

LAPPEENRANTA-LAHTI UNIVERSITY OF TECHNOLOGY LUT

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Master's Programme in Supply Management (MSM)

Nora Aapro

**SUPPLIER RELATIONSHIP MANAGEMENT AS A PART OF SUPPLY
STRATEGY IN VALUE CREATION**

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1st supervisor: Katrina Lintukangas

2nd supervisor: Anni-Kaisa Kähkönen

ABSTRACT

Author:	Nora Aapro
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Supplier Relationship Management (SRM) is a tool to manage the configuration of the supply base and form strategic partnerships with key suppliers of the company. The aim of this Master's thesis is to understand why and how supplier relationships should be categorized and managed in companies, how SRM should appear in company's supply strategy and what are the factors causing challenges to SRM in companies. In addition, one of the aims of this research is to examine value creation through SRM process and factors that drive and enable this value creation.

Research was conducted as a single case study. Four professionals working with supplier relationships were interviewed in one case company that purchases feedstocks around the world. Research findings show that SRM is a valuable tool for companies when it supports the strategic guidelines of the company, is based on market and supplier needs and has top management's support and employees' commitment in the company. In addition, SRM should be a continuous process that is updated through market changes, and supplier performance follow-up.

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Tekijä:	Nora Aapro
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Toimittajasuhteiden hallinta on työkalu toimittajakokoonpanon hallintaan ja strategisten kumppanuuksien muodostamiseen yrityksen avaintoimittajien kanssa. Tämän Pro Gradu – tutkielman tavoitteena on ymmärtää miksi ja kuinka toimittajasuhteita tulisi kategorisoida ja hallita yrityksissä, miten toimittajasuhteiden hallinnan tulisi ilmetä yrityksen hankintastrategiassa ja mitkä ovat tekijöitä, jotka asettavat haasteita toimittajasuhteiden hallinnalle yrityksissä. Lisäksi yhtenä tutkimuksen tavoitteena on tutkia arvonluontiprosessia toimittajasuhteiden hallinnan avulla ja tunnistaa tekijöitä jotka edesauttavat arvonluontia.

Tutkimus toteutettiin yksittäisenä tapaustutkimuksena. Haastateltavina toimi neljä case-yrityksessä toimittajasuhteiden parissa työskentelevää ammattilaista. Case yritys ostaa raaka-aineita ympäri maailmaa. Tutkimuksen tulokset osoittavat, että toimittajasuhteiden hallinta nähdään arvokkaana työkaluna yrityksissä, kun se tukee yrityksen hankintastrategiaa, perustuu markkinan ja toimittajien preferensseihin ja saa ylimmän johdon tuen ja työntekijöiden sitoutuneisuuden. Lisäksi, toimittajasuhteiden johtaminen tulisi ymmärtää jatkuvana prosessina, jota päivitetään markkinan muutosten ja toimittajien suoriutumisen seurannan myötä.

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Vantaa, April 27, 2021

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1. INTRODUCTION

Business environment has become very competitive and unsettled (Tseng 2014; Lambert and Schwieterman 2012). Customers are more and more demanding and have various heterogeneous demand patterns. Thus, products are getting more custom-made and the variety of them keeps increasing. Since new products are launched to the market with rapid speed, life-cycles of the products keep shortening. (Bozarth, Warsing, Flynn and Flynn 2009) As an answer to the rising competition, companies should be able to innovate and develop new products to the market with fast speed but at the same time, there is an increasing concern about sustainability issues which companies should be able to take into account in their business. (Lambert and Schwieterman 2012)

In addition to changes in the market's demand, companies have increasing pressure how to manage their internal activities. Companies have to, for example, consider how to be cost competitive in order to succeed in the competition on the market (Lambert and Schwieterman 2012). Pressure to be cost competitive has grown the popularity of strategic sourcing which allows companies a possibility to concentrate on their key competencies and outsource rest of the products and activities. However, there are issues companies must take into consideration in the outsourcing option. On the other hand outsourcing grows the reliance on suppliers and makes company dependent on suppliers' performance. (McCutcheon and Stuart 2000; Tseng 2014; Muessigmann and Albani 2006) At the same time increasing globalization allows buyers and suppliers to be located geographically further away from each other lengthening supply chains and making it more difficult to monitor suppliers' performance. (Bozarth et al. 2009) Companies have to make decisions on how to take these factors into account in business and how to manage relationships and different flows of physical material and information. (Bozarth et al. 2009; Lambert and Schwieterman 2012)

Supplier Relationship Management (SRM) is a tool to manage the configuration of the supply base and form strategic partnerships with supplier organizations that are strategically important to the buyer organization's success. (Tseng 2014; Lambert and Schwieterman 2012). The benefits of cooperating with supply chain partners were noticed already in the 1980s as an answer to continuously rising competition on the market and increasing pressure

to lower costs (Khan and Yu 2019). Since then, strategic supplier partnerships have been showing results as better supplier performance (Hamister 2012) and thus, business' and academics' viewpoint in buyer-supplier relationship management has changed from transaction-oriented to relationship-oriented perspective. For a long time before this, purchasing was seen as its own separate function that did not have a strategic significance nor seen as a function that would bring competitive advantage for a company. Today purchasing is seen as a strategic tool which plays an important role in value creation. (Moeller, Fassnacht and Klose 2006; Teller, Kotzab, Grant & Holweg 2016; Klobučar and Erjavec 2019) Thus, the modern supply chain management sees coordination with supply chain partners as a significant part of the whole supply chain business (Khan and Yu 2019).

Despite the noticed advantages of SRM, the deeper meaning of the concept still remains unclear and companies keep failing to implement SRM as a part of their supply strategy and in its use (Day and Lichtenstein 2006; Schuh, Strohmer, Easton and Triplatt 2014). Thus, this thesis aims to examine the true meaning and value of SRM and its existence as a part of company's supply strategy. This thesis is also going to find out why and how different supplier relationships should actually be managed and which factors usually enable or disable SRM's success in the organization. This introduction chapter is going to continue with background explaining how the concept of SRM has developed to the point where it is today and how it has been understood during the decades. After the background chapter also the previous literature and research related to SRM are going to be examined in order to get better understanding of the research topic and form the objectives for the study.

1.1 Background

During the decades, different scholars have come up with multiple strategies to manage supplier relationships and categorize suppliers. As already mentioned SRM is not a new phenomenon. Its benefits have been noticed already in the 1980s (Khan and Yu 2019). In the traditional SRM model, or in the so called arm's length model, companies aim to minimize their reliance on supplier and maximize negotiating power. Thus, the main implication of the study is to keep an "arm's-length" to suppliers and avoid forming any type of commitment. (Dyer, Cho and Cgu 1998) Park, Shin, Chang and Park (2010) name this type of SRM model as "competitive" approach to manage supplier relationships since it is based on the competition between the suppliers. According to competitive approach, buyers aim is to acquire goods for the lowest possible prize. (Park et al. 2010)

Competitive approach was widely appreciated for a long time in the United States until Japanese companies started to succeed remarkably by giving attention to a model that concentrated on closer supplier relationships. This so called "partner model" based on more open information share and cooperation between suppliers. Companies using the model ability to accomplish independent tasks increased, they were better at decreasing costs and improved the quality of their end products. In addition, they were noticed to fasten up with the speed of inventing new products and developing the already existing ones. Companies receiving these successes were noted to rely on trust and highly efficient method to minimize transaction costs. (Dyer et al. 1998) Park et al. (2010) name this type of supplier relationship management model as "cooperative" approach. Cooperative approach is based on strategic relationship between a buyer and a supplier and its aim is to reach common long-term goals. Despite the successes companies received by utilizing the partner model, it was noted that this type of SRM model was actually tiding up companies' resources a lot and thus, quite expensive to maintain (Dyer et al. 1998).

In the 1970s and 1980s, new model to manage supplier relationships was invented in the automotive industry in Japan. New model combined standpoints of the traditional arm's length model and partner model (Dyer, Cho and Cgu 1998; Cox, Sanderson and Watson 2001). Rather than other automotive manufacturers', Japanese automotive manufacturers' way of collaborating with their suppliers was less arm's-length and focused on innovations

in supply that were established in close cooperation between the buyer and the supplier. These innovations concentrated mainly on reducing waste and minimizing costs, so that greater value could be provided to the end-customer (Dyer et al. 1998). So called “lean supply” was invented. This new standpoint went even beyond the previously invented partner model but still included many same features. The main reason for this was that the partner model was seen as too inflexible and limiting global manufacturers. Even though lean supply was invented as an answer to the inquiries on the automotive industry it was a suitable tool to be utilized on different industries. (Richardson 1993) Later also Western companies started to re-evaluate how supply chain management and procurement activities should be conceptualized which initiated a thought process of the academics and business practitioners on how the supply relationships should be managed effectively by not only focusing on the first tier suppliers but taking into account all the suppliers in the supply chain. (Cox et al. 2001)

Even today there is no one and correct answer how each company should manage their supplier relationships. Research also shows that it is important to note that each framework is not suitable for all businesses, neither is there a guarantee that any of the frameworks would automatically lead organization to success. Today’s SRM strategies emphasize the importance of adaptiveness to business environment and continuous innovation and management of the supplier base. For example, the study of Forkmann, Henneber, Naude and Mitrega (2016) follows the concept of dynamic capabilities and takes the perspective that effective SRM requires ongoing reconfiguration of the supply base by implementing new routines and processes. According to Forkmann et al. (2016), this does not only mean configuring the resources given a certain supplier relationship but also sensing and seizing new opportunities to reconfigure and restructure the supply base again and again. By this organization can make sure its supply chain is flexible and adaptive enough in order to respond to today’s turbulent business environment. Also Klobučar and Erjavec (2019) support the thought that company should always take into account customers’ satisfaction and markets’ needs when aligning their SRM strategy. Hence, management of different supplier relationships is a complex process which should be managed in the organizations actively and continuously.

Another ongoing trend seen in today's SRM as an answer to increasing competition on the market is the increasing trend to outsource products and activities which have lead companies to build so called value networks. This phenomenon suggests SRM to go even beyond managing direct suppliers and thus, SRM should be extended as Supply Network Management (SNM). (Muessigmann and Albani 2006)

1.2 Literature review

The exact meaning of supplier relationship management (SRM) still remains unclear. According to Schuh et al. (2014), one way to look at SRM is to see it as a tool to categorize suppliers by their strategic importance. Dominant approach used in business to manage supplier relationships and categorize suppliers by their importance is Kraljic's purchasing portfolio which was introduced already in 1983. Kraljic's model proposes that not every relationship between the supplier and buyer organizations should be managed similarly. Company should categorize relationships by their riskiness or complexity and by their profit impact. (Gelderman and Van Weele 2003) Thus, there are low-supply risk and high-supply risk supplies (Park et al. 2010). Generally it can be said that when the supply risk is low SRM does not play as important role as when the risk is high. Thus, when the supply risk is low company should not make too many efforts on relationship management but keep an "arm's length" to its suppliers and rather use the competitive approach in SRM. Instead when the supply risk is high SRM starts to play an important role in buying decisions and thus, supplier relationships should be managed actively. In this case company should rather use cooperative strategy in SRM. (Gelderman and Van Weele 2003)

Another way to understand SRM is to see it as a management of only strategically meaningful supplier relationships and thus, only focusing on cooperative strategy and formation of close "partnership" relationships with these suppliers. (Schuh et al. 2014). For example, Day, Magnan, Webb and Hughes (2008) have been examining strategic supplier relationship management (SSRM). According to researchers, SSRM means value maximization in buyer-supplier relationships in its broadest sense. It requires systematic implementation in addition to proper leadership and change management programs in order to lead its implementation. Also Lambert and Schwieterman (2012) have focused on strategic suppliers in their research covering SRM. According to them, SRM involves

development of partnership relationships with company's key suppliers. Aims of these partnership relationships are cost reduction, product innovation, and value creation for both parties of the relationship. Parties of the relationship are committed to share success and maintain long-term cooperation. Also Klobučar and Erjavec (2019) and Van Echtelt, Wynstra, van Weele and Duysters (2008) support the thought and have stated that organization can only reach its long-term cooperation benefits if it is able to build long lasting relationships with its key suppliers. With these key suppliers, organization should create learning routines and make sure that the capabilities of both parties of the relationship are aligned with each other and useful for the oncoming shared projects. Third way SRM is often used, is to use it as a measurement tool to follow the performance and results of the strategic suppliers and relationship with them. (Schuh et al. 2014)

Because of the unclear meaning of SRM, Schuh et al. (2014) believe that many companies miss out the true potential of SRM and look at it too narrowly even though SRM is a wide and multidimensional phenomenon. However, previous literature on SRM does agree that unlike it was previously known buyer organization's performance and success are heavily dependent on the supply base. For example, factors such as quality, price, flexibility, and delivery times are all linked and dependent on suppliers' performance and have an effect to the satisfaction of the end-customer and thus, supplier relationships should be managed actively in the organization. (Homburg and Kuester 2001; Klobučar and Erjavec 2019; Park et al. 2010)

In the past, scholars have been examining SRM from different perspectives (Klobučar and Erjavec 2019). Especially in today's rapidly changing and competitive business environment newer SRM literature prefers to see SRM as a dynamic process that should be continuously adjusted as an answer to the changes in the business environment. For example, Mitrega and Pfajfar (2015) study examines companies' capability to adjust their supply base in a dynamic environment and relationships between two companies as a changeable phenomenon. Their study focuses deeply into the relationship management process and how relationships of a company should be adjusted continuously. Also Forkmann et al. (2016) focus into relationship management and how different internal and external factors affect the relationship management's capability. According to them, company should continuously seek for new opportunities and develop the already existing supply base in order to maintain

effective performance. At the same time company should also be ready to terminate relationships that are not paying off anymore. In addition, also Klobučar and Erjavec (2019) have come up with a framework based on recent literature on SRM that takes into account the competitive and continuously changing business environment. Klobučar's and Erjavec's (2019) framework focuses on how buyer organization can adopt changes faster in the turbulent business environment and thus, be more flexible.

Many scholars see SRM either focusing on processes in the organization or as a process itself that involves several steps. For example, Schuh et al. (2014) and Lambert and Schwieterman (2012) define SRM as a roof concept focusing on processes in the organization to manage supplier relationships whereas Park et al. (2010) divide SRM process into four specific steps. Four steps Park et al. (2010) present are formation of the supply strategy, selection of the suppliers, cooperation with suppliers, and supplier relationship management. Also Moeller et al. (2006) define SRM itself as a process of several activities. They list foundation, development, management, and deconstruction of supplier relationships as different activities used in SRM. While company is conducting these steps it should also at the same time keep an eye on out-suppliers in order to create and increase value within these relationships. Forkmann et al. (2016) have similar point of view. They see SRM consisting of different processes and routines in the organization that are aimed to initiate, develop and end supplier relationships. According to Park et al. (2010), previous studies on SRM concentrate too narrowly on a specific step of SRM and thus, their research combines the different parts of SRM and forms an integrative SRM system that includes the purchasing strategy, supplier selection, collaboration, and supplier evaluation.

One factor that can be pointed out from the previous literature is that usually SRM is described to have a strategic aim. According to Schuh et al. (2014) and Lambert and Schwieterman (2012), SRM has strategic aim, works cross-functionally across business units, functions, and hierarchies, and has an objective to achieve greater financial performance. Also Park et al. (2010) see SRM having a strategic aim to collaborate with suppliers so that a company can produce and develop new products more effectively and competitively.

1.3 Key concepts

Value is an abstract and dynamic concept and it depends on the context and point of view whether something is seen as valuable or not. (Kähkönen and Lintukangas 2018) Thus, it is important to first explain what is meant by the value this research is studying. Since there are also different mechanisms how value is created it is also important to explain the value creation mechanism used in this research. Also the concept of strategy can be understood in many different ways and thus, the meaning of supply strategy is going to be explained in this subchapter. (Chan 2009)

Value

Value can be seen to relate to perceived needs and preferences of a consumer. (Kähkönen and Lintukangas 2018) According to Kelly, Johnston and Danheiser (2017) value has to be looked at individually. Different individuals have their particular favorite so the value is the preferred option compared to other options. Value can be divided to economic, perceived, relational and experiential value. Economic value can be concerned by a cost of a transaction. Perceived value can be seen from different utilities such as efficiency, excellence or a status. Relational value comprises the value received by co-operating with someone. (Kelly et al. 2017) From buyer-supplier relationships point of view value can simply be described as added value that can be received by another company participating compared to value received without the other company participating (Brandenburger and Stuart 1996; MacDonald Ryall 2004). Finally, experiential value a customer gets from the whole experience of dealing with a supplier. This research is going to observe value from relational value perspective. Thus, value is understood as benefits, received by cooperating with supplier organizations, which would have not been received without cooperation with the supplier organizations.

Value Creation

Value creation can be observed as traditional process or to happen in a co-creation with another party. Traditional value creation means that company decides the products and services they will produce which create the value to the customers of the company. In co-creation value creation happens in jointly created activities between the company and its customers. Interactions enabling an individual customers to co-create unique experiences

with the organization are seen as new sources of competitive advantage. (Prahalad and Ramaswamy 2004) This research is going to observe value from the co-creation point of view. Value is thus created in jointly created activities with another organization.

Supply Strategy

Concept of supply involves purchasing, use and transformation of resources into goods to answer to end-customers' demand, and the organizational structuring decisions. The concept of strategy is promiscuous. Strategy can be understood as high level plan of the organization or as more specific details and actions that organization does. Strategy can also be understood as focusing on different aims in the organization and aligning them. Strategy can be coherent, unifying, pattern of decision, an allocation of limited resources, or an establishment of a long-term organizational purpose. (Chan 2009) Supply strategy relates to the integration of different supply activities within companies, in dyadic relationships, in supply chains and in inter-organizational networks. Supply strategy combines all of these flows by including the decisions made how to manage these different flows. (Harland, Lamming and Cousins 1999) According to Gonzalez-Benito (2010), majority of the literature on supply strategy focuses on describing and categorizing purchasing strategy of the purchasing function.

1.4 Research gap, aim and limitations

According to Schuh et al. (2014), even though the potential of SRM has been receiving increasing attention during the past decades, very minor of the companies use the full potential of SRM but concentrate too much on only top-line objectives. They fail to note that SRM is not only processes and procedures to earn own profits but there is much greater value hidden in it earned by the long-term cooperation and sharing the received successes (Lambert and Schwieterman 2012). Also Mitrega, Forkmann, Ramos and Henneberg (2012) note that previous literature on supply chain management does not fully address or understand how the focal company manages its dynamic business relationships. McCutcheon's and Stuart's (2000) research shows that it is still very difficult for business managers to define which suppliers should be treated as key suppliers. For some reason business managers often have a lack of motivation to adopt non-traditional supplier relationships and very few of them actively adopt new methods to manage their supplier relationships. Thus, this thesis aims to

find a comprehensive answer to a question what really are the factors in the organization that in general either enable or disable SRM's success in the organization.

According to Day and Lichtenstein (2006) and Schuh et al. (2014), many organization still fail in SRM's use but also fail to link it as a part of their supply strategy. According to them, previous studies have linked purchasing to organizations' business strategy only on a very functional level but there is no certain study that would discourse the relationship between supply management and organizations' strategic orientation and supply management's effect on organizations' performance. Harland, Lamming and Cousins (1999) and Gonzalez-Benito (2010) see that most of the literature on supply strategy focuses on describing and categorizing purchasing strategy of the purchasing function even though today one of the primary dimensions to clarify in the supply strategy should be the degree of collaboration and integration with the suppliers of the supply base. Previous research has had more focus on subjects such as supplier selection, supplier classification and supplier relationship management with the strategic suppliers. (Moeller et al. 2006; Park et al. 2010) As previous literature shows, even though the benefits of SRM are by now well-known researchers and business practitioners still have dissenting understanding what SRM in its true sense means. Thus, this thesis aims to build an understanding why supplier relationships are managed and classified in the first place and what are the aims of supplier segmentation and management.

As mentioned, for example, Lambert and Schwieterman (2012) have divided SRM into operational and strategic processes. This thesis is going to examine SRM more as a strategic process which helps company to categorize which suppliers should be seen as critical to the success and how these relationships should be managed continuously in the organization. Thus, this thesis is going to take very strategic viewpoint to SRM. Previous literature also shows that in addition many organization still fail in SRM's use and linking it as a part of their supply strategy (Day and Lichtenstein 2006; Schuh et al. 2014). Thus, there is still space for study on how SRM should appear in company's supply strategy. In order to find an answer to these questions, research questions for this thesis were formed and the main research question of this thesis is:

How a company should utilize SRM as a part of its supply strategy in order to create value for the company?

In order to answer to this main research question, the question is divided into three sub research questions which are:

1) What is the value received by managing supplier relationships?

2) How different supplier relationships should be managed?

3) What are the factors that usually contribute to success or failure of SRM in a company?

Newer research on SRM tends to focus on relationship management on a wider scale. For example, Mitrega et al. (2012), include different types of relationships in their study and examine the networking capability comprehensively which means that in addition to SRM they also address other types of business relationships, such as Customer Relationship Management (CRM), in their study. Also Muessigmann and Albani (2006) suggests SRM to go even beyond managing direct suppliers and thus, SRM should be extended as supply network management. However, this thesis is only focusing on how company should manage its direct supplier relationships and thus, is not going to focus on how company should manage its supplier network including also suppliers in the subsequent tiers or the end-customers. Piercy (2009) examines supplier relationship management's and strategic partnerships' importance from the supplier organization's point of view. Thus, it is important to note that in this study the buyer is a buyer organization between the supplier and the end-customer and this thesis is conducted from the buyer organization's perspective.

As the latest literature on SRM shows many researchers also tend to take dynamic business environment into account and examine external factors affecting SRM process of the organization. Despite its importance, this thesis is not going to focus on external factors

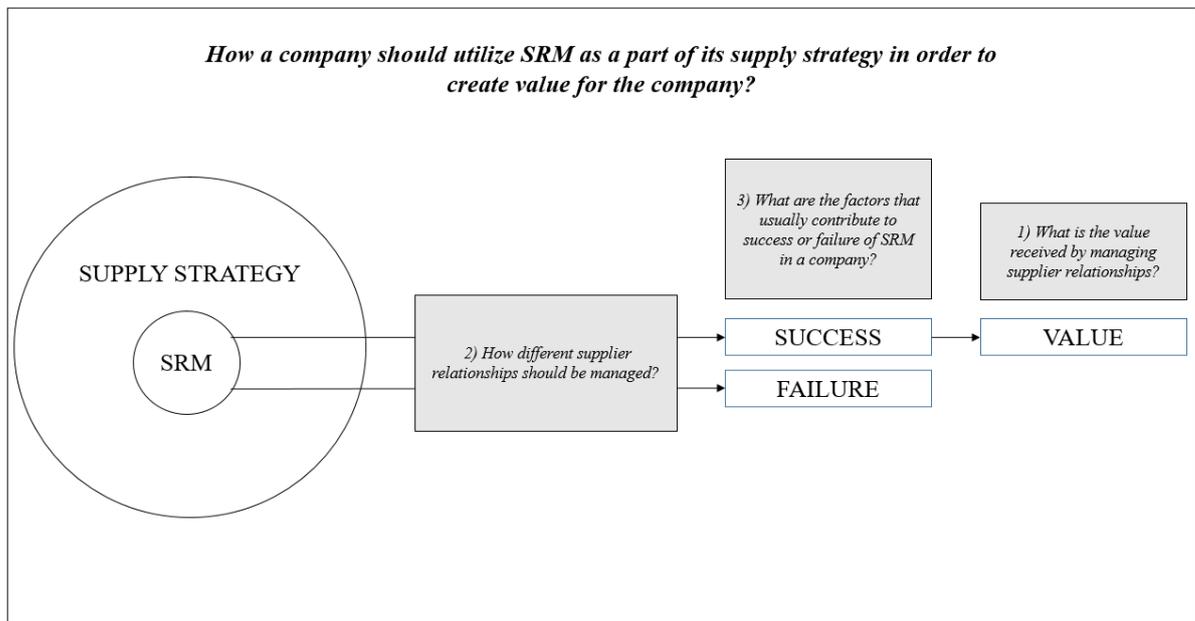
affecting SRM but rather look at SRM as company's internal process and how SRM exists in company's supply strategy. This does not exclude the fact that organization should consider also external factors in their supply strategy but in order to limit the wide topic this thesis leaves external factors outside of the research scope. Another limitation linked to that is that this thesis is neither going to focus on any other elements of the supply strategy. This research is only going to focus on SRM's role in supply strategy as a value adding tool.

Even though several researchers such as Moeller et al. (2006), Park et al. (2010), Forkmann et al. (2016) see SRM as a process consisting of different activities such as supplier selection, the actual management of the relationship and ending of unsuccessful relationships, this research is only going to focus on SRM's existence in company's supply strategy and its capability in developing and restructuring the supply base in such way that the full potential of it can be received. Thus, this thesis is only concentrating on SRM on a very holistic level and trying to understand why and how supplier relationships should be managed and categorized in the first place and what factors in the organization usually enable or disable SRM's success. Thus, this thesis is not focusing on for example, supplier selection process.

1.5 Theoretical framework

The theoretical framework of this thesis is presented in figure 1. Starting from the left, the figure illustrates that SRM is a part of supply strategy. Supply strategy does include other factors but as mentioned in the limitations those are left outside of the research scope. The sub research questions supporting the main research questions are: 1) *What is the value received by managing supplier relationships?* 2) *How different supplier relationships should be managed?* and 3) *What are factors that usually contribute to success or failure of SRM in a company?* These are presented in the figure in the grey boxes. If company succeeds to implement SRM as a part of its supply strategy and manage its supply base properly, SRM can be seen to create value for the company. If not, company does not receive the full value of SRM. The main research question "*How a company should utilize SRM as a part of its supply strategy in order to create value for the company?*" sums up this whole process.

Figure 1. Theoretical framework of the research



1.6 Outline of the thesis

In this introduction chapter the research topic has been introduced by comprehensively studying the background of the topic and the already existing literature. Secondly, the key concepts of the research were defined in order to better understand the research topic. Thirdly, research objectives, such as, research gap, research aim (including the main research question and sub research questions), and research limitations were presented. After this, theoretical framework was drawn for the study in order to fully understand the research scope of this thesis. Also the research questions are presented once again in the theoretical framework so that the theory truly supports the research questions.

The following next two chapters are theory chapters about the selected research topic. Theory chapters aim to form deeper understanding what SRM is, what are the values and drivers of SRM, and on the other hand the challenges of SRM. Theory part is also trying to understand what elements SRM process involves and present the different phases of this process. After theory has been collected the interviews will be conducted in the case company. Interview results will then be discussed and conclusions for the study are going to be provided.

2. SUPPLIER RELATIONSHIP MANAGEMENT AND VALUE CREATION

This chapter is going to take a deeper look into the theory behind the research topic considering the set limitations and research questions. Chapter aims to understand more closely how value is created in Supplier Relationship Management (SRM) process, what is the value received by SRM, and what are the different steps of the SRM process. This theory chapter also aims to find out what are the factors that usually drive SRM and on the other hand, set challenges to SRM.

2.1 Value and value creation in SRM

According to Klobučar and Erjavec (2019), procurement has become a key strategic business function for companies which has made supplier integration a key activity in supply chain management. Supplier Relationship Management (SRM) is needed to ensure successful supplier integration and to determine the degree of integration. Suppliers can be integrated in many different ways. However, the degree of the integration depends on the company's relationship with the supplier. Company should have tailor-made strategy with each of its supplier. (Klobučar and Erjavec 2019) SRM can thus be describes as a business process providing structure how relationships with different suppliers of the organization are managed and developed. Companies should develop closer relationships with strategically important suppliers. Strategically important suppliers are suppliers that can provide the expertise necessary to develop the business of the buying organization. (Lambert and Schwieterman 2012) Thus, strategic or key suppliers are valuable for buying organizations business. This value and the creation process of this value are going to be examined more precisely in this subchapter.

In the key concepts, value was defined as the preferred option compared to other options (Kelly et al. 2017). From the buyer-supplier relationships point of view, the value was described as added value that can be received by cooperating with another company. (Brandenburger and Stuart 1996; MacDonald Ryall 2004). According to Kelly et al. (2017), things that add relationship value include the use of specialized knowledge and competence, trust, commitment, and access to wider networks of suppliers, customers, and other influencers. In addition, competence in managing buyer-supplier relationships through

effective communication and problem solving is seen as one element that adds the so called relationship value.

Relational value perspective bases on a thought that buyer and supplier organizations create and derive value simultaneously throughout the relationship. Thus, by managing supplier relationships, company can generate value to not only itself but also to its suppliers. However, it is important to note that this depends on the volition of the buying company. As also mentioned in the key concepts value creation can be observed from two different angles; as a traditional process or from co-creation perspective. Traditional value creation means that the company decides the products and services they will produce which create the value to the customers of the company. In co-creation value creation happens in jointly created activities between the company and its customers. (Prahalad and Ramaswamy 2004) This research focuses on the value created in co-creation with supplier and buyer organization and thus, understands the value as benefits received through cooperation. Thus, the value received by cooperating with supply chain partners is something that would have not been received without this cooperation.

The modern supply chain management sees coordination with supply chain partners as a significant part of the whole supply chain business. Previous research on SRM shows that with proper SRM better product quality, lower production costs, supplier involvement in designing process of new products, and improved customer satisfaction can be benefits received by cooperating with suppliers. (Khan and Yu 2019) According to Lambert and Schwieterman (2012), SRM involves the establishment of close relationships with company's key suppliers. The aim of these close relationships is to decrease costs, invent new products to the market and create value for both parties of the relationship. Relationship between the organizations is based on common long-term commitment to collaborate and share received success. According to Schuh et al. (2014), so called true SRM encompasses every interaction between the buyer and the supplier and in its deepest sense aims to: 1) drive suppliers' performance 2) construct a relationship between two organizations, and 3) coordinate company across business units, functions, and hierarchies including top- and bottom-line objectives.

According to Lambert and Schwieterman (2012), SRM determines the degree of integration and builds a foundation to any successful integration. The level of integration depends on the company, its supplier relationships, and the chosen strategy with which company manages its supplier relationships. Suppliers are important stakeholders for each supply chain and thus, their satisfaction should be taken into account in supply chain management. (Klobučar and Erjavec 2019) The idea behind this is that satisfied suppliers do more to meet the needs of the end-customer (Wong 2000). According to Cheung, Myers and Mentzer (2010), buyers and suppliers can generate competitive advantage by sharing resources and enhancing the relationship. Also Schuh et al. (2014) define SRM as the “next big thing” for earning value.

According to Deloitte’s (2015) review the value that can be received by SRM involves benefits, such as, cost reduction, increased efficiency, long-lasting relationships, better communication, better risk management and compliance and improved transparency. In addition, SRM drives especially strategic suppliers’ performance in a more transparent and sustainable manner, supports continuous improvement of operations and thus, helps companies to build more effective and efficient supply chains. Finally, by joint-operations and vision sharing SRM supports business development and innovation and can thus, provide new market opportunities.

Lambert and Schwieterman (2012) divide SRM into operational and strategic processes. From operational point of view company should build cross-functional teams that work with the different segments of key suppliers of the company. These teams can be very useful in order to coordinate different activities across business units, functions, and hierarchies. Thus, it might be beneficial to have a cross-functional team working with suppliers and coordinating operational processes across the organization. From the strategic point of view SRM helps companies to categorize which suppliers company should see as critical to their success. Hughes (2008) notes that actually the supplier from whom the buying company buys a lot at low price is not the most valuable supplier for the buying company. According to Hughes (2008), typically suppliers delivering high volumes at low price are a commodity vendors, which are quite easy to replace and also hence, not a source to earn value and achieve competitive advantage. Strategic suppliers are suppliers that can help buying

company to get other benefits such as better product or service quality, level of innovation, level of differentiation and source of significant potential value. (Hughes 2008)

According to Partida (2019) most commonly seen benefit of SRM is improved supplier reliability or increased coherency in suppliers' performance. Also commonly seen benefit is the ability to monitor suppliers' adherence to the signed contract as well as ability to simplify contract monitoring processes. Thus, in addition to increased supplier reliability, SRM can help companies to reduce risks related to their suppliers and better monitor contract compliance and service levels. Other benefits of SRM Partida (2019) lists are reduced costs, improved customer service, competitive advantage compared to competitors, innovation, limited price volatility, and reallocation of employees to higher value tasks. Deloitte (2015) lists improved efficiency, lower costs, risk mitigation, improved go-to market times, and improved innovation as benefits received by cooperating with supply partners.

According to Klobučar and Erjavec (2019), SRM can help companies to better answer to the increasing pressure on the market, improve sustainability, and save in procurement costs. Suppliers can also provide the knowledge needed to develop already existing products, innovate new solutions, and provide these on the market in time. According to Lambert and Schwieterman (2012), SRM can reduce inventory levels of materials and products. SRM can also reduce organization's fixed costs because it improves the use and arrangement of organization's assets, enhances the planning of investments, and eliminates redundancies. Park et al. (2010) see that SRM can help companies to maintain high quality, reduce costs, and ensure on-time development of new products to the market.

2.2 Drivers of SRM

According to Klobučar and Erjavec (2019), even though customers have become more demanding and the competition on the market have increased during the past years this does not mean that the situation would have stabilized. It is expected that customers will become even more demanding and the competition will keep rising in the future as well. Thus, it is very important that company aims to organize its business as flexible as possible, offer greater product-portfolio diversity, and approaches that are custom-made. According to Klobučar and Erjavec (2019), also price sensitivity is going to increase, demand is going to

be even more inaccurate, and both uncertainty and project sales are going to be increasing in the future. Close supplier relationships help company to be operate more flexibly. Thus, SRM's role can be seen as even more valuable in the future which drives the need for proper SRM systems in companies.

As today's supply chain business requires close collaboration from different functions at many levels in order to answer market's demand and rising competition, business executives are not only interested of pursuing new opportunities but also interested of the ways to improve companies' already existing supplier relationships. SRM can be used to combine the different interests in the supply chain since it identifies and engages the relevant stakeholders, drives effective communication, and aligns strategic objectives. The key objective of SRM is to form mutually beneficial relationship between two companies which consists of collaborative and relationship-building activities that are targeted at the most strategic and critical supply partners that deliver value to the company. (Deloitte 2015)

According to Hughes (2008) SRM works in many similar ways as customer relationship management (CRM). As company has many interactions over time with its customers in order to build closer customer relationships so should the company use time and effort to comprise close relationships with its key suppliers and effectively manage these relationships in order to get more revenue and higher profits. According to Schuh et al. (2014), SRM aims to drive suppliers' performance, construct a relationship between two organizations, and coordinate company across business units, functions, and hierarchies including top- and bottom-line objectives. Hence, SRM encompasses every interaction between the buyer and the supplier as CRM is supposed to cover each interaction between the customer and the organization (Hughes 2008). Tseng (2014) points out that ideally both parties stabilize their relationship through adjustment and discussion and are engaged to long-term commitment. Thus, both parties should share interests for building close relationship through sharing cost reductions to maximize common benefits and developing joint products.

2.3 Challenges of SRM

Despite the value and advantages received by SRM many organizations still struggle to systematically manage their supplier relationships (Deloitte 2015). Thus, there are many reasons that set challenges for SRM. Main reason Deloitte (2015) sees in failing with systematic SRM practices is the lack of a clear framework with aligned procedures. Strategic supplier relationships contain many control points of interaction between various stakeholders in the company and its key suppliers. In order to align supplier relationships across the organization, company should have a clear governance structure towards its key suppliers that would include standardized performance measurement and supplier management strategies. With clear SRM framework supplier relationships can be managed more clearly at different levels and in different functions which reduces complexity in the organization and increases transparency to suppliers as well as internally in the organization. Deloitte's (2015) review also shows that unclear internal governance and ownership of relationships might lead company to growth and acquisition strategies which may lead to increasingly growing supplier network and global operations which leads to increasing complexity and risk.

On the other hand, for example, Klobučar and Erjavec (2019) and Lambert and Schieweterman (2012) have criticized the already existing SRM frameworks. Often frameworks do not consider the fact that SRM is a continuous process which does not have start and end points. Thus, the supply base and SRM strategies should be updated every time the business changes even though the business would change rapidly. Lambert and Schieweterman (2012) have suggested cross-organizational teams to work with SRM but according to Klobučar and Erjavec (2019), when taking into account the financial and human resources this might not often be profitable especially in a situation with small or medium sized companies. According to Gelderman and Van Weele (2003) often used portfolio models, which will also be introduced in this thesis in the next chapter, are very subjective and sensitive since they are based on choice's dimensions, factors and weights. It is also quite uncertain what models actually mean by "supply risk" and "profit impact". It is neither clear where does the line go whether supply risk is considered as high or low.

Also Schuh et al. (2014) note that most of the used systems to manage supplier relationships and supplier performance are not ideal. Researchers explain that the models are often too complex and include too wide range of different indicators that no one will be able to fully understand. In addition, Schuh et al. (2014) note that there is also the human factor that has its effects on SRM tools. Different evaluations see performance indicators differently and thus, also supplier relationships differently. Schuh et al. (2014) also see big investments in different procedures and processes without actually having a focus on the necessary outcomes as one of the reasons why SRM fails.

Schuh et al. (2014) have underlined the importance of SRM encompassing every interaction between the buyer and the supplier and coordinate company across business units, functions, and hierarchies including top- and bottom-line objectives. Even though this potential of SRM has been receiving increasing attention during the past decades, very minor of the companies still use the full potential of SRM but concentrate too much on only top-line objectives and see SRM as only top management's issue. As noted in the previous chapter one solution to this Lambert and Schwieterman (2012) have come up with is dividing SRM into operational and strategic processes that are both important for SRM's success. Operative cross-functional teams would work with the different segments of key suppliers of the company and coordinate the operational processes across the organization. It is noted that these teams can be very useful in order to coordinate different activities across business units, functions, and hierarchies. However, often companies see this as unnecessary additional cost rather than as an investment that would bring value for the company on the longer run. (Lambert and Schwieterman 2012; Klobučar and Erjavec 2019)

One important notation Cox et al. (2003) bring out is that sometimes in some power situations, collaboration might not even be possible. In this case supply managers might not get the wanted suppliers to collaborate with the buyer organization. Hughes (2008) notes that collaboration with suppliers can happen only when there is a high level of commitment within both buyer and supplier organizations. In order to get the full potential from the SRM process all the functions across the company, such as, procurement, marketing, human resources and R&D should be on the same line with SRM practices. Also in order to get the full potential from the use of SRM, collaborating companies should be sharing information openly. Hughes (2008) notes that one challenge in this is that often companies fear to share

too much information to their business partners since this might evolve supplier as a direct competitor.

2.4 SRM Process

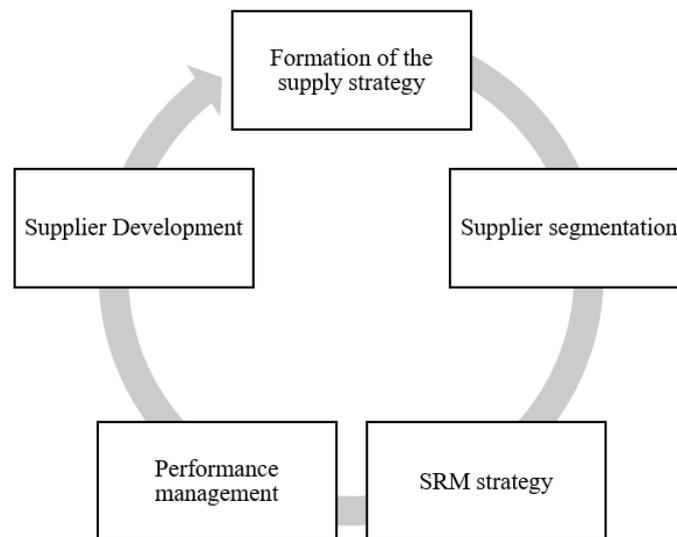
Purchasing function's role has increased due to purchasing and outsourcing costs taking greater portion of the total costs of the manufacturing processes. Thus, purchasing function should be taken into account in business decisions in order for supply chain management to perform successfully. As a response to this, companies have started to focus also more on SRM. SRM process involves activities such as formation of the supply strategy, supplier selection, collaboration, and supplier development. (Park et al. 2010) Moeller et al. (2006) have also listed relationship foundation, management, and deconstruction of supplier relationships as different activities used in SRM. Also Forkmann et al. (2016) emphasize the continuity in SRM process. Company should deal with partnerships that are fading, end relationships that are not paying off and initiate relationships with new suppliers that seem promising. Thus, effective management of supplier relationships requires continuous reconfiguration of the supply base.

Previous research on SRM often describes SRM as a process of different activities. For example, Park et al. (2010) divide SRM process into four specific steps. Four steps Park et al. (2010) present are formation of the supply strategy, selection of the suppliers, cooperation with suppliers, and management of supplier relationships. Also Moeller et al. (2006) define SRM itself as a process of several activities including foundation, development, management, and deconstruction of supplier relationships as different activities used in SRM. Forkmann et al. (2016) see SRM consisting of different processes and routines in the organization that are aimed to initiate, develop and end supplier relationships. According to Rezaei, Wang and Tavasszy (2015), SRM consists of supplier selection, supplier segmentation and supplier development.

This thesis is going to take a similar viewpoint to SRM process as Park et al. (2010) have used in their integrative SRM framework. Few modifications to this are done due the set limitations. Deloitte's (2015) continuous SRM cycle model presents four activities which are segmentation, governance, performance management, and supplier development. The

idea is that this cycle is repeated continuously and thus, SRM is seen as a continuous process. Figure 2 presents SRM process by combining Deloitte's (2015) cycle model and Park et al.'s (2010) integrative SRM framework.

Figure 2. Continuous cycle of SRM activities (modified from Deloitte's business review 2015 and Park et al.'s 2010 integrative SRM framework)



Successful SRM starts with the formation of the supply strategy (Park et al. 2010). Organization's supply strategy and SRM strategy should always be in line with organization's business strategy. For example, if company's strategic aim is to compete on price, the supply strategy of the company should have its main focus on cost, whereas if the business strategy focuses on higher variety of different products, the supply strategy should concentrate on flexibility. (Cousins 2005) Klobučar and Erjavec (2019) and Lambert and Schwieterman (2012) have also stated that company should also take into consideration other functions' viewpoints in the formation of the supply strategy and make sure that it is aligned also with different functions' strategies in the organization.

Successful supply strategy also begins from the examination what the market really needs. Only after companies have a clear understanding what their customers and other stakeholders truly demand they can come up with strategies that answer to this demand. (Christopher and Towill 2001) In addition to all of this, company's suppliers should be

suitable for organization's supply strategy (Park et al. 2010). After an organization has clearly aligned its supply strategy it can classify its suppliers into different groups by their strategic importance. After careful supplier classification and analysis organization should make separate action plans how to manage each supplier. (Klobučar and Erjavec 2019) Suppliers should be taken into account as important stakeholders because satisfied suppliers give more effort to meet the needs of the end-customers (Wong 2000). Thus, they should be integrated in many ways but by understanding that the main aim is still in improving the experience of the end-customer. After supply strategy is in line with the other strategies in the organization, company should have custom-made strategy for each supplier it has. (Klobučar and Erjavec 2019)

According to Forrest's article (2006), SRM strategy involves segmentation of the suppliers, measurement of the suppliers and management of the suppliers based on the measurement. According to Schuh et al. (2014), SRM ultimately aims to motivate suppliers to meet the buyer company's own aims. Thus, when creating a proper SRM strategy company should keep this requirement in mind. After an organization has classified its suppliers into different groups and found out which of the supplier should be treated as strategic partners and be receiving greater efforts company should analyze its supplier relationships (Park et al. 2010). In this phase, the items categorized to have a high risk will be re-categorized and determined by the attractiveness and the strength of the relationship. Factors influencing the attractiveness of a supplier are: financial and economic status, supplier's performance, in addition to technological, organizational, cultural, and strategic factors whereas the factors influencing to the strength of the relationship are: economic factors, the character of the exchange relationship, cooperation in the relationship between the buyer and supplier and the distance between the buyer and supplier. (Olsen and Ellram 1997)

According to Cox et al. (2003) buyer-supplier relationships should be observed from two dimensions; the way two parties interact with each other and how they divide the received surplus value. By understanding this fact it is easier to understand the possibilities and constraints in SRM. Generally said there are two ways to collaborate with suppliers; arm's-length and collaborative way. The benefits of both techniques are presented below in figure 3.

Figure 3. The characteristics of different collaboration strategies (Park et al. 2010)

	Competitive strategy	Cooperative strategy
Focus	Efficient processes, competitive bidding, system contracting	Collaboration, supplier development, partnership
Purchasing method	Competitive bidding, short-term contracts	Form partnerships, long-term contracts
Relationship	Buyer dominance	Supplier dominance or strategic partner
Key performance criteria	Cost/price, materials flow management, functional efficiency	Long-term availability, cost management, reliable short-term sourcing
Characteristics	Many available and alternative suppliers	Only few suppliers available

Competitive strategy means that company does not give too much effort to the relationship with suppliers but rather aims to keep an arm's-length to them. The buyer is the dominant player since there are also many other alternative and available suppliers on the market. Aims of the competitive strategy are to make the material flow processes efficient as possible and bidding the prices as low as possible. Contracts usually last only for a short period of time. (Park et al. 2010)

Cooperative strategy means that company's focus is on partnership formation, collaboration, and supplier development. Company aims to form long-term contracts with only few close suppliers. Thus, the situation might be that supplier is the dominant player and hence, buying company's business is highly dependent on supplier. One possibility is that buyer and supplier form a mutually beneficial partnership relationship in which case both parties in the relationship are dependent on each other. Key performance criteria in cooperative strategy are long-term availability, cost management, and reliable short-term sourcing. (Park et al. 2010)

As mentioned earlier relationship management and supplier development are also seen as important steps in continuous SRM process. (Moeller et al. 2006; Forkmann et al. 2016) According to Deloitte (2015), performance management contains setup and continuous follow up of operational measures. When drawbacks are noticed company should immediately react on them. Performance management and supplier development will be covered later and more precisely in this theory part.

3. SUPPLIER SEGMENTATION

Company should build strong relationships with its key suppliers in order to ensure seamless and efficient information share so that suppliers can develop new solutions to market needs on time (Lambert and Schwieterman 2012). However, first company should identify which suppliers are truly valuable for the company, when considering their current performance and strategic potential. Those suppliers should be separated from the often large number of suppliers in the supply base. After a company has clarified which suppliers are most valuable to it, specific strategies should be created to manage different types of supplier relationships. (Schuh et al. 2014)

According to Park et al.'s (2010) framework, company should classify its suppliers into two groups: low- and high-risk suppliers. Factors increasing or decreasing the risk of the supply are: material availability and accessibility, number of suppliers on the market, demand, make-or-buy decisions, warehousing risks, and alternative products. When the supply risk is considered as high, a company should use the cooperative strategy, whereas when the supply risk is considered as low, a company should instead use the competitive strategy. Portfolio model is one of the most known and used approaches. Even though its roots are in the finance sector portfolio model is also suitable to be used for different purposes on different sectors. There are also many different variations made of the original portfolio model. (Gangurde and Chavan 2016) According to Olsen and Ellram (1997), first phase in the portfolio model is to analyze company's purchases and then determine ideal relationships for the main purchases. After that, company should analyze its already existing supplier relationships and determine how current supply tasks are organized in the company. Thirdly, company should create action plans how to develop the current supplier relationships as the ideal relationships.

Next, this chapter will focus on supplier segmentation and introduce different generic frameworks that can be used to help companies to segment their suppliers into different groups. Even though scholars have come up with various frameworks to help companies to categorize their suppliers, it is important to note that there is no one framework that would suite for every organization and lead automatically to success. For example Cox, Lonsdale, Watson, and Glyn (2003) note that despite the fact that research has been examining the best

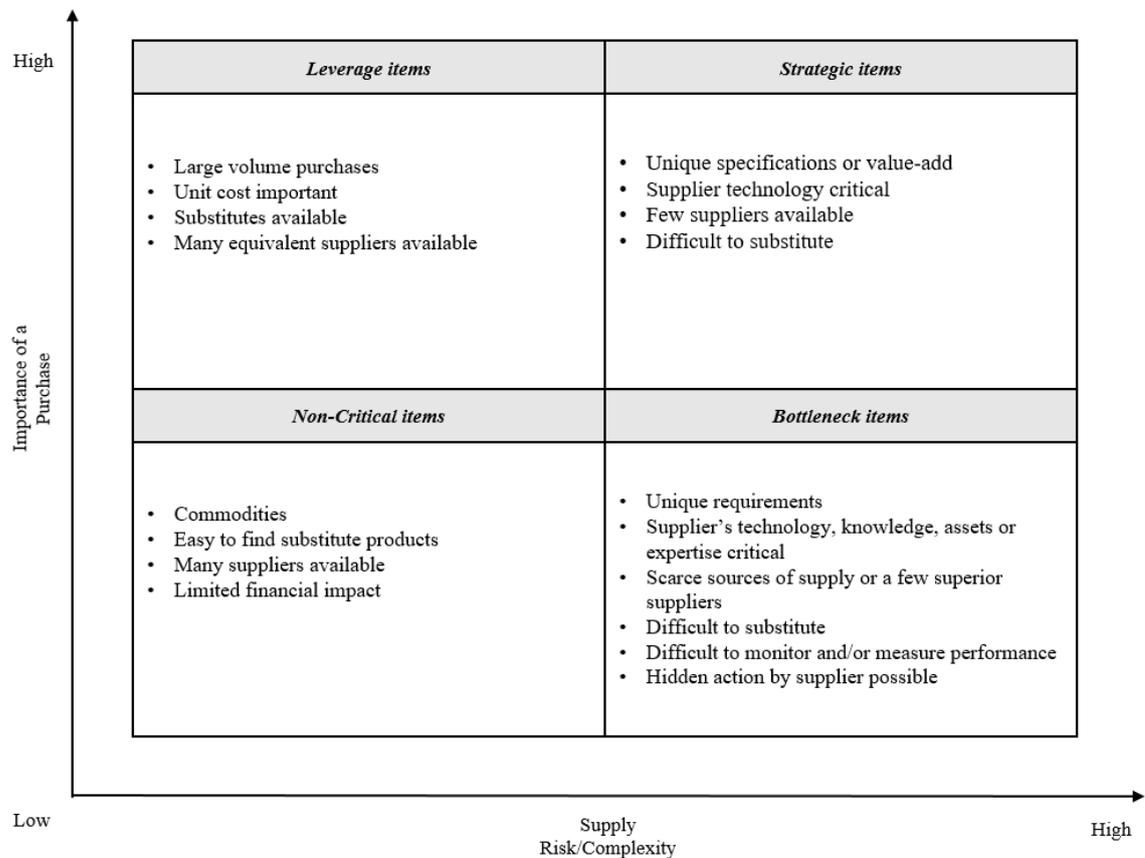
practices on how to manage supplier relationships, no such best practice actually exists. Each organization should first consider the benefits and drawbacks of each framework for them and then consider which framework would be most suitable for their business. (Klobučar and Erjavec 2019)

3.1 Kraljic's portfolio model

Kraljic's purchasing portfolio was introduced already in 1983 and it is still seen as a dominant approach used in business to manage supplier relationships and categorize suppliers. (Gelderman and Van Weele 2003) Kraljic introduced the purchasing portfolio model when purchasing was recognized as an important part of supply chain management and the strategic importance of the purchasing function started to rise (Gangurde and Chavan 2016).

Kraljic's model proposes that not every relationships between the supplier and buyer should be managed similarly. Company should first classify suppliers based on the supply risk or complexity and the profit or strategic impact. (Gelderman and Van Weele 2003; Gangurde and Chavan 2016; Olsen and Ellram 1997) Thus, there are two types of suppliers: low-supply risk and high-supply risk suppliers (Park et al. 2010). After the items observed are classified, company should determine which sourcing strategy it is going to use for the four different groups classified (Gangurde and Chavan 2016). Four dimensions of the portfolio are represented in the figure 4. These four dimensions are noncritical items, bottleneck items, leverage items, and strategic items. (Gelderman and Van Weele 2003)

Figure 4. Kraljic's purchasing portfolio model (Montgomery, Ogden and Boehmke 2018)



In general, when the supply risk is low SRM does not play as important role as when the supply risk is high. When supplier's supply risk is low company should not give too much effort on relationship management but keep an "arm's length" to the supplier and thus, use the competitive approach. In this case, purchase decisions are based on lowest possible price rather than receiving common benefits from the relationship on the longer run. When the supply risk is high SRM starts to play an important role in buying decisions and thus, should be used actively. Company should in this situation instead utilize cooperative strategy to manage these supplier relationships and build close long-term relationships with these suppliers. (Park et al. 2010)

The aim of the model is to minimize risks of the supply and "make the most of the purchasing power". As can be seen from figure 4, examples of non-critical items are commodities, products that have many alternative versions and suppliers and can thus easily be replaced. (Montgomery, Ogden and Boehmke 2018) Non-critical items also have limited financial

impact so they do not bring great value for the company but are ordered repeatedly and thus, seen to cause high transaction costs to the company (Montgomery et al. 2018; Gelderman and Van Weele 2003). Therefore, the strategy of these type of items focuses on building efficient processes, standardizing products and optimizing inventory levels and ordered volumes and thus, reducing the transaction costs. (Gelderman and Van Weele 2003) Hence, company should not give great efforts to relationship management with suppliers that deliver non-critical items but company should aim to increase the operational efficiency of these suppliers supply (Knight, Tu and Preston 2014).

Bottleneck items are more risky to a company than non-critical items but their importance to the company is still rather low. Bottleneck items have unique requirements and supplier's technology, knowledge, assets or expertise are critical to buying company. There are not many suppliers available or the number of superior suppliers is low and thus, there are not many alternative options available. Problems with bottleneck items are that usually these suppliers' performance is difficult to monitor and/or measure and it is possible that suppliers of bottleneck items make actions that are not visible for the buying company. (Montgomery et al. 2018) Thus, bottleneck items are causing significant risks and obstacles for the company. These risks can be handled by controlling the suppliers, having safety stocks, volume insurance and other backup plans. (Gelderman and Van Weele 2003) Kraljic's model suggests that with bottleneck items, company should also assure its supply by seeking for alternative suppliers (Knight et al. 2014).

Leverage items importance is higher than non-critical items' or bottleneck items' but supply risk is low. Leverage items group includes suppliers that deliver large volumes with high unit cost. However, leverage items risk remains low since there are many alternative suppliers available with alternative products. (Montgomery et al. 2018) With leverage items company should take the full potential out of its purchasing power for example in tendering, pricing and product exchange. With some suppliers, it might be necessary to look for alternative possibilities and end the relationship with the current ones if they are not performing as wished. (Gelderman and Van Weele 2003)

Final category in Kraljic's matrix includes strategic items. Strategic items have high importance for the buying company and their risk or complexity is also high. Strategic items

are unique specifications and bring significant value to buying company. There are only few suppliers available on the market so they are very difficult to replace. Also suppliers' technology is often very critical to buying company's success. (Montgomery et al. 2018) Thus, strategic items should be managed by collaborative strategies where the relationship between the buyer and supplier is close and focus is on common long-term goals. (Gelderman and Van Weele 2003) Day et al. (2008) name this top level of interaction between a supplier and buyer strategic supplier relationship management (SSRM). According to Day et al. (2008) the key benefit of SSRM is that it can create new value to both sides of the relationship.

3.2 Bensaou's contextual profiles

According to Gangurde and Chavan (2016), Kraljic's model is quite generic and can be used on different sectors to different meanings. According to Gelderman and Van Weele (2003), Kraljic's portfolio model can be utilized to holistically categorize different items. Bensaou's portfolio model focuses on business relations and can thus, be bettered used in SRM. Bensaou's portfolio model classifies supplier relationships into four different categories which are: market exchange, captive buyer, captive supplier, and strategic partnerships. (Knight et al. 2014) Categories are presented more precisely in figure 5.

Figure 5. Bensaou's contextual profiles (Knight et al. 2014)

Buyer's specific investments	High	<i>Captive buyer</i>	<i>Strategic partnership</i>
		<p>Products: technically complex products, mature and well-understood technology, little improvements</p> <p>Market: limited market growth, concentrated market, buyers have an internal manufacturing capacity</p> <p>Supplier: proprietary technology, few established players, strong bargaining power, buyers heavily dependent on suppliers' skills</p>	<p>Products: high level of customization, mutual adjustments required, new technology, frequent design changes, strong engineering expertise required</p> <p>Market: high growth market, highly competitive and concentrated market, lack of dominant design</p> <p>Supplier: strong proprietary technology, strong skills and capabilities in designs, engineering, and manufacturing</p>
		<i>Market exchange</i>	<i>Captive supplier</i>
	Low	<p>Products: standardized products, mature technology, little innovation, low efforts required for engineering</p> <p>Market: stable or declining, high competition, many alternative suppliers</p> <p>Supplier: small in size, low switching costs, low negotiation power, strong economic reliance on buyer firms</p>	<p>Products: new technology developed by suppliers, frequent innovations, significant engineering efforts required</p> <p>Market: high growth market, fierce competition, few qualified players, unstable market</p> <p>Supplier: strong proprietary technology, strong financial capabilities and research and development skills, low bargaining power, heavy dependence on the buying firm</p>
		Low	High
		Supplier's specific investments	

Bensaou (1999) notes that effective supply chain management requires analyzing and selecting appropriate supplier relationships based on the type of product and market environment in question. In addition, company should adapt suitable management practices to manage these relationships. The vertical axis of the matrix represents the buyer's specific investments. Buyer's specific investments are tangible investments in buildings, tools or equipment that are specifically built or rented for the component delivered by the supplier. Buyer's investments also comprise intangible investments in people or in time and effort given to learn the business practices and routines of the supplier. Intangible investments are, for example, investments in information share, implementing best practices, and knowledge to get the most out of the relationship. (Bensaou 1999)

Horizontal axis in Bensaou's matrix represents supplier's specific investments. Tangible supplier's specific investments include different facilities such as plants or warehouses whereas intangible supplier's specific investments include for example, development of

information systems that are compatible with buyer's databases. Thus, when looking at the right top corner in the matrix, strategic partnerships, both supplier and buyer are making high tangible and intangible investments in the relationship. (Bensaou 1999) As can be seen from the matrix above Market exchange and Captive buyer categories suggest that company should not make high supplier specific investments. This is when products are quite standardized, there's little innovation, the market is stable or even declining or when there are limited market growth opportunities. Supplier specific investments should be made when the suppliers of the company are categorized as captive supplier or especially when they fall into strategic partnership category. (Knight et al. 2014)

3.3 Fisher's framework

Fisher's model has criticized Kraljic's portfolio model because it does not take into consideration whether a product is functional or innovative. However, also Fisher's model has been receiving critic because it explains unclearly how the "leagile" option should be fit into it. (Drake, Myung and Hussain 2013)

The link between supply strategy's performance and the nature of the demand on the market were noticed when Fisher wrote in his article, published in 1997 in Harvard Business Review, that companies are failing in their attempts to improve their supply chain because their supply strategies are not in line with the products produced. (Harris, Componation and Farrington 2010) The framework proposed by Fisher classifies products into two groups; functional and innovative products. Functional products' characteristics are stable demand, long product life cycles, in addition to low variety and low profit margins. Thus, functional products are produced and stored based on the forecasts of large and stable demand. Innovative products instead, have volatile demand, shorter product life cycles in addition to high variety and high profit margins. Because of the great variety of innovative products they are usually produced based on individual customer's order. (Drake et al. 2013)

According to Fisher's model when forming the purchasing strategy, company should start considering the demand; is it predictable and can some decisions be made already before the actual order (functional products) or not in which case orders are made based on the actual demand (innovative products). With functional products lean supply strategy is more

suitable option whereas with innovative products company should choose agile supply strategy. Lean supply strategy can be utilized when the aim is to achieve good quality of the products but at low price. Agile supply strategy instead should be utilized when the aim is to build flexible and quickly adapting supply chains. (Drake et al. 2013)

Model has been extended even further and it can be used also in characterizing whether the product is produced of standard or specific components. Standard components resemble to functional products, and thus lean supply strategy is more suitable option. With specific components agile purchasing strategy is a better option. (Drake et al. 2013) As a conclusion it can be said that Fisher's model suggests companies to take into account three factors; 1) are products produced from standard or specific components and thus, 2) are company's products functional or innovative and 3) what company aims to achieve by its purchasing strategy.

3.4 The lean and agile purchasing portfolio model

The aim of the lean and agile purchasing portfolio model is to address the weaknesses often noticed with Kraljic type of models. Model leans on Fisher's model to find the best suitable supply strategy to the different types of products but aims to address also the weaknesses noticed in Fisher's model. The lean and agile purchasing portfolio model divides purchasing strategies also into four groups: lean, agile, leagile, and non-strategic supply strategy. Lean supply strategy is seen as the best option when the main target is in quality and cost. In lean supply strategy supplier relationships are built on long-term perspective to reduce costs and improve quality. (Drake et al. 2013)

Agile supply strategy should be used when the focus is on flexibility. Also agile supply strategy is based on long-term commitment with suppliers to improve the lead-times and thus, flexibility. Agile supply strategy requires participants to share information frequently and openly. (Drake et al. 2013) According to Monczka, Handfield, Giunipero and Patterson (2014) local suppliers are good choice to collaborate with in order to reduce delivery times and when the aim is to make supply chain more flexible and responsive. Also small sized suppliers can provide this opportunity since they are often more responsive and alert (Lysons and Farrington 2006).

As the name already indicates, the leagile supply strategy combines the previously presented lean and agile supply strategies. In leagile supply strategy aim is to reach flexibility of the supply chain but also focus on cost reduction and quality improvement. However the leagile supply strategy is not as simple as it sounds. The best results and utility of it can be received when different components are treated differently. (Drake et al. 2013) For example, when the costs are low but lead times longer lean supply strategy is better suitable option but if for example, the costs are high but the buyer company cooperates with local suppliers that can provide better flexibility and responsiveness, the agile supply strategy might be a better option (Bruce, Daly and Towers 2004). Leagile supply strategy might be suitable option also, for example, when part of the business happens inside the company and when the other part is outsourced from another producer (Drake et al. 2013).

Finally, non-strategic supply strategy should be considered when the impact of the items to company's competitive advantage is low. Non-strategic supplies do not require that high control but the concern with these items is that they might tie up more resources than they bring value to the company so their purchasing and supply should be as efficient as possible in order to reduce additional costs and complexity. (Drake et al. 2013)

As can be noted from this chapter the keys to successful SRM seem to be aligning supply strategy with organization's business strategy and other functions' strategy, categorizing suppliers by their strategic impact, partnering with suppliers that company sees strategically most important and coming with action plan how to make those suppliers performance as proactive as possible. In addition, company should follow up this performance and aim to develop suppliers' performance if there are some aberrances in the performance. Supplier performance management and development will be discussed in the next chapter of this thesis.

4. SUPPLIER PERFORMANCE MANAGEMENT AND DEVELOPMENT

The previous chapter has addressed the first steps of SRM process; formation of the purchasing strategy, supplier segmentation, and different SRM strategies. In addition to these activities, one prerequisite for effective SRM is supplier performance management and supplier development. (Deloitte 2015) In this final chapter of the theory part of this thesis, the last steps of the SRM process; supplier performance management and supplier development are going to be presented.

4.1 Supplier performance management

According to North Rizza (2006), with supplier performance management (SPM) company can measure the success of its supplier relationships. Company can also achieve better supply chain reliance by looking beyond the cost and examining also other ways how suppliers can affect to company's business. (Campbell 2013) North Rizza (2006) lists multiple advantages that companies have got from managing supplier performance. SPM has reduced material costs and helps managing them. SPM has also improved the efficiency of manufacturing processes, optimized the overall internal supply chain costs and reduced risk related to different supply chain activities. According to Dimond and Tucker (2008), SPM can have a material impact on company's growth, revenue, and operating margin and thus, not managing suppliers' performance can lead to loss of profits and have also negative impact on assets and cash flow. Thus, SPM is a critical component of overall supply and demand management in supply chains.

In order to prevent risks, recognize opportunities, and follow up supplier performance, company needs a system to monitor and measure this performance. (Campbell 2013) Scorecards and different dashboards are often used performance measurement tools. Company can use different scorecards and dashboards to measure suppliers' performance when taking into account the key metrics evaluating cost, quality, delivery and service for the end-customer. With these key performance indicators (KPI) company can review the value of the partnership between the two companies and build a common understanding of the end-customers' demand. (North Rizza 2006; Campbell 2013) However, Campbell (2013)

notes that while company can use scorecards across the entire supply chain the main focus should be given to strategic suppliers since their continuous performance improvement is most value adding for the company. Also according to Deloitte's (2015) review, supplier performance management involves setup and continuous tracking of different operational measures, which are mutually agreed with first priority suppliers. The focus should be on few most critical measures which are consolidated on a single supplier scorecard. In addition, supplier scorecards should be continuously monitored and results received should be shared with strategic suppliers regularly. Deviations from agreed minimum performance requirements should be addressed immediately by identifying the root cause and conducting remedial measures.

Despite the popularity of the scorecards there are also many drawbacks related to their use. Morris (2010) notes that review using only static information having focus on primarily financial and contractual obligation, such as scorecards, is outdated and thus, today company should also include qualitative metrics measuring the performance in supplier management. In order to be effective SPM should continuously examine the complete value stream which often includes multiple stakeholders of the company. Thus, Morris (2010) suggests that companies use continuous performance improvement approach which includes activities such as determining all the relevant performance information from all the stakeholders in the supply chain and ensuring that performance information is up to date and offered to everyone involved in managing the supply chain in a timely manner.

Company can also deliver actionable performance information, provide context and enable intuitive analysis for enhanced and rapider decision making. Morris (2010) suggests that so called critical metrics, such as cost, quality, shipping and logistics, on-time delivery and inventory, should be used only for periodic reviews and continuous performance improvement of the whole supply chain. According to Campbell (2013) company should start measuring suppliers' performance from the simple metrics such as financial and operations data. After that company should build more specific metrics for its strategic suppliers. Campbell's (2013) suggestions are presented in the figure 6 below. Campbell's (2013) presentation illustrates that as the strategic importance of the supplier increases the more types of different metrics company should utilize in supplier performance management.

Figure 6. Supplier Performance Management metrics by the importance of supplier (Campbell 2013)

	Strategic Importance of Supplier	Type of Metric
Proactive	Tier 1: Strategic	<ul style="list-style-type: none"> • Key operational metric • Base metric • Supplier-specific
	Tier 2: Key operational	<ul style="list-style-type: none"> • Key operational metric • Base metric
	Tier 3: Support	<ul style="list-style-type: none"> • Base metric
Reactive	Tier 4: Tactical	<ul style="list-style-type: none"> • None

As can be seen from figure 6, the more strategically important the supplier is, the more proactive the performance management should be whereas when the strategic importance of the supplier relationship is low the more reactive the performance management should be. Non-strategic suppliers performance should be either non given great efforts or the management should be conducted with only basic financial meters. When the strategic importance of the supplier relationship grows, company should come up with different quantitative and qualitative tools to manage the performance of these suppliers. Metrics can include tools created to specific supplier relationship and key operational metrics in addition to basic financial performance management metrics. (Campbell 2013)

According to North Rizza (2006) the key part of SPM is effective management of key performance metrics. This includes measurement of business requirements and expectations from suppliers. Usually companies utilize different scorecards in SPM which disclose the success of the relationship between the buyer and supplier. According to North Rizza (2006) the most successful practices drive overall supplier performance, improve different strategies and processes to evaluate supplier performance and combine supplier assessment with customers' strategy. With SPM company can evaluate suppliers based on the expectations from the relationship and use predictive analysis tools to identify potential trends and risks. In addition, effective SPM activities set a standard scorecard format for KPIs and business

requirements, help to react to KPI changes, provide dashboard analytics, real-time performance measurement, and maintain repeatable data gathering. SPM activities also help companies to evaluate suppliers based on the expectations from the relationship and rank, make corrective actions, improve supplier performance, and rationalize supply-base. (North Rizza 2006)

4.2 Supplier development

In this last chapter of the theory part supplier development is going to be introduced. According to Krause, Handfield and Tyler (2007) supplier development is an important activity of SRM. Supplier development can accrue many benefits such as better quality, increased flexibility, reduced costs, and more reliable delivery.

According to Rezaei et al. (2015) supplier development is a strategic activity which aims to raise suppliers' performance levels and hence, maintain a supplier network which influences on the competitive advantage of the buying organization. Supplier development involves activities such as goal setting, supplier evaluation, performance management, supplier training, and other related acts initiated by the buying company in order to improve the performance of its suppliers (Krause, Handfield and Tyler 2007; Krause, Handfield and Scannell 1998).

As different supplier relationships should be segmented and managed differently also the development strategies for each supplier segment should be segment specific. Krause, Scannell and Calantone (2000) divide supplier development into internalized and externalized activities. Externalized activities include competitive pressure, supplier assessment, and supplier incentives, whereas, internalized activities include supplier development strategies, investments in suppliers through activities like supplier training and education of suppliers' personnel. Rezaei et al. (2015) and Krause et al. (2007) have listed different supplier development activities. According to researchers, activities which the buying firm can use in supplier development are supplier assessment and feedback, knowledge share, plant visits, two-way communication, long-term commitments, and trust building. Also giving emphasis on other factors than price, purchasing a large percentage of

suppliers' annual sales, establishing higher supplier performance expectations, and making investments in the relationship have noted to improve suppliers' performance.

Also relationship length has noticed to have positive linear relationship with buying company's performance. Thus, one way to develop suppliers' and performance and that way company's own performance is to build long lasting relationships with key suppliers of the organization. (Krause, Handfield and Tyler 2007) Companies that trust each other are more willing to work with each other. Thus, one supplier development activity is building trust in buyer-supplier relationships. (Wagner 2011)

Even though strategic suppliers can be seen as most valuable the number of them should be kept low in order to give required time and attention to the relationship. According to Day et al. (2008), company should have between 5 to 50 strategic suppliers depending on the size, scale, sophistication and the nature of supply. However, company should have really close relationships with under 10 suppliers. These suppliers Day et al. (2008) call as "breakthrough partners". In addition to these few breakthrough partners, company should have 10-40 "development suppliers" which are operationally very important for buying company's success. Relationships with development suppliers are expected to last for a long period of time, be developed continuously and to be given investments in both resources and time. In addition to breakthrough partners and development suppliers in the strategic supplier relationship group, Day et al. (2008) suggest that company should have third type of strategic suppliers, the so called performance suppliers. These type of suppliers have significant service-delivery and bottom-line impacts to buying company and thus, require active SRM.

Day et al. (2008) suggest two options to operationally manage strategic supplier relationships' performance. One of them is to target so called pilot projects for each of the three strategic supplier segments; breakthrough, development, and performance. Typically, these pilot projects include situations that need to be addressed. For example, new supplier relationships should be structured properly in order to reach desired performance level or in a situation where for example, internal key stakeholders are not satisfied with suppliers' current performance. It has been noticed that conducting these pilot projects in this type of situations can provide very recognizable and quick wins that can be the actual keys to success in business development. Another option Day et al. (2008) suggest is to initiate a business-

wide process in the whole organization in order to engage the suppliers in the breakthrough and development segments. However, this type of wide scale project requires commitment from the senior leadership team and strong buy-in from the different managers working with strategic suppliers.

This is the end of the theory part of this thesis. In the next chapter the empirical findings of the research are going to be presented. However first the chosen research methodology chosen for this research is going to be introduced. After that the interviewees interviewed in the case company chosen for this research are going to be introduced shortly. Next chapter is also combining the viewpoints of theory and the results received through the interviews.

5. EMPIRICAL FINDINGS

This chapter is going to discourse the research findings and compare these findings to already existing literature's findings. The results of this research base on four interviews conducted in one case company that operates world widely and purchases feedstocks around the world. However first, the chosen research methodology for this research is going to be introduced. In addition, the interviewees interviewed in the case company are going to be introduced.

5.1 Research methodology and data collection

Qualitative research is a process that aims to interpret social or humane issues. Qualitative research can be conducted by observing or interviewing. Quantitative research instead happens in a numeric form. Despite the differences between the two research methods they are both required to show results of repeatability so that the results can be said to be valid. (Sale and Thielke 2018) The form of the main research question of this thesis "*How a company should utilize SRM as a part of its supply strategy in order to create value for the company?*" indicates that qualitative research will be more suitable research method for this thesis in order to get deeper and more explanatory results.

Case research's benefits as a research method has been noticed in operations management related research (Voss, Tsikriktsis and Frohlich 2002). A combination of a case study and interviews allow more in-depth discussion since it enables possibility to ask *why* and *how* questions and thus, a collection of rich empirical data in order to get a deep understanding of the topic under examination. There are four types of case studies; single, multiple, retrospective and longitudinal case study. Single case study is used when the case is unique and critical to be tested with carefully formulated theory and when it reveals answers to a phenomenon that has previously been inaccessible. The main advantage of the single case study is the depth of the results. (Kähkönen 2011; Voss et al. 2002) The aim of this research is to conduct few in-depth interviews in one case company and compare this to previously gathered theory and thus, single case study was chosen as the most suitable method to be used in this research.

The aim of this research was to conduct few in-depth interviews in one case company. The case company operates world widely and purchases different feedstocks around the world. The interviewees selected for this research all work in the case company and all of them work somehow with SRM and have history from different procurement related activities. Even though all the interviewees work under same organization, some of them are more focused on the management of already existing supplier relationships and some work with possible and new supplier relationships. This gave different perspectives to the results. Interviews were conducted through video calls and each interview lasted about an hour. The aim of the first interview question was to get some insight about the background with SRM of the interviewee and thus, the backgrounds of the interviewees are presented in the next subchapter.

5.2 Interviewees

First interviewee, interviewee 1, has long background in operational management and is now managing procurement in the case company. Interviewee 1 describes having more background from the commodity market where SRM does not play as important role because the market operates in a way that basically whoever can sell to whomever. However, the types of products interviewee 1 is in charge of at the moment in the case company require to take also more structured approach to SRM, as the person describes, and thus, SRM is a part of the person's current position in the case company.

Interviewee 2 has few years' background with supplier companies of the case company. Person has originally started in a position that concentrated more on supplier sustainability but quite soon after that the person started to work with supplier relationship management. Person first worked with a digital system which was created to support the management of the large and continuously growing supplier base. System's aim was to also provide support to the case company in the rising competition which required company to grow and find new suppliers but at the same time find ways to retain the already existing supplier relationships. In addition, growth involved onboarding of even smaller volume suppliers which enlarged the supply base even more. After the implementation of the new system interviewee 2 started to work as a part of procurement team. At the moment the person is responsible for global development which includes the utilization of different procurement tools. A big part of

these tools has to do with SRM. Person works in a small team or in a “*working group*”, as the person, describes that works with SRM.

Interviewee 3 has background from SRM from two different companies operating on the same industry and a long background from both sales and procurement. In addition, the person has worked with sourcing and is now working with procurement’s development. In this position interviewee 3 is responsible for creating longer lasting strategic partnerships and examining how these partnership relationships could be maintained on the longer run. However, interviewee 3 describes that at the moment this is at the very start level so company does not yet have, for example, ready contracts signed.

Interviewee 4 has long background in supply and is at the moment working in a new business unit at case company and leading supply and operations of the business unit. Person’s job includes a lot of feedstock procurement and thus, the person is closely involved with suppliers on the market. Business unit is so new that for example, new contract made is first of a kind for both the supplier and the buyer organization. All the suppliers on the market are start-up companies so the supply is very small but the buyer organizations on the market are big in size so the market is very competitive. Negotiations, signing of contracts and building of supplier relationships is also a very long process. It can take up to couple of years even before company can actually start purchasing from the supplier.

5.3 Managing supplier relationships

The aim of the next interview question was to find out how case company is currently managing its supplier relationships. The results are discussed in this subchapter. Results of the research show that the type of the feedstock and competition on the market highly impact to the chosen SRM strategy. From Lambert’s and Schwieterman’s (2012) viewpoint SRM involves the establishment of close relationships with company’s key suppliers. The aim of these close relationships is to decrease costs, invent new products to the market and create value for both parties of the relationship. Relationship between the organizations is based on common long-term commitment to collaborate and share received success. SRM determines the degree of integration and builds a foundation to any successful integration. The level of integration depends on the company, its supplier relationships, and the chosen strategy with

which company manages its supplier relationships. (Klobučar and Erjavec 2019) According to interviewee 1 and 2, in the case company's market situation, type of the feedstock purchased, type of the supplier and supply chain management in the company also set limitations for the integration.

According to interviewee 1, company works on a market where demand is high compared to feedstocks available on the market. As a consequence, suppliers are often only interested about the price and about getting the best offer. However, interviewee 1 notes that all the feedstocks company purchases and their markets have very own features. With some feedstocks the case company is rather small player on the market but the suppliers are large in size. On the other feedstock segments the situation might be completely different; there might be a large amount of small suppliers on the market. The type of the material and thus, the supplier sets its own baseline how they should be approached by the case company. Interviewees 3 and 4 work with newer feedstock groups. SRM with these newer feedstocks includes finding and building of new supplier relationships. Interviewee 4 says that the aim of SRM with these feedstock suppliers at the moment is to really get to know the supplier since suppliers are new start-ups on the market. In this phase, company really starts from the basics and aims to know who the supplier is, what they can offer, and how suppliers' aims match with buyer company's aims. In addition, in this phase the case company also wants to introduce itself to the supplier and its current state on the competed market in order to form basis for successful supplier relationship.

Because the market is highly competed, interviewee 1 sees that it is important that the buyer company does not play opportunistically on the market. This regards buyer organization to consider also other things rather than high price, such as, longer lasting contracts with suppliers or other cooperation models which give benefit to buyer organization towards its competitors. Also Krause et al. (2007) suggest companies to build long lasting relationships with suppliers since there is a positive correlation between the length of the relationship with suppliers and buying company's own performance. In addition, Wagner (2011) notes that companies that trust each other are more willing to work with each other but building of trust takes time. Interviewee 1 notes that of course in some situations organization can still play quite opportunistically, for example, when purchasing daily purchases which means accepting the fact that this is also the action model some suppliers prefer. These suppliers

are also needed since these suppliers are a big part of the volume that company purchases and it is not even possible to only have strategic suppliers. Also this supports the idea that different suppliers should be treated differently that was presented by the theory in supplier segmentation chapter.

Interviewee 2 sees that company has not been giving too much effort on SRM in the past but the company has been giving active efforts for SRM improvement for a year now. Before that, the use of SRM has been quite marginal and received limited amount of attention. In addition, supplier managers of the company do not have background so much from procurement which would include the relationship building aspect. However, now company is trying to increase SRM's profile and interviewees 3 and 4 see that its current state is already very good in the case company. According to interviewee 3, segmentation and different models how supplier relationships are managed have developed a lot during the recent years in the case company and are going to be developed even more in the following years.

“Due the need to secure future's supplies and growth, the way company manages its supplier relationships is more effective and intent today than it was before”

– interviewee 3

Interviewee 3 also sees that company is going to go more into supplier performance follow up and sees that it is important for company's suppliers to understand that their performance has been followed and how they fill in the expectations of the signed contracts. Before the focus has been more in the growth and case company has had limited amount of competitors on the market. However, due the increase competition in the future company might have to consider more things, such as, supplier security. Interviewee 2 sees that SRM's importance is also going to grow in the future. Also interviewee 4 sees that SRM's role is going to increase even more in the future when the competition on the market keeps increasing.

Interviewee 1 notes that in the case company there is actually not a clear line between sales and procurement and thus, sales and procurement are rather seen as *“flip sides of the coin”*. Interviewee 4 has been working with both sales and procurement in the past and thus, also sees similarities in SRM and CRM.

“When talking about B2B-business, sales and procurement do not differ that much. The management of customer relationships includes certain processes which should be suitable also for procurement”

– interviewee 4

Hughes’ (2008) findings support the fact that SRM works in many similar ways as customer relationship management (CRM). As company has many interactions over time with its customers in order to build closer customer relationships so should the company use time and effort to comprise close relationships with its key suppliers and effectively manage these relationships. Thus, case company is also in a similar situation where the treatment of suppliers should have close characteristics with the treatment of customers. Interviewee 1 describes that sourcing strategies supply managers align also involve which feedstocks are going to be purchased from a few key suppliers and which feedstocks the company is going to buy widely from larger group of different supplier. According to interviewee 1, supplier relationships have been divided and each of them has been named to own supply manager who is in charge of these suppliers. In addition, supply managers make alignments and sourcing strategies based on the type of feedstock and market that is in question.

5.4 SRM activities in SRM process

In the theory part of this thesis the SRM process was divided into five activities; formation of the purchasing strategy, supplier segmentation, SRM strategy, performance management, and supplier development. (Deloitte 2015; Park et al. 2010) In order to get even more insight and answers to the one of the research question *“How different supplier relationships should be managed?”* the interviewees in the case company were asked to tell whether they have a clear process which helps them to coordinate SRM activities.

According to interviewee 1, the case company does not have very formal process for SRM. Different SRM activities the case company has been using according to interviewee 1 are formation of the sourcing strategy, supplier on-boarding, supplier segmentation, and supplier scorecards that company have used to follow up suppliers’ performance. According to interviewee 2 company has “in principle” a certain process that they have been creating for SRM. According to interviewee 2, they have now started to create also new tools for SRM.

Interviewee 2 lists same activities as interviewee 1 but names also procurement optimization and feedback as part of the SRM activities used in the case company.

All the interviewees underline the importance of supplier on-boarding phase in SRM. According to interviewee 3, SRM process should involve supplier approval in the supplier on-boarding phase. This is the critical step which ensures that the supplier relationship can be taken further in the model. In the case company this phase is actually quite “heavy” for the supplier as interviewee 3 describes. According to interviewee 4, the buying company has an on-boarding process which involves the comparison whether the supplier company is suitable for the buying company but also going through the expectations what the buying company wants from the supplier and how these expectations are going to develop through years. In order to succeed in this the buyer company uses rating matrixes where they actually give a rate and prioritize each supplier. By this familiarization phase the buyer company gets insight where each supplier is, which relationships take more time to develop and which supplier relationships are not going to work yet for a long time. This helps the buying company to optimize the use of its own resources but also suppliers are able to learn what the market expects from them, which can be seen to develop the whole industry.

“Teaching suppliers about the expectations of the buyer company also improves the suppliers’ understanding about the market needs which then can be seen to develop the whole industry forward”

– interviewee 4

Interviewee 4 notes that even though the business unit is new it has the same SRM process as other business units in the case company so the process starts from the supplier on-boarding where company does many different screenings to suppliers before they are approved. When the suppliers have been selected they can be managed more actively by segmentation and so on. Supplier onboarding was left out of this research in order to limit the large research scope. However, it is an important finding that this step is in some cases the most crucial step which sets the baseline for every other activity’s success.

According to all interviewees, after the supplier has been approved it is segmented. Based on the segment supplier and its performance is then being followed up. Interviewee 3 sees

as important step that if there are some aberrances in the performance that is expected from the supplier it would be ideal to get involved and try to develop suppliers' behavior. Otherwise it is not beneficial to follow the performance. However, according to interviewee 3's knowledge it is difficult to decide how to gather the performance feedback and give it to suppliers effectively. Also the use of time of the supply managers and what would be the best way to give the feedback to suppliers set their own challenges to SRM process. Supplier performance management and development will be opened up more precisely later in the following subchapter.

“Segmentation offers tools for prioritization which suppliers are seen and should be seen as the most important ones since it is not even possible to follow the performance of each supplier as closely”

– interviewee 3

5.5 Supply strategy based supplier segmentation

In the theory part of this research it was stated that company should build strong relationships with its key suppliers in order to ensure seamless and efficient information share so that suppliers can develop new solutions to market needs on time (Lambert and Schwieterman 2012). However, first company should identify which suppliers are truly valuable for the company, when considering their current performance and strategic potential. Those suppliers should be separated from the often large number of suppliers in the supply base. After a company has clarified which suppliers are most valuable to it, specific strategies should be created to manage different types of supplier relationships. (Schuh et al. 2014) The portfolio model is one of the most known and used approach which has been used in different sectors for different purposes even though its roots are in the finance sector. (Gangurde and Chavan 2016) Also case company uses portfolio type of model to segment its suppliers. According to interviewee 1 and 2, supplier segmentation has not been used before but during the last year the company has implemented it as a one tool to manage supplier relationships. Segmentation is based on the current state of each supplier and their future potential.

“Supplier segmentation is based on the points found most important in the procurement strategy. Segmentation tool helps the company to clarify the current state of each supplier and their future potential”

– interviewee 2

By future potential interviewee 2 means how much the supplier can grow and what is the position of the supplier in the supply chain (the type or the “level” of the supplier that is in question, such as, a producer or a reseller, how much volume supplier supplies etc.). According to interviewee 1, segmentation tool has lately been developed and its aim is to attach to sourcing strategies and give company insight how they should cope with different suppliers. Main criteria includes also volume (how big the supplier is) and how easy the cooperation with the supplier is.

Case company’s segmentation model has similarities with Kraljic’s purchasing portfolio model since it considers which suppliers are the most business critical now and in the future. (Park et al. 2010) However, the supplier categories differ a bit. In Kraljic’s matrix the four dimensions were strategic items, leverage items, bottleneck items, and noncritical items (Gelderman and Van Weele 2003). According to interviewee 2, case company uses segmentation matrix that also has four supplier segments. These four segments are strategic suppliers, growth segment, key suppliers and transactional suppliers. On the x-axis case company measures supplier’s position at the moment as a supplier whereas on the y-axis company has supplier’s future potential. On the top right of the matrix, where the current position in the supply base and also future potential are high, company has the “*strategic suppliers*”. This is the most important and highest priority segment to the case company since it includes the most important suppliers at the moment but also the suppliers having the highest potential in the future. Thus, it shares similarities with the segment “strategic items” in Kraljic’s model. According to Montgomery et al. (2018), strategic items are unique specifications and bring significant value to the buying company. This segment is seen as the most valuable segment also in the case company and it has the highest potential in value creation in the future as well.

According to interviewee 2, the second segment coming after the strategic suppliers’ segment is the “*growth segment*”. Interviewee 2 describes that this segment includes the

suppliers which position at the moment in case company's supplier base is not that strong meaning these suppliers do not supply high volumes nor have stable performance. However, these suppliers are managed more actively since company sees that these suppliers have potential to grow as strategic suppliers one day in the future. Third segment company has is "*key suppliers*". These suppliers are quite important to the case company at the moment but their growth potential is seen as moderate. Thus, these suppliers are described as good suppliers to the case company at the moment but they are not the most strategic suppliers receiving the highest priority. These two segments have some similarities with Kraljic's model's leverage items and bottleneck items.

Last segment company has is "*transactional suppliers*". According to interviewee 2, this segment is very heterogeneous and has high dispersion. This segment includes suppliers that might actually have very good position in company's supply base at the moment but the future potential is seen as very limited. This segment also includes suppliers which position at the moment is quite weak but have little growth potential in the future. Segment also includes suppliers that have quite weak position at the moment in case company's supply base and also limited growth potential in the future. Non-critical items in Kraljic's model also have limited financial impact so they are not expected to create value for the company (Montgomery et al. 2018; Gelderman and Van Weele 2003). Thus, transactional suppliers' segment has similarities with Kraljic's non-critical items but maybe includes wider amount of different types of suppliers.

One important notion in the interviews is that case company has not segmented all of their suppliers. This is partly because company has very different types of feedstocks and very different types of suppliers and market areas. Thus, it is not ideal to compare all the suppliers operating in different markets and selling totally different feedstocks and volumes together in a one segmentation model.

"We have not segmented all of our suppliers. At the moment 56% of the active suppliers are segmented. Only suppliers delivering feedstocks that have the highest volume in company's supply are segmented"

– interviewee 2

Case company has also created and used the so called “local models”, as interviewee 2 describes, in order to take into account the heterogeneity of the supply base. These models help the case company to, for example, identify with which suppliers it might be beneficial to use term deals. In this case, company might use a matrix where they compare different factors between each other, for example, commercial importance and sustainability, interviewee 2 describes. Company has been considering if the segmentation model could be expanded to encompass also more suppliers of the supply base. This is challenging because in that case company would have to compare the meaningfulness of the volumes which is difficult if the population is very small. Also it might be impossible to compare all the feedstocks’ volumes with each other since the feedstocks and the markets are so different in nature. Interviewee 2 sees that the population must be big enough in order to use the segmentation wisely.

With new and so called “future’s feedstocks” segmentation has not yet been used. According to interviewee 4, the business unit does not yet have segmentation tool since the market is not yet ready for that. However, interviewee 4 believes that when the business develops segmentation could be useful tool. At the moment business unit has this so called priority model where the buying company can evaluate the value of each supplier relationship. Interviewee 4 notes that this priority model does not differ that much from the segmentation model since it also includes volumes and strategic fit as estimates. According to interviewee 4, the aims of it are the same but the priority model is a bit more complex.

5.6 Supplier performance monitoring and development

According to Campbell (2013) companies need a monitoring system to measure suppliers’ performance and prevent possible risks. Company can, for example, use different scorecards and dashboards to measure the performance of its suppliers. However, Morris’ (2010) research emphasizes that the use of scorecards as only monitoring tool is seen as outdated and company should also include qualitative metrics in supplier performance management. According to interviewees 1, 2 and 3, previously, the case company has used supplier scorecard process to follow up the performance of its suppliers. According to interviewee 1 and 2, during the past years system changes have forced the company to take steps back in the reporting. In addition, interviewee 2 adds that company is aiming to find new ways to

manage suppliers' performance since the old system was quite heavy to maintain. According to interviewee 2, before scorecards were conducted and used on quartile basis for each supplier. According to interviewee 1, by scorecards company was able to analyze how well each supplier performed on metrics, such as, on-time delivery, quality of the delivery, and quality of the documentation. Interviewee 1 notes that the results received from the scorecards helped also in supplier segmentation.

According to interviewee 2, SRM team has been discussing with supplier managers how the supplier performance management should be updated and conducted in the future. Results have shown that not every supply manager is willing to send scorecards to suppliers because it really depends on the type and level of the relationship whether scorecards provide useful data or not. Another thing that has been discussed is whether supplier performance should be more visible internally in the company. Now company is aiming to build a data base which would help the company to gather data on suppliers' performance and communicate with suppliers about their performance. Company has also planned to create a data base or the so called "supplier dashboard" to manage the performance data. Also performance reports could easily be exported from the system and supply managers could then use this report and share it with their suppliers if they see it as beneficial for the negotiations. Even though at the moment scorecards are not in use company has used some local files on the areas where suppliers have not performed as wished. These local files can, for example, give supply managers insight whether deliveries have been late or not.

These findings supports the study of Forkmann et al. (2016) that effective SRM requires ongoing reconfiguration of the supply base by implementing new routines and processes. According to Forkmann et al., (2016) by this organization can make sure its supply chain is flexible and adaptive enough in order to respond to today's turbulent business environment. Also Klobučar and Erjavec (2019) underline the importance that company always considers customers' satisfaction and markets' needs when aligning their SRM strategy. Hence, SRM is a complex process which should be managed in the organizations actively and continuously. In addition, the finding that the results received by the scorecards can be later used in supplier segmentation supports the need for creating a continuous SRM process. Not only because company needs to update its supplier base and strategies due competition and market changes but it can also utilize the findings received by managing suppliers'

performance in reconfiguration of the supply base. Performance management will help organization to better segment its suppliers because it simply knows more about its suppliers.

According to interviewee 2, SRM involves also management of different supplier segments, supplier visits, and contacting suppliers. In the following years the case company is also planning to create a feedback system for their suppliers. Tool could be utilized to find out what suppliers think about the case company and how the case company could then improve its own performance. This is also an answer to the rising competition and willingness to be “a good buyer” to suppliers, interviewee 2 describes. Also interviewee 1 and 3 see that there is still place for improvement in the performance management process and new tools should be implemented in the future.

Interviewee 1 notes few things that have affected on performance management and supplier development in the case company. One challenge company has had is that they have suppliers that often do not perform on the level that is expected from them. Ideally in the situation like this company would end the supplier relationship and stop purchasing from that supplier. But as long as these are not major issues or sustainability related breaches, company has not had the volition to decrease purchases from that supplier if the supplier produces with satisfactory quality and price. Interviewee 1 also sees that because of the situation that the market sets due the high competition company does not actually really even have the option or need to play hard on suppliers in these type of situations. Because of this fact, reaction towards aberrances has not been that strong in performance management. However this has been an abreast decision that organization has made.

According to interviewee 1 the idea in supplier development is that company follows up supplier performance and records suppliers’ performance by NCR recordings. According to interviewee 1, company has had gaps in these recordings and in how widely they have made these recordings.

“It is probably not even possible to have full transparency and record all the mistakes on the documentation even though this is the goal. It is however important that company notifies suppliers if they have not performed as expected.”

– interviewee 1

Interviewee 3 hopes that the case company will use performance management and development again in the future. Interviewee 3 has experience from scorecards and notes that even though they might not be beneficial to all suppliers to some suppliers they are. Of course it is challenging to create a scorecard that would be beneficial to each supplier and take correct actions in each situation. However, interviewee 3 has experience from negotiations and notes that the scorecard was a good way to open the discussion and start the negotiations. Interviewee 3 sees that giving feedback should not be made too complicated. In person's previous role the feedback was given whether the supplier had not performed as wished but also when the supplier had performed outstandingly. If there was nothing that needed to be said from the performance of the supplier the scorecard might have just been sent to the supplier so that they can examine it by themselves. Business unit in which interviewee 4 operates does not yet have model for performance management or supplier development but the person sees that the business is moving towards that situation when the business grows.

“On the long-term this type of management is needed and it needs to be systematic which involves close cooperation with the supplier.”

– interviewee 4

5.7 Value creation through SRM

According to Deloitte (2015) SRM can be used to align different interests of the relevant stakeholders in the supply chain. SRM drives effective communication and aligns strategic objectives. The key objective of SRM is to receive competitive advantage by forming mutually beneficial relationship between the most strategic and critical supply partners. However, interviewee 1 sees that it might be impossible or wrong action to try to build partnership type of model if the supplier does not want to or see any value in it. Thus, in a situation like this company should aim to be adaptable for the situation.

“It is important that there is a good dialogue between the suppliers and supplier relationship management would lead to a situation where by segmenting suppliers company would be able to recognize those suppliers. Just like with customers, we try to recognize what customers want. We should be able to recognize what is value adding for suppliers.”

– interviewee 1

Interviewee 1 adds that this value depends on the supplier. For some it might be simply price and flexibility. For someone else it might be consistent buying which means having a trustworthy buyer who is always willing and ready to buy. For someone else there are other reasons, someone might, for example, want a term deal or other special pricing model.

As interviewee 1, also Hughes (2008) sees that there are many similarities between SRM and customer relationship management (CRM). Similarly interviewee 3 sees that it would be strange if future’s procurement would not have similar approach to relationship management as the sales have at the moment in CRM. In addition related to adaptability and flexibility, interviewee 1 sees that SRM is very important for the company but the tools used in it or what is managed in it have to be the right ones; not just taken from the textbook or consultants’ advices. Buyer organization should itself be there listening suppliers. Interviewee 1 says that “supplier experience” is a good paradigm to use. Company should try to find out what the volition of the suppliers is and how suppliers experience working with the company. This way company can get the right input on what is the right approach style in each case and it is possible to find those win-win situations.

“In that sense there are many similarities with sales and procurement. We can build, for example, key account teams but only if that is something supplier also wants, sees as value adding and sees it is a way towards they want to go. If supplier wants really transparent commoditized market where they sell through tendering processes on highest price to one of the ten customers it is obvious that creating a key account team is not the right solution. Company has to examine this from the suppliers’ viewpoint and that way try to build trustful buyer-supplier relationship. By this it is possible to find those value adding elements which are not yet transparent.”

– interviewee 1

Interviewee 2 sees that the value SRM adds to company's business is that it provides tools for procurement with which the employees in procurement can improve the relationships with suppliers. Another value interviewee 2 sees is the supplier security by which the person means securing the future volumes. Third value interviewee 2 lists is the capability to prioritize suppliers since it is not even possible to treat every supplier similarly. By segmenting suppliers company can clarify which supplier relationships should be given more resources and effort. Segmentation also helps to identify possible partnerships with which company could do more detailed cooperation with. SRM also helps company to improve its internal communication since company has to make sure that all the employees in supply chain management understand which suppliers are the most important. According to interviewee 4, prioritization is especially important on the developing markets where the relationship building is new for both parties. It is extremely important that the relationships are built with the right suppliers.

Also interviewee 3 sees that SRM gives great picture to sourcing and supply managers about the performance of the suppliers. It also helps to follow up that performance and brings transparency to the relationship between the supplier and buyer organization. In addition, it is possible to see which suppliers are critical to organization's own success. According to interviewee 3, company should make contingency plans with the most critical suppliers which would clarify how organization should operate in a situation where it might lose the critical supplier. In interviewee 3's opinion, at the moment the phase of SRM is good and it is moving towards right direction. Interviewee 3 sees that it is very important that SRM's development has full support from the procurement in the case organization.

“SRM's benefits have been discussed and the value of it has been noted on different levels in the organization. It is important that SRM has top management's involvement and the value is also seen in the development and employees working in supply.”

– interviewee 3

Interviewee 4 sees that in order to receive competitive advantage on highly competed market company should be able to build close relationships with its suppliers. How close the

relationship between the supplier and buyer organization is, is crucially important in situations where something does not go as planned or if problems occur. Interviewee 4 sees that close relationships are a big investment and commitment to supplier organizations since they are going to take the business towards a certain direction. Thus, supplier relationship building takes time and is a big effort but is truly valuable when the parties actually know each other.

“It is most likely that the supplier values and contacts those buyers who they believe can help them to find a solution in that situation. Closer relationships also increase the flexibility in the relationship.”

– interviewee 4

5.8 Challenges disabling SRM

According to Cox et al. (2003), sometimes in some power situations, collaboration might not even be possible. In this case supply managers might not get the wanted suppliers to collaborate with them. Hughes (2008) notes that collaboration with suppliers can happen only when there is a high level of commitment within both buyer and supplier organizations. Case company also names this as challenge with some suppliers. According to interviewee 1, misaligned interests between the supplier and buyer organizations set challenges to proper relationship management. If the case company wants to build partnership type of model but the supplier wants as easy procedures as possible where the price would be the only thing they are interested of there is not much that can be done.

Also interviewee 2 sees misaligned interests as a challenge for SRM. According to interviewee 2, company is not always on a so called traditional setup where it can choose from which suppliers it buys and thus, suppliers might not see the value in building closer relationship with the buyer organization. This might be especially challenging if the market is competed and suppliers have many potential buyers on the market. In this situation buyer company's own buyer leverage decreases and it is not even ideal to give, for example, performance scorecards to supplier saying that they have not performed as the buyer company would have wished since this might easily make the supplier switch to a buyer that

is not as demanding, interviewee 2 describes. Also interviewee 4 sees that competition might make it difficult to dissociate from competitors which is a one challenge of SRM.

Another challenge that has been brought up is that the information does not flow openly and in a correct form to internal and external stakeholders. Also previous literature focusing on challenges related to SRM names information share as one problem companies face. According to Hughes (2008), often companies fear to share too much information to their business partners since this might evolve supplier as a direct competitor. Case company has a bit different viewpoint to this but still sees open information share as one challenge for SRM. According to interviewee 1, case organization might have more requirements than other customers on the market and there are situations where suppliers do not always understand the requirements of the case organization. Interviewee 1 sees as a challenge that the case organization has not always succeeded to communicate and explain to its suppliers why it needs all the documentations, reports or audits that are required from the suppliers, and why it is a problem that supplier's certificate has expired. These are not always clear to suppliers.

Also interviewee 2 lists challenges of SRM that are related to information share. One challenge interviewee 2 lists is getting the right mindset on SRM in the organization. By that person means that the company is more focused on SRM and can better clarify what is the value that can be received by doing SRM. Also another challenge related to internal information share interviewee 2 sees is that the tools created for procurement are not in peoples' known and can thus, be utilized. This requires good flow of information internally. Schuh et al. (2014) have underlined the importance of SRM encompassing every interaction between the buyer and the supplier and coordinate company across business units, functions, and hierarchies including top- and bottom-line objectives. Thus, it is important that everyone in the organization working with supplier relationships would somehow be involved with SRM. In addition to these challenges, interviewee 1 sees that sometimes the buyer organization does not recognize what really are value adding elements to supplier and what is the value supplier wants.

One challenge mentioned in the previous literature was that the general models created for SRM are often not ideal. According to Schuh et al. (2014), models are often too complex and include too wide range of different indicators that no one will be able to fully understand.

In addition, Schuh et al. (2014) note that there is also the human factor that has its effect on SRM tools. Different evaluations see performance indicators differently and thus, also supplier relationships differently. Schuh et al. (2014) also see big investments in different procedures and processes without actually having a focus on the necessary outcomes as one of the reasons why SRM fails. Interviewee 1 has similar viewpoint to this challenge. According to interviewee 1, one challenge might be that the buying company tries to force a model that might not actually work in practice. For example, trusting too much on consultants (coming outside of the organization) advices and trying to fit this model to every supplier and not consider each situation separately. Interviewee 1 sees that on the global market company should rather be adaptive to each area, each feedstock, and type of the market since the company has so various and different suppliers and capabilities. For some suppliers language or the use of IT-tools might be challenging which requires certain flexibility and adaptability from the buyer organization. Interviewee 1 sees as a challenge that organization fails to be flexible and adaptive in these situations. This viewpoint supports Klobučar's and Erjavec's (2019) and Lambert's and Schieweterman's (2012) thought that already existing SRM frameworks do not often consider the fact that SRM is a continuous process which does not have start and end points. Thus, the supply base and SRM strategies should be adaptive to business changes even though the business would change rapidly.

Supplier onboarding is also mentioned as very crucial part of SRM in the company. Case company has quite strict criteria on supplier approval compared to many other companies. This sets both opportunities and challenges to case company. In supplier onboarding stage, company does wide screening on suppliers. In addition to basic things such as criminality and credit risks, company is very interested of the sustainability aspects of the supplier company. Before company can approve the supplier they need to go through and approve many commercial terms. This is due the own targets company has set to itself but also because company wants to be fully market compliant and fill market's requirements. This has many opportunities but at the same time sets its own challenges to the company. On the other hand by this company ensures that its products are compliant and it operates consistently but on the other hand company probably has the most complicated approval and reporting requirements compared to any other buyer company on the market. This causes disadvantage to competitive advantage since competitors have a lighter format which is easier for suppliers.

5.9 Drivers enabling SRM

According to Klobučar and Erjavec (2019), it is expected that competition will keep rising in the future. Thus, it is very important that company aims to organize its business as flexible as possible. Interviewee 1 sees that it is inevitable that the market, on which case organization operates, is going to go even more towards commodity type of market which interviewee 1 described and explained in the beginning of the interview. This would mean that price would be the commanding element in buyer-supplier relationships. There are many buyers on the market and who pays the best price gets the volume, interviewee 1 describes. Interviewee 1 sees that also in this scenario it is important that company aims to be as flexible as possible, is available on the market, is ready to be and has all the requirements to be competitive.

Like Klobučar and Erjavec (2019) also the case company expects that the competition will keep rising in the future even more. Thus, it is very important that company aims to organize its business as flexible as possible. One opportunity interviewee 1 sees is that even though there are these differences in the suppliers that have been explained, on the other hand there are also many similarities. One opportunity is that the buying company is able to create a solution that works. Interviewee 1 notes that the case company is a rather big in size operator on the market and thus, has endless possibilities if comparing to some of their suppliers. According to interviewee 1, the case company has the will to concentrate on SRM and thus, has many possibilities to conduct different projects related to, for example, ICT. One opportunity of SRM is to find functional solution that suppliers have not by themselves noted to be functional or beneficial before and that way make supplier see the value in relationship. It is also important that the case organization is able to launch different harmonized solutions which add value to both buyer and supplier.

According to Lambert and Schwieterman (2012), from the strategic point of view SRM helps companies to categorize which suppliers company should see as critical to their success. Also case company's point of view supports this statement. According to interviewee 1, segmentation helps the case company to recognize the valuable suppliers so that company does not invest time and effort on suppliers that are not adding value. Interviewee 1 gives as example that buying company tries to build partnership type of model with a supplier that

actually should be transactional. Segmentation saves time and steers organizations efforts by right means to right place which can see to increase the effectivity of the buying organization. However, interviewee 2 sees that SRM needs time. People in the organization need time to understand which suppliers should be prioritized since the supplier pool has grown very rapidly during the past years. Another thing related to that is that people in the organization understand that segmentation of the supplier base is very beneficial and helps in prioritization.

According to Schuh et al. (2014), also the human factors should be taken into account in SRM. Different evaluations see performance indicators differently and thus, also supplier relationships differently. Schuh et al. (2014) also see big investments in different procedures and processes without actually having a focus on the necessary outcomes as one of the reasons why SRM fails. Interviewee 1 has similar point of view.

“It is good to have common and functional processes how to negotiate and how to interact with suppliers. However there are many areas in commercial business which should not be managed with processes.”

– interviewee 1

Interviewee 1 describes that there are certain strict processes in commercial business such as how the purchase should be done or approved, how company manages risks, and different approval processes. Otherwise, interviewee 1 sees that it is really hard to describe commercial business as a process. Some suppliers require that buying company should be closely in touch with them by phone many times a week. Other suppliers only want to be in touch when needed. Some suppliers want to have top level managers in the meetings and have it as very formal whereas others want to keep it more unformal. Thus, it is hard to build a process on interaction. It is more important to trust on personal skills that the employees in the organization have and that the employees in the organization are able to utilize the different tools organization has in each situation. Hence, one enabler is that the organization has different tools how to interact with suppliers and people working in the organization are able to recognize which tool are the most useful ones in each situation. Thus, company can be successful if it is able to select the best tools in each situation but not if it tries to force some strict and same format to totally different suppliers. Another supplier might be a huge

corporation which is even ten times bigger than the buying organization itself and another supplier a small family company which does not even have own office. If company would use harmonized processes to each of these companies it is evitable that the results would not be successful.

According to Hughes (2008) SRM works in many similar ways as customer relationship management (CRM). As company has many interactions over time with its customers in order to build closer customer relationships so should the company use time and effort to comprise close relationships with its key suppliers and effectively manage these relationships in order to get more revenue and higher profits. According to Schuh et al. (2014), SRM aims to drive suppliers' performance, construct a relationship between two organizations, and coordinate company across business units, functions, and hierarchies including top- and bottom-line objectives. Hence, SRM encompasses every interaction between the buyer and the supplier like CRM is supposed to cover each interaction between the customer and the organization (Hughes 2008). Interviewee 3 sees that it would be odd if supplier relationships would not have been managed as structurally in the future as customer relationships already are.

One factor that interviewee 4 sees to help company to build and to maintain supplier relationships is that case company is very pragmatic and reliable which drives SRM. Company has been receiving positive feedback from the suppliers that they want to operate with the case company because they can always trust in them. If problems occur suppliers know that the case company does everything it cans in order to solve the situation and do not give promises that it is not able to keep. One of the aims of the case company is to be reliable and sustainable. Company is also kind of a trailblazer on the market and has a lot of information and experience. This brings confidence to case company and suppliers are able to trust to it, interviewee 4 notes. Suppliers can also learn from this experience and thus, see case company as attractive business partner.

5.10 SRM's alignment with company's supply strategy

Both interviewee 1 and 2 describe that SRM supports the chosen strategy in the organization. Also Cousins (2005) sees that it is important that the SRM activities are in line with

organization's business strategy. Interviewee 2 explains that SRM process starts from the big picture of procurement and company's procurement strategy which defines what company wants to receive by its procurement. There are certain priorities in the strategy such as growth, different types of feedstocks, reducing reliance on feedstock traders by purchasing feedstock straight from the manufacturer and not from a feedstock trader in between, and the targets that company is aiming to reach in the future. With this big picture there are then more practical strategies how procurement is done in the organization. At the moment supply chain management guides purchasing and SRM in the company by giving the terms what is the offering on the market. This fact sets limitations to how much for example, people working with SRM can directly have effect on. Both interviewee 1 and 2 emphasize the meaning of the growth strategy of the company to which SRM also bases.

“Case organizations baseline as a buyer is that we have a clear growth strategy regarding the feedstock procurement. Supplier relationship management is an important part of this growth strategy and of its management.”

– interviewee 1

As a part of the growth strategy interviewee 1 sees that it is important that the company observes the value chain carefully which means that sometimes important suppliers are acquisitioned. Also interviewee 2 notes that company has had situations where important suppliers have been acquisitioned. In these cases the role of the supplier has developed further and they start work as an integrated part of the company, interviewee 1 describes. Another important action company does relating to supplier relationship management is that it aims to strengthen partnership type of relationships and identify strategic suppliers by segmenting different supplier relationships based on certain selection on different criteria.

“With strategic suppliers company aims to build strong partnership relationships in order to be a preferred customer for the supplier organization.”

– interviewee 2

According to interviewee 1 feedstock growth strategy is a very centric part of organization's business strategy. However, SRM has not been raised as centric point in it not at least from a process point of view. Growth strategy concentrates more on regional expansion of

feedstocks so it is more focused on operations. There has been some notations about partnerships and M&A (Merges and Acquisitions). Thus, SRM has been recognized but not described very clearly yet. Company does not either have clear and formal descriptions and processes how supplier segmentation, supplier scorecards and supplier feedback are actually conducted in the organization. However, SRM has not been attached to the growth strategy visibly or clearly even though it focuses on feedstock growth. Partly this is because organization simply has so different suppliers.

According to interviewee 2, company's strategy says that it is important that company has feedstock available and access to feedstocks and large pool of feedstock suppliers. Thus, it is of course important that company ensures that they have this access which involves relationship management with close suppliers. Thus, partnerships are noted in the strategy and company has so called partnerships managers on each market area it operates. These managers are identifying suppliers that should be created as partnership type of relationships. Another examples, are term contracts and feedstock quality development so that suppliers could sell more to case company. Company has also had some circularity models where companies are partnering up and actually profiting from each other in different steps of the cycle. All these models are used to improve supplier stickiness which means that these suppliers would want to work with the case company also in the future even though the situation and competition on the market would change. Company can answer to these questions with SRM.

In addition, SRM has not been raised as high in company's business strategy as, for example, key account management and customer experience in sales. Thus, CRM has been seen as more strategic than SRM. Interviewee 1 would like to challenge this fact but on the other hand it is understandable since various differences among suppliers set difficulties to SRM in the case organization. However, interviewee 1 sees that the strategic importance of SRM is going to increase in the close future.

6. DISCUSSION AND CONCLUSIONS

In this final chapter of the thesis, the results of the research are going to be summed up and future research suggestions will be presented. The main aim of the research was to find answers to research gaps; why companies fail in SRM's use and why companies still do not emphasize SRM's importance in the supply strategy even though its benefits have been in the known for a long time. Thus, the main aim of this thesis was to focus on SRM on a very holistic level and understand why and how supplier relationships should be categorized and managed, what factors usually enable or disable SRM's success in the organizations and how SRM should appear in company's supply strategy. Next, the answers to the research questions of this thesis will be presented.

6.1 Answering to research questions

First sub research question was "*What is the value received by managing supplier relationships?*" In this research, value was observed from the co-creation viewpoint which understands the concept of value as benefits received through cooperation with another organization. Previous literature and the interviews conducted in the case company see SRM as a valuable tool for organizations. SRM is seen to help organizations to coordinate different supply chain activities and reduce risks. According to interview results, companies can also secure the access to important feedstocks and future volumes by forming close relationships with their key suppliers. Thus, it is possible that when the competition keeps rising in the future SRM is not used to only receive various benefits from cooperating with supply chain partners but actually needed to secure the already existing supplier relationships and future's feedstock accessibility. According to interviews and previous literature, with closer supplier relationships company can also operate more flexibly and offer custom-made approaches to their suppliers.

In addition, supplier segmentation saves organization's time since it steers the efforts of the organization by right means to right places which increases efficiency in the organization. Segmentation also enables organization to recognize the most valuable supplier relationships which management company should give more focus and effort. Research findings show that supplier segmentation provides the highest value when it is based on the points found

important in the supply strategy of the organization. Thus, companies should always consider which practices would be most suitable for their business and not just implement already existing generic models. Both the previous literature and interview results emphasize that also the human factor should be taken into account in SRM when talking about cooperation and interaction. Thus, one finding is that SRM is most valuable when it is utilized as a set of tools helping people working in procurement to coordinate supplier relationships of the company and interact with the suppliers. However, interview results emphasize that company should also be able to trust to its employees that they have the best knowledge how to communicate with suppliers in each situation. SRM can however also improve internal communication in the buying organization and give great picture to also sourcing and supply managers about the performance of the suppliers.

One activity seen as important part of SRM is supplier performance management (SPM). According to previous literature SPM has helped companies to reduce costs, increase efficiency, and reduce risks related to different supply chain activities. (North Rizza 2006) In addition, SPM has been noted to improve companies supply chain reliance. (Campbell 2013) Previous literature also sees SPM having a material impact on company's growth, revenue, and operating margin and thus, not managing suppliers' performance can lead to loss of profits and have also negative impact on assets and cash flow. (Dimond and Tucker 2008) System changes have forced the case company to step back in their SPM process but SPM is definitely seen as an important part of SRM also in the case company. According to interview results, in the past SPM has helped company to analyze how well each supplier performed on metrics, such as, on-time delivery, quality of the delivery, and quality of the documentation. Results received by managing supplier performance have also later helped in supplier segmentation since the company simply knows more about its suppliers.

One important finding of the research is that in addition to performance management of the suppliers, it would be beneficial for the buying company to gather data also from the suppliers how they see the performance of the buying company. This way company can get valuable information about itself, which helps to better answer to relationship needs and strengthens the relationship between the companies. Performance management can truly be valuable for companies when aberrances from the performance are given to suppliers known. Thus, in addition to SPM, also supplier development has been seen as an important part of

SRM both in literature and in the interview results. One fact that has been discussed is whether buying company should stop buying from suppliers that do not perform as expected from them. However, if these aberrances are not major issues, such as, sustainability related breaches case company has not had the volition to do so. Thus, this often depends on the situation. If there are not many alternative buyers available on the market or the supplier is strategically very important, better option would be first to provide feedback and try to develop the performance of the supplier before making any further decisions. If however there are many other options on the market, ending supplier relationship might be one option to develop the performance of overall supply base. In addition, SRM increases transparency and trust of the relationship between the supplier and buyer organizations and helps organizations to conduct their supply strategy. Research findings show that SRM can be used as a part of supporting activity for different strategic aims. For example, in the case company SRM has been used to support growth and ensure the availability to the large pool of feedstock suppliers.

Second sub research question was “*How different supplier relationships should be managed?*” Literature underlines the importance of a clear SRM process. For example, Park et al. (2010) divide SRM process into four specific steps; formation of the purchasing strategy, selection of the suppliers, cooperation with suppliers, and supplier relationship management. Also Moeller et al. (2006) define SRM itself as a process of several activities including foundation, development, management, and deconstruction of supplier relationships as different activities used in SRM. Forkmann et al. (2016) see SRM consisting of different processes and routines in the organization that are aimed to initiate, develop and end supplier relationships. According to Rezaei et al. (2015), SRM consists of supplier selection, supplier segmentation and supplier development.

However, research findings show that company should carefully consider the market and supplier needs in each situation. Because the question is about cooperation and interaction not everything should be managed with clear processes. The type of the material and thus, the supplier set its own baseline how different suppliers should be approached by the buying company. With the most business critical suppliers company should aim to build cooperation models and have longer lasting contracts whereas when purchasing daily purchases the focus should be rather in factors such as price and easiness of the purchasing process. However,

one thing pointed out in the interviews was that cooperation can only happen if that is also the volition of the supplier company and thus, company should not force any model it finds beneficial. First company should be able to find out what is valuable for their suppliers.

Previous literature related to supplier segmentation has also criticized the already existing supplier segmentation models as too complex and including too wide range of different indicators that no one will be able to understand completely. Different evaluations see performance indicators differently and thus, also supplier relationships differently. (Schuh et al. 2014) Thus, supplier relationships should be managed with approaches most suitable for that specific buying organization. It is also important that SRM supports the chosen strategy in the organization and that supplier segmentation is based on the points found most important in the supply strategy. Hence, SRM should rather be seen as supporting activity in procurement that offers tools for employees' working in supply chain management and supports the chosen strategic guidelines. To succeed in this, it is important that SRM has top management's support and employees' commitment.

As already mentioned, important tools of SRM also include supplier performance management and supplier development. According to Campbell (2013) companies need a monitoring system to measure suppliers' performance and prevent possible risks. Scorecards have been used to manage and follow supplier performance but there are many drawbacks related to their use as well. Interviews conducted show that scorecard process is quite heavy to maintain and scorecards are not always seen to provide useful information for every supplier. Also Morris (2010) notes that the use of scorecards as only monitoring tool is seen as outdated and company should also include qualitative metrics in SPM. According to Campbell (2013), companies should also consider different performance management and supplier development tools for different supplier segments. When the strategic significance of the supplier grows, buying company should increase the number of different tools used to follow-up the performance.

One important finding that both literature and the research findings support is the importance of continuity in SRM. SRM activities should be continuously updated not only because supply base should be updated continuously when the market changes but also because previous steps can help the organization to perform better on the further steps. By managing

the performance of its suppliers the organization simply learns more about its suppliers and can utilize this information later, for example, in supplier segmentation as mentioned earlier. Company should also be able to make contingency plans with the most critical suppliers which would clarify how organization should operate in a situation where it might lose the critical supplier.

Finally, one of the aims of this thesis was to find a comprehensive answer to a question what really are the factors in the organization that in general either enable or disable SRM's success in the organization. Thus, third sub research question was "*what are factors that usually contribute to success or failure of SRM in a company?*" Results of the research show that company should be flexible to market needs, be available on the market and have all the requirements in order to be competitive. Other enablers involve finding and offering functional solutions to suppliers that suppliers have not by themselves noted to be functional or beneficial and that way make supplier see the value in the relationship. It is also important that the organization is able to recognize what really is value adding for the supplier and launch different harmonized solutions which add value to both buyer and supplier. As already mentioned, one enabler for SRM's success is top management's support and employees' commitment.

The research findings show that one factor setting challenges to SRM is misaligned interests between the supplier and buyer organizations. According to Cox et al. (2003), sometimes in some power situations, collaboration might not even be possible. In this case, supply managers might not get the wanted suppliers to collaborate with them. Hughes (2008) notes that collaboration with suppliers can happen only when there is a high level of commitment within both buyer and supplier organizations. Case company also names situation where the interests are not aligned in the relationship as one challenge for SRM. Company is not always in a so called traditional setup where it can choose its supplier relationships. Because of the high level of competition and number of alternative buyers on the market, price is often the dominant factor in suppliers' purchasing decision and suppliers might not see the value in building closer relationship with any specific buyer organization. Results of the research show that in addition to getting the wanted supplier relationships, one factor disabling the success of SRM is that it is often very difficult to recognize what really is value adding for each supplier.

Another disabler that has been brought up is that information does not flow openly and in a correct form to different internal and external stakeholders. Interview results show that it is not always easy to communicate to suppliers all the requirements the company has for its suppliers. Sometimes suppliers neither understand why they have been asked to provide all the documentation. Misaligned interest set challenges to relationship building and cooperation with supplier. Interviewees also point out that they could improve internal communication as well so that everyone working with suppliers would be on the same line and could utilize the tools SRM provides. Also previous literature focusing on challenges related to SRM names information share as one problem companies face. According to Hughes (2008), often companies fear to share too much information to their business partners since this might evolve supplier as a direct competitor. This is challenging since in order to receive the full potential from SRM companies should be ready to share information with each other.

One challenge found in the previous literature was that the general models created for SRM are often not ideal. According to Schuh et al. (2014), models are often too complex and include too wide range of different indicators that no one will be able to fully understand. In addition, Schuh et al. (2014) note that there is also the human factor that has its effect on SRM tools. Different evaluations see performance indicators differently and thus, also supplier relationships differently. Schuh et al. (2014) also see big investments in different procedures and processes without actually having a focus on the necessary outcomes as one of the reasons why SRM fails. Also research findings support this statement. According to interviewee 1, one disabler for SRM is that company tries to force a model that might not actually work in practice. Company should not blindly trust on any of the already existing models nor trust too much on, for example, consultants' advices and try to fit a model to every supplier relationship without considering each situation individually.

Interviewee 1 sees that on a global market company should rather be adaptive to each market area and each feedstock since the company has so various and different suppliers and capabilities. For some suppliers language or the use of IT-tools might be challenging. This requires certain flexibility and adaptability from the buyer organization. Thus, one disabler for SRM is that organization is not flexible and adaptive. This viewpoint supports Klobučar's and Erjavec's (2019) and Lambert's and Schieweterman's (2012) thought that already

existing SRM frameworks do not often consider the fact that SRM is a continuous process which does not have start and end points. Thus, the supply base and SRM strategies should be adaptive to business changes even though the business would change rapidly.

6.2 Future research suggestions

As mentioned earlier, it is estimated that the competition on the market will keep tightening up in the future. In addition to the rising competition it is estimated that also price sensitivity is going to increase, demand is going to be even more inaccurate, and both uncertainty and project sales are going to be increasing in the future. Thus, the previous literature on SRM expects that the value of SRM and the need for proper SRM system in companies is going to grow in the future.

In addition to increasing need for SRM system in companies, previous literature and research findings support the idea that future SRM will share many similarities with Customer Relationship Management (CRM). Like companies follow the experience and satisfaction of their end-customers, companies have to take into consideration also the so called “supplier experience”. Companies should try to find out what the volition of the suppliers is and how suppliers experience working with the company in order to get suppliers commitment and find mutually beneficial cooperation practices. Thus, one future research suggestion could be to examine what is meant by the so called supplier experience and what are the similarities and differences of SRM and CRM.

The research findings emphasize the meaning of supplier onboarding stage in SRM process. Case company uses quite strict criteria to select and approve its suppliers. On the other hand, by this company ensures it is following sustainability and market compliance requirements and builds a solid base for future’s relationships with the selected suppliers but at the same time this requires many efforts not only from the buying company but also from the suppliers. Sometimes this causes even disadvantage to value creation and competitive advantage since competitors have lighter requirements which sometimes makes the supplier to instead choose the competing buyer. Thus, it would be ideal to include supplier selection to SRM process and examine its purpose in value creation.

In addition, SRM could be observed from different perspectives. In this research SRM was observed from buying organization's, operating in the middle of suppliers and end-customers, perspective. Research findings show that there are many benefits the buyer organization can get from cooperating with its suppliers. However, research findings also indicate that sometimes it is hard to recognize what is the value of SRM to supplier organizations. Thus, it would be beneficial to examine what is the value supplier organizations see in cooperating with buyer organizations and how these benefits converge and differ from the benefits buyer organization receives from the cooperation. In addition, it might be interesting to give more focus on the values the end-customers receive from buyer and supplier organizations' cooperation.

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APPENDICES

Appendix 1. Interview questions

- 1) General information: your background with SRM, department, role etc.
- 2) How does company manage supplier relationships?
Are all supplier relationships managed similarly?
Do you use some already known frameworks to segment your suppliers?
How you segment your suppliers?
- 3) What do you see as the value received from managing supplier relationships?
How important would you describe SRM in your company at the moment?
Should it be seen as more or less important?
- 4) How do you manage suppliers' performance?
Do you make some actions to develop your suppliers' performance?
If yes, what actions?
- 5) What do you see as factors contributing as success or failure of SRM in a company?
What are the challenges?
What has to be done in order to manage supplier relationships successfully?
- 6) How is SRM visible in company's business strategy?
Do you see that your company's business strategy has effects on how supplier relationships are managed?
Do you see that SRM strategy and company's business strategy are in line or are there some inconsistencies?