

Master's Thesis

Emmi Einonen, 2016

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**OPPORTUNITY ANALYSIS AND CATEGORY MANAGEMENT AS A BASE
FOR EFFECTIVE INDIRECT SOURCING**

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Hankintojen johtamisen kirjallisuus korostaa tehokkaan hankinnan olevan käypä keino tehostaa organisaation tulosta kokonaisvaltaisesti. Myös kasvava tietoisuus erityisesti epäsuorista hankintamenetelmistä ja työkaluista toimivat kannustimina tälle tutkimukselle. Tämän Pro Gradu -tutkimuksen päätarkoituksena on rakentaa kokonaisvaltainen ymmärrys epäsuorasta hankinnasta sekä löytää keinoja sen tehostamiseksi. Tutkimuksen tavoitteena on selvittää, miten globaali, monikansallinen organisaatio voi parantaa kannattavuuttaan epäsuorissa hankinnoissa, sekä mitkä tekijät hankintastrategiassa vaikuttavat siihen.

Tutkimus toteutettiin yksittäisenä tapaustutkimuksena suuren globaalin, monikansallisen yrityksen työntekijän näkökulmasta, Pääosa datasta pohjautuu vuonna 2015 toteutettuun Opportunity -analyysi projektiin, joka toteutettiin yhteistyössä ulkoisen konsulttifirman kanssa. Osa datasta pohjautuu puolistrukturoituihin haastatteluihin organisaation hankintajohtajan kanssa. Datan keruussa hyödynnettiin lisäksi henkilökohtaista havainnointia ja sekundääristä aineistoa organisaatiosta. Tämä Pro Gradu tutkimus on toteutettu kvalitatiivisella otteella, sisältäen joitakin kvantitatiivisia metodin piirteitä.

ABSTRACT

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Literature emphasizes that effective sourcing may be a way to improve organization's outcome comprehensively. Also growing awareness towards indirect sourcing methods and tools are good incentives for this study. The main purpose of this Master's Thesis is to build a coherent view and understanding of managing indirect sourcing effectively and to find ways to improve its effectiveness. The aim of this thesis is to examine how a global, multinational organization can increase the efficiency in its indirect purchases and which factors and parts of sourcing strategy affects in that.

The research is conducted from the employee's perspective, in the context of large, worldwide case company. Research was conducted as a single-case study, where primary data was collected from the results of simultaneously ongoing opportunity analysis project. That project was made during summer 2015 by an external consulting firm in-collaboration with case company itself. Also some data was collected by semi-structured interviews with the sourcing manager. Personal observations as well as secondary documentation concerning case company, was utilized too. The empirical study was conducted by using mostly a qualitative method, but a number of quantitative traits can be observed.

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*“To acquire knowledge, one must study;
But to acquire wisdom, one must observe”
– Marilyn vos Savant*

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TABLE OF CONTENTS

1 INTRODUCTION	8
1.1 OBJECTIVES AND RESEARCH QUESTIONS.....	10
1.2 DELIMITATIONS AND KEY CONCEPTS.....	11
1.3 LITERATURE REVIEW.....	13
1.4. STRUCTURE OF THE THESIS.....	15
2 STRATEGIES BEHIND INDIRECT SOURCING	17
2.1 SOURCING STRATEGY.....	17
2.1.1 <i>Indirect sourcing versus direct</i>	22
2.1.2 <i>Centralization versus decentralization</i>	27
2.2 SUPPLY CHAIN MANAGEMENT	30
2.2.1 <i>Supply chain management concept</i>	30
2.2.2 <i>Determining the optimal size of supply base</i>	32
2.3 EFFECTIVE SOURCING – PURCHASING MATURITY	35
3 APPLICABLE STRATEGY TOOLS	40
3.1 PURCHASING PORTFOLIO ANALYSIS.....	40
3.2 OPPORTUNITY ANALYSIS	46
3.3 SPEND ANALYSIS.....	47
3.3.1 <i>United Nations Standard Products and Services Code</i>	49
3.3.2 <i>How to use spend in sourcing strategy creation?</i>	51
3.4 CATEGORY MANAGEMENT	52
3.4.1 <i>How to form categories</i>	54
3.4.2 <i>How to create a sourcing strategy based on categories</i>	56
3.4.3 <i>How to manage categories</i>	61
4 EMPIRICAL STUDY	64
4.1 RESEARCH METHOD AND SURVEY MATERIAL	64
4.2 RESEARCH PROCESS AND STRATEGIC FRAMEWORK.....	67
4.3 THE TARGET COMPANY	69
4.4 THE FIELD OF BUSINESS ENVIRONMENT	70
4.5 CURRENT SOURCING STRATEGIES IN CASE COMPANY	70

5 TOWARD DEVELOPED SOURCING STRATEGIES.....	74
5.1 OPPORTUNITY ANALYSIS PROJECT PHASES.....	74
5.2 OPPORTUNITY ANALYSIS FINDINGS.....	78
6 METHODS FOR EFFECTIVE INDIRECT SOURCING.....	83
6.1 SPEND AND PROFITABILITY	84
6.2 CONTRACT AND SUPPLIER MANAGEMENT.....	86
6.3 STRATEGIC SOURCING.....	88
6.4 CATEGORY STRATEGY	91
7 CONCLUDING DISCUSSION.....	103
7.1 SUMMARY OF THE FINDINGS	103
7.2 LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE RESEARCH	108
REFERENCES.....	110

APPENDICES

Appendix 1. Interview Questions

Appendix 2. Follow-up Questions

LIST OF FIGURES

- Figure 1. Sourcing process chart (Person A, 2015)
- Figure 2. Differences on sourcing strategy (Person A, 2015)
- Figure 3. Centralized sourcing model modified from Dai et al. (2005)
- Figure 4 Decentralized sourcing model modified from Dai et al. (2005)
- Figure 5. Supply Base Reduction, modified from original material by ISM (2005)
- Figure 6. Purchasing maturity model by Úbeda et al. (2014)
- Figure 7. Kraljic's stages of sourcing sophistication, modified from original
- Figure 8. Kraljic matrix
- Figure 9. Indirect sourcing pillars by Person A (2016)
- Figure 10. Spend data management process, modified from original by Aberdeen group (2004)
- Figure 11. Effective category strategy development, modified from original by Carter et al. (2007)
- Figure 12. Characteristics of direct sourcing categories adapted by Person A
- Figure 13. Characteristics of indirect sourcing categories, adapted by Person A
- Figure 14. Collected data categorized by regions
- Figure 15. Interviewed employees for OA project
- Figure 16. Research model, modified from original by Stuart et al. (2002)
- Figure 17. Theoretical framework
- Figure 18. Map of the regional procurement of case company
- Figure 19. Stages of opportunity analysis approach
- Figure 20. Categorization approach
- Figure 21. Data sources
- Figure 22. Spend by region, 2014
- Figure 23 Category proposals created during OA project
- Figure 24. Possible sourcing levers for case organization
- Figure 25. Main differences in case company's direct vs. indirect sourcing methods
- Figure 26. Effective category management process
- Figure 27. IT & Telecoms subcategories

LIST OF SYMBOLS AND ABBREVIATIONS

CIPS	Chartered Institute of Purchasing and Supply
CM	Category Management
ERP	Enterprise Resource Planning
KPM	Kraljic Portfolio Matrix
MRO	Maintenance, Repair and Operations
OA	Opportunity Analysis
OD	Organizational Development
PPM	Purchasing Portfolio Model
SCM	Supply Chain Management
SRM	Supplier Relationship Management

1 INTRODUCTION

Sourcing and its management have experienced a major change in the past decades. Hopkins (2011) writes that sourcing management has advanced from just-in-time philosophy (in 1980's) to outsourcing (in 1990's) until e-business on behalf of the development of the Internet. Evolution of the Internet has enabled new business operating models for the organizations as well as for the customers. (Hopkins, 2011) Also the importance of effective sourcing management and its impacts to organization's success has increased, as has the importance of understanding the change.

The role of sourcing has been undergone an immense change during decades. Strategic sourcing has become one of the key drivers of organization's competitiveness. Kaufmann et al. (2014) and Azadegan et al. (2013) write that sourcing spend can represent even more than 50% of total expenses for organizations and that is why sourcing strategy should have a prior role in organizations. According to Junnonen and Kankainen (2012), thought mainly in construction industry, sourcing covers generally at least 60 to 80 per cent of the project's total costs. In ITC - companies, rates can be even higher.

However, the sourcing focus has still been more towards direct material suppliers and supply chains than in actual indirect sourcing. That is because the indirect sourcing has been seen strategically less important and with lower volume of transactions (Puschmann and Alt, 2005). According to Subramaniam and Shaw (2004) sourcing practices related indirect goods and services have been under impact of many challenges, such as ineffective or non-strategic buying. That may cause inconveniences, because indirect purchases can be even 30 to 60% of the organization's total expenditures (Orr, 2002). Especially when only the service spend can rise itself till 60% of the organization's total purchases.

In late 1990's Fitzsimmons et al. (1998) recognized that in many firms sourced value of services has been growing. Agndal et al. (2007) added that a big share of services earlier performed by the company itself, are now outsourced. That out-

sourced part contains not only the basic indirect services, like security or cleaning, but also the more complex capabilities. They also found out that the relatively new trend is to outsource even business processes strongly related to organization's core competencies; for example customer service or R&D activities. (Agndal et al., 2007)

While the markets are continually changing, customer needs and demands must be identified and understood. Customer value, quality of the products and services, continuous co-operation with suppliers and also the increased awareness of sustainability are issues that have become salient not only when considering merely the sourcing process but also the influences to the cost structure of sourcing. (Van Weele, 2005)

It is significant to note that the changes in sourcing, has covered changes in relationships with the suppliers. In recent years relationships with suppliers have developed rapidly from arm's length relationship to collaborative and effective interaction with each other. Based on this, Whipple et al. (2015) suggest, that while supply chains and relationship with suppliers become more complex, has the management of buyer-supplier relationship become more essential: "*firms continue to recognize the need for strong relationships with their supply chain partners as a means for managing the complexities involved in today's competitive global markets.*" (Whipple et al., 2015)

Recently an increasing number of tools have been developed to respond on the changes in organizations' sourcing features. For this Master's Thesis the most essential tools are spend analysis, opportunity analysis and category management. These tools and their use will be examined from different angles as the study progresses.

1.1 Objectives and research questions

Objective of this Master's thesis is to study and then recognize the possibilities to boost the profitability of indirect sourcing in case company. The aim is not only to recognize already used methods but also to create new methods and possible tools for the organization's everyday use. This target is supposed to be achieved by a category planning process and the utilization of the results of the opportunity analysis carried by the external consult firm.

In order to achieve these objectives, a set of questions is set to lead through the subject.

Main research question:

How to increase efficiency of indirect sourcing in a global company?

By answering following sub-questions author seeks to find answer to the main research question.

Sub-question:

How to identify indirect spend versus direct spend?

Second sub-question:

What kind of strategic actions are applicable in indirect sourcing?

Third sub-question:

How to manage sourcing categories?

Through these questions the efficiency and profitability of indirect sourcing and useful indirect sourcing tools are discussed in this research. The questions will be answered through both theoretical and empirical study. The findings will be presented and discussed thoroughly in chapters 6 and 7.

1.2 Delimitations and key concepts

This research is performed in one global ICT -company concentrating on the global indirect sourcing. It focuses on case company and the main aim is to provide an overall picture of the indirect sourcing strategies used by the organization and to identify the challenges and opportunities of the sourcing in this global organization. The focus of the thesis is also in finding new ways to enhance case company's sourcing process and identify its major spend. It is important to determine the current state of the organization's sourcing activities in order to start designing possible amendments. Due to the exact scope, the research result cannot necessarily be generalized widely.

To limit the scope of the topic, the research is made from procurement perspective. If the study so request, financial and administrative aspects can be taken into account lightly. This is because the sourcing strategies and activities have to operate according to the whole organization's targets and towards the common goals and the business strategies of the organization. In case organization that shared common goals is called "*One Case Company*". However, the external environment of the thesis consist all the operations, which are not directly related to sourcing.

Key concepts:

Sourcing, procurement, supply and ***purchasing*** related terminology has not been fully established. Rather the concepts and their meaning are mixed. Therefore these concepts can have several meanings and unambiguous, generally accepted definitions, may not be found. Also the distinctions between these terms are minor and therefore not significant to this research. Though, it would be beneficial to build at least one definition for purchasing, procurement and sourcing, in order to move forward consistency.

Purchasing is traditionally connected to the process of buying (Axelsson et al., 2005; Van Weele, 2002). Monczka et al. (2005) see purchasing as a functional group or functional activity. Carr and Smeltzer (1999) specify that purchasing can

be a routine for an organization. In connection with that purchasing is an operational activity.

Originally **procurement** is seen as a more wider and strategic way to implement purchases than purchasing. Procurement consist the wide set of activities to derive materials and services from supplier into the company (Waters, 2009). For example supplier selection is part of the organization's procurement. Lysons and Gillingham (2003) provides a definition in which the purpose of procurement is to obtain materials of the right quality and quantity from right sources at the right time, place and price.

Sourcing has a very similar meaning with procurement and it can be said that these words are synonyms. In this research the main word used is sourcing, because it is the word which case organization uses to describe their buying related business operations. Therefore term sourcing acts as an umbrella concept for all indirect purchase operations in this study.

Direct sourcing covers all the direct components, which are involved in the manufacturing proceedings and related to the production of finished items. (Luitzen de Boer et al. 2003) Direct procurement is the traditional way to conduct purchases in organization. There are though several other terms for direct sourcing, such as production -oriented sourcing (Gebauer and Segev, 2000) or sourcing of goods and equipment.

Indirect sourcing can be defined as “-- any commodity or service that a company buys that does not result directly in finished goods.” (Neef, 2001) Indirect items or services do not effect directly on organization's manufacturing process, as they are the ones, which organization use daily basis; electricity and IT-related products. (Kim and Shunk, 2004) As in direct sourcing there are several terms to define indirect sourcing: non-revenue-generating, non-product related or support expenditure sourcing (Cox et al. 2005).

Category management is a strategic approach, which concerns organization spend. O'Brien (2013) defines category management as “a strategic approach that

focuses on the vast majority of an organization's spend on goods and services with third-party suppliers. It is a process-based approach and incorporates many familiar aspects of business improvement processes and change management." (O'Brien, 2013)

Opportunity analysis is a management tool to recognize and construct a sourcing strategy, which corresponds to the needs of organization.

Spend analysis is a tool to perform strategic sourcing. It creates the foundation for the company's spend visibility, compliance and control. It also organizes organization's sourcing information and identifies strategic sourcing opportunities. (Pandit & Marmanis, 2008) In other words, spend analysis is a process, which analyzes systematically organization's historical purchasing (spend) data.

Portfolio analysis and portfolio decisions are defined to be theories, models and practices, which are designed to help decision makers to make choices. These options are defined mathematically in a way that takes simultaneously into account the restrictions, recommendations and uncertainties (Salo et al., 2011). In simple terms, portfolio analysis is the application of a decision-making analysis to the decisions of the various portfolios, which consists projects, assets, opportunities or other objects (Keisler, 2011).

1.3 Literature review

There occurs a clear gap in category management research in the field of sourcing, particularly in indirect sourcing. Also opportunity analysis is unfamiliar topic for thorough research. This is because the purpose of opportunity analysis as a tool. It is mainly used by the purchasing professionals than a common sourcing method. It is an analyzing method that is used when organization wants to develop its sourcing strategies. Often the results obtained from the use of such a tool are confident, and will not be shared outside the organization. However, some research has been done in the field of category management and sourcing strategies. Albeit some studies exist, indirect spend is still much less discussed topic in the academic literature than direct, revenue-generating expenditure, spend.

Since 1980's sourcing has attracted the interest of researchers. The first scientific studies have most likely appeared in the 1980's. One of the first studies was implemented by Reck and Long in 1988. They named their study as '*Purchasing: a competitive weapon*', in which they discussed the impacts of purchasing and even considered ways to implement strategies.

Though, Peter Kraljic, one of the most known pioneers of strategic sourcing, wrote already in 1983 that: '*Purchasing must become supply management*'. However it still took years before the executives of the organization realized the importance of sourcing strategy in investment planning. Also van Weele (2000) recognized that: "since 1988 there has been a steady flow of ideas regarding the development of purchasing." He explains this is actually due to the growing interest of academics.

In spite of the increasing relevance of services, the constantly increasing amount of literature on procurement focuses on the sourcing of physical goods. Therefore, there are just a few empirical studies that deal with the acquisition of services. Notwithstanding, Gadde and Jellbo (2001) write that sourcing literature shows that the role of sourcing is changing and focus is moving towards more complex buying solution than just product purchasing.

However, the literature of supplier relationships, which is often framed as buyer – seller relationships, has developed. (Anderson and Narus, 1990) A lot has been learned about relationships processes, dynamics and structures. Individual relationships have also been seen more interesting and meaningful than before. (Dyer et al., 1998) Expectations between buyers and suppliers can be different and because of poor communications it only gets worse during the course of contracts or relationship. Therefore honest and clear communication between the parties is needed (Person A).

Even though portfolio management is not that new sourcing method (Kraljic, 1983) the scientific research of it is rather low. In other words, portfolio management has not been profoundly and extensively researched. (Nellore and Söderquist, 2000; Dubois and Pederson, 2002; Gelderman and Van Weele, 2002) However, a number of writers have written about portfolio perspectives in sourcing relationship

management (Gelderman and Van Weele, 2002; Dyer et al., 1998, Nellore and Söderquist, 2000). In this economic situation, when organizations are simultaneously facing turbulent environments and technology development, it is necessary to give more attention for portfolio perspective. (Wagner and Johnson, 2004)

That may be a reason, why sourcing portfolio models have received attention in both academic and business field when searching the most suitable strategies. Sourcing portfolios are simple to understand and they give practical advices (Dubois and Pedersen, 2002). Actually, Gelderman (2003) writes that even 74 percent of Dutch purchasers use portfolio analysis as a part of their sourcing strategy.

For this Master's thesis it was essential to read a wide range of studies and publications, in order to form a comprehensive understanding of the topic. Currently sourcing categories and category management seems to be a blind spot, which this thesis seeks to complement. In order to write this thesis and to gain a deeper understanding of sourcing, the materials collected included both English and Finnish publications. The collected materials, covered scientific journals, papers and books, blog posts and studies worldwide, thus publication years was limited from 1970's till present, favoring the latest studies. The main challenge was to recognize the prior articles and publications among the range of written literature.

What I discovered as an author is that existing literature is not highly plentiful and research in this area is not thriving. Often there were a few articles on some particular topic, but the research was more large-scale than thorough and exact. Also, authors using the divergent terms of sourcing for different purposes caused confusion. It proves that people still understand the sourcing in a different way.

1.4. Structure of the thesis

This thesis *starts* with an introduction chapter, which defines the research area overall, key concepts, research questions, literature review and the purpose of the study. Also delimitations are described to create an understanding of the prior context of the thesis. The empirical point of view has a strong presence in this thesis. Because the subject has not been studied thoroughly, especially in the field of ITC

-sector, existing theories and studies from other business fields will be utilized in order to create sufficiently comprehensive theoretical background.

The *second* chapter concentrates on sourcing strategies and stresses efficient, advanced procurement strategy. It also indicates the differences between the indirect and direct procurement and presents the central method for sourcing analysis: purchasing portfolio for category management.

Chapter *three* is dedicated to the introduction of strategy tools, which are utilized in this thesis: Opportunity Analysis, Spend Analysis, Portfolio Analysis and Category Management.

The empirical aspects of this study are detailed in chapter *four*. It starts with introducing the research methodology and survey material, continues with presenting research process and the strategic framework of the thesis. After that target company X will be presented and there will be discussion about the field of business. The chapter will be ended with the discussion of current sourcing strategies utilized before Opportunity analysis which will be represented in the chapter five.

Chapter *five* describes the case study overall. It focuses on characterizing the findings of Opportunity Analysis (OA). The section also describes in greater details the collected data and the project phases carried out during the OA process.

After describing the main findings of Opportunity Analysis, chapter 6 concentrates on the research questions regarding case organization. Author will then create a category sourcing strategy for the specific category and discuss about the sourcing spend and profitability, supplier management and effective strategic sourcing overall from case company's point of view.

The *last* chapter summarizes the content of the research and collects the findings together. Concluding chapter also presents ideas for possible future studies. Briefly chapter seven is dedicated to summarization, thorough conclusion and suggestions for further research.

2 STRATEGIES BEHIND INDIRECT SOURCING

In today's complex and uncertain business environment, sourcing strategy is playing an important role as the base of the success in the organizations' product and market growth strategy. Against this new and more competitive sourcing background the role of the sourcing strategy has increased and is still increasing significantly. (Axelsson, Rozemeijer and Wynstra, 2006; Burt et al., 2003) The management of organizations has a great responsibility in choosing and planning the most suitable strategies in their business context.

In this chapter the focus is on sourcing strategies and models including indirect and direct sourcing features. Chapter includes also discussion about the pros and cons of centralized and decentralized sourcing. After that the focus transfers to supply chain management, supply base rationalization and features of effective sourcing.

2.1 Sourcing strategy

Van Weele (2000) summarizes, that organization's sourcing structures especially in large companies are nowadays considerably different than in the 80's. He writes that in the 80's and early 90's concepts like purchasing portfolio management, supplier -partnerships, total cost of ownership, supplier involvement and cross-functional buying teams and other presently well-known sourcing related issues were still unknown. Since then, multiple amounts of new strategic and organizational concepts, in the field of sourcing have been elaborated. (van Weele, 2000) He also suggests that beyond any doubt sourcing structures will still change a lot and will be somehow different in the future.

The topic of organizational development (OD), in which the sourcing strategy is counted in, has been under discussion already since 80's by different researchers. Child et al. (1981) qualified that OD is the counterpart to the change. Basically it covers a complex educational strategy, which intend is to change the beliefs, atti-

tudes, values and structure of organizations. This is the base for organizations' ability to adapt new and better technologies as well as markets and challenges. This continuous improvement is composed of small steps which are designed systematically. (Child et al., 1981) On the other hand, Hammer (1993) argues that organizational development can take the form of business process reengineering or transformation management. The aim of reengineering is to restructure the whole business process when the aim of transformation management is to change organizational structures. These types of changes are normally expert based.

The development of the organization is a base for the development of the sourcing strategies, teams, methods and tools. Unfortunately still, particularly in small organizations, the role and importance of sourcing is minor and underestimated. One might say that the larger and more international organization, the more sourcing will receive attention.

After years of competing against local competitors in single markets, many worldwide companies find themselves now competing globally against other multinational firms. This sets sourcing strategy in a more prominent position in the organization. (Carr and Pearson 1999) Strategic sourcing enables better achievement of financial performance, as company's sourcing is executed more systematically, while saving company's limited resources (Carr and Pearson 1999). While the roots of organization's operation strategy are trackable back to 1960's (Skinner, 1969), sourcing struggled to achieve its role as a strategic function at least until 1980's (Watts et al., 1992). As many others, also Watts et al. (1992) argue that sourcing strategies have to be aligned with organization's other strategies, especially with corporate competitive strategy. Since 1980's, sourcing strategy has developed and it has been researched significantly more.

Compared for example to marketing, sourcing was at first seen a rather useless function (Ammer, 1974). At that time sourcing professionals had no power to decide on organizational sourcing decisions. Barath and Hugstad (1977) write that sourcing people truly had to fight for their entitlement within organization. Moreover, the sourcing activities of the agents were limited and agents were included in

the process at a very late phase. (Barath and Hugstad, 1977) Primarily therefore sourcing professionals had a low visibility. Feisel et al. (2007) draw conclusion: "sourcing was neither perceived as a function with high status, nor was seen as a priority of top management."

However Giunipero et al. (2006) stress that the role of sourcing has changed significantly. It evolved radically and is no more just a basic function but rather a tactical and strategic function. Sourcing professionals have enhanced their working habits towards more tactical sourcing and supplier development (Giunipero et al., 2006). Also the business executives have realized the opportunities and benefits of the sourcing function. Therefore, sourcing may have even the prior role in the organization's agenda in not too distant future. (Burt et al., 2003)

Terpend et al. (2011) rely in their paper on Mintzberg's (1978) definition of strategy and use it in the field of original direct sourcing. Mintzberg (1978) defines strategy as "*a pattern in a stream of decisions*". He also suggests that those patterns become visible and progress over time. Therefore, Terpend et al. (2011) propose that sourcing strategy is experienced by the decisions made by the professional sourcing team, during the sourcing process, while both internal and external restriction in the business environment, are taken into account. (Terpend et al., 2011) However, the way Terpend et al. (2011) view the sourcing strategy is rather limited. In their opinion sourcing strategy "*-- consists only supplier selection and relationship management decisions made by industrial buyers in support of corporate competitive strategy*". On the other hand, they note that strategy is not accomplished at once, but rather developed gradually. (Terpend et al., 2011)

Eltantawya and Giunipero (2013) suggest that there are three alternative approaches on organizations to execute their sourcing strategy. 1) Traditionally the organization's main focus in these strategies has been if organization should out-source manufacturing or to retain it in the organization. 2) The second focus is associated on the cooperation between the suppliers and company. 3) And the third approach is related to the various elements of strategic sourcing. These approaches of purposeful strategic sourcing have been obtaining competitive ad-

vantage to organizations, with an aim of attaining goals for both, to the firm and its suppliers (Eltantawya & Giunipero, 2013).

In accordance with the above, the development of professional purchasing function, strategies and sourcing teams in organization are going to be more vital to survive in the changing environment in future. Burt et al. (1993) observed already three decades ago that organization's sourcing function development should be analyzed from multiple aspects.

Also decision-making in sourcing has become more knowledge and proficiency driven. Organizations are giving more responsibilities to sourcing professionals and at the same time requiring different skills and knowledge in order to achieve excellence in sourcing. Carr and Smeltzer, 2000; Giunipero and Percy, 2000) In addition to these, sourcing knowledge has attracted growing attention. Unfortunately, still most of the research in this field has been quite forthright and concentrate on identifying ideal skills. (Axelsson, Rozemeijer and Wynstra, 2006) It might be more important to research how to measure and elaborate these skills, as workers' own knowledge and competences are in an important role in strategic sourcing. Whitehead (2006) present doubts, that there is still lack of sourcing experts in many organizations.

It is recognized within the literature on sourcing that the changes in ambient business environment have impacted the sourcing function (Tassabehji and Moorhouse, 2008). Both Zheng et al. (2007) and Sundtoft Hald and Sigurbjornsson (2013) represent that the key forces for the changes in sourcing are resulting from increased globalization, growth in outsourcing, new requirements for sustainability and new advantages brought up by evolving technology. Therefore the sourcing function and strategy have to transform to respond on these changes. Part of this change is to move away from commercial, price -focused role toward cross -functional collaboration including both internal integration and external integration and relationship management. (Tassabehji and Moorhouse, 2008) Some organizations have become mere strategic in nature while others are struggling with the progress (Giunipero and Percy, 2000).

Due to all this, the role of the purchaser has moved from a mere price, delivery and quality focused buyer (Cousins et al., 2006) to a sourcing professional, which is managing strategic, long-standing and compound agreements among internal collaborators and suppliers (Faes et al., 2001) Overall, it can be said that purchasers are becoming sourcing managers, who are operating in dynamic surroundings and acting as agents of change (Driedonks et al., 2010) and procurement as a profession is developing more complex and sophisticated. (Mulder et al., 2005)

The sourcing implementation and processes may vary according to the type or function of purchasing. Andersson and Norrman (2002) write in their study that companies should analyze the impact of various procurement processes to enable enterprises to understand what resources, routines and competencies are needed to perform productively the processes related to certain categories. Following figure represents the Person A's idea of overall sourcing process:

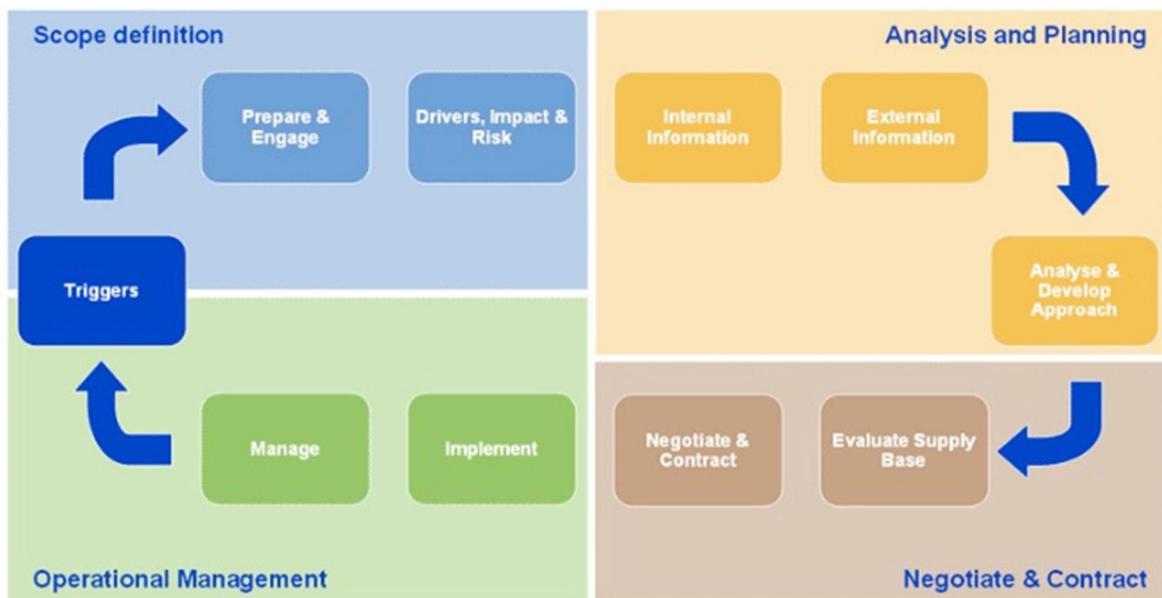


Figure 1. Sourcing process chart (Person A, 2015)

Part of sourcing strategy is also to decide who has the power to make decisions within the organization and what is role of employee. When this is achieved it is also relatively important to make sure that the suppliers of the company have clear picture of their position and what the company is expecting from them.

Originally sourcing strategy concept has concerned only direct acquisition. In this thesis indirect sourcing is playing the major role and therefore it is important to discuss the specific features of indirect sourcing. It is necessary in order to be able to build a clear picture of an indirect strategy.

2.1.1 Indirect sourcing versus direct

Neef (2001) shares sourcing into two major categories: direct and indirect. He writes that indirect sourcing refers to items, which are bought to run a business and direct to purchases done to make products. This definition can be seen quite primitive. Though, Sheng (2002) essentially shares the same view with Neef. She wrote direct sourcing refers widely to the purchased items, which immediately enter to manufacturing process, such as components or other computer parts. Indirect sourcing, on the other hand, includes everything that direct sourcing does not cover (Sheng, 2002).

Gebauer and Segev (2000) specify that “*direct sourcing occurs in manufacturing settings only and it encompasses all items that are part of finished products, such as raw material, components and parts.*” Compared to direct, production-oriented sourcing, the frame of indirect is often more diverse. Also purchasing of indirect services is often done by amateurs, non-purchasing experts or purchasing unit. (Gebauer and Segev, 2000) The lack of sourcing expertise may cause challenges to the organization especially in indirect sourcing. Because of the infrequent basis of purchases, the demand is difficult, sometimes even impossible, to predict.

Segev and Gebauer (2000) provide a broader insight on indirect sourcing. They claim it covers not only manufacturing process related services, like MRO (maintenance, repair and operations), but also more diverse services like computer equipment and travel services. Croom (2000) adds also training materials, temporary employees, public relationships, accessories and entertainment to the list of indirect sourcing activities. Moozakis (2001) sees indirect sourcing even more wide and finish the list with contract workers and consultants. Cox et al. (2005)

believe that the most significant indirect services are electrical equipment, because they support manufacturing process.

In the typical organization, indirect sourcing accounts for 60 to 80% of all the sourcing transactions (Gershwind, 2010) and direct sourcing, in comparison with, only between 20 to 40%. (Neef, 2001) Payne and Dorn (2012) add in their book that indirect spend can make up 40 percent or more of organization's total expenses. Fitzsimmons et al. (1998) wrote in late 1990's that the recent survey at that time, by National Association of Purchasing Management, exposed that the greater number of dollars (54%) spent for sourcing was used in indirect services rather than direct.

Because indirect and direct sourcing differs from each other there has occurred discussion if one of those is more complex to implement. Some theoretical propositions have expressed differences between sourcing of services and products (Smeltzer & Ogden, 2002). These arguments suggest service sourcing to be more complex than material sourcing. (Whitman, 1995) The complexity is usually tied to sourcing risk - that has been expressed by many researchers. For instance West (1997) argued services are riskier to source. Maybe that is because services are less tangible, which is making the evaluation of the vendor difficult to measure. In addition, it is severe to consider if the services being delivered are fulfilling the expectations, because they are not necessarily monitored so closely. For example, reviewed from a logistic point of view, there is no incoming delivery controls as in the case for tangible products (Fitzsimmons et al. 1998) and if it were possible to control incoming services, who would have the power and knowledge to do it?

Even it has been commonly believed, spend is not just spend in sourcing regardless of whether it covers indirect spend or direct materials. In fact, the indirect sourcing of services and goods is a different world than the direct sourcing (Lutzer, 2013). Indirect sourcing has many impacts on organizational culture. It has shades, which does not even exist on direct sourcing. Therefore, in order to ensure organizational success, sourcing executives need to build unique strategies for indirect spend. (Lutzer, 2013) In additionally, indirect spend has been less dis-

cussed in academic literature than direct. Though, because it is quickly emerging as a part of the company's sourcing strategy it can be assumed that its share in academic literature will rise.

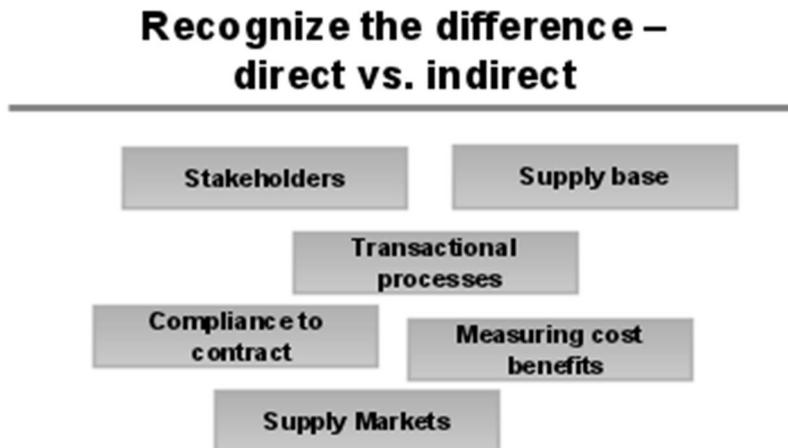


Figure 2. Differences on sourcing strategy (Person A, 2015)

Organization's strategy is straightly connected to the sourcing strategy (Person B, 2016). Therefore it is vital for organizations to link them together. Strategies must be unified, and sourcing behavior cannot vary considerably from the main strategy of the firm. It has to be remembered, that also indirect sourcing is a part of organization's sourcing strategy and it has its special characteristics, but it can be pretty similar with direct sourcing too. Like brought up, company's spend to indirect sourcing comprises the major part of the sourcing transactions. Therefore, in large companies, indirect spend is normally distributed within decentralized units and sourcing is implemented by HR, IT and general administration. This is due the company's inability to manage indirect spend. If companies did manage indirect spend the way they manage direct, common spend, they could possibly reduce sourcing costs by 10%. Thereby company's profit margin could rise by 50%. (Lacity, Willcocks and Feeny, 2006)

The target of indirect sourcing strategy is basically the same than in direct sourcing: value creation, value ensuring and value enhancing (Person A, 2015). But the significant difference is in how it will be implemented. Payne and Dorn (2012) write that "*many companies still do not apply strategic sourcing techniques to indirect*

spend categories. Instead, indirect spend is treated as a series of one-off purchases, or is sourced with a simple three-bid strategy with no efforts beyond reviewing the supplier price responses” (Payne and Dorn, 2012). Strategic sourcing creates visibility into business processes and indirect spend. It provides a way to collect and analyze information to determine purchasing the particular object fits into overall business operations. Strategic sourcing enables organizations to transfer the management of indirect spend to coordinated effort. Payne and Dorn (2012) have noticed during their long careers that well-designed sourcing process becomes eventually a project management tool.

Companies seem to have difficulties with establishing and effectuating initiatives related to indirect sourcing. When looking at maintenance, repair and operation (MRO) supplies, it is almost impossible to predict demand accurately. The cost analysis is also difficult due to torrent volume of items sourced through indirect channel. (Wallace and Xia, 2014) Furthermore, companies work with many suppliers for its indirect sourcing, which cause not only costs but also difficulties to manage supplier relationships. It is not abundantly clear that companies comply with the separate procurement strategy for indirect goods and services. According to Wallace and Xia (2014) strategy integration for indirect sourcing is vital and will benefit the company’s profitability. In addition, they suggest that a new sourcing strategy is feasible to accomplish by following rather simple steps:

If trusting Wallace and Xia (2014) all procurement -related employee of the company must commit to the changes to form a strategy for indirect sourcing. After that the data collection and analyzing of all procurement purchases will take place. Costs to indirect procurement need to be visible in order to measure and reduce them effectively. After gathering data, it may be useful to organize it by categories (Payne and Dorn, 2012). Wallace and Xia (2014) transcribe that *“this categorization will also help to maintain a real-time inventory, reducing or eliminating the costs associated with time-consuming annual or quarterly inventory counts. Companies can also look to this refined data to identify categories with the greatest costs, as these will likely provide the greatest opportunity for savings.”*

Since the significant cost areas have been distinguished, it has proved to be useful to establish a partially planned spend -category. Conventionally, costs have been divided into intended and unintended expenditures. Even the demand for indirect supplies is burdensome to foresee, it can be predicted in a common manner. (Wallace and Xia, 2014) This means, while the company cannot know exactly when to require a certain supply, it still can recognize if the need will appear within a half year. By partially planned category, sourcing related employees can anticipate prospective needs and prepare (Wallace and Xia, 2014). Furthermore, well-designed strategy will make sourcing actions more capable and decent.

It has been pointed out in multiple sources, that strategic decisions should belong to the top management actions of the company. Wallace and Xia add also that the successful usage of the sourcing strategy is leaning on the success of spending in procurement. (Wallace and Xia, 2014) In order to leverage suppliers capabilities and expertise in indirect sourcing, and accomplish spend savings, companies need to take four functions into consideration: technology (the utilization and sharing of technical tools and solution of the suppliers), assets (sharing noncritical assets with suppliers), people (utilization of suppliers' know-how and procurement skills), and processes (agreements between stakeholders concerning rationalization and standardization and volume –purchasing). (Wallace and Xia, 2014)

It has to be remembered that large savings are normally composed from many small streams. Also Wallace and Xia (2014) have recognized that as they write: *“any potential means of reducing costs and improving efficiency must be taken into consideration.”* They stress the importance of the fresh look (new approaches from new sources of employees) at indirect sourcing actions. Also Payne and Dorn (2012) believe that fresh look provides a way to enhance organization's financial standing.

2.1.2 Centralization versus decentralization

Centralized or decentralized sourcing is a choice, which many organizations have to make. Only few organizations employ purely centralized or decentralized sourcing strategy. Studies have shown that both of these approaches have advantages and disadvantages. It is clear, that sourcing decision implicates on company's overall performance (Li, 2007). According to Wu and Ling (2012) centralized sourcing is commonly highlighted nowadays, because it is economically beneficial and it is feasible to increase the potential of cost saving (Wu and Lin, 2012). In centralized sourcing strategy, all sourcing activities are centralized into one department while in decentralized sourcing, the procurement responsibility is shared and departments are responsible on their own purchases. The main purpose of purchasing department is to identify potential suppliers, negotiate contracts and implement sourcing plan. (Li, 2007)

The benefits of centralized and decentralized sourcing have been under controversial in a few studies. For example Bolton and Dewatripont (2004) discussed that centralized structure is often more efficient than decentralized. But in contrast Dai, Narasimhan and Wu (2005) certified that decentralized sourcing could be more flexible and even more effective depending on the situation. Therefore, Dai et al. (2005) suggest that the use of sourcing model depends on the nature of the organization's purchasing situation. They approach the subject from the perspective of sourced product or service. According to them, there are three main factors, which determine whether it is optimal to use a centralized or decentralized sourcing model. These factors are: the complexity of communication, frequency of use, and the cost of delay. (Dai et al. 2005)

First, decentralized structure is desirable when complexity of communication is high. By using decentralized model, company can take advantage of local and specialized knowledge of a certain agent or employee. Second, if the frequency of sourcing is low, it may be troublesome to become fully aware of economic benefits of specialization. (Dai et al., 2005) In this case it is advisable to favor centralized structure, when the trained sourcing team can make the decision when and where

to buy. Third, if the cost of service or product delay is high, centralized method may become more attractive (Dai et al., 2005), because it may be faster and simple way to make the purchase. It reduces effectively time of delivery. The weakness of decentralized sourcing method can be summarized to be the growth of supply base. (Dai et al., 2005) When company source decentralized way it normally use several small suppliers and the size of supply base may grow potentially much larger than when utilizing centralized sourcing method.

One common mistake in big organizations is that since internal stakeholders have their own vendor of choices, there is a large quantity of vendors. Therefore it is challenging task to consolidate and build a strong, co-operative relationship with them, not to mention the costs of managing large base of suppliers. It is even harder in indirect spend, because stakeholders often do not see the need for reducing the supplier base (Lutzer, 2013).

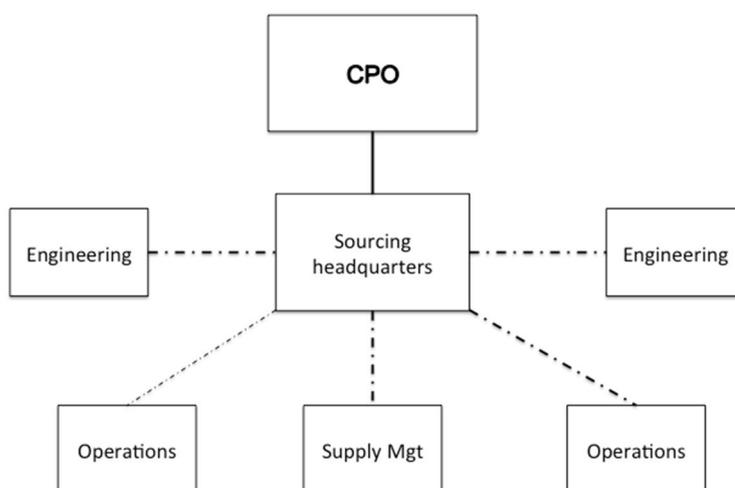


Figure 3. Centralized sourcing model modified from Dai et al. (2005)

Traditionally indirect spend has been decentralized and siloed all over the organization. Different segments of the organization may have their own specific needs and therefore it is thought to be legitimated and reasonable for them to make their own sourcing. Behind all this, may be a fear the centralized procurement team is not buying the most suitable and best services of the final-user's perspective. Lutzer (2013) describes it as following: "a new strategy whereby there is centrali-

zation or aggregation often leaves the internal stakeholders fearful that they will be left with poor choices, unmet needs and ineffective vendors.”

Alongside the traditional decentralized and centralized sourcing Leenders and Johnson (2000) suggest ‘centre-led’ sourcing, in other words a hybrid of decentralized and centralized structures. Also Monczka, Trent and Handfield wrote about the benefits of this hybrid method. (Monczka et al., 1998) Centre-led sourcing model combines elements of centralized and decentralized sourcing, depending on who buys, from where and in what purpose. (Agndal et al., 2007) Dai et al. (2005) report though, that mixed model is less frequently used when practicing direct procurement.

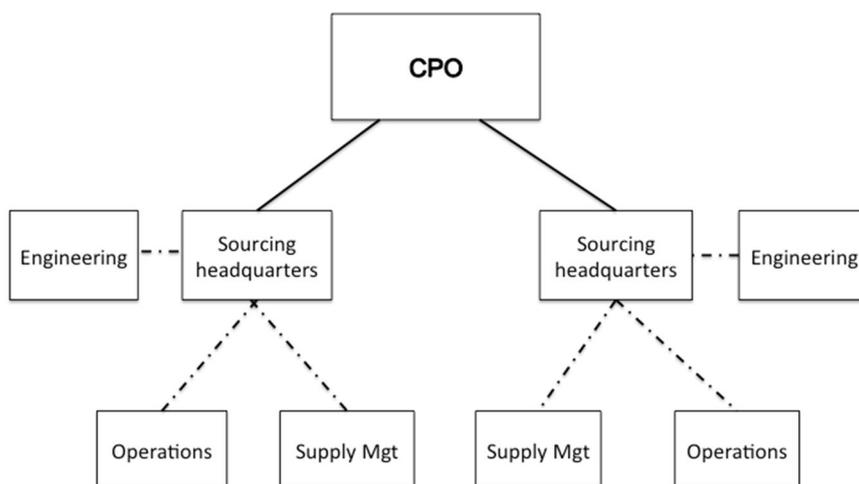


Figure 4 Decentralized sourcing model modified from Dai et al. (2005)

Like brought up it is possible to source some services centralized way and some decentralized way within the organization. Sourcing method varies partly depending on the volumes involved. Hybrid sourcing is preferable when services are bought in high volumes (Agndal et al., 2007). Overall cost reduction and the improvements in operational practices are the main drivers for using hybrid model. (Agndal et al., 2007) The use of decentralized model may have caused negative influence over service sourcing, especially resulting in excessive amount of uncoordinated agreements. (Agndal et al., 2007) Decentralized spend can rise the sourcing price, when it is not possible to achieve volume sourcing benefits.

2.2 Supply chain management

Sourcing strategy includes not only purely strategic decisions regarding organization's sourcing actions but also the details behind those actions and parties which effect on those. Quite recently, in the late 80's supplier relationships and cooperation between buying organizations and sub-buyers/suppliers rose as part of strategy discussion. Afterwards *supply chain management* and especially *supplier relationship management* have become more interesting fields of sourcing action studies.

2.2.1 Supply chain management concept

In recent years, supply chain management (SCM) has been obtaining popularity and relevance within companies (Naslund and Williamson, 2010; Burgess et al., 2006). But already before SCM, the concept 'single sourcing versus multiple sourcing' came to the attention of researchers and enterprises. It has been under discussion for several years and the power of multiple sourcing has been proved numerous times. (Sarkar and Mohapadja, 2009; Yeung, 2008; Cousin et al., 2008) As this thesis is made to improve case organization's sourcing and the scope of research is limited, in this chapter it is important to discuss about the optimal supply base size and management options.

Supply chain management was defined by Mentzer et al., (2001) to mean "*systematic, strategic coordination of the traditional business functions and tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole.*" Part of supply chain management is to recognize key suppliers. Both academic literature and organizations have increased their interests for investing key supplier relationships and the main question regarding it is '*how to elaborate an efficient and sustainable pattern to estimate key supplier relationships?*' (Tang and Hsu, 2015)

Key supplier relationships are in a major role, when organizations desire to deliver benefits also for suppliers and to boost cooperative, long-term business relationships. (Tang and Hsu, 2015) If organizations were assessing supplier selection, they could not only lower production expenditures but also to strengthen organization's operating actions by guaranteeing a steady stream of goods needed in production. (Tang and Hsu, 2015) Since finding SCM, plenty of companies have taken step out from transaction-oriented strategies towards relation-oriented strategies (Barney, 2001).

Chen et al. (2004) argue that strategic supply management is "*a long-term planned effort to create a capable supply base and leverage the benefit of supply management*". Also Yeung (2008) sees the strategic supply management as a crucial action for companies, which count their supply base to be a major source of knowledge. Based on that, the strategic supply management can be a critical step for knowledge integration. Part of SCM and key supplier relationships is information sharing. Lee et al. (1997) wrote already in 1997, that sharing data related not only forecasts but also to capacity and inventory, may result in enhanced flexibility in the supply chain. Also there may be fewer distortions in demand, which will lead in reduced costs and price. (Lee et al. 1997)

In large organizations external supply chain management activities can probably be utilized in harmonizing organizations' internal processes worldwide. Flynn et al. (2010) and Pagell (2004) agreed, that integration of processes might have, in the best case, a significant positive impact on the overall performance of the organization. To achieve these benefits (cost efficiency, marketing advantages, profit continuity) partners over the supply chain target to harmonize their activities. (Flynn et al., 2010; Pagell, 2004)

Supplier relationship management (SRM) is probably one of the most important parts of supply chain management research field (Imanipour et al., 2012). Actually, Cusumano and Takeishi (1991) claimed already in 90's that effective SRM and supplier improvement would result in competitive advantage.

During the past years, *supplier relationship management* has gone through the change from traditional relationship (1960's) to logistic relationship (1980's) until more strategic partnership relationship (1990's). Also portfolio models have been mentioned within the literature recently more often (Imanipour et al., 2012). One of the key parts of SRM and SCM is information sharing. While material and cash flows are normally one-way processes, is information flow seen more two-way, when both parties give and get information and knowledge. (Cusumano and Takeishi, 1991) Despite of all the studies made, SCM is still relatively new field with multiple possibilities and an exponential growth in interest.

2.2.2 Determining the optimal size of supply base

Sarkar and Mohapatra (2009) write about the optimal size of supply base and how its determination has gathered many executives for years. It has been noticed in the organizations that small supply base raises the risk of disruptions in supply, whilst a large base builds up the fixed costs (Sarkar and Mohapatra, 2009). It has been discussed not only by Sarkar and Mohapatra (2009) that improved supplier procedures and tight collaboration provides vast opportunities for reducing expenditures and increasing the efficiency of supply chain (Krause, 2006). The supply base rationalization is the first move towards co-operative, efficient partnership. (Sarkar and Mohapatra, 2009) In other words, partnerships offer competitive potential for both the organization itself as well as the other party.

Supply base rationalization consist the effort to describe the proper amount of supplier to make business actions with (ISM, 2005). In the survey made by Institute for Supply management, with 222 responds, it was found out that companies are really looking for options to rationalize their supply base. Actually, 86% of the respondent companies are pursuing initiative for better-rationalized supply base. Major part of those, 76%, are pursuing to reduce their supply base by performing a spend analysis, which was utilized also in case company's opportunity analysis project. (ISM, 2005)

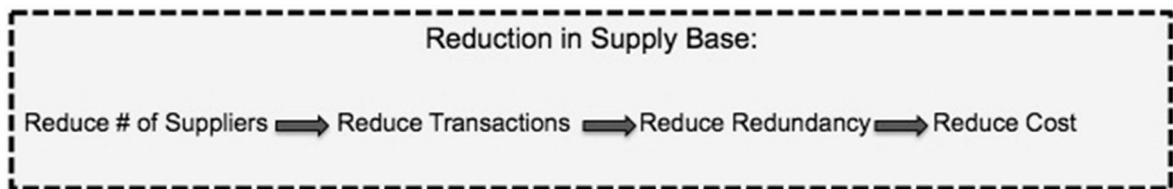


Figure 5. Supply Base Reduction, modified from original material by ISM (2005)

The supply base reduction helps organization to reduce its costs and to increase leverage by volume bundling, reminds case company's General Manager of Corporate Purchasing Unit. Thereby, it is important source for sourcing savings especially in indirect spend. The goal of supply base rationalization is an attempt to determine and identify the right number of suppliers with whom to collaborate and make business with (ISM, 2005). The process starts with determining the optimal amount of suppliers that organization should preserve and then concentrate on recognizing which recent supply companies should remain and in which organization should invest in. (Wowak et al., 2013) The main aim is to cut down purchases from uncertainly and poorly performing suppliers and simultaneously increase and center on purchases among organization's well -performing and value adding suppliers. (Monczka et al., 2009) There are many different methods to rationalize supply base, but Monczka et al. (2009) suggest "improve or else" approach, where organization should concentrate developing the important supplier relationships and abandon the non-important ones.

It has also been noted that supply base rationalization requires organization to categorize its sourcing spend as well as determining existing and plausible supplier for each category (Monczka et al., 2009; Baily et al., 2008, Dussart, 1998). Charles Dominick, the President of Next Level Purchasing Association, has a wide knowledge of modern purchasing methods. He writes (2006) in his blog concerning supply base rationalization: "*after identifying your categories and suppliers, you have five options for the supply base in each category*". These available options for supply base change are to (1) reduce it, (2) increase it, (3) maintain it, (4) keep the size but change the mix or (5) expand and then reduce.

First option is to reduce the supply base. It is not always the prior option, but it works well when company has enough qualified suppliers offering products and services with best available cost and quality. **Second** option is to increase supply base. It's against the common teachings, but Dominick suggests, that: "*by blindly following the supplier reduction trend, you might award business in one category to a supplier who performs well in another category*". Hence, when analyzing categorized sourcing -spend, organization should look for supplies, which appears in many categories. Over all it is useful to have two great performance supplies in two categories than one who performs well in one but fails in the other. **Third** option is simple: Dominick thinks that if company has done a good job, there isn't need for change so company should just maintain it. **Fourth** option 'Keep the Size, Change the mix' is about valuing the quality over quantity. Even if the organization has fair amount of suppliers they may need to substitute the unsuccessful parties with better suppliers. **The last** option 'Expand Then Reduce' creates an excellent opportunity for the organization to test the capability of its suppliers. Organization can first gather more suppliers to recognize the best ones available in the market field and then displace the poor performers. Both Dominick (2006) and Wowak et al. (2013) confirm that nowadays, when competitive pressures have emerged, supply chains and utilization of it, may be seen as a competitive weapon.

Some researchers have presented 20/80 principle originally developed by Italian economist Vilfred Pareto to be a solution for supply base rationalization. Though, Monczka et al. (2009) use the other recognizable term 'ABC analysis' to describe that method. The main idea of 20/80 -approach, is that the small amount of suppliers (20%) accounts for a great factor of sourced goods and services (80%) (Monczka et al., 2009). *Chartered Institute of Purchasing and Supply* (CIPS) sees Pareto's method as a useful way to rationalize supply base, as it assist buyer to use his or her time and other resources as well more efficiently. Pareto principle makes it possible to separate critical suppliers (from uncritical) who supply urgent, fine value (CIPS, 2012). Monczka et al. (2009) agree with CIPS. They find 20/80 -practice to be a tool to identify suppliers, who cause most complications and after exposing them, from which company can get rid of.

2.3 Effective sourcing – purchasing maturity

Effective sourcing is not really a well-established concept in the literature, though it describes well the aim of making procurement more efficient. As an author, I use this term to describe all the factors and elements of sourcing, which company can develop further, and that way potentially increase their knowledge, elaborate purchasing operations, as well as to reduce costs.

It was found already in 1996, that well build, in other words, effective sourcing strategy could increase company's sales value by 4 % and profitability even by 30% (Thompson, 1996). At that time, only a few companies measured their sourcing activity, nor invested in it. Therefore, we can speculate on what a corresponding survey would reveal, for example in ten years. At the time of the original study and before that, there was no method to utilize sourcing power and there were also a lack of sourcing professionals (Thompson, 1996). Also, according to Thompson (1996) there have been evidences in previous surveys, which proofs that enhancements in SCM can with dispatch foster productivity and consequently profits.

Thompson (1996) listed six key findings concerning effective sourcing in his study. One of the most significant finding was the observation, that effective sourcing is not only about the short-time price but rather it should be measured in the long-term total cost value (Thompson, 1996; Engel 2004). Thompson (1996) also suggests, that if organization's sourcing team bases its expertise only on transaction skills, they are not sufficient enough to accomplish efficient sourcing approach. There has to be knowledge and understanding of the strategic sourcing also. Furthermore, he illustrated that strategic sourcing will bring savings remarkably; even 40 % in expenditure, and simultaneously it may improve the quality of service produced by supplier. (Thompson, 1996) These findings were done already in 1990's, after that there should be more thorough studies about effective sourcing strategies and methods.

When decision-making is left on unqualified workers' shoulders, then in many cases the savings of indirect sourcing spend are seek to be found from the functions that looks easy targets to save from the surface, but a deeper analysis would show the opposite (Payne and Dorn, 2012). It was brought up already that supply base optimization is one step towards more effective sourcing. When reforming sourcing strategy, that is absolutely one of the most significant functions to take into consideration. Like Monczka et al. (2011) wrote; it is vitally important to specify the overall efficiency and costs. Of course, supply base rationalization is only one part of the sourcing strategy development.

The general recognized problem is that stakeholders who manage the spend category or sign the sourcing related contracts and agreements were probably not hired based on their ability to manage costs. In many cases these people do not have a formal training in sourcing (Payne and Dorn, 2012). One major part of the effective sourcing, which also results in efficient outcomes in the organization's sourcing actions, is the level of purchaser's knowledge and the ability to take advantage of such expertise. In other words: purchasing maturity. Wowak et al. touched the subject in their paper 2013 concerning Supply Chain Knowledge (SCK). They described that SCK is the use of knowledge within the supply chain partners and processes in the organization, which can lead efficiency in sourcing. They thought SCK is going to obtain more attention as a conceivable performance enhancer in the near future. Probably it had nothing to do with this, however, but already a year later Úbeda et al. (2014) published their study of purchasing maturity.

Úbeda et al. (2014) studied Latin American organizations to proof that not only productivity and innovations but also sourcing intelligence is crucial especially for these (Latin Americans) countries in order to develop their incomes and effectiveness overall. They suggest that improved and integrated business networks will provide benefits into supplier management. In this the development of purchasing department play critical role. They write in their article, as many others (e.g. Orr, 2002; Giunipero et al., 2006) have already stated: "the role of purchasing has evolved from an administrative and supportive function to a strategic tool for busi-

nesses that contributes to overall organizational performance” and that sourcing is “more developed as a business function and more integrated into firms’ strategic plans” (Úbeda et al., 2014).

Úbeda et al. (2014) are not the only who write about sourcing maturity. Reck and Long (1988) wrote already on the 1980’s that the model is a suitable framework for sourcing managers to review organization’s existing situation. They also believed that maturity model could provide an indication for future development (Reck and Long, 1988). Purchasing maturity refers to the maturity of the sourcing department and their ability to make sourcing (Van Weele, 2003). And further it *“is a measure of how people, strategies, practices, suppliers, and communication are managed in a purchasing department to capture strengths from suppliers”* (Úbeda et al., 2014). The more mature sourcing department is the more likely they are to increase company’s value. Purchasing maturity may also indicate if the organization’s sourcing department is functioning rather mere administratively than strategically, as unwished. (Úbeda et al., 2014) On the other hand, low maturity indicates the lack of practice in sourcing. As the level of sourcing maturity raise, organizations sense increased efficiency.

Sourcing maturity model can be drawn in the table (Úbeda et al., 2014), where the horizontal axis consist 5 levels, which indicate the level of maturity. Level 1 is the lowest and level 5 the maximum stage of maturity. The vertical axis of the model consist the measured functions: strategy, people, organization activities, suppliers and communication. In each level the model tells what skills and knowledge the organization should already have, so that it would fall for that particular level. Different phases are corresponding with certain issues and in order to rise into more beneficial stage, company must first dismantle the barriers on lower level (Schiele, 2007). The following table made by Úbeda et al. (2014) will represent the properties of this model.

Purchasing maturity model.

Management axis		Level 1	Level 2	Level 3	Level 4	Level 5
1 Strategy	1.1 Company strategy	Unknown	Somewhat known	CPO knows the company strategy	All members know the company strategy	All members know the company strategy and participate
	1.2 Purchasing policy	None	Internally documented	Shared internally and with suppliers	Shared internally with suppliers, and with other departments	Shared with all parties and linked to company strategy
	1.3 Strategy involvement	Not involved	Only reporting	Meetings and interviews	CPO is on the board	CPO actively participates
	1.4 Category purchasing strategies	None	Established for only larger categories	Established and linked to company strategy	Established and linked to company strategy	Established and linked to company strategy and reviewed periodically
	1.5 Make or buy	Does not participate	Only reports	Reports and makes decisions	Makes decisions and is a sponsor	Is one of the main responsibilities
	1.6 Specification review	Does not participate	Is only informed	Participates and is key in decision making	Makes decisions and is a sponsor	Is one of the main responsibilities
	1.7 New products	None	Is only informed	Participates and is key in decision making	Makes decisions and is a sponsor	Is one of the main responsibilities
2 People	2.1 HR plan development	Nonexistent	Same as other areas	Specific formation under 5 days/year	Specific formation more than 15 days/year	Specific formation between 5 and 15 days/year
	2.2 HR college degree	Less than 10%	10–20%	20–40%	40–60%	More than 80%
	2.3 HR with purchasing formation	Less than 10%	10–20%	20–40%	40–60%	More than 80%
	2.4 Promoted to/from purchasing	Never	Few times	Sometimes	Usually	Always
	2.5 Incentives based on	Nonexistent	Nonsystematic	Individual performance	Individual + department performance	Same answer + company performance
3 Organization process/ activities	3.1 % people on indirect purchasing	Less than 10%	10–20%	20–40%	40–60%	More than 80%
	3.2 Is a centralized department	No	Partially, less than 50% purchased	More than 50% purchased	More than 80%	Completely and optimized
	3.4 Organization	Not in chart	Third level department	Second level	First level	Is in the board
	3.5 Proceeds	Nonexistent	Partially written	Written and formally applied	Same answer and shared internal client	Same answer + supplier shared
	3.6 Risk management	Nonexistent	Partially written	Written and formally applied	Same answer and shared internal client	Same answer + supplier shared
	3.7 Spend Map	Nonexistent	Partially written	Written and formally applied	Same answer and shared internal client	Same answer + supplier shared
	3.8 Levers	None	Supplier negotiation	Internal negotiation	Strategic approach	Supplier development
	3.9 Procedures	None	Fewer than 3 procedures	More than 3 procedures	Applied procedures	Audited procedures
	3.10 Score card	None	Informal	Formal	Specific to internal client	Prospective
	3.11 Information system	None	Procure to pay	Requisition and suppliers evaluation	Sourcing and request for proposal (RFP)	E-purchasing, "business intelligence"
	4 Suppliers	4.1 ABC	Less than 10%	10–20%	20–40%	40–60%
4.2 Concentration		Less than 10%	10–20%	20–40%	40–60%	More than 80%
4.3 Panel		Nonexistent	Partially written	Written and formally applied	Same answer and shared internal client	Same answer + supplier shared
5 Communication	4.4 Chart	Production	Logistics	Finance	None	Is on board
	5.1 Comm. plan	Nonexistent	Internal only	Only within company	Department and company	Same answer + external
	5.2 Suppliers	Nonexistent	Informal	Only RFX's	Through evaluation	Same + board directors
	5.3 Reporting to	None	Other department	Internally only	Regularly to all suppliers and internally	To the company environment
	5.4 Internet	None	Purchasing intranet	Intranet to the enterprise	Extranet to suppliers	Collaborative extranet

Figure 6. Purchasing maturity model by Úbeda et al. (2014)

Úbeda et al (2014) collected four main results from their survey. *First*, the mature organizations pass more time on strategic activities, which results in cost savings, while the less mature companies do not reach these savings. *Second*, unfortunately survey was not able to answer the question of which tools and methods were most useful and which sourcing departments should use. *Third*, the strategic behavior in the organization is associated with cost savings. Though, those savings can be very simply or, alternatively, very complicated. Úbeda et al (2014)

summarize that normally *“more mature organizations use a greater number of cost-saving levers and more complex levers.”* Fourth, they connect sourcing maturity, sourcing activities, methodology and sourcing tools into primary sources of cost savings.

In general the purpose of maturity model is to steer organizations in comparing and benchmarking operation practices to the best comparable practices on the industry. (Netland and Alfnes, 2011) Normally, when organizations arrange first time a global spend analysis it also contains procurement maturity analysis as well as transformation plan, reminds the General Manager of Corporate Purchasing Unit of case company. However, this time case company did not have any extra money available in their budgeted to carry on these analyzes. The General Manager of Corporate Purchasing Unit thinks it was a pity: *“we didn’t found the willingness / money to do more extensive mapping of maturity - although in my opinion it would have been necessary -so we decided to arrange just the spend analysis”*.

3 APPLICABLE STRATEGY TOOLS

In this chapter the four applicable strategy tools will be presented, which are essential at a later stage of this thesis. In the empirical part, the author seeks to create new ways to implement case organization's procurement through these specific methods. The presented methods are: Purchasing portfolio analysis, Opportunity analysis, Spend analysis and category management approach.

3.1 Purchasing portfolio analysis

Sourcing is said to be one of the core functions in many industries. Its performance has a direct influence on the general performance of company (Ferreira et al., 2013). Sourcing activities require time and financial resources from the firm. They also involve a fair degree of risk. Therefore, sourcing strategies have a large influence on the organization's performance overall and there should be a professional sourcing approach towards the purchases in the organization. (Padhi et al., 2012) Based on this goal Kraljic (1983) proposed a purchasing portfolio matrix (KPM) approach. Its general idea is to minimize supply vulnerability and to achieve the best benefit in buying power. (Kraljic, 1983) The matrix approach aims also to help company to define its sourcing strategy and give guidelines (Ferreira et al., 2013)

In the early 2000 Dubois and Pedersen (2002) wrote: "*purchasing portfolio models have received a great deal of attention during the last two decades*". Since then the utilization of the portfolio model has increased even more strongly. In older literature (Cammish and Keough, 1990) the total value of purchased materials, components and systems goes up from 50 till 80 percent of the total cost of goods sold. Therefore managing organization's supplier base is becoming strategically essential sourcing issue. Researchers have found out that the importance of purchasing portfolio function is related on the total cost of the organization and its potential profit (Dubois and Pedersen, 2002).

According to Salo et al. (2011) portfolio analysis is generally considered as one of the sub categories for decision-making analysis. In general the portfolio analysis follows the traditions of decision-making analysis and its aim is to improve the quality of decision making by utilizing mathematical models in decision proposals. (Salo et al. 2011)

In nowadays business environment, having portfolio perspective in supplier management is significant, because of the increasing role of suppliers. Supplier portfolios can allow companies to bear in their mind various dependencies among cooperation with suppliers. Portfolios allow companies to optimize their limited resources by allocating management capacity, time, monetary funds and administrative labor force selectively across the relationships (Wagner et al., 2004). If you believe in Cooper et al. (2000); *“new product portfolio management is about how you invest your business’ product development resources – project prioritization and resource allocation across development projects”* (Cooper et al., 2000).

Traditionally portfolios are used to categorize suppliers, products or customers. Day et al (2010) define that in supplier categorization the suppliers are divided into different groups according to their needs, characteristics or practices. The portfolio model has mainly been used in manufacturing and construction industries (Nellore and Söderquist, 2000; Lee and Drake 2010; Padhi, Wagner, and Aggarwal 2012). Its application to other industries, such as ICT, has been finite. Despite of that there are no actual barriers why it would not be able to be adapted also into ICT industries. The variety of relationships between suppliers and buyers is required in order to achieve competitive advantage. However, it is important to remember that portfolios are artificial constructions, which limits are definable by the decision-maker (Salo et al. 2011).

Wagner et al. (2004) sum up that *“to realize the potential benefits of strategic supplier portfolios, firms must understand and develop key tools involving supplier evaluation, selection, development, and integration.”* All along, an applicable portfolio perspective assists the organization to differentiate and set weighting with regard to which supplier cooperator should take an outstanding share of resources

and which should be given lower share of resources and be managed less intensively. (Wagner et al 2004) According to Lee et al. (2014) portfolio integrated sourcing has a notable impact on risk allocation and effects on decisions in following supply chain management.

Because of the differences in sourced commodities and in buyer -supplier relationships the sourcing strategies have to be different in different sourcing cases (Padhi et al., 2012). According to Kraljic (1983) and Dubois and Pedersen (2002) this kind of approach, which considers both the strategic impacts and supply risk dimensions, enables management to have a better cognition of bargaining power. Portfolio approach also allows company to select the best strategy for reducing its sourcing risk (Kraljic, 1983). Ferreira et al. (2013) wrote that the supply risk can be measured for example by the number of available suppliers, conditions of the market situation and its barriers, cost and complexity of the logistics. The best-known sourcing portfolio is Kraljic's portfolio matrix.

Kraljic's strategy is based on the classification of the purchases, where items are divided into four portfolios. The aim of the Kraljic's portfolio matrix is to match external opportunities and risks with the internal needs of the buying company (Dubois and Pedersen, 2002). Caniëls and Gelderman (2007) believe that KPM is not only handling the power dependence -problem (balance, utilization and versatility), by focusing on how to exploit organization's sourcing power in relation to suppliers, but also reducing the risk of acceptable minimum.

Kraljic (1983) writes "*to ensure long-term availability of critical materials and components at competitive cost, a host of manufacturers will have to come to grips with the risks and complexities of global sourcing.*" And others, who already purchase on a worldwide basis, have to learn to deal with uncertainties, price and supply failure. (Kraljic, 1983) This is a basis for strategic supply management, which aims also to handle complex conditions by developments in supplier relationships, and technology.

Each company or organization has its own needs for sourcing strategy. Basically, organizations need for this strategy depend on two causes: (1) the strategic importance of sourcing; and (2) intricacy of the supply base (supply scarcity, entry barriers, logistic cost) On the basis of this Kraljic (1983) created a model for sourcing sophistication. By determining organization's current stage in terms of these two factors, both the management and sourcing specialist can define the character of sourcing strategy.

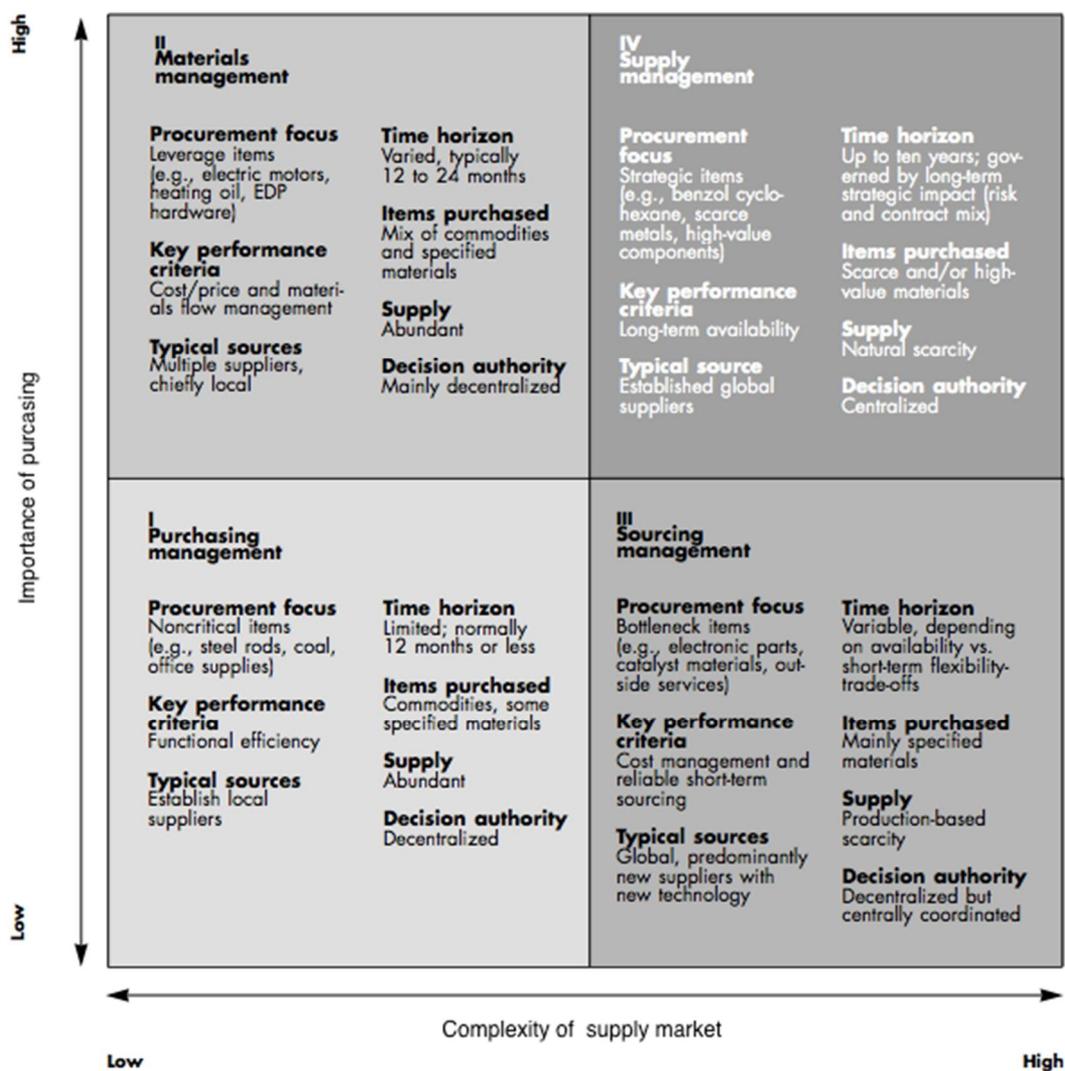


Figure 7. Kraljic's stages of sourcing sophistication, modified from original

To decrease their supply sensitivity and make the most of their possible purchasing output companies are encouraged to use a four -stage approach to design strategies (Kraljic, 1983). The approach gives both simple and operative structure to collect marketing and corporate data, to predict forthcoming supply scheme,

and to identify obtainable sourcing options as well as for developing isolated supply strategies for censorious goods. Following this technique, organization (1) first categorizes all its sourced goods in terms of profit influence and supply risk. (2) Then it analyzes the supply market for these goods. (3) Thirdly, it defines its general strategic situation, and (4) latest, it develops supply strategies and action plans. (Kraljic, 1983)

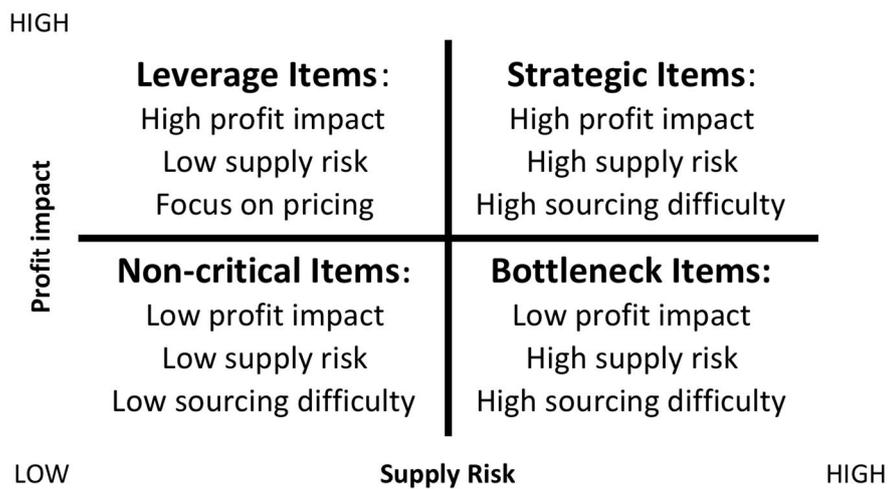


Figure 8. Kraljic matrix

The KPM model assorts items by means of profit impact and supply risks. Putting these factors on two axes, it forms a matrix, which is divided into four quadrants; leverage items, strategic items, non-critical items and bottleneck items. Each quadrant proposes a different item category with different sourcing strategy for the goods and services (Nijhoff, 2013).

Strategic items are extremely important for the organization and they have high supply risk. Therefore long-term relationship with key suppliers is preferable (Caniëls and Gelderman, 2005). Such relationships create and increase mutual trust, commitment and information sharing. Nonetheless, supplier performance and partnership allover need to be observed and if unacceptable features occur, organization has to be ready to end unprofitable relationship (Kraljic, 1983).

Leverage items have a high profit impact but the supply risk is low due the possibility to obtain them from various suppliers (Caniëls and Gelderman, 2005). There-

fore short-term contracts and competitive bidding are practicable options. Sometimes organization aims toward more strategic partnership with the supplier if it offers new opportunities.

Bottleneck items are items with low value and high risk. Therefore, these goods have a decent influence on organization financial results and when regarding the acquiring organization, it is important for them to secure the supply of these goods (Caniëls and Gelderman, 2005). By utilizing Kraljic matrix, the recommended sourcing strategy should be to lower the level of supply risk and to decrease level of supplier dependency. If it is not possible to reduce dependency, then organization should assure the supply. Caniëls and Gelderman (2005) suggest as an alternative strategy to find other, new suppliers and that way strive toward non-critical quadrants.

For **non-critical** items the suitable sourcing strategy would be increasing the buying power by standardizing and increasing the volume of sourced items. Herewith it is possible to buy products or services at a lower unit price. According to Olsen and Ellram (1997) non-critical goods require a sourcing strategy, which is aimed to reduce the logistic and administrative intricacy. If it is not possible to standardize sourcing volume, then organization needs to find another way to reduce administrative costs, which may require a new approach to sourcing strategy.

Kraljic's method has also received some criticism: while he emphasized the movement from basic purchase management towards portfolio management, only a restricted number of external factors were reviewed. (Dubois and Pedersen, 2002) It also has to be noted that Kraljic focuses on strategic products (Van Weele, 2000). Wagner and Johnson (2004) add that some important aspects like pressures to diminish size of portfolio in the organizations and intern-firm relationship and sustainable competitive advantages through it, had not been discussed at all. Also interdependence between organizations is been modified after Kraljic's discovery. (Wagner and Johnson, 2004) Nowadays especially products are developed together with buyer and supplier. Therefore sourcing portfolio model may be too simplified to use in an interactive organization. (Dubois and Pedersen, 2002)

Regardless, Kraljic's Portfolio Matrix has been characterized to be among the best single diagnostic and guidance tools for sourcing and supply management (Syson, 1992).

Since Kraljic, some other authors have also announced different alternative portfolio models. Nonetheless there have not been substantial differences compared with the original model by Kraljic (Olsen and Ellram, 2007; Van Weele, 2002). In addition, Gelderman and van Weele (2005) write that Kraljic's model has been standardized as an original purchasing portfolio model. Another way to classify sourcing actions can be made by relationship based portfolio models. These models have been studied both in the marketing and sourcing related literature. Models focus on features of the supplier-provider relationships, which are presented in 2x2 matrices. (Terpend, Krause and Dooley, 2011) Campbell and Cunningham (1983) represent one of these models. They write about a portfolio model, which is based on the buyer-supplier balance. They propose a three -step portfolio strategy especially for marketing management. (Campbell and Cunningham, 1983) The emphasis in their study is to develop an effectual relationship management tool.

3.2 Opportunity analysis

In accordance with its name, opportunity analysis (OA) is a strategy, which can be used to estimate the potential for a change or enhancement, to improve the flow of revenue. Tatum writes (2015) that the type of opportunity can vary from minor changes in working habits to major changes in the organization's practices that will expand profitability significantly. (Tatum, 2015) The implementation of opportunity analysis can deliver an understanding of what favorable or unfavorable effects are probably taking place if a certain function is implemented in the company. (Tatum, 2015)

According to Tatum (2015) there are three questions that have to be answered for the sake of effective analysis. At first company has to identify the potential benefits the change will bring, such as cost savings. After determined the value in pursuing

the change, the negative effects of the new strategy need to be considered. (Tatum, 2015) Even if there is cost savings in certain part of sourcing there can be negative influences in other part. Finally, organization has to draw the conclusion on the total value of the change (Tatum, 2015).

In the context of sourcing, the management of the sourcing needs to look at the outcome of the opportunity analysis and decide whether it is useful to change sourcing method based on the analysis; do the benefits outweigh the disadvantages i.e. is the company achieving enough profit with the new operating model or is such development only a waste of resources? Tatum (2015) writes that although the results look promising at first, they can have unfavorable effect on revenue generation over the long -term. Therefore it is important the results are analyzed thoroughly (Tatum 2015).

3.3 Spend analysis

According to Heath (2006) the spend analysis is the way to examine how organization's money is spent. He describes that "*the ideal analysis reveals which contractors or suppliers receive the spend, which customers require the spend, and what commodities or services are purchased with the spend.*" He also adds, that companies' spend could and should be measured in terms of money and number of transactions. (Heath, 2006) Therefore spend analysis enables to identify which suppliers are the key suppliers and strategically most important. Previously organizations' interest toward indirect spend have been shallow and due to that the understanding of their indirect spend have been insufficient (Kim and Shunk, 2004).

Makhija (2006) writes that successful spend -analysis consists of four parts. These parts are named as *spend information collection, data cleaning, data classification and data analysis*. (1) First spend data is integrated and (2) secondly organized in order to eliminate overlapping information. Then, (3) the cleaned data is driven through the coding system and finally (4) it is analyzed and divided into spend by settled requirements: location, department or vendor. (Makhija, 2006)

Makhija (2006) perceives spend -analysis as a cost management process rather than a classical tool for reducing sourcing costs. Spend analysis recognize the cost reduction points in the organization; how much and to whom spend is. This spend -analysis can therefore help with the continuous improvements in actions and developments of the management decisions as well as budgeting and planning, when it is clear where the money is actually spent. It is also possible to utilize spend analysis to service pricing to gain competitive advantage. (Reese, 2005; Makhija, 2006)

Spend analysis is alleviated with strategic sourcing and sourcing decisions regarded, and it can ease on supervising and monitoring ongoing expenses and requirements. It even refers to supplier choices. (Reese, 2005) On the other hand, Barry (1998) considers the term spend as a synonym for the acronym MRO (maintenance, repair and operational expenditure). But, according to Cox et al., (2005) indirect spend refers to the following types of expenditures:

1. Electrical and mechanical equipment,
2. Electronic equipment,
3. Professional equipment,
4. Industrial supplies,
5. Healthcare and safety equipment,
6. Machine shop supplies,
7. Office supplies,
8. Chemical supplies,
9. Fleet and vehicle parts and equipment.

(Cox et al. 2005)

However, this classification by Cox et al. (2005) is slightly flawed; it does not take into account some quite significant expenditure, like for example marketing, consulting on insurance spend. Case company's General Manager of Corporate Purchasing Unit proposes a little bit broader approach for the indirect spend apportionment. It proposes marketing and consulting as own pillars and is more detailed anyway.

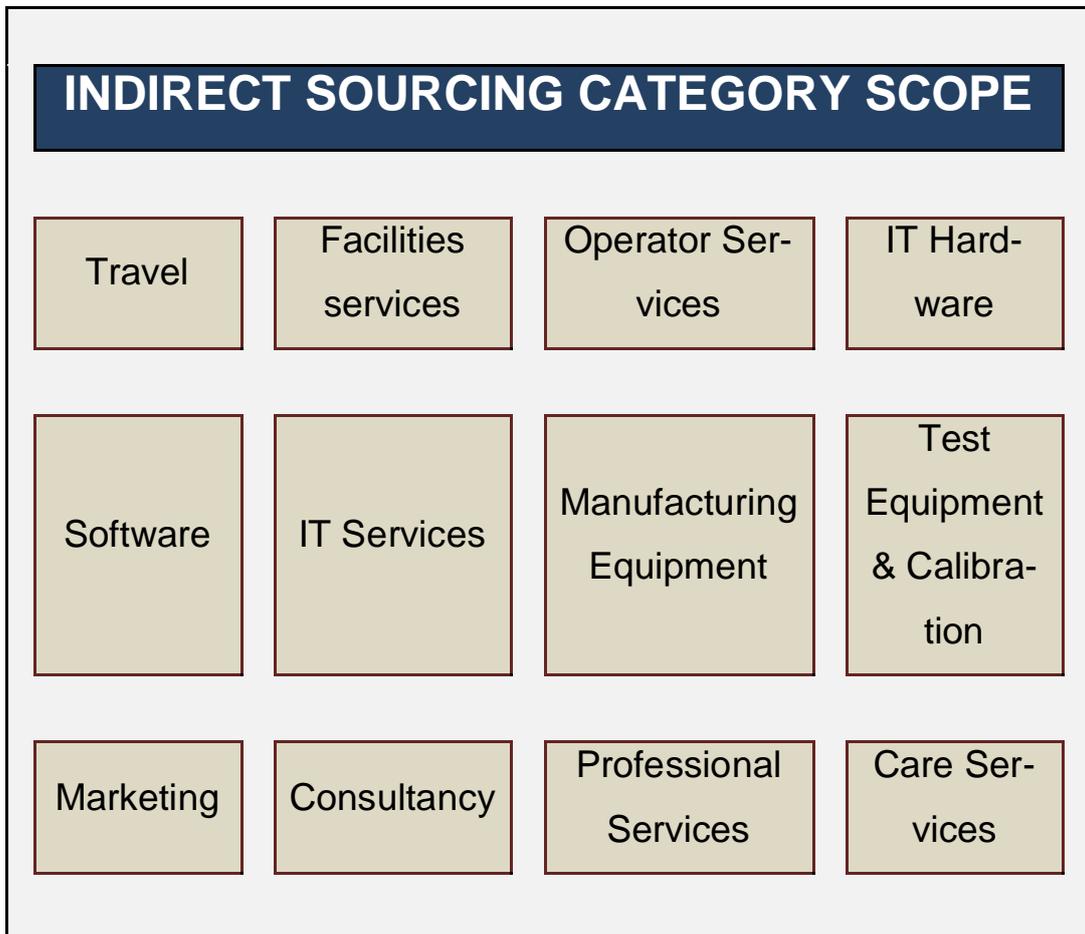


Figure 9. Indirect sourcing pillars by Person A (2016)

3.3.1 United Nations Standard Products and Services Code

While organizations spend consist many types of expenditures, have companies used different codes to classify not only their suppliers but also products and services. It is written in United Nations Standard Products and Services Code (UN-SPSC) White Paper by Zycus that *“the rapid growth of e-commerce has led to the wide scale automation of transactions”*. Despite of that, the content of these transactions is still often deviant. (Zycus) This raises a potential area for development; *“the coding of products and services according to a standardized classification convention is essential”* (Zycus). Based on Zycus and Ramakrishnan (2014) the coding of services and products with the standardized name within the company allows sourcing management source more effectively and marketing and sales to

locate and serve customers with higher quality. There occur several classification standards, such as Standard Industrial Classification (SIC), which have been noticed as a useful classification, but has however not received as much attention as the United Nations Standard Products and Services Code (UNSPSC). (Aberdeen, 2004; Zycus; Ramakrishnan, 2014)

UNSPSC is an open, unique, global commerce convention, which adjusts logical frame for classifying goods and services (Ramakrishnan, 2014; Zycus). Because of the hierarchical structure of UNSPSC, it enables to perform both tactical and strategic spend analysis (Zycus). In case company, UNSPSC is used in spend analysis as a basic coding tool and on top of which they have more relevant category coding system (Person A, 2016). Originally UNSPSC is designed to serve three primary purposes (Ramakrishnan, 2014; Zycus):

- 1) Spend analysis: the coding system of UNSPSC raises a coherent prospect of all the expenditures within the organization and thereby allows sourcing managers to analyze organization's spending.
- 2) Purchasing and Resource: The identification of relevant suppliers for a certain products and services is enabled by coding protocol.
- 3) Product discovery and awareness: UNSPSC enables computer programs automatically list the similar products and services under specific category

By using UNSPSC codes organizations can become more efficient in many ways. It can standardize its supply chain, reduce or even avoid the expenses caused by maintaining organizations own classification systems, communicate effectively about its goods, enhance supplier managements, increase its global competition by marketing more efficiently. In addition, UNSPSC coding system is exploitable to increase company's sales through sourcing applications as well as facilitating organization's data collection.

3.3.2 How to use spend in sourcing strategy creation?

Theoretically, spend analysis is a very useful tool for category analysis. Largely due to this, it is one of the most used tools to support category management. After spend analysis organization has the knowledge of its internal stakeholders, key customers and indirect spend overall. Spend data management, which is also known as a spending analysis, is a three step process of gathering, classifying and applying spend data in the intention of cutting down cost, enhancing operational functioning, and assuring harmonization (Aberdeen group, 2004). Though Aberdeen group (2004) has recognized five characteristics process for a competent management of spend data -analysis. It goes as follows:



Figure 10. Spend data management process, modified from original by Aberdeen group (2004)

First phase (1) is called as 'extract' phase, when company collects the spend data from both internal and external business systems. After that (2) spend data will be validated and company ensures that collected data is complete. (3) Third step is data cleansing and classification. The aim is to do it efficiently via accurate and automated rationalization and classification, which eliminates possible discrepancies and maps data to organization specific taxonomies for example UNSPSC. Then (4) cleansed spending data will be upgraded with supplementary business information; contract terms, supplier's performance information etc. The last (5) phase, analyzing, is probably the most valuable part of the process. Organization has to be ready to interpret the results and export cleansed data and information to the third-party if considered necessary.

3.4 Category management

At first category management was discussed in the context of industry as the *management of assets* (Heikkilä and Kaipia, 2009). After that many researchers (e.g. Dussart, 1998) have written about the history of category management to go as far as 1990's. Though, Hesping and Schiele (2013) argue that the breakthrough did not occur until the beginning of 21st century, when the research papers begun to show increasing interest into forming the groups or categories of overall spend of similar goods and services. They lead their suggestion mostly on research made by Boutellier and Zagler (2000). Based on the portfolio models, the strategies for all sourcing categories were possible to define within portfolio matrix fields' quadrant (Monczka and Markham, 2007).

Hesping and Schiele (2013) point out that "*after 2005, authors addressed certain classes of tactics to shape strategies specific to each sourcing category. Schuh and Bremicker (2005) name these classes sourcing 'levers'.*" After recognition of category specific sourcing strategies other authors begun to show interest towards the special characteristics of the sourcing category too. For example Van Weele (2010) highlighted the need to qualify supplier strategies according to each sourcing category, which project the certain context. Dussart (1998) wrote already in late 1990's that organizations generally determine their sourcing category by initially elucidating spend and secondly determining the category divisions. These categories are then managed by selected organizer. There is no an easy answer, how to construct and control categories since every company has its own practices and policies to determine them. (Dussart, 1998)

Category management have many definitions, Baily et al. (2008) describe category management (CM) as a "*continual monitoring of expenditures and supplier performance in specific buying categories with the intent of driving ongoing cost or supplier performance improvements.*" The main idea in category management is to categorize all sourcing activities made by the organization and then split these into specific subcategories. After forming categories, sourcing team or person can develop specific strategies in aim to maximize the category value. (Baily et al., 2008)

On the other hand Nielsen (1992) defines CM as a *“process that involves managing product categories as business units and customizing them on a store-by-store basis to satisfy customer needs.”* (Nielsen, 1992) And Sundtoft Hald and Sigurbjornsson (2013) define that *“in category management, the product, services or components bought by the organization is broken down or segmented into categories which are discrete groups of organizational spend of functional related and strategically similar products, services or components.”*

Though, O'Brien (2009) connects category management more with the people. He sees it in the context of sourcing as a cross-functional sourcing tool for the sourcing teams which use it for formation and maintenance. Englyst et al. (2008) point out, that both the role and the toleration of the team members differ across organizations. Despite the various definitions, categories can contain similarities in several ways and can be formed based on different features (Baily et al., 2008). There is no one-fits-for-all category strategy. Organization should focus on creating such categories that corresponds on their needs. By forming categories, it is possible to implement sourcing strategies in similar way for many suppliers. Category management is linked in for maintaining and creating the sourcing strategies.

Originally category management was used mostly within marketing and retailer context (Arkader and Ferreira, 2004) but recently it has been considered also as a well-founded, well-structured and important strategic sourcing method (O'Brien, 2009). Category management is also a useful tool to develop organizations supplier base. And even if the results of category management are not invariably conclusive, CM is expanding across product categories in world -wide. (Dussart, 1998) As a consequence, category strategy has been used to represent the strategy development of category level and sourcing categories apply to 'various suppliers – various similar parts' sourcing relationships. (Horn et al., 2013) When forming and interpreting categories, questions regarding logistics, validity and motivation for the designed category management must be taken into account (Timonen, 2001). Logistic does not necessarily have a central role in service oriented sourcing whereas motivation, validity and competence to purchase are more important issues. Competence may be obtained through adequate training and education, which increases the sourcing maturity (Payne and Dorn, 2012).

3.4.1 How to form categories

As written before, Kraljic Matrix has been the first step toward sourcing categorization. That is based on the claim that different products (and also services) need different operational strategies (Kraljic, 1983). Based on Iloranta and Muhonen (2012), sourcing categories can be formed by leaning grouped procurement items formed with Kraljic Matrix. It is important not to group procurement into too small categories but neither too large. The size of categories should depend on the size and the needs of the organization (Iloranta and Muhonen, 2012). The management of minimally small categories is waste of time but on the other hand with too large categories organization cannot achieve the maximal benefits. But, too narrow category area may restrict the suppliers.

Sourcing categories can also be formed by utilizing spend and opportunity analysis. In this Master's thesis, that method is the prior way to review category creation and implementation. Payne and Dorn (2012) suggest a very fair way to create categories. Creating sourcing category means identifying high-level categories for suppliers that provide similar services. By grouping these suppliers together organization can identify project areas easier and leverage from those (Payne and Dorn, 2012).

The first step to conduct sourcing categories is to make a list of possible categories. Organization should start at the highest level of categorization: for example pens and paper products may be purchased from different sources but later it might be easier to source them from the same place. According to that the head-category should be administrative supplies, which contains both pens and paper products (Payne and Dorn, 2012). If needed, it is possible to make subcategories under the main category. High-level classification will support opportunity analysis, which normally follows category creation process (Payne and Dorn, 2012). The UNSPSC coding system, discussed at the chapter 3 is also a fair tool for creating categories. Supply base classification by using that code becomes handy for example when researching alternative suppliers.

After completing high-level classification, categories should be ranked for further analysis. By sorting collected sourcing data by highest spend, organization can see, which categories and suppliers in it, have the major impact on the company (Payne and Dorn, 2012). Also role definition of the formed categories helps organization to utilize them at the best practice (Timonen, 2001). Role definition includes both strategic and operational perspectives. The aim of role specification is to categorize both categories and their specific management models by the differing characteristics.

After forming categories it is also possible to see how many suppliers are included in each category and from which categories organization has not been sourcing lately. Also category prioritization is essential, if sourced resources are limited (Timonen 2001). Third step, after ranking main categories is to subcategorize them. This is the stage when company considers the suitable sourcing strategies for categories. At this time company may not have full understanding of supply base or other aspects but they know spend by supplier and category. (Payne and Dorn, 2012)

Category management is a method to boost organizations sourcing profitability. Timonen (2001) reminds that financial aspect is not the only one to take into consideration; competence and category effectiveness affects the sourcing profitability. In addition categories have to be evaluated both internally and externally. Internal perspective for categories includes reviewing the spend information whereas external environment delivers information about supplier field and market condition, as prices and possible occurring risks. Traditional SWOT analysis can be utilized in identifying categories; it offers a simple way to explore the categories' existing strengths and weakness as well as the possible future opportunities and threats. Procurement categories can and should be classified, for example by the use of the item or service, the nature or type of the purchased item, the source of supply or supplier market.

3.4.2 How to create a sourcing strategy based on categories

The use of portfolio model assists organizations to better perceive sourcing inconveniences and to separate sourcing strategies (Gelderman, 2003). Though, portfolio models have been noticed to simplify complex situations in some cases too much. In spite of that, the use of portfolio model has become more common (Van Weele, 2000) and simultaneously portfolio method is used as a strategic sourcing tool in analyzing and classifying sourced pieces. It can be used in grouping items and sourcing strategy creation. Smart and Dudas (2007) suggest to use spend analysis for sourcing strategy creation. Spend analysis can be utilized in developing decision making framework for purchasing.

Depending on the case, sourcing managers or procurement unit has two main alternatives for category strategy creation. They can follow an individual strategy for each subcategory or they can form general category strategies concerning the greater entity. A research made by Hesping and Schiele (2013) propose it is severe to build one, all-encompassing strategy. Instead, they suggest that sourcing strategy could be built up through several activities and is therefore formed by stages. First, organizations have a business strategy. Then they build sourcing strategy on that base, and afterwards category strategies for supply markets. Category strategies are then carried out by various sourcing tactics, which have been called sourcing levers. Hesping and Schiele (2013) argue that each sourcing category requires own custom-made set of levers. These sourcing levers have an instant, applicable relevance as they straight address actions that decision makers can export to attain efficiency aims (Cuervo-Cazurra et al., 2013). Finally there will be specific sourcing strategy for each supplier (Hesping and Schiele, 2013).

Literature offers preciously little information about tactical levers, which would assist in better understanding of sourcing category characteristics and tactical sourcing. In modern category management approach it is not unusual to company to separate hundreds of sourcing categories (Van Weele, 2010). Especially in big corporations with large procurement units there are category specific strategies. It is essential to determine the outlines and framework of the pursued quality levels for each category strategy (Pekkala and Pohjonen, 2010). It is also suggested that

category sourcing strategy can contain details of contractual and implementation phases. The reason for forming categories is to obtain economic benefits through systematic planning and expediency. Sourcing strategy should therefore contain details of procurement priorities, business missions and how organization could optimize the amount of its supply base and supplied services and goods (Pekkala and Pohjonen, 2010). In addition Van Weele (2010) writes that category strategy should take strongly into account organization's business strategy, analysis from the current and possible future situation of purchasing, should describe the purchasing processes and adequate amount of information about suppliers. (Van Weele, 2010) The strategic review to sourcing categories means that organization understands differences in sourced categories and how these effect on satisfying customers' needs and long-term objectives.

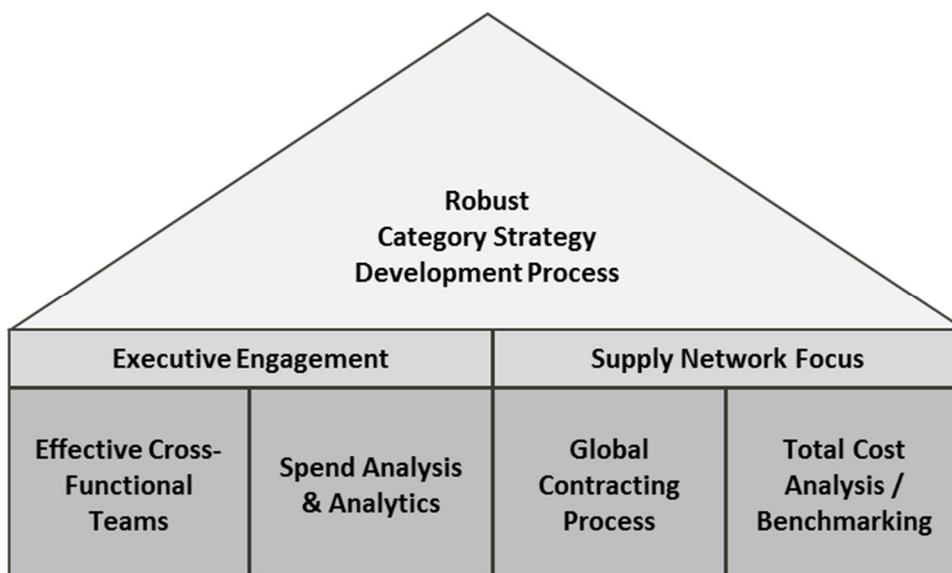


Figure 11. Effective category strategy development, modified from original by Carter et al. (2007)

Timonen (2001) separates sourcing strategy planning on two levels: strategic and tactical planning. Strategic planning contains specific action plans, analyzing categories thoroughly, constructing categories based on category goals and features and analyzing market situation whereas tactical planning is more human centric, short-term and based on transactional activity. It's more common in small or medium sized organizations. (Timonen, 2001) In addition it is more ad hoc purchasing than well-planned sourcing. According to Carter et al. (2007) a solid category

strategy should include various, simultaneous actions including for example regional budget sourcing, supplier development, product innovation, change implementation plan and supply base rationalization. Total cost of suppliers could also be monitored and it should assist in sourcing decision creation. (Carter et al., 2007)

The details of which the sourcing category strategy should at least include

- 1) Time horizon
- 2) Customer Alignment and Linkage (both internal & external)
- 3) Strategy Formulation & Selection (focus on all value and total cost opportunities & Supply network)
- 4) Supplier Integration
- 5) Risk Mitigation and Contingency Planning
- 6) Action Plans
- 7) Measurement and Learning
- 8) Change Management
- 9) Category Strategy Documentation

Carter et al. (2007) describe that “*category strategies are developed from the bottom up by category teams to meet business objectives and customer requirements. They go far beyond volume aggregation or focusing on unit price reductions.*” As a deduction, the category value will reach more important role in category strategy. It requires cross-functional, effective participation within organization. Therefore the engagement of multiple functions and enterprises will be essential. Also the structure and amount of categories will be changing in near future due to technological advances, which requires adaptability in the organizations. One of the most important things according to Norton (2015) for category managers is to perceive the social and environmental risks within categories. Also benchmarking competitors’ success on the market field and technological improvements is important when developing category strategies. (Norton, 2015)

On the contrary Finland's largest logistics and sourcing experts -network LOGY lists few main points for creating procurement strategy. According to them sourcing strategy is a tool which main purpose is to facilitate the practical sourcing

choices within organization. One of the aims of the strategy is to communicate to the entire organization policies made by the company. One part of sourcing strategy is to determine if the sourced category should be purchased globally or locally and how wide supply base is enough. (LOGY, 2016)

The most important details of category sourcing strategy, adapted from Logistiikan maailma and LOGY (2016):

- What is to be purchased
- Objectives and requirements of the sourcing activities
- Objectives and requirements related to the sourcing categories
- Determination of the size of supply base - including competitive bidding
- Insourcing vs. outsourcing
- Who has the power to source categories – decentralized vs. centralized sourcing
- Determination of the nature of cooperation and the level of knowledge sharing
- Contract management, coverage, duration
- Global vs. local sourcing decision
- Observing the risks (transportation, quality, delivery)
- Determination of the content of procurement contracts
- Operating model customization on the basis of sourcing category
- Determination of sourcing volume and value
- Defining the requirements for the category sourcing
- Sourcing strategy documentation

Regardless of the company, in general sourcing category -strategy should include the current status analysis, company's goals as well as notice market situation and importance and total cost of the category. Logistiikan Maailma points out that category strategy answers the questions, of how the sourcing categories and the related total costs i.e. category spend are managed. The need for sourcing emerges from company's business strategy and demand, which can be either internal or external (associated with the customer). Category strategy is based on the adaptation of the demand and opportunities in supplier market i.e. what is available in the market (Logistiikan Maailma). It is also relevant if the category is about direct or indirect sourcing. Next figures illustrate these differences.

- Demand is much more predictable as it is related to provision of final service or product
- Normally requirements are directly available from an ERP or MRP system and can be easily communicated
- Specifications and requirements are often easier to define, enabling sourcing to be more scientific
- The buying decisions is often clearly defined by these specifications and requirements
- There are often complex approval processes to be followed, sometimes regulatory, when switching suppliers
- Sourcing of direct materials puts more emphasis on strategic / longer terms relationships as this is critical for the client products and services
- Switching costs for direct categories are typically higher as they are more likely to impact the production process and product design.
- Suppliers are aware of their strong negotiation position
- The sourcing process puts a major focus on sourcing levers harmonizing specifications, planning, cost unbundling
- Suppliers of direct categories try to differentiate through the quality of the goods and services they provide

Figure 12. Characteristics of direct sourcing categories adapted by Person A

- The demand for indirect materials and services is often difficult to predict in the way that direct materials are, which is challenging for the buyer to use when leveraging the market
- Indirect requirements are often discretionary to some degree, and the specification and definition of the requirement can be very changeable – a challenge to procurement
- Buying decisions are often not as clearly defined, and are regularly done by stakeholders with limited involvement by procurement – stakeholder engagement is imperative
- There are rarely complex approvals processes for supplier switching or specification changes – however, this also provides challenges where stakeholders can change requirements frequently
- Indirect materials sourcing is typically more flexible as categories are well defined and switching costs are often less than direct costs
- Suppliers of indirect categories try to differentiate themselves through service levels and are prepared to be competitive on price
- Sourcing process puts a focus on sourcing levers, e.g. volume consolidation, supply base tearing

Figure 13. Characteristics of indirect sourcing categories, adapted by Person A

Like brought up earlier, both the academic focus as well as case organization's has been on direct sourcing instead of indirect. When comparing indirect and direct sourcing on the behalf of competency, indirect sourcing requires more excellent sourcing skills. You have to continually prioritise and work in a flexible way across categories. Also financial performance of indirect services is more difficult to measure. The impact on overheads is debateable (Intranet, case company).

3.4.3 How to manage categories

After creating category based strategies, organizations would likely concentrate on managing those professionally. Sourcing category management is proved to be a mutual practice especially amongst large size organizations. Also its significance and utilization is expected to even rise in the foreseeable future (Monczka and Petersen, 2008). Literature represents also, that category management has a high utilitarian significance, but still the theoretical aspects have been discussed very little. To benefit from the sourcing strategy formed, it is vital to manage the change.

By managing categories, organization can start executing its sourcing strategies (Terpend et al., 2011). Krause et al (2001) suggest that this can be performed by managing categories' sustainability, costs, innovations and quality. On this basis it can be assumed, that the general supplier management methods can be utilized as a basis for category management. Strategic categories are also closely relating to supplier relationship management as well as strategic supply (Olsen and Ellram, 1997; van Weele, 2005).

Purchasing maturity is highly related to category management through sourcing performance (Schiele, 2007). Purchasing maturity and category organizing skills need to be measured and developed continuously if possible. The category manager's role is to direct the establishment of the category strategy and bear the responsibility. Therefore category management requires certain capabilities from the manager itself too (Gooner, 2001).

Gooner (2001) summarizes that both technical capability, business philosophy and category management expertise and sophistication is required. Category managers need to understand the special features of categories and manage them according to that. *“Within each sourcing category, category managers may formulate a supplier strategy for each current or potential supplier to define the development of each buyer–supplier relationship* (Hesping and Schiele, 2013). Further, Dussart (1998) reminds that the utter espousal of category management is time-consuming and it requires a significant amount of readjustment (Dussart 1998). As category management is meant to be an ongoing process, it requires periodic reviewing and adjustment.

Documented strategy can assist organization to increase employees understanding and adaption of change, and to facilitate the implementation of common line items and action plans. Thoroughly thought and documented description of identified types of relationships the organization seeks with its various supplier markets, lays the foundation for such a common understanding and environment for its development. The sourcing strategy is one to correspond on these challenges. The challenges for establishing sourcing strategy are the diversity of purchased services and products, even though creating a universal model is difficult. (Iloranta et al., 2008)

Payne and Dorn (2012) recall that the category structures ‘are living’ and their contents change. This should be taken into account in category management. It must be remembered, that success in a changing environment requires the ability to lead changes and understanding the special characteristics (Schiele et al., 2011). Within a sourcing category, sourcing managers may choose among various tactical actions the one practice, which they want to pursue with that specific category (Schiele et al., 2011). Also strategy development, especially for the critical categories, will require increasing levels of engagement from top-management (Carter et al., 2007).

Gruen (2012) has studied category management from the perspective of retail industry. It differs somehow significantly from the ICT -field, but however some of Gruen’s findings can be generalized to fit into this thesis subject. He suggests for

example that practitioners of category management should concentrate on managing multiple suppliers, focus simultaneously on multiple categories and their efficiency and continuously develop category management practices so that category management is a core process itself rather than a short term temporary purposeless project. (Gruen, 2012) Gruen (2012) also suggest that organizations' should actually measure the success of categories: "*overall ROI has rarely been measured*" he points out.

4 EMPIRICAL STUDY

After presenting theoretical background for this thesis, empirical study and results will be presented and analyzed. Case study method will be utilized in this thesis as a main approach to empirical study. This fourth chapter consist research methodology presentation, including research method, survey data and research process as well as strategic framework presentations. After that there will be a brief introduction to case company, the field of business it operates and a broader overview of the organization's current purchasing behavior and strategy.

4.1 Research method and survey material

Research methods are regularly split into two main categories; qualitative and quantitative methods. The used research methodology contains also characteristics of participatory case study, known also as an action research (O'Brien, 2001). Usual attributes for qualitative method are extensive approach to research subject and the natural way to collect data from the real situations. For a qualitative research it is also typical that the object is chosen befittingly and the case is treated as a unique instance. (Hirsjärvi et al., 1997) According to Aliaga and Gunderson (2000), quantitative research is "*explaining phenomena by collecting numerical data that are analyzed using mathematically based methods.*" The greatest benefit of quantitative research is its neutrality and ease to generalize (Boutellier et al., 2013). In spite of this method's deficiencies, quantitative methods have been utilized traditionally more common especially in social sciences (Flick, 2006).

Essential for participatory research methods is that the research process is planned and conducted with researcher and those people whose performance is under the research. Consequently according to Bergold and Thomas (2012), this means that "*the aim of the inquiry and the research questions develop out of the convergence of two perspectives - that of science and of practice. In the best case, both sides benefit from the research process.*" Therefore participatory research method enables researchers to examine the situation from a different per-

spective and to question and rethink interpretations of the current strategies and situation in general. Krishnaswamy (2004) points out that this is not an easy process, and demanding it requires both time and commitment. O'Brian (2001) adds that "*much of the researcher's time is spent on refining the methodological tools to suit the exigencies of the situation and on collecting, analyzing, and presenting data on an ongoing, cyclical basis*". He also writes that action research is typically used in real life situations, just as in this Master's thesis, when the aim is to recognize and create new ways for case company to perform, rather than in experimental studies (O'Brian, 2001; Stuart et al., 2002).

According to Krishnaswamy (2004), used strategies in participatory research focus on process and capacity building. The process of performing research is as important as the outcome of the study. The participatory research is predetermined not only to produce useful information, but also to build capacity between the participants. Krishnaswamy (2002) writes that: "*capacity building occurs as community members identify research questions, carry out research activities, and in the process develop research skills and techniques*". He also expects organization members to learn to analyze information they have managed to collect and to make decisions how to use this information (Krishnaswamy, 2004). Author's role is to participate in case company's opportunity analysis project and to utilize founded outcomes.

In business economics, case research is one of the most commonly used research methods. Basically researched case is an organization or a part of it (Koskinen et al., 2005). Case study provides an outstanding tool to increase understanding of complex subject matter (Meredith, 1998). This thesis is focused on case company and its procurement unit, indirect sourcing processes and opportunity analysis project, which form the main data for empirical part of the research.

Theoretical background for this study is gathered from scientific publications, while empirical part is constructed from the data given by case company. Empirical data was mainly collected during summer 2015 from project steering meetings with case company's sourcing team and external consultancy organization, which car-

ried out a thorough Opportunity analysis in collaboration with case company. Also some secondary data was collected by interviews with sourcing manager. Personal observations as well as data collection from case company's intranet and other secondary documentation including consultant reports was utilized too. The empirical study was conducted by using mostly a qualitative method, but a number of quantitative traits can be observed.

Opportunity analysis project required a wide and comprehensive amount of spend data of case organization. That data was collected by external consulting firm and validated and re-arranged in a way that it was possible to utilize as a basis for the spend analysis and later category strategy creation. From the perspective of this thesis the data collection was fairly simple, but identification and utilization of valid data was quite challenging. There was almost too much information available, so it was hard to draw the line which data should be utilized and which excluded from the study.

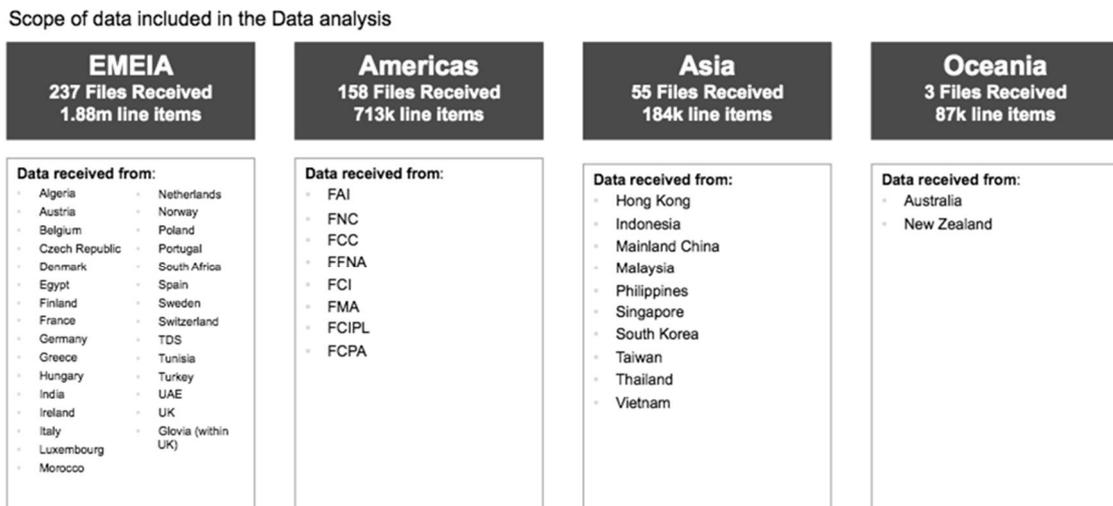


Figure 14. Collected data categorized by regions

In order to ensure that collected data and information is reliable enough, external consulting firm carried out numerous interviews in collaboration with case company. These interviews reached globally 181 stakeholders (in which 51 were working within procurement) around business units with diverse working backgrounds. Following figure visualizes the backgrounds of interviewed employees:

34 people were interviewed in **EMEIA** region
13 in procurement
40 people were interviewed in **Americas**,
6 in procurement
47 people were interviewed in **Asia**,
8 in procurement
18 people were interviewed in **Oceania**,
3 in procurement
22 people were interviewed who operate
globally, **4** in procurement
20 people were interviewed in **Japan**, **17** of
 which were in procurement

Figure 15. Interviewed employees for OA project

4.2 Research process and strategic framework

The research process of this study is modified from Stuart et al. (2002). They represented in their model that generic research process consist five steps, as illustrated in the next figure.

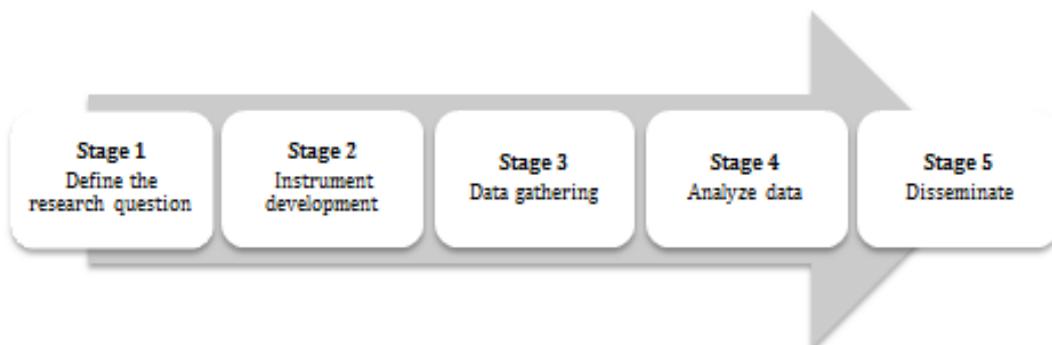


Figure 16. Research model, modified from original by Stuart et al. (2002)

In this thesis the first step is to define the research question(s) (as done in the chapter 1). After this, it is necessary to develop right instruments to examine topic (chapter 2 and 3). When instruments are developed data needs to be gathered and analyzed (chapter 4 and 5). The last step is to spread the results of the research (chapter 6).

In theory chapter it was discussed about particles, which makes sourcing effective and tools by utilizing which organization can achieve savings and increase its efficiency in sourcing. These particles are the basis for the strategic framework of the thesis.

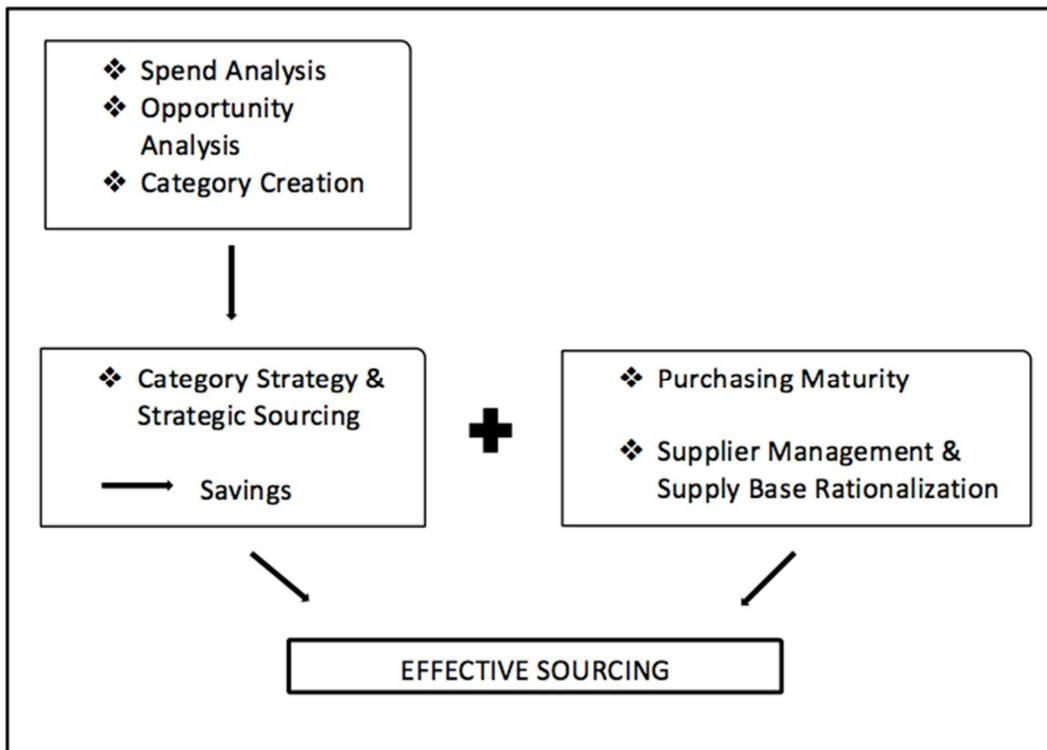


Figure 17. Theoretical framework

In following chapter, author is going to use these tools to identify objects, which require further development. The empirical part of this thesis will be glanced through this frame. By utilizing spend and opportunity analysis it is possible to create sourcing categories. That enables employees to practice sourcing more strategic way and even build category specific strategies. When combining savings and knowledge gathered by category strategies and purchasing maturity development with better supplier management actions, organization is able perform more effective than before. After discussed about the results of opportunity analysis, author will concentrate on creating a procurement strategy for a central sourcing category. Also other important ways to enhance case organization's sourcing will be discussed.

4.3 The target company

Case company is originally a Japanese information and communication technology -company, which offers a wide range of technology services, products and solutions. The company operates in more than 100 countries, with approximately 159000 employees and uses its experience of ICT to shape the future of society together with its customers.



Figure 18. Map of the regional procurement of case company

This Master's thesis is concentrating on case company's global organization, but Japan is out of scope due to mandatory limitation so the subject does not spread too wide. The central focus is to pay attention to EMEIA (Europe, the Middle East, India and Africa) region, especially to Europe. In EMEIA organization, company employs approximately 29000 people.

Case organization's global vision is *"to enable a Human Centric Intelligent Society that creates value by connecting infrastructure, empowering people and creatively defining new forms of intelligence"*. Company struggles to provide resilient global, consistent and standardized field engineering services to global customers.

4.4 The field of business environment

The Information and Communication Technology (ICT) industry and innovations in other industries enabled by ICT have a remarkable assistance to the economic growth. It is alleged that ICT -research and development as well as innovation are key to future progress. (European Commission, 2015; Fatur, 2012) “*The ICT industries positively contribute to the growth of the economy directly, as a result of the growth in the ICT sector itself, and indirectly, by facilitating cost savings and product innovations in other industries*” concludes Fatur (2012).

Ho and Lee (2008) name globalization and the opening of emerging markets to be a reason why there are multiple new opportunities for the companies in the business environment. But simultaneously a major drawback is that advances in ICT raise also the variety in competitors’ strategic operations. (Ho and Lee, 2008) International surveys have proved that European companies working in ICT industry field have significantly lost competitive advantage during the recent years for the US and Asian companies (Fransman, 2010). The ICT -related companies confront with global competition almost regardless of the size of the company. This is due to the fact that ICT -intensive work is not tied to geographic boundaries (ETLA, 2015).

4.5 Current sourcing strategies in case company

According to case company’s General Manager of Corporate Purchasing Unit, case company is implementing three sorts of sourcing: direct, indirect and combined sourcing. Traditional (1) direct sourcing includes basic components, and other particles, which are used in manufacturing. This is the most common way to make purchases. (2) Traditional indirect sourcing includes for example purchasing teleconferences, business trips, consulting and furniture. (3) Third sourcing type is more complex and ambiguous; it comprises almost everything, what is used in customer deliveries. Often company is using the same products or services itself than what it sells to its customers. General Manager of Corporate Purchasing Unit, Person A, says that approximately 90% from this combined sourcing goes to the

customers and 10% is used within case company. Further, approximately 15-20% of organization's whole global sourcing is indirect, and 90% of that goes to the customers.

Which makes the exact determination of organization spend severe, is that the same suppliers are used both for organization's own purchases and to customers' orders. Also same suppliers may be used for direct, indirect and complex sourcing. This has an effect to supplier categorization too. Traditionally direct sourcing has been the biggest and prior sourcing method in case company. Within the organization, indirect sourcing has been seen fragmented and not so important or significant. Employees continue to perceive it as a challenging piece, which is hard to implement and opportunities for utilization and enhancing are not found yet.

Case organization has not a special strategy for indirect sourcing. They use category management and category planning as a sourcing strategy overall. Indirect sourcing is often project-based than a continuous element of strategy. One purpose of the OA (made 2015 in collaboration with external consulting company) is to recognize if individual category strategies should be global, regional or local in nature. The current situation is that different regions have some similarities within their sourcing strategies. For example, in country level, companies follow their regional action plans. Finland complies partly with EMEA's strategy, but there is not one globally implemented model to cover the whole corporation.

In the last 5-10 years there have been some actions toward strategically oriented sourcing organization. Almost in every country, there is a small de-centralized sourcing unit for indirect sourcing, but not one globally managed system. This means that sourcing is centralized in country level, but in the larger extent it is more decentralized. The changes in organization's sourcing behavior are the results of globalization and mostly driven by individual customers. This means that case organization has recognized customers demand for comprehensive satisfaction. Customers are expecting similar, standardized practices in every country, which are part of case organization. For global customers it is important that they

have similar contracts and quality control regardless in which country they are operating.

When comparing direct and indirect sourcing it has been noticed that direct sourcing has more rules and sourcing decisions are done under more straight discipline. This is due to the nature of direct sourcing. In indirect sourcing it is more difficult to determine who has power to make purchasing decisions - there is no consistent policy. In all countries there are not even dedicated procurement people. Case company's way to implement its sourcing is very bureaucratic too; purchases must be approved by the procurement organization. This may be ineffective in the cases when the value of sourced item or service is low but time consuming. When organization is purchasing new service or item with more value but little pre-knowledge, insuring procurement organization about the importance of the acquisition may be difficult and time consuming. However, at the moment sourcing situation is developing and there are multiple possibilities within case company.

One thing demanding attention is case company's large base of suppliers and contracts with them. There are several reasons for that, but the most major reason is probably the lack of monitoring small value contracts. The large supplier base leads to the situation, where supplier relationship management is burdensome. There may be even hundreds of contracts with the same supplier. This grievance is under an attention during the OA -project. It is not in line with case organization's interest to have that many contracts, nor suppliers.

It is clear and essential, that sourcing must operate in correlation with and according to the business level strategies towards the common goals of organization. But in order to enable this, organization must first build a coherent approach to sourcing strategy forming. It has been on the table that the development of sourcing actions requires co-operation and knowledge sharing between internal and external organizations. Therefore company engaged an external consulting firm to carry out a comprehensive opportunity analysis to discover new, more efficient ways to streamline organization's procurement. At EMEIA region, there is already a client mapping -tool for this purpose.

There occurs somehow significant gaps in case organization's global governance, global processes, global systems landscape and global resources, which do not enable organization to offer and deliver required global, well integrated combination of field engineering services and global supply chain management services. While company lacks central global supply chain management operation, in-the-country supply chain management and maintenance logistics services are quite often embryonic, sometimes not even existing. Delivering resilient global supply chain management service is an issue on most global contracts of the company. That results into complex service setups and incompetent operation management, which often may result in low global service level achievements and even loss making contracts. It was recognize from the basis of organization's documentation that one of organization's weaknesses is that they tend to over-promise and under-deliver. In the worst case, it may results in major implications on the profitability of the company.

Case company has sought savings in expenses and made efforts to reinforce its operations already for years, inter alia by categorizing their sourcing spend. They have built a solid base for basic classification, but there is a need for further development. Before Opportunity Analysis -project, case company categorized their spend in a few categories. They also utilized the four-field pattern, originally developed by Kraljic, into mapping stakeholders depending organization's own desire and the influence of stakeholders. Case company has believed for a while, as Ferreira et al. (2013) that by continuous portfolio management and Kraljic matrix utilization they can achieve a broader understanding concerning their stakeholders.

5 TOWARD DEVELOPED SOURCING STRATEGIES

The external consulting firm made some profound calculations as a part of their analysis. They suggest that if case company were acting according to their guidance it could achieve huge savings on sourcing spend, even \$10bn in total, but the clause is that case company should follow strictly their instructions. The purpose of this thesis is not to reproduce their findings, but to build new operating models on a basis of their grievances. In this chapter author will describe opportunity analysis project main features and introduce key findings. Also original sources of data will be introduced to the reader and the aim is to create an understanding of overall project scope. Another key issue in this chapter is to describe the most important opportunity analysis project findings.

5.1 Opportunity analysis project phases

Case company launched Opportunity Analysis project, concerning whole organization, in the middle of second quarter of 2015. They implemented it together with an external multinational consulting firm, which is specialized for sourcing technology and is one of the leading sourcing service providers worldwide. Case company and consulting firm did not have any previous business co-operation and therefore they had to create a trust-based relationship, due to requirements for tight collaboration and continuous business actions. The whole OA project was a result from the proposal made by General Manager of Corporate Purchasing Unit, person A, who knew consulting firm from his previous work assignments. Person A had noticed the unused potential of case company's sourcing activities and was convinced that by investing in such an analysis, company could achieve great benefits both economically and in terms of personnel development. After few months of investigation, planning and financing approvals the project was about to start.



Figure 19. Stages of opportunity analysis approach

As represented in the picture, opportunity analysis was carried out in 5 phases: kick off, spend data collection and categorization, interviews and opportunity profiling, initial category and strategy hypotheses and final hypotheses. Consulting firm started with global workshop planning in the middle of June 2015 and the official project kick off took place at the first of July. At **first** it was important to identify stakeholders and schedule interviews. Also consulting firm and case company agreed on process review formatting and frequency of reviews and communication issues at the very first steps of the project. **After** that, firm started the actual process by collecting and cleansing ERP data across countries and by consolidating spend, supplier and pricing information. Spend data analysis was ongoing from the end of June until the end of August.

The **third** part contained spend data validation with stakeholders and interviews. Also the best practice identification and assessment was in major role. Interviews were held mostly during August and September and were disrupted by employees' summer holidays. In the **fourth** phase consulting firm concentrated on providing initial hypotheses and improvement potentials about sourcing practices. They also reviewed leveraging opportunities concerning case organization's country scale. This took part on September 2015.

The **fifth** and the last part, consulting firm did, was forming the final hypotheses on category strategy and county-based potentialities. These results were handed to case company by 21st of September 2015. After that consulting firm arranged some extra meetings regarding the future actions, but concerning this Master's thesis limitations it is not relevant to discuss these any further. For the final report,

consulting firm produced the findings and assessed category improvement potentials. This was made based on the data analysis process, which included a robust collection, translation, cleansing, categorisation and validation process.

During the OA process, consulting firm offered status update reports by email and in real life meetings weekly bases, which showed the progress and helped case organization on planning their actions regarding OA project and other business activities. This operating model and approach created trust between parties and prevented the emergence of ambiguities, since the problems were possible to identify and to intervene immediately.

Categorisation approach

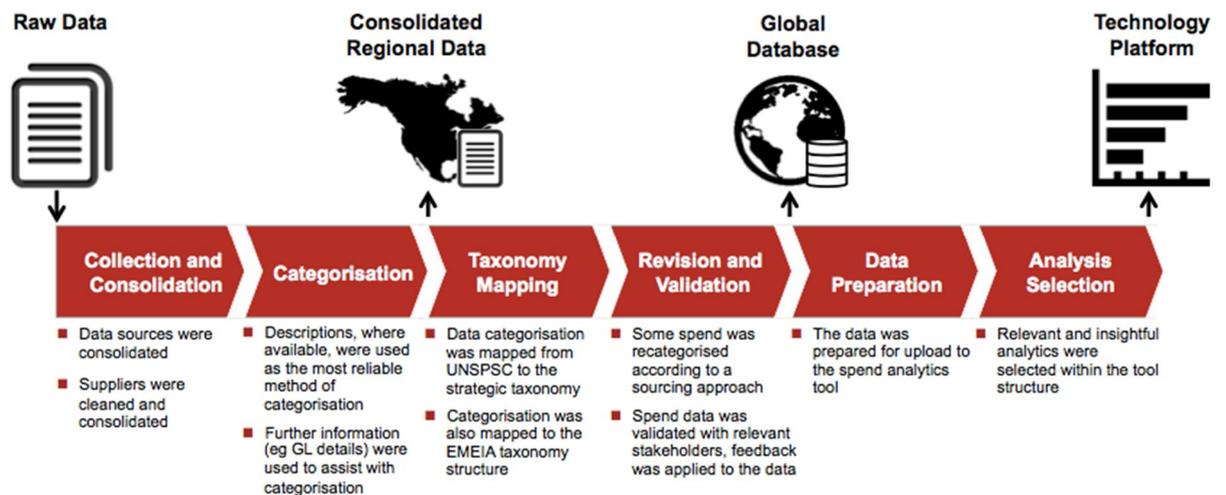


Figure 20. Categorization approach

Consulting firm collected spend data across all business units from various sources and it was categorized by utilizing UNSPSC spend -tool. They did a thorough data collection, consolidation, cleaning and categorization process in order to create a unified sourcing classification. The original scope of the Opportunity Analysis did not include a detailed analysis of Japan spend and concentrated mainly on EMEIA, Americas, Asia and Oceania. Though, it was estimated that Japan's spend is roughly 2.5 times other regions spend. The procurement models developed in other regions can be slightly utilized in Japan too, but detailed classification and analysis of Japan's spend is required to validate this assumption.

The data formats were collected mainly from SAP - P82 Accounts payable invoice data source (A). Secondary source was Asia SAP, from functions FBL1N and ME2M (D). Minor data sources were form NA Shared Service Contract Management System download of MAN and PO files (B) and Oceania Spend Data (C). If none of the above mentioned systems was not the main source of data collection, the source is written in the "Other Sources" column. Following figure illustrates the main sources for data collection in each area:

		Data Sources				Other Sources
		A	B	C	D	
EMEIA	Germany	X				
	UK	X				CAFOS, Glovia File
	Finland					Nordic Spend File (FI SAP)
	Sweden	X				
	Spain	X				BAAN (ACCOUNTS PAYABLE transactions)
	Belgium	X				
	Italy	X				
	Netherlands	X				
	France	X				
	Denmark	X				
	Austria	X				
	Poland	X				
	TDS					TDS SAP System
	Switzerland	X				
	Turkey	X				
	Ireland	X				Additional File
	Portugal	X				
	Czech Republic	X				
	South Africa	X				
	Luxembourg	X				
Norway	X					

		Data Sources				Other Sources
		A	B	C	D	
EMEIA	India	X				
	Greece	X				
	Egypt					Oracle file
	Tunisia	X				
	UAE	X				
	Morocco	X				
	Algeria					Single file
	Hungary	X				
	Americas			X		
	Oceania				X	
Asia	Australia			X		
	New Zealand			X		
	South Korea					Purchasing, Import and Expense
	Singapore				X	
	Hong Kong					Trade and Non-Trade Files
	Thailand				X	
	Mainland China					Product and Service Files
	Philippines					Single file
	Malaysia				X	
	Indonesia				X	
Taiwan					PO and Other Spend Files	
Vietnam				X		

Figure 21. Data sources

5.2 Opportunity analysis findings

As already stated, OA project is largely based on the organization's sourcing spend identification and quantification. It is substantial to show how spend is divided within organization. Following figure illustrates the amount of total spend and how it is spread.

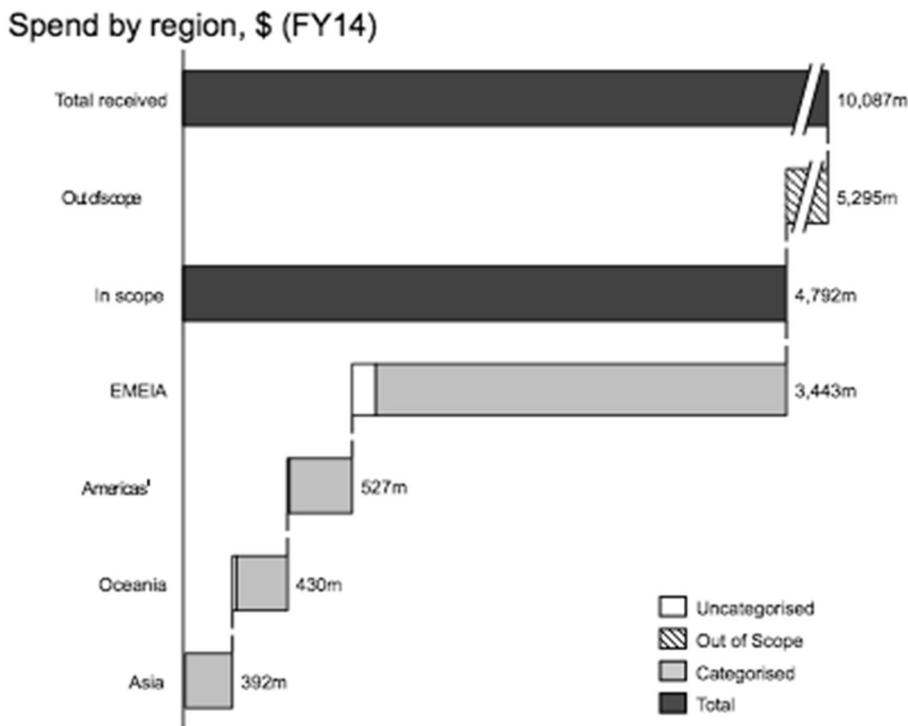


Figure 22. Spend by region, 2014

Regional deliverables are formed based on Opportunity Analysis -project for each main region: Americas, Asia, EMEIA and Oceania (and Japan, which was done as an external part of the analysis, but originally not included in the main project). Out of Scope spend, approximately 5,295 m includes case company's Inter-company transactions, Taxation, Payroll and Customer refunds, and it has been excluded from the review. Out of Scope spend exceeded the amount of In Scope spend (4,792), which was surprising. Overall, the collected data contained 453 files and totally 47 entities was consolidated and categorised. For entities where less than 12 months data was received, the sourcing spend has been extrapolated to estimate the full year and spend from all regions have been converted to US dollars.

Based on the Opportunity Analysis the top 3 spend categories in case company are IT & Telecoms, Human Resources and Facilities Management. Overall they account for 84.9% of in scope spend. IT & Telecoms account for 4242 suppliers from which 345 suppliers cause 80% of the total spend. That is the biggest sourcing category including both direct and indirect spend. Suggested category entities are summarized in the next image. In order to answer imposed research questions, author will create a sourcing strategy regarding IT & Telecom categories in chapter 6.

Category	Subcategory
IT & Telecoms	<i>Hardware</i>
	<i>Software</i>
	<i>Services</i>
	<i>Network and Telecoms</i>
HR	<i>Temporary Recruitment</i>
	<i>Fleet</i>
	<i>Travel</i>
	<i>Training</i>
	<i>Permanent Recruitment</i>
Facilities Management	<i>Business Support</i>
	<i>Building Maintenance</i>
	<i>Utilities</i>
Professional Services	<i>Soft FM</i>
	<i>Management advisory services</i>
Marketing	<i>Legal</i>
Marketing	<i>Marketing</i>
Logistics	<i>Logistics</i>

Figure 23 Category proposals created during OA project

It is concluded that there is a significant opportunity in addressing case organization indirect spend by managing it globally, especially in some categories. A new approach to manage indirect spend both globally and holistically by key categories, is requested in order to achieve savings in spend. Unfortunately there are quite significant organizational challenges, which limit case organization's potential to operate a world class sourcing function. For example sourcing teams in regions are concentrating on making purchases based on local business needs, therefore processes, practices and even results of sourcing may differ significantly by region. Also the lack of consistent sourcing methodology across the business causes inconveniences.

What makes sourcing challenging for case company is not only the global aspect, that it operates in over 120 countries, but the fact that each country and market has its own requirements. For a big multicultural organization it is challenging to recognize these requirements and find a way to answer them thorough enough. By knowledge utilization and exploiting employees' intelligence, company can surpass the global barriers created by languages, borders and currencies. Especially in the big organizations it is important to drill down the local requirements, potentials and risks. The overall view of the projects and cases is not enough. At the moment case company is not leveraging its global buying power, but rather it acts as fragmented, individual entities.

The Opportunity Analysis results represent five main factors, which limit case organization's sourcing potential. These factors are:

- 1) Sales Process
- 2) Compliance
- 3) Roles& Responsibilities
- 4) Localized Focus
- 5) Data Quality.

If case organization wish to follow up consulting firm’s suggestions, the development of these parts will become important in the future. Also, author becomes familiar with these factors in the next chapter, where she proposes appropriate action proposal for case organization, on the basis of knowledge gathered through theoretical part of the thesis and by observation of case organization’s sourcing actions.

Like it was discussed earlier, Hesping and Schiele (2013) wrote about the need of custom-made set of purchasing tools, sourcing levers. As a result of OA -project external consulting firm represented six levers, which could be useful for the organization in sourcing strategy creation. These levers are collected in the following figure. Due to the limitations and research scope, the closer examination of these levers is not possible. However, organization should consider these levers further and take advantage of them as far as possible in procurement decision making and category management plans.

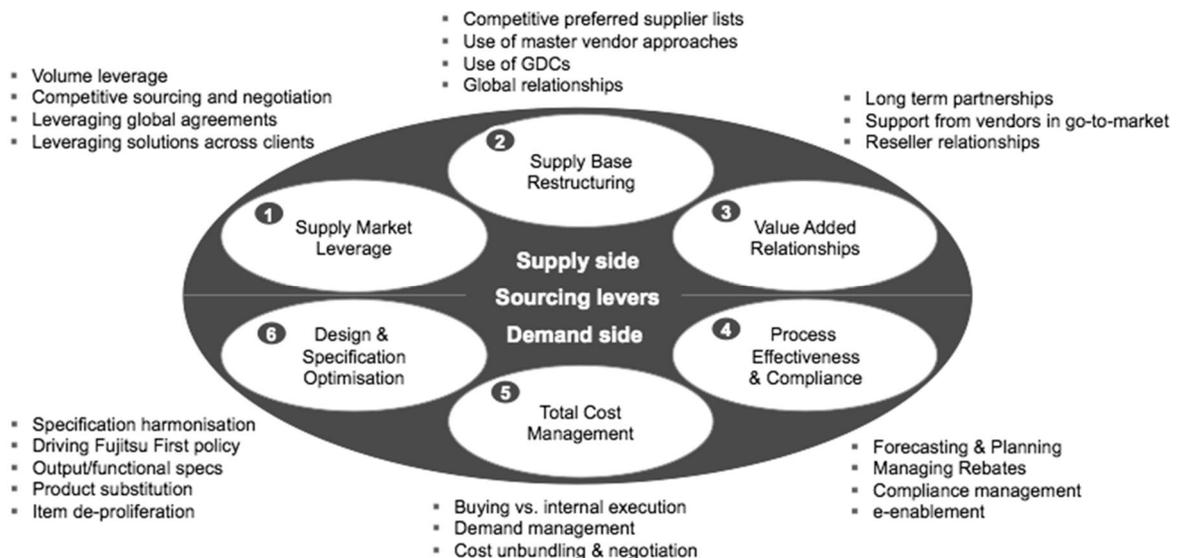


Figure 24. Possible sourcing levers for case organization

Opportunity analysis showed also differences in challenges, which indirect and direct sourcing face in everyday operations. The overall finding was that indirect and direct sourcing has synergies, but still they require different approaches. Indirect sourcing seems to be less automatized, its KPI (key performance indicator) is more challenging to measure, indirect sourcing needs to be decentralized and therefore it's located in every country across the organization and communication is done with various languages. Also supplier base is very wide (+24000) compared to direct sourcing (+500). It is good to understand the specific features of both sourcing models, especially when company is executing both. The biggest and most prior target and challenge for the future company is to form a sourcing strategy, which can be utilized in sourcing both directly and indirectly, or which can be a base for such strategies. The main sourcing differences are represented in the following figure.

	Direct Procurement	Indirect Procurement
Stakeholders	Small number of specialists	Everybody at the organization is a potential stakeholder
Supplier Base	500+ typically large	Over 24,000 from small to large
Supplier Geography	Global, mainly in Asia and US communication in English and Japanese	Located in every organization Country, communication in various languages
Savings Impact	Tangible and measurable	Hard to prove savings flow to bottom line
Process	Fully automated transactional solutions	Various mostly manual processes and different tools
Compliance	Automatic centralized compliance	Challenges in process, contracts and pricing compliance
Centralization	Centralized sourcing possible	Sourcing often needs to be close to business and suppliers -> decentralized
KPIs	Easy to measure supplier performance	Challenging to measure performance especially in services
Spend Analytics	Full visibility to spend	Hard to gain visibility and consolidate supplier spend

Figure 25. Main differences in case company's direct vs. indirect sourcing methods

6 METHODS FOR EFFECTIVE INDIRECT SOURCING

In this chapter author will create a category sourcing strategy substances for the specific service category and discuss about the spend and profitability, supplier management and sourcing contracts and effective strategic sourcing overall from case organization's point of view. Some universal guidelines will be provide to case organization to enable it enhance its future sourcing behavior. At the same time focus will be on the major opportunities and challenges of case company's sourcing actions.

In order to boost organization's sourcing efficiency case company need to renew its actions concerning sourcing strategy functions. One big target is to intensify its category management overall. Like brought up in the theory chapter, strategic category management consist from many functions. It starts with strategic category planning, based on organizations spend and cost analysis as well as supply market analysis, risks assessment and category performance management and supply market development. Through these functions case company's strategic sourcing guidelines will be built.

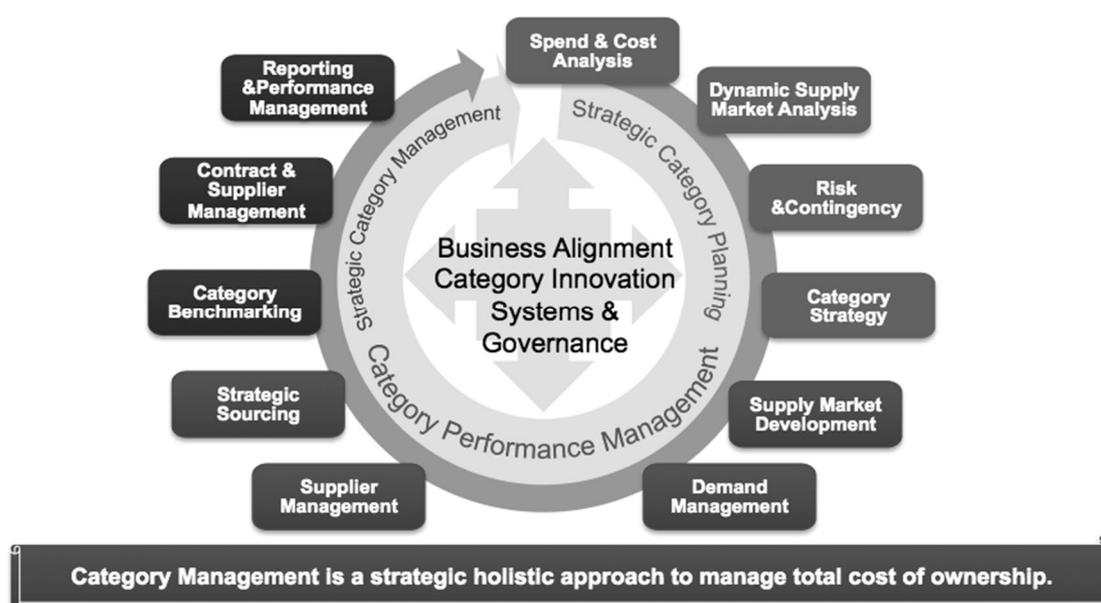


Figure 26. Effective category management process

Generally, in order to make sourcing more effective, organizations have to concentrate on developing all of these functions. They can either develop them equally or if one function is over others, then they should concentrate on a few prior function developments. Regarding this and partly based on consulting firm's analysis the results suggest case company to concentrate on spend and profitability, contract and supplier development and strategic sourcing. Through these components sourcing category strategy can be formed.

6.1 Spend and profitability

By concluding opportunity analysis case company took a step towards more strategic approach to sourcing and its categorization. Organization's sourcing spend measurement proved to be time-consuming, but an important method to monitor the distribution of the organization's sourcing expenses. This should not remain a single project but rather spend need to be monitored at regular intervals and the data should be both collected and measured continuously in a centralized way.

Sourcing productivity measurement is challenging, and for now there is no universally applicable method developed for that purpose. However, case company should aim to measure its sourcing profitability and seek efficiency through new sourcing methods. Productivity can be measured in case company except by observing spend but also by discussing with suppliers. Implementation of regular supplier satisfaction surveys globally within the organization can give valuable information. Both qualitative and quantitative questions need to be included in the survey to ensure comparability.

Thorough spend analysis necessitates continuous data collection globally. Therefore, both data collection and storing should be standardized. Data storage was identified problematic in conducted OA -project. Now there are different data systems and the quality of data varies by region. In the future, data systems should be harmonized to conserve time and other resources in order to increase efficiency. These challenges need to be addressed in order to maximise delivering initial sav-

ings, and to maintain on-going control of spend. Data systems harmonization enables knowledge sharing and reduces inconvenience. Part of knowledge sharing is maintaining category specific information globally and making it available across whole company. Regarding that, The General Manager of Corporate Purchasing Unit shares author's suggestions. He noted: "*we need to harmonize our procurement systems and improve the quality of procurement related data. Also it would be beneficial to eventually have standard Sourcing Process with Strategic Sourcing and Purchasing tools. We do not need necessarily one global system but we should be able to consolidate the data to gain a near-real-time view of the spend and changes of it.*" (Person A, 2016)

OA project proved that there is no common taxonomy used in case organization. Visibility is good enough in most of regions but it would be beneficial to develop it further. That is not a prior task though. Common taxonomy could help case company to adhere "One Case Company" -principle better. To increase case company's sourcing profitability, there should be a common principle to source all the possible services and goods inside case organization. At the moment it seems that there is no definite information on whether some of the services or products could be acquired within the organization, or from the external stakeholders.

There are some tools available to utilize in internal spend monitoring, though none of them are currently used. It is good that Qlickview -tool has already been piloted during the OA project but its usefulness and usability has not been determined with certainty yet. The OA -project mainly focused on measuring the external spend, but in the future it is very important to determine the internal organization spend too. Therefore common taxonomy and specific tools are needed. This tool should present at least overall spend -information including detailed regional spends by suppliers, categories, products and services etc. With the use of this tool organization could focus on its key opportunities and support compliance management more effectively.

6.2 Contract and supplier management

One major part of supplier management is supply base rationalization and determination. The required size of supply base depends on the category. It is not useful to determine the overall size of supply base but rather it should be determined by sourced category. Some of the categories require a larger number of suppliers while some categories are easier to manage with smaller supply base.

Opportunity analysis proved that case organization has a wide supply base. If concentrating on IT & Telecoms' sub-category "services" OA project showed that multiple suppliers are supplying the same services within and across regions. That widens the supply base. It would be beneficial to centralize part of these services to certain supplier. It increases purchasing volumes and reduces prices. At the same time case organization can reduce its supply base and ease supplier management and save time and gain monetary benefits.

The suppliers of global organization expect to be treated the same way in every country where organization operates. Because case organization has not standardized sourcing processes, there are major differences in contract terms, including payment terms, delivery times, possible discounts etc. If case organization had standardized sourcing processes and practices to manage suppliers and contract terms throughout the organization, it would simplify the preparation of contracts and prevent the establishment of overlapping agreements. Eventually that would lead savings and more efficient time management. Then multiple, overlapping contracts with the same suppliers would not exist across regions as much. Also procurement professional, Person A (2016), has identified shortcomings in these matters. He concludes that: "*by having proper catalogs and easy-to-use day-to-day purchasing system you achieve better compliance to contracts and improve the spend data significantly*".

At the same time with Opportunity analysis -project, case company started 3PDD (Third-Party Due Diligence) requests all over the company. Its purpose is to mitigate the risk of becoming involved in corruption through third parties. In that way

organizations which are conducting business overseas, does not face legal and reputational risks (World Economic Forum, 2013). Although 3PDD has attracted little resistance and is regarded as a bureaucratic function, in author's opinion it is definitely an important process. It shows that organization is operating in a sustainable and fairly way in accordance with the law. Customers appreciate honesty and therefore 3PDD can increase corporate value and customers' interest toward organization.

There have been discussions about process standardisation, not only concerning process harmonization but also congruent tools including invoice processing (for example PO's) should be developed further. In order to manage suppliers more efficiently, procurement executives need to answer following questions, and on that basis make decisions and plans regarding supplier relationships and contract management:

- How consolidated is the supply base?
- Are volumes and strategic relationships leveraged?
- Is compliance monitored?
- Are TCO factors reflected in previous sourcing initiatives? Is the focus on top of unit pricing?
- Are specifications challenged internally?
- When was the last time categories were sourced

The opportunity analysis showed also that there is fragmentation in the supply chain management practices. Some supply chains are managed via several business units without one main management procedure, which is not cost effective. It can lead frustration on suppliers' side. If case company is sourcing key categories it should be clear that partnerships related those purchases were treated as a priority aspect. There need to be enough knowledge and robustness about previous sourcing events and supplier demands. Therefore the most important suppliers should be treated with dignity in accordance with their importance to case company.

It was also noticed that fragmented datacentre supplier base exists across the business and consolidation opportunities are quite clear. However procurement

must be aligned to business strategy in order to support cost optimisation. Fragmentation may be a product of reactive sales decisions, and opportunistic behaviour. There does not appear to be a clear strategy across the regions. Still many items and services, like capacity, are sourced a case by case -basis without a strategic aspect and indirect costs are bundled into many datacentre arrangements, for example utilities, network, security, and are not routinely benchmarked the way they should. Company should review their contracts and seeks to harmonize and integrate agreements as far as possible so that overlapping agreements would no longer exist. Also some supplier arrangements do not incentivise growth through volume discounts and do not comply with the interests of case organization.

All in all, case company need to negotiate major supplier relationships globally and align internal approaches to supplier management. Local organizations would benefit from directed insight on global supplier approaches to capture full value of case organization's buying power especially for hardware and software purchasing.

6.3 Strategic sourcing

Literature behind this thesis has shown it is not enough, if organization plans and implements new procurement strategy without monitoring and measuring its success and impact of changes both quantitatively and qualitatively. Case organization has noticed that and is actually already measuring its success on procurement via ROI methodology utilization. Based on the interview with person A and B, it was assured that at least EMEA's current ROI 7,77 is in a good level, when comparing the determined rate organization would typically expect (at least 5:1 and preferably in the range of 10:1). Person A, (2016) agrees that case company should strengthen their procurement both globally and in regions, but it has to have positive impact on return of investment rate. In addition, Person B questions if procurement should be only measured on savings or if there should be other metrics applied too? That is a good point, because monetary achievements and savings do not necessarily tell the whole truth of the success of sourcing.

Case organization is not only concentrating on developing its sourcing strategies but also on the procurement skills of the employees overall. There occur different levels of knowledge within the organization. Also the lack of category management experience is seen problematic. In the future, case company attempts to gain both required procurement knowledge and competences throughout the organization. One way to fill these gaps is to create active language training -program and deliver sourcing knowledge globally by motivated and skilled internal and external people within the organization. In the case, when internal expertise is lacking, external people help to deliver needed category management and strategy creation skills. Case company do not have standardized definition for procurement and partly therefore there exist people who are working on procurement related tasks but do not officially belong to the procurement organization. This can cause uncertainties in distribution of tasks and responsibilities. Though, it is not the main challenge organization faces.

Opportunity analysis proved that case organization should focus on centralizing its sourcing -actions in case of datacenter locations and data storage. Though, the biggest uncertainty regarding centralization is about procurement units and category sourcing; it is not clear which categories organization should supply regionally or country basis and which could be centralized to one main procurement unit. Author's suggestion is that organization continues to explore its opportunities. Maybe they could build a special multinational sourcing team across the organization, which concentrates on this issue. During this research process, author was convinced that category management issues have a major impact on organization's cost saving opportunities. It was also proved that global approach is not always the best nor is regional or country basis. Both sourcing literature and sourcing managers' experts; Person A and Person B, indicate that the best management actions depend on the situation.

One key aspect of the strategic sourcing is personnel engagement to consistent sourcing behavior and possible changes. As in all organizational changes, resistance to change may occur and it has to be considered in advance. Fundamental communication and transparency are in a key role in changing situations. It is

easier to accept the change if the backgrounds are understandable, therefore formal procurement process is vital to ensure engagement between procurement and the business. Also it would promote the use of best practice approaches, strengthen governance and leverage from the available knowledge within organization. As Iloranta et al. (2008) wrote; objectives and strategic policies need to be communicated throughout the organization. In addition, the interaction within the organization must be close in order to continuously develop effective, strategic sourcing.

Case company has already identified category expertise in today's organization but not all the required global strategic category level knowledge though. Investment into procurement and building more mature sourcing actions is needed to achieve future savings and to enhance sourcing. Even little investment may lead remarkable changes. The solution could be adding sourcing maturity by training case company's own staff and establishing the official sourcing unit and sourcing titles for employees which would clarify organizational structure and would tell the staff who are responsible for procurement actions. Simultaneously, executive managers' engagement is important. It will help in negotiating and obtaining adequate supply budget when management is aware of achievable economic benefits.

Of course, financial matters have to be arranged within the organization. If purchased in a centralized way the costs have to be shared equally in line with benefits, so that investments would not impose significantly greater burden to some parties than others. Centrally funded approach could be exploited. Also possible prioritisation of certain categories or initiatives should be based on the benefits achieved, in addition to the complexity and appetite for delivery. All in all case organization should conduct a review to identify where to focus their efforts to develop skills, processes and organizational capability.

Case organization is absolutely likely to benefit from the improvement opportunities, which are: information and expertise sharing across the organization, key supplier relationship documentation, best practice and key documents as well as category strategy details promotion. Not forgetting the previously mentioned spend tool development, which would visualize the split of sourcing spend. Last but not

least, the formalized sourcing training to ensure standardized sourcing processes and knowledge transfer would be beneficial. All these changes require both time and patience. For the sake of case company, sourcing strategy implementing should be carried out step by step in a long-term progress. Also early stage involvement of stakeholders is essential, amendments will not happen overnight. This entire change operation needs to be well planned and scheduled in advance comprehensively.

6.4 Category strategy

As brought up, case company needs to update their sourcing categories and those management actions. As an example of sourcing category strategy creation, author will now form a new category strategy model regarding organization's biggest category determined by spend: Information Technology & Telecoms. The created strategy concerns *services* -subcategory, which number of companies and authors (Agndal et al., 2007; Gebauer and Segey, 2000; Whitman, 1995) have found to be problematic to procure due to its special characteristics. There has been great debate in the written literature if sourcing services is more complex procedure than sourcing goods. Many argue (Gebauer and Segey, 2000; Whitman, 1995) that sourcing intangibles is complex, because services are so customized or suppliers diverge. Nonetheless fundamental strategic sourcing principles can be utilized to create strategic category sourcing model. Challenges which companies face may differ from sourcing products, but on the contrary, some obstacles organizations encounter with are very similar.

As shown in the following figure, total spend, including both indirect and direct spend of *service* –subcategory procurement is approximately \$363,017 k. Unfortunately it cannot be separated how big share of this is caused by indirect spend. Though, the following category strategy creation concerns only indirect service sourcing.

Key	
Category or subcategory	
X (Y)	Spend (\$)
X = Total no. of suppliers	
Y = No. of suppliers for 80% of spend	
IT & Telecoms	
4,242 (345)	2,995,039k
Hardware	
2,018 (132)	1,521,557k
Software	
1,497 (133)	796,109k
Services	
926 (181)	363,017k
Network and Telecoms	
304 (21)	314,356k

Figure 27. IT & Telecoms subcategories

Service sourcing is vital to organizations functioning, when organization has not enough resources or knowledge to perform it itself. In case company, IT (information technology) services -category includes subcategories inter alia: Enterprise Services, Application Development, Data Services and Print & Document Management. Category of services is rather diverse inherently therefore following category strategy creation has been carried out in indicative way. Even with such a broad scope of services, there are commonalities between the types, which can be effectively addressed when developing a cost-savings strategy and applying strategic sourcing principles. When full analysis of current stage of supplier cost structure, service level, contractual requirements and other meaningful info is done, it is time to turn this info into more useful form and develop a preliminary sourcing strategy for each category.

The structure of sourcing category strategy creation:

- 1) Spend analysis + Opportunity analysis
- 2) Category creation & prioritization
- 3) Creating category sourcing strategies while taking into account the overall strategy of the organization
- 4) Implementation of the created category strategies

1) Spend Analysis as a start for sourcing services:

Like sourcing any initiatives, sourcing of services starts with spend data analysis (already implemented in case company in summer 2015). The main goal of spend data analysis is cost savings and identifying services, which have the highest impact on case organization's outcome. Case company needs also to map their most critical and important cost centres; some services are utilized in more than one department. One basic step toward more strategic category sourcing is to evaluate services used in many locations, both within region and globally, and examine if same supplier could be used for every location. Opportunity analysis proved that many services are provided locally, which could be centralized and moved to local cost locations. By leveraging these into one location, case company could escalate its saving opportunities.

2) Category & Subcategory creation

After identifying sourcing spend, it is time to form proper service categories as brought up in chapter 3.4. By answering following questions regarding each subcategory of the Services of IT & Telecoms, category procurement -strategies can be formed:

- **The type and scope of the category** – this helps organization to gather accurate market data. Some of the categories are useful to manage globally and some on a national basis.

- **The cost and pricing structure of the category** – this helps case company to get a picture of the cost structure; which are hourly rates or fixed costs. It's then easier to compare suppliers' prices in contracts.

- **External and internal influences on the service category** – is there any political or economic considerations to case company globally or regionally; for example, currently the Russian export restrictions effects on case company's operation and set limitation for supply.

Data for this service category evaluation can be gathered from contracts, invoices, PO's, forecast, sourcing managers or from service manager. From the point of view of this large, global company, it is important that data could be gathered from one comprehensive data source. However, the situation in case company is such that the collection of comprehensive organization-wide data is challenging. This is one of the important factors in which organization should invest in the future in order to decide which categories case organization desires to manage globally and which regionally and if sourcing is centralized in a single location. In order to recognize entirely reforming options and possibilities within case organization's categories, it is vital to merge commercial and technical competence. This assists the organization to identify strategically important categories, which have most potential for further improvement across cost savings

To gather a broader view of organization's upgraded categories, case company should prioritize its categories by sorting them according to their relevance and spend or on a basis of key elements' importance to company. All categories do not have to be managed with an equal contribution; low-value categories can be managed with far fewer resources than the prior categories. The main categories require not only more time, but also professionalism and continuous observation.

Referring case company, the major goal is to create cost savings through sourcing and as brought up, the sourcing spend is playing an important role as prioritization factor. Therefore after reforming service categories, case company should classify formed categories in order of importance to the overall business, according to their size, significance, complexity of sourcing, prices and spend. The more significant role category has the more important it is to build consistent and detailed sourcing strategy. The strategic relevance is not only depending on the share of sourcing spend, but rather it is affected by all the important aspects brought up.

Case organization's sourcing managers and procurement unit should in collaboration also decide if sourcing categories are categorized according to whether sourcing and purchases are done globally or regionally and if it is generally useful or beneficial for the company to form categories so that they include both globally and regionally purchased services. This decision has a huge impact on sourcing strategy. It is not case organization's interests to establish dozens of small contracting categories, but rather they should be combined to a comprehensive entity. Construction of comprehensive entities is one challenge, which simultaneously creates opportunities. From the perspective of author of the study, categories should be grouped also on the basis of who makes the purchase decisions. It brings clarity and would facilitate procurement strategy creation. When one person bears the main responsibility of the category, there will be no doubt about the responsibilities, which saves both time and improves efficiency.

3) Creating category sourcing strategy while taking into account the overall strategy of the organization

When categories are classified in order of their strategic importance, the next step of case organization's sourcing specialists is to establish category specific plans for each category, beginning from the most important. In this category example author assumes that it is sub-category *Services* under IT & Telecommunicates main category. This assumption is mainly based on the organization's sourcing spend, and has not been selected in accordance with the prioritization method described above. The reason why author chose this *Services* sub-category as a target for strategy creation is based on its special sourcing features.

Category strategy and management can be perceived as a strong value chain perspective, which binds organizational strategies, category management teams, business needs and goals as well as strategies and plans together. When creating sourcing strategy, all these factors need to be taken into consideration. Therefore, case organization should pay attention at least for following factors and include these details into their sourcing strategy:

A. What is to be purchased

The name of sourced category can already give a hint about the characteristics category includes. Though, like brought up, strategies have to be carefully planned and contain enough information. Part of the planning process includes defining the specialities of purchased services and goods. To obtain full benefits, case organization should recognize the requirements related service sourcing, including at least the details of how often and from where to source, how much at the time and who carries the responsibility of procuring. The utilization of Kraljic matrix can help to find answers to these questions. If case company is sourcing strategic services they will need more detailed strategies than for non-critical services. The characteristics of the purchased services set requirements also for category manager.

B. Sourcing time horizon

Concerning sourcing horizon, case organization has mainly two options; they can develop a strategy, which they will follow for now or they can form it for certain period. However, regardless of for how long period the strategy is created, it should take into account the organization's procurement objectives, both for long and short-term in a way that it does not conflict with either of these objectives. To ensure that case organization adopts effective category sourcing process as well as its management actions, case company need to balance their long-term image and plans with short-range capacity. By utilizing SWOT –analysis, case organization can determine the strengths, weaknesses, opportunities and threats for each category, which assist on long-term solution management. If strategy is planned to be implemented only for a certain period of time, organization must ensure that this strategy will be reformed and pre-planned to be suitable for a future time. Operating model which has been developed to meet the needs of the original certain period is not suitable for recovery as such for an unlimited time.

C. Customer alignment and linkage

If case company wishes to operate according to best-practice, they should invest on procurement in full value chain, in a way, that the focus is on customer

needs and values. Because every actions done within organization are done to satisfy customers' needs. Without customers, there is no organization. So if case company keeps the linkage from suppliers to customers in mind, they are able to ensure that sourcing and procurement is meaningful and customers will be well served and their expectations will be reached. This does not directly affect indirect procurement as strongly as direct, but all executed procurement, should have positive impact on organizations outcome and therefore at least indirectly to customers.

D. Strategy formulation and selection

Services -category is one of the prior sourcing categories for case company. Though, for less important categories case organization could leverage from utilizing less strategic, rather tactical purchasing method. Not all of the organization's sourcing has to be carried out with a maximal effort. Purchases of simple products and services may well be a tactical buying, which binds fewer resources, such as time. Tactical procurement can be executed by product line procurement teams while strategic sourcing requires more specific maturity and sourcing knowledge. For prior sourcing categories as well as prior sub-categories, there have to be special strategic category plans.

The main tasks, for sourcing category leader is to ensure that spend baseline and category requirements are continually updated and formalised for key categories and spend areas. He or she needs also to establish category forecasts across business units or regions depending on the situation and on that basis select right actions to reformulate strategic performance if needed. Also quite vital task is to continually revise it based on new insights and learning and to ensure that the best practises of commercial approaches are being adopted. Depending on category's size and main features manager need to make decision of how many business stakeholders need to be involved or if there is a need for other departments support. The basic rule is the more complex strategy the more stakeholders' and departments' support is needed.

E. Supplier integration and supply base determination

For supplier integration it is important that case company recognizes the usefulness of suppliers' segmentation. By supplier category segmentation company is able to prioritize and define the most important suppliers, which helps them to construct tight and beneficial long-term relationships with key suppliers. This segmentation can be based on spend or the value supplier brings or it can be formed by utilizing portfolio analysis. Also case company could ask suppliers opinion, how they perceive the collaboration and if there are any substantial inconveniences. These actions can reduce alternative costs and the risks simultaneously. If case company can offer its suppliers tools to succeed and create symbiotic relationship simultaneous, both parties will benefit. To secure, that suppliers are providing the services case organization is requiring, sourcing category managers or responsible purchasers should create a strategic road map that assists reaching the targets.

It was brought up earlier, that case organization's supply base is quite wide. In order to obtain cost savings author suggest that supply base need to be re-determined. In this case; less is more. It means that by more centralized way leaded services -category could benefit from smaller supply base. The best suppliers could be selected by involving key business stakeholders in decision making. Of course all of services cannot be sourced globally. Therefore it is vital to define which services will be sourced centralized way and which regionally or even country basis. Although, structuring supply base in line with purchase category strategy is an important part of purchasing strategy implementation. Case organization need to utilize collected spend data and decide if they could benefit from changing suppliers or do the current suppliers meet the aspirations imposed. If company ends up acquiring new suppliers, it is essential to include their commitment plan as a part of the sourcing strategy.

F. Risk mitigation and contingency planning

Case organization could carry out a risk management to follow external market risks at category level. Also by performing supplier risk assessment it can mitigate possible uncertainties. Contingency planning and risk mitigation should

include in employees' instruction planning concerning the habits of handling possible uncertainties. That instruction should be available in case organization's intranet for every relevant employee. Therefore category specific information collection and maintaining as well as making it available across case company are in great worth.

In category planning it is evident to follow case organization's overall targets and business strategy. By given internal materials and interviews, it has been brought up that the support and involvement of case organization's top management is quite good. Though, in author's opinion the cooperation could be even stronger and executives should participate even more in the most important sourcing decision planning. Getting support from the top management is important, especially when building new business models and practices, which may have a significant impact on a large organization's world-wide activities. A more solid commitment of executives to the procurement unit's activities is both a possibility and challenge for the future case company.

G. Action plans

In category specific strategies the actual action plan should be developed for each category in order to achieve settled targets. Strategies should concentrate on the regional unique limitations and perspectives and therefore it is important to include regional decision makers and procurement people in change already from the early stage. Especially in service categories it is important to define which services are essential to supply and which are currently perceived as needed, but maybe in reality they are more wanted than needed. There are some vital questions, which can assist case organization to identify the most crucial services: What is the role of purchased service? Is it critical to supply or important as a revenue generator? Can this service be performed internally? Once case company has recognized the most important services, build categories for them and researched the market it is time to form the sourcing strategy, which is probably the most critical and most complicated phase.

The procurement unit and category sourcing managers should bear the main responsibility for strategy creation and implementation. Though, other department could also be involved in category strategy creation when category management is adapted as a part of day-to-day practice. But for now, when planning new actions, it is enough that procurement unit and sourcing managers illustrate the possible benefits that can be achieved with reformed strategy management. Case organization is pursuing to develop a common, global wide approach for its procurement actions, though currently it does not have any truly strategic tool for category management. The Chief Procurement Officer of EMEIA Procurement summarize that *“In EMEIA we have standard approach and have standard Category Plans, no tool as such; but ideally yes we should have a common approach globally”* (Person B, 2016). Therefore, author suggests that one of the first steps could be creating such a tool.

H. Measurement and learning

Case organization should also include strategy measurement and learning targets into its sourcing strategy. They can develop talents of its employees and benefit from it as a whole. The learning opportunities concerning at least procurement actions, procurement strategy, contracts, negotiation skills, sourcing categories and sourcing management should be measured. It is unsure if there currently are expectations of professionalism for case company's procurement employees.

As sourcing related literature has represented, the procurement of services differs to some extent from purchasing the products. For case company, which operates in the field of ICT and provides a great number of services to its customers, this *“Services”* is one of the challenging sourcing categories. The argument is based on the competences and the maturity of sourcing employees. I'm not saying that case organization does not have the necessary personnel expertise, but based on the existing materials it seems that expertise is focused too much in one place. Further knowledge dissemination would assist case organization to achieve its goals.

I. Change management

Change management is essential part of sourcing strategy creation and category management. To achieve the goals of newly reformed categories and execute created strategy successfully, case organization has to create a plan on how to manage the change. Change management is said to be the first step in strategy implementation. It could include for example organizing communication plan, performing stakeholder analysis and management plans. The change plans need to be communicated openly and its importance should be emphasized. Determination of the person in charge is also vital. The change can be communicated via procurement managers but the support from other departments is requested as well. The most critical aspect of the strategy is to make sure that case organization's entire procurement executive team is on board with the strategy.

J. Category strategy documentation

It is not an easy task to create category based strategy. There are multiple aspects to take into consideration and factors, which effects on final form of strategy. Strategy execution is also changing all the time and normally it is impossible to execute exactly as planned. Constantly some factor in changing. In particularly therefore a carefully planned and documented strategy is prerequisite. This documentation can include not only targets but also the initial situation. In this case, it is easy to compare what changes the new strategy has brought to initial situation. The objectives and methods of how to reach the goals must be subscribed in a fairly detailed way, but in addition there can be an image to illustrate it too. Via strategy execution objectives will be achieved. To summarize, the task is to develop tendering documentation aligned with category complexity (simpler for smaller categories –comprehensive for critical categories) using materials available in the business.

4) Implementation of the created category strategies

Before organization can start practising new sourcing category strategy model it is essential to identify the key decision makers within the organization if that is not already done during strategy planning. There has to be enough both sourcing ma-

turity and business intelligence. This includes everybody, who has a financial or operational stake in case company's sourcing process. Nor it is enough that case company defines the internal company professionals, but attention must also be paid to external influencers and suppliers' capabilities.

Also continuous global monitoring and measurement of the success of category strategies and strategy execution has an important role. Category strategy creation and monitoring is a continuous process that takes shape over time, when the meaning or the contents of category changes and evolves. Changes in purchasing behaviour or in supplier selection can have a major impact on category management too. Person A (2016) also trust on global coordination. He summarize: "*Better global coordination and category management would improve our global leverage towards suppliers and that would result in better purchasing performance.*" (Person A, 2016)

Due to the limited scope of the Master's thesis, author created general sourcing strategy guidelines only for one sub-category. In reality, case organization need to create sourcing strategies as corresponding manners for every main category in a way which simultaneously takes into account the specific characteristics of sub-categories. The main features of category strategy creation, follows mainly the same pattern, but the biggest differences arise when organization constitutes direct procurement strategy instead of indirect. Above presented category strategy construction deals with indirect spend and it cannot be generalized to the direct procurement. There are also differences in procuring services and goods.

To summarize, there are multiple possibilities for case organization to increase their sourcing efficiency. All these possible options must be considered carefully and drafting of precise plans is necessary before organization is advisable to start implementing any changes. Changes will take time, but with good leadership skills, perseverance and a positive attitude within employees these changes are achievable.

7 CONCLUDING DISCUSSION

The purpose of this research was to find and develop more efficient sourcing performing including cost savings especially in case organization's indirect spend. As the interest in the field of research has recently emerged toward beneficial indirect sourcing method, including category management, the theoretical background was delivered from category management related publications and books mainly from the field of retail industry.

Background for category management was derived from sourcing strategy and purchasing portfolio model as well as spend analysis utilization. In addition, supply chain management and purchasing maturity concepts were found to be meaningful perspectives influencing effective sourcing. The underlying purpose of the thesis was to achieve understanding of the nature of differences in indirect and direct sourcing. The created category sourcing strategy was formed through ideas originally presented by experienced procurements Payne and Dorn (2012) as well as Carter et al. (2007).

7.1 Summary of the findings

On the basis of the study aim was to answer to submitted research questions. Author suggests, that before answering the main research question "*How to increase profitability of indirect sourcing in a global company?*" sub-questions will be answered first as they leads to the answer for main research question.

The imposed sub-questions were:

- 1) *How to identify indirect spend versus direct spend?*
- 2) *What kind of strategic actions are applicable in indirect sourcing?*
- 3) *How to manage sourcing categories?*

Because of the nature of the thesis and research questions addressed in this study, a qualitative research method was chosen. Data was collected from case company's documentation, intranet, semi-structured interviews with the General

Manager of Corporate Purchasing Unit and by individual observation. Though, main data source was the results of Opportunity Analysis made by external consulting firm and their original data collection.

The first sub-question in the research was stated as following:

How to identify indirect spend versus direct spend?

Roughly said, indirect spend refers to bought services and goods, which assist to run a business and direct spend merely on purchases, which assist production. It was found out within the study that the frame of indirect spend is often more diverse than direct (Gebauer and Segey, 2000). Indirect spend is often more challenging to measure and manage (Whitman, 1995). Targets of indirect and direct spend is basically the same, but there are differences in execution methods.

Indirect sourcing has found to have more impacts on organizational culture than direct. It has shades, which does not even exist on direct sourcing. Therefore, unique strategies concerning indirect spend are required (Lutzer, 2013). It was found out also that indirect spend covers the majority share of the total spend of organization (Gershwind, 2010) but still it has been less discussed in academic literature. In additionally, if indirect spend were managed as well as direct spend, organizations could leverage from it significantly and reduce their sourcing costs by 10% (Lacity, Willcocks and Feeny, 2006). Indirect sourcing specificities and differences compared to direct spend were discussed more thoroughly in chapters 2 and 3.

The results of this thesis showed that also in case company, indirect and direct sourcing is managed in a different way. Also employees consider indirect sourcing more challenging task to perform than direct. However, both forms of the sourcing need strengthening. It cannot be clearly indicated that one method would need more enhancements than the other. The sourcing actions of the company should be improved overall.

The second sub-question in this research focused on sourcing actions. The question is conducted in the following matter:

What kind of strategic actions are applicable in indirect sourcing?

Procurement as a profession has developed more complex and sophisticated flow of actions during recent years. Companies are facing challenges in trying to respond to these changes. When considering indirect sourcing strategic actions do not differ as much as supposed from direct sourcing. In the same manner sourcing strategy is applied to find suitable approaches. Nevertheless, it is important to take into account the characteristics of indirect sourcing and generate a unique strategy for it (Wallace and Xia, 2014).

Indirect sourcing may be implemented on a centralized or decentralize way. The choice of method depends on the characteristics of sourced goods and services and whether it is strategic sourcing or more tactical purchasing. Bolton and Dewatripont (2004) discussed that centralized structure is often more efficient than decentralized but Dai et al. (2005) argue that environment has the greatest impact on. Also supply chain management is part of companies' sourcing actions. Barney (2001) wrote that currently companies are aiming towards relation-oriented strategies that basic transaction -oriented actions. It has been written, that continuous supply chain management and supplier improvement would result in competitive advantage. Part of SCM is also determining the optimal size of supply base.

Literature presents that the first key driver to take into account on sourcing enhancing is to build a sourcing strategy, which should be managed by sourcing executives. Sourcing strategy can be formed in a multiple way. In this thesis it was built on the basis of spend and opportunity analysis -tools as well as utilization of category management actions. Literature shows also the benefits of purchasing portfolio usage. Though, in this thesis the purchasing portfolio was not utilized, because of the strong presence of opportunity and spend analysis. Spend analysis is the way to examine how organization's money is spent and opportunity analysis, to put it briefly, is a strategy, which can be used to estimate the potential for a change or enhancement, to improve the flow of revenue. Through the successful

spend and opportunity analysis it is possible to perform category creation by utilizing the learnings of category management.

Last sub-question focused on the sourcing category management:

How to manage sourcing categories?

According to literature the role of sourcing categorizing and management has risen in academic literature during recent years. It has been noticed that especially large organizations should categorize their sourcing spend and manage these strategic entities. (Monczka et al., 2009; Baily et al., 2008, Dussart, 1998)

In effective sourcing category management organization seeks to benefit from leveraging purchasing strategy tools, such as portfolio analysis, opportunity analysis, spend analysis and category management itself. Portfolio analysis follows the traditions of decision-making analysis. Its aim is to improve the quality of decision making by utilizing mathematical models in decision proposals. Portfolios assist companies optimize limited resources by allocating management capacity, time, monetary funds and administrative labor force across supplier relationships (Wagner et al., 2004). Opportunity analysis was found to be a strategy, which estimates the organization's potential for a change and enhancement. Spend analysis was in a major role in this survey. Analysis is expected to reveal how the spend divides for suppliers, categories, customers and services & commodities. It enables to identify the key suppliers and categories (Heath, 2006).

It was found out that category management is a wide and complex entity. It consist many tools and approaches. Category management is not only using portfolio method or spend analysis in spend recognition and category formation. After category formation it is vital to rationalize supply base (Dominic, 2006), form specific category strategies and manage them. The theoretical approach for category management was discussed thoroughly in chapter 3.4.

Then, author is able to answer the main research question:

How to increase profitability of indirect sourcing in a global company

In academic literature, it was noticed already in 1996, that well build, effective sourcing strategy could increase company's sales value by 4 % and profitability even by 30% (Thompson, 1996). One major part of effective sourcing in organization's sourcing actions is the level of purchasers' knowledge and the ability to take advantage of such expertise; in other words, purchasing maturity. (Wowak et al., 2013) Purchasing maturity describes organization's existing situation and ability to make sourcing decisions (van Weele, 2003). The level of maturity indicates on the total value of the company and strategic sourcing actions. (Úbeda et al., 2014)

Continuous monitoring of supply situation and environmental changes and measurement of the success of the sourcing and its analysis, as well as rapid reacting to changes, are the key factors in enhancing case organization's procurement. In order to boost organization's sourcing efficiency case company need to renew its actions concerning sourcing strategy functions. The results of this thesis and background research suggest on concentrating into enhancing case organizations spend and profitability actions, contract and supplier management and sourcing strategy.

Case company should aim to measure its sourcing profitability continuously and seek efficiency through new sourcing methods. It could leverage from using sourcing categories in information gathering from suppliers and utilize that knowledge into supply base rationalization. OA project proved that there is no common taxonomy used in case organization and therefore knowledge sharing and data storage in one global base could be beneficial. Also process standardisation would lead effective sourcing entirety. Chapter 6 discussed extensively about the possible actions that case organization may carry out in order to enhance their purchases.

The possible cost saving options for case organization, are leveraging opportunities, process improvements and changes in services or products. Like Payne and

Dorne (2012) wrote “*strategic sourcing is not just a process to lower unit hard costs. It also includes investigating and implementing efficiencies that could results in decreased processing time, lower transaction costs or enhanced support*”.

As a conclusion, the answer to the main research question from case organization’s perspective is that if organization’s sourcing actions, categories and strategies are organized thoroughly, understanding different preferences within the global organization, not only within the procurement unit or top-management priorities, sourcing will become more effective and the profitability will increase. It requires time, careful planning and monitoring as well as continuous knowledge and information sharing. However, having a tough attitude is not enough. The available resources must be targeted on the right things, on the right time so that they have most impact on case organization’s possibilities.

7.2 Limitations of the study and suggestions for future research

This entire study was conducted in an individual case company, from their point of view, to meet the challenges they face in business life. For this reason the results of this study are not supposed to be generalizable to other companies in the business sector. However, the results obtained are partially rather universal, so that their use in other contexts is possible. In which case, their utilization in other context may be possible. It would be interesting though to see if changes in sourcing actions have similar or different outcomes in other industries.

Companies in the business field are starting to realize the importance of understanding the importance of structured and well-planned sourcing. It appears that new ideas and publications about the indirect strategic sourcing enter the research field continuously. It was also recognized during working with this Master’s thesis that new research opportunities as well as new approaches to study sourcing operations are popping up continually. The increase amount of available new studies during writing this thesis, suggest that also other authors are curious about exploring indirect research field.

Since this research was limited, author suggests that the quantitative research concerning supply base rationalization would be an interesting topic for future studies. It would be a very helpful approach for future category strategy creation. More research is needed to find out whether the results of this study repeat or can be generalized in other organizations as well. Also another useful topic, for future research would concern the global procurement unit. It was found out that there is no common principle for global procurement team in case organization. It was suggested that future research could be more specific and answer the question: "How to best implement a global procurement team". Some of the actions require the local presence but simultaneously many sourcing activities could be performed regionally or even globally.

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Person B. (2016) The Chief Procurement Officer of EMEIA Procurement, at case company, located in United Kingdom.

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APPENDICES

Appendix 1: Interview questionnaire

Interview questions for Person A, 31.8.2015

1. Has it been measured how many % of case company's global sourcing is indirect and which is the share of direct? Which is considered more valued or important?
2. Are there differences between case organization's indirect and direct procurement strategies?
3. How long Case organization has measured and planned the implementation of indirect procurement? Is the attitude toward indirect sourcing changed over the past 5-10 years?
4. How the indirect sourcing is carried out at the moment, why? Is that a good approach?
5. Who has the right to make sourcing decisions and to acquire? Is there any limitations regarding the value of purchasing?
6. Is organization's global sourcing centralized or decentralized?
7. How the performance of suppliers is measured, and by whom?
8. What is the main aim of Opportunity Analysis? Are there any other incoming large-scale projects regarding sourcing?
9. What other sourcing tools has or will be applied?
10. Is category management a familiar term within the organization? Are the suppliers or procured products and services categorized?
11. Is case organization operating in a certain way because it is said to be beneficial and it should be done or because it has been shown to be useful?

Appendix 2: Interview Questionnaire

Follow-up interview questions for Person A & Person B, 23.2.2016

1. How well Case Company's Global top management is engaged to organization's sourcing?
2. Should there be less or more engagement and collaboration within top management and sourcing professional?
3. Are there significant regional differences in the top management attitudes towards sourcing?
4. How big is Case Company's sourcing budget overall and is it enough? Are there significant deficiencies?
5. Are sourcing resources centralized in some regions or do they spread evenly throughout the organization? In general are there enough resources available?
6. Is there a category strategy tool already used as a part of sourcing strategy in case company? Or should there be one?
7. How about the possible future researches: do you have any information gaps in mind, which should be discussed, and monitored in the future regarding Case Company or sourcing overall?