Lappeenranta University of Technology
LUT, School of Business
International Marketing

Challenges in Supplier-Buyer Relationships in Electronics Industry

Examiners: prof. Sami Saarenketo
prof. Olli Kuivalainen

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Mikko Hurtta

ABSTRACT

Author:	Hurtta, Mikko
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This thesis examines the supplier-buyer relationships in the Finnish electronics industry. The aim of the study was to increase understanding on the challenges that suppliers face in their relationship with the buyer.

The research was conducted using qualitative methods because they allow more perspective for the research problem than quantitative methods would have. Choosing qualitative method also affected the selection of a research technique. Analysis of secondary data from written documents was chosen to give more perspective to a broad problem.

The main findings of this research are that the relationships between supplier and buyer in electronics industry are challenging because supplier must understand and face three types of challenges. The challenges are: understanding the environment, choosing and implementing correct strategy and managing relationships. For the supplier it is important to understand the environment so it can adjust own strategy to fit to the environment. The supplier should also be careful not to be too dependent on the buyer.

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Tämä tutkielma tutkii toimittaja-asiakassuhteen haasteita suomalaisessa elektronikka teollisuudessa. Tutkielman tavoitteena oli ymmärtää paremmin haasteita, joita toimittajat kohtaavat asiakassuhteissaan.

Työ toteutettiin käyttäen kvalitatiivisia tutkimusmenetelmiä, sillä niiden avulla oli mahdollista tarkastella syvemmältä tutkimusongelmaa. Tämä vaikutti myös tutkimustekniikan valintaan. Tutkimustekniikaksi valittu kirjoitetun sekundääriaineiston analysointi valittiin, koska se antaa laaja-alaisenmman vastauksen tutkimusongelmaan.

Tutkimuksen mukaan toimittaja-asiakasuhteet ovat haastavia elektroniikkatoimialalla, koska toimittajan täytyy kohdata ja ymmärtää kolmenlaisia haasteita. Haasteita ovat toimintaympäristön tulkinta, oikean strategian valinta ja asiakassuhteiden hoitaminen. Toimittajan on tärkeää ymmärtää toimintaympäristönsä pystyäkseen laatimaan siihen sopivan strategian. Toimittajan on syytä välttää tulemasta liian riippuvaiseksi asiakkaastaan.

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1 INTRODUCTION

This research began from personal interest towards the news of several troubled suppliers that surfaced in the press from time to time. At the same time the buyer, Nokia, made record revenues and profits quarter after quarter and year after year. That seemingly unreasonable and curious situation awakened the researcher’s interest. This interest was further increased when researcher faced similar issues in his work.

1.1 Background

The relationship between supplier and buyer, at least in the traditional sense, is closely related to relationship between servant and master. The master dictates and servant tries to please and follow the master. The issues of power disparity and joined destinies are important issues, whether it is about human relationships or relationships between organizations.

Finnish economy has for long been growing in many sectors and Finland is the home of one of the biggest winners in the global economy, Nokia. Doubtless, there are many other winners as well, but without question Nokia is the big success story of the last decade in Finland and all over the world as well. Nokia has brought economic success that has never before been seen in Finland, however at the same time, there are many companies in the value chain that are struggling to keep up with Nokia. The initiative of this study is look at the reasons why so many of those companies are having similar problems.

The study also aims to understand the effect macroeconomic environment has on the organization’s future. The aim is also to reflect the changes globalisation has had in the Finnish economy and to Finnish entrepreneurs' competitive positioning.

In this case, the position Nokia has gained among its suppliers can be compared to what key account or rather strategic account management proposes to give to the most important customers. Therefore we will look through the theory of strategic and key account management as a tool to evaluate how these companies use their resources. The aim is to see if the same risks are also present in the literature of key account management and strategic account management.

To make this study easier to approach, the research has been formed in a way that it combines three different views together and the entire research therefore follows this similar approach. It can be said that in this way, the form follows the thinking and vice versa. The literature review and the synthesis have both three complementary approaches and accordingly, the empirical part draws all these three views together to create a synthesis for the whole research. The views used are:

1. Environment
2. Strategy and Competitive Advantage
3. Supplier-Buyer Relationship

The aim of this three dimensional view is to understand the suppliers situation from three different point of views, exploring how organization relates to competition, environment and to its customers.

The environmental view describes how organizations relate their position towards overall competitive environment. The strategy view takes a look on how organizations match their resources to their environment. Finally the relationship view explains how these organizations have succeeded in their quest to create better value for their buyer and how well their strategies and dynamic capabilities are aligned with the environment and customers.

These three views can be further divided to many smaller pieces that together combine to create a holistic view of the Nokia's suppliers. These concepts are further discussed in the theoretical part and the same principles will be found also in the empirical part of the study.

Because the roots of this study are in the public discussion about Nokia and its suppliers, it is probably suitable that the empirical part of this study is based on the secondary material gathered from the Finnish economic press analysing the situation of Nokia and its suppliers.

1.2 Research Problem and Research Objectives

The goal of this study is to increase understanding of the effects of relationship between Nokia and its suppliers. The public discussion about the network of suppliers that serve Nokia seems to have been going around since 2000. Specifically, the research focuses on the problems the suppliers are having in their business and in their relationship with Nokia. It would seem reasonable that there are some common nominators within the value system or in the environment that would consequently explain the situation. The research intends to give tools to understand and prevent similar situations from happening again.

The main hypothesis of this research is that there are many companies with similar problems and that those problems are caused by common reasons. This research tries to establish, if Nokia causes the whole phenomenon by its actions or if there are other reasons behind the phenomenon. Second hypothesis is that the problems are somehow related to certain similarities among the different suppliers. At first sight, it seems that the problems of the entire electronics cluster, are some how related to the suppliers’ relationship with Nokia or with the business environment. Therefore the main research question is:

What are the main challenges in the supplier-buyer relationship in electronics industry?

- *What are the challenges caused by the changing environment?*
- *What are the challenges related to the company strategy and competitive position?*
- *What is the role of relationship in building supplier position?*

These challenges are chosen to describe and explain the concepts involved in the supplier-buyer relationships. With the help of these key challenges the research aims to increase understanding of the supplier-buyer relationships. This understanding can further be used to anticipate and avoid the main challenges in the supplier-buyer relationships.

1.3 Framework

The main variables are introduced in the figure 1. It shows how supplier, buyer and relationship interact with the overall environment. The figure demonstrates how the key concepts of this research fit within the framework. The key concepts are illustrated where they factor in the whole equation.

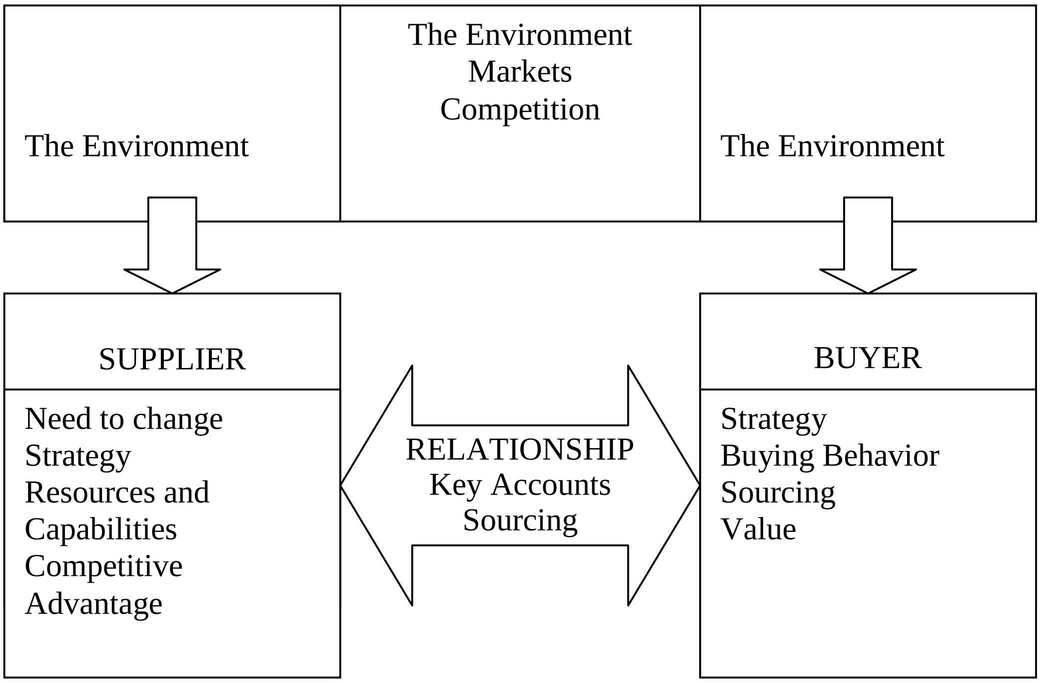

Figure 1. The Framework

1.4 Key Concepts and Definitions

The following chapter will acknowledge in detail the most important definitions and key concepts used in this research. The research will define and use the most common terms related to business-to-business markets and firms competing and creating relationships in those markets. First we must define what we mean by markets and competing forces.

<u>Business-to-business markets</u>

A business-to-business market in this research is defined as markets for goods used by other companies. This research studies how companies compete in the business-to-business markets and how they relate to their competition, environment and customers.

Globalisation

The forces of globalisation have changed the way companies operate. Today it is possible to work with a wide array of suppliers and different type of allies all over the globe. Trade barriers have been vanishing for a long time and this completed with maturing of domestic markets has traditionally driven organizations to seek opportunities in the foreign markets. For many organizations globalisation can be described as intensified competition both from the domestic and international competitors.

Strategy

Organizations use strategy to differentiate themselves in the markets. Business marketing strategy must be based on assessments of the company, its competences the competitors and most of all, the customers.

Core Competences

Successful products of international organizations can usually be traced to set of unique core competences the organization has developed. The goal is to create superior market perceived quality and value compared to competitors.

Relationship

In the b2b markets customers value the suppliers in their ability to assist the customer to improve their competitive position. Therefore, in order to evaluate the relationship with the customer, a business marketer needs to understand how the organizational buyer evaluates value. The driving force behind collaborations and alliances is the desire to leverage core competences by linking them with another organization with complementary expertise, to be able to create joint value and new market opportunities

Organizational Buying

Organizations buying behaviour depends on environmental, organizational, group and individual forces. Each organization buys differently in different situations.

Strategic Buyers

The terms strategic account management and key account management are used in this research to describe a situation when more important customers are served better than others. This research uses term strategic account as a synonym for both of these. In this study the strategic account implies that the supplier gains something more than just monetary profit from the relationship. Key accounts might be important, but if they do not add anything on the dynamic capabilities of the company they are not strategic accounts.

1.5 Limitations

The research is made to consider supplier organizations problems in the global economy. However, the research focuses on the Finnish suppliers and their problems. The problems in the essence are common and perhaps even universal, but in this research the focus is on the Finnish suppliers of Nokia. The research concentrates on what one supplier company can do to sustain its competitiveness. Even though similar situations must be common around the world and these situations must have become more and more common in global economy, this study is only limited to Finland and Finnish companies. Therefore the implications of this study will not be universally applicable.

The research will also seek possible future research topics by addressing issues that the researcher feels are important for the Finnish economy.

This research also hopes to point out that there is much more to the suppliers' issues than just poor environment. Rather, it seems there is a common pattern that needs addressing both theoretically and pragmatically. The aim is to draw together organizations that are having problems in their relationship with Nokia, compare them and try to look for similarities in the problems they are facing. The study therefore does not have hard mathematic core but rather aims is to investigate if current and past researches already provide theories that might be applicable in Finland in this particular situation.

The research has been done between 2002-2008. The research has been dedicated to information gathering during that whole time. However, given the timeframe, not all the information during that time has been gathered and used. Furthermore, six years is a really long time in the business. Nokia has changed significantly during that time and so have the suppliers. Many strategies have been implemented and different diversifications have been tried. However, it would seem that the problems have mainly remained the same during the whole time. This makes the research even more important and interesting.

2 SUPPLIER BUYER RELATIONSHIP

Organizations build relationships to complete their own scarce resources. By engaging in the exchange the organizations gain and trade desired resource with other organization through market (Möller et al. 1995. p. 36). The relationships build naturally over sequences of interactions between individuals and organizations (Möller et al. 1995. p. 53).

Usually the relationship between to business entities begins and develops over series of exchanges of trial and error that all have effect on the relationship (Håkansson 1995. p.11). Relationships also have a very natural way of developing over personal and organizational exchanges that are beneficial for both parties (Möller et al. 1995. p.19). Furthermore, the relationships appear to develop over technology, knowledge, routines and legal ties (Håkansson et al. 1995 p. 13) and to be a natural response to cope against complexities and ambiguities in the market (Håkansson et al. 1995. p.11).

The relationship is not formed only between two business entities but rather it results from the network of all counterparts in business environment. The relationship builds from the actions and reactions of the counterparts, but also from the actions and reactions of the third parties and environment. (Håkansson et al. 1995. p.41; Möller et al. 1995 p.1; Nonaka et al. 2000. p. 2.)

The performance of the organizations can be seen as result of their ability to develop relationships (Håkansson et al. 1995, p. 4). Revenues, market share, profits and growth can be usually derived from the way organization handles its main business relationships (Håkansson et al. 1995. p. 11). Most industrial organizations are dependent on the few most important buyers and suppliers. One important factor to consider is that even thought the organizations are dependent on few of their most important relationships, all the relationships that one organization has are different and challenging in different ways (Håkansson et al. 1995. p. 11). Most organizations aim to manage their customer relationships in some manner. They aim to maximize current and lifetime value of their customers (Sanchez et al 2005. p. 314). Ability to create and sustain good working relationship with customers and other partners gives a significant competitive advantage in the b2b markets (Hutt et al. 1998. p. 98).

This research uses Hutt's and Speh's definition of the relationship between the supplier and buyer. According to Hutt and Speh the supplier buyer relationship depends on (Hutt et al. 1998. p. 95):

- Environmental
- Organizational
- Group and individual forces.

Environmental forces define the general business conditions of the organization (Hutt et al. 1998. p. 95). The environment part is built upon views of changing global competitive environment, distinctive features of the business-to-business market and the overall competitive environment of organization. The view displays how the organization relates to its environment.

Organizational forces define how the organizations strategy interacts with the purchasing decisions. This research focuses mainly on the strategic views of the organizational forces.

The group and individual buyers have an impact on how the organization buys because each has different competences and histories (Hutt et al. 1998. p. 95). This means that each organization buys differently in different time and situation. Therefore all of the above denominations need to be considered as factors defining the purchasing process.

To be able to analyse these different factors affecting the suppliers of Nokia, the Supplier-Buyer Relationship is therefore analysed from three different viewpoints:

- The Environment
- Strategy and Competitive Advantage
- The Relationship between Supplier and Buyer

There are many types of forces that need to be considered in order to correctly analyse the situation. Moreover, there is no universally accepted theory on how supplier should analyse the potential of their buyer. However to fully estimate the situation we need to understand few of the most important theories and point of views about management science.

First, we bring in the business environment to understand how the market functions and what is the purpose of bargaining power. This also provides with understanding of the industry where the organizations operate. We also need to understand the underlying conditions of Finnish and European home markets.

Secondly, we will assess how strategy and competitive advantage are aligned with the market. We will need to understand the different potential customer groups that are potential for the supplier. Therefore we must also consider the implications of a segmentation process. We also need to understand the internal implications that the resources, capabilities and dynamic capabilities have on the above-mentioned three factors. This involves that the strategy and the internal resources of the organization need to be aligned together to be able to negotiate a winning formula for the Finnish suppliers of Nokia.

Thirdly, we need to consider the relationship aspect between the supplier and buyer. We also need to understand the strategic meaning that the relationship between Nokia, the suppliers and other potential buyers have. We will also briefly discuss the potential to become global.

By bringing all these three main points of views together, we are able to create a framework to analyse the situation and also to see the underlying possibilities in the market. The framework will work as a simple checklist of analysing the potential of succeeding in the industry and also to become a successful supplier for Nokia.

2.1 Key Challenges in the Environment

The environment is everything that surrounds the organization; competitors, customers and socio-economic factors. The environment can be divided in to macro- and microenvironment. (Jobber 1998. p106)

The macro environment of an organization consists of: (Jobber 1998 p. 36)

- Economic,
- Cultural,
- Technological,
- Political
- Ecological factors.

The macro environmental factors affect the overall market and are largely uncontrollable for a single organization. (Jobber 1998. p106)

The microenvironment includes suppliers, distributors, competitors and customers (Jobber 1998. p106). The organization can affect but very rarely control the microenvironment (Jobber 1998. p106). However, the importance of the environment is that the organization's strategy should always reflect the environment (Jobber 1998. p106). The strategy should fit to the environment even though the correct strategy would mean fundamental reorganization (Jobber 1998. p106). Therefore, if the organization claims to have problems with the environment, these problems, if staying the same, are inevitably problems in the strategy or organization.

The conclusion of the environmental aspects is presented in the Figure 2 “The Effects of Environment on Supplier”. The figure explains how organizations environment and its different aspects affect on the supplier.

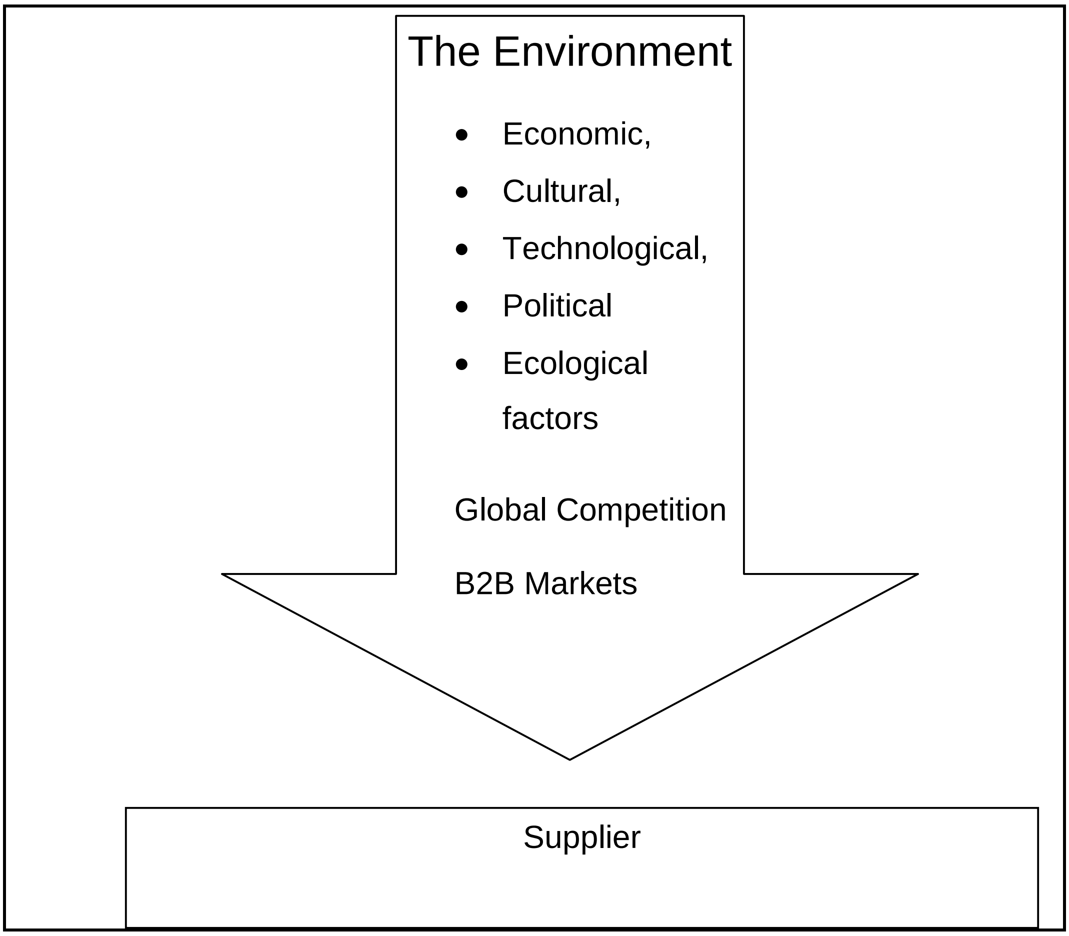

Figure 2. The Effects of Environment on Supplier

2.1.1 Business-to-business markets

The Business markets are markets for products and services bought by organizations such as businesses, governments and institutions (Hutt et al. 1998. p. 4). Industrial business-to-business markets are in many cases highly concentrated and many organizations develop almost symbiotic relationship with the key customers (Campbell et al. 1983. p. 369). For example, in January-April 2005 the Nokia accounted for over 52 percent of the overall exchange in the Finnish stock exchange (Karttunen 2005). This fact perfectly describes how big buyer for example Nokia can be in the limited Finnish markets.

The fundamental difference in business-to-business markets from consumer markets is the intended use of the product and intended consumer. The difference therefore does not necessarily lie in the product but rather in the marketing approach and the underlying definitions of the market (Hutt et al. 1998. p. 5). The business market contains different customers with diverse needs (Hutt et al. 1998. p.187). Business-to-business markets have fewer but larger buyers than consumer markets and business buyers are more geographically concentrated. The business-to-business market demand is derived from consumer demand and short-term price changes have less influence than in the consumer markets but the demand fluctuates more quickly (Kotler. 2004. p. 215).

Compared with consumer purchases a business purchase usually involves more participants in the decision-making and a more professional effort (Kotler. 2004. p. 215). Business-to-business markets have a one important distinction between consumer markets; companies tend to have direct relationship with their customers (Michel et al. 2003. p.1). This means that the organizations competing in the business-to-business markets need to have a capability to gain, build and maintain important relationships.

2.1.2 Global Competition

The world has changed in many ways over the last 50 years, but for the business marketer the world has really become much smaller place. The advances in technology, communication and transportation have made the world in some cases a one big market, meaning that not only the markets but also the competitors are bigger (Dicken. 2007. p.4-5; Kotler. 2004. p. 596). There are many forces behind globalisation. Trade barriers have been vanishing for a long time and this completed with maturing of domestic markets has traditionally driven organizations to seek opportunities in foreign markets (Hutt et al. 1998. p. 262). These developments in the global market place both create new opportunities but also create new problems (Kotler. 2004. p. 596).

The new environment means that almost all organizations face global issues and global marketing challenges. The global issues and challenges mean different set of needs for organizations competitiveness. This in turn has lead to an emergence of global companies. The global company sees the world as one market. It produces the products, raises capital and markets the products wherever it can do it most profitably. Over the past few decades the number of global organizations have grown dramatically. (Kotler. 2004. p. 593-594)

The changes in the global operating environment have made the globalisation quicker. This has lead organizations to expand their geographical scope in terms of markets they serve and the production sources for product manufacturing and service delivery. These changes have meant that organizations can have a greater chance of achieving economies of scale, sharing R&D investments, selling for different markets and accessing low cost options for their supply. (Barrar et al 2006 p. 35; Prahalad et al. 1999 p.33)

Globalisation has increased the intensity of competition in many markets and industries. Today organizations face both domestic and international competition. This has resulted in many industries as a need to reduce costs and improve offering for potential customers. (Barrar et al 2006 p. 35) The nature of competition has also changed because some of the competition is based on developing countries where the cost structure is fundamentally different from developed countries. Even though these competitors might not be the most efficient or the most innovative, they nevertheless possess competitive advantage over their competition (Michel et al. 2003. p.1). At the same time American institutions have raised the demand for profitability and those demands have increasingly becoming global standard. This has meant that western world based companies have to deal with increasing competitiveness while dealing with their high labour costs and demand for better return on capital (Michel et al. 2003. p.1).

The global companies and the forces of globalisation have changed the way business operates. Today it is possible to operate with a wider array of suppliers and different types of allies all over the globe. This means that companies have developed different types of relationships with different emphases (Hutt et al. 1998. p. 106). The cost pressures and global competition has meant that organizations have increased outsourcing of activities (Kannan et al 2006. p.755).

The globalization has brought many new challenges and opportunities. However, it has also meant that organizations face more often abrupt changes. Abrupt changes lead in to the discontinuity in the markets and mean that organizations must be able to change more rapidly and radically to confront these changes. (Prahalad et al. 1999. p. 31-34)

2.1.3 Competitive Environment

Business marketing strategy must be based on assessments of the company, its competences the competitors and most of all, the customer (Hutt et al. 1998. p. 6).

The holistic marketing process involves all stakeholders and requires them to participate in the value creation process. In the digital economy, companies, customers, collaborators, and communities can drive values. Ideas can come from exploring the customer's cognitive space, the company's competency space, and the collaborators' resource space. (Kotler 2004. p. 35)

The firms face environment where economic, technological, demographic, social and political environments do not remain static. (Taylor. 1998. p.199)

The organisations ability to change is the sum of factors. According to Taylor the most important factors are: (Taylor. 1998. p.199)

- Capability to analyse its environment
- Internal competences
- Its attitudes to risk
- Managerial frames and organisational recipes

Experience in particular industry does not create inertia that would prevent firms from entering new markets. Rather the more experience the firm has serving particular industry; the more likely it is to move to new markets. (King et al. 2002. p. 181)

Elaboration of production and sales for one segment does not restrict a firm's ability to adapt. Moreover the experience from one industry can lead to the development of important dynamic capabilities that can be used in other contexts as well. Firms benefit from their previous experiences. (King et al. 2002. p. 184)

Firms that have been serving one particular industry for long have gathered precious information that can be used to cope with radical changes and technological waves. These firms possess valuable information that can be used in other contexts as well. (King et al. 2002. p. 184)

For organisations that face tighter competitive environment undertaking a transformational or strategic change is a primary way to respond. The organisational change almost always includes significant alternations to corporate and competitive strategies, structures, systems, processes and culture of the firm. (Balogun et al. 2003. p.247)

The global competition in industries like semiconducting and IT, has demonstrated that organizations must be able to change and adapt to their environment. The winners in highly competitive global markets usually demonstrate responsiveness and flexible product innovation together with management capability to coordinate and allocate internal and external resources. (Teece et al. 1997. p. 512)

2.2 Key Challenges in the Strategy and Competitive Position

The second part, key challenges in the strategy and competitive position is built from ideas of how organizations compete in the markets and furthermore how they create competitive advantage through dynamic capabilities. The view discusses the way strategy combines with resources and capabilities. This study relies heavily on Grant’s definitions on the firm’s competitive position. Therefore the main concepts to understand the competitive advantages of particular organization are: Core Competence, Competitive Advantage, Resources and Capabilities and finally Dynamic Capabilities. Although these concepts have been around for a while, they are still relevant as a good base for any strategic thinking in today’s organizations.

“Marketing is managing profitable customer relationships. The twofold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction.” (Kotler. 2004. p. 5)

This Philip Kotler’s definition of marketing defines the very essence of marketing and why marketing is the fundamental source of profitability for any organization. It also defines the way all the organizations activities should be aligned to produce success. It also explains the need to have direction for organization and defines the very basic reason to adopt strategic thinking. The strategy and competitive advantage part of this research holds together the competitive environment and supplier buyer relationship and it represents the way organization can use the external elements and its own internal strengths to build relationship with buyer.

2.2.1 The Need to Change

If companies want to survive over long periods of time they must change. This means that companies have to reinvent themselves and their businesses once in a while; sometimes they even have to redefine the businesses they are in. (Grant 2002. p. 470) The changes in the environment and competition mean that organizations must change and change their strategies in order to survive. (Hamel. 1998. p.7).

In the competitive environment the introduction of new products and services is essential for the profitability and even survival of organization. Long run growth demands either continuous geographic expansion or either introduction of new products. Most of the things go through life cycle where they first emergence, then they grow, mature, decline and finally became obsolete. (Dicken. 2007. p.90-96)

For the organizations that have successful history there is always a dilemma that the future and past might not be compatible. The future offers many great and different opportunities, yet the past seems like a golden era. There is a tension between the old and the new. The companies should be able to exploit the past and explore the future to be successful in the long-term. (Brown et al. 1998. p. 92; Prahalad et al. 1999 p. 35)

Technical innovations and other changes can cause changes in business environment that force firms to adapt if they are to survive (Teece et al. 1997. p. 519-520). Firms need to develop new resources and capabilities to cope with the changes in business environment (King et al. 2002. p. 171; Teece et al. 1997. p. 509-511). However, experience from one industry or segment does not restrict a firm's ability to adapt. Moreover the experience from one industry can lead to the development of important dynamic capabilities that can be used in other contexts as well. Firms benefit from their previous experiences (King et al. 2002. p. 184).

"Chancing the shape of a business is a complex and expensive activity, yet businesses do it all the time in fast-moving, competitive environments. Making the transformation happen, means making the best use of available strengths in the new context" (Reed et al.2003. p.145)

New and exiting possibilities for innovation are usually obscured by current business concerns of the management. The radical innovation possibilities are usually obscured for by the fact that the organization is performing well and the management does not have enough incentives or time to explore new innovations that might be crucial in the long term (Välikangas et al. 2005. p. 57-65). Organizations can also be trapped to certain business models and they have developed dynamic capabilities to serve this model (Välikangas et al. 2005. p. 57-65). The ability to build new capabilities is demanded to be able to respond and anticipate emerging business conditions (Mascarenhas et al. 1998. p. 131; Välikangas et al. 2005. p. 57-65).

It is easily comprehensible that organizations must change and develop because the markets are constantly changing. However, in reality many organizations fail to change enough. These traps include business models and even customers. Usually when once successful organization fails the reason is that it has not adapted to the new business environment. (Hamel et al. 1994. p.123; Välikangas et al. 2005. p. 57-65; Stopford et al. 1990. p. 412)

2.2.2 Strategy

Strategy is concerned with matching a firm’s resources and capabilities to the opportunities that arise in the external environment (Grant 2002. p. 132). Basically strategy is about two things: deciding where you want your business to go and figuring out how to get there. Ideally, the strategy should be formulated and implemented but in reality many strategies are formed through learning process (Mintzberg et al. 1985. p. 271).

Traditional approaches to strategy focus on where part. They emphasise the challenge of choosing the desired position and only after that they consider how to get there (Brown et al. 1998. p. 92). Strategy is the core of any successful commercial activity. The aim of strategy is to offer organizational stability and continuity. Furthermore the strategy aims to resolve conflicting demands for resources establish priorities and give direction for the overall operation (Pettinger 2004. p. 4; Grant 1991. p. 129).

Taylor claims that all strategies should be based on environmental analyses. Developing a strategy in business-to-business market is based on interaction of capabilities and possible uses of the product (Michel et al. 2003. p.35) Effective modern strategies: (Hutt et al. 1998. p. 226)

- Fit and respond to market needs.
- Use and exploit competencies of the organization.
- Have valid evaluation of the competitive environment and competitors.

The strategy in the international market place should be based on organizations experience, vision of growth and the future position of the market. This demands that firms must understand the internal position i.e. resources and capabilities to look for strengths that they might exploit. (Hutt et al. 1998. p. 286)

This means that to compete in an environment that is defined by the constant change, the firms must constantly reshape competitive advantage to apply for the changes. The change for a company can come from outside of the company or from the inside. Therefore it is important to understand that the strategy must be formulated in a way that it acknowledges both the internal and external factors. Organization's resources must be matched with the outside world. (Brown et al. 1998. p. 8)

Market strategies are a result of the entrepreneurship of the firm, which is affected by managers' orientation, learning, marketing capabilities and degree of innovation. Learning from the market and having the ability to reach the potential customers is very important for the organizations who try to pursue innovation based competitive advantage. Innovative organization is an organization that has ability to innovate, initiate change, and flexibly react rapid changes. Learning and deeper understanding of the market place can benefit marketing because organisational learning affects the problem solving and implementing capabilities of the firm and therefore market-focused learning can affect the marketing capability. (Weerawardena et al. 2003. p. 420-421)

Marketing know-how affects the effectiveness of the new product innovation process and furthermore makes the success more likely. Therefore marketing know-how has a very important part in a market driven firm. Market driven firms can build competitive advantage by nurturing market focused learning capabilities. These capabilities are also good in a way that they are very hard to imitate. However, these capabilities are neither easy nor quick to build. (Weerawardena et al. 2003. p. 426)

This study describes strategy as a way to ensure that the firm has or can acquire the necessary resources and capabilities to be able to compete in the chosen market.

2.2.3 Resources and Capabilities

The theory implicates that there is two main views on how organizations generate rent. The first and older one is called “resource-based view” and the second one is called “Dynamic –capability view”. The resource-based view implicates that organizations generate rent by acquiring resources from the resource market (Peteraf 1993. p. 180; Makadok. 2001. p.387). The resource picking creates profits when firms purchase resources for less than their marginal productivity (Makadok. 2001. p.387, Conner et al. 1996. p. 490-492).

The dynamic capability view highlights completely different types of actions to generate rent. Dynamic capabilities cannot be picked but they must be built. Dynamic Capabilities are organization specific in a way that it is impossible to buy capabilities without buying an organization or part of it (Makadok. 2001. p.387-389; Teece et al. 1997. p. 517-518; Grant 1991. p.114-115). The capability is an internal part of the organization. If the company is completely dissolved, the resources remain and can be sold but capabilities dissolve as the organization is dissolved (Makadok. 2001. p.387-389; Teece et al. 1997. p. 509-511). However, there seems to be a close relationship between resources and dynamic capabilities. Capabilities only create profits when the firm has acquired resources that the capability can use (Makadok. 2001. p.387-389 Teece et al. 1997. p. 519).

Dynamic capabilities view leads to the more architectural view. The rent generating is therefore like a building process and strategy focuses on structure and internal design of processes that help to generate dynamic capabilities. (Makadok. 2001. p.390; Teece et al. 1997. p. 513)

It seems that these two rent generating processes do not act independently and that their importance for a particular organization would depend on organization's external and internal circumstances (Makadok. 2001. p.391). Dynamic capabilities are strategic and organisational processes such as product development, creating alliances, strategic decision-making and other processes that generate value by manipulating resources (Eisenhardt et al. 2000. p. 1106; Teece et al. 1997. p. 530-533).

The nature of dynamic capabilities depends on the markets the firm operates. If the markets are dynamic the dynamic capabilities tend to be simple, experimental, unstable processes that rely on iterative execution while in moderate dynamic markets dynamic capabilities are detailed, analytical processes that rely on existing knowledge (Eisenhardt et al. 2000. p. 1106). It can be even argued that organizations create dynamic capabilities through knowledge generating process that involves interactions among individuals in different context (Nonaka et al 2000. p. 17).

Dynamic capabilities are processes and therefore they can be copied and implicated across firms, sometimes easily, but usually with a lot of effort (Eisenhardt et al. 2000. p. 1106-1116; Teece et al. 1997. p. 509). Dynamic capabilities create sustainable competitive advantage through resource configurations that they create. Dynamic capabilities are necessary to achieve competitive advantage but only as enablers (Teece et al. 1997. p. 509; Eisenhardt et al. 2000. p. 1106-1116). Dynamic capabilities should be used sooner, better or more astutely to create competitive advantage over competitors (Eisenhardt et al. 2000. p. 1106-1116). However, the dynamic capabilities can be used to enhance existing resource configurations. Dynamic capabilities are processes that configure resources to match and even create market changes (Eisenhardt et al. 2000. p. 1106-1116).

In order to change and adapt to the environmental changes organizations should realistically assess the internal capabilities and environmental factors. After that the organization and capabilities must be realigned with the environment. (Bacot et al. 1992. p. 43-44; Hamel et al. 1994. p.126-127)

In the environment that changes the organizations dynamic capabilities play important role. The competitiveness of organization comes in these types of markets from the sharpening of internal technological, organizational and managerial processes. These dynamic capabilities help to identify and embrace new opportunities in the business. (Teece et al. 1997. p. 509)

2.2.4 Core Competences and Competitive Advantage

Successful products of international organizations can usually be traced to set of unique core competences the organization has developed (Hutt et al. 1998. p. 313). The goal is to create superior market perceive quality and value compared to competitors (Hutt et al. 1998. p. 313). Core competences are processes that organizations handle better than competitors and they define the fundamental business core and the collective learning of organization (Teece et al. 1997. p. 516; Prahalad et al. 1990. p. 82). Core competences can be traced back to the resources and dynamic capabilities but they are rather market-preferred end product of dynamic capabilities (Hutt et al. 1998. p. 313; Teece et al. 1997. p. 516).

Competitive advantage means offering more value and satisfaction for the buyer than the competitors do. The customer perceives the value and reacts to the price accordingly (Kotler. 2004. p. 566). Competitive advantage can be assessed from two different vantage points (Hutt et al. 1998. p. 231). The first one is to measure competitive advantage compared to competitors, comparing the areas of superiority in capabilities and resources to competitors. Second approach is the customer-oriented assessment which details and identifies actions that an organization can take to improve its performance for the buyer. (Hutt et al. 1998. p. 231).

Many small firms with less familiar names in global business enjoy strong ties with international customers. The ties with these firms can help to gain more operating base and therefore more sales and possibly profits. However the relationship can achieve an important pathway to competitive advantage. This happens by meeting a diverse needs of international customers and thereby making the learning curve faster for new capabilities. (Hutt et al. 1998. p. 257-258).

2.2.5 Choosing Markets

Usually it is better to identify the parts of the market that organization can serve best and most profitably rather than serve the entire market. This process is called segmentation. *By segmenting the market organizations divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs.* (Kotler. 2004. p. 239).

This process can be further referred as target marketing. Target marketing is usually consistent of three steps. First the market must divided to smaller homogenous segments (segmentation) then the attractiveness of these segments must be assessed and then select the most profitable segments (target marketing) and finally the organization must develop positioning for target segments and develop marketing mix for each segment (market positioning). (Kotler. 2004. p. 239).

This segment process must further complement the prior internal resources and strategies that the organization has decided to pursue. Therefore it can be seen as a direct link from the strategy to end user of the product. In this research it implies to chosen preference to certain buyers.

The organizations strategy should guide that the existing resources and capabilities are used in a most effective way now and in the future. The strategy further emphasises that the resources and capabilities are sustained and developed in such a way that the competitive advantage is not lost. (Pettinger 2004. p. 35)

The strategy’s role is then to act as a tool to guide organization in to making correct decisions on what resources it should acquire and how it should use its dynamic capabilities to produce services and products that are competitive and valued in the market by the correct customers. This should enable the organization to grow and become competitive and build relationships with the possible buyers.

2.3 Relationship Aspect

Buying and selling in the business-to-business markets can be described as an exchange process where two organizations trade items of value. The trading of items of value means that product or service may bear different valuations for each counterpart. This in turn means that there is a complex flow of influences between the two organizations. These influences mean that to be able to create and sustain relationships the buyer and seller must be able to manage different types of expectations and influences. (Hutt et al 1998. p. 66-67)

The classic way to describe relationship between supplier and buyer is to use the market theory which considers the relationships as a pure market transaction which is based on many suppliers and using of bargaining power to reduce suppliers price by the buyer. However that perspective has changed in the past few decades and other views are supported as well. Especially Japanese car manufacturers have successfully used stable relationships to create value. This does not mean that price would be unimportant but rather that other factors that can create value must be recognized in the process too. (Michel et al. 2003. p.61).

The relationships the organization creates create value for the supplier. Therefore it is important to understand the value of relationships (Sanchez et al. 2005. p.307). In the concentrated industrial markets it is possible to analyse the relationships individually (Campbell et al. 1983 p.369). The analysis and understanding of value allows suppliers to allocate their scarce resources to best serve the chosen strategy and the most prestigious customers (Campbell et al. 1983 p.369; Ryals et al. 2005. p. 456-457).

The relationship between supplier and buyer can be described as series of different processes. These processes are closely linked to each other and steered by the nature and atmosphere of the relationship. The organizations that have relationship generally engage in: (Möller et al. 1995. p. 560-561)

- Product exchange process
- Adaptation process
- Information exchange process

These three processes imply that the organizations not only exchange products and services but also make adaptations to be able to better fit in to each other's plans. The organizations not only adapt to each other's views but to fit in to the overall network. All the time during the exchange the organizations also exchange information and knowledge (Möller et al. 1995. p. 561-567). In fact suppliers have tendency to follow their customers and develop new products and services to keep serving them (Campbell et al. 1983 p.371).

The relationship should never be seen as an isolated concept but rather as an integral part of broader context: as a network of interdependent relationships. When such view is considered it opens up interpretations of the relationship open for external factors as well. (Håkansson et al. 1995 p. 3)

2.3.1 Conflicting interests in the relationship

The supplier-buyer relationship is an interesting combination of differing interests. The buyer, when buying anything more important than just standard equipment is encaging in an activity that will inevitably but some of its own destiny in the hands of outside organization. The supplier is only naturally trying to maximize his own profits, while the buyer is trying to maximize net benefits. (Barrar et al. 2006. p.3)

Buying is always alternative for in-house production in the business-to-business markets. Buying must be more beneficial option for the buyer, otherwise he would encage in different activities. The two-folded purpose of buying is either to lower the total cost of the product or service by buying it from the supplier or increase quality by purchasing some distinctive capability from the supplier. (Barrar et al. 2006. p. 4)

The relationship between buying and capabilities is an important one for this research because that acknowledges the importance of the supplier's capabilities in creating a beneficial relationship. If the supplier cannot offer any distinctive capabilities, the buyer is more likely to pursue for lower costs. (Barrar et al. 2006. p. 5)

In the relationship neither the buyer nor the supplier is always fully aware of each other's capabilities, weaknesses, needs, opportunities or problems (Leenders et al. 1988 p. 27). However, the buyer is usually more aware of the real benefits of the relationship than the supplier. The buyer realizes the benefits in his own organization and can fully analyse the total cost and benefits of the product (Leenders et al. 1988. p. 27). This information asymmetry gives the buyer edge in negotiations.

The supplier on the other hand, must resist the urge to surrender value to gain the relationship. Good strategy to avoid this is to discuss the overall value of the sale rather than give away free services or negotiate only about the pricing. This however, is also an indication about the relationships status. (Abele et al. 2003. p. 21-23)

The supplier's aim when in front of the buyer is to understand the buyer's environment and needs. This way the supplier can propose suitable solutions for the customers and create value for the buyer through the relationship. (Michel et al. 2003. p.79)

2.3.2 Organizational Buying Behaviour

The aspect of buying behaviour has the utmost importance in the relationship between buyer and seller. It defines how the supplier and buyer interact and what is the supplier's status. The supplier's position can range from being one of the many suppliers as far as being instrumental part of the buyer's business model. This in its part has huge implications on the suppliers business. Furthermore, the supplier's situation with competitors and other customers, both existing and potential, has implications for the supplier. Therefore the last of this research's key concepts: supplier buyer relationship is the defining factor of this research.

The relationship between supplier and buyer can be analysed by the time horizon within which customer makes commitment to a supplier. Switching costs, the level of perceived risk, and the importance of the purchase provide good indications of the status of the relationship. (Hutt et al. 1998. p. 125)

Organizations buying behaviour depends on environmental, organizational, group and individual forces. Environment forces define the general business conditions of the organization. Organizational forces define how the organizations strategy interacts with the purchasing decisions. Furthermore the group and individual buyers have an impact on how the organization buys because each has different competences and histories (Hutt et al. 1998. p. 95). This means that each organization buys differently in different time and situation. Therefore all of the above denominations need to be considered as factors defining the purchasing process.

In the b2b markets the customers value the total capabilities of the supplier to be able assist them to improve the customers competitive position. Therefore to be able to evaluate the relationship with the customer the business marketer needs to understand how the organizational buyer evaluates value. (Hutt et al. 1998. p. 99)

2.3.3 Value

The value is very important concept in the relationship. In order to exist the relationship must produce perceived net benefits for the counterparts (Pardo et al. 2006. p. 1360). Business marketer must understand how the buyer perceives the value and how those perceptions are weighted. Many factors define the buyer’s ultimate decision of renewing the relationship: quality, service, price, company image, and capability (Hutt et al. 1998. p. 106). The accurate value is not necessarily the right value but rather the perceived value is more important since if the buyer sees the products generic the prices becomes more dominant factor than with unique products (Hutt et al. 1998. p. 106). The business marketer must be able to demonstrate the superior value in use the customer’s gains by using the marketer’s services (Hutt et al. 1998. p. 125).

Different backgrounds mean that different organizations and individuals perceive value from the different sources. Some buyers may prefer better-known suppliers to cheaper but less known partners with similar products. (Michel et al. 2003. p.80)

Perceived value is the outcome of commercial offer that the supplier makes to the potential buyer. The perceived value can be operating, social or economic advantages. There are many ways to achieve these advantages and entering global marketplace further emphasizes that. It is the task of the marketing department to identify these opportunities and communicate them effectively inside organization. It is also marketing departments task to ensure the quality of the offer and communicate this value to market. (Michel et al. 2003. p.10)

Customers perceived value is constantly affected by the experience gained in transactions and also by all the actions environment and competitors efforts related to value. This means that every organization can face unpleasant surprises due the changes in environment or competitors actions. (Michel et al. 2003. p.148)

In order for the relationship to be mutually beneficial it is important to note that also the supplier receives benefits in the relationship. The traditional view of supplier's value however, states that suppliers receive their compensation in monetary terms. In the important relationship the supplier also receives value through common investments in the relationship. The relationship itself becomes the resource that creates value. The value is created through joint efforts and investments to create new configurations of resources and competitive advantage. (Pardo et al. 2006. p. 1360-1367)

2.3.4 Sourcing

The relatively new phenomenon of sourcing has added price pressure for the suppliers (Abele et al. 2003. p. 21). The sourcing was born on the need to reduce costs by controlling the purchasing processes that the organizations employ (Napolitano. 1997. p. 2). The aim of sourcing is to extract as much value as possible at the lowest possible cost. Sourcing allows the sourcing organization to leverage purchasing power to get enhanced services and reduced price (Napolitano. 1997. p. 2; Abele et al. 2003. p. 21-23). The price reducing is nothing new in the supplier-buyer relationship but demanding more value by shifting more costs and risks to the supplier is relatively new phenomenon. (Abele et al. 2003. p. 21-23)

The professional buyers are usually equipped with lots of information about the use of the product they are buying and its cost implications. Therefore they usually have an edge over suppliers sales department whose responsibility it is to sell and the more fundamental information lies on other parts of the organization. Furthermore the sales force's incentives are usually based on volume, which further enhances the suppliers bargaining power. The position where the buyer has too much power easily leads to a situation where the buyer is capable of negotiating long deals with low prices and then negotiating them again if the suppliers' costs reduce during the contract period. This leads to price erosion and it also fundamentally shifts the risk towards the supplier. (Abele et al. 2003. p. 21-23)

The industries that are dependable of the buyers usually emphasize market share and therefore they fear losing customers, which further leads the sales force to avoid situations where the relationship with the customer would be endangered. (Abele et al. 2003. p. 21-23)

2.3.5 The Quality of the Relationship

The relationship should be mutually fulfilling for both parties. Important aspect of relationship is the open communication of both the supplier and the buyer. The majority of the supplier-buyer relationship literature focuses on the supplier performance. However, the buyer's influence on the relationship tends to be forgotten often. (Slobodow et al. 2008. p. 77)

Supplier buyer relationship can be characterized by different influences: (Michel et al. 2003. p.37)

- Active participation and interaction of the two partners
- Commitment, both parties should invest technical, human or financial resources
- Supplier's contribution to its customer's activity
- Number of people involved in the relationship
- Stability of relationship

The interaction of counterparts can be analysed in many levels. The participants can be analysed individually and their interaction as well. The process of interaction itself can be analysed too. The atmosphere of the relationship is important to be analysed. (Michel et al. 2003. p.39-40)

The relationship between supplier and buyer can be analysed by the time horizon within which customer makes commitment to a supplier. Switching costs, the level of perceived risk, and the importance of the purchase provide good indications of the status of the relationship. (Hutt et al. 1998. p. 125).

Organizations should be market driven but it does not mean that all the ideas have to come from the markets, sometimes the innovations occur for the sake of research rather than by the demand of market. This does not mean that organizations should not be market orientated but rather that supplier has the job of acting on the behalf of the buyer to develop new innovations and to answer markets demand. The supplier often drives the technical innovation and only at the later stages with the customer to adapt the innovation to the needs of markets. (Michel et al. 2003. p.79)

Because each transaction bears risk, then each successful transaction builds relationship. Relationship therefore evolves over time as both organizations learn from a series of transactions. The developing relationship has an impact on transactions as well. This evolving of relationship has two dimensions: investments over time and the atmosphere of the relationship. (Michel et al. 2003. p.82-86)

Investment over time implies the dependence or autonomy of the supplier and buyer. Investments can be general or specific on certain aspects of the relationship. The relationship can be assessed on absolute level and also on reciprocity level meaning who invest what and are the investments on the relationship made on equal measures. (Michel et al. 2003. p.82-86)

The atmosphere is the satisfaction that the both parties get from the relationship. It is a good indicator of the durability of the relationship. The atmosphere has five different levels. The first and most important is the balance of power, which indicates the dependence of the supplier and buyer. The others are the degree of cooperation, the level of confidence, and social and cultural differences and finally the level of mutual understanding. These together indicate whether the relationship is overall positive or negative. (Möller et al. 1995 p. 559; Michel et al. 2003. p.82-86)

The big dilemma is that often the individuals who do the business between to partners act in the manner that suggest and implies of trust and commitment. However, if this commitment is not implied in the agreements they do imply that the partners might have dysfunctional partnership. Therefore it is important to notice that the promises made by individuals are only conditional and always need the approval of both organizations. (Pierce et al. 2006. p. 87-102)

What is the perceived status of the supplier and buyer? Are they in the same page when it comes to relationship? What are the implications if the buyer is the suppliers most important customer but the supplier is just one of the many suppliers? How can you become preferred supplier and are there mousetrap on that route since it might endanger the existence of the supplier if the ties are suddenly cut down. (Pierce et al. 2006. p. 87-102)

2.3.6 The Life-Cycle of the Relationship

The idea of a life cycle of certain product is universally accepted. The cycle differs between different products but it can be implied to almost any product at least some way. The life cycle is not based on any particular theory or scientific invention rather it is based on experience. A product, market or technology mature differently but there are usually four different phases: introduction, growth, maturity and decline. The life cycle model emphasizes the fact that almost everything goes through these phases and eventually every new innovation will phase maturity and eventually decline. The different phases have different implications on the attractiveness of the industry or market and different competitive advantages. (Michel et al. 2003. p.143)

2.3.7 Gaining Competitive Advantage in The Relationship

One of the most important aspects of the relationship between supplier and buyer is the fact that both parties gain mutual learning in the process. The organizations in the relationship usually modify their resources and capabilities to better benefit from the relationship (Möller et al. 1995. p.27). The events that take place in the relationship can often create new dynamic capabilities and therefore influence the and their value in the strategic thinking of the organization (Möller et al. 1995. p. 27; Michel et al. 2003. p.163; Kannan et al. 2006. p. 770). The organization can consequently be seen as rational organization where strategy offers the basics for the general orientation but also as a learning organism where learned dynamic capabilities shape the strategy (Michel et al. 2003. p.163). This means that leading and strategy process need to be both top down but also bottom-up processes. The strategic thinking that have created structures to implement strategy over the past decades might have neglected the bottom up process and therefore those created structures can sometimes lead to a situation where bottom up learning is hard (Michel et al. 2003. p.164).

The relationship can have many positive effects. The organization can gain new competences by the influence of the buyer. With the relationship the organization can gain access to relationship-specific capabilities that otherwise would be out of the reach and therefore gain sustainable competitive advantage. (Paulraj et al. 2007. p. 37; Nonaka et al. 2000. p. 16.)

2.3.8 Bargaining Power

The balance of power between buyer and supplier is important because it indicates which party is able to use bargaining power to get better negotiation's positions for itself.

The process nature of the relationships means that balance of power is rarely equally good for both parties. Usually either supplier or buyer has more power. The buyers usually have bargaining power when: (Bowman 1990. p.30)

- There are only few potential customers.
- The customers purchase in large quantities.
- When there are lots of competing sellers.
- When the product is easily imitable and standardized.
- When it is easy to purchase from many sources.

This means that the suppliers should avoid situations where they sell unimportant components in the very competitive markets to a few buyers. This inevitably gives the buyer lots of bargaining power.

The suppliers on the contrary tend to do well when the product is somehow important for the buyer, or the product is unique and hardly imitable or if there are significant costs in changing suppliers. The suppliers tend to have bargaining power also when there are only few big suppliers and many buyers. (Bowman 1990. p. 30-31; Slobodow et al 2008. p. 80)

The power that the buyers have can be seen as evidence in the markets. The markets where buyer has significant bargaining power tend to have following description: (Clarke et al 2002. p. 24)

- Significant proportion of buying is done by one organization.
- The buyer has negotiated terms that favour the buyer and transfer risk to the supplier.
- Absence of the supplier favouring terms.
- Evidence of exclusive supply requirements like specific custom designs.

The buyer’s power in the market is usually strong in markets where the buyer has dominant position in the market. The evidence of bargaining power can be seen as unfavourable terms negotiated with the suppliers. (Clarke et al. 2002. p.28)

The extended buyer power may hint to the extreme situation of monopsony. Monopsony, even though it is less common than monopoly, can have equally disturbing effects for the markets. In monopsonic environment there is only one buyer who has all the power to negotiate favourable terms against suppliers. (Clarke et al. 2002. p.21-26)

The markets can be said to have high buyer concentration and therefore high bargaining power of buyers if the buyer concentration is high. One good measure is the number of buyers to consist more than 50 percent of the overall market. Generally in the competitive markets this should be more than 5. (Clarke et al. 2002. p.28-29)

To be able to understand the concentration in the market it is also important to define the market correctly. Market can be assessed as with two key dimensions for this purpose. The key dimensions are geographic extent and the substitutability of between products providing similar benefits. (Clarke et al. 2002. p.32)

2.3.9 Strategic Buyers

Strategic customers are customers that are considered to be so important that they receive different treatment than the other customers. Many studies refer to these customers as key accounts, major accounts, global or strategic customers (Napolitano 1997 p.1). This study refers to them as strategic buyers. Strategic buyers are usually big in their industries and are complex organizations with coordinated purchasing practices and very large purchases and special needs (Napolitano 1997 p.1; Pardo 1997. p.17).

The special treatment these buyers need is a process that can be described as key account management or strategic account management. This study refers to handling those important customers as strategic account management. Those strategies have evolved as an answer to very large customers who dominate supplier’s sales and profit profile (Pierce et al. 2006. p. 87-102). Strategic account management generally involves dedicating internal resources to certain relationship with the customer (Pierce et al. 2006. p. 87-102). Strategic account management is usually used as a tool to create incremental value within important relationships (Pardo et al. 2006. p. 1360).

Strategic account management is actually much deeper than just important relationship or just sales strategy for major accounts. It is closer to partnership or strategic alliance than to traditional transaction based relationship. It is usually characterized by joint decision-making and problem solving and also integrated business processes (Pierce et al. 2006. p. 87-102). One aim of the strategic account management is that the strategic account managers represent their organization and understand the buyers needs better by focusing on that important buyer but also the fact that strategic account manager is supposed to represent the buyer interest in the supplier's organization (Napolitano 1997 p.1).

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The organizations that have adopted strategic account management are usually easier to do business with for the strategic customers. They are also better at dealing with customer's problems and queries. Therefore adopting strategic customer management makes sense since it able better customer satisfaction. (Day 2006 p. 40-49)

Strategic customer relationships tend to be feasible only for businesses where there are few customers and they have diverse and complex requirements. These relationships go well beyond traditional transactional relationship. However, the suppliers with more homogenous markets do not need to create these types of relationship, they will only thrive to leverage their economies of scale. (Day 2006 p. 40-49)

The strategic accounts receive favoured treatment compared to other potential clients. If there were no such advantages, there would be no point in creating strategic relationships. These types of relationships can sometimes be compared to strategic alliances or even financial mergers that demand shareholder approval. However, offering strategic accounts significant benefits generally does not need such a formal approval. It can be even argued that offering benefits to strategic accounts to get short-term gains in sales and market position may harm organization's long-term profitability. (Pierce et al. 2006. p. 87-102)

Market concentration naturally leads to a situation where larger customers are more powerful and important than the smaller players in the market. Therefore it may seem perfectly reasonable that some customers receive more attention and more preferable treatment than others. However, to acknowledge this fact and further enhance the buyer's position by making the buyer strategic account gives the buyer even more power. Naturally, customers with market power tend to use it in their own interest. Even though the buyer receives preferential treatment by the supplier, the buyer tends to treat all suppliers the same. Therefore it can be argued that by favouring strategic accounts the supplier is further giving away its own market power and making the whole market worse off. (Pierce et al. 2006. p. 87-102; Arnold et al. 2001. p.9)

The strategic relationship usually has written terms but more importantly it involves implied promises of cooperative and collaborative relationship. However, what is extent of these promises, when the agreement extends the limits set on the contract and is based on the strategic relationship, what are the terms of being together. What is the suppliers right to believe that the buyer will remain as a loyal customer? How can the implied promise of staying together be valued or how long is this promise valid? How can the strategic relationship be dismantled and how much before should there be the period of notice? (Pierce et al. 2006. p. 87-102)

Strategic account management has grown because larger customers have meant that suppliers need to allocate more resources to serve larger customers (Pierce et al. 2006. p. 87-102). The number of these types of customer relationship has grown because industrial concentration because of merger and acquisition activity has become more common and also the purchasing has become more and more professional (Pierce et al. 2006. p. 87-102; Michel et al. 2003. p.253).

Strategic account management is based on the idea that to have strategic accounts that provide a large proportion of the sales and profits is desirable or at least unavoidable. This easily leads to a situation where 20 percent of the customers bring in 80 percent of the sales and profits. However, there is an argument that if a particular organization finds itself in such a situation, its business model has failed because of the dependency on few customers significantly limits the organizations strategic options and has severely limited its freedom to operate. This consequently means that the control of the organization’s future is largely handed to the buyer and not to the supplier’s management or shareholders. The outcome of such situation is that the supplier’s products become commodities and the prices fall together with the profits as the big customers exploit their gained bargaining power. (Pierce et al. 2006. p. 87-102)

All though the situation where large buyers can dictate the future of the supplier may be serious, there is nothing to do in short term if there simply are not many buyers for the product the organization is offering. However, in the long term a healthy organization should be able to readjust its strategy and push for less occupied and more desirable markets. In fact industries where there are only few industrial buyers are usually trying to develop new business models. (Pierce et al. 2006. p. 87-102)

The challenge of the future is likely to be how organizations can stay close to its strategic customers and to reduce the dependency on them at the same time. This dependency has the potential to be among the highest strategic priorities impacting the survival of the organization and most likely in a negative way. The answer lies in reaching out for more profitable markets and customers. However, by investing heavily on strategic customer management the organization means further locking itself to a least attractive part of the market that offers high pressure to lower prices and cut profits. (Pierce et al. 2006. p. 87-102)

This demands that organizations make clear distinction between major accounts and strategic accounts. Major accounts should be defined as important but still normal supplier buyer relationships where traditional transactions take place. The major accounts definitely demand special attention but they are buyer supplier relationships nevertheless. The strategic accounts should only be those that can be considered to offer more than just sales and profits, for example important technical know how or references. (Pierce et al. 2006. p. 87-102)

Not all supplier buyer relationships have potential to become strategic accounts, rather far from it. It is noteworthy that it is not even desirable to develop many strategic relationships as pointed out before. The relationship becoming strategic appears to be more exception than rule. Especially this is the case where the relationship would be strategic for the both parties. If the relationship is strategic only for other party, then the relationship is not strategic but rather the other party has misjudged the situation and is vainly investing to the relationship in a way that is unlikely to pay off. Misjudging the relationship is usually more dangerous for the suppliers since dangling itself to a regular buyer supplier relationship the supplier is betting its future on random buying behaviour. (Pierce et al. 2006. p. 87-102)

The relationship can only became strategic if there is continuous alignment between supplier and buyer. However, even those cases it is likely that the relationship is strategic for both parties only on some levels or projects (Pierce et al. 2006. p. 87-102). Even the appearing strategic relationship rarely promises eternal customer loyalty.

Strategic relationships are contemporary and transitory by nature. The relationships are directly affected by the customers will to compete in the market. Customers develop their own market strategies and adopt new businesses and new technologies. This may leave yesterday’s strategic supplier abundant today. (Pierce et al. 2006. p. 87-102)

The sudden collapse of the strategic relationship can be very destructive for the supplier. The strategic accounts tend to be very public and fall out on those relationships may result as a negative impact on the share value. The sudden unpredicted negative impact on sales and profits may leave the supplier vulnerable to a predator. The sudden discontinuation of the relationship may bear other expenses for the supplier because adjusting production to lesser volumes, disengaging integrated systems, rebuilding processes previously shared with the strategic account, reallocating existing resources and retain new business. The cost of losing strategic account may therefore not be the loss of important customer but rather the loss of future of the organization. (Pierce et al. 2006. p. 87-102)

Because the buying organization of the key account is usually very complex and different dynamics influence on the outcome it is sometimes hard to understand customer's decision process and strategies. The relationship however, demands lots of internal resources that need to be allocated properly. It is easy to under or over invest to the relationship which both lead to problems for the supplier. (Michel et al. 2003. p.254)

The choice of degree of involvement and investment on the relationship is therefore a strategic one, which because of learning defines the strategic path of the organization. This in turn defines the technological research and manufacturing investments (Michel et al. 2003. p.258). This means that by not managing relationships effectively the organization can set its destination to path that leads to troubles.

The relationship can only be strategic, if it is mutually strategic. If the relationship matters only to other counterpart, the relationship is not strategic. Especially important is the importance to buyer. This importance can be divided in top the two different measurements. The first is the market share of the buyer's total buying in certain category. The buying can be described strategic only if the market share is more than 50%. The other aspect is whether the customer is lead user of the product. Important accounts tend to be those that are lead users even though the market share might not be over 50 percent. (Arnold et al. 2001. p.15)

The strategic relationship view gives interesting insight in to the whole phenomenon of supplier-buyer relationship by acknowledging the fact that some customers are inherently more important than others in many other ways than just in monetary terms. The supplier can gain competences from the strategic relationships. However, only by combining the relationship aspect with the strategic view and environment we are able to assess the supplier’s position and alternatives.

2.4 The Synthesis –Key Challenges in Supplier-Buyer Relationship

The synthesis builds key challenges in supplier-buyer relationship –model that considers the most important challenges in the supplier-buyer relationship. The model describes the situation that surrounds the suppliers. The model describes three important concepts as shown on the figure 3 “Interactions Between Environment, Strategy and Relationship” and how they interact to determine the supplier’s position.

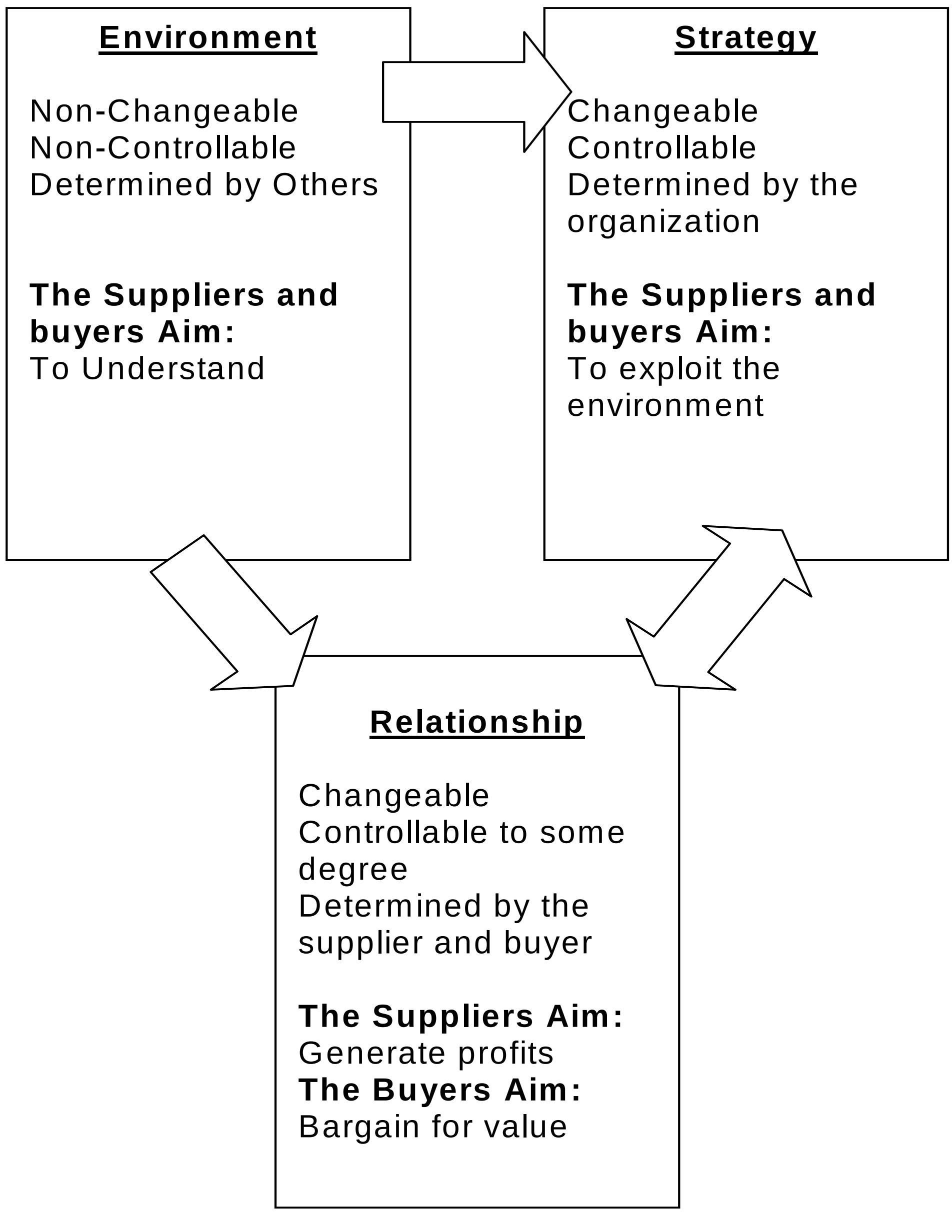

Figure 3. Interactions Between Environment, Strategy and Relationship

The environment in the competitive markets, in the short-term is non-changeable and non controllable for the organization. Therefore the environment should be understood and taken in to the account. However, to fight against environment would probably be waste of resources than do any good for the organization. Therefore the aim for the supplier and buyer would be to understand the environment.

The strategy should fit to the environment and it should be changed and modified while the environment changes. The strategy in the equation is the only of the three big variables that in the end is controlled by the supplier or buyer. Each, the supplier and the buyer control their own strategies that should fit to the environment and try to exploit the opportunities the environment enables. However, the relationship between the supplier and buyer will affect the strategies that the parties employ. Misjudging the relationship will therefore eventually result in the wrong strategy.

The relationship between supplier and buyer is always the results of interaction between the supplier and buyer but also factor of the corresponding strategies and environment. The supplier and buyer can try to affect to the relationship by adjusting their strategies but it still contains uncontrollable elements brought in by the other party but more importantly by the environment.

From the theories concerning the Supplier-Buyer Relationship, this research draws important focus points. These focus points are important factors based on the theories that help to point out the problems in the supplier-buyer relationship.

2.4.1 Environment

The environment explains how the organizations compare to its environment. Many of the environmental issues are objects that the organization has very little possibilities to change or determine; rather in the competitive markets the environment is given. So, according the theory, the macro environmental factors are uncontrollable in nature and those factors affect the whole market. Therefore the economic, cultural, technological, political and ecological factors can only affect organizations in negative way only in the short term. If the negative issues persist they inevitably become issues in strategy and organization.

The micro environmental factors such as competitors, customers and suppliers can affect the organization’s capabilities in doing business. However, such environmental changes are almost always considered strategic issues rather than uncontrollable factors affecting business negatively. Therefore, the research should establish whether the challenges in environment could be classified as macro or micro environmental. The micro environmental challenges are always strategy based issues and even macro environmental challenges became strategic issues if they persist more than temporarily. Therefore the first important indication of the challenges in the environment is:

Are the difficulties that the suppliers are having caused by the micro- or macro environment of the electronics industry?

For this specific case it is also important to notice the affects global competition and therefore we must also consider:

How is the global competition affecting on the industry?

The macro environmental problems affect all the organizations in the market. Therefore the effects should be felt by all of the organizations in the market and it is relevant to ponder if there are any other organizations that are successful in the same market and if so, it is strong implication that the problems are more to do with strategy than environment. Therefore the last important point to consider as indication of environmental changes is:

Are there any other profitable organizations in the industry?

The whole environmental analysis can be summarized as in table 1”Environmental Analysis”. The table 1 demonstrates how the different concepts are measured to produce analysis of the suppliers and their environment.

Table 1. Environment Analysis

ANALYSIS	TOPIC	QUESTION
Environment	Overall Environment	Are the difficulties the suppliers face caused by the micro- or macro environment of the electronics industry?
Environment	Global Competition	How is the global competition affecting the industry?
Environment	Affects on the Industry	Are there any profitable organizations in the industry?

2.4.2 Strategy and Competitive Advantage

Strategy and competitive advantage indicate how well the organization can use its own resources related to customers and markets overall. Strategy and Competitive advantages can be determined and enhanced by the organization itself. The organization has to however understand the limitations that the environment determines.

Because healthy organizations grow and change it is important implication of the strategy that the organization with correct strategy can attract new buyers, especially if there are troubles with current customer base. Therefore it is important to consider whether:

Have the suppliers been able to keep and attract new profitable customers?

In today's business the environment where the organizations operate keeps on changing. There have even been suggestions that the change is the only constant the organizations face. Because strategy must follow and fit the environment it is only natural that the strategy must change accordingly as well. The sstrategy is concerned with matching organization's resources and capabilities to the opportunities that arise in the external environment (Grant 2002. p.132). Therefore the need to ask:

Have the suppliers been able to change their strategy when needed?

The strategy should be fitted to the environment but also to organizations own competences. Therefore we need to ask:

Have the suppliers analysed their capabilities and used them strategically?

The table 2 "strategy analysis" illustrates the analysis and questions that need to be understood to be able to assess the strategic fit of the suppliers.

Table 2. Strategy Analysis

ANALYSIS	TOPIC	QUESTION
Strategy	Strategic Achievements	Have the suppliers been able to keep and attract new profitable customers?
Strategy	Need to Change	Have the suppliers been able to change their strategy when needed?
Strategy	Competitive Advantage	Have the suppliers analysed their capabilities and used them strategically?

The table 2 "Strategy Analysis" emphasises the key concepts in the strategic field from the supplier's strategy and their fitting to the overall environment.

2.4.3 Relationship Aspect

Relationship between the supplier and buyer is combination of the previous to factors, environment and the supplier’s strategy. However, the buyer plays big role in determining the nature of the relationship.

Furthermore the supplier’s situation with competitors and other customers, both existing and potential, has implications for the supplier.

Because each transaction bears risk, then each successful transaction builds relationship. Relationship therefore evolves over time as both organizations learn from a series of transactions. The developing relationship has an impact on transactions as well. This evolving of relationship has two dimensions: investments over time and the atmosphere of the relationship. (Michel et al. 2003. p.82-86)

How does the buyer's environment and strategy show on its buying behaviour?

The strategy should aim to optimise the gain from the opportunities in the market; therefore it is easy to assume that an organization with fitting strategy would be able to gain more customers. However, if the organization has only few important buyers, they tend to use their bargaining power.

What is buyer's share of the total sales? Is it more than 50%?

It is easy to claim that the relationship is strategic if the supplier sells significant amounts to the buyer. However, this makes the relationship strategic only for the supplier. Really strategic relationship becomes only when the supplier is important for the buyer as well, therefore it makes sense to ask:

Is the Relationship mutually strategic or even important?

One of the most important aspects of the relationship between supplier and buyer is the fact that both parties gain mutual learning in the process. The events that take place in the relationship can often create new dynamic capabilities and therefore influence the and their value in the strategic thinking of the organization Therefore we must ask if:

Is there possibility to learn and gain useful competitive advantage in the relationship?

The table 3. "Relationship Analysis" gathers all the important factors that need to be considered to understand the importance of the relationship both for the supplier and buyer.

Table 3. Relationship Analysis

ANALYSIS	TOPIC	QUESTION
Relationship	Negotiations and Information	How does the buyer's environment and strategy show on its buying behaviour?
Relationship	Relationship Status	What is buyer's share of the total sales? Is it more than 50%?
Relationship	Strategic Buying	Is the Relationship mutually strategic or even important?
Relationship	Bargaining Power	Does buyer have and does it use its bargaining power?
Relationship	Learning in the Relationship	Is there possibility to learn and gain useful competitive advantage in the relationship?

Finally, by analysing the relationship between the supplier and the buyer, as stated in the table 3: "Relationship Analysis", it is possible to understand the dynamics that affect to the supplier. The aim of this model is to describe comprehensively the forces that influence to the success or failure of the supplier.

3 METHOD OF RESEARCH

“All research is interpretive, guided by a set of beliefs and feelings about the world and how it should it be understood and studied. Some of these beliefs may be taken for granted, only assumed: others are highly problematic and controversial.” (Denzin et al. 1994. p.13)

This research has been conducted between 2002 and 2008. It reflects the public discussion of the time, but also the longevity of the main themes. The research started out of curiosity on the two themes that kept circulating in Finnish press: the constant growth of Nokia and constant problems of the telecommunication cluster. There seemed to be a certain continuum between those two phenomena. The interest for this problem was further enhanced when the researcher was confronted with similar issues in his personal life.

The research problem should dictate the methods and approaches used in a research. This research tries to create deeper understanding of the supplier-buyer relationship and challenges that the supplier may face. The research object is qualitative and descriptive in nature and qualitative methods are the most suitable to give answers for the research question.

Qualitative research aims to provide solutions for a problem in concrete situation and studies things in their natural settings, attempting to understand or interpret the phenomenon. Qualitative researches seek to secure in-depth understanding of the research problem adding different perspectives to it. Thus the researcher can build an intimate relationship to his subject to better understand the subject. Qualitative research is always interactive process that is influenced by the researchers history, social class and even personal history. Qualitative research emphasises processes and meanings that are not rigorously examined or measured in terms of quantity, amount, intensity or frequency. Qualitative researchers emphasises socially constructed nature of reality and the situational constraints that shape the research. Unlike in qualitative research on the other hand seeks to measure observable facts and to understand causal relationships between variables (Denzin et al. 1994. p. 1-4).

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3.1 RESEARCH DESIGN

The research methods in qualitative research are not predefined or even narrowed. Qualitative researcher uses the tools of his methodological trade using whatever strategies; methods or empirical materials are in hand. The researcher sometimes pieces together or invents new tools if needed to answer the research problem. (Denzin et al. 1994. p. 14)

This research is build upon constructivistic view of qualitative research, meaning that the research aims to understand and reconstruct supplier-buyer relationships in order to gain further understanding of the phenomenon (Denzin et al. 1994. p. 112). The research first explains the relevant theories that should help to understand the phenomenon further. Then the research examines how supplier-relationships seem to work in reality and analyses the phenomenon by explaining the interpretations of the actual events and statements. By doing this research hopes to generate further understanding and perspective on the research problem.

3.2 Data Collection

In quantitative research, there are endless methods for collecting empirical materials such as interviews, direct observation, analysis of artefacts, analysis of documents and cultural records, use of visual materials and even personal experiences can be used (Denzin et al. 1994. p.11). This research uses secondary data, gathered from the mainstream Finnish economic press. This type of data is used because the aim of this research is to understand a research problem that surfaced from the interest in curious and contradicting news. Furthermore the data from different observers gives more insight to material.

The data have been gathered to some extent with personal interest. The researcher has chosen articles of general interest mainly from the Helsingin Sanomat and Talouselama. The researcher has gathered interesting quotations for further analysis to understand the how the situation was seen at the time.

All the information gathered and used in this research is available from the public sources. For the main information the research uses published articles and publicly available annual reports and announcements to shareholders. The articles used in this research are based on statements made by the employees of stock market-listed companies. The stock exchange imposes strict rules how employees and executives can comment performance related issues. Therefore it can be assumed that the statements and articles are relatively reliable source of information.

Suppliers selected to this research represent known (for general public) suppliers of Nokia. Perlos, Elcoteq, and Electrobit had to be selected because they are the companies that have been most talked in the public discussion. Therefore this research uses them as subjects. Additionally, the research sometimes compares the actions of the three suppliers to actions of their competitor Foxconn.

3.3 Validity and Reliability

The product of qualitative research is a complex, dense and reflexive creation that represents the researcher's understanding and interpretations of the phenomenon (Denzin et al. 1994. p.3). The limitation of qualitative research is that the objective reality can never be captured.

The empirical part of the research uses written documents. Documents are generally created for personal reasons and to need to be understood in their context. If the documents are reread in different context, they may get new meanings. This contextualized interpretation may affect to the research, since the message that the articles bear has become clearer and more understandable, when it has been replicated over the time.

The observations of the research are based on the few case organizations and understanding of their situation. The results are therefore difficult to generalize in reliable manner. The constructive research's results tend to be probable and they should be tested by critically applying the results and theories of other studies to results (Kekäle.2001. p. 557). This applies to this research as well.

4 FINDINGS

Finland has many companies that do business with Nokia. Almost all organizations have some kind of relationship with Nokia or Nokia's partners at some level. However, the aim of this research is to increase understanding of the supplier-buyer relationship.

4.1 The Companies and their relationships

If the partner has been very successful and has been able to grow significantly, like for example Nokia has, it has meant that the supplier have been growing fast as well. However, for a small supplier to grow as fast as Nokia demands a lot of resources. The fast growth of the subcontractor's partner easily leads to the situation where the subcontractor lacks money and even competences to keep up with the pace (Lilius 2007). Not being able to keep up with the pace can easily lead to a many sort of problems with the partner.

The situation gets even worse if the company has already invested all of its resources on the partnership and still lacks competences. Losing the biggest customer is always difficult but it can easily be unbearable if the biggest customer generates significant percentage of the company's revenues. Obviously, the situation easily develops in the way that the subcontractor is heavily dependant of the partner. When a management sees a opportunity to grow successfully alongside the partner it is hard to say no even though growing and investing alongside the partner may demand cutting or neglecting other ventures, after all small companies usually have very limited resources.

However, having been part of the partner's success has benefited the subcontractor as well. The subcontractor has been able to learn many important competences (Lilius 2007) and even developed valuable dynamic capabilities. The company should then decide how it can use gained dynamic capabilities to create competitive advantage in the markets.

4.1.1 The Electronics industry

The electronic industry is very competitive environment. The industry is constituted of big brand name buyers like Nokia and Sony while the supply side is over competitive and traditionally full of small and medium sized competitors. The suppliers of the electronics industry are in very difficult position. The raw materials are generally bought from big global manufacturers who are able to dictate their pricing *(Raeste 2003)*. On the other end the buyers are also big multinational conglomerates that are in good position to negotiate with the suppliers *(Raeste 2003.)*. In essence the electronics industry is typical market that can be best described as hyper competitive global market. There are only few big buyers and many relatively small suppliers. The concentration of the buying to few big customers intensifies competition for the suppliers.

The market is in essence global market with lots of potential competitors and substitutes. It is really hard to divide it in to different geographic segments. The electronics industry tries to standardize many of its components to be able to produce consumer products cheap and fast. This further emphasises the bargaining power of the buyers.

The global competition and typical disruptive changes in technology mean that the organizations must be able to change and adapt to their environment very rapidly. To compete in highly competitive global markets the suppliers must demonstrate responsiveness and flexible product innovation together with management capability to coordinate and allocate internal and external resources in conjunction with the competition and environment.

4.1.2 Nokia and Finland

Nokia is a global giant in a small Finnish economy. It has a tremendous impact on the whole Finnish economy. Nokia is the single most important company in Finland. It is much more than one company among others. It is the biggest, pretties and the most prestigious. For example by 2000 it already contributed 4 percent to Finnish GDP, its exports were more than 20 percent of overall Finnish exports and Nokia's R&D spending was one third of overall Finnish R&D spending (Ali-Yrkkö et al 2000 p.48). By 2005 Nokia directly produced 3.5 percent of the Finnish GDP (Karttunen 2005). Indirectly, Nokia is effect is even far more important. For example, in January-April 2005 the Nokia account for over 52 percent of the overall exchange in the Finnish stock exchange. (Karttunen 2005)

The whole Nokia cluster consists of components and contract manufacturing, ICT-systems, equipment and related services including network operations and value added services (Ali-Yrkkö et al 2000 p.48). Nokia sources several different products and services in Finland. For many to be supplier for Nokia is the best reference one can have in Finland. However, given the size of the Nokia, many of the suppliers are really dependent on the Nokia (Karttunen 2005).

4.1.3 Perlos

Perlos is a worldwide product design and manufacturing partner for the telecommunications and electronics industries. Perlos operates in more than ten countries in Asia, Europe and the Americas. Perlos operates in the telecommunications and electronics industry. Perlos is the world's largest supplier of mechanics to the telecommunications industry. (Anon. 2008A)

Perlos has been very cautious in its strategies. It has had various negative experiences in trying to get new customers. Perlos has tried to use its competences and expertise to diversification in to medical industry. However, it has not succeeded in doing this. Perlos has not used vertical integration or mergers and acquisitions in its strategy. (Alkio 2003; Alkio 2004; Rajalahti 2004)

Perlos states: We are the preferred partner for our customers and a supplier worth their trust. We react quickly to our customers' changing needs and fulfil their expectations well enough to create a strong foundation for a long-term, profitable business relationship. (Anon. 2008A)

4.1.4 Elcoteq

Elcoteq is the world's seventh largest contract manufacturer *(Niskakangas 2007)*. Elcoteq has tried to grow horizontally by gaining new customers with the existing products. Even though this has helped a little the company still lacks the vertical integration that the Nokia is demanding (Laitila 2007). In 2006 Elcoteq gained new customers outside the telecom industry but it still was not able to grow as fast as the industry. The industry revenues grew up fifteen percent in 2006 when the Elcoteq only managed to grow its revenues three percent (Laitila 2007).

Elcoteq has been very consistent in its strategy. It has tried to grow organically and gain critical mass. It has not used mergers or acquisitions. Neither has it tried to vertically integrate. It has tried to diversification by tried to gain new customers in the industrial electronics. (Ahosniemi 2001; Alkio 2004)

Elcoteq has stated that they will gain competitive advantage in their relationships by doing "co-evolution" and segmenting its market better. (Junkkari 2000)

4.1.5 Electrobit

Electrobit has long been supplier of Nokia. Today the Electrobit in addition to its design services, develops, sells and markets its own technologies and products to customers. The company's customers include the telecommunications, automotive, defence and space, industrial automation, well-being and medical industries. (Anon 2008B)

Electrobit has probably been among the most courageous of the Finnish Nokia's suppliers in its strategy. Electrobit has been strong enough to try to gain new customers by diversification, vertical integration, adding mergers in to its repertoire and even developing own branded products. Even though Electrobit has had and still has fair share of its problems today it has been able to reduce its dependency on Nokia. (*Ahosniemi 2001;* Laitila 2006)

By 2007 Electrobit had achieved a situation where none of the customer shares exceeded 11 percent of the net sales and the ten biggest customers amounted only to 56 percent of the annual net sales (Anon. 2007 p.4). Electrobit has implemented strategic changes that have seen it focusing on two businesses. 2007 the Electrobit's strategy is to concentrate and became a leader in selected automotive and wireless business. The CEO Pertti Korhonen states in his 2007 review that the organization will seek to build a balanced customer portfolio. (Anon. 2007 p.4) Entering new markets, winning new important customers and introducing new products and services have done this (Anon. 2007. p.4). Electrobit has also strengthened its marketing and sales capacity and tried to globalise its operations platforms. The strengthening of marketing and sales has lead to a new brand and visual identity. (Anon. 2007 p. 4)

About Relationships 2007: Our strategy is to establish wide, deep relationships with the leading customers of their industry and our partners reflecting a balanced customer structure. (Anon. 2007 p.4)

4.1.6 Example of Competitor: Foxconn

Foxconn is the success story of the contract manufacturing. It was relatively small player in the 2000 but it has grown aggressively ever since.

Foxconn has implemented very aggressive strategy that has consisted from the mergers and acquisitions together with aggressive vertical integration. Foxconn for example bought Finnish Nokia's supplier Elmo. The company has been very aggressive in its moves. (Anon. 2008C; Alkio 2007B)

Foxconn has been able to use its capabilities and strengths to gain many new customers and grow bigger and more important for its buyers. Today Foxconn serves many different industries and enjoys economies of scale and learning that enables it to compete with quality, innovation, price and flexibility. (Anon. 2008C; Niskakangas 2007)

4.2 Supplier-Buyer Relationships in Reality

In the following the research analyses the issues in the supplier-buyer relationships between Nokia and its suppliers. The analysis is based on the model explained in the previous chapters. The relationship aspects of the industry are analysed by the structural three-dimensional view. Each of the key challenges: environment, strategy and competitive advantage and the relationship

4.2.1 Environment

The environment explains how the organizations compare to its environment. Many of the environmental issues are objects that the organization has very little possibilities to change or determine; rather in the competitive markets the environment is given. Table X. further recaptures the model's main environmental questions.

Table 4. Environment Analysis Implemented

ANALYSIS	TOPIC	QUESTION
Environment	Overall Environment	Are the difficulties the suppliers face caused by the micro- or macro environment of the electronics industry?
Environment	Global Competition	How is the global competition affecting the industry?
Environment	Affects on the Industry	Are there any profitable organizations in the industry?

Table 4. "Environment Analysis implemented" presents the main questions that help to define the environmental challenges in the supplier-buyer relationship.

Are the difficulties the suppliers face caused by the micro- or macro environment of the electronics industry?

The following articles describe how the environment of the suppliers has changed and how it affects the suppliers.

> *"For example the suppliers of mobile phone components have to negotiate between different multinational corporations. Raw materials must be bought from the giants like DuPont and the products must be sold to companies the size of Nokia. It is impossible to negotiate better pricing for*

> *the raw materials and the buyer dictates their buying pricing. Therefore the suppliers are very volatile to economic fluctuations. When the specialized suppliers cannot make money with their own brand, they must compete with efficiency, pricing and R&D know-how."* (Raeste 2003)

This would imply that being supplier in the electronics industry is not the easiest business to succeed in. However, the environment, as stated in the theories concerns each and everyone in the particular industry. At the current state, the ones that are having problems are individual suppliers rather than the whole industry. According to the theories by Jobber the macro environment of the particular industry is important to understand so that the strategies could be fitted to the environment. Therefore the reasons for the supplier's problems are likely to be elsewhere.

> *"Elcoteq explained its difficulties by blaming external factors, blaming the situation of the industry. Encouraged by the booming economy the company quickly build up more capacity. 2000 was a good year but the capacity building was too fast and next year the company had serious problems with overcapacity.*"(Rautio 2002A)

> *"Nokia's Finnish suppliers have found the life hard recently. The suppliers have been losing out to their Asian competitors. Both the employees and shareholders have felt consequences. Layouts and fallen share prices have encouraged the owners to think about different actions. The need to have partners has been present in the discussions of the shareholders of Perlos, Elcoteq and Aspocomp. The shareholders have noticed that the competitors gain more and more orders from the Nokia. Taiwanese Foxconn has has been the biggest winner because it has been able to*

> *attract orders by promising to supply not only the components but the assembling too."* (Alkio 2007b)

The fact that there is supplier that is competitive further indicates that the environment itself is not the explaining factor. The suppliers compete in business-to-business markets where the competition is truly global. The possible competitors in the electronics industry can come from anywhere and clearly there are other organizations that are able to cope with the current environment. Therefore it is reasonable to assume that the real reasons behind the problems are elsewhere than in the macro environment.

How is the global competition affecting the industry?

These articles illustrate how the suppliers have been affected by the global competition.

> *"The suppliers that have recently announced profit warnings are all blaming similar issues. Investments internationalization and in research and development have eroded the profitability. The suppliers claim that the internationalization has been necessity because Nokia expects suppliers to follow Nokia and establish offices wherever Nokia goes." (Junkkari 2000)*

At the beginning of the 2000 the investments were usually pointed out as the reasons of having troubles in profit making. The organizations explained that during the next year the profits would materialize.

> *"Perlos expects the manufacturing of cheap high volume phones to be further transferred to countries with cheap*

> *labour such as Far East and Mexico. The suppliers must follow. Last year Perlos established manufacturing plants both in China and Hungary. Even though the mobile phone manufacturing still continues in Finland Perlos is heading overseas. Last year company employed 3503, of which only 2677 were employed in Finland".* (Junkkari 2000)

The common culprit in the beginning of the 2000 was also the investments in internationalisation that was pushed throughout the industry and was seen as action compelled by the environment.

> *"One manufacturing hour in Finland costs 20 euro, in Hungary the similar work costs 5 euro. In China according to suppliers the cost is around 3 euro and in Brazil the cost of manufacturing hour is even cheaper. Developed countries cannot match the lower costs developing countries can offer. However, one must adapt to competition. At the same time it should be considered what kind of labour is plausible to be done in Finland."* (Raeste 2003).

The internationalisation strategies were also said to have been caused by the cheap labour in the developing countries. The organizations had to internationalise their operations in order to compete with the cheaper, yet backward competitors.

> *"In addition to entirely new technology companies, also the suppliers of for example camera manufacturers and consumer electronics conglomerates are aiming to get a piece of Nokia. Perlos needs to deal with the same challenge as any other company exposed to global competition. You must run fast and improve productivity to survive. In fact the entire industry is facing the same*

> *challenge – in Hungary, China, Mexico, Brazil and the United States."* (Raeste 2006)

Yet again, in the 2006 the suppliers analysed that the reason for their problems was the intense competition within the industry and even from the different substitutes.

> *"A group of Finnish electronics subcontractors rose to shine following Nokia in the end of 1990's. At that point people spoke of the birth of a new mobile cluster. The mobile phone charger manufacturer Salcomp's announcement to transfer its production to China was the first sign of the new cluster's vulnerability. Eimo, manufacturer of plastic mobile phone components was sold on the same year to Taiwanese Foxconn. According to the Reseach Director Pekka Ylä-Anttila from The Research Institute of the Finnish Economy Etla, mergers and acquisitions are part of the industry's normal life cycle. Finland was at the top of the electronic industry's development in the 1990's, when Nokia was one the fastest growing companies in the world. In the 21th century the focus in production and consummation has shifted away from Europe and the results of the Finnish contract manufacturers have come crushing down. According to Ylä-Anttila this development has mainly been in evident. "One can always say afterwards that a smarter strategy could have been chosen", Ylä-Anttila admits. The success of the Asian contract manufacturers results from the continent's low production costs and growth of the Asian local markets."* (Niskakangas 2007)

By the 2007 it was generally pointed out that the problems were caused by the life cycle of the electronics industry. It is generally accepted view that different types of products and even industries go through different cycles. However, the life cycle of certain industry is poor explanation of the problems since there are different strategies for different phases in the life cycle. Furthermore, if the life cycle or other environmental issues would alone be culpable of bad results, there would not be other suppliers that would be profitable.

Are there any profitable organizations in the industry?

The following articles examine the competition and if there are any organizations that are profitable in the industry.

> *"Perlos can roll out some of the blame of Taiwanese Foxconn. With its determined actions and aggressive pricing, the Taiwanese company has in just a few years become one of the key subcontractors for Nokia. The mobile component manufacturer Foxconn – or more precisely Foxconn International Holding – is part of the Hon Hai Precision electronics company." (Alkio 2007.)*

> *"And it isn't just about the high cost level in Finland, but the change in the operational models within the entire industry. The so-called vertically integrated manufacturers have managed to gain an ever-larger share of the mobile phone production. Of these the most successful is Taiwanese Foxconn. Foxconn owns its component manufacturers and has thus while offering a very low sales price, managed to squeeze its overall profit on a satisfactory level. Mobile phone covers are manufactured by former Finnish Eimo factories, which Foxconn bought a few years ago. To Nokia and other mobile phone companies the production model of one giant subcontractor is tempting, because it fastens the*

> *market launching process for new products and also the selling time of a single new model shortens continuously. The buyer can set the time frame and leave the component bottlenecks for the manufacturer.”* (Lassila 2007b).

This example of the competitor choosing a strategy that fits to the current environment better than the chosen strategy of the Finnish suppliers would imply in to the situation where the environment itself is not the reason for the troubles that the Finnish suppliers are having. It seems that the strategies of the Finnish suppliers have not suited their environment. This may have been because the Finnish suppliers have not been able to change. Rather than taking environment as the explaining reason it makes more sense to point out why the suppliers has not chosen their strategies accordingly to the environment.

> *”Foxconn who bought Eimo, is an example of courage that could not be found from any of the Finnish contracts manufacturers. At the end of 1990’s Foxconn was still a relatively small manufacturer, but managed to grow aggressively through business acquisitions. Now the company can enjoy the benefits of the decisions it made. In the current situation the choices for Finnish contract manufacturers are limited. According to Ylä-Anttila from Etla, the life thread for Finnish contract manufacturers in the future is in research and development. "Manufacturing subcontracting will most likely pretty much disappear”, Ylä-Anttila estimates. The next company up for selling may be Aspocomp, who has publicly announced to be in search for a “strategic partner”. Sales rumours around Elcoteq are running wild too. If measured by its size, Elcoteq is an adequate contract manufacturer, in fact the seventh largest in the world, but in diversity it lags behind Flextronics and Foxconn.”* (Niskakangas 2007)

> *"Asians have also realised the value of offering comprehensive subcontracting services. By owning several different steps in the supply chain, the big companies have managed squeeze down sales price, while maintaining sales profits on a satisfactory level."* (Niskakangas 2007)

It seems that there are organizations that have chosen different strategies and have been able to become bigger and more profitable. Furthermore there can be seen different strategies producing different results. Therefore it would make more sense analyse how the suppliers have been using their strategies to compete in their industries.

4.2.2 Strategy and Competitive Advantage

Strategy and competitive advantage indicate how well the organization can use its own resources related to customers and markets overall. Strategy and Competitive advantages can be determined and enhanced by the organization itself. The organization has to understand the limitations that the environment determines. Table 5 "Strategy Analysis Implemented" summarizes the key strategic questions of this research.

Table 5. Strategy Analysis Implemented

ANALYSIS	TOPIC	QUESTION
Strategy	Strategic Achievements	Have the suppliers been able to keep and attract new profitable customers?
Strategy	Need to Change	Have the suppliers been able to change their strategy when needed?
Strategy	Competitive Advantage	Have the suppliers analysed their capabilities and used them strategically?

The table 5: “Strategy Analysis implemented” presents the main questions that help to define the strategic challenges in the supplier-buyer relationship.

<u>Have the suppliers been able to keep and attract new profitable customers?</u>

The following articles examine how successful the suppliers have been in growing and attracting new buyers.

> *”Analyst Jari Honko from Evli bank suspects that the subcontractors of Nokia are running in late. When Nokia bought the production, the subcontractors didn’t need to market themselves or their name to gain new customers, Honko tells. Now the suppliers have started an active hunt for customers, he says. The effect of running late is increased by the fact that it may take a year to a year and a half of time, until the new contract is actually producing any money.” (*Rautio 2002B)

By the beginning of the 21st century the good years and successes that the suppliers had had were ended. The competition became fiercer and the suppliers and different analyst started to worry about the potential problems of the suppliers being too dependent on Nokia.

> “*The share price of Perlos was clearly falling on Thursday. The fall was probably softened a little by the company’s announcement of new telecommunication customers. Perlos has previously been a major supplier for Nokia, but after Thursday’s announcement the company is now a “supplier for three significant mobile phone manufacturers”. Managing*

> *Director Leinilä does not want to share the companies in question." (*Alkio 2003)

By 2002 the suppliers started to indicate that they were reaching out to gain other customers than Nokia too. Almost all of the suppliers said that they were working on getting new customers.

> *"According to Leinilä, the demand in medical industry was weaker than expected. The plastic components produced for medical industry provide about ten percent of the company's turnover. The more significant reason for the company's weaker than expected results was however the fact that the start up for all new projects had not gone as well as had been anticipated."* (Alkio 2003)

However, the new ventures hardly ever produced profits or new and exiting businesses. Rather, they seemed to be ventures with no future. The suppliers started to venture in all different industries and when that failed, the suppliers tried to cut costs.

> *"It is not just about transferring the production here. Jobs are created here. Unfortunately they're also disappearing somewhere else", Managing Director Isto Hantila said. "We're here, because our customers are here. It is mandatory to us to be logistically near them. The production cycle is so intense that components cannot be transported here from the other side of the world." Perlos began its operations in China following Nokia, but has now managed to gain some new customers as well. Components are being manufactured in Beijing for example to Siemens.* (Sillanpää 2005)

Isto Hantila, the Managing Director of Perlos explains that Perlos has to internationalise and move its production closer to the customers. Therefore, Perlos needed move its production to Asia. According to Hantila, it was logistically impossible to ship products from Finland to Asia.

> *"To Swedish-Japanese Sony-Ericsson Perlos provides only with small antenna deals. Also the subcontracting deals for Siemens mobile phones are being re-evaluated, thanks to the Taiwanese owner BenQ. At the moment, orders from Siemens are bringing in about one tenth of the turnover. Perlos also manufactures parts for the Blackberry smartphones by American RIM. RIM is already the third largest customer for Perlos, but then again it hasn't been able to gain any other big customers over the past few years."* (Raeste 2006)

> *"The subcontractors' situation depends largely on how well the phone models they manufacture happen so sell. Perlos has apparently been working with models that have struggled to sell. In the category of more expensive mobile phones models, Perlos hasn't been competitive enough for other reasons. Nokia factories in Salo use large numbers of covers made in Asia, mainly because they are technologically developed and have high quality. The more complex phone models are being manufactured in Salo at the early stage of their production life cycle."* (Lassila 2007a)

By the 2007 the Perlos found itself in the situation where Nokia was importing more complete, more complex products from Asia to Salo and Perlos was lacking behind in the quality. This strongly indicates that something had gone wrong with the strategic decision Perlos had taken.

> *"Medical care equipment account for about ten percent of Perlos' turnover. The growth of this pharmaceuticals unit would be important to Perlos, because then it could release itself from its huge dependence on telecommunications. The variances in sales are big in mobile phone sector and loosing orders to competitors can lead to a sudden need for layoffs, no matter how responsible and sustainable the company tried to be." (Raeste 2006)*

> *"So far, the pharmaceuticals unit run by Jouni Pohjonen hasn't managed to grow. In the areas demanding a high level of research and development, Perlos' small size is an eternal problem for the company – the big competitors can afford to spend dozens of times more money on research and development. For an outsider it is easy to say: Give up and admit it, you are purely a mobile phone subcontractor." (Raeste 2006)*

At the same time Perlos found out that its diversification to medical industry did not go as well as the management had hoped for. Clearly many attempts to gain new customers in own industry and also diversification attempts had failed. The suppliers had not been able to exploit their strengths and were facing serious problems. Because the past strategies had failed it is important to try and find out had there been initiatives to change the strategy.

<u>Have the suppliers been able to change their strategy when needed?</u>

The following articles observe how the suppliers have been able to change their strategies to follow and fit to the environment.

*”Elcoteq is not planning on merging with any of its competitors." We are not reaching for alliances. We aim at segmenting our business more accurately and to become the world’s leading company on the sectors we have chosen", Piippo commented.” (*Ahosniemi 2001)

”The Oulu-based electronics subcontractors Elektrobit and JOT Automation have decided on a merger. The two companies justified the fusion with industrial logic and available synergies, but didn’t want to comment on the value of the benefits in reality. JOT and Elektrobit are completely different businesses and besides of their hometown and strong dependence on Nokia, seem to have really nothing in common.” (Junkkari 2002)

At the beginning of the 2000 the suppliers had started to realize that they had to change to be able to compete in the ever-changing environment. The suppliers started to indicate initiatives of mergers and acquisitions, which clearly shows a will to change.

”While searching company from each other, the suppliers and increasing their value and the refining value of their products, which in turn enables them improved profits. Analyst Pasi Pitkäjärvi from FIM bank describes that these days customers demand even deeper knowledge from their subcontractors. "Previously, the supplier might have sent a cardboard box and assembling instructions. Now they go deep into their customers’ business, already at the early stages of the production planning process", he says. The subcontractors’ urge to free themselves from Nokia is clearly visible in their quarterly reports. For example Perlos joys having gained a foothold in the pharmaceuticals section, the transformer manufacturer Efore in hospital technology, PMJ

> *in car industry and Elcoteq in industrial electronics."* (Rautio 2002B)

> *"Not all problems in Perlos have been managed get solved. A year ago it announced that the unit serving the pharmaceutical industry would be separated to its own company, but the transfer is still to be made. Now Perlos tells that in pharmaceuticals its goal is to "grow significantly bigger". According to Perlos, all options are available: buying, selling or cooperation."*(Räisänen 2004A)

The suppliers started to look outside their Nokia contacts and the statements became full of promises of getting new customers and entrances of the new businesses. This trend has continued all the way to 2008.

> *"Eimo started massive international arrangements when the Taiwanese Foxconn bought the Lahti-based company. Eimo is leaving Helsinki Stock Exchange already in January. Will Eimo's path take other companies down the same way too? "Not necessarily. Eimo's problen was the lack of critical mass. The company didn't have resources to build a world wide network", Isto Hantila says. Business acquisitions continue nevertheless. "During my first three days I have received suggestions of possible purchase targets", Hantila says. "They are interesting only if the merger brings in new customers improves Perlos' presence at the markets or offers new technologies to use. The managing director of Elektrobit Juha Sipil, has similar views. It is the managing director's duty to screen new acquisitions. "Elektrobit is openly looking for possible targets and we have had time to study several alternatives, but there is nothing to publish right now", Sipilä says." (Rajalahti 2004)*

By 2003 the environment had started to change and the suppliers saw more and more news about mergers and acquisitions. The market of the suppliers started to see first bigger suppliers that started to integrate vertically and grow as big as possible. At the previous articles it is important to notice that Elmo which was quite widely deemed as a failure was bought by Foxconn. Later Foxconn became the biggest competitor for the other suppliers

> *”The January-March profits of Perlos weakened 87 percent compared to last year. Managing Director Isto Hantila justified the weak results by saying that Perlos is “a completely different company than a year ago”. The mobile phone and pharmaceutical components manufacturing company has doubled its factory size, which has increased fixed costs. In the beginning of the year Perlos also expanded its factories in Hungary and China. Additionally, it is building new factories in Mexico and in Guangzhou and Beijing in China.”* (Mykkänen 2005)

Even though the suppliers started to look for new customers and businesses the problems in the core business persisted and the suppliers were unable to diversify enough to disguise themselves from the problems they had in the core business.

> *”Management was changed. Strategy was changed. Two strong leaders with background in Nokia, the Chairman of the Board J.T. Bergqvist and Managing Director Pertti Korhonen, are cleaning the top technology attic, leaving only the wireless telecommunication systems and car software. The focus is clearly shifting to its own products, meaning that Elektrobit wants to get rid of its image as a subcontractor.” (Lilius 2007)*

Electrobit has been the most courageous in its strategic decisions. It has shown will and bravery to make even hard decisions to pursue different strategies. The new strategies are clearly visible under the Bergqvist and Korhonen.

> *”More or less serious conversations took place in Finland in the early 2000, about connecting the subcontractor chains of Nokia. Mobile phone manufacturers would have combined their strengths in one company, the network professionals in another. The domestic merger plan didn’t go too far, apparently because during the good times, the owners didn’t see any need to or were not interested in acquiring complicated and risky arrangements. However, around the same time Foxconn evaluated things a bit differently.” (*Alkio 2007b)

> *”Elcoteq ended up last year in a dangerous slide. Markets are growing but Elcoteq is not, because it is continuously loosing the orders of its biggest client Nokia. The losses have continued during the first months of this year, when its sales to Nokia and Ericsson dropped about 20 percent. Therefore also Elcoteq is at the hart of some fundamental questions. However, for the Finland the company has become less important than many smaller suppliers. Company is shutting down its manufacturing in Finland, just like Perlos did, the company is now based in Luxembourg.”* (Lilius 2007)

By the 2005 it became evident that the changes in the overall competition had caught the Finnish suppliers. They were simple not fitted to compete with the current competition. They were using wrong competitive strategies. The suppliers were forced to cut costs and even shut down their operations. Furthermore the attempts to diversification had not been successful. When the organizations strategy is failing it is important to assess whether the organization has rightfully analyzed its resources and capabilities and is using them to compete. Therefore the next logical question is:

Have the suppliers analysed their capabilities and used them strategically?

The resources and dynamic capabilities of the organization are the important factors that used in the strategic way enable competitive advantages and core competences bringing value for the customers. The next articles analyse how the organizations and their management see their capabilities.

> *”The future is uncertain for Perlos’ factory in Britain too. At the moment the factory manufactures components to one Ericsson mobile phone. If the cooperation comes to an end, new replacing production will be searched; else the factory is going the get closed. "If factories are being opened too often, one needs to be able to shut them down too", Leinilä (Managing Director Timo Leinilä) says.”* (Alkio 2001)

This statement by the managing director of Perlos indicates that the management sees flexibility as an important competence of the company. The following statements further signal how the management of Perlos and Elcoteq see the role of competences in the electronics industry.

> *”In the early 2003 Perlos opened a factory in Manaus, Brazil. The company increased its production capacity in Hungary and at the end of the year a conveyer belt in Beijing factory started running. Perlos was also learning to better control its manufacturing processes. In 2002 it was still in trouble when markets expected new phone models all the time. Last*

*autumn the orders started piling up, but Perlos handled the test well and managed a record turnover of 145 million euro in the last quarter. What speaks for Perlos too, is that it is one of the biggest in its markets. Mobile phone manufacturers are concentrating their orders to the big subcontractors that have the resources to take part in the production planning process too.” (*Räisänen 2004a)

”According to Jari Laaninen from Perlos, production development improves also company’s profitability. ”We aim in manufacturing fewer flawed products and to create more flexibility in the production.” In the spring Perlos told they would shut down the Ylöjärvi factory which employs 600 people, but the production will not be run down before April next year.” (Suominen 2005)

”Elcoteq doesn’t have the resources for this business, because it would demand large business acquisitions. Hartikainen spent some time on Wednesday trying to convince the investors that the smaller production model has its place too. He may be right, because it is for the best of Nokia and other customers that severe competition remains in subcontracting. If few highly integrated manufacturers manage to gain a too dominant position, they may also collect the best profits, so far only enjoyed by Nokia. Nevertheless companies like Elcoteq and Perlos need to find good business partners to be able to offer the customer larger, ready made entities. Hartikainen said that the race for business partners is on at the moment.” (Lassila 2007b)

“Mobile phone cover and mechanicals manufacturing Perlos is planning on shutting down production in Finland. Perlos started on Monday the negotiations for layoffs affecting 1400

> *workers. Their aim is to reduce at least 1200 jobs of which majority will be from factories in Kontiolahti and Joensuu. Perlos has in Finland about 1600 employees. The layoffs are a continuum for company's difficulties in Finland that have lasted for several years. During the past two years the company has cut down more than two thousand jobs. At the same time Perlos has been building new factories in China and India, where the focus of mobile phone production has shifted. Over half of its employees are based in Asia."* (Lassila 2007a)

Perlos and Elcoteq claim that the most important competence that they have is the flexibility and capacity to produce large quantities. They hope to exploit the economies of scale. The lack of indications of other competences is striking. They hardly mention that there could be other ways to compete than size and flexibility. Electrobit has been different in this sense.

> *"Elektrobit is two dimensional. The old Electrobit is a bit like Scanfil: business is not going as well as last year, but well anyway. The former JOT Automation is dragging down the numbers for the entire group, all though its restructuring is clearly starting to pay off. It has begun to seem like the group of entrepreneurs how wished to lift up Electrobit, did in fact have a good idea. The knowledge and experience of Elektrobit and JOT meet in testing and that is something to include to the product and service packages sold to companies like Nokia."* (Lilius 2002)

> *"On Wednesday, also Electrobit published their results. Electrobit has been working closely with Nokia too, but on a little different level. Company's strengths are in high level product development."* (Lassila 2007B)

Electrobit has in many cases strongly indicated that it wants to be more than flexible supplier that pursues economies of scale. The choices it has made indicate that the management has analyzed the environment and is taking strategic maneuvers to be competitive and to grow.

The following analysis shows how the competition has seen the market.

> *”Asian competitors are not ruling the competition only because they sell the components cheaper. Often, they can also produce new solutions faster and more effectively. Nokia’s Taiwanese partner Foxconn can bring a new phone model from idea to production at best in just few months. Behind the talent and ability, are not the often mentioned small wages, but the effective utilization of the learning curve phenomenon and the large network of knowledge, particularly through universities all around the world.”* (Lipasti 2008)

There is clearly visible that Perlos and Elcoteq are pursuing more generic strategies than Electrobit. The statements indicate that while Perlos and Elcoteq are pursuing primarily size, Electrobit is trying to use its capabilities and competencies to fit in to the changing environment. Otherwise, the suppliers have been content with making their operations more efficient and not really pursuing for new markets or businesses.

4.2.3 Relationship Aspect

The aim of analyzing relationship that is the most important for the case organizations is to understand how well the organizations have chosen their strategies and how they have implemented them. Table 6. “Relationship Analysis Implemented” further recaptures the model’s main relationship questions.

Table 6. Relationship Analysis Implemented

ANALYSIS	TOPIC	QUESTION
Relationship	Negotiations and Information	How does the buyer's environment and strategy show on its buying behaviour?
Relationship	Relationship Status	What is buyer's share of the total sales? Is it more than 50%?
Relationship	Strategic Buying	Is the Relationship mutually strategic or even important?
Relationship	Bargaining Power	Does buyer have and does it use its bargaining power?
Relationship	Learning in the Relationship	Is there possibility to learn and gain useful competitive advantage in the relationship?

The Table 6. “Relationship Analysis Implemented” presents the main questions that help to define the strategic challenges in the supplier-buyer relationship.

<u>How does the buyer's environment and strategy show on its buying behaviour?</u>

The following articles illustrate the effects Nokia’s strategic decision has had for the suppliers.

> *“Nokia’s path to China may bring misery for Finnish suppliers by reducing suppliers business opportunities.”* (Rautio 2002B)

> *“Elcoteq has already followed Nokia by moving its manufacturing to Estonia, Hungary and Mexico. Company’s revenues have however lagged behind. Last year it missed revenue targets by 700 million euro.” (*Räisänen 2004B)

> *“Hantila states that the Finnish suppliers should consider closer cooperation. He believes that the manufacturing processes of mobile phones are going to change completely*

> *in the near future. This means that there will we fewer Finnish suppliers that can serve Nokia."* (Räisänen 2004B)

The suppliers claim that they are refocusing their activities on foreign countries because they have to follow Nokia. This implies that the suppliers have strong tendency to follow Nokia not physically but also on strategic level as well.

> *"CEO of Nokia Olli-Pekka Kallasvuo stated to Helsingin Sanomat that it is not necessarily the competence of the one supplier that counts but rather the sum of the whole cluster's competences serving that particular supplier."* (Lassila 2007b)

> *"The timing of the Taiwanese company was perfect because Nokia has systematically reduced its suppliers. Nokia orders bigger entities from fewer suppliers. Even if the Finnish suppliers had merged they would have lacked the capacity to fulfill Nokia's expectations. However jointed, bigger organization would have been able to cope with such demands by acquiring other companies to complement the capacity. Even the internationalization would have been easier."* (Alkio 2007b)

> *"Being part of the network has revealed to be problematic and the bigger clients further reduce the number of their suppliers. The big suppliers become more important and the smaller ones are not able to compete and may become supplier for the bigger supplier."* (Lilius 2007)

Nokia has clearly changed its purchasing strategy and buys bigger concepts and it tends to outsource many of its activities. This has lead to a situation where the suppliers have started to pursue mergers and acquisitions as a solution to be able to offer better service to Nokia. This in turn has lead to a concentration of the markets and the competition among the suppliers has become fiercer.

What is buyer's share of the total sales? Is it more than 50 percent?

The buyer's share of the total sales indicates two things. First it indicates the strategic importance of the buyer but it also indicates how well the organization's strategy is functioning. The following articles analyze the Nokia's share of the supplier's total selling.

> *"How Nokia is doing is the decisive factor for Perlos. Last year Nokia accounted over 50 percent of the total revenues, Ericsson accounted for 15 percent."* (Alkio 2001)
> *"Perlos manufactures components for the mobile phone and medical industries. The company is best known for its plastic mobile phone covers. Two thirds of the manufacturing of Perlos is sold to Nokia."* (Räisänen 2004A)
>
> *"Deutsche Bank's analyst Pontus Grönlund estimates that 20 percent of the Perlos's and Elcoteq's revenues come from the trade with Ericsson. Furthermore Grönlund estimates that Nokia accounts more than 50 percent of the total revenues of Perlos and Elcoteq. The amount is not a problem as long as Nokia is doing well. If there are any challenges the suppliers will face problems."* (Räisänen 2004B)
>
> *"Hantila, who started as CEO of Perlos in the beginning of the 2004 estimates that Perlos is more than 40 percent dependent of Nokia but that the overall dependent is less than 80 percent."* (Rajalahti 2004)

Even though the suppliers have tried in many ways to reduce their dependence on the Nokia, it is still their most important customer. The organizations have not been successful in gaining new customers or opening up new businesses.

> *"According to Virtanen Perlos has lost its positions with Nokia. "One can assume that our market share within Nokia has decreased. Opening of manufacturing plants in India and China will improve our position." Analysts estimate that 90 percent of Perlos's revenues come from Nokia."* (Lassila 2007A)

The relatively high market share of the supplier's sales is dedicated to Nokia. If the share is more than 50 percent, it implicates of some sort of issues with competences or strategies. Nokia is clearly the most important, even strategic buyer for many suppliers. For many suppliers the whole future is dependent on the Nokia. In essence the suppliers have given the control of their future in the hands of outsiders unless the suppliers consider Nokia to be important and loyal partner.

<u>Is the Relationship mutually strategic or even important?</u>

The following articles investigate how the suppliers and how the Nokia perceive the relationship between two organizations.

> *"Supplier's of electronics industry has often called slaves, even though companies themselves rater talk about partnership, or as CEO of Elcoteq Antti Piippo it puts "co-evolution", meaning that companies grow together."* (Junkkari 2000)

It is clear that Nokia represents major part of the suppliers business; its share of the total sales is usually so high that Nokia is the single most important customer for the suppliers representing more than fifty percent of the supplier’s total revenue. Furthermore the suppliers like to mention that they are strategic partners with Nokia. Managing Director of Elcoteq, for example describes the relationship as co-evolution.

> *Nokia’s Director of Communications Lauri Kivinen states: ”We consider each and every supplier and contract manufacturer equal, we treat them equally and see who manages to flourish.”* (Junkkari 2000)

> *“Supplier’s that have done best are the ones that Nokia is in some way dependent. This group includes manufacturers like Eimo and Perlos who manufacture mobile phone covers and plastic components. Nokia does not make plastic parts and competition is not as intense as it is in electronics field.” (*Rautio 2002A)

Even though the suppliers claim to have strategic relationships with Nokia, Nokia usually claim that they treat all their suppliers equal. This strongly implicates that Nokia does not consider the relationship to be strategic for itself.

It is hard to see how one supplier could become strategic for the Nokia in the long-term because Nokia operates in the global markets and buys products and services from all over the world. Furthermore Nokia operates in the environment that is constantly changing and making technologies and solutions obsolete. The supplier that probably represents at best few percents of Nokia’s total purchasing in certain category can hardly claim to be strategic partner unless it offers something truly unique. Good indication of the relationship's status is the way buyer uses bargaining power in the relationship.

<u>Does buyer have and does it use its bargaining power?</u>

The buyer's power in the market is usually strong in markets where the buyer has dominant position in the market. The following articles evaluate how Nokia uses its bargaining power.

> *Earlier this year PMJ Automec and JOT Automation released profit warnings. At the same time Nokia grows fast and makes record profits, quarter after quarter. Can it be said that Nokia takes its success from the suppliers? "It is not implicit that ones success is other ones misery " state Teemuaho Oy's analysts. "However, the supplier's balance sheets indicate that the buyers have negotiated better terms for themselves.* (Junkkari 2000)

> *"Analysts say that it is striking how Nokia has been minimizing its working capital. At the same time supplier's working capital has been increasing. At the same time suppliers have to keep their products longer in the stock."* (Junkkari 2000)

> *"Analyst for FIM-Bank describes suppliers as Nokia's safety valves. "As soon as times get tough, Nokia cuts the supplier's margins"."* (Räisänen 2004B)

The fact that Nokia has negotiated better contract terms and has transferred part of the risks to the supplier strongly indicates that Nokia uses its bargaining power.

> *"Every time Perlos's profit margins rise, Nokia's negotiators come and tighten the contract terms".* (Raeste 2006)

The Table 7. "Nokia's Bargaining Power Analysis" analyses the common implications of the Nokia's bargaining power in the markets through evidences in the market behavior. The table is based on the theory of bargaining power introduced earlier in the research.

Table 7. Nokia's Bargaining Power Analysis

THE INDICATIONS OF NOKIA'S BARGAINING POWER	YES/NO	BARGAINING POWER
Significant proportion of buying is done by one organization	Yes	High For Buyer
The buyer has negotiated favourable terms	Yes	High For Buyer
Absense of supplier favoring terms	Yes	High For Buyer
Evidence of exclusive supply designs	Yes	High For Buyer
Buyer Concentration	Yes	High For Buyer

The Table 7 "Nokia's bargaining power analysis" proposes that the market contains strong evidence that Nokia has elevated bargaining power. Significant part of the buying is done by one organization and buyer has negotiated favorable terms transferring risks to the supplier. Furthermore there is no evidence that the suppliers could negotiate favorable terms for themselves.

The table illustrates that the relationship between buyers that has this much bargaining power is not going to be on equal terms between partners. Therefore this evidence further suggests that it is hard to become strategic partner of Nokia but there can be other benefits in relationship with Nokia.

<u>Is there possibility to learn and gain useful competitive advantage in the relationship?</u>

Learning and creating new capabilities is one important benefit that organizations can gain from relationships with demanding customers. This benefit alone may make otherwise unprofitable relationship worthwhile. The following articles describe how the suppliers have been able to learn in the relationship.

> *The new CEO of Perlos Isto Hantila says that he is still learning to live with Nokia. "I keep thinking, how we can improve." Hantila states that cooperation with Nokia means investments in process development. Process development investments are costly but it may pay off with new customers."Nokia is demanding partner. If you are successful with Nokia, you can be successful anywhere."* (Räisänen 2004B)

> *"Relationship with Nokia has meant growth and success for Perlos, but it has been worrisome too, other partners should be gained too."* (Räisänen 2004a)

> *Perlos has been able to refine its technological know-how and its distribution system. Perlos has wide know-how in combining metals and plastic. It follows humbly Nokia to India and streamlines its operations in Finland. Perlos competes in industry, where there is always cost pressure. Even though Perlos itself distinguishes itself as solution supplier and technology powerhouse, expanding and getting new customers is difficult. (*Raeste 2006)

There is some evidence that suppliers are trying to create new capabilities in the relationship with Nokia but the benefits of those new capabilities are not evident. The suppliers do not indicate that they would have gained something important from the relationship with Nokia. However, they have in the past been able to grow together with Nokia, which would indicate that they have in the past been able to create valuable capabilities.

The contradicting evidence comes in the form of failed strategy. Even though it is possible that relationship with Nokia can be beneficial by creating new dynamic capabilities, the suppliers have not been able to use them in a way that would have resulted in new customers or new innovations and businesses.

4.2.4 The Synthesis – Key Challenges in Finnish Electronics Industry's Supplier-Buyer Relationships

The suppliers without the doubt face environment that is challenging in many terms. The table 8: "Key Challenges Synthesis" gathers the explanations of the challenges that the suppliers have used.

Table 8. Key Challenges Synthesis

	Perlos	Elcoteq	Electrobit	General Discussion	Foxconn
TROUBLES EXPLAINED BY:					
ENVIRONMENTAL ISSUES					
Demand				Yes	
Size					
Investments	Yes	Yes	Yes	Yes	No
Competition From Asia	Yes			Yes	
Global Competition	Yes			Yes	
STRATEGY					
Extra Capacity		Yes		Yes	
Life-Cycle of products				Yes	
Challenges in getting new customers					
RELATIONSHIP					
Relationship/Nokia	No	No	No	No	No

As the articles and summary indicate, the suppliers mainly indicate that they are facing troubles because the environment or competition is so challenging. Some of the suppliers admit though that they have made some misjudgements on their strategic choices. The majority of the explanations somehow contain the notion of challenging environment. None of the suppliers say that their problems are caused by the relationship with the buyer.

Environment

According to theories the challenges the suppliers face in the environment are not comprehensive explanation in the long term. The environment may change and be demanding in the short term but if the problems persist, the troubles are then in adapting to new environment.

Strategies

Strategic problems are not commonly used as an explanation in this research's material. However, the signs that suppliers have troubles with challenging environment are most likely due to problems fit the strategy.

Relationship

The fact that none of the suppliers blame Nokia for their problems, even though analysis shows that Nokia is using its bargaining power quite cruelly, is probably explained with common sense. There is nothing to be gained from badmouthing buyer.

The Suppliers

By analysing the citations it would seem reasonable to assume that Perlos and Elcoteq have chosen similar strategies, while Electrobit has been more courageous in its decisions. It seems to have chosen distinctive strategy that emphasises diversification. It has even chosen to divest most of its contract manufacturing business and instead it is focusing on outsourced research and design and also trying to make its own branded goods.

Perlos and Elcoteq seem to emphasize that they are good partners of the buyer. Both companies explain that they are investing on becoming bigger and being leaner and more adaptative for the demand fluctuations. They are trying to gain more customers but mainly with similar business models that they have used in their previous businesses.

It is probably worth noting that the building blocks for success were there for Elcoteq, Perlos and Electrobit in the end of the nineties. The suppliers had similar opportunities to use the challenges in the environment and customers to gain similar competitive advantage as Foxconn has. There is no other explaining factor than the better fit of the Foxconn’s strategy to success. Any of the Finnish suppliers could have made same choices and might have become similar success as Foxconn. However, the strategic decisions the organizations chose have lead to a situation where the future looks rather dim.

5 CONCLUSIONS

The research started out of curiosity to know what was going on with the supplier-buyer relationships in the electronics industry around 2001. At the end of the research in 2008, it seems that the suppliers are still having similar issues and have not been able to solve their problems. Rather it appears that the situation is worse today, than it was 2001 and many of the suppliers have discontinued their manufacturing in Finland. However, in 2001 it seemed that all the suppliers were facing similar troubles and were not able to solve them, but at least by 2008 there has been clear signs that the suppliers had understood that they have to change in order to survive and the suppliers have at least tried different strategies.

There is no doubt that the challenges the suppliers have faced are a sum of many different forces. However, it seems likely that unsuccessful strategies or inadequate resource and capability combinations are mostly to blame. Environment may make these problems worse, but it does not alone explain them. Even though the comments in the annual reports and newspapers claim that the environment is to blame for most of the issues. The root of the problems suppliers face can be blamed on inability to change. The suppliers have not been able to change their strategies when the environment has changed.

Failure to adapt strategies to changed environment has meant that the suppliers have not been able to fight for their profit margin. Consequently, the suppliers have tried to get new customers to get the profits up, but in most cases these attempts have failed. It seems that the competition in contract manufacturing is intense and it is not easy to get new customers in new industries. Prime example of this is Perlos’s ambitions in the medical equipment industry.

The close relationship the suppliers have had with their biggest buyer Nokia has helped the suppliers to grow. However, the inability to change and compete to get new customers has meant that the suppliers have become too dependent on Nokia. When Nokia’s environment has changed, forcing Nokia to change its strategy, it has meant that the suppliers have found their life really cruel.

The constantly changing technology and global competitive market, where Nokia operates mean that Nokia must keep developing and constantly changing in order to be competitive. Nokia is big global company with lots of resources in house but also it has build a network of suppliers around it, which can complement Nokia’s resources and capabilities if needed. These two factors mean, that despite its size, Nokia can change quickly if needed. This means that a supplier should have capability to change constantly if it tries to follow Nokia. Furthermore, this constant change means that it is almost impossible to be strategic partner to Nokia because Nokia is always looking for the latest innovations, and in order to keep the strategic partner status, the partner should always be ahead of its competition in terms of technology, innovation and cost.

The suppliers have time and time again emphasised that they are important suppliers of Nokia. This would appear to signify that they have believed to be important to Nokia, but in fact it appears the suppliers have misjudged their relationship. Nokia might be the most important and most strategic customer for the supplier, but as Nokia has stated, they treat every supplier equally. The fact that Nokia is such a big player in the Finnish markets means that even regular transactions may appear to be strategic partnerships for the supplier and it can easily misjudge its relationship. Suppliers may reach the strategic relationship status with Nokia for certain products, markets or technologies. The changes that happen in the technology, division strategy, market strategy, distribution or products may result in the undesirable results making even the most important suppliers obsolete for Nokia. Nokia’s drive to be the best means that it can only cooperate with the most competitive suppliers, and in the intensively competitive markets that is a tall order.

Furthermore it can be said that this topic needs more research in the area of strategic account management, strategic vision, and the situation where the Finnish companies are. More research is needed also regarding strategic options on how a regular supplier can exploit the possibilities that cooperation with Nokia offers. Additionally, more research needs to be done on the subject whether Nokia can do something to help its suppliers to face this problem and whether Nokia can have commercial interest in facilitating its suppliers to face this problem. The commercial interest might be the need to secure enough competition among its suppliers.

The research offers implications for the shareholders and management of the Nokia's suppliers and other organizations pursuing similar strategies. Even though it might appear to be desirable to have important global customers, there are inherent risks in the relationship too. The global companies will change supplier, when they find better. Therefore it is important to have different types of customers, so that the whole future is not based on one volatile customer.

It is important to remember that Nokia as well as other global companies operate in the global environment where they can choose from many different suppliers and there usually are many options available. Hopefully there are not many more organizations that stubbornly believe that they offer something truly unique since in the global economy there are always substitutes. It is in the best interest of Nokia to find those substitutes and other suppliers to be able to use its bargaining power to gain best possible benefits with best possible prices from the suppliers. The location of the supplier is not important, even the relationship with the supplier has little relevance in the most cases. It is cruel world and Nokia is competing globally and only way to succeed on those markets is to be able to offer best possible value for the customers.

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