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SUPPLIER RELATIONSHIP MANAGEMENT AND VALUE CREATION FOR BUYER: CASE PINTOS OY

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TOIMITTAJASUHTEEN HALLINTA JA ARVON LUOMINEN OSTAJALLE: CASE PINTOS OY

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Tämän opinnäytetyön tarkoituksena oli antaa Pintos Oy:lle toimintaehdotuksia uuden toimittajasuhteen luomiseksi. Tutkimuksen osa-ongelmat oli jaettu tavoitteisiin teoriasta ja kohdeyrityksestä. Tutkimuksen teoreettiset tavoitteet olivat 1) määritellä toimittajasuhteen hallinta ja suhteen arvo, 2) miten toimittajasuhteita voidaan luokitella, 3) mitkä ovat tiiviin toimittajasuhteen rakentamisen etuja ja haittoja? Tutkimuksen empiiriset, kohdeyritykseen liittyvät tavoitteet olivat 1) millainen toimittajasuhde uuden toimittajan kanssa pitäisi luoda, 2) mitä Pintos Oy pitää arvoa luovina toimintoina tässä toimittajasuhteessa, 3) mitkä ovat toimittajasuhteen hallinnan haasteet, mahdollisuudet ja kriittiset pisteet, jotka Pintos Oy kohtaa? Opinnäytetyö toteutettiin kevään 2017 aikana.

Opinnäytetyön teoreettinen osa keskittyi toimittajasuhteiden hallinnan teoriaan ja arvon luomiseen suhteessa. Teorian pääteemat olivat tiiviin toimittajasuhteen luomisen hyödyt ja haitat, toimittajasuhteiden luokittelu ja suhteen arvo. Teoriaosa perustui ammattikirjallisuuteen ja artikkeleihin.

Opinnäytetyön empiirinen osa keskittyi arvon luomiseen suhteessa. Empiirisen osan teemat olivat suhteen luonne ja hallinta, toimittajasuhteen arvo ja hyödyt sekä tulevaisuuden kehitys. Tutkimusmateriaali kerättiin laadullisia tutkimusmenetelmiä käyttäen. Empiirinen osa toteutettiin haastattelemalla Pintos Oy:n työntekijöitä ja toimittajan edustajaa.

Haastattelujen tulokset osoittivat, että Pintos Oy:llä on vakaa pohja menestykselliselle toimittajasuhteelle. Tutkimuksen tuloksena laadittiin käytännönläheinen toimenpideohjelma. Toimenpideohjelma antoi Pintos Oy:lle ehdotuksia tavoitteiden asettamisesta, kommunikaatiosta, tiedon jakamisesta, tapaamisten järjestämisestä, toiminnoista ja laadun arvioinnista.

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The purpose of this thesis was to offer recommendations for the case company Pintos Oy on creation of a new supplier relationship they are starting a project with. The challenges of this study were divided into theory related and case company related objectives. Theoretical objectives were: 1) what is the definition of supplier relationship management and relationship value, 2) how can supplier relationships be categorized, 3) what are the advantages and disadvantages of building a close supplier relationship? Empirical objectives related to the case company were: 1) what kind of a supplier relationship should Pintos Oy create with the new supplier, 2) which factors does Pintos Oy consider to be relationship value creating factors in this relationship, 3) what are the challenges, opportunities and critical points of supplier relationship management Pintos Oy faces? The research was implemented during spring 2017.

The theoretical part of the thesis focuses on the theory of supplier relationship management and relationship value creation. The main themes of the theory are the benefits and disadvantages of building a close supplier relationship, different ways of categorizing supplier-buyer relationships and relationship value. This part of the thesis is based on professional literature and articles.

The empirical part of the thesis focused on the idea of relationship value. The themes researched in the empirical part were the nature and management of the relationship, buyer-supplier relationship value and benefits and future development. The data for the thesis was gathered by using qualitative research methods. Empirical data collection was implemented by interviewing the employees of Pintos Oy and a representative of the supplier company.

The results of the interviews concluded that Pintos Oy had a very stable foundation for a successful supplier relationship. As a result of the thesis, a practical action plan was drafted. The action plan gave recommendations on setting goals, communication, sharing information, arranging meetings, operations and quality assessment.

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1 INTRODUCTION

In the global and interactive world of today the success of any company is increasingly affected by the efficiency of its supplier relationships. Relationships should always be paid attention but especially when a relationship with a new supplier is started. The buyer company should consider whether they want to initiate a long-term relationship for future development or if a one-off relationship one deal at a time would do. In either case, the organisation should have a clear image of their goals and how much they are willing to invest.

The purpose of this thesis was to offer recommendations for the case company Pintos Oy on creation of a new supplier relationship they are starting a project with. Pintos Oy is a Finnish SME producing nails and reinforcements for hardware stores and construction industry. Pintos Oy is introducing a new product into their product portfolio and instead of producing the product themselves, they have decided to use a supplier. So far they've compared different suppliers and decided to use an European supplier. The purpose of this thesis was also to find out what kind of value the relationship can create and how that value is achieved.

The thesis consists of a theoretical part and an empirical part. In the theoretical part supplier relationship management was defined, supplier relationship models were introduced and relationship value and value creation described. Based on the theoretical background interview themes were developed and interviews conducted. In the interviews opinions and views on the nature of the relationship were gathered. As a result, a practical action plan was developed.

2 PURPOSE AND OBJECTIVES

2.1 Purpose and objectives

The case company Pintos Oy is starting to work with a new supplier and the company of course wants to benefit from the cooperation in the best way possible. Therefore, the purpose of this thesis is to offer Pintos Oy recommendations on how to create value in the aid of the supplier relationship and what kind of a relationship should be created. Key aspects in this research was first to identify the relationship nature and value from the case company's viewpoint. Secondly, important was also to identify how they are going to benefit from this cooperation. The aim was that the case company can utilize the recommendations in creation of the relationship with the new supplier.

The objectives of the thesis are divided into two parts. First are the objectives related to the theory:

1. What is supplier relationship management?
2. What is relationship value?
3. How can supplier relationships be categorized?
4. What are the advantages of building a supplier relationship?
5. What are the disadvantages/challenges of building a close supplier relationship?

The second part of the objectives are case company specific objectives and they will be answered in the empirical part of the thesis.

6. What kind of a supplier relationship should Pintos Oy create with the new supplier?
7. Which factors does Pintos Oy consider to be relationship value creating factors in this relationship?
8. What are the challenges, opportunities and critical points of supplier relationship management Pintos Oy faces?

The theory objectives are reached by reviewing relevant literature and articles and using them as a basis for the implementation of the research. The empirical objectives regarding the case company will be implemented by qualitative research methods. The thesis focuses on the relationship between the buyer and seller, and information about the new supplier or the product is left to the minimum.

2.2 Framework

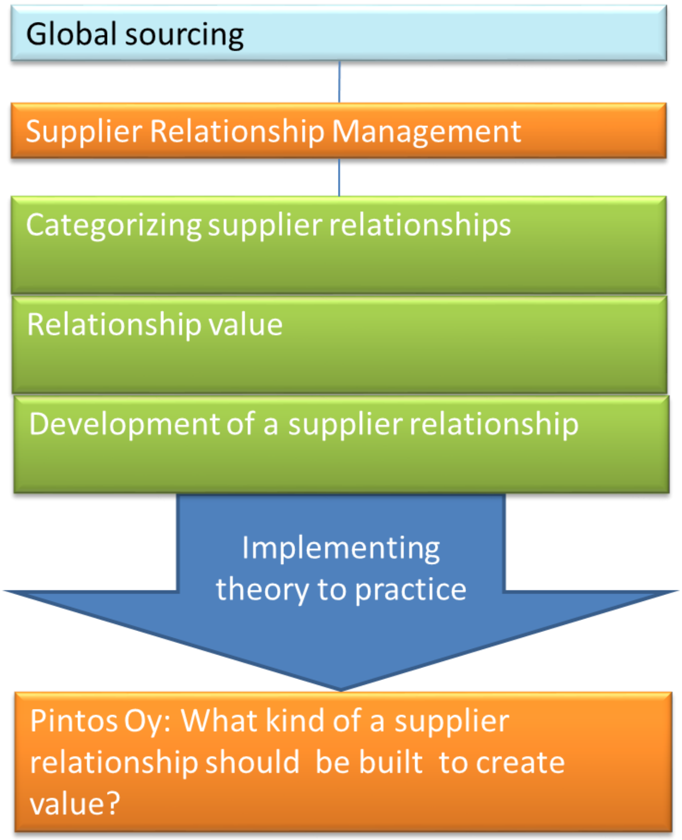

Figure 1. Framework of supplier relationship management and value creation for buyer.

The framework (Figure 1) was developed by the writer to showcase the limits and implementation of the thesis. The thesis is revolved around supplier relationship management which will be first defined. The second main theme is categorization of supplier relationships and three different supplier relationship models will be introduced. The third main theme is relationship value and how value is created in a relationship. These three parts of the theory were a base for the implementation of the empirical part of the thesis. The actual research was implemented as a qualitative research using semi-structured interviews with the employers from both buyer and supplier organisations. The empirical part presents what the parties expect the relationship value to be and eventually what recommendations the writer has to achieve that.

3 CASE COMPANY: PINTOS OY

Pintos Oy is a Finnish SME nail and reinforcement manufacturer and a part of the Pintos concern. Pintos Oy was founded in 1956 by Niilo Pere in Eura and two generations later the company is still led by the Pere family. Pintos Oy is the leading manufacturer of nails and reinforcements in the Nordic countries. In total the concern employs 146 people with a turnover of 44 million euros. (Website of Pintos Oy 2016.)

Pintos Oy has factories in Eura and Rauma. In addition to the production facilities in Finland Pintos Oy has a subsidiary Pintos Svenska in Värnamo, Sweden. Pintopuu Oy, a hardware store wood manufacturer in Eura, is also part of the Pintos concern. (Website of Pintos 2016.)

The main product groups of Pintos Oy are basic reinforcements, industry reinforcements and nails for hardware stores and construction industry. Pintos Oy is the market leader in their main market groups. Pintos Oy invests in high-quality raw materials, up-to-date technology and competent personnel. As a consequence, the company has reached a high delivery reliability. In addition to high-quality production, environment issues mean a lot to the company which is why Pintos Oy has been awarded the ISO quality and environmental certificates. (Website of Pintos Oy 2016.)

This thesis was implemented as a part of a new supplier relationship Pintos Oy was starting.

4 SUPPLIER RELATIONSHIP MANAGEMENT

4.1 Definition

Supplier relationship management (SRM) is one of the key supply chain processes and refers to the practice of how an enterprise manages its relationships with upstream suppliers and interacts with them and how the two parties work towards the integration of their organisations. SRM is a back-office function managed through enterprise resource planning (ERP), supply chain management (SCM) or specialist supplier relationship management applications. It covers all processes at the interface between the firm and its suppliers. (Buttle 2009, 314; Chopra & Meindl 2016, 24; Jonsson 2008, 29; Lysons & Farrington 2016, 91, 194; Waters 2009, 148.)

SRM assists in meeting the strategic objectives of both parties and aims to integrate aspects of the two organisations for mutual benefit. The quality of a business relationship can be measured by how the both parties take part to active and long-term common activities. In a good relationship the needs and expectations of the both parties are fulfilled. SRM is not an agreement to sole source or outsource to a supplier. The ultimate goal of SRM is to create value to the end customer and improve the experience to retain customers and through that ensure repeat business. (Lysons & Farrington 2016, 91, 194; Nieminen 2016, 107; Waters 2009, 148.)

Supplier relationship management is becoming increasingly critical and a strategic battleground within organisations as organisations concentrate on core competencies and rely more on suppliers to maintain critical advantage or a better position over competitors in the market. Business relationships have far-reaching economic consequences for those directly or often even indirectly involved in them which is why their value should be considered. Especially, when a company has only a small number of important relationships, every single relationship and perhaps every single episode with them can have major economic consequences. (Ford, Gadde, Håkansson & Snehota 2011, 103; Lysons & Farrington 2016, 91, 205.)

Supplier relationships are a mixed blessing, they can be an asset to the company, but also become a burden to carry (Ford, Gadde, Håkansson & Snehota 2011, 15). Next the advantages and disadvantages of building a relationship with a supplier are introduced.

4.2 Advantages

When the benefits of a relationship exceed the risks, it is desirable for both the seller and the buyer to maintain a long-term relationship. The parties should realise that the potential gains from acting cooperatively will exceed the gains from acting opportunistically. (Hollensen 2015, 363.)

A number of areas can be improved through persistent supplier relationship management. A successful supplier relationship can result in several economic consequences. Cost can be reduced as collaboration can create cost benefits and revenue benefits. Cost structures can also be modelled more accurately beforehand since with a stable partner the impact of price-fluctuations can be reduced. (Lysons & Farrington 2016, 205; Miguel, Brito, Fernandes, Tescari & Martins 2014, 561; Srivastava & Singh 2010, 5.)

A supplier relationship can make the procurement practice of a company more efficient. A stable and close relationship can actually leave companies more time to do other projects as a supplier who knows their importance is also more likely to give better service which saves the buyer's time. It is also beneficial for a supplier to maintain a long-term relationship because it is generally much cheaper to keep an existing customer that to attract a new customer. (Hollensen 2015, 363; Srivastava & Singh 2010, 5.)

A long-term customer can provide the supplier feedback on existing products and ideas for new or re-engineered products. A partner's knowledge may improve market vision and a long-term partner can provide recommendations and encourage new business. Sellers can also benefit from the information that buyers provide. Buyers often gather and pass on information about market developments that is relevant to the seller's business. (Hollensen 2015, 363; Jobber & Lancaster 2015, 104.)

Innovation and development can benefit from close supplier relationships. When cross-organisational teams are utilised the planning and design departments of the two organisations can work together. This way access to innovation becomes easier and the innovation process can become faster. Product and service development can become more efficient when the supplier can be involved in an early stage. Knowledge can be transferred flexibly through the supply chain from partner to another. (Jobber & Lancaster 2015, 104; Lysons & Farrington 2016, 205.)

A connection between the buyer and the supplier reduces risk and ensures a continuity of supply. Metrics can be used to drive change in both organisations. All in all, a well-working supplier-buyer relationship can in the end enhance customer satisfaction and create value across the network. (Lysons & Farrington 2016, 205; Miguel, Brito, Fernandes, Tescari & Martins 2014, 561; Srivastava & Singh 2010, 5.)

There are several situations when building a supplier relationship is beneficial. First is product complexity. If the product or its applications are complex, for example networking infrastructure, developing a long-term relationship might be worth considering. Second point is the strategic significance of the product. How critical is the product to the strategy or mission of the company? If the answer is very critical, for example sourcing an important raw material, a relationship is an advantage. Suppliers can bring extra knowledge and expertise into product development and help the buyer ahead in its product development and eventually bring the product faster and better into the market. (Buttle 2009, 41.)

If the sourced product includes down-stream service requirements, for example it is important to have somebody to turn into for customer questions and support, a relationship is advantageous. Another important aspect is financial risk. If the procurement process holds a high financial risk, for example buying large items of capital equipment, developing a relationship with a supplier is beneficial. In all of these circumstances, developing a closer business relationship leads to economic advantage. (Buttle 2009, 41.)

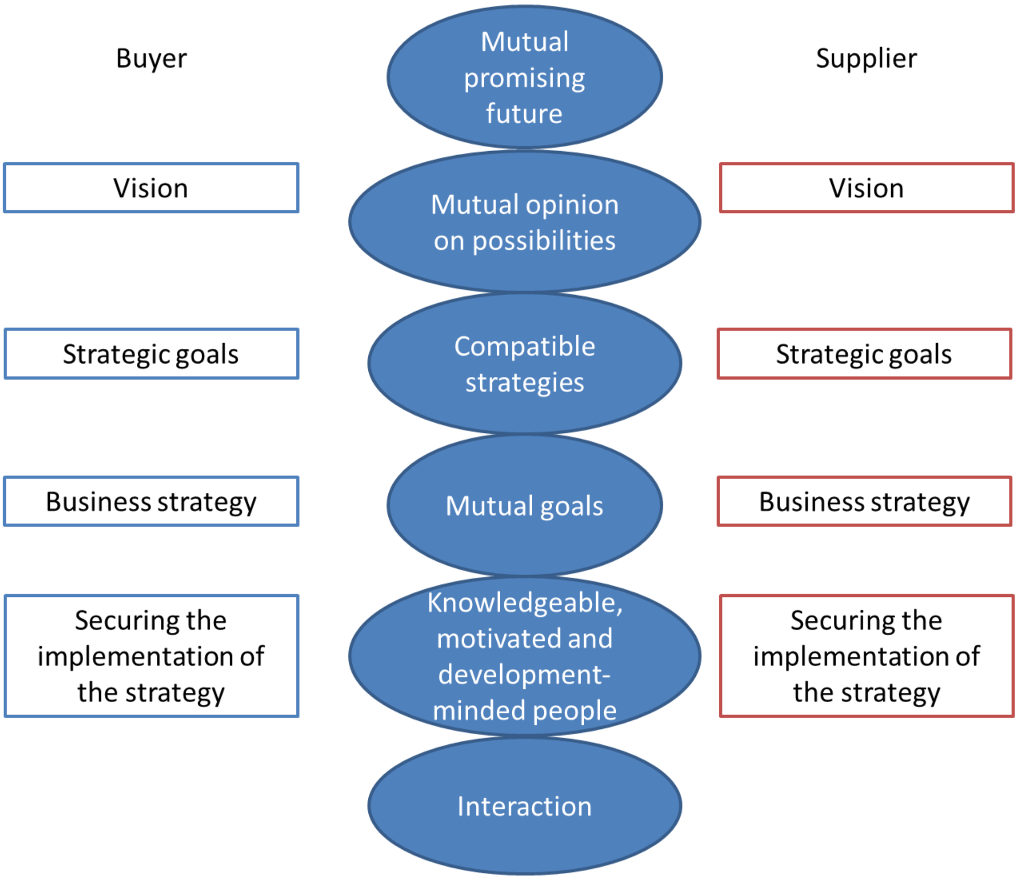

Figure 2. Basis for a good buyer-supplier relationship (Nieminen 2016, 114).

Figure 2 showcases the factors needed for a successful buyer-supplier relationship. First, the parties need to share a vision and strategic goals for what they want to reach together. They have an understanding of their respective requirements and interests. This creates a promising future for future cooperation. In addition to goals, their strategies need to be aligned in order to reach their goals. The companies' workforce is essential to secure the implementation of the strategy. The employees of both parties should be competent, motivated to work hard, development-minded and when needed, assist each other. Efficient interaction requires active communication on all needed organisational levels and regular meetings. The companies can also create development programs and if that is not possible they should talk about the methods with which to reach their targets. They should keep track on the progress they've made. These conditions would guarantee the creation of established and dependable purchasing-supplier relationships. (Lysons & Farrington 2016, 194; Nieminen 2016, 114.)

4.3 Disadvantages

Even though developing a close long-term relationship with a supplier may seem to hold great benefits, putting everything a firm has into it shouldn't be rushed. Relationships are difficult to handle and always involve actual or potential issues that should be considered before setting a strategy. (Ford, Gadde, Håkansson & Snehota 2011, 38.)

Relationship problems between companies are equally diverse as problems in relationships between people. Some problems occur within the development of a single relationship, when the parties have technical or administrative incompatibilities or differences in the personalities of individual actors or disagreements in organisational cultures; others have to do with how the different relationships are connected to each other. Some problems relate to the behavior of third parties that can influence or be influenced by a particular relationship. (Ford, Gadde, Håkansson & Snehota 2011, 39.)

Developing a relationship always creates a dependency on the other party and requires giving up some freedom. Relationships require reacting to the actions of a counterpart, rather than simply acting on one's own intentions. Relationships restrict the opportunities of managers for action that is either independent or directed solely towards their own aims. They have to react to the minor and major problems even though their party didn't cause them and the parties may have different ideas of the expectations and effects of their actions. Still, the companies must to some extent meet the expectations of the other and combine them with their own. Adaptations are a necessary ingredient of relationships and lead to dependence on the counterpart. As a result, power on the supplier's side can conclude to loss of personal authority and control on the buyer's side. The closer the relationship, the stronger the interdependence is. Partners in a business relationship need to be careful that they do not become too dependent on each other. Dependence can be eased by increasing the number of partners and/or by reducing switching costs. (Buttle 2009, 43; Ford, Gadde, Håkansson & Snehota 2011, 38-39; Jobber & Lancaster 2015, 104.)

Developing relationships means giving priority to a specific counterpart which tends to exclude others. Focusing on one supplier can also reduce the firm's flexibility to look objectively at other suppliers and put effort into choosing alternatives. This is a limitation when other prospects are attractive but the current relationship excludes them. The extent of this problem depends on the resource demands of each relationship and on how the companies priorities their demands. The exclusiveness of relationships can easily lead to conflicts in the company's other relationships. (Buttle 2009, 43; Ford, Gadde, Håkansson & Snehota 2011, 39.)

When developing a single relationship, companies often become related to a wider network which can be beneficial but also turn out to be a burden. Just as in a human relationship, you may not like your friend's friends or the other way around but given the relationship, you have to accept them anyhow! (Ford, Gadde, Håkansson & Snehota 2011, 39-40.)

Relationships are demanding and require investing time, effort, resources and money before receiving anything in return. Learning about each other is necessary in order to define and implement adaptations and to systematically relate activities in the two companies. The more involved the relationship, the larger are the investments and the costs of making changes. Setting mutual expectations and clear limitations is necessary to avoid the relationship from turning into a black hole. (Ford, Gadde, Håkansson & Snehota 2011, 39.)

Relationships are undetermined and unruly. The development of a relationship depends on how the parties involved view each other's capabilities and motives and how they interpret their own actions and those of others. This interpretation can change over time. A relationship can never be fully controlled by one party and at one moment, the relationship may be seen as a "golden age", but at another it may seem an "ugly prison", when the company is dependent on a counterpart that controls its operations in many aspects. (Ford, Gadde, Håkansson & Snehota 2011, 39.)

Supplier relationships are also industry and company specific. If the industry is fast-paced and technology is changing rapidly, commitment to one supplier can lead to missing out on new developments that competitors take out on. Company specific, means that not all companies are equally interested in relationship building or see value in a relationship. Suppliers may not believe in substantial savings in transactions costs, or that creating a relationship will help them create a superior competitive position, generate additional revenue or that there will be any social benefits. As a consequence, they can act opportunistically and only care for their side of the business. That is why having mutual goals and sharing a vision is so important. (Buttle 2009, 43.)

There are two paths to failure: under-designed and overdesigned relationships. When the market and product context would only require simple, impersonal control and information exchange, the relationship can be overdesigned by investing in building trust as a result of frequent visits and cross-company teams. That kind of overdesign is both costly and risky, especially in terms of the intangible investments in people, information and knowledge. (Lysons & Farrington 2016, 204.)

Each company's success or failure depends on how effectively it copes with and manages its relationships and recognizes the negative dimensions of business relationships. A relationship is not a simple toll that can be used to solve all problems. It is better to view a relationship as a complex, but necessary, process that must be dealt with care and with consideration of its costs and problems. (Ford, Gadde, Håkansson & Snehota 2011, 15, 40.)

4.4 Development of a supplier relationship

The understanding and analysing of the development of a supplier relationship from both the buyer's and supplier's perspectives is necessary for supplier relationship management to succeed. Most authors assume that purchasing moves through the different development stages and that relationships with suppliers will change over time (Weele 2010, 68). Dwyer, Schurr and Oh formed a 5-phase model to describe the different phases of relationship development which is shown in Figure 3.

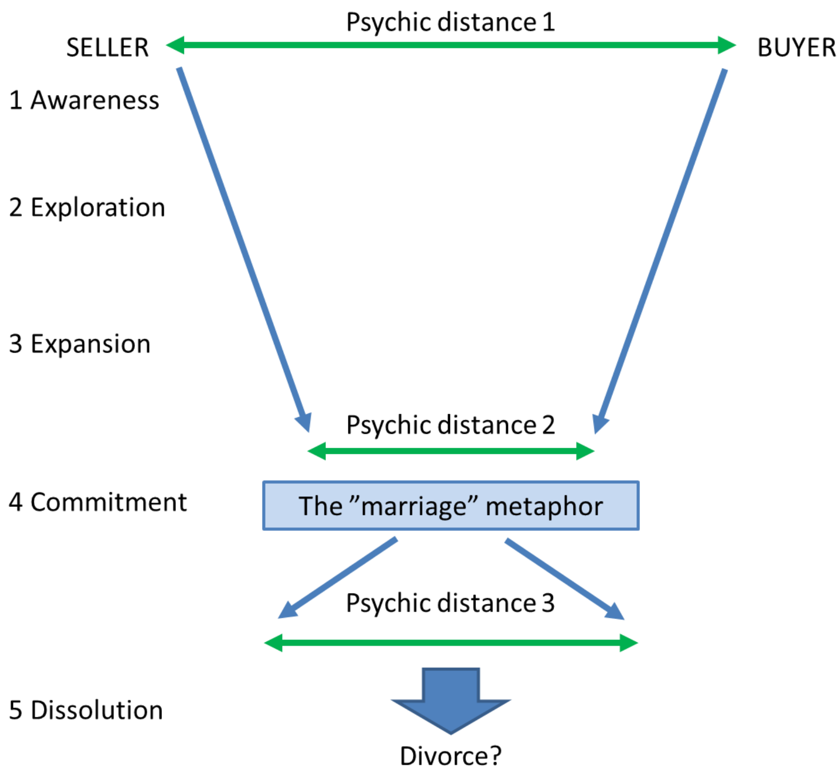

Figure 3. The five phase relationship model (Hollensen 2017, 450).

Figure 3 was developed to showcase the development of the initial psychic distance between a buyer and a seller throughout their relationship. The figure also shows that the initial psychic distance 1 at the beginning of the relationship is reduced to psychic distance 2 through the interaction process of the two partners. However, sometimes relationships come to an end. Partners can go their separate ways as the distance between them grows when problems in the relationship can't be solved. This position can be seen as a "divorce" and distance 3. A relationship between two firms begins, grows and develops – or fails – in similar ways to relationships between people. The stages before a possible dissolution are awareness, exploration, expansion and commitment. (Hollensen 2017, 449.)

The first phase is called relationship awareness which means that the partners recognize each other as potential partners but no interaction has yet happened. The organisations consider what they could get out of the relationship, how much they would have to invest and what adaptations would have to be done. They study the credibility of the company and what they could learn from them. (Ford, Gadde, Håkansson & Snehota 2011, 31; Hollensen 2017, 450.)

After the so-called pre-relationship stage comes the exploration phase. In the exploration phase, the parties aren't yet committed to each other and routines haven't been formed. Each party attempts to bargain and understand the nature of the power, norms and expectations held by the other. Therefore, trial purchases take place to test of the other's ability and willingness to deliver satisfaction. The partners invest time for learning and reducing the distance between them for example by electronic data interchange to reduce paperwork. At the end of the exploration phase, it is time to "meet the family". This means that in addition to the leaders of the companies, also the other people in the firm and stakeholders must approve the cooperation. At this stage, termination of the association is still possible. (Ford, Gadde, Håkansson & Snehota 2011, 31; Hollensen 2015, 200; Hollensen 2017, 451.)

The third phase in the model is called expansion. To get to this stage, the trial purchases should be satisfactory concluded and motivation to maintain the relationship increases. Hence high-level outcomes, the organisations look even more attractive to each other and the amount of alternative options to replace each other decreases. One party makes a request for adjustment and the parties are satisfied with some customisation and build trust through investment and informal adaptation. They look for additional benefits from products, services or terms from the current partner rather than from an alternative. Exchange outcomes in the exploratory stage provide evidence as to the suitability of a long-term exchange relationship. (Ford, Gadde, Håkansson & Snehota 2011, 31; Hollensen 2015, 200; Hollensen 2017, 451.)

In the commitment phase, the parties have reached a stable phase with routines and their own institutions. The commitment phase implies some degree of exclusivity between the parties; contracts, strong social ties and investments together. Both parties invest consistently in the relationship and adapt to changing circumstances. They have achieved a level of satisfaction from the exchange process that actually precludes other primary exchange partners (suppliers) who could provide similar benefits. The parties resolve disputes internally and don't end the relationship before doing so. In the end of the commitment phase, the search for alternatives decreases even though the buyer maintains awareness of them. (Ford, Gadde, Håkansson & Snehota 2011, 31; Hollensen 2015, 200; Hollensen 2017, 451.)

As mentioned before, not all good things last forever and termination of a relationship can be possible even if the parties share a long history. The name of this phase is called dissolution. Dissolution marks the point where the buyer and seller recognise that they would achieve their respective aims better outside the relationship. Dissolution may be caused by organisations and culture. (Hollensen 2015, 200; Hollensen 2017, 450.)

Operational and cultural differences may emerge after collaboration is already under way. The organisations may have different reporting and decision-making styles which may become apparent later and as a surprise to those who created the alliance. A very natural reason for termination is that managers leave their positions for some reason and personal relationships between the companies end. As a result, the replacing person may not form a relationship as successful as their predecessor. This can become a potential danger to the partnership. (Hollensen 2017, 451.)

Relationships are also usually formed at a senior level and people in other positions may not experience the same attraction as the chief executives. The executives spend a lot of time together, but in some cases other employees have been pushed to work with their overseas counterparts. They may not share the vision of the executives and have less experience in working with people from different cultures. This can lead to people opposing the relationship and trying to undermine it. (Hollensen 2017, 451.)

Companies have to be aware of these possible problems before they start a relationship because only this way can they take action to prevent the dissolution phase. Many firms keep their alliances in their initial form for too long, while the original conditions change, sometimes favouring a new structure. (Hollensen 2017, 452.)

5 CATEGORIZING SUPPLIER RELATIONSHIPS

5.1 Transactional and relationship procurement

5.1.1 Transactional procurement

Transactional procurement means that the buyer and seller don't aim at developing a relationship but instead focus on discrete procurement actions and one-off contracts. The relationship is short-term oriented and innovation or future development are not discussed. The buyer holds the supplier at an "arm's length" with little supplier contact, only on the most necessary information, such as pricing, quality and delivery information. (Lysons & Farrington 2016, 195.)

The direct financial benefits of transaction procurement are linked to product pricing. These immediate or short-term monetary benefits can be cost savings for the buyer or increased sales revenue to a supplier. Monetary benefits are easy to identify and measure. There are also other transaction-related benefits that are harder to identify. A supplier may be able to achieve savings in logistics or production by adding an extra order. Similarly, the buyer may achieve cost savings by using a supplier's test facilities or be able to achieve a critical volume in a relationship with one of its customers. In principle, transaction benefits vary with relationship intensity, which means how strong resource ties, activity links and actor bonds are. The transactional benefits to a company are context-specific and reflect the problems perceived by either the customer or the supplier at that time. (Ford, Gadde, Håkansson & Snehota 2011, 110.)

5.1.2 Relationship procurement

Relationship procurement is the opposite of transactional procurement. There, the focus is on closeness and long-term orientation. Both organisations are involved in the interaction. The parties have a high level of contact, including senior level and they share a significant amount of information. They are open to each other on costs and profit matters and focus on teamwork and make sure the relationship benefits both parties. The parties set requirements for innovation, investment for research and continuous improvement and they review their performance regularly to achieve these goals. Intellectual property is also seen to provide benefits to parties. (Lysons & Farrington 2016, 195.)

Some of the advantages of creating a supplier relationship were already explained in the beginning of the thesis but here are some benefits of long-term relationship procurement contrasted to transactional short-term procurement.

A relationship can lower different cost structures of the buyer. Operational costs can be reduced when the supplier and/or customer modifies their offering so that it “fits” with that of the counterpart better. Another financial benefit is reduced administration costs through more integrated information systems and because the parties get used to each other’s way of working. Development expenses can be reduced when technologies or experience of the counterparts are exploited. (Ford, Gadde, Håkansson & Snehota 2011, 110-111.)

In a closer team-like relationship communication channels will usually open and expand, the customer’s needs and problems are known, and a comfortable working, and sometimes personal, relationship exists between personnel in both firms. This will make working together easier and more efficient. When parties become familiar with each other’s ways of working joint problem-solving becomes faster and cheaper and risk is reduced. (Ford, Gadde, Håkansson & Snehota 2011, 110-111; Hollensen 2015, 363; Jobber & Lancaster 2015, 104.)

Communication in supplier relationships can also help the logistics perspective of business. Communication and good connections between the companies enable changes in delivery frequencies and lot sizes which makes operations more flexible. (Ford, Gadde, Håkansson & Snehota 2011, 110-111.)

Both the buyer and supplier can apply what they’ve learned in any relationship to their other relationships. The companies can gain access to other parts of the network through their relationships with particular customers and suppliers. A partner can also gain credibility when it works with a more well-known firm that has a partner with a great reputation. Such reputational affects can be regarded as a “seal of approval” that enables a firm to develop further relationships elsewhere in its network. (Ford, Gadde, Håkansson & Snehota 2011, 110-111; Jobber & Lancaster 2015, 104.)

A business relationship can only provide benefit to a participant if the relationship is created to improve a specific issue. The value of a benefit will be determined by the importance of the problem and both parties have to understand the issue. The experience, skills, resources and relationship understanding of both companies determine the success in providing relationship benefits and addressing the problems of customers or suppliers. Suppliers and companies value relationships differently which is likely to affect the price that they aim for and their wider approach to each relationship. (Ford, Gadde, Håkansson & Snehota 2011, 110-111.)

It’s not automatic to receive benefits from a relationship that the parties share. They may become apparent after a long time and after most of the relationship investments have been made. It is common for a company not to appreciate the benefits it receives or simply to take the relationship or the partner for granted because the relationship benefits are likely to be incremental. Similarly, a company may not appreciate the benefits that the partner is receiving from a relationship and fails to maximise its own benefit in return for what it gives to the relationship. If the company doesn’t understand the long-term benefits of a relationship it may be tempted to take a short-term transactional approach and to “milk” the relationship, or simply decide to take advantage that a partner would consider unfair. (Ford, Gadde, Håkansson & Snehota 2011, 110.)

5.2 The Cox model

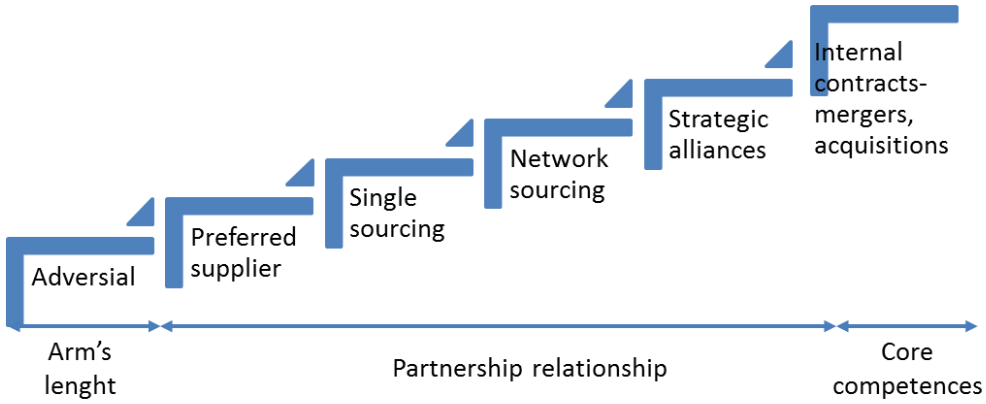

Figure 4. The Cox model (Lysons & Farrington 2016, 199).

Cox developed a model that presents a stepladder of external and internal contractual relationships, from adversial relations to internal contracts. Each step represents a higher level of asset specificity and strategic importance to the firm of the specific goods and services and rising level of relative power between the relationship's participants and ownership of the goods and services. The model is divided into three main sections: arm's length, partnership relationships and core competences. (Lysons & Farrington 2016, 199-201.)

Arm's length relationships, in this model referred to as adversial leverage relationships, are associated with low asset specificity and low supplier competences. The focus for the purchasing party is the lowest price possible. Purchasers multi-source from several potential companies, negotiate short-term contracts that are as favourable as possible one deal at a time. Secrecy regarding costs, sales and product design is maintained. Neither party makes improvement suggestions and the traditional attitude between the buyer and supplier can be described as a relationship between legal parties. The atmosphere is a competitive win/lose situation where each party tries to reduce the opposing party's power. The long-term risks with this strategy for a customer company is that their supplier base may develop into a number of small companies without the capacity to develop products and technological competence but for a very basic product this is not always the aim. (Jonsson 2008, 178-179; Lysons & Farrington 2016, 200-201.)

The next section is partnership relationships which are divided into four ladders. This is because partnership sourcing refers to a wide range of collaborative relationships and is used to refer to all forms of non-adversarial collaborative relationships. (Lysons & Farrington 2016, 199.)

The first stage is a preferred supplier. Preferred suppliers are usually providers of complementary goods and services of medium asset specificity or strategic importance who have been placed by the purchaser on a restricted list of potential suppliers after a throughout review. Having preferred suppliers leads to a smaller supplier base and less frequent bidding which saves time and money. (Lysons & Farrington 2016, 198; 201.)

The second stage in partnership relationships is single sourcing. Single sourcing means procurement from a single supplier of medium asset specificity complementary goods or services of relatively high strategic importance. The company only uses one supplier for a certain item, despite other suppliers available on the market. Motivation for single sourcing is usually reducing transaction costs and economising for the small purchase volumes involved. Using several suppliers would lead to high administration costs. Single sourcing has traditionally been used in cases where the item purchased was specific to the purchasing company and finding alternatives is difficult. One further motivation is that the company strives to create partnership relations (mutual development) which is difficult to maintain with more than one supplier per item. The supplier is more likely to share information when not subject to competition. (Jonsson 2008, 164-165; Lysons & Farrington 2016, 201.)

Network sourcing is the third step in partnership relationships. It is formed around the idea that it is possible to create a virtual company at all levels of the supply chain by engineering multiple tiered partnerships at each stage, without moving to vertical integration. The prime contracting firm acts as the driver for the reduction of transaction costs within the whole supply and value chain. Cost reduction is achieved by a partnership between the prime contractor and a first-tier supplier. The first-tier supplier controls an important medium asset for the prime contractor and also forms similar partnerships with second-tier suppliers. Each level of the supply chain is effectively a joint venture in which companies at each stage will inform and educate their respective partners by sharing the best practices. Network sourcing relationships are only possible in mature industries where asset specificity has constantly been reduced and subcontracting facilitated. (Lysons & Farrington 2016, 201-202.)

The final step of partnership relations are strategic supplier alliances, classically referred to as joint ventures. They are defined as "negotiated single-sourced relationships with the supplier of a complementary product or service". Strategic supplier alliances form a completely new and independent legal entity, distinct from the firms comprising the alliance. Both parties have some degree of control in the outcome of the relationship (not necessarily 50/50) which means power equivalence and a high degree of respectfulness are the foundation of such relationships. Strategic supplier alliances are the final stage before a firm considers a complementary supplier to be so important that vertical integration through merger and acquisition is undertaken. (Lysons & Farrington 2016, 201-202.)

After partnership relationships come core competences, internal contracts. Internal contracts are associated with high asset specificity and core competences. They are advantageous when external contracts with high asset specificity may result to merger or acquisition or, failing that, in very close, single-sourced negotiated contracts in which both parties have some clear ownership rights in the goods and services produced. (Lysons & Farrington 2016, 201.)

5.3 The Bensaou model

Building or redesigning relationships according to the Bensaou model involves following three analytical steps. First is matching the external conditions relating to the product, the technology and the market to the governance structure or relational design of the company. This is strategic because it affects how a firm defines its boundaries and core activities. The second step is organisational, identification of an appropriate management profile for the relational design. The third step is to check that the relationship is not overdesigned or under-designed compared to the desired management profile. (Lysons & Farrington 2016, 202-205.)

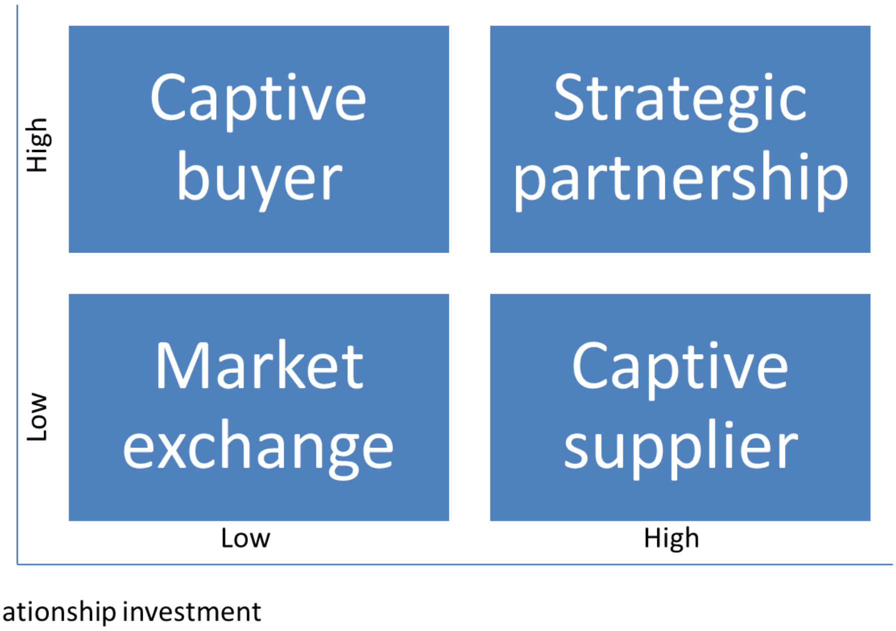

Figure 5. The Bensaou model (Lysons & Farrington 2016, 203).

Bensaou suggests four buyer relationship profiles based on investment: market exchange, captive buyer, captive supplier, strategic partnerships. He suggests that the four profiles can be arranged in a matrix to indicate whether the buyer's and the supplier's tangible or intangible investments in the relationship are high or low. For each profile, Bensaou identified distinguishing product, market and supplier characteristics. He also described how the profiles should be managed and identified three management variables: information-sharing practices, characteristics of "boundary-spanner" jobs and the social climate within the relationship. (Lysons & Farrington 2016, 202.)

The market exchange profile fits situations where investment for both the buyer and supplier is low. The product is highly standardised and the final product requires little or no customisation. The design changes seldom and little innovation is needed. The product can be technically simple or complicated. In the first case the need for engineering effort and expertise is low, in the latter the manufacturing process should be well-structured and technology mature. A small amount of capital investment is required. The market situation is stable or demand for the product is already declining. The market has attracted many capable suppliers and competition is fierce as the same players have been around for a long time. Switching costs are small, and consequently suppliers also have a low bargaining power. (Lysons & Farrington 2016, 203.)

From a managing perspective, the exchange of information in market exchange relationships should be quite limited and concentrate on negotiating contracts, operational coordination and monitoring along routines. Companies are not dependent on each other and don't spend time on early supplier involvement or put joint effort in cooperation. The social climate of the relationship is positive and the parties treat each other fairly. (Lysons & Farrington 2016, 204.)

In the captive buyer profile the investment requirements for the buyer are high but low for the supplier. The product is technically complicated but based on mature, well-understood technology and little innovation is needed. The market situation is stable and concentrated with limited growth and only a few competitors. Buyers with this profile have to choose from a few well-established large supply houses that have a strong bargaining power. (Lysons & Farrington 2016, 203.)

Information-sharing in captive buyer relationships is focused on sharing important detailed information. The parties visit each other on a regular basis and the buyer's purchasing agents and engineers spend a large amount of time with each other. Still, there's no early supplier involvement in the design department. Tasks between the organisations are structured and highly predictable. The relationship climate is tense and untrusting. (Lysons & Farrington 2016, 204.)

Captive supplier profile is described by low investment requirements for the buyer and high investments for the supplier. The product in this profile differs from the previous two profiles. The product is technically complicated and based on new technology that is usually developed by the suppliers. Innovation is important and requires significant engineering effort and expertise. The market only has a few qualified players because the innovation requires a great amount of capital. The market situation is highly competitive, unstable and continuously growing. Suppliers in a “captive supplier” situation have strong financial capabilities and great R&D skills to survive. On the other hand, they have low bargaining power as competition is fierce and suppliers are heavily depended on buyers. (Lysons & Farrington 2016, 203.)

To manage this kind of a relationship, it is advised that the companies share little information and do few mutual visits, mostly to the buyer’s premises. The buyer’s staff allocates limited time resources for interaction with the supplier for complicated and coordinated tasks. The supplier has bigger responsibilities than the buyer. The parties have high trust for each other even though they have limited joint action and cooperation. (Lysons & Farrington 2016, 204.)

In strategic partnerships both the buyer and supplier have high specific investment requirements. The product requires a lot of customization and frequent design changes. Innovation is constant and technology changes frequently. This requires strong engineering expertise, a large amount of capital investment and mutual adjustments from both organisations. Demand for products is high and growing which makes the market very attractive and competitive. The buyers keep in-house design and testing capability. The players in the market are usually large supply houses with strong skills in design, engineering and manufacturing and they are also active in R&D. (Lysons & Farrington 2016, 203.)

The management of strategic partnerships requires the parties share information frequently on all kinds of issues. They spend a lot of time with each other’s staffs, mostly coordinating tasks and have regular visits. The relationship is flexible, has few routines and reacts actively to unexpected events. The relationship climate is warm and the organisations have high mutual trust and commitment to each other. They have a sense of fairness towards each other and spend time on joint action and early supplier involvement. (Lysons & Farrington 2016, 204.)

6 RELATIONSHIP VALUE

6.1 Definition

The value of a business relationship is the participant's actual and expected future benefits minus the actual and expected costs for that participant. It is the additional value from an interfirm exchange, that cannot be individually created but takes effort from both sides. The analysis of relationship value cannot be carried out for a single participant only, since the realisation of future costs and benefits will depend also in part on the realisation of expected costs and benefits for the counterpart. The value is specific to each of those involved in the relationship and to the issues, problems and uncertainties that they seek to address within it. (Ford, Gadde, Håkanssson & Snehota 2011, 103; Miguel, Brito, Fernandes, Tescari & Martins 2014, 561.)

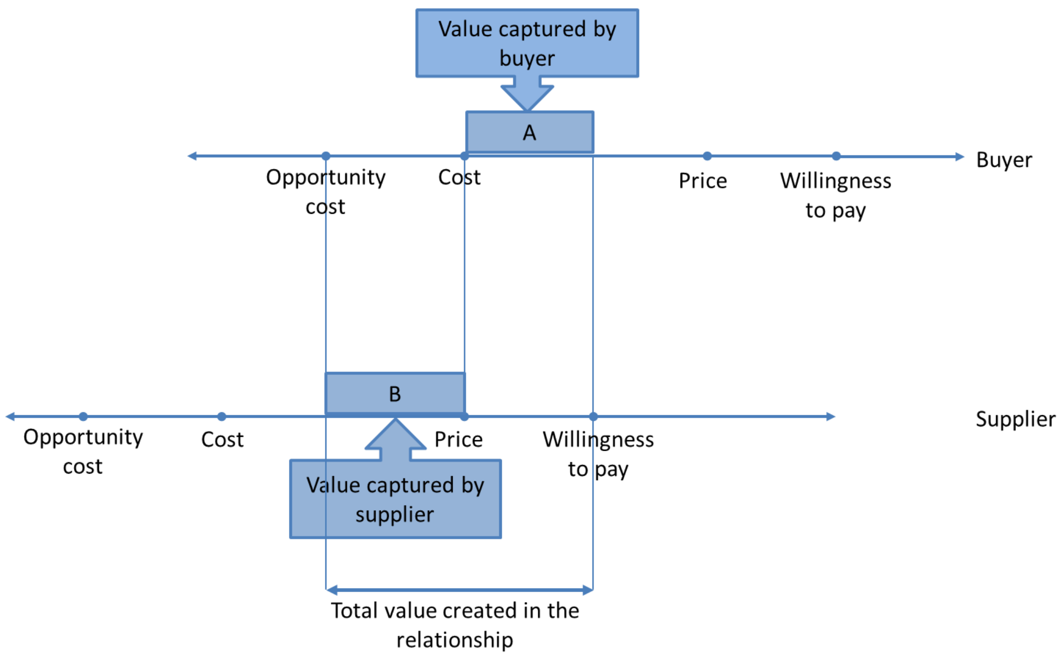

Figure 6. Value created in a relationship (Miguel, Brito, Fernandes, Tescari & Martins 2014, 564).

Figure 6 shows the value created by two organisations, the buyer being the upper line and the supplier the lower line. The figure presents how their actions conclude to the value creation of the other party. The model shows the individual values of the parties and the total value created in a relationship. The lower line in the figure represents the supplier. The supplier sells its product to the buyer for a certain price, and the buyer's willingness-to-pay is higher than this price. The difference between the willingness-to-pay and the price, is the value captured by the buyer in this relationship, adding to its value creation. This value portion is indicated as A, based on the assumption that the price is equal to the buyer's cost. (Miguel, Brito, Fernandes, Tescari & Martins 2014, 563.)

The upper line in the figure represents the buyer, which purchases goods or services from the supplier, for a certain price incurring a cost. The supplier continues to do business with the buyer because it considers the relationship beneficial relative to other alternatives. The supplier's next alternative is represented by the opportunity cost in the buyer line. The difference between this opportunity cost and the cost is the value created by the buyer and captured by the supplier. This is referred to as B in figure 6. This contributes to the supplier's individual value creation (lower line). Together, the value captured by the buyer (A) and the value capture by the supplier (B) create the total value created by the transaction. (Miguel, Brito, Fernandes, Tescari & Martins 2014, 563-564.)

6.2 Value-creation in a business relationship

Value-creation is the process whereby the capabilities of the buyer and seller are combined to increase the competitive advantage of one or both of the partners in the buyer-seller relationship. This is possible when a firm exceeds its competitors' ability to provide solutions to customers' needs while maintaining or improving its profit margins. Partners in the relationship create something that they could not achieve independently. Value-creation is traditionally guided by the buyer and contracts in which the rights and the responsibilities of both parties are defined. The parties have to set aims and develop their activities to reach these goals on the long run. (Hammervoll & Toften 2010, 540; Kähkönen, Lintukangas & Hallikas 2014, 152-153; Nieminen 2016, 107-108.)

The total value created in figure 6 has two different origins. First are the resources owned by each individual firm. This value is created when a firm's resources spill over to the other through transaction. The second source is cooperation and effective coordination between the firms which can increase this value over time, thus creating additional value. (Miguel, Brito, Fernandes, Tescari & Martins 2014, 564.)

In a strategic supplier relationship value is created by interaction and actions that cannot be defined with contracts. Nieminen studied this value creation outside contracts with the aim to find out what those functions are. As a result, four different types of voluntary investment from the supplier’s side not mentioned in contracts were found: customer-oriented action, customer-oriented internal development, active interaction and mutual development. Also, Hammervoll and Toften conducted a research on identifying and describing important value-creation initiatives in buyer-seller relationships. The study revealed the following value-creation initiatives: adaptation, logistical information sharing, motivating “right” effort, information supply, coaching partner problem solving and knowledge-sharing. (Hammervoll & Toften 2009, 540, 545-547; Nieminen 2016, 108.)

The first type of voluntary investment was customer-oriented action. This was seen for example by the employers knowing the need of the customer and that guided their actions. This leads to fast reaction and proactive actions. The second type of voluntary investment was customer-oriented internal development which can be best seen in the supplier company by the key personnel communicating internally the needs and expectations of the customer. The personnel had a clear image of the customer value and how to improve quality in the customer’s eyes. Based on their understanding, decisions on internal development were done, for example development actions and prioritising. (Nieminen 2016, 108-109; Srivastava & Singh 2010, 7.)

The third type of voluntary investment was active interaction on a daily basis which also included regular meetings where future cooperation was planned and the possible risks anticipated. The parties had a close relationship and trusted each other with information to share costs, risks and rewards. Good communication was needed daily for example on sharing logistical information. Parties should be able to adapt to changes in plans and actions such as fluctuating demand and deviations from planned quantities. This creates flexibility and improved market competitiveness. (Hammervoll & Toften 2009, 545; Nieminen 2016, 109; Srivastava & Singh 2010, 7.)

Value creation by knowledge-sharing is another way of initiating value in a buyer-seller relationship and the last found type of voluntary investment was mutual development through development projects. Buyers can coach sellers in problem solving especially in product and production issues. This can also work vice versa, sellers can give advice not only on products but also on the seller training and advising the customer regarding its selling approach. (Hammervoll & Toften 2009, 547-548; Nieminen 2016, 109; Srivastava & Singh 2010, 7.)

6.3 The value chain

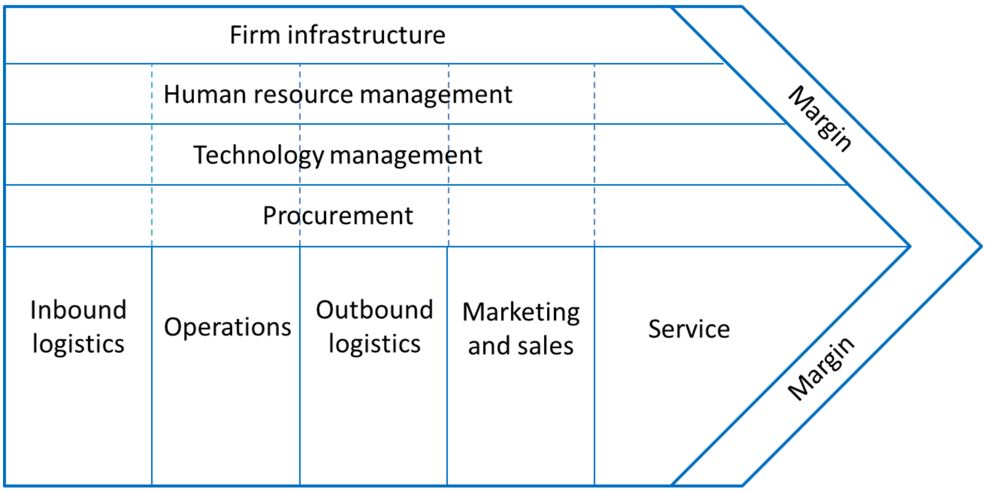

Figure 7. The generic value chain (Kotler, Keller, Brady, Goodman & Hansen 2016, 74).

The value chain is a series of internal departments that carry out value-creating activities to design, produce, market, deliver and support a firm's products. The value chain is the series of value activities needed for producing and delivering a final product or service. A value activity is an activity that has a significant effect on the competitive advantage of a firm within its industry and markets, and hence the value delivered to customers. It is the basic unit analysis for understanding competitive advantage. Value chain analysis is about questioning which value activities in the value chain are important for creating value for customers and how does each value activity contribute to cost or differentiation advantage. (Kotler, Keller, Brady, Goodman & Hansen 2016, 74.)

The value chain identifies nine strategically relevant activities: five primary and four support activities that create value and costs. The primary activities include inbound and outbound logistics. Inbound logistics refer to the practice of converting materials brought into the business operations into products and service operations. Outbound logistics constitute of shipping and marketing the products and sales and servicing support activities. (Kotler, Keller, Brady, Goodman & Hansen 2016, 74.)

The support activities consist of the firm infrastructure, human resource management, technology development and procurement. The firm infrastructure covers the cost of general management, planning, finance, accounting, legal and government tasks. The support activities are handled in their own departments. (Kotler, Keller, Brady, Goodman & Hansen 2016, 74.)

6.4 The ARA model

The “ARA Model”, developed by Håkansson and Snehota, provides a conceptual framework of the process and outcomes of interaction between the parties of a business relationship. The model consists of three layers: actor bonds, activity links and resource ties. According to this model each of these three layers are inter-connected and that the outcomes of an interaction process can be described in terms of the three layers. (Ford, Gadde, Håkansson, Snehota & Waluszewski 2008, 13.)

The actor layer relates to the interpersonal links and bonds between the individuals in the relationship that develop through interaction. This layer is focused on how the actors perceive, appreciate and treat each other. They start to trust and feel close to each other. These experiences lead to how the parties evaluate and influence each other and how they become mutually committed. Actor bonds are important because they influence what the individuals consider the opportunities and solutions in the cooperation and in the relationship to be. (Ford, Gadde, Håkansson, Snehota & Waluszewski 2008, 13.)

The activity layer relates to the integration and co-ordination of the activities of the companies. This refers to activities such as technical, administrative, commercial and other activities that connect internal activities between two companies. This can be production, logistics, delivery and information handling and they can be more or less linked together. The strength of these activity links has been proved to have substantial economic effects on the parties involved in the cooperation. (Ford, Gadde, Håkansson, Snehota & Waluszewski 2008, 13.)

The resource layer refers to the resource ties that connect the various resource elements between the two parties. The actors' resources can become linked together and more or less adapted as the interaction develops and the parties confront and adapt their resources over time. The resources can be tangible such as equipment or intangible such as knowledge. Resource adaptations can make resource usage more efficient and the confrontation of resources underlie the development of new joint venture resource combinations. (Ford, Gadde, Håkansson, Snehota & Waluszewski 2008, 14.)

The three layers are not independent but still affect each other. Activity links can limit or facilitate resource adaptations, resource ties may favour the possibility of activity co-ordination and actor bonds can open up the possibility of developing activity links and resource ties. (Ford, Gadde, Håkansson, Snehota & Waluszewski 2008, 14.)

6.5 Value proposition

Figure 8. Value propositions (Kotler & Armstrong 2016, 244).

Kotler developed a value proposition framework to explain why a customer buys the product, what benefits does the product have. It is a mix of the benefits on which a brand is differentiated and positioned. Setting a value proposition helps to set a goal for the business relationship and for the strategy that the parties should take. (Kotler & Armstrong 2016, 244.) The model can be also used for defining what value the buyer is buying and what the supplier is offering, in other words what the relationship is based on. There are five possible value propositions: more for more, more for the same, more for less, the same for less and less for much less.

The more for more positioning means providing the most upscale product or service for a higher price to cover the higher costs. The offering not only provides higher quality to the customer but a status and lifestyle symbol. The downsides of a more for more positioning is that it can attract imitators who claim to have the same quality for a lower price. Also during economic downturns luxury goods become less popular as buyers become more aware of their spending. The more for the same positioning implies to offer more for the same price. For example, having a nicer looking store than the competitors but the same priced products. (Kotler & Armstrong 2016, 244-245.)

The same for less positioning is basically offering a good deal. It doesn't mean offering better products but the same ones as a competitor for a better price at discounts. This strategy is based on superior purchasing power and lower-cost operations. (Kotler & Armstrong 2016, 245.)

The less for much less positioning involves meeting consumer's lower performance or quality requirements at a much lower price. This lures in customers who prioritise their needs and decide to give up on the "very best offering" and settle for less. (Kotler & Armstrong 2016, 245.)

More for less is of course the winning value proposition but very hard to achieve. Few companies can achieve such position and sustain a best of both worlds promise for a long time. Offering more costs more which makes the "for less" promise difficult to implement. (Kotler & Armstrong 2016, 245-246.)

All in all, each company must adopt a strategy that serves the needs and wants of its market. Each value proposition attracts a certain kind of audience. (Kotler & Armstrong 2016, 246.)

7 THEORY SUMMARY

A summary of the theory is needed before moving into the implementation of the thesis.

The main theme of this thesis is supplier relationship management which refers to the practice of how a company manages its relationships with downstream suppliers. The goal of supplier relationship management is to meet the strategic objectives of both parties in the relationship and eventually create value to the end customer and ensure repeat business. Supplier relationship management is especially important for small companies that only have a few relationships and consequently each of those have significant economic consequences.

Creating relationships with suppliers has advantages but also negative aspects. First are economic benefits. Costs can be estimated better beforehand. Administration and development costs can be reduced through organisations working together. The second benefit is increased operational efficiency. The procurement practice can become more efficient and save the buyer time which means they can focus on other projects. The third benefit is improvements on innovation and development. When organisations work together, they can share knowledge and create products faster. Having a stable partner also reduces risk when you know how the other party works and trust that they will deliver. Relationships can also have downsides. Relationships create dependency which means the parties have to take the other party into consideration and they can't act solely on their own desires. Buyers can also lose flexibility since they are stuck with someone and switching costs are high. Creating a relationship is risky because it requires investing time and effort before getting anything in return.

Relationship develop through five relationship stages: awareness, exploration, expansion, commitment and dissolution. During these stages the parties become more committed and dependent on each other. Every relationship can lead to dissolution and the reasons for that can be very complex and in an international relationship even more complex. Reasons can be related to operational and administrational aspects, culture differences or just difficulties of people getting along.

There are different ways of categorizing supplier relationships and this thesis introduced three possible models. First was transactional and relational procurement. Transactional procurement focuses on monetary benefits and negotiating one deal at a time. Relationship procurement is long-term oriented. The parties are open, discuss goals together and have a high level of contact. Benefits of this strategy include better development opportunities and teamwork but also monetary aspects such has decreased administration and procurement costs. The second model was the Cox model which represented a stepladder of supplier relationships. Each step in the model represented a higher level of asset specificity, strategic importance, power and ownership between the parties. The third model was the Bensaou model which categorized relationships based on the level of investment of the buyer and supplier in the market situation. Bensaou used the external conditions to identify management profiles to each profile.

The last theme of the thesis was relationship value. Relationship value has been defined as the difference between the benefits and costs of a relationship, what you get for what you have invested. Value can also be evaluated by using a value proposition. Value propositions were created by Kotler to explain the relationship between a product's benefits and price compared to competitors. Relationship value can be created by the actors in the relationship (people), the activities, which means how the actors interact together and resources which can be intangible such as knowledge or tangible as equipment. By mutual development and both investing in the relationship the parties can create the most value.

8 RESEARCH METHODOLOGY

8.1 Qualitative research

This thesis studied the factors for creating a successful buyer-supplier relationship and how to make it the best possible, understanding how companies should interact to develop a successful buyer-supplier relationship and what values result to that. In order to find out that, a research method that studies people, the context within people live and phenomenon in depth is needed and qualitative research methods are exactly that. One of the key benefits of qualitative research is that is allows a researcher to see and understand people's motivations, their reasons and actions. Qualitative research fits the best when a single case, e.g. a case company, is studied which also adds to why the method was chosen over quantitative methods. (Myers 2013, 5, 9.)

8.2 Collection of material

8.2.1 Semi-structured interview

In qualitative research material is collected by observing and interviewing with the aim of getting a better understanding of the phenomenon. Semi-structured interviews and one-on-one interviews are the most used interview types used in business and management. (Kananen 2015, 34; Myers 2013, 123.)

Semi-structured interviews have some structure, while allowing for some improvisation. In semi-structured interviews the researcher has a list of themes which the researcher splits into parts that the researcher believes to cover the essential subjects to the understanding of the phenomenon. Then, a number of pre-formulated questions are prepared that cover the intended scope of the interview. (Flick 2011, 113; Kananen 2015, 82; Myers 2013, 123; Saunders, Lewis & Thornhill 2016, 391.)

Questions should initiate a dialogue between interviewer and interviewee. Semi-structured interviews provide the opportunity to "probe" answers, when interviewees are wanted to explain, or build on, their responses for reasoning and justification.

The interviewees are given the opportunity to add important insights as they arise during the course of the conversation, while the beforehand prepared questions provide some focus as well. This adds significance and depth to data. (Flick 2011, 113; Kananen 2015, 35; Myers 2013, 123; Saunders, Lewis & Thornhill 2016, 394.)

The interviewer won't present a list of possible answers. In contrast to questionnaires, interviewers can deviate from the sequence and formulation of the questions. The interviewee can bring up things important to him/her as freely as possible. The goal is not putting words into the interviewees mouth but understanding their individual views with an open mind. The interviewer usually starts with a similar set of questions each time so there's some consistency. (Flick 2011, 113; Hirsjärvi & Hurme 2009, 35; Hirsjärvi, Remes & Sajavaara 2010, 208; Myers 2013, 122.)

Since observing the case company is not possible nor does it suit the situation, semi-structured individual one-on-one interviews were chosen as the way to implement the research. Interviewing fits the thesis subject since it brings genuine information that helps to understand the phenomenon of supplier relationship management and the people working with it. Semi-structured interviews help understand the reasons for the decisions, attitudes and opinions of the interviewees. (Creswell 2014, 191; Hirsjärvi & Hurme 2009, 61; Saunders, Lewis & Thornhill 2016, 394.)

Interviewing saves time from the case company. Managers often prefer interviews over questionnaires because an interview provides them an opportunity to reflect on events and issues without writing anything down. The researcher can also contact the interviewees afterwards. (Hirsjärvi, Remes & Sajavaara 2009, 204-205; Saunders, Lewis & Thornhill 2016, 394.)

The downsides of interviewing are the need for careful preparation and time management. Interviewing takes time but organizing, searching for interviewees and conducting the actual interviews is also time-consuming. (Flick 2011, 113, 207; Myers 2013, 125.)

8.2.2 Selection of interviewees

The interviewees should be selected based on the phenomenon, i.e. people who are affected by it or involved in it. If reaching these people is not possible, people who know the most of the phenomenon should be chosen. The number of interviewees depends on the research material and the research problem. A basic rule is that the number of interviewees is enough when a new interviewee wouldn't add new information to the research material. (Kananen 2011, 52-53.)

The interviewees were wanted to represent the management to get a strategic opinion but also employees in order to find out what was valued in the day-to-day activities. The interviewees were chosen together with the management of Pintos Oy based on their role in the organisation and the project. In a small organisation finding a person from "each organisational level" with knowledge was easy. The chosen interviewees were the business director, sales manager and product manager of Pintos Oy and the commercial director of the supplier company. Their roles in the project will be introduced later.

8.2.3 Interview themes & planning of questions

The themes of the interviews should cover the phenomenon as well as possible. Every phenomenon is somehow connected with its environment, and it consists of factors/elements and dependencies and processes between them. The questions should ensure that all components of the phenomenon are included. (Kananen 2011, 54.)

The logic of the questions is like peeling an onion: layer by layer moving from general to more specific questions. After one theme is gone through, the questions proceed to the next theme and once again general questions. (Kananen 2011, 55.)

In general, interview questions can be divided into open-ended and close-ended (structured) questions. Close-ended questions offer the interviewee possible answers and in a way, the interviewer can determine the answers beforehand. Open-ended questions cannot be answered with one word and use question words such as what, why and how. (Kananen 2011, 55.)

The themes for the interviews were based on the theory topics and research objectives. The questions were used in order to find out information regarding the case company that the theoretical background couldn't answer. The interviews were focused on the idea of relationship value creation. The chosen themes for the interviews were the nature and management of the relationship, buyer-supplier relationship value and benefits and future development. In the beginning of each interview similar questions about the project's background and the interviewee's job description were asked. The last part of the interview included Kotler's value proposition and the interviewees were asked to place what the relationship represents to the chart and a few lighter questions. Most of the interview questions were open-ended. The interview forms can be found in the appendices.

8.2.4 Collection of material

Individual interviews were chosen because they produce accurate and reliable information and concentrating on one person's opinions at a time is convenient. The downside is that the transcription, analysis and interpretation is time consuming. Individual interviewing suits the situation better than group interviews because the interviewees consist of employees and their superiors which could create problems in the situation and having the supplier's representative in the situation is challenging. (Kananen 2011, 52.)

The material was collected with four interviews during March 2017. Interviews with the employers of Pintos Oy were face-to-face interviews and the interview with the supplier was conducted via email due to technical difficulties with HILL, a Skype-like application provided by SAMK. Every face-to-face interview was recorded for transcribing. The face-to-face interviews lasted on average about an hour and the email interview two rounds of emailing. In total four interviews were conducted. The interviews proceeded with the themes of the pre-planned question form. All interviews started with the same basic information about the employee's position in the organisation. After that, the interview themes were discussed. Certain subjects were discussed more thoughtfully as the interviewees added their opinions freely based on their personal opinions. The interviewer made additional questions as topics arose.

8.2.5 Analysis of material

Each face-to-face interview was recorded after which the material was transcribed. After the recorded interview material had been written down, the material was analysed. The themes were analysed by reviewing different characteristics that came up in the interviews. They were based on the themes of the semi-structured interview. In addition to that, the interviewees brought up themes that were far more interesting than the actual interview themes.

8.2.6 Validity and reliability

Reliability and validity are central to judgements about the quality of research. The lack of standardisation in semi-structured and in-depth interviews can lead to concerns about reliability/dependability. Other problems are different forms of bias and culture. (Saunders, Lewis & Thornhill 2016, 202, 397-398.)

Validity refers to the appropriateness of the measures used, accuracy of the analysis of the results and generalisability of the findings: the research methods don’t always measure what they are intended to. For example, the interviewees can understand the interview questions differently than the interviewer. Validity is one of the strengths of qualitative research and is based on determining whether the findings are accurate from the standpoint of the researcher, the participant, or the readers of an account. (Creswell 2014, 201; Hirsjärvi, Remes & Sajavaara 2010, 231; Saunders, Lewis & Thornhill 2016, 202.)

Reliability means that the measured results can be repeated and stated in several ways. If two researchers come to the same conclusions, the results can be considered reliable. Also if the same person is studied in different research times and the results are the same, the results can be considered reliable. A way to increase the reliability of the whole process is to document it in a detailed and reflexive way. This refers mainly to documenting and reflecting on the decisions taken in the research process-showing which ones were taken and why. Statements by participants and interpretation by the researcher should be clearly distinguishable. (Flick 2011, 207-208; Hirsjärvi, Remes & Sajavaara 2010, 231.)

The interviewing situation and the cultural backgrounds of the participants can cause different bias which affect the reliability of the material. Cultural differences mean that people have different attitudes to interviews. Some societies may tend to respond to an interviewer’s questions by only being positive or agreeing. (Saunders, Lewis & Thornhill 2016, 397-398.)

The first bias is related to the interviewer. That is where the comments, tone or non-verbal behaviour of the interviewer creates bias in the way that interviewees respond to the questions being asked. The interviewer is not a neutral entity but a part of the interactions and she/he may influence those interactions. (Myers 2013, 126; Saunders, Lewis & Thornhill 2016, 397.)

The second bias is interviewee or response bias. This can be caused by interviewees’ perceptions about the interviewer. An interviewee may, in principle, be willing to participate but chooses not to reveal and discuss an aspect of a topic, because it would lead to probing questions that would intrude on sensitive information that they do not wish, or are not empowered, to discuss. The outcome of this may be that the interviewee provides only a partial “picture” of the situation. The interviewees can also be busy in the actual interviewing situation and the lack of time for the interview may mean that the data gathering is incomplete or on the other hand, interviewees make up opinions under time pressure. The third bias is called participation bias which also relates to interviewees. Participation bias means that the nature of the individuals or organisational participants interviewed affect the data collection sample. (Hirsjärvi, Remes & Sajavaara 2010, 206; Myers 2013, 125; Saunders, Lewis & Thornhill 2016, 397.)

The research reached a decent reliability. Several employees from Pintos Oy were interviewed to gather and compare the opinions and views of different departments within the case company. Also a representative of the supplier was interviewed to improve the reliability of the interviews. Although the interviewees had their individual perspectives into the topic, their answers provided similar views into the issues. It was discussed with the case company that additional interviews wouldn't have brought up any new information. The interviews were recorded and the material transcribed and studied in a detailed manner which also increased the reliability of the thesis.

The validity of the thesis can be considered high. The interviews provided comprehensive answers on the issues they were supposed to research. The interviewees could answer freely and add their own insights outside the pre-planned questions. When needed, the interviewee asked additional questions. Some interviewees were also contacted afterwards for additional questions that came up during the other interviews.

9 RESEARCH FINDINGS

9.1 Interview results

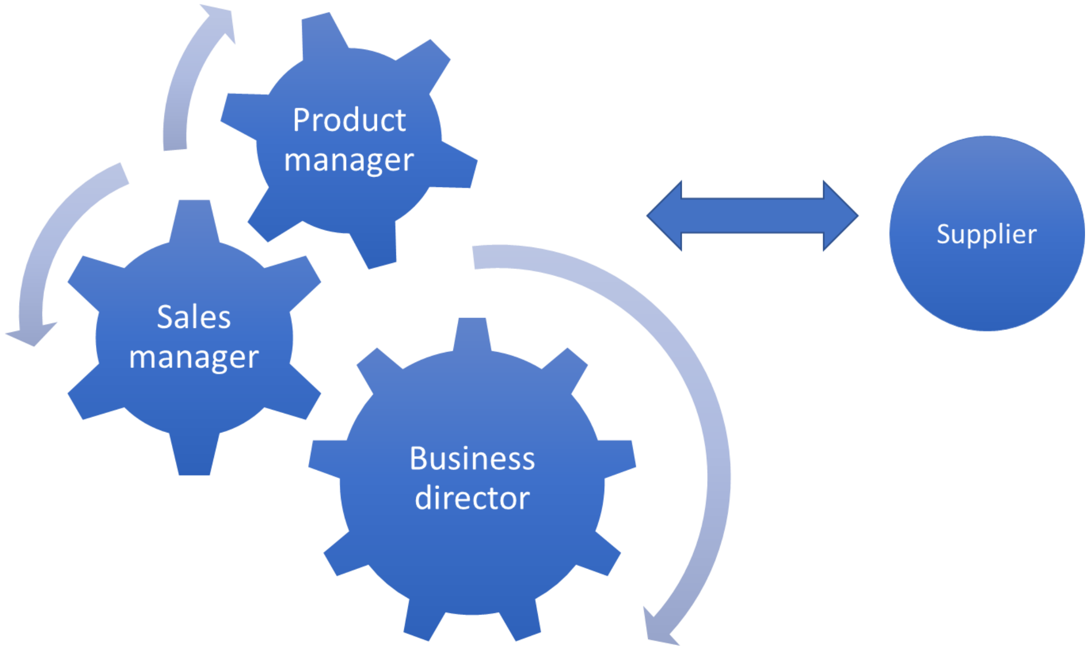

Figure 9. Framework of the interviews.

The interviewees were the business director, sales manager and product manager of Pintos Oy and a representative of the supplier. The business director is responsible for his department's business and its development and he has the main profit responsibility of the product group. His job description has changed recently and he's very new to the project. The tasks of the sales manager are selling, marketing and pricing the products of his department, budgeting, subcontracting procurement together with the product manager, managing the product portfolio and developing new product ideas. The product manager's responsibilities are divided between different departments: production, sales and procurement. He works with the product portfolio and development together with the production team, sometimes provides technical support to sales, and is in contact with suppliers home and abroad. The interviewees were wanted to represent different aspects of the business: a strategic view, sales and the day-to-day operations and each of them brought their unique viewpoint to the material. In addition to the Pintos Oy organisation, the commercial director of the supplier company was interviewed. He's responsible for inside and outside sales, marketing and personnel issues and is involved in export, especially the Nordic countries.

In addition to the pre-planned themes the interviews shed light to some themes that were not planned beforehand but were very important in buyer-supplier interaction such as the trend of companies downsizing their supplier base and creating a brand together.

9.1.1 Nature and management of the relationship

Figure 10. Evaluation of supplier base.

One of the reasons why Pintos Oy decided to bring a new product to their product portfolio was related to the overall trend of companies downsizing their supplier base. This can also be seen in the construction industry and hardware stores and relates to the set of values of the sellers, in this case for example hardware stores. The stores want to cut down on the amount of suppliers they have for a certain product, for example from five to two suppliers per product. The outlets don't want a different supplier for each product but rather choose a supplier that can deliver several products. A smaller supplier base saves time from managers as they have less companies to deal with. For a supplier company, the more products you supply, the higher you are in the customer's hierarchy and the more important you are to the store. This means your chances of staying as a supplier are better.

After Pintos Oy had decided to broaden their product range they needed to find a fitting supplier. Pintos Oy had strict criteria on which they chose the supplier and several expectations for the cooperation. Pintos Oy stressed that they wanted an experienced supplier as they themselves didn't have a very extensive knowledge on the product to begin with. They needed a supplier who could advice which should be the products to start with and share some market knowledge. Naturally, a high-quality product was a must. The timetable for the project was tight and as the buyer Pintos Oy needed to be sure that the supplier could start the project soon and that the product would be in the market almost immediately. On the operational side, the buyer needed to be convinced that the deliveries would be timely.

One Pintos Oy manager mentioned that he became convinced of the supplier' skills during their first official visit to meet the supplier. The supplier was well-prepared for the introduction meeting and their expertise and know-how came through. All the interviewees were sure that the cooperation could be started on a fast schedule, the product was high-quality and that the supplier was experienced. All in all, the parties had a very positive image of each other and the cooperation seemed to have started off very well. The working styles of their countries have fitted well together and the parties share the attitude of focusing on what is important. They haven't come across any major issues so far and have solved disagreements.

The interviewees also highlighted that one relationship cannot be treated as a single component but as a part of a bigger picture. If the buyer brings a new product to their product range and quality problems arise immediately, the whole project is ruined. Having one product group that is bad-quality or has problems with deliveries reflects to the other products and most importantly to the whole reputation and brand of Pintos Oy. The end customer does not see the supplier but the brand and who is the manufacturer of the product. That is why taking care of relationships and selecting skillful partners is so important.

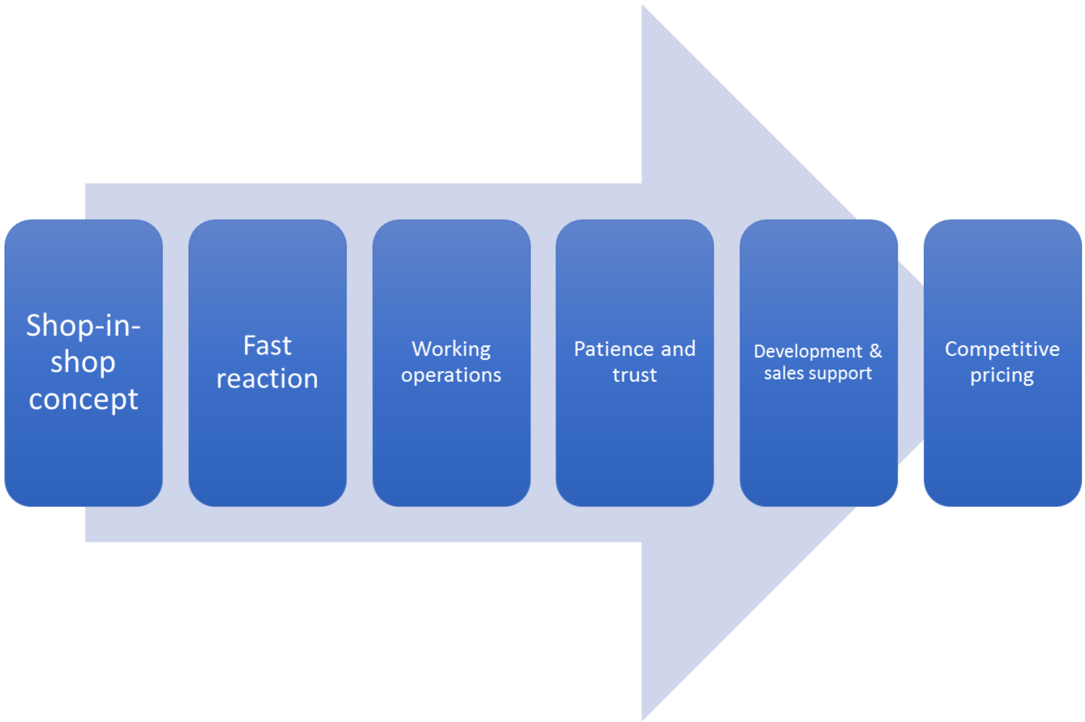

Figure 11. Ideal supplier relationship.

The last question of the interviews was about describing the best possible supplier-buyer relationship. The interviewees had very interesting ideas and each interviewee had a different view to the topic. One idea was a shop-in-shop concept where the supplier would have their warehouse at the buyer's premises. The buyer would only pay for the products that were sold and unsold items could be returned to the supplier for no costs. The refilling would have to work but it would be the ideal situation for the buyer. Practical matters were highlighted. In an optimal situation you could just type the order onto your computer or email and you could trust that was all you needed to do and the order would work out. If you needed to ask something from the supplier, they would react fast and solve the issue immediately. They would also never raise their prices, or at least never round them upwards. The suppliers pricing would be competitive and they would provide fast deliveries also for small quantities. In addition to good payment terms they could also provide support with innovation and development but also with sales and marketing. The supplier highlighted the importance of patience and trust in the relationship. Trust is an absolute requirement in the relationship or otherwise both of the parties will fail. In the best kind of relationship possible differences are taken into account and used for mutual benefit.

9.1.2 Buyer-supplier relationship value and benefits

Figure 12. Resources of supplier and Pintos Oy for value creation.

The value creation in this relationship requires the utilization of the skills of the both companies to create value, build the brand and sell products. The supplier is a developer of products and a specialist in their field. They have their own supplier base which they use to deliver the products. The supplier can also provide marketing and technical support which are explained more later. Pintos Oy is a well-known player in the market. The buyer already has the sales channels and good customer relations to the resellers. Pintos Oy wants to get a better position as a supplier to its customers and the supplier wants their product well represented in the market and their skills complement these goals.

The skills of the supplier produce certain intangible and tangible benefits to Pintos Oy. Most importantly, the supplier has the product and technical knowledge on the product that Pintos Oy is looking for. The supplier is very experienced with the product and they can offer innovation ideas that will boost sales and get the customer to choose the product to their stores. A long-term benefit of the supplier is that Pintos Oy can easily broaden their product range as the supplier has a large product selection. The supplier base of the supplier will ensure that Pintos Oy will get the product they want. The supplier is experienced and can provide ready-made products from start to finish.

The supplier will increase the efficiency of Pintos Oy to get the product faster into the market. The supplier has the technical knowledge and the documentation of the industry standards used ready. Pintos Oy employees highlight this as one of the biggest benefits compared to global sourcing from Asia as it will make the selling process faster. They can also prove the quality of the product to the customers.

The supplier can also invest human resources in the project and the employees of the supplier can come along on trade fairs. The supplier can also provide different kinds of material for marketing, technical issues and also translations. Marketing is important because it provides a way to stand out from the competitors. Some of the material of the supplier can be used as such which will save Pintos Oy time and other resources. The supplier can also provide trainings for selling and marketing. Pintos Oy is expecting all the support the supplier is able to provide. All the support the supplier can provide will make getting the product faster into the market easier.

From an operational perspective, it is also beneficial that as the supplier is located in Europe and not in Asia. Pintos Oy does not have to take such a big risk and order a huge order just because the delivery takes five months. A supplier at a shorter distance enables smaller quantities and a more flexible delivery. The supplier company is a relatively small organisation and they're agile in their actions. They don't have a large central organisation that would have to be paid for that is usually a problem in bigger organisations.

When asked from the financial benefits, the interviewees were not on the side of saving nor for major expenses compared to global sourcing. The actual product might be more expensive in Europe than in Asia but the other expenses and risk also cause costs. Another monetary saving in using a European supplier is that Pintos Oy doesn't have to spend such a long time to travel to the supplier's site and there will be savings in the travelling costs. In general savings on development expenses is also one benefit and Pintos Oy will have substantial resource savings when they can get support from the supplier.

One monetary benefit is that Pintos Oy always knows what the profit margin is in the production. When you're manufacturing a product, the profit margin can vary between different production batches. In a supplier relationship you know exactly what the profit margin is and it stays the same.

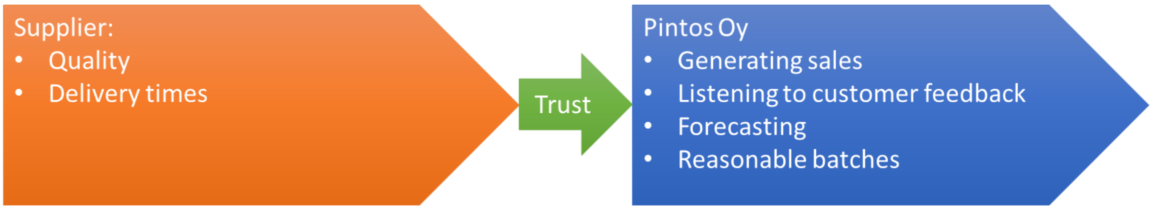

Figure 13. Successful implementation for cooperation.

The interviews concluded some very practical things that the parties have to take care of for the cooperation to work. The supplier has to take care of their own procurement and sourcing operations. That means maintaining the quality of the products and delivery times. This ensures that the buyer has trust in the supplier. The supplier also has to arrange the logistics side and the deliveries have to make it unbroken to the buyer's premises.

As a buyer, Pintos Oy has to take care of the sales and operational perspectives. From a sales perspective, the sales personnel first of all has to be able to sell the product to the resellers and furthermore, the resellers have to be able to sell the product to the end customer. The sales department has to listen to the customer feedback to make sure the quality of the products stays the same. On the operational perspective, Pintos Oy as a buyer has to follow the delivery times of the supplier and keep the batch sizes reasonable so that they can keep on buying. Being able to forecast the procurement schedules is also helpful.

When both parties take care of their side of the business operations, the relationship will stay competitive and profitable. The companies have to take some very practical actions. Opening EAN codes and product codes takes time but it is necessary. Pintos Oy will order the products with their product codes and they have to match the supplier's codes. This has to be done in order to avoid errors and mistakes. They also have to negotiate the information on the packaging of the products. As the product itself is very simple, the outlook and packaging solutions are very significant.

One issue that came up in the interviews was brand building and choosing a brand when both the supplier and buyer have their own brands. Both of them of course want to market their own brand and have it visible in the end-product. When the supplier has a brand that is known in the market it should be visible since it adds the reliability of the product to the customers. Marketing their own brand is often also the goal of the supplier. On the other hand the buyer wants to market the product as their own product even though it is not technically manufactured by them. This issue can lead to different solutions, one of them being a dual brand which means both brands are visible in the end-product.

When the value proposition of the relationship was studied the interviewees mentioned two value propositions, more for the same and more for less propositions. Each interviewee evaluated that the benefits that the supplier provides are more than the other alternatives. The opinions of the price differed from each other. Some opinions were that the offering is cheaper than the competitors but some thought the pricing is on the same level. The value proposition framework was very familiar to the interviewees and they could place the competing suppliers on the framework.

The value of the relationship does not seem to come from the product itself but from the intangible investment of the companies. The mantra of the relationship could be “it is not what you’re selling but how you sell it”. This is why the skills of the both companies have to be combined in the value creation. The value comes from effective cooperation and using the skills of the parties, what both parties do best, for mutual benefit.

9.1.3 Future development

Figure 14. Action in the future development of the relationship.

The sales manager and product manager of Pintos Oy have met the supplier a few times before. The buyer is going to visit the supplier in a few weeks and they will go through the details of the cooperation. They will get to know the packaging process and the warehousing and logistics processes of the supplier. They will also be mee-ting the supplier at a trade fair in the upcoming months. After that they have planned a kick-off-meeting at the buyer's premises.

So far the communication has been very frequent by visits, email and phone and the parties have been in contact several times a week whenever needed. The companies predicted that after the actual project starts to roll the amount of communication at least between the sales departments decreases and most of the communication will be handled by email and phone. The sales department has been very involved in the be-ginning of the relationship because they know the market and the needs and wishes of the clients. Later the focus in the interaction will shift from the sales departments to order handling.

In the future the companies are planning to meet three to four times a year. The meetings will be for following up sales figures which will be a source for analyzing how the sales have been progressing and what action should be taken. Then plans, goals and achievements can be evaluated and set. Pintos Oy will also measure the project by checking their inventory turnover.

The business director will have the main responsibility of the strategic decisions but they will be done as a team. The product manager will follow the stock situation and decide when and how much Pintos Oy should order from the supplier. The sales manager is naturally responsible for the sales of the product but also for receiving customer feedback and development ideas from the customers. Who will actually handle the orders is still to be decided by the company.

The Finnish and Swedish markets differ from each other which means the countries are managed by different people. Pintos Oy recruited a new person to their office in Sweden to get extra strength to the project and organisation. The new employee is a sales professional who was recruited for his product and market knowledge especially in Sweden. He will handle the product related issues since he has the most knowledge. He will see whether new products are needed in the product portfolio and checks that the products are what they are supposed to be.

From the supplier's perspective, there are two people who handle the relationship communication, the commercial director and the product manager. They handle the product portfolio, packaging, labels and logistics issues. When those things are solved the production and packaging departments will be involved. After the project is running, the supplier's inside sales will be involved which involves sales support and order handling.

Pintos Oy has also arranged a kick-off day regarding the new product for their own employees during which they informed everyone involved about the project and how it was progressing.

So far Pintos Oy has not set any monetary or actual sales volume objectives because they want to stay realistic of the sales volumes of the first year. They have rather practical objectives right now. The first order has been placed and Pintos Oy is waiting to receive the products of the first order. Then the product has to get to the sales which means acquiring the first customers to buy the product to their product range. The plan is to first set a sales plan and its details which means which customers will be approached and in which order. Then the visits will be planned. Of course how successful the sales have been has to be checked and after that the actual sales of the reseller. The parties have not set any mutual goals. They will be set during the meetings later this spring. The product of course cannot "sit on the shelves" of the reseller but it has to be bought by the end customer who uses it. After that the goal is to get reorders from the customers.

One of the risks that came up during the interviews was that even though Pintos Oy is very known in the market is not self-evident that their customers will buy the new product from them. The players in the market have their current suppliers and they need a reason to switch suppliers.

Pintos Oy mentioned that they have taken a controlled risk in the project. What is meant by that is that they are sure they will sell the first order to the customers no matter what. If there will be no reorders from customers the risk is the spent time and resources and salaries of the employees.

One risk mentioned in the interviews was culture. The parties have to realize that even though they are European they still have different business cultures. Not only do the buyer and supplier come from different countries but the buyer has two offices, in Finland and Sweden that both will be selling the product. This means in total that the cooperation requires three cultures getting along.

10 RECOMMENDATIONS & CONCLUSIONS

The recommendations of the thesis are about things that Pintos Oy should consider in their supplier relationship. The goal is to give practical recommendations on actions that Pintos Oy and the supplier should take. Two of the objectives of the thesis was to make a recommendation for what kind of a relationship Pintos Oy should create with the supplier and study the challenges, opportunities and critical points of relationship management for the case company.

A practical action plan was drafted to reach those objectives. Based on the results of the empirical part of the thesis it can be concluded that the current stage of the relationship is that Pintos Oy has a very stable foundation for a successful relationship with the new supplier. The action plan is to give Pintos Oy recommendations for their future cooperation with the supplier in order to minimize challenges and risks.

10.1 Action plan for the relationship

The companies share a bigger vision but it is suggested that they set some mutual practical goals. Setting goals and targets together is important because both parties need to be on the same page so that they are both satisfied with the results. It is important that the objectives involve both parties. Sales figures are one example of the possible goals. Sales figures not only motivate the buyer but they motivate the supplier to provide the best quality product and maintain their quality and also provide sales support and marketing ideas. The buyer also wants to extend their product portfolio with more products from the supplier in the future which could be one goal. They should also commit to better products and creating innovative ideas. The parties had also discussed marketing support and marketing materials from the supplier which is a great opportunity and should be listed. The companies should make practical short-term goals but also paint a bigger picture so they know what the ultimate goal is. Goals also make the day-to-day operations easier and ensure a more efficient use of their resources.

The maintenance and development of a business relationship usually requires continual communication and interaction. It is often thought that communication is necessary only when problems arise. When something goes wrong, you start to communicate. When you communicate early enough and have a clear process on how to act, mistakes can be avoided.

The parties agreed that the extensive communication between the sales departments is needed in the beginning of the relationship but as the project progresses the focus shifts to order handling. Still, the sales departments should also stay in touch after the project has started to exchange feedback. The employees working on the order handling level need to form clear procedures on which issues they contact the other organisation. Of course delivery times, batch sizes and order schedules need to be set too. From the strategic perspective, the companies need to decide how often they want to analyse the sales reports and when the meetings are held. Most of the communication will happen by email and phone.

From the viewpoint of internal communication, both the buyer and supplier should integrate the relationship into their weekly sales meetings and discuss the progress of the project so that all participants can take part in the conversation. That way the people handling the orders to the supplier and also from the customers can exchange ideas with the managers.

On day-to-day operations the parties have to of course share logistical information on the orders and delivery times. The sales department of Pintos Oy should listen to the feedback from its customer and communicate that to the supplier. This can act as an encouragement for development and provide innovation ideas that the supplier had not thought themselves. Pintos Oy and the supplier should also share innovation and development ideas. These can be about the product, its packaging but also on marketing and selling. One idea for marketing is that the supplier can give discounts for Pintos Oy for certain time and products that Pintos Oy will communicate to its customers and they to the end customers. One example of this is that sometimes hardware stores offer discounts when you buy products outside the actual season.

The interaction between the buyer and supplier companies seemed to have worked well so far and the personalities got along. They had a similar passion of getting to work and the goals of the companies fit well together. The parties were open to each other's ideas and the communication had been very easy. In each interview the meaning of trust was mentioned and the parties seemed to have very similar thoughts on each other.

The parties had planned meeting in person three to four times per year which is a good timelag for a quarter review. These check-point meetings are very beneficial to analyse customer feedback closer and take a closer look on future development ideas. The parties should develop systematic methods for checking their mutual development and work on new goals and problem solving on these meetings. They should take a closer look on the product portfolio before the hardware stores have their selection period so that new products can be planned beforehand. It is up to the companies to decide where and how to meet. Pintos Oy and the supplier had also planned to meet on trade fairs and discussed that the supplier could take part to the trade fairs that Pintos Oy will participate. Having the supplier on trade fairs is a big opportunity to create customer loyalty and the reliability of the product.

The parties should also plan a clear operational strategy on who does what, when they do and how they do. Both parties have to be clear on what they are expecting from the other party, who is responsible for what. A situation where the other one was thinking that the other party was responsible for something is very uncomfortable. Pintos Oy has to decide who handles the operational aspect and communicate that to the supplier so the supplier knows who to contact. Pintos Oy should decide who does the actual orders and who reports to whom. Pintos Oy should train the sales employees on the new product. The customer care and order handling employees should have all the necessary information on the new product, logistics issues and delivery times. The sales support employees will also receive some feedback and they need to communicate the information further.

Pintos Oy and the supplier also have to evaluate the successfulness of their cooperation. They have to analyse the sales figures and what can be done to improve them. They have to keep track of the product quality and take action if its drops. The delivered products also have to match the actual order. From a logistics perspective, they have to keep an eye on that the delivery times that were planned actually happen. The operation should be smooth and the parties should act as they have agreed. The creation and development of a business relationship requires a mutually agreed operating model on how to communicate and how the relationship is cared after.

Table 1. Action plan for the relationship.

Goals	• mutual goals • clear objectives • sales targets • extending product portfolio • marketing support • product development • effective use of resources
Communication	• shifts from sales planning to order handling • sales managers, order handling • email and phone on urgent matters • strategic decisions • daily operational communication • campaigns • clear procedures for who, when and how to communicate
Sharing information	• logistics and delivery information • feedback from customers • development ideas • high mutual trust and commitment
Meetings	• 3-4 times per year • special attention to new products before selection period • trade fairs • sales figures • innovation • who and how to meet?
Operations	• operational tasks of Pintos Oy • operational tasks of supplier • market changes and monitoring
Quality assessment	• sales figures • product quality • delivery times • right content • operations as agreed

10.2 Critical aspects in the relationship

The major challenge in the buyer-supplier relationship is that the project has a very fast schedule. Everything should work perfectly and there's a lot of details to be taken care of. The actual packaging materials are very detailed and need time to plan. The marketing materials that the supplier will provide have to be edited and translated for Pintos Oy to use them. Pintos Oy has to also be able to advertise the new product to their customers efficiently. On the operational side, opening product codes takes time in both organisations. The fast schedule is one reason why the practical aspects should be taken care and later the focus will shift from sales to how well the back-office functions work.

The companies set sales targets and they have to keep track on how they are reached. They should also set a limit for in what time a certain point should be reached and if the sales don't progress, when should the cooperation be stopped. Sort of a critical sales point. This also relates to possible market changes, if the demand for the product dramatically decreases.

The companies have to pay attention to how they draft contracts and that the promises made in them actually come true. They should also list possible "what-if"-situations and who is responsible if things go wrong. Some kind of insurance is needed.

One risk already mentioned by the interviewees was culture. Pintos Oy has two sales offices with different cultures and the supplier adds a third culture. Even though the communication has been easy so far, the companies might have differences in ways of operating that have not come upon yet. The parties communicating in English is one barrier to the operation.

Table 2. Critical aspects in the relationship between Pintos Oy and the supplier.

Fast schedule	Packaging Editing marketing materials Advertising
Sales	Market changes Critical point in sales
Contracts	Responsibilities Risks Insurance
Culture	Differences in ways of operation

10.3 Future research possibilities and summary

A natural continuation to the research would be a relationship evaluation assessment. This would be based on the goals that the buyer and supplier set together for their cooperation during the next months. After that the successfulness of the relationship could be evaluated by using the formula for relationship value: the actual relationship benefits minus the actual relationship costs equals relationship value. This would define what the cooperation actually achieved compared to the initial goals and for what price.

The purpose of this thesis was to offer recommendations for the case company Pintos Oy on creation of a new supplier relationship they are starting a project with. The objectives concerning the theory part of the thesis were about the definition of supplier relationship and relationship value, the categorization of supplier relationships and the advantages and disadvantages of building a close supplier relationship. These objectives were reached by studying professional literature and articles. The objectives regarding the case company were 1) what kind of a relationship should Pintos Oy create with the new supplier, 2) which factors does Pintos Oy consider to be value creating factors in this relationship and 3) what are the challenges, opportunities and critical points of supplier relationship management Pintos Oy faces. Employees from the administration, sales and production levels of the organisation were interviewed for the implementation of the thesis and the case company specific objectives were reached by semi-structured interviews. In addition to the Pintos Oy employees, a representative of the supplier organisation was interviewed. Based on the interviews it was concluded that Pintos Oy had a very stable foundation for a successful supplier relationship. As a result, a practical action plan was drafted to give the case company recommendations for setting goals, communication, sharing information, meetings, operations and quality assessment.

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APPENDIX 1

INTERVIEWS

Interview 1. Business director, Pintos Oy. Personal meeting in Eura, Finland. 6.3.2017. Interviewer Anki Saarikoski.

Interview 2. Sales manager, Pintos Oy. Personal meeting in Eura, Finland. 6.3.2017. Interviewer Anki Saarikoski.

Interview 3. Product manager, Pintos Oy. Personal meeting in Eura, Finland. 8.3.2017. Interviewer Anki Saarikoski.

Interview 4. Commercial director, supplier company. Online communication via email exchange. 9.3.2017. Interviewer Anki Saarikoski.

Interview 5. Commercial director, supplier company. Online communication via email exchange. 14.3.2017. Interviewer Anki Saarikoski.

Haastattelukysymykset Pintos Oy

Yritys: Pintos Oy

Haastateltavat:

Myyntipäällikkö ma 6.3 klo 12

Liiketoimintajohtaja ma 6.3 klo 14

Tuotepäällikkö ke 8.3 klo 14

Työnkuva: mistä olet vastuussa tehtävässäsi

Haastattelun kestoaika:

Tausta:

Miten sinä tulit projektiin mukaan? Olitko mukana päättämässä toimittajavalinnassa? Jos olit, mitkä valinnassa vaikuttivat toimittajan valintaan? Oliko toimittaja ennestään tuttu?

Miten toimittajan kanssa lähdettiin kanssakäymiseen? Miten homma eteni? Missä vaiheessa sopimukset tehtiin? Koska ensimmäinen tapaaminen oli? Miten se onnistui?

Minkälaisia odotuksia ja visioita yhteystyöstä kaavailtiin ennen kuin mitään konkreettista alettiin tehdä?

1. **Suhteen luonne ja johtaminen**
    1. Minkälaisia konkreettisia tavoitteita yhteistyölle asetettiin? esim. tuotevalikoiman täydentäminen, kilpailuetu, asiakkaiden parempi palvelu
    2. Millaisia odotuksia sinulla on toimittajan suhteen lyhyellä ja pitkällä aikavälillä?
    3. Miten yhteistyöstä on sovittu?
    4. Miten kommunikoitte? Millaista käytännön kommunikaatio on? Onko sovittu jotain? Viikoittaista, päivittäistä, tarpeen mukaan? Ketkä kaikki kommunikoi? Millaista tietoa aiotte jakaa? Miten toiminnot liittyvät toisiinsa? Onko yhteydenotto helppoa ja vaivatonta, kerätäänkö asioita? Mitä kommunikaatioväyliä käytetään (sähköposti, puhelin, tekstiviesti)
    5. Miltä suhde nyt tuntuu, onko suhde avoin? Onko molemminpuolista luottamusta?
    6. Mitä mahdollisuuksia näet?
    7. Mitkä asiat näet yhteistyön vaikeuksina?
    8. Mikä on sinun asiantuntijuutesi tässä suhteessa? Mitä taitoja sinulla on?

2. **Toimittajasuhteen arvo ja hyöty**
    1. Millainen on arvoketju? Missä kohtaa arvoketjussa arvo muodostuu?
        - Pere: ei tuote/laatu/valmistus ->pakkausosaaminen
    2. Mitä lisäarvoa tämä toimittajasuhde voi luoda koko arvoketjulle?
    3. Tuoko toimittaja lisäkanavia? Onko toimittajalla jotain mitä Pintos voi käyttää hyväkseen, osaaminen? Entä jotain mitä ei nyt voi hyödyntää mutta tulevaisuudessa

4. Mitkä asiat näet tämän suhteen hyötyinä Pintokselle a) lyhyellä b) pitkällä aikavälillä?
    - säästöt ostoissa, kehityskustannukset, hintojen ennakointi, valmistuskustannukset
    - tuote markkinoille nopeammin: tiedon jakaminen -> yhteistyö -> kehitys ->
    - tehokkuus: enemmän aikaa muihin projekteihin
    - koulutushyöty: apua myymiseen, kehitysmahdollisuudet, paremman tarjoaminen asiakkaalle
    - luotettavuus, pienempi riski esim. Kiinasta ostamiseen?
5. Miten toimittaja hyötyy Pintoksesta?
6. Paras mahdollinen hyöty liikesuhteesta
    - Mitä Pintoksen ja toimittajan pitäisi tehdä, jotta yhteistyösuhteesta saataisiin maksimaalinen hyöty?
    - Miten tämä ulkomaalainen toimittaja eroaa olemassa olevista kotimaisista toimittajista?
    - Mistä asioista Pintoksen pitää huolehtia, jotta kaikki sujuisi ja yhteistyöstä saadaan paras mahdollinen hyöty irti?
    - Mistä asioista toimittajan pitää huolehtia, jotta kaikki sujuisi ja yhteistyöstä saadaan paras mahdollinen hyöty irti?

3. Tulevaisuuden kehitys

1. Missä vaiheessa olet toimittajaan tutustumisessa? Oletteko tavannut?
2. Miten operatiiviset tehtävät ja vastuu on jaettu? Miten Pintos informoi sisällään toimittajasta ja tekee keskenään päätöksiä toimittajasta?
3. Kuka Pintokselta on yhteydessä toimittajaan?
    - Moni vai yksi yhteyshenkilö?
    - Kuka tekee strategiset päätökset?
    - Kuka hoitaa tilaukset?
4. Mitä olette sopineet tulevaisuudesta? Millaisia lyhyen/pitkän aikavälin tavoitteita teillä on? Oletteko asettaneet tavoitteita yhdessä toimittajan kanssa?
5. Miten tavoitteita mitataan? Milloin tavoitteiden saavuttamista tsekataan?
6. Koska on seuraava tämän toimittajasuhteen iso tarkistuspiste?
7. Mitkä asiat näet yhteistyön riskeinä?
    - Toimittajavalinnan riskit, tämän yhteistyön riskit. Pintos/markkinatilanne/toimintaympäristö, toimittaja

Value propositions lopuksi: kuvio

1. Mihin arvoväittämään tämä liikesuhteen syntyminen on mielestäsi perustunut (tai perustuu)?
   Eli enemmän etuja kalliimmalla hinnalla, enemmän samalla rahalla, samaa halvemmalla rahalla, vähemmän paljon halvemmalla

Loppukevennykset:

Kuvaile paras mahdollinen toimittajasuhde?

Millaisena näet tämän toimittajasuhteen viiden vuoden kuluttua?

APPENDIX 3

Interview questions supplier

Company: supplier

Interviewee:

Commercial director Friday 10.3. 10am

Job description: Describe your job description. What are your responsibilities generally and in this project?

Duration of interview:

Background:

How did this project with Pintos start? When did you become a part of this project?

When was the first meeting with Pintos? How did it go? How did the project proceed from there?

What kind of a vision and what expectations did your company have before any action had been taken?

4. **Nature and management of relationship**
    1. What kind of practical objectives did your company set for the cooperation? (such as a bigger market area)
    2. What kind of expectations does your company have for Pintos short- and long-term?
    3. What kind of a cooperation agreement have you talked about with Pintos?
    4. How do you communicate? On what topics? How often (weekly/daily/when needed)? Who of your company takes part in the communication? What kind of information do you share? Has the communication been easy?
    5. Do you feel that the relationship has mutual trust? (other comments about relationship climate…)
    6. What possibilities do you see in the cooperation?
    7. What do you think are the difficulties for the cooperation?
    8. What expertise do you have in this project? What skills do you have?

5. **Buyer-supplier relationship value and benefits**
    1. What kind of value will the relationship/cooperation bring to the value chain in your opinion?
    2. What are the
        - a) short-
        - b) long-term

        advantages of the relationship for your company and Pintos? (new market area, cost savings, efficient procurement etc.)
    3. Getting the most of the business relationship
        - What should Pintos and your company do together to get the most out of the cooperation?

- What should Pintos take care of so that the relationship/cooperation works and both parties get the most advantages possible?
- What should your company take care of so that the relationship/cooperation works and both parties get the most advantage possible?

6. Future development

1. How far are you in getting to know Pintos?
2. How have the operative tasks and responsibilities been divided in your company? How do you communicate internally and make decisions on Pintos issues?
3. Who from your company is in contact with Pintos?
   - One or several contact persons?
   - Who makes the strategic decisions?
   - Who handles the sales orders?
4. What are your future plans? Do you have short-/long-term goals? Have you set goals together with Pintos?
5. How do you measure reaching your goals? When are your goal checkpoints?
6. What are the risks of this cooperation/relationship?

Value proposition:

2. Which value proposition do you think this relationship is based on?

Value proposition means the relationship between the values the customer pays for and the price they pay to get them: more for a higher price, more for the same price, more for a lower price, the same for a lower price, less for a much lower price.

Figure 4. Value propositions. (Kotler & Armstrong 2016, 244).

Describe the best possible buyer-supplier relationship?

How do you see the relationship between your company and Pintos in five years?