



Vaasan yliopisto  
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# **Suppliers' perspective on case company's position as a customer**

An empirical evidence on factors influencing the buyer's attractiveness

School of Technology and Innovations  
Master's thesis  
Industrial Systems Analytics

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**VAASAN YLIOPISTO**
**Tekniikan ja innovaatiojohtamisen yksikkö**

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**TIIVISTELMÄ:**

Suurin osa valmistavan teollisuuden käyttämistä resursseista hankitaan yrityksen ulkopuolisilta toimittajilta eikä ostava yritys ole aina vahvempi osapuoli markkinoilla. Alati muuttuvissa markkinatilanteissa ostavan yrityksen ja toimittajien väliset voimasuhteet saattavat muuttua hyvinkin merkittävästi. Nykyisessä maailmantilanteessa globaali pandemia, kasvaneesta sähkön hinnasta johtuvat häiriöt terästuotannossa sekä pula puolijohteista ovat ajaneet valmistavan teollisuuden yritykset ahtaalle. Ostajayritykset, jotka toimittajat kokevat houkuttelevimpina asiakkaina, saavat mobilisoitua parhaat ulkoiset resurssit. Asiakkaan houkuttelevuus saattaa lopulta johtaa tilanteeseen, jossa ostajayrityksestä tulee ensisijainen asiakas. Tällöin asiakkaan tilauksia priorisoidaan, se saa suuren osan toimittajan huomiosta ja mahdollisia myönnytyksiä hinnoissa.

Tämä tutkimus pyrkii selvittämään kohdeyrityksen aseman asiakkaana toimittajien silmin sekä sen asiakashoukuttelevuuteen vaikuttavat tekijät. Toimeksiantajayrityksessä tiedostetaan, että laadukas ja osaava toimittajaverkosto on heille suuri kilpailuvaltti. Yrityksen omasta asemasta asiakkaana ei kuitenkaan ole kovin tarkkaa käsitystä, ja sen selvittäminen koettiin tärkeäksi aiheeksi hankintaorganisaation strategiapalaverien yhteydessä. Tutkimuksen tarkoituksena oli myös selvittää tekijät, jotka lisäävät ja vähentävät kohdeyrityksen asiakashoukuttelevuutta.

Asiakashoukuttelevuutta on aikaisemmissa tutkimuksissa käsitelty lähinnä ostavan yrityksen näkökulmasta, ja pääpaino niissä on ollut strategisissa toimittajasuhteissa. Tässä tutkimuksessa ostavan yrityksen houkuttelevuutta lähestytään toimittajien näkökulmasta ja tutkimuksessa huomioidaan strategisten toimittajien lisäksi myös rutiini-, volyyymi- ja pullonkaulatoimittajat.

Empiirinen tutkimus perustuu kvalitatiiviseen dataan, joka kerättiin 13 puolistrukturoidun haastattelun avulla. Haastateltavat olivat kohdeyrityksen toimittajien edustajia, jotka ovat työskennelleet asiakasrajapinnassa useita vuosia. Haastattelun teemat ja kysymykset laadittiin aiemman kirjallisuuden, tutkimuskysymysten ja kohdeyrityksessä käytyjen keskustelujen pohjalta.

Tutkimuksessa havaittiin, että kohdeyritys nähdään erittäin tärkeänä asiakkaana, joka on myös osittain onnistunut saavuttamaan ensisijaisen asiakkaan aseman. Tämä näkyy hyvin tiiviinä yhteistyönä toimittajan kanssa, priorisointina, sekä toimittajan haluna investoida asiakassuhteeseen ja sen kehittämiseen. Asiakashoukuttelevuutta lisäävissä tekijöissä korostui asiakkaan kasvu- ja kehityspotentiaali sekä liiketoimintasuhteen taloudellinen kannattavuus. Vastaavasti kylmä ja etäinen suhde asiakkaan kanssa, asiakkaalta saatujen tilausennusteiden epätarkkuus ja yhteisten järjestelmärajoitusten puute korostuivat asiakashoukuttelevuutta vähentävissä tekijöissä. Havaintojen perusteella kohdeyritykselle on laadittu viisi toimenpidesuosittelusta, jotka esitellään työn lopussa.

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**AVAINSANAT:** asiakashoukuttelevuus, toimittajasuhteet, toimittajasuhteen hallinta, ulkoisten resurssien hallinta, liiketoimintasuhteen kehittäminen

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**ABSTRACT:**

Most of the resources consumed by the manufacturing industry are sourced from external suppliers and the buying company is not always a stronger party in the market. In an ever-changing market condition, the relative strengths between the buying company and suppliers may alternate significantly. In the current situation, a global pandemic, disruptions in steel production due to increased electricity prices, and a shortage of semiconductors have pushed manufacturing companies into a difficult situation. Companies that suppliers perceive as the most attractive customers can mobilize the best external resources. The attractiveness of the customer may eventually lead to a situation where the buyer company becomes the preferred customer.

This study seeks to define the status of the case company as a customer in the eyes of suppliers, as well as to identify the factors affecting its customer attractiveness. The case company is aware that the high-quality and competent supplier network is a significant competitive advantage for them. However, there was not a very precise picture of the company's own position as a customer, and it was considered an important topic during the sourcing strategy-making process. The purpose of the study was also to identify factors that increase and decrease the case company's customer attractiveness.

In prior research, customer attractiveness has been mainly addressed from the perspective of the buying company, and the focus has been on strategic supplier relationships. In this study, the customer attractiveness is approached from the suppliers' perspective and the study considers not only strategic suppliers but also routine, volume, and bottleneck suppliers.

Empirical research is based on qualitative data collected through 13 semi-structured interviews. The interviewees were representatives of the suppliers of the case company, and they have worked at the customer interface for several years. The themes and questions of the interview were based on prior literature, research questions, and discussions in the case company.

The study found that the case company is perceived as a very important customer who has also partially managed to achieve preferred customer status. This is reflected in tight collaboration with the supplier, prioritization, and the suppliers' desire to invest in the customer relationship and its development. The most contributing factors to customer attractiveness were the customer's growth and development potential and the financial profitability of the business relationship. Inversely, cold and distant relationship, inaccuracy of order forecasts received from the customer, and the lack of common system interfaces were highlighted as factors that would reduce the case company's customer attractiveness. Based on the findings, five recommendations for action are proposed for the case company, which are presented at the end of the work.

**KEYWORDS:** customer attractiveness, supplier relations, supplier relationship management, external resource management, business relationship development

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## Abbreviations

|            |  |
|------------|--|
| <b>SRM</b> | Supplier Relationship Management             |
| <b>MRP</b> | Materials Requirement Planning               |
| <b>ERM</b> | External Resource Management                 |
| <b>MRO</b> | Maintenance, Repair, and Operating materials |
| <b>ICT</b> | Information and Communication Technology     |
| <b>NPD</b> | New Product Development                      |
| <b>EDI</b> | Electronic Data Interface                    |
| <b>ECN</b> | Engineering Change Notification              |

# 1 Introduction

This Master's thesis is done as research work for Sandvik Mining and Construction Oy. The topic of the thesis was realized and seen as important during a sourcing strategy-making process. It was commonly acknowledged that Sandvik Mining and Construction Oy already benefits from a strong supplier base. However, the study is being conducted to determine what position Sandvik Mining and Construction Oy have through the eyes of the current suppliers and how the case company can co-create even more value together with their current suppliers by adjusting their own practices.

This introduction chapter begins by discussing the background of the study and what makes it relevant in the current global situation. This chapter also briefly reviews the case company, which makes it easier for the reader to absorb the research context. Recent research papers and research gaps in the subject are discussed, as well as how these research gaps will be filled. This chapter also introduces the research questions, methodology, and scope and limitations, which are discussed in more detail in the empirical part of the study. The structure of this thesis is presented at the end of the introduction chapter.

## 1.1 Background and motivation

The ambition of the case company is to be the customer that attracts the most talented suppliers in the industry. Numerous advantageous consequences might occur when a customer is seen to be attractive, especially in a business-to-business situation (La Rocca et al., 2012). By collaborating with the most capable suppliers, organizations get new opportunities to develop their position in the market by developing better products and serving better their customers (Tanskanen, 2021, p. 113). According to van Weele (2018b), this is achieved by strong partners' own professional competence and desire to deliver new innovations for their customers, and by doing so, a common value is created for both parties. The motivation of this work is enhanced by the fact that companies



need to enhance their own attractiveness so that capable suppliers are serious about engaging with the customer (Tanskanen, 2021, p. 114).

To keep up with rising demand and production flow, it was considered necessary to conduct an objective investigation of the case company's supplier relationship activities. Currently, Sandvik Mining and Construction Oy do not have a clear enough picture of how they are seen as a customer from the supplier network's point of view. The target of this study is to investigate how attractive customer Sandvik Mining and Construction Oy is seen in the supplier market, how satisfied the suppliers are with this customer relationship, and whether suppliers lack some information or resources that limits their performance. After this research is done, Sandvik Mining and Construction Oy will have information, on what factors affect their attractiveness, supplier base satisfaction, and engagement level.

Occasionally, manufacturing companies find themselves in a position where they need the supplier more than the supplier needs them (O'Brien, 2018, p. 164). When there is not much bargaining power and companies are trying to secure the intake of goods to maintain flow in production lines, it is important to show themselves to suppliers as an attractive customer to achieve the preferred customer status (O'Brien, 2018, p. 164). In the current world situation, several buying companies are highly dependent on their suppliers, and the competition for limited resources is tough. In 2021, a study conducted by the German technology industry indicated that 23% of the German electronics and automotive companies that responded to the survey suffered material shortages that limits their production (Yle, 2021). However, shortages in supply chains are a global issue and are concerning many industries. There are various reasons for the current situation such as

- global pandemic causing supply restrictions and shutdowns
- disruptions in Chinese steel production due to increased electricity prices
- shortage of semiconductor components due to increased demand globally

- container shortage
- raw material shortage

Many suppliers currently need to allocate their resources and production capacity between customers because not all can be fully served. Naturally, suppliers prefer customers who are the number one priority in their deliveries. Therefore, this paper will study, what Sandvik Mining and Construction Oy should focus on to increase its attractiveness from suppliers' perspective and become a preferential customer for suppliers.

This work might have also an indirect benefit although it is not the main purpose of this study. This study might encourage suppliers to examine their internal activities after seeing that Sandvik Mining and Construction Oy is truly willing to improve their own practices to raise supplier relations to the next level. This may lead to suppliers subconsciously making improvements in their internal activities. However, this does not apply to the entire supplier network, but only to those suppliers who are contacted in the empirical part of the study.

## **1.2 Case company**

Sandvik Mining and Construction Oy is the world's leading producer of mining and drilling machines, drilling equipment, and related services in the mining and contracting industries. In 2020 Sandvik Mining and Construction Oy employed 1 844 people in Finland and had a turnover of just over 900 million euros (Asiakastieto, 2021). The company has production sites in Tampere, Turku, and Lahti. This research is made for Tampere site, and more accurately Sandvik Surface Drilling Division. The Surface Drilling Division offers a wide range of on-surface operating products from smaller remote-controlled drill rigs to large drill rigs that are capable to operate in large quarries. Sandvik Mining and Construction Oy belong to Sandvik AB which is an engineering group in mining and rock excavation, metal-cutting, and materials technology having over 37 000 employees around the world.

Since sourcing operations in the case company were formerly decided to change from global level to business division level, this study is conducted only for Surface Drilling Division and includes only its suppliers. In terms of research, it is relevant to know that Surface Drilling Division has its own profit and loss responsibility, and its procurement organization is separated from other divisions. Therefore, the Surface Drilling sourcing organization primarily seeks to meet the needs of its own division. However, there exist many suppliers that supply across many business divisions. For this reason, other business divisions can benefit from the findings of this study as well. Because one supplier might collaborate with other divisions as well, it means that Surface Drilling Division does not alone represent Sandvik Mining and Construction Oy as a customer which has to be taken into account when considering the company's customer image and supplier relationships.

### **1.3 Previous studies and research gaps**

Existing literature and previous research papers regarding the relationship between buyer and seller mostly study the topic from the buyer's perspective. Generally, researchers have approached the relationship between buyer and seller with the assumption that by successfully marketing products and services, suppliers try to become as attractive as possible to potential buyers (Schiele, Calvi, et al., 2012). Inversely, this master's thesis emphasizes how the case company can be as attractive as possible to suppliers. Nevertheless, the importance of the attractiveness of the buyer company has been growing in literature in recent years. Customer attractiveness, supplier satisfaction, and preferred customer status, which are at the center of this study, have recently been considered in research papers from Schiele, Calvi, et al. (2012), La Rocca et al. (2012), Tanskanen and Aminoff (2015), Aminoff and Tanskanen (2013), Makkonen et al. (2016), Pulles et al. (2016), and Hüttinger et al. (2012).

In research from Schiele, Calvi, et al. (2012), it was highlighted that company's customer attractiveness is a measurable asset, even though it cannot be explained unequivocally. According to Schiele, Calvi, et al. (2012), prior literature has proven that suppliers tend

to unequalize their customers which impacts the performance that customers can expect from their suppliers. In the research from La Rocca et al. (2012), it was stated that previously there was no comprehensive understanding of the factors that enhance customer attraction and how it may be measured. La Rocca et al. (2012) identified factors that affect buyers' attractiveness and divided them into four categories: development potential, intimacy, relational fit, and profitability. The managerial implication of the research was that buyer attractiveness can only be defined in terms of a particular supplier and therefore is always relative (La Rocca et al., 2012). Thus, it cannot be assumed that the previously identified customer attractiveness factors also apply to the case company. This master's thesis aims to fill the research gap by evaluating attractiveness factors for the case company.

Many prior studies have investigated attractiveness factors considering rather a strategic relationship between buyer and seller. In the research from Tanskanen and Aminoff (2015), based on the empirical study, attractiveness factors in strategic partnerships were divided into four categories; economical, behavioral, resource-based, and bridging-based attractiveness. The study was based on an analysis of six strategic buyer-supplier relationships and considered both parties. Tanskanen and Aminoff (2015) interviewed several people working at the customer and supplier interface from the departments of procurement, sales, and product development. The results of the study highlighted that the greatest weight was given to economic factors when considering the attractiveness of the customer (Tanskanen and Aminoff, 2015). However, surprisingly none of the strategic suppliers' representatives mentioned the price paid by the buyer as a significant buyer's economical attractiveness factor. This was an interesting discovery because the general belief in buyer companies is that price and ordering quantity are dominant factors in a customer company's attractiveness (Mena et al., 2018).

This master's thesis fills the research gap by emphasizing not only relationships with strategic suppliers. Attractiveness factors are also considered from the perspective of leverage, routine, and bottleneck suppliers. Comparative analysis is then conducted to

detect if attractiveness factors vary depending on supplier location in Kraljic's supplier category matrix. In current industrial management literature, most of the prior research papers use quantitative research methods and they involve a large number of suppliers. This thesis uses a qualitative research method to more comprehensively investigate certain factors that can enhance buyers' attractiveness.

In the research from Aminoff and Tanskanen (2013), it was observed that buyer companies often have a very incomplete or even erroneous understanding of what factors affect their attractiveness in the eyes of suppliers and how favorable customers they are actually seen. This naturally decreases the potential to exploit the full potential and competence of the supplier network (Aminoff & Tanskanen, 2013). In addition to this, Pulles et al. (2016) noted that the impact of the customer company attractiveness on the supplier's resource allocation is explained by supplier satisfaction. For this reason, it is very important to study the topic and fill the in-house research gap of the case company in order to secure a competitive advantage in the future. In addition to exploring the factors that have a positive impact on attractiveness, it is equally important to detect factors that reduce the attractiveness of the customer company. This paper identifies also the factors that decrease the attractiveness of the company as a customer, and thus fills the research gap.

In a conclusion, many existing studies have focused on supplier evaluation and supply chain activities from the buyer's perspective. As the nature of procurement is evolving towards value-creating collaboration with suppliers, it is important to identify the factors that increase and decrease the attractiveness in the eyes of suppliers. Even though this study is made for a particular company, the results of the study might be used in supplier relationship management in general. This study aims to investigate the case company's positioning from the supplier's point of view and further reduce the research gap by answering three research questions presented in the next chapter.

## 1.4 Research questions

The main objective of the study is to increase awareness of the case company about its own customer image and to critically consider its own activities through the eyes of suppliers. This is for the reason that Surface Drilling Division is not completely aware of its status and position in the suppliers' eyes. The research problem, in general, is to solve whether or not suppliers are happy to collaborate with the case company and what factors have an effect on that. More precisely, the research problem is that the case company lacks knowledge of what issues should the case company focus on, so that cooperation with suppliers would become even better and more common business could possibly be done.

It is beneficial for the companies to consciously build their customer image in the supplier network and focus on factors that increase the attractiveness of the company through the eyes of the suppliers. According to van Weele (2018b, p. 351), the top customers and those with the greatest potential for development receive the majority of the suppliers' resources and attention. Therefore, it is extremely important for buying organizations to identify and evaluate the factors that influence their attractiveness

This master's thesis involves three research questions. The first research question aims to figure out the current position of the case company as a customer in the eyes of suppliers. The second research question strives to identify the factors that increase the attractiveness of the case company, or in other words, what makes the case company the customer of choice for suppliers. Inversely, the third research question aims to detect the factors that have a negative effect on the case company's attractiveness. The research questions are presented as follows:

*RQ1: How the case company is currently seen as a customer from the perspective of existing suppliers?*

*RQ 2: What factors have the greatest positive impact on the case company's customer attractiveness?*

*RQ 3: What factors have the greatest negative impact on the case company's customer attractiveness?*

## **1.5 Research methods**

This study consist of a comprehensive literature review and execution of empirical research. The theoretical part deals extensively with the procurement activities of companies in general, which introduces the reader to the topic. As the theoretical part proceeds, the subject is studied in more detail, and findings observed in the previous literature are reviewed. Based on the literature review and discussions in the case company, themes and interview questions for the empirical part are shaped.

In the empirical section, the data was collected through semi-structured interviews held with a total of 13 suppliers. Suppliers were selected for the interviews by using purposive sampling. Purposive sampling was based on discretion, the criteria of which are presented in detail in Chapter 3.1. The collected data was analyzed using a content analysis method and two SWOT analyses from which conclusions were drawn at the end of the thesis. The research data was also analyzed by conducting a comparative analysis between Kraljic's supplier categories.

Because the intention was to examine the current state instead of change over time, research was conducted as a cross-sectional study. A cross-sectional study is also quick to conduct which was suitable for the masters' thesis since the time frame was relatively short. This descriptive analysis can be also used as a baseline for further studies as the prevailing situation is examined.

## **1.6 Scope and limitations**

This research has a few delineations. First, only direct, product-related suppliers and the relationship between them and Surface Drilling are considered. Therefore, indirect suppliers fall outside the scope of the research. This is because the case company has its

own organization responsible for indirect procurements, and these supplies account for only a small proportion in a relation to direct procurements.

Secondly, the empirical part only considers suppliers of Surface Drilling and not suppliers of other divisions. However, it should be noted that separate divisions such as Surface Drilling, Underground Drilling, and Load & Haul have suppliers in common, which may have an impact on the results. This however is addressed in the results and analysis where the relationship with Surface Drilling is compared to the relationship with other business divisions.

The third delineation is that this research involves only suppliers with whom Surface Drilling has had a business relationship in existence for some time. Thus, the study is delimited to existing supplier relationships. However, in the future, this research could be expanded by evaluating Surface Drilling's customer image and attractiveness as a customer from the perspective of the suppliers that potentially could be suppliers to Surface Drilling in the future.

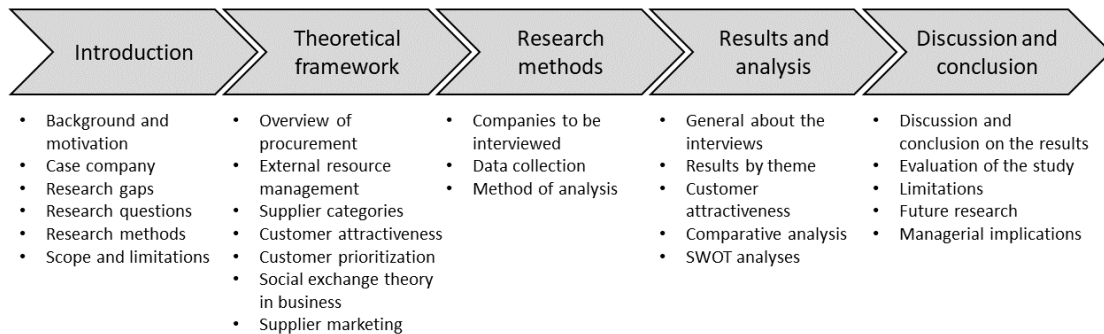
A few limitations are present in the study that may affect the results of the study. The most likely of these is that the individuals to be interviewed are answering what the interviewer wants to hear (Eisenhardt, 1989). Also, bias due to poorly articulated questions might be present as well as misleading phrasing of questions which might steer the interviewee to answer in a certain way (Eisenhardt, 1989).

The purposive sampling can also be considered a limiting factor, which is why the findings and interpretations made cannot be generalized as they possibly might be different with different sampling. However, this is not directly a limitation to this research since it is one of the characteristics of a qualitative study (Saaranen-Kauppinen & Puusniekka, 2006). Rather than generalizability, this study takes a deeper look at the factors and causes that affect attractiveness as well as provides a directional insight into the position of the case company as a customer.



## 1.7 Structure of the thesis

Figure 1 depicts the thesis outline chronologically. The introduction chapter introduces the background of this research and emphasizes the motivation to study this topic. The introduction also highlights the research gaps and how these research gaps are being filled as well as the research questions. At the beginning of the thesis, research methods, scope, and research limitations are also briefly introduced. These issues are addressed in more depth in the empirical part of the thesis and the concluding chapter at the end of the thesis.



**Figure 1.** Structure of the thesis.

At the beginning of the theoretical chapter, issues and concepts related to corporate procurement are discussed, which introduces the reader to the topic. After this, the theoretical framework focuses on customer-supplier relationships and the attractiveness of the customer company. The most central things in the theory chapter are the management of external resources, the division of suppliers according to Kraljic's matrix, and the understanding of the social exchange theory and its prevalence also in relationships between customer and supplier. At the end of the theoretical framework, the utilization of traditional marketing methods in supplier marketing is presented. Based on these and empirical findings, the researcher suggests recommendations for the case company that could further assist in improving customer attractiveness and supplier relations.

The research methods chapter introduces and discusses the data collection and methods of analysis. The research methods chapter justifies in detail, the selection criteria for the suppliers being interviewed and the choice of research methods. In the results and analysis chapter, the data is presented in an interpretable form and analyzed by content analysis methods. The data is analyzed by theme, as well as through comparative analysis between supplier categories and through two SWOT analyses. Based on these analyses, at the end of the thesis, the research questions are answered, as well as conclusions are drawn. The last chapter also evaluates the thesis from a critical point of view and also presents further research proposals. The thesis ends with managerial implications prepared by the researcher.

## **2 Theoretical framework**

This chapter presents findings from the literature on the different areas of the topic that are relevant to the study. The purpose of this chapter is to detect the key principles and relationships between them in the phenomenon under study as well as to help the reader understand the subject matter of the thesis. Since procurement activities of organizations and management of external resources comprise many dimensions, their main features and concepts are opened up in chapters 2.1 and 2.2. After this, supplier categorization and aspects of Kraljic's supplier portfolio are considered. Chapters 2.4 and 2.5 builds theoretical background for a customer company's attractiveness and preferred customer status. The theory of social exchange in preferred customership is then presented as well as the means of supplier marketing. Finally, at the end of the theoretical framework, previously presented theories and literature are summarized.

### **2.1 Overview of procurement in organizations**

In today's business environment, effective procurement is a prerequisite for the functionality of most companies, and the importance of procurement increases as companies focus more on their core activities. As an extreme example, a business idea can be the only internal resource of a company while everything else is procured. Because procurement activities have a centric role, especially in manufacturing companies it is reasonable to briefly introduce procurement in organizations and related terminology. This chapter also gives the uninitiated reader a good starting point to delve into the subject being explored as this paper goes forward.

#### **2.1.1 Make-or-buy decision**

For companies, that operate in the manufacturing industry, suppliers are playing an extremely vital part. Manufacturing companies have limited facilities and other required resources to manufacture all in-house and it is frequently impossible to perform all engineering and manufacturing activities within the company (Medina-Serrano et al.,

2020). For this reason, make-or-buy decisions and their consequences receive plenty of attention due to their obligatoriness and impact on the company's performance (Medina-Serrano et al., 2020).

The Make-or-buy decision is the act of deciding whether to produce a product or service inside the firm's walls or buy it from an external source (Moschuris, 2015). There is a reason and specific responsibility for every supplier in the network and it is claimed that the company is only as strong as its weakest supplier (McIvor, 2000). Organizations must decide for each raw material, component, product, and service whether to make it by themselves or acquire it from an external source. In today's industrial world, companies are increasingly outsourcing manufacturing activities and services in order to increase their competitiveness (van Weele, 2018b, p. 189). When a company decides to buy products or services from external sources i.e. outsource, it can free up resources for other tasks and better focus on core activities (Moschuris, 2015).

When a company outsources a product or a service, required functions for making a product or service are transferred to the supplier. These functions can vary widely, comprising all the necessary tasks to make and deliver the end product, for example, engineering, sourcing, purchasing, manufacturing, and finishing (O'Brien, 2018). Manufacturing companies have typically hundreds of assemblies and sub-assemblies that can be made in-house or sourced from an external supplier. For this reason, many organizations face a vast amount of decisions between making or buying products or services (Vyankatrao Kulkarni & Jenamani, 2008).

Moschuris (2015) indicated that deciding whether to make or buy is one of the most strategic choices for many manufacturing companies as they try to improve the efficiency of their supply chain to increase productivity and profitability. Findings of the research from Moschuris (2015) were that cost and quality would seem to have the greatest impact on the company's outsourcing decision, indicating that companies were

interested in short-term benefits and cost savings instead of establishing deeper value-creating partnerships.

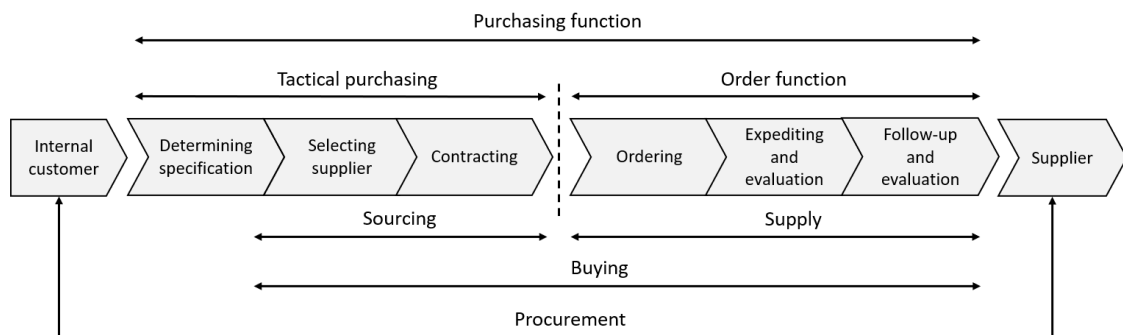
The traditional course of action suggests that outsourcing decisions are as simple as comparing internal manufacturing costs with the prices charged by external providers and selecting the least expensive option among these options (Arya et al., 2008). However, referring to research from Arya et al. (2008), the make-or-buy choice is not that straightforward in practice. Prior studies have shown that the decision may be influenced by factors such as fear of supplier withdrawal, leakage of patents, uncertainty about the schedules and quality of required inputs from second-tier suppliers (Arya et al., 2008). Table 1 shows more extensively the factors that affect the outsourcing decision-making process. However, many make-or-buy decisions are made on instinct and companies are still making misjudgements that might increase expenses (Medina-Serrano et al., 2020).

**Table 1.** Factors influencing the outsourcing decision-making process (adapted from Vyankatrao Kulkarni & Jenamani, 2008).

| <b>Outsourcing drivers</b>   | <b>Outsourcing risks</b>   |
|--|--|
| <ul style="list-style-type: none"> <li>• More focus on core business</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Loss of core activities</li> </ul>                                |
| <ul style="list-style-type: none"> <li>• Cost-saving and cost conversion from fixed to variable costs</li> </ul> | <ul style="list-style-type: none"> <li>• Dependence on suppliers</li> </ul>                                |
| <ul style="list-style-type: none"> <li>• Benefiting from supplier innovation and investment</li> </ul>           | <ul style="list-style-type: none"> <li>• Absence of internal supervision</li> </ul>                        |
| <ul style="list-style-type: none"> <li>• Lack of internal skill or expertise</li> </ul>                          | <ul style="list-style-type: none"> <li>• Possible leakage of confidential design information</li> </ul>    |
| <ul style="list-style-type: none"> <li>• Insufficient production facilities</li> </ul>                           | <ul style="list-style-type: none"> <li>• Incompetent supplier</li> </ul>                                   |
| <ul style="list-style-type: none"> <li>• Small production volume</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Unstable political schemes in outsourcing origin areas</li> </ul> |
| <ul style="list-style-type: none"> <li>• Internal quality issues</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Untrustworthy supplier</li> </ul>                                 |
| <ul style="list-style-type: none"> <li>• Better involvement of suppliers in new product development</li> </ul>   | <ul style="list-style-type: none"> <li>• Difficulty to recognize hidden costs of contract</li> </ul>       |
| <ul style="list-style-type: none"> <li>• Variation in workload</li> </ul>  | <ul style="list-style-type: none"> <li>• Poor usage of analysis tools</li> </ul>                           |
| <ul style="list-style-type: none"> <li>• Variation in sales</li> </ul>   | <ul style="list-style-type: none"> <li>• Fear of losing the job</li> </ul>                                 |

### 2.1.2 Linear procurement process model

In this chapter, substantial procurement terms and concepts are defined and represented using a linear procurement process model (see Figure 2). It is good to note that the definitions of procurement in the field's literature are varying depending on the emphasis desired (Iloranta & Pajunen-Muhonen, 2018). Generally speaking, procurement refers to the function of an enterprise where parts and services are bought (van Weele, 2018b, p. 7). In this definition, procurement includes defining acquisition needs, supplier selection, negotiating reasonable prices, outlining terms and conditions, placing orders, and monitoring compliance of delivery and payment terms. Aljian (1984) states in his book that earlier, it was defined that the procurement function intends to get appropriate materials, services, consumables, and equipment of the proper quality, in the right quantity, at the right location on time, at the right price from the right source (van Weele, 2018b, p. 7). In this perspective, the procurement function was primarily viewed only as an operational function.



**Figure 2.** Related activities and concepts of the linear procurement process model (adapted from van Weele, 2018b, p. 8).

Despite their differences, terms such as procurement, purchasing, sourcing, buying, and supply appear to be used similarly in practice, as well as in the literature. The term procurement denotes the process of managing the company's external resources in a way that the supply of all goods, services, and expertise required for operating the company's primary and support activities is ensured in the most beneficial way, including tangible

and intangible assets flowing up to the consumption point (van Weele, 2018b, p. 7). Although procurement comprises a wide set of activities and functions, it excludes the responsibility for materials requirement planning (MRP), scheduling deliveries, managing inventories, and inspection of incoming goods (van Weele, 2018b, p. 9). However, as van Weele (2018b, p. 8) states, if a company desires to maximize its effectiveness, procurement operations must be tightly linked and integrated into these activities.

The term buying is difficult to define succinctly, and it is challenging to find an exact definition for it in industrial management-related literature. It is distinct from procurement and purchasing in that it does not include determining the specification phase (van Weele, 2018b, p. 9). According to the definition of van Weele (2018b, p. 11), purchasing function is composed of tactical and operational purchasing (order function). Tactical purchasing comprises the first three steps of the purchasing function and operational purchasing comprises the last three steps. Sourcing and supply are defined as sub-functions of the buying process (see Figure 2). As van Weele (2018b, p. 10.) states, sourcing means the constant process of discovering, selecting, negotiating, and monitoring the best possible supplier on a worldwide scale. Therefore, the determination of procurement requirements is not a part of the sourcing function in this definition. The order function consists of handling purchase requisitions, and shipping, as well as the development and management of software-assisted processes for invoice payment (van Weele, 2018b, p. 67).

### **2.1.3 Procurement's role in a company**

The boardroom table is where the most important and far-reaching decisions in a company are debated and decided while the procurement function is occasionally notable for its absence (Mena et al., 2018, p. 3). However, according to Iloranta and Pajunen-Muhonen (2018), companies and public sector organizations have lately started to understand the value of procurement and procurement expertise, and procurement is no longer seen only as an operational function to maintain and support the company's current operations. Some decades ago, purchasing engineers were commonly underrated

and ignored and they did not really work as a department (Mena et al., 2018, p. 22). Also, in those days, the majority of buying and sourcing engineers' jobs were straightforward and predictable (Monczka et al., 2016, p. 5).

According to Mena et al. (2018), the role of purchasing has changed with the recognition of procurement as a function capable of assisting companies in achieving their strategic goals. A more straightforward approach to procurement worked well until competitor firms around the globe showed that there is a more efficient way to manage the supplier field (Monczka et al., 2016, p. 27). Investing in a procurement function's capability, leadership, and development has long been the case in the majority of medium- to large-size companies (Mena et al., 2018, p. 22). However, some signals of the transformation in the role of procurement have been in the literature of the field decades ago. According to Iloranta and Pajunen-Muhonen (2018), Richard Lamming (1993) pursued to highlight the central role of procurement in external resource management (ERM).

There are a variety of overlapping statistics on how much money companies spend on acquired product-related parts and services as a percentage of their sales revenue. According to van Weele (2018b) and Mena et al. (2018), the number is approximately somewhere between 40 and 50 per cent on average. For certain types of companies, for instance, retail companies, this portion can be even bigger, up to 75 per cent (Mena et al., 2018). If indirect spending is included, the average procurement costs in Finnish companies were 70-90 percent of turnover in 2019 (Tanskanen, 2021, p. 12). This percentage has been on the rise primarily as a result of increased outsourcing of subassemblies of production and tasks that are not regarded to be part of the company's core competency (Monczka et al., 2016). In table 2, procurement costs including external services and indirect spend are represented in a relation to turnover. The percentages illustrate that share of procurement costs are allocated into different categories depending on the business sector.



**Table 2.** Procurement costs in Finnish enterprises in 2019, as a percentage of turnover (Tanskanen, 2021).

|                     | Materials | External services* | Other/indirect** | Total***     |
|---------------------|-----------|--------------------|------------------|--------------|
| <b>Industry</b>     | 56,7%     | 7,3%               | 17,8%            | <b>81,8%</b> |
| <b>Construction</b> | 28,2%     | 31,1%              | 12,3%            | <b>71,6%</b> |
| <b>Retail</b>       | 75,1%     | 2,3%               | 10,3%            | <b>87,7%</b> |

\*) Includes external services directly related to the production or sale, for example, subcontracting and consulting

\*\*) Includes such as rentals, leasing expenses, marketing expenses, administrative service fees, communications, and banking services

\*\*\*) Investments are excluded

The change in the role of procurement in organizations from operational office duty to strategic function has taken place over the past three decades (Mena et al., 2018, p. 8). According to Mena et al. (2018, p. 8), Kraljic (1983) calls for shifting from transactional purchasing to ERM, in which companies have a deep awareness of internal requirements and the supplier market and may establish strategic positioning for various types of supplies. In the 1990s, as outsourcing and global sourcing became more prevalent, there were growing calls for procurement to take on a more strategic role in companies (Mena et al., 2018, p. 8). Nevertheless, decades ago, procurement functions often lacked experience and had restricted access to top management, and procurement managers were compensated much less than their counterparts in other departments and were seen as having little influence on the organization's success (Cammish and Keough, 1991). Nowadays, there is no ambiguity about the importance of procurement for companies.

#### **2.1.4 Classification of procurements**

By general definition, procurement categories form a hierarchical structure, where acquisitions are divided into direct and indirect purchases at the very top level (Tanskanen, 2021, p. 50). Because there are some substantial differences in their behavior and administration, direct and indirect procurement are often classified into separate main categories level (Tanskanen, 2021, p. 50). Apart from direct and indirect procurement,

organizations engage in investment purchases, which are typically handled on a project-by-project basis due to their one-time nature (Tanskanen, 2021, p. 50).

Indirect procurement represents a small portion of the company's expenses and they do not have a direct impact on the end product or service that the company delivers to its customers. Instead of that, indirect products and services play a supporting role to make sure that the process of converting direct supplies to final products proceeds effortlessly (van Weele, 2018b, p. 312). However, due to the higher importance of direct procurement in the case company, suppliers related to indirect purchases such as MRO, services, and investment goods or capital equipment have been excluded from this study.

Direct procurement refers to the process of acquiring of all materials, products, and components that are utilized in manufacturing the company's end product (van Weele, 2018b, p. 6). For these types of acquisitions, the terms direct purchases and product-related purchases are used as a synonym. Direct purchases are typically ordered in high volume and sourced from a specific group of suppliers (Mena et al., 2018). These purchases are conducted regularly and are important for critical company operations, such as a car manufacturer purchasing windshields to finish the end product. In other words, direct purchases are acquisitions focused on supporting the company's core competencies and creating value for customers (Mena et al., 2018).

In addition to separate indirect and direct acquisitions, the classification can be made based on the nature of the commodities. Procurement categories may vary between companies depending on the products manufactured by the company, but the classification presented here works as a baseline. Van Weele (2018b, pp. 15–16) and Iloranta and Pajunen-Muhonen (2018, pp. 55–56) classify procurement categories as follows:

- *Raw materials* are materials necessary for the production process which have been modified or worked with little or not at all before purchase, for example, steel, copper, coal, grains, soya, and coffee. The purchase of raw materials

happens directly from primary production, raw material exchanges, or the process industry.

- *Supplementary materials* are materials and other supplies which are not physically attached to the end product. These materials are being used in the manufacturing process, such as cooling water, lubricating oil, industrial gases, and polishing compounds.
- *Semi-manufactured products* have already gone through one or more processing stages. Semi-manufactured products will be included in the end product. Examples of these products are for example plastic foils and steel plates.
- *Components* are manufactured products that will not undergo further physical modification and from which a functional end product is built, for example, batteries, electronic components, and engine parts. Components can be divided into customized components and standard components. Customized components are manufactured according to customer-made specifications or design, while standard components are manufactured according to supplier specifications or general industry standards.
- *Finished products* comprise all products and trade items that are procured to be sold either as such or together with other manufactured products or end products. Generally, these products attached to products manufactured by the acquiring company itself create value for customers. Examples are navigation systems, car stereos, and tires.
- *Investment goods or capital equipment* are products that are not consumed immediately, and whose value will decrease over time. These acquisitions can be computers, cars, and buildings, but they also comprise machines used in production.
- *Maintenance, repair, and operating materials (MRO) items* are products needed for maintaining organization activities in general. These are occasionally referred to as consumable items or indirect purchases. Examples are copy paper, office supplies, cleaning equipment, as well as spare parts, and maintenance supplies.

- *Services* are activities or business process parts are executed by third parties such as engineering companies, contractors, or cleaning outsourcing services. Procured services can be related to production, for example, outsourcing labor, or software development. Services can be also unrelated to production for instance marketing services, travel agency services, auditing, and employees training.

## **2.2 External resource management**

In the existing management literature, ERM is perceived as strategic sourcing and vice versa (Medina-Serrano et al., 2020; van Weele, 2018b). The term strategy originates from the Greek terms for army and leadership and can be simplified into a general plan to achieve the desired goal by using the resources available (Wren, 2005). The strategy has been discussed in the management literature for more than 50 years ago, but even before the Common Era, Socrates guided that in war and business management, the same principles were valid (Bracker, 1980). It is also good to note that organizations themselves do not have goals, but there are always individuals or groups of individuals in charge of the strategies and common objectives of the company (Iloranta & Pajunen-Muhonen, 2018, p. 133).

According to Valpola et al. (2010), in a slowly changing business environment a few decades ago, top management competence was enough to detect and respond to changing environment around the company. In today's hectic business environment, top management should utilize the competence and ideas of the entire organization through a systematic enterprise-wide strategy process (Valpola et al., 2010). As Mintzberg (1990) stated in his article, a successful strategy requires a clear description of goals throughout the organization and intensive interaction across the organization. The primary benefit is that once a strategy is developed collaboratively, it does not need to be implemented separately, because employees who participate in the strategy-making process understand the procedures chosen to achieve the objectives and are committed to the implementation of these procedures (Valpola et al., 2010). However, the main strategy of the

enterprise can be further divided into smaller function-specific parts, such as marketing, sales, and sourcing strategy.

ERM is a procurement and supply chain management process to identify, develop, evaluate, and engage suppliers who create the most value for products or services that a company produces (Sollish & Semanik, 2011). The core objective of ERM is to engage suppliers who are aligned with the organization's strategic goals. Without strategic suppliers, it may be extremely difficult for the organization to stand out from its competitors (Mena et al., 2018, p. 170). According to prior studies, strategic suppliers are crucial for the company as they are the primary source of innovation and expertise, and by collaborating closely with them, the buying organization can achieve a significant competitive advantage (Mena et al., 2018, p. 170). Management literature has identified features that distinguish traditional, more passive procurement, and strategic procurement (Axelsson & Wynstra, 2002). These characteristics are represented in table 3. According to Iloranta & Pajunen-Muhonen (2018, p. 151), a strategic approach to procurement relies on a willingness to influence the supplier market and develop suppliers to better meet the needs of the company.

**Table 3.** Characteristics of traditional and strategic procurement (Axelsson & Wynstra, 2002).

| <b>Traditional, more passive sourcing</b>                       | <b>Strategic, more active sourcing</b>   |
|---|--|
| Focus solely on cost reductions                                 | Focus on business development  |
| Rely blindly on the information provided by the supplier        | Auditing suppliers and assessment of their skills and resources  |
| Waiting for suppliers to response                               | Seeking actively new suppliers   |
| Expect that suppliers justify the superiority of their proposal | Promotion of the company, business idea, and requirements to the desired suppliers, "reverse marketing", (Blenkhorn & Banting, 1991) |
| Acceptance or rejection of proposals offered by suppliers       | Further development of proposals received from suppliers   |

|  |   |
|--|---|
| Selection of the part or service to be acquired from solutions offered and developed by the supplier | Active description of needs so that new solutions can be developed with suppliers collaboratively |
|--|---|

According to the research of Talluri and Narasimhan (2004), the importance of the sourcing function in the profitability of the company has increased significantly over the past few decades. Talluri and Narasimhan (2004) state that strategic relationships with suppliers are critical to the success of a supply chain in a dynamic environment. However, serial production thinking, based on resource efficiency, was long prevalent in the attitude of companies towards their suppliers (Iloranta & Pajunen-Muhonen, 2018, p. 77). The ambition towards magnitude economy created an impression that volume is, if not the only, the most contributing factor to competitiveness. Long-term strategic supplier relationships were given only little weight. Large batches of orders attempted to save money through economies of scale, but at the same time, storage costs grew (Iloranta & Pajunen-Muhonen, 2018, p. 77). It was considered that competitive tendering of suppliers was the only way to achieve savings in procurement (Cammish & Keough, 1991). However, identifying, evaluating, selecting, managing, and developing suppliers has been found to be the most beneficial and value-creating approach for buying organizations in a long term (Parniangtong, 2016). Unfortunately, deep and seamless collaboration requires a lot of time and resources, because strategic suppliers must be prudently selected and managed (Mena et al., 2018).

### **2.2.1 Development of external resources**

Strong penetration of the western market by Japanese industrial companies forced western companies to look at Japanese management models more closely (Modig & Ahlström, 2020). The success of Japanese companies provoked Western business leaders to discover that their companies had a different relationship with suppliers compared to Japanese companies. In research from Sako (2004), Japanese companies' relationships with suppliers were often long-term, and there was a significant amount of interaction between the buying party and the selling party. Supplier development and quality improvement together with suppliers were perceived to be at least as effective in terms of

cost efficiency as traditional competitive tendering (Sako, 2004). However, according to Klein et al. (2021), combining efficient supplier tendering and active interaction between the buying party and the selling party leads to the best financial results.

Effective and value-creating collaborations with suppliers are critical to the organization's financial outcomes in a short-term and competitive position in a long term (van Weele, 2018b). In passive procurement thinking, suppliers were seen as a black box that could not be looked inside or it was not seen even necessary (Iloranta & Pajunen-Muhonen, 2018). These 'boxes' have since begun to be explored, developed, integrated, and engaged into organizations' core activities, which is the result of the pioneering of Japanese automakers. In today's modern management thinking, the idea of supplier development and improving maneuverability beyond organizational boundaries have started to get more attention. According to Iloranta and Pajunen-Muhonen (2018), this way of thinking is not only recognized and seen as significant but is also necessary in the environment in which companies operate.

Buying companies are interested to create and sustain long-term partnerships with their key suppliers to tackle the challenges that the current competitive and complex market environment is creating (Shahzad et al., 2016). For this reason, firms are increasingly concerned with cost reduction in order to increase competitiveness through the development of suitable supplier integration initiatives (Shahzad et al., 2016). Sillanpää et al. (2015) reviewed four different approaches to supplier development: supplier assessment, competitive pressure, supplier incentives, and direct involvement. These strategies were tested and validated in an empirical case study conducted by Shahzad et al. (2016). The study provided four propositions which are described below.

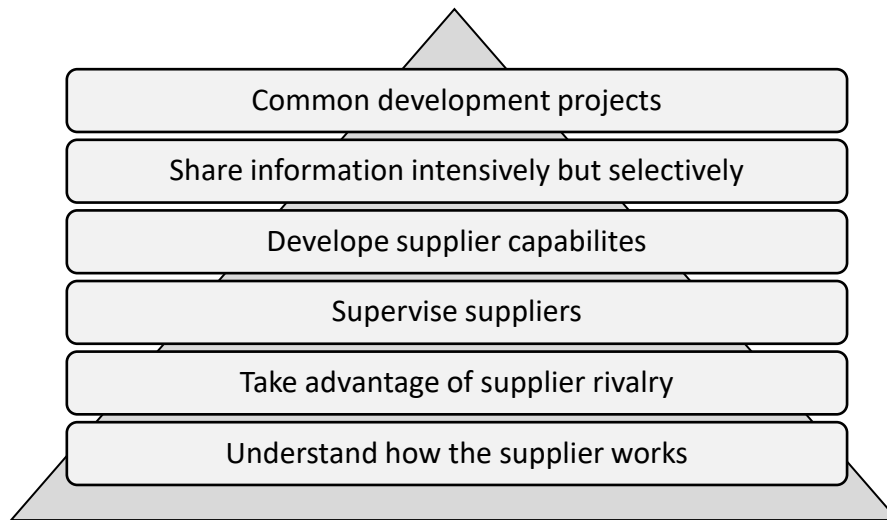
Firstly, it was proposed that the more robust the supplier assessment process, which includes evaluation, certification, and feedback, the more likely that a successful supplier development program will be implemented with a minimal effect on relationship development (Shahzad et al., 2016). Secondly, a competitive pressure strategy involving

several suppliers and fear of replacing suppliers have a favorable effect on the buyer business but have a harmful effect on the development of the buyer-supplier relationship (Shahzad et al., 2016). The third proposition was that the ongoing supplier incentives approach benefits both buyer and supplier (Shahzad et al., 2020; Shahzad et al., 2018; Shahzad et al., 2016). Last, it was proposed that the greater the buyer's direct engagement, the greater the likelihood of supplier development success, as well as a good influence on buyer-supplier relationship development (Shahzad et al., 2020; Shahzad et al., 2018; Shahzad et al., 2016).

Steering the supplier towards continuously better performance requires different tools and their balanced and situational use (Liker & Choi, 2004). Liker and Choi (2004), in their article *Building Deeper Supplier Relationships*, introduced six steps to the active development of external resources. They investigated elements of Toyota's and Honda's partnering models and they found that even though the tools and methods used by these two car manufacturers were slightly different, they had built remarkably identical frameworks for developing external resources. Based on observations, Liker and Choi (2004) proposed the six-step model for supplier development which is presented in Figure 3.

Liker and Choi (2004) compared these Japanese methods to those used by American companies and found significant differences in external resource management. They observed that Ford, GM, and Chrysler, as known as "the Big Three", were constantly in the middle of a conflict with their suppliers. This was the result of these companies demanding their suppliers for price reductions and other concessions (Liker & Choi, 2004). As an example, GM established an agreement that allows them to immediately switch to a cheaper supplier at any time. Liker and Choi (2004) argued that it is likely that the supplier, which is tied into this kind of agreement, is not very eager to develop their performance to create value for the customer.





**Figure 3.** Six-step model for supplier development (adapted from Liker & Choi, 2004).

According to Liker & Choi (2004), understanding the supplier and the way it is operating, is the foundation for a successful partnership. Toyota and Honda have been noted to apply a thinking model in which the supplier's way of working needs to be better understood than the supplier itself. This is not an easy process and may take a long period but, in most cases, both suppliers and manufacturers benefit from this (Liker & Choi, 2004). This can be implemented with several visits to supplier facilities on a regular basis and learning about the performance of the supplier's supplier network.

Turning supplier competition into an opportunity is the second layer of the pyramid. Like American car manufacturers, the Japanese didn't rely on just one supplier either (Tanskanen, 2021, p. 158). In the best scenario, buying companies create a healthy competitive situation between suppliers, that increases the performance of all vendors involved. This is the opposite way of putting suppliers against one another and then using a supplier that is last standing (Liker & Choi, 2004). The way mentioned secondly, does not directly encourage suppliers to better service or efficiency (Iloranta & Pajunen-Muhonen, 2018, p. 298). According to Iloranta and Pajunen-Muhonen (2018, p. 298), the idea of benefiting from the competition is to let the supplier believe that the customer company is aware of the other players in the industry and their capabilities as well.

The third layer of the supplier development pyramid is supplier supervision. According to Tanskanen (2021, p. 158), it is a common misconception that supplier partnership means that the buyer company is so confident with the supplier's performance that it does not need to be controlled or supervised. If there is no supervision such as weekly or monthly reporting, the amount of feedback remains low which leads to a blind partnership. This kind of situation might be disadvantageous for the customer company if the supplier seeks to benefit from the situation (Liker & Choi, 2004). Thus, it is important to communicate to the supplier clearly what is expected from them as well as to measure the performance. As an example, Honda has sent monthly reports to their suppliers including six sections; quality report, delivery reliability, quantity delivered, historical performance, incident report, and open word for feedback (Liker & Choi, 2004).

Developing supplier capabilities means that the buying company shares with the supplier its thoughts and observations on the supplier's competence (Iloranta & Pajunen-Muhonen, 2018, p. 299). This can be taken even further and invite engineers from the supplier side to work alongside the engineers of the customer company for a while (Liker & Choi, 2004). According to research from Liker and Choi (2004), companies occasionally seek to minimize their procurement costs by using suppliers from lower-wage countries, and only little value is given to the development of the supplier's competence. However, suppliers' technological competencies are often influencing cost levels more than wage costs (Liker & Choi, 2004).

Information that can help the supplier better understand the needs of the buying organization is worth sharing intensively but selectively to the supplier (Tanskanen, 2021, p. 158). However, unnecessary and blue-eyed information sharing increases risks and should be avoided (Iloranta & Pajunen-Muhonen, 2018, p. 299). It should be remembered that even if a certain supplier keeps customers' corporate secrets properly secured, in the worst-case scenario, a single individual moving to a rival company may change the situation (Iloranta & Pajunen-Muhonen, 2018, p. 299). To ensure that only necessary information is being shared with necessary individuals, information sharing should be

implemented in a structured manner. Meeting should have specified agendas, schedules, and locations, and precise procedures for sharing information should be specified with each supplier (Liker & Choi, 2004).

The ultimate tip of the supplier development pyramid is the coordination of joint development projects with the suppliers. Common development projects allow both the buyer and the supplier to learn from one another and improve products and processes. For suppliers, these may be significant references for achieving new customers and, by extension, higher revenue (Liker & Choi, 2004). Joint development projects are about actively controlling common processes and working in inter-organizational teams. As Iloranta and Pajunen-Muhonen (2018, p. 299) state, it is important to remember that the juridical separation of companies is not an obstacle to the operating models of joint development projects.

### **2.2.2 Suppliers as part of product development and innovation**

External resources are a significant source of innovation with the ability to bring substantial value to a buying company and the ability to achieve a competitive edge (O'Brien, 2018). According to the research from Rosell and Lakemond (2012), inter-organizational collaboration is becoming more important in the development of new products and services, and external enterprises are increasingly involved in the process of generating new ideas. New Product Development (NPD) may benefit from the external expertise that suppliers bring to the table since this information can be used to supplement the company's internal competence. This knowledge from outside a company is important since innovation is seen to be the outcome of the fusion of components from several knowledge sources, which usually do not lie alone in a single company (Rosell & Lakemond, 2012). Even though ideas and innovation can be obtained from any supplier, suppliers assigned to a strategic position are more likely to be involved in NPD projects and innovations that allow a competitive advantage solely for the customer company (O'Brien, 2018).

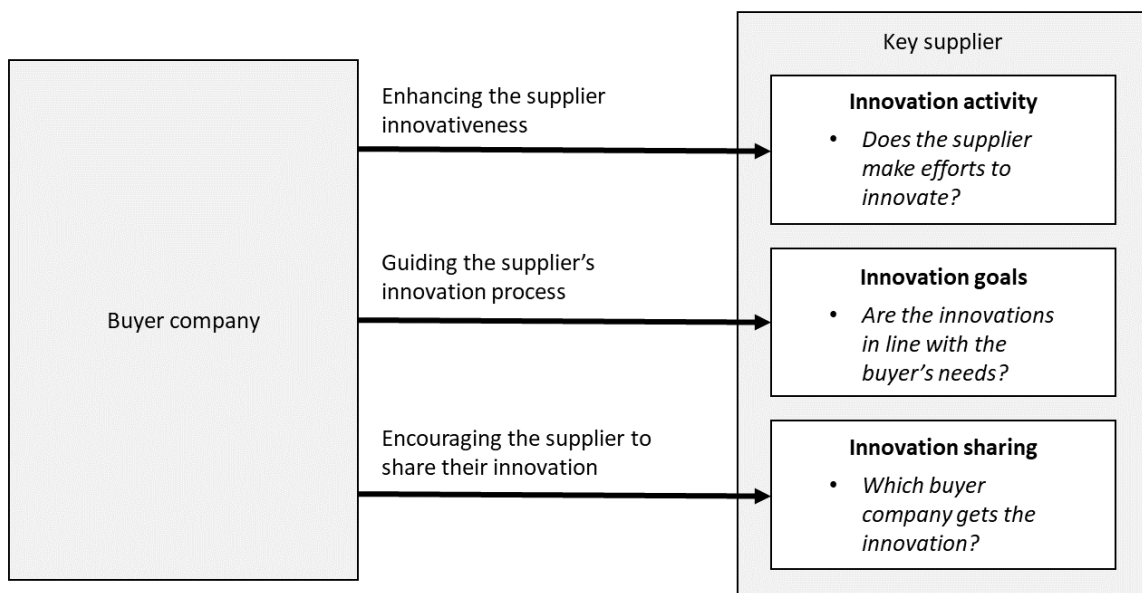
By developing new products and innovations together with suppliers, the company may fully utilize the potential, expertise, and competence of suppliers (Tanskanen, 2021). The research conducted by van Weele (2018a) has found conclusively that early supplier integration can reduce costs, improve quality, and accelerate product launches. However, there are many cases where the benefits of common NPD projects have been relatively low compared to the effort that has been put into them (van Weele, 2018a). In order for NPD cooperation with suppliers to be successful, suppliers involved must be selected carefully and connected to the product development project in a timely manner. Van Weele (2018a), in his research, bases his conclusion upon nine longitudinal case studies, that four distinct management areas should be mastered by buyer companies for successful product development cooperation. These areas of management are detailed in table 4.

**Table 4.** Four management areas that the company must cover in the inter-organizational NPD project (van Weele, 2018a).

|                               |  |
|-------------------------------|--|
| Development management        | The starting point for development management is to establish a straightforward strategy for determining which technologies to keep inside of the company's walls and which ones to outsource. Development management also defines the way suppliers are engaged with NPD. Without development management, there is no required guidance in product development projects.              |
| Supplier interface management | Supplier interface management involves the development of supplier market knowledge to identify relevant technical advancements in supplier markets. In addition, it includes evaluating the capabilities of suppliers and sustaining supplier relations. Suppliers involved in NPD projects must feel that their contribution is appreciated, and they are rewarded for good results. |
| Project management            | Project management can be divided into planning and execution of a project. Project planning includes decisions on a project-by-project basis about what product development is done internally and what is done together with suppliers. In project execution, suppliers are familiarized with the company's business strategy, projects, and engineers.                              |

|                    |  |
|--------------------|--|
| Product management | Product management includes the evaluation of product design considering quality, availability, delivery time, manufacturability, and standardization. |
|--------------------|--|

It is not worthwhile, or even possible to execute product development projects with all suppliers (Tanskanen, 2021). It might also be the case that the buyer company's internal resources are too small for product development. In addition to NPDs, supplier innovations that are not directly related to the product, such as new transportation and packaging solutions, can also be important to the company (Tanskanen, 2021). Therefore, supplier-driven innovation should be utilized as widely as possible but there can be obstacles to benefiting from supplier innovation (Pihlajamaa et al., 2019). In research from Pihlajamaa et al. (2019), three factors were identified that have an impact on the exploitation of supplier innovation (see Figure 4). In their research, (Pihlajamaa et al., 2019) introduce the concept of stimulating supplier innovations. It means the activities by the buyer company trying to increase the innovativeness of its suppliers, steering suppliers' innovation processes, and encouraging suppliers to be open about their innovations.



**Figure 4.** Stimulation of supplier innovations (adapted from Pihlajamaa et al., 2019).

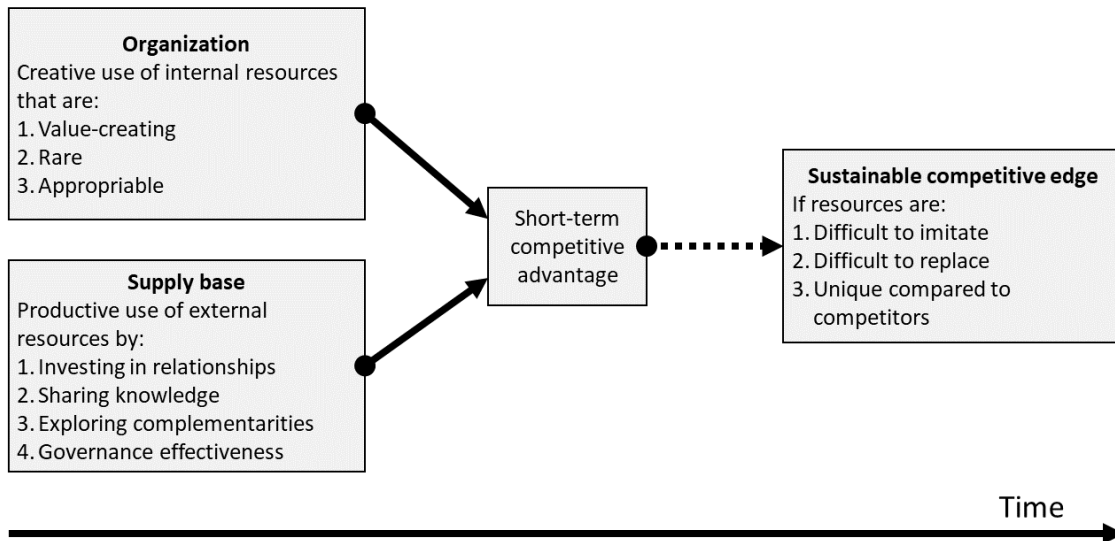
The number of suppliers able to innovate is relatively low, often less than a dozen per manufacturing company (Pihlajamaa et al., 2019). Ironically, these few suppliers that would be value-creating partners for one company are frequently the same ones that would be fascinating suppliers for the company's rival enterprises as well. This means that the talented and desired supplier must select for which customer company to allocate resources, which may be very limited (Schiele, Calvi, et al., 2012). Such valuable resources may include for example one competent engineer who can be allocated to work in the customer's facilities, limited laboratory testing time, or an idea developed by the supplier in its own product development project (Schiele, Calvi, et al., 2012). Eventually, some customers are granted the privilege of these resources. Customers, that are in a privileged position compared to suppliers' other customers are called preferred customers, or customers of choice. Therefore, it is crucial to reach the preferred customer status to achieve a competitive advantage. Thus, companies that fail to achieve key customer status through the eyes of the most capable suppliers are weak in the competition for technological leadership (Schiele, Calvi, et al., 2012).

### **2.2.3 Sustainable competitive edge over short-term profit**

Considering that sourcing products and services have a big impact on a company's profitability, sourcing specialists might be satisfied after negotiating good prices and realizing significant savings. However, too excessive focus on cost reductions and short-term wins may interfere with the strategic role of sourcing and therefore negatively impact on sustainable competitive edge (Barney, 1995). In research from Barney (1995), it was stated that sourcing should be recognized as a portal to the supply base which may provide innovation, quality improvements, new technology, and access to new markets.

By combining internal and external resources, companies have the potential to achieve a sustainable competitive advantage. However, the synergy benefit is not possible or even necessary with all suppliers, and therefore it is important to have the ability to identify and evaluate complementarities (Tanskanen, 2021, p. 18). In order to gain a competitive advantage, it is not enough to exploit external resources alone.

Organizations must simultaneously utilize their internal resources that are, at the same time, value-creating, rare, and difficult to imitate (Wade & Hulland, 2004). Figure 5 depicts how combining internal and external resources can lead to a sustainable competitive advantage over time. Internal resources can be such as extraordinary raw materials, geographical location, human capital, knowledge, financial resources, reputation, or loyal customer base (Mena et al., 2018). As the organization implements a value-creating strategy that is unique compared to competitors, some of the short-term competitive advantages will eventually sustain in the future (Wade & Hulland, 2004).



**Figure 5.** Sustainable competitive advantage in procurement (adapted from Wade & Hulland, 2004).

#### 2.2.4 Inter-organizational information sharing challenges

Information and communication technology (ICT) advancements and diversification have significantly reduced the size of the world for business and non-business purposes. It is possible to share almost any kind of information to the other side of the earth and it takes only a part of a second. There have not been technical barriers to cooperation with a geographically distant supplier for a long time (Iloranta & Pajunen-Muhonen, 2018, p. 69). Collectively available files and data, and powerful search engines allow procurement and sourcing engineers to search and compare the products, components, and

raw materials to be acquired in a single working day that would have taken a full year to collect a couple of decades ago.

An effective buyer-supplier relationship requires a smooth flow of information between both parties in the supply chain network. As stated by Vanpoucke et al. (2017), information sharing is the key element of superior supply chain management. When the appropriate information flows in the appropriate way and reaches the appropriate individuals and stakeholders, companies have the opportunity to create a competitive advantage through close supplier relations (R. C. Lamming et al., 2001). It is obvious, that certain information is mandatory to be shared in buyer-supplier relationships to perform daily activities, or else the common business will not be able to be conducted. Mostly, this is enough to maintain operations, but still, it seems that companies struggle with it, which leads to misunderstandings and errors (O'Brien, 2018, p. 312). There are various explanations for why sharing information between parties is challenging and O'Brien (2018, p. 312), in his book, *Supplier Relationship Management*, mentions some of them:

- *Lack of responsiveness.* Individuals might be slow to respond or do not respond at all.
- *Distrust.* Suppliers answer only to what is requested, instead of sharing more inclusive and comprehensive information in a fear of their customers replicating what they are doing and thus losing a competitive edge.
- *Twisted information.* If buyers try to encourage suppliers to increase their production by being too optimistic about future opportunities and demand, the consequence might be distorted information, resulting in mistrust between parties.
- *Bullwhip effect.* Minor issues with tier 1 suppliers due to variance in forecasts and lack of information are amplified back up in the supply chain, generating bigger problems for higher-tier suppliers.
- *Extracts only.* Buyers do not provide suppliers with a full picture, only extracts that are necessary to determine what they expect the supplier to provide next.



- *Differing opinions.* It is impossible for a single person's decisions to be well-matched with other stakeholders. Individuals might have different objectives and desires.
- *Confusion over who is responsible for managing the supply chain.* Unawareness of who is responsible for maintaining a particular relationship makes sharing unambiguous information very challenging.
- *Lack of motivation.* Even if significant efforts are made to establish a supply chain-wide flow of information, this does not imply that all individuals are willing or able to play their role.

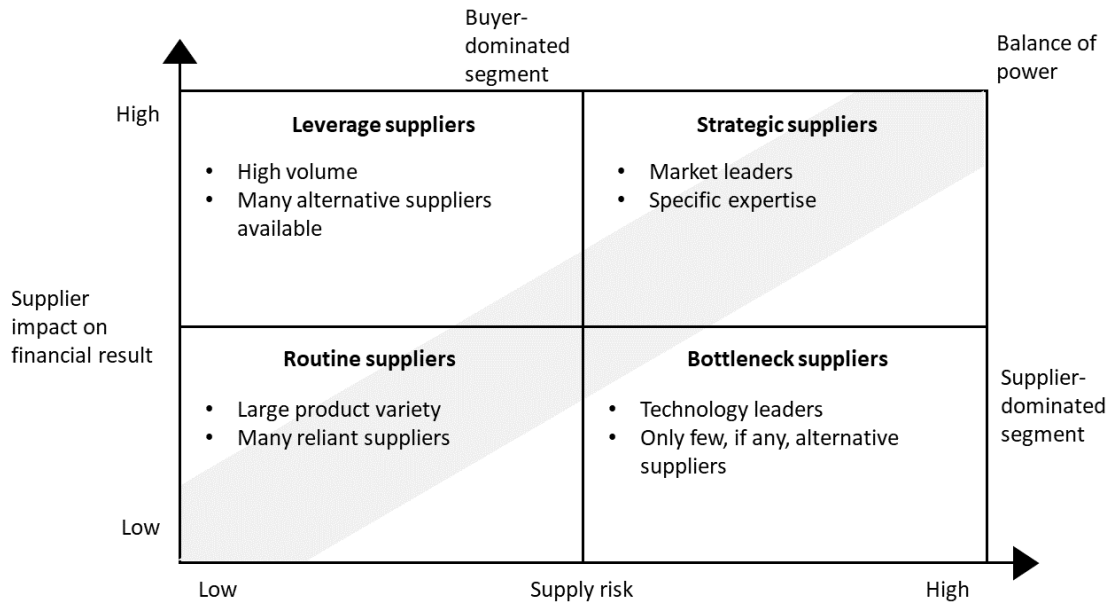
The pursuit of transparent supply chain-wide information flow is extremely important to achieve a competitive advantage (O'Brien, 2018, p. 313). Sharing of information between companies is often the main source of new innovations (Tanskanen, 2021, p. 19). According to Tanskanen (2021, p. 19), previous studies have exposed that in some sectors, for example, in the transport industry, a significant part of innovation and product development is achieved through the competence and ideas of the suppliers. There is strong research evidence that the early coupling of both customers and suppliers and mutual information-sharing has many positive impacts on the company (Tanskanen, 2021, p. 19). Although the information systems and protocols currently in use by companies make it possible to efficiently share information between organizations, it is important to share know-how efficiently as well. According to Tanskanen (2021, p. 19), knowledge can be divided into two types: information and know-how. By effective acquisition, assimilation, transformation, and utilization of external know-how, companies can earn a competitive advantage (Zahra & George, 2002).

### **2.3 Supplier categories**

Acquisition categories are very different in many respects, so differentiated strategies should be formed for them. Peter Kraljic can be considered a pioneer of strategic segmentation, who in his article *Purchasing Must Become Supply Management* in 1983 approached differentiated operating models using a portfolio model that has risen to great

popularity among large manufacturing companies. Kraljic's approach is based on the idea that because suppliers represent distinct interests of the organization, purchasing managers must design distinctive strategies for their supply marketplaces (van Weele, 2018b, p. 174). The development of differentiated procurement strategies aims to affect the balance of power between buyer and its suppliers. According to van Weele (2018b, p. 174), the balance of power should ideally be in the buyer's favor. Reversely, if the supplier has dominance over the buyer, the company may become too dependent on the supplier. In the worst case, this might lead to the situation where the supplier may start gradually increasing their prices and requirements to the customer (O'Brien, 2018, p. 161).

Kraljic's purchasing portfolio's basic idea is that there is no one-size-fits-all approach to acquiring and managing external resources, but different categories have different strategies and policies (Tanskanen, 2021, p. 56). The purchasing portfolio is also referred to as Kraljic's matrix, where categories are classified into four quadrants. The matrix has two dimensions; purchasing's impact on financial results and the complexity of supply market (Kraljic, 1983). It is noteworthy that Kraljic's matrix was originally developed for the categorization of product and product groups, and not for supplier categorization (Iloranta & Pajunen-Muhonen, 2018, p. 115). However, the matrix can be used in the classification of suppliers as well, but then the two dimensions of the matrix are slightly different; supplier impact on financial results and supply risk (see Figure 6) (Iloranta & Pajunen-Muhonen, 2018, p. 116; van Weele, 2018b, p. 176).



**Figure 6.** Kraljic's supplier portfolio (adapted from van Weele, 2018b, p. 176).

The vertical axis of the matrix describes the supplier's impact on the company's business. It is important to note that in addition to the volume to be purchased, the higher the scale the supplier is placed, the more supplier may have an impact on the total cost, the profitability of the company, and the value created for the end customer (Iloranta & Pajunen-Muhonen, 2018, p. 117). The underlying principle, however, is that the more the supplier volume and money involved, the greater the supplier's financial impact on the bottom line (van Weele, 2018b, p. 175).

The horizontal axis of the matrix describes the complexity and manageability of the supplier market. There are risks associated with the complexity and poor manageability of the supplier and therefore supply risk describes well the dimension of the horizontal axis (Iloranta & Pajunen-Muhonen, 2018, p. 117). Suppliers that have a partial or total monopoly over the buying company are located on the right side of the matrix. On the other hand, there may be several alternative suppliers competing in a certain market, all of whom are capable and willing to meet the needs of the buying company. In this case, it is called a buyer's market, where management of the supplier market is easy, alternative

suppliers are available, the risks are small, and costs of substituting supplier are low (van Weele, 2018b, p. 175).

*Leverage suppliers* (or volume suppliers) are suppliers whose products and services have high consumption and purchasing volume. The products and services sourced from suppliers in this quadrant often account for the majority of the company's purchases in monetary terms, although they may have a small share of items (Iloranta & Pajunen-Muhonen, 2018, p. 119). Thus, it can be noted that the products and services provided by leverage suppliers are generally expensive and have a large impact on the production of the company and the product that ends up with the end customer. Even small saving in purchasing prices in this quadrant is reflected as a major impact on the cost of the finished product. Therefore, suppliers in this quadrant offer a lot of opportunities for the procurement organization and the means of traditional tendering are effective as many alternative suppliers are creating competitive pressure for suppliers (van Weele, 2018b, p. 177). The purchasing company has power over these suppliers, and suppliers are often motivated to improve their own operations and cut their pricing in order to ensure the continuity of their business (O'Brien, 2018, p. 162).

*Strategic suppliers* (or partners) supply products and services that are high in monetary value and they have a significant impact on the operations and success of the company (Iloranta & Pajunen-Muhonen, 2018, p. 122). There are few or no alternatives at all to strategic suppliers and therefore the risk for these suppliers is higher than for leverage suppliers. However, strategic suppliers often need the customer as much as the customer needs them which is characterized by mutual objectives and sharing of risks and rewards (O'Brien, 2018, p. 162). Strategic suppliers are frequently willing to collaborate closely with the customer to grow along with the customer company by developing their effectiveness and capability (Monczka et al., 2016, p. 219). The complex and customized products or services required by businesses are often provided by strategic suppliers. With strategic suppliers, it is recommended to maintain a balance of power and to

develop cooperation which, in the best case, will lead to common value creation for both parties (Tanskanen, 2021, p. 58).

*Routine suppliers* supply products that are often low in monetary value and their availability is good (Monczka et al., 2016, p. 219). The purchases in this category are characterized by the fact that the procurement process itself entails a relatively great amount of costs compared to the value of the product being acquired (Iloranta & Pajunen-Muhonen, 2018, p. 120). Since there are many alternative suppliers for products in this supplier category, and the cost of changing the supplier is comparatively small, the focus should be on the smoothness of procurement, for example, by automating the request and purchase processes (Tanskanen, 2021, p. 58). In this category, the power of buyer and seller is typically equal, even though the buyer usually has the option to terminate the relationship without major risks (O'Brien, 2018, p. 162).

*Bottleneck suppliers*, by name, supply products that impede the production flow of the purchasing company and for which there are few or no alternative suppliers available on the market, or the cost of switching the supplier is drastically high (Monczka et al., 2016, p. 221). The purchasing volume in this category is often relatively small and the number of suppliers in this category should be as low as possible to minimize risks (Iloranta & Pajunen-Muhonen, 2018, p. 121). Even if the value of the product in this supplier category may not be very high, it may be a necessary part of the end product which causes significant challenges for the buying company and a holdup in production. Bottleneck supplier has power over buying company since supplier substitution is impossible or excessively difficult or expensive (O'Brien, 2018, p. 162). Supplier dominance, in general, can result in excessive prices, delays in deliveries, poor quality of service, and significant cost consequences (van Weele, 2018b, p. 177). A working strategy with bottleneck suppliers is to ensure short- and long-term availability and reduce risk by determining position in the supplier's customer list (van Weele, 2018b, p. 180). Therefore, it is important to be an attractive customer, especially in the eyes of bottleneck suppliers, and determine the factors that influence it.

## **2.4 Attractiveness in the buyer-supplier relationship**

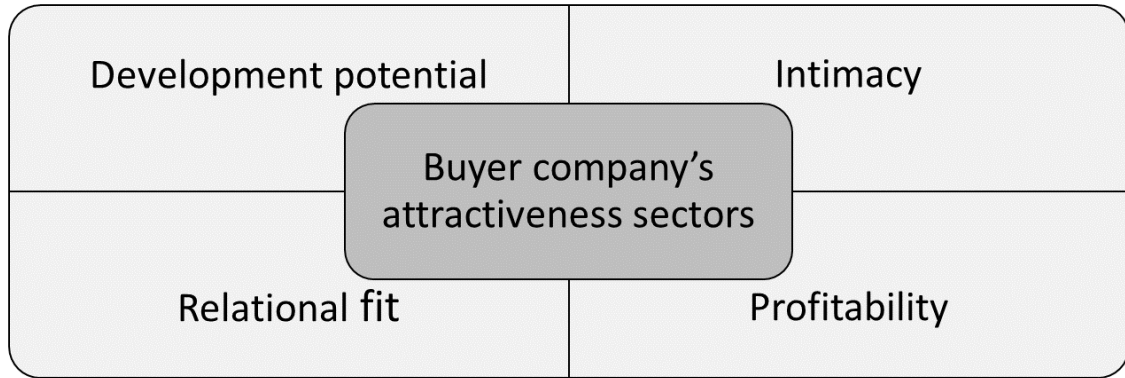
Attractiveness is a concept conventionally associated with social connections that has been studied widely in interpersonal interactions for a long time. In the existing management literature, the concept of attractiveness is derived from research by Blau (1964), and Kelley and Thibault (1978), which concerned the social exchange theory in sociology (La Rocca et al., 2012). Not only has attractiveness been researched in interpersonal relationships for a long period, but it has also been recognized as a significant feature in business-to-business connections (Hüttinger et al., 2012).

Frequently, the common belief is that the buyer is always the stronger party in the market and that the suppliers compete for customers by generously offering products, services, and innovations (Tanskanen, 2021, p. 113). However, this way of thinking is naive and could result in a more passive procurement model, the characteristics of which were described in Chapter 2.2. In today's business environment, the market is very open, and there are no barriers to conducting business with enterprises located on opposite sides of the globe. Nevertheless, there may be great differences between suppliers in ability, attitudes, and quality of operations. In addition, innovative and high-performing suppliers may be scarce on offer in the supplier market (Pulles et al., 2019). For example, there may be few suppliers capable of manufacturing a specific complex or special skill or resource-intensive product or subassembly. Especially in situations like these, top suppliers thoroughly select the customers to collaborate with and to whom suppliers allocate their scarce resources. Customers who understand the importance of their own attractiveness and the factors contributing to it are strong in competition for mobilizing supplier resources (Makkonen et al., 2016). Attractiveness as a customer helps the company not only to attract the best suppliers but also to gain priority status in the eyes of these suppliers. The purchasing company's attractiveness provides a competitive advantage as suppliers are allocating more of their resources to their customers as a result (Pulles et al., 2016). Therefore, it is important for the buyer to be able to identify and evaluate factors influencing attractiveness.

As in interpersonal relations, the basic principle of reciprocity occurs also in relations between companies. Parties are willing to share their commodities with the other party and create extra value for them if they feel it is beneficial for them as well (Makkonen et al., 2016). Inversely, it is not perceived beneficial to give something to the opposite side if they have nothing valuable to give back. Thus, just as in a relationship between people, also in business, the customer company is perceived to be attractive if the supplier expects that a relationship with a particular company is rewarding (Schiele, Calvi, et al., 2012). It is still noteworthy that interpersonal interaction and social skills play a big role in the attractiveness of the company, both from the perspective of the buyer and the seller (Mortensen, 2012).

#### **2.4.1 Factors influencing customer attractiveness**

Prior studies have indicated that factors influencing buyer attractiveness can only be determined in a term of individual buyer-supplier relationships (La Rocca et al., 2012; Taniskanen & Aminoff, 2015). Therefore, customer attractiveness cannot be determined and measured in an absolute sense. La Rocca et al. (2012) identify and group attractiveness factors into four categories. These categories are development potential, intimacy, relational fit, and profitability (see Figure 7). However, the relative importance of these factors varies on a case-by-case basis, depending on, for example, the supplier company's own strategic objectives, size, and position with respect to competitors (La Rocca et al., 2012).



**Figure 7.** General subareas of buyer company's attractiveness factors (La Rocca et al., 2012).

*Development potential* describes how the supplier perceives cooperation with the customer to enable development in the long term. Development potential may involve several different matters, such as the growth potential of the buying company, strong brand of the customer, resources, innovativeness, and possible access to third parties (La Rocca et al., 2012). These are all things that can help the supplier develop in the future and grow their own business. Often, especially for small growing companies, it is more important to develop their own business with the help of the customer than to make a profit in the short term (Patrucco et al., 2018).

*Intimacy* of a relationship means how clear, reliable, and fair the supplier feels that the customer is acting. According to Tanskanen (2021, p. 118), supplier companies frequently report that customers' activities are confusing and poorly predictable. This indicates that suppliers might be too shy to give feedback to customers or feedback is not taken seriously enough. If the buyer overestimates its own position and communication is unilateral and has a commanding tone, it may result in an inefficiency that does not benefit either party (La Rocca et al., 2012). Also, communicating the needs and requirements of the buying company to the supplier affects the intimacy of the relationship. This is especially highlighted when the company outsources the manufacture of the product that has previously been manufactured in-house. Employees within the buying firm may have understood the inadequate product specifications, but the supplier is



unable to manufacture the product properly (Tanskanen, 2021, p. 119). Therefore, it can be argued that poor product specifications decrease the attractiveness of the buyer in the eyes of the supplier.

*Relational fit* describes how supplier feel that the customer's goals and characteristics are compatible with their own company. Factors contributing to relational fit may include the similarity of the long-term objectives of companies, compatibility of business cultures, and system and process compatibility (La Rocca et al., 2012). The coherence of long-term objectives involves, for example, the willingness of companies to develop new products and technologies. Tanskanen (2021, p. 119) notes that while cultures do not have to be identical, a buying company's too divergent corporate culture can limit cooperation and reduce attractiveness. Additionally, the customer is perceived as attractive if the buyer organization already utilizes compatible procedures and systems (Pulles et al., 2016). This is especially the case in industries where supply chain efficiency has a substantial impact on competitiveness.

*Profitability* is defined as the supplier's evaluation of the relationship's total cost and rewards (La Rocca et al., 2012). Customers who buy a lot and pay a good price for acquired products and services are naturally perceived as attractive. According to Tanskanen (2021, p. 120), buying companies often believe order volume and price to be the only factors affecting their attractiveness. However, the buyer may affect the profitability of the supplier, for example, through the efficient sharing of information and knowledge. Economical based factors were also highlighted in the study from Tanskanen and Aminoff (2015). However, none of the supplier's representatives mentioned the price as a factor influencing customer attractiveness. Rather than that, timely and reliable invoice payment was by far the most desirable economic element.

#### **2.4.2 Evaluating buyer's attractiveness**

It is vital that the customer company has as realistic view as possible of its attractiveness in the eyes of the supplier as well as identify factors affecting it. However, measuring

attractiveness is often not very straightforward. The diversity of factors affecting buyer attractiveness, the subjectivity of attractiveness, and the weight of attractiveness factors at different stages of a relationship explain why customer attractiveness cannot be measured unequivocally (La Rocca et al., 2012). Nevertheless, the attractiveness of a company can be measured, for example, by having open discussions or interviews with specific suppliers, conducting supplier satisfaction surveys, or examining supplier's behavior and changes in it at certain intervals (Tanskanen & Aminoff, 2015).

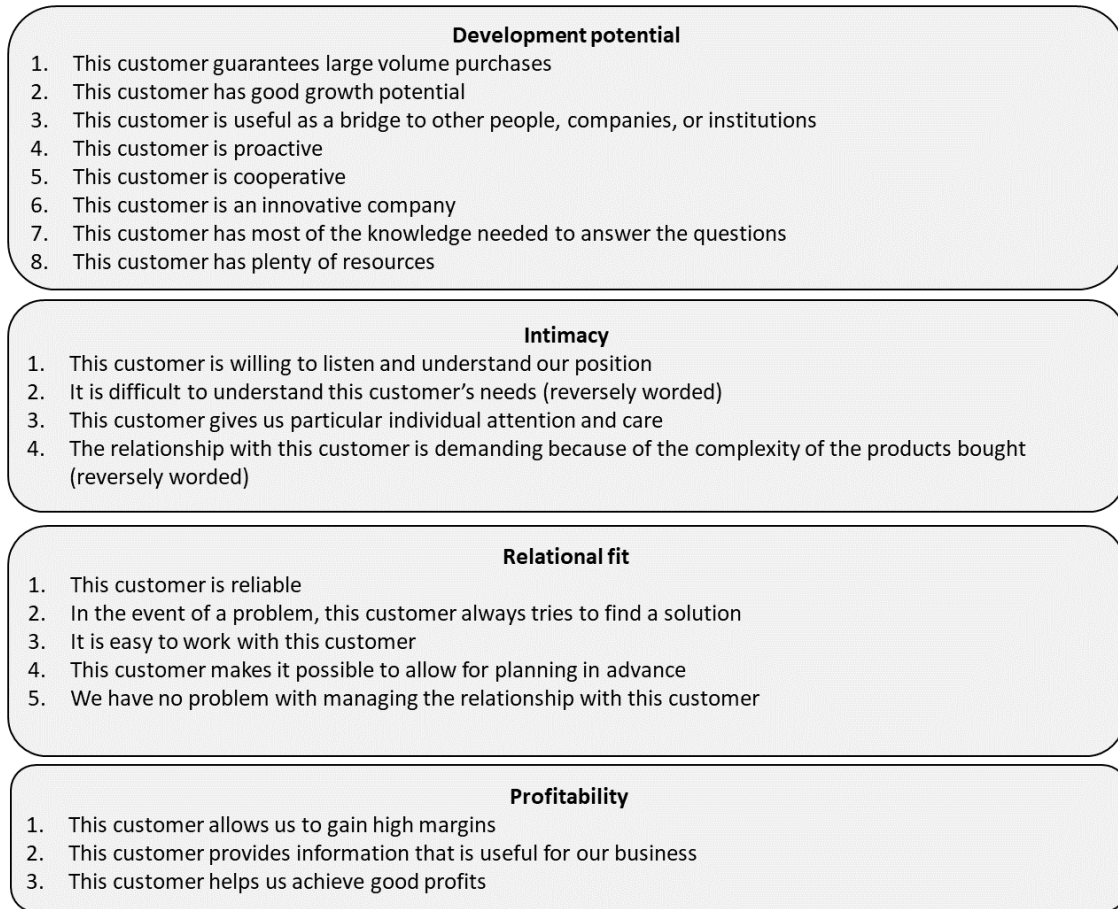
For a supplier company, as well as for the buyer company, it is very important to avoid overestimating or underestimating own attractiveness. For example, if a buyer company overestimates its own attractiveness, it can lead to frustration if special treatment is expected from the supplier without receiving it (Tanskanen, 2021, p. 123). The overly optimistic picture of the buyer's own attractiveness may also appear as arrogance toward the supplier, which may lower the supplier's commitment and performance level. On the other hand, underestimating the buyer's attractiveness may result in missed opportunities to benefit from the preferred customer's position.

A buying company can have a good assessment of its attractiveness and its position in the eyes of suppliers by observing the supplier's behavior. Evaluating a supplier's behavior can roughly assess the supplier's commitment and desire to serve the customer in the best way possible (La Rocca et al., 2012). According to Tanskanen (2021, p. 124), a company can have an indicative estimation of the attractiveness of its own company by considering the following issues:

- whether the buying company receives special treatment from the supplier
- whether the supplier prioritizes deliveries of the buyer if availability challenges occur
- at what organizational level are the contact persons of the supplier company
- what is the response rate and quickness to notice of defect sent to the supplier
- whether the supplier has determined the person responsible from their side

- whether the supplier has made special arrangements in their production facilities or processes.

However, evaluating buying company's attractiveness solely by objectively monitoring the behavior of the supplier is limited and a deep understanding of the supplier relationship is often not achieved in that way (Pulles et al., 2019). An effective way to receive information about a buyer company's attractiveness and supplier satisfaction is simply to conduct surveys or interviews with the suppliers. In the study of customer company's attractiveness, La Rocca et al. (2012) employed a 20-point question list, in addition, to open interview questions to clarify the attractiveness of the company (see Figure 8). The questions were divided into four categories to answer aspects of attractiveness which were described in Chapter 2.4.1. These questions can be answered for example using a 5-point Likert scale that ranges from 1= "strongly disagree" to 5= "strongly agree". A deeper understanding of the attractiveness of the customer company is obtained by asking a brief justification for the answer. In this case, new ideas and development proposals may emerge from dialogue that have positive effects on the common business (Pulles et al., 2016).



**Figure 8.** Suitable questions to ask suppliers to find out about the attractiveness of the customer company (La Rocca et al., 2012).

Because customer attractiveness is relationship-specific, it is very important to establish a process by which attractiveness can be measured and its variability between suppliers (La Rocca et al., 2012). Companies assessing their own attractiveness helps both customers and suppliers to make important decisions regarding buyer-supplier relationship management. From the supplier's perspective, it can help in allocating limited resources to customers. From the customer's point of view, companies can monitor the variation in customer attractiveness between different suppliers. In that way, the management of the company will be able to better understand the limitations and opportunities of supplier relations and create relationship-specific strategies to improve supplier performance (Tanskanen & Aminoff, 2015).

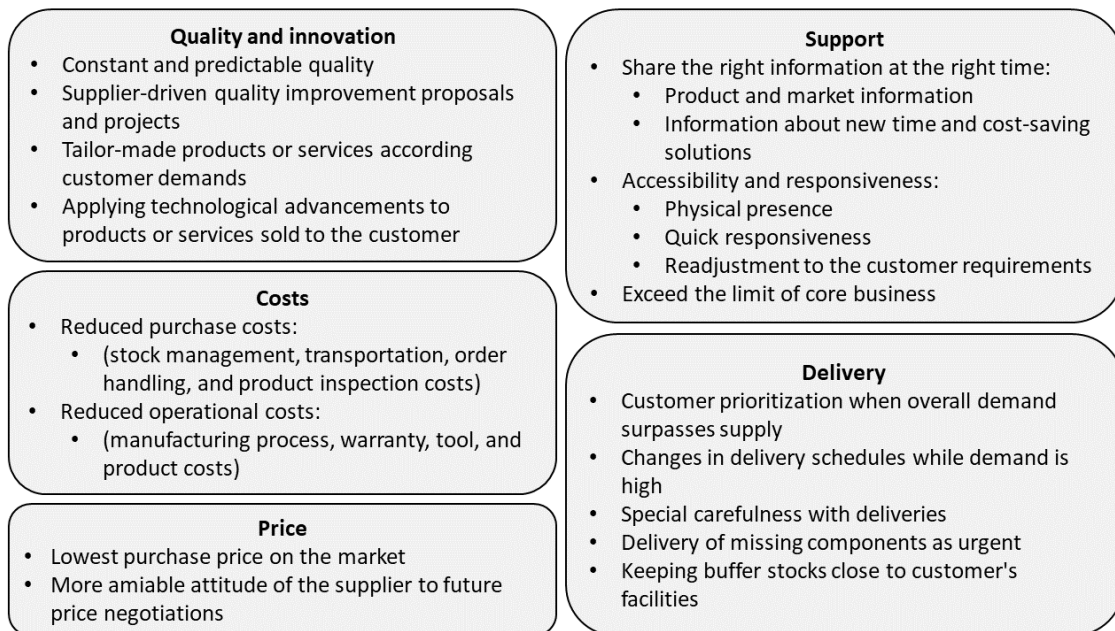
## 2.5 Benefits received by preferred customers

Companies do not survive in a rapidly changing business environment with their internal resources and expertise alone (Mortensen, 2012). In today's dynamic network of enterprises, each company is dependent on several other companies and value is increasingly being created in collaboration with external resources. Thus, the establishment and management of cross-organizational relationships have been the key areas of research among successful companies for a long time (Mortensen, 2012). Several studies support the claim that some suppliers define their customers as unequal and offer certain benefits to certain customers whose pampering is considered critical for the supplier's business profitability and continuity (Nollet et al., 2012; Pulles et al., 2019). Prior research suggests numerous advantages for preferred customers such as gaining a competitive advantage through increased supplier commitment and faithfulness (Pulles et al., 2019). Prior literature indicates that preferred customers receive:

- privileged resource allocation (Pulles et al., 2019),
- purchase price reductions, which can range from 2-4% but may reach 5-30% (Hald et al., 2009; Hennig-Thurau et al., 2002; Patrucco et al., 2018),
- greater access to supplier's technology and innovations (Ellis et al., 2012; Patrucco et al., 2018; Schiele, Veldman, et al., 2012),
- delivery prioritizations (Bemelmans et al., 2015).

However, these benefits are comparative to products or services that the supplier's other customers receive, and the advantages described above occur in a situation where one supplier supplies to several customers. In addition, it is noteworthy that competitive advantage is not an absolute concept, and it is always relative to competitors (Barney, 1995). This suggests that if the buying company receives greater resources than its competitors, the resources received from the supplier will more likely result in a competitive advantage.

The general perception is that supplier resources only mean commodities that a company sells to its customers (Makkonen et al., 2016). However, supplier resources do not only refer to the products and services the company seeks to obtain from suppliers to keep its production line running. Resources that are often scarce and allocated by the supplier to their customers can be for example the attention of technical sales personnel, capability for development, manufacturing capacity, logistic capacity, and service capacity in problem situations (Pulles et al., 2019). Figure 9 details the potential benefits and supplier contributions that the preferred customer may receive.



**Figure 9.** The benefits of being a preferred customer (adapted from Nollet et al., 2012).

Although it is highly favorable for a customer company to be a preferred customer, it is not only in the best interests of the customer company solely. Becoming a customer of choice typically results in favorable returns for the supplier as well. For example, it has been observed that by distinguishing between attractive and non-attractive buyers, a seller's overall profitability increases (Schiele, Calvi, et al., 2012). In research from Wetzel et al. (2014) it was argued that from a supplier point of view, customer segmentation helps improve marketing performance and prioritize limited resources for primary customers and further treat certain customers as a preferred customer. For this reason,

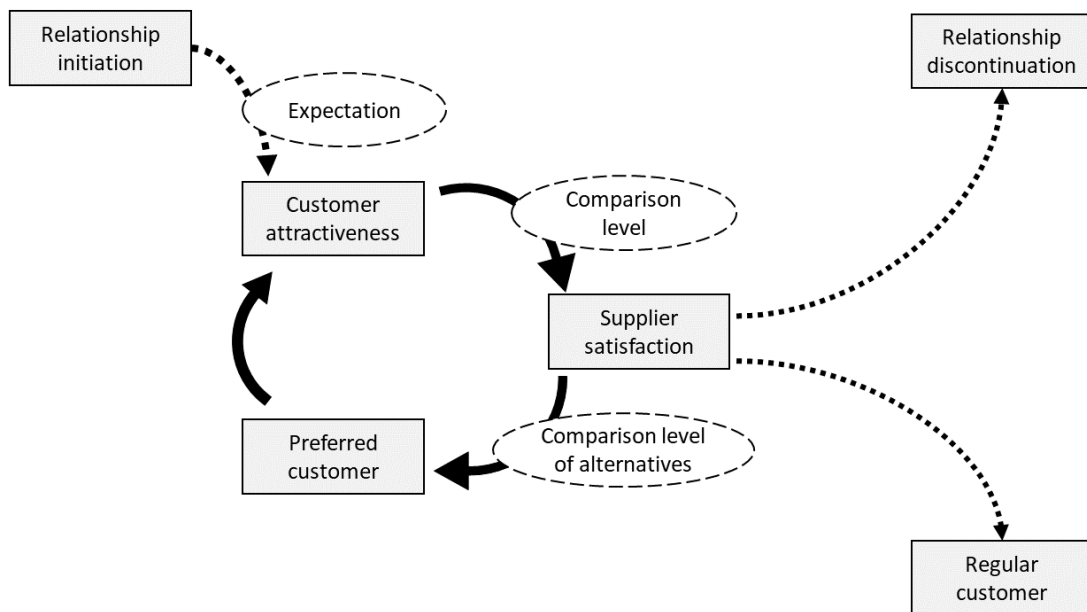
suppliers also seek to actively evaluate their customers and their attractiveness to enhance their own business through better resource allocation.

## **2.6 Social exchange theory in preferred customership**

Social exchange theory has been applied as a theoretical basis in several studies on the attractiveness of buyer companies (Schiele, Veldman, et al., 2012; Schiele, Calvi, et al., 2012). According to social exchange theory, individuals in a relationship create value for one another (Blau, 1964). This value may be something tangible or intangible, such as pleasure or uplifting emotions (Blau, 1964). Social exchange theory can also be utilized in economics in the interaction between buyer and supplier (Schiele, Veldman, et al., 2012). The production of value to the other party is based on reciprocity and social exchange. The attractiveness of the other party plays a big role in social exchange theory (Schiele, Calvi, et al., 2012). In their research, Schiele, Calvi, et al. (2012) approach customer attractiveness with the cycle of preferred customership. When a theory of social exchange is set in a business context, a cycle of preferred customership includes three sequential steps; customer attractiveness, supplier satisfaction, and preferred customership (Schiele, Calvi, et al., 2012). Schiele, Calvi, et al. (2012) argues that the social exchange theory is successful in a business context as well because it concerns the matter of beginning the relationship, terminating the relationship, and continuance of the relationship.

Even though the social exchange theory is based on sociological and psychological issues, it also incorporates economic principles such as the concept of resource exchange which refers to any tangible or intangible commodities traded between various parties. The social exchange theory is especially well-suited to a business-to-business setting since its core explanatory mechanism relies on the growing interdependence among commodity exchange partners over time (Schiele, Calvi, et al., 2012). The theory is based on three key elements that form the preferred customer status cycle. The elements of the preferred customership circle are expectations, comparison level, and comparison level of alternatives (see Figure 10).

The first step of the cycle refers to the expectations that the supplier has set towards the customer and the relationship and therefore defines, whether the exchange relationship is reasonable to be initiated or not. Secondly, at the comparison level, the benefits of the relationship are evaluated having starting point that the minimum criteria for the relationship have been met. Last, in the comparison level of alternatives, the benefits of the relationship are not only assessed in absolute terms but other comparable options available are also considered. In the framework conducted by Schiele, Veldman, et al. (2012), the fundamental of traditional social exchange theory is expanded by separating a continuous customer relationship into two: the preferred customership and the regular customership.



**Figure 10.** The circle of preferred customership (adapted from Schiele, Veldman, et al., 2012).

### 2.6.1 Expectations for a relationship

Attractiveness is a significant component of the social exchange theory. Based on a presumption that the relationships between buyer and seller are social exchange processes, it can be stated that the attractiveness of the customer is determined by the supplier's



expectations about the buyer company at the time of the relationship initiation (Mortensen, 2012). Thus, a supplier considers a customer company as attractive if the supplier has comfortable anticipation about the business relationship with the customer in question. The formation of the supplier's expectations of the customer enterprise includes awareness of the existence of the customer and the awareness of the customer's needs (Schiele, Calvi, et al., 2012).

While transmitting the company's requirement and demand to the existing market may seem straightforward, it may be challenging for enterprises, especially – but not solely – for smaller customers of which the supplier has not even been aware in advance (Schiele, Calvi, et al., 2012). However, the supplier's awareness of the existence of a customer company is not enough if there are negative associations with a well-known company. Thus, the hallmarks of attractiveness are met, and the initiation of the relationship is on a good basis if the customer's existence is identified, and positive expectations are accompanied by a relationship with the customer. Mortensen (2012) claims that customer attractiveness is a proactive construct based on ambitions set for starting and developing a relationship. Supplier satisfaction is determined by an assessment conducted after the relationship has been in place for a certain period. Even though customer attractiveness and supplier satisfaction are separate issues, they are sequentially related to one another (Schiele, Calvi, et al., 2012).

### **2.6.2 Comparison level**

The supplier evaluates satisfaction with the relationship by comparing the obtained value that was predicted from the relationship and the exact outcomes attained (Schiele, Veldman, et al., 2012). For example, a comparison between the recompense received from the customer and the costs and effort needed to achieve that reward. Therefore, the disparity between the supplier's anticipation and the value actually acquired via a customer interaction affects the supplier's degree of satisfaction. A partial supplier dissatisfaction or total absence of supplier satisfaction has been found to be a fundamental element in the termination of the buyer-seller relationship executed by the supplier

(Schiele, Veldman, et al., 2012). Thus, if supplier satisfaction remains low enough for a long enough time, the supplier will eventually attempt to find a better alternative and finally discontinue the relationship with the nuisance customer. On the contrary, if the supplier feels that the benefits and rewards achieved from the relationship are equal or even greater compared to the resources consumed by it, the supplier is satisfied (Pulles et al., 2016).

The specific details of expectations for the relationship can vary extremely widely depending on the objectives that the supplier has set for the relationship. Nevertheless, if these expectations are met or even surpassed, the outcome is a high level of supplier satisfaction. This said it can be noted that the satisfaction of suppliers plays a crucial role in considering which factors guide the decision-making of suppliers (Schiele, Veldman, et al., 2012). While the attractiveness of the customer enterprise and the expectations placed on the relationship play an important role in supplier decision-making, the fulfillment of these expectations and the resulting supplier satisfaction carry great weight as well. While maintaining a customer relationship requires supplier satisfaction at a certain minimum level, satisfaction with the customer relationship may fluctuate over time (Schiele, Calvi, et al., 2012). Suppliers evaluate the development of satisfaction over time and make decisions on whether to promote or downgrade certain relationships (Mortensen, 2012). Therefore, suppliers may grant preferred customer status to those customers they are especially satisfied with, and regular customer status to remnant customers whom suppliers are sufficiently satisfied with.

### **2.6.3 Comparison level of alternatives**

Social exchange theory implies a framework for suppliers to evaluate and analyze their relationships with customers. This level, which defines customers who receive privileged status and treatment, is called the comparison level of alternatives (Schiele, Calvi, et al., 2012). At this level, suppliers define those customers who are primarily allocated resources if there are not enough resources available to meet the needs of all customers. However, the comparison level of alternatives does not apply only to the selling party. In

the relationship between buyer and supplier, both parties occasionally compare the value obtained from the relationship in question with the value that could be achieved in an alternative relationship (Schiele, Veldman, et al., 2012). Therefore, the supplier's satisfaction with the relationship is a necessary factor for the customer to achieve the preferred customer status, but even that is not always enough.

Even if the value created by the customer relationship exceeds the supplier's expectations and the supplier is satisfied with the relationship, this supplier may downgrade or even terminate the exchange relationship if an even better alternative appears to exist and it is impossible to serve both customers as an equally preferred customer (Schiele, Calvi, et al., 2012). On the contrary, if the unsatisfied supplier does not have other better alternatives available, it may remain in a relationship that may lead to the power of the customer (Schiele, Calvi, et al., 2012). In this situation, however, it is possible that the supplier is not committed to the relationship at as good a level as possible which is not beneficial for the customer either.

The comparison level of alternatives broadens the traditional literature on supplier satisfaction by shifting from bilateral analysis to considering the position of both parties in the network of companies (Pulles et al., 2016). Therefore, it is quite advantageous for buying organizations to be aware of the other customers served by the supplier. Ultimately, the supplier's decision to classify a certain customer as a regular or preferred customer is determined by two factors: the buyer's attractiveness and the supplier's satisfaction with the exchange relationship (Schiele, Veldman, et al., 2012). These elements, however, are influenced by the operating environment, which includes alternative customers. Thus, Schiele, Calvi, et al. (2012) argue that a company can achieve primary customer status if it is recognized as an attractive business partner and the supplier is more satisfied with the customer relationship than with substitute customers. Satisfaction with the relationship is followed by the position of the preferred customer status and privileged resource mobilization for this customer.

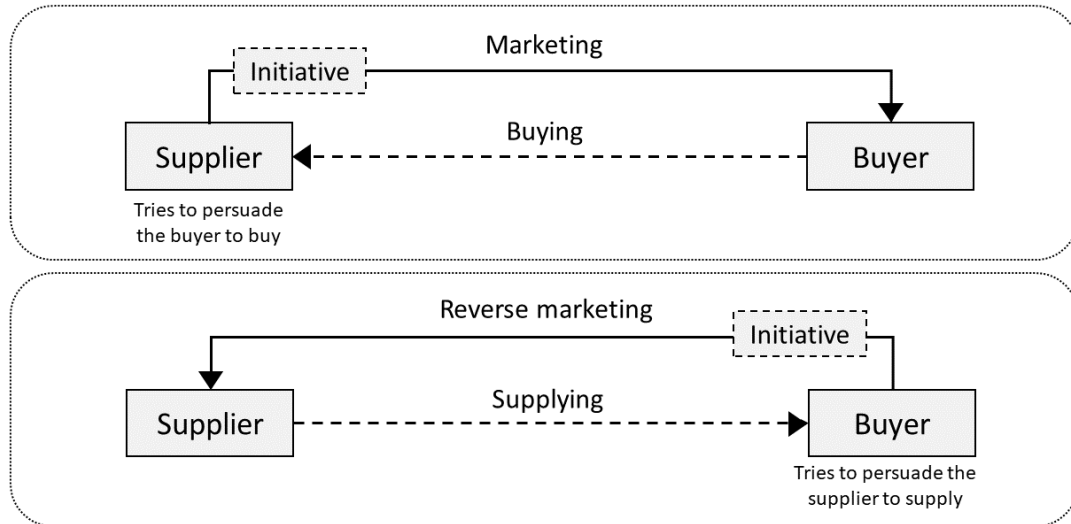
In a conclusion, the theory of social exchange behaves very much in the same way, both in business and in interpersonal relations. To initiate the relationship, the counterparty must be attractive enough to start the relationship. Once the relationship has been ongoing for a while, the counterparty evaluates the rewards from the relationship and compares them to the expectations set for the relationship, which eventually defines satisfaction with the relationship. Further, in comparison level of alternatives, surrounding factors are considered such as alternatives available, and these are compared with the satisfaction with the current relationship. Eventually, the buyer-seller relationship can take a step in three directions: termination of a relationship, determining regular status for a customer, or granting a customer the preferred status.

## **2.7 Reverse marketing**

Reverse marketing, or supplier marketing, is a rather unknown term and it refers to a course of action in which a customer company seeks to improve its own attractiveness, either in the eyes of existing, or potential suppliers (Biemans & Brand, 1995; Iloranta & Pajunen-Muhonen, 2018). If the product or service to be purchased is standardized, there are many suppliers capable of providing it, and few potential buyers, the customer company has a dominant position over the supplier (van Weele, 2018b, p. 177). However, in a modern business environment, this is an unusual situation and thus reverse marketing becomes important. Although reverse marketing as a term is quite undiscovered, the importance of active supplier market management was already highlighted by Blenkhorn and Banting (1991) in their article *How Reverse Marketing Changes Buyer-Seller Roles*. Blenkhorn and Banting (1991) highlighted that active marketing of the buyer company to suppliers is an important part of the systematic procurement process and is understood only in pioneer companies.

While the purpose of traditional marketing is to meet sales objectives, Dwyer et al. (1989) describe reverse marketing as an aggressive and creative method to meet supply objectives. Reverse marketing is thus an approach in which the customer company

approaches suppliers using the methods of traditional marketing instead of suppliers marketing their products and services to customers (see Figure 11).

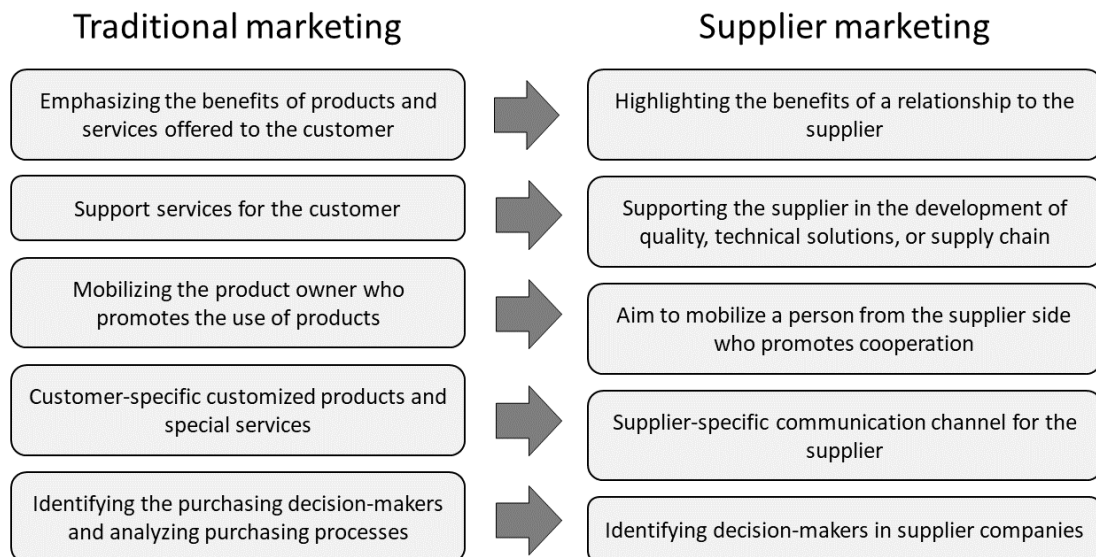


**Figure 11.** Principles of traditional marketing and reverse marketing (adapted from Blenkhorn & Banting, 1991).

If the purchasing company is able to appear as an attractive partner to the supplier market and preserve supplier satisfied with the exchange relationship, the company is likely to benefit from the preferred customer benefits described in Chapter 2.5. Iloranta and Pajunen-Muhonen (2018, p. 242) mention two major reasons for the increased need of active supplier marketing:

- More intimate supplier relations require a better understanding of the other party rather than cold and distant relationships. The active party has the opportunity to positively influence the other party's opinions and decisions.
- When searching for potential suppliers in distant countries, the supplier frequently has no idea of the new customer on offer. An unknown buyer is frequently greeted with skepticism, and suppliers' responses to contact requests may reflect this. Good supplier marketing helps to achieve open negotiation relationships from the very beginning.

Once buying company's attractiveness factors and strengths have been identified and evaluated, the company should transmit them to the supplier market to improve the negotiating position and reduce the supply risk (Blenkhorn & Banting, 1991). Reverse marketing can be planned, executed, and managed in cooperation with the company's marketing and sourcing departments. This increases the efficiency of supplier marketing as the sourcing department has the best supplier market knowledge whereas the marketing department has the best competence in traditional marketing (Tanskanen, 2021, p. 127). In reverse marketing, very much the same means as traditional marketing to customers can be applied (see Figure 12).

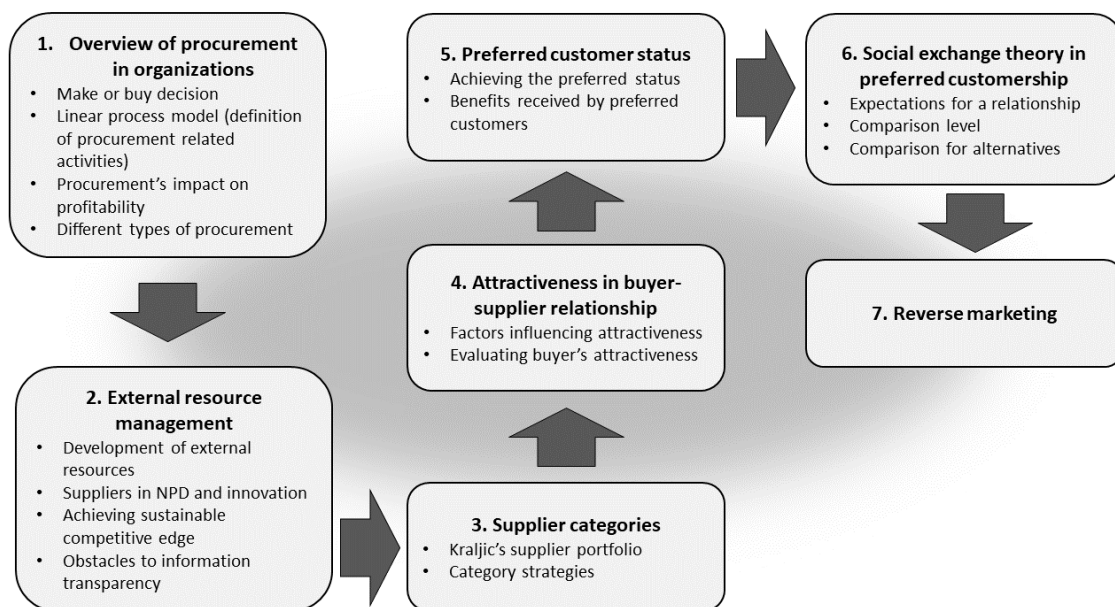


**Figure 12.** Examples of the application of traditional marketing in supplier marketing (Biemans & Brand, 1995).

In reverse marketing, it is vital to identify decision-makers from a supplier (Biemans & Brand, 1995). It is also important to identify what kind of information is important for these individuals and communicate accordingly (van Weele, 2018b, p. 69). This requires good knowledge of both, the supplier market and the policies of a particular supplier. The right kind of reverse marketing convinces the supplier of the benefits of the relationship and eventually may begin to treat the customer company unequivocally well.

## 2.8 Summary of the theoretical framework

In this chapter, theories and related concepts are briefly summarized. Figure 13 presents a structural roadmap and a summary of the topics discussed. The theory part begins with the definition of procurement, the processes involved, and emphasizing the importance of procurement in organizations. Then we looked at the definition of procurement where suppliers can be seen as external resources which can be managed. It was noted that companies have the opportunity to achieve a competitive edge if they are surrounded by external resources that are rare and difficult to imitate by competitors. The same chapter also addressed the potential challenges in the information flow between buyer and supplier. In chapter 2.3. Kraljic's supplier portfolio was presented and discussed how it can be utilized in supplier categorization depending on supplier risk and the supplier's impact on the company's financial result. Based on these dimensions, suppliers can be divided into four categories; leverage, strategic, routine, and bottleneck suppliers. This is a central part of the research since, in the empirical part, suppliers are considered from each category.



**Figure 13.** Roadmap of the theoretical framework.

Attractiveness in a business relationship means the desire and commitment between the parties to initiate or maintain an exchange relationship. Customer attractiveness is always relationship-specific and many factors are contributing to it. However, the factors of buyer attractiveness can be divided into four categories, which also provides a baseline for the empirical contribution of this thesis. These categories are buyer's development potential, intimacy, relational fit, and profitability which were considered in more detail in chapter 2.4. The attractiveness of the buyer can be assessed by observing supplier behavior, conducting supplier satisfaction surveys, or having an open discussion with the supplier.

Preferred customers are buyers that are seen as attractive and for whom the supplier is ready primarily to allocate their resources. As the number of skilled and innovative suppliers is low, it is a significant benefit for buyer companies to position themselves as a preferred customer in the eyes of top-tier suppliers. These customers receive special treatment, such as prioritization of deliveries, pricing, and exploitation of supplier innovations, which creates a competitive edge over competitors. Suppliers granting preferred customer status and unequal treatment of their customers and its characteristics were discussed in chapter 2.5.

The achievement of preferred customer status was considered based on social exchange theory. As well as in interpersonal relations, in business relations another party must be attractive to initiate the relationship, and at this stage, certain expectations are set for the relationship. After a certain period, these expectations are evaluated and further compared to alternatives available. At this comparison level of alternatives, a supplier might grant preferred customer status to the buyer if the supplier is satisfied with the relationship and perceives the buyer as attractive. In the light of this theory, the empirical part of the thesis is intended at determining the supplier satisfaction with the relationship between them and Surface Drilling as well as the attractiveness of the case company. Hence, by identifying factors affecting supplier satisfaction and buyer attractiveness, the case company increases the potential to achieve preferred customer status.



### 3 Research methods

This master's thesis examines how Surface Drilling Division of Sandvik Mining and Construction Oy is seen as a customer through the eyes of suppliers. More precisely, this study evaluates the satisfaction of the case company's suppliers and the factors affecting the case company's customer attractiveness. Suppliers selected for the research were nominated with discretionary sampling. The subject under investigation is approached from the point of view of suppliers by interviewing suppliers' representatives and asking open-ended questions that have been formulated based on research questions, findings from the literature, and discussions in the case company. From now on, the case company is called Surface Drilling to simplify the text.

A case study has been selected as a research method in which customership with Surface Drilling has been selected as a research subject. The case study methodology seeks to investigate, describe, and explain phenomena using questions such as "why" and "how" (Yin, 2009). The case study is broadly utilized as a research approach in various settings to improve understanding of, for example, social and organizational issues (Yin, 2009). As was detected in the study from Schiele, Veldman, et al. (2012), in business-to-business relations, much of the same concepts apply as in social relations. Thus, the case study methodology is well suited to answer the research questions set for this thesis and to find out how the case company could improve supplier satisfaction and its own attractiveness as a customer. In summary, the case study technique enables investigators to capture the holistic and important aspects of real-life occurrences (Yin, 2009), which in this case is the relationships between the Surface Drilling and suppliers.

Even though the researcher has formerly worked for the case company, the role of the researcher in this study is independent. This is because the researcher has not worked on the supplier interface of the companies being interviewed and the researcher and interviewees do not know each other beforehand. While in a case study methodology, the researcher should consider himself an independent investigator, he can't rely on a strict formula that governs the research (Yin, 2009). In a case study, the researcher

should be able to behave as a “senior” researcher capable of making intelligent decisions throughout the research process (Yin, 2009). It is also essential to remember, that the interview setting is always interactive, and individuals are influencing each other on some level (Yin, 2009).

The interview included six relevant themes for the phenomenon under investigation and a total of 13 interviews were conducted. Themes and questions were formed deductively, i.e. theoretically, based on research questions, and discussions within the organization. The collected data was analyzed using methods of qualitative content analysis. The research questions set for the study are answered based on the analysis of the results.

### **3.1 Companies to be interviewed**

The researcher had a list of all active suppliers of the case company whose supplying products and components are directly related to the products to be manufactured by the case company, i.e. direct suppliers. These suppliers were grouped into four categories, relying on the experience and assessment of the case company's sourcing engineers and category managers. These four supplier categories are leverage, strategic, routine, and bottleneck suppliers (Kraljic's matrix), the characteristics of which were presented in chapter 2.3. The categorization of suppliers can be considered reliable because the category managers of the procurement organization have multiple years of experience with suppliers who are in their own area of responsibility.

Suppliers were selected for the interviews by using purposive sampling. Purposive sampling was based on discretion, the criteria of which are presented in this chapter. The first criteria was to select an equal number of suppliers from each supplier category. In addition, the aim was to select suppliers that clearly belong to the category they are designated to (see Figure 14). In other words, the researcher avoided selecting suppliers that could possibly belong to several categories. Avoiding borderline cases was aimed at collecting the most diverse sampling of suppliers. This was intended to increase the validity of the comparison between categories.



to which Surface Drilling has relatively high expenditure or the supplier have an otherwise vital role in the supplier network. These 13 suppliers constitute less than 10% of the total number of the case company's active direct suppliers. Nevertheless, the expenditure on these suppliers in 2021 was more than 20% of the case company's overall direct procurement expenditure. Therefore, it can be argued that the spending on the suppliers chosen for the interview was above average, increasing the significance of the results.

**Table 5.** Interviewed suppliers and their categories. The characteristics of the supplier categories were presented in detail in chapter 2.3.

| Supplier category    | Procurement category  | Supplier    |
|----------------------|-----------------------|-------------|
| Leverage suppliers   | Hydraulics            | Supplier 1  |
|                      | Electrics             | Supplier 2  |
|                      | Tracks                | Supplier 3  |
| Strategic suppliers  | Hydraulics            | Supplier 4  |
|                      | Cabins                | Supplier 5  |
|                      | Steel structures      | Supplier 6  |
|                      |                       | Supplier 7  |
| Routine suppliers    | Coolers               | Supplier 8  |
|                      | Mechanical components | Supplier 9  |
|                      | Steel structures      | Supplier 10 |
| Bottleneck suppliers | Hydraulics            | Supplier 11 |
|                      | Coolers               | Supplier 12 |
|                      | Mechanical components | Supplier 13 |

### 3.2 Data collection

Interviews were selected as a data collection method. Interviews are narrowly focused on the topics of the case study, and they provide causal conclusions and explanations for the phenomena under study (Yin, 2009). Therefore, Interviews as a method of data collection were perceived as more appropriate than a questionnaire sent to a larger number of suppliers and analysis of responses using quantitative analysis methods. This is

because the study wanted to focus more on constructive feedback, development proposals, and new ideas arising from the point of view of suppliers. Also, the thesis discusses themes and issues whose data collection by a non-interview method would have been challenging or even impossible (Yin, 2009).

The interviews were conducted through semi-structured themed interviews. In a semi-structured interview, the questions are prepared in advance and are presented in somewhat the same format, but the way of answering is free-formed (Saaranen-Kauppinen & Puusniekka, 2006). In a theme interview, the researcher first gets acquainted with the literature on his or her research subject, chooses the perspective and research questions, and then decides what are the key themes for the study (Hyvärinen et al., 2017). The six key themes for this research are introduced at the beginning of chapter 4. The interview was constructed out of 19 questions, and they were formed based on these six themes, research questions, prior literature, and discussions within the company.

The interviews were conducted as a remote interviews via Microsoft Teams except for one interview, to which the supplier responded via email due to overlapping schedules. Interview questions were sent by email to interviewees in advance to give them the opportunity to familiarize themselves with the questions. Interview questions were expressed orally and visually using a Microsoft PowerPoint presentation to ensure the understanding of the questions.

The duration of interviews ranged between 19 and 45 minutes and on average lasted 35 minutes. Interview sessions were recorded and transcribed to facilitate analysis of the responses received. Eight of the interviews were held in Finnish and five were held in English. This is because the case company has suppliers not only in Finland, and the official working language with foreign suppliers is English and the language of working with domestic suppliers is Finnish. Therefore, interviews with domestic companies were conducted in their native language and translated back to English in order to get more detailed information.

The individuals being interviewed were informed at the beginning of the interview that any names of persons or names of supplier companies would not be published in the thesis. However, it is important to emphasize the subjectivity of individuals interviewed and their own interpretations, which may be impacted by a variety of factors (Eisenhardt, 1989).

### **3.3 Method of analysis**

In this master's thesis, qualitative content analysis is used as a fundamental method of analysis. Qualitative content analysis is concerned with the issues, ideas, and themes raised by the material (Hyvärinen et al., 2017). Rather than that, the linguistic or another expressive form of the material is rarely subjected to systematic investigation. Content analysis as a method is quite multidimensional and often includes encoding, which can be considered a tool for content analysis (Sarajärvi & Tuomi, 2017). In this study, encoding refers to the stage of work at which the collected material is browsed through and transcribed into a text format, which is further condensed into the core issues and topics on which interviewees have spoken. The content analysis is also expanded by two SWOT analyses, which identified the strengths, weaknesses, opportunities, and threats of both the case company and the business relationships from the supplier's perspective.

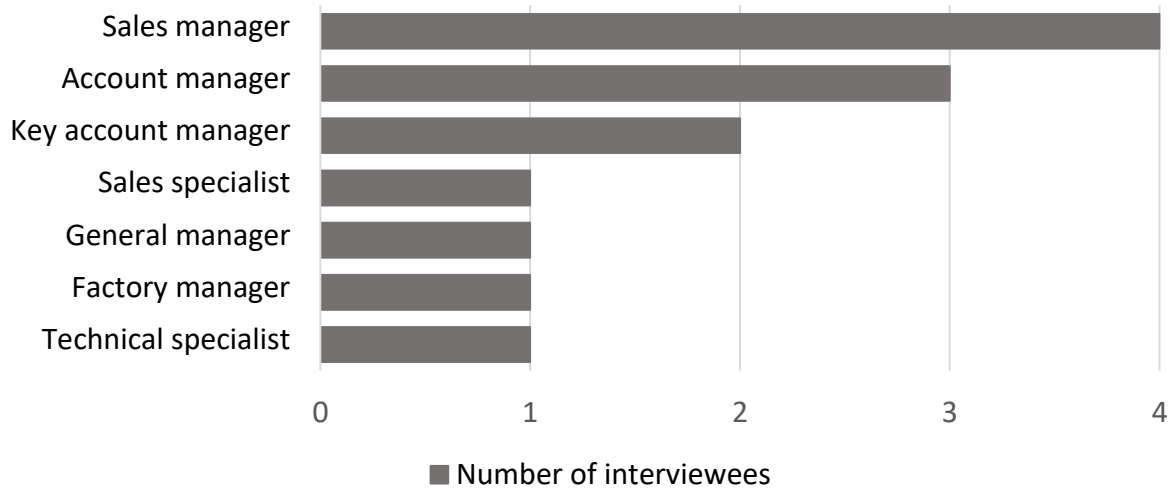
Qualitative data, such as interview responses, frequently raise a broad range of interesting topics and phenomena, the interpretation of which is weighted according to the subject of the research and the research objective using the content analysis method (Sarajärvi & Tuomi, 2017). Thus, using the content analysis method, the subject to study should be accurately defined (Sarajärvi & Tuomi, 2017). In this study, it is the experience of the supplier companies in Surface Drilling as a customer and factors affecting Surface Drilling's customer attractiveness. The purpose of this delimitation is aimed to highlight issues in the data that make it possible for Surface Drilling to develop common business with suppliers and to generate common added value.

## 4 Results and analysis

This chapter analyses and discusses the responses of interviews and considers their relevance to the phenomenon under investigation. At the beginning of this chapter, themes and general observations related to the interviews are reviewed, followed by an examination of the content and issues of the interviews by theme. The questions and answers included in the theme are discussed and elaborated in their own chapters.

### 4.1 General about the interviews

Interviews were conducted at remote meetings in February 2022. The individual interviewees were contact persons of the supplier company they represented, and they have been working at the customer interface with Surface Drilling for a long time. The titles of the interviewees varied slightly, and they are specified in figure 15. A total of 13 supplier companies were selected to be interviewed based on the criteria presented in chapter 3.1.



**Figure 15.** Titles of interviewees.

Almost all interview situations were congruent with each other, involving only one representative from the supplier side and the researcher. In one interview, a representative of the case company was also involved, but he did not participate in the course of the

interview. In addition to this, one interview was conducted via email. All interviewees were sent interview questions approximately 2-3 weeks in advance, and they were offered the opportunity to familiarize themselves with the questions and obtain information in advance. A few interviewees said they had considered answers to questions sent in advance together with their colleagues. However, the responses of these individuals did not stand out from the rest of the responses significantly.

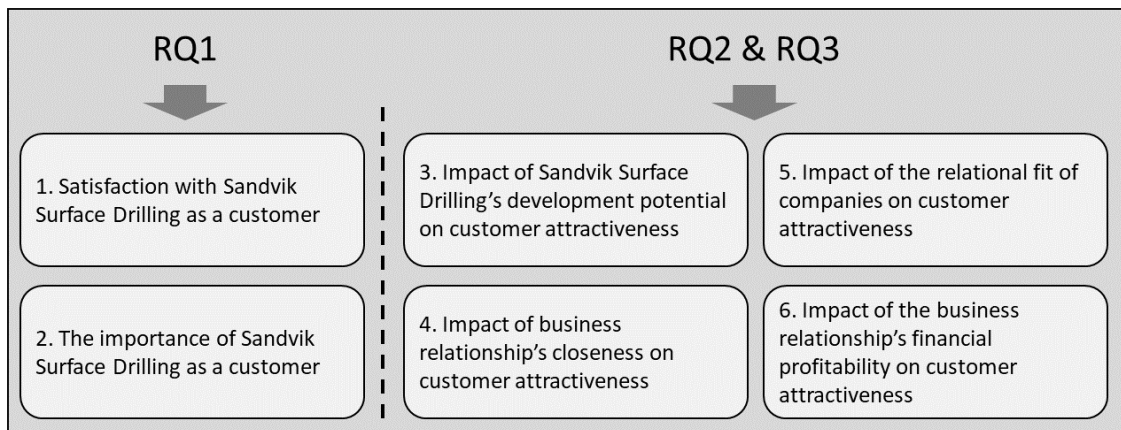
At the beginning of the interviews, interviewees were informed about the background and objectives of the research and were asked permission to record the interview session, to which everyone agreed. The interviewees were told that the names of persons or companies would not be mentioned in the final version, in order to ensure that the responses gathered were as truthful and credible as possible. In the analysis part, when referring to supplier companies, the notation "S1" or "Supplier 1" is used.

In addition to the names of persons and companies, the researcher has hidden the names of the products within interview responses. This is because instead of individual responses regarding very specific issues, research focuses on phenomena under investigation. However, this does not mean that these individual issues are not taken into account when observing phenomena on a bigger scale. When analyzing the responses, the most relevant issues are presented using direct quotes to ensure that the context and response are as clear as possible to the reader. However, not all verbatim answers are presented unless it is relevant to the research.

The themes of the interview were formed based on the research questions set for the study and findings from prior literature. These themes are presented in figure 16 below. Themes 1 and 2 of the interview have been designated to answer the first research question: *"How Surface Drilling division of Sandvik Mining and Construction Oy is currently seen as a customer from the perspective of existing suppliers?"* Themes 3-6 approach customer attractiveness from four different aspects. As previous research shows, customer attractiveness is always relationship-specific and is a feature of a relationship



rather than a company (La Rocca et al., 2012). Several factors contribute to customer attractiveness, and they often vary between supplier companies. In this study, customer attractiveness is approached from four different perspectives; customer development potential, intimacy, relational fit, and profitability as they were identified by La Rocca et al. (2012) and Tanskanen & Aminoff (2015) in their research papers. These perspectives form themes 3-6 and seek to answer the second and third research questions: “*What factors have the greatest positive impact on the case company’s customer attractiveness?*” and “*What factors have the greatest negative impact on the case company’s customer attractiveness?*”



**Figure 16.** The six themes of the interview.

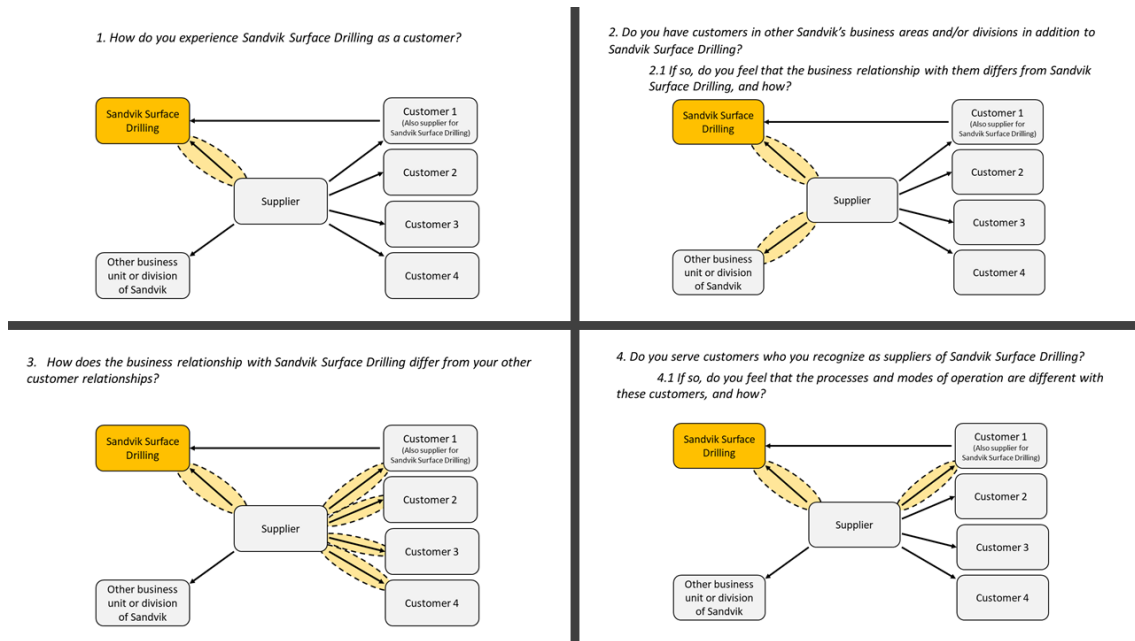
## 4.2 Theme 1: Satisfaction with Sandvik Surface Drilling as a customer

The first theme seeks to evaluate supplier companies' satisfaction with Surface Drilling overall as a customer and consists of the following questions:

- How do you experience Sandvik Surface Drilling as a customer?
- Do you have customers in other Sandvik’s business areas and/or divisions in addition to Sandvik Surface Drilling?
  - If so, do you feel that the business relationship with them differs from Sandvik Surface Drilling, and how?

- How does the business relationship with Sandvik Surface Drilling differ from your other customer relationships?
- Do you serve customers who you recognize as suppliers of Sandvik Surface Drilling?
  - If so, do you feel that the processes and modes of operation are different with these customers, and how?
- What things could we improve in order to be a better customer for you?

The purpose of these questions was to find out from several perspectives how satisfied the suppliers are with the performance of the case company as a customer. As stated in chapter 2.6.3, in business, companies frequently evaluate their customers relative to their counterparts and base their assessment of the individual company by comparing it with others (Schiele, Veldman, et al., 2012). For this reason, questions 2-4 sought to persuade interviewees to consider the case company as a customer in relation to other of their customers. An illustrative picture was presented to the interviewees to ensure their understanding of questions 1-4 and to make it easier for the interviewees to absorb the phrasing of these questions (see Figure 17).



**Figure 17.** Demonstrative picture of interview questions 1-4.

Figure 17 above consists of four different emphases of the supplier's different customer relationships. The directions of the arrows describe the direction of flow of products or materials between companies and the light yellow highlight color describes which relationships between the parties are being compared. In the middle is the supplier, in the upper left corner is Surface Drilling, in the lower-left corner is another Sandvik customer and on the right are other customers of the supplier one of whom is a supplier of Surface Drilling.

As a general observation, suppliers view Surface Drilling as a reliable customer with whom they have worked closely for a long time, some for decades. Other things to note included the fairness of the case company, willingness to cooperate, diversity, and the ability to quickly solve problems. Decision-making was also frequently perceived to be based on concrete facts.

*"There is no side agenda behind the decisions. Decisions are always based on analysis. In this respect, Surface Drilling is one of the priority customers for us."* (S11)

Most of those interviewed said Surface Drilling is one of their best customers and they attempt to prioritize their resources for Surface Drilling. As the primary resource allocation was one of the strongest signals that the company has managed to achieve the preferred customer status (Nollet et al., 2012), it can be justified that at least some of the companies interviewed consider Surface Drilling to be such a customer. At the same time, some of the responses revealed that the suppliers did not have quite a clear picture of how Surface Drilling sees them as a supplier.

*"They have always been a partner for us and treating us equally. We have really good experience and relationship and I hope Surface Drilling thinks the same about us." (S6)*

If problems with deliveries have arisen, suppliers usually feel that a solution can be found quickly, and Surface Drilling is willing and cooperative to be involved in solving them. Responses indicated that Surface Drilling is cooperative in both minor supply disruptions and long-term challenges in the supplier's own production.

*"You can get a quick answer in case of problems." (S2)*

*"In 2013, we had delivery problems with Surface Drilling. Surface Drilling was first to step in and that was a big help, and we value Surface Drilling very highly in our company." (S6)*

It turns out that Surface Drilling is often equated to Sandvik Tampere, including Underground Drilling, and sometimes even the whole group. Except for two, all interviewed suppliers had customers from different Sandvik businesses areas or divisions in addition to Surface Drilling. For this reason, the suppliers' experience with other Sandvik units may influence the opinions of the interviewees when considering the customer relationship with Surface Drilling. In particular, the customer relationship with Surface Drilling and Underground Drilling was perceived for the most part as similar. For example, global price agreements increase the similarity of Sandvik's different divisions and business areas. However, some differences emerged. Most respondents felt that communication was slightly closer with Surface Drilling. A few suppliers also felt that they have closer relations to the management of Surface Drilling in comparison to others.

*“Of course, different people in different units shape the relationship. With Surface Drilling, we have close relationships with management and weaker with some others.” (S4)*

Some of the respondents would also feel useful if an interaction between the different Sandvik divisions were closer.

*“It has been noted that the Surface Drilling does not always interact with other units and vice versa. For example, sometimes we get a message that if we do something to the Surface Drilling, the information will not go to the Underground Drilling and vice versa. Sometimes there could be a synergy advantage. There could be joint sessions where things could be looked at together. Same thing with research.” (S4)*

When comparing with all of their existing customers, interviewed suppliers felt the relationship with Surface Drilling was generally better. Some suppliers however felt that Surface Drilling does not stand out in any way from their customer base, and they strive to treat all of their big customers in the same way. Surface drilling was generally seen as a professional and demanding customer but in a positive sense. Nevertheless, one of the respondents felt pressured by Surface Drilling, mostly due to the current world situation and the production challenges it generates.

*“I think you try to push production and push my colleagues to fulfill your needs. If the customer is very strict, we probably not treat them so friendly.” (S6)*

Of the supplier companies interviewed, more than half served a customer who is on-wards a supplier of Surface Drilling. These customers are mainly so-called satellite companies that manufacture entire drill rigs or modules for Surface Drilling. Almost all respondents stated that cooperation with these subcontractors was significantly lower than with Surface Drilling. Forecasting was perceived to be weaker and order handling is mostly manual work with these companies. However, some perceived that in the end, Surface Drilling takes responsibility for the operations and forecasts of these subcontractors. Also, in some cases, the component purchasing prices paid by subcontractors are directly negotiated in advance with Surface Drilling.

*“Yes, we supply many of your subcontractors. They have a simple way to order by phone, email, and PDF. It goes completely different than with you when orders come into the system via EDI (Electronic Data Interchange). Prices are agreed and they are the same as with you.” (S2)*

*“Professionalism is present in all processes and other things you do compared to your subcontractors. From these companies, we can’t receive the forecasts as we receive from you. It is completely different.” (S9)*

Although Surface Drilling’s forecasts and ordering processes were perceived to be significantly better than subcontractors, there is still room for improvements and neither Surface Drilling has EDI in use with all suppliers. There could be further improvement in the accuracy of Surface Drilling’s forecasts to allow suppliers to better prepare for fluctuations in demand.

*“We would be interested in moving to EDI. Of our current revenue, more than half are EDI customers. With Surface Drilling orders are nowadays handled manually.” (S13)*

In addition, to improve the accuracy of forecasting, suppliers mentioned that revision changes in technical drawings are not transparent enough and suppliers sometimes lack the information about changes. Thus, improving the flow of information regarding the changes in technical drawings was one of the key development proposals.

*“Notifications about changes in drawings come sometimes fine and sometimes not at all. The information-sharing about revision changes in technical drawings should be improved. If we could get all the ECN (Engineering Change Notice) releases related to us into SRM (Supplier Relationship Management) software, then they would be easy to extract from there.” (S2)*

Many suppliers expressed their willingness to get involved in various NPD projects straight from the conceptualization phase. Some of the suppliers perceive that involving them as early as possible would benefit both parties. This kind of supplier’s willingness to get involved in product development and to share innovation is also a sign that the customer has achieved the status of a preferred customer (Nollet et al., 2012).

*“Once we would get involved in new technologies or projects from the start, then it would certainly be useful on both sides. Basically, I mean long-term product development. From the beginning of projects or the beginning of product development, including the research product field.” (S4)*

Suppliers also had a desire to receive feedback from Surface Drilling when a specific product had been offered at the request of the case company. Receiving feedback from Surface Drilling would also be perceived as valuable after joint product development, as it could provide suppliers the chance to learn and improve.

*“Giving feedback for us in general, but also after important projects and offers. By learning from past experiences, we could be more competitive in the future.” (S11)*

### **4.3 Theme 2: The importance of Sandvik Surface Drilling as a customer**

The second theme of the interview seeks to reflect on how important Surface Drilling is seen as a customer in the eyes of suppliers. The value of the responses to this issue is increased by the fact that, from the perspective of the case company, strategically different types of suppliers had been selected as the ones to be interviewed. The suppliers interviewed also represent a broad spectrum of different types of products to be acquired by Surface Drilling, such as hydraulics, electricity, steel structures, mechanical components, tracks, and coolers. The theme included the following three questions:

- How would you describe the importance of Sandvik Surface Drilling as your customer?
- How big a share of your revenue comes from Sandvik Surface Drilling?
- Are you prepared for developing the business relationship or discontinuation of the business relationship?
  - By what means do you seek to ensure the continuation of this customer-ship?

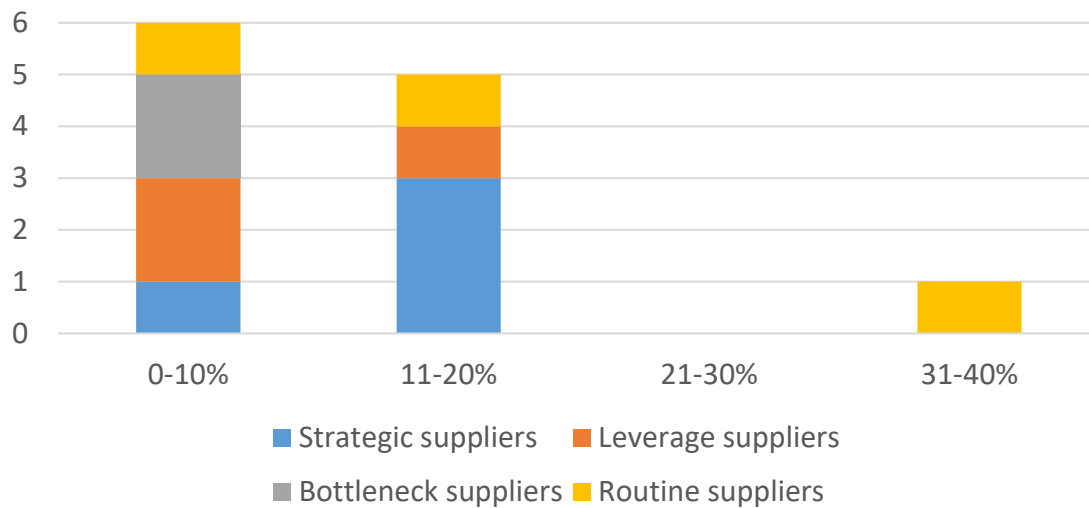
Notably, all of the individuals interviewed stated that Surface Drilling is an important or very important customer for their company. Some of the suppliers also openly reported that Surface Drilling is either their biggest or one of the biggest customers. While some suppliers may not directly differentiate Surface Drilling from other Sandvik units, they view Sandvik as a whole to be a significant customer and an excellent reference.

*“Sandvik as a whole is our priority customer. You are our biggest customer.” (S5)*

*“Very important customer. I am thinking maybe more about the importance of the whole Sandvik. I do not distinguish between Load & Haul, Underground Drilling, and Surface Drilling in this matter.” (S9)*

A few suppliers also reported that their internal resources are allocated a lot to Surface Drilling relative to other customers. Such resources include Account Development Managers focused on the development of the business relationship, designated logistics services, maintenance, and technical support department. Additionally, it was mentioned that Surface Drilling is important in personal terms and that it generates the most hours of work in the production line in addition to turnover. The share of revenue coming from Surface Drilling relative to supplier’s total turnover varied widely between suppliers interviewed and the distribution is shown in figure 18 below. Of the individuals interviewed, one couldn’t distinguish the turnover from the Surface Drilling from the rest of the Sandvik or couldn’t answer for some other reason. Thus, it is excluded from the figure.





**Figure 18.** Distribution of interviewed suppliers according to how much of their turnover comes from Surface Drilling.

However, regardless of the size of the turnover coming from Surface Drilling, there were no differences in the importance of Surface Drilling as a customer. Sandvik as a brand was perceived to be known globally, which increases the importance of the customership with Surface Drilling. Sandvik's reputation and value as a reference were identified especially in companies whose turnover coming from Surface Drilling was not so high.

*"From our total revenue, 2% comes from Surface Drilling but it does not really matter because Sandvik is a big machine producer that everybody knows. That's why it is a very important customer for us." (S3)*

None of the suppliers interviewed were prepared for the discontinuation of the business relationship with Surface Drilling. On the contrary, the majority of respondents expressed a strong desire to expand the common business in any way possible. It was also notable that even suppliers with a comparatively small share of turnover coming from Surface Drilling felt that the relationship with the case company would end only if Surface Drilling ceased operations for some reason. Thus, it can be argued that the share of turnover coming from Surface Drilling does not play a significant role in whether or not suppliers want to continue and increase common business.

Despite the volatility of the mining industry, suppliers are ready to make contributions and investments to increase cooperation. Some of the suppliers said they had recently invested in larger production facilities, warehouses, or even by acquiring robots to better meet Surface Drilling's growing demand. The continuity and future of the business relationship with Surface Drilling will also be secured by actively monitoring the market environment and by keeping prices competitive. With the investments, suppliers aim to keep prices competitive and secure supplies to Surface Drilling in the future, and thus be a more attractive partner for Surface Drilling. This indicates strongly that suppliers see the development potential of Surface Drilling and they want to be involved in it.

*"Yes, we are aware of the risks involved with this business, and the market is likely to be volatile, with considerable fluctuations in market share, for example, due to the competitive environment. If rival items become available, and competitors become more aggressive, we will adjust our pricing to reflect the market and opportunities." (S4)*

Other ways mentioned by interviewees to ensure the continuation of the customership were to guarantee the high quality of products offered and develop their existing and new products for Surface Drilling. Commitment to close communication and solution-centricity was also perceived as an issue that will enable the supplier to ensure business in the future as well.

"We try to constantly think about what we could offer in addition to the existing products that we already supply and brainstorm ideas with your engineers. The aim is to hold on to this customer by close communication" (S1)

#### **4.4 Theme 3: Impact of Sandvik Surface Drilling's development potential on customer attractiveness**

The third theme was concerning the first of the four sub-areas of factors influencing customer attractiveness that have been identified in the previous literature. The purpose of the theme was to find out how the suppliers interviewed see Surface Drilling's development and growth potential. The objective was also to find out which individual factors

related to the customer's growth potential increase or reduce customer attractiveness. The following questions were included in the third theme:

- How do you see the development and growth potential of Sandvik Surface Drilling and how it affects our attractiveness as a customer?
- What would increase your interest in Sandvik Surface Drilling if you consider the customer's growth and development potential?
- Inversely, what issues related to the development and growth potential would reduce your interest in Sandvik Surface Drilling?

Almost every one of the suppliers interviewed found Surface Drilling's growth potential excellent and considered it one of the most important issues to enhance the attractiveness of Surface Drilling. Surface Drilling is viewed as a dynamic, constantly evolving corporation that strives to be the best in its industry.

*"We believe that Surface Drilling is a dynamic developing company, so we are looking forward to further cooperation." (S7)*

*"We see potential in Surface Drilling, and it is very attractive as a customer. We do everything that is in our power to increase and develop the cooperation." (S6)*

Although suppliers are aware of Surface Drilling's growth potential and opportunities, informing about the future was perceived to be partially inadequate. Being more transparent about the upcoming development and strategy would be a factor that increases the attractiveness of the case company. However, these could be confidential things that cannot be revealed, as some suppliers have stated.

*"For us, it is a little bit unclear what is the development of Surface Drilling as we don't have this close cooperation. That I miss quite much I would say. I would like to see some kind of development roadmap and the strategy for coming years and what will be important for Surface Drilling to keep growing the market and so forth." (S12)*

Some of the interviewees perceived Surface Drilling's corporate culture, which seeks to continually evolve, to fit their own strategy perfectly. Some suppliers were willing to manufacture larger assemblies instead of the individual components they currently supply. These comments came mainly from electric and hydraulics suppliers, who see great potential for increasing cooperation due to the electrification of working machines.

*"We would like to supply larger entities and expand collaboration through it and not necessarily be a pure component supplier" (S1)*

Suppliers perceived that Surface Drilling's innovativeness and skilled employees have made it possible to grow and develop, and by being involved in projects, suppliers gain valuable learning for themselves. However, the interviewees mentioned that the attitude towards ideas coming from suppliers should also be open in the future. Suppliers feel that with the development and growth of Surface Drilling, customer attractiveness would be increased if suppliers were given more opportunities to exceed the limits of current product offerings.

*"Openness towards us and that you would continue to give us opportunities in products other than (product X) and (product Y), for which (supplier 9) is known. Because, we have many other products to offer, such as (product Z) and other products and services." (S9)*

When asking about issues regarding Surface Drilling's development potential that reduce the case company's attractiveness, most respondents could not mention any. This is natural because the growth and development of the customer are often seen as a mere positive thing. However, respondents mentioned that if with the growth, Surface Drilling would begin to significantly change the current operating models and requirements, it might reduce the case company's attractiveness. Such changes could be, for example, excessive long payment time requirements or consignment stock arrangements with suppliers who are not accustomed to such.

With Surface Drilling's growth, it would also be seen as a factor reducing attractiveness if the increasing volume is distributed to more suppliers. Case company's attractiveness

would be diminished if, with increasing volumes, Surface Drilling began competitive tendering and thus share volume among several suppliers. However, this solution would also be understood in terms of risk management of the customer, but the impact it has on customer attractiveness cannot still be ignored.

*“From a risk management perspective, I would understand the dual-source setup, but we see the unfortunate side of not being able to access volume production. If we are left in a supporting role in business, it will definitely reduce our interest. If the Surface Drilling was no longer so open but instead would start shop around suppliers and distribute volume, then the interest would probably drop slightly.” (S5)*

One respondent also felt that if the quality requirements defined by Surface Drilling would decrease due to increased production volumes, that would reduce the interest in Surface Drilling. In this case, the supplier would no longer be competitive because its mission is to deliver top quality. Therefore, the values of companies would not be aligned anymore, and the continuation of the business relationship could be threatened. However, such a scenario was found to be unlikely as Sandvik's strong brand is perceived to be based on the efficiency and reliability of machines.

#### **4.5 Theme 4: Impact of business relationship’s closeness on customer attractiveness**

The fourth theme addressed the closeness of the business relationship between the supplier and Surface Drilling and its impact on customer attractiveness. The theme's objective was to discover how close suppliers view the relationship with Surface Drilling and in what direction and by what means they would like to develop it. Given the assumption that tight collaboration and a true understanding of the customer's needs go hand in hand, interviewees were also asked how well they perceived they understand the needs and requirements of Surface Drilling. The following questions were featured in theme 4:

- How close do you experience a relationship with Sandvik Surface Drilling and how important it is to you?

- How well do you understand our needs and requirements and how does it affect your interest in us?
- How do you see that we could improve our cooperation and relationship?

In general, the suppliers felt that the customer relationship with Surface Drilling is close or very close. Some of the respondents mentioned that the relationship with Surface Drilling is exceptionally close and communication between companies is good at many levels of organizations. Most respondents also feel that the intimate customer relationship is the result of a long common history. On the other hand, a mutual desire to work closely together can also be considered a precondition for a long-term customer-supplier relationship.

*“I feel that this customer-supplier collaboration has historically been really close. Of course, there is always room for improvement. I would see that the communication between us has worked really well for the most part. We also have relationships at many, or actually every level of the organizations and here I see an improvement over the last couple of years.” (S4)*

A close customer relationship is also perceived as very important among the respondents. Close relationships are thought to enable both parties to know the other party's practices and courses of action, which facilitates day-to-day work and makes it possible to have confidential discussions. Respondents felt that the closeness of the business relationship had been maintained at a somewhat good level even during the pandemic when face-to-face meetings could not have been arranged. Despite the closeness, the relationship with Surface Drilling is perceived as effective and none of the respondents feels that the relationship is unnecessarily intimate or time-consuming.

*“Quite close at the moment. Even keeping in mind that we have had a very special situation last 2 years. Working quite efficiently, we are not wasting each other's time, but we are running smoothly. (S8)*

Close communication was perceived as important for various reasons. It enables the supplier to experience a sense of belonging to the supply chain and, as a result, to be more

proactive toward the customer. As a result of close cooperation, suppliers also feel that they have a better understanding of Surface Drilling's needs and requirements in terms of delivery times and product requirements. Some of those who have worked closely with Surface Drilling for a long time also felt that they understand not only the needs of Surface Drilling but also the needs of Surface Drilling's customers and the demanding environment of use of the products they supplied.

However, not everyone agreed that cooperation is close enough. One of the interviewees felt that the relationship with the case company was not very close and they did not necessarily have the best possible understanding of Surface Drilling's needs. Nevertheless, with this comment, the interviewee also referred to a lack of understanding of the customer's future development trends. Understanding customer needs also reduces the risk of misunderstanding, which has a positive effect on customer attractiveness.

*"Due to the lack of closer cooperation, I don't think our understanding is good enough. So, if my boss asks me what Surface Drilling will do in 5 years, how they will develop their business and portfolio, I don't have a very good answer to give him." (S12)*

In general, the needs of the case company were perceived to be understood. Some respondents also felt that Surface Drilling is a customer that can be trusted and understands the needs of the supplier as well.

*"We have something that is quite unusual, we have trust. We understand each other and we can be honest." (S6)*

Although the relationship with Surface Drilling is perceived as close and the needs and the requirements are well communicated and clear, the interviewees mention a few ways in which the relationship could be further improved. However, none of the improvement proposals mentioned by the interviewees concern daily working procedures. Instead, suppliers felt useful and relationship deepening if Surface Drilling would invite suppliers to visit their production facilities regularly in addition to operational meetings concerning security of supply and other operative issues.

*“For example, factory tours at Surface Drilling to brainstorm development ideas could be something to organize when Covid restrictions have been dismantled.” (S13)*

*“I would also see that we as a supplier should be more active in having meetings concerning product offering, development, and new innovations. I think it would give a lot and it could involve people from different levels of the organization. Such sessions could be arranged twice a year.” (S9)*

Suppliers also feel it important that close cooperation can be maintained even in situations when new employees start working at the corporate interface. A few respondents mentioned that occasionally, confusion has been caused by a new purchaser, for example. Thus, the familiarization of the new employee is especially important in order to maintain a close relationship.

#### **4.6 Theme 5: Impact of the relational fit of companies on customer attractiveness**

The fifth theme of the interview focused on the relative suitability between suppliers and Surface Drilling. The objective was to find out what factors contribute to the relational compatibility of the companies and what kind of fit interviewees see between them and Surface Drilling. The purpose was also to find out which things could reduce the match between supplier and Surface Drilling and thereby negatively affect the case company's attractiveness. The theme included two questions:

- What things increase the relational fit between you and Sandvik Surface Drilling and how much weight do you give it?
- What issues would reduce the relational fit between companies?

The suppliers generally felt that their company and Surface Drilling are compatible with each other. Interviewees mentioned many factors that increase relational fit between their company and Surface Drilling. Interviewees approached the relational fit from



slightly different perspectives and the importance of these issues varied widely. According to interviewees, mentioned factors that increase the relational fit were:

- common values
- aligned future visions
- good mutual ability to pay
- mutual ability and desire to make investments
- up-to-dateness of the framework agreements
- compatible system interfaces
- feedback processes
- information transparency
- thorough knowledge of products tailored to the customer
- openness
- trustworthiness
- understanding of the finished product manufactured by the customer
- close geographical location and common language
- suitability of production methods and volumes for both parties
- quick solution to problems
- accessibility.

Based on the responses, these are issues that are already present in the business relationship between certain suppliers and Surface Drilling. However, the above issues were a compilation of all the mentioned factors that increase relative suitability. It can thus be assumed that for all the suppliers interviewed, every factor that increases relative suitability mentioned does not appear in a business relationship with Surface Drilling. However, among the responses, there were two issues repeated, which several companies perceived to increase compatibility with Surface Drilling.

Transparency of information and compatibility of IT system interfaces were mentioned many times in the responses as issues that increase the relational fit between companies.

*“More information from Surface Drilling to us. Mutual objectives that Surface Drilling must communicate to us. I think we use some kind of portal where we are notified that we will have an order or updated forecast and then we confirm it.” (S12)*

*“To continue the integration of IT systems is probably a precondition for the continuation of the business relationship. Information should be shared both ways.” (S11)*

Although it was generally perceived that systems such as EDI and forecasting processes were functional and significantly increase the relational fit between companies, some of the respondents felt that these processes could still be developed. The relational fit was also perceived to be reduced if compatible systems exist but are not used or are not used properly.

According to the interviewees, the relative suitability of companies would decrease if Surface Drilling started to change its usual practices or for some reason started to act differently towards the supplier. Some respondents appreciated the flexibility in working with Surface Drilling, which was felt to increase customer attractiveness in terms of relative suitability.

*“So far, both of us have been quite flexible with each other. The strength of our relationship has been that common sense has been used when necessary to overcome obstacles. If you start acting too starchy in matters where it is not necessary, it could harm our relationship.” (S10)*

If the supplier company and Surface Drilling had differing views on the future and, for example, only a unilateral desire for joint development projects, it would be perceived as a matter that would reduce compatibility. Some of the interviewees felt that if the customer became excessively demanding or started to request products that are not part of the supplier's core competence area, that could reduce the fit between companies. Also, trust issues and uncertainty about the reliability of the customer's orders and forecasts were perceived to be issues that could drastically reduce attractiveness.

*“Relationship would be tense if there is no trust, and if we see that you tell something that is not true.” (S3)*

*“Issues with big cancellation of orders by the customer. If we can't trust the forecast, we don't know what we should produce. We do have customers like that. That could really reduce the relational fit.” (S6)*

#### **4.7 Theme 6: Impact of the business relationship's financial profitability on customer attractiveness**

The last theme considered the attractiveness of the customer in a term of financial profitability. The purpose of the theme was to identify things that influence customer attractiveness from the point of view of financial profitability. The first question addressed financial profitability-related elements that have a positive impact on customer attractiveness. Conversely, the second question aimed to identify financial profitability issues that might limit customer attractiveness.

- What would increase your interest in Sandvik Surface Drilling as a customer in terms of financial profitability?
- What would reduce the interest in us if you consider the financial profitability of the business relationship?

As La Rocca et al. (2012) stated, the customer's development potential, the intimacy of the business relationship, and the relative fit of the companies are often directly or indirectly linked to financial profitability. This was also clearly seen in the responses of the interviewees. Thus, when asked interviewees about factors that increase a customer's attractiveness in terms of financial profitability, a few of the same things were repeated as in previous areas of customer attractiveness. For example, long-term forecasts and their accuracy were perceived as having a direct impact on financial profitability, enabling the supplier to improve the cost-effectiveness of its own production.

*“Currently, short-term financial profitability is based on open book pricing and there is not much to be done for it. Instead, we could increase the efficiency of our production*

*line if we got longer forecasts without drastic changes on it. This would affect the financial profitability of the relationship in the long-term.” (S5)*

Involving the supplier in development projects at an earlier stage was also perceived as a factor affecting financial profitability. This issue was addressed already in the third theme concerning the factors increasing attractiveness in terms of customer growth and development potential. Some of the respondents mention that getting involved in customer’s development projects and thus benefiting from the customer’s growth potential would increase the financial profitability of the supplier as they are offered the opportunity to do more business.

Tanskanen and Aminoff (2015) observed, that none of the six strategic suppliers interviewed mentioned the price paid by the customer as a significant economic factor. Although it is obvious that most suppliers are very interested in the price that the customer pays, the responses repeated the same phenomenon as in the study from Tanskanen and Aminoff (2015). Of the suppliers interviewed, only one mentioned the price paid by the customer as a factor that increases the customer’s attractiveness in terms of financial profitability. However, the person in question also mentioned it to be quite unlikely and complicated.

*“Of course, paying more for our products, then we are happy of course and more interested in business. However, I know that it is not easy to do.” (S3)*

As factors that increase customer attractiveness in terms of financial profitability, the interviewees experienced larger delivery batches if possible, and harmonization of products. With the harmonization of products, interviewees refer to the modularization of products if possible. Some suppliers say they supply a number of slightly different specialty products that have a small volume and are only supplied for Surface Drilling’s needs. They feel that such specialty products may have a very heavy cost structure compared to volume products and that the manufacture of these products is time-consuming and unprofitable.

*“If in certain specialty products, more modular solutions could be made. In that way, we could get higher volumes with these products, and it would probably have a positive effect on our cost structure.” (S11)*

Some interviewees feel that Surface Drilling would be a more attractive partner if the prices could be reviewed more than once a year and the price increases proposed by the supplier were more easily accepted. This is a fairly understandable aspect but more difficult to implement in the sense that the case company also has its own cost pressures and cost-saving projects. However, by accepting price increases, suppliers refer to justified increases in product prices due to, for example, rising energy prices and shortages of raw materials. As mentioned, suppliers generally perceive Surface Drilling as a fair customer who understands that suppliers are the foundation of their business and that the supplier must also make a profit in order for the business to have continuity.

*“With Surface Drilling, we have always reached a pretty good mutual consensus on prices. Sandvik understands that the supplier must make a profit in order for the joint business to continue and be developed.” (S1)*

One supplier feels that Surface Drilling could be more flexible in renegotiating the price after production has started if challenges have arisen in the production line due to the unpredictable complexity of the new product. This kind of situation should be prevented by ensuring that the supplier has the best possible understanding of the manufacture of the product already at the design stage. This requires seamless cooperation between companies at different levels of the organization, which was previously identified as a factor that increases customer attractiveness

*“Approve the recalculation of price after starting to produce a product if problems appear. If you don't understand us as a supplier, that could lose completely the profitability of the products and harm our business.” (S6)*

Other mentioned financial factors that could negatively impact customer attractiveness were long payment time requirements, the use of unwanted financing models, and the lack of payment of invoices. Maintaining overstocking due to poor customer forecasts

and business volatility was also seen as a significant factor reducing attractiveness. In addition to the contradiction in opinions regarding the cost level trend, the respondents feel that continuous changes in product specifications and revision changes harm the profitability of the business relationship.

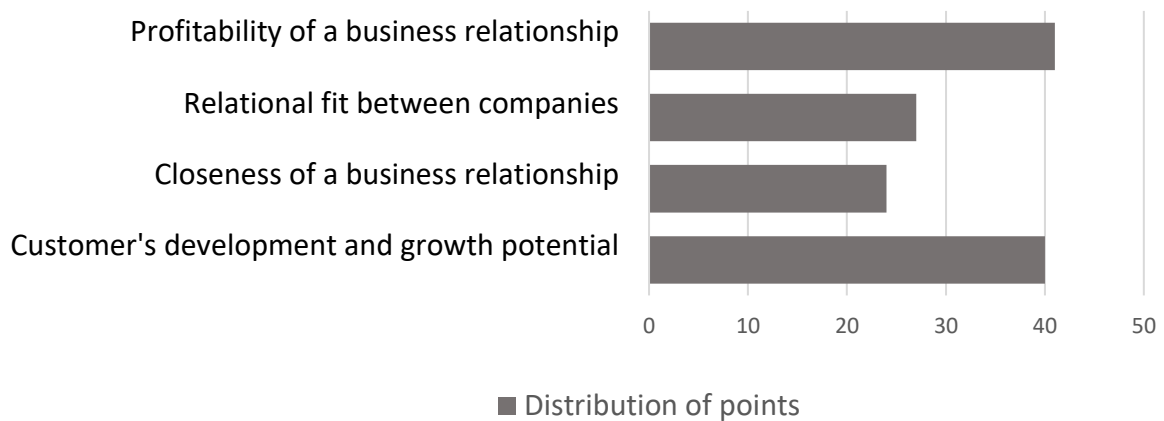
#### **4.8 Importance of areas of customer attractiveness**

The last question of the interview sought to find out which of the four areas presented earlier are most important to the interviewee in terms of customer attractiveness. The last question was as follows:

- Prioritize the following issues in terms of customer attractiveness
  - Customer's development and growth potential
  - Closeness of a business relationship
  - Relational fit between you and customer
  - Profitability of a business relationship

The answers were interpreted as that the interviewee gave four points to the area which she or he considered the most important and one point to the least important.

There was a clear pattern to be seen in the importance of the areas of customer attractiveness. Ten out of 13 respondents considered the profitability of a business relationship to be the most important or second most important in terms of customer attractiveness. Customer's development and growth potential were perceived as the most important or secondly important by nine respondents. Thus, it can be argued that the financial profitability of the relationship and customer's development and growth potential were perceived as more important than the relationship's closeness or relational fit between companies (see Figure 19).



**Figure 19.** Relative importance of areas affecting customer attractiveness.

#### 4.9 Comparison of results by supplier category

This chapter focuses on comparing research material by supplier category, and by analytical reflection to identify factors that may underlie possible variation in responses between categories. A total of 13 suppliers were interviewed: three leverage suppliers, four strategic suppliers, three routine suppliers, and three bottleneck suppliers. The purpose of the comparative analysis is to determine whether the supplier category has an impact on responses. However, it should be noted that such a comparison must not be considered unambiguously because of possible bias of responses (Yin, 2009). The interpretation of the results is also based on the subjectivity of the interviewees and the interviewees may omit to say something or they might respond in the way which they believe the interviewer desires. (Yin, 2009).

Based on the results, suppliers are generally very satisfied with Surface Drilling as a customer irrespective of the supplier category. Although it was not directly asked of the interviewees, about half of the suppliers mention that the relationship with Surface Drilling has been going on for a long time, even decades. In this matter, there is no difference between the categories. However, strategic suppliers place more emphasis on the importance of a long-term business relationship and continuous relationship development

than others. In this light, a good match with strategic suppliers can be seen as both parties have a desire to develop the relationship (van Weele, 2018b, p. 182).

All but two suppliers had customers from other Sandvik's business areas or divisions in addition to Surface Drilling. These two companies were leverage suppliers, for which Surface Drilling is their only customer from Sandvik. As it was stated by Iloranta and Pajunen-Muhonen (2018, p. 119), leverage suppliers offer a lot of opportunities for the purchasing company, and often the company tries to profit from the supplier as much as possible. This may have an impact on the fact that companies for whom Surface Drilling was the only customer, were leverage suppliers.

In contrast to the supplier's entire customer base, the relationship with Surface Drilling was considered as average or somewhat closer and more important than average. However, there were not any significant discrepancies between supplier categories. Of the development proposals discussed in chapter 4.2, it was not apparent that some specific issues were emphasized in certain supplier categories. This indicates that focusing on and finding solutions to these development proposals mentioned by interviewees could improve the business relationship with all suppliers, regardless of the supplier category.

There was no evident trend between supplier categories in terms of the proportion of revenue generated by Surface Drilling in relation to suppliers' overall revenue. A more detailed breakdown of Surface Drilling's share of the suppliers' total turnover was presented in figure 18 in chapter 4.3. The large divergence between supplier categories in this matter may be explained by the fact that suppliers were also interviewed within the supplier category from different procurement categories.

Regardless of the supplier category, the interviewees had a very similar and optimistic perception of Surface Drilling's growth and development potential. There were no significant differences between categories in the factors related to the customer's growth potential that would affect customer attractiveness. It is noteworthy, however, that none



of the six leverage or routine suppliers mentioned any factors related to customer growth and development that would reduce the attractiveness of Surface Drilling. In other words, they saw no downsides or risks in customer growth. The reason might be that leverage and routine suppliers, at least at some level, are aware that the customer has more control over them, and these suppliers may be more reticent in their expressions (O'Brien, 2018, p. 161). Instead, some bottleneck and strategic suppliers felt that if customer's growth led to changes in policies and processes, or if the growing volume would be distributed to other suppliers, it would reduce the attractiveness.

There were no significant differences between the supplier categories in how close they perceived the relationship with Surface Drilling to be. Similarly, no supplier category stood out in any way when suppliers evaluated how aware they are of the needs and requirements of Surface Drilling. Thus, it can be concluded that the case company has managed to broadly maintain close relationships with suppliers in each supplier category when understanding the customer's needs can be considered as its measure (O'Brien, 2018, p. 273).

Supplier categories did not have a significant impact on which things the supplier feels increased the relational fit between companies. Regardless of the supplier category, suppliers perceived the similarity of their and the customer's future visions and compatibility of inter-organizational information systems as the most significant factors to increase relational fit. Furthermore, in the factors reducing relational fit between Surface Drilling and suppliers, it was not apparent that the supplier category had an impact. Among other things, lack of trust and poor forecast accuracy were issues that were perceived as factors reducing relational fit in all supplier categories.

There were slight differences between the categories in the factors related to financial profitability that affect customer attractiveness. The importance of increasing sales was more emphasized in the responses of routine suppliers. This finding is also supported by the theory that there are often many options available for routine suppliers and that the

financial profitability of these suppliers is very much based on large quantities (van Weele, 2018b, p. 177). Strategic and bottleneck suppliers placed more emphasis on getting involved in product development projects and the accuracy of the forecast received from the customer. Strategic and bottleneck suppliers also dared to slightly more openly mention price issues that would reduce customer attractiveness, such as cost-saving projects launched by customer. It could be because these suppliers may feel that Surface Drilling is to some extent more dependent on them than on routine and volume suppliers. This might be the case as strategic and bottleneck suppliers may have power over the customer due to the unfavorable supplier market situation for the customer (Iloranta & Pajunen-Muhonen, 2018, pp. 121–122).

The interview approached customer attractiveness and the factors influencing it from four different perspectives. These four perspectives were the customer's development potential, the closeness of the relationship, the relative fit between the companies, and the financial profitability of the relationship. The interviewees ranked the importance of these areas in a slightly different manner, but the customer's development potential and the financial impact of the relationship were the most important areas. The answers do not suggest that a particular perspective of customer attractiveness is highlighted in a particular category of the supplier.

#### **4.10 SWOT analyses**

As the research subject was the case company's customership and the business relationship between Surface Drilling and suppliers, the results can be observed using a SWOT analysis. SWOT analysis is a four-square matrix used to help prepare a strategy, by identifying strengths, weaknesses, opportunities, and threats of a company, project, or some other issue under investigation (Gurl, 2017). SWOT analysis facilitates and simplifies the interpretation of research findings. In this thesis, SWOT analysis also serves as a basis for drawing conclusions and managerial implications.

Business between two companies can be generally thought of as having three components that affect each other: seller, buyer, and the relationship (O'Brien, 2018, p. 272-273). This study focused on two of these components, the customer, i.e. Surface Drilling, and the relationship. It is important to understand that when considering a customer's features, for example, strengths, these should not be confused with the strengths of the business relationship (Tanskanen, 2021, p. 115). The same applies to customer attractiveness, as the customer may be attractive to a particular supplier, but not to another (Tanskanen, 2021, p. 115). Since strengths, weaknesses, opportunities, and threats cannot be collectively defined for Surface Drilling and business relationship, two SWOT analyzes are prepared. Based on these two SWOT analyzes, a more detailed discussion and conclusions are presented in chapter 5.

#### **4.10.1 Surface Drilling as a customer**

Table 6 presents Surface Drilling's strengths, weaknesses, opportunities, and threats as a customer from the perspective of the supplier companies. The table is a descriptive summary of the concepts and elements that have emerged from the interviews. The first SWOT analysis should be read as implying that the items on the left assist Surface Drilling in increasing its customer attractiveness. Similarly, things on the right can be interpreted as reducing customer attractiveness. The issues in the top row are the ones that deal with the case company's internal environment and in the bottom row are those that interfere with the external environment.

**Table 6.** Strengths, weaknesses, opportunities, and threats of Surface Drilling as a customer.

| Surface Drilling as a customer (suppliers' perspective) |   |  |
|---|---|--|
| Internal environment                                    | Strengths   | Weaknesses   |
|   | <ul style="list-style-type: none"> <li>• Easy and cooperative</li> <li>• Demanding in a positive way</li> <li>• Systematic in decision-making</li> <li>• Large solvent company</li> <li>• Reliable customer</li> <li>• Dynamic company</li> </ul> | <ul style="list-style-type: none"> <li>• Short and inaccurate order forecasts</li> <li>• Not giving feedback to the supplier</li> <li>• Inaccuracies and frequent changes in technical drawings</li> <li>• Lack of cooperation with other divisions</li> </ul> |
| External environment                                    | Opportunities   | Threats  |
|   | <ul style="list-style-type: none"> <li>• Very important customer</li> <li>• Long history with suppliers</li> <li>• Strong recognized brand</li> <li>• Prioritized customer</li> <li>• Reasonable development potential</li> </ul>                 | <ul style="list-style-type: none"> <li>• The volatility of the customer's area of business</li> <li>• Forceful customer</li> <li>• Silence about future and strategy</li> </ul>  |

#### 4.10.2 The business relationship between Surface Drilling and suppliers

Table 7 contemplates the characteristics of the relationship between Surface Drilling and suppliers from the suppliers' perspective and identifies its strengths, weaknesses, opportunities, and threats of it. The results have been analyzed to identify issues related to the business relationship that affect the relationship between Surface Drilling and suppliers. However, these things are also strongly related to Surface Drilling's attractiveness as a customer. In this analysis, strengths refer to things that appear in the results that make the relationship between Surface Drilling and the customer respectable and that are valued by the suppliers. Correspondingly, the weaknesses reflect the things that need to be developed to make the relationship even better. Opportunities, in this review, refer to things where Surface Drilling and suppliers would have the potential to grow and develop the business relationship together in the future. Threats can be considered as things that would be perceived as frightening or degrading to the quality of the relationship in the future. In other words, the things in the top row reflect the current state that is already present in the business relationship at some level. The things in the bottom

row do not directly reflect the current state, but the potential opportunities and threats to some extent arising from the external environment.

**Table 7.** Strengths, weaknesses, opportunities, and threats of the business relationship between Surface Drilling and suppliers.

| The business relationship between Surface Drilling and suppliers (suppliers' perspective) |  |  |
|---|--|--|
| Internal environment  | Strengths  | Weaknesses   |
|   | <ul style="list-style-type: none"> <li>• Common system interfaces (EDI)</li> <li>• Mutual understanding</li> <li>• Long history</li> <li>• Close relations at different organizational levels</li> <li>• Mutual trust and accessibility</li> <li>• Framework agreements</li> <li>• Familiar persons in both parties</li> </ul> | <ul style="list-style-type: none"> <li>• Absence of automated ordering processes with some suppliers</li> <li>• Lack of supplier involvement in NPD projects</li> <li>• Poor communication between Sandvik's divisions</li> <li>• Lack of mutual feedback</li> </ul> |
| External environment  | Opportunities  | Threats  |
|   | <ul style="list-style-type: none"> <li>• Joint innovation sessions</li> <li>• Common NPD projects</li> <li>• Supplier days</li> <li>• Common value creation</li> <li>• Common growth and synergy advantage</li> <li>• Continuous learning process</li> </ul>   | <ul style="list-style-type: none"> <li>• New employees in customer or supplier interface</li> <li>• Disagreements, for example, in price trend</li> <li>• Unusual practices (payment terms, stocking)</li> <li>• Decrease in flexibility</li> </ul>                  |

## 5 Discussion and conclusions

This chapter elaborates and considers more critically the results of the study and discusses how the issues observed in the study are reflected in previous literature. Research questions are also answered in detail and the reliability and validity of the study are evaluated. This chapter also presents the limitations of the study and action proposals for the case company, including further research suggestions.

This master's thesis consisted of an introduction, theoretical framework, methodology, results and analysis, and discussion and conclusion chapters. The theory chapter presented key findings and issues from previous literature, including an overview of the sourcing and procurement in companies in general, which gives the reader a good foundation to understand the subject area to be studied. The theory chapter also presented the categorization of suppliers according to Kraljic's matrix and the factors on the basis of which classification is made, as well as the characteristics of the categories, which were relevant to the study. Customer attractiveness, its aspects, and factors contributing to it were also comprehensively addressed. Business relations were also considered from the point of view of the social exchange theory, which suggested that the relationship between the customer company and the supplier largely applies to the same principles as in relationships between people. It was presented that over time, it is possible for a customer company to achieve preferred customer status, position as a regular customer, or terminate a business relationship with the supplier.

In this study, customer attractiveness was approached from four different perspectives that have been identified in the study by La Rocca et al. (2012). These aspects were customer's development potential, business relationship closeness, the relational fit of companies, and profitability of the business relationship. Based on the results, these four aspects were clearly distinguishable, and they give a comprehensive view of the attractiveness of the customer company. The factors that increase the case company's customer attractiveness the most were the customer's development potential and the profitability of the business relationship. This is not a surprising result because, from the

supplier's perspective, the attractiveness of the customer company is often based on outcomes from the business relationship, i.e. money, and whether there is continuity to the business relationship, which is also supported by research from Mortensen (2012). Because of the long common history with Surface Drilling, suppliers felt that at this stage the business should already be profitable enough for them. If the case company had not invested in long supplier relations, the responses might have highlighted less financial profitability in the business relationship. Shorter relationships with suppliers would probably have been reflected negatively in the fluidity of cooperation. Instead, results suggest that long cooperation and familiar persons on both sides have had a major impact on the smoothness of collaboration.

The objective of the study was to increase understanding of how suppliers see Surface Drilling as a customer and how they feel about the business relationship with Surface Drilling. Thus, the analysis of responses separated two things from each other: Surface Drilling as a customer and a business relationship with Surface Drilling. Further, two SWOT analyzes were formed from the results, which at the same time answer the three research questions set for this thesis.

The first research question of the study was: *How the case company is currently seen as a customer from the perspective of existing suppliers?* The results suggest that Surface Drilling is seen as a very important and attractive customer through the eyes of suppliers, regardless of the supplier category. Surface Drilling was seen as an easy, cooperative, and solvent customer with a strong brand and desire to evolve continuously. Although Surface Drilling was seen as a reliable customer, shortcomings were noted in terms of accuracy of order forecasts, feedback, and information transparency, for example in technical drawing changes. However, it can be concluded that Surface Drilling has managed to achieve preferred customer status at least at some level because the case company is receiving privileges that are only obtained by those customers who are defined by suppliers as preferred customers (Nollet et al., 2012). The results also support the theory of special treatment received by preferred customers as suppliers expressed willingness to

provide the case company with their innovations and prioritize deliveries in situations where demand exceeds supply.

The answers clearly show a mindset similar to the theory of social exchange towards the customer company. The interview sought to get the supplier to evaluate the business relationship with Surface Drilling compared to their other customers. The responses revealed a pattern of thinking in which suppliers are open and willing to give more to the relationship if they feel that the benefits of the business relationship exceed their expectations. This situation ultimately leads to a strong relationship where the parties benefit from each other and together create value for the business (Schiele, Veldman, et al., 2012). Therefore, the principle, that company should not necessarily be a perfect customer, but more attractive and better than others, is strongly true in business between companies. It can be concluded that despite the weaknesses and targets for development, Surface Drilling has positioned itself as a very attractive and competitive customer.

The second research question of the study was: *What factors have the greatest positive impact on the case company's customer attractiveness?* Among the four aspects of customer attractiveness, customer growth and development potential, and the financial profitability of the business relationship proved to be factors that have the greatest positive impact on the case company's attractiveness. The closeness of the relationship and the relational fit between companies were also appreciated, but not as much as the issues related to the profitability of the business relationship and customer's development potential.

It was observed that individual issues related to customer growth and development potential are also reflected in the profitability of the relationship. For example, suppliers are very interested in providing their new innovations and increasing their sales to customers with significant growth potential and with whom business continuity is secured. Of individual issues mentioned by suppliers that increase customer attractiveness, the greatest weight was given to joint product development projects, common value



generation, and information transparency. Some of the respondents felt that the issues mentioned above were things that already make Surface Drilling an attractive customer while others saw them as things that would further increase interest in the case company. However, these can be considered things in which the case company should invest to keep supplier relations intimate and even raise them to the next level. More about these issues are discussed in Chapter 5.2, which presents the managerial implications.

The third research question of the study was: *What factors have the greatest negative impact on the case company's customer attractiveness?* The answer to this question could naturally be assumed to be the lack and absence of the things that increase customer attractiveness. However, it cannot be concluded from the results that the case company's poor development potential and non-profitability of the business relationship would have the greatest negative impact on attractiveness. Instead, it can be concluded from the analysis that the cold and distant relationship, inaccurate order forecasts received from the customer, and the lack of common system interfaces are things that have the greatest negative impact on the case company's attractiveness. Based on the analysis, this can be interpreted as these are things that could reduce Surface Drilling's customer attractiveness in the current situation. Thus, it is also necessary to pay close attention to these matters so that customer attractiveness does not deteriorate.

Because close and intimate relationships, accurate order forecasts, and seamless common system interfaces were not identified as factors that increase the most the case company's customer attractiveness, the following conclusion can be drawn. Customer attractiveness is not increased most by those things the lack of which affects attractiveness most negatively. Inversely, the lack of factors that affect customer attractiveness most positively does not reduce attractiveness the most such as customer's poor development potential and non-profitability of the business relationship. Thus, different features of the case company and the business relationship were emphasized when considering factors increasing and decreasing customer attractiveness.

In short, the customer's growth and development potential and the profitability of the business relationship have the greatest positive impact on the case company's customer attractiveness. Correspondingly, cold, and distant connections with suppliers, poor quality of order forecasts, and absence or limited use of common system interfaces have the greatest negative impact on the case company's customer attractiveness.

As suppliers would find it useful to receive more detailed information about Surface Drilling's strategy and future visions so that they can better serve the customer and grow along, it can be concluded that Surface Drilling's supplier base is highly motivated. However, a relatively small sample size for this study must be kept in mind even though the suppliers selected for this research have a significant strategic impact on the case company. In communicating future visions to suppliers, mutual trust is also highlighted in the business relationship.

The responses highlighted Surface Drilling's desire to be the spearhead in its own area of business and it was widely acknowledged in the supplier base. The supplier interviews conducted for this study are something that probably will further increase Surface Drilling's customer attractiveness, which was also mentioned by one interviewee. Although it was not the purpose of the study, this research sends a message to suppliers involved that the case company truly wants to improve its actions and listen to suppliers, as they are ultimately a prerequisite for the business. Even though not all interviewees directly mentioned that this study would increase Surface Drilling's attractiveness, suppliers were happy to participate in the interview and considered it important. This was the thing that made the interview situations interesting and meaningful for both parties.

## **5.1 Evaluation and limitations of the study**

This chapter critically assesses the importance of research and its credibility. The credibility of the study can be judged by evaluating its reliability and validity (Saaranen-Kauppinen & Puusniekka, 2006). The reliability of the study describes the reproducibility of the study results. The same methods and data should lead to the same result, in which

case the result cannot be considered random. Validity determines whether the study was successful in explaining the problem for which it was conducted (Saaranen-Kauppinen & Puusniekka, 2006).

The greatest value of this thesis is its novelty value and the fact that the case company receives information about its own activities through the eyes of a supplier representative outside the company. In terms of research success and further answering research questions, planning the interview questions and the interview situations can be considered the most critical stages of the thesis.

The results obtained cannot be generalized throughout the supplier network since all suppliers could not have been interviewed. Although the number of suppliers chosen to be interviewed for the study was not more than 10% of the active direct suppliers of the case company, sampling can still be considered very significant. This is because the suppliers were carefully selected in collaboration with the professionals of the sourcing organization of the case company. Interviewed suppliers were perceived also as such whose opinions and viewpoints have great weight in the big picture. However, the role of the selected suppliers is relevant to the results of the study and the results could possibly be different if the study were re-conducted and completely new suppliers were selected to be interviewed. Involving more suppliers could have provided even more perspectives and detailed information but would have exceeded the requirements and limitations set for the master's thesis.

The study used a case study as the research method and the material was collected through a thematic interview. The thematic interview was well suited as a form of interview and provided sufficient freedom for the interviewees to share their own opinions and justify their answers to the questions. The research method can be considered reliable, and information and opinions received from suppliers can be considered valid. This is because the interviewees were told at the beginning of the interview the purpose of the interview and the fact that the names of the suppliers or the interviewees are not

presented in the final version of the thesis. The aim was to increase the reliability of the results by pursuing an open and honest discussion.

The impact and coverage of the questions are assessed by the researcher at the same time as the interviews were performed. Based on the discussions, the questions covered the topic well. Some of the interview questions even partially overlapped and some could have been omitted as well. However, in some cases, when asked about the same thing in a slightly different way, new issues and viewpoints emerged, which brought more depth to the interview. Critically viewed, the questions, steered perhaps too much thinking and the role of the researcher had a significant impact on the layout of the questions.

Based on the factors influencing customer attractiveness previously observed in the literature and the discussions in the case company, the themes and questions of the interview were formed to gather comprehensive empirical data. The questions and themes can be considered successful as they enabled the research questions to be answered clearly. Of the four aspects of customer attractiveness, the relational fit between companies was the most difficult to understand and some interviewees needed clarification on this. This may have partly affected the responses. The names of the supplier companies were not mentioned in the responses, but anonymity does not diminish the information value of the study as they are not relevant to the study.

The limitation of the research could be that respondents may have partially answered what they think they are expected to answer. The aim was to minimize this by telling the interviewees that Surface Drilling is eager to see its own operations through the eyes of suppliers to be a better business partner for suppliers. In the interview situations, the interviewer felt that the suppliers were open and sincere with their comments. This is understandable as interviewees were offered a unique opportunity to give feedback to develop the relationship between them and Surface Drilling.

Therefore, the validity and reliability of the study can be considered reasonable, and the methods and the interview questions were relevant to the topic under study. The thematic interview provided answers that would have been very difficult to obtain with other data collection methods, such as surveys. The reliability of the conclusions of the analysis was increased by starting to transcribe the material as early as possible after each interview.

## **5.2 Future research and managerial implications**

This chapter discusses how this research could be expanded in the future as well as the development targets, on the basis of which recommendations for action are prepared for the case company. In this study, the phenomena under investigation were examined and explained by qualitative methods. This was done in order to obtain more detailed information on the factors affecting the customer attractiveness of the case company and to emphasize more the voice of suppliers. The core of this study was Surface Drilling's position as a customer and the factors affecting its customer attractiveness. Therefore, this study does not respond in the best way possible to how satisfied the suppliers are with Surface Drilling on a bigger scale. To get more comprehensive information on supplier satisfaction, sampling should be significantly higher and data collection takes place, for example, using a Likert scale to collect quantitative data. Thus, a quantitative supplier satisfaction survey would greatly expand this paper in the future. Companies often conduct customer satisfaction surveys for their customers, so a similar survey for suppliers would certainly be convenient.

This research was conducted as a cross-sectional study partly due to the relatively short period of time and expectations set for the study. In the future, the factors affecting customer attractiveness and the case company's position as a customer could be monitored in the longer term. In this way, valuable information could be obtained, for example, on the direction in which the company's position as a customer is continuing and whether it should be responded to by making changes in operations. Thus, a clear

proposal for further research is to develop a framework and procedure for monitoring supplier satisfaction and the case company's status as a customer over time.

In order for this study to create added value for the case company, managerial implications have been made based on the analysis of the results. Managerial implications summarize what the findings mean in terms of action. In other words, if these recommendations were implemented, it should appear in the results in a positive way if this study was repeated. These managerial implications are based on the issues identified in the analysis where there is room for improvement. The recommendations for action below can be seen as being directly linked to the position of Surface Drilling as a customer as well as customer attractiveness.

It was stated previously in the conclusions that Surface Drilling is currently seen as a prioritized and preferred customer at some level. However, relations with suppliers could be further improved by focusing on the managerial implications. As stated earlier, none of the development targets or weaknesses were particularly highlighted in any of the supplier categories. This suggests that implementing these recommendations can improve supplier relationships and Surface Drilling's customer attractiveness in each supplier category. Managerial implications are the researcher's personal interpretations based on the results and the conclusions drawn from the analysis. The purpose of managerial implications is to provoke discussion and ideas in the case company about the development of new courses of action and procedures.

Below are five recommendations for action that Surface Drilling could consider to further develop supplier relationships through its own operations:

1. Establish a supplier-specific portals with suppliers to which both parties have access
2. Provide suppliers with the opportunity to participate in NPD projects at earlier stage
3. Provide suppliers with the opportunity to give and receive feedback more often
4. Organize and offer suppliers the opportunity to participate in "supplier days"
5. Further improve the order forecasting process

**1. Establish a supplier-specific portals with suppliers to which both parties have access**

Suppliers felt that the transparency of the information was partly incomplete. This concerned in particular the notification to suppliers of changes made to the technical drawings by the engineering department of Surface Drilling. Therefore, the case company should consider a tool that facilitates day-to-day data and information exchange. This could be done by developing a common portal or channel where information could be easily exchanged, for example through messages, images, or other file formats. It could be implemented, for example, in a discussion forum style, in which case the information is not just in the email of two people. This could increase the transparency and accessibility of the information.

**2. Provide suppliers with the opportunity to participate in NPD projects at an earlier stage**

Some suppliers felt that they would have something to give in an earlier stage of new product development that would benefit both parties. The supplier may have knowledge of new materials, manufacturing methods, and innovations. By offering the supplier the opportunity to participate in NPD projects at an earlier stage, the supplier will have the opportunity for additional sales, and Surface Drilling will be able to better utilize know-how and innovation from outside the company. The case company should arrange a brief overview meeting of the opportunities offered by external resources in the early stage of the NPD project and inform potential suppliers about the upcoming project.

**3. Provide suppliers with the opportunity to give and receive feedback more often**

The results highlighted the importance of giving and receiving constructive feedback and learning from it. Suppliers experienced some uncertainty about how they had performed on a particular project or quotation. If giving feedback on both sides is incomplete, it is difficult to make adjustments and become more competitive in the future. Therefore,

Surface Drilling should arrange a short feedback session with suppliers, both at the end of joint projects and after accepting or rejecting the quotation.

#### **4. Organize and offer suppliers the opportunity to participate in “supplier days”**

While some of the suppliers mentioned that collaboration with Surface Drilling could not be much closer, some perceived that they would like to see and hear more about the case company’s future. Surface Drilling could invite suppliers’ representatives to come and visit its production facilities and present its own production and products. At the same time, the case company could introduce its own strategy and discuss the opportunities offered by the future. This could further deepen supplier relationships and increase the commitment of suppliers who are not completely acquainted with the end products that Surface Drilling produces and the case company itself.

#### **5. Further improve the order forecasting process**

In order to be an even more attractive customer, Surface Drilling should be able to further improve the accuracy of order forecasts. Also, by providing suppliers with order forecasts for the longer term, suppliers can better secure the deliveries to Surface Drilling. Significant inaccuracies in order forecasts also decrease the supplier’s profitability in the form of warehousing and overproduction.



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## Appendices

### Appendix 1. Interview questions in English

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|--|
| 1. How do you experience Sandvik Surface Drilling as a customer?   |
| 2. Do you have customers in other Sandvik's business areas and/or divisions in addition to Sandvik Surface Drilling?<br>2.1 If so, do you feel that the business relationship with them differs from Sandvik Surface Drilling, and how?  |
| 3. How does the business relationship with Sandvik Surface Drilling differ from your other customer relationships?   |
| 4. Do you serve customers who you recognize as suppliers of Sandvik Surface Drilling?<br>4.1 If so, do you feel that the processes and modes of operation are different with these customers, and how?   |
| 5. What things could we improve in order to be a better customer for you?  |
| 6. How would you describe the importance of Sandvik Surface Drilling as your customer?   |
| 7. How big a share of your revenue comes from Sandvik Surface Drilling?  |
| 8. Are you prepared for developing the business relationship or discontinuation of the business relationship?<br>8.1 By what means do you seek to ensure the continuation of this customership?  |
| 9. How do you see the development and growth potential of Sandvik Surface Drilling and how it affects our attractiveness as a customer?  |
| 10. What would increase your interest in Sandvik Surface Drilling if you consider the customer's growth and development potential? (e.g., benefit from customer contacts, innovativeness, knowledge or resource capital, reputation, etc.)   |
| 11. Inversely, what issues related to the development and growth potential would reduce your interest in us?   |
| 12. How close do you experience a relationship with Sandvik Surface Drilling and how important it is to you? (e.g., transparency, communication, listening to and understanding the supplier, etc.)  |
| 13. How well do you understand our needs and requirements and how does it affect your interest in us? (e.g., product specifications, delivery time requirements, etc.)   |
| 14. How do you see that we could improve our cooperation and relationship?   |
| 15. What things increase the relational fit between you and Sandvik Surface Drilling and how much weight do you give it? (e.g., reliability, mutual objectives, location, understanding of the finished product manufactured by the customer, forecasting, mutual feedback, information sharing, compatibility of information systems, etc.) |
| 16. What issues would reduce the relational fit between companies?   |
| 17. What would increase your interest in Sandvik Surface Drilling as a customer in terms of financial profitability? (e.g., higher purchase volumes, better payment terms, etc.)   |
| 18. What would reduce the interest in us if you consider the financial profitability of the business relationship?   |
| 19. Prioritize the following issues in terms of customer attractiveness: <ol style="list-style-type: none"> <li>a. Customer's development and growth potential</li> <li>b. Closeness of a business relationship</li> <li>c. Relational fit between you and customer</li> <li>d. Profitability of a business relationship</li> </ol>          |



## Appendix 2. Interview questions in Finnish

|   |
|---|
| 1. Miten koette Sandvik Surface Drillingin asiakkaana?  |
| 2. Ovatko asiakkaitanne Sandvik Surface Drillingin lisäksi myös muut Sandvikin liiketoiminta osa-alueet ja/tai divisioonat?<br>2.1 Mikäli on, koetteko että liiketoimintasuhde heidän kanssaan on erilainen, ja miten?  |
| 3. Miten asiakassuhde Sandvik Surface Drillingin kanssa eroaa muista asiakassuhteistanne?   |
| 4. Toimitatteko tuotteita asiakkaille, jotka tiedätte olevan meidän toimittajiamme?<br>4.1 Mikäli kyllä, koetteko että prosessit ja toimintatavat ovat erilaisia näiden asiakkaiden kanssa, ja miten?   |
| 5. Missä asioissa voisimme parantaa, jotta olisimme Teille parempi asiakas?   |
| 6. Miten kuvailisitte Sandvik Surface Drillingin tärkeyttä asiakkaananne?   |
| 7. Kuinka suuri osuus liikevaihdostanne tulee Sandvik Surface Drillingiltä?   |
| 8. Oletteko varautuneet tämän liiketoimintasuhteen kasvattamiseen tai päättymiseen?<br>8.1 Millä keinoilla pyritte varmistamaan asiakkuuden jatkumisen?   |
| 9. Miten näette Sandvik Surface Drillingin kehitys- ja kasvupotentiaalin ja miten se vaikuttaa meidän houkuttelevuuteemme asiakkaana?   |
| 10. Mikä lisäksi mielenkiintoa Sandvik Surface Drillingiä kohtaan, jos mietitte asiakkaan kasvu- ja kehityspotentiaalia? (esim. hyötyminen asiakkaan kontakteista, innovatiivisuus, tieto- tai resurssirikkaus jne.)  |
| 11. Mitkä Sandvik Surface Drillingin kasvupotentiaaliin liittyvät asiat vastaavasti vähentäisivät mielenkiintoanne meitä kohtaan?   |
| 12. Miten tiiviinä koette liiketoimintasuhteen Sandvik Surface Drillingin kanssa ja miten suuri merkitys sillä on teille? (esim. avoimuus, kommunikointi, toimittajan kuunteleminen ja ymmärtäminen jne.)   |
| 13. Miten hyvin ymmärrätte tarpeemme ja miten suuri vaikutus sillä on yrityksemme houkuttelevuuteen asiakkaananne? (esim. tuotemäärittelyt, toimitusaikavaatimukset jne.)   |
| 14. Miten näkisitte, että voisimme kasvattaa yhteistyötä/ suhdettamme?  |
| 15. Mitkä asiat mielestänne lisäävät yritysten välistä suhteellista sopivuutta ja miten suuren painoarvon annatte sille? (esim. luotettavuus, tulevaisuuden näkymien yhteneväisyys, sijainti, ymmärrys asiakkaan valmistamasta lopputuotteesta, ratkaisukeskeisyys, ennakointi, molemminpuolinen palaute, tietojärjestelmien yhteensopivuus, informaation jakaminen jne.) |
| 16. Mitkä asiat vastaavasti vähentäisivät mielestänne yritysten välistä suhteellista sopivuutta?  |
| 17. Mikä lisäksi Sandvik Surface Drillingin houkuttelevuutta asiakkaana liiketoimintasuhteen taloudellisen kannattavuuden kannalta? (esim. suuremmat ostovolyymit, paremmat maksuehdot jne)   |
| 18. Mikä vastaavasti vähentäisi mielenkiintoanne Sandvik Surface Drillingiä kohtaan, jos mietitte liiketoimintasuhteen taloudellista kannattavuutta?  |
| 19. Laittakaa tärkeysjärjestykseen asiakashoukuttelevuuden kannalta seuraavat asiat:<br>a. Asiakkaan kehityspotentiaali ja kasvumahdollisuudet<br>b. Liiketoimintasuhteen tiiveys<br>c. Yritysten suhteellinen sopivuus<br>d. Liiketoimintasuhteen taloudellinen kannattavuus   |