold can fall either into highly specialized business services category or to installations category in the system classification. **Figure X** below shows how the perceived risk and effort concerning different product groups.(Brennan et al., 2008, 17.)

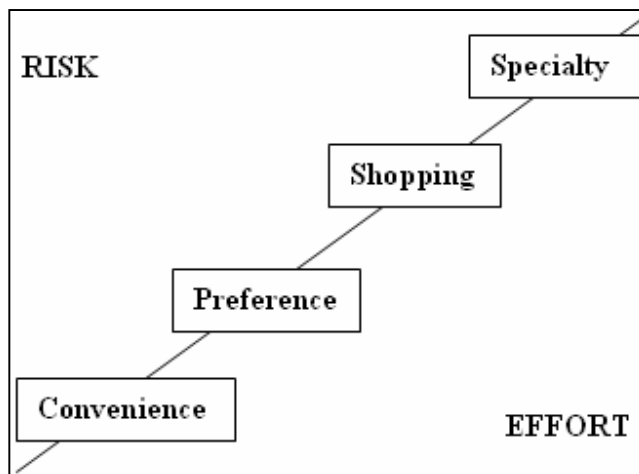


Figure 2. *The Fourfold classification: Perceived Risk and Effort from the Buyer Perspective.*

3.1.2 Other Elements of the Offering

Ford et al. make an addition by stating that the offering of a company is likely to include also other elements than product, namely service, advice, logistics and cost&price. (Ford et al., 2007, 164.)

Service can be an important part of the offering. This is the outcome of the specialization of companies: it is rare that one company can provide all parts of the offering by itself and many customers have needy requirements. Nowadays service often replaces a product, e.g. leasing. (Ford et al., 2007, 165-166)

Delivery can often be a critical part of an offering as when and how an offering is delivered can be a significant part of supplier's customer problem solving because it contributes in gaining long-term productive customer relationships. It can also help a company to stand out from its competitors when the product is undifferentiated from competitors'. (Ford et al., 2007, 166.)

Advice means the suppliers willingness to help increasing the customer's understanding of its problems and about the solutions and abilities that the supplier can offer to overcome the problems. Advice from the supplier is especially appreciated when a client has high need and market uncertainties and when the problem that should be solved is complicated. If the client has a transaction uncertainty the advice should concentrate on the delivery, cost and implementing part. (Ford et al., 2007, 167.)

The costs and price element is an important part of the offering as the price a customer actually pays for an offering is only a small part of the overall costs concerning that offering. The effort a customer takes in order to get an offering is counted as a cost as well because the time and energy used in to the offering development process is away from something else. The cost and price element also relates to the significance of the customers problem. If client perceives solving a certain problem important it is also willing to spend money and time on it. Therefore the price a customer is willing to pay does not necessarily relate to the supplier's own costs: in this situation it is good if a supplier can solve this conflict by saving its own costs. It can do this by substituting or changing elements of the offering. (Ford et al., 2007, 167-168.)

3.2 Purchase Process & People Affecting to Decisions

The purchase cannot be considered in isolation from other activities in the firm: a number of interrelated actors are participating. Therefore a purchase should be comprehended more as a process which involves need/problem recognition, determining products specification, supplier and product search, evaluation of proposals and selection of suppliers, selection of order routine, performance feedback and evaluation. It depends on the purchasing stage which marketing communication method is the most effective one. (Bingham et al., 2005, 102-104; Brennan et al., 2008, 34-35.)

The purchasing decision is seldom made by one person. A purchasing process more likely links people and activities of the firm together and therefore there are many people who have their say in the purchasing process: initiators, deciders, buyers, influencers, users and gatekeepers. Initiators start the process by requiring the purchase item. Deciders decide on actually making the purchase. Buyers do not necessarily choose the product purchased: however they may affect to the requirement modification. In addition, buyer manages the purchasing process and in some cases even chooses a single supplier from a group of suppliers that other parties have named. Influencers affect the supplier choice by recommending a certain supplier and therefore can have a notable impact on the evaluation of a supplier: they can come from different departments in the buying organization. They all may have different opinions about the selection criteria used. The users are those who actually use the product and who, in many cases start the purchasing process by asking for an item. They have an influence for the requirement specification as they are the ones who use it. After the purchase they participate to the evaluation of the supplier. Gatekeepers are also involved in purchasing decision making process: they manage and control the information flow within the network of actors. That means that they maintain the contact between suppliers and different participants in the decision making process. The people who affect the purchase process may come from several

different departments in the company and therefore a supplier wanting to satisfy its clients should take all the influencers into considerations in the information they provide about their offering: technical department's information need differs significantly from buying department's information needs. (Bingham et al., 2005, 108; Brennan et al., 2008, 39-41; Ford et al., 2007, 105; Hutt & Speh; 76-77.)

3.3 Where to Find the Solution in Different Situations?

A company's all purchases are related to the others: when a company faces a problem it will seek to solve the problem through existing relationships or search outside of those relationships. It depends on the situational factors where they will seek to get the solution. These factors include the particular problems and uncertainties they have to deal with, previous experience of solving the problem, the relationship expectations that they have for each of their relationships with suppliers, their own organization structure and resources they have, their view of the network in which they operate in and the buying situation that they are dealing with. (Ford et al., 2007, 107.)

Who to lean on?

A purchasing company has a variety of supplier relationships that consists of both high and low involvement relations. These two relationship types provide different opportunities for a company. In a relationship of high involvement both parties adapt to each other: by adapting operations or by adapting the offering. A relationship of low involvement does not require as much coordination, adaptation and interaction from the companies. Many purchasing companies prefer these kinds of companies for routine problems: however the customer should perceive the supplier to require only a little attention and to be effective in its operations. (Ford et al., 2007, 107.)

An **existing supplier relationship** may have high importance to the customer resulting of high payments or as a result of its contributions to the technical

development. Sometimes the relationship might be important because the supplier is valuable to some other party in the customer's network. Nevertheless, the important relationships are not always those of high involvement. Also low involvement relations can be important. Relationships of great importance tend to be long-term relationships. The relationships do not exist because of their convenience but because the purchasing companies evaluate their existing supplier relationships based on their value to it, their problems and the cost of establishing new relationships before turning to a new supplier. At this point it is important to understand that the relationship is not stagnated: it is always likely to change resulting from similar or different interests of the supplier and the customer. In other words, the option of seeking solutions to problems from an existing relationship is a dynamic process. (Ford et al., 2007, 108-109.)

Even though searching and developing a **new supplier relationship** takes time and money the purchasing company may seek to find a solution outside of its existing relationships. The reasons for this are many. Firstly, the company may have a new kind of problem. Secondly, the problems may have been changed because of the outside developments: customer requirements or supplier offerings may have been changed or new competitors emerge. Thirdly, the company may be unsatisfied with its existing supplier relations due to bad performance or because they may not be competitive. Finally also the supplier may end the relationship: it may have evaluated the relationship not to be beneficial due to too high required investment or it may simply wish to put more resources elsewhere. When a purchasing company is looking for a solution outside of its existing relationships it may re-define the problem and the potential solutions to it, and seek an alternative right away outside of its existing relationships. If a supplier wants to be considered as potential supplier in this situation it should seek to be involved in these activities by helping customer to define the problem and relating its offering to the problem: not only describing the features of the product. The supplier should also be prepared to compare its offering to those of the competitors' in order to give the customer an idea of how the offering

provides a potential solution: not only contrast the technical specifications of the alternative offerings. (Ford et al., 2007, 109-110.)

Buying Condition Effects on the Supplier Choice

Many of the business marketing experts suggest that there are three alternative situations for buying: they are new task, modified rebuy and straight rebuy. It depends of the buying organization's familiarity and experience of the product and the amount of available information used which of these is applied. These factors in turn affect the number of the suppliers considered.

A **new task** buying situation indicates that a company faces a problem it has not had before. Therefore it does not have previous experience: this in turn results in an increased need of information and it can increase the amount of potential suppliers considered. In this situation a supplier can increase its opportunities by trying to involve itself in the buying process at earliest possible stage by getting information about the problem and requirements it should address and provide proposals that match the requirements of the customer. Those suppliers who already deal with the client have advantage over the new ones but also they should gather up-to-date information of the changing needs of their client: that enables them to provide support to the customer in new task situation. (Bingham et al., 2005, 106; Blythe & Zimmerman, 2005, 24-25; Brennan et al., 2008, 35-37.)

If the customer is making a **modified rebuy** it means that some specifications of the problem differ compared to previous purchases related to the same problem. This kind of buying situation may be an outcome of a change in the markets, e.g. technological development or competition. In other words, the client is already familiar with the product but needs some modifications to be made. A modified rebuy can be either simple or complex. It is simple if the purchaser is familiar with the markets and the product and therefore knows where to find the supplier. It is complex

if the client knows what kind of product will best suit to solve its problem but is not familiar with all the alternative suppliers. The purchaser is in strong negotiation position because there are lots of alternatives: however the purchasing company usually does not seek to widen its supply base if it does not see some benefits in doing so. (Bingham et al., 2005, 107-108; Blythe & Zimmerman, 2005, 24; Brennan et al., 2008, 38.)

Straight rebuy takes place when the client has continuous need for some product. These purchases are not considered as important as the two previous ones. The purchasing company already knows the product and the markets and therefore is not prepared to invest time and money to seeking new alternatives: as they have experience they have well-developed purchase criteria and take the choice only between few suppliers and typically order same product and same quantities. However, to keep their technical view updated they might sometimes turn to new alternative suppliers. In this situation suppliers who already have relationships with the customer have to ensure that the customer does not have any reason to switch to some other supplier. To ensure that client has no complaints or resolve any problems emerged the supplier may need to have regular meetings with the customer. Automated reordering can be used to ensure that the purchase does not require too much efforts from the client. An outside supplier can not do much but it can try to make purchasing tempting by making the total cost of having this supplier as low as possible: low product price by itself is not likely to make the purchaser to buy because there are risks involved in switching supplier. (Bingham et al., 2005, 107; Blythe & Zimmerman, 2005, 24; Brennan et al., 2008, 39.)

3.4 Characteristics of the Customers

The main organizational factors that affect purchasing practises are the organization of the purchasing activities and the customer uncertainties and abilities. Customer uncertainties and abilities in turn define the supplier characteristics that are preferred.

(Ford et al., 2007, 57-60, 112; Gadde & Håkansson, 1994, 27-29, 124-125.)

There are two main approaches in organizing the purchasing activities: they are centralization and decentralization. In practise these approaches are rarely in their pure form: in fact combinations of these two models are used in order to gain the benefits of both models. Knowledge about the organization of activities is important for a supplier as it defines who the supplier should approach in the customer organization. **Centralized** purchasing activity means that all the supplies purchasing functions take place in one location. This gives the company a better control and coordination over their purchases. It also enables a company to order huge quantities with lower price: they achieve economies of scale. Centralization improves resource distribution and increases professionalism in buying as it enables purchasing staff specialization in to different item groups (raw materials, equipment, components, services etc.). However centralized purchasing is challenging from the internal communications point of view: it can bring a lot of bureaucracy in an organization as the requests for items may take long time to actually go to ordering stage. In other words the information flow between the central purchasing department and the using unit is not smooth. (Bingham et al., 2005, 101; Ford et al., 2007, 112; Gadde & Håkansson, 1994, 27-28, 123-124.) **Decentralized** way of purchasing means that different business units can make their own decisions concerning suppliers and therefore the decision making is more near to them: decentralization enables them to have more say in the purchasing decisions. Therefore information flow is smoother in an internal level. The idea behind decentralization is that purchasing should not be handled separately from the overall operations of a business unit as it is such an integral part of the operations. However the purchasers cannot specialize in as narrow product group purchases as in the centralized model: therefore the professionalism level cannot be as high as in centralized model. The challenge in this view is also the coordination and control over all the individual units. (Bingham et al., 2005, 102; Ford et al., 2007, 113; Gadde & Håkansson, 1994, 27, 29-30, 123-124.)

3.4.1 Customer Uncertainties

The customer uncertainties relate to need, market and transaction and their abilities relate to demand and transfer and an understanding of these is needed in order to match them. The ideal situation for a customer to solve its problem by making a purchase is when it knows what kind of solution is needed, has relations with suppliers that meet those needs and that the supplier delivers the required offering according to its promise (time, content, price etc). In reality this kind of situation is rarely true for the customers. Ford et. al (2007, 57) have presented uncertainties that customers have in their purchasing operations: they affect to the qualifications that customers require from their suppliers and therefore it is very important for a supplier to understand and to match them. (Ford et al., 2007, 57-60.)

A customer faces a **need uncertainty** when it is not sure of the solution that would best solve its problem. These kinds of customers are likely to need a long time over their purchase as they weigh the different options. They keep active contact with suppliers in order to get advice about potential solutions to their problem: what to buy and how the problem is solved. These kinds of customers prefer the suppliers that they know: the trust element is present. Also local suppliers may be appreciated. This kind of company is likely to trust large amount of their supplies related to certain “problem” on the hands of one supplier. (Ford et al., 2007, 57; Ford et al., 2003, 45.)

Market uncertainty in turn arises when the customer knows the problem that is aimed to solve but faces numerous options to solve it by different suppliers. This situation can also be a result of rapid technological development: many new solutions come into existence at the same time and the company does not know which of these the best is. In other words the options in the supplier base and the technology are causing uncertainties. A company facing market uncertainty is likely to take its best effort to find the top alternative for supplier and for the problem solution. (Ford et al., 2007, 57-58; Ford et al., 2003, 45.)

Transaction uncertainty can face customers who know what they want, who supplies their requirement and what kind of solution best solves their problem. However in this situation the company might have worries concerning the transactions between the two companies. These uncertainties relate to the suppliers ability to fulfill its promise in delivery time, quality, quantity, price and so on. Transaction uncertainty is most general in situation where many suppliers have similar offerings or where implementation of the promise is important. The customer is likely to choose the alternative that least causes costs and trouble. This kind of situation can lead to many kinds of outcomes. A customer might monitor and investigate the supplier carefully or it might try to develop the supplier to the direction where it better fulfills their demand. Thirdly it can cause the customer using many suppliers and by this minimizing the dependence on only one. Also short term focus with suppliers can describe this client type. When a customer wants to develop the supplier it indicates that client is prepared to invest in the relationship. If the client wishes to reduce the dependence or avoid high involvement relationships it is more likely to purchase standardized offerings. (Ford et al., 2007, 58-59; Ford et al., 2003, 46.) To match with transaction uncertainty the supplier must have transfer ability. If a supplier has transfer ability it is likely to be able to fulfill its promises and comply with customers requirements with regard to agreed price, delivery terms and time and other characteristics of the requirement. Also industrial standards are developed to make comparison of different suppliers easier and reduce the need of control by the buyer. Transfer ability requires cooperation and coordination between many companies, e.g. logistics and service companies. (Ford et al., 2007, 60; Ford et al., 2003, 47.)

So how does this information benefit the supplier? There are two ways in which a supplier can use this information. Firstly, it can try to increase the customer's need uncertainty by emphasising the purchasing complexity. The second option is to actually match the customer uncertainties with problem solving or transfer ability. In other words the supplier can take effort to decrease the uncertainties. The supplier's abilities are also a way for it to differentiate itself from the competitors. Over the time

however, the customer's uncertainties may change: at the beginning when the customer does not know all the alternative suppliers and solutions it can have high need and market uncertainty. When it gets more familiar with those factors the importance of a supplier to fulfill its promise is increasing. (Ford et al., 2007, 60; Ford et al., 2003, 46-47.)

Figure 2 on next page shows that the customer's need and market uncertainties can be matched by a supplier that has the ability of problem solving. Alternately, a customer who has transaction uncertainty should turn to a supplier that has transfer ability.

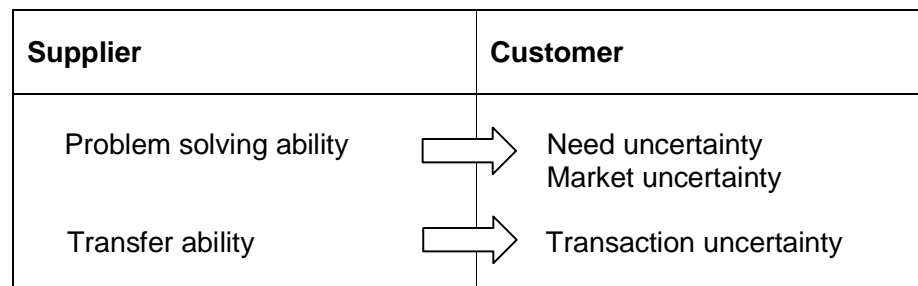


Figure 3. *Matching Supplier Abilities with Customer Uncertainties* (adjusted from Ford et al., 2003, 45).

4. Marketing Approaches

The following ideas provide us with a view how the approach to business markets and business marketing has changed over time. Nowadays it is understood that the business customers can and need to be active in order to get exactly what they require. Because of the increased trend of specialization the business customers concentrate on their core competency areas and are looking for complete solutions instead of just concentrating on a single product. In this approach buying organization's own activity is required to give suppliers an idea of the requirements for their offerings: for instance the business client can be active also in developing an offering with a supplier. (Ford et al., 2003; 2-3, 173.)

No actor in the business market can operate alone in isolation from others: all the actors in the markets are active. Therefore the marketing actions conducted by supplier may not always provide the desired outcome as there are also many other actors affecting to what is going on: what the competitors are doing, what the general industry trends are and so on. In other words, actions are also interrelated. (Ford et al., 2003, 5-9; Gummesson, 2008, 299.)

In new marketing approaches the idea has been that no company can make complete offerings based solely to its own resources. The companies are dependent on others in developing skills and the network can be used as a resource pool: as a gate to access other resources. Working in network requires working "*with, through, against or in spite of others*" (Ford et al., 2003, 9; Ulkuniemi & Tähtinen, 2004, 13.)

Bjerke & Hultman (2002, 101-103) have brought up the idea that SME marketing is different from bigger companies' marketing. In an SME there may be one dominant decision maker when in bigger companies the decision making is usually rigid. In SME's decision making it is entrepreneurial, what from the traditional point of view seems to be non-rational and unstructured. SME marketing also reflects this

approach. It is intuitive, loose and unstructured the characterizing features being constant change and flexibility. The SME behavior is not only affected by the entrepreneur as the resources and capabilities of the firm also have an effect to what is done and how.

4.1 Traditional Marketing Approach

Traditional marketing approach is the market segmentation and target marketing. In this approach the marketer investigates different client types that exist within the market and divides the market into customer segments that can be served in similar way. The supplier's operational decisions should be based on the target segments that the supplier has selected. A supplier should target to customer segments in which it possesses competitive advantage. This advantage is realized by offering customised offerings or offering same product with lower total costs than the competitors. Segmentation provides the idea that marketing can be done by segment: the selected segment should be then targeted with marketing by using sufficient marketing mix (so called 4 P's) formed by product itself, its pricing, the place where it is sold or distributed and different promotion methods. Segmentation brings many benefits. First of all it will deepen the supplier's understanding of its clients as segmentation requires studies of customer characteristics. The supplier's understanding of its own capabilities and understanding of the buyers enables the supplier to select those segments that fit its own abilities. Because a supplier also has to consider competitors in addition of these other factors in order to know where it stands, it will get a good understanding how it can better decide the profitable market segments and then manage and plan the marketing activities targeted to a certain segment. Ford et al. (2003; 3, 7) have criticized that this approach is chrysalized around offering and markets and that it does not really manage to capture the realities of the markets. Figure 3 on next page provides an understanding of this view of markets which is really simple: suppliers supply parts to clients who then combine their own offering into a piece that goes to final clients. (Brennan et al., 2008, 148-150.)

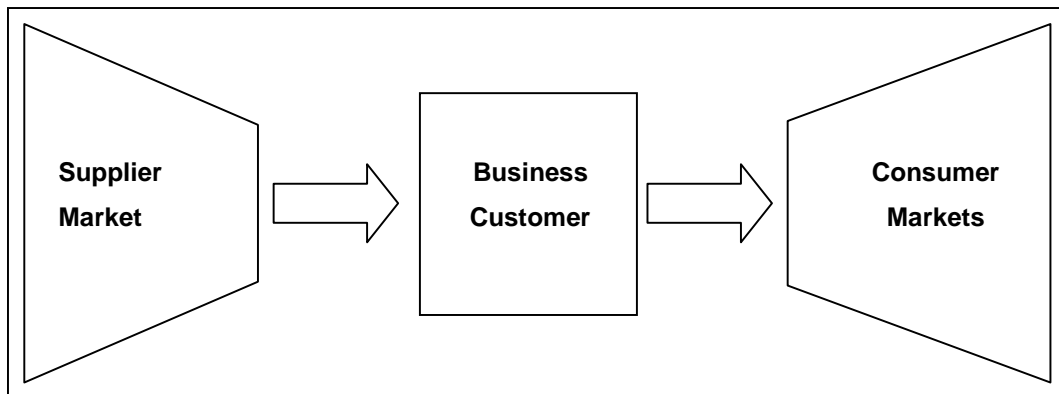


Figure 4. *Traditional View of the Markets* (adjusted from Ford et al. 2003, 14).

Segmentation can be done at more general macro level and more specific micro level. At the most general level the segmentation dimensions can be observed while at the core level they are more specific and subtle and may become clear only in close relationship. The most general dimension of segmentation is called **firmographics**: this dimension includes the industry and company size and the location of customers. The expectation is that the needs and behavior are similar in the companies of same size or sharing the customer location or operating in the same industry. (Bingham et al., 2005, 184; Brennan et al., 2008, 143-152.)

Operating variables is the second dimension to consider in segmentation process. These variables include customer's company technology, product and brand-use status and customer capabilities and strategic type. Technological ability is usually affected by the size of the potential client: bigger companies have better abilities to invest and they have up-to-date equipment. That can affect the requirements they have for their suppliers. Investigating the product and brand usage status means concentrating on the potential readiness to use an offering and the usage of an offering (heavy, light, medium). Heavy users are preferred but the light users of today may be those that have potential to grow in future. As explained earlier, the customer capabilities and uncertainties can be directly linked to the kind of suppliers and the requirements for suppliers that it is working with. Understanding the customer's firm

strategy is important. However it may be difficult to investigate whether the potential customer is an innovative prospector, efficient defender, efficient and adaptive analyser or a reactive party that has no strategy. The reactive approach of a client may predict future problems as it only reacts to the changes in the market: in rapidly changing markets proactive actions are in many cases required to keep up with the competition. (Bingham et al., 2005, 184; Brennan et al., 2008, 156-157.)

The **purchasing approach** of a client is third dimension and that includes the organization of the buying. In order to know who to contact one should be aware of the purchasing organization (decentralized or centraliced), the power structures (who in buying organization affects and how). Previous experiences affect the kind of buyer-seller relationships that a customer prefers: some companies look only after their short term interests and therefore are likely to change suppliers frequently while others may prefer long term relationships in order to learn and teach a supplier to match their needs. Purchasing policies and supplier selection criteria is different in different organization and some of them may use pre-determined dimensions to assist in the supplier selection: the factors can be price (e.g. purchasing, total life cost), technological performance and quality of the supply service. Knowledge of the criteria enables supplier to understand how well its abilities are able to meet the requirements. (Bingham et al., 2005, 184; Brennan et al., 2008, 158-161.)

The fourth dimension of segmentation base is **situational factors** and falls strongly under the micro level of segmentation. There may be a specific need that has arised due to a change in the market place, e.g. some supplier cannot deliver its offering according to its promise and therefore its client quickly needs another supplier to fill in. A customer's buying behavior may change according to the situation also for other reasons, for example, depending on the quantity purchased. (Bingham et al., 2005, 184; Brennan et al., 2008, 161.)

Personal characteristics of buyers are the last dimension. The company puts a frame to the buying process but ultimately they are the people inside the organizations that make purchasing decisions. Some of them may be picky due to perceived risk or other factors and some of them may actually share similar views about the supplier. This type of information supplier is obviously more likely to gain when it has already established a relationship with a client. However this kind of knowledge enables a supplier to better plan marketing activities to that single client. (Bingham et al., 2005, 184; Brennan et al., 2008, 161-162.)

Figure 4 on next page shows how the customer characteristics can be divided into levels different levels according to the ease of studying. Macro level is easier to study as it is more general and observable. Studying a company in micro level requires knowledge and personal relations to customer as the levels are more customer-specific and subtle.

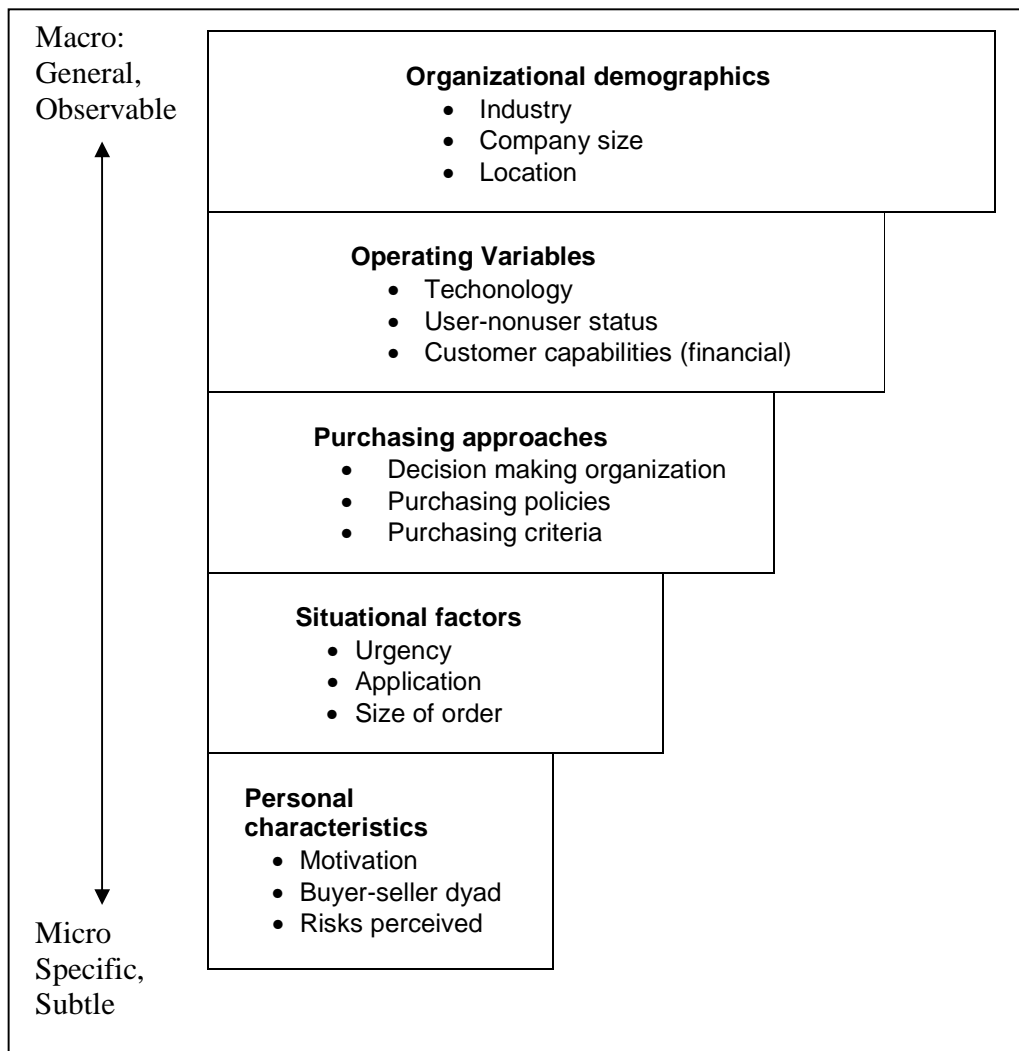


Figure 5. *Levels of Segmentation* (adjusted from Bingham et al., 2005, 184).

Segmentation and the use of gained information has positive outcome for a supplier: segmentation enables the supplier to decide the kinds of clients it wants to target and target marketing to preferable clients. Careful study of the markets enables a supplier to know where it stands in the competition and which kind of segments it should aim to reach with its marketing communication (Brennan et al., 2008, 149-150.)

It is important that criteria for segments can be measured and distinguished regarding the firm size, its capabilities and supplier selection criteria and realistic potential

order sizes. It is not possible to separate different segments without this kind of measurability. Secondly, a segment needs to be accessible. It is no use to target segments with which it is not possible to communicate resulting of distance or language or to target a segment with a suitable offering: however, nowadays technology has made the communication between firms from different regions easier. Thirdly the potential target segment has to be profitable. It is no use to target segments that are too small as it is too expensive: in that kind of segments the clients have to be prepared to pay more for the offering. Finally the supplier has to consider the actionability of a segment: the efforts to target a segment are useless if the customers needs do not meet with the suppliers offering, e.g. supplier is not able to deliver what is asked for in terms of technical requirements, quantities or price. There has to be a certain degree of compatibility between the seller and the buyer. (Brennan et al., 2008, 163-164; Hutt & Speh, 2004, 175.)

4.2 Network Approach

In the traditional marketing thinking a company takes components and raw materials of its own offering from suppliers that compete with quality and price. It then combines the parts to its own offering and has to compete with other offerers with quality and price. This view however, ignores the heterogenous characters of suppliers, customers and competitors. They vary in size and in importance. Many researchers have also criticized the traditional way of seeing business marketing and markets too linear and narrow: the business markets actors are not only connected with each other by a linear chain through a single company. Network approach adds value to the discussion: in this approach the market is seen as a dynamic network and takes a wider consideration into market environment. (Ford et al; 2003; 13,15.)

Network put in a simple way is a structure where many companies are connected with each other by different ties: the relationships also differ in importance (see Figure 5 on next page). Both the companies and all relationships between them have different

content due to the different resources of the companies and the history of their relationships which, in turn, guides the future expectations and behavior. Different actors in the business markets have different connections with each other and they are interrelated in many ways rather than just through a single company. In addition to difference in importance, the companies in the network vary also in terms of the other networks they involve in and in the way how they operate. A defining factor of networks is their stability: it means that the business relationships are usually characterized by longevity. Because of that the networks are quite stable as well. That is why the markets as whole change slowly. (Ford et al; 2003; 13,15; Ulkuniemi & Tähtinen, 2004, 13.)

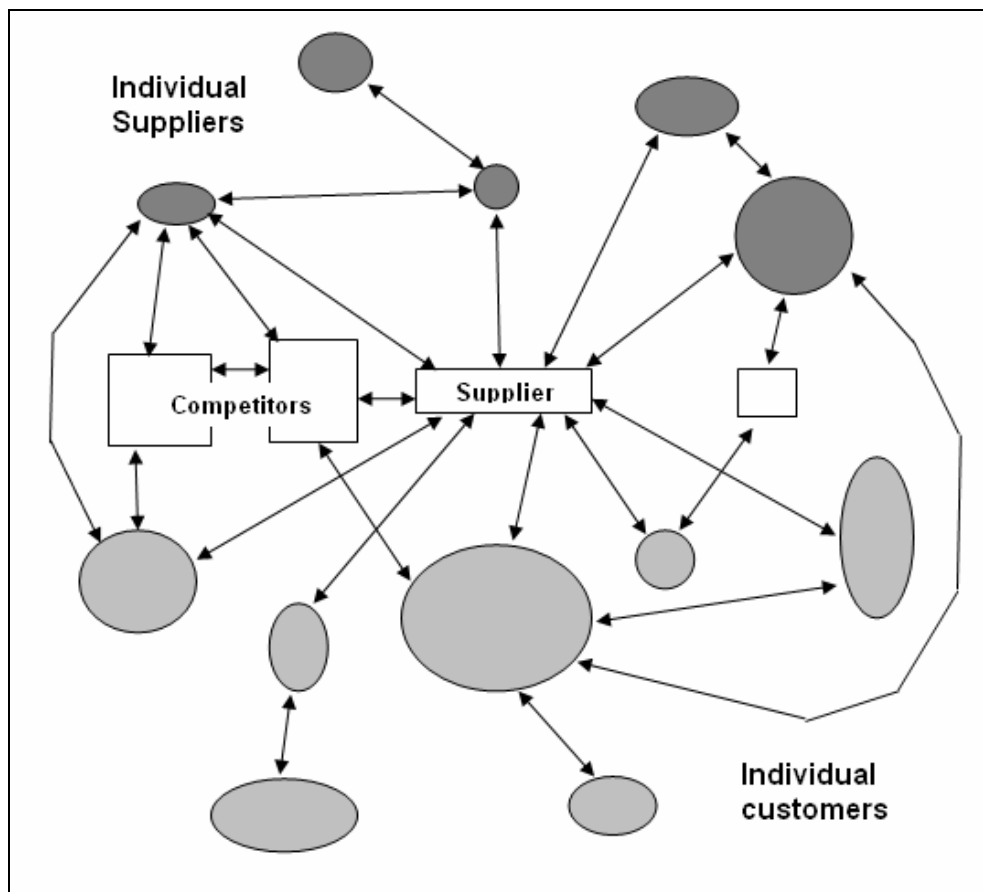


Figure 6. *The Supplier in the Network* (adjusted from Ford et al, 2003, 14-15).

Operating in a network requires an understanding of networking as an interactive and simultaneous process - there are several active “players” on the field at the same time who all act and react according to their view of their own position and positions of others. Also assumptions about others’ reactions affect to the way how company does networking. This kind of view affects also the way how buyer will select suppliers and how it connects those suppliers to each other: some buyers may seek to buy directly from single suppliers while others may prefer supplier hierarchy lead by “super suppliers” through which smaller and less important supplier contracts are made. In this context the supplier’s own actions in planning and managing that do not consider the market as a network have quite little value: not all the actions and reactions in the market place are stimulated by the marketing done by a supplier. All companies’ freedom to act is limited based on their existing relationships that require investments and have costs. Companies have relationships also with other customers and suppliers: therefore they have to concentrate on limited amount of problems. This means that a client may have many suppliers that seem similar but each of them solves a separate problem for them: some suppliers may offer huge volumes of products with low price while some might sell small volumes with higher price and deliver it fast. In the buyer’s case the limitation means that if it invests a lot of money to working with one supplier for example in research and developing, that restricts its ability to work with others. Similarly if a supplier has invested a majority of workers to make products that are ordered by a single customer the workers time is tied to that work and that restricts the supplier to approach other clients. Therefore the supplier has to consider the amount and type of clients which it is able to serve rather than just trying to gain as many clients as possible, i.e. they should develop a customer range that is compatible. This means that a company has to consider the both the client types it can effectively serve simultaneously and what kind of clients it wants to serve based on its uncertainties and competencies. Networking is not restricted by the type of the company as every company on the business-to-business field is a middleman that has both suppliers and customers. Networking is neither solely based on

cooperation nor competition as it involves also working with, through, in spite of and against others. It can also be bi- or multilateral as it can take place only between two firms or it can be expanded to cover many. Because a company's knowledge and view of the network is based on its own perceptions the image of it is always incomplete and thus leads to learning by doing as the companies react and act in the network according to their own assumptions. This suggests that the marketing in business-to-business field is always occurring in certain context. (Brennan et al., 2008, 103; Ford et al., 2003, 15-16, 18, 175-179; Gummesson, 2008, 299; Ulkuniemi & Tähtinen, 2004, 11-12.)

In addition to the factors described before, companies are affected by many other factors and therefore business markets should be understood as a dynamic whole – as a network. As a result of globalization and increased specialization of companies, the speed of changes is increasing and also other factors affect than only the domestic market forces: today companies all over the world have access to similar technologies. In fact, that and other similar factors restrict the autonomy of any actor in the network, including supplier. Therefore the actions cannot be thought as isolated events but they have to be related to complex relationship patterns in the network and to the time: what has happened in the past in a relationship will affect the future of that relationship and what happens in a single relationship will affect the whole network structure. The traditional view of business strategy fails to see the interdependencies and influences in the business world and therefore provides an unrealistic view of business world. Therefore strategy should be seen as *"a process of building, managing and exploiting relationships with each other"*. (Brennan et al., 2008, 103; Ford et al. a, 2006, 57; Ford et al. b, 2003, 13, 16-17.)

Network is formed by many ties between different actors in the network. These ties are called relationships and therefore they are covered in the next section.

4.2.1 Relationship

A single relationship is a part of a wider network of relationships: in particular it is a model how two companies in interaction shape their behavior towards each other over time. It is important to understand the characteristics of a relationship and the linkages and patterns that vary in each relationship making them all unique.

Uncertainties are a characterising factor in relationships as well: supplier and buyer both have uncertainties which can be matched in a relationship. (Ford et al., 2003, 38; Ulkuniemi & Tähtinen, 2004, 12.) The business relationships vary greatly in terms of the linkages they share, namely activity links, resource ties and actor bonds. They affect as “glue” between the companies involved in a relationship. (Ford et al., 2003, 39.)

Actors in companies are the people who work in them. They manage resources and carry out activities. Communication between actors is important for companies: when the actors interact the companies learn and teach each other about their expectations and needs towards the relationship. Over time the cultural, social and technological distances between companies will be reduced as they learn more about each others norms, values and ways of thinking and when they adapt to each other. Eventually the actors form actor bonds that will deepen the trust between the two companies. (Ford et al., 2003, 39-40; Gummesson, 2008, 29; Ulkuniemi & Tähtinen, 2004, 12.)

Activity links will be formed when both of the companies want to develop their relationship. Activity links are the operative ties between two companies and they can consist of technical, administrative and marketing activities. For example over time companies may develop a certain kind of system to design, produce or deliver the goods (e.g. JIT method) and this requires coordination and cooperation between them, in other words “interlocked” activities. This interlocking means that the resources that companies invest to one relationship limits the possibility to invest in other relationships. (Gummesson, 2008, 29; Ford et al., 2003, 40.)

The third tie in a relationship is resource ties. The companies have to use their resources (machines, knowledge, time and money) in order to develop a relationship further. Time is needed when keeping contact with the counterpart. A supplier may have to invest in new equipment in order to fulfill its clients need or it may have to develop a new offering or introduce new working practices in order to comply with customer requirements. Also relationship-specific adaptations might be needed. Adaptation creates dependence and has opportunity costs which restrict the company's ability to adapt elsewhere: that means that the two companies have resource ties. (Gummesson, 2008, 29; Ford et al., 2003, 40.)

Relationship characteristics

Even though relationships are unique they still share a number of general characteristics. Many of these are directly related to the network approach as they include complexity, long term nature, adaptations, trust, power and dependence and finally, conflict and cooperation. (Gadde & Håkansson, 1994, 63-76.)

Like a network, also a single relationship contains complexity due to the different actor bonds, activity links and resource ties that exist in the network, inside the counterparties' companies and in their relationship. As an outcome of the complexity, the relationships face problems in communication and in coordination. (Gadde & Håkansson, 1994, 63-65.)

Long term nature in relationships is true especially in the case of relationships that are deep, i.e. which share a number of linkages. Time is an important feature of relationship which means that every relationship has a historical dimension that affects to the way a relationship is today. In business-to-business world it seems to be more beneficial for both parties to build up long term relationships because of the high costs of building new relationships. In addition in long term relations the parties learn to utilize their relationship to benefit both: therefore also routinization of operations develops in a relationship over time. (Gadde & Håkansson, 1994, 65-66;

Gummesson; 2008; 31, 34.)

Frequency, regularity and intensity are an inseparable part of a long-term relationship but they vary depending on the relationship: this is an outcome of the offering in question. Some offerings are not simply needed daily or weekly. Intensity of the relationship then again depends on the complexity of the offering in question: more complex offering requires intensity. (Gummesson, 2008, 32.)

Adaptations are also related to the long term nature of relationships: without them it is hard to maintain long term relationship. In this context adaptation means that the customer and supplier adapt to each others needs and expectations. The adaptations occur in technical, knowledge-based, administrative, economic and legal aspects where knowledge-based adaptation means that the supplier deepens its understanding of the customer applications. Adaptations may be needed because the seller has specific needs (e.g. JIT distribution), or because the demand of the purchaser is unique (e.g. a product made of certain material), or because the relationship between the buyer and seller demands adaptations from both. Also the product type can affect to the adaptations needed: some products are complex and require lots of design work while some are standardized. On the other hand, some products are purchased in small quantities and require JIT delivery while others are purchased in bulks and need to be stored. In general, adaptations show commitment to the relationship which in turn enhances trust between the parties. (Gadde & Håkansson, 1994, 68-71; Gummesson, 2008, 33.)

Long term relations create trust between the supplier and the purchaser. Trust goes hand in hand with an important feature of informality. Even though there is always a certain amount of formal procedures (e.g. contract) the two parties should use informal channel in addition to enhance the trust: especially personal contacts count. This is really important because all relationships include certain amount of uncertainties that have been described before. Usually the relationship develops over

time from smaller “test deals” to larger after trust has been gained. (Gadde & Håkansson, 1994, 71-73; Gummesson; 2008; 32, 34.)

Requirement of adaptations and commitment in relationship creates dependence. Also the purchased amounts might be large and therefore being important creating a dependence of that source. Before the purchasers were recommended to be independent from their suppliers but nowadays when the relationships in general last longer time and purchasing is more organized, dependence is more acceptable. The problem in this situation is that usually other party in the relationship is more powerful than the other: therefore the relationship is asymmetrical. This kind of asymmetria however, may change according to the economical stage: when the industry is booming the seller might have advantageous position and then again when the demand goes down and supply is higher the buyer has an advantage. However the asymmetria may also be related to the uncertainties of the parties: uncertainties may lead to closer cooperation between buyer and seller and therefore create dependence. (Cox et al., 2003, 6-8; Gadde & Håkansson, 1994, 73-74; Gummesson, 2008, 30-32.)

Collaboration can be one base for long term relationships. If there is only a little competition and little existing collaboration it there can be harmony between the partners which in turn enhances the chances of reaching a long term relationship. By cooperation the counterparties can create something more that they are alone. However, at some point, all relationships face conflicts. They are unavoidable because the parties have both interests that are in conflict with each other and some that are shared ones. It is important to understand that these conflicts give a great chance for the relationship to develop and improve the activities and creative use of resources: also in supplier – buyer relationship. (Gadde & Håkansson, 1994, 75-76, 137-138; Gummesson, 2008, 30.)

As explained before the network is stable: this means that the existing relationships are likely to change a little over time and in great deal only if the problems in a

relationship are many or difficult. Because the network approach brings additional points to marketing, the concept of marketing has to be defined in a new way and therefore network approach leads to a shift in marketing.

4.2.2 Network marketing

Before, the marketing emphasis was more on the marketing mix i.e. so called 4P's and network; interaction and relationships did not have an important role. The new network approach and the criticism towards the traditional marketing approach have brought a shift to the marketing view. In industrial marketing networking, interaction and relationships should be considered as the core of marketing and less value should be given to the 4P's marketing mix approach. However they both have their place when considering the marketing activities. The network approach provides a new perspective to the business-to-business marketing but segmenting can and should still be used in order to establish segments that can be characterized and served in a similar way. To understand the shift in core issues see Table 6 below:

Emphasis	Traditional approach	Network approach
More Value	Product Price Place Promotion	Relationships Networking Interaction
Less value	Networks Interaction Relationships	Product, Price, Place, Promotion

Table 2. *A Shift in Marketing* (adjusted from Gummesson, 2008, 325).

According to Carson & Gilmore (2000, 4) network marketing is an important dimension of SME marketing. Networking is a natural part of every business whether it happens in formal meetings or by informal conversation: it means the construction

of relationships. The meaning of network is to provide aspects for consideration in decision making. Networking can be done passively or actively and frequently or occasionally. It depends on the relationship and business which way is considered good. Relationships and communication are important to SMEs as they usually are close to their business partners and wish to maintain their existing customer relationship: this results from the understanding that current customers are essential for the firm – it costs much more to attract new customers than to keep the old ones. In this sense relationships are really important in the network approach. (Gilmore et al., 1999, 27).

Networking helps SME's to build reputation, word of mouth and also to gain information of what is happening in the markets because networking can happen between two competitors as well e.g. through business organizations. In other words interaction with other network participants is emphasised. Therefore this kind of approach in addition to competencies can be essential for a small company as it enables them to maximize their opportunities by contributing to company's development and survival. This shift does not mean that the meaning of the traditional 4P's would have vanished but it gives an idea in which type of issues to concentrate when it comes to marketing. The relationships, network and interaction have more value and this will be further explained when introducing the results of the research. (Simpson et al., 2006, 368-369.)

A natural outcome after discussing the marketing approach is to describe how marketing is done in practice. Therefore the reader will be introduced with the communication methods used in marketing in the next section.

4.3 Communication Methods in Industrial Marketing

Former approaches of marketing communication have made assumptions about passive buyers who can be one-sidedly affected by supplier's marketing messages. However, this is not the whole truth as the use of information technology increasingly enables customer to access information about different suppliers and their products and that shows them to be more active than was assumed before. In this kind of situation it is important for a supplier to have an understanding of the information and message type that customers require (Brennan et al., 2008, 175-176.)

This chapter concentrates to the means of communication used in marketing both in general market communication and in the communication in relationships. All communication of a firm should be based to predetermined objectives. The communication consists of wider *market communication* that includes advertising, sales promotion, trade missions/ trade shows, public relations, and more concentrated *relationship related communication* that includes direct marketing and personal selling. (Brennan et al., 2008, 171-172.)

4.3.1 Market Communication

Market communication is more generalized way of communication and can be considered impersonal because it does not include as much dialogue as direct relationship communication. As stated before, it includes advertising, sales promotion, trade missions/ trade shows and public relations.

Advertising

The main benefit of advertising is in the amount of clients it can reach making the total cost per reached client smaller making selling more efficient than e.g. when compared to sales representative sales efforts required to reach same amount of clients. Advertising should be designed and targeted to those purchase organization

members that affect the decision-making and therefore the content should be carefully considered: the user may need information that differs a lot from the information needed by the purchaser. Technical information can include for example product performance and product quality and they should be presented in a logical manner. Advertising should be creative in order to get attention: therefore language, format and style form an important part of advertising a brand or companys abilities. Even though business-to-business purchasers are considered to be more rational than consumer customers the meaning of emotions should not be ignored: also business to-business advertisement can include messages that arouse emotions, especially when trying to affect customer attitudes towards a brand or towards a supplier in business-to-business markets. (Brennan et al., 2008, 178-180.)

In media selection it is important to consider who a certain media is able to reach: therefore it may not be such a good idea to use the most traditional media used in consumer markets, namely television or radio. More rational choices in business-to-business advertising are electronic form (i.e. webpages) of advertisement and trade publications. The benefits of *electonic form* is that its interactive and information that a particurlar person browsing the pages needs can be provided by guiding the person through links. Electronic form is also faster than other forms of advertising, both to supplier and for the buyer, as enquiries can be made via e-mail. It also enables to reach people from distant geographic locations. The customer information needs should be carefully considered in order to arouse interest. The overall effectiveness of webpages however, should be measured by observing click-trough rates, browsing time duration, number of accessed pages and the number of visits made. *Printed trade publications* can be trade, profession or industry specific and they have two types which are vertical publications and horizontal publications. Vertical publications concentrate on a whole industry (e.g. aluminium) and are likely to be read by many members of a company from different levels. This means that of publication can well reach different people who affect the purchasing decision. Horizontal publications are more focused on certain technologies or functions within

an organization. (Brennan et al., 2008, 109,181; Hutt & Speh, 2004, 418-420.)

Sales Promotion

Sales promotion can be used to complement other marketing tools used. Promotion can include incentives such as contests, trips, prizes and free items for example company calendars and pens. For obvious reasons trips and prizes should be carefully used in Finnish markets. Another promotion method used is promotional pricing such as allowances and rebates: They may be used to strengthen the existing relationships (long-term benefit) or win a contract from a competitor (short-term benefit). Also information can be considered as sales promotion and that appears in form of demonstrations and in trade shows. Technology again provides opportunities to better information communication. For example, videos or presentations can be provided to potential or existing clients on the websites. However, one should be aware that also competitors may check contents of the website. Overall motivation of sales promotion is to push sales, e.g. encourage trial or to expand use. The costs for a promotion campaign can be decreased by organizing joint promotion for example with complementary suppliers. (Blythe & Zimmerman, 2005, 286; Brennan et al., 2008, 182-184.)

Trade Missions & Trade Shows

The benefit of trade missions and shows is that they bring sellers and buyers to a same place. Buyers participate to these events because they can meet several potential suppliers face-to-face at same location. Suppliers of course are able to display their expertise to an audience that is obviously interested in what they have to offer.

Trade missions are promotional shows financed by governments. The purpose of these kinds of events is mainly to boost economical development of a certain region or a country by presenting it and the investment opportunities it provides at international trade fairs and giving funds to export promoting activities like fairs in

foreign country. Exporters are able to learn in these kinds of missions about the normal business life and its requirements for an exporter, markets or products and services in that market and about the potential that a certain market location has. (Brennan et al., 2008, 184-185.)

Trade shows are a way for a supplier to make it known for the industrial buyers. The main importance in them is that the supplier is able to meet members of both customer and potential customer companies' decision making people face to face as trade shows bring buyers and sellers – needs and demands – together. The supplier can build or maintain its image by participating in a trade show but it can also be valuable source of information considering the competitors and the state and problems of existing relationships. Trade show is a valuable marketing tool especially in the early stages of purchase decision making process. Again the benefits are similar to trade missions: efficiency in selling and decreased costs of selling when compared to sales peoples efforts. Also the audience attention and quality is important point of view: people who know their business and who are interested in the suppliers that have their stand at the trade show visit there. They are interested in seeing new products and development in the branch and like to see demonstrations and gain information on the products and potential new suppliers. The main value of a trade shows for a supplier will probably be the opportunity to affect the decision making in a customer company if they provide assistance e.g. in customers need recognition. The disadvantage of the trade shows is their temporal nature: however, at this stage, virtual trade shows can be exploited. The supplier should carefully decide which trade show to participate and the criteria can include the typical products displayed, costs, availability of a suitable place at trade show, the time and reputation of the show, type and number of typical visitors, geographic coverage (regional, international etc.). Because the audience that participates to trade shows usually has an important role in purchasing decision making process, the support promotions and the staffing on the stand should be carefully considered. It is remarkably important to relate the marketing activities to those people from the buying organization, who visit

the show. Layout of the stand and its contents play an important role as well. After the event the potential customers should be contacted and finally, outcomes of the participation should be evaluated in order to learn for future. (Blythe & Zimmerman, 2005, 282-283; Brennan et al., 2008, 185-195; Hutt & Speh, 2004, 426-430.)

Public Relations

The aim of public relations is to build up company's image and reputation in the eyes of interest groups into the direction that company would like to be seen. Compared to other communication tools like personal selling or trade fairs, PR reaches wider groups of people and it helps for example in gaining and keeping professional employees and building goodwill. For example an article about company operations or innovative products in a magazine can be a effective image booster. Other activities that promote public relations include charitable donations, press releases, seminars and publications: an important part is also the complaint handling which is critical to supplier's reputation in the customers mind. (Bingham et al., 2005, 312; Blythe & Zimmerman, 2005, 297; Brennan et al., 2008, 195.)

4.3.2 Relationship Communication

Relationship communication is more concentrated and as stated before that includes direct marketing and personal selling.

Direct Marketing

Direct marketing is characterized by absence of face-to-face contact. It can be done by direct mail, telemarketing or by electronic media and usually customer databases are used in order to know who to target. (Brennan et al., 2008, 204.)

Direct (e-)mail is a good way to personalize a marketing message and in average it is cheaper per customer than telemarketing or personal selling. Direct mails or e-mails can be used to increase awareness of a product or a supplier and alternatively to invite

visitors to trade show. *Telemarketing* consists of inbound marketing where the customer initiates the contact and outbound marketing where the supplier initiates the contact. Telemarketing can perform both roles of customer service and investigating potential leads generated by direct mails sent. However it is not sufficient if it is used by itself: it should be rather used to complement other marketing tools. It also has limited abilities in dealing with complexity of offering: that requires face-to-face communication. Electronic media can be used as an alternative source of communication instead of direct mails. Extranets and intranets can improve communication between supplier and customer with lower cost than telemarketing and direct marketing. Also maintaining a contact is easier for example with the help of e-mail: with customers from distant locations as well. (Brennan et al., 2008, 205-207; Hutt & Speh, 2004, 420-422.)

Personal Selling

Personal selling means that a supplier company manager communicates directly with the customer organizations managers. This improves understanding of the customer requirements and problems that it seeks to solve and enables supplier to match better to those needs resulting to improved relationship handling. That requires handling also the problems arising in the delivering process or after selling. (Blythe & Zimmerman, 2005, 248-249; Brennan et al., 2008, 207.)

Using Communication Tools Effectively

Table 2 on next page provides an understanding how different communication tools can be used in different phases of the buying process: most effective communication combination is to follow the lines when they run on the “high” section of the chart: starting with advertising, then moving to trade shows and then to personal selling approach. At the beginning of the purchase process advertising has most important role in generating awareness among potential customers and personal selling is in least significant role. When the purchase process goes on those roles change: personal

selling becomes more important in more developed relationship. The role of trade show is varying during the purchase process: the role is most important in the product specification stage and in getting feedback.

New customer/ Prospect Buying phase	Key seller: communications objective and tasks		Relative communication effectiveness		
	Communications Objectives	Task	Low		High
Need recognition	Generate awareness	Prospecting			
Developing product specifications	Feature comprehension	Opening relationship/ qualifying prospect			
Search and qualification of suppliers	Lead generation	Qualifying prospect			
Evaluation	Performance comprehension	Presenting sales message			
Supplier selection	Negotiation of terms/ offer customization	Closing sale			
Purchase feedback	Reassurance	Account service			

Table 3. *Communication Tools Related to Buying Process* (Brennan et al, 2008, 188).

Marketing activities should be a carefully planned entity integrating all sufficient means of marketing together rather than just restrict to one approach, like advertising in magazines or personal sales calls. When combining the different means of marketing communication together, marketing becomes effective as it covers the relationship development process from the beginning to mature level. Different means of communication should be emphasised in different phases of a relationship:

first in creating awareness among potential clients, advertising, sales promotion, trade shows and public relations have an important role. Later on when relationship is developed and the client and supplier have learnt from each other's behavior and habits, the communication emphasis is on personal selling and direct marketing. Increasingly also the use of information technology, like electronic means of communication, have become of great importance. Many of the customers use different web-based approaches when acquiring new suppliers and searching information. Therefore a firm's websites also play a significant role in advertising and sales promotion. Resulting of this a supplier should carefully consider what kind of image the client should get when entering to the suppliers website. Language is an issue to be considered as well: if the firm wants to restrict the clients to one country, the languages available on the website can give an idea of this. If they wish to serve other than domestic clients as well the firm website should be adjusted accordingly considering the language offering. (Brennan et al, 2008, 176).

5. Outcomes for the Empirical Part

At this point the reader has been provided with an understanding of the complexity of purchasing process and the affecting factors and marketing viewpoint.

The *offering purchased* is an obvious factor that affects the purchasing approach and decisions made. Both the system classification and the fourfold system is applied in the empirical part: system classification in the case company introduction and fourfold classification in the customer research. This is due to the different approaches that the supplier and a customer have to the offering: fourfold classification reflects customer viewpoints much better.

There are many *internal decision making factors in a customer company* that affect its buying decision making. The stages in the purchasing process can be partly simultaneous and there are many people who affect what is purchased and from whom: this is why suppliers should know about the different people's role in the customer organization and use communication methods that relate to the purchase process stages. This is why theory about the roles in purchasing is included in to the interview. Knowing about the organization of purchasing enables supplier to know who to contact in a potential customer organization. If centralized purchasing approach is used there are only a few people the supplier can contact. If however, it uses the decentralized approach there can be many people who the supplier can contact. Some customers also use so called supersuppliers that coordinate all the purchasing and may even do assembly work for the client. Then again different approach from the new supplier is needed. The novelty of purchase i.e. a new task, a modified rebuy or a straight rebuy implies if the customer is likely to turn to existing supplier relations or trying to find suppliers outside of them. To get an idea how these factors affect the clients, these perspectives were also used in the empirical part. Buyers also have uncertainties and abilities that have an effect to the type of supplier the organization may prefer. It is important for a supplier to understand these

uncertainties to match them both from the customer's point of view and from their own point of view: this can help in developing a good relationship in which two parties complete each other. When it comes to marketing the customer's problems and uncertainties are in the heart of it as they have an impact on the customer's buying behavior, in other words, supplier requirements, what is bought and how it is bought. Therefore an understanding of customer uncertainties and problems is vital and that is why this viewpoint is applied to the empirical part too. (Ford et al., 2007, 65-67.)

Other factors affecting the buying decision are external attributes. They include the purchasing company's position in the network of companies, what kind of relationship portfolio of suppliers it possesses and what kind of competitors it has. If a competitor is developing a new offering, the company itself is likely to do the same in order to be a part of the competitive field: therefore its requirements for its suppliers may change. The purchasing company's pool suppliers can vary in great extent depending on the way how it wishes to source its requirements: some organizations may wish to have a large pool of suppliers and some of them may deal only with a few. On the other hand there may be strong competition on the field between the suppliers. Their offerings may be similar or some may be more developed. That also affects the way how a purchaser deals with them. The purchasing company's own position also has a strong effect: bigger companies in general have a strong negotiation position due to the volumes they purchase. The traditional marketing approach of 4 P's that is consumer markets concentrated cannot be considered as a sufficient approach to business-to-business markets by itself. Traditional 4P's approach of course has its meaning because the price, place, promotion and product have to be right for the business markets in order to sell: however if a supplier builds its marketing around them it is on wrong tracks. This is because in business-to-business marketing relationships, interaction and networking have a lot of value. Therefore these two approaches should be combined in order to gain an understanding of the realities of business-to-business markets. Related to

marketing, different communication methods are also covered in the empirical part separately to gain as much information of the customer perspective as possible.

Relationships with existing customers can provide a lot of useful information to the case company about where it stands today and how it could improve its actions.

Therefore the theoretical framework about relationships and their characteristics are applied in the research as well.

III EMPIRICAL PART

The empirical part first describes the research methods, research process and validity and reliability of the study. It then moves on and presents the case company in the light of the theoretical framework. Current marketing practices are also covered. After this, the findings related to the general market conditions that affect the case company's operations are introduced: case company's competitors and their characteristics are included as well. Finally this part presents the outcomes of the qualitative customer research and provides suggestions for further research work.

6. The Research

Market research in a nutshell is first collecting information, then analysing it and finally presenting it as data. The goal of market research is to provide useful information that will improve the data users' understanding of the business and the clients. In other words it is a process that results in increased understanding. (Block & Block, 2005, 1.)

To be effective, marketing has to be based on deep understanding about the business market environment and the market characteristics. In business to business markets this means the understanding about the differences between consumer and business to business marketing and the field in which the supplier is working in. The context in which marketing is taking place has to be considered carefully. Characterizing factors of business-to-business markets differ a lot from the characterizing factors of business to consumer markets in market structure, buying behavior and marketing practise. The case company provided a general problem that they had and they left the more specific problem determination to the researcher. The general problem of the case company is how they could get new clients and they were also curious to know about the general market trends that could affect to them somehow. In the light of research application this kind research question is too wide and therefore it needed to be narrowed down into four research questions that capture the most relevant issues: this is because the research questions need to be simple, clear and complete. (Block & Block, 2005, 1-7,9, 11.)

This thesis aims to get deep understanding of the clients that the case company is serving at the moment and the marketing practices that best match the client context. Therefore the following two research questions have to be asked:

1. How do the current clients make their purchasing decisions?
2. Is there something that the case company should change in its current

marketing practises in order to reach the clients better?

To gain a wider perspective the case company should have an understanding of the general market trends and competition field that both affect to their marketing environment. Therefore this thesis also aims to provide an understanding regarding the following question:

3. What kind of competitors does the case company have?
4. How do the general market trends affect to the case company?

After asking these questions the underlying information needs can be defined. This thesis is concentrated on the buying behavior and practises of industrial buyers in the field of aluminium part purchasing and therefore theoretical background of buying behavior and practises has to be provided. The reader was introduced to the theoretical background of the research by using secondary sources like books and articles in the previous chapters. Later on within the frames of the research primary data is gained. As the case company's knowledge about competitors is restricted, the competitors' characteristics and their actions need to be investigated. This analysis is based on external secondary sources like the competitors' websites, newspapers and other available references. In addition to the competitors, general market trends comprise a great deal of the current and future opportunities and threats and that is the reason why market trends and characteristics need to be studied. The information concerning this field is gained through secondary sources like governmental and organizational websites, articles and databases. (Aaker, Kumar & Day, 2006, 110.)

The network theory has been an inspiration to the sections about case company's marketing environment and their competitors because according to the network theory these two factors affect to the case company's possibilities in addition to their own actions and their clients actions. The case company presentation provides an introduction to the case company's operations mainly leaning onto the theory base

introduced in part “Understanding Customer”. In turn, traditional marketing approach view was emphasised in the customer interviews but also the network approach had its affect to the questionnaire contents as the questionnaire was also looking for to find out if there are some other factors that affect to the supplier choice than just the suppliers product. Communication methods are included to the research as well to get a clear idea about customer point of view of the different marketing practises. Finally, the conclusions are presented and new research needs presented.

6.1 Research Methodology

This section will go more deeply to the methodology of the research to be conducted among the clients. Resulting of the nature of the research it was decided to be done in a *qualitative* manner *by interviewing* the respondents one-to-one by telephone. Of course this will limit the information gained because the verbal expressions and voice tone are only a part of the reality: body position, facial expressions and such factors are lined out when interviewing by telephone. Qualitative method can be separated from quantitative: quantitative is concentrated around measurable results and qualitative is concentrated in deeper understanding of the topic researched. Because qualitative method provides deeper understanding it is better choice for this research in terms of its nature but also because the sample size is so small: to be reliable, quantitative method would require much bigger sample size. (Block & Block, 2005, 175-177.)

6.1.1 Sample Size and Type

The sample group in the research is rather small (3 persons) and geographically concentrated (Finland): this is an outcome of the case company’s operating field in supplying Finnish manufacturing firms with aluminium parts. As the researcher does not have knowledge about the companies that could use these kinds of specified products or that have the potential of doing them the sample has to be named by the case company. Therefore the interviewed sample group is a *convenience sample*

which is concentrated around the existing client base of the case company: convenience sample means that the sample is chosen and found in a way that is convenient for the researcher. The interview is not random because the interviewees are case company's clients as the concentration of this study is on the existing client base and their behavior. This is a relevant sample as by using this sample the case company can gain understanding of the segments it serves: as explained before it is more efficient for a small company to concentrate in keeping the existing clients or getting new in the same field rather than switching the operation emphasis on whole new areas. (Block & Block, 2005, 138-139, 144-145).

6.1.2 The Research Ethics

The oncoming interviews were initiated by the case company that first informed its clients of the research and explored the clients' willingness to participate. The case company then provided the researcher with the contact information of the interviewees and the interviews were scheduled after this by the researcher in order to make sure that the interview time is suitable for the respondents and that the response rate would therefore be high. Some clients may have been left out if they did not wish to participate.

The researcher introduced herself to the interviewees explaining the motivation of the research and for whom it is done and by whom it may be used. An opportunity to remain anonymous was also provided. Before the phone interviews the researcher provided the research questions with enclosures (see appendixes 1-4) to the interviewees to make sure that the questions were appropriate and that the respondents would have an opportunity to familiarize themselves with the interview content beforehand.

6.1.3 Outcomes of Using Qualitative Method

An important question of course is how the information gained by using qualitative method can be used? First of all it can be used in generating ideas. In many cases the suppliers are so concentrated in their business and day-to-day activities that they do not have time to perceive their operations from the customers' viewpoint. In-depth interviews provide precious information about the clients and their preferences to the supplier and may therefore generate new and fresh ideas to business operations of a supplier. The second way how the gained information can be used is to improve understanding of the buyer. Even though many suppliers know a lot about their clients there is always room for learning more. It is dangerous for a supplier to think that he thoroughly knows his clients based on the daily business carried out: an in-depth interview may provide information about some changes in the market place that the supplier did not even come to think of. On the other hand it may confirm and strengthen some of the suppliers perceptions of its clients and their preferences. In general the new ideas provided by a qualitative study may result in re-evaluation of marketing concepts, strategies and tactics. (Block & Block, 2005, 177-181.)

6.1.4 Validity and reliability

The research should be as valid and reliable as possible because these qualities show how useful it is. To be useful in reality the research of course has to be both valid and reliable. In reality it is really difficult to achieve both of these requirements. Reliability is a quality that shows how good the measurement is. This means that you should be able to repeat the research with the same methods and results: the study therefore is "*consistent and dependable usually over time*" (Block and Block, 2005, 86). Validity is a quality that shows whether you actually measured what was intended to be measured. There are two types of validity. **Internal validity** relates to the research process and instruments used in a research. The methods should be free of systematic errors that can affect the research results making it untrue, e.g. the way the questions were asked or how the research in general was organized. **External validity**

means the extent to which the research results can be generalized in to real world, e.g. how realistic the results are and how well the research actually relates to the realities of business life. If the research is qualitative and is not intended to be generalized, external validity can be measured by transferability of the research findings. (Block and Block, 2005, 85-87; Colorado State University, 2009.)

The reliability of methods was gained. The interviews were made with respondents by telephone conversations that were recorded in order to avoid errors by the interviewer when analysing the results. The interviews were confidential in order to encourage respondents to answer truthfully to the questions asked. Resulting from the interviewing method (telephone calls) the interviewer prevented the affect of her face expressions on the interviewees. In this sense the method used increased the reliability. The respondents all answered the same questions and the researcher provided clarification about the meaning of question if needed. By this the interviewer prevented misinterpretations by the interviewees. The time of the interview was approximately the same for all the interviewees as all the interviews were held between 9-11 a.m. not at the end of work day. The variable factor was the interviewee's personality: some of the respondents replied shortly while some of them replied with long explanatory answers in great detail. As an outcome the duration of interviews varied: from 30 minutes to 1 hour.

The internal validity of the study was also considered. Majority of the questions came directly from the theoretical framework excluding a few under the relationship theme that were added according to the case company's wish. When the interviews were analysed the sentences were kept in the context they came up and therefore the results are not distorted. The questionnaires were provided for the respondents beforehand enabling them to familiarize with the questions and think their answers beforehand: by this precaution the interviewee could avoid long pauses in the interview that could have happened if the respondents would have just started to think their answers when they were interviewed. The conclusions present all the possible viewpoints and

nothing is especially emphasised. Therefore objectivity was gained. The questions were correct because they provided viewpoints that were related to the research topic organizational purchasing and marketing. Also customer relationship related questions have their place as in that part the aim is to find strengths based on which the case company could develop their marketing. To the external validity there were a few attributes. It surely affected to the validity that there were only three interviewees and that all of these were already customers of the case company. However they have experience of the case company unlike some other companies and therefore they represent a relevant sample. The respondents' motives can cause some unreliability to the conclusions: there may be issues that they did not want to discuss about and some issues may have been emphasised by them. Concerning the other material in the empirical part that was related to the case company's competitors and the marketing environment the conclusions are aimed to make in an objective way taking all the aspects into consideration. This brings more validity to the conclusions because it is not only the case company and their clients that affect to the success of the case company but also their competitors and market environment. Therefore this addition to the research was relevant and it actually adds value to this research as it gives a wider perspective and context to the researched issues. Because this research is context based and qualitative it is not supposed to be used by all the small companies: this means that it is not generalizable. However the research can be considered as transferable to the real life as the whole research was based on a real-life problem and the theories that were used to back up the research questionnaires have been developed based on the business-to-business market realities.

7. Case Company

The case company had to be investigated as well in order to gain company specific information: this was done by interviewing the manager, Ilkka Järvi and by exploring the internet sources that were available. Small firms' marketing is characterized by its size and resource limitations. Another important point is that many SME managers do not have high competence in marketing or understanding about the marketing theories (Simpson et al. 2006, 366): this is usually a result of their education as it seems more usual that they have knowledge about their industry field rather than in marketing. This is also the situation with the case company. In the company the general manager does the decisions concerning marketing. In other words, the the manager's competencies are gained through experience (learning by doing). (Järvi, 2009.)

7.1 Basic Information

The case company, Valukoneistus Kivinen & Järvi Ltd., was established in the mid 90's and it is located in Vaasa. At the moment the company employs six persons. That means that it is a micro size company. (Järvi, 2009.)

The company details are presented in the following table:

Company Details	
Official Name	Valukoneistus Kivinen & Järvi Oy
Registration	14.12.1994
Company type	Limited company
Location	Vaasa
Personnel	5-9
Turnover	€ 400,000-990,000
Business branch	Metal product manufacturing (machinery and equipment)

Table 4. *Case Company Details* (adjusted from Yritystele, 2009a).

7.2 The Offering

The company's customer focus is on business-to-business markets and more specifically, CNC machine centre manufactured aluminium parts for different clients. At the moment the product range is concentrated on aluminum parts which usage varies a lot from vehicles to hospital equipment. Based on the product system classification the product range falls under the entering items category and more specifically, into manufactured parts category. From the clients point of view the purchased product represents shopping or preference product according to the fourfold classification. Majority of the firm's production is exported indirectly. Their products are incorporated into their customers' products that are exported. (Järvi, 2009; Valukoneistus, 2005b.)

7.3 The Principles of Operation

Valukoneistus Kivinen & Järvi Ltd. has the ability of providing a finishing touch to their products as they offer grain blasting and vibration drumming. The company also operates in close cooperation with complementary firms doing Teflon and anodic coatings as the clients wish to have further finished products. The operational principle of the company is that every delivery should be a recommendation for the company. In practise this means that the company's and their partners' aim is to live up to the requirements and expectations of customer. Every company that is involved in the work is responsible for the quality of the finished product that leaves to the customer: it is important that no defected products pass their way to the final assembly. The reason for it is that the associated costs increase rapidly if defected products enter to markets: think for example withdrawing product that has already entered the market or loosing customers resulting from delivering defected products not to mention if defected products of the business customer enter to consumer markets. That is why the case company always informs clients about defects and withdraws any defected products from delivery: in this sense they are honest in their business. As explained, the firm is also co-operating with complementary firms. This

viewpoint confirms that one company can seldom deliver all the elements of an offering that customers want and therefore it needs others. This is especially true with small firms that have limited capabilities and resources. Environmental aspects are considered as well as the company aims to reduce environmental load. Self criticism ensures that updating is done concerning practises and operations. In 2004 BVQI carried out an auditing and the firm was granted with ISO 9001:2000 certificate. (Järvi, 2009; Valukoneistus, 2005a; Valukoneistus, 2005b; Valukoneistus, 2005c.)

The case company shares numerous linkages with its network partners. Actor bonds have been developed with their customers and suppliers and many of these are years of age. Activity links are shared in a different way with different clients and when the case company has developed, some of their clients have had the carriage to create more activity links with them. Others may not share as much activities with the case company, which can be seen in smaller orders or simple requirements, e.g. standardized products that may not require as much adaptation from the case company. Regarding the resource ties the biggest client has demanded a lot of adaptation from this client in terms of machinery and software. This customer demands a great part of the resources (time, effort) that the case company has available.

7.4 Current Marketing Practices

The biggest challenge for Valukoneistus Kivinen & Järvi Ltd. is the economic recession because the exports are declining and as a result the orders for the firm decrease as well. Therefore they are looking for new clients. The company aims to improve marketing within the segments that are served by making it more effective: it is always easier and cheaper to try to concentrate on the segments that a company already has experience about than trying to develop whole new set of skills, resources and abilities that could match with other types of clients. The company has named some general segments that they serve at the moment. Next the organizational

characteristics of their clients are described. The industries that they serve include transport equipment industry and healthcare equipment industry. Both big and small companies are served. All the clients are located in Finland. The operating principles of their segments vary: customer organizations include both finished product producers who produce the final product to the consumer markets and intermediary producers that provide assembly work to the industrial end clients. Their clients purchasing is usually centralized. They have clients that order volume varies from small to large orders. The clients they usually trust the existing suppliers as their perceived risk is related to the transactions carried out by the suppliers and a new supplier is seen as a potential risk.

An interview with the general manager strengthened the theoretical views of the new business market approach. It is clear that the clients are not passive receivers of advertisement but they can be very active and take lot of effort in order to get exactly the kind of offer that they are looking for. This was proved when the case company got clients through inbound marketing: some clients just called to them and asked for parts. The company is doing general marketing by using the method of advertising. This happens by publishing advertisement in trade magazines. The company also markets by using electronic form of advertisement: they have website and as a complementary advertising method they have set a link to Google Awards, which is activated aside of the webpage when someone types certain search term on Google. Direct marketing is done through personal e-mails. As a complementary method the company uses telemarketing as the e-mails are not that effective alone: they tend to “get lost” if telemarketing is not done in addition. In existing customer relationships supplier tends to do company visits and do personal selling by communicating directly with the managers in order to improve the trust and understanding of the clients. It can be also added that this company has an approach to networking as well: they attend to some industrial events that are common to suppliers. There was also an attempt to establish a cooperation network between companies in the region but as this network is not formed based on natural relationships and contacts it has not

worked as supposed to. (Järvi, 2009.)

7.5 Abilities

The abilities of Valukoneistus Kivinen & Järvi Ltd. relate to transfer: their aim is to have zero defects in production and aim to the quality and accuracy in their deliveries. Problem solving can be done at adaptation level to make the production of requested items faster and more effective: however the main design usually comes from clients. As a conclusion it can be stated that the firm's abilities could therefore be best matched with a client that has transaction uncertainties. (Järvi, 2009.)

7.6 Market Environment Knowledge

The case company is interested about the market trends and the competitors: they realize that it is hard to succeed in getting new clients if there is no understanding of the trends affecting in the operational environment of a company. At the moment the case company's machine base is updated from time to time in order to cope technically with competition: not much is done in order to know what competitors' abilities are. Therefore the next chapter concentrates on competition. (Järvi, 2009.)

8. Market Conditions

This chapter provides the reader with an understanding of the external operation environment of the case company which is formed by the market conditions and the competitive environment: this enables the reader to understand how they affect and can affect to the case company. This chapter is based on secondary sources.

The past of Finnish industries and economy has been colourful. Growth in world economy at the end of 90's encouraged also Finnish industries as the demand for their products increased. The electronic industry was the engine of the growth. At the beginning of new millennium there was an economic downturn that was led by the ICT branch and then spread to traditional industry as well. However in 2005 the production started to increase in many branches: electronic industry and machine & equipment industries boosted this growth. Traditionally important forest and chemical industries had a smoother development and in recent years they have had difficulties with the increased costs and decreasing demand. (Confederation of Finnish Industries EK, 2009a; Confederation of Finnish Industries EK, 2009b.)

Today the realities of business life have gone through great structural changes: this is a result of global markets and international competition. In order to cope, businesses have to invest in know-how, innovation and improvement of productivity. Many Finnish companies have moved their production to foreign countries and that has enabled them to rise into the global top level in their own branch. In 2007 industry contributed 26.2% (see figure 7 on next page) of the Finnish GDP: technology industry namely metal and electronic industries are an important part as it covers approximately 50% of the whole industry in Finland. (Confederation of Finnish Industries EK, 2009a; Confederation of Finnish Industries EK, 2009b.)

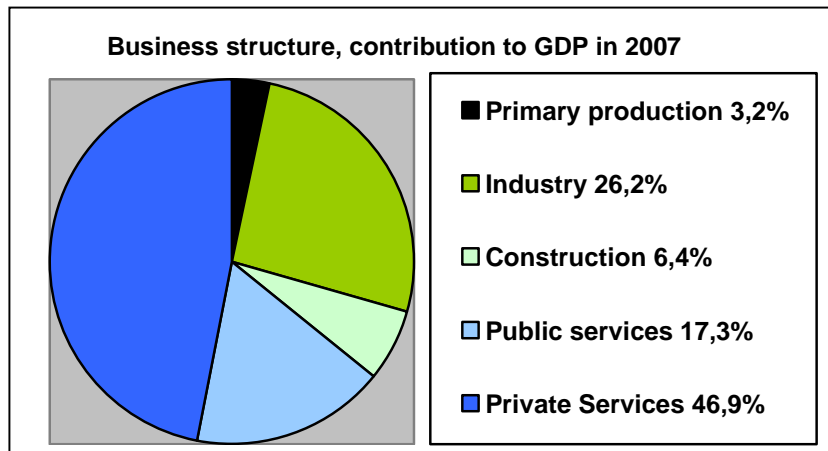


Figure 7. *Business Structure, Contribution to GDP* (Confederation of Finnish Industries EK, 2009c).

The overall development of the Finnish output from the beginning of 90's until last year can be seen from the figure 8 on next page. The development of industry has been remarkable until last year. The reason for this is obvious – the economic recession started to affect Finland in 2008. The picture gives an idea of the fast development of the Finnish industry and it also shows that now in terms of the output the Finnish industry is approximately on the same level as in 2006. (Confederation of Finnish Industries EK, 2009a; Confederation of Finnish Industries EK, 2009b.)

Total Output by Main Branches

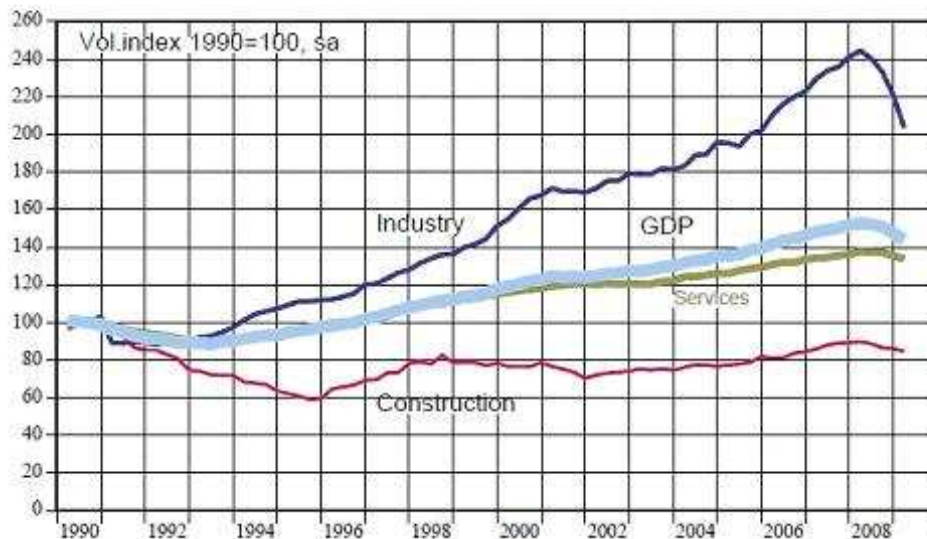


Figure 8. Total Output by Main Branches (Confederation of Finnish Industries EK, 2009d).

8.1 Technology Industry in Finland

Technology industry consists of metal processing, machinery and metal products industry, electronics and power industry and information technology. In Finland these industries have great employment effect as e.g. in 2007 they employed directly 270000 persons and altogether approximately 650000 persons. These industries cover majority of the Finnish exports (60%) and 75% of the R&D investments: therefore the technology industry is a great and significant sector in Finland.

Also the significance of subcontracting has grown when comparing the amount of subcontracting to sales: in 1975 it was 55% of the sales in machinery and metal product industry when today the same rate is almost 70%. The added value proportion of sales has decreased even though the value of raw material used has not increased: this implies that the industrial companies outsource their activities to suppliers and therefore the production process is more and more networked. In turn

the increased subcontracting value in production process suggests that the networks' ability to compete has a remarkable impact on the success of these industries. (Hernesniemi; 2007; 19, 24.)

8.1.1 Industry Challenges and Future Megatrends

The transport equipment industry is going through changes which result from globalization, changes in information technology, outsourcing, rapid speed of development and price pressure. Globalization brings changes because more and more companies move their production to cheap labour countries or closer to foreign markets: this also brings pressure to decrease the prices in domestic markets to be able to compete with foreign competitors. Resulting of the increased competition overcapacity exists. Technology enables people from different countries to communicate effectively with one and other: that enables cross-border cooperation and entering markets in foreign countries which on its part makes the competition harder as the domestic competitors are not anymore the only ones to consider. Speed is a vital character to companies that wish to succeed: companies need to develop themselves and their offerings and if the wish is to operate proactively and gain market share, it is vital to be fast. Also product and production innovations are an important trend as they enable companies to provide offerings that are better in terms of price and quality. Nowadays the industrial customers wish to concentrate on their core areas: therefore the fields of business that do not belong to the core areas are outsourced. In other words the customer behavior is changing. (Karhu, 2008, 20).

The information collected from the industrial entrepreneurs in Finland shows the challenges and megatrends in machine and equipment industry that the actors working in the branch today are concerned about. The increasing price of raw material and energy is a challenge in Finnish markets. This development can lead to suppliers having to change their production to products with more value added. The supply and demand of raw material set the price: when the production in China grows the price is

assumed to get higher. However the problem is that the domestic supply of raw material is dominated by a few actors and therefore the price level may be higher. Also the small market and Finland's peripheral location increase the total cost level. To overcome this challenge there should be more cooperation in raw material purchasing: buying in bulk enables companies to get better prices and also quotations from bigger raw material producers. This in turn would increase the competition of raw material producers and turn the price level lower. For small businesses the most realistic way of raw material purchases are purchases made by the client who gets better discounts. Alternative raw materials may also be used in order to save material or make the product cheaper. Secondly the product design should be raw material saving in the first place: this will decrease the total costs. When the raw material price increases the environmental aspects are better taken into account because the waste material has higher costs for the company: this could lead to improvement of waste management as one company's waste could be another's raw material. (Hernesniemi, 2007, 66-70.)

Knowledge about the market megatrends gives also an understanding regarding the future challenges and opportunities. According to the field specialists, globalization is going to continue in future with the help of information technology that enables better communication throughout the world and through economical unions and agreements that make trade easier between the countries. Also industrial networks that operate across the borders are a part of this trend and in their part make it possible. The economical centre of world is going to move towards the BRIC - countries, namely Brazil, Russia, India and China: this is a result of a balance movement: when the service field is increasing in the developed countries the industry is decreasing in those countries: therefore the industry is going to move there where it will have better resources and markets. Second trend, the aging and decreasing number of labour is a result of the structural change in the Finnish population. The employers really have to think what the best way to use the labour is. This is possible for example by prioritising tasks and making investments to machinery and technique

that will make the work more efficient e.g. by decreasing the time needed. In future, the environmental issues are going to be increasingly important. More weight has to be put on these aspects resulting of the climate change and decreasing amount of clean water resources and its increasing usage and other problems. As an outcome the companies also have to start considering their actions increasingly from the environmental point of view. The environment protection can happen through improved waste management, water purification and management, soil cleansing and filtering the flue gases. Promoting the principle of sustainable development in the industrial production will become even more important: it can be best supported by using renewable energy resources in production. A third way of emphasising the environmental aspect in production is to use the best possible technology from the environmental point of view: this means technology that exploits raw material efficiently and economically and that causes least emission. Also raw material that is recycled should be exploited, whenever it is possible. One of the most important future trends is that the new technologies become more usual in processes. This is not only an outcome resulting from the environmental requirements but if the goal is to raise among the market leaders: those companies that are prepared to invest and start using the new technologies earlier are usually in better position in the competition. (Hernesniemi, 2007, 10, 28, 33-35, 37-39, 41.)

8.2 The Outcomes of the Economic Crisis

The recent development causes significant changes to the industry. The economic crisis has affected many fields in different countries and therefore it is important to know about this development and how it affects to mechanical engineering which is the operation branch of the case company as well.

The growth in business-to-business world is based on the consumer market demand and new investments. Between 2003 and 2008 investments were high all over the world the focus being on Asian region. As the economy boomed, production capacity

was increased significantly all over the world. Now, resulting from a decreasing demand there is a major over capacity in production and the inventories increase as the amount of new orders has gone down: the goods do not move. In October 2008, 36% of all companies announced that they have overcapacity. Production is decreasing which is an outcome of reduction in order base. During the second quarter in 2009 companies had 54% less orders than during the second quarter in 2008 when the calculations are based on euro amount. Between the last quarter of 2008 and the first quarter of 2009 the change was -16%. The chart below provides an understanding of the recent development in the order base of companies. The decrease in order base has started to slow down. (The Federation of Finnish Technology Industries, 2009b, 2,5; The Federation of Finnish Technology Industries, 2009c, 1.)

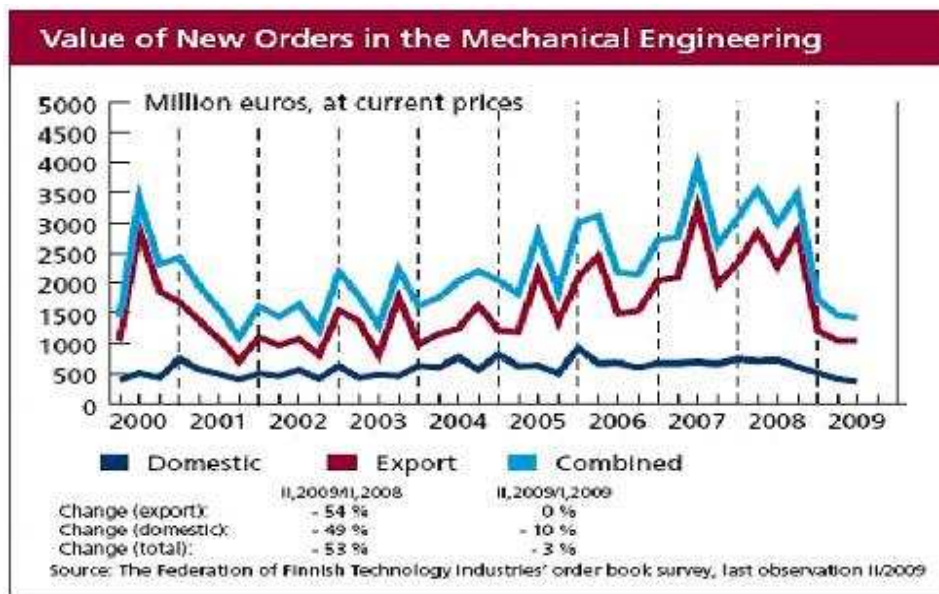


Figure 9. *Value of New Orders in the Mechanical Engineering* (The Federation of Finnish Technology Industries, 2009a, 5).

All this means that the competition for getting orders is hard and therefore there is a pressure to decrease prices while the costs of production are still high. These factors in turn imply to investors that now it is not a good time to tie money and the

investments have decreased accordingly. (Confederation of Finnish Industries EK, 2009e, 9-10; The Federation of Finnish Technology Industries, 2009c, 1.)

The past year has been difficult for industry in Finland. This is caused by the global financing crisis that started in 2008. The crisis has affected every country and all fields of industry and therefore it will have long term effects. (The Federation of Finnish Technology Industries 2009b, 2; The Federation of Finnish Technology Industries 2009c.)

The main trends in 2009 spring imply that the Ostrobothnian industry is in trouble. The orders have gone down and the inventories are large. Orders are clearly under the normal level and 78% of the companies had overcapacity. Production is anticipated to stay low also in the autumn. Investments are decreasing and demand is low: 73% of the companies mentioned weak demand as a challenge. Also the economic expectations are weak: in Ostrobothnia they are a bit weaker than in the whole country as 40% of the entrepreneurs believe that the economic situation will become weaker. The general course is that prices decrease and therefore the profitability of companies goes down. These reasons have resulted to layoffs through the whole industry in Finland. (Confederation of Finnish Industries EK, 2009e, 9-10.)

8.2.1 Case Scenarios

The Federation of Finnish Technology Industries has introduced potential outcomes of the current economic crisis based on the work of field experts.

First potential outcome is remarkable recession that will last from 1 to 2 years. The recovery from crisis would be fast taking place by the end of year 2010: therefore remarkable changes in the business structure and in value chains will not take place. Recession gives boost to changes that have been seen to be obligatory already before: in this situation the decisions of businesses that use a lot of suppliers will have

significant impact on all organizations operating in the network. In customer operations this scenario is seen in attempts to manage the recession: keeping low inventories, using material and energy economically and effectively. Even though ordered amounts are expected to raise to the same levels as before the recession this is not the case in all industries. (Ylä-Jääski, 2009; 5-6.)

The second potential outcome is a serious recession but long recovery starting in the beginning of year 2010. This recession would last for two years. This scenario has affects to the whole business and value chain. The power is concentrating on the strong companies and suppliers are diversifying by investing in technology, innovation and speed of actions: the companies' own production capacity will go down as they make more permanent adjustments. All this means that the companies operating only in a narrow market or product field will have problems: therefore the businesses that balance capacity will vanish. In the customer field this can be seen when weakest clients disappear. Existing customers will emphasize cost efficiency and energy efficiency. This all will lead to an increasing amount of simple solutions. (Ylä-Jääski; 2009; 5,7.)

The third possible outcome is long and deep recession from which the recovery takes a long time from the end of year 2011. The recession would last for 3-5 years. This scenario would mean the centralization of markets resulting of fusions and bankruptcies: this means also decreasing of the production in Finland and moving production to other countries. The Chinese are active in the markets by acquiring companies and market share. This development leads to increasing competition in terms of price and total cost management and the sales of simple and cheap products. As the clients have not had resources to invest they are going to use maintenance and repair related services more. (Ylä-Jääski; 2009; 5,8.)

8.3 Competitive environment

Wölting & Freiling (2002) have presented problems that small companies have concerning the competitive environment. The main problem for small companies is that they pay too little attention to their competitors and the competitive environment they operate in: the main concentration seems to be on the production work and day-to-day business. This is why the decision making is not based on the realities of competitive environment. That in turn leads to reactive actions which means that a company comes behind its competitors in business innovations. The information collected of competitors should be used in strategic decision making that are implemented in reality. Having an up-to-date understanding is vital from strategic decision making point of view and also because as in the world of globalization and technological integration competition grows into whole new level. In general, smaller businesses do not have the financial resources to overcome disadvantageous market trends. Therefore flexibility and anticipation of future is vital to them: in other words they should possess intangible assets, such as knowledge. Also the case company's concentration seems to be on working rather than seeing the business from a larger perspective. As said before not much is done in order to keep up with the competition. Therefore the next sections will introduce the the case company's competitors giving the answer to the fourth research question: what kind of competitors does the case company have?

8.3.1 OT-Koneistus Oy

The first competitor is OT-Koneistus Oy which is located in Laihia and is operating in the same facilities as one of the case company's clients. The business is younger than the case company as it has been established at the beginning of year 2007. The company type of this competitor is limited company. OT-Koneistus Oy employes 5 to 9 persons (9 in 2007) and its annual turnover falls under the same category as Valukoneistus Kivinen ja Järvi Ltd. being 400,000- 900,000 €. (Yritystele, 2009b.)

The only information that could be found about this company from internet was the webpages and some references of their machine suppliers and information from company databases, like Webinfo and Yritystele. The webpages were available in Finnish. They provided information mainly about the machinery and production line. The interesting point that was found out from the news section was that they have just invested money in new machinery at the beginning of this year as in March they got a new Brother CNC centre. Their quality certification is quite new as the company just got ISO 9001 quality assurance system certified by BVQC (Bureau Veritas Quality Certification) in January 2009. The most important information about the company's operation field and machinery with contact information and offer request sheet were also available in English. This leads to the assumption that the company is also prepared to do trade across the borders: it is easier to get clients abroad if you are able to communicate with them. (OT-Koneistus, 2007a; 2007b; 2007c.)

The company's best competitive advantages according to the webpages are their professional and motivated personnel and the well functioning production lines: the production process is flexible as it can be easily adjusted according to needs. This enables the production of small and big items side by side. The company can also produce series. From their point of view the strengths of the company are transaction ability, high quality with competitive price and excellent affiliates. However they do not provide information about these affiliates. (OT-Koneistus, 2007a; 2007b.)

8.3.2 ST-Koneistus Oy

The second competitor is ST-Koneistus Oy which is located in Ylöjärvi. The business is older than the case company as it has been established at the end of year 1975. The company type of this competitor is limited company. ST-Koneistus Oy is bigger than Valukoneistus as it employs 20 to 49 persons (38 in 2006) and its annual turnover is much bigger than Valukoneistus Kivinen ja Järvi Ltd's being €2,000,000-€9,999,000. The growth for this company seems to be quite strong because in 2008

the business profits were approximately €549,000 more than in 2006. The company's specialization is in serving customers that require demanding machinery as well as serving hydraulics providers that need metal products made of steel and aluminium. This company according to the available information was the only one that was able to increase its profits in year 2008 when comparing to earlier years. (ST-Koneistus, 2009a; Yrityste, 2009c.)

There is quite a lot of information available in the internet about this company, both on their website and other sources. ST-Koneistus Oy's websites were comprehensively available in Finnish including news section, description of the field of operation, available solutions and customer references. To make it easy for potential clients to search for products they had a product catalogue and separate product search. The most important information was available in English and Swedish, excluding the product catalogue. This is natural as they do exports: they even have a representative in Sweden. Regardless of the ongoing economic crisis they have made investments to expand their facilities in April 2009. In May 2009 the production management was renewed by taking new Lean system into use. (ST-Koneistus, 2009b; 2009c; 2009d.)

The main strengths of this company relate to their experience and customer orientation: they have experience of 35 years and they have both standardized and customized production and services to meet even unique customer needs. The standardized products are available from stock: these products are based on company's own design and they include products like valves, cylinders, subplates and bar manifolds. The customized products can be made according to customer's own design. When necessary, ST-Koneistus Oy also provides assembly and testing services to their customers. They also inform the customer how their technology can benefit the customer by increasing productivity and improving the cost-effectiveness. They provide finish to their products as they can clean them and remove the scraps. This kind of wide service and production field can be understood based on the company's

aim: they wish to be a strategic partner to their customers. (ST-Koneistus, 2009a; 2009e; 2009f; 2009g.)

The company seems to be quite networked as it is part of The Finnish Hydraulics & Pneumatics Association and Organisaatio-Sanomat which is a common media for suppliers and their customers. In addition connections could be found between this company and different automation and programme providers such as Fastems and Pathrace Oy. This is important because in these providers' websites it is even deeper explained how the systems can improve their operations from customer's point of view. The company's contact information was available in a web-based database for European companies: this website was available in English, French, German, Portuguese, Spanish, Italian and Dutch. Just think how many people can easily find that information. ST-Koneistus obviously invests to public relations as well as they have been sponsors for dragbiking and eurodragsters. This kind of PR may help a company that is related to hydraulics and machinery. Also connections to TEKES, the Finnish Funding Agency for Technology and Innovation could be found: TEKES has provided some funds for this company in 2004 which means that they have been developing the operations somehow or made some other innovations in that year. (Organisaatio-Sanomat, 2009; The Finnish Hydraulics & Pneumatics Association, 2008; Finnish top fuel team, 2009; European Drag Racing News, 2009; Euro-companies, 2009; Konekuriiri, 2007, 3; Fastems, 2008, 6-7; Tekes, 2004.)

8.3.3 Konepaja Seppo Suomi Oy

Third named competitor, Konepaja Seppo Suomi Oy is located in Hartola. This business is older than Valukoneistus Kivinen & Järvi Ltd. as well: the company has been established in 1978 as a small family owned company. In 1987 the company type was changed into limited partnership and finally in 1999 to limited liability company. Konepaja Seppo Suomi Oy is bigger than the case company in terms of employees and annual turnover as it employs 18 persons and its annual turnover is from €2-5 million. They specialize in supplying quality machining to leading

international companies and in addition they provide standardized tool production to construction industry. (Kompass International Neuenschwander SA Kompass, 2009a; Konepaja Seppo Suomi Oy, 2007a.)

There were a few available sources giving information about this company and its operations. Their websites provided pictures of some products that they can do, but they also showed what kind of machinery they have. Some customer references were provided as well and among them could be seen a Swedish company as well. The webpages gave also brief introduction to the company in English. (Konepaja Seppo Suomi Oy, 2007a; 2007b.)

This company's strengths relate mainly to the company's experience, product selection and maybe from some point of view also their location near to South Finnish concentration of people and industry. When the company is well-established it means that they have experience and expertise: uncompetitive or incompetent companies do not stay that long in the markets. Product selection may be an advantage as the company seemed to have a wide range of machines that relate to both lathe work and machining: if the potential customers have information about the machinery needed to produce their requirement this helps them to decide whether Konepaja Seppo Suomi is able to help them. (Konepaja Seppo Suomi Oy, 2007c; 2007d.)

Other references to this company in the internet related to sponsorships such as sponsoring enduro and some databases like Yritysinfo and Kompass. An interesting article was found from a machine industry magazine in which Konepaja Seppo Suomi was introduced as positively different actor: they use different technique in removing the scrap than what is common in Finland. The heat treating method is more common e.g. in Sweden where it is in wider use. The company is obviously interested in developing their network as it has taken part into a survey that was done concerning actors and their relationships in Hartola and nearby areas. This survey had

shown that Konepaja Seppo Suomi had an important role as and intermediate. (Himmanen Racing, 2009; Konekuriiri, 2008; Net Effect Oy, 2009.)

8.3.4 Komasa Oy

Fourth competitor, Komasa Oy is located in Jyväskylä and it has ten different facilities in Ostrobothnia, Savonia, Pirkanmaa and Central Finland. The business is younger than Valukoneistus Kivinen & Järvi Ltd. as it has been established in year 2002. The company type of this competitor is a Limited Liability Company. Komasa Oy plays in whole different league than the case company in terms of its size: it employs about 800 people just in Finland and its annual turnover is €143 million. It has also an important facility in Poland where it employs 500 people. The company has developed and expanded its business from the beginning rapidly and strongly: therefore also outside investments have been needed. The company has grown through mergers and acquisitions. That has enabled them also to target bigger clients and to manage bigger entities. Komasa Oy does both importing and exporting and it specializes in supplying turnkey systems in assembly, machining and hydraulics. The available work abilities include, among other things forging, welding and machining. The machinery base of this company is much bigger than Valukoneistus Kivinen ja Järvi Ltd. as they have 200 CNC machines. Komasa's profits have gone down from year 2007. (Capman 2006; Finnvera, 2009; Komasa 2008a; 2008b; 2008c; Kauppalehti Vip, 2007, 14-15; Talouselämä, 2009; Yritystele, 2009d.)

There was a lot of information available from the internet about this company. The websites provided a lot of information about the solutions and services that they provide and the available languages were Polish, English and Finnish. English information was quite comprehensive as the information concerning different facilities, production abilities, organization and its strategy was provided. Customer references include big companies like ABB, Wärtsilä, Valtra, John Deere and SKF so it seems that this company is well networked within the industry. This suits well to

the company's strategy: their wish is to continue growing and to handle even bigger entities than before. To gain more clients they wish to internationalize and develop the operational effectivity and logistics together with their clients. (Komas, 2008a, 2008d; 2008e.)

This company's strengths clearly relate to its different locations, and its strategy is providing comprehensive combination of services and products according to clients needs: they are capable of providing clients with everything from turnkey systems to smaller series. The service range that Komas Oy provides is wide as they offer material acquisition, producing of machined components and welded structures, installment-ready hydraulic entities and end assembly/ subassembly of machines and equipment. In addition also design, testing and logistic solutions are available. This company obviously has a well established capability of serving very different clients also in different geographical areas as Poland is quite near to biggest European countries like Germany. Through these abilities the company has been able to gain a diverse customer portfolio and therefore they may be able to survive better through an economical crisis that is reality today. (Komas Oy, 2008c; Teknisen Kaupan ja Palveluiden yhdistys ry, 2009.)

8.3.5 Tarkmet Oy

Tarkmet Oy is the only competitor of the case company that is located in Vaasa. The business is younger as it has been established in 1999. The company type of this company is a Limited Liability Company. However Tarkmet Oy is bigger than Valukoneistus Kivinen & Järvi Ltd. as its employs 17 people and its annual turnover falls between €1 million and €2 million euros. This competitor specializes in supplying demanding machining pieces in terms of measurement precision. Tarkmet provides laser marking, laser machining, machining, metal work, grinding and honing. In addition they provide complementary services: surface finishing and heat treatment, assembly and testing, product design, development project management

and also research and development services. The company has done exporting to Sweden, Germany, United Kingdom, France and Switzerland. Last year this company did not make profits but that may be related to the merger it had with Veslatec: Tarkmet is a subsidiary of Veslatec Oy. (Alihankinta, 2009a; Kompass International Neuenschwander SA Kompass, 2009b; Luettelomedia, 2009; Organisaatio-Sanomat, 2007; Yrityshaku, 2009.)

This company has obviously targeted to exporting in addition to Finnish markets as they provide all the information available in Finnish also in English. Tarkmet has taken a customer oriented point of view as they explain how the different techniques can be used and how the technology improves the efficiency making the cost-advantage to the clients visible. This shows that the company understands the factors that matter to clients when they do their purchases. Machining services are provided to e.g. to diesel engine industry, automation industry, paper industry and to manufacturers of the pharmaceutical industry. The typical customers of laser marking then again include the car industry and food industry. Laser machining can be best utilized by hospital industry, in automation and sensor technology and by engine and hydraulics manufacturers. Tarkmet and Veslatec that also operates in Vaasa formed the Vesla Group: together they can serve wider range of clients than they would be able to serve if they were operating alone and they can improve the product quality. The two companies have merged their production and because they have complementary skills Veslatec is concentrated on sales, marketing and R&D while Tarkmet is responsible of the laser manufacturing and machining. The group cooperates with the Technical University of Tampere and VTT in the field of research and development. Therefore it seems that this company has had some interest in networking as well: this can be also understood when thinking that the company is attending to the subcontracting fair 2009. (Alihankinta 2009b; Tarkmet Oy, 2009a; 2009b; 2009c; Kompass International Neuenschwander SA Kompass, 2009b; Organisaatio-Sanomat; 2007, 3; Webinfo, 2009.)

Tarkmet has many strengths. The main strength is that in addition to their wide product range they provide supply chain management services: the company is able to provide ready to use products by taking care of the whole process from manufacturing and storage to delivery and other logistics services. The company has a strong drive to product development and marketing as it has cooperation with a university and it is a part of a company that has knowledge in marketing. (Tarkmet Oy, 2009d.)

9. Research Findings

This chapter will introduce the reader to the research findings based in the context of the theoretical framework and the customer interviews.

9.1 Customer Characteristics

Valukoneistus' bigger two clients have decentralized purchasing and the smallest in terms of purchased volume has centralized purchasing (90%). All the clients emphasise quality of their production and processes and two of them also target to narrow segments in their business.

Customer 1 has both centralized and decentralized purchasing: the strategic decisions and contracts are made centrally and day-to-day business is decentralized for the units. The customers' decision making concerning suppliers is quite different: in the big company the decision making seems to be quite chaotic at the first look as all the people who work in house try to affect the decisions. However the ultimate decision is made by the buyer who has to weight the preferences of the product development department, quality department and production department and make the decision. From this view it can be said that the decision is made in cooperation between the units. For this client all the uncertainties are reality in some form and the uncertainties affect to supplier selection. When it faces need uncertainty the cooperation is done with current suppliers: in terms of schedules it would be too challenging to take new supplier. The challenge in the existing supplier relationship for this customer is to select right suggestions of those coming from the supplier. This results from the fact that if continuously using the current suppliers the company may become blind to other solutions that may exist and therefore it has to have clear vision of the development. In market uncertainty situation the challenge for it is to choose the supplier whose solution will serve also after many years. When it comes to business transactions main concentration for customer 1 is to have an agreement with suppliers on paper before actually carrying out the deal, especially to get a

sanction clause written on the contracts.

Customer 2 decision making is a bit different: usually the decisions concerning the suppliers are made by their project coordinator which means that the decision maker can change according to project in question. This company's uncertainty mainly concentrates around transaction. This means that for customer 2 it is clear what is needed and from whom in the supply chain they can get their requirement with best quality and price. Its main concern is to get suppliers which can assure reliable deliveries and stable quality of the products.

In **customer 3** organization the decision making is mainly made by the purchaser: however if the goods are more complicated catalogue stuff then also other people may have a say concerning the supplier. This company's uncertainty mainly concentrates around *transaction*.

9.2 What Is the Purchase and Whom It Is Bought From?

The clients' view of the products purchased from Valukoneistus Kivinen & Järvi Oy differentiated a bit: customer 1 perceived their product as a preference product and the other two clients categorized the products purchased from them under shopping products group. This indicates that the part Valukoneistus manufactures is a risky product for the clients. In some clients' finished product the purchased item represents only a small part but failure for example in quality would be risky and expensive. In other clients finished product the part they produce has a bigger role and therefore it is more risky - "*if we have selected wrong supplier or if the supplier screws up it means big losses*" (Customer 3, 2009). (Customer 1, 2009; Customer 2, 2009; Customer 3, 2009.)

Customer 1 always gives the current supplier an opportunity to make an offering of new products and they will be contacted among the first if something new is under

development. Supplier is switched if the client is not happy to its services and if after briefings supplier's habits still do not change. Another reason for changing supplier is the long term strategic plans to concentrate purchases and make bigger contracts in order to benefit from economies of scale. (Customer 1, 2009.)

The most important qualifications for supplier are quality, price level and delivery reliability. Production capacity and relationship are important in the long run and the importance of the cooperation networks and development potential varies according to the situation. The size of preferred supplier depends on the purchased item: however it does not play that big role in all selections as this client cooperates with many small suppliers. If the product is new but the product group is familiar to the purchaser it does not have effect on the preferred suppliers: they will be the same. However, sometimes the purchaser may have a look at the market supply in order to assure that its suppliers have up-to-date solutions. In modified purchases and straight rebuys the existing suppliers usually get the deals. New suppliers are audited in order to know if the supplier fits to criteria used. (Customer 1, 2009.)

Customer 2 also prefers existing supplier relationship in supply chain when it begins a purchase process for a new product. According to the manager supplier can be changed if the required product includes properties that cannot be executed in the existing supply chain or if the capacity of the existing chain is fully booked. The manager also states that also if they "see that new blood is needed", which means that if they intentionally want to increase the knowhow level on some new area, suppliers can be switched. Good supplier relationships are not switched to others without good reason e.g. too high price, increasing price pressure or problems in the quality or deliveries. The work will decrease little by little for those suppliers that are losing their position on top of the list. (Customer 2, 2009.)

This client emphasises that quality, price and delivery reliability go hand in hand. It means that when a supplier operates effectively the price is also effective: this does

not necessarily mean that prices should get lower all the time but even keeping the price level approximately the same during times of increasing prices is actually decreasing the price. The size of a supplier is important: it has to be big enough to ensure services for its clients also during economic boom when there are also more clients. It is a risk for the client to buy from a really small supplier as during an economic boom the supplier may take other clients who pay more leaving the previous clients in trouble. In this sense the customer wants to ensure commitment from the supplier and dares to start giving more work only to suppliers with enough capacity. However they do not want to force anyone to gain capacity. It should be a natural development path for the supplier rather than forced. The reason for this is obvious:

“I don’t want to take that chance that I put pressure on any supplier to buy a machining centre of €100 000 - €300 000 and then my client would let me know that this particular product is not a success in the markets. I have to find a supplier who can take this kind of risk or is capable of committing with his existing machinery. Or so that an investment plan already exists but this project only partly supports it but does not jeopardize the whole investment if the end product is not a success. I see that our responsibility is to be conscious buyers and not force anyone to that situation” (Customer 2, 2009.)

In all buying conditions the existing suppliers are in better position as they know the client and their way of doing things, the client knows them and their capacity and approximate price level. (Customer 1, 2009.)

Customer 3, the smallest client, states that they do not intentionally favor the existing suppliers but many of the requests for quotations are directed to familiar ones. Also suppliers’ activity can affect if for example the purchaser does not know all the alternative suppliers, i.e. if the purchaser has a market uncertainty. Suppliers can be switched if there are problems related to transactions or quality of the

deliveries from the current suppliers. (Customer 3, 2009.)

The most important factors in choosing suppliers are price and quality: nowadays the delivery problems are not that common anymore. The capacity is not that important for this client as there are not that many products that require a lot of capacity. The supplier should be able to provide finished parts with needed coatings: this saves time when the part does not have to be moved from place to another. The size of a supplier does matter - too small companies are avoided. This client orders test lots from suppliers in order to measure which supplier can live up to their requirements. (Customer 2, 2009.)

9.3 Marketing Issues

There were a few main points that were standing out in the interviews related to the marketing issues. First of all, the clients can be really proactive and search for the supplier by themselves from internet and also by using their network connections also outside the production network. Relationships also seemed to have an important role in the market network. The different marketing communication methods are represented next from customer point of view in more detail. (Customer 1, 2009; Customer 2, 2009; Customer 3, 2009.)

9.3.1 Internet/ Webpages

All respondents said that internet is an important source of finding new suppliers, more precisely search engines like Google. This means that a supplier must have webpages in order to be available and that he really needs to think from the client's perspective: which kind of search terms potential client may use in order to appeal in the search results? Clarity of communication on the websites is valued: websites should have clear information about the supplier - what it is doing, what it wants to do and what is its core competence area, meaning also what sort of projects it wishes to do. In a nutshell, the potential client should, at a glance, to be able to tell if a

supplier can serve it in its need. The webpage layout should be good and clear and all the necessary information should be easy to find. The websites give the first impression to a supplier's potential clients and first impression means a lot, also in business-to-business markets. Information should be up-to-date: outdated webpages may result to having a negative impression of the supplier. Technical information of the supplier's machine base provides the potential client an idea what the supplier can or cannot do. One respondent brought up some general points that can irritate people in webpages: heavy webpages that upload really slowly. The customers do not have time to wait uploading for long time. Another source of irritation may be automatic popup tabs or windows and therefore using these should be carefully considered. As the respondent stated:

“All popup windows and huuuuge pictures irritate for example when Googling something and even though you would have the fastest internet connection your computer just says that ‘39 items remaining’ and then you just hear the sound click, click, click... Just terrible.” (Customer 2, 2009.)

Even though heavy webpages may cause irritation the respondent from customer company 1 states that pictures of production process and finished products can be useful to the customers as *“they can tell quite a lot”*. Flash shows or videos are not needed. (Customer 1, 2009.)

9.3.2 Word of Mouth/ Reputation

Another important source of information that was emphasised in the interviews and that relates to networking is the word of mouth: happy customers recommend services of good suppliers to others in need. For example in the customer company 1, different actors exchange information with each other and also with people holding similar position in other companies: *“I’ve been a participant in the buying function for 11 years now so I know quite well what is going on in the Finnish markets and I*

also hear a lot of stuff from the buyers of other companies. It is basically making phone calls and exchanging information” (Customer 3, 2009).

The manager of Customer 2 had similar thoughts as he stated that relationships can be good information source of potential suppliers, i.e. *“someone knows someone who has a good supplier somewhere”*.

9.3.3 Personal Sales Calls

In general personal sales calls is a communication method that divides feelings. Two of the respondents did not consider personal sales calls exactly professional communication method from a supplier that is not part of the existing supply base. In this sense this method should be carefully considered if marketing for new clients. (Customer 1, 2009; Customer 2, 2009.)

However this again depends on the style. For some customers sales calls do not automatically mean interruption and irritation, for example if the supplier calls shortly and asks for e-mail address in order to send a business presentation it does not take too much from the customer. (Customer 1, 2009; Customer 2, 2009.)

“Well, if it takes 5 minutes that is enough. After that it is in buyers e-mail and if it is of interest the buyer can then consider whether or not to contact”.

(Customer 1, 2009.)

Customer 1 has had these kinds of phone calls from new suppliers 4 to 5 every week and they think that this is happening because of the economic situation. A few times suppliers have also directly asked if it is possible for them to actually deliver some products for the potential customer with their own cost for testing purposes. As one can guess the quality department really embraces this kind of marketing. (Customer 1, 2009.)

An opposite reaction can also be possible from the customer side. Some customers do not want random, unknown suppliers' daily contacts especially if they take too much time:

“And by personal sales calls I don't mean that I would like suppliers to start calling me that ‘I am this and that and so on’. Actually the biggest mistake one can do is to call to an unknown company that ‘hi this is Mikko from from Majalahti's Machine Workshop. I have great lathe parts for you’. After this the first thing at least I say is that ‘well, I'm not interested’.” (Customer 2, 2009.)

9.3.4 Trade Magazines & Trade Shows

The trade magazines were not that great in importance according to the respondents. The reading habits of trade magazines vary quite a lot. One of the respondents reads magazines but did not remember that he would have found any useful contacts from them. Another does not read trade magazines at all and the third one says that reading habits are related to the market situation. He reads them when he is not busy. However when reading the magazines he does not look the small advertisements that carefully: what is more important are the articles about companies that have been doing something new or have expanded their business or product range or got new clients. It is those articles that capture his attention. (Customer 1, 2009; Customer 2, 2009; Customer 3, 2009.)

The interviewees' opinions and experiences about trade shows varied. Customer 1 goes to trade shows and visits suppliers who have given an invitation but they also just wander around having a look at random interesting stands. Customer 2 mentioned that the main reason for going to trade shows is to find special suppliers who are able to provide larger entities: the smaller products that Valukoneistus Kivinen ja Järvi Ltd is providing are not necessarily searched from trade fairs. Customer 3 client visits different trade shows to find suppliers and clients. They also

have got invitations to visit suppliers in trade shows and about 50% of time goes to these visits. (Customer 1, 2009; Customer 2, 2009; Customer 3, 2009.)

9.3.5 Relationships & Network Theme

The importance of existing relationships was outstanding: the respondents emphasised that when a company has started to cooperate with a certain supplier this supplier has more knowledge about the customer organization and habits than suppliers that do not yet deliver to the client. On the other hand a new supplier also may have to be approved by the end client. As a result of all this it may be cheaper for a customer to take deliveries from a supplier that already knows the client, its standards of quality and delivery and so on, i.e. the total price becomes cheaper than if choosing a whole new supplier. It takes time to make the procedure smooth with a supplier that is not yet in the supply network. Therefore it makes sense that the supplier base does not change that rapidly. As an example we can take a statement from one of the respondents: *“we have a lot of suppliers from the same size range as Valukoneistus--that have been serving us for 20 years”* (Customer 1, 2009). (Customer 1, 2009; Customer 2, 2009; Customer 3, 2009.)

Companies are interrelated: it can be that machinist has a client and this client's customer is also a client of that machinist. In this sense the relationships vary in great amount and because Finland is a small market everyone knows everyone and word of mouth is spread. In that sense successful customer relationships may bring new clients as well. Also people from different companies have contacts with each other through organizations and other networks: this is also an important source of information of alternative suppliers for the customers. (Customer 1, 2009; Customer 2, 2009.)

9.4 Relationship to Valukoneistus

The customers' relationship duration with the case company varied from just 1 year to almost 20 years. Company 3 had started doing business with Valukoneistus Kivinen ja Järvi Ltd in last autumn, so this relationship is quite new. However, according to the respondent he knew the case company already before he started to work in the current company and originally he got information about Valukoneistus from a client of his earlier company. (Customer 3, 2009.)

About the work type situation the respondent had a clear view:

“At this moment we have done a lot of small series and test work and we still continue that. Now when there is an economic downturn we don't have that much other work to do so we try to get new products to the markets and that is somehow a problem area for us too because that kind of work is easily looked down on when there is an economic boost again and more series work to do which is considered better”. (Customer 3, 2009.)

Based on this statement it seems that during a boost the company has problems in finding a supplier who could supply smaller series test products. That work however needs to be done beforehand if the company wishes to do get series work to do. (Customer 3, 2009.)

Customer 2 had been in contact with Valukoneistus Kivinen & Järvi Ltd already from the early 90's. The respondent emphasised that concerning the work types they do vary from small test series to wide range series. Suppliers however, do not have to have this wide offering range as it would be too demanding for them to try to do everything in terms of needed investments. That is why many different suppliers are used. All of them do different kinds of things for this company and the suppliers' work types vary from doing small test series with tight schedule to making huge series. In other words, every supplier has its own role. He states: *“as a buyer we*

consider carefully what share we represent in this company as a client and if we add a product for them to make it has to suit to their capacity and machine base” (Customer 2, 2009). This means that they will not put a heavy load on a company that they know is not capable of managing it.

According to the respondents estimate, Customer 3 has done business with the case company for a long time, starting from 1997 or from 1998. This person got information about Valukoneistus Kivinen ja Järvi Ltd. from the previous buyer. The respondent states that they have need both for small test series and continuous series work. There is a need for more test and small series but they need to be done of different raw materials than aluminium. (Customer 3, 2009.)

9.4.1 Strengths & Weaknesses

The respondents were asked about the strenghts and weaknesses of Valukoneistus Kivinen & Järvi Ltd in order to get information about their view of the company. Some of the streghth statements could be somehow used in marketing: it is the clients who know best what they like in the case company and they can provide important viewpoints from client perspective. This in turn can help the case company to market in a meaningful way.

The first strength that was brought up is the reliability of Valukoneistus Kivinen & Järvi Ltd. It is a reliable partner who delivers quality. There is no need to monitor their actions all the time as the client can trust that they will live up to the requirements. Also the price is in good relation to the quality: it represents average level in the markets. The service level was also counted as strength. It was stated to be excellent. Deliveries work smoothly and if there are any delays the company shows responsibility and will let the clients know about them well in time which enables clients to react early enough. In this sense Valukoneistus Kivinen ja Järvi Ltd is said to be honest and proactive. (Customer 1, 2009; Customer 2, 2009; Customer 3,

2009.)

The weaknesses that came up in the discussions varied. The first one was that the case company should be more solid in the quotation stage: back and forth communication about the price when the quotation has been already given makes the buyer a bit unsure about the purchase and communication process. Namely, in industrial markets the suppliers client may itself be a supplier to another company and if a supplier asks still about the price after the quotation is made it makes communication hard also for their client as they in turn may have to confirm enquired things from their client which gives a bit unprofessional image about them to the final customer. However the respondent said that question is more about fine adjustment rather than making huge changes, which mean that this was the only thing he could think of when asking about weaknesses. The second weakness that was pointed out was the raw material selection Valukoneistus Kivinen & Järvi Ltd. has: it is not that used to work with other raw materials except aluminium. The third mentioned weakness was their negotiation skills: in past they started to negotiate the raw material contracts directly and at least in the beginning in it was a problem as it seemed that they were not skilled enough in that field. The respondent emphasised that:

“This raw material issue they should consider more carefully: when Valukoneistus provides raw material acquisition to their client they also should perceive negotiating favourable raw material purchase terms as a part of their service to their client and not just as simple action of buying the raw material. They should be good in that as well if they provide this service...not only in machining and deliveries.” (Customer 1, 2009.)

According to the interviewee this weakness came up years ago but this quotation from him is actually revealing an important fact from operation and marketing point of view: a supplier has to be good in all services it is offering to its client, including

also other things than just the product.

9.4.2 Ideas for Development

The respondents were also asked if they have ideas for development concerning range of supply or business in general.

One issue that came up was that for reason or another the case company is not bringing up the professional skills the company has. The respondent encourages:

“For example Valukoneistus is a top level machinist for aluminium plates-- They should more bring up their expertise to our research and development department because I’m sure they have ideas how to improve the product or decrease the total cost level of the production”. (Customer 1, 2009.)

Also activity was perceived important in form of meetings or phone calls. The meetings do not have to be formal and they can take place every now and then. Some customers may prefer phone calls in few months’ interwalls. However calls should not be made just because of their own sake: there should be some issues to discuss too for telephone calls to be effective and good communication also from the customer’s point of view. Also e-mails can be sent for example when the supplier is doing something new or making investments. The communication from the supplier indicates activity and of course helps to get contacts when customer has new needs. (Customer 1, 2009; Customer 2, 2009; Customer 3, 2009.)

From the product point of view a few points came up. First of all the raw material selection was seen to be a bit too narrow being mainly aluminium: it could be good to have expertise also from other raw materials. It was also brought up that they could start to think about delivering larger entities: not just parts. (Customer 1, 2009; Customer 2, 2009; Customer 3, 2009.)

10. Conclusions

Network can never be understood completely. This is a result of the numerous actors that operate in the network and make their own assumptions of it and act based on those assumptions. From the case company's viewpoint the strongest effects to their business come from the competitive field, the current market environment and their customers. Therefore this study has heavily concentrated around these issues the core being on customer behavior and marketing issues. A simplified figure of the case company's network can be seen below. All the actors that are visible affect the market environment but also external attributes exist. These are explained further.

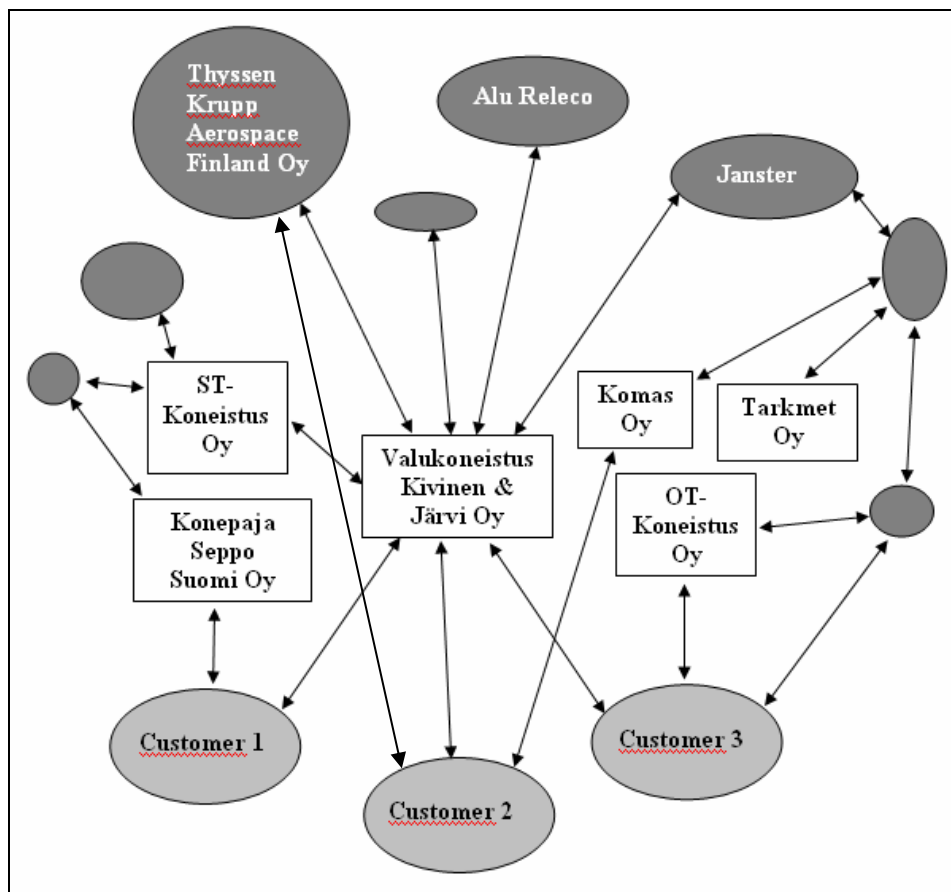


Figure 10. A Simplified Representation of Valukoneistus Kivinen & Järvi Ltd's Network.

The figure shows that even two competitors can be linked for example through trade organizations and through common clients: this is possible because they may solve different problem for client, e.g. they may provide customers with something that the case company is not able to provide. Like many other companies also the case company has many suppliers. The supplier's relationship with Valukoneistus is not the only one it has: it can also have relationships to their competitors or even with their customers. These kinds of linkages are reality in business markets today.

When the case company is finding new clients they actually wish to find new relationships. The characterizing factor of relationships is that they share linkages of actors, resources and activities. The existing relationships therefore form a limit to the case company's new relationships: they can not put more capacity into new relationships than they have available. This should be considered because the existing relationships demand adaptations and commitment from Valukoneistus Kivinen & Järvi Ltd. If they do not show commitment to the existing relationships it may decrease the trust of existing clients: therefore potential new customers should be added to their customer portfolio one by one, little by little to make it possible for the case company to adapt their operations to new situations. This is why Valukoneistus has to consider the type of its client base demands and how they can add clients without losing the old ones.

The case company will face a lot of challenges in trying to gain new clients also because the defining factor of networks is their stability: customers prefer their existing suppliers in order to save time and money and therefore networks do not change rapidly. This means that it may take a long time to Valukoneistus to gain trust of new potential customers and actually form a relationship with them. That together with the current economical crisis implies that the company is going to have difficulties in finding clients, given that its market visibility is quite low and also because the competition is high for the new orders. Competitor businesses seem to be much more developed than Valukoneistus. This may indicate future problems in

gaining new clients and even keeping the existing clients. In order to succeed in future Valukoneistus should consider expanding their expertise in delivering bigger entities or to consider delivering products made of other materials than aluminium too or expanding their service to customers somehow. Obviously these kinds of changes should be made after careful consideration and extending the business changes to a longer period of time.

10.1 Client Purchasing Practises and Characteristics

Valukoneistus is serving companies who manufacture components or end products to consumer markets. Their clients are located in Finland but the whole network is expanded also outside the borders when including their customers' clients. The products that Valukoneistus is producing at the moment are mainly done of aluminium and they do not have great role in the end product (in terms of size, price etc.). Valukoneistus' clients serve segments like offshore, ship industry and mining, vehicle, information technology, electrotechnic industry, machine workshops, health care industry. In this sense it seems that Valukoneistus is a part in serving end clients who vary in great extent.

Valukoneistus' clients purchasing practises vary from decentralized to centralized practises. When the purchasing activities are decentralized Valukoneistus should really know the person they contact. Decentralized purchasing practises can imply that there may be other locations in Finland that could be served by Valukoneistus as well. If a big company has similar production facilities in many locations this could mean more job opportunities for Valukoneistus. Centralized purchasing practise means that there are usually only a few contact people who actually have purchasing decision making power. It seems that many of the clients that Valukoneistus is serving at the moment actually prefer the suppliers that already work for them. According to the theoretical background this may be true also concerning other companies: network theory implies that the networks are usually changing slowly

because the relationships in it are stable and long. In this sense the outcome for Valukoneistus may be negative when considering getting clients from wider perspective: it is hard to enter to a new production network if there are no relations or contact to that network already through some channel. It came up in the interviews that companies are looking for longlasting relationships rather than switching suppliers all the time because in the long run it becomes cheaper to them. If this is true to other companies as well Valukoneistus has a chance in getting into new production network only if capacity of the existing network is not enough for reason or another (e.g. if a potential customer has to finish relations with a supplier that cannot live up to their requirements or they wish to get new expertise in to their network).

The relationship point of view was raised in the interviews: the clients wish to have suppliers that they can trust and that can serve them also after a while. Therefore Valukoneistus should put a thought into their client base: it is no use to try to get as many new orders from random customers as possible because of the limited machinery base and resources but rather to consider getting relationships that vary in importance and that are compatible with each other. Some of the relationships may be light versions that do not require that much adaptation and some clients can be heavier users that require more capacity. This enables Valukoneistus to provide its existing clients with their requirements also during an economic boost when the ordered amounts are bigger.

When it comes to customer uncertainties Valukoneistus has a clear hint on what it could concentrate on in its marketing communications. All the interviewees mentioned that the business transactions (delivery, quality etc.) are really their main concern when it comes to their own operations and it was brought up that this really is the strength of Valukoneistus: they know what they are doing. The quality of their products is excellent and they make the deliveries with agreed price and time. This could be more emphasised in their marketing communication.

10.2 Retaining or Changing the Current Marketing Practises?

Both traditional marketing and network approach have their roles in marketing. Based on the customer interviews and theoretical background Valukoneistus Kivinen ja Järvi Ltd should consider its marketing from the customer point of view: marketing communication should be clear to the customers. In order to understand this concept Valukoneistus should look at their company from distance and see how they can be found and reached by potential clients: in Vaasa it is probably easy to find their information from somewhere but what about if the distance is 400km?

Marketing is improved if the company really puts a thought into what they are doing and for whom. A natural outcome of this is to weight the current marketing communication, e.g. the webpages and other communication methods and the message they should pass on to the potential clients: are the webpages giving a right impression of the company or is the e-mail providing clear information to the client about the supplier's capabilities and the benefits of using this supplier? It would be a good idea to have a look at the webpages from a potential clients' point of view and think what kind of information they need and what Valukoneistus wants to emphasise in the marketing communication. In the interviews it came up that the clients like to know the machinery base of a supplier. The case company is on right tracks in providing this information, however this section of their webpage could be clearer e.g. providing information on how their machinery can bring benefit the client. Exploring what competitors are doing in this field can help in generating ideas. The current webpages of Valukoneistus Kivinen & Järvi Ltd. have at least one very good quality: they can be quickly browsed as they are not full of heavy graphics. Therefore also person in a hurry has the patience to wait that the pages will upload. However the general layout is a bit confusing as it does not immediately become clear what the company is doing and for whom right on the front page, e.g. parts of a component or the whole component.

The second marketing method used at the moment is the search term in Google Awards. This kind of advertising is of course good as the supplier only pays for the times the advertisement has appeared, but the challenge is that search terms that potential customers use may be many others than just the one the case company has chosen, e.g. “Mori-Seiki NH4000 DCG”, “Mazatech H-415”, “hydraulic lobe” or “horizontal machining centre” etc. If a potential customer uses some other search term, the link will not appear and Valukoneistus’ marketing will not reach the clients at all.

Other marketing methods used are personal sales calls and direct marketing through e-mails. To make this method effective Valukoneistus has to ensure that the e-mail is addressed to right person in the company. Enquiries about right e-mail address with a call are not likely to be considered irritating from the clients point of view if the call does not take too much of their time: at least according to the interviewees. However, long telephone calls presenting the company that is not even linked to the production network in any way should be avoided as they can irritate potential customers a lot. In existing relationships the clients wished contacts regularly: it depends on the person in question whether informal meeting or a phone call is better option.

From a theoretical point of view it seems that the shift actually is towards relationships marketing rather than segment thinking. In real life this means that the emphasis should be more on relationships, networking and interaction with other companies than on heavy marketing efforts: as the interviews implied the word of mouth can be an important source of marketing and references can be gained from fellow participants in the network who have had experience with a new supplier. The new marketing approach is customer oriented. Marketing is not only selling products but also listening to the customers and their needs, i.e. asking: is our product attractive to the customers also in future?

From supplier point of view taking care of the relations by interacting with the clients and networking with other companies on the industry is vital as it will help in gaining information about the current markets and future trends and business opportunities. This is a result of the thoughts, ideas and references exchanged with other participants in the network. This kind of knowledge transfer can happen for example by participating in subcontractor's events or entrepreneur's organizations through which suppliers meet each other. Trade shows can also be effective means of networking: suppliers can invite potential and existing clients to visit their stand. In this sense trade shows can act both in maintaining existing relationships and building new relationships and the good point in these kind of events is that people who come there are actually interested in getting new suppliers and making new contacts.

10.3 Competitor Characteristics

When looking at the competitors that Valukoneistus has it seems that all of them are concentrated in providing larger entities and services to their clients according to clients' needs. Some of them were even able to provide design services, testing and product development. In this light it seems that Valukoneistus is on the right track in its efforts to provide further finished products. However it seems that the competitors have had higher drive for developing the overall business: competitors' that have been on the market shorter than Valukoneistus have been able to develop and expand their business rapidly: others by mergers, others by investors' help and others with their own capital. This viewpoint gives the impression that Valukoneistus has not been aware of competitors' actions and their developments. It seems that Valukoneistus has a wish to stay small and provide only parts of the whole products but this can be a dangerous approach within a competitive environment where all the competitors' seem to provide both smaller components and larger product entities in small and large volume series: in this sense there may not even be room for cooperation with them for Valukoneistus. The meaning of this is that if the competitors are buying some of their parts from other suppliers there could be

opportunities for cooperation with Valukoneistus that actually provides these smaller entities: however if this is not the case, then the competitors may little by little eat the niche that Valukoneistus is serving. This is one point why the company really should consider who their clients are going to be in the future and what kind of needs those clients have. This kind of reflection can help in finding the way to develop the company in order to make it possible for it to survive in the future as well.

Concerning marketing it seemed that many competitors were thinking about the viewpoints that they thought are important to the customers: many of them explained how their product solutions and machinery base help clients to improve their efficiency and reduce their costs. That enables clients to see the added value that the competitors are providing to them. The companies that were more export oriented of course had more information available in another language as well and all the companies provided at least the basic information concerning the operation field in English. This leads to the assumption that they could be willing to serve foreign clients as well. In general it seemed that the competitors all had put a thought to their websites: they had considered who is reading them and what information the potential reader should be provided with. Some competitors had functional websites with product catalogue and product search. The main emphasis in all the websites was on clear communication i.e. what the company is providing and for whom. Many of the competitors wanted to “bond” with their clients by providing news on ongoing events and on operations.

Four of the investigated competitors are developing their relationships/networks and marketing themselves in Subcontractors Fair 2009 (Alihankinta, 2009b). However the competitor, OT-Koneistus Oy that is operating approximately on the same level (in terms of turnover and personnel) as Valukoneistus is not attending. Therefore it may be that the trend of attending to trade fairs is only true for bigger companies that have better resources.

10.4 Trends in Marketing Environment and How They Affect?

The market environment has many ongoing trends that affect to the case company as well. The first, global markets and international competition, is an important one. Global competition means also harder competition both for price and quality. In price competition cheap labour countries have strong position and they develop their know-how in the field all the time. This is why the Finnish companies should consider developing themselves into a different direction in order to cope in future.

The direction can be found when looking the changes in customer behavior: outsourcing is growing and this means that bigger entities are done for customers by their suppliers. In order to be able to provide products with more added value suppliers should invest in know-how, innovation and improvement of productivity. In practise this means hiring educated workers who know about the field and have new ideas but also investing in machinery that can save work time: most simple tasks can be carried out by machines and workers are used in tasks where they actually are needed. This is important because of the structural change in the age of population.

The price pressure should be realized from several points of view. First of all, global competition causes pressures to decrease the prices for customers. On the other hand the increasing demand for limited raw material resources also from new production countries like BRIC countries is likely to increase the raw material prices in future. The environmental point of view is increasingly important as not all the used raw material resources are renewable. The outcomes of price development are many. First of all when the raw material prices increase it forces the companies to find out ways to save raw material. This can be done by cooperating in making raw material purchases. In addition expensive raw materials can be saved by using alternative materials: this can also benefit end customers by decreasing the prices.

Currently one the most important factor that affects in getting new clients is the

economical crisis. When orders go down the suppliers have overcapacity available. So has the case company. When the orders go down also the competition gets harder and suppliers may try to expand their business to other supplier's client base or the expansion comes naturally when some of the weakest entrepreneurs vanish from the markets and their clients begin to look for new suppliers. Because the competition is hard the pressure to decrease prices is high. The outcomes of the economical crisis will be long term in nature: the general course is that supplier prices decrease and therefore the profitability of companies goes down. This is the reason why companies also should aim at developing the business from simply production based companies to service based companies.

10.5. Future Research

What was surprising in this research was that the emphasis in finding new suppliers was on relationships and networking rather than on the supplier's marketing activities. As an outcome of this research more questions can be presented related to networking and forming of relationships and how it happens in reality in Finland. Therefore a natural extension to this study would be to investigate how new supplier relationships are and have been formed between other industrial customer companies and suppliers by networking and in which kind of networks the purchaser's find new suppliers and vice versa.

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11.5 Telephone Interviews

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Production and Purchase Manager of Customer 3, September 17, 2009.

Järvi, Ilkka (Manager), Valukoneistus Kivinen & Järvi Oy, May 11, 2009.

APPENDIX 1

QUESTIONNAIRE

Purchasing activities & behavior

1. What kind of business strategy does your company have?
 - Product leadership (emphasis on quality, leader in development)
 - Price leadership (best price)
 - Niche (narrow target segment, special product)
 - Something else
2. Is purchasing centralized or decentralized? Does the purchasing approach vary by product groups?
3. In which kind of situations existing suppliers are preferred? When suppliers are switched to others?
4. How do you make decisions concerning supplier/product? Who buys, decides, influences and uses?
5. Buyer uncertainties: how do you try to overcome the uncertainties? **Please, see enclosure 1: Customer Uncertainties**
6. Which factors are important in choosing a supplier?
 - Quality, price, delivery, distance, capacity, relationships/networks, development potential, other factors, what?
 - What meaning the size gets when getting machining company?
 - Buying situation, **Please see enclosure no. 2: Buying Situation**

Marketing

7. How information about new suppliers is gained?
 - Websites: What is important? layout, available languages, technical information, functions, etc.
 - Trade magazines: what attracts interest? Which magazines are most important?
 - Personal calls: in what situation?
 - Trade fairs/ shows: How often does you company have visits? Invited or wandering around?
 - Internet databases: are they been used, in what context?
8. Does best marketing practise vary according to product group/ buying situation?
Other reasons?
9. What kind of supplier competition there is concerning:
 - Solutions: different concerning material, design, services related etc.
 - Networks: small/ big assemblies?

APPENDIX 1

- Marketing: how others do marketing?

Relationship with Valukoneistus

10. How did you get to know Valukoneistus?
11. How long has your company done orders to them?
12. Under which product group you would categorize the products purchased from Valukoneistus, **Please see enclosure no 3: Fourfold Classification**
13. Is there more need for proto or small series than for continuous series mechanization?
14. Strengths: Why this organization has been chosen and which things have gone well
Weaknesses: has there been problems?
15. Development suggestions concerning offering or business in general (marketing)
16. Do you wish to keep contact: how often and how if yes?

HAASTATTELURUNKO (ORIGINAL IN FINNISH)

Ostotoiminta

1. Minkälainen yritysstrategia yrityksessänne on?
 - Tuotejohtajuus (laatu, kehityksen edelläkävijä)
 - Hintajohtajuus (halvin)
 - Niche (kapea kohderyhmä, erikoistuote)
 - Jokin muu?
2. Onko ostotoiminta keskitettyä vai hajautettua? Vaihtelee ko ostotapa tuoteryhmittäin?
3. Missä tilanteessa suositaan olemassa olevia alihankkijoita? Milloin alihankkijaa vaihdetaan?
4. Miten ostajat tekevät alihankkijapäätöksiä? kuka ostaa/ päättää/ vaikuttaa/ käyttää?
5. **Ks. liite 1 Ostajan haasteet:** Onko jokin näistä haaste Teidän yrityksellenne? Jos kyllä, miten se vaikuttaa alihankkijavalintoihin?
6. Mitkä tekijät ovat tärkeitä alihankkijoiden valinnassa?
 - Laatu, hinta, toimitus, välimatka, kapasiteetti, suhteet, kehityspotentiaali, yhteistyöverkosto, jossa toimii vai muut tekijät, mitkä?
 - Mikä merkitys on alihankkijan koolla koneistajaa harkittaessa
 - Ostotilanne: uusi, modifioitu ja suora osto (**Ks. Liite 2. Ostotilanne**)
 - Pääsevätkö alihankkijat tutustumaan kriteereihin, jos sellaiset on tehty

APPENDIX 1

Markkinointi

7. Miten saadaan tietoa uusista alihankkijoista? Miten uusi alihankkijasuhde voi muodostua?
 - o Webbisivut: mikä on tärkeää? Ulkoasu, kielet, tekninen tieto, toiminnot, etc.
 - o Alan lehdet: mikä kiinnittää huomion? Mitkä lehdet tärkeimpiä?
 - o Henkilökohtaiset soittot: missä tilanteessa?
 - o Messut: onko käyntejä usein? Kutsuttuina vai kierrellen?
 - o Internet-tietokannat: käytetäänkö ja jos käytetään niin missä yhteyksissä?
8. Vaihteleeko paras markkinointitapa tuoteryhmän/ ostotilanteen mukaan? Jos kyllä, Miten?
9. Minkälaista kilpailua on alihankkijoiden kesken koskien:
 - Ratkaisuja: erilaiset ratkaisumallit koskien materiaaleja, malleja, palvelua etc.
 - Verkostoja: pieniä/suuria kokonaisuuksia
 - Markkinointia: miten muut markkinoivat

Valukoneistus

10. Miten saitte tiedon yrityksestä?
11. Mistä asti yrityksenne on tehnyt tilauksia tälle alihankkijalle?
12. Mihin tuoteryhmään sijoittaisit Valukoneistukselta ostettavat tuotteet? (**Ks. Liite 3: Tuotteiden nelijako**)
13. Onko tarvetta enemmän proto/piensarjoihin kuin jatkuvaan sarjakoneistukseen?
14. Vahvuudet: miksi juuri tämä yritys & Heikkoudet: millä alueilla on ollut mahdollisia ongelmia
15. Kehitysehdotuksia? (Tarjontaan liittyen/ muuhun liiketoimintaan liittyen)
16. Onko yhteydenpito toivottu: miten ja kuinka usein? Käynnit/ soittot/ uutiskirjeet etc.

APPENDIX 2

CUSTOMER UNCERTAINTIES

1. Need

The buying organization does not have the exact information of what is needed and what kind of solution is best in order to have the optimal end product.

2. Market

The buying organization has knowledge about the needed solution but there are many alternative provided by different suppliers and they appear simultaneously.

3. Transaction

The buying organization knows what is needed and who supply the requirement. The challenge is the operations between companies i.e. if the supplier is able to fulfill its promises concerning delivery, quality, price, quantity etc.

ASIAKASNÄKÖKULMAT - HAASTEET (ORIGINAL IN FINNISH)

1. Tarve

Ostavalla organisaatiolla ei täsmällistä tietoa siitä, mitä tarvitaan ja millainen ratkaisu on paras, jotta lopputuotteesta tulee tismalleen sellainen kuin halutaan toiminnaltaan ja muilta ominaisuuksiltaan.

2. Markkina

Ostavalla organisaatiolla tieto tarvittavasta ratkaisusta, mutta markkinoilla on paljon eri alihankkijoiden tarjoamia vaihtoehtoja, jotka ilmaantuvat samanaikaisesti.

3. Toiminta

Ostava organisaatio on perillä siitä mitä tarvitaan ja ketkä tavaraa toimittavat ja mikä ratkaisu on paras; pulmana on yritysten välinen liiketoiminta, eli täyttääkö alihankkija lupauksensa koskien toimitusaikaa, laatua, määrää, hintaa jne.

APPENDIX 3

BUYING CONDITION		
New	Modified	Straight Rebuy
The buyer does not have experience about the required item and he is not aware of all the alternatives concerning suppliers and solutions.	The buyer knows the purchased item. Some product specifications may have been changed, e.g. material, measurements	The buyer makes straight rebuy i.e. orders same product as before with same product specifications as before.

OSTOTILANNE (ORIGINAL IN FINNISH)		
Uusi	Muokattu	Suora uudelleenosto
Ostajalla ei ole kokemusta tarvittavasta tuotteesta. Ostaja ei ole selvillä kaikista vaihtoehtoista koskien alihankkijoita tai erilaisia tuoteratkaisuja	Ostaja tuntee ostettavan tuotteen. Joitakin tuoteominaisuuksia on kuitenkin saatettu vaihtaa: esim. Materiaali, mitat jne.	Ostaja tekee suoran uudelleenoston eli tilaa saman tuotteen kuin aiemmin (tuotteella samat ominaisuudet kuin aiemmin, kuten materiaali jne.)

APPENDIX 4

THE FOURFOLD CLASSIFICATION

The fourfold classification concentrates on the factors that are important to the purchasers like time and money and effort that the purchasing organization is willing to invest and the risk that purchasing organization perceive.

- 1. Convenience products:** The perceived risk is and effort is small for the buyer. Therefore not much time is used in order to get to know all the available supplier options.
- 2. Preference products** demand a bit more effort and the perceived risk is bigger than for the product group before. Price is usually a bit higher than for convenience goods.
- 3. Shopping products** involve a big risk and requires more effort and is higher in value. This is the reason why buyers are willing to use a lot of time in comparison to find the best alternative. The perceived risk is remarkable as the purchased product can directly affect to the buying organizations reputation among their clients if the supplier decision is wrong.
- 4. Specialty products:** This product group has highest perceived risks and finding a suitable supplier demands a lot of time and comparison. This product group differs from the shopping products because in order to find the best possible supplier for the purchased items the purchasing organization is prepared to take a huge effort (in term of time and money used) . Also the purchasing price of the item and the volumes are bigger for this group than they are for the others: buyer is comparing different solutions and suppliers.

APPENDIX 4

TUOTTEIDEN NELIJAKO (ORIGINAL IN FINNISH)

Tuotteiden nelijako keskittyy ostajan kannalta tärkeisiin tekijöihin, kuten aikaan ja rahaan, joita tuoteostoon ollaan valmiita laittamaan ja riskeihin, joita ostajan mielessä tuoteostoon liittyy

- 1. Convenience-tuotteet:** Riski ja vaiva on ostajalle pieni näitä tuotteita hankittaessa. Siksi ei yleensä käytetä paljon aikaa kaikkiin mahdollisiin alihankkijoihin tutustumiseen.
- 2. Preference-tuotteet:** Vaativat jo vähän enemmän vaivannäköä ja näihin liitetty riski on isompi kuin edellisellä ryhmällä. Hinta onkin yleensä korkeampi kuin convenience- tuoteryhmään kuuluvilla tuotteilla.
- 3. Shopping-tuotteet:** sisältää suuren riskin ja vaatii enemmän vaivannäköä ja rahaa. Tämän vuoksi ostajat ovat valmiita käyttämään aikaa vertailuun löytääkseen parhaan mahdollisen alihankkijan. Riski on huomattava, sillä tuote voi suoraan vaikuttaa ostavan yrityksen maineeseen näiden asiakkaiden keskuudessa, mikäli alihankkijapäätös on väärä.
- 4. Specialty-tuotteet:** tähän tuoteryhmään liittyvät suurimmat riskit ja sopivan alihankkijan löytäminen vaatii paljon aikaa ja vertailua. Tämä tuoteryhmä eroaa edellisestä siinä, että löytääkseen tähän tuoteryhmään kuuluville tuotteille parhaan alihankkijan asiakas on valmis näkemään suuremman vaivan (ajallisesti/ rahallisesti). Yleensä myös tuotteen ostohinta ja määrät ovat korkeampia kuin edellisiin ryhmiin kuuluvilla tuotteilla: ostaja vertailee eri ratkaisuja ja eri alihankkijoita.