

Development of supplier co-operation
Case company in the manufacturing industry

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ABSTRACT

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<p>The main objective of this thesis is to investigate the development of the supplier co-operation in the case company within the timeframe of two years. This study addresses the question of how the supplier co-operation has developed in the case company. The complementary research question explains the key concepts of the research.</p> <p>The data for this case study was gathered by using both quantitative and qualitative research methods. The theoretical framework builds on literature discussing the key concepts. Empirical data collection for the study was conducted by using questionnaires carried out on 2012 and 2013. Knowledge acquired through extensive work experience was applied to complete the questionnaires.</p> <p>The results of the research demonstrate that the key factors of the successful supplier co-operation are trust, information transparency and communication. The supplier co-operation status of the case company was found to be generally at an excellent level and the development to be stable and positive to an extent. The study indicates a few future development targets for the case company.</p> <p>Applicability of the results is difficult to assess as the questionnaires were designed for the purposes of the case company. Significance of this thesis from the case company's point of view is evident. This research is one part of the larger entity concerning the new procurement strategy of the case company.</p>	
Keywords: supplier, co-operation, procurement, sourcing, development	

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1 INTRODUCTION

The share of the purchases from the total costs in Finnish industrial companies is 80 per cent (Iloranta & Pajunen-Muhonen, 2012, 22). The operational level benefits to the buyer of developing close relationship with key suppliers come in the form of improved quality or delivery service or reduced costs (Kannan & Tan 2006, 756). Furthermore, the old wisdom of the sales people is that the company growth is gained by selling, but the profit is achieved by purchasing (Iloranta & Pajunen-Muhonen. 2012, 25). Successful procurement depends on locating or developing suppliers, analyzing their capabilities, and selecting and working with those supplier to achieve continuous improvement (Bowersox & Closs & Cooper 2007, 82). These above sentences summarize the importance and modernity of the focus of this thesis research with the scope of supplier co-operation.

The organizational location of purchasing is very much dependent on the view management holds towards the purchasing function. If management considers purchasing as an important competitive factor and as having strategic importance to the organizations, the purchasing manager might be a member of the board of directors. (van Weele 2010, 281.)

The growing importance of the sourcing has been noticeable for the past twenty years, but the traditional way of thinking has been deep rooted in organizations and a hindrance for development (Iloranta & Pajunen-Muhonen 2012, 83). The unawareness of the true role of sourcing has been comprehensive among Finnish companies, but the knowledge, especially among the management, is increasing among globally operating companies. When the organization concentrates on its core functions, the relative part of purchases from total cost and the economic importance of sourcing are increasing (Iloranta & Pajunen-Muhonen 2012, 74).

The control of the supplier co-operation is vital for the companies in manufacturing industry and, therefore, the research of the matter is relevant. The case company has started to pay profound attention to the role of the suppliers. This thesis research analyses the current status of the supplier co-operation in the case company and, furthermore, the development of it from 2012 to 2013. The analysis is based on the two executed supplier satisfaction surveys, in which the buyer invites suppliers through a standardized survey

to suggest ideas which may improve business relationships (van Weele 2010, 359).

The extent of the theoretical framework supports the analysis of the supplier co-operation status in the case company. The main aim of this thesis research is to continue the current development work of the supplier co-operation and via the process fulfill the case company future requirements based on the new company strategy established on January 2014.

This research is using a couple of synonyms when discussing of the company purchasing department. The words purchasing, procurement and sourcing are referring in this research to the same function of the company. The function has a significant role in the logistics chain and is widely managing mainly the incoming logistics flow of raw materials, components and services.

1.1 Motivation

The author has been working from January 2000 on in different positions in the material management and logistics, from 2008 on in the case company of this research. The author has experience and thereby knowledge in purchasing and procurement from the industry fields of electronics and carpenter industry in the global aspect. The importance of the competent supplier co-operations in the case company has been at a modest level during the past years. The intelligent supplier choices have multiple influences on the turnover growth (Iloranta & Pajunen-Muhonen 2012, 25). Therefore, the role of suppliers is essential for all expansive companies together. Simultaneously, the importance of the sourcing in the logistical chain and the competent supplier co-operations have now been generally recognized.

This research is conducted in order to deepen the current knowledge regarding the factors influencing the supplier co-operation for the case company. Profound understanding assists the company procurement to meet the company strategy target for the forthcoming years. Therefore, the supplier co-operation development work has to be constant and this research contributes to the progress of this development work.

The present management philosophy highlights the presence of the networks in which

each individual and organization is a member without their choice (Iloranta & Pajunen-Muhonen 2012, 77). Therefore, working supplier co-operation is vital for the organization to be able to gain and maintain good reputation as a co-operation partner. Comprehensive and profound knowledge of the different factors in the logistics chain is relevant for different departments of the case company to fulfill the requirements for business development.

The personal motivation of the author to the study subject is highly professional and the target is to continue the development of the author's professional skills via the literature research this study requires. During the process of this study, the scope of the development work was mainly at the personal level of the author and this is one significant benefit for the company from this work. The personal aim of the author is to be increasingly involved at the future in the strategic and tactical levels of the purchasing, instead of the operational level.

1.2 Research objectives and questions

The objective of the research is to investigate how the supplier co-operation has developed in the case company. The supplier satisfaction surveys, used for clarifying the research objective, are in a significant role of the empirical part of this research. An analysis into the key factors of the supplier co-operation among the suppliers of the case company is conducted on the basis of the supplier satisfaction questionnaire surveys. This research concentrates on the relationship between the case company, as a customer, and its suppliers. The relationships between the different suppliers of the case company are not included into this research. Furthermore, this research aims to emphasize the importance of these factors influencing successful business relationships generally and between the case company and its suppliers.

The content of the supplier co-operation and the different influential factors are included in the research. Furthermore, the current level of supplier satisfaction among the case company suppliers is clarified and the importance of each co-operation characteristic for the supplier is investigated. This research conducts research into the main factors of the case company which the suppliers have found to be the strengths and the characteristics needing more attention in the future.

This thesis research includes two research questions, from which the first question introduces the main concepts of the research and the second research question concentrates on the case company processing. The first research question defines and discusses the main research concept and clarifies the theoretical framework of the research.

1. What does the supplier co-operation generally mean and for the case company in particular? What are the influential factors included in the supplier co-operation?

This research includes a comparison of the two questionnaires carried out in 2012 and 2013 in the case company. The questionnaire surveys were carried out to find out the opinions of the suppliers concerning the co-operation. Furthermore, the respondents were able to indicate a development targets for the case company.

The comparison indicates the similarities and differences between the results of the two questionnaires. The questionnaires focus on finding out the different points of views from the case company suppliers together with their feedback on the co-operation. The comparison examines if there are differences to be found between these two supplier surveys. The second research question is as follows:

2. What is the current status of the supplier co-operation of the case company? How has the co-operation been developed since 2012?

As was stated previously, the actual development plan is not included into this study. This thesis research indicates a few future development targets for the case company. These factors for development, are derived from the questionnaires and the supplier's feedback.

1.3 The case company

The case company is mainly producing different playground equipment, with other supporting systems, with the yearly sales of 53 Meur and staff of 350 persons. This family owned company, established in 1970, has its headquarters in Finnish Lapland. Currently

the majority of the company turnover is formed by the public sector business, but B-to-B business has increased its share significantly within the past few years.

Managing environmental matters and supporting sustainable development are an important aspect of the case company's quality and philosophy. Environmental aspects are taken into consideration early in the design process, and the products are estimated to last for at least 15 years. The long lifetime of the products is a part of the sustainable development.

The company has subsidiaries, in addition to the mother company in Finland, currently in seven countries, from which two are also manufacturing facilities. The company's five years' strategy is to double the company turnover. Therefore, the supplier co-operation needs increased attention to enable sourcing together with suppliers to better support the company strategy.

The case company business field has been strongly seasonally based, and the peak-season, summer time, has traditionally formed the most substantial part of the yearly turnover. This is caused by the products' nature and the main market area. With the new strategy and business area the company aim is to create an increasingly equal and stable turnover flow within the financial year. The cash-flow change has already been in sight from 2012 with the new customers and the different product field.

The author has been working in the case company's sourcing department since 2008. The supplier field has been developed together with the sales product range changes and the company's own manufacturing facilities. Among the case company suppliers the co-operation has several different levels and stages. There are several suppliers which have had co-operation with the case company already for tens of years. Simultaneously, during the last few years the number of new suppliers has increased because of the new products required. The depth of the co-operation increases in the manner of the importance of the supplier. The main and strategic supplies are mainly managed with contracts, but also with certain service level of their products.

1.4 Structure of the Thesis

Research method is discussed in chapter two. Chapter three of this thesis research concentrates on the theory and introduces e.g. the concept of supplier and co-operation. Chapter four introduces the results of supplier satisfaction questionnaire surveys and creates analysis of them. Chapter five includes the discussion and the conclusions of this thesis research.

2 RESEARCH METHODOLOGY

This chapter introduces the research methodology to the reader and, simultaneously, creates the justification to the chosen method. Firstly the research method is presented and the data collection is also clarified to the reader.

2.1 Research method

This case study is comparative research as the practical part of the study is carried out via two supplier questionnaires from 2012 and 2013. Both questionnaires included same questions for ensuring comparability of the results. The chosen research method of comparative case study requires comparability to be able to execute properly. One of the goals of the case study is to be descriptive and the author found it, based on the previous experiences, to be most suitable for this research. This research does not aim for generalization and, therefore, the case study is proper for it.

Case study according to Yin (2009, 4) is used in many situations and has been common research method in psychology, sociology, political science, anthropology, social work, business, education, nursing and community planning. The desire of understanding complex social phenomena is the distinctive need of the case studies and the research questions seeks to explain some present circumstances (Yin 2009, 4). Case study topics can be e.g. organizations and partnership (Yin 2009, 33) and these two were chosen to be the topics of this business research. The case study is the preferred research type when examining contemporary events and the relevant behaviors cannot be manipulated (Yin 2009, 11).

Most of the comparative case studies during the last millennia have been mostly qualitative and have often been restricted to a few algorithms (Zitzler & Lothar 1999, 257). The extension and coverage of this research is restricted to the case company and its suppliers. Therefore, the choice of the comparative case study method is justifiable.

According to Dion (1998, 12), "...the methodological implications of selecting on the dependent variable are much less threatening to the validity of small-n comparative case study work than has often been claimed" (Dion 1998, 127). Dion's (1998, 141) studies indicate that the comparative case study did create concrete guidelines and would, therefore, be suitable method despite the criticism.

The empirical part of this study is carried out by using mixed methods including both qualitative and quantitative research. The author's own knowledge and experience has a significant role in empirical material, which has a significant role in the research material and is analyzed by comparing. The theoretical framework of this research, introduced in chapter three, is created from the existing literature. The observations by the author, complement the other empirical findings and the author's experience concerning the research.

2.2 Data collection

The data collection is based on the results from the supplier satisfaction surveys. The supplier satisfaction survey on 2012 was sent to 110 active suppliers of the case company. Responses were received from 56 co-operation partners, including both domestic and foreign suppliers. The respondents were given a fair time to reply to the questionnaire and a couple of reminders were sent for all respondents to maximize the respond rate.

The second questionnaire on 2013 was sent to 107 suppliers and included the same questions as the first one for the comparability reasons. The case company received 67 replies via e-mail and the response rate of 63 per cent could be stated to be excellent. 2013 questionnaire was further developed by the author by adding new questions concerning the characteristics of development capability of the case company. The replies with numeric value and average score for the ready given statements are introduced in comparison chapter together with the results from 2012.

The author has chosen the key factors, occurring in both questionnaires, and gathered the theoretical framework accordingly. The connection between the results of the two surveys was the foundation to the author in theoretical framework data collection. The results of the questionnaire have, therefore, the main role together with the theoretical framework of the supplier co-operation. The broad literature research is required to form profound knowledge of the influential factors and the coherence between them. The theoretical framework is assisting the interpretation of the supplier questionnaire results.

As the researcher is working in the case company, lot of information was also gathered by observing. Both direct observation and participant observation was used, when as the main focus was on direct observation. Direct observation of the author was executed in daily bases during the meetings and factory work. The knowledge of the author has been formed also already previously, prior to the case company, when working in the procurement in the global companies for several years. So that of a significant role in the practical part is the author's own work experiences of the field of this research.

The supplier satisfaction questionnaires were executed as web surveys, the first one on 2012 by Webropol survey software and the second on on 2013 by Digium Enterprise software. In both the respondent was able to maintain anonymity. The anonymity was seen to be significant factor when first questionnaire was under consideration. One of the justifications for the web surveys were also the low cost structure of the inquiry as the required resources could be minimized.

The data collected with questionnaires is limited to the case company's active suppliers, in which term active refers to the existing co-operation in 2012 and 2013. The form of the questionnaire was designed as compact and clear as possible to achieve high response rate.

3 SUPPLIER CO-OPERATION

The concepts of this thesis research are introduced to the reader via theoretical framework here. The chapter discusses upper level concepts, e.g. supplier, relationship and co-

operation, and the other factors of supplier co-operation, which are introduced under the sub-chapter 3.6.

3.1 Supplier

Generally the supplier can be described in several different ways, but usually according to author's experience it refers to the external party who provides products or services to the buyer. In this research, the concept of supplier is defined to be the product or service provider to the customer, the case company. The co-operation with the supplier can be of different levels and the constant development of the co-operation is not evident in each relationships.

The suppliers in this thesis research are limited to the active co-operation partners of the case company. Generally, most of the companies in the manufacturing industry have a rather wide supplier network, but it is common that 20 per cent of the suppliers provide 80 per cent of the products or services needed. This is the reality for the case company also, and 20 per cent of the suppliers are in a strategic position and the remaining suppliers have mainly supporting role.

The preferred supplier has demonstrated its performance capabilities through previous purchase contracts and, therefore, receives preference during the supplier selection process (Bozarth & Handfield 2013, 222). The previous customer relationships are one way to evaluate the supplier capability to satisfy the requirements of the purchaser party. Many times the suppliers actually are eager to name some reference customers to prove their competence to the new customer. This is in fact beneficial for both parties as the supplier can testify their capability and the purchaser party is given evidence, simultaneously, as the given information can be easily checked.

According to Hughes, Ralf and Michels (2000, 105) a decision how many suppliers a business requires are based on the following factors:

- “the power in relational terms between purchaser and suppliers, resulting from the chosen strategy,
- information technology and other investments costs associated with single, dual and multiple sourcing,

- a market assessment of future supplier capacity,
- the staff resources required and available to build and manage appropriate supplier relationships,
- the staff resources required to implement purchaser-supplier improvement projects,
- the time and cost of exit strategies in the event of non-performance,
- risk assessment of market place, technology and financial factors,
- the likelihood of the parties failing to commit appropriate investment to sustain technology performance and competitive advantage,
- cost and price benefits from volume consolidation,
- the impact of diluting or losing competitive leverage.” (Hughes & Ralf & Michels 2000, 105-106.)

The most suitable amount of suppliers can be only defined by the company itself. The definition could be carried out with the help of the previous list of Hughes, Ralf and Michels, but equally valid methods could be found internally. The company strategy and branch of business are examples which have an influence to the company’s need of suppliers and determines the needed amount and quality.

The importance of the purchasing and the supplier co-operation for the success of the company have been recognized for ten to twenty years already. However, the strategic position of the purchasing is missing for some companies. “Supplier decisions are one of the most important aspects that firms must incorporate into their strategic processes” (González & Quesada 2004, 492).

According to Bozarth and Handfiel (2013, 133) the companies should extend their total quality management, TQM, efforts to include supply chain partners. Quality suffers if the members of the supply chain do not share the same commitment to TQM. Managers should monitor the performance of the suppliers carefully to ensure their willingness to meet the quality expectations. (Bozarth, Handfield 2013, 133.)

The positive outcomes from a buyer-supplier relationships are the direct result of both the criteria used to select the key suppliers and efforts to engage suppliers in a manner conducive to relationship success (Kannan & Tan 2006, 756). All of these above concepts

are discussed in this chapter three more detailed to introduce the study area to the reader and clarify the coherence with the help of theoretical framework.

The case company has widen the supplier base to global in the beginning of the century. In author's point of view the supplier base need to be re-considered regularly as for the moment it seems for the case company that e.g. the purchases from certain countries have decreased dramatically and the required operational efforts exceeds the gained benefits. The local supplier even with small purchases is easier to control and manage than the similar supplier in e.g. Far East. The relation between the required resources and the gained benefits has to favor the global sourcing, otherwise it is waste of time and money for the company. Nevertheless in some occasions, the company image requires the procurement to be global, but at that point there has to be clear understanding how much the company is willing to invest to maintain the image. According to Hughes, Ralf and Michels (2000, 77) the company should address the following eight questions before starting the global sourcing:

- “What are the complementary or strategic capabilities that need to be accessed in this way?
- Is global sourcing the most effective means of developing a competitive supply chain for your company?
- What additional deliverables will the global sourcing effort be expected to achieve?
- How is the potential global supply base structured to respond to such an effort?
- What risks and vulnerabilities will be encountered, and what is the probability of minimizing them to acceptable levels?
- How will investment in global supplier development be protected from access by your competitors?
- What are the organizational, resource and infrastructure implications of implementing global sourcing?
- Would it be more productive to focus effort on to developing the local or regional supply base?” (Hughes & Ralf & Michels 2000, 77)

The author does agree Hughes, Ralf and Michels ideas introduced above. As for many companies the old saying Think global, act local, might be good way of starting the global philosophy. Quick rushing into global sourcing without the required knowledge and bargaining power with adequate purchase volumes might e.g. cause unexpected costs.

3.2 Supplier relationship

This chapter concentrates on supplier business-to-business relationships and does not introduce other relationships e.g. the internal relationships inside the companies. This framing is based on the scope of the research.

The supplier relationships of the company should be regularly evaluated. According to Cox (1996, 60) "...firms must seek to economize (or reduce costs) at all times, successful strategies for firms must be those that constantly address the issue of which type of internal or external relationships are most useful to achieve a particular purpose." The existing supplier relationships might not be adequate for the company to economize the business.

Relationships are based on co-operation and to achieve a high degree of cooperation it is necessary for supply chain participants to share strategic information (Bowersox & Closs & Cooper 2007, 362). Sharing the strategic information and, simultaneously, not revealing the business secrets might sometimes be challenging. Figure 1 indicates the factors classified to be business secrets:

What are business secrets



Figure 1. Business Secrets (Hedman Partners Attorneys-at-Law 2013)

Instead into business secrets are not included, according to Hedman Partners Attorneys-at-Law (2013), the information which has no commercial value and is made available for public. In addition, traditional knowledge and well-known practice together with intellectual property is not considered as business secrets. The company should protect the business secrets by confidentiality contracts together with contractual penalties. Business secrets strategy might be implemented if necessary. Moreover, the rules in work organizations and careful staff selection are part of the constant work to protect company business secrets. (Hedman Partners Attorneys-at-Law 2013.)

The concepts of risk, power and leadership are essential to understanding acknowledged dependency (Bowersox & Closs & Cooper 2007, 362). According to Bowersox, Closs and Cooper (2007, 365) there are five basic forms of collaboration among supply chain participants as seen from the following figure 2:

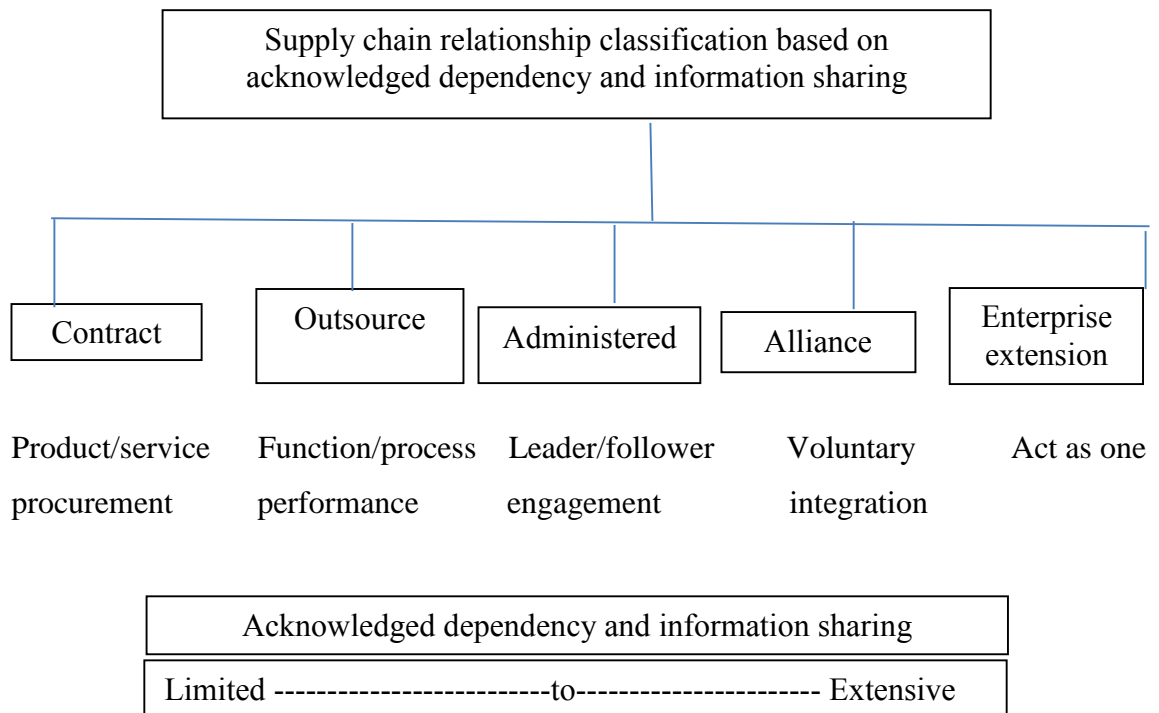


Figure 2. Relationship Classification Framework (Bowersox & Closs & Cooper 2007, 365)

As the figure above indicates there is five basic forms of collaboration among supply chain participants. The most elementary forms of relationships are contracting and outsourcing, and the most advanced form is enterprise extension. The elementary level requires generally operational information sharing, but there is also limited joint planning among these firms. True collaborative relationship in the figure concerns the alliance and enterprise extension, from which enterprise extension represents the extreme of interdependence and information sharing. (Bowersox & Closs & Cooper 2007, 364-365.)

Worldwide business-to-business relationships are changing and new value adding relationships are coming more familiar to the companies (Hughes, Ralf & Michels 2000, 60). Effective relationships are means to an end and not the end itself (Hughes, Ralf & Michels 2000, 59). Each company, aiming for business growth and profit maximization, should raise the question to what extent do their relationships with third parties support or dilute the company efforts? (Hughes, Ralf & Michels, 2000, 5). According to Hughes, Ralf and Michels (2000, 67) business-to-business relationships are dynamic, not fixed. Simultaneously, majority of the relationships are fragile and exposed to interference. If

the company is aiming to maximum benefit and real added value from its relationships with the third parties, it requires a systematic behavior of developing the characteristics of the relationship.

3.2.1 Supplier co-operation and the development of it

Co-operation normally starts firstly with adversarial leverage, in which the prime contractor is always in the position of being able to choose alternative sources of supply, because there are multiple sources of supply. Characteristics for this form of co-operation are that the buyer presents the product specifications to the suppliers who in turn determine the viability of the offers. The parties of the co-operation are always an arm's length one. (Virolainen 1998, 40.)

The next level in supplier co-operation development according to Virolainen is the preferred supplier, which refers to the suppliers who are judged to be the best to provide complementary goods and services, but, simultaneously, are at the lower level of importance of these products and services. The supply strategy is called single sourcing if all the purchases of one item are concentrated on one supplier. (Virolainen 1998, 41.) Normally the co-operation with single sourcing suppliers is rather developed already to ensure the smoothness and competitiveness of the business actions.

The top management commitment is vital for the procurement to enable the development work concerning supplier co-operation. The importance of this commitment cannot be over highlighted. The kaizen system, meaning the change into good or for the better, enables huge improvements in supply chain performance (Hughes & Ralf & Michels 2000, 97). As Masaaki Imai, the founder of the Kaizen Institute has said "The three most important requirements for kaizen are one, top management commitment, two, top management commitment, three, top management commitment" (Hughes & Ralf & Michels 2000, 113). Author has considered many times what would be the most suitable means to create the profound commitment of the top management. Should the procurement department constantly prove its importance to gain its justified position? Or could it be assumed that the educated top management already has the required knowledge, but they are not for some reason willing to admit the procurement and its role

in the logistics chain?

In author's point of view long lasting relationships with the supplier could be stated to have more positive aspects than negative aspects. However, to have a holistic view of the matter also the negative aspects of the long term co-operation relationships needs to be addressed. The author has experience previously, that sometimes the perennial agreements have preventive characteristics concerning e.g. operation development of the supplier. Cost-effective actions have to be the base for the daily business and purchasing price has to be continuously at a competitive level. Total competitiveness of the co-operation partner is needed to be checked in regular basis with the help of strategic network, the general price level e.g. concerning the raw materials and staff costs are good indicators. Supplier network is vital comparison tool for company's procurement and network constant update is, therefore, needed.

3.2.2 Partnership

“The purpose of entering into a strategic partnership are to achieve objectives that otherwise could not be realized and to reduce the overall risk of a project while increasing the return on investment; at the same time the partnership will aim to maximize the utilization of scarce resources” (Gattorna & Walters, 1996, 189). “Partnership sourcing is where the customer and supplier develop such a close and long term relationship that the two work together as partners” (Virolainen 1998, 44).

Building a true partnership with a supplier is not a simple task to carry out. As Ian Canadine, the Director-General in Institute of Logistics in United Kingdom has said on 2000 “The partnership has been talked about more than it has happened so far” (Hughes & Ralf & Michels 2000, 62). Even today some people are using the term partnership in very broad way without understanding it profoundly. A partnership is defined to be a long term, mutually beneficial trading relationship between two organizations (Waters 2009, 151). Mutually beneficial relationship intends here also sharing the profit between the two organizations, which often remains unrealized. Because of the common misunderstanding of the term partnership, it is discussed in this chapter quite broadly.

According to Gattorna and Walters (1996, 190) the weakest relationship is mutual service

consortia, in which similar companies in similar industries are pooling resources to gain benefits that alone they could not afford. Partnership is advanced form of co-operation and not very easily reached. Other developed forms of co-operation are e.g. joint venture and strategic alliances. Gattorna and Walters (1996, 190) are placing the joint venture at the middle of the co-operation category level, as those pursue opportunities requiring a capability input from each of them which may be technology or production or distribution based. Furthermore, the joint venture can operate independently or interdependently, linking the partners' operations (Gattorna & Walters 1996, 190). "In strategic partnership or alliances the emphasis is on cooperation and partnership between the parties, not competition and conflict... (Gattorna & Walters 1996, 189)."

The partnership has been the common goal level for supplier co-operation already twenty years. The challenges in forming partnership are formed mainly of the experience. The first steps of co-operation cannot form the true partnership, but partnership requires co-operation of many years between the parties. The company size is not a hindrance for partnership, but naturally it might be more challenging for small companies as their resources are limited. (Jahnukainen & Lahti & Virtanen 1997, 98.)

Virolainen (1998, 108-109) has listed the factors of successful partnership based on Chadwick and Rajagopal (1995, 113) to be as follows

Internal buyer factors

- company wide acceptance of partnership
- total cost perspective
- commitment to total quality
- long term perspective
- commitment from top management

Supplier internal factors

- commitment to quality flexibility to change
- financial security
- technical expertise

- philosophy of continuous improvement
- commitment from top management

Relationship factors

- mutual trust
- complete integrity
- shared objectives
- effective communications
- clear understanding
- resources

In author's point of view the list above of characteristics for successful partnership has many vital factors. The outcomes of the supplier satisfaction surveys of the case company support the previous list of important characteristics. It is essential that resources are listed into relationship factors as some other literature sources of this research, for some reason, do not mention or highlight it. The suitable resources, based on the author's experience, are the key factor for the relationship to become genuinely successful. Relationship cannot exist without human resources and this might be too obvious for some researcher and, therefore, the factor is not listed. Partnership parties should carefully choose correct person to start the co-operation as the person should have e.g. enough time and knowledge to fulfill the requirements of the other party. The investment for partnership should generate benefits and if the chosen resources are improper, the risk of investment loss is evident.

According to Rushton and Walker (2007, 254) building closer partnership would create a constructive alliance in which, both parties work together to identify ways of improving service and reducing costs. Furthermore, they indicate that the world changes nowadays at such a fast rate that a realistic contract with suitable clauses is difficult to create and instead the aim should be to identify and to drive towards a relationship that is to be beneficial to all (Rushton & Walker 2007, 255). In author's point of view the presented concept of Rushton and Walker is progressive, but might be difficult to achieve. The closer partnership requires lengthy and extensive co-operation before the common aims can be addressed and achieved. Author has the experience that before the co-operation

can be defined to be a partnership, the detailed contract is needed.

Partnering requires according to Hughes, Ralf and Michels (2000, 68):

- “a commitment to openness on both sides and joint ways of working,
- a readiness to discuss future business plans and capital investments requirements,
- a preparedness to share each other’s longer term strategies and business goals,
- a willingness to understand each other’s business processes, managerial and operational cultures and their potential impact on relationship,
- a strong sense of how the parties will mutually exploit a cost, quality, technical or marketing advantage via their collaboration,
- an agreed remedy in the event of a non-partnership source of greater advantage appearing in the supply market,
- a review forum capable of assessing how well the partnership has exploited or distorted the market to the advantages of both sides,
- a realistic assessment of the acceptability of the distribution of the benefits from the relationship between the partners. (Hughes & Ralf & Michels 2000, 68.)”

As the list above clearly indicates, the partnership includes several profound characteristics and the company should truly consider if they have the capability to build true partnership with the supplier. Several partnerships with the suppliers can be managed, simultaneously, only if the company has enough experienced and trained procurement people.

Figure 3 is presenting the different levels of the supplier-partnering hierarchy (van Weele 2010, 361).

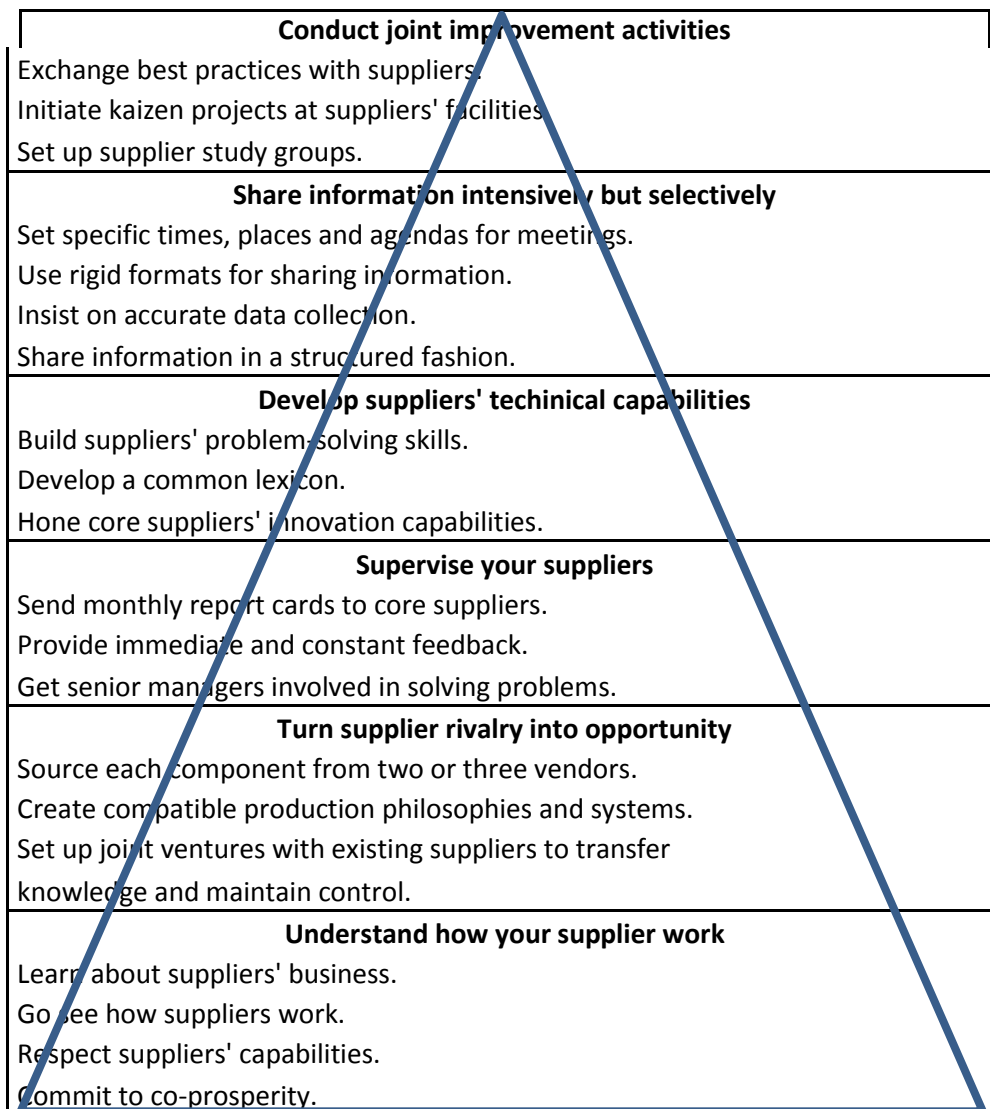


Figure 3. The supplier-partnering hierarchy

The above figure of the supplier-partnering hierarchy does indicate the multiplicity of the required actions with suppliers. Even the lowest level of supplier co-operation, named in the figure as Understand how your supplier work, requests quite extensive actions and involvement from the procurement. The highest hierarchy level of Conduct joint improvement activities expects already profound co-operation for several years. The company can and should have suppliers at all six levels so that there is always more advanced co-operation with the strategic suppliers, but in addition new co-operation partners at developing from first hierarchy level. The significance of the supplier defines the hierarchy level the co-operation should be.

The case company has currently suppliers at the five levels of the above indicated

hierarchy, in author's opinion the highest co-operation is currently missing. This is based on the characteristics mentioned to be included at the level of Conduct joint improvement activities, in which the supplier study groups might be the most challenging to implement currently. Simultaneously, not all the characteristics of each level are valid with all the suppliers, as some are more significant than the others and partly eliminates the other characteristics. E.g. at the lowest level of hierarchy the characteristics of Commit to co-prosperity is missing from some of the case company supplier co-operation partnerships for a reason.

According to Campbell buyer-seller partnerships are replacing the traditional price-based relationships in international business (Campbell 1998, 23). Developing the co-operation into partnership requires professionals in both parties and mutual understanding of the pursuable benefits. The partnerships types can also be divided into five different type, which are general partnership, lean supply, network sourcing, reverse marketing and parallel sourcing (Virolainen 1998, 199). Virolainen (1998, 199) continues the classification of partnership to be divided into strategic agreements and cost-economizing agreements or into technology partners and logistics partners.

The possible barrier preventing the successful partnership to be founded might be some of the following

- poor
 - communication
 - up-front planning
- ineffective mechanism for conflict resolution
- lack of
 - top management support of the partnership
 - trust
 - total quality commitment by supplier
 - distinctive supplier value-added/benefit
 - strategic direction for the relationship
 - shared goals
 - benefit/risk sharing (Ellram 1995 cited in Virolainen 1998, 119.)

The above list of barriers for forming a successful partnership is not complete and could be easily extended. The change from the time when Ellram has listed the factors on 1995

is evident and companies are facing even more challenging situations today. The co-operation development at the level of partnership is not, therefore, easily executed and based on the author's experience not always needed.

3.3 New supplier and assessment of it

Sometimes the supplier co-operation development requires to update the supplier base. Some of the existing suppliers of the company might need to be changed into new ones or the current supplier base requires completion. Therefore, finding new supplier and assessment is chosen by the author to be discussed here. Assessment, discussed in this chapter, includes both the supplier characteristics and performance assessment, which are equally important based on the author's experience.

Finding a suitable supplier for the company is truly essential, even vital, for the development of the company. It could be argued which would be the most important external co-operation partner for the company, the customers or the suppliers. The company cannot operate without neither of them and the coherence is evident. As the focus of this thesis research is the supplier co-operation, this chapter of finding new supplier and assessment has significant theoretical relevance and is, therefore, discussed more comprehensively than the other issues.

Figure 4 indicates the purchase process generally, in which the supplier selection is followed by the previous preparatory phases, equally important considering the final outcome of the process.

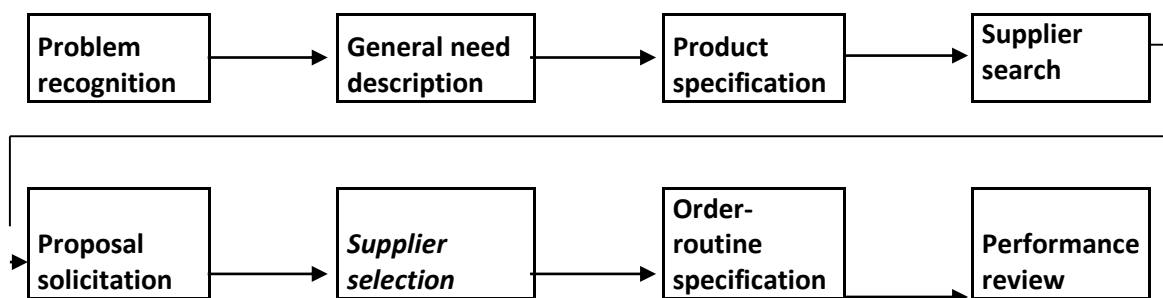


Figure 4. The purchase process

The profound knowledge of the influential factors and the individual characteristics of the case company is needed for finding the suitable supplier. E.g. the differences between different markets and geographical areas e.g. at general cost level is needed in profound supplier market comprehension. These characteristics varies based on the business field the company is operating and it creates the framework for the requested suppliers. Furthermore, the knowledge of the cost structure variation in different items and services requires wide knowledge of the field. According to van Weele (2010, 243) the following functions should be involved in supplier selection: purchasing, design, quality, production and production planning. Based on the author's experience the final authorization should be in purchasing and the other functions have very important supportive role in supplier selection and assessment.

The supplier assessment levels according to van Weele (2010, 354) takes place at four different levels of abstraction, i.e. product level, process level, quality assurance system level and company level. The purchasing professional should have the competence to assess the possible supplier at all of these four levels, but usually the company provides support to purchasing department e.g. quality and R&D departments are many times evaluating the supplier together with purchasing. Based on the author's experience the importance of the difference assessment levels varies based on the intention of the supplier role and significance for the company. E.g. if the product itself has no strategic purpose for the purchasing party and is available easily from other suppliers also, the product level itself may not be a great significance in the supplier assessment. At that time the company level might be more important to the purchasing professional in evaluating the mutual benefits of the possible co-operation.

One significant matter in supplier assessment is the objectivity, the purchasing professional should be able to observe the possible supplier without any pre-assumptions. The supplier performance assessment later when the co-operation has already started is different matter than the first assessment before common history with the purchasing party. The supplier assessment methods according to van Weele (2010, 355) include spreadsheets, qualitative assessments, vendor rating, supplier audits and cost modeling. Naturally these may vary from company to company and according to the significance of the possible supplier. These methods have different benefits and the case company has

been using regularly mainly the vendor rating and supplier audit methods previously. The future development might require the company procurement to broaden the supplier assessment methods, but with the current resources the extension might be too challenging.

The sustainable development settles requirements for the supplier search, as the focus of the procurement is moving closer to the purchasing party and the needed suppliers is to be situated nearby. The new focus is supporting the company strategy alignment by improving the company competitiveness via efficient recycling and environmental friendly technology. (Nieminen 2013, 28.) If the existing supplier base of the company does not meet the sustainable development requirements, the company might lose some of the competitiveness.

The assessment of the supplier expertise, compared to the others in the field, is important for competent sourcing. The characteristics to be investigated have to cover supplier cost-efficiency, innovativeness, physical and human resources, subcontractor network (Iloranta & Pajunen-Muhonen 2012, 194). The profound assessment requires strong experience from both practical and theoretical side of the business. Comparison of the different suppliers has to be carried out systematically based on the objective facts. Most likely the supplier is not willing to reveal all the facts the buyer would like to investigate and, therefore, the experience for interpretation is vital. If the level of experience is modest, there are several companies, third parties, to provide different services.

According to Bozarth and Handfield (2013, 224) evaluating the qualitative factors of the supplier capabilities include: the process and design capabilities, management capabilities, financial conditions and cost structure, and longer-term relationship potential. The qualified supplier should be able to perform product design activities and the management's commitment to continuous process and quality improvement is vital. Selecting a supplier that is in poor financial conditions creates risks for the purchasing party and, therefore, the finance figures needs to be in order. The possibility for long-term relationships development might be one of the key issues for the future development for the purchaser party and, therefore, necessary capability of the supplier. (Bozarth & Handfield 2013, 224.)

Supply market intelligence, i.e. SMI, is capability of vital importance for sourcing. The advantage in the market is gained by efficient utilization of the exact information faster than the competitors. Each business line and all supplier markets have unique characteristics to be managed. (Iloranta & Pajunen-Muhonen 2012, 227.) Mastering the markets requires experience and knowledge of the competitors.

The risk management is crucial when searching new suppliers. Handfield and McCormack (2008, 72-75) divides supply chain risks into financial, operational, brand and reputation, legal, environmental and technical risks. Many of these risks can be minimized or even avoided with thorough and comprehensive investigation work. The background information should be studied carefully enough and the final conclusion of the possible new supplier should be based on several factors. The experience and intuition of the sourcing responsible is vital for evaluating and analyzing the gathered data.

The industry analysis profiles the major forces and trends that are impacting an industry, including pricing, competition, regulatory forces, substitution, technology changes, and supply/demand trends (Bozarth & Handfield 2013, 216). Therefore, the industry analysis should be carried out when finding and evaluating new suppliers, so that the background information is valid and adequate to complete the comparing different potential suppliers. The analysis can be carried out only by experienced person with proper attitude.

Waters (2009, 311) has listed the characteristics of the well-qualified supplier for procurement, in which the supplier:

- is financially secure with good long-term prospects
- can develop and wants to maintain long-term relationships
- has the ability and capacity to supply the materials requested
- is experienced and has expertise in their products
- only sends materials of guaranteed high quality
- delivers reliably, on time short lead times
- accurately delivers materials ordered
- quotes acceptable prices

- offers good financial terms and total cost of acquisition
- is flexible to customer needs and changes to orders
- has a good reputation in the industry
- has a history of successful supply in the past
- uses convenient and easy procurement systems (Waters 2009, 311.)

Furthermore, the above mentioned characteristics there might be still more requirements for the supplier, depending e.g. of the business field unique requirements. In any case these above mentioned characteristics are essential for each strategically important supplier. In some occasions all of these might be difficult to meet and prioritization has to be done. Evaluating these characteristics might take some time even from purchasing professional and certainly the nature of today's business is rapidly changing having influence in addition to these characteristics listed by Waters. Therefore, the evaluation result is not valid for ages, but need to be re-considered regularly.

The supplier quality performance can be measured by an index or ratios, but equally valid means might be surveys, internal and/or external, and special reports. Internally they are aimed at assessing internal customer satisfaction with regards how the purchasing department performs in its relationship with its internal customers. Externally surveys can be used to assess how suppliers think about doing business with the company. (van Weele 2010, 314.) Based on this van Weele's theory, the supplier surveys of the case company started the quality performance evaluation and the supplier feedback for the procurement creates the guidelines for the future development of the supplier co-operation.

3.4 Supplier co-operation requirements for purchasing professional

This chapter introduces the different characteristics a purchasing professional should have to enable successful supplier co-operation. Together with the globalization the expectations for the sourcing knowledge and dedication have increased dramatically. Although most of the Finnish companies are small or middle sized, the purchasing department is most likely globally oriented and influenced of the rapidly changing

environment.

Figure 5, from the case company's internal material, is indicating the gap between the current performance level and the market opportunity level.

Opportunity gap vs. performance gap

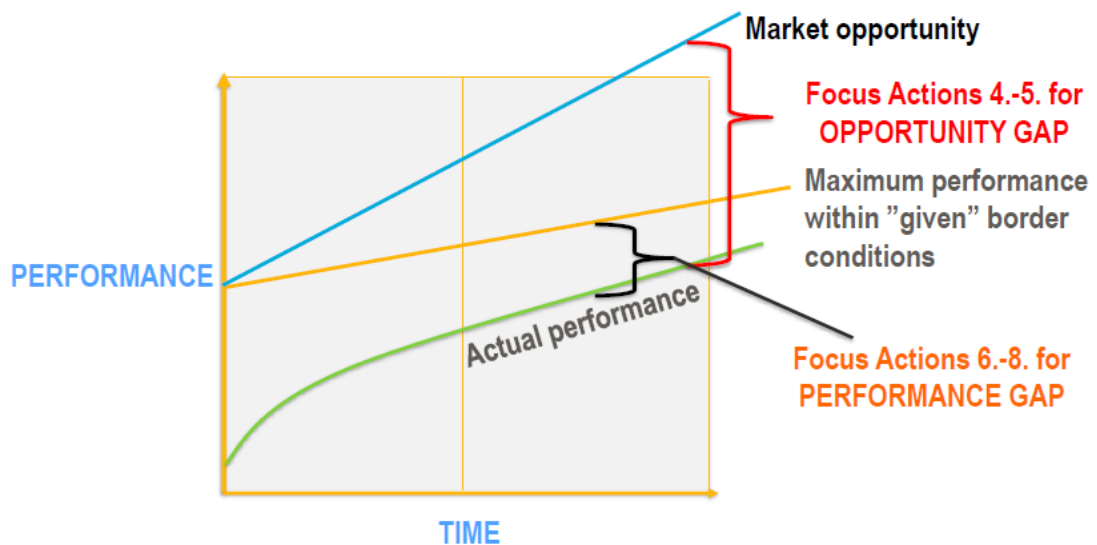


Figure 5. Opportunity gap vs. performance gap (company internal material)

The above figure indicates the desired development for the company personnel performance during the new strategic period 2014-2016. As time passes the performance level increases and the outcome would improve the supplier co-operation, as discussed previously, the coherence between the personnel capabilities and the level of supplier co-operation is evident. The new strategy of the case company supports the personnel development of the procurement, which creates the opportunity of the supplier co-operation improvement.

Improving the co-operation with the suppliers the following characteristics might need strengthening according to Nieminen (2013, 29):

- The cultural skills, including international business skills and cultural knowledge with good manners

- The basic facts of economy and law
- The social skills
- The people management, including the organizational behavior, interaction and decision-making
- The negotiation skills
- The perspectives of the sustainable development
- The business in networks
- The information logistics, the utilization of the information systems
- The social media
- The literacy and utilization skills of the media
- The innovation skills (Nieminen 2013, 29.)

As the previous list indicates the co-operation is extensive concept including different characteristics and requiring several skills. For the successful co-operation with the suppliers, most of the previous characteristics are required, but certainly some of them are more important than others. E.g. advanced social and negotiation skills could be stated to be vital for the successful co-operation and should be treated as basic requirement for the procurement persons.

The critical success factors for purchasing professional are, according to Tomi Kommeri the head of indirect purchases of Kone, the following:

- Sharing actively visions and experiences with all interest groups,
- recognition of the new possibilities together with different interest groups,
- prioritization of the possibilities and turning them into action,
- activation and maintenance of the co-operation exceeding the own firm functions,
- the support from the management: global sourcing has attend the company strategic development programs (Kommeri 2014, 19).

According to the author's experience the last critical success factor mentioned in the list above, the support from the management, is the foundation for the supplier co-operation development. The development of the supplier co-operation requires resources and investments, as the development work generally does. The allocation of these factors, listed above, requires managerial support. The supplier co-operation maintenance at the existing level is not enough for competence procurement and the co-operation development should be continuous.

According to van Weele (2010, 296) the change in purchasing professionals is indicating that today the female share of the purchasing professionals is increasing and the purchasing executives are higher educated. The negotiations are concentrating more into long-term agreements with selected suppliers around the world, which lead into the point that the total value of the purchase has increased.

3.5 Other factors of supplier co-operation

The literature consulted for this research discussed several factors influencing the supplier co-operation. Nevertheless, all factors are not relevant for all the companies. This is because the number of the influential factors increases together with the company business extension and development. Each company defines the most important influential factors to its supplier co-operation, and this chapter introduces the ones the author found to be most significant to the case company.

3.5.1 Total cost of ownership

TCO is related into the supplier co-operation as it includes all quality and logistics costs in addition to the purchase price of the item or service. The costs can be divided into three parts, i.e. the costs before purchasing, the direct costs of purchasing and the costs after purchasing. The common principle for TCO is that all costs from procurement, from the request of quotation to the supplier choice and co-operation, should be taken into account. The assessment of and measuring TCO is often difficult as the support for it is rarely found from the reporting systems of the companies or organizations. (Iloranta & Pajunen-Muhonen 2012, 152-153.) Furthermore, the successful negotiation requires the profound

understanding of the logic of price formation in the supplier networks (Iloranta & Pajunen-Muhonen 2012, 308). In author's experience the capability to comprehend and process TCO requires genuine experience of several years.

According to Larson (1994, 6) there are seven cost categories in TCO as follows: customer service i.e. backorder and lost sales, exchange i.e. order processing, transportation, warehousing, lot quantity i.e. setup and loading, inventory carrying and quality i.e. inspection and failure. Furthermore, the total cost can be divided into eight sections: inventory carrying, transportation, order processing, backorder, inspection, rework, scrap, purchase price (Larson 1994, 6.) These lists of characteristics reveal the extension of the matter and indicate the importance of the supplier co-operation. If these different sections are insufficiently managed by the company, the cost of the item or service is apparently higher.

Decreasing the total cost of the supply chain should be the target of the development of the operation modes of the companies. Simplifying the guidance of business activities assists to reach the final goal. This future scenario of supplier co-operation has been valid already from 1990's as mentioned by Jahnukainen, Lahti and Virtanen (1997, 97). At that time the term TCO was still missing from the literature, but the basic idea behind the action was already the same.

According to Bowersox et al. (2007, 97) the procurement professionals are focused on the TCO as contrasted solely on purchase price. This requires careful consideration of trade-offs between purchase price, supplier services and logistical capability, quality of material, and how the material impacts costs over the life cycle of the finished product. Accurate total cost analysis most likely include practical problems as many important costs are not specifically measured or reported by standard accounting systems (Bowersox & Closs & Cooper 2007, 319.) To case company has now brought up TCO to be the observed attribute in procurement and in addition generally for the whole company business operations. Currently TCO executive for each business operations has not been yet nominated because of the new company strategy was just recently published. To enable the efficient work of the executives the case company has to provide the tools for gathering and analyzing the required information. Furthermore, the persons responsible

might require internal training for the software usage and appropriate reporting methods to the management.

3.5.2 Trust, sincerity, transparency and flexibility

Trust, sincerity, transparency and flexibility are all discussed in this same chapter as in the literature conducted into this research these were partly overlapping and, therefore, easily to be combined. The cultural background of the person influence to the interpretation of these terms and some readers might, therefore, consider some of these to be synonyms.

Campbell's (1998) study concentrates on and explores the influence of three factors on buyer-seller cooperation; trust, exit barriers, and firm strategy. Of these three factors, she emphasizes trust to be a critical factor as based on the previous research done e.g. by Morgan and Hunt (1994 cited in Campbell 1998, 23-24). All relationships require a certain level of trust to be able to exist and work, since in business relationships trust is based on the actions and experiences rather than feelings and hunch. The lost trust in business relations is time-consuming to gain back and requires significantly more resources than maintaining it.

According to Bowersox et al. (2007, 372) trust has more than one dimension and can be divided into reliability-based trust and character-based trust. Reliability-based trust is based in an organization's perception of a potential partner's actual behavior and operating performance. Character-based trust is based in an organization's culture and philosophy. Reliability-based trust is necessary to the formation of collaborative relationships in supply chain, but is not enough. Evolving character-based trust completes reliability-based trust and latter might be easier reached first in the co-operation.

Suppliers have a key role as an external source of innovation, which are vital for the companies being competitive in the global markets. Working together with suppliers and sharing future plans is likely to result in a greater number of different kinds of innovations. All of this benefits the firm's competitive position and the performance it is able to achieve. (Fossas-Olalla & Lopez-Sanchez & Minguela-Rata 2010, 3498.)

Openness is truly a valued characteristic in Finnish companies and regardless of the culture it creates greater trust between the co-operation partners.

The evident transparency growth via the developed data communications and computer systems has to be taken into account. The cost variation between different countries is decreasing because of the information transparency. Simultaneously, new ideas, products, operation modes and service models are quickly spread globally. The power of the social media has increased and it enables the simultaneous awareness of the same information globally. (Iloranta & Pajunen-Muhonen 2012, 70.)

Without trust the relationship with supplier has low possibilities to develop into partnership. Sincerity creates trust between the co-operation partners. The level of sincerity is defined by the co-operation grade. If the supplier is new and unfamiliar to the buyer, the sincerity level is lower than with the long-term co-operation partners. Simultaneously, the experience of the field is required to be able to estimate what is company confidential information and what information can be shared.

Virolainen (1998, 106) has listed the characteristics of the trustworthy partner, who:

- “does not act in a purely self-serving manner
- accurately discloses relevant information when requested
- does not change supply specifications, standards, or costs to take advantage of other parties
- generally acts according to normal accepted ethical standards (Virolainen 1998, 106).”

The characteristics list above does have only few items, but it does not deduct the value of it. Author experience especially the third factor “does not change supply specifications, standards, or costs to take advantage of other parties” to be challenging to meet in some occasions. The general aim of business is to great advantage to maintain the competitiveness of the company and sometimes the changes might appear to be taking involuntarily advantage of other parties.

One practical example of the openness of the supplier co-operation is the supplier gatherings, in which several suppliers are invited to meet the company procurement simultaneously. The invited suppliers might have similar business field with each other

or co-operation level with the customer company. The customer have good opportunity to inform the suppliers about the company long-term plans based on the strategy and equally important is the created open communication atmosphere to share ideas and future plans. (Jahnukainen & Lahti & Virtanen 1997, 78.) The supplier get-together happenings are familiar for the case company, but are not organized regularly because of the significant amount of work it requires.

According to Bowersox et al. (2007, 52) flexibility involves a company's ability to accommodate special situations and unusual or unexpected customer requirements. Furthermore, they clarify that flexibility is the key to providing high-level basic customer accommodation while at the same time maintaining sufficient operating capacity to meet and exceed key customer expectations (Bowersox & Closs & Cooper 2007, 297). Based on the changing customer requirements whole logistics chain of the company must be flexible. According to the author's experience the flexibility is often required from the suppliers rather than from the customer. Many times the case company's customers are only asked to be flexibility when there is no other choice, but supplier flexibility is tested regularly.

Changes in the business cycle, company personnel and in companies generally require flexibility (Rushton & Walker, 2007, 255). Reacting proactively to change requires (Rushton & Walker, 2007 256) as follows

- “a willingness to change direction when and where necessary,
- an acceptance that changes need to be incorporated within existing arrangements,
- a recognition that customer demands do change over time and that any working agreements need to be adjusted accordingly,
- positive support in implementing any process developments.”

Proactive actions and behavior might be challenging for many companies as the above mentioned requirements indicate. For the case company of this research, the third requirement “a recognition that customer demands do change over time and that any working agreements need to be adjusted accordingly” might be the most challenging because of the variety of the customers. The customer requirements eventually define the requirements for the procurement of the company and in addition the requirements for the suppliers and the co-operation with them.

One important characteristics concerning the flexibility is discussed by Jahnukainen et al. (1997, 16), the flexibility is not free of charge for the companies. If the regular procedure needs to be changed temporarily, additional resources and work is required. Both of these are cost factors to the companies and need to be cost effective. The rapid cycle of changes might decrease the company's productivity and cause financial losses. Each company has to draw the line at their flexibility level and create instruction to the personnel how to evaluate each time need and level of flexibility. Flexibility has to be controlled to ensure that the company genuinely benefits of its flexibility.

3.5.3 Communication and information

The supplier co-operation is based on the communication. The communication can be active if the parties have enough valid information. According to Bowersox et al. (2007, 362) achieving a high degree of cooperation it is necessary for supply chain participants to share strategic information. The information transparency has clear development areas in many companies and organization. This is partly caused by the company management internal information sharing policies, as the management could be more open in their communication to the whole organization. Naturally all information is not to be given to all organizational levels, but the key points should be pointed out for each operational level and its functions. E.g. the company strategy is in key role with supplier co-operation and has significant role in information sharing and communication between the parties. The procurement professionals should know the difference between internal, company confidential information and the information available for external co-operation partners.

The communication and information sharing face more challenges if the parties are with different cultural background. Even if both parties are located in the same country, the communication might be challenging as the company cultures varies in different industry fields, e.g. the common expressions in electronics industry are not necessary familiar for the people in carpentry factory, as the author has personally discovered in her work. E.g. the influence of the generation gap might come as surprise for some not being worked with people of significantly varying ages.

Despite the cultural convergence and the growing similarity between national cultures, cultural differences still remain important in business. Simultaneously, acting, e.g. in

globalization, on the basis of the different cultural stereotypes is highly sensitive and, therefore, can be problematic for the company. (Rugman & Collinson 2012, 137,139.) The experience from the different cultures and the knowledge of the diversity of communication methods are vital for the efficient communication and information sharing. The procurement professionals should be provided by the company management the possibilities to practice the communication skills in global environment to develop the required capabilities.

3.5.4 Relative strength and bargaining power distribution in the relationship

According to author's experience the relative strength and bargaining power distribution are together one of the influential factors in the relationship of the customer and supplier. Rarely the relationship parties could be stated to be totally equal, normally one of them might have e.g. more bargaining power in the relationship. Several times these factors cannot be clearly indicated, especially by the outsider. Some indicators of the power distribution could be interpreted from e.g. the size of the company or the company image.

“Dependency is a primary driver of supply chain solidarity (Bowersox & Closs & Cooper 2007, 363).” In author's point of view the imbalance in bargaining power creates challenges in the supplier relationships. But it is not a hindrance for a prosperous supplier relationship if the procurement professional is willing to work for it. The imbalance in the beginning of the co-operation might dictate the atmosphere for the future relationship and might be sometimes difficult to change. The skillful negotiator senses the power relationship already in the first meetings and adjusts the strategy in use accordingly. The common goal should always be beneficial outcome for both parties, the old saying of win-win situation remains valid today.

The key elements in understanding the dependency are risk, power and leadership. A supply chain member with highly specialized core competence assumes comparatively less risk with respect to overall performance. The prerogative and the obligation to spearhead collaboration rests with the supply chain participant who enjoys the greatest relative power and in many cases that participant is also the firm having the greatest risk. In many situations, specific firms are thrust into a leadership position purely as a result

of their size, economic power or comprehensive product portfolio. (Bowersox & Closs & Cooper 2007, 363-364.)

The simple figure 6 below is indicating the bargaining power in a customer-supplier relationship according to Walters (2009, 313).

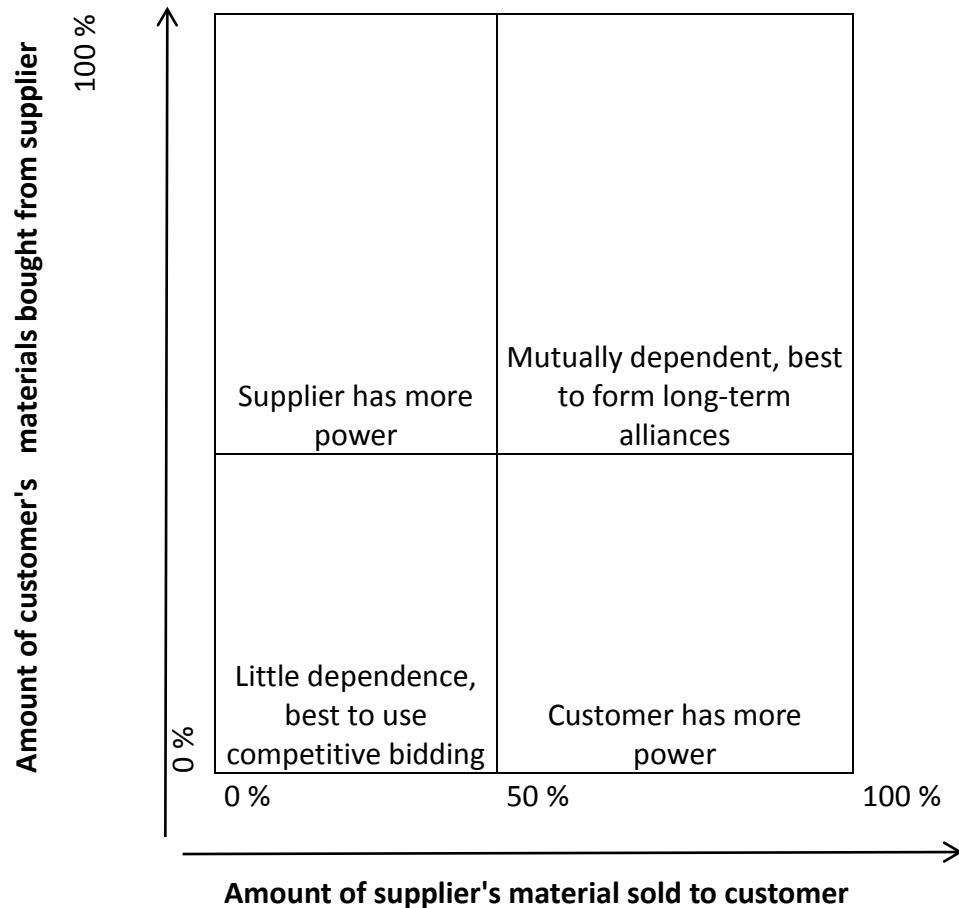


Figure 6. Relative power of customer and a supplier (Waters 2009, 313)

The figure of Waters (2009, 313) is based on the turnover, i.e. material, level sold or purchased. The relative power level relates directly to the amount of material, which many times according to the author's experience does apply. The above figure of Waters does not consider other influential factors, which are discussed previously, and later.

According to Hughes, Ralf and Michels (2000, 30) when the buyers try to beat the market they fail to realize that they have actually accepted the dominant paradigm and at best they just achieve temporary comparative advantage over competitors. What is actually

needed is a determination to make more direct interventions capable of delivering a preferential and sustainable position. Achieving superior status for a short period, e.g. for negotiation, should not be the goal, rather than fair and appreciated status for a long-term relationship, which might develop into partnership.

According to Bowersox et al. (2007, 372) the research has shown that consistent use of coercion by one organization ultimately leads the vulnerable firm to seek alternative supply chain relationships. The power can be used in a relationship as a reward or punishment mechanism. Using power as reward it could be represented as favorable extension of pricing, trade discounts or sharing of vital information. The power usage as punishment appears as the discontinuation of a trade discount or unfavorable pricing. (Virolainen 1998, 198.) The common goal of mutual understanding and prosperous cooperation should always be the foundation though the behavior of the parties might temporary change from time to time. The misuse of the superiority is not carrying long, but is deplorably common in manufacturing industry in Finland as the author has personally experienced.

4 ANALYSIS AND RESULTS

This case study is based on the two supplier satisfaction surveys executed in 2012 and 2013, of which the questionnaire from 2012 was the very first one for the case company. The case company has executed regularly customer questionnaire surveys for several years and the feedback received has been assisting probably the development of the customer care process. Similar need for further information was recognized in the case company procurement and the supplier satisfaction survey was found to be the solution for gathering the required information.

The questionnaires included following forewords to motivate the respondents to reply: “At Case Company we are continuously seeking to improve the relationship with our suppliers. In order to help us improve our relationship with you and your company, we would be grateful if you could take few minutes to complete this questionnaire. The questionnaires will be handled anonymously and your individual answers will be treated in the strictest confidence.”

The author has chosen, based on the scope of this research, the appropriate questions to be discussed from the questionnaires. The theoretical framework in chapter three supports the empirical analysis. The entire supplier satisfaction survey content is not included into this research as attachment and each question from the survey is not equally discussed for the previously mentioned reason. The questions discussed in this chapter are introduced separately at the beginning of each chapter.

The supplier questionnaire content and form for 2012 was originally created for the case company previous needs. The second questionnaire on 2013 was based on the first questionnaire, but updated by the author to widen the aspect of mutual development and create profound base for this thesis research. Furthermore, the updating of the questionnaire was executed to provide better development idea for the case company for the future use. For enabling the objective comparison, in relation to comparative case study ideology, majority of the questions were kept the similar and the latter questionnaire was increased with some new questions concerning the development of the co-operation.

Case study was chosen for this Thesis as being the most suitable alternative for the case company. Concrete and practical information is currently more valuable to the case company than the theoretical information and, therefore, case study was chosen to be the research method. The main approach to the data presentation and analyses is quantitative, although qualitative method is applied in addition.

4.1 Analysis

The analyses of the material are carried out by comparing the value, in other words points given by the respondents, of each question in the questionnaires. The scale used, in both questionnaires, is Likert, in which the respondents are instructed to choose a value from one to five, in which the number one indicates complete disagreement with the claim and the number five indicates complete agreement. The scale was chosen to be used in the first supplier satisfaction survey and the author did not experience need to change it. The background information at the beginning of the questionnaires, e.g. the company size or geographical location, is for the purpose of categorizing and not measured in the way discussed previously.

Furthermore, the respondents were able to give verbal feedback on five different open

questions. The purpose of the open questions is to complement the questions with options from one to five and give a profound picture of the matter. The comparison of the replies for open questions is done by combining similar feedback, based on the author's experience, under the same factor. The analysis of the open feedback requires the capability to read between the lines and author has does her best of it.

One of the characteristics of the survey was anonymity to ensure the highest possible response rate. Therefore, the analysis of the questionnaires does not include correlation between e.g. the length of the co-operation and the total satisfaction level of the co-operation. The correlation would have required different kind of approach from the beginning and the author did not have voice for it. The conclusion, made by the author, included into this research is based on the noticeable change e.g. the correlation between new and old suppliers. Furthermore, the average level measured by the given scores of each matter is indicated if applicable. The average results were chosen to be the value for comparison as not all values for each individuals and questions were available from 2012. The analysis is carried out by comparing the grading of each question and carried out manually with the help of Microsoft Excel. The respondents were guided to rate their opinions according to the given scale from one to five, in which one equals to complete disagreement and five to complete agreement with the claim.

The author has chosen the questions to be compared based on the scope of this research. As the supplier satisfaction survey was originally wanted to be kept rather compact to maximize the received responses, only few matter are not included into this comparison. For continuing the anonymity of the questionnaires and avoiding the possible connectivity to the case company, the author decided not to include the survey format into the research as attachment, but explain each question in place.

4.2 Results

Overall, the results of these two supplier satisfaction surveys were rather similar, and no significant development from the responses from 2012 to 2013 could be identified. Most likely the similarity in results derives from e.g. the short period of measuring time. The time range between these two surveys was just over one year. During that time, there was

quite significant development in the case company business behavior, e.g. new manufacturing facility established and the purchases reduced from certain suppliers. However, evidently the suppliers did not experience this influence to be that significant as the case company might have predicted. The results of the questionnaires are introduced in a chronological order, with the results from year 2012 first.

The results of the questionnaires are discussed and compared according to the relevant questions. As was stated previously, all the questions from the questionnaires are not introduced, but the relevant ones concerning the focus of the research.

Most of the respondents on 2012 were representatives of small companies with less than 50 employees, i.e. 26 out of 56. Furthermore, most of the respondents have had co-operation with the case company over ten years, i.e. 23 out of 56. The answers were transferred into the SPSS software for the basic analyses purposes.

The questionnaire on 2012 included 34 statements concerning the case company, and the respondents were to choose on the scale from one to five regarding how well the statement met their opinion concerning the case company. These statements with a numerical value is introduced in the comparison of the two surveys.

In addition, the respondents were able to give their own views in their own expressions to the open questions. The received supplier views from the open questions did clearly indicate development objects for the case company and partly, therefore, the second questionnaire on 2013 was updated accordingly.

One of the open questions on 2012 was requesting the respondents to list three most important factors for the successful supplier-purchaser co-operation. Based on the answers received the three most important factors were trust, openness and flexibility. These three characteristics have, based on the author's experience, clear cohesion with each other. Furthermore, the existence of each factor is vital for the successful co-operation. The author was actually not surprised about this result. After all the business co-operation and relationships are based on the actions of the individual persons as the civilian relations in addition. Anybody of the respondents did not place the price to be the most important factor of the successful co-operation. According to the experience of the author the co-operation face challenges if the price is placed on the most important

singular characteristics of successful co-operation. Simultaneously, three of the respondents listed the price to be the third important factor. The percentage for this old-school philosophy of co-operation was only five, as concentrating heavily only for price the co-operation has limited possibilities to further develop.

When asking the respondent on 2012 to indicate the development targets for the co-operation by their own words, 36 per cent of the respondents couldn't indicate any development targets to the case company. The reason for some was the early stage of the co-operation with the case company or common satisfaction of the existing status. The second common answer to the development target for the case company was the need for open and clear communication with regular meetings. Both domestic and foreign supplier did indicate this progress to be needed in the future.

The open feedback from the suppliers in the questionnaire on 2013 did include the wish for increasing the share of the electronic data transform. The respondent might have referred into Electronic Data Interchange, EDI, but it was not clearly indicated. The case company is using similar data transfer software already, but with only with certain selected suppliers. The software in use is Anilinker, which have been taken into use with the suppliers of regular and constant transactions, e.g. weekly deliveries to the case company. Generally the respondents did experience the order documents from the case company to be clear and easily understandable. There was none of the respondents clearly referring to the need of documentation improvement from the existing format.

Table 1 displays, in accordance with both 2012 and 2013 questionnaires, the respondents' replies to the question, which included 30 different statements of the case company different characteristics. The respondents were asked to give each statement a value from one to five, the value one indicating total disagreement and the value five total agreement against the given statement. This question was chosen to be discussed because it indicates several different characteristics of the case company as a customer.

Table 1. Replies concerning the company characteristics

scale 1-5 the statements	average 2012	average 2013
is reliable customer	4,83	4,76
pays the invoices on time	4,92	4,84
invests time and effort to the co-operation	4,26	4,34
values long-term agreements	4,4	4,35
behaves according to the agreements	4,72	4,7
is customer with effortless and easy co-operation	4,45	4,42
is flexible if needed	4,42	4,33
is innovative	4,33	4,37
encourages the supplier to participate already in development phase	3,88	4,21
guides and trains if needed	3,69	3,88
seeks the solutions to the problems together with the supplier	4,21	4,33
arranges enough meetings	3,91	3,31
has functional order procedure	4,45	4,24
has professional procurement	4,57	4,46
has active and co-operative quality department	4,13	4,17
shares information openly	3,9	4,31
reacts the inquiries rapidly	4,35	4,36
provides reliable forecasts	4,02	3,87
has sufficient electronic order and forecast software	4,08	4,06
shares information of the financial situation and possible changes in the company	3,9	4,02
gives feedback to the suppliers	4,19	4,31
takes care that the documentation and instructions are accurate and up to date	4,12	4,29
aims to mutually negotiable payment terms	4,11	4,26
shares the investment costs	3,24	3,57
pays the molds and tools	3,64	
assists in raw material sourcing	3,06	3,26
has good reputation	4,79	4,71
has high total quality	4,6	4,67
has final products supporting the sustainable development and environmentally friendly	4,5	4,48
has developed the co-operation with us during recent years		4,28
	4	4

As table 1 shows, the total average for all the statements was same in both years, giving the result four out of five. Without a comparison to the other questionnaire from similar a company this result could be perceived as very good, near to excellent. The comparison to the other similar companies in the manufacturing industry might be even impossible without a standardized questionnaire form common to all companies.

When comparing the development from 2012 to 2013, the table above indicates that the case company has developed the behavior as a customer most in the following

characteristics as “shares information openly” and “shares the investment costs”. This first characteristic was improved with 11 per cent from 2012 and the second by 10 per cent. Most likely, in author’s point of view, the development in the respondent base from 2012 to 2013 has some influence into this result. The share of the new suppliers, having co-operation with the case company under two years, did increase from 7.55 per cent to 17.91 per cent. The new suppliers might experience the openness in a different way than the old suppliers of the case company. The existing old supplier has already quite wide knowledge of the customer, the case company, and, therefore, might be better able to interpret the given information. New supplier needs to collect more basic background information and this information sharing is quite easy for the case company. Therefore, the new co-operation partner might experience the information sharing to be more honest and open than the old supplier having wider data base already from the past.

Furthermore, the table above indicates that questionnaire on 2013 included new statement of “has developed the co-operation with us during recent years”, which was not amongst 2012 statements. The statement was added in the purpose to find out how the respondents experience the development level of the co-operation. The average of responses came out to be 4.28 when maximum value would have been 5. Author’s interpretation of this result is that the procurement of the case company has succeed to listen the feedback of the suppliers and develop the co-operation accordingly. Obviously the comparison concerning this matter can be executed the next time the questionnaire will be carried out.

Simultaneously, the two following characteristics were deteriorated from 2012 to 2013: “arranges enough meetings” and “has functional order procedure”. The first characteristic was decreased by 15 per cent from 2012 and the second by 5 per cent. At the same time the lowest value in question five on 2013 was 3.31 in the statement of “arranges enough meetings”. The systematics of the communication is experienced to be very important for the successful supplier co-operation. The discussion needs to be regular and continuous with open atmosphere. Author did execute more supplier meetings and business trips during 2013 than during the previous years, mainly because of the occurred development in the sphere of responsibilities. For the time being all of the colleagues of the author did not have the opportunity to increase their business trips and that most likely had some influence to the questionnaire outcome. The negative development in the crucial co-operation characteristics cannot be ignored, but re-evaluated the adequate amount of supplier meetings per supplier or per year. Naturally the level of the co-operation often

has great influence into the matter.

The other deteriorated characteristics of the case company procurement, in the questionnaire from 2012 to 2013, was the one concerning the case company order procedure and the software currently in use. The operational activities of the procurement are culminated to the functional and fluent order-delivery software of the company. The decrease in the result, nevertheless, was rather modest and the most obvious explanation for it could be some new respondents. This is because the procedures of the case company has no significant development from 2012 to 2013, which could explain the difference from previous result.

The highest value in question five on 2013 was 4.84 for the statement “pays the invoices on time”. The development from 2012 was nevertheless negative by two per cent. The case company cash-flow is excellent and leverage ratio exceeds the average among the Finnish companies. Most likely the negative development in this matter could be explained by the human error, the financial department hasn’t have the adequate information from the procurement to finalize the payment. Therefore, there might be room for general communication development between these two departments.

The following table 2 is indicating the respondent replies to the question, in which the respondent was asked to compare the case company as customer to the other customers of the respondent. The question remained the same in both years so that the result could be compared. The average value of each statement is indicated below from both surveys.

Table 2. The replies concerning the comparison to other customers

scale 1-5	average	average
Has succeed compared to the other customers	2012	2013
creating trust	4,58	4,63
commitment to the supplier	4,43	4,45
developing the co-operation	4,3	4,3
communication	4,34	4,4
financial co-operation	4,17	4,19
total	4,36	4,39

The comparison of the case company to the other customers did include five different areas indicated above. When comparing the case company to the other customers of the

respondent, in the area of five different competences, the average scores for the case company came out to be 4,39 on 2013, with the measuring scale being from one to five. This result could be stated to be at excellent level, indicating e.g. based on the author's experience that the company procurement members are professionals and willing to serve the suppliers. The development from the previous year, 2012, was positive, although there increase was only 0.7 per cent.

The highest value in the above question was given by the respondents to the statement of "creating trust". As discussed previously, trust has coherence into several other co-operation characteristics and is, therefore, formulated differently in a different phases of the co-operation. For sure new supplier experience the trust differently compared to the supplier of long-term relationship. The level of expectations increases along the co-operation length.

4.3 Summary of results

The most significant finding from the questionnaires was the importance of the trust and openness for the respondents. The previous researches, e.g. by Campbell and Virolainen, have generated the same results. The suppliers of the case company experience the existing relationship to be important for them. This is because most of them, 51 per cent on 2012 and 63 per cent on 2013, did find important and necessary to reply to the questionnaire of the case company. Author has found out that the response rate in similar questionnaires rather rarely exceeds 60 per cent.

One of the notable challenges for the skillful purchaser is to get the supplier commitment to be cooperative partner who truly understands the customer markets and is genuinely willing to increase the market share. The trust and appreciation are difficult to achieve, but those can be lost only once (Heltimoinen 2013, 33). The surveys executed by the case company generated the same result as the results indicated, in both years, that the most important co-operation characteristic is trust. Furthermore, communication and openness were found to be the next important factors after trust.

The overall very good result generally indicates the actions of the case company to be satisfying the requirements and needs of the active suppliers. The questionnaires did not

indicate any severe default concerning the case company characteristics and customer behavior. According to the author's experience severe default would have been given the score from one to two. The lowest average score to the case company from all the responses did generate 3.24 on 2012 and on 3.26 2013. On year 2012 the respondents did indicate the case company's participation to the investments be modest. The lowest average score on 2013 was given to the statement concerning the assistance in raw material purchases. Even so, as discussed previously, the average score over three can be stated to be at good level.

The case company active suppliers experience the co-operation with the case company procurement to be trustworthy. According to Bowersox et al. (2007, 373) building trust first requires that a firm demonstrate reliability in its operations, consistently performing as promised and meeting expectations. When operating in global markets, most of the Finns are experienced to be honest and reliable, and the case company is not an exception. In author's opinion the trust might be the most important feature in the supplier co-operation as it has severe impacts to such many matters over the time.

The supplier satisfaction survey results of the case company from both years indicate the development target for the case company to be the level and quality of the demand forecasting. According to Bozarth and Handfield (2013, 302) the forecasting is a critical business process for nearly every organization and is often the first step an organization must take in planning future business activities. Furthermore, they indicate that forecasting is not only about numbers, but organizations should collaborate with one another to improve the accuracy of their forecasting efforts or even reduce the need for forecasts. (Bozarth & Handfield 2013, 302.) The open feedback from the case company suppliers included several references to the matter. The case company is working in the industry field with high seasonal differences and it challenges the estimation of the demand changes. The case company procurement is currently mainly working with the figures from the past as the future needs are visible just for average one month further. The role of computer-based forecasting packages is vital in improving the accuracy of the company forecasting efforts (Bozarth & Handfield 2013, 271). The case company current enterprise resource planning system, i.e. ERP, is outdated and does not meet the business action requirements anymore. Therefore, the company board has decided to implement new ERP software from the beginning of the year 2015. Together the supporting report software is to be updated to meet better the company requirements.

According to Heltimoinen (2013, 33), the company procurement can be successful if the company management understand and support it completely. Furthermore, the procurement is considered to be important to the extent that the company management group should include a member of the procurement team. When the purchasing is seen as an operational function, performance measures are largely quantitative and administrative in character. When the purchasing is considered to be a strategic business area, performance measures are qualitative and strategic. (van Weele 2010, 303.) For the case company, the logistics development has been prosperous as of autumn 2013 when the company recruited a new logistics director, who is moreover a member of the company management group. The author expects that due to this positive development of the case company the profound knowledge of the procurement importance and the supplier appreciation is to be increased significantly in the near future. This increased appreciation develops the supplier co-operation in the future.

5 DISCUSSION AND CONCLUSIONS

According to van Weele (2010, 359), effective business-to-business collaboration requires the best efforts of both the seller and the buyer organizations involved. Furthermore, based upon the specific supplier feedback, received via the supplier satisfaction surveys, the company may need, according to van Weele (2010, 359) to improve its internal operations and new product development processes.

5.1 Discussion

Communication and information sharing was found to be extremely important factors in supplier co-operation. Related to the information sharing is explanation. Some occasions the company might need to take actions that its supply chain partners might perceive as threatening. In such situations, trust may be maintained through thorough explanations of the rationale and business case that drove the company such a decision (Bowersox & Closs & Cooper 2007, 374).

The case company did execute significant development actions on 2013 concerning the supplier co-operation. The choice was made on policy of make-or-buy. The new manufacturing facility of the case company did process the major part of the required metal components of the case company 2013 consumption. This naturally did cause the decline into order quantities for certain suppliers and some long term agreements were terminated. The preparatory work and negotiations with the suppliers concerning the coming development from buying into making was started in good time and the suppliers had time to accommodate their production accordingly. The case company procurement naturally honored the existing agreements and carried out the required redemptions. In author's opinion the profound prearrangement did generate the good result in supplier satisfaction survey although the business with some suppliers developed dramatically. It's not whether you win or lose, it is how you play the game

The core competences are the organizational strengths or abilities, developed over a long period, that customers find valuable and competitors find difficult or ever impossible to copy (Bozarth & Handfield 2013, 218). The supplier satisfaction surveys of the case company did clearly indicate the level of the professional skills of the case company procurement. The result was introduced in previous chapter of 4.3.3., the question six comparison.

One influencing factor of the professional purchasing, in which the case company supplier satisfaction surveys indicated rather good result for the team, is certainly trust and how the co-operation partner experience it realizes in the daily co-operation. According to van Weele (2010, 394) trustful relationship is extremely difficult to build and the real partnerships are rather rare. This is based on the research on 1990s in the USA among 300 companies, in which less than one per cent of the total number of supplier relationships were genuine partnerships. Motorola experiences, according to van Weele (2010, 394) has indicated that having a skilled labor force is a necessary but not a sufficient condition for building trust in business-to-business relationships. Trustworthiness requires the companies to have in addition strict ethical principles and procedures, their staff has to act in a consistent and reliable manner. If the company procurement strategy is missing or is rather novel, there might be challenges in building trustful environment. Most of the case company suppliers experience the company procurement behavior to be honest and trustful, although the procurement strategy is

partly unclear.

According to Handfield and McCormack (2008, 60) strategic sourcing or advanced procurement deals with developing supply market intelligence, developing sourcing strategy, negotiating with core suppliers, and finalizing contracts for material or service supply. The case company customers are both in public and private sector, which created certain requirements for the company procurement and supplier co-operation. The requirements differs based on the customer characteristics, e.g. public sector in Finland has similar conditions each time based on the law and, simultaneously, the private sector can act more freely based on their own will. The public sector has been dominating during the history, but the private sector share is increasingly growing its share of the company turnover. Some readers might have the image that the public sector is more effortless than the private sector in the procurement point of view. This image is many times based on the fact that e.g. public funding is openly discussed and the public might understand it to so-called easy money. However, the public sector acts based on the procurement law of the state and the profound knowledge of the law naturally benefits the procurement. Simultaneously, the law is restricting the procurement behavior and created the tight boundaries for the actions.

Based on the research of Sarvanto-Hohtari (2013, 65), concentrating into the public sector, the crucial elements for a good procurer-supplier relationship are trust and mutual cooperation. Both of the questionnaires of the case company were addressed to the private sector suppliers, none of the respondents were from the public sector. Nevertheless the author decided to introduce in addition the results of Sarvanto-Hohtari as significant part of the case company customers are in public sector. For competent purchasing professional it is important to understand the customers of the company to be able to have successful co-operation with the suppliers. The customer requirements have great influence to the procurement requirements to the supplier. The results of the case company supplier satisfaction surveys support the result of Sarvanto-Hohtari concerning the importance of the trust and mutual cooperation. Furthermore, the author has proved several times in practice the importance of trust in supplier co-operation and is not, therefore, surprised of the both outcomes of Sarvanto-Hohtari and the case company.

Developing a good supplier relationships with firms that are committed to the purchaser organization's success is critical in supplier development (Bowersox & Closs & Cooper

2007, 83). The supplier co-operation was seen to be one of the development targets of the case company based on the feedback from the suppliers. The closer partnership discussed previously, is the aim for some of the co-operation partners according to the feedback received in the surveys. According to van Weele (2010, 225) the suppliers are a major source of innovation to companies, as working closely together instead of at arm's length in new product development not only leads to considerable lead-time reduction, but moreover to important cost benefits. This tendency was in addition included into the feedback from the suppliers as some of the respondent informed to having been able to develop their own business with the help of the requirements from the case company.

Both of the supplier satisfaction surveys did indicate the forecasting to be important for the suppliers. Taking one day at a time is not sufficient way of business anymore. Many of the respondents did express better forecasting to be development area for the case company. Furthermore, more accurate information of the demand changes would be highly appreciated by the case company suppliers. Logistics management starts with the customer (van Weele 2010, 254) and the sales organizations of the company has the key role in providing the customer needs for the other part of the logistics chain.

The flexibility of the supplier is a crucial characteristics when the customer is working in a seasonal business, as the case company is. Forecasting and prediction are valuable elements to improve the business action transparency in which the case company has evidently further development work to be done. The customer needs are not currently provided early enough and, simultaneously, the specific customer requirements might be missing. As van Weele (2010, 254) points out this causes frequently "rush work" to production planning, production and purchasing. The use of the resources are, therefore, not efficient and there is plenty of room for mistakes and possible delays.

According to Liu (2012, 145) the typical procedure for demand characterization includes the following factors: 1) system specification with demand target, time dimension and background settings, 2) data consideration and collection, 3) model specification with selection and evaluation, and 4) monitoring, modification and re-characterization. The challenge for predicting the future is evident in the case company procurement and the previously mentioned factors by Liu aren't completely under control currently. The internal information sharing and comprehensive co-operation with other departments of the case company are vital for better demand characterization. The external information

gathered by the case company resources should be freely available for decision making process for each resource.

The early supplier involvement could be interpreted from the supplier feedback in the questionnaire as some of the respondent pointed out that they would be interested to participate more and in previous state, e.g. in R&D phase already. The case company might benefit of the early involvement as according to van Weele (2010, 230) the early supplier involvement in new product development results shorter development lead times, higher product quality and a shorter time to market. All these factors would be highly beneficial to the case company and the required recourses should be nominated for it. The early supplier involvement has been tried for some new products of the case company, but the procedure is not yet regular or controlled. The benefits from the early supplier involvement can be divided into short-term and long-term benefits, in which the previously mentioned could be categorized to be short-term benefits. The long-term benefits may result from joint research programs on new technologies, aligning technology strategies and roadmaps, and the ability to work with these technology suppliers on a gain and risk-sharing basis. (van Weele 2010, 230.) In author's point of view the supplier commitment could be at the highest level if the early supplier involvement would be in regular use and the long-term benefits could be realized.

The four key areas of measuring the purchasing performance are a price/cost dimension, a product/quality dimension, a logistics dimension and an organizational dimension (van Weele 2010, 307). The scope of this thesis research, the supplier co-operation is included into logistics dimension. Supplier evaluation and vendor rating are techniques used to monitor and improve supplier performance (van Weele 2010, 308). Purchasing performance measures and reporting systems need to be tailored to the specific needs of the company (van Weele 2010, 309). The case company has good start on purchasing performance measuring with the supplier surveys. Naturally the actions based on the survey results need to be studied profoundly and addressed for development targets. The case company strategy update is supporting the development of the performance development and most likely the outcome should indicate even better supplier satisfaction on the forthcoming years.

5.2 Conclusions

The reliability of this study is difficult to assess as some of the received supplier feedbacks are open to interpretations and the repeatability under exactly the same circumstances might be challenging. The business environment of the case company is continuously changing and the company business focus is developing accordingly. The company has introduced a new strategy in January 2014 and it most likely create a new environment for the supplier co-operation for the forthcoming years. In spite of these changes, this study indicates the development from year 2012 to 2013 in case company supplier co-operation relationships and it is, therefore, justified.

The first research question defines and discusses, the concept of supplier co-operation and the influential factors by finding support on theoretical literature. The case company specific characteristics of the supplier co-operation were in addition introduced via the supplier satisfaction questionnaire survey results. Generally, most theoretical characteristics of the supplier co-operation are typical for the case company. The second research question was discussed and detailed differences in results between 2012 and 2013 were introduced. The suppliers of the case company mainly had similar experiences and opinions in both years of the questionnaires. The variation in their replies was rather modest.

This research concentrates on the customer supplier relationships, in which the case company has the customer role. The relationships between the different active suppliers of the case company are not included. Furthermore, the classification of the supplier relationships is purely based on the supplier satisfaction surveys questions i.e. the length of the co-operation in years and author does not interpret the existing relationships in other ways.

The supplier co-operation normally requires development and changes to meet the challenges the companies face in the fierce business environment. According to Bowersox et al. (2007, 374), the most difficult job of all companies might be managing change in the organization. Managers must develop new skills, whether the change is strategic, operational or personnel, that allow them to implement change without disrupting the

focus of the organizations. The case company is currently under a significant change of the business orientation which has a direct impact on the company's organizational structure. The future development of the procurement and the supplier co-operation is directly dependent on the change management skills of the company management. The analyses of the executed supplier satisfaction surveys indicate that the company procurement is currently professional and is able to meet the logistics challenges. Developing the company procurement at the next level, benefiting the company suppliers in addition, does require profound management commitment and clear procurement strategy for the forthcoming years. The development of the procurement processes requires increase in resources as the current personnel are mainly occupied by the daily and near future challenges and have limited capability for long-term development.

The case company has had the will to maintain long supplier relationships. As discussed previously, the supplier co-operation development to be successful requires some time. Long-term relations have been supportive to the company's vision and strategy. Furthermore, the existing limited resources of the procurement have been supportive to the long supplier relationships, as the daily business does require less efforts than the new relationships would. The continuity has obvious benefits for the relationship and co-operation. Some of these long-term suppliers have been invited to participate in the development work of the products and/or the business processes. According to the future orientation of the case company business the amount of long-term supplier relationships most likely is to be decreased as the company core business is to be changed from the previous one. The increasing project business of the case company creates different requirements for the purchasing components and valid suppliers. The traditional production of the case company is to be re-designed nearly for each project to fit the unique customer requirements for the certain project and, therefore, the production series size is most likely to be decreased into single components. The current benefit of the company's own production facilities are the cost-efficiency in addition with the low production series, but all the project requirements cannot be produced by the company itself, but purchased from the valid suppliers. The procurement professionals are at that point challenged to optimize TCO with very low order quantities and challenging short lead-times.

The supplier co-operation and the development of it is notably dependent on the

purchasing and procurement strategy. The procurement strategy might include the definition to the desired supplier co-operation and plan for the development. For the coherence purposes it is important to see the forest for the trees. The procurement of the case company is currently starting to form a new strategy including e.g. the code of conduct, which is most likely further develop the supplier co-operation of the case company. The code of conduct does define e.g. ethical values and environmental issues.

Building and executing competitive purchasing strategy require experienced personnel with capacity to develop. The successful supplier co-operation is based on the thoughtful actions derived from the strategy. A chain is only as strong as its weakest link and, therefore, each link, i.e. purchasing professional, has to be evaluated and further developed if needed. To strengthen the existing procurement resources, which has been found out to be inadequate in developing purposes, the case company is now searching three new professionals. These new strategic and operational buyers are going to have the global experience of sourcing with good communication and professional skill and are completing the competence of the current procurement team. Today, each person has to recognize the fierce business competition the companies are operating in and if one is not part of the solution, one is part of the problem.

The purchasing effectiveness is defined as the extent to which, by choosing a certain course of actions, a previously established goal or standard is being met (van Weele 2010, 303). The supplier co-operation is one significant part of these actions defining the purchasing effectiveness. Currently the case company is not measuring the purchasing effectiveness or supplier co-operation efficiency, but the team itself has the knowledge of the status. The benefits from measuring the purchasing effectiveness could create according to van Weele (2010, 204), a better decision-making process, better communication with other departments, more visible and better motivation. The author's perceptions and knowledge created through the work experience are in agreement with the suggestion by van Weele (2010, 204). Most likely the purchasing effectiveness of the case company is to be measured in the near future in more details than today as the company's new strategy introduces the category spend ideology in the first time.

According to van Weele (2010, 236), buyers are important scouts for any organization in

view of spotting new technology developments, as they are generalists and come to contact with suppliers, products and technologies more frequently than engineers, who are specialists. The successful supplier co-operation requires the parties to be up to date at all times concerning e.g. technology in use. Otherwise, the competitiveness might be lost. Therefore, the constant and profound co-operation between R&D and procurement is vital for the companies generally, as well for the case company. It is supporting the early supplier involvement, discussed previously, to gain the benefits for the company.

When a major part of the firm's revenue is spent on material and services, supply management represent a major opportunity to increase profitability, in other words the profit leverage effect (Bozarth & Handfield 2013, 211). The successful supplier co-operation is key element in supply management. Global sourcing has been the common trend already for some years and the main reason for it has been the optimization of the profitability. Profitability is the common goal for all co-operation parties in normal business. According to Hughes, Ralf and Michels (2000, 76) the global sourcing should not be the sensible approach and solution just because it is theoretically possible. They point out that the local supplier development may be a more effective option in value delivery than sourcing every corner of the globe to find suppliers already capable of meeting the company needs (Hughes & Ralf & Michels 2000, 76). The company has to consider how they are using the company resources in procurement, since the global sourcing requires more time and resources than evaluating the local possibilities.

One of the recognized and recently published future tasks for the procurement of the case company is presented in figure 7. The need for supplier pool is obvious. The development of the supplier co-operation in the future requires the classification of the current supplier base. As discussed previously, the current suppliers might not be enough to satisfy the future requirements of the case company. Currently the active suppliers of the case company are not yet officially classified, which might complicate the procedure for other company people involved in supply chain processes. The procurement team in Finland is rather well aware of the existing supplier base and the qualification of the factors, but e.g. the subsidiaries are missing this information.

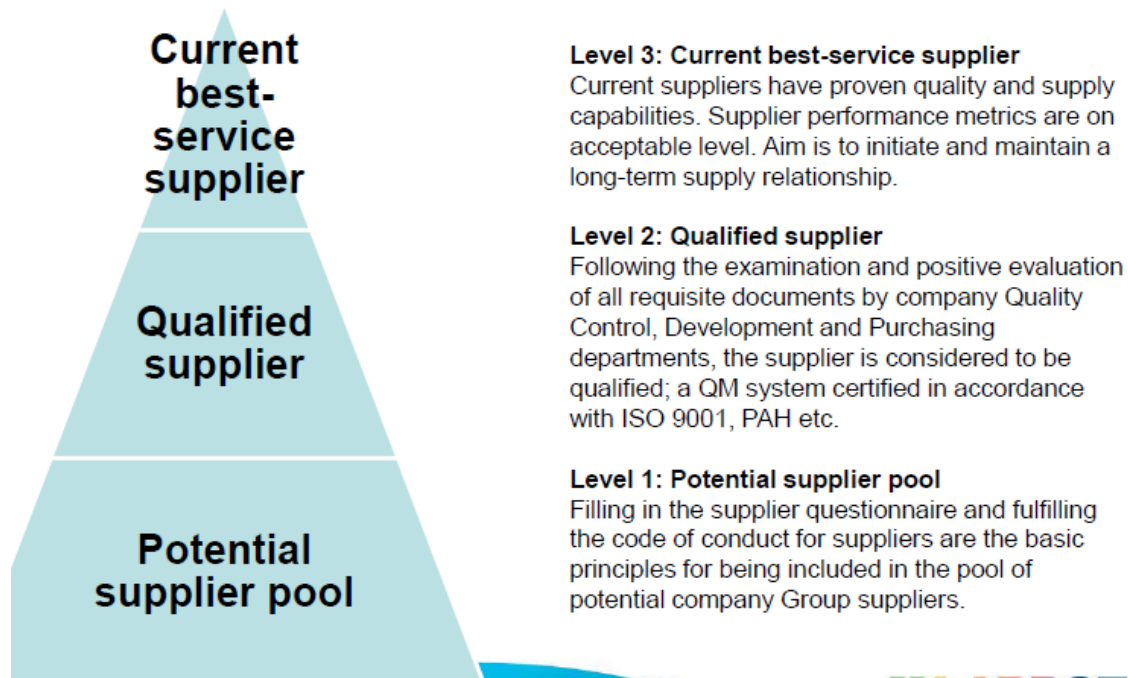


Figure 7. The supplier pool (internal material of the company)

The reason why the supplier pool, as is illustrated in figure 7, has not been previously established, is mainly resource shortage. Furthermore, the forthcoming enlargement of the procurement into the indirect purchases of the whole group creates the need for the supplier pool.

The development of the supplier co-operation in the future would require a detailed analysis of the existing suppliers and their products or services. “Spend analysis is the application of quantitative techniques to purchasing data in an effort to better understand spending patterns and identify opportunities for improvement”(Bozart & Handfield 2013, 214). The management of the company might state the following questions to procurement for spend analysis purposes: “What categories of products or services make up the bulk of company spending? How much are we spending with various suppliers? What are our spending patterns like across different locations?” (Bozarth & Handfield 2013, 214.) The procurement of the case company has been handling and discussing spend for some time already. The team is aware of the total distribution of the purchases and the supplier’s role in the total entity. The feedback from the suppliers, received via the supplier satisfaction surveys, is notably helping the company procurement to investigate the current state of the co-operation and create the development plan for the

future. The cost structures, internal processes and ways of working between purchasers and suppliers are becoming crucial factors contributing to business profitability (Hughes & Ralf & Michels 2000, 117).

Communication, the foundation of the supplier co-operation, can be easily considered to be effortlessly managed and under control. The feedback from the suppliers of the case company does support the importance of the smooth communication between the business parties. The challenges of the cultural diversity and complex documentation might come as a surprise for the unexperienced. The communication between long-term partners in the same cultural area is evidently more effortless than the similar co-operation between new parties with a different cultural backgrounds. The impact of the globalization on the communication has to be personally experienced to realize its multiplicity.

Openness, one key factor of the successful supplier co-operation according to the results of the supplier satisfaction surveys, is based on the mutual trust, which becomes increasingly important as the companies become more dependent on each other. Developing trust, the base of the successful supplier co-operation, in a business-to-business relationships requires competent and experienced staff. Furthermore, business integrity and purchasing ethics are based on the consistency and reliability of the company business actions (van Weele 2010, 397). The case company has a certain role expectations from the society, which should form the foundation to all business activities including the company procurement and the supplier co-operation. The existing procurement guidelines are aligned to the company strategy, but the responsibilities, required actions and the group procurement coverage should be clarified in more detailed.

Realism is one of the main characteristics of the skillful purchaser, and the negotiations and supplier co-operation pose a great challenge to succeed if the expectations of the parties are not realistic. The development of the personal knowledge, the continuous education, is required to avoid misunderstandings, which still most likely occurs. In support of this requirement, Paul A. Allaire, the President of the Xerox on 1990's maintains: "We were fairly arrogant, until we realized the Japanese were selling quality products for what it cost us to make them" (Hughes & Ralf & Michels 2000, 97). The

purchasing professional realism assists to consider the bargaining power with the suppliers and creates the environment for the successful negotiations and forthcoming co-operation.

According to Liu (2012, 438), the fundamental aim of the ERP, enterprise resource planning, software is to automate the operational process of the company. The supplier co-operation is notably dependent on the operational processes of the customer company. The case company's current ERP has severe defects and the support for the operational processes is, therefore, inadequate. The results of the supplier satisfaction surveys do support the previous statement. Therefore, the amount of the manual operational actions is significant instead of efficient ERP automation. The situation, however, is going to be changed as the company management has decided to implement a new ERP on 2015. For allowing the case company to benefit from the new ERP, the most efficient project team is to be gathered for the implementation, including persons with experience from several different ERPs. This would enable the most efficient usage of the company resources. Furthermore, the wider usage of internet based communication and electronic data transmission could be one way for the case company to improve the outcome of the current resources. It might not be relevant to demand the same level of electronic data usage from all the suppliers in use, as the required contribution to establish the functional system might be more than the gained benefit from it would be. The fundamental target has to be improving the co-operation to the higher level with the strategic suppliers and, simultaneously, find the most effortless way to manage the other suppliers.

Purchasing performance measurement is important since it leads to a greater visibility and recognition by all other business functions. According to van Weele (2010, 322) the degree of sophistication in measuring purchasing performance differs among companies and a major factor influencing the parameters used to assess purchasing is the view which management holds towards purchasing. The procurement of the case company suffers from the recognition currently, but the positive development concerning the matter might be evident as the new strategy of the case company encourages to this behavior.

The environmental performance is becoming an important criterion in selecting suppliers as more companies become conscious of the importance of being environmentally

friendly. The suppliers' operations should be in compliance with environmental regulations and the personnel should be aware of the possible changes in the regulatory environment. Reducing packaging and promoting recycling are in addition part of sustainable supply characteristics increasing in importance for the companies. (Bozarth & Handfield 2013, 229.) The sustainable purchasing is, according to van Weele (2010, 388), about buying a better future world, which supposes the companies just going for their economic benefits only are not accepted by the general public any more. The case company could be stated to be partly a pioneer in the implementation of sustainability as it has been one part of the company values for years already. The challenge is to keep the whole logistics chain environmentally friendly and conscious, as part of the supplier's suppliers are not known and visible for the case company. In these kinds of cases the purchaser can only rely on the promise of the first supplier to keep their co-operation partners businesses under control and align with the purchasers requirements.

According to Bozart and Handfield (2013, 231) purchasing professionals perform every year fewer procure-to-pay activities and spend more time on strategic sourcing activities such as spend analysis, supplier evaluation and selection, and make-or-buy decisions. These activities require individuals with a solid mix of quantitative and interpersonal skills. (Bozarth & Handfield 2013, 231.) The case company has partly started the work of strategic sourcing, e.g. the supplier satisfaction survey can be stated to be one part of the supplier evaluation process.

The successful supplier co-operation requires, as discussed previously, e.g. skillful resources. The actions and plans of the company procurement, e.g. supplier co-operation, should be based on the company strategy. The business actions planning are happening in several levels, which each covering a certain period of time into the future. Strategic planning takes place at the highest levels of the firm and the needs it indicates might not be visible for years into the future. Tactical planning covers usually 12 to 24 months period and is typically more detailed plan than the strategic plan. Detailed planning and control covers time periods in very near future even with few hours out. (Bozarth & Handfield 2013, 315.) Currently the case company procurement planning does not cover the strategic level, but is concentrating into detailed planning and controlling. The current restricted team personal resources does not allow strategic planning, but some tactical planning is included into the daily activities. The evident development target for the

company procurement in the future is to evolve the planning from detailed daily planning into the strategic planning. This development would certainly assist the improvement of the supplier co-operation from current good level to the excellent level, reaching the partnership with suppliers of strategic importance. Only the strong survive in today's fierce business.

5.3 Proposals for further research

One of the recommended actions to the case company would include further analysis of the different factors influencing the total outcome of the order-delivery process. One aspect for the supplier co-operation development could be TCO and, therefore, it is in addition discussed in this thesis research. The profound understanding of the supplier creates wider perspective to the influential factors and further to TCO. It would be like walking on eggshells if the supplier satisfaction survey results of the case company would not be processed and interpreted widely against the existing theoretical literature.

Development of the supplier co-operation should increase the knowledge of e.g. the costs and factors of the supplier product processes. The supplier co-operation should be based on the profound understanding of the business characteristics of the supplier. Without the knowledge the development work might be difficult to execute. Total cost analysis is a process by which a firm seeks to identify and quantify all the major costs associated with various sourcing options (Bozarth & Handfield 2013, 219). Some signs of this analysis can already been found out in the case company new strategy for 2016 which aims for TCO decrease with. However, the analysis procedure is currently at elementary level and need further development to serve better the strategic targets of the case company. The indirect costs are not tied directly at the level of operations or supply chain activity (Bozarth & Handfield 2013, 220) and are the most challenging to recognize and include into TCO for the case company. International sourcing, especially from low-cost countries, is many time reducing the actual manufacturing costs via low wages, but the procurement professionals has to point out to the management the cost impact of e.g. transportation, inventory and possible local political and legal constrains to the product total cost (Bowersox & Closs & Cooper 2007, 293). Total cost integration provides a framework for simultaneous integration of logistics, manufacturing, and procurement

costs (Bowersox & Closs & Cooper 2007, 318). According to the case company new strategy, this integration is the company goal in the way of development towards decreasing TCO.

As discussed previously, the supplier co-operation consists of several different factors. The supplier quality assurance (hereinafter SQA) is all activities conducted by a company to arrive at a zero defects quality performance in its relationship with suppliers (van Weele 2010, 241). This procedure might be beneficial for the case company in the future. SQA could improve the current supplier quality performance level and via that in addition the overall supplier co-operation in the future. The implementation requires tight co-operation with the company quality and R&D departments. Simultaneously, it has to be considered what would be the actual desirable level of the quality performance, and if the company is willing to invest enough to gain zero defects. According to the author's experience the zero defects level might not be really necessary to the case company, but could be used as a tool to improve the current situation. The current resources of the procurement team need to be profoundly introduced into the ideology of SQA to achieve the best performance possible and truly improve the long-term quality performance of the suppliers.

The development of the supplier co-operation requires the development of the procurement of the company. The knowledge and capabilities of the resources are in a key position in the development work for the supplier co-operation. "Category sourcing is at the heart of any professional purchasing organization these days" (van Weele 2010 207). Organizations are looking for better performance from suppliers with category sourcing. Category sourcing programs focus on where to go for single sourcing, global sourcing or partnership. Successful companies tie their purchasing and supplier strategies to their overall business strategies and suppliers should support their customers' business strategies in the best way possible. (van Weele 2010 222.) Spend analysis, discussed previously, is the foundation for the category sourcing. The case company has found out the category sourcing possibility in the way of improving the supplier performance, but the actual work concerning the matter is still in very beginning. Figure 8, recently published as part of the case company new strategy, is indicating the company category sourcing in the near future.

Category management - Group Spend Strategic Sourcing & Procure to Pay P2P

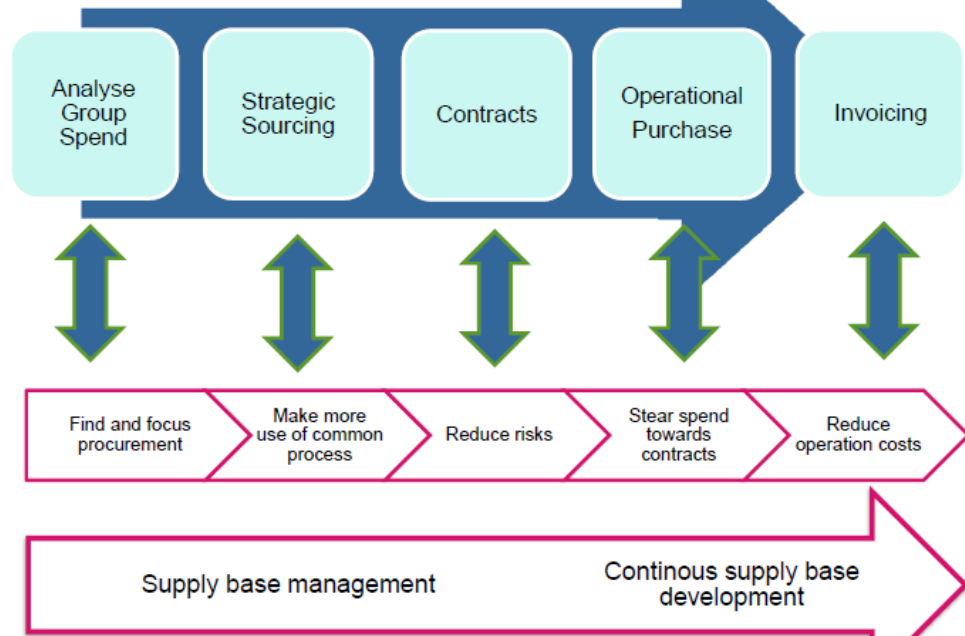


Figure 8. Category management (company internal material)

Purchasing needs to become increasingly integrated into line management and the major business processes (van Weele 2010 223). The integration of the purchasing is one part of the case company new strategy, and therefore, the procurement role in the future is to be as important as the other functions are currently. The recently published, see above, material does support the development plans and the procurement significant role in it.

According to Hughes, Ralf and Michels (2000, 120) the effective and sustainable cost reduction is not just about applying the pressure on suppliers and the only successful way forward is to transform the purchasing activity fundamentally from its often narrow, functional focus into a more strategic and business-driven process. This has been realized in the case company. TCO approach does not solely place the cost pressure to the supplier, as the aim is to optimize the whole cost structure from the beginning, the design of the product, to the end, e.g. the after sales services. Furthermore, the new company strategy indicates the procurement position as important part of the logistics chain and the successful supplier co-operation significance is recognized. The concrete development

from operational department into strategic actor most likely takes some time and the upgrading of the purchasing role in the case company happens step by step.

As discussed previously, the successful supplier co-operation has direct impact on the turnover of the company. Bringing permanent change in cost structures involves introducing new practices, challenging established procedures and creating more demanding expectations of what has to be achieved, all these starting with senior management commitment (Hughes & Ralf & Michels 2000, 122). The more demanding expectations have been the start for the case company with new strategy and hopefully support from management is shortly to be visible for the procurement. According to van Weele (2010, 321), a procurement organization and purchasing cannot be in control without a clear vision of the purchasing functions with a purchasing strategy and action plan supported by the company management. The commitment and the fundamental support from the management seems to be, based on the several sources, the foundation for the procurement to take its justified position in the logistics chain and carry out its vital actions to fulfill the company aims in developing the supplier co-operation and increasing the turnover of the company.

Supplier co-operation is one part of the logistics operations of the company. According to Bowersox et al. (2007, 396) effective management of logistics operations and supply chain integration requires establishment of a framework for performance assessment and financial controllership. This framework then provides the mechanism to monitor system performance, control activities, and direct personnel to achieve higher levels of productivity. The procurement and other parts of the logistics chain of the case company are currently lacking the logical and clear framework for the required activities. Partial logistics actions and operations are under control, but, simultaneously, the overall general view of the target state is unclear. E.g. the tools for the performance assessment are currently under investigation, and to be chosen and applied in the near future, which most likely, clarifies the overall situation. The role of the suppliers, as discussed previously, is evident for the company success and, therefore, the development of the supplier co-operation should be one part of the performance assessment of the procurement.

The constant development of the supplier co-operation requires systematic and profound

documentation. One appropriate tool for the development would be the code of conduct, which indicates the common procedures covering all the company employees and their actions. The code of conduct in the case company would define the responsible sourcing and, simultaneously, would provide the guidelines for the future supplier co-operation. Code of conduct of the case company is not currently defined and written out, but the need is evident and actions is to be taken accordingly shortly.

Effective procurement strategy to support supply chain operations requires a close working relationship between buyers and sellers, the collaboration between supply chain partners should be substantial and continuously improving (Bowersox & Closs & Cooper 2007, 84). According to Virolainen (1998, 202) "... a systematic way must be found to develop an integrated procurement strategy that will enhance procurement management to achieve competitive advantage." The case company hasn't had valid established procurement strategy, the actions have been based on the previous operations and changed to be suitable for the existing situation. The new company strategy, established on January 2014, actually introduces the first written procurement strategy for guiding the team actions towards the common goal of decreasing TCO by 10 per cent by the year 2016.

One of the main factors in developing the company business, procurement and supplier co-operation is the organizations, especially the managements, willingness to act. It is not enough if the company has the required tools and information for the development work, but either the desire or will are missing. The long-term orientation has to be clear so that will can be formed. To conclude this study the author wants to highlight that - If there is a will, there is way, but we must remember that Rome was not built in a day and, therefore, the case company needs reasonable time to take the next step for developing the procurement and via that in addition the supplier co-operation even to better level as currently.

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