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VECTOR medium voltage switchgear entry plan to Swedish and Norwegian markets

Multiple case study VEO Oy

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ABSTRACT:

The purpose of this thesis is to study the purchasing processes, supplier selection criteria and in more detail the local presence criterion in the Swedish and Norwegian markets. This leads to the research question of: "What is the purchasing process like in Sweden and Norway, and what is the suitable level of local presence?" The study is done for VEO, for their medium voltage switchgear product sales. Many different purchasing models are found to have many parts of the structure in common, while emphasis of some parts differ. The purchasing process is affected by a multitude of factors: environmental, organizational, group and individual forces. There are many different criteria considered by purchasers when choosing a supplier. The information can be found from many sources, and different criteria are evaluated in different parts of the purchasing process. The local presence criterion can be analyzed through different entry modes. There are different approaches to choosing an entry mode and many factors affecting the choice. The entry modes analyzed in this study are limited to those possibly suitable for this situation. The different entry modes, and thus levels of local presence, offer varying advantages and disadvantages. The research approach of this study is deductive mono-method qualitative research. I will be conducting an explanatory study through questionnaire interviews. The sample consists of 6 companies, 4 from Sweden and 2 from Norway. These companies are of different types, end-users either in industry or utilities, system integrators or consultants, with one public company in both markets. The interview is conducted via Microsoft Forms questionnaire. The analysis section consists of a brief analysis of the markets and an in-depth analysis of the results. The analysis of the markets includes brief description of the economic situations of the markets and industries, and a brief description of the worst competitors. The results showed little difference between the markets. The most significant difference is the apparent need for more local presence and more known supplier by the Norwegian companies. The basic structure of the purchasing process is similar in each company, but the emphasis differed, and after-purchase operations are included by only two interviewees. Price is found to be the most important factor for purchasing decision, with delivery as the second-most important factor. The people responsible for the purchasing function are quite similar. End-users have purchasing professionals in charge, while system integrators have project professionals. Consultants are not that involved in the purchasing process. The local presence section offers varying results, since two of the answers are no local presence, one is local partner presence and three are local subsidiary presence. The study offers many practical results, but the generalizability of it could be better. The relatively low number of companies as well as the wide variety of different types, does not offer possibility for in-depth analysis, but it gives a general picture of the subjects in the markets. Further research could be conducted on a general level with significantly more companies, or by focusing on one type of company to gain more in-depth understanding of individual company types.

KEYWORDS: Purchasing process, Supplier selection criteria, Entry modes

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1 Introduction

1.1 Background of the study

VEO is a Finnish engineering company focusing on automation and electrification solutions (VEO, 2020). VECTOR medium-voltage switchgears are used for the electric infrastructure of especially the power distribution and heavy industry companies. The VECTOR products are sold to Swedish and Norwegian markets through direct export. (Product Sales Director Hjort, Private conversation 18.9.2019.)

The Gross Domestic Product's, or GDP's, growth is quite limited in both markets, and the similar levels of inflation decreases the real growth of the markets to near zero or even below (IMF, 2019). While the manufacturing sector is estimated to keep growing steadily in Norway in 2020, based on the manufacturing PMI estimates (Trading Economics, 2020), the GDP of industrial and service producer sectors in Sweden are estimated to decrease by around 1-4% in 2020 and 2021. (Konjunkturinstitutet, 2019).

The purchasing situations and purchasing processes have been studied in great extent. Examples of purchasing process models can be found in van Weele (2010), Kron and Wallgren (2010) and Wallace and Xia (2015). While, there are high levels of similarity between the models, there are some differences in the emphasis of different steps. Also, purchasing process models can be very different for purchasing different kinds of products. For example, more technical products should have an emphasis on the technical specifications.

The supplier selection and the criteria involved have been studied significantly since Dickson's 1966 listing of supplier criteria. To mention a few studies: Yadav and Sharma (2016), Matawale, Datta and Mahaptra (2016) & Duica, Florea and Duica (2018). In addition, it is much discussed in books such as Iloranta and Pajunen-Muhonen (2012)

and Monczka, Handfield, Giunipero, and Patterson (2016). There are a multitude of different selection criteria, of which different ones are suitable for different situations.

There have also been many studies regarding the entry mode and that way the local presence. Entry mode choice is viewed as one of the most important decisions in internationalization (Quer, Claver, & Andreu, 2007; Brouthers & Hennart, 2007). According to Morshcett, Schramm-Klein, and Swoboda (2010, p. 60), for example, Wind and Perlmutter 1977, Anderson and Catignon 1986, Hill, Hwang, and Kim 1990 consider this to be true also. These articles were, however, not available to me, so I have to rely on second-hand references. The entry modes are also discussed and analyzed in several books, such as Griffin and Pustay (2013), Czinkota and Ronkainen (2010), Albaum and Duerr (2011) and Keegan and Green (2017). Choosing a suitable entry mode is very important to companies, since it affects their ability to operate in the foreign market, as well as, for example, the financial and intellectual property rights risks involved in the operations.

1.2 Research question and objectives

This study aims to answer the following research question:

“What is the purchasing process like in Sweden and Norway, and what is the suitable level of local presence for customers and VEO?”

In addition, there are four more specific objectives, leading to answering the research question. There are two objectives for the theoretical part, and two for the empirical part. The theoretical objectives are the following:

“Analyzing the different types of purchasing processes, and the factors affecting the purchasing decision.”

“Analyzing the supplier selection criteria used by purchasers, emphasizing the factor of local presence, and the advantages and disadvantages related to each level of presence through entry modes.”

The empirical objectives are the following:

“Analyzing the purchasing process and related factors and people in comparison with those identified in the theoretical section.”

“Analyzing the suitable level of local presence for the Swedish and Norwegian markets, for both VEO and the customers, based on the data gathered and the factors identified in the theoretical section.”

1.3 Justification of the study

While there have been studies in purchasing process, supplier selection criteria and entry modes, there has not been a study in this specific context. First of all, this study has a specific product that is studied. In addition, according to the Product Sales Director at VEO, Joakim Hjort (Private conversation 18.9.2019), there are different types of customers for this product in the Swedish and Norwegian markets. There are the end-customers, whether private or public, in utilities or heavy industry. In addition, there are consultants that are often a part of these kinds of purchase decisions, and are considered as customers in this study, since they are highly involved in the decision-making process of the customer. Finally, there are the system integrators. These customers are the project houses that might buy the VECTOR product to be a part of their overall offering for a project.

Also, regarding the local presence, it is important to choose the correct entry mode, and level of local presence in this context. even if there already are some operations in these markets by VEO, it is important to determine whether the level is suitable. This study helps in determining the suitable entry mode and level of local presence that is desired by the potential customers of the product.

This study aims to recognize the elements of purchasing process and decision-making in the Swedish and Norwegian markets. In addition, it aims to analyze the suitable level of local presence of VEO for the potential customers. The research approach I will be using in my study is the deduction approach, which means that I will be using theory to form a basic understanding and structure of the subjects in general.

1.4 Delimitations of the study

There are some delimitations in the study. First of all, due to the context, the study focuses on the Business-to-Business, or B2B, purchasing process and supplier selection criteria.

I will also be focusing on the new task and modified rebuy purchasing situations, since they are the only ones relevant in this context.

1.5 Structure of the thesis

The thesis is structured into seven main chapters. The first chapter is the introduction, in which I will present the subject, what I am hoping to accomplish and the justification for the study. In addition, I will present the research question and the objectives for reaching the answer for the research question.

The second chapter is focusing on the purchasing processes and decision-making. There are several subchapters, and the chapter most importantly focuses on describing the different ways of viewing the purchasing process, as well as the different types of people involved in the decision-making process for purchasing.

The third chapter will be focusing on the supplier selection criteria for organizational purchasing. The different types of criteria will be presented, along with the phase of the purchase they are usually evaluated. In addition, I will review the different sources of information used to evaluate the criteria.

The fourth chapter will focus on entry modes. Entry modes are used to demonstrate the level of local presence, which is one of the supplier selection criteria. I will present the relevant entry modes to this context one by one, while analyzing the advantages and disadvantages of each.

The fifth chapter focuses on the methodology of the study. In this chapter I will present the decisions I have made regarding the research approach and methodology. I will justify the use of the research methodology I am using. In addition, I will present the sample for the study, as well as the way of gathering and handling the data.

The sixth chapter will be focused on the analysis of the results and linking the results to relevant theoretical parts. The results will be systematically analyzed question by question by conducting general analysis and linking the analysis to the theoretical section. I will also make a brief analysis of the markets' and industry's economic state, as well as a quick presentation of the competitors.

The seventh and final chapter is the conclusions. In this chapter I will present a summary of the study and its results. I will also be making some suggestions for further research in the subject area

2 Purchasing process and factors affecting it

In this chapter I will be reviewing the factors affecting the purchase processes, and the purchase process models of three different sources. I will try to find similarities in the different purchasing models, to be able to create a “general purchasing model” for this study, against which to compare the results from the interviewees. In addition, the factors affecting the purchasing process offer a foundation on which to compare the interviewees’ answers on people involved in the decision-making.

Purchasing is defined as the management of the external resources of an organization, in such a way that the supply of all services, knowledge, capabilities and goods allows the organization to operate under the most favorable conditions (van Weele, 2010). Wallace and Xia (2015, p. 7) make a more distinct division between purchasing and procurement. Purchasing is considered to be just the transactional function or activity related to the purchase of needed goods and services. Procurement in turn, is the management of broader range of processes associated with procuring necessary goods and services. For example, placing a purchase order is purchasing, and supplier selection and contract management are procurement. (Wallace & Xia, 2015, p. 7.)

2.1 Procurement categories

O’ Brien (2019) divides procurement at the most general level to two categories: indirect and direct purchases. Iloranta and Pajunen-Muhonen (2012) in turn categorize procurement to five main categories. The categories are repeated production procurement, project procurement for production, investments, indirect procurement and procuring products to be sold forward. Repeated production procurement consists of procurement for resale, services and sub-contracting. (Iloranta & Pajunen-Muhonen, 2012, pp. 59-60.)

Project procurement for production is similar to repeated production procurement, except what is procured often differs from project to project. These procurements are often made on a shorter schedule, so the procurement decisions might not always be the most optimal. (Iloranta & Pajunen-Muhonen, 2012, p. 60.)

Investments are the third category. Investments are significant procurements that are made to create the suitable conditions for operations. The difficulties in this procurement category is that it is often handled like a project, without the help of professional procurers or contact to procurement department. This creates the risk that useful knowledge is left unutilized. Investments are indirect procurements, but they are their own category due to the significant amount of money involved and the often greater amount of attention from management. (Iloranta & Pajunen-Muhonen, 2012, p. 61.)

The fourth category is indirect procurement. They are the products, that are not directly linked to the organization's end product or service, such as office equipment. (Iloranta & Pajunen-Muhonen, 2012, p. 62.)

The final category is procurement for resale. This differs from the earlier categories, since the procured items are sold/sent as is forward. (Iloranta & Pajunen-Muhonen, 2012, p. 65.) This category seems to be unnecessary, considering that repeated production procurement already included purchases for resale. Therefore, I consider this category to consider of more unique procurement for resale situations, which are not repeated at all or often.

According to O' Brien's (2019) categorization, investments and indirect procurement fit into the indirect procurement general category, while the rest are direct procurement.

2.2 Different Purchasing situations

The stages the purchasing process goes through depend on the nature of the purchase (van Weele, 2010, p. 31). The purchase can be classified as one of three types of purchases: the new-task situation, modified rebuy or straight rebuy. (van Weele, 2010, p. 31; Polonsky, Brooks, Henry & Schweizer, 1998, p. 57). In a new task situation, the purchasing organization decides to purchase a completely new product from an unknown supplier. Because of the unknowns in this kind of situation, the uncertainty and risk are higher. In these situations, there are often several functions involved and high level of need for approval from higher-ups in the hierarchy. The new-task situation occurs for example in acquiring capital goods, such as production machinery. (van Weele, 2010, p. 31.)

The second purchasing type is the modified rebuy. In this purchasing type, the organization is either buying a new product from a known supplier (van Weele, 2010, p.31) or buying a known product from a new supplier (van Weele, 2010, p.31; Zablah, Brown & Donthu, 2010, p. 253). This usually happens when changing suppliers for example due to dissatisfaction, or when a better alternative product is published from the known supplier. This type carries less risk and uncertainty compared to new task situations, since one of the two factors, supplier and product, is known. Therefore, the purchasing process focuses most on the contract agreement and the steps after that. (van Weele, 2010, p. 31.)

Finally, there is the straight rebuy. It is a situation where both the product and supplier are known. The uncertainty and risk are low, since there is a contract in place, and it is periodically checked and re-negotiated. Such purchases are often repetitive and regular and basically, only require the placing of the order. In these situations, the purchasing process only covers ordering and the following steps. (van Weele, 2010, p. 31.)

Purchasing medium-voltage switchgears is a higher level investment, and it is usually not purchased repetitively. This means that such purchases are either new task situations or sometimes modified rebuy situations. Therefore, I will be going through all the steps of the purchasing process.

2.3 Variables Affecting Purchasing Process

Organizational buying is considered to be a complex process compared to individual consumer's purchases. Firstly, it involves many different stakeholders with varying responsibilities and roles. In addition, there are often several goals which might confuse and divide loyalties. Finally, there is also a possibility that the chosen decision criteria are conflicting with each other. (Pandey & Mookerjee, 2017, p. 173.)

Additionally, Hutt and Speh (2007) approach the variables affecting the purchasing process from a different perspective, that of a marketer. They identified many different types of forces affecting the process. (Hutt & Speh, 2007, pp. 69-70.)

2.3.1 Environmental Forces

The purchasing process is significantly affected by the relationship between the environment and the organization, and its employees. Environmental forces are built in the interaction of physical, technological, economic, political, legal, and cultural factors. First, the physical factors. At the base level, the purchasing processes and behavior is affected by physical factors such as climate and geographical location. These factors can affect the local availability of goods such as wood and minerals. The geographical locations of suppliers in reference to the purchasing organization may affect the whether the supplier is chosen, if the purchaser prefers doing business with local organizations. Webster & Wind 1972a pp. 42-43.) In addition, the approach of the

company towards suppliers is affected by how much freedom of choice there is regarding suppliers. Purchasing negotiations in a market where there is a monopoly or oligopoly is more complex than in one characterized by free competition. The management of the company is more interested in the more complex purchasing market. (van Weele, 2010, p. 25.)

Next is technological factors. These factors consist of the technological environment of the organization. It includes many things such as communication and transportation systems, data processing capabilities, medical and biological knowledge, energy conversion and more. This environment defines the availability of goods and services to the buying organization, as well as what technologies are available for use in the purchasing process. (Webster & Wind, 1972a, p. 43.) Technological influences can affect the buying organization also through rapidly changing technology. The higher the rate of technological advancement, the less there is a need for a purchasing manager. Technical and engineering personnel are often more important in such a situation. This means that the level of technology affects the who is making decisions about purchasing. In advanced technological environments buyers conduct more intense searches and spend less-time doing searches. (Hutt & Speh, 2007, p. 70.)

The third one is the economic factors. The economic environment has many consequences for the purchasing organization. Among the most affecting elements of the economic environment are price and wage conditions, availability of financial capital, and the level of demand of consumers. The general economic situation of the country, such as level of employment, price stability and economic growth affects not only the buying organization, but the organizations in the same socio-economic system, which might affect purchasing processes also. (Webster & Wind, 1972a, p. 43.) However, the industrial product demand may fluctuate more widely than the general economic situation. While the worsening of general economic situation often affects the ability of a company to purchase, as well as its willingness to do so, the worsening of general economic conditions does not affect all industries in the same way. (Hutt & Speh, 2007,

p. 70.) For example, a change in the price of one raw material might affect some industries significantly and others minimally.

In addition, the political, legal and cultural factors affect the purchasing organization. The political factors include for example the governmental actions, their relationship with others, and activities of political parties. Tariffs and trade agreements between nations are examples of political factors. Legal factors in turn is the legal environment in which the buying organization operates in. This can affect for example the terms of sale and quality requirements. Finally, the cultural factors. A culture can be simply defined as “the sum of shared meaning that characterizes a society”. Culture affects the purchasing process through for example values, that are the shared ideals arousing positive or negative emotional responses towards some object. Behavior of the organization and purchasing process participants is directed by those values and culture is therefore a major factor affecting purchasing processes. (Webster & Wind, 1972a, pp. 45-46.)

The environmental influences often come through social institutions. Suppliers define the technology available to the organization as well as the selling conditions. Customers are usually affected by the purchasing process directly or indirectly, since it often has an effect on the offering of the buying organization. Government in turn regulates the environment in which the purchasing organization operates in. Government also influences for example the availability of financial capital and wage and price conditions. Government additionally influences the technological environment through investments, trade relationships with other countries and is also a customer for many suppliers. The labor unions in turn affect the purchasing decision through influencing the specifications of the product to be purchased in situations where the purchase can affect the welfare of union members. In addition, the suppliers available to the purchasing organization can be limited by the union if they determine that some suppliers are to be avoided. Trade associations and professional organizations, other

business firms and social institutions can all have an effect on the purchasing organization as well. (Webster & Wind, 1972a, pp. 46-49.)

2.3.2 Organizational Forces

The next type of factors is organizational. It consists of various internal forces that affect the purchasing process. Globally procurement function is gaining more power. It is even often outsourced. This is because of the need of the companies to be competitive in an environment of rising material costs and aversion of customers to price increases. (Hutt & Speh, 2007, p. 71.)

The view on organizational forces by Webster and Wind (1972a) is structured through the four sets of interacting variables presented by Leavitt in 1964: tasks, structure, technology and people. The buying tasks are the elements that need to be completed to achieve a goal of supporting the organization to accomplish its objectives. The tasks often differ based on the type of organization, the routineness of the purchase, the source of the demand and the centralization or decentralization of the purchasing responsibility. The differences in tasks can cause conflicts in the purchasing, since different employees can have different tasks, the completion of which can be in conflict with each other. (Webster & Wind, 1972a, pp. 53, 55.)

Next up is the buying structure. It influences the purchasing process through five interactive systems: communication, authority, status, rewards, and workflow. Communication affects the individuals involved in purchasing through informing, commanding, instructing, persuading and influencing as well as integrating the performance of the individual actors. Authority is based on granting someone the power to affect others in deciding allocation, criteria, sampling and evaluation. Status is the position in the hierarchy of the organization, either formal or informal. Each status has duties and privileges designated to it. Rewards are the financial or nonfinancial rewards given by the organization, usually related to the individual's performance. Finally,

workflow refers to the flow of people, paperwork and procedures in the organization. It directly affects the nature of interpersonal connections. (Webster & Wind, 1972a, pp. 55-60.)

The buying technology refers to the technology level used in the organization. It affects not only the purchasing systems of the organization, but also what is bought. (Webster & Wind, 1972a, pp. 61-62.)

Webster and Wind (1972a) also stated that buying center is part of the organizational forces. The structure, systems of technology and communication related to the people involved in the purchasing process is an important factor affecting purchasing. This is why it is included in the organizational forces also. However, I consider it to be more significant factor in the group interpersonal factors, so I will be presenting the term in more detail in the chapter 2.2.3.

Strategic priorities in purchasing are changing with the increased power of the procurement function. The procurement managers understand that cost savings are not the only thing they can contribute to the bottom line and are therefore implementing new strategies. They aim to make procurement a more effective weapon to be used in competition. Cultivating a closer and more cooperative relationship with the suppliers, and thus creating value together is one new strategic priority in purchasing. Also, it is important to explore the capabilities of the supplies to create value together. Deeper and closer relationships allow the suppliers to become involved in decision-making processes. Finally, pursuit of low-cost sources is still very important. In this, the focus should be on overcoming geographical barriers and seeking out cost-effective suppliers globally. (Hutt & Speh, 2007, p. 72.)

Next in the organizational forces is the organizational positioning of purchasing (Hutt & Speh, 2007, p. 73). The purchasing process is highly dependent on the role of the purchasing department. In larger organizations, there is often a dedicated professional

purchasing department, while in smaller ones, there might be one person that is the specialist for the function. (van Weele, 2010, p. 25.) When the procurement becomes a more strategic function, organizations often decide to centralize their procurement decisions. There are differences in the purchasing approaches between centralized and decentralized purchasing units. Centralization also allows better integration of purchasing function to the strategies of the organization. Centralization often also allows the reduction of costs by combining the common requirements of different locations. Centralization is also suitable for when there are few large suppliers, while decentralization is better when the suppliers are smaller and more spread out geographically. Centralized and decentralized purchasing manager's objectives also often differ. Centralized purchasing often focuses on the strategic considerations, such as long-term supply and supplier relationships. Decentralized purchasers in turn often focus on more tactical issues. In decentralized purchasing departments the users and technical experts have much power over the purchasers, while centralized purchasing departments have power to use their power over the local users. This can however often lead to conflicts between buyers and users. (Hutt & Speh, 2007, pp. 73-75.)

Van Weele identifies more product-specific variables affecting the purchasing process. First of these is the characteristics of the product. The decision on the purchase of raw materials differs significantly from making an investment. The difference is based on the differing technical complexity and supply risk involved. The technical specialists are the ones usually making decisions about technologically complex purchases. Purchase of high-volume, standard grade products, such as raw materials, is often made by higher management and financial managers. Routine products in turn are often purchased by lower tiers of the organization. (van Weele, 2010, p. 24.)

The second variable is the amount of money involved in the purchases. As mentioned before, purchases involving high amounts of money are of special import to the top management. (van Weele, 2010, p. 25.)

The third variable is the degree of risk related to the purchase. As the risk of the purchase grows higher, more experts from different disciplines are involved in the process. The risk of purchase decreases, when company gains more experience in purchasing a certain product or type of product. (van Weele, 2010, p. 25.)

The final variable is the degree to which purchased product affects existing routines in the organization. The decision-making process is more complex when the purchase requires adjustments in the internal organization and training for employees, for example, new computer systems. In such purchasing decisions more departments and experts of different functions are involved. (van Weele, 2010, p. 25.)

2.3.3 Group interpersonal forces

Next category of factors is the group forces. Organizational purchasing process often involves many smaller decisions that are made or influenced by various individuals. The involvement of group members is often more pronounced in the more complex and new purchasing situations. (Hutt & Speh, 2007, pp. 75-76.) The collective of people involved in the purchasing process is called a buying center (Webster & Wind, 1972a, p. 63; Hutt & Speh, 2007, p. 76). Van Weele (2010) uses the term decision-making unit for the same group, and it is the term that I will be using in my study, since in my opinion it describes the function of the group better.

Organizational purchasing processes are very complex. They always involve more than one person which means the decisions are made in a group. As mentioned, this group is referred to as the decision-making unit (DMU). The DMU consists of members with different roles: users, influencers, buyers, decision-makers and gatekeepers. (van Weele, 2010, pp. 27-28.)

Users are the people who will work with and use the purchased product (Webster & Wind, 1972b, p. 17). Users are either an individual or a group. Their input is important when it comes to the specification and selection of the product. (van Weele, 2010, p. 28.) Users are sometimes the people who initiate the action of purchasing, when requesting some product (Hutt & Speh, 2007, p. 77; Webster & Wind, 1972a, p. 78). They can also be involved in determining the specific purchase requirements. They can have a positive or negative effect by requesting new goods or refusing to work with goods from a certain supplier, respectively. (Webster & Wind, 1972a, p. 78.)

Influencers affect the outcome of the purchasing process through solicited or unsolicited advice (van Weele, 2010, p. 28). Influencers directly or indirectly influence the decision-making by providing criteria and information for evaluation of different alternatives (Webster & Wind, 1972b, p. 17). For example, architects influence the choice for materials in buildings. (van Weele, 2010, p. 28). The influencers can also be external, since often consultants are brought in for high-tech purchases (Hutt & Speh, 2007, p. 78).

Buyers are the people that have the authority and responsibility to negotiate the terms and conditions of the contract with the supplier (Webster & Wind, 1972b, p. 17; van Weele, 2010, p. 28). While they have the formal authority of negotiating the contract, the choices left to them can be severely limited by the formal and informal influence of other DMU members. For example, the technical specifications might have been drawn up to favor certain supplier or suppliers. Depending on the nature of the buying task, the greatest power of buyer often lays in the selection of feasible suppliers to consider. (Webster & Wind, 1972a, p. 79.) They are also the ones who will actually place the order. Buyers are often different from the users. (van Weele, 2010, p. 28.)

Decision-makers, or deciders, are the professionals who have the authority to choose buying actions among all the alternatives (Webster & Wind, 1972b, p. 17). They also have the formal or informal power to determine the final selection of supplier (Webster

& Wind, 1972a, p. 79). Van Weele (2010, p. 28) describes the role in a broader sense. Instead of just having the authority to decide on an action, the decision-makers can make the decision in different ways. For example, the decision-maker can be a designer who specifies the products in such a way that a specific supplier is the most obvious choice. Often there are already some positive experiences with such a supplier. The decision-maker can also be the person who controls the budget. (van Weele, 2010, p. 28.)

Lastly, there are gatekeepers. They are the people controlling the flow of information between the supplier and the members of the DMU (Webster & Wind, 1972a, p. 79; Webster & Wind 1972b, p. 17; van Weele, 2010, p. 28). For example, a secretary can screen contacts with some suppliers. Buyer can also be the gatekeeper, through being able to decide whether to put some supplier's documentation into circulation within the organization. (van Weele, 2010, p. 28.)

The role distribution can be quite complex. For example, there might be several users. In addition, every member of the buying center can be considered an influencer, but not every one of the influencers occupy other roles within the DMU. (Webster & Wind, 1972a, p. 77.)

Table 1. The stages different members of the DMU are involved in, reproduced from Hutt and Speh (2007).

	User	Influencer	Buyer	Decider	Gatekeeper
Identification of need	X	X			
Establishing specifications and scheduling the purchase	X	X	X	X	
Identifying buying alternatives	X	X	X		X
Evaluating alternative buying actions	X	X	X		
Selecting the suppliers	X	X	X	X	

The different members of the DMU have different evaluation criteria used to compare products and services. Users might value prompt delivery, while buyers might value

maximum price advantage, and low-cost shipping and forwarding. (Hutt & Speh, 2007, p. 80.) Table 1. identifies the stages that different types of DMU members are involved in.

2.3.4 Individual forces

Ultimately the purchasing decision is made by individuals, instead of organizations. The DMU members each have their own personality, experiences, organizational functions and views on how to best achieve both personal and organizational goals. People perceiving to have personal stake in the decision, participate more forcefully in the decision-making. (Hutt & Speh, 2007, p. 80.) The personal decision-making can be affected through purposes beyond the individual's own. For example, they can be acting on the behalf of others. Therefore, to understand organizational buying behavior, it is necessary to understand the behavior of individual buyers. (Webster & Wind, 1972a, p. 88.)

The individual behavior can be considered to be a function of three factors. First one is the person's personality, cognitive structure, motivation and learning process. Second is the person's interaction with the environmental situation. Third and final factor is the person's preference structure and decision model. (Webster & Wind, 1972a, p. 89.)

Personality is defined as the dynamic organization of the individual's psychological systems determining their characteristic behavior and thought. It is one of major determinants of the way an individual acts in their environment. This means that individual's behavior in purchasing process is dependent partly on his personality. Individual's position's strength depends on for example their extrovertism, authoritarianism and willingness to lead and dominate. (Webster & Wind, 1972a, p. 90.)

The role inside the organization determines significantly the behavior of an individual in the buying situation. The role of an individual is formed by three components: prescribed, subjective and enacted role. The prescribed role consists of the expectations of the social world regarding the behavior of someone in the position in question. Subjective role in turn consists of the expectations the individual has regarding his own behavior towards people in other positions. Finally, the enacted role consists of the actual behavior of the individual when interacting with people of other positions. (Webster & Wind, 1972a, p. 93.)

The next element is motivation is a general term for the drivers of an individual's behavior. Wishes, needs, desires and goals are just some of the terms fitting under motivation. (Webster & Wind, 1972a, p. 94.) Motivations can be divided to task and non-task variables. Task variables are defined as relating specific buying problem that is to be solved. It essentially means that the buyer has to find a suitable supplier regarding quality, quantity and price. Choosing the suitable supplier is however not that simple, since there are different views on what suitable is for different people influencing the buying decision. (Webster & Wind, 1972b, p. 19.) For example, engineers will most likely mainly focus on the technical aspects of the product, while logistics planner focuses on the logistic aspects of the purchase (van Weele, 2010, p. 25).

The non-task variables in turn are related to the personality of the professional. Non-task variables can be divided into two categories: achievement and risk-reduction motives. Achievement motives relate to personal advancement and recognition, for example a desire for a promotion. Risk-reduction motives in turn depends on the individual's perception of risks in the buying situation related to uncertainty. There can be uncertainty about the alternatives, uncertainty about the outcomes of these alternatives and uncertainty about the reactions to outcomes by other people. For example, a buyer might see the uncertainty of how choosing one alternative is evaluated and rewarded as a risk. (Webster & Wind, 1972b, p. 19.)

The task and non-task related variables can be identified also on a departmental level. For example, purchasing department might try to strengthen its culture's position in the organization, which can create problems with other departments and lead to suboptimal decisions. Another example is that in organizations with highly informal organizational cultures might have difficulties in introducing formal purchasing procedures. (van Weele, 2010, p. 26.)

After motivation, next element is cognition. It is the individual's process of receiving information from the environment and interpreting it. Cognition consists of two elements: sensation and perception. Sensation is the response of senses to the stimuli in the environment. Perception, in turn, is the process through which the individual chooses and interprets the stimuli. (Webster & Wind, 1972a, p. 96.)

Learning is the next element. It is the influence of previous behavior to current behavior. For example, if a buyer has found a supplier with acceptable results, he might not be willing to consider new ones so easily. Only when the level of supply becomes unacceptable, will the buyer consider other options. (Webster & Wind, 1972a, p. 98.)

The characteristics mentioned above, and mental processes interact with each other and create the individual's predispositions, preference structures and decision models. Predispositions and preferences can both be considered as tendencies to act in a particular way toward a particular object in the environment. These factors reflect the buyer's characteristics and may affect his response to marketing stimulus. They include both affective and evaluative factors which leads the buyer to respond either positively or negatively to particular situation. (Webster & Wind, 1972a, p. 99.)

There are two types of models for decision-making for the buyer: dominant and multiattribute. One of dominant type decision models is the perceived risk model. Its focus is on the individual's viewpoint and it views buying as a problem-solving situation. It is a function of the individual's uncertainty about a particular action's outcome, and

the consequences related to the alternative outcomes. This model is based on the individual's need to attain personal goals, satisfying personal needs and reducing the amount of perceived risk. There are several strategies available to reduce the perceived risk, such as lowering the goal and loyalty to suppliers providing acceptable results. (Webster & Wind, 1972a, pp. 100-102.)

Multiattribute decision models in turn, is focused on the need to evaluate multiple attributes, when for example selecting suppliers. These attributes might have drastically differing values. A supplier could have excellent delivery, but abysmal customer support. These attributes are considered through four models: conjunctive, disjunctive, lexicographic and compensatory. In conjunctive model, each evaluated attribute is given a minimum value. If even one of the attributes do not meet the minimum value, the supplier is not considered further. In disjunctive model, a supplier needs to meet at least one of the minimum values set to attributes. In lexicographic model, the attributes are organized hierarchically based on their importance. The attributes are considered from the most important to the least. The supplier that has a higher attribute in the most important attribute is chosen even if the less important attributes are lower than those of other suppliers. Finally, the compensatory model is based a higher attribute can compensate for a lower attribute. For example, supplier's great delivery service can compensate for a disappointing customer service. (Webster & Wind, 1972a, pp. 105-106.)

Table 2. Variables affecting purchasing process.

Environmental forces	Organizational forces
<ul style="list-style-type: none"> - Physical factors: geographical locations, availability of suppliers, etc. - Technological factors: communication and transportation systems, data processing capabilities etc. - Economic factors: Price and wage conditions, availability of financial capital, level of employment, price stability, etc. - Political, legal and cultural factors: governmental actions, tariffs, terms of contracts, emotional responses towards and object, etc. 	<ul style="list-style-type: none"> - Buying tasks: the routines of the purchase, the source of the demand and level of centralization of the purchasing responsibility - Buying structure: communication, authority, status, rewards and work flow - Buying technology: technology level of the company - People: the buying center/decision-making unit - Strategic chances in procurement: making procurement a more effective competitive weapon - Organizational role of purchasing: size of the function and centralization level - Product-specific factors: product, price, degree of risk and effect on existing routines of the organization
Group interpersonal forces	Individual forces
<p>Different roles in the decision-making unit (DMU)</p> <ul style="list-style-type: none"> - Users: people who will work with the purchased product - Influencers: people who affect the outcome of the purchasing process through solicited or unsolicited advice - Buyers: the people with the authority to negotiate the terms and condition of the contract - Deciders: the people with the authority to select buying actions among alternatives - Gatekeepers: the people controlling the flow of information between supplier and the members of the DMU 	<ul style="list-style-type: none"> - Individual purchasers are affected by: personality, experiences, organizational functions and views on achieving both personal and organizational goals - Individual behavior is the function of three factors: <ol style="list-style-type: none"> 1. Person's personality, cognitive structure, motivation and learning process 2. Person's interaction with the environmental situation 3. Person's preference structure and decision model - Motivation can be divided into: task and non-task variables <ul style="list-style-type: none"> - Task variables: the specific buying problem that is to be solved - Non-task variables: related to the personality of the professional

The different members of the DMU have different evaluation criteria used to compare products and services. Users might value prompt delivery, while buyers might value maximum price advantage, and low-cost shipping and forwarding. (Hutt & Speh, 2007, p. 80.) Table 2. summarizes the different forces affecting the purchasing process.

2.4 Purchasing process

To analyze the different types of purchasing processes, I will be using three different models from different sources and analyzing the similarities and differences between them. I will be dividing the processes into three stages: pre-purchase, purchase and post-purchase phase.

Table 3. van Weele's (2010) purchasing process model.

	Define Specification	Select Supplier	Contract agreement	Ordering	Expediting	Evaluation
Purchase Role	Get specification	Assure adequate supplier selection	Prepare contract	Establish order routine	Establish expediting routine	Assess supplier
Elements	Functional specification	Prequalification of suppliers	Contracting expertise	Develop order routines	Expediting	Supplier evaluation
	Technical changes	Request for quotation	Negotiating expertise	Order handling	"Troubleshooting"	Supplier rating
	Bring supplier knowledge to engineering					

Table 4. Kron and Wallgren's (2010) purchasing process model.

Need and total cost analysis	Supplier market analysis	Strategy	Invitation for tenders	Evaluation of tenders	Negotiation and contract	Notice to proceed	Supplier cooperation	Monitoring
Concept			Procurement			Notice to proceed & taking care of the contract		

Table 5. Wallace and Xia's (2015) purchasing process model.

Strategic Sourcing Team Meeting	Assessing the Supply Market	Developing the Sourcing Strategy	Executing the Sourcing Strategy	Implementation and Integration of the Contractual Agreement	Supplier Performance Measurement and Improvement	Maintenance of Records and Relationships
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Above are the purchasing process models used in this study. Tables 3.-5. show the different steps in van Weele's (2010), Kron and Wallgren's (2010) and Wallace and Xia's (2015) purchasing processes.

2.4.1 Pre-purchase phase

First model I am analyzing is adapted from van Weele (2010, p. 29). In this model the first step is defining specification. This means that the purchasing department receives information that some product needs to be purchased. This is the result of management deciding to buy the product instead of making it in-house. When the purchase requirement is received, the purchasing department needs to get specifications on it. (van Weele, 2010, p. 32.)

There are two types of specifications: functional and technical. The functional specification describes the functionalities the product must have for the user. Technical specification in turn includes the product's technical characteristics and properties. In addition, it includes activities that the supplier needs to perform. These specifications are advantageous when used properly. The functional specification allows suppliers best opportunity to apply their expertise, and even use new technology, while it also creates one clear standard for evaluating all the suppliers. Technical specifications, if not over-specified, can be a great way to provide technical drawings and activity schedules for the supplier to monitor their activities. Over-specification of requirements can lead to higher cost, with no betterment of functionality. Both of the specifications mentioned above are part of a larger whole named purchase order specification. It includes other specifications and requirement in addition to those already discussed. Examples of these are quality and logistics specifications, and target budget. (van Weele, 2010, pp. 32-33.)

The next step is supplier selection and assessment. This means that the purchaser starts the supply market research. Often already in the specification phase, the specifications

direct the company towards certain suppliers the company has in mind. The supplier selection proceeds as follows: First, the method of subcontracting is defined. Secondly, suppliers are preliminarily qualified and added to a bidders list. Thirdly, the request for quotation (RFQ) is prepared and the received bids are analyzed. Final step is the selection of the supplier. Another important decision to be made is whether to subcontract for example the whole product, or just part of it. These alternatives are called turnkey subcontracting and partial subcontracting, respectively. While partial subcontracting is often lower in overall costs, it requires more effort in project coordination compared to turnkey subcontracting. (van Weele, 2010, pp. 33-34.)

The model used by Kron and Wallgren (2010, p. 14) has many same parts but there are also differences. Like in van Weele's model, the first step is recognizing the need. This is done by an analysis of needs and total costs. When the need is recognized, the supplier market is analyzed for its structure and offerings. Finally, a purchasing strategy is decided on for the purchase. This three-step process is defined as the conceptual phase. Next step is to send out a request to potential suppliers to send in their offers. After this, the offers need to be evaluated. (Kron & Wallgren, 2010, p. 14.)

In the model used by Wallace and Xia (2015), the first step is annual strategic sourcing team meeting. This first step includes the determination of the scope and scale of the products purchased. In addition, this meeting should lead to an understanding of the specifications and requirements for the products that are needed. In this meeting, there can also be sharing of information on new sourcing opportunities. There are four important actions to be taken in this meeting regarding purchasing. First is defining the current needs of the company. Procurement often becomes involved when either new or existing need is recognized. If there is a recommended supplier for filling the need, it is usually used. However, if there has been issues with for example quality and on-time delivery with the supplier, there could be a call for change of supplier. The procurement process begins when the need is recognized. The recognition of need can come from a variety of different functions inside the company. (Wallace & Xia, 2015, p. 9.)

The next action that should be taken in the meeting is defining and evaluating internal requirements. In this action, the defined requirements should be complemented with a set of criteria, so that is easily understandable for the suppliers. (Wallace & Xia, 2015, p. 10.)

The following step is defining whether to make the product or buy it. When the needs are clear, the company needs to decide whether to make the product or service itself or outsource it. Increasingly more noncritical components of the operations are outsourced, because of the focus on core competencies. (Wallace & Xia, 2015, p. 10.)

Sustainability and the so-called “triple bottom line” need to be considered next. The sourcing team should consider how the company creates and sustains value for its stakeholders. The sourcing should work in accordance of these agendas. For example, the viability of the company, employees, economy and environment should be taken into consideration. (Wallace & Xia, 2015, p. 10.)

Following this, the next step in Wallace and Xia’s model is assessing the supply market. In this step, the company should identify all potential sources of supply. In addition to this, the company should have viable mechanisms for comparing the suppliers. The potential suppliers should also be pre-screened, meaning they should determine what parts of the product to be purchased are critical needs and what parts negotiable wants. The company should also try to reduce the complexity of the purchase. This can be done by finding ways to buy fewer varieties of products. Standardization can help in this case. (Wallace & Xia, 2015, p. 11.)

The development of a sourcing strategy is the next step in the process. The sourcing strategy defines the dimensions of the purchasing process as well as the steps in it. The basis of the sourcing strategy is formed through due diligence. This means initial research and screening of potential suppliers. Requesting information and proposals, discussions and site visits and, lastly, supplier selection. Request for information (RFI) is

meant to help with establishing whether a supplier has resources, capabilities and processes suitable for it to warrant a more extensive analysis. Request for proposal (RFP) is used in getting specific answers to the purchasing company's needs and wants. Essentially RFP is the way the company would respond to the request of the purchasing company. (Wallace & Xia, 2015, p. 12.)

2.4.2 Purchase phase

Van Weele's process continues with the negotiation and contracting. There are changing variables depending on different purchase situations, which means that the use of standardized contracts is limited. These variables can include specific commercial and legal term and differences caused by for example, market situation. There are several important aspects to consider in the negotiations and contracting. First aspect is prices and terms of payment. There are four different ways the price can be agreed on. First alternative is fixed price plus incentive fee. This consists of a fixed price, with an incentive on top of it, if the work exceeds an agreed-upon standard. Second alternative is cost-plus contract. This type is often used when the extent of the work is not known to the buyer in the beginning. The costs of the work are reimbursed, with a reimbursement on top of that for profit of the supplier. Cost-reimbursable contracts differ some because it is usually based on fixed hourly rates for both labor and equipment. Finally, there is the escalation clause that might be incorporated into the agreement. This is often used in long-term contracts, where the contract takes into consideration the possible changes in external factors, such as raw material prices. (van Weele, 2010, pp. 37- 38.)

In contractual negotiations it is important to also define the term of payment. In many cases, when capital goods or installations are purchased, the payment is paid in several terms. Part of a reason for this is that in such cases, the suppliers often need to make significant investments to be able to deliver the promised product or service. The

amount of payment per term is most often linked to the completion progress of the work. For example, when 25 percent of the work is complete, 20 percent of the payment is paid. The remaining 5 percent is paid when the functionality and quality of the work completed is checked. (van Weele, 2010, pp. 38-39.)

General purchase conditions set by several large companies include a determination that the suppliers must guarantee the good quality, and accordance with the delivered specifications, of the delivered product. In addition, there are other guarantees the supplier needs to make, such as that the product is completely new. (van Weele, 2010, p. 39.)

Important aspect of the contract is also to determine to which legal system the contract will be subjected. This might require negotiation if the buyer and supplier are in different countries, since the supplier often wishes the legal system that is followed to be that in which they operate. Regardless of the legal system, the products should be safe for people, property, and environment. (van Weele, 2010, p. 39.)

Penalty clauses are another subject that should be negotiated on. If the negotiating parties have made an agreement on a performance guarantee for an investment for example, there should be some clause for a situation, where the guarantee is not met. In such a situation, first step is for the supplier to try to correct the inadequacy in the performance. If it does not work, the penalty clause takes effect, to recover the resulting costs from the supplier. (van Weele, 2010, p. 39.)

The liability period and systems responsibility have to be determined also. The supplier's responsibility of the reliability and function of the product is most often limited, and the length of this time should be decided. Also, it is important to determine how long the supplier has to be able to provide, for example, spare parts and systems support. (van Weele, 2010, p. 39.)

After the contract is finalized, it is time for ordering. In some cases, the ordering happens already when the contract is signed. However, the contract can also be for a routine buying situation, where it includes a call-off agreement, which includes the products needed for a longer period of time. The orders will later be made with the terms determined in the contract. (van Weele, 2010, p. 42.)

The purchase order is often generated through a purchase order requisition or materials requisition. These requisitions can be added manually, or they can automatically be sent, when the material situation in the warehouse falls below a certain pre-determined level. After this the purchase order is sent. It is important that the purchase order has specific information and instructions for the supplier, such as an order number and expected delivery time or date. The response from the supplier to the order should be the sending of an order confirmation. The steps I mentioned above are such, that if the preparation is done adequately, there is less work in the ordering stage. (van Weele, 2010, p. 42.)

In Kron and Wallgren's (2010, p. 14) model a contract is negotiated with one or more of the suppliers the company received offers from. This phase is called the procurement phase. the next step after contracting is also placing the order according to the contract made with the supplier. (Kron & Wallgren, 2010, p. 14.)

Executing the sourcing strategy is the next step in Wallace and Xia's (2015) model. It begins with an evaluation of the suppliers that passed the RFI and RFP stages mentioned in the previous subchapter. This evaluation concludes with the selection of the supplier and awarding the contract to them. Those suppliers that have passed the RFI and RFP screening are deemed acceptable to provide the buyer's needs and wants. The ease of choosing the supplier is dependent on the type of product or service that is needed. If the need is for a routine product, with many suppliers, competitive bidding can be used to choose the suitable supplier. The evaluation needs to be more elaborate when the product or service is more complex. The choice of the most suitable supplier is

important, since it defines the future possibilities of for example collaboration and trust between the companies, and whether the relationship can be made into a more significant alliance between the companies. (Wallace & Xia, 2015, pp. 12-13.)

The fifth step in the Wallace and Xia's (2015) model is the implementation and integration of the contractual agreement. This step consists of the finalization of the agreement, planning the transition process and defining how the reception of the specified products is done. Proper reception of the products is important, since it serves many purposes. It confirms the products have actually arrived in the right amount, checks the condition of the shipment, forwards the shipment to its proper destination and ensures the proper documentation is included in the shipment. This is also the step in which the procurement department starts gathering necessary performance data for the evaluation of suppliers. (Wallace & Xia, 2015, p. 14.)

2.4.3 Post-purchase phase

In van Weele's (2010) model, the work of a buyer does not end when the product has been ordered. What often creates work for buyers, is when things do not go according to the plan. For example, expediting is often required to make sure that the supplier keeps their side of the agreement. The possible warranty claims, and adjustment work orders are made by the buyer also. In addition, the supplier and purchase files need to be kept up to date. The ability of the supplier to provide promised maintenance and spare parts needs to be monitored, when the time for those operations comes. It is also important that the relationship and communication with the supplier is clearly documented, since it helps the buyer evaluate and rate the supplier. Suppliers that are identified as reliable and capable, can be given the chance to bid on other purchase needs. (van Weele, 2010, p. 43.)

The next step in Kron and Wallgren's (2010) model is cooperation with the suppliers (Kron & Wallgren, 2010, p. 14). Based on the context and phase relative to that of van Weele's model, I consider it probable that this cooperation step involves such actions as monitoring the delivery and expediting. The last step in the model is follow-through. Again, there is no additional description of this step, but the context and stage are such that it can be assumed that this step includes similar tasks as van Weele's model. These tasks are documentation, evaluation and rating (van Weele, 2010, p. 43). In addition, in the end of the follow-through step, the model starts again from the conceptual phase, with a better understanding of the situation and needs (Kron & Wallgren, 2010, p. 14).

The sixth, and second-to-last, step of Wallace and Xia's (2015) model is supplier performance measurement and improvement. The suppliers are evaluated based on their performance especially regarding elements such as time, quantity and place. Because the product or service is useful to the consuming organization only when they have it, availability is a very important factor. The evaluation of availability is however complex since it depends on the delivery frequency, stock levels, order cycle and other factor affecting it. The final step is the maintenance of records and relationships. In this step all necessary documents involving the relationship with the supplier is archived for different lengths of time depending on legal requirements as well as the accounting standards and company policy. (Wallace & Xia, 2015, pp. 14-15.)

2.4.4 Analysis of the differences and similarities in the purchasing processes

The three purchasing processes presented above have many similarities between them, but there are also some differences between them. Below in Table 6., I identified the steps that were present in all, or at least two of three purchasing processes.

Table 6. The joint structure of the purchasing processes.

	Need recognition	Supplier market analysis	Strategy work	Negotiation and contracting	Implementation of the contract	Cooperation with the supplier	Evaluation and monitoring
van Weele	X	X		X	X	X	X
Kron & Wallgren	X	X	X	X	X	X	X
Wallace & Xia	X	X	X	X	X		X

There are differences in the way that the need is recognized. For van Weele, it was that the need is communicated from another department and is basically not part of the purchasing process. In Kron and Wallgren's model it is done through total cost and needs analysis and Wallace & Xia view it as part of strategic sourcing team meeting, in which needs and the ways to respond to them are discussed.

Supplier market analysis in turn is quite similar in all three models. It includes the analysis, prequalification and request for quotations of the supplier market. There are differences in the order from this point forward between the models. Van Weele and Wallace & Xia's model includes the request for quotation in this step, when Kron and Wallgren's model does some strategy work before the request for quotation. This is the reason why supplier market analysis is before strategy work. Strategy work consists of developing a suitable sourcing strategy and its implementation. Wallace & Xia's model has this strategy work also, but only after the request for quotation. Because of the interconnectedness of these two steps, they are only one step together in the joint structure model.

Next is negotiating and contracting. This is very similar stage for each model, which includes the negotiation of the details of the contract and awarding the contract to the "winner(s)" of the negotiations. While van Weele's model goes straight into negotiations, Kron and Wallgren and Wallace and Xia's models include some evaluation in this step because the choice with which suppliers to negotiate is made before starting negotiations.

Next step for every model is the execution or implementation of the contract, meaning the placement of the order. Wallace and Xia's model is the most detailed in this phase, since they describe the need to integrate the contract to operations, for example through effective reception of the products.

The two next steps are essentially the same for all the models. The cooperation with the supplier is present for both van Weele, and Kron and Wallgren's models, while the Wallace & Xia's model's step is not described in detail. The actions in this step are the expedition and monitoring of deliveries for example. Finally, all models evaluate and monitor the supplier performance through for example relationship management and documentation.

Table 7. The general model of purchasing.

Recognizing the needs	Supplier market analysis and strategy work	Negotiation and contracting	Implementation of contract	Supplier cooperation	Evaluation and monitoring of supplier performance
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The analysis of the different models led me to make a general model of purchasing (Table 7.), that I will be using in this study in comparison to the empirical part.

2.5 Elements of value in B2B

Almquist, Cleghorn and Sherer (2018) have identified several elements that create value for a B2B purchaser. They organized these elements into a pyramid, with the elements that produce the most objective type of value at the bottom and those that offer value of a more subjective type are on the top of the pyramid. The pyramid's base consists of the table stakes elements. These are essentially the minimum elements offered to be able to do business. There are such elements as meeting specifications, having acceptable price and complying with regulations.

The next level of the pyramid focuses on the functional value. These represent the purchasing company's economic and product performance needs. This level includes elements such as cost reduction and product quality. This level is very significant, since the B2B companies, both buyers and sellers, focus most on this level of elements. (Almquist, et al., 2018, p. 75.)

The third level of the pyramid consists of the elements that make it easier to do business. It also has the highest number of different elements of any of the levels. These elements are further divided into categories based on the value they offer. These categories are: productivity, access, relationship, operational, and strategic. This level has both elements offering objective value and those that offer a more subjective value. Example of the elements that require judgement by the buyers is the cultural fit. (Almquist, et al., 2018, p. 75.)

The fourth level is focused on the elements of subjective value offered to the buyer. The level is named as individual value and it consists of two types of elements: career and personal. Personal elements are for example reduced anxiety and pleasing design and aesthetics. Career category includes elements such as network expansion and reputational assurance. (Almquist, et al., 2018, p. 75.)

The top level of the pyramid consists of more inspirational elements. The element of vision can offer value through improving the customer's vision of the future. Hope element in turn can offer value through offering hope in the future to the customer or individual buyer. Final element of social responsibility offers value through enhancing the customer's social responsibility. (Almquist, et al., 2018, p. 77.)

The elements at the lower levels of the pyramid have long been easy to measure and therefore competing in them has been straightforward. The upper levels with the more emotional values have been more difficult to quantify and they are therefore harder to

implement to be used in competition. The more subjective and emotional elements are used increasingly in the differentiation of a product or service. This is due to the fact that modifying the product and making it easier for the customer to purchase is easier than mastering the total purchasing experience, including those more intangible, subjective and emotional elements. In IT industry, seven of the ten most important elements for customers were in the level of ease of doing business. Therefore, it seems that at least in IT industry it is important to excel both in objective and subjective elements. (Almquist, et al., 2018, p. 77.) While these results focus on the IT industry, it is probable that there are similarities to other industries as well.

The mastering of several elements is advantageous for the seller. Better performance in multiple elements correlates significantly to customer loyalty. Strong performance in multiple elements have an effect on the repeat purchases made. In IT industry 43 percent of customers wished to make repeat purchases from strong performers, that performed excellently in 6 or more elements. This percentage was 21 percent regarding those companies that excelled at no elements. The elements that the companies excel in were those above table stakes, since they are the elements that need to be excelled to be able to do business. (Almquist, et al., 2018, p. 77.)

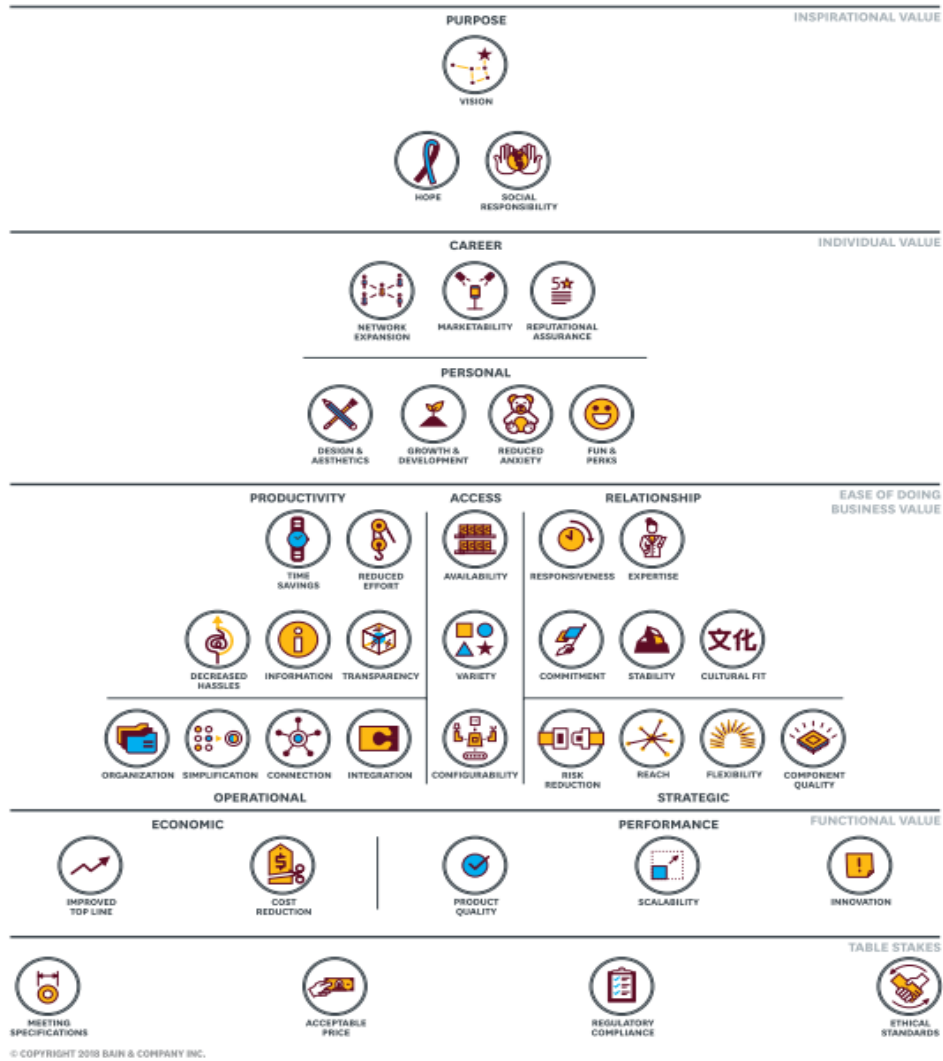


Figure 1. The elements of value in B2B purchasing (Almqvist, et al., 2018).

Figure 1. presents all the elements discussed above on their hierarchical structure.

2.6 Analysis and summary of the purchasing process and factors affecting it chapter

There are several factors affecting the purchasing decision-making process, and they are divided into four categories: environmental, organizational, group interpersonal and individual forces. Group interpersonal forces describe the different group and individual

dynamics of the people involved in the purchasing process. This is going to be especially useful for the analysis section, since it allows the recognition of different roles of the purchasing decision-makers.

The comparison of the three different purchasing processes and dividing them into phases allowed for the creation of the general model for purchasing to be used in this study. It allows for the comparison of the interviewees' answers regarding purchasing processes to be compared to this model, which allows the comparison of theoretical and empirical comparisons.

3 Supplier selection criteria

In this chapter, I will be analyzing the supplier selection criteria used in organizations. I will present different supplier evaluation and selection criteria identified by various authors.

3.1 Supplier Evaluation

Supplier selection criteria is defined as the characteristics a buyer considers while determining whether to approve potential vendors (Feinstein, Hertzman & Stefanelli 2017, p. 88). Much of the research in supplier selection process is directed to creating an effective supply chain, while investments are often not part of supply-chain. However, the supplier criteria used for supply chain suppliers can to some extent be utilized in investments also.

Supplier quality evaluation criteria were first proposed in 1966 by Dickson. Pham (2015) presented in the form of Table 8. (Duica, Florea, & Duica, 2018, p. 51.)

Table 8. Dickson's Supplier Quality Evaluation Criteria, adapted from Pham H. 2015 (Duica et al., 2018, p. 51).

Rank	Attribute	Rank	Attribute
1	Quality (extreme importance)	13	Management and organization
2	Delivery (considerable importance)	14	Operating controls
3	Performance history (average importance)	15	Repair service
4	Warranties and claim policies	16	Attitude
5	Production facilities and capacity	17	Impression
6	Price	18	Packaging ability
7	Technical capability	19	Labor relations record
8	Financial position	20	Geographical location
9	Procedural compliance	21	Amount of past business
10	Communication system	22	Training aid (average importance)
11	Reputation and position in industry	23	Reciprocal arrangements (slight importance)
12	Desire for business		

Table 9. Different Supplier Evaluation Criteria Used Across Literature, reproduced (Kumar Kar & Pani, 2014, p. 91).

Product quality	Delivery reliability	Warranties
Product pricing	Production capability	Technical capability
Management capability	Supplier's reputations	Financial position
Labor relations	Service quality experience	Past business records
Reciprocal arrangements	Cultural fitment	Communication barriers
Geographical distance	Foreign exchange rates	Trade tariffs
Trade restrictions	Buyer's commitment	e-transaction capabilities
Quality management	IT standards	Cost reduction capability
Documentation	Design capability	Supply variety
Lead time/response time	Indirect costs	Response flexibility
Innovation	Facility planning	Safety adherence
Domain experience	Exporting status	Conflict resolutions systems
Customs duties	Product line diversity	Intimacy of relationships
Inventory position	Electronic data interchange	Value-added productivity
Total cost of acquisition	Risk perception	Certification and standards
Research and development	Organizational culture	Availability of parts
Sub-component pricing	Regulatory compliance	Self-audits
Billing accuracy	Cost reduction performance	Indirect costs
Service quality credence	Supplier's commitment	Skill level of staff
Exporting statuts	Packaging capability	Intellectual property rights
Data administration	Improvement commitment	Procedural compliance

As can be seen in Table 9., there are a significant number of different criteria for supplier evaluation. Kumar Kar and Pani (2014) found that it is necessary to identify those evaluating criteria that would be of paramount importance across most industries and procurement contexts.

Table 10. Supplier selection criteria, adapted from Wallace & Xia's (2014, p. 13).

Area of Focus	Specific Criteria
Quality	Technical specifications Reliability (MTBF) Maintenance (MTTR) Product life Ease of repair Durability (life span) Dependability
Reliability	On-time delivery Performance history Warranty and replacement policies
Risk	Cost risk Potential for supply uncertainty Lead time risk and uncertainty
Capability	Production capability Technical capability Management style Operating controls; SQC Labor relations
Financial	Terms and conditions of purchase Financial stability of supplier
Ease of doing business	Vendor attitude and cultural compatibility Level of trust and collaboration Packaging Communications Supplier location(s)

Wallace and Xia (2015), categorized supplier selection criteria for procurement. This categorization is presented in Table 10. First category is quality. It consists of technical specifications, maintenance, ease of repair, product life, reliability, life span and dependability. The second category, reliability, consists of on-time delivery, performance history and warranty and replacement policies. The next category is risk,

consisting of cost risk, potential for supply uncertainty and lead time risk and uncertainty. Fourth category is capability. It includes production and technical capability, management style, operating controls and labor relations. (Wallace & Xia, 2015, p. 13.)

3.1.1 Evaluation while searching for suppliers

Companies searching for suppliers often look for information available publicly and without too much effort (Iloranta & Pajunen-Muhonen, 2012, p. 237). The buyers can compile a list of qualified suppliers by doing online searches, reviewing trade directories or asking for recommendations from other companies. Internet is a good medium for searching for suppliers, since smaller companies can be more visible there, and the buyer can make a more informed decision between suppliers. (Kotler, Armstrong, Harris & Piercy, 2017, p. 177.) I will describe the different information sources later in the chapter.

Firstly, they seek general information about the potential supplier. This information includes the primary industry of the supplier, the size of the supplier and its internationality. (Iloranta & Pajunen-Muhonen, 2012, pp. 237-238.) The size affects the capability to produce higher volumes and the availability of higher number of different products. International and national suppliers can offer the best price and technical service, while more local suppliers can adjust better to changing needs and make rapid smaller deliveries. (Monczka, et al., 2016, p. 255.) It also includes information on whether the supplier has any references, what kind of customer experiences has others had with the supplier, and if there is any financial information about the profitability and financial "health" of the supplier or that of its mother company. (Iloranta & Pajunen-Muhonen, 2012, pp. 237-238.) The financial condition is often used even as a screening criterion, to decide whether to evaluate the supplier further. The selection of a supplier in a poor financial condition entails several risks. The first risk is the possibility of

bankruptcy for the supplier. Other risks include the supplier not being able to invest in long-term advancement, and that the supplier might become too dependent on the purchasing company. The poor financial condition can also be an indicator of underlying issues in the company, such as reckless spending or unprofessional management. (Monczka, et al., 2016, p. 269.)

The company also searches for information on whether the supplier is the manufacturer or supplier of the product. Which one is more suitable is chosen based on the decisions made in the sourcing strategy. For example, while product's manufacturer usually has the cheapest price, they might not have the capability to handle larger volume sales. (Monczka, et al 2016, p. 255.)

Additionally, the companies search information on the business environment of the potential supplier. The companies seek information on the capabilities of the supplier for competitive changes in their products cost factors, and whether these changes are supported by their operating environment. Also, information is sought on the industry's profitability, competition and future. Lastly, the supplier's home country's economic development and political stability is evaluated. (Iloranta & Pajunen-Muhonen, 2012, p. 238.)

Last category the companies are seeking information on this way is the information regarding the service or product they are looking for. The sought-after information is about the importance of the product or service to the supplier, the importance of the product or service in the area it is sought for, and whether the product is the result of the supplier's knowhow or that of a larger knowledge cluster. In addition, the supplier's willingness to internationalize with the product or service in question is evaluated. Additionally, information is sought on how advanced is the supplier's technology and what is their market strategy, meaning are they for example low-cost producer or do they focus more on differentiation. (Iloranta & Pajunen-Muhonen, 2012, p. 238.) Table 11. shows the criteria mentioned above summarized into a table form.

This information is then used to choose the suppliers that appear to have the capabilities and conditions to serve the company competitively. The suppliers are then contacted and some of the suppliers are dropped from the potential supplier list, when the understanding of the situation betters. Next step is getting information when the potential suppliers send in their offers and proposals. (Iloranta & Pajunen-Muhonen, 2012, p. 239.)

Table 11. Evaluation during the search for suppliers.

Categories	Evaluation during the search for suppliers
General information	Industry of the supplier Size of the supplier Internationality of the supplier How known is the supplier Reputation of the supplier Profitability and financial situation of the supplier
Operating environment	Competitiveness in the costs of wanted product or service Supplier's industry profitability, competitiveness and future development Supplier's home market's economic development and political stability
Information regarding the product that is needed	Importance of the product/service to the supplier Importance of the product/service in the area in question Is the capability supplier's or that of a larger cluster Capabilities and willingness to internationalize with this product/service group Level of the supplier's technology Market strategy of the supplier (for example differentiation or low-cost)

There are different levels of intensity associated with supplier selection in different situations. If the company's current suppliers have high capability and the requirement is of high strategic importance, low to moderate information search is required. If the supplier is capable but the strategic importance of the requirement is low, there is only need for minor information search. In turn, if the capability of the current suppliers is low and the strategic importance is high, there is need for major information search. If both the capability and strategic importance are low, there is need for minor to moderate information search. (Monczka, et al., 2016, p. 250.)

There are several different ways of searching for information on potential suppliers. One way of acquiring information are the current suppliers the company has. This is often done, since the supplier is already familiar and there is no need to add an additional supplier. This approach however might not be the best in the long-term, since it does not allow the purchasing manager to see the alternatives that there are. Another potential source of information is the knowledge of the people working in the purchasing organization. For example, experienced purchasing professionals could have significant knowledge on potential suppliers, since they might have been working in the industry for many years. Important in this source is the organizations ability to collect this knowledge into a database and spread it to the whole organization. There are also other internal sources. For example, different business units might have their own purchasing functions that have experiences with different suppliers. (Monczka, et al., 2016, pp. 250-252.)

Another source of information on suppliers is sales representatives. While, there might not be an immediate need for such a supplier, the provided information can be stored for potential later use. Also, detailed information on sales representatives and their product and service capabilities can often be easily found online. (Monczka, et al., 2016, p. 250.)

Internet searches and social media are also a great way to search for information on suppliers. Purchasers can often find contents, such as facility pictures and some sort of customer list online, in the online material. Also, social media allows the purchaser to study the key employees and managers of the company. (Monczka, et al., 2016, pp. 250-251.)

Trade shows and trade directories and journals can also be used as sources for information on suppliers. Trade shows allow exposure to large number of suppliers at once, and it can be used to gather information on potential suppliers. Trade directories are a collection of information about organizations operating in certain industries. Trade

journals in turn are publications that often focus on a single industry and bring up articles on companies operating in said industry. (Monczka, et al 2016, pp. 251-252.)

There are also second-party and indirect sources. For example, a company can gather information from its other suppliers about potential suppliers that are not direct competitors with the potential suppliers. Also, purchasing professionals from other organizations can be consulted when searching for new suppliers, since they might have experience and knowledge about potential suppliers. Some organizations might even publicly announce their best suppliers, which can be used as a source of information. (Monczka, et al., 2016, p. 252.)

3.1.2 Evaluation of supplier's in offers/proposal stage

The DMU reviews proposals, during which they will often draw up a list of attributes that are desirable in a supplier and their relative importance. Examples of these attributes are product and service quality, on-time delivery, reputation, ethical corporate behavior, competitive prices and honest communication. The suppliers are evaluated based on these attributes and the best suppliers are identified. Often during negotiations, the buyer tries to get even better terms from the already proposed ones. (Kotler, et al., 2017, p. 178.) Next, I will be describing different criteria in more detail.

If the products or services offered by the potential suppliers are identical and are available in same way, price is the only way to evaluate the companies. However, this is not the case almost ever. The differences in products, service, delivery and conditions are so different between potential suppliers, they are difficult to compare clearly. In the offer and proposal phase the company can evaluate the offers to get a better understanding of the potential suppliers. (Iloranta & Pajunen-Muhonen, 2012, p. 239.)

From the offers or proposals can be seen how the potential suppliers have understood the situation of the company, if it is correct and how it is seen in the offer. In addition, the evaluation includes how the offer corresponds with the needs and requirements set by the company. In addition, it is important to note, whether the offer is an answer to the need of the company or are they focusing on irrelevant subjects. This is also a situation, where there is a possibility to notice something the potential supplier proposed, but the company had not thought of originally. (Iloranta & Pajunen-Muhonen, 2012, p. 239.)

In this situation, information on the suitability of the offer is also evaluated carefully. It is considered, whether the proposal is suitable for the company, what distinctive advantages does the proposal offer and what negative sides are there to it. (Iloranta & Pajunen-Muhonen, 201, p. 239.)

The next evaluation is made regarding the costs, advantages and risks. In this category the price is considered in relation to gained advantages and other costs. Also, the risks of the proposal and potential supplier are carefully evaluated. Lastly, it is considered whether there are factors that might change the conditions and capabilities of the potential supplier in short and long period. (Iloranta & Pajunen-Muhonen, 2012, p. 240.) It is also important to analyze the cost structure of the supplier. These costs include for example overhead costs and direct labor costs. This can help the purchaser determine how efficiently the company can produce the required product. However, acquiring this data might be difficult, since the supplier might not even have a detailed accounting of such factors, or they can view the information as highly proprietary, and not wish to share it with the purchaser. (Monczka, et al., 2016, p. 266.)

The conditions for a working relationship are evaluated next. In this category it is evaluated whether the interest of the potential supplier towards the company is genuine or not. Also, the position of the company compared to others as a customer of the potential supplier is evaluated. Additionally, the knowledge of the potential supplier

is evaluated and considered whether it is at a suitable level. Lastly, it is considered how the communication between the company and the potential supplier would work in practice, for example, how would possible problematic situations be handled. (Iloranta & Pajunen-Muhonen, 2012, p. 240.)

Next thing to be evaluated is the capabilities of the supplier. First thing to evaluate is the capabilities and experience of the potential supplier and what are their strengths considering the needed product and service. Next to be considered is whether it is the core capability of the potential supplier that is required for the product or service the company seeks or is it a capability the supplier is not focusing so much on. Lastly, it is considered whether the company has all the capabilities in both knowledge and skill that is required to work with the company. (Iloranta & Pajunen-Muhonen, 2012, p. 240.)

The second-to-last evaluation category is the financial situation of the potential supplier. Firstly, it is evaluated how the potential supplier is faring in the competition of its industry, and why. The profitability of the way the supplier operates in their industry is also evaluated. Lastly, if the profitability has developed anomalously, the validity of the reasons given or deduced for this are evaluated. (Iloranta & Pajunen-Muhonen, 2012, p. 240.)

Table 12. Summary of the different evaluation categories, and what is evaluated in them.

Categories	Evaluation of the suppliers during the offer/proposal stage
Situational understanding	Has the supplier understood the company's situation correctly How the understanding is shown in the offer
Needs and goals	How does the proposal fit the requests and goals of the company Relevance regarding request and needs Is there something new in the offer that was overlooked in the request
The suitability of the solution	Is the proposed solution suitable for the company What distinctive advantages does the offer have What negative sides there are to the offer
Price, costs, advantages and risks	Is the price in relation to the advantages and other costs What risks are there regarding the proposal and supplier Are there some factors that can change the situation in short or long term
The conditions for working relationship	Is the supplier genuinely interested in the company What position would the company have in relation to supplier's other customers Does the company have enough knowledge about the supplier How would the communication between the company and the supplier work in practice How would problematic situations be handled
The capabilities of the supplier	What kind of capabilities and experience does the supplier have The most important strengths of the supplier regarding the requested product/service Is the product/service part of the supplier's core capabilities or not Does the supplier have all the knowledge and skills to operate with the company
The financial situation of the supplier	How is the supplier faring in the competition of its industry, and why How profitable is the supplier's operations Explanation for possible anomalous development in supplier's profitability
Long-term development and future	Capabilities of the supplier's management Willingness for development of the supplier's operations Supplier's owners' visions and long-term goals.

Last category is the future and long-term development. In this category the capabilities of the potential supplier's management are considered regarding their skills and knowledge. In addition, the efforts of the supplier towards developing their capabilities in their operations is evaluated. Additionally, the supplier organizations owner's vision and long-term goals are evaluated. (Iloranta & Pajunen-Muhonen, 2012, p. 240.) Additionally, it is important to think about more deep questions, for example, the willingness or commitment for a long-term relationship and the willingness to commit resources to the relationship are factors that should be evaluated. (Monczka, et al., 2016, p. 271.) Table 12. summarizes the criteria discussed above into a table form.

3.2 Main criteria for switchgear purchases

Power Grid International interviewed ABB's medium-voltage switchgear marketing manager Matt Polk, and G&W Electric's marketing manager Larry Arends about purchasing switchgears. Polk identified three main criteria that utility personnel should look for when purchasing switchgear equipment. First criterion is safety. Safest equipment and practices should be looked for not only for the safety of the personnel and equipment, but safer equipment also reduce insurance payments and increase the reliability of the equipment. (Davis, 2010, p. 43.)

The second identified criterion is the reliability. Increasingly important is the continuity of service since especially in utilities are losing many experienced professionals. This is due to the need to eliminate or at least limit internal maintenance and repair operations to be profitable. The customer base has also become increasingly reliant on utility power, which means that it is important that as much of risk involved in utilities is eliminated. (Davis, 2010, p. 43.)

The third of the most important criteria is diagnostics. Due to factors such as limited maintenance budgets, and pressures in both price and cost, there is an increased pressure to keep the equipment in operations longer. Since many routine maintenance operations might be cancelled due to cost pressure, it is important that the equipment can alert about failures before they occur, or at least diagnose the reasons for failure, which makes the recovery quicker. (Davis, 2010, p. 43.)

Important characteristics to look for in the supplier company of medium voltage switchgears are time-proven quality, adherence to the industry standards and the willingness to cooperate with the buyer regarding the application requirements. These adjustments are increasingly important, but many suppliers are not willing to sell anything but their standard product. Another important thing to note is to not buy based on the first price. While for example, the budget constraints forces companies to choose

the cheapest option, buying the cheapest switch might result in additional costs in for example installation and maintenance. This leads to possibly higher total costs compared to some products whose acquiring price was higher. Additionally, it is important to make sure that the switches are up to industry's standards. (Davis, 2010, p. 43.)

3.3 Summary and analysis of supplier selection criteria

As can be seen above in this chapter, there are a multitude of different supplier selection criteria. In addition, the criteria are divided into those that are evaluated before proposals and offers, and those that are evaluated after. The multitude of selection criteria described might not all even be relevant to this study's context. An example of this would be those involving the long-term relationship between supplier and the purchaser. This is because, the purchase of switchgears is often done quite rarely, it is not a continuing relationship per se. The longer-term relationship that can form between the supplier and purchaser in such a situation is most likely related to service and support agreements in the maintaining and operating the equipment purchased.

Geographical location, trade restrictions, foreign exchange rates and cultural fitment are all examples of selection criteria related to local presence. I will be discussing the level of local presence through different entry modes in the next theoretical chapter.

4 Entry modes

In this chapter I will be describing the different factors that influence the entry mode choice, as well as analyzing the different entry modes, and their advantages and disadvantages, mostly from the perspective of the internationalizing company. In the end of this chapter, I will analyze the suitability of the chosen entry modes to the context of this study.

There are several definitions to the term entry mode. Hollensen (2017, p. 350) defines it as the institutional arrangement used by a company to enter their products and services into a new market. According to Albaum and Duerr (2011, p. 392) entry mode is part of a market entry strategy that consists of entry mode and marketing plan. They refer to Sharma and Erramilli's (2004 p. 2) definition of entry mode. Their definition is as follows:

“...we describe an entry mode as a structural arrangement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e., via export modes), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations).” (Sharma & Erramilli, 2004, p.2.)

I will be using the Sharma and Erramilli's definition of entry mode in this study, since it is clearer and more detailed, which allows for easier understanding of the subject for the reader.

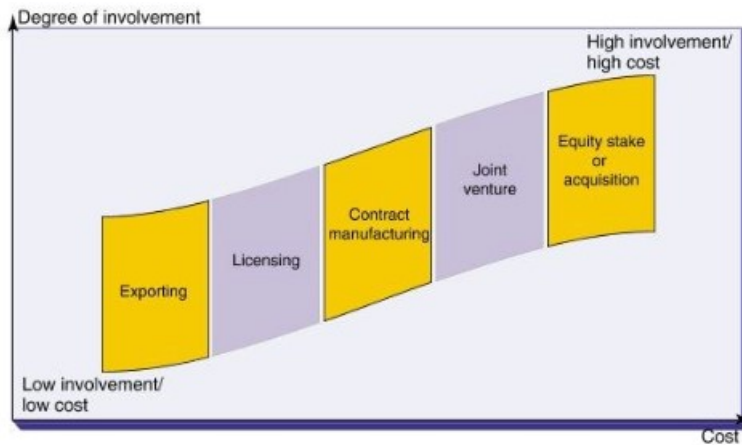


Figure 2. Involvement and investment levels of entry modes (Keegan & Green, 2017, p. 295).

Entry modes can be quite simply categorized based on their cost and degree of involvement. In addition to the entry modes listed in Figure 2., I will be presenting the strategic alliance entry mode.

4.1 Factors influencing entry mode choice

There are two broad approaches that are used as a basis for the entry mode choice: experience and analysis. Companies can use either or both. Experience approach is used when a company decides, based on its own or another company's experiences, to use a certain entry mode for its product. Using the analysis approach means that the company conducts an analysis on the marketing task, needs and buying habits of the customers, and level of competence of marketing organizations in target market. Based on the analysis, a decision is made on the entry mode. These two approaches may result in the same entry mode or completely different ones. The basis for entry mode decisions should be to choose the one that is expected to provide the greatest contribution to profit. Because of the selection criteria are mostly qualitative instead of quantitative, selecting the most suitable one is not easy. (Albaum & Duerr, 2011, p. 407.)

4.1.1 Internal factors

The first factor affecting the choice of entry mode is firm size. It indicates the level of resources available. Available resources are important for the internationalization of the company. Companies internationalizing with low resources might have to use entry modes that require lower resource commitment, even if they would not be the best choice for the market in question. (Hollensen, 2017, p. 353.) In addition, financial strength and, if needed, access to additional capital are important factors affecting the entry mode choice (Albaum & Duerr, 2011, p. 409).

Another internal factor is international experience. The entry mode choice is heavily affected by the international experience of the managers and the company as a whole. This experience is gained through the company operating in an international environment. It can to some extent also be gained from hiring managers with international experience. High international experience reduces the cost and uncertainty in serving a certain market. Therefore, it also increases the profitability of investing higher amount of resources to a market, often in the form of direct investment. (Hollensen, 2017, p. 353.)

Other characteristics of the company affect the choice also. For example, marketing management capability and knowhow is one factor affecting the choice. Marketing strength affects the company's ability to sell straight to the customer instead of using intermediaries. The decision can also be affected by management prejudice. If there are influential managers that are biased towards a certain entry mode, it might be chosen, even if it is not the best option for the target market in question. Additionally, the desired level of control by the company influences the decision. Use of more direct entry modes allow greater control over the operations for the company. (Albaum & Duerr, 2011, pp. 409-411.)

The next factor is the product or service. The production placement is highly affected by the physical characteristics of the product, such as weight and dimensions. If the weight is low compared to the value of the product, direct export is usually employed due to possible economies of scale and interest in retaining control over production. In turn, soft drink companies often use licensing, since it allows them to avoid the shipping costs. (Hollensen, 2017, p. 353.) Much of the entry choice is dependent on the characteristics of the product. For example, some technologically advanced products require in-market service, that intermediaries might not be able to handle. Another example is perishable products, which require a shorter channel to ensure the products get to the customers before they perish. (Albaum & Duerr, 2011, p. 408.)

4.1.2 External factors

First external factor affecting the entry mode choice is the sociocultural distance between home and host country. This refers to the similarities the countries have in business practice, language, education, and culture. High levels of distance leads to uncertainty for the internationalizing company and might lead to them being less willing to make direct investments to the country in question. (Hollensen, 2017, p. 354.)

Another factor affecting the entry mode choice is risk related to the country and uncertainty of demand. The risks consist of risk to investment, inventories and receivables, as well as the risk related to exchange rates. These risks as well as political risks affect the willingness of the internationalizing company to make significant resource commitments to the market. (Hollensen, 2017, p. 355.)

The third factor is market size and growth. The internationalizing company is more willing to commit resources to larger markets with growth. They are also more willing to establish their own direct investment operations there due to the potential. (Hollensen, 2017, p. 355.)

Next factor is the direct and indirect trade barriers. Tariffs and quotas in importing foreign goods are good examples of these barriers. In addition, the government can indirectly form barriers through preferential business dealings with local companies, as well as having a “buy national” mindset. (Hollensen, 2017, p. 355.)

The following category of factors affecting entry mode choice is governmental policies. Exporting can be discouraged by for example regulating the import and foreign exchange licenses, so that the local importers do not get to buy many foreign products. Certain product’s sale can also be limited to certain state-owned distributors. There might also be regulations and even censoring of e-commerce and the Internet. (Albaum & Duerr, 2011, p. 411.)

Next, and second-to-last, factor is the intensity of competition. The more intense the competition is in a certain market, the more unappealing it is to an internationalizing company. This is because these markets tend to be less profitable. (Hollensen, 2017, p. 356.)

Final factor is the number of relevant intermediaries available. A low number of available intermediaries can lead to them behaving in an opportunistic manner. Because of their near-monopolistic position, they might use their power in dictating all the contracts in their favor. Therefore, it is better for the internationalizing company that there is a higher number of intermediaries available. (Hollensen, 2017, p. 356.) The availability of a marketing organization can affect the entry mode decision also. The existing structure of distribution both in home and target markets affect the choice. In addition, the availability of competent intermediary marketing organizations within the structure is an important factor to consider when deciding on an entry mode. If suitable marketing intermediaries are already serving the company’s competition, a more direct entry mode can be chosen, or the entry could be cancelled altogether. (Albaum & Duerr, 2011, p. 409.)

4.2 Rules on Entry Mode Selection

Three distinct entry mode decision rules have been identified and distinguished by the level of sophistication: Naïve, pragmatic and the strategy rule. The naïve rule is used when the managers making the entry mode decision consider only one way to enter foreign markets (Albaum & Duerr, 2011, p. 419; Hollensen, 2017, p. 350). For example, a manager that decides the company will do only indirect exporting. This decision-making rule does not consider the differences between target markets and the conditions in them. The inflexibility of this rule will not allow the company to fully exploit the foreign market opportunities. (Albaum & Duerr, 2011, pp. 419-420.)

The second rule is pragmatic rule. With this rule, the company always starts entry to a foreign market with a low-risk entry mode. Only if this entry mode is not feasible or profitable, will the company switch to a different entry mode (Albaum & Duerr, 2011, p. 420; Hollensen, 2017, p. 350.) This rule has its advantages. The risk of wrong entry mode is minimized, since unfeasible entry mode will be changed to a working one. Also, the costs of collecting information and management time are minimized, since not all the different entry modes will be investigated, once a working one has been found. This rule can however lead to costs of lost opportunities, since it does not guide the managers towards choosing the entry mode best suited for the company and the target market. (Albaum & Duerr, 2011, p. 420.)

The third and final rule is the strategy rule. This rule is based on the idea that the company should choose the right entry mode. In this approach all the different entry mode options are carefully evaluated and compared. The application of this rule would be to choose an entry mode that maximizes the profit contribution in the planned period depending on the availability of company resources, risk and nonprofit objectives (Albaum & Duerr, 2011, p. 420; Hollensen, 2017, p. 350.) This choice is however dependent on the decision-makers' evaluations since, there is no clear objective way to rank the different entry modes. (Albaum & Duerr, 2011, p. 420.)

4.3 Direct Export

Direct exporting is when a manufacturer or exporter sells their products directly to an entity, be it importer or buyer, that is located in a foreign market area (Albaum & Duerr, 2011, p. 462; Hollensen, 2017, p. 372; Wild & Wild, 2016, p. 352). Welch, Benito and Petersen (2007) have partly different definition. They consider the sale to an intermediary in foreign market a type of foreign indirect export instead of direct export. Regarding this study, I will be using the definitions that include the sales to foreign intermediaries in the term of direct exporting. This means the transactional flow between the countries is handled directly by the exporter or the foreign-based entity. There are different ways the exporting organization can export directly to the foreign market-based entity. The different ways of exporting are alternatives to each other, but they are also complementary to each other. The exporter can use more than one of these alternative methods to serve a certain market. (Albaum & Duerr, 2011, p. 462.)

4.3.1 Home-country based department

The first category of methods of direct export is the home-country based department. A manufacturer wishing to engage in direct export activities usually creates some sort of an export department or division in its organization. This dependent organization can either take direct control over the export operations or coordinate the export efforts of foreign-based dependent organizations. Home-country based exporting organizations are divided into three types: built-in export department, separate or self-contained export department, and export sales subsidiary. Which of these types is most suitable for the exporter is based on various factors, such as the nature of the product and the size of the company. (Albaum & Duerr, 2011, pp. 463-46.)

The built-in department is structurally the simplest and therefore easiest organization to establish. This type of organization consists of an export sales manager, with clerical

support. The sales manager focuses on the selling of the product, while sales support functions, like advertising and logistics, are performed by the domestic functions of the company. This choice of export organization is best when any of the following conditions apply: small organization, relatively new to export marketing, expected export turnover small or moderate and management philosophy not oriented towards international growth. In addition, existing marketing resources capacity are not fully utilized in the domestic market, or the exporter organization is not able to acquire additional resources, or key resources are not available. (Albaum & Duerr, 2011, pp. 464-465.)

The next home-county based export organization is a separate export department. This type of organizations is often established, when the sales have grown to the extent that a fully integrated organization is needed. The separate export department is a self-contained and to a large extent self-sufficient unit, that handles most of the export activities. The export department can be internally structured based on the greatest variables in the marketing tasks, which could be for example geographic region or product. (Albaum & Duerr, 2011, p. 465.)

The final home-based export organization is export sales subsidiary. This organization is used when the organization wishes to separate the export operations completely from the other operations of the company. In such a situation an export sales subsidiary is often established as a separate company. This new company is wholly owned by the parent company, but essentially operates as a quasi-independent company. This organization type is largely similar to separate export department in its operations. However, being a different company, the export sales subsidiary needs to buy the products to be exported from the parent company. This means that a transfer pricing system needs to be established, which can cause several complexities and management problems. It also offers advantages that separate export department does not. For example, tax advantages, cost and profit control, and unified control are such advantages. (Albaum & Duerr, 2011, pp. 465-466.)

These home-country based export organizations will be selling the products to an intermediary in the foreign market. These intermediaries are divided into two groups: Distributors and agents. Distributors are importers that are the exclusive representative of the product in the foreign market. (Hollensen, 2017, p. 372.) They are independent organizations and have significant power, since they buy the products when they wish and sell them to whoever they wish (Hollensen, 2017, p. 372; Welch, et al., 2007, p. 255). Agents in turn might or might not have exclusive rights to a sales territory. They operate as the representatives of the company (Hollensen, 2017, p. 372.), but will not take the products into their inventory (Hollensen, 2017, p. 372; Welch, et al., 2007, p. 255), instead they make deals with the customers to whom the manufacturer then ships the products directly. The agents will get an agreed-upon commission on the sales. (Hollensen, 2017, p. 372.)

There are several reasons for operating through foreign intermediaries. The seemingly lower cost and financial risk of operating through intermediaries is important to consider in comparison to operating with an own organization and own staff. Foreign intermediaries can possibly be used for additional expansion, since they might have operations in foreign markets themselves. The local intermediary can also be more proficient in taking care of the cross-cultural issues, since they know the culture better. These issues might be more difficult to handle if the company established its own operations in the foreign market. (Welch, et al., 2007, p. 252.)

4.3.2 Foreign sales branch

Foreign sales branches can also be used for direct exporting. The exporting company often establishes such an organization, when it is decided that it is necessary to have a greater supervision over sales in a certain market. Foreign sales branch assumes control over all the sales, distribution and promotional work for the market area it is designated to. The foreign sales branch sells primarily to wholesalers and dealers, which means that

it is the initial link in the marketing channel of the foreign market. A foreign sales branch can also have warehousing facilities to retain an inventory of for example, the products and spare parts. The foreign sales branch can additionally be used to showcase the products sold. It can also operate as a service center for the products. Foreign governmental policies can affect the operations of a foreign sales branch. Tax laws, whether beneficial or detrimental, are important to be considered before deciding about the establishment of a foreign sales branch. There can also be some regulations on the repatriation of the profits from the foreign branch. Additionally, the use of local citizens as employees can be regulated. Some countries require that a certain portion of the staff employed are local citizens. (Albaum & Duerr, 2011, pp. 466-467.) Foreign sales branch is a good example of the Welch, et al. (2007) definition of direct export. The company is in direct contact with the customer in the foreign market, instead of operating through independent intermediaries.

4.3.3 Advantages and disadvantages of direct export

The advantages of direct exporting are several. First of all, it allows for the manufacturer to gain market experience and knowledge, as well as contacts in the foreign market. The distribution chain is also shorter compared to indirect exporting. The manufacturer will also have more control over the marketing mix regarding their product in comparison to indirect exporting. Finally, in direct export, there is local selling support and services available. (Hollensen, 2017, p. 381.)

Direct exporting has many disadvantages also. The manufacturer has little control over the market price due to tariffs and lack of distribution control. It also requires some level of investment in the sales organization. Cultural differences can also cause some issues with communication and information flow. Finally, there is also the risk of trade restrictions. (Hollensen, 2017, p. 381.)

4.4 Licensing

Licensing is a contract in which an entity, licensor, gives a permit to another entity, licensee, to use its intellectual property in exchange for compensation called royalty. (Czinkota & Ronkainen, 2010, p. 287.) Welch, et al. (2007, p. 97) define it as the sale of a right to use particular piece of proprietary knowledge, or intellectual property, in a way that is defined by the licensor. Keegan & Green (2017, p. 296) in turn define it as the licensor making legally protected asset available to the licensee in exchange for license fees, royalties, or other compensation. All three definitions have the same fundamental idea. Czinkota and Ronkainen's definition is the most clearly stated and structured definition, that includes the other definitions within it. I will be using that definition for this study. According to (Welch, et al., 2007, p. 97), intellectual property licensed can be for example, patents or trademarks. It is however important to note, that licensing does not involve the sale of any intellectual property, only the right to use it. (Welch, et al., 2007, p. 97.)

Licensing is an entry mode used by all types of companies, regardless of their size. It is a flexible entry mode and reflects both the needs of the company and the market. For example, a small company can use licensing to gain intellectual property from a larger company, or to expand to foreign markets without significant capital investments. Multinational corporations in turn can use this entry mode to rapidly enter foreign markets when opportunities arise, and that way make it harder for competition to take advantage of the same opportunities. (Czinkota & Ronkainen, 2010, p. 287.) Licensing is much used for example in the fashion industry. For example, Hugo Boss and other global design icons, generate more revenue from their licensing deals of jeans and similar items, than their high-priced product lines. (Keegan & Green, 2017, p. 296.)

4.4.1 Advantages and disadvantages of licensing

As an entry mode, licensing requires no capital investment or knowledge and marketing capabilities in the foreign market. The licensor gains extra return on their research and development (R&D) operations, while the licensee does not have to conduct their own R&D, which might have failures or even infringe on some patent which would open them up to litigation. (Czinkota & Ronkainen, 2010, p. 287.)

Licensing is beneficial also in the sense that the licensee is usually a local company, so it minimizes the risk of government intervention or terrorism against the foreign company (Czinkota & Ronkainen, 2010, p. 287; Keegan & Green, 2017, p. 296). Licensees might sometimes also be given significant autonomy to adjust the product or service to local tastes (Keegan & Green, 2017, p. 296). The licensor can also use this entry mode to test out the foreign market for future expansion of operations as well as pre-empt competitors moving in on the market. The licensee will also most likely root out any unlicensed use of proprietary knowledge in the foreign market, since they compete against them and have paid for the knowledge. (Czinkota & Ronkainen, 2010, p. 287.)

Licensing is a great entry mode for individual inventors, since they often have limited resources and therefore entry options available to them. Licensing is used often by companies as the response to negative factors in international trade. These reasons can be for example high transportation costs and tariffs and high domestic production costs. Licensing is often used as the starting point for penetration of foreign markets. It is also a good steppingstone between different entry modes. For example, it can be used for establishing a production and service base of operations, without making a significant investment. Licensing also allows the company to enter markets which would otherwise be “blocked” from them due to protectionist barriers. It can also be used to exploit less important technologies that are not directly related to the company’s business. (Welch, et al., 2007, pp. 114-120.)

However, licensing has its disadvantages also. Most of the international marketing functions are performed by the licensee, which leads to the licensor not gaining significant expertise or advantage regarding the foreign market (Czinkota & Ronkainen, 2010, p. 288), and the licensor has only limited market control (Keegan & Green, 2017, p. 296). Licensing can in fact lead to licensor creating a competitor for itself in one or more markets, in exchange for the royalty payment. (Czinkota & Ronkainen, 2010, p. 288.) This threat causes some companies to view this entry mode as high-risk (Welch, et al., 2007, p. 135) and short-term (Keegan & Green, 2017, p. 296). Possible conflicts with the licensee are therefore a significant possible disadvantage of licensing. Licensing also provides limited profits for the licensor. (Griffin & Pustay, 2013, p. 349.) Intellectual property protection and the possible defense of intellectual property rights could be too expensive for many smaller companies. Therefore, the idea of low-cost entry mode might also be in need of revising. (Welch, et al., 2007, p. 135.)

4.5 Contract Manufacturing

Contract manufacturing is the last non-equity entry mode. In contract manufacturing, a company outsources its manufacturing to an independent company in a foreign market. This is done to have foreign production without having to make a significant commitment to it. This is often done when the management does not have suitable resources or willingness to invest equity in establishing complete manufacturing and selling operations. Contract manufacturing allows for long-term development plans without making significant investments. (Griffin & Pustay, 2013, p. 349.) This entry mode can also be called international subcontracting. It can also be considered to include all the export operations in which the goods are ordered in advance and the orderer arranges the marketing. (Welch, et al., 2007, p. 162.)

4.5.1 Advantages and disadvantages of contract manufacturing

The advantages of contract manufacturing are several. Firstly, it offers significant flexibility. Dependent on the length of the contract, the company can switch manufacturers if they are not content with the performance of the first one. In addition, exiting a market does not force to company to sustain heavy losses due to divestment of production facilities. (Hollensen, 2017, pp. 388-389.) It also allows for quick entry to foreign markets (Keegan & Green, 2017, p. 298). The limited financial and managerial commitment required to be devoted to manufacturing on the company's part (Griffin & Pustay, 2013, p. 349; Keegan & Green, 2017, p. 298) allows those resources to be put to use in other parts of the company's value chain (Griffin & Pustay, 2013, p. 349). Cost is also a significant factor in contract manufacturing. In addition to not having to establish own production facilities, the company often seeks a contract manufacturer in a country where the cost of work is lower. Companies can also wish to access skills in the foreign market and that way better the quality of their offering. This entry mode can also help in bypassing foreign trade barriers, since there is no need to cross borders if the products are sold in the same country they are manufactured in. It also helps in reducing the transportation costs. (Welch, et al., 2007, pp. 168-173, 179.)

The issues with contract manufacturing are largely based on quality. In addition to the product quality, it is essential to supervise that there are no problems with delivery, warranties and fulfilling additional orders. The contracted manufacturer might also have some issues with its efficiency and capacity, as well as possibly trying to exploit the agreement. (Hollensen, 2017, p. 389.) Contract manufacturing also reduces the learning potential of the contracting company (Griffin & Pustay, 2013, p. 349), and might cause public relations problems, if for example the contract manufacturer has issues with working conditions (Griffin & Pustay, 2013, p. 349; Keegan & Green, 2017, p. 298). There is also always the risk of creating a future competitor of the company's contract manufacturer. (Welch, et al., 2007, pp. 188-189.)

4.6 Foreign Direct Investment

Foreign Direct Investment, or FDI, is defined by many authorities as the equity level in a foreign entity reaching a certain level, which is 10 percent in several countries. More simply put, a company owning a large enough part of an entity in a foreign country, for them to possess a significant amount of power over the foreign entity. For an investment to be considered as FDI, it should be long-term. Short-term investments are considered portfolio investments. (Welch, et al., 2007, pp. 320-321.) Multinational corporation (MNC) is defined by Albaum & Duerr (2011, p. 969) as "A company that operates in a number of countries and adjusts its products and practices to each country or group of countries." Daniels, Radebaugh & Sullivan (2015, p. 61) states that multinational enterprise, multinational corporation, multinational company and transnational company are used as synonyms for the companies that have direct investments in some minimum number of countries. In this study, I will be using the term MNC to refer to the companies that have equity operations in one or more foreign markets. Meaning that they have made a direct investment to a foreign market.

There are several reasons for companies to make foreign direct investments. First reason is the marketing factors. Acquiring sales growth is important for companies, since even large domestic markets are limited. Foreign direct investment is a great way to increase sales. In addition, companies wish to get access to low-cost resources, for example work force and raw materials. FDI also allows the MNC to circumvent trade barriers and operate as a domestic company in the foreign market. In addition, operating in certain market allows the local customers to view the MNC as a local company, while operations in certain countries can be viewed positively by international customers. (Czinkota & Ronkainen, 2010, pp. 293-294.) An example of this, could be a watch manufacturer acquiring manufacturing facilities in Switzerland. Additionally, there is a potential for high profits in this entry mode. It will also allow the MNC to maintain control of the foreign operations. The MNC can also gain local market knowledge of the foreign market through their FDI. (Griffin & Pustay, 2013, p. 349.) FDI

is additionally a great way to be close to the customers. Companies also sometimes need to follow their clients, not to jeopardize the working relationship with the buyer. In B2B, the buyer often pressures the suppliers to follow them to foreign markets, and the suppliers need to do that to avoid damaging the relationship. It allows the MNC to exploit unique assets found in the foreign market, such as technology, brands, and know-how. It also allows the MNC to reduce costs both in for example resource costs and barrier avoidance. For example, the company can get cheaper inputs, such as manpower and raw materials in the foreign market, while at the same time avoiding tariffs present in exporting. FDI can also be used as a response to competitor's actions. If a competitor makes a significant FDI into some country with a lot of potential, it should not be ignored, if the company wishes to efficiently compete with the competitor in the future. There are also sometimes government incentives, which I will describe in more detail later in this subchapter. (Welch, et al., 2007, pp. 325-330.)

The disadvantages are also several. First of all, there is a high level of both financial and managerial investments required to make an FDI. This entry mode also exposes the MNC to political risk in the foreign market. Also, if the target market decides to tighten its restrictions on foreign investments, the MNC might suffer significant problems. Finally, managing an FDI is often more complex than managing other entry modes. (Griffin & Pustay, 2013, p. 349.)

Companies have been found to make foreign direct investments for one of three reasons: resource seeking, market seeking and efficiency seeking. Resource seekers strive to gain access to either natural resources or human resources. Market seekers in turn, wish to find better opportunities and to expand their operations by entering a new market. Finally, the efficiency seekers seek to acquire the most economic sources of production for themselves. (Czinkota & Ronkainen, 2010, p. 294.)

In addition to the marketing advantages that the companies are seeking through FDI, it might also have advantages through government incentives (Czinkota & Ronkainen,

2010, p. 294; Welch, et al., 2007, p. 330). Government wishes to provide jobs for its population, and FDI is a great way to do this. Many governments therefore offer incentives for foreign companies to establish operations in their country. There are three types of government incentives: fiscal, financial and nonfinancial. (Czinkota & Ronkainen, 2010, p. 294.) Fiscal incentives are for example beneficial tax breaks for the established operations (Czinkota & Ronkainen, 2010, p. 294; Welch, et al., 2007, p. 330). Financial incentives in turn are offers of special funding, through for example loan guarantees, or by providing land or buildings. The last type of incentives, nonfinancial incentives, are made of for example, guaranteed government purchases, investments in infrastructure, and special protection from competition through tariffs. (Czinkota & Ronkainen, 2010, p. 294.)

The views on MNC foreign direct investments are conflicting. On one hand, governments and individuals have positive views of them, because they bring economic activity, capital and employment, as well as often bringing new technology with them. FDI can also have negative effects on the local business environment and resources. First of all, the MNCs often employ the most educated and qualified employees, which leads to so called "brain drain", meaning there is not enough talent left for the domestic companies. In addition, the MNCs often do not promote these talents high enough to fully capitalize on their talents. There are also problems with the technology the MNCs are bringing into the market, since it can discourage local technological development. They might drain the local capital markets by raising money locally. There might also be some level of confrontation between the MNC and the local companies and even the government. This is because the foreign company can be viewed as an enemy to compete against. Governments might also be suspicious of the loyalty of the MNCs towards the host government. It is a concern that the MNC would always put their and their home country's interests first. Finally, the sheer size and power behind the MNC can be frightening to a government, whose economic power might even be exceeded. (Czinkota & Ronkainen, 2010, p. 295.)

4.6.1 Different types of ownership

There are different types of ownership for FDIs. The level of MNC ownership of the FDI can range all the way from minority share to a full ownership of the venture. The type of ownership affects risk, control and flexibility the MNC has regarding the FDI. The ownership type should be chosen through strategic considerations on the corporate needs and governmental demands. (Czinkota & Ronkainen, 2010, p. 296.) The FDIs can also be categorized depending on what strategy was involved in establishing or acquiring the FDI. There are three different strategies for FDI: greenfield, acquisition and joint venture (Griffin & Pustay, 2013, p. 363).

Full ownership is when the parent company owns 100 percent of the FDI. This is often used due to ethnocentric ideas, that no outside entity should have a say in the management of the operations of the MNC. The choice of full ownership is often also done on principle. Rational analysis and choice whether to pursue full ownership is dependent on several factors. Firstly, it is important to consider what kind of control does the parent company have to have for the international marketing activities to be successful. In addition, it is important to consider the dependencies between FDI unit and headquarters and whether it is necessary to have a full ownership of the FDI because of them. Thirdly, it is important to analyze the business environment, since a foreign market could be hostile towards a wholly owned subsidiary of an MNC. This is because the MNC is considered to focus more on the benefit of the headquarters than that of the certain foreign market. In addition, there are worries about the profit repatriation, meaning how much capital, the FDI unit makes, is transferred to headquarters and other operations, and how much is reinvested in the foreign market. MNCs can for example use transfer pricing to amass profits from different operations to one market that is most beneficial for them in terms of for example taxes. Because of these reasons the full ownership of the FDI by the MNC is regulated in many countries. Through regulations the government can make it less profitable or even illegal to have wholly owned FDI operations. The willingness to have wholly owned FDIs is also

diminished by the possibility of political instability in the foreign market in question (Czinkota & Ronkainen, 2010, p. 297.)

Joint ventures are another type of ownership. In joint ventures two or more organizations collaborate together in the establishment, and operations of an FDI. The different organizations can either have identical equity or some of them might have more. Based on the equity level and other agreements related to joint ventures, the participants of the joint venture share the assets, risks and profits. The way the different partners contribute to the joint venture can differ greatly from funds to technology and even physical facilities. (Czinkota & Ronkainen, 2010, p. 298.)

There are two types of advantages for the joint ventures: governmental and commercial. Many countries have established a limitation to the percentage an MNC can own of an entity in their market. Through joint ventures, often with local companies, MNCs can enter such markets. The commercial advantages in turn are based on the often differentiated capabilities of the partner companies that can complement each other and lead to the joint venture being more profitable than having a wholly owned FDI. (Czinkota & Ronkainen, 2010, p. 298.) This is because different strength in value chains, could offer synergy benefits (Keegan & Green, 2017, p. 301.) Also, the lesser required capital can allow companies with suitable product to enter a foreign market they could not have entered without the additional resources offered by the partners (Czinkota & Ronkainen, 2010, p. 298). Joint venture also allows the companies to share the risk of entry (Keegan & Green, 2017, p. 301). The establishment of a joint venture with a local organization is beneficial in many ways, since they might already have a distribution network in operation that can be used for the joint venture, as well as possibly having a better relationship with the local authorities, which also lessens the political risk of entering a foreign market. In addition, there is the knowledge a local organization has of the culture and business environment that can be exploited in joint ventures. (Czinkota & Ronkainen, 2010, p. 298.) In addition, joint ventures allow the company to learn about the market, for possible future expansion of operations. Also, joint venture

might be the only way to enter a market if there are barriers to entry, for example legal restrictions to companies owned fully by foreign companies. (Keegan & Green, 2017, p. 301.) Finally, joint ventures allow for a rapid and aggressive entry to many foreign markets through the use of foreign partners and their local capabilities. (Griffin & Pustay 2013).

Disadvantages in joint ventures are related to implementing the concept and the maintaining of the relationship (Czinkota & Ronkainen, 2010, p. 298). Problems that might arise often involve the sharing of profits (Czinkota & Ronkainen, 2010, p. 298; Keegan & Green, 2017, p. 302) or proprietary information. These are the results of a lacking communication and planning beforehand. Another problem that might arise is when one or more partner wishes to serve the customers of the foreign market in a different way and might start to consider competing against their own joint venture. Therefore, one important issue to be considered in joint ventures is the loyalty to the joint venture. (Czinkota & Ronkainen, 2010, p. 298.). There are also significant control and coordination costs involved in this entry mode. In addition, the potential conflicts between partners is a significant disadvantage and are often caused by cultural differences. Partner can also evolve into a strong competitor in the future. (Keegan & Green, 2017, p. 302.)

4.6.2 Foreign direct investment strategies

There are three strategies for FDI: Greenfield, acquisition and joint venture. I have described joint venture already, so now I will focus on defining greenfield and acquisition strategies. Greenfield strategy is based on establishing a new operation from the beginning. This means that the MNC will acquire land, constructs new facilities, takes care of staffing for the new facilities and starts operations. The advantages of this strategy are several. Firstly, the MNC is able to select a location and plot of land that best suits their needs. They can also construct the facilities in such a way that they meet

their needs. The local government or community often offers incentives to attract such facilities, since they often create a high number of employment opportunities for the local population. Greenfield also allows the company to start from beginning, without old existing debts, outdated equipment or old work rules. Greenfield additionally allows the company to acclimatize itself with the local culture and business environment at its own pace. The greater the cultural difference between home and foreign markets, the likelier it is that a greenfield strategy is used instead of acquisition. (Griffin & Pustay, 2013, p. 363, 364.)

However, there are also some disadvantages to this strategy. Firstly, the successful implementation of this strategy takes time. There might also be some problems in acquiring a suitable piece of land. It might be unavailable or very expensive. The construction of the new facilities is also to be supervised and it has to meet the local and national building regulations. There is also the need to hire local workforce, and they need to be trained to meet the company's standards. The final disadvantage is that building new facilities might strengthen the local view of the company as foreign. (Griffin & Pustay, 2013, p. 364.)

The acquisition strategy in turn is based on acquiring an existing company conducting operations in the foreign market. This process is usually very complex, and many experts of different functions need to be involved. The reason for this strategy is essentially rapidly gaining control of the operations and networks of the acquired company. These existing operations can continue to generate revenue while the acquirer integrates it into its operations and international strategy. This strategy also does not create new capacity in the foreign market, which is very useful when there is overcapacity in the market. (Griffin & Pustay, 2013, p. 364.)

There are also some disadvantages to this strategy. In addition to operations, the acquiring company also assumes all the liabilities of the acquired company. Examples of these liabilities are environmental cleanup liabilities and poor labor relations. The

acquiring company also needs to make a significant capital payment up front, while greenfield strategy allows the spreading of the investment over time. (Griffin & Pustay, 2013, p. 364.)

4.7 Strategic Alliance

The term strategic alliance, sometimes also referred to as strategic international alliance or global strategic partnership, refers to linkages between companies from different countries in pursuit of a common goal (Keegan & Green, 2017, p. 307.) Several of the entry modes mentioned before can be considered to also be strategic alliances. Joint venture, while an FDI entry mode, is also a strategic alliance between the partners. Licensing can also be considered to be a strategic alliance in certain sense, since it is based on the high level of required cooperation. (Welch, et al. 2007, p. 273.) Strategic alliances are partnerships in which organizations with similar goals partner together to pursue the goals. Strategic alliances can be for example joint efforts in marketing or research and development. (Czinkota & Ronkainen, 2010, p. 298.) Keegan & Green (2017, p. 308) presented three characteristics that identify strategic alliances. Firstly, the participants will remain independent after the formation of the alliance. Secondly, the control over the performance of assigned tasks as well as rewards of the alliance are shared by the participants. Thirdly and finally, the participants make ongoing contributions to the joint operations in products, technology or other key strategic areas. (Keegan & Green, 2017, p. 308.)

4.7.1 Advantages and disadvantages of a strategic alliance

The advantage of non-equity strategic alliance in comparison to joint venture is the flexibility of the alliance. It can be created and dissolved, based on the situation and contract, more easily than a joint venture where there are often many assets involved.

However, it is important to consider the effects of entering into a strategic alliance. The most effective strategic alliances are those whose members have complementary capabilities and strengths that can be used to achieve a joint goal. The alliance can operate jointly or depending on the market, part of the alliance can piggyback with a partner that has better prowess in the specific market. For example, the partners of an organization that has a strong brand in a foreign market can use this organization's marketing to promote their products and vice versa. (Czinkota & Ronkainen, 2010, pp. 298-299.)

Additional advantage of this entry mode is that it makes it easier to enter into a market. Partnership with a local company allows the internationalizing company to work around obstacles such as hostile government regulations. It allows also the rapid and aggressive entry to many markets through the use of foreign partners and their marketing and distribution capabilities. Another benefit of strategic alliances is the shared risk. There is always a risk when entering a new market and strategic alliances can be used to reduce and control risks for individual companies. Next advantage of the entry mode is the shared knowledge and expertise. It allows the companies to learn from each other and that way complement the knowledge and expertise it might have lacked. Finally, there are synergy and competitive advantages to this entry mode. This advantage is based on the advantages mentioned above allowing the partners to achieve more and compete more effectively. (Griffin & Pustay, 2013, pp. 373-376.)

There are however also many disadvantages to strategic alliances. First disadvantage can be the incompatibility of partners. It is the primary cause of failure in strategic alliances. Incompatibility can manifest itself as outright conflict, but more often shows itself as poor performance of the alliance. Another disadvantage is the access to information. For the alliance to work effectively, one or more of the alliance members need to share information they would rather keep to themselves. If the information is not shared when needed, the effectiveness of the alliance may be compromised. Strategic alliances might also have conflicts regarding the distribution of earnings. Issues

can rise not only about the distribution of the profits between partners but also regarding how much of them to reinvest in the joint operations. Loss of autonomy can also cause issues. The control is shared between the partners which limits what each partner can do. Every major decision has to be discussed and negotiated. Final disadvantage is the changing circumstances. The circumstances that are the motivation and reason for establishment of the strategic alliance can change and make the strategic alliance unviable for one or more of the partners. (Griffin & Pustay, 2013, pp. 384-387.) This leads to some partners possibly wishing to dissolve the alliance when others wish to continue it, which might result in a conflict.

4.8 Analysis of the entry modes

These entry modes are the ones identified as possible by me and my supervisor from VEO, Joakim Hjort. Hjort also described the most interesting modes for VEO to be direct export and strategic alliance (Private e-mail 11.12.2019.) After the definition of the different entry modes, I have to agree with him. However, I would maybe consider different FDI modes to be somewhat relevant in support of direct export or strategic alliance. The FDI would in this case be used for supporting functions, instead of establishment of own manufacturing in the markets. Since foreign sales branch can in itself be considered a sort of an equity operation, while falling under the mode of direct export, the division of the direct export and FDI is sometimes difficult. Also, strategic alliance can involve characteristics of a joint venture, if it is equity-based.

Table 13. Summary of the different entry modes and their advantages and disadvantages.

Entry mode	Advantages	Disadvantages
Direct Export	Gaining market knowledge and contracts in the foreign market, shorter distribution chain compared to indirect exporting, manufacturer has higher control over marketing mix and local selling support and services available	Little control over market price because of tariffs and lack of distribution control, some level of investment, cultural differences may cause issues in communication and information flow and risk of trade restrictions
Licensing	No capital or local knowledge required, minimized the risk of government intervention, pre-empting competitors from moving into the market, good stepping stone between entry modes and allows company to enter a market otherwise "blocked" by protectionism	No significant expertise or advantage gained by the manufacturer in the market, possible creation of a future competitors, possible conflicts with the licensee, limited profits and intellectual property protection and possible defense of them can be too costly.
Contract manufacturing	Flexibility, easier exit from market, minimization of resources allocated for manufacturing, lower costs, access to skills, smaller transportation costs and bypassing foreign trade barriers	Quality issues, delivery and warranties problems, efficiency and capacity issues, reduced learning potential and possible creation of a future competitor
FDI Greenfield	Selection of location, government incentives, starting from beginning and cultural acclimatization at own pace	Takes time, acquiring suitable piece of land, local regulations and hiring and training local workforce
FDI Acquisition	Rapid control over operations and networks of the acquired company and existing functions generate income during integration	Assuming the liabilities of the acquired company and making a significant investment upfront
FDI Joint venture	Differentiated capabilities, entry to market and local organization	Sharing of information, different views and possible future competitor
Strategic Alliance	Flexibility, often complementary capabilities, ease of market entry, rapid and aggressive entry, shared risk, shared knowledge and expertise and learning from each other	Incompatibility of partners, access to information, distribution of earnings, loss of autonomy and changing circumstances causing the alliance to become unnecessary

In Table 13., the advantages and disadvantages of the different entry modes are presented.

5 Methodology

In this chapter, I will review the research choices I have made for this thesis. I will describe the research approach, the data collection techniques and how the data is going to be analyzed.

5.1 Methodological approaches

As my research method, I will be using mono-method qualitative research by conducting an explanatory study through interviews in questionnaire form to gather data for the study.

I will be using qualitative research method in my study. Qualitative research method consists of a sequence of interpretative techniques with a goal to describe, decode and translate concepts or phenomena (Basias & Pollalis, 2018, p. 95). There are many reasons supporting the choice of a qualitative method for this type of study. Firstly, qualitative research has been used rarely in international business research (Doz, 2011, p. 582). Quantitative methods have become the norm in international business research (Birkinshaw, Brannen, & Tung, 2011, p. 573). This is even though qualitative research's potential is identified in explaining and translating organizational processes. In addition, the questions how, who, and why of individual or collective organized actions can be answered through qualitative research. Qualitative research can be used in both theory building and theory testing. Qualitative method allows for looking at a phenomenon from the viewpoint of several different theories. The nature and insights offered by these various theories can then be compared systematically. (Doz, 2011, pp. 583-584.) The scarce use of qualitative analysis is considered a loss, since it is especially well-suited to interpret and understand the complexity associated with plurality of contexts, such as institutional and cultural, that are associated with globalization. In addition, it is a suitable method for understanding the linkages between the contexts mentioned and

the companies conducting transactions over national borders. (Birkinshaw, et al., 2011, p. 574.) Qualitative research methods are especially well-suited for rigorous theory development, meaning both framing the question in terms of existing theoretical debates, as well as being clear about the theoretical works it is building on (Birkinshaw, et al., 2011, p. 579).

I will be conducting a multiple case study of VEO's customers and potential customers in the Swedish and Norwegian markets. Case study investigates a contemporary phenomenon within its real-world context in-depth. Multiple-case studies are likely to be stronger than single-case studies. (Yin, 2018.) Case study focuses on the description, understanding, prediction and/or control of, for example, individual process, organization, group or nationality (Woodside, 2010, p. 1). As the study focuses on the description and understanding of purchasing processes, organizations, industry and to some extent nationality, case study research seems to be the suitable research method.

5.2 Sample and Data collection

The sample consists of 6 organizations. There are 4 organizations selected from Swedish markets and 2 from Norwegian markets. Originally the meaning was to have 4 from each country, but I was not able to get sufficient answers from Norway. This sample was supposed to include one of each type of potential customer in both countries. One of the organizations in each country is publicly owned. While this low number of organizations might not bring the most generalizable results regarding the different types of potential customers, it will provide a general overview of the similarities in the companies located in the markets. For a deeper research into a certain type of potential customer, for example consultants, there needs to be a study focusing in that specific type of potential customer, studying several organizations to analyze the differences and similarities between them.

Data is collected through e-mail questionnaire consisting of a few multiple-choice questions, which are then elaborated on with open questions. I made the decision to use this medium, since the geographical distance between I and the interviewees is quite long. It also makes the handling and use of the gathered data simpler, since it is all in a written form. In addition, this questionnaire type of data gathering allows for the interviewees to answer the questions at a time that is the best for them.

The gathered data is viewed only by me and possibly my employer. The interviewees will always be referred to by a code given each company. The first letter is either S or N, for Sweden and Norway, respectively. The second letter is for the type of the company. A is for utilities company, B for system integrator company, C for industrial company and D for consultant company. The data gathered will be linked with the theory subject it pertains to. Quotes are used to analyze whether or not it is congruous with the theoretical section about the subject.

Company SA = A Swedish large public utility company (Strategic buyer)

Company SB = A Swedish system integrator company (Quotation engineer)

Company SC = A Swedish large industry company (Purchaser)

Company SD = A Swedish large consultant company (Manager)

Company NA = A Norwegian large public utility company (Category Manager EI-Mech equipment (procurement))

Company NB = A Norwegian system integrator company (Team manager Regional Network & Substations)

The companies were chosen based on the industry they operate in. My supervisor at VEO, Joakim Hjort, identified the different types of organizations I should be studying. Many organizations were given to me by the company, while others I found through online searches. What I searched for was heavy industry companies, power generation and distribution companies, technical system integrator companies and technical

consultants. I tried to always find some evidence that the product type of the study was somehow involved in their operations.

The employees were chosen for this study mostly through practicality. I was provided some contacts by VEO, but otherwise I searched for personnel, who were operating in the purchasing department or substation projects. In the end, the choice of professionals for the study was largely due to their availability. It was not possible to get employees with the same title from all companies since they are of different types and have different organizational and hierarchical structures.

5.3 Interview form

As mentioned, the data will be gathered through a Microsoft Forms -tool, using both open- and closed-ended questions. Mostly, the closed-ended, or multiple-choice, questions are used to gather the answer, for easy comparability. These questions are followed by open-ended questions, where the interviewee will explain the choices made in the multiple-choice questions. However, there is always an “other” option in the multiple-choice questions, if the interviewee does not find a suitable option in the preset options.

There are several reasons why I chose this type of interview and questionnaire format. Firstly, the geographical distance, and relatively high number of interviewees to reach in a limited time lead to me choosing the format that would allow me to reach several interviewees easily and fast. This form also allows the interviewees to think about their answers better and take time turning it into words. This is important, since English is not the first language for most, if any, of the interviewees, and a person-to-person interview might be a stressful and more difficult situation. Thirdly, the questionnaire format allows me to easily compare the multiple-choice question answers, while also getting the elaboration and justification in an open-ended form. Finally, this form allowed the

interviewees to answer the questionnaire when it best suited them. All of the interviewees are most likely busy during their workdays, especially considering there are managerial level employees as interviewees. This format allows them to complete the questionnaire, when they have a suitable moment or situation in their busy schedule. A person to person interview would not be as dynamic, since it would have to be rescheduled if something comes up for the interviewee.

I will present the general structure of the form below. It can be found in its entirety in the appendices (Appendix 1.) section of this study. The multiple-choice options can be seen there.

1. Name of the interviewee (Open-ended)
2. Name of the organization (Open-ended)
3. Title or description of duties (Open-ended)
4. Wish to remain nameless (Yes or No)
5. Describe the different stages the purchasing process goes through in your organization regarding products such as medium voltage switchgears (Open-ended)
6. Select five of the most important factors affecting purchase/investment decisions in your organization. (Multiple-choice)
7. Why are these 5 the most important factors to your organization (Open-ended)
8. Who are involved in the purchasing decision-making in your organization, regarding products such as medium voltage switchgears? (Open-ended)
9. What is the desired level of local presence from the supplier? (Multiple-choice)
10. Why would this level of local presence be most suitable for your organization? (Open-ended)

5.4 Credibility of results

I expect the reliability of the results to be good in general. There are however some issues that can decrease the reliability of the answers. Firstly, while the approach allows for more dynamic answering of the questionnaire, it can cause the interviewee to answer it in a rush, just to get it over with. This is of course possible in person-to-person interviews, but it might be more difficult for the interviewee to rush such an interview. Secondly, the interviewees might not wish or might not know if they are allowed to, answer such questions in great detail, because of fear of divulging proprietary information. This could be especially true for the system integrators, since VEO is their direct competitor in the project sales.

6 Analysis

In this chapter, I will be analyzing the results I have gotten on the questionnaires I sent out. I will be analyzing the subjects in the order that they are presented in the questionnaire (Appendix 1.). I will, however, start the chapter with a brief analysis of the general aspects of the two markets, as well as the identification of major competition.

6.1 Analysis of the markets

First, I will be describing general economic information of the two markets and the situation in the industries of the context. After that, I will describe the main competitors identified to me by my superiors at VEO.

6.1.1 General information on the markets

The Swedish GDP per capita is the 13th highest in the world (Statistics Times, 2020). The GDP grew by 0,936% in 2019, is estimated to grow by 1,462% in 2020, and for the four following years, it is expected to grow around 2% annually. The inflation is lower than the GDP growth, so there is some real economic growth, but it is quite low. (IMF, 2019.) According to Konjunkturinstitutet (2019), the investments in industrial products manufacturing were cut back, due to decrease in demand for the products. The GDP of both the industry and service producers, which I believe to include the energy distribution, are going to be decreasing in the next years. Industry's GDP will be decreasing by 0,9%, 3,9% and 0,9% in years 2019, 2020 and 2021, respectively. The service producers', excluding housing, GDP will be decreasing by 1,9%, 2,5% and 1,1%, in the same years. (Konjunkturinstitutet, 2019.) Since, there were cutbacks in investments, it could lead to lower demand for VEO's switchgears. In addition, the

decrease of GDP in the industry and service producers could lead to lowering of demand, since that number reflects the amount of money spent.

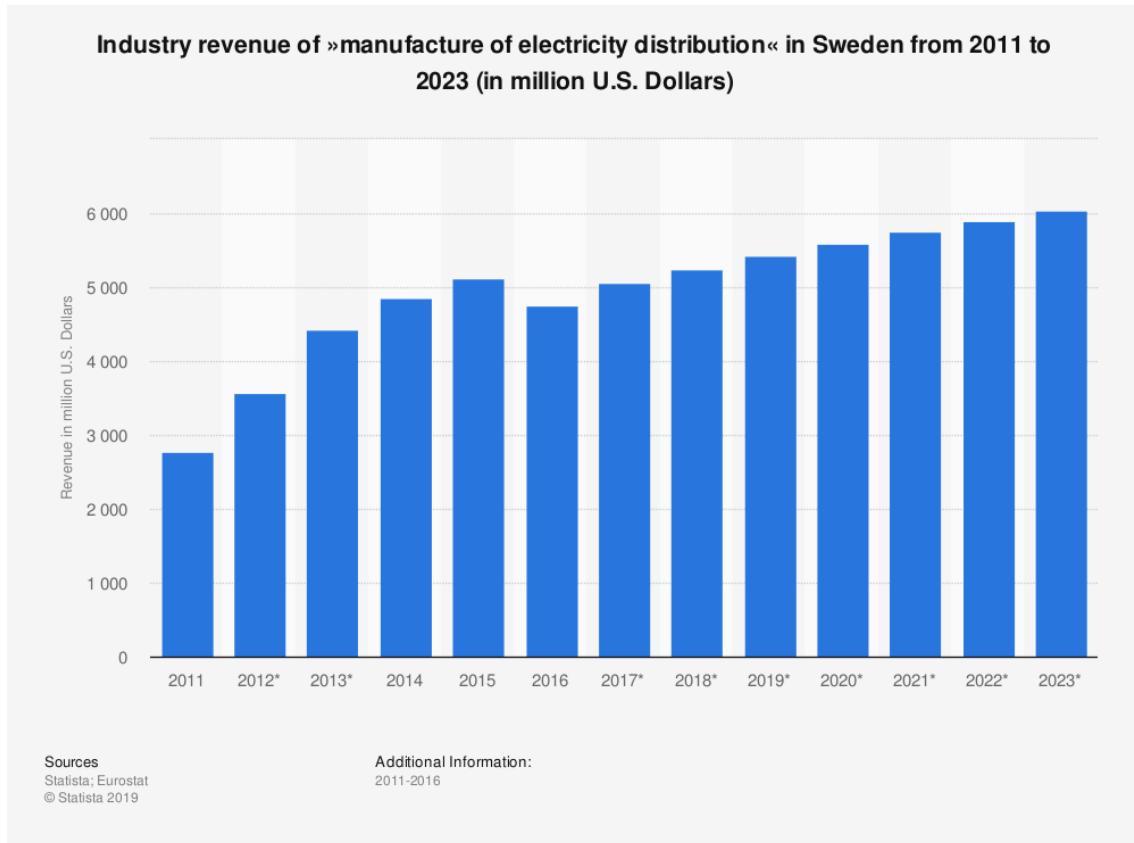


Figure 3. Manufacture of electricity distribution in Sweden 2011-2023 (Statista, 2019a).

The revenue of electricity distribution and control apparatus manufacturers (Figure 3.) has been growing and has been estimated to grow steadily in 2020-2023. This is not reflective of all the sales to be made, instead it reflects the revenues that Swedish manufacturers have. (Statista, 2019a.) Since, the revenue has been steady and even growing, it means that the equipment manufacturing is doing well in Sweden. This means that there are several local competitors in Swedish and most likely many Swedish competitors in the Norwegian market. It could also mean that there the Swedish manufacturers export a significant amount of these products and gain revenue that way.

Norway is one of the richest countries in the world at 5th place in GDP per capita (Statistic Times, 2020). The GDP grew by 1,932% in 2019 and is estimated to grow by 2,441% in 2020. In the four following years, the growth is around 1,6%. (IMF, 2019.) The inflation was 2,3% in 2019 but is estimated to decrease to 1,9% in 2020. In the four following years it is estimated to stay at 2%, which means that the real economic growth will be negative yearly from 2021 forward, because inflation is higher than GDP growth. (IMF, 2019.) The manufacturing industry keeps growing in 2020, since Manufacturing Purchase Manager Index (PMI) is estimated to be 53,8 in 2020 and 54,2 in 2021 (Trading Economics, 2020). If the number is over 50, the industry is growing. If, the number is close to 60, the banks are worried about the industry overheating. Norway's Manufacturing PMI of 53,8-54,2 is approximately in the ideal location between 54-58. (Online Broker Reviews, 2020.)

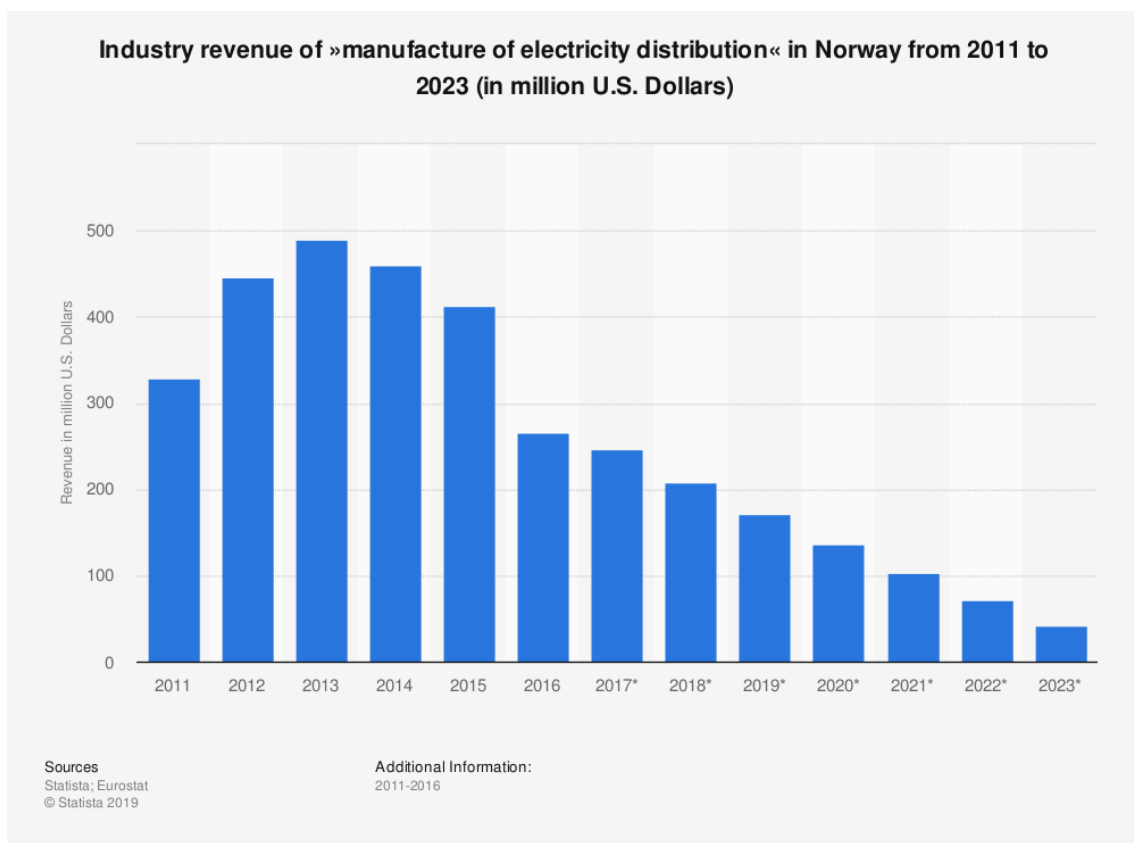


Figure 4. Manufacture of electricity distribution in Norway 2011-2023 (Statista, 2019b).

The revenue of manufacture of electric distribution and control apparatus revenue (Figure 4.) has fallen steadily from 2013 and is estimated to keep falling at least until 2023. The revenue is estimated to go down from nearly 500 million USD in 2013 to under around 40 million USD in 2023, which is over around 90% decrease. (Statista, 2019b.) This can be seen on Figure 4. What could explain this might be offshoring of manufacturing and/or the too low competitiveness of local manufacturers compared to Swedish and global manufacturers. However, I do not believe this to indicate the decrease in demand of such equipment, only that it is not competitively advantageous to manufacture them in Norway.

Table 14. The GDP and inflation percentual change 2017-2024 (IMF, 2019).

Country	Subject	Units	2017	2018	2019*	2020*	2021*	2022*	2023*	2024*
Norway	GDP	% - Change	2,323	1,29	1,932	2,441	1,577	1,631	1,659	1,688
Norway	Inflation	% - Change	1,875	2,765	2,3	1,9	2	2	2	2
Sweden	GDP	% - Change	2,412	2,324	0,936	1,462	2,051	1,974	1,98	1,987
Sweden	Inflation	% - Change	1,867	2,036	1,737	1,46	1,6	1,8	1,9	1,9

Table 14. shows the percentual change of GDP and inflation in Sweden and Norway. As can be seen, the inflation is close to and sometimes is even higher than the GDP growth which means that the real growth of these markets is either very low or negative.

6.1.2 Main competitors

The main competitors identified to me by our Director of Product Sales, Joakim Hjort (Private email 17.2.2020) are ABB, Siemens and Schneider Electric. There are some smaller competitors also, but these are the ones that compete in almost every purchase situation VEO is involved in.

ABB is a global company formed in the merging of a Swiss and Swedish company (ABB 2020a). They produce different types of technological products and solutions for the digital transformation of industry. ABB operates in over 100 countries and employs about 147000 employees. (ABB 2020b.) The medium voltage switchgears are produced in several location in Europe: Norway, Slovakia, and Italy, as well as Russia and Turkey (ABB 2015). ABB has several locations in both Sweden and Norway focusing on different operations (Google Maps, 2020a; Google Maps 2020b). ABB also has a substations unit in Västerås, Sweden. (Google Maps, 2020a). Medium voltage switchgears are used in substations.

Siemens is a global organization in multiple industries. One of these industries power generation and transmission, which is the industry of focus in this study. Siemens has around 385 000 employees worldwide in 200 countries. (Siemens 2020.) The factory location for medium voltage switchgear production was not found, but the company has several locations all over Europe (Siemens 2020). Siemens has several locations in both Norway and Sweden, but there does not seem to be a location directly specializing in the operations involving medium voltage switchgears (Google Maps, 2020c; Google Maps 2020d).

Schneider Electric is the final major competitor. It is a global organization providing energy and automation digital solutions for efficiency and sustainability. The company employs over 135 000 employees worldwide. (Schneider, 2020.) I was not able to find the location where medium-voltage switchgears are produced, but in Sweden there are

dozens of locations dedicated to different operations (Google Maps, 2020e). There are also several locations in Norway focusing on different operations (Google Maps, 2020f).

6.2 Different stages in the purchasing process

Generally, it seems that the answers largely follow the processes described by the three models earlier in this study. The descriptions given in the answers vary in their level of detail, which is understandable considering that not every company wishes to tell about their processes in great detail, in addition to the managers most likely being too busy to answer in more detail.

“Choice of inquiry from netowner, send out inquiries to manufacturers, make a choice of correct manufacturer regarding price and technique. If contract is signed go out once again on the market to get best conditions.” (Company SB 2019.)

“Technical Spec - RFQ - Quotation evaluation - negotiation – purchase” (Company SC 2019.)

“We work mostly as customer support and work with initial specification stages. When we are writing technical specifications for buying switchgears it is very important that it is brand independent. Customer is handling the purchase. We as a Consultant can do inspections after delivery.” (Company SD 2019.)

“Sourcing strategy, prequalification, RFQ, contract execution” (Company NA 2019).

“Equal request to several suppliers. 2. Technical and price internal evaluation 3. Meeting with customer - maybe 2 options 4. Maybe revised offer for best possible price. 5. Final decision for with offer we go with in the final offer to customer” (Company NB 2019.)

The representative of Company A gave the answer in Swedish, which is why I will be summarizing the answer in English. First step of the process for Company A is to recognize a need for a product or a station. Then the purchasing process is taken forward

like determined in the purchasing strategy. After this a prequalification is sent out in Sellihca, which is an electronic qualification system, to identify which suppliers are interested and capable of supplying the service or product. Then the identified suppliers are invited to the company's electronic platform, to be able to make calculations for the order and leave an offer. When the time for leaving offers has ended, all the offers are opened at the same time and evaluated through set criteria and requirements. Afterwards, the most competitive offers are called to go through their offer and make sure that there are no questions. After that, the leading supplier is assigned a contract after a 10 days contract barrier has ended. (Company SA 2019.)

As mentioned before, the level of detail is varying in the answers. However, most of the companies seem to be following largely similar purchasing processes, but there are also some differences between companies. Some of the differences can possibly be explained by the company type and also the responsibilities of the interviewee. A purchaser might not always have so deep understanding of the technical specification phase as the engineers and vice versa. Also, there are most likely differences in what is considered to be a part of the purchasing process.

In general, the suppliers follow the structure of the general purchasing model I formed from the different models presented in chapter 2. Half the interviewees include the first stage in one way or another. SA is the only one to start from recognizing the need for the product. In addition, SC and SD consider the technical specifications included in this stage.

Supplier market analysis and strategic work stage is present in all the interviewees' answers more significantly related to purchasing process, which means all except SD. The detail into which the interviewees goes into is varying. However, RFQ seems to be present in all processes. Prequalification is present only in SA and NA. Strategy work is included also only in SA and NA's answers.

Evaluation of the offers is in some way involved in the answers of SA, SB, SC, and NB. It is also implied in NA because RFQ is followed by contract negotiation, and there naturally needs to be some process to select those with whom to negotiate with. So basically, this step is present in all that are involved in the whole purchasing process. Negotiation and choice of supplier is either mentioned or implied in all these answers.

What seems strange, is that some answers end their purchasing process to the granting of the contract. Only SB, SC, SD and NA have any stages beyond this stage. SB does not mention the execution of the contract, instead they state that it is important to go out and try to find better alternatives, which can be considered to fit into the evaluation and monitoring of supplier performance. SC states the next and final step to be the “purchase” which I understand to mean the execution of the purchase. SD mentions the inspection of the purchased products which would go into the supplier cooperation stage. NA’s final step in turn is the contract execution.

In general, most of the answers follow the general model (Table 15.) up until the negotiation and contracting part. Only two out four continuing after that point mention the implementation of the contract. SD mentions only supplier cooperation, which is understandable because of their low involvement in the whole purchasing process. SB in turn skips the implementation of the contract and supplier cooperation and instead goes straight ahead to the evaluation and monitoring of the supplier performance.

Table 15. General purchasing model.

Supplier cooperation	Recognizing the needs / Specifications	Supplier market analysis and strategy work	Negotiation and contracting	Implementation of contract	Evaluation and monitoring of supplier performance
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Company SA seems to be the only one that starts from recognizing the need for a product. This answer however does not seem to consider the technical specification step. This can be because of several reasons. For example, it might be because the

interviewee is a strategic buyer, and the technical specifications might come from another part of the organization or an outside consultant.

The companies that consider the technical specifications phase are SC and SD. The reasons why SC includes the technical specification phase in its purchasing process, while SA does not is unknown to me. This can be due to differences in organizational structure and responsibilities of the purchasers. The reason for the importance and focus on technical specifications for SD is quite clear. As a consultant company, their function is to serve as support for their customers. This includes drawing up the technical specifications, and more importantly drawing them to the customer's need without any brand in mind. Based on this study, the consultants do not use their potentially significant power of guiding the purchase decision towards certain brands by drawing the technical specifications in a way that would lead the purchaser to a certain supplier.

There are differences between all of the companies, which made it difficult to identify differences between the same types of companies. SA gives a more detailed explanation of the process, while NA gives a less detailed version. Both involve strategy work in their process. The structures seem to contain the same basic structure, even though NA focuses more on the negotiation part, and SA skipped over it.

SB and NB also have very similar purchasing process structure. However, SB focuses more on the after-purchase step of going out and trying to find a better alternative, while NB goes through the evaluation, qualification and negotiation phase in more detail.

6.3 Factors affecting purchasing decision

Next question was about the factors that are most important for companies when making the purchasing decision or suggesting one to their customer in the case of consultant company. The answers can be seen in Table 16.

Table 16. The answers to the most important factors affecting purchasing decisions.

	Total	SA	SB	SC	SD	NA	NB
Price	6	1	1	1	1	1	1
Delivery	4		1	1		1	1
Technical specifications	3	1		1			1
Performance history	3	1			1	1	
Known supplier	3		1			1	1
Technical capability	3		1		1	1	
Warranties and claim policies	2			1			1
Amount of past business	1		1				
Supplier's reputation and position in the industry	1				1		
Repair service	1				1		

Without exception, price is identified as one of the most important factors affecting purchasing decisions. This came as no surprise, since that was the feeling and understanding that VEO's sales personnel had gotten. The second highest scoring factor is delivery. On-time and well-handled delivery seems to be important to the majority of the companies that answered.

Company SA justifies their selection of price, technical specifications and performance history with the ability to secure quality on delivery and to evaluate suppliers equally and transparently. (Company SA 2019).

Company SB in turn chose price, delivery, technical capability, known supplier, and amount of past business as their factors. They justified their decision in a following way:

“low price since our customers make their decision on price. Good experience from supplier in the past so that we know what we can expect. Delivery time is always important, not necessarily short times but promised times must be kept.”(Company SB 2019).

As is quite clear based on the answers, price is an extremely important factor for the purchasers. In this situation, the system integrator considers price first, since it is what their customers use to make their decision, but they also need to know what to expect from the supplier regarding for example quality and delivery.

Company SC in turn justifies their choice in a following way: “Due to the combination of factors, we Always try to analyze and evaluate from a TCO perspective” (Company SC 2019). “TCO” refers to the term of Total Cost of Ownership. In short, it means all the costs that occur during the course of ownership (Roda & Garetti 2014, p. 1). The TCO perspective is most likely the reason, that the Company SC is only one of two that chose warranties and claim policies as one of their key factors. As good claim and warranty policies guarantee the quality and support of purchase for a certain period of time, it lowers the possible costs incurred by a faulty product.

Company SD comments on their selection in a following way: “These are the factors that we Believe our customer value the most. We do very seldom buy medium voltage switchgear.” (Company SD 2019). This short answer was to be expected, since this question was directed mostly to the purchasing parties and the question was maybe written in a difficult way for a consultant company to answer it. Company SD however answers in the way that I wished them to, meaning they answered their experiences on what their customers value.

Company NA comments in the following way: “Price, on time delivery and product quality is the "golden triangle " for all products. Then is the suppliers ability to execute

projects.” (Company NA 2019). The trio of factors that Company NA calls the “golden triangle” seems to be the most appreciated trio in all the answers. With all the interviewee’s choosing price, two thirds choosing delivery and half choosing performance history that indicates quality. Between the two companies operating in the utility industry, the golden triangle was chosen by both companies with the exception of delivery not chosen by SA, that seems to consider technical specifications to be more important to them. Of course, SA only chose three criteria while NA five, but it seems that since the delivery was not one criterion chosen by SA, it does not operate according to the same “golden triangle”. However, this does not mean that they do not value the same criteria, but that they value them differently.

The final company, NB, comments on their choices this way: “Because the combination of this factors are the most important for winning the contract.” (Company NB 2019). While this answer does not elaborate much on the importance of different factors chosen, it indicates that these factors are the ones that this system integrator considers to be the most important ones for winning a project contract. It seems that the system integrators in both Sweden and Norway have quite similar criteria. The differences are that SB focused on technical capability while NB on technical specifications of the product. Also, SB appreciated past business with the supplier, while to NB warranties and claim policies are more important.

In general, there seems to be little difference between companies in Sweden and Norway regarding the criteria. Some possible differences could be identified in two criteria: known supplier, and amount of past business. The known supplier criterion seems to be more important to the Norwegian companies, since both NA and NB chose it, while in Sweden, only SB chose the criterion. Of course, due to low number of companies interviewed in Norway can cause this statistic to become skewed. The amount of past business having an effect seems to be true only for SB, since it is the only one of all the six companies to choose that. There could be a difference between Sweden

and Norway here, but it could also be that the interest in the amount of past business is quite low in both countries.

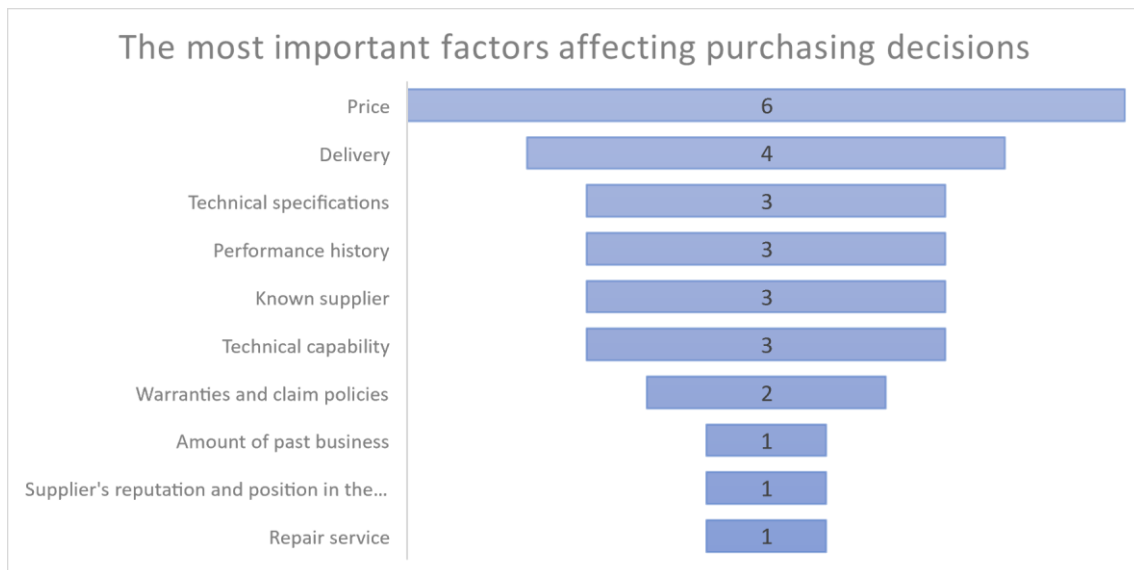


Figure 5. The most important factors affecting purchasing decisions.

As mentioned in the theoretical chapter, there are a multitude of different criteria used in supplier selection. I was not able to mention all of them as options, but there was a possibility to add criteria that were not options. No interviewee took this opportunity, which could be interpreted that the answers include the most common and important criteria for this type of context. The frequency of the answers can be seen in Figure 5.

Price is the most common one and is evaluated in the offers stage. It is understandable that this is the most common choice, since Almquist, et al. (2018) determined that acceptable price is one of the so-called table stakes, which are basically the minimum requirements.

Delivery is the next most common answer and it is also evaluated in the offers stage. I would consider it to be a part of the availability aspect in the element of value pyramid. This means that it is part of the level including elements that make making business easier (Almquist, et al., 2018, pp 75). The technical specifications are also evaluated in

the proposal stage, but technical capability can be evaluated both before and after the proposals. Meeting technical specifications is one of the table stakes in the elements of value pyramid, while technical capability can be considered to be part of the performance section. The performance section is on the second level of the pyramid called functional value. This is the level most B2B companies focus most on. (Almquist, et al., 2018.)

Known supplier and performance history are both evaluated prior to proposals, since they do not have anything to do with the proposal. Of the less chosen criteria, amount of past business, and supplier's reputation and position in the industry are both evaluated prior to proposals, while warranties and claim policies, as well as repair service is evaluated after the proposal. Contrary to my beliefs mentioned in chapter 2, there are some answers mentioning the long-term relationship of the purchaser and supplier. Amount of past business is mentioned by SB, which is clearly an indication that there is a wish for a company that the purchaser has done business with before. The known supplier criterion can be considered to be related either to some sort of prior relationship between the purchaser and the supplier or the high level of awareness about the supplier.

6.4 People involved in the Purchasing decision

The people involved in the purchasing decision-making seem to vary between the companies. Three companies answered that purchasing or procurement department are involved in the decision-making. This difference was to be expected, since the companies that are left are system integrators, or a consultant company. The system integrators seem to let the project managers to handle the purchasing, possibly with the help of other managers or technical staff. Technical staff are supporting in SC's and NA's purchasing situations, while in SA, the purchasers are supported by project planning managers. The consultant company SD did not answer, since they are not the purchasing

party and they are rarely involved in these kinds of purchasing processes. The answers can be seen in Table 17.

Table 17. The answers to the people involved in the purchasing decision-making.

Company	People involved in purchasing decision-making
SA	Purchasing and project planning managers (SA 2019).
SB	"Mostly project manager with support from design engineers and in some cases also department manager" (SB 2019).
SC	"Technichal staff, purchasers" (SC 2019).
SD	
NA	"Technical staff and procurement department" (NA 2019).
NB	"Team-manager and Project manager/Bid manager." (NB 2019).

The differences between the people involved in the purchasing decisions can be dependent on several factors. First of all, the different companies most likely have different organizational structures, with different departments responsible for functions that are handled by another department in another company. Secondly, as I mentioned before, the system integrators are buying the products to be a part of one of their projects, in which case the project managers are significant part of the decision. In the case of SA, SC, and NA, the product is bought to be a part of the company's operations and are therefore handled by the professional purchasers as well as technical and sometimes managerial assistance.

The mentioned people can be categorized through the different roles in the DMU. Users are not mentioned by any answer, since I consider the technical staff to be more like the technical support and design staff than the ones actually working with the product. If they are the users, SC and NA include users in their answers. Influencers can be

recognized in all the answers. Project planning managers for SA, design engineers and departmental manager for SB, Technical staff for SC and NA, and Project manager and Bid manager for NB. These all give advice and/or provide criteria and information of different alternatives. The consultant company SD can be considered as an external influencer for all their customers. The actual buyers are identified by SA, SC and NA, but most likely the Project Manager for SB, and Team Manager for NB both have the authority to negotiate the terms of the contract. Since, all of the people in answers are somehow involved in the purchasing decision-making it is difficult to identify the decision-makers. SA, SC and NA have the decision most likely made by their purchasing department. While for SB, the decision-maker is probably either the project manager or in some cases the department manager. For NB, the Team Manager most likely makes the decision, possibly together with or guided by the Bid Manager. There does not seem to be gatekeepers mentioned in the answers. This is most likely, because their role might not be considered by many as part of the purchasing decision-making. Most might not even think that the secretary or other liaison between the companies actually has that kind of power over the information relayed to the rest of the DMU.

The same type companies seem to have very similar ways of operating from this perspective also. SA and NA both highlight the purchasing personnel, while the difference comes from the others involved in the process. For SA it is project planning managers and for NA it is technical staff. For SB and NB, the case is very similar. Both have project managers involved, while in NB's case the team-manager seems to be in a significant position. SB is assisted by design engineers and department manager, while NB is assisted by the bid manager.

6.5 Desired level of local presence

Figure 6. shows the level of desired local presence by the interviewees. There were additionally options of "local manufacturing" and "other", but only NB picked the "other".

However, NB writes that “National presence is wanted” which I concluded to mean local subsidiary handling sales and service.

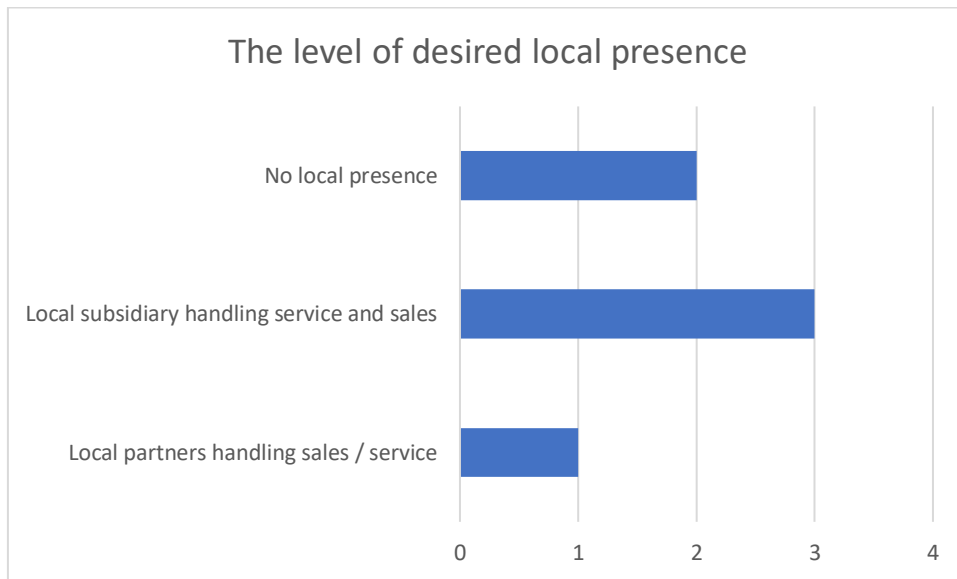


Figure 6. The level of desired local presence.

SA and SB answer that there is no need for local presence. SA emphasizes that it is important to have local presence in specific projects (SA 2019), while SB answers followingly:

“If there are problems with delivered equipment it’s necessary that manufacturer shows up on site without delay. Before purchase and before delivery it’s not so important with local presence. Ofcourse the manufacturer has to visit customers in order to show products, news and so on.” (SB 2019).

SD is the only company to choose the local partners handling service and sales. They justify their decision in the following way: “Fast and reliable support and service when needed in order to minimize production loss in the end.” (SD 2019.) This answer seems to focus significantly on the after-sales service and support. Therefore, it seems that they have the same wish as SB but hope for local partners to be surer of the fast response.

SC and NA wish for a local subsidiary handling service and sales, while NB answers that local presence is wanted, which I interpret to mean the same. SC wants this level of local presence since it is “Easier to cooperate locally” (SC 2019). NA in turn emphasizes the following factors: “response time, communication/local language and understanding of local needs” (NA 2019). Lastly, NB answers: “We are used to deal with supplier’s with national presence, and with

conditions such as DAP Norway.”(NB 2019). All-in-all, it seems that the Norwegian companies wish for local operations because they wish to be able to cooperate with people who have knowledge on local environment and language. SC in turn seems to wish for local presence to be able to generally cooperate more efficiently.

It seems that this question separated the two countries from each other more than any of the questions before. It is clear that the Norwegian companies value significant local presence to be able to cooperate in their own language and with people close-by, with knowledge of the country. In Sweden, it seems that in general, there seems to be no significant need for local presence, as long as the required functions needed are completed. The emphasis in Swedish companies seem to be on great response time, when there is an issue, and personnel being present for projects and presenting of the products.

This section is where the highest differences between the same type of companies can be seen. The answers in both cases are completely opposites. SA and SB are both of the mind that local presence is not needed as long as response time is quick enough. NA and NB in turn both want to have a local subsidiary handling sales and service, which is significantly higher level of local presence. This major difference can be accredited, to some extent, to the differences in the Swedish and Norwegian markets.

Table 18. The entry modes included in the options.

Answer	Direct Export	Licensing	Contract Manufacturing	FDI -Greenfield	FDI - Acquisition	FDI - Joint Venture	Strategic Alliance
No local presence	X						
Local partner handling sales and service	X					X	X
Local subsidiary handling sales and service	X			X	X		
Local manufacturing		X	X	X	X	X	X

The answers can be categorized to different entry modes. This categorization can be found in Table 18. "No local presence" clearly refers to direct export without a foreign sales branch, or partners handling sales in the foreign market. This means that the sales are conducted from the domestic market, and the products then shipped to the foreign market. "Local partner handling sales and service" can be considered to be direct export with a distributor, partner or agent in the foreign market handling the sales and service. This partner can be a joint venture, strategic ally or just contractual distributor. "Local subsidiary handling sales and service" in turn is the direct exporting through foreign sales branch. While it is direct export, it can also be considered as FDI, since there is equity investment involved in the establishment of the foreign sales branch. There were also options of "local manufacturing" or one you could fill yourself. The local manufacturing would have included manufacturing through FDI, meaning greenfield, acquisition or joint venture as well as manufacturing via contract manufacturing or licensing. This seems to indicate that there is no need or desire for local manufacturing, and that for one third of the answers, there is no matter how the exporting is managed, half wish for it to be conducted through a local sales branch, meaning FDI. Finally, one sixth would consider the best alternative to be for the sales and service to be conducted through a local partner, whether contractual, strategic or joint venture.

7 Conclusions

7.1 Summary and conclusions

In general, the study does not reveal any significant differences between the markets or different types of companies that participated in the study. The purchasing process seems to include the same basic elements for all the interviewees. There does not seem to be noticeable differences between the markets. Also, the same type of companies from different countries seem to follow a similar purchasing process. The differences in the answers are most likely dependent on the position of the interviewee and different organizational structures between companies. A summary of the study results can be found in Table 19.

Table 19. Summary of the study results.

Subject	Conclusion
Stages in purchasing process	Most follow the earlier established general purchasing model right until the awarding of contract. After which the execution of purchase, supplier cooperation and supplier monitoring and evaluation received less attention.
Factors affecting purchasing decision	Price seems to be the most important factor affecting purchasing decision, followed by delivery. Most of the criteria chosen are for the proposal stage, while the before proposal stage criteria received less answers. Some consideration given also to long-term relationships.
People involved in the purchasing decision	Users were not very well included in the answers. Influencers and buyers are present in all answers while, gatekeepers were found in none of the answers. While not having people involved directly in the purchasing decision-making, SD could be considered an external influencer for its customers.
Desired level of local presence	Two wished for no local presence, except when needed. Three wished for a local subsidiary handling sales and services, for easier cooperation and market and cultural knowledge. One wished for local partner to handle sales and service because of better response time.

There are some more differences between the markets in the most important factors affecting purchasing decisions section. While all the participants chose price as an important factor, and most also delivery, the rest differed a bit more. Quite frequently chosen are also the performance history and technical capability of the supplier. However, the difference that seems to be the clearest was that the known supplier and

amount of past business seemed to be more important in the Norwegian markets than in the Swedish market. This result could however be skewed, since I was able to reach only two companies in the Norwegian market.

Again, the answers of same types of companies are similar to each other. SA and NA chose the same factors, with only one difference. The choices could have been almost the same, if SA had chosen 5 factors instead of 3. It seems however, that there are some differences in the way the companies rank the criteria. NB and SB also have quite similar criteria, since they chose 3 of the same criteria.

More significant differences between companies came in the question about the people involved in the purchasing decision-making. The differences are most obvious between the end-user companies, and the system integrators and consultants. Procurement and purchasing department are emphasized in the end-user participants, while project managers have the main role for system integrators. The consultant company did not answer due to not being the purchasing party and rarely being involved in these kinds of purchasing processes. The differences between end-user and system integrators can be explained by the different type of reason for the purchase. End-users purchase the products for their own operations, and they can therefore utilize their professional buyers as well as technical and managerial staff. For system integrators, the product is part of their project offering to some other company, and the main decision-maker is therefore the project manager responsible for the project, sometimes with the help of technical staff and managers. There are significant similarities between the same types of companies. SA and NA both seem to rely on their purchasing department, while SB and NB rely more on their project management personnel.

Finally, the desired level of local presence had the most significant difference between the markets. In Sweden, there was lesser desire for strong local presence. The consultant company SD considered local partners handling sales / service to be the most suitable one, while SC wished for a local subsidiary handling service and sales. Both Norwegian

companies, in turn desired a local subsidiary handling service and sales. So, it seems that there is a stronger desire for local presence in the Norwegian market, while in Sweden most important thing is that the delivery is on-time and after-delivery support is available rapidly. This difference can be partly because of the closer geographical and language proximity of Finland and Sweden. As mentioned before, most of VEO's sales professionals operating in the Swedish market speaks Swedish. This is the section with the most significant differences between same types of companies SA and SB had the opposite answers compared to NA and NB. The Swedish companies required no local presence, until there is a need for support, while the Norwegian companies wished for a local subsidiary. This is also reflective of the differences between the Swedish and Norwegian markets mentioned above.

7.2 Limits of the study

There are some limitations to the study results. First of all, the sample is quite small. It is difficult to get a generalizable understanding of companies in a country through the answers of 4 or 2 companies that I was able to interview. Also, it is an issue that I was not able to get a consultant and industrial company from Norway. This makes direct comparison between same types of companies impossible.

In addition, to recognize the characteristic of certain types of companies, it would be necessary to have a larger sample of each type of company. The study was also from the beginning limited to new task and modified rebuy situations, because of the product. Also, the purchasing process can be significantly different in B2B purchasing companies buying different types of goods.

7.3 Suggestions for further research

In the future, similar studies could be made with for example one market or one type of company, to get a more generalizable results for the subjects. The same study could also be made on a larger scale. Since it proved surprisingly difficult to get enough answers to for my study, I would suggest making it a longer project to be able to get enough data for the study.

Also, it could be interesting to focus on one company and interview multiple people involved in the different parts of the purchasing process. This is because a buyer could have different perspective than a technical engineer or a financial manager.

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Appendices

Appendix 1. The questionnaire form

Master's thesis questionnaire

The answers to these questions can be made without providing your name. I only need to know the organization and your title in the organization. If you provide your name, it will not be referenced in the study, but instead the interviewee is always referred to with his/her title. If you wish your organization to remain nameless in the study, it will be referred to only by its general characteristics (e. g. "A large Swedish private company operating in the utility industry").

* Pakollinen

1. Your name

Kirjoita vastaus

2. Your organization *

Kirjoita vastaus

3. Your title or description of duties *

Kirjoita vastaus

4. Do you wish your organization to remain nameless in the study? *

Yes

No

5. Describe the different stages the purchasing process goes through in your organization, regarding products such as medium voltage switchgears. If your organization is involved only in some parts of the purchasing process, describe these parts. *

Kirjoita vastaus

6. Select five of the most important factors affecting purchase/investment decisions in your organization. If your organization is not the purchasing party, choose the criteria that is the most important to your organization when recommending a purchase of some product. (You can add several different factors to the "other" box, if you cannot find suitable options from the list) *

- Price
- Technical specifications
- Supplier's reputation and position in the industry
- Delivery
- Performance history
- Warranties and claim policies
- Technical capability
- Known supplier
- Geographical location
- Amount of past business
- Training aids
- Repair service
- Muu

7. Why are these 5 the most important factors for your organization? *

Kirjoita vastaus

8. Who are involved in the purchasing decision-making in your organization, regarding products such as medium voltage switchgears? If your organization is not the purchasing party, describe who are involved from your organization in the purchasing process/decision-making of the customer. *

Kirjoita vastaus

9. What is the desired level of local presence from the supplier? *

- No local presence
- Local partners handling sales / service
- Local service operations
- Local subsidiary handling service and sales
-

10. Why would this level of local presence be most suitable for your organization? *