

Developing strategic supplier relationships at Volvo Powertrain

Introducing a method for choosing and involving suppliers in developing the
customer-supplier relationships

Master of Science Thesis in the Master Degree Program Supply Chain Management

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EXECUTIVE SUMMARY

Relationships with suppliers have become increasingly important to buying firms. Owing to outsourcing, globalization and recently also the trend of supplier base reduction, customers are becoming more dependent on their suppliers. The suppliers are more seen as extended resources of knowledge and getting access to that knowledge is claimed to be as important for a customer as handling internal resources. Access is gained by establishing relationships with the suppliers and thus, the purchasing function is becoming strategically more important for a buying firm.

At Volvo Powertrain (VPT) Purchasing, a wish to be perceived as the preferred customer to the strategically most important suppliers was identified. The authors' empirical studies showed a gap where not all strategically important suppliers perceived VPT as their preferred customer. A gap was also identified regarding how VPT could identify and target its strategically most important suppliers and facilitate the relationship development process with the selected suppliers.

One of the key suppliers explains that their preferred customers are receiving better prices than their other customers. They also place their best employees and mechanics with their preferred customers primarily and respond quicker to the needs of their preferred customers.

It is very important for VPT to become aware of the advantages given to the preferred customers. Being perceived as a preferred customer can allow the customer to get access to the above mentioned advantages. Depending on the supplier the advantages received may differ, but being a preferred customer surely affects the buyer's possibilities to get attention and to get the most out of its supplier relationships.

Another supplier shared its thoughts about risks in the supply chain.

Another key supplier believes VPT is pushing the product development work on the suppliers leading to an increased expertise developed at the suppliers. Furthermore, the supplier thinks this poses a large risk for VPT since the expertise will be lost if the supplier would end the cooperation.

In the literature, the trend of outsourcing is extensively discussed. Shifting the use of key resources towards the suppliers poses a demand for more intense relationships with the suppliers in order to get access to their knowledge and to reduce the risks of shortage and loss of knowledge.

Being perceived as a preferred customer allows for receiving advantages which brings competitive advantages such as access to capacity, new innovations or increased attention from the supplier which makes those relationships highly important. One supplier expressed a wish for an increased focus on the supplier hosts, employees within VPT with an increased focus on one supplier, in order to facilitate the work for the suppliers.

One key supplier calls for more knowledge and authority at the "Supplier hosts" within VPT.

Facilitating the work for the suppliers is important in order to be perceived as the preferred customer. If the communication and cooperation with a customer is perceived as complicated or time consuming, the supplier is bound to prefer doing business with another customer where the communication and cooperation is perceived as easier and smoother.

In addition to this, the suppliers expressed interest and welcomed the initiative from VPT of improving the customer-supplier relationships.

One key supplier welcomes the initiative from VPT about involving suppliers in an effort to improve the relationship between them and think it is a step towards being a more trustworthy customer.

Becoming the preferred customer requires heavy investments and a long-term involvement and a customer should therefore only target a few of the strategically most important suppliers where the relationship development potential is the highest. However, improving the relationship with the other strategically important suppliers can facilitate the cooperation and bring advantages to the customer, hence smaller investments than that of becoming the preferred customer is still likely to bring a positive return on investment.

The outcome of this research is a four step method for developing the customer-supplier relationships. It is proposed in order to support VPT in developing the relationships by involving the suppliers, focusing the largest efforts and investments on those supplier relationships with the highest development potential. In addition, recommendations are given to VPT for facilitating the customer-supplier relationship development process. The *Customer-Supplier Relationships Development Method* involves identifying and targeting suppliers to develop the relationships with and a workshop-model for facilitating the development. Moreover, VPT is recommended to appoint a *Key Account Manager* responsible for each selected relationship where VPT aims at becoming the preferred customer. The purchasing function is also recommended to be measured according to its three strategic roles of Rationalization, Structure and Development.

Key words: Customer-supplier relationship, Development, Purchasing, Supplier base, Supply Chain Management.

PREFACE AND ACKNOWLEDGEMENTS

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Finally we would like to thank our friends and family for their fantastic support during our thesis work period and the many long evenings spend working on the Master thesis. Their support helped us reach our results.

Lundby, Göteborg, June 11th, 2012

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Abbreviations

ADG – Araujo, Dubois & Gadde (authors)

ARA – Activities, Resources & Actors

BP – Business Package

B2B – Business-to-business

CD – Commodity Director

GSCF – Global Supply Chain Forum

IMP – Industrial Marketing & Purchasing

KAM – Key Account Manager

PM – Purchasing Manager

PL – Project Leader

VBPP – Volvo Business Partnership Program

VGTT – Volvo Group Trucks Technology

VGTP – Volvo Group Trucks Purchasing

VP – Volvo Penta

VPT – Volvo Powertrain

VSIB – Volvo Supplier Information Base

V3P – Volvo 3P

WRI – Working Relations Index

1. INTRODUCTION

This chapter starts with a background in section 1.1 introducing the area of customer-supplier relationships in the context of manufacturing organizations and its supplier base. It will be described how this area has emerged as well as why it is interesting for Volvo Powertrain and generally for other technology intensive companies in the industry, to understand how to improve the relationships. This leads down to the purpose of this Master thesis in section 1.2. In sub-section 1.2.1 a thorough problem analysis where the research questions are presented. The expected outcome of the thesis is thereafter presented in sub-section 1.2.2.

1.1 Background

Relationships with suppliers have become increasingly important to buying firms. The importance of the supply side has increased during the last few decades (Ford et al., 2003) and the cost in percentage of purchased goods and services compared to buying firms' total costs constitute as much as 70-80% in some sectors (Gadde et al., 2010). The outsourcing trend has enabled buying firms to become specialized, and together with shorter product life cycles and broader assortments this has placed new demands on buying firms and their purchasing departments when it comes to coordinating the supply side. The outsourcing trend has also led to a need for improving the core efficiency on a global level. In order to develop products and stay innovative firms often need to work closer with their suppliers in increased network collaboration (Gadde & Persson, 2004; Dyer & Nobeoka, 2002). However, close collaboration requires intensive relationships with the suppliers which are costly, and many firms have therefore heavily reduced their supplier base in order to keep costs down (Ford et al., 2003).

This has indeed led to an increased dependency on the supplier base (Gadde et al., 2010). The outsourcing trend has also resulted in loss of control for the buying firm over some of the production processes and technological knowledge. As firms are becoming more dependent on their supplier base, the need for new supply base strategies emerges. With the outsourcing of activities, the interdependencies between companies increase and so does the need to connect the external activities with the internal. As a consequence, a need for more intense customer-supplier relationships¹ is born. Interdependencies lead to risks regarding dependency and prioritization, which could be mitigated through mutual adjustments between buyer and supplier. But adjustments can create lock-ins in other areas and the connection between internal and external activities is complex and resource demanding (ibid.).

¹ A customer in a customer-supplier relationship is hereafter referred to as a buying firm in an industrial B2B relationship setting.

Further the profit-generating capacity and performance of a firm highly depends on how it handles the supply side (Gadde et al., 2010). The supply side hence impacts on the buying firm's revenues. Together with the trend of outsourcing and the increasing interdependencies between firms this has contributed to an increase of the importance of the purchasing function in a buying firm. Purchasing has shifted from an administrative function towards being a strategic function to buying firms (Gadde & Persson, 2004; Cousins & Spekman, 2003). This is however becoming an increasingly complex task, since the interface between the buying firm and the supplier is generally becoming larger and involving more employees from both companies (ibid.). Further the reorientation of the supply side also increases the significance of supplier relationships (Gadde et al., 2010). Intensive relationships are though expensive to create and maintain and competition forces companies to keep their costs down.

Suppliers are contributing to buying firms technological development to an increasing extent (Gadde & Persson, 2004). One way for firms to keep costs down and at the same time gain competitive advantages is to utilize resources outside the boundaries of the firm, but within its supplier base. In fact, with the outsourcing trend the access to other firms' resources has become as important as the firms' internal resources. However, in order to make sure the buying firm can gain access to these external resources, it needs to have increasingly intensive relationships with these suppliers (Gadde et al., 2010).

This Master thesis project has been performed in collaboration with the purchasing department of Volvo Powertrain (VPT). Doubtless, VPT is highly affected by the increased competition on the truck market, which in turn demands increased efficiency. In order to improve the competitiveness, purchasing within VPT's purchasing department has become an increasingly strategic function in the company and is during present time facing a major reorganization phase². Until recently VPT was a fully owned subsidiary of Volvo Group with the focus on the engine, gearbox and driveline. For a visualization of the old organization matrix layout, including VPT as a business unit of Volvo Group, see Appendix A in section 9.1.

Being a "preferred customer" to a supplier, meaning that the supplier will prioritize the firm above other customers, benefiting the customer to get first access to innovations, capacity and service, is becoming increasingly important to buying firms. VPT has realized the importance of keeping intensive relationships to their most important suppliers, especially considering the shift they have experienced in many of their market segments where suppliers are merging and becoming larger and more powerful actors.

² In the time of writing this Master thesis, VPT is merging into the new organization of Volvo Group Trucks Technology (VGTT). VGTT is a business unit within the Volvo Group's trucks division and focuses on product development. Other areas of business include Volvo -Buses, -Construction Equipment, -Penta, -Aero and -Financial Services. All together, these business units operate as a supplier of commercial vehicles under the company name Volvo Group. As a consequence of not having material to analyze from the VGTT organization we will direct our report to the "old" VPT organization.

To secure supply and availability it can be crucial to be the supplier's preferred customer. Thus there has been a shift, both due to the increasing importance of the supply side but also the increasing power of the suppliers, from adversarial relationships towards a cooperative relationship view where a two-way communication is increasingly in focus. Although supplier evaluation and dividing suppliers into portfolios for facilitating the handling of the supplier base has been the subject of many studies and articles (Kraljic, 1983; Olsen & Ellram, 1997; Bensaou, 1999; Svahn & Westerlund, 2009; Carr & Pearson, 1999; Billington et al., 2006; Wynstra & ten Pierick, 2000; Svensson, 2004), joint customer-supplier relationship development is not a well covered area in the literature.

Today VPT is employing a mix of both multiple and single sourcing. In order to handle the recently emerged trends on the turbulent market and the possibilities they bring, VPT is categorizing its supplier base into the categories of *continental* and *global* suppliers. Global suppliers are as the name explains chosen to supply to all VPT production sites and the continental suppliers focus more on a local scale. Furthermore, VPT has performed a strategic initiative of reducing their supplier base. As visualized by VPT in Figure 1, the reduction of the number of suppliers demands new ways of working.

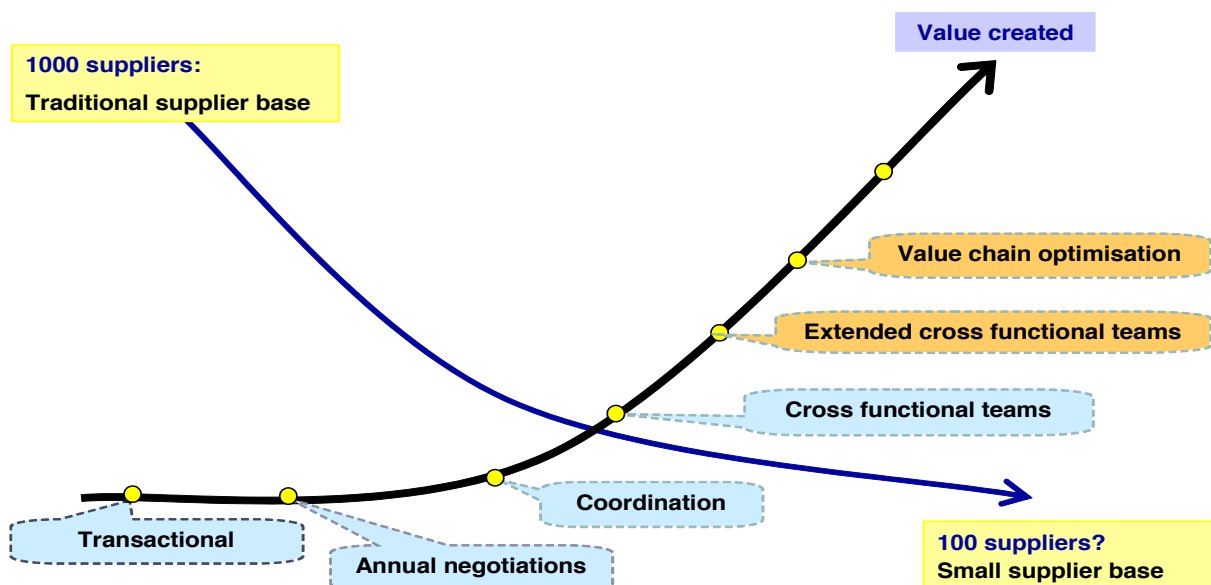


Figure 1: Evolution of the Value Creation Process (VPT Presentation, 2011)

However, the increased value gained by a slimmer supplier base does not come for free, nor does it come quickly or easily. Instead, the strategic change for a company of VPT's size requires a heavy managerial effort and must be seen as a long term process and investment.

In order to exploit the suppliers' resources, VPT has during the last six years launched the Volvo Business Partnership Program, hereafter named VBPP. VBPP is a partnership-initiative, including the key partners³ and spanning over many departments. VPT selected approximately 100 of their most strategic suppliers⁴ to participate in this VBPP and has kept the number of partners on this level until today since its beginning in 2004. Yearly conferences with most of the partners present, including VPT-related business information and large workshops are often on the agenda. However there is a need for a continuous update and flexible handling of the supplier base and the purchasing unit in particular expresses a need for an improved level of supplier relationship understanding and claims that there is a lack of structured supplier-relationship management in order to reach the goal of more value created through increased cooperation. In addition, there is an interest of knowing how VPT is perceived by its suppliers and also how the relationships should be improved. This leads us down to the purpose of this Master thesis.

1.2 Purpose

Considering the recent trends as presented in the background, section 1.1, and later on also in the literature review in chapter 2, relationships with suppliers are becoming increasingly important to a buying firm. In order for VPT to increase its chances of becoming the preferred customer to its strategic suppliers, it will be important for VPT to understand and start managing its network of supplier relationships. VPT also needs to take into consideration both how each supplier perceives the relationship and how the dynamics of different relationship can be developed. What we have found is a gap in both the literature and initial empirical studies regarding this customer-supplier relationship development process.

Our ambition with this Master thesis is therefore to investigate the customer-supplier relationship development deeper from the perspective of VPT and suggest for actions that increase VPT's chances of reaching its goal of becoming the preferred customer to the strategically most important suppliers. Resultantly, a hands-on-method will be developed and presented in order for enabling a process ready to use, regarding relationship development between VPT and selected suppliers.

The purpose of this thesis is thus:

To introduce a method Volvo Powertrain could use in involving strategic suppliers in developing the customer-supplier relationships

³ A key partner is defined as a strategic supplier which is vital for the success of VPT.

⁴Strategic suppliers is defined by VPT according to the suppliers spend, uniqueness on the market and strategic importance of the items.

The purpose is shaped in order for creating possibilities for improved performance of the customer-supplier business cooperation. This would enable for relationship improvement efforts leading to more effective, efficient and valuable relationships, both for VPT and the involved suppliers, and finally support VPT in their goal of becoming the selected suppliers “preferred customer”. The method is especially favorable to utilize in times of change and transformation into the new organization of VGTT, as change often requires increased mutual understanding. The purpose is visualized in Figure 2, where the joint focus is on the relationships to be developed.

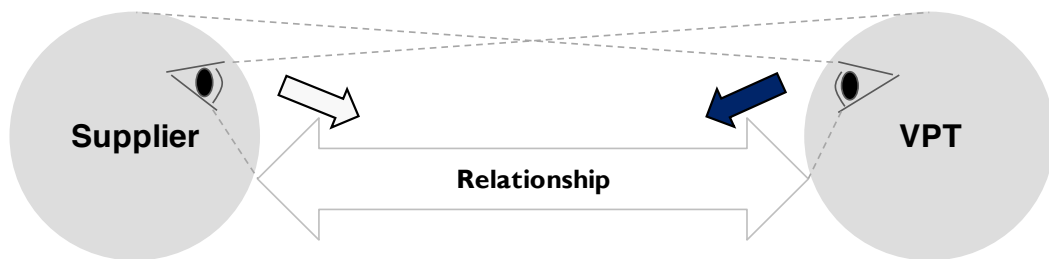


Figure 2: The focus area of the relationship development method

1.2.1 Problem analysis and research questions

In order to fulfill the purpose we find it necessary to break down the purpose of this Master thesis into a number of research questions.

The boundaries of the study will encompass the customer-supplier relationship and the parts of the organizations that are directly linked to the customer-supplier relationship, as shown below in Figure 3.

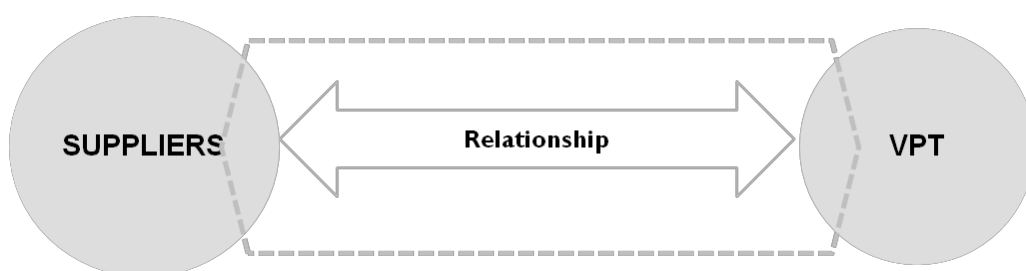


Figure 3: A simplified visualization of the customer-supplier relationship boundaries

VPT purchasing has, as is common to all purchasing departments, limited resources. Investing in relationship work is not always prioritized, especially since it is a difficult task to manage and measure. VPT needs to understand the holistic impact of customer-supplier relationships and focus its resources accordingly. Therefore, not all supplier relationships will be of highest priority. VPT can then focus on developing its relationships with suppliers according to strategic guidelines.

Thus, this leads us to the first research question;

1. What makes a supplier strategically important to a customer?

But a customer cannot only pick-and-choose suppliers that are strategically important, a well functioning working relationship need to support the business cooperation. The supplier has to be willing to supply the customer with the right parts, in the right time and to the right price. This discussion highlights the need for the second research question;

2. Which suppliers, in a buying firms supplier base, are the most important to develop a relationship with?

With the goal of becoming the preferred customer and gain the benefits accordingly, VPT will need to find the way to get into this position of the desired supplier's perception, and simultaneously increase the level of mutual understanding regarding their relationship. The purpose of a customer-supplier relationship development method is thus to include the supplier to jointly improve the individual relation. However, in order to find out what individual relationship qualities consist of, we need to state a third research question;

3. Which relationship qualities⁵ constitute a preferred customer according to suppliers in general?

In the case with VPT no structured customer-supplier relationship development method is currently followed. In our research, we would like to investigate state-of-the-art literature and perform empirical research with the aim of develop a supporting method for relationship development for VPT. It is important that the method is aligning with VPT's organizational processes and structures in order for the relationship development process to be as efficient, effective and valuable for VPT as possible. A method also needs to align the overall strategies with the daily work. The fourth research question is therefore;

4. How could a strategic customer-supplier relationship development method be designed to suit Volvo Powertrain?

1.2.2 Expected outcome

After analyzing the four stated research questions, the expected outcome of this Master thesis is to fulfill the purpose of presenting a customized method for customer-supplier relationship development. In addition, we hope to provide VPT with additional and useful material for understanding the increased importance to strategically manage the relationship development process.

⁵ Qualities of the relationship refer to attributes of the relationship such as how the relationship is perceived, the level of conflict and the level of trust and commitment in the supplier etcetera. The qualities were sought through questions about the relationships and what made them important. Also questions regarding which qualities made the relationship perceived a good to the interviewee different from other relationships, and where there were room for improvements, lead to qualities that the interviewee found important.

2 LITERATURE REVIEW

This chapter will present a review of state-of-the-art literature of customer-supplier relationship development and the surrounding business environment connected to this area. In section 2.1, the reader will be introduced to the concept of Supply Chain Management. The review is thereafter, in section 0, narrowed down to present published literature of supply strategies. Thereafter, in section 2.3, more specific research regarding the customer-supplier relationship is described. The basic thought regarding this chapter structure is that the broader meaning of supply chain management and supply strategies needs to be understood, when investigating specific customer-supplier relationships.

2.1 Supply Chain Management

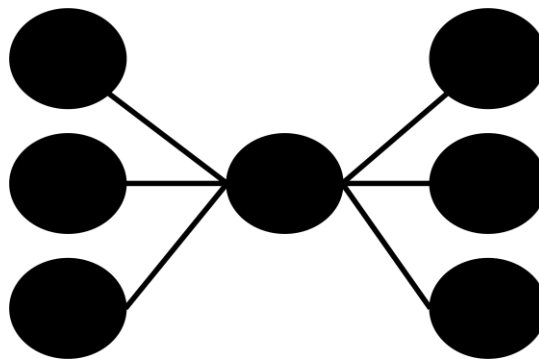


Figure 4: The entire SCM perspective is the reviewed literature scope of this section.

The concept of SCM has been well established worldwide during recent decades (Christopher & Holweg, 2011). Starting from the concept of internal logistics, it has now expanded to include *“the management of multiple relationships across the supply chain”* (Lambert & Cooper, 2000: 65). Lambert & Cooper (2000) highlight the need for explaining the supply chain structure more as an uprooted tree, and less as a pipeline or even as the name explains it; a chain. In their article, Lambert & Cooper (2000: 66) presents the definition developed and used by the Global Supply Chain Forum (GSCF);

“Supply Chain Management is the integration of key business processes from end user through original suppliers that provides products, services and information that add value for customers and other stakeholders”

According to Christopher (2005) the meaning of SCM needs to be broader than just embracing “Logistics”, which earlier was claimed to be the case according to different definitions quoted in the book by Skjøtt-Larsen et al. (2008). Moreover, in Christopher’s (2005) book the possibility for joint value creation in the supply chain is rooted in cooperative logistics, among internal and external actors.

Competition has shifted from individual actors competing against each other, towards a more closely coordinated supply chain or network versus other supply chains or networks (Christopher, 2005; Lambert & Cooper, 2000). However, Gadde & Persson (2004: 169) do not share this view, as they recommend a firm to preliminary focus its strategic action towards *"efficiency improvements as initial force"* instead and thereby focusing on the end-customers and not the competitors. SCMs' further meaning has recently been discussed (Skjøtt-Larsen et al., 2008; Christopher & Holweg, 2011), as a consequence of the increased turbulence on the global business market. Since the trend of globalization and recent technology developments has increased, Skjøtt-Larsen et al. (2008: 18) explain the logic of SCM in new light;

"The development of new information and telecommunication technologies combined with efficient, fast and relatively cheap global transportation systems opens for new possibilities. This enables enterprises to reach beyond their own organizational and geographical boundaries to coordinate operations and management through the entire supply chain, without the investment and problems of direct ownership"

The goals of the purchasing function within a company has also been discussed and claimed to involve three roles; the *Rationalization* role, the *Structure* role and the *Development* role (Axelsson & Håkansson, 1984). The Rationalization role refers to purchasing ability to minimize the total costs of production, logistics etc. The Structure role is for managing the dependencies on the suppliers, for example by influencing the structure of the supplier network and finally the Development role is for aligning internal technological development with the external development at the suppliers (ibid.).

2.1.1 Managing the supply chain and its complexity

Skjøtt-Larsen et al. (2008) express the importance of understanding that no individual enterprise can compete on its own. As strategic objectives are the driver for many organizations, there is said to be a strong need for the processes of supply, production, and distribution to work in symbiosis. This need puts high demand on a well functioning cooperation, both internally and externally (Skjøtt-Larsen et al., 2008). Lambert & Cooper (2000: 77) argue that management needs to shift focus from *"managing individual functions to integrating activities into key supply chain processes"*, in order to develop successful SCM. Most of all, they suggest management to develop strong cross-functional teams internally and directly share supply chain benefits with other supply chain members. Skjøtt-Larsen et al. (2008) express that the key to success in managing supply chains is argued to be collaboration with other organizations in the supply chain. However, they also distinguish three challenges and three paradoxes with this as presented in

Table 1.

Table 1: Main challenges and paradoxes with SCM according to Skjøtt-Larsen et al. (2008)

Three challenges on management...	...and three different paradoxes;
<ul style="list-style-type: none"> • To define the core and establish the boundaries of the firm • To create the most effective governance mechanisms • Develop the most appropriate relationships with partners 	<ul style="list-style-type: none"> • The more investment committed to the network, the less freedom the firm has to act independently. • The firm and its network have mutual influence on each other, also depending on the historical aspect. • Each firm strives to control its own network in order to achieve its own goals. If a dominant focal company exists, this company bares a large responsibility for the other participants in its supply chain.

To manage the entire supply chain is an impossible task, but there are ways to measure and follow up supply chain related metrics between connected companies in the supply chain, or smaller parts of the network (Lambert & Pohlen, 2001; Choy et al., 2003). By doing this, management in both or all connected companies can be provided with updated information and feedback, improving the performance and not at least preventing failure in the supply chain.

To utilize shared resources and to remove barriers between organizations in a supply chain is the main focus for management, according to van der Vaart & van Donk (2004). Information sharing and close collaboration across the supply chain can mitigate the consequence of for example the bullwhip effect and end-customer failure considerably (Skjøtt-Larsen et al., 2008).

According to Christopher & Holweg (2011) an updated supply chain management approach from today's organizations is claimed to be required. The main argument is that the increased turbulence and global expansion will continue to put high demands on organizations performance, not at least as a team player in the future supply chains. In their research they present this important circumstance by interviewing multiple senior operation managers, and their answers could be summarized with the fact that *"business world in which they are operating is inherently unstable"* (ibid.: 65). Christopher & Holweg (2011) also underline the need for a more structural flexibility in the supply chains, recommending focal companies to shift from focusing on being as efficient as possible to continuously being adaptable. Furthermore, the authors conclude that successful companies learn to embrace volatility, and not to fight it (Christopher & Holweg, 2011). One way companies today have adapted to this is by improving its sourcing strategies. This is often done by outsourcing work that not is classified as a company's core competence, in order to gain corporate specialization advantages (Skjøtt-Larsen et al., 2008).

2.2 Sourcing strategies

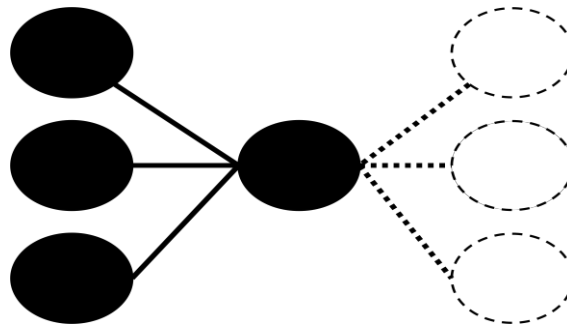


Figure 5: The supply side perspective is the reviewed literature scope of this section.

"Purchasing has become too important for purchasers!"
(Gadde et al., 2010: 3)

The above statement is quoted from a frustrated CEO, implying that the supply side has increased in importance to an industrial organization, placing increased demand on purchasing (Gadde et al., 2010). Skjøtt-Larsen et al. (2008: 254) also express that *"the boundaries between vendor/supplier and customer become less important than the ability to manage the process"* and that there is an increased need for managerial attention in the sourcing processes.

2.2.1 Major trends affecting the way of sourcing

Owing to the massive trend of outsourcing during the last decades, new challenges for manufacturing companies were established and it increases the pressure on the purchasing operations. A decision to outsource something that previously has been made in-house may be required to be taken, but simultaneously, it creates a need for new ways to manage the supplier base and network⁶ (Gadde et al., 2010; Skjøtt-Larsen et al., 2008; Gadde & Persson, 2004). Outsourcing is said to be a strategic way for companies to focus on its core businesses. The procurement process can then function as a link between two manufacturing stages, with possibilities for developing an improved supply chain that can gain its competitive returns. Thus, the purchasing department needs to become the "managers of outside production" (Skjøtt-Larsen et al., 2008).

During the last two decades the trend of downsizing the supplier base has been identified (Gadde et al., 2010). With benefits of economies of scope and scale, as well as joint operational development, it has gained increased interest (Dyer et al., 1998). As a global example, the larger Japanese companies in the automotive industry have streamlined their supply base and focused on a selected group of suppliers (Bensaou, 1999).

⁶In this Master thesis the definition of a supplier base and network; all the suppliers that are in contact with the focal firm, either directly or through another supplier. This is taken from the definitions from many authors (Gadde et al., 2010; Skjøtt-Larsen et al., 2008; Gadde & Persson, 2004).

Downsizing the supplier base also calls for increased use of single sourcing strategies. Traditional sourcing strategies underlined the importance of dual sourcing as a mean for risk spread and cost control, which doubtless could generate lower procurement cost. However, as argued in section 2.3, the total economic consequences for a customer-supplier relationship, are far more than just procurement costs (Gadde et al., 2010).

2.2.2 Managing the new supply base

Along with the global trends of outsourcing, downsizing and increased single sourcing, a new and more complex sourcing process arises. As Skjøtt-Larsen et al. (2008: 254) describe this, it requires *“new management skills in terms of developing inter-organizational relationships with strategic partners”*. The phenomenon of allocating more resources to some suppliers requires prioritizing other suppliers less and it increases the need for companies to focus on supply base strategies (Dyer et al., 1998; Herrmann & Hodgson, 2001; Gelderman & van Weele, 2002; Gadde & Persson, 2004; Choi & Krause, 2006; Gadde et al., 2010).

As a consequence of these managerial changes for purchasing, Gadde & Persson (2004: 173) identify that *“the single most important issue is to develop effective routines for dealing with large number of purchases”*. Moreover, the authors identified a stronger need for purchasing to be interconnected with technical functions, as the need for increased technical knowledge is emphasized; *“the enhanced role of purchasing imposes increasing requirements of the skills and capabilities of purchasing staff”* and *“the clerical and administrative competence needs to be complemented with engineering and technical knowledge”* (Gadde & Persson, 2004: 174).

Dyer et al. (1998) recommend organizations to segment its suppliers in strategic partners and durable arm’s length suppliers in order to balance the total resource levels able to spend. This overlaps with the well known “Kraljic model” regarding purchasing portfolio management (Kraljic, 1983). The Kraljic model is a straight forward four-stage approach, used to divide a company’s supply strategy, in respect of supply risk and profit impact as presented in Figure 6.

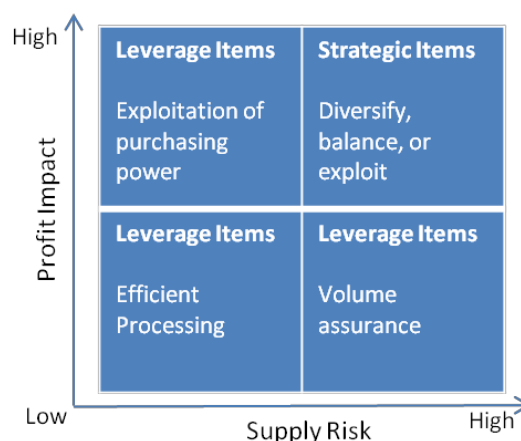


Figure 6: Kraljic model - Purchasing Portfolio Management

This model has been widely utilized by companies worldwide for decades. In a case study performed by Gelderman & van Weele (2002), it has been proven to be very useful for allocating managerial resources to suppliers in different segments, but it is claimed to be so dominant that it prevents buying firms from re-allocating them.

According to Dubois & Pedersen (2002), a company using strict product-portfolio management approaches is exposed for major risks and pitfalls, not at least in stereotyping the supplier relationships. Introducing the; interaction and networking way of dealing with purchasing, they instead suggest understanding that every supplier relationship is a part of a larger network. In their article they conclude that;

“...firms dealing with purchasing as being a matter of ‘given’ products supplied by independent suppliers could be able, if they recognize the (more complex) network structures they are working in, to identify and capture network potentials and thus increase the contribution to the purchasing function” (Dubois & Pedersen, 2002: 41)

The complexity of managing the supply base is by Choi & Krause (2006) said to be a key area of managerial consideration. The authors conclude that *“reducing supply base complexity in general may be a cost efficient approach, but blindly reducing it may potentially decrease the buying company’s overall competitiveness”* (ibid.: 637). One way of reducing the supply base complexity is to reduce the number of suppliers (Dyer et al., 1998). This also needs to be done with consideration and could be managed by using a systematic framework developed by Sarkar & Mohapatra (2006). This framework supports management with investigating supplier’s short-term performance and long-term capabilities. However, reducing the number of suppliers in one chain level⁷ may not reduce the complexity or the numbers of suppliers in the entire supply chain. The reason for this is that, in the selected chain level, suppliers may need to extend their complexity or number of suppliers in the next level in the chain (Cousins, 1999).

According to Gadde et al. (2010) many organizations now need to differentiate among its suppliers in order to handle the variety, complexity and heterogeneity in the supply base. In addition, the management of the supplier base is recommended to take three general features into account;

1. **Variety** – The suppliers differ for example in size or level of skills. Different sourcing strategies must then be handled by purchasing organization.
2. **Complexity** - Spanning from *single component suppliers* to *entire system suppliers*.

⁷ Within SCM terminology mentioned as “Tier 1” suppliers, which then is all suppliers delivering directly to the focal company, and “Tier 2” supplier are delivering to the “Tier 1” suppliers and so on.

3. **Heterogeneity** - Every supplier is a "unique collection of resources", and the access to each supplier's resources, and how to exploit them, always differs compared with other suppliers.

In their book, Gadde et al. (2010) also present the ADG model, introducing a framework for segmentation of suppliers depending on the level and intensity of interaction. The segmentation is divided as presented in Figure 7 and further explained below;

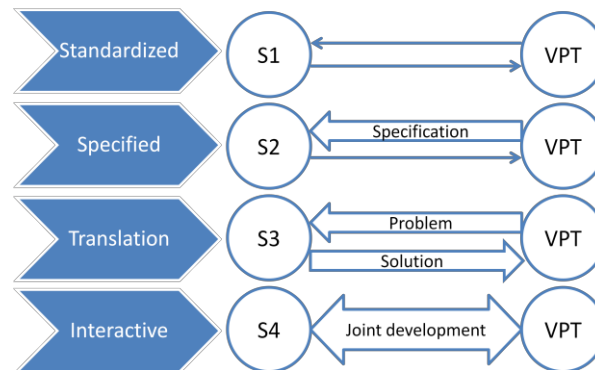


Figure 7: ADG model supplier segmentation

Standardized - Arm's length relationship and buying "of the shelf".

Specified - Subcontracting, in a way where buyers send a pre-decided and set specification to suppliers.

Translation - Solution to fulfill the need from the buyer is created and produced by the supplier.

Interactive - Joint development, where firms are strongly connected, and both learning and developing the products together.

During the last years there has been an increased focus on developing a network perspective on the supply side (Gadde et al., 2010; Lövgren et al., 2011). According to Lövgren et al. (2011) the managerial network tasks for purchasing is then the process of; *mapping, evaluating, matching, developing* and *improving the supply base*. By doing this the purchasing department increases the chances of aligning the supply base structure and content (supplier relations), with the organization's supply strategy.

As a supporting method for analyzing the complexity in a network, the usage of the ARA-model⁸ is presented by Ford et al. (2003). The ARA-model has also been further explained by Gadde et al. (2010), giving theoretical and practical examples of how it can be utilized. According to the authors, the purchasing department needs to be involved in the analysis of the internal operations, as activities needed to be synchronized in the interface of the supply base. In order for operational activities to reach economies of scale and efficiency, *similarities* with the used single activities need to be found and merged. However, in order to successfully merge similar activities with each other, a *complementary* concept, where a process of activities have to be undertaken in a predetermined order, needs to be taken in a supply chain (Gadde et al., 2010).

2.3 Customer-Supplier relationship

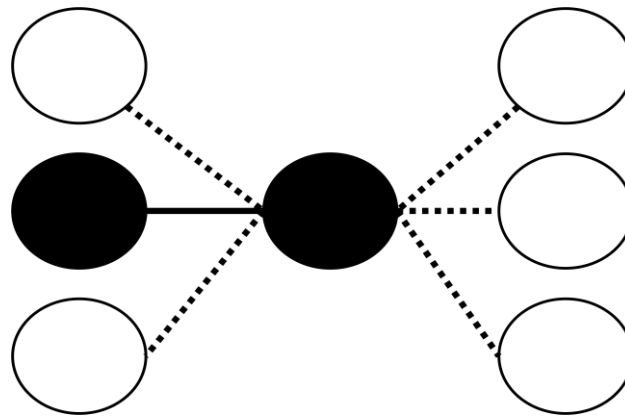


Figure 8: The customer-supplier relationship perspective is the reviewed literature scope of this section.

“Developing appropriate relationships with suppliers is the primary issue for purchasing and the supply side of a company” (Gadde et al., 2010: 133)

With the above expressed sentence, Gadde et al. (2010) highlights the need for a prioritized relationship strategy focus performed by the supply side among all manufacturing companies. The authors also claim that the purchasing department should see the supplier relationships as *“means for the integration of internal and external resources”* (ibid.: 134). In addition, relationships are not static but evolve over time (Gadde et al., 2010).

⁸ ARA-model is a way of managing by focusing on Activities, Resources and Actors.

2.3.1 Why customer-supplier relationships need to be managed

According to Skjøtt-Larsen et al. (2008: 77) the relationship aspect is presented as playing a key role since *“the performance of a firm depends not only on how efficiently it cooperates with its direct partners, but also how well they co-operate with their own partners”*. Furthermore, Gadde & Persson (2004) summarize the increased need for relationship focus with these words;

“What a supplier can actually do for a customer is strongly dependent on the customer’s actions. Therefore, the relevant unit of evaluation should be the relationship rather than the supplier” (Gadde & Persson, 2004:167)

A competitive advantage for buyers is also that suppliers nowadays contribute more to the technical development and are seen as extended resources of knowledge (Gadde et al., 2010; Wynstra et al., 2001; Dyer et al., 1998). Billington et al. (2006: 4) also highlight this, and identifies that *“the ultimate goal for each side in a relationship is to create significant competitive advantages as an absolute measure, not a relative one”*.

According to Gadde et al. (2010) relationships are shaped by each actor’s surrounding relationships, but also historical background of the relationship in combination with the expectations about the future, as presented in Figure 9.

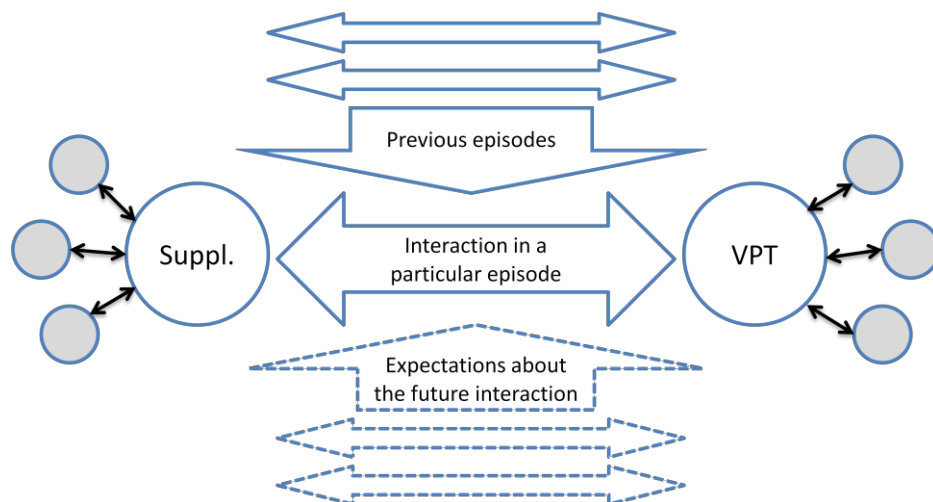


Figure 9: Interaction in time and space (Gadde et al., 2010)

The economic consequences of customer-supplier relationships

Gadde & Persson (2004) express that the change from price chasing to a total cost perspective puts new demands on purchasing behavior. For supporting management with the structure of the multiple economic consequences of their supplier relationship, the costs and benefits are summarized in Table 2 (Gadde et al., 2010).

Table 2: Cost and benefits parameters derived from relationships

Relationship costs	Relationship benefits
Direct procurement cost	Cost benefits
Direct transaction costs	Revenue benefits
Relationship handling costs	
Supply handling costs	

The *Relationship handling cost* is dependent on the extent of involvement with the supplier, whereas *Supply handling costs* is taking the broader need of resources for supply management into consideration. Consequently *Cost benefits* include the supplier's contribution to efficiency improvement and have its largest potential in high involvement relationships according to Gadde & Persson (2004). This quantity of benefits is claimed to be difficult to measure, as it inter-depends on "various types of costs and benefits in – and between – relationships". Gadde & Persson (2004) identify that low involvement in relationships reduces the chances of cost benefits. *Revenue benefits* are the share of positive aspects to the buying company, generated from the solution in a supplier relationship. Moreover, all these economic consequences are in reality also affected by changes in other relationships, in its nearest surrounding, and it is furthermore claimed that "*reaping these potential benefits from suppliers calls for a revised perception of what kinds of relationships with suppliers are appropriate*" (Gadde & Persson, 2004: 161).

2.3.2 With whom relationships should be developed

It has been concluded that it is a huge difference in relationship approach within the Japanese and Western automotive industry (Liker & Choi, 2004; Billington et al., 2006; Dyer et al., 1998; Bensaou, 1999). In research⁹ by the founder of Working Relationship Index (WRI) John Henke¹⁰, a clear difference in approaches of supplier relationship and business performance outcome, between different leading car manufacturers, is presented. Here, the US car manufacturers are generally criticized for applying too much arm's lengths relationships towards its suppliers, whereas the Japanese car manufacturers historically have gained huge market shares due to better and closer cooperation with its suppliers. The WRI concept is a benchmarking measuring tool, where the overall supplier relationship score is revealed. The WRI concept aims at investigating the perceptions of all suppliers in a company's supplier base, for finding a companies' total supplier base relationship result. The results are measured on a scale from 0-500, where 500 is having the maximum supplier relationships score. Its economic value has been studied over his longitudinal study of WRI.

⁹ Updated press-news regarding WRI [http://www.ppi1.com/site/?page_id=519]

¹⁰ John W. Henke Jr, President of Planning Perspectives Inc. [<http://www.ppi1.com/>]

In an empirical study by Matthew J. Milas (2005), the results from the WRI study has been validated and confirmed to exist. In addition, a clear cultural difference is concluded in this study, but the underlying conclusion is that Japanese companies generally have more successful relationships than its western counterparts. Thus, the WRI concept is a way of benchmarking the average performance of the relationship management for a buying firm's supplier base.

High- and low involvement in supplier relationships

According to Gadde et al. (2010) different relationships spans between *high-* and *low involvement*. In Table 3, the authors present four categories of relationships, depending on low or high level of involvement, but also in the aspect of continuity, in order to present four different approaches suggested to each cell.

Table 3: Different categories of supplier relationships. (Ford et al., 2003)

	Low involvement	High involvement
High continuity	Long term, arm's length relationships Continuity allows routinealization. Low involvement makes change of supplier easy	Long term, intense relationship Efficiency improvement through adoptions leads to cost and revenue benefits over time
Low continuity	Short-term, arm's length relationships Increasing efficiency from price pressure, requiring low continuity and low involvement	Short-term, intense relationship Appropriate for buying complex systems and equipment bought infrequently

Low involvement relationship is generally less costly, but gives in the same time minimal opportunities for both companies to reap cost benefits. Contradictory, a high involvement has often a higher price tag, but also gives higher possibilities for increased revenues. Noteworthy is also the fact that “a high involvement approach is never an outcome of a one sided decision, but requires corresponding interest from the supplier”. “It takes two to tango” is presented as an eye opener for the buyer, implying that they need to motivate their suppliers in order to get the interest of an improved relationship. The call for *team effects*, also strengthen the important characteristics of well managed and functioning customer-supplier relationships, as creating strong team often generate more positive results than what individual firms can achieve in isolation.

However, as high-involvement relationships are resource-intensive, only a limited number of suppliers can get this attention from a buying company (Gadde et al., 2010). Due to this, Ford et al., (2003) highlight the need for management to arrange its levels of supplier involvement according to the company's strategies, but also understand its position in the larger network from each supplier's point of view.

Supplier relationship portfolios

Skjøtt-Larsen et al. (2008) state that;

"Relationships between buyer and supplier have shifted from arm's length to close collaboration with key suppliers. Many companies have adopted a differentiated approach to individual procurement situations..."
(Skjøtt-Larsen et al., 2008: 254)

The authors also underline that it is nowadays of greater importance to be able to manage the process of supplier and customer relations, than just setting the boundaries and structure. (Skjøtt-Larsen et al., 2008)

As with the case of supply strategies, some authors have managed to develop different relationship portfolios, techniques and strategies, for buyers to use on its supplier base (Olsen & Ellram, 1997; Bensaou, 1999; Svahn & Westerlund, 2009; Carr & Pearson, 1999; Billington et al., 2006; Wynstra & ten Pierick, 2000; Svensson, 2004). These portfolios are developed in different ways, but got in common that they strive to support management in emphasizing strategic purchasing, with help of supplier relationship segmentation.

Olsen & Ellram (1997: 103-110) suggest buying companies to compare their general differentiation strategies with its actual supplier relationships. A three step approach is presented, where a buying company is suggested to; (i) *"take a normative approach and analyze the company's purchases to ascertain the ideal relationship type for major purchases"*, (ii) *"analyze the company's current supplier relationships to determine the way the supply task is managed in the company"* where relative supplier attractiveness and strength of relationship are the dimensions used to differentiate the relationships from each other, and finally to *"develop action plans describing how to adapt existing supplier relationships, by comparing the ideal situation (i) to the actual supplier relationships (ii)"*.

As with the Kraljic model, Bensaou (1999) also suggest a four field-matrix, but here with the buyer's-/supplier's specific investments on the axis. Identified in the 4 cells are *market exchange* (low/low), *captive-buyer* (high/low), *strategic partnership* (high/high) and *captive-supplier* (low/high). For market exchange suppliers it is recommended for management to obtain routine and structure in the relationship. The imbalances in captive buyer and -supplier relationships are often needed to be balanced with intensive communication, and complex coordination, respectively.

In both relationships mutual trust is of importance in order to maintain the collaboration. For strategic partnership management Bensaou (1999) identify increased communication and contact interaction. Increased face-to-face visits and standardized rules and operation processes also indicate a dyadic willingness to invest in each other. The social climate is said to be reportedly trusting and collaborative, giving room for early joint development and well established processes for benefit-, burden- and risk sharing. Furthermore, Bensaou also suggest management to avoid the captive positions of a relationship as these are said to be either under- or overdesigned in its contents nature (Bensaou, 1999).

Starting small and expand if wanted is the method suggested by Billington et al. (2006). In research, the authors divide the types of relationships for a buying firm into two halves of combative and cooperative character as visualized in Figure 10 below.

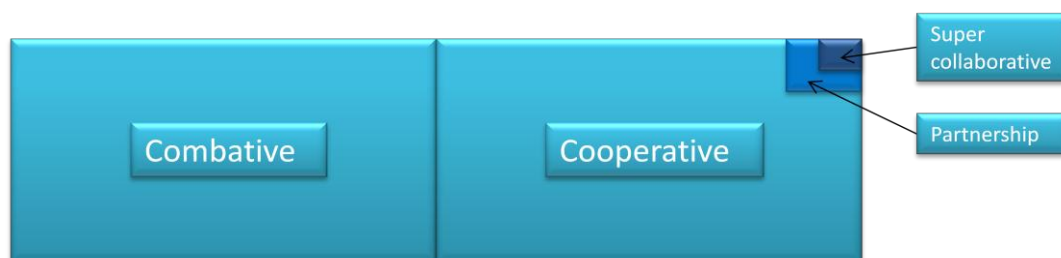


Figure 10: Typical mix of relationships within a buying firm according to Billington et al. (2006)

The most cooperative relationships are identified as partnership relationships, whereas some of these ones classify for “super collaborative”. Within this smaller group of suppliers it is suggested to develop “super supplier collaborations” with one supplier (ibid.).

Wynstra & ten Pierick (2000) are focusing more on the need for the supplier involvement in new product development and the other. Their portfolio differentiates the suppliers according to their degree of *development responsibility held by suppliers* and the degree of *risk in the development phase*.

2.3.3 How companies strategically can manage its relationship

Gadde & Persson (2004) identify the key managerial issue of identifying a company’s strategy in regard of the individual supplier relationships. As a supporting framework for managing business relationships, the IMP-Group¹¹ has developed the *Interaction approach* (Ford et al., 2003). Critical issues for a customer in their supplier relationship are stated as;

1. **Monitoring relationship and modify involvement** – Managing the ongoing performance in the supplier base
2. **Customer intervention** – Taking initiative for starting or maintaining a relationship development

¹¹ Industrial Marketing and Purchasing Group [<http://www.impgroup.org>]

- 3. Mobilization and motivation of suppliers** – Both firms must understand their part and position in the relationship and contribute to the improved performance.

As relationships are not standardized, they can be expressed as unique aspects regarding; *content, dynamics, how it evolves, how it affect other parties and success requirements* (Ford et al., 2003). In order to manage this, a conceptual model has been developed, dividing the business relationships into; *actor bonds, activity links and resource ties*. Analyzing the relationship within these dimensions enables creating closer relationship with some customers. Changing viewpoint and seeing the relationship from the suppliers perspective, the focus for a supplier, in its relationship, is said to be the need to support its customer with a solution to a problem, whereas the customer focus is on making the most out of its chosen suppliers (ibid.).

In an article by Henke Jr. et al. (2008) the effect of buyer's price pressure is investigated. The authors realize that *"the academic literature provides no clear direction to the interaction of manufacturer price reduction pressure and the working relations with the pressured suppliers"* and later in the article they conclude that *"the pressure, however, must be accompanied with actions that reinforce the suppliers' perception that the manufacturer wants and is working conscientiously on developing and maintaining trusting working relations with its suppliers"* (ibid.: 300). The main reason for this is said to be that the buying company needs to lower the procurement costs to gain competitive advantage on an increasingly competitive market. The authors also highlight the buying company needs to be acting openly and honestly, when sharing timely and important information, with its suppliers.

Gadde et al. (2010) claims that price-pressing behavior is a primary driving force in the traditional view of efficient purchasing and that it therefore now a day's only should be utilized in relationships with low involvement and regularity.

Billington et al. (2006) also express that the combative negotiation process should not be abandoned, as it could be highly suitable in some carefully chosen segments in the supplier base. However, they warn purchasing organizations to use "prize-take-downs" as the only measure of performance, as it then can be set as a default approach, applied to every customer-supplier relationship. Once again, Billington et al. (2006) underlines the need to select suppliers that should be treated differently.

What is claimed to make the relationship handling even more difficult is the often presence of imbalances in *power* between a customer and a supplier (Maloni & Benton, 1999; Hingley, 2005). Hingley (2005) highlights the importance of accepting the fact that there are imbalances and moreover, is a normal state in business relationships. Maloni & Benton (1999) try to further establish means for developing successful power management and see

power as a tool for promoting stronger and improved supply chain integration, but also concluding that;

“Both the power source and the power target must be able to recognize the presence of power, then reconcile supply chain strategy for power influences” (Maloni & Benton, 1999: 23)

Needs for developing deeper relationships

Developing “deep relationships”¹², and even creating means for “super supplier collaboration”¹³ with selected suppliers, is by Liker & Choi (2004) and Billington et al. (2006), respectively, recommended in order to gain competitive advantages. These articles have in common that they also refer to the “best practice” of Japanese car manufacturers, such as Toyota and Honda, and their way to success is said to be derived from the overall business culture and ability to choose an increased collaboration in the most strategic customer-supplier relationships. It is further stated that the level of collaboration is set so high that the specific relationship will be able to generate the double value in proportion to the cost produced through these super collaborations (Billington et al., 2006).

Liker & Choi (2004) express “Mutual understanding & trust” as the foundation to build deeper relationships as visualized in Figure 11. In order to climb in the hierarchy towards becoming an ideal partner, the authors suggest following six step road map for entire management;

1. Understand how your supplier work
2. Turn supplier rivalry into opportunity
3. Supervise your suppliers
4. Develop compatible technical capabilities
5. Share information intensively, but selectively
6. Conduct joint improvement activities

Billington et al. (2006: 1) confirm that “Culturally the Japanese develop supplier relationships in a different way than their Western counterparts. These relationships are based on mutual trust, honesty, integrity and objective focus on result”. Developing and maintaining a high level of trust over time is by Kwon & Suh (2004) argued to be a critical factor for achieving these long-term relationships. Other means, such as a partner’s reputation and perceived conflicts, have positive and negative effect, respectively. For aligning and understanding Kwon & Suh’s

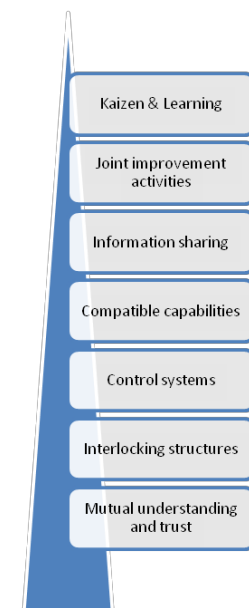


Figure 11: Supplier partnering

¹² “Deep relationships” here refers to successful Japanese partnerships approaches. In terms of the “lean” philosophy this is aiming towards the level of *kaizen* and to conduct joint improvement activities.

¹³ “Super supplier collaboration” is suggested to be developed with the most strategically collaborating supplier in order to gain competitive advantages.

perspective of trust and commitment, different factors affecting supply chain management relations, in form of a measure item table, is presented in Appendix B, section 9.2. In their research, they found significant relation between the level of trust and the degree of commitment.

Trust relationships are a necessary condition in supply chain management according to Skjøtt-Larsen et al. (2008). However, Anderson & Jap (2005: 75) argue that for what appears to be a well functioning close relationship, often is exposed of being “the most vulnerable to the forces of destruction that quickly building beneath the surface of the relationship”. Olsen & Ellram (1997) express the importance of strengthening the relationship, in order to keep a loyal supplier.

Agreements in relationships

Along with customer-supplier relationships there is always a need for agreeing upon a future business. According to Skjøtt-Larsen et al. (2008), the agreements for different customer-supplier relationships, between high- and low involvement, can be expressed as spanning from;

- Simple buyer-seller market transactions
- Long-term collaboration including mutual obligations, sometimes bound with signed contracts or implied agreements (such as a “Memorandum of understanding”)

Suggested for long-term agreements is *Relational contracting*, which can support both parties in developing a high level of trust and to develop the most appropriate relationships (Skjøtt-Larsen et al., 2008).

3 METHODOLOGY

This chapter will provide a roadmap for how to reach the answers to the research questions in the problem analysis sub-section 1.2.1, and how to reach the final goal of fulfilling the purpose of creating a customer-supplier relationship development tool. First the methods used for performing the research will be described in section 3.1 and then the procedure in itself, which consists of a number of steps, will be explained in 3.2. Sections 3.3 and 3.4 describe the collection and analysis of the data, respectively. The final section 3.5 refers to the quality of the research results.

3.1 Research method

Since this master thesis will explore the knowledge area of *customer-supplier relationship development*, the chosen research methods need to follow an appropriate set up suitable for the purpose. The challenge to perform business research is huge, and need to take many dynamic factors into consideration. As quoted by Bryman and Bell (2011: 4) *“Not only is it shaped by what is going on in the real world of business and management; it is also shaped by many of the intellectual traditions that shape the social science at large”*, our research method strived to bear in mind the importance of gaining knowledge about the past and present, and thereafter develop theory for the future.

3.1.1 Choosing research method

Using research questions as assistance in fulfilling the purpose is preferable in order to focus the research and avoid being overloaded with a too high volume of data (Eisenhardt, 1989). Therefore we have chosen to use research questions for reaching our purpose since the area of customer-supplier relationship development was decided from the beginning in collaboration with Chalmers and Volvo Powertrain. The next task was to decide among different types of research methods.

Yin (2009) suggests looking at how the research questions are shaped for finding the most suitable research method. The different methods to choose from are *Experiment, Survey, Archival Analysis, History or Case Study* (Yin, 2009). Since our research questions are set and are of the type *how, which and why* Yin (2009) explains some research methods to be more appropriate to some types than others. This is also impacted by whether the purpose of the research is of an *exploratory, descriptive or explanatory* type. The purpose of this Master thesis focuses on operational links over time and not on incidents. This type of purpose is then according to Yin (2009) distinguished as *explanatory*. The author suggests using the research method of *case study* as the most suitable for *how, which and why* types of research questions and an explanatory type of purpose.

Case study approach

The word “case” is most often a term associated with a study of a geographical location, such as an organization or workplace (Bryman & Bell, 2011).

The boundaries of the case studies in this Master thesis include the relationship interface between VPT and some of its suppliers and the parts of the organizations that are directly involved in the relationship interface. The research method of *case study* is the most appropriate for this thesis since the research questions, purpose and study of certain geographical locations all are suitable for this approach.

Qualitative research strategy

Bryman and Bell (2011) explain the difference between qualitative and quantitative approach by distinguishing between the usages of words instead of raw data in the empirical analysis. In accordance to this, our research strategy is of a qualitative type. A case study does not, per definition, need to be categorized as a qualitative research (Yin, 2009), but as the social science is harder to grasp, in respect of quantitative numbers and figures, the need for a qualitative approach was taken in this Master thesis.

Embedded sub-case studies

For fulfilling the purpose of this thesis, the case study needs to go deeper and include smaller units of analysis within the boundaries of the overall case study. One case study approach, as suggested by Dubois & Gadde (2002), is “utilizing in-depth insights of empirical phenomena and their contexts”. Hence, an in-depth case study analysis in our research would enable us to go deeper into the case aiming at finding important results from VPT and its supplier relationships. One way of going in-depth, according to Yin (2009), is explained as analyzing embedded cases within the holistic case in itself. An *embedded case study design* will thus make the research more focused, as it gives the researchers an opportunity to focus deeper on areas within the case study’s boundaries.

In this research the embedded sub-cases were chosen as 10 customer-supplier relationships. The specific relationships were studied from the suppliers, VPT and an academic perspective, in order to strengthen our understanding of the relationship topic in this setting, but also enrich the study with varying results from different supplier-perspectives. However, apart from being more robust, the choice of focusing on case study with embedded sub-cases instead of a single case study may require extensively more resources and time and needs to take into consideration.

Systematic combining

Dubois and Gadde (2002), introduce the concept of *systematic combining* as a powerful tool in case study research. Following this approach means that the researcher follow a procedure that continuously moves between empirical and literature research. This Master thesis will follow the systematic combining approach and a holistic visualization can be seen in Figure 12 below.

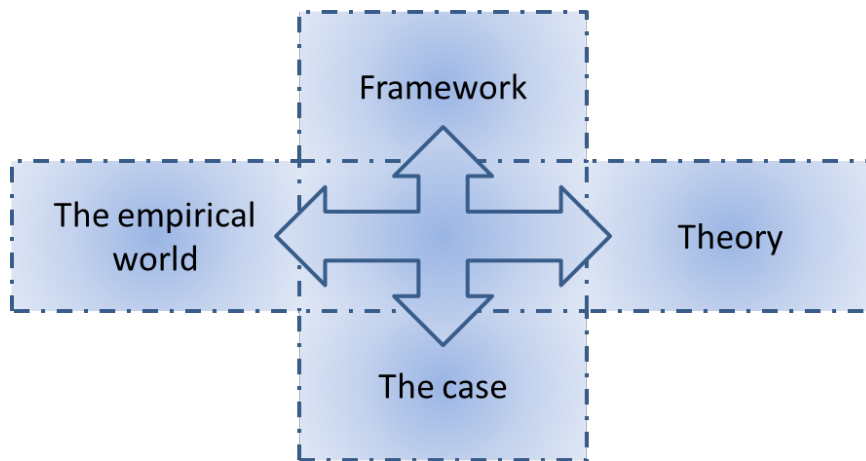


Figure 12: Visualization of "Systematic combining"

The research procedure will, with the help of a systematic combining approach, strive to create adoptions and refinement of existing theories to match the situation of VPT, rather than generating new general theories. The matching procedure will hence allow for going back and forth in between the four fields in the model. This allows for flexibility in the procedure of the work, since there are no empirical or theoretical models that are applicable in this particular setting (Dubois & Gadde, 2002). In this Master thesis, theory and empirical results will be matched continuously during the research procedure in order to allow the empirical results to impact on the choice of theory. This will help to support the empirical results and allow for appropriate conclusions to be drawn. Thus the thesis is following an abductive approach by allowing empirical results to impact on the research. However in the interviews, an inductive approach will be used in order to allow the interviewees to impact on the discussions and thus be more true to what the interviewee finds most important regarding the subject discussed.

Dubois & Gadde (2002) recommend taking another usage of existing literature theory than the ones in inductive and deductive research. They highlight that "it is important to enter the research situations with some background" in the aspect of theory from literature, but moreover that "the need for theory is created in the process" (Dubois & Gadde, 2002). As explained by Dubois & Gadde (2002) "too much prior structuring of the case study might blind the researcher to important features in the case or cause misreading of local informants' perception".

3.2 Research procedure

A number of steps, as presented in Table 4, was taken to answer the research questions in order to fulfill the purpose of creating a customer-supplier relationship development tool.

Create initial understanding	<ul style="list-style-type: none"> •Why? Learning about the VPT organization and the topic •How? Open interviews and reading theory
Interviews at VPT	<ul style="list-style-type: none"> •Why? To choose embedded sub-cases (suppliers) and collect internal information of the embedded sub-cases •How? Open & directed interview
Interviews with chosen suppliers	<ul style="list-style-type: none"> •Why? Collect information of the embedded sub-cases •How? Open & directed interview
Analysis of interviews	<ul style="list-style-type: none"> •Why? Match theory with empirical world •How? Cross-case and within-case analysis
Creation of relationship development method	<ul style="list-style-type: none"> •Why? Develop method to fulfill purpose •How? Combining theory and empirical data
Second round of interviews	<ul style="list-style-type: none"> •Why? To test & validate the method •How? Semi-structured interview
Finalize method for future and broader use	<ul style="list-style-type: none"> •Why? To prepare the method for implementation at VPT •How? Suggesting agenda and content for the tool. Testing the tool on other departments.

Table 4: Chosen steps in the research procedure with motivation to each step

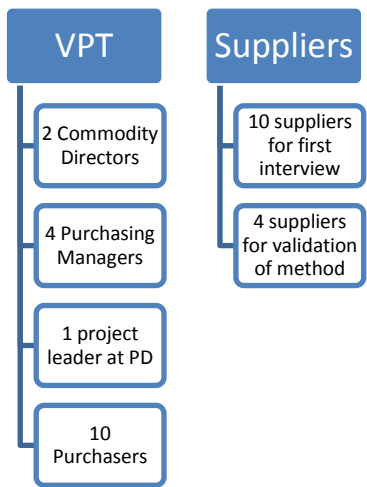
The *first step* is to create an understanding of the holistic case and gain knowledge in the customer-supplier relationship topic. This was performed by doing initial interviews, observation and internal material research within VPT. The exact or perfect understanding was not achieved, but the tactic here was to get the view of the issue from employees in different positions within VPT. In addition, this first step in the research procedure is very important, as it gives possibilities for taking initial or changed direction of the holistic case, and guiding research questions. In Table 5 below a list of the internal interviews held and with whom can be seen.

Table 5: List of interviewees and dates of the interviews

Interviewees VPT Purchasing	• Date of the interviews
Commodity director 1, (CD1)	•20120202
Commodity director 2, (CD2)	•20120315, 20120316
Purchase Manager 1, (PM1)	•20120308
Purchase Manager 2, (PM2)	•20120309
Purchase Manager 3, (PM3)	•20120314
Purchase Manager 4, (PM4)	•20120319
Interviewee 3P PD	
Project leader (PL)	•20120208, 20120316, •20120323

Interviews were held both internally at Volvo Powertrain (VPT) and Volvo 3P (V3P) and externally with suppliers of VPT, see Table 6 below. The interviews at V3P were held in order to get an understanding of how the Product Development (PD) function was involved with the suppliers in general, what was considered important in the relationships with the suppliers and how the cross-functional work between the PD and the Purchasing department worked. An additional interview was also held at Volvo Penta (VP) with one of the initiators to the Volvo Supplier Information Base (VSIB), but is excluded from the table as it was not further analyzed.

Table 6: Summary of interviews held



As a *second step* in our research procedure was to choose suppliers by interviewing internally. The most time consuming source of data collected was the internal and external interviews. However, performing this first step properly simplifies the understanding and learning process regarding relationship. For choosing suppliers to interview, we held interviews with all Purchase Managers (PMs) as they are responsible for the purchasers in the business relationship with the supplier. This also gave an insight in how VPT as a customer deals with its suppliers on a strategic level. In parallel with empirical research, a thorough literature review was performed in order to understand existing theory within the topic. As guidance to this initial step of our research, Eisenhardt (1989) underline the importance of choosing relationships including extreme situations and polar types. By doing this we still get valuable input in the topic, without having to interview a huge number of internal purchasers or corresponding suppliers. The purpose was thus to select suppliers that have different preconditions in the relationship with VPT such as size, dependency on VPT or strategic level of products and still remain highly relevant to VPT in other aspects.

The *third step* is to go out in the field and collect data from the suppliers. Interviews were held with 10 suppliers to VPT. As explained in step two, the suppliers were chosen based on their importance in the eyes of the employees interviewed at VPT, and the focus is to capture the most important supplier relationships. In order to create an understanding of how the supplier perceived the relationship with its customer and VPT, the interviews were of an open type. The tactic here was thus to have open interview at the first contact and thereby let the suppliers support us with an increased understanding about relationships, anecdotes and informal observations (Eisenhardt, 1989), useful for analyzing these data in the next step. In other words this step was performed with the purpose of collecting empirical data from the supplier's point of view.

The *fourth* and *fifth step* consisted of the major research performed in this Master thesis. It required us to analyze the state-of-the-art literature review in combination with all collected data from; the initial holistic case study in step one, collected data from PM's in step two and all valuable external data from the broad range of suppliers chosen to be the units of analysis in the embedded case study design, and thereafter develop an appropriate tool accordingly. For achieving this, the embedded sub-cases were transformed into mini-cases.

The first phase in the mini-case approach was based on single (embedded) case study approach, whereas the aim was to analyze and find different relationship qualities of importance. These qualities then created the foundation for the next step where we strived to create the method by analyzing and binding the interview results together with theory. In the second phase of the mini-case analysis, we tried to find patterns and/or tendency of differentiation among the answers from the different types of suppliers. Performing this analysis as cross-sectional cases is recommended in order to handle the flexible data collected from the different interviews (Eisenhardt, 1989). By doing this our research gained the advantages of overlapping data analysis. With help of previous steps and triangulated measures, this method was a result of a match-making between all three perspective and sources of input; literature, VPT and suppliers.

To test the method in the *sixth step*, a second round of interviews were held. This second round of interviews, with suppliers, mainly focused on getting feedback on the initial thoughts of the method design and additional thought to bring along in a future reality setting.

Finalizing and packaging the method for future and broader use was the final and *seventh step*. After analyzing the usefulness of the customer-supplier relationship development method in its initial manner, modifications and additional recommendations connected to its use was implemented in this step. This allowed us to improve the entire customer-supplier relationship development method and give the advantages of valuable iterative feedback (Eisenhardt, 1989).

3.3 Data collection

The best method for collecting data, in order to gain the best results for the thesis study, depend on the study's purpose, the reader of the Master thesis, the resources available for the study and the interests and biases of the writers of the thesis.

The research method is qualitative, there is thus no clear path to follow and there is no possibility of knowing how much or what kind of data will be found during the research. In the empirical world of data no natural boundaries exist (Dubois & Gadde, 2002). Hence there is a need to be flexible in order to process new data entering during the research procedure.

Generally data can be divided in two areas, primary and secondary data. Data that is directly collected for answering the research questions is defined as primary data, while secondary data consist of information that is collected for another purpose, but which is still relevant to the study (Holme, 1997).

3.3.1 Interviews as main primary data

In this thesis, a case study is used as main research method. In order to collect empirical data through this research method, interviews were the primary data collection method. Interviews were mainly chosen due to their inquisitive nature, which allows searching for both passive and active data, where passive data is what the researcher set out to find and active data is new findings that were not the primary target of the interview but is considered interesting to follow up and which may add new dimensions to the research (Dubois & Gadde, 2002). An interview is not aimed at collecting statistically validated information but is a qualitative method of data collection (Lantz, 2007).

There are different types of interviews. Lantz (2007) uses differences in degree of structure to differ between the types of interviews. The interview can be completely open, open and directed, semi-structured and structured (Lantz, 2007). For this thesis, an open, open and directed as well as a semi-structured interview form has been used.

The first interviews held at VPT were of an open form where information about the case study (the organization of VPT and the topic of customer-supplier relationship development) was sought. This was then followed up in a second round of interviews internally at VPT by an open and directed interview, which aimed at understanding which suppliers were perceived as strategically most important for VPT and learning more about those specific relationships. Using an open and directed interview form enabled for deriving questions from the literature and thus organizes the interviews around specific areas of interest, while keeping open for new areas of interest which could come up during the interviews.

For the embedded sub-cases, interviews with the suppliers were based on the same interview template. These interviews also followed an open and directed interview form as the ones that were held internally at VPT, but with some adjustments made for gaining the perspective of the case study from another angle and to ensure that the data collected was comparable and equivalent (Patton, 2002).

Finally, for the second round of interview with some of the suppliers, a semi-structured interview form was chosen due to its ability of providing the researchers with answers to their questions and yet allowing the interviewees to give their view of what they find most important (ibid.). Since the suppliers are guaranteed to be anonymous, in order for the authors to increase the amount of reliable data to analyze and the quality of the data collected, the suppliers names will be randomly generated ranging from Supplier A to Supplier J and any information specific to a supplier has been removed or rewritten in a way for the reader to not be able to identify the specific suppliers.

One important aspect of using interviews as a primary data collection method is how to document the interviews. For this thesis, recordings of the interviews were made when allowed, and then a transcription was done of each interview in order to facilitate for the analysis of the interviews. When recording was not preferred, only field notes were used. Field notes were also used as an additional documentation method to recordings in order to document information from the interviews that were not outspoken, such as drawings made of the relationship interface between the two organizations or observations the interviewer made during the interview. To as large extent as possible, both researchers participated during the interviews in order to enhance the understanding from the interviews and to align the knowledge between the two researchers. After each interview, a short discussion was held between the two researchers in order to align the most important parts of the interview and to document them.

As explained earlier, but worth mentioning here, the re-organization within Volvo AB will merge VPT into the larger organization of VGTT. However, as this merging process is not fully completed the focus on collecting data about the current organization was regarding VPT and our analysis was narrowed to only include empirical studies in VPT's supplier base. As a consequence, the focus of the resulting customer-supplier relationship development method was with VPT as a *customer*. In addition and for practical reasons, the suppliers chosen for interviews and analysis were selected from the group of suppliers that supply goods to the VPT manufacturing sites in Sweden.

The interviews at VPT were held with employees at different levels of the organization which enabled comparisons of the different relationships to its suppliers, and identification of qualities that VPT's employee's finds important in the customer-supplier relationships. Since the purpose of this Master thesis aims at developing the relationships with suppliers, the authors aim at impacting on the relationships as little as possible. Therefore the employees at VPT will be held anonymous by name, but their position in the company is revealed for the readers' further understanding. In addition, the interview was complemented by observing operational work, studying strategic policies and managerial procedures at VPT such as how the relationships are evaluated and developed at VPT and what kind of strategies VPT have for differentiating its supplier base. This was conducted to create a greater understanding of what could impact on the case study focus.

3.3.2 Additional information as secondary data

Our secondary data analyzed throughout the research consist of documents from both within VPT and Volvo AB. For confidential reasons these documents are excluded from this report.

3.4 Data analysis

After the collection of data, it was analyzed by the authors. There are three phases of data analysis that should be conducted simultaneously; data reduction, categorization and finally drawing conclusions (Ryen, 2004). Data reduction is performed before the analysis and aims at choosing information and also eliminating information redundant for answering the research questions (Lantz, 2007).

After the data reduction, the categorization of the data was conducted by dividing it into entities and then placed into categories. The purpose of the interviews differed and functioned as a basis for division, which was made between interviews held internally at VPT and V3P, and externally with suppliers. Three categories were made out; Purchasing's view of supplier relationships, cross-functional interviews of supplier relationships and external interviews of buyer behavior in buyer-supplier relationships.

Purchasing's view of supplier relationships: Internal interviews were held within VPT to get an overview of the issues and possibilities of the buyer-supplier relationships.

Cross-functional interviews of supplier relationships: In order to investigate the cooperation between the purchasing and product development (PD) department in development supplier relationships PD's view was sought through internal interviews.

External interviews of buyer behavior in buyer-supplier relationships: External suppliers were interviewed in order to get both sides view of the buyer-supplier relationships.

Finally, drawing conclusions from the data was conducted using several methods; search for patterns, looking for deviating cases and triangulation (Ryen, 2004).

Dubois & Gadde (2002) claim case analysis is not a linear process in the same way that a research process has an intertwined nature. Theory needs empirical observations in order to be understood (Dubois & Gadde, 2002). In terms of the relationship between theory gained from the literature review and the research performed during the case studies, our project tends to be of an *abductive* type, since we will proceed in parallel with our literature study and empirical research. However, the embedded sub-case studies gained from the external interviews will be of an *inductive* type, where interesting new information will be followed up after the interviews. The embedded sub-case studies will follow a cross-sectional design, and most importantly aim at feeding theory gaps with their results (Bryman & Bell, 2011).

The analyzed results from our research are put together in a final report during the Master thesis work progress. The method and the results are presented to both VPT and Chalmers University of Technology representatives.

3.5 Quality of the research

According to Lincoln and Guba (1985) the main issue when performing qualitative research is to evaluate the trustworthiness of the research. The authors explain that the question to ask is how the researcher can persuade the audience, and indeed oneself, that the findings from the research are noteworthy. However, each reader will make their own perception of the trustworthiness of the research study. The research process will be clearly stated however, in order to facilitate for the reader when deciding upon the trustworthiness. Four criteria for obtaining trustworthiness are proposed by Lincoln and Guba (1985); credibility, transferability, dependability and confirmability. The most critical aspect is said to be credibility which is divided into seven different activities: prolonged engagement, persistent observation, triangulation, peer debriefing, negative case analysis, referential adequacy and member checks. However, not all criteria need necessarily to be strong, some may be overlooked. We will discuss each criterion below.

Prolonged engagement refers to spending time actually in the empirical setting long enough. This should be done in order to understand the context that the phenomenon in focus is acting in. Due to time and resource limitations in this thesis, we were not able to spend long time at all the organizations involved. Longest time was spent in VPT where we were situated during the writing of this thesis. However, we were not able to visit some of the suppliers that were located abroad due to resource restrictions. Most of the suppliers we were able to visit and for some we were given a tour of the facilities and explanations of their activities. We did conduct interviews with all the suppliers and this was how we developed an understanding of the context of the phenomenon. Since we matched theory and empirical research during the study we were able to redirect the study in new ways according to the new information received from the empirical world.

Persistent observations refer to which aspects are the most relevant for the phenomenon and will provide a sufficient depth of the study. Differing between an organizations attributes and that organizations relationship attributes was a result of matching the empirical data with the theory and can be seen as a persistent observation.

Triangulation is a way to test for consistency in different sources of data to see if they yield the same result. This result should then secure the “true” picture. Patton (2002) however claims that if the results differ depending on the data collection method it should be seen as an opportunity to understand the relationship between the object or phenomena under study and the inquiry approach better. It does thus not necessarily weaken the credibility of the results. Eisenhardt (1989) explains how collecting information about the same phenomena from many sources, the research will be strengthened by triangulated measures. By analyzing literature and VPT’s and the supplier’s constructs of the relationship work, we believe our research is triangulated. Since the data collection took place over a rather short period of time, approximately five months, we do not believe that the empirical material in chapter 4 would differ much if it was collected in the exact same time period.

Peer debriefing relates to the researcher appointing a peer to review the research in a critical manner and make an inquiry that could then be expressed explicitly from the researchers mind. In this thesis, two peers were selected to critically read and question the thesis. In addition, two tutors were constantly involved in the thesis work as well as another person at VPT who continuously reviewed our choices and encouraged us to explain them in depth.

Negative case analysis has not been used in this thesis since the purpose does not aim at propose and test hypotheses. The case was used when interacting with others and allowing new theoretical directions as proposed in the systematic combining process.

Referential adequacy was used in this thesis to some extent. The interviews held were first transcribed and then the qualities that were mentioned as important in both relationships and in other organizations was reviewed in its context and then compared.

Member checks are when the providers of information are allowed to check the data. The suppliers were allowed to comment on the written material in Results, chapter 4. This was done since the suppliers were promised to be held anonymous and therefore they were promised to review the material in order to make sure that they would not be insecure about sharing information. The member checks were also made to ensure that the perspective of the suppliers was correctly interpreted. The comments were few and did not alter the meaning of the case description.

Moving on to the second criteria, *transferability* presented by Lincoln and Guba (1985), relate to if the findings derived from a single case study can be applied in other settings. Since the method developed is flexible in that it can allow for changes of qualities discussed, the structure should fit in other company contexts as well where relationships between organizations are of importance.

Dependability is described by Lincoln and Guba (1985) to be the examination of the actual research process. The research procedure can be seen in section 3.2 and the methodological concepts used have been described. Regarding dependability, we have had to be dependent on the interviewees, concepts and the research context. This has however not been seen as a problem by us since dependencies are always present, and it is more important to understand *how* they impact on the study.

In the final concept of *confirmability* the results of the research and the consistency of the concepts used, the findings and the data are checked to see if they are consistent. In the analysis chapter 0 we hope to have shown that the qualities mentioned by the suppliers and by VPT, the empirical results, have matched the theoretical constructs in a trustworthy way. By going back and forth between the empirical world and the theory we believe has facilitated this and thus provided the reader with enough information to find the study trustworthy.

4 EMPIRICAL FINDINGS

This chapter will present the findings from the empirical research. The first section, 4.1, contains results of the interviews held with employees at VPT and the second, 4.2, is a description of the results from the supplier interviews. The interviews aim at resulting in a combined understanding of the nature of customer-supplier relationships and how to develop them. The structure and division of the results chapter will be in alignment with the stated research questions.

4.1 Results from interviews within Volvo Powertrain

The employees, with whom the interviews were held within VPT, are held anonymous in order to create as little impact on the working relationships investigated as possible

Which suppliers are strategically most important to Volvo Powertrain?

Through the interviews a number of questions were asked in order to find the answer to this question. The interviewees answered what kind of attributes such a supplier should have, and mentioned; spend, importance of the supplied products in the final truck, the suppliers' uniqueness on the market and access to capacity, as some of the most important attributes.

When looking at the future and which suppliers are likely to be strategically most important then the answers changed towards looking at what kind of technologies will be used and how the supplier could contribute to the technological development towards these new technologies. Still access to capacity, both regarding raw material and access to machineries, was considered to be even more important in some markets in the future.

Which supplier relationships are strategically most important to develop for Volvo Powertrain?

Switching the focus towards the relationship with the suppliers, both what the supplier supplied to VPT as well as how the supplier was involved in VPT's operations and when, both regarding project and relationship life cycle, came up in the interviews.

If a supplier supplies a strategic product, then the relationship becomes strategically important according to CD2. It can also differ over time, which suppliers are most important to keep an intense, high involvement relationship to.

"We will focus extra on the supplier relationships, where we have very important project start-up", CD1 explains.

PM3 says that it is important to have a good relationship with a supplier that you want to increase business with, so that communication will not be a hinder for doing business.

We do not differentiate much among our supplier relationships except that we have approximately 100 key suppliers that we focus on, CD1 explains and continues;

“But you can also be the preferred customer to the other suppliers, without much time or effort. It is a matter of people and how they act”.

PM3 says the intensity of a relationship is determined on Kraljic’s model, where suppliers of bottleneck products are important to keep an intense relationship to and the leverage product suppliers are more challenged and pressured on prices.

PM2 thinks that if there is a problem, the supplier may choose the customer with whom they have the best relationship and that an intense relationship can be what decides who will get access to the supplier’s capacity in a situation of scarcity.

PM2 also thinks that a new supplier supplying strategically important components is highly important to quickly build a relationship to.

PM1 continues to explain that during phases in a relationship, for example sourcing a product from a supplier for the Euro 6¹⁴ launch, many people are involved and the relationship is intense. Intense relationship work with a development supplier is particularly important, especially when VPT is dependent on the supplier to take certain actions in order to be able to deliver critical products to VPT. This is so important that there is a need to control that the supplier actually takes these actions and this can best be controlled through an intense relationship.

PL expresses an increased need for developing increased efficiency in the product development phases, both the internal but also the ones including suppliers in early phases. In an ongoing PD-development project, spanning over all business units within Volvo AB, it is explained that *supplier involvement* is one of the cornerstones. Increased focus will then be given to the suppliers that can be involved early in the product development phases in order to reduce the risk of failure in later commercialization and phases.

Which qualities are important in the relationship with suppliers to Volvo Powertrain?

Looking into the actual relationships, how they function and which different qualities impact on the status of the relationships were discussed in the interviews. Below in Table 7 a description of the qualities perceived by the employees at VPT as important in the relationship with suppliers can be found. The qualities are listed without any order of importance, since they may differ from relationship to relationship and also over time.

¹⁴ Euro 6 is, in the time of writing this Master thesis, an upcoming engine model that aims at fulfilling regional environmental regulations and restrictions.

Table 7: Description of qualities important in the relationships with suppliers

Perceive us as preferred customer	Service minded	Openness
Give feedback	Communication	Honesty
Personal relations	Professional behavior	Cultural understanding

In all of the interviews with employees at VPT, *being perceived as the preferred customer*¹⁵ was expressed as important. To CD2 it was important in order to get the first shot at new technology and especially state-of-the-art technology. PM2 explained how it is important to be the preferred customer to a supplier who is supplying parts that are critical to acquire due to law and regulation constraints and where there are few players on the market. PM1 thinks that in times of crisis it is especially important to be the preferred customer to the suppliers, so the suppliers will share their capacity with VPT firstly.

PM4 stressed the fact that in times of crisis capacity is often scarce, and then it is important to get priority for capacity reasons.

Moreover, being perceived as the preferred customer involves a willingness to meet VPT's demands, where the supplier is requested to actually meet VPT's demands and not just only attempt to respond to them, according to PM4.

Being *service minded* was mentioned by many. It can refer to many areas, such as communicating when there is a problem or being open about information regarding processes. Being service minded involves a willingness to cooperate from the supplier's side including listening to the needs and requirements of VPT and responding with a will and attempt to meet these needs and requirements.

¹⁵ Preferred customer is here explained as a customer that the supplier prefers over other customers and hence gives advantages. It can be advantages regarding service, the speed of the service provided and getting first shot at new technology.

Communication is a quality which was perceived as very important at VPT. PM4 gives an example of a supplier which is working hard and being successful on increasing the product quality, but does not communicate this to VPT. Then VPT might consider or even take actions towards this supplier because they may think the supplier is not interested in increasing the product quality, when in fact the situation is the opposite. Included in the quality of communication is openness. For PM3, openness refers to communication and transparency, and to not only share needed information that you know, but also to share the notice when you cannot give out certain information. Getting insight into the supplier's costs and processes allows for VPT to help the supplier reduce its costs, according to all PM.

PM4 explains that even a feeling of being cheated has a very negative impact on the relationship and therefore openness is important in order to avoid misunderstandings.

PM1 says that VPT can sometimes use their contact network to help the suppliers reduce their costs for purchased goods, which is why openness is important in order for VPT to be able to help the suppliers.

In order to be able to improve products, processes or the relationship, giving *feedback* is important according to PM3. This can also be seen as a part of the quality communication, where sharing information is essential but under the preconditions that the right information is shared at the right time according to PM4.

PM3 mentioned that giving honest feedback to a supplier about why the supplier did not get a certain deal is important for the supplier to be able to improve.

Honesty about where you are in a process can facilitate the cooperation between the parties. PM3 says it is important to avoid sharing information that is not true; one should rather inform the other part that the information cannot be shared instead. What PM4 stated for openness also referred to honesty, being cheated or the feeling of being cheated affects the customer-supplier relationship negatively.

The importance of *personal relations* has been expressed by many of the interviewees as a way to facilitate cooperation.

"It is also important for purchasers to have a good working relationship with their suppliers because it facilitates the work of the purchaser" says PM1.

To CD2 it is also important to have a *professional behavior* in customer-supplier relationships. This refers to keeping discussions on an objective level and showing each other respect even if not agreeing on a matter at hand.

When doing business on a global level as VPT is doing it is important to *understand each other's culture* in order to be able to cooperate efficiently and to avoid misunderstandings.

"If you want to show each other respect, it is important to understand the cultural differences", PM3 concludes.

How to strategically improve the relationships with suppliers?

When a choice has been made for improving a relationship with a supplier, there were many parts VPT's interviewed employees found important and necessary for being able to improve a relationship with a supplier.

A meeting, especially at higher hierarchical levels, is preferred but should not be too detailed. The focus should be on what actions to take in order to improve the matter at hand instead of focusing on details in what went wrong according to CD2.

PM3 expressed a wish for sharing feedback between the two firms regarding what improvements can be made. This can for example be feedback regarding how information is shared between the firms.

PM4 believes four hours is an appropriate time for a meeting devoted to relationship development, the time is described as enough for discussing the relationship and come to some conclusions but yet not too burdening either.

PM1 believes that a large relationship interface towards the supplier with lots of changes can impact negatively on the relationship quality with the supplier, which is why a clear relationship interface is important.

PM2 says that "Suppliers larger in size than Volvo AB that holds a large power through its size may not be interested in developing the relationship with VPT". PM2 further explains that VPT then sometimes tries to increase the competition on the market by helping another supplier to grow, both in size by giving them larger orders and by sharing knowledge and know-how.

A relationship could be negatively affected when it is connected to such strategically important parts that the importance of the parts can lead to tense and frustrating agreement discussions according to PM2. PM2 continues by describing a good relationship as where the supplier is service minded and willing to quickly respond to VPT's needs and that;

It can be important to understand the national culture of the supplier in order to understand how they behave in relationships. Otherwise there could be misunderstandings based on how both parties expect the other to behave, when it is instead connected to culture and not intentional acts

PM3 mentions that depending on the suppliers' culture, the focus on personal relations can differ and be more important to some suppliers than others. Relationships with suppliers should be built on "The Volvo Way". This means that employees from VPT should be open, respectful and telling the truth. The supplier should be seen as a customer and be given good preconditions for doing a good job, for example asking the suppliers what they need in order to do a good job. Purchasers should give honest feedback to the supplier about why they did not get a deal, or letting the supplier know what information can be shared and what information cannot be shared.

"A supplier relationship which is not functioning well can be built on unwillingness from the supplier to communicate their business", says PM2.

PM 4 believes it affects the relationship negatively if the supplier makes a promise that it later on does not keep. This behavior can leave a feeling at VPT's employee of being cheated on which is described as very negative for the relationship. The way a conflict is handled in a relationship can differ depending on the supplier's nationality and therefore it is important to be aware of these differences for a conflict to be handled in the best way. A conflict in a relationship does not have to be business related, but can also be caused by one person's personality.

4.2 Results from interviews with suppliers

The suppliers will also be held anonymous, and therefore each supplier has been randomly given a name ranging from Supplier A to Supplier J.

What qualities are important in the relationship with customers?

The qualities in Table 8 below are listed without any order of importance since the importance of the qualities may differ between suppliers and also over time. The qualities were sought through questions about the customer relationships and what made them differ from each other. Also questions regarding what qualities made a good relationship different from other relationships and where there was room for improvement lead to qualities that the interviewee found important. To give a better explanation of the qualities, the following section will present examples of the qualities collected from the supplier interviews and also highlight some comments of additional interest to the research.

Table 8: Description of what relationship qualities suppliers find important

Trust	Commitment	Technological knowledge
Communication	Give feedback	Personal relations
Fair division (win-win)	Clear roles of responsibility	Flexibility

Trust is a quality that was mentioned by many suppliers as important in the relationships with customers. This refers to both trusting what the other person says as well as trusting the other person will do what they promise, referring to reliability. To Supplier H, reliability means that what is said to be done also will be done and this is claimed to be important in order to create trust for each other. Therefore this quality is connected to personal relations according to Supplier A. Supplier J presents qualities that can ruin the trust in a relationship as hidden agendas and dishonesty. Generally customers are perceived to be afraid to share information with the suppliers about why a deal was turned down.

Supplier J stresses the fact that knowing if a manufacturing deal will go to that supplier when developing a product is important.

Supplier I also reflect on the importance of honesty when it comes to how thoughts about their future cooperation are shared.

Commitment was explained as the customer showing interest in both the supplier and in doing business with the supplier. Involvement was also mentioned by many of the suppliers as an important aspect of commitment. Involvement was explained as when the customer helped the supplier when in trouble or engaged in joint activities, meaning showing interest in the supplier. Long term focus is important to Supplier E, and explains that when a contract is signed, focus should not be on changing the contract but to look forward. Other suppliers have stressed the importance of a long term focus when the products are technically complex and have a long learning curve.

This brings us to the *technological knowledge* quality mentioned by several suppliers. It is requested that the persons involved in those relationships regarding high technologically advanced products are knowledgeable about the technology in order to facilitate the business cooperation. Where the knowledge is placed was also part of this relationship quality, when more development work is placed on the suppliers the knowledge is shifted outside Volvo AB and according to Supplier H;

It is important that Volvo AB keeps its key knowledge inside the company in order to reduce risk. In addition, it was expressed that Supplier H appreciated customers with a high amount of in-house knowledge.

Communication is also mentioned in different ways. One way is that communication perceived as functioning good facilitates the work of the supplier according to Supplier A, and which in turn leads to higher quality in the cooperation with the customer. Openness is explained by Supplier I as when communication is open and direct. Information sharing is important to Supplier D in its relationships in order to reach visibility and transparency. The right information should be shared in a timely manner and in the right amount, and this should be done by establishing robust and optimized information sharing processes, especially for cascading information to the suppliers. Quick information sharing can be a sign of trust and honesty says Supplier B. Supplier H prioritizes transparency in the cooperation with VPT and thinks information sharing is very important.

Supplier G believes it is important that the documentation is adapted to the specific supplier and its preconditions.

Giving feedback is important in many aspects according to the suppliers.

Supplier B explains that getting feedback is important when doing business, or when VPT decides to chose another supplier, in order to be able to improve.

Many of the suppliers mentioned *personal relations* as an important part of the relationship with their customers. Personal relations are a way to facilitate work for Supplier B and to create trust in the relationship with the customer. If there is a lack of personal relations the customer is unlikely to become the preferred customer. Personal relations are also important to Supplier A so that the supplier better can plan its work and have a more efficient cooperation with the customer. Supplier G believes it is important that the personal chemistry is working well in a relationship.

Many suppliers expressed a wish for the relationship to focus on a *fair division* of both labor and profit. Their thoughts could be summarized with;

A more fair division would function as a way for VPT to show professional interest and long-term commitment towards the supplier and thereby improve the relationship.

Clear roles of responsibility were perceived as important in order to facilitate the cooperation and improve the relationship as unclear roles of responsibility can create misunderstandings and friction in the relationship. Supplier H believes clear roles of responsibility are needed for achieving success in cooperation.

Flexibility regarding how suppliers are treated when it comes to work routines is important to Supplier J in order to reach efficiency in the relationship.

One of the suppliers shared a success story about a new product development project which functioned very well, and delivered a product that functioned according to specifications in time. The supplier believes the reason for success was that the cooperation was held on the same level between the companies. Meetings were held regularly and clear actions and timelines were shared. In addition and most importantly;

The cooperation was exclusive which created trust and enabled both parties to share information.

What makes a customer a preferred customer?

Moving on in the interview regarding what makes out a preferred customer compared to other customers, Supplier B describes their preferred customer as a customer in which they have a high level of trust for receiving help with potential problems.

Supplier B also describes their preferred customer as technically knowledgeable and fast in making decisions and in operational work. Supplier J sees a need for a long-term stable relationship to the purchaser of their preferred customer since the products they are supplying are complex and the relationship has a long learning curve.

For Supplier A, a preferred customer provides the supplier with a long-term contact person. Personal relationships and contacts are also perceived as very important to Supplier B in their relationships with a preferred customer.

Supplier J has a large customer besides VPT which they believe has a clearer and narrower contact interface, easier to understand and use than of that with VPT.

Supplier B explains that their preferred customers are receiving better prices than their other customers. They also place their best employees and mechanics with their preferred customers primarily and respond quicker to the needs of their preferred customers.

The reason for this is that they experience their preferred customers to be easier and faster to make business with and can therefore offer them better prices and recourses. Supplier B experiences quicker and more frequent respond from their preferred customers regarding their new products and processes than from VPT. As a consequence, they more often take their innovative ideas to their preferred customers first, rather than to VPT.

Supplier I experiences VPT as their preferred customer and thinks that VPT have a less complex and better purchasing interface than their other customers.

Supplier D spends more resources on customers with higher spends. In other words;

Supplier D explains that they are more customer-oriented towards these customers and have a higher attention to their demands and needs.

Supplier G prefers customers that do not make the business process complicated. In many relationships there are too much waste in information sharing and in use of time and a pragmatic view of the way of doing business is preferred.

Feedback on why a manufacturing order was not given to them is important in order to improve and therefore giving feedback when desired by the suppliers partly forms a preferred customer, according to Supplier J.

The same supplier believes a preferred customer analyzes the quality of forecasts in order to optimize the use of shared forecasts upstream in the supply chain.

What in the relationship with Volvo Powertrain its suppliers wish to improve?

Proceeding with how the suppliers perceive their relationship with VPT and what in that relationship could be improved;

Supplier G sees a need for a more stable long-term relationship to the purchaser at VPT, both because the products they are supplying are technically complex and that the relationship this requires has a long learning curve.

The above stated arguments are thus not the case today and Supplier G does not like to frequently being awarded a new purchaser to keep in contact with at VPT. In addition, the importance of personal interaction is highlighted, which is preferred to be done through informative meetings at for example “Suppliers days”, through customer invitations, social happenings with the ambition to simplify future communication and increase the level of loyalty and improved personal chemistry which is claimed to be “of utmost importance”.

As a practical example, Supplier G explains that a customer of smaller size than the supplier can be more appreciated when showing social skills, even though the customer is not the most important to the supplier.

Supplier A perceives purchasers at VPT to be steered and bounded by the company's strategies to a higher extent than purchasers at other customer companies and believes this slows down communication and decisions.

One communication medium with VPT that works well however is the use of live-meetings and taking notes through this medium according to the same supplier.

Supplier B believes their company has evolved over time, but does not feel that VPT is updated on their progress and what new things they can provide and requests more frequent updates on each other's businesses.

Supplier D believes that the contracts and agreements with VPT are too old and impractical and need to be updated.

Supplier I thinks their relationship was stronger and better a few years ago but now has significant room for improvement such as keeping a more intense and long-term relationship. The same argument concerning level of commitment regards the current CEO compared with the previous CEO of VPT.

Supplier B believes VPT's cost-decrease activities counteract a long-term relationship and do therefore not perceive the relationship with VPT as long-term as desired.

In times of difficulties, Supplier D thinks VPT tend to be fast in blaming the suppliers and says that more transparency and relationship improvement could be one solution. Supplier B think VPT is more likely to switch supplier easily when the supplier is in trouble compared to how other customers act. VPT is perceived as afraid of sharing information with the suppliers and

Supplier B does not trust VPT enough to share information with them regarding costs and processes since it is believed to be used for benchmarking.

Supplier C is afraid to share documents with VPT since they believe it may be transferred to other suppliers. This is derived from when the same supplier received documents from another supplier given to them by VPT.

Another supplier claims that they do not appreciate cost-engineers for cost breakdowns and believes it is a token of lack of trust. The supplier has higher trust in other customers than VPT for receiving help with potential problems and calls for a higher level of trust in the relationship.

Supplier J perceives the negotiating process with VPT, when agreeing on a price, to be very time consuming and believes that long lead times and complex products provide a need for more experienced purchasers.

Several suppliers wish to be included earlier in the development processes. Supplier B says that it is no idea to invite suppliers for cost efficient activities when the prototype is already set. However, in the same time Supplier J claims;

When doing a lot of hard work initially in a sourcing process, it is important to know that the deal will eventually go to the supplier and pay off all the hard work.

Supplier D believes that VPT could improve at the operational level and refers to that there is a lack of visibility within Volvo AB, meaning that important information such as agreements or recent decisions is slowly or not at all transferred throughout the group to other business units and brands.

Several suppliers have experienced a shift and corresponding negative relational effect on them in VPT's sourcing strategies over the past years.

Supplier J says that the work of the product developers is adapted to the fact that there are many external consultants hired to the VPT organization, with limited information and experience about the organization and the specific supplier relationship, and therefore the workload is placed on the supplier instead.

Supplier H believes VPT is pushing the product development work on the suppliers leading to an increased expertise developed at the suppliers. Furthermore, the supplier thinks this poses a large risk for VPT since the expertise will be lost if the supplier would end the cooperation.

Thus, Supplier H experiences a shift in Volvos strategies and way of working where the expertise and knowledge is moving outside the company.

Several suppliers find VPT's organization complex and difficult to understand. Supplier G claim that doing business with VPT goes too slowly compared to with other customers.

Supplier H thinks it is important that the information shared between VPT and the supplier is structured, and that no redundant information is attached.

Supplier J think VPT is more rigid in its approach than other customers regarding the negotiations.

The same supplier believes it is important that the documentation is adapted to the specific supplier and its preconditions. Supplier H can see a trend in VPT's way of negotiating contracts where they are trying to favor themselves more now compared with some years ago. Many suppliers have noticed a change in the strategies from the organization of VPT during the past decade. Supplier J experiences being steered towards the Purchasing department when the supplier would prefer to have a direct contact with the Product development department. This is believed to facilitate the work processes, which regards technically complex products and development work, and larger possibilities of improving the products.

Lead times for VPT's internal development of the engine is long and Supplier G thinks it would be beneficial if the supplier was involved earlier in the development of the engine in order to be able to develop its parts in parallel and in that way shorten lead times.

Supplier B finds VPT slow in decision making and negotiations due to their matrix organization. In addition, Supplier B perceives VPT as a follower and not a leader when it comes to new products and innovations.

One supplier expressed a concern that dual sourcing may lead to a lower trust in the triad relationship from VPT's perspective, leading to less information sharing in all relationships, resulting in less trust.

Supplier G calls for more knowledge and authority at the "Supplier hosts" within VPT.

Changes of orders, such as cancellations or ramp-ups realized by VPT, need to be more quickly sent upstream in the supply chain. Supplier G thinks heavy administrative work required can pose barriers for doing business with that customer.

How to strategically improve the relationships with Volvo Powertrain?

Several suppliers expressed a wish for VPT to show more interest in the supplier in order to establish a better relationship.

Supplier D welcomes the initiative from VPT about involving suppliers in an effort to improve the relationship between them and think it is a step towards being a more trustworthy customer.

Supplier I prefer to have short and focused meetings. The supplier also explains that discussions should be held on a constructive level, and not be considered personal. Furthermore, Supplier I express that VPT could benefit from utilizing more of their own internal and Supplier I's product development resources. In addition, Supplier I believes that VPT could be more open in sharing technical plans of importance to the relationship with Supplier I. Supplier I explains that VPT could benefit financially by doing as many other customers;

In collaboration with the supplier focus on cost optimizations and stimulate for innovations in the product sourced, even after the new-product launch. An increased technical development exchange would benefit both the relationship and the financial results for both firms.

Supplier C says that initial business documents such as contracts from VPT are mostly one-sided and standardized, and need to be re-negotiated and agreed on a mutual level to be content. Supplier C says VPT should increase its efficiency to pay suppliers invoices according to agreed conditions to reduce time spent on unpaid invoices, and that it would be better to use the time for new business opportunities for mutual benefit. A better forecast sharing upstream in the Supply Chain would prevent bullwhip effects. As a final example by Supplier I, faster information regarding order decreases at retailers would mean a lot of waste savings for all suppliers to VPT.

Supplier J thinks VSIB can function as a receipt on what has been achieved by the supplier and how good the supplier is, but also include joint relationship aspects. Supplier D suggest Volvo AB to establish more robust and optimized internal contact processes, especially in order to cascade important information regarding the operational agreements and changes towards suppliers, that Volvo and the supplier jointly agreed upon.

Supplier H suggests that a discussion regarding the relationship between two parties could result in a list of do's and dont's guidelines rather than in a strict "To-do" list. Supplier H also suggests that the participants should be able to leave the meeting with a relationship-bounding and cooperative feeling. The feeling suggested here should be comparable with the same nice feeling of signing a positive agreement.

5 ANALYSIS

In this chapter the literature review and the interview results are used to analyze the research questions in order to fulfilling the purpose. Each research question is handled in sections 5.1 to 5.4.

5.1 Which suppliers are strategically most important to Volvo Powertrain?

For organizations of VPT's size, it is inefficient not to say impossible to source components from all suppliers using exactly the same routines for all. According to the literature, organizations like VPT benefit from differentiating its supplier base in order to utilize different approaches towards different types of components and suppliers. Rooted in this task is the need for understanding the managerial shift within the broader concept of SCM. In the literature analysis and from the empirical results, a number of important attributes of a supplier for the buying firm was found. They will be presented below and analyzed further.

First and foremost, VPT says that spend; volume of business addressed to the supplier, is an important factor for supplier differentiation. This is also considered as an important factor for the suppliers. As mentioned in the literature review the customer should start focusing within the supplier base in order to keep costs down. If there is no supplier within the supplier base which can provide what the customer is looking for, the customer should then look outside the supplier base and try to find a supplier that can. In Figure 13 below, VPT spend more on Supplier 2 (S2) than S1 and S3, and S2 is therefore of higher importance for VPT regarding this attribute. Indeed, profitability is important when it comes to spend, but a large spend is not a receipt for high profitability.

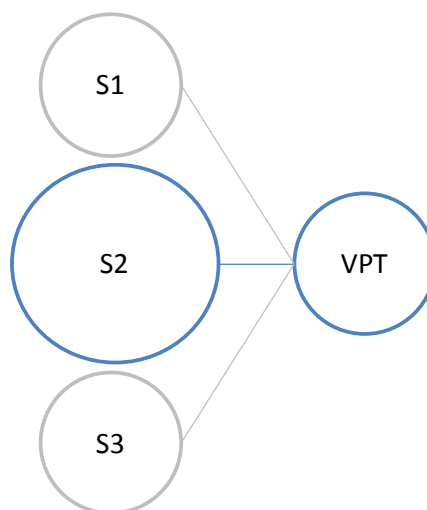


Figure 13: Supplier with highest spend

However, there could be other important factors than spend which impacts on the importance of the supplier for VPT. Looking at an item's strategic importance is also one thing that affects a supplier's importance, but as explained in the literature review and interview results, many other factors than just a static position of the item in itself, needs to be considered by management. The supplier could be of strategic importance due to other reasons than simply the items delivered. Also, a supplier can deliver many items, of different strategic importance, and hence a larger perspective is often needed to be taken.

Secondly, differentiation according to the Kraljic model is also claimed to be utilized as a managerial tool. The launch of Volvo Business Partnership Program is by VPT seen as a step towards a clear selection of strategic partners, chosen from the entire supplier base. Hence, the differentiation performed by VPT is to give these preferred partners special treatment and handle the other suppliers in a more standardized way. This is one step towards utilizing the supplier base as efficiently and effectively as possible after reducing the supplier base.

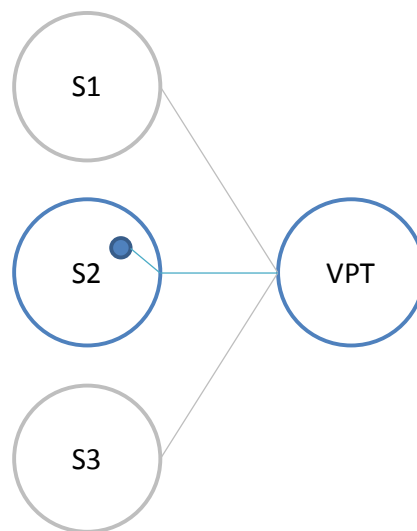


Figure 14: Supplier delivering strategic item

The future business potential is also argued both in the literature and interview results to be a strategically important aspect for a supplier. As an example, strategic suppliers striving for innovation can increase the chances of product development successes, which are argued as important to a buying firm. Finding suppliers that can contribute to the technological development and also be involved as early as possible could then reduce the risk of commercialization failure and unnecessarily high product development cost. Future potential can also relate to increased efficiency which then could lead to increased profit or increased growth, referring to growth in production capacity or broader product scope.

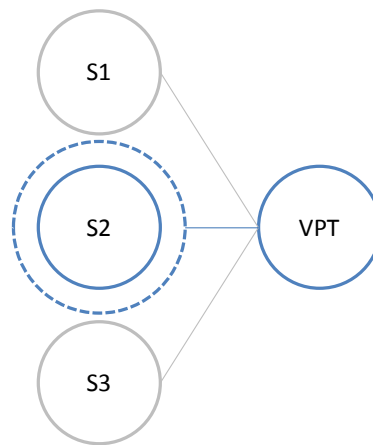


Figure 15: The supplier's future potential

When there are few actors to choose from for sourcing a specific item, the buying company tends to increase the specific supplier focus to balance the uniqueness of this item from the supplier. In contrast, when there are many suppliers to choose from the power is more shifted to the buying firm. The supplier could be unique regarding many aspects. Either the supplier is the only one holding the technological knowledge of how to produce a certain item, or the supplier has specific machines or capacity to produce a certain item. In general, the literature suggest an increased usage of single sourcing approaches in combination of developing better relationships with these chosen suppliers. This would then enable for lower total costs and increase the chances of benefits, by including interdependencies through mutual adaptations.

However, if the supplier is unique on the market, as demonstrated in Figure 16 below, the power is often largely held by the supplier and the customer then need to accept this and find managerial ways for handling this situation. One way could be by having an intense, close cooperative relationship with this supplier in order to secure the future business. If the supplier is not interested in the customer however, there is a need to offer other things than relationship attributes. Because if the supplier is not interested in relationship attributes, then there is a need to increase the customer attractiveness by changing the organizational attributes and perhaps increase the business volume to this supplier or give the supplier a wider scope to deliver, such as a larger responsibility for an entire system delivery.

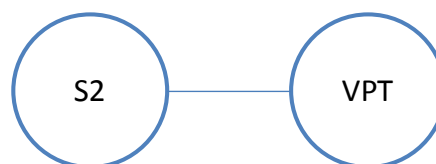


Figure 16: Supplier is unique on the market

The supplier can also produce the same items as another supplier, but then be different when it comes to access to resources. These resources can refer to connections to other suppliers in the same tier, or connections to sub-suppliers which are important to VPT and which make the supplier unique in this aspect, see Figure 17 below. These connections can bring important technological knowledge eventually to the customer, or give access to certain capacity or resources and this is then what makes the supplier important for the customer.

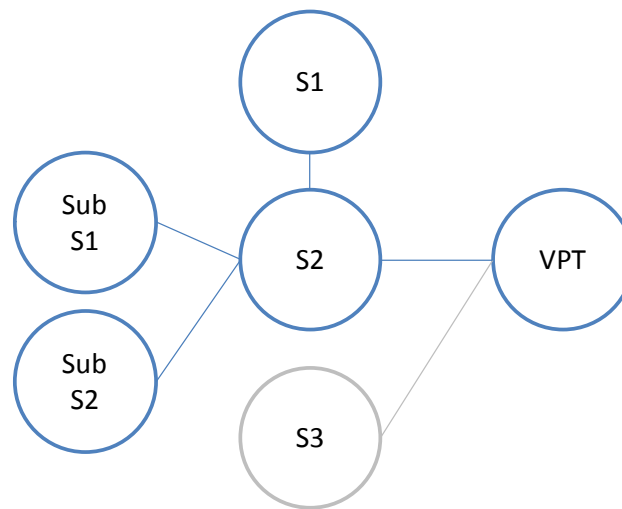


Figure 17: Access to resources

Access to capacity, as described in Figure 18, can refer to two aspects; either the supplier has access to machinery, manpower and/or space which allows the supplier to deliver a certain quantity of an item, or the supplier has access to material for producing a quantity of a specific item. Either way, this makes the supplier stand out from the other suppliers and become more important.

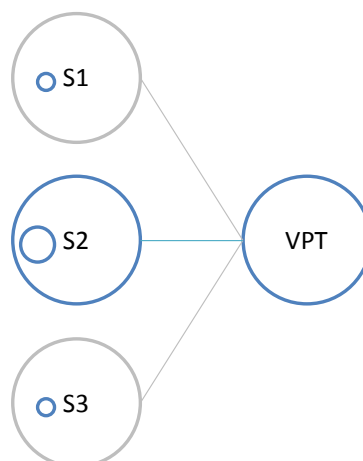


Figure 18: Supplier has access to certain capacity

The final identified important attribute a supplier can hold is the ability to provide a certain product scope as can be seen in Figure 19 below. This can facilitate for VPT by having fewer relationships with suppliers and instead facilitate the supplier base handling. To obtain a wider product scope for supplier S2, S3 in this case can become a second tier supplier to supplier S2. This way, the handling of the suppliers is facilitated for the buying company and supplier S2 is rewarded a higher concentration.

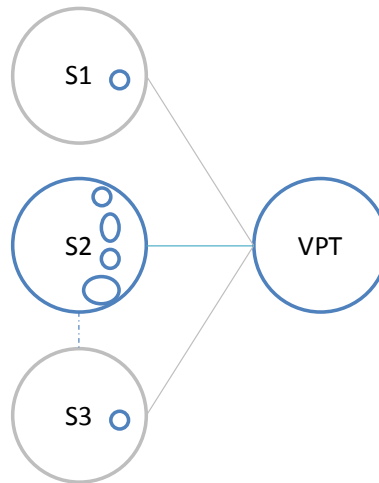


Figure 19: Supplier can provide a wide product scope

The “new supply base” has increased the managerial need to handle *variety, complexity* and *heterogeneity*, as presented in the literature review. However, there are more aspects to consider than only the attributes of the suppliers. How the supplier acts in the customer-supplier relationship has also been identified as important both in the literature review and in the empirical results. Thus it is needed to analyze which relationships are of importance to the customer to develop and how the impact on the above discussed importance of the supplier attributes.

5.2 Which suppliers, in a buying firms supplier base, are the most strategically important to develop the relationship with?

As described in the earlier chapters, there is a difference between *strategic suppliers* and *strategic supplier relationships*. The relationship aspect is claimed to be dynamic, which also could be confirmed by interviewing different suppliers of importance to VPT. A non-strategic supplier may for instance in a situation of turbulence and conflicts require much more managerial attention than the strategic suppliers. And a strategic supplier may function well business wise and not require a high involvement at a certain time. However, generally it has been shown that a supplier which holds strategically important attributes most often are involved in the most important relationships. The pre-defined resource allocation for each supplier seems to set a limit to what purchasing employees are capable of doing in terms of relationship work.

The most important aspect of a supplier when it comes to the relationship to the customer is the supplier's willingness to invest in the customer as can be seen in Figure 20 below. This is derived from Bensaou (1999)'s model described in the literature review. Since the relationship between a customer and supplier is two-sided, there is a need for both parties to be willing to invest in the relationship for a successful development of it.

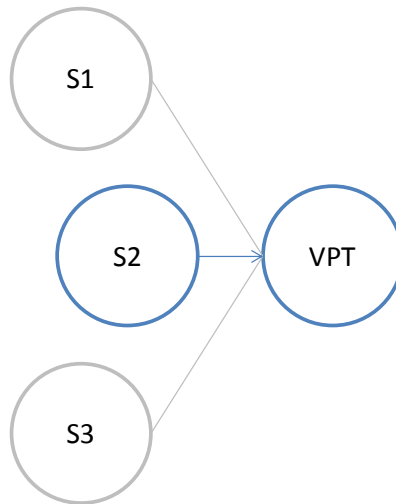


Figure 20: Supplier willingness to invest in the relationship

Discussing development, another important relationship aspect that is presented in Figure 21 has been identified as communication and giving feedback. Communication is vital for doing business with each other in a timely and efficient manner. Feedback, however, is a vital aspect for development and in order to develop a relationship there is a need to know what to focus on to improve.

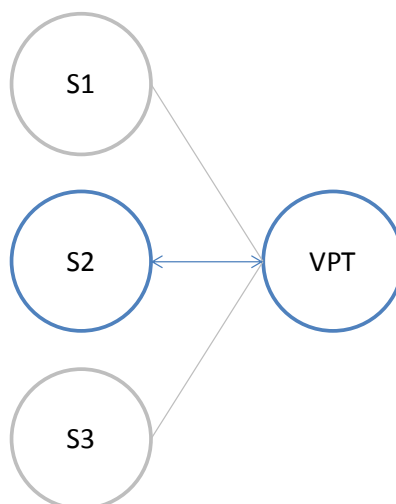


Figure 21: Suppliers skills in communication and giving feedback

Finally, in Figure 22 many relationship aspects are shown. Trust is identified in both literature and empirical results to be a main factor for having a close collaborative relationship. For trust to be present however, there is a need for reliability, honesty and openness. Cultural understanding is also of utmost importance in order to understand why the other party is acting in a certain way, in order to build a desired level of trust for each other.

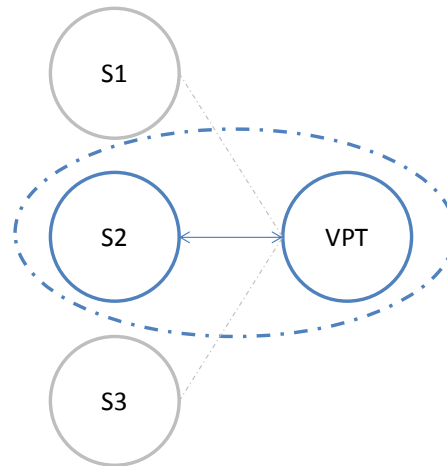


Figure 22: Honesty, reliability, trust, cultural understanding and openness

In addition to our presented attributes, there are many relationship portfolios presented taking different perspectives on relationships. However, the above presented aspects have been identified in our study of VPT and some of its strategic supplier relationships as the most important aspects when it comes to relationship management, and which attributes provides the largest potential for profit increase in the long run.

To maintain high relationship initiatives is both costly and time consuming. The solution is of course to find a suitable balance of jointly performed relationship management with desired suppliers. By having an appropriate set up of relationships, and being perceived as a preferred customer to the strategically most important suppliers, can then generate a valuable competitive advantage. This has been proven to be the case, both according to interviews with VPT employees and according to literature.

As we identified it a differentiation of supplier relationship is also present within VPT. The VBPP fulfills the purpose of giving the strategic key partners more relationship attention and means for developing a partnership. However, in some situations a significant future business potential can be predicted at other suppliers, outside VBPP, and then management should investigate the possibilities of addressing increased relationship development resources for this supplier.

One reason for mentioning all the different portfolio models has been to show that supplier relationship management can be seen in many different perspectives. A specific relationship portfolio-approach can preferably be utilized in order to get a starting point for understanding the specific relationships' position in the portfolio's specific dimensions, but it could also be used in order for management to map different relationships in order to provide an understanding of the broader scope and spread of the supplier base, and whom to focus on. However, as it takes "two-to-tango" there is a critical need for motivating the chosen suppliers in aligning with VPT's relationship development initiative. As explained earlier in the literature review and in the interview results, there are always power imbalances in business relations, and both firms in a relationship must accept this and are therefore suggested to develop suitable relationships *together*.

A buying firm that tries to find alternative suppliers in order to increase the competition on the market for a certain supplier is claimed to damage the relationship with that supplier. In addition, the literature review concluded that costs and benefits of relationships are consisting of much more than just the procurement prices. Furthermore, the main division of supplier relationships according to Billington et al. (2006) is separating *combative* from the *cooperative*. The first is argued to require a more traditional approach from purchasing, while a company can find a lot of benefits by developing the relationships in a more co-operational manner for the ones categorized as cooperative.

In times of conflicts, or even crisis, the need to be perceived as a preferred customer and act professional has been identified as stronger than ever. Well developed mutual understanding and trust is then seen as a requirement for maintaining business under turbulent circumstances. Moreover, the chance for positive relationship development, in any business environment, is most likely to occur with suppliers that perceive a buying firm as a preferred customer. As shown in one supplier interview, the best employees and capacity priority was addressed to the preferred customers.

Our suggestion after reviewing these important attributes of the supplier relationships is to investigate the possibility to segment the supplier base in accordance to the Billington-model. This would then enable VPT to overview the different supplier relationships in accordance to their strategic importance, both regarding the supplier's attributes and the supplier relationship's attributes, and allocate the right amount of resources accordingly. This would then provide VPT guidance in its supplier relationship management. For visualizing the differentiation layout we have applied different segments on a pyramid as displayed in Figure 23.

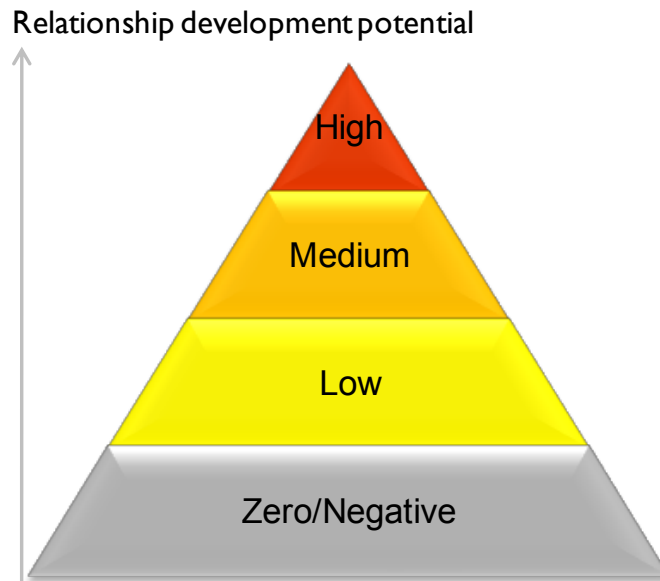


Figure 23: Suggested supplier relationship differentiation

In addition to this differentiation process, it is suggested to start the relationship development method with a supplier from the absolute top level, with high relationship development potential. This task to position supplier in each level, must be up to a management team, CD or PM to decide. As guidance, the given attributes discussed earlier are at hand. Relationship can be developed in all levels, but for reaching the potentially highest return on investment, it is suggested to use a predefined sequence and start the relationship development process with only one supplier. May it so be that multiple suppliers are chosen, but only when there are enough resources at hand and a clear structure of choosing proportionally from each different commodity. By choosing one supplier at the time, the development process is developed in sequences. Thus, the managerial process can initially be easier overviewed by a management team and then continuously evaluated after each time the method is being used.

Worth noticing is also that by dividing the supplier base into these levels presented in the pyramid above, other relationship strategies and initiatives can be applied and evaluated. As an example and in order to reduce the amount of resources spent on the lowest level in the pyramid, routines and simplification of the purchasing function towards these suppliers could be implemented.

Since relationship work can be seen as a dynamic process, a static approach to relationship development is not preferable. A supplier may shift from one category to another over time. This should be seen as strength, rather than a drawback. As concluded earlier from literature; *the relationship development process is dynamic, and the management controlling it needs to be adaptable*. As identified earlier, the chances for a buying firm to develop the relationship can be increased by being perceived as a preferred customer. In the next section an analysis will be performed in order for VPT to increase the chances of becoming the preferred customer. The section will thus present what major quantities a customer-supplier relationship in VPT's sourcing environment, consist of.

5.3 Which relationship qualities constitutes a preferred customer according to suppliers

In the previous section the analysis, regarding which suppliers to develop strategic relationships with, was discussed. In this section, how to become those suppliers' preferred customer is analyzed. There are two main ways of becoming a supplier's preferred customer. One way is through improving the relationship to that supplier and another is to change attributes in order to become a more attractive customer in the supplier's eyes.

It is important to understand that relationships are unique and therefore they have different attributes and needs. One quality could therefore be very important in one relationship while not being at all important in another relationship. By comparing the specified qualities mentioned by the suppliers in the empirical results with the literature review of what makes a customer important to a supplier, a bigger picture of what could make out a preferred customer emerged.

The suppliers were asked to compare their customers to each other in order to make out which relationship qualities made one customer preferred over another. Many suppliers first mentioned that all their customers are preferred customers. However, after asking again what would make the supplier choose one customer over another, qualities that were important for a preferred customer were revealed, and also the fact that all interviewed suppliers did prefer some customers over others. The need for customer differentiation is thus present also from the suppliers' perspective, and this is logic as the sale side also has limited resources in a firm.

As identified in the interviews the differentiation to classify some customers as preferred customers, was linked both to the customer's relationship qualities and to the attributes of the customer. The qualities presented in

Table 9 were by the investigated suppliers mentioned as important to consider and manage well for a preferred customer. The qualities in grey are referred to relationship qualities and the white qualities are customer specific attributes.

Table 9: Qualities addressed to preferred customers

Trust	Involvement - offering help	Commitment - long-term focus	The customers business' fit with other customers businesses
Pragmatic - easy to make business with	Give feedback - so the supplier can improve	Communication - long-term stable relationships	Business volume
Personal relations - clear contact interfaces	Quick - in making decisions and operational work	Technologically knowledgeable	Clear roles of responsibility

Does this imply that VPT should focus on improving all these qualities in order to become the preferred customer of their strategically chosen suppliers? Preferably not, but what it gives is a general understanding of what are preferable to focus on, and the balance of relationship qualities depends on what is important in the specific relationship. Since relationships are unique, it is most probably not economically beneficial to try to improve *all* qualities in the relationship to reach preferred customer status. Each relationship is unique and resources should be allocated according to the specific needs that are identified in that specific relationship. In addition, an improvement effort in one quality, that a supplier claims as more important to them, may not require a high investment especially amongst the relationship qualities.

But generally, which are these qualities of most importance to handle in a relationship including VPT? In the interview results, we can identify that there is a clear ambition from VPT to become the preferred customer to the strategically most important suppliers. All interviewed employees within purchasing mentioned this as a high priority. However, the results from the supplier interviews reveal that there is room for improvements in many qualities, in order to improve the preferred customer position for VPT. In the following part of this section we will analyze some qualities and its consequences more in detail.

If we start by handling the qualities with low investment costs, a few of the qualities stand out. *Giving feedback* does not have to be a costly activity. If the feedback is given often in small portions, the time invested does not have to be long and the task will also be simpler than if feedback is given more seldom and in a formal manner. To give frequent feedback is claimed to be of importance to both the suppliers and VPT.

Communication could be costly if not done in a somewhat structured manner. But with the right tools and systems, communication could be a facilitator that provides necessary information at the right time and in the right amount, and it could also reduce costs for misunderstandings and for decisions taken on the wrong knowledge basis. Being quick and pragmatic does to a certain extent depend on the organizational structure and strategies, and this often requires a higher investment to change. But individuals can to a certain extent affect this, and by acting quick and pragmatically other benefits can also be gained. As presented in the interview results, quick *information sharing* can be a sign of trust and honesty. *Clear roles of responsibility* could also be a low investment cost if the division could be made in a quick and structured manner. With clear roles of responsibility there are lower risks for misunderstandings regarding who should do what and less risk for delays. All these relationship qualities presented here has been claimed as important to both the suppliers and VPT.

Which qualities give the highest positive effect on the relationship and in the long run of business cooperation? This question is once again highly dependent on the supplier and its specific attributes. The qualities that the specific supplier and VPT rate as most important should by reasoning, give the highest impact on the specific customer-supplier relationship. This question should also be connected to the economic benefits of relationship improvement, where the qualities improved in the relationship that are presumed to give the highest positive effect on the relationship, also should give the highest economical benefits. The success story regarding the new product development project, mentioned by one supplier in the interview results, clearly showed how exclusive cooperation, was the driver for creating *trust* and well functioning *commitment*. This resulted in a boost of economical benefits and the project was considered as successful.

Well functioning *personal relations* has also been mentioned by both the suppliers and VPT as a key factor to customer-supplier relationships, preferably with a long-term focus according to suppliers. As an example, one supplier mentioned that they locate their best employees to the most preferred customers. In addition to the reasoning earlier, what qualities are important can differ also from person to person, and the supplier can thus not be seen as an entity. However, often most qualities perceived as important by the employees at the supplier are grounded in the suppliers' business and hence the focus on individuals opinions should not be over emphasized.

Behind the personal relations there are implemented strategies and business processes affecting the relationships. Here we have identified some examples of critical relationship qualities of greater importance to suppliers that affect or are an effect from different business strategies within VPT;

- *Clear roles of responsibility*; Many suppliers claim for VPT's contact interface to be clearer and that the organization is complex. To have more stable employee positions and increased authority to the purchasers is argued to be one way that VPT could reduce this uncertainty perceived by the suppliers. This also calls for a need to be perceived as professional players. One hands-on example of this was mentioned from one supplier to increase responsibilities for the invoice handling and to pay the invoices in time.
- *Technological knowledge*; Larger extent of technical involvement and sharing of technological knowledge has been argued as important by suppliers in the interviews. Early involvement has been identified as key. In order to manage this in an appropriate ways the cross-functional integration and relationships with product development could be managed further in this aspect. Suppliers also directly suggested that VPT purchasers should have a greater portion of technical knowledge, and this recommendation was also found in the literature review.
- *Trust & Fair division*; For VPT to be perceived as both combative and collaborative towards some suppliers has been identified as a negative outcome on the relationship. Some suppliers fear VPT's cost-breakdown ambitions to be utilized only in egoistic manner. In addition, the need for win-win and fair division of jointly produced profit could be better balanced. As an initial example from one supplier, another customer to them supported with resources in times of difficulties or problems at the supplier. This created a good atmosphere of partnership, and could be seen as a way of taking a large step towards being a trustful and preferred customer. Trust is in itself a huge quality within a relationship, but the level of trust is something that takes long time to develop, but is easily damaged. The steps needed to be taken in the supplier partnering hierarchy in the literature review, suggest how to build partnerships in an appropriate manner.

After analyzing the interviews it is both obvious that VPT wants to become the preferred customer, but also that VPT does not have a clear process or a path to follow in order to improve the prerequisites for this to evolve. We have therefore investigated how a method for VPT could be shaped for supporting customer-supplier relationship development. The findings will be analyzed in the next section.

5.4 How could a strategic customer-supplier relationship development method be designed to suit Volvo Powertrain?

The analysis of this research question is based on the findings from earlier analysis, but also takes into consideration additional interview results and findings from the literature, in order to develop an appropriate method for implementation.

It is once again needed to understand the background issue to why this method needs to be developed. As identified in the literature review and also by VPT purchasing management, the importance of the supplier base and its potential has increased significantly over the recent years. Indeed, suppliers can support a buying firm to increase profitability, by lowering costs and increase income, but the managerial task of handling the relationships is difficult. The possibilities of increasingly utilizing the supplier base potential for improved innovativeness and increased efficiency is thus identified as the main goal of improving supplier relationships in our report.

We have identified a gap between where VPT wants to be and where they actually are in the aspect of supplier relationships status. In order to develop a method for developing the chosen supplier relationships we will need to investigate the reality of VPT and its suppliers and consider the whole picture of sourcing strategy. Many authors have proposed ways to differentiate amongst the suppliers in a buying firm's supplier base, in order to get access to the suppliers' resources and exploit them to as little cost as possible. But few authors have presented methods and processes for a continuous, structured and flexible differentiation that targets and pursues suppliers that are strategically most important to the buying firm. No author has customized such a method for VPT.

As shown in the literature analysis, it is too expensive to become the preferred customer to all suppliers in a buying firms' supplier base. The global competition is increasing and there is a larger need to use all resources in the most efficient manner. While performing this research and not at least analyzing the interview results, we have also identified that this is the case for VPT. Therefore VPT is in need of assistance that will bring VPT a systematic, continuous and still flexible process for developing supplier relationships. As analyzed earlier the most benefits can be achieved when *starting to focus on the strategically most important relationships*. By utilizing a systematic method in this process, VPT can make sure that the right resources are spent on the right suppliers for VPT in order to become as successful as possible.

Regarding relationship management in general one Commodity Director at VPT said that "is a matter of people and how they act". We totally agree and would like to state that the management and operational work of a relationship today still needs to be handled by people connected to the business responsibilities. Indeed it can, as an example, be influenced by general agreements, applied sourcing strategies or even strict evaluation results on a computer screen, but it still requires people to meet, interact and take actions. In addition, the need for face-to-face interaction has been identified in both the literature review and interviews to be of importance in these situations, especially when discussing something that has to do with change. Thus, face-to-face meetings are essential for relationship development.

Benefits of using a method for developing the relationships

Generally the benefits of using a method for strategically targeting and developing the relationship with suppliers are three;

Firstly, the process is structured and easy for all employees to understand. Therefore, the internal organization can be aligned with this strategy and work towards the common goal.

Secondly, by involving the suppliers they will know that VPT is committed to and interested in them. Moreover, they will also get a chance to impact on the relationship which creates commitment and interest at the suppliers in the development of the relationship, which creates bigger chances of succeeding in positively developing the relationship.

And thirdly, since the method is strategically targeting suppliers, the suppliers that are the most important to VPT to keep an intensive relationship with will be selected and the relationships will be handled in a structured manner. This means that the suppliers where VPT will get the most out of having an intensive relationship with, will be targeted and no waste will occur in the form of investments in relationships that are *not* the most strategically important relationships for VPT.

Inviting suppliers

In a relationship development process it is of highest recommendation to include the suppliers to participate. “It takes two to tango” and *the need for understanding the partner in order to be able to improve the relationship* are both strong arguments for this. As argued earlier the fact that VPT invites a supplier in an ambition to focus and develop the relationship is high motivation for the chosen supplier in itself. However, we recommend VPT to put its strongest effort in order to make the invited supplier understand that this invitation comes with a wish for both a balanced two-way communication medium and a win-win purpose for both parties.

Based on the analysis regarding which suppliers to develop strategic relationships with, in section 5.2, a short summary is that VPT should focus on the suppliers that can provide the most potential benefits in having a well functioning relationship with, in other words the highest potential for return on investment. One approach to use for selecting suppliers to involve in the relationship development is to identify all of the supplier relationships that are stated as of strategic importance to VPT, both regarding organizational attributes and organizational relationship attributes, and then select the supplier relationship that for the moment has the greatest potential of development. This supports the argument that a specific relationship is dynamic in its nature and needs different amounts of attention in different time phases. Another approach is to choose to start with the most important one in a more sequential and regular basis in order to create “super supplier collaboration”, as presented in the literature review. Our proposal is thus to focus on the suppliers that fulfill either one or both of this presented classifications.

Content of discussion

How to choose what to discuss in the relationship? Without a set agenda it will be difficult for the attendants to prepare, and we believe preparation allows for a more qualitative outcome. It will also be difficult to motivate the employees to participate in the workshop. However, no participation could then instead send signals that the attendants are not interested in investing in the relationship, when they in reality not are motivated by the workshop and afraid that it will be a waste of time. Therefore motivation and possible outcome of participation is of utmost importance in order for the workshop to get the necessary people involved for a successful outcome. In addition, the goal of the meeting could also be that everyone leaves it with “a positive feeling of agreements” as one supplier expressed it.

In order to create motivation for participation, choosing two qualities before the workshop and sending them out with the invitation provides both parties with an agenda on what to discuss. By attaching an example of how each quality could be discussed, and a possible outcome of this discussion. By having a list of qualities, the workshop tool is flexible for each relationship and can take into consideration each relationship’s specific qualities. By presenting an example of a discussion increases the understanding for the workshop, and providing a possible outcome of the discussions present motivation for participating. Therefore some examples of qualities, how they could be discussed and what a possible outcome could be are presented below.

Goal with business	Involvement - offering help	Commitment - long term focus	The customers business' fit with other customers businesses
Pragmatic - easy to make business with	Give feedback - so the supplier can improve	Communication - long-term stable relationships	Reliability - good forecasts
Personal relations - clear contact interfaces	Quick - in making decisions and operational work	Technologically knowledgeable	Clear roles of responsibility

Figure 24: Qualities suitable to discuss during the workshop with examples of discussions

Communication: How can we increase the quality of our communication?

Alignment of using compatible IT-systems for communication can be the outcome of this discussion, and also personal preferences that might impact on this question can shed light on how to proceed with improving communication quality.

Clear roles of responsibility: How can we enhance the specifications of our work?

This is very important in order to avoid matters being left unattended or create friction due to misunderstandings.

Commitment: How long-term do you perceive this relationship?

The outcome of this discussion could be an increased understanding for each other's behavior in the relationship and where both parties strive to be.

Involvement: How can we facilitate your work?

There could be standard procedures at one organization that have a large negative impact on the other's organization. It can relate to the business or the relationship. It might also be profitable to adapt routines to each other, and a discussion can reveal which routines.

Give feedback: How could we share feedback in a constructive manner to help each other improve?

A discussion can reveal necessary adaptations to the relationship development method in a specific relationship.

Introducing the customer-supplier relationship development method

Considering the above stated analysis and additional arguments from the interview results, we propose that the process of developing the chosen supplier relationships should be done by using a *tool in shape of a workshop*. As additional supporting arguments we think it is worth mentioning that a workshop is commonly used in organizations when any development or other creative task is to be performed. During the research period we had the chance to participate at a workshop within VPT purchasing and we found it powerful in order to move a situation forward. Choosing a workshop as a tool will thus bring a structured and internally aligned approach for the relationship development. As Figure 25 present it, the workshop could be seen as a facilitator of gathering representatives from both the supplier and the customer (VPT) to jointly and focused develop the relationship they are involved in.



Figure 25: The customer-supplier workshop gathering visualized

In order for the workshop to be aligned also with the invited suppliers, five major actions have been analyzed as more important than other for the facilitator of the workshop to consider.

The first action is that at least half of the *qualities*, which will be discussed during the workshop, are qualities suggested by the supplier.

The second action is that the method will be *flexible* in a way that allows for alignment with each relationship. Since relationships are unique as shown in the literature review, there is a need for allowing for flexibility in the workshop, so that each relationship can get the most out of using the method. Due to this reason the contents of the method will be adjustable to the specific relationship through leaving the choice of qualities to discuss open.

The third action is to secure that the *right people* are attending. Two advices for succeeding with this are simply to mirror the logic attendees to have a corresponding counterpart on the other company's side present at the meeting and to send out the invitation many months in advance, in order to get the desired people attending.

The fourth action is to secure an *atmosphere of trust* among all participants attending the workshop. As presented in the literature review, trust is a prerequisite for achieving commitment, and commitment is exactly what a workshop wants to achieve.

The fifth is that the workshop contains *intensive information sharing, but selectively*. This has been identified as important from both interview results and the literature review. In addition, this requires the participants to be well prepared and focus on discussing the relationship, represent the company, and have the appropriate knowledge and authority for the relationship quantities discussed.

This report has earlier presented many different relationship qualities and some of these would most probably then be used in the presented workshop. In addition, VPT could with benefit suggest upon a number of qualities from the list to be discussed during the workshop. A list of qualities could be attached to the invitation sent to the supplier, and each quality could then be presented with an example of what could be discussed and what the outcome of the discussion could be. In this way, the invitation brings a more hands-on illustration of the workshop in order to increase the motivation beforehand. In other words, it supports each attendant with a preview of what quantities the workshop discussions could be about, example of discussion questions, and a possible outcome. In summary, it aims at giving the attendants inspiration for thinking about the relationship and realizes its possibilities to develop the relationship in a positive way.

Of importance here is that there will also be room for both the supplier and VPT to suggest other qualities in a later stage before the workshop. In addition, if a quality is perceived as very important by only the supplier or vice versa, it is still argued to be of greatest valuable to discuss it since it is highly probable that that quality has a high impact on the relationship in itself. This opportunity for allowing the important focus of one quality according to one actor, and forcing both to develop this quality together, allows for flexibility and mutual respect in the relationship development.

The workshop agenda

The workshop will be divided into four blocks of discussions and the time-structure will be set beforehand as in the Appendices, section 9.4 & 0. Between each block there will be short breaks in order to allow for informal discussions. Development in a relationship is sometimes developed in unofficial environments; during regular business meetings, social interactions or it can be spurred by simply getting to know each other informally. Therefore the breaks are also of high importance in this manner. In addition, we also suggest, in accordance with responses from supplier interviews, to put the workshop in the afternoon to allow for a spontaneous dinner or gatherings after work in order to further allow for informal meetings and possibilities for further discussions.

In the last block of the workshop, a short list of guidelines should be created. This list of guidelines should be just that, a set of do's and don'ts that both parties should aim at following. It is of high importance that agreement is reached for this list, since we believe the meeting should be left with a positive feeling for the relationship to grow around. Leaving the meeting with a negative feeling does not leave much for the relationship to develop from and a negative spiral could have been created.

In order to avoid negative spiraling the guidelines are also just that, it is not mandatory to follow the points on the list. It is important to point out that the list itself is not the aimed outcome of the workshop, it is a mere way of agreeing upon something and leaving the workshop with a sense of accomplishment.

We believe the accomplishment lies in the desire to develop the relationship and in the agreement about the guidelines that are created during the workshop. The workshop should be held continuously in order to keep updated on each other's business progresses. But again, since the method should only be targeting the suppliers that are the most important at the time to keep an intense relationship with, the length of the time in between the cycles of the relationship development may differ. This is not negative though, if the supplier is not the most important to keep an intense relationship with at the moment, it means that the relationship does not have to be intense and the workshop therefore does not have to take place.

We also figured out that it is more likely that the supplier a customer is working intensely with will be more innovative than the supplier which is not in a high intensive part of their relationship. This is due to the fact that during work serendipitous findings may occur and be developed into new innovations. If VPT are the preferred customer to the supplier it is likely the supplier will approach VPT first with a new innovation. It is also likely that VPT is the preferred customer of a supplier to whom they have an intense relationship than with a supplier they do not have an intense relationship with.

Fact remains though that it is too expensive to be the preferred customer to all suppliers in order to capture innovations and somewhere the line has to be drawn. Therefore the evaluation each year, of what suppliers to target with the customer-supplier relationship development method, takes into consideration how important a new innovation in that field is and if there are other customers fighting to get that innovation. Of course it is not always possible to know which new innovation will be the most important in the future, but this is a complication that needs to be analyzed. This would then encourage a more intense relationship and the use of the workshop.

Summary

To summarize, the Customer-supplier relationship development method presented here includes a list of qualities suggested for discussion, examples of how a discussion could be held around those qualities and a clear structure for how to perform the workshop, which is attached in the Appendix C-E, section 9.3 to 0. In addition, some questions and answers is stated in the Appendix F, section 9.6. The model in total and workshop in particular fits both VPT and the suppliers which have been anchored during the research. In addition, the workshop has been tested both internally at VPT and with suppliers, and it is also anchored in the literature by aligning with the relationship qualities it involves in the discussion section. The method is developed to assist VPT in involving the suppliers in telling VPT what to improve in order to become their preferred customer, but also how to choose what to improve, of the given answer from the supplier, that will give the highest positive impact to the lowest possible costs.

6 SUGGESTED METHOD

The suggested method for strategically developing relationships for VPT is described in this chapter.

Outline

After analyzing the literature review and the empirical findings the authors have created a method for VPT to use for developing its strategic supplier relationships. Four sub-challenges have been identified for developing strategic supplier relationships.

The first challenge is to identify potential supplier to target. It is needed to decide where the highest potential for return on investment lies. However, a supplier can be strategic in many ways, such as supplying strategic items, deliver for a high spend or with whom a customer has an intense relationship.

The second challenge will be to approach the suppliers and choose participants for developing the relationship. The suppliers need to be willing to invest and have the capacity at the time to develop the relationship. There is also a need to motivate for participation, and show the gains for the supplier to invest in the relationship. Choosing the right participants is also important in order to have an efficiency process involving the employees that have the right knowledge and interest to take on this challenge.

The next challenge will be to discuss the relationship. After reviewing the interviews some key elements were found that were important for developing a relationship. Face-to-face meetings, a structured approach and feedback was mentioned by several people as a key elements for developing a relationship and therefore a workshop was found to be the most suitable tool for this setting.

Finally there is a need for developing and maintaining the relationship after the workshop.

The method

Considering these sub-challenges, a method is proposed in Figure 26 below. The four steps make out the proposed method called the Customer-supplier relationship development method.

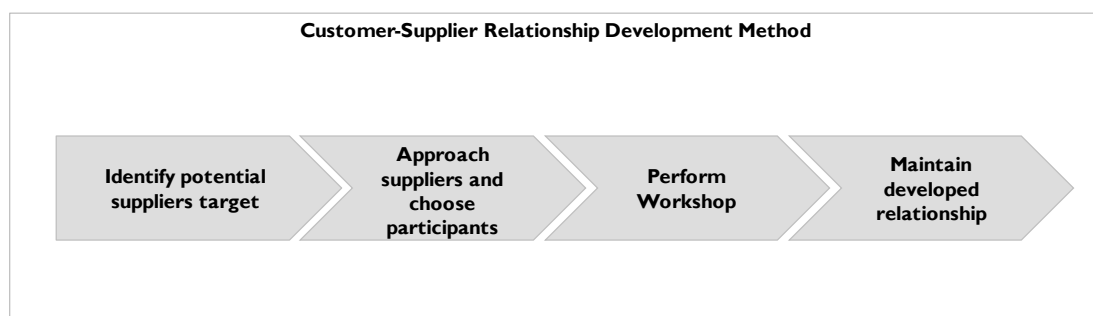


Figure 26: The Customer-supplier relationship development method

The first step includes identifying suppliers to target for developing the relationship with. A supplier can be completely unique and deliver for a high spend which makes the supplier highly strategically important.

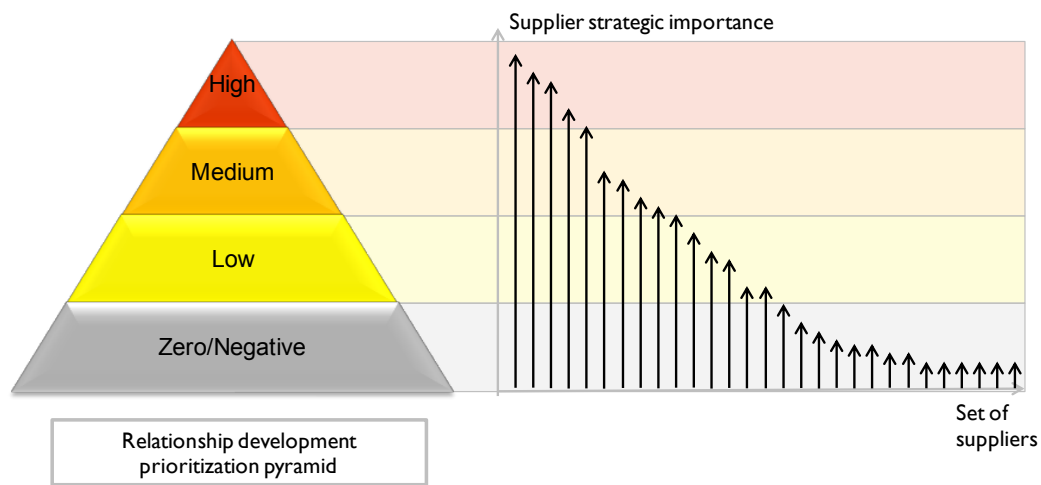


Figure 27: Choosing strategic suppliers with consideration to organizational attributes

But if the supplier relationship attributes are also considered, the choice of suppliers may look different. The relationship development potential may then have changed.

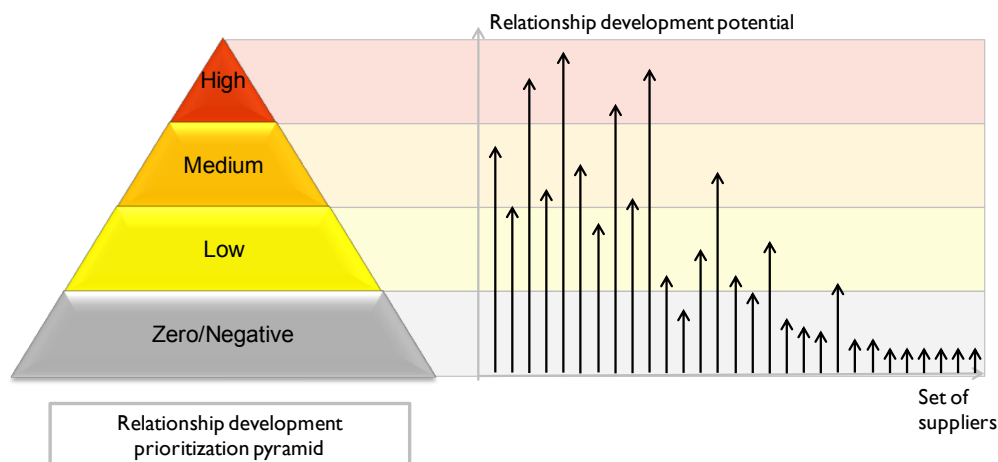


Figure 28: Choosing suppliers with consideration to supplier organizational and relationship attributes

If the supplier is completely unwilling to invest the potential for relationship development is lowered. Therefore we propose to differentiate among the supplier relationships by taking both the supplier attributes and the supplier relationship attributes into consideration.

We also suggest starting developing the relationship with the suppliers from the top of the pyramid with the suppliers that have the highest relationship development potential, since developing the high potential relationships may change the preconditions for the lower parts of the pyramid.

An example could be that consolidation possibilities are identified that gives a supplier in the top pyramid a higher spend through taking over activities from other suppliers.

After choosing which suppliers to target, they need to be approached and the right participants for the relationship development process chosen. After confirming that the identified suppliers are in fact willing and able to invest, sending out two qualities for discussion together with the agenda sets the stage for the supplier and increases motivation.

The choice of participants should be made to support a trusting and balanced atmosphere during the workshop, which means that the participants should be matched with the other organizations corresponding hierarchical level, as can be seen in Figure 29. Depending on the supplier's size and power, the matching could look different. If the goal is to become the preferred customer, generally participants from the higher hierarchical levels need to be present since this action requires heavy investments.

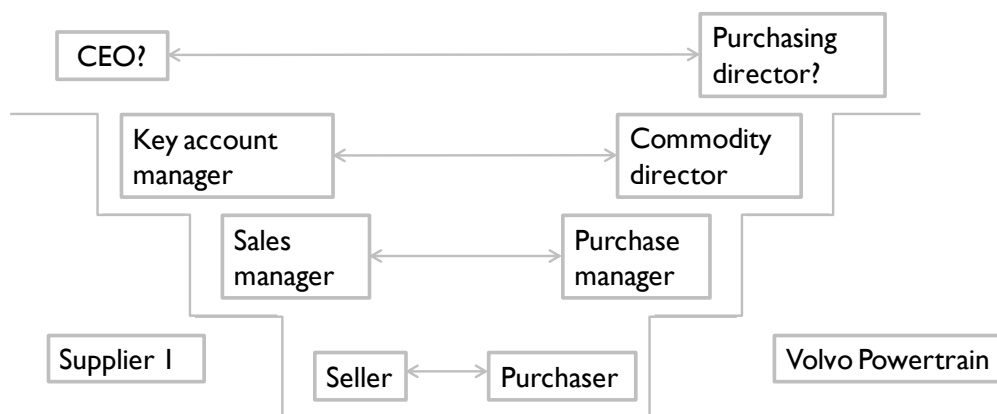


Figure 29: Matching of hierarchical levels

The third step consists of performing a workshop. Inspiration to the workshop comes from a workshop held with the top management team of VPT purchasing in the beginning of May 2012. This workshop will last for four hours and consist of four blocks, and a description of the blocks can be found in Appendix E – Workshop model. Both organizations will be able to influence the qualities to discuss, apart from the two already chosen ones. The outcome of the workshop should be a set of guidelines for the relationship going forward. We found in our interviews that a “To-Do” list could be considered very negative and therefore interfere with the relationship development process. The aim is for both organizations to leave the workshop with an increased understanding for each other and thereby facilitate for performing business cooperation going forward. It is vital to reach an agreement regarding the guidelines in order to leave a positive feeling in the relationship to grow from.

The final step is to develop and maintain the relationship. The workshop's effect on the relationship can be seen as one *step* towards the desired relationship performance level. However, it requires continuous work and consideration of the guidelines in to maintain this new performance level. If the relationship has not yet reached the desired level, the workshop could be performed more times discussing new qualities.

7 CONCLUDING DISCUSSION AND RECOMMENDATIONS

In this chapter a wider discussion regarding the purpose and results will be held. We will also discuss the applicability of our method on a larger scale and finally present suggestions for further research.

What surprised us the most during our research, is how little resources are spent on relationships with suppliers today, considering the massive outsourcing taking place during the past years. When buying firms key competence has been shifted towards the suppliers, the risks have increased, but despite this fact, not all companies have a focused and structured strategy regarding the relationships with their suppliers.

There is a large need for management of the variety, heterogeneity, complexity in the supplier base, as the supply side is becoming increasingly important and thus also the exploitation of its resources. Buying firms need to rely on the suppliers to an increasing extent, but without an intense relationship, there is no way of controlling the supplier and mitigate risks and it is difficult to access the suppliers' resources and knowledge. Relationship work has also been proven to impact positively on firms' profit, and should hence function to motivate for pursuing more relationship focused and structured supplier base strategies.

However, a company's resources are scarce, and therefore we have identified a large need for differentiation in the supplier base in order to be able to reallocate resources to where they are the most profit generating, both in the short term and the long term. This enables VPT to focus on the suppliers which are the most strategically important and which impact the most on VPT's profit. Without this differentiation there are no means of controlling if the resources available are allocated in the most efficient and effective way in the supplier base.

One way of handling the strategically most important suppliers, both regarding relationship attributes and organizational attributes, is to select a Key Account Manager (KAM) for each supplier. This KAM would then be a facilitator in the business and relationship interface towards the supplier and align the strategies towards the supplier from VPT. It is also beneficial to have a KAM when it comes to coordinating similarity and complementarities in the operational process as discussed in the end of section 0. For handling these two interdependencies, there is a need to have an overview of the supplier base and what activities are performed by which suppliers. This overview can be gained by implementing cross-functional teams at different hierarchical levels. It is also important to consider if any internal adjustments are needed in order to become the preferred customer to a certain supplier. If the supplier is highly focused on technical development, an intense relationship internally might be necessary in order to facilitate for the supplier and thus be perceived as preferred customer.

However, in order to become the preferred customer to selected suppliers there is a need for long-term investments and win-win collaboration. Worth mentioning is that often in a relationship the perception of “win” differ between the two parties. For example one supplier found the mere fact of supplying to VPT to be profitable by functioning as a reference in order to get new customers, but for VPT the supplier offered competitive prices and thus a win-win situation was created. It is not easy to become the preferred customer and it requires a long-term focus and support from top management. However, the benefits are large, including reduced total costs, first access to capacity and access to the most skilled employees at the supplier, and a higher commitment and involvement in the relationship.

It is vital to stress that becoming the preferred customer also requires heavy investments. Therefore, only a few of the most strategically important suppliers, with the highest relationship development potential, should be targeted. On the other hand, less resources should be spent on the bottom of the supplier relationship differentiation pyramid, and this could for instance be solved by choosing distributors as first tier suppliers which then would handle a large number of sub-suppliers. The resources are then allocated to where they are the most profit generating in the long run.

Mutual trust is of utmost importance in a long-term relationship, not to mention where the customer is a preferred customer. Honesty, reliability and openness have been identified as qualities which generates trust. There is also a need to look beyond the rationalization role of the purchasing function and see the purchasing function from a Supply chain management perspective, where the cost impact goes further than the procurement costs. Therefore having appropriate KPI's, both for measuring the purchasing function strategically with consideration to all its three roles in the company but also for supporting the strategy of becoming preferred customer, is of utmost importance.

Applicability of the method

The purpose of this thesis is “To introduce a method that Volvo Powertrain could use in involving strategic suppliers in developing the customer-supplier relationships”.

There is indeed a need for a structured customer-supplier relationship development method in order to be able to focus on improving the relationship. This could also mean reallocating resources to the relationships in order to become the supplier's preferred customer, but this should not be seen as a negative aspect. If the supplier is highly strategically important, there are great potential benefits to explore and exploit from being that supplier's preferred customer.

The method is also aiming for addressing the right people, meaning the people involved in the relationship and with the correct means for developing the relationship. The method could also be used for simply developing the relationship and does not have to target becoming the preferred customer. By using brainstorming activities in the beginning of the workshop, many qualities of the relationship may be brought up, but all of them may not need full improvement. However it provides an overview of the status of the relationship.

The method is also addressing the top triangle of the supplier relationship differentiation triangle. The other supplier relationships in the triangle are of less interest to understand since their impact on the profit is less than that of the top segment.

The Customer-supplier relationship development method can be applied in other settings than in that of VPT and its suppliers. Since the qualities can be chosen according to the relationships' unique features, and the structure is adapted to an industrial setting, the method could also help other departments and firms to develop their customer-supplier relationships.

Recommendations for VPT

We recommend using a systematic approach for supplier relationship development and to differentiate among the supplier relationships in order to allocate the resources spent on supplier relationships accordingly to where they are most likely to give the best return on investment.

Our proposed method, the Customer-supplier relationship development method, could function as guidance for this work. However, it is important to emphasize that continuous work is needed in order to keep up an intense relationship.

We also propose to start with the top segment of the suggested supplier relationship potential pyramid. We recommend to appoint a Key account manager responsible for each strategic supplier for whom VPT aims at becoming the preferred customer, and award that person the necessary authority and information to function as a facilitator for the selected suppliers. It is important to consider if any internal adjustments are needed in order to become the preferred customer to a supplier, such as improved collaboration or information sharing with the product development department.

Finally the Purchasing function should be seen as a strategic function and it should be measured as a strategic function with consideration to its three roles of Rationalization, Structure and Development.

Further research

It would be interesting to perform longitudinal case studies in order to evaluate the potential and outcome of using our suggested Customer-Supplier Relationship Development Method.

It would also be very interesting to read more about how a KAM could work with consideration to cross-functional work within the company and how it affects the relationships with the suppliers. A research could then with benefit aim at which relationship interfaces internally needs to be aligned in order to align the buying firms sourcing strategies towards the supplier. It is important to involve the right people in the relationship and how the KAM then could work in the middle of the relationship and facilitate the communication and cooperation would be very interesting to read about.

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9 APPENDICES

9.1 Appendix A – The old Volvo Group matrix organization layout

Table 10: Volvo Group "old" matrix organization layout

	 Volvo 3P	 Volvo Powertrain	 Volvo Parts	 Volvo Technology	 Volvo Logistics	 Volvo Information Technology	 Real Estate, Business Services, Treasury
 Volvo Trucks							
 Renault Trucks							
 UD Trucks							
 Mack Trucks							
 Volvo Construction Equipment							
 Volvo Buses							
 Volvo Penta							
 Volvo Aero							
 Financial Services							

9.2 Appendix B – Measuring items for supplier relationships

Table 11: Suggestion of measuring items according to Kwon & Suh (2004)

MEASURE ITEMS	
Construct	Measure Items
Trust	<p>Though circumstances change, we believe that the partner will be ready and willing to offer us assistance and support.</p> <p>When making important decisions, the partner is concerned about our welfare.</p> <p>When we share our problems with the partner, we know that it will respond with understanding.</p> <p>In the future, we can count on the partner to consider how its decisions and actions will affect us.</p> <p>When it comes to things that are important to us, we can depend on the partner's support.</p> <p>Even when the partner gives us a rather unlikely explanation, we are confident that it is telling the truth.</p> <p>The partner has often provided us information that has later proven to be inaccurate.</p> <p>The partner usually keeps the promises that it makes to our firm.</p> <p>Whenever the partner gives us advice on our business operations, we know that it is sharing its best judgment.</p> <p>Our organization can count on the partner to be sincere.</p>
Commitment	<p>Even if we could, we would not drop the partner because we like being associated with it.</p> <p>We want to remain a member of the partner's network because we genuinely enjoy our relationship with it.</p> <p>Our positive feelings towards the partner are a major reason we continue working with it.</p>
PAS	<p>This partner firm has made significant investments in resources dedicated to its relationship with us.</p> <p>This partner firm's operating process has been tailored to meet the requirements of our organization.</p> <p>Training our people has involved substantial commitments of time and money for this partner.</p>
RAS	<p>We have made significant investments in resources dedicated to our relationship with this partner firm.</p> <p>Our operating process has been tailored to meet the requirements of dealing with this partner.</p> <p>Training and qualifying this partner has involved substantial commitments of time and money.</p>
BU	<p>We know that this partner will adapt quickly, should we have to change our specifications at short notice.</p> <p>We can accurately predict the performance of this partner for our next business cycle.</p>
SAT	<p>We are very pleased with our working relationship with the partner.</p> <p>Generally, we are very satisfied with our overall relationship with this partner.</p> <p>The relationship of our firm with the partner firm has been an unhappy one (reversed).</p>
IS	<p>We share a common information technology (software) to facilitate communication with the partner.</p> <p>Information sharing on important issues has become a critical element to maintain this partnership.</p>
PR	<p>This partner firm has a good reputation in the market.</p> <p>This partner firm has a reputation for being honest.</p> <p>This partner firm has a bad reputation in the market (reversed).</p>
PPC	<p>A high degree of conflict exists between the partner and our firm.</p> <p>The partner and our firm have major disagreements on certain key issues.</p>

Legend: PAS = Partner's asset specificity; SAT = Satisfaction; IS = Information sharing; PR = Partner's reputation; RAS = Respondent's asset specification; BU = Behavioral uncertainty; PPC = Perceived conflict

9.3 Appendix C – Purchasing departments workshop model

During a presentation for the Volvo Group Truck Purchasing department in spring 2012, a workshop was held by top management in the Purchasing department. This workshop aimed at allowing employees to get a deeper understanding of the transition to the new organization of VGTT and also for the top management team to receive feedback. The department was divided into smaller groups of approximately 15 persons, and one person was assigned moderator. A topic was presented to the group and each attendant was encouraged to write down questions that would enable the attendants to enhance the understanding of the topic and to spur a discussion. The moderator then allowed each attendant to state questions, which the moderator wrote on a whiteboard, until everyone had stated one question. The moderator then continued with a second leap where each contestant could state a second question. This process continued until everyone had posed all their questions regarding the chosen topic. The participants were then allowed to vote for three questions that they would like the most to discuss. The three most popular questions from all groups were then brought forward for a panel discussion with the top management team.

9.4 Appendix D – Customer-Supplier Relationship Development Meeting Agenda

Item	Responsible	Time
Welcome/Introduction/Warm-up	Moderator	15 min
Company updates	Supplier Customer	10 min 10 min
Workshop introduction	Moderator	15 min
<i>BREAK</i>		10 min
Workshop questions	Moderator/All participants	45 min
<i>BREAK – Coffee and sandwich</i>		15 min
Workshop answers and discussion	Moderator/All participants	50 min
<i>BREAK</i>		10 min
Workshop answers and discussion cont.	Moderator/All participants	50 min
Round-up and end of workshop & agenda	Moderator	10 min

9.5 Appendix E – Workshop model

Intro (15 min)

Moderator presents all pre-given qualities of customer-supplier relationships. He/she ask the supplier and customer to choose and rank 2-4 qualities¹⁶ to discuss in the following workshop sessions.

Moderator asks for prioritized qualities and writes them up on the whiteboard (see right);

- | |
|--|
| <ol style="list-style-type: none">1. (supplier's first choice)2. (customer's first choice)3. (supplier's second choice)4. (customer's second choice) <hr/> <ol style="list-style-type: none">5. (supplier's third choice)6. (customer's third choice)7. ... |
|--|

The 4 qualities of highest attention are chosen for further discussion during the workshop session. If there is time over it can be decided to discuss further qualities.

If a choice is the same from supplier and customer, this is not removed but instead dealt with in double attention, meaning twice as many questions (and answers) later in the workshop.

Break (10 min)

Workshop questions (45 min)

Suppliers and customers are asked to develop 6 questions (2 questions within each self-chosen quality and 1 question each from the partner's qualities). Note: All 6 questions should be focused on giving an answer in order to develop the relationship forward in these given qualities. (5 min)

The supplier create their questions internally. Customers create their questions internally. (40 min)

Break - Coffee and sandwich (15 min)

Workshop answers and discussion (45 min)

Questions are presented and written on a whiteboard by the Workshop-moderator. (10 min)

Each question is discussed approx. 5 min and a short summarizing answer is agreed upon and written under each question. If no answer is given the question is suggested to be underlined and discussed further later in the workshop. (7 questions = 35 min)

¹⁶ "qualities" here is referred to as properties, dimensions or areas of the customer-supplier relationship

Break (10 min)

Workshop answers and discussion cont. (50 min)

Each question is discussed approx. 5 min and a short summarizing answer is agreed upon and written under each question. If no answer is given the question is suggested to be underlined and discussed further later in the workshop. (8 questions = 40 min)

If time is available it is room for previously questions to be answered or other qualities to be discussed.

Round-up and end of workshop & agenda (10 min)

The whiteboard's questions and answers are overviewed and the workshops results (questions and answers) are documented and ended.

9.6 Appendix F – Q&A

This Q&A section is made for internal (VPT) understanding of our research and development of the method.

Why should a relationship development method include a workshop?

Answer: This is considered to be the most suitable tool to use in order to develop the relationship, by having a creative dialogue between suppliers and VPT, regarding the relationship.

What is the name of the method?

Answer: The Customer-supplier relationship development method

How do we assure that the suppliers want to attend?

Answer: Our impression is that all interviewed suppliers are positive to a relationship focused initiative from VPT. By providing an agenda, the supplier will know the content of the process and could then be motivated by the fact that they will be able to contribute to the content as well.

Who should attend in a meeting?

Answer: This is decided from case to case, but is suggested to be decided upon according to the characteristics of the supplier relationship, the time-phase of products it's supplying to VPT, and not at least the appropriate qualities of a relationship that probably is discussed upon during the workshop.

Is this workshop suitable for all relations?

Answer: Yes, when its content discussed is modified to be appropriate for the people attending, it is applicable for all kinds of relationships. However, in our research we strive to come up with suggestions for both prioritized suppliers to focus on and give recommendations for supplier relationship differentiation in our report.

What are the implication of all this for my work as a buyer?

Answer: Some hour of attendance at and around this meeting, but moreover better understanding of do's and don'ts in the daily work with your supplier.

How do you motivate the 4 hours spent on this meeting?

Answer: Same answer as above, including the fact that that all participators will be given a chance to be more aligned and focused in the customer-supplier relationship.

How do you know that the workshop is working practically?

Answer: The workshop has been tested through interviews and pilot cases. Its content is flexible, and is thereby adaptable to different settings and relationships.

What are the economical consequences for this initiative?

Answer: This is difficult to calculate, but many reports have shown that improved relationships lead to better business cooperation and thereby an improved profit.

From where should the workshop-template be downloadable?

Answer: We suggest VSIB.

When and how should the invitation be sent out?

Invitation should be sent out from someone responsible for the meeting, preferably long in advance. In order to get the right people it may be required to send out an invitation for a meeting 3-4 months in advance. This is especially the case for suppliers whose representatives are located in other countries. The invitation should include the agenda and present suggested "Qualities of the relationship" to discuss at the meeting. It should also be underlined that the supplier is very welcome to suggest and come up with qualities to discuss during the workshop.

Where the meeting should be held physically?

Answer: Preferably in Gothenburg as in the case for "VPT Purchasing", as this also is recommended by interviewed suppliers. A neutral place is mentioned as appropriate in some relationships.

Who take initiative in the workshop meeting?

Answer: Volvo should provide a moderator for the workshop session, to facilitate the session so it can run smoothly.

Should other departments be involved?

Answer: If the other departments are highly involved in the relationship and its possibilities for development, then that/those departments should be involved.

How is the result of the workshop/meeting documented?

Answer: A list of do's and don't's, which will be available for all participants after the workshop.

Which method is the workshop based on?

Answer: A workshop previously used by Volvo.

How is the workshop connecting to "The Volvo Way"?

Answer: Creating joint understanding with suppliers regarding clearer objectives, better quality, continuous improvements, driving innovations & utilize common strengths. Internally at Volvo by; building better relationships, involvement and engagement, creating an open dialogue, motivate for feedback, encouraging teamwork, diversity, leadership and driving change.

What is the difference between relationship and cooperation?

Answer: As we see it, relationship needs to be present first and spans out possibilities for cooperation (trust, commitment etc.)

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