Purchasing practice in SMEs
Practical Impressions about the Purchasing Activities of Small and Medium sized Enterprises in the Manufacturing Industry

Master’s thesis within international Logistics and Supply Chain Management

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Acknowledgement

I got a lot of support during the writing process of this thesis and want to address some grateful thanks to certain persons.

Firstly, I want to thank my tutors Professor Susanne Hertz and PH.D Candidate Lianguang Cui for their guidance and valuable feedback they provide me with.

I want to express special thanks to the respondents, which spend their scarce time and shared their valuable knowledge and experiences with me. Peter Domby at Uppåkra Mekaniska AB, Sven Anderson at Mattssons Mekaniska AB, Anders Källberg at Stacke Hydraulik AB and Britt-Marie Andersson at Thor Ahlgren AB made this thesis possible.

Last but not least, I want thank my husband and my children for their patience and lovely support.

Stephanie Kulik
Jönköping, 21th of May 2010
Master’s Thesis in International Logistics and Supply Chain Management
Title: Purchasing practice in SMEs - practical impressions about the purchasing activities of small and medium sized enterprises in the manufacturing industry
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Date: 2010/05/21
Subject terms: SMEs, Purchasing Performance, Buyer-Supplier Relationship, Strategic Purchasing, Manufacturing Industry

Abstract
Small and medium sized companies are important to the European economy and considered as the true backbone of the European economy, being primarily responsible for wealth and economic growth. Further, the purchasing function of small and medium sized companies had become more and more important to firms within the creating of competitive advantages. Additional, former research emphasizes the need of companies to engage in closer relationships in order to survive in nowadays business environments.

These three issues, - SMEs, its purchasing performance and the relationships the small and medium sized firms are engaged with are interrelated and therefore the essences of the thesis. The thesis is limited to the manufacturing industry due to the potential wide area of small and medium sized companies.

The purpose of the thesis is to examine the purchasing practices of small and medium sized enterprises with a focus on strategic considerations and supplier relationships.

The research project is developed with four single case studies. Participating companies were two small sized manufacturing companies and two medium sized manufacturing companies, defined according to the definition of the European Commission.

The study is built on a critical review of former literature and research findings within the purchasing area and the area of small and medium sized companies. The findings from literature review (frame of references) and the findings from the empirical study were connected in order to fulfill the purpose of the thesis as well as the developed research questions.

In the analysis, the characteristics of SMEs purchasing process were outlined. Evidence for strategic consideration were found and the characteristics of the companies relationships where established.

Small and medium sized enterprises have developed its purchasing performance positively in the comparison to former research findings. By using business technology systems, strategic planning and deliberations and finally through building close and long-term relationships, manufacturing SMEs found a suitable ways to perform its purchasing activities successful and found its place in sophisticated supply chains.
# Table of Content

1 **Introduction** ................................................. 6  
   1.1 Background .................................................. 6  
   1.2 Problem ..................................................... 8  
   1.3 Purpose ...................................................... 9  
   1.4 Delimitations ................................................. 9  
   1.5 Outline of the Thesis ....................................... 9  

2 **Frame of References** ............................................ 11  
   2.1 Defining Small and Medium Sized Enterprises (SMEs) ........ 11  
   2.2 The Purchasing Concept .................................... 12  
      2.2.1 The Purchasing Process Model ......................... 12  
      2.2.2 Strategic Definition of the Purchasing Concept ....... 13  
      2.2.3 Portfolio Approach .................................. 14  
      2.2.4 Strategic Sourcing Decisions .......................... 15  
      2.2.5 Buyer – Supplier Relationships ....................... 18  
   2.3 Purchasing in SMEs .......................................... 21  
      2.3.1 Purchasing Performance in SMEs ...................... 21  
      2.3.2 Strategic Considerations .............................. 22  
      2.3.3 Buyer-Supplier Relationships within SMEs .......... 23  
   2.4 Research Questions .......................................... 25  
      2.4.1 Research Question I .................................. 25  
      2.4.2 Research Question II .................................. 25  
      2.4.3 Research Question III .................................. 25  

3 **Methodology** ....................................................... 26  
   3.1 Literature ................................................... 26  
   3.2 Research Approach ......................................... 27  
   3.3 Research Purpose ........................................... 27  
   3.4 Research Strategy ........................................... 28  
   3.5 Research Design ............................................. 29  
      3.5.1 Case Study ............................................. 29  
      3.5.2 Comparative Design ................................... 30  
      3.5.3 The applied research design .......................... 30  
   3.6 Collection of Qualitative Data ................................ 30  
   3.7 Respondent and Case Selection ................................ 32  
   3.8 Data Analysis ................................................. 33  
   3.9 Reliability and Validity ..................................... 34  
   3.10 Summary of the used method ................................ 35
4 Empirical study

4.1 Uppåkra Mekaniska AB

4.1.1 Company Presentation

4.1.2 The Companies Purchasing Performance

4.1.3 Strategic Considerations

4.1.4 Supplier Relationship

4.2 Mattssons Mekaniska AB

4.2.1 Company Presentation

4.2.2 The Companies Purchasing Performance

4.2.3 Strategic Considerations

4.2.4 Supplier Relationship

4.3 Stacke Hydraulik AB

4.3.1 Company Presentation

4.3.2 The Companies Purchasing Performance

4.3.3 Strategic Considerations

4.3.4 Supplier Relationship

4.4 Thor Ahlgren AB

4.4.1 Company Presentation

4.4.2 The Companies Purchasing Performance

4.4.3 Strategic Considerations

4.4.4 Supplier Relationship

5 Analysis

5.1 Small and medium sized enterprises

5.2 Performance of purchasing in SMEs

5.3 The importance of strategic consideration in SMEs purchasing activities

5.4 SMEs supplier relationships

6 Conclusion

7 Suggestions for future research

8 References

9 Appendix

9.1 Appendix - 1 Interview Guide (English Version)

9.2 Appendix – 2 Interview Guide (Swedish Version)
Figures

Figure 1    European Commission (2009) SMEs Definition……………………11
Figure 2    The Purchasing Process Model (van Weele, 2002; p.14)…………………13
Figure 3    Different Types of Relationships (Webster, 1992; p.5)…………………19
Figure 4    Practical approach of the research……………………………………36

Tables

Table 1    Comparison between Local and Global Sourcing
(Enarsson 2006, p.87)………………………………………………………….16
Table 2    Advantages and disadvantages of multiple and single
sourcing strategy (Costantino and Pellegrino 2010, p. 28)…………………17
Table 3    Key factors of co-operative relationships
(Mudambi et al., 2004; p. 90)…………………………………………………24
1 Introduction

In this part of the thesis, the reader will be provided with a short introduction into the research area. In order to give the reader a clear picture about it, the problem is discussed. This will lead to the thesis purpose and potential delimitations. Finally, the outline of the thesis is presented.

1.1 Background

Small and medium sized companies are important in Sweden and in the European business world. According to the European Commission (2010), small and medium sized companies stand for 99% of all enterprises in the European Union and its 23 million SMEs provide 75 million jobs. In Sweden it exist an above average density of small and medium sized enterprises. According to the European commission (2005), there are 58 SMEs upon 1000 inhabitants, which is above average as in the rest of the EU where the average is 40 SMEs per 1000 inhabitants. In numbers, the Swedish SMEs make up 99,8 percent of all enterprises and provide work for 1.666.959 people (63,2 %) (Small Business Act, Fact Sheet Sweden, 2008). Meaningful appears the following statement when concluding the part about the importance of SMEs in Sweden and the European Union: “SMEs are the true back-bone of the European economy, being primarily responsible for wealth and economic growth, next to their key role in innovation and R&D” (EC, 2010)

Often researchers state that purchasing in relation to small and medium sizes enterprises got too small attention (Ramsay, 2007; Ellegaard, 2006; Quayle, 2002; Zheng, Knight, Harland, Humby & James, 2007) or that there is an increasing interest to doing research in this area (Pressey, Winklhofer and Tzokas, 2009). Nevertheless, one cannot say that small and medium sized companies and its purchasing behavior is not a topic of past or present research.

Apart of the unquestioned importance of small and medium sized companies, some effects influence them and its business environment. The ongoing globalization of the business world is only one key issue these companies have to handle as well as the associated increased competition on firms markets. Another factor is the increased complexity of business environment that is forced through the globalization, outsourcing and through large and dominant companies. The last point is the economical crises, started in 2008, which still have and will have strong effects on the small and medium sized companies.

As stated before the globalization is one of the influences that affect SMEs; however it is important to have a distinct perception of the term ‘globalization’. According to Gatewood and Boko (2009), ‘it is a term used to describe the changes in societies and the world economy that have resulted from dramatically increased cross-border trade, investment, and cultural exchange. Globalization has increased the flow of goods, services, people, real capital, and money across national borders, resulting in a more inte-

As Ellegaard (2006) stated, ‘labor-intensive production is moving east’ which forces SMEs to find other possibilities to compete with low cost countries in Asia and East European (Ellegaard, 2006; p.272). Mostly it is the knowledge and the innovation skills that enable small and medium sized enterprises to compete with manufacturer situated in low cost countries. The globalization offers to SMEs access to new markets and resources that could additional enhance its competitive position. However, the increased competition forced through the globalization lurks not only from different geographical areas. Because of the increased use and utilization of communication technology like internet, nearly every company beside its size has the possibility to act global. In order to sum up it exist a huge amount of opportunities from globalization but also threats (Acs et al., 2009).

The economical crises, which take its beginning in 2008 in USA, had huge effects on the world economy. Naturally, Sweden was affected as well and still it suffers from the effects the economical crises causes. According to the Swedish Central Bureau of Statistics (2009) Sweden’s gross domestic product (GDP) decreases with 6, 5 % in the first quarter of 2009 in contrast to the first quarter in 2008 (cited in Wing & Linde, 2009). Many companies are situated in a quite hard situation due to decreasing demand on the firms markets and difficulties in realizing financial means for investments (Wing & Linde, 2009). According to Wing and Linde (2009), mostly the manufacturing industry suffers but the services companies have not yet felt the impact of the economical crises. This might change when service demand is decreasing due to joblessness of the people.

Nevertheless as every change, even the economical crises and associated changes provide the SMEs with opportunities. In the survey of Wing and Linde (2009), Swedish SMEs were asked if its strategic development work is influenced and how it is influenced. The most companies will improve existing products or services or they will develop new products or services. In addition, some companies want to try to develop and improve business processes as sales, marketing or purchasing (Wing & Linde, 2009).

To sum up it is still interesting to research the purchasing abilities of small and medium sized companies even if a number of studies already viewed this area. The importance of SMEs for European economy is unquestioned and the purchasing function in these kinds of firms is of importance in order to be competitive in the today’s business environment. Several influences affect the small and medium sized enterprises, - globalization, a more and more complex business environment, increasing competition and the economical crises with its impacts.

In the next part of the paper the problem discussion will outline why it is important to study the small and medium sized enterprises, its purchasing activities and what areas are distinct important to this thesis. It will result in the thesis purpose.
1.2 Problem

The importance of the purchasing function is broadly discussed in business research and hence unquestioned. Often it is seen as an important strategic function that creates sustainable strategic advantage (Gadde & Håkansson, 2001; Pressey et al., 2007). As Svahn and Westerlund (2009; p. 173) stated ‘purchasing has emerged as a key sources of competitive advantage’. In order to meet price and quality expectations of the customer and at the same time react on the changing demand, companies have to source strategically and adapted to its own business situation and its customers’ requirements. Strategic consideration are vital in the business area of purchasing in order to gain sustainable strategic advantages which means it cannot be copied by a potential competitor.

One way to achieve a sustainable competitive advantage is to engage itself in deeper relationship with a supplier. According to Costantino and Pellegrino (2010), can firms achieve competitive advantages when combining its own core competence with the capabilities of its suppliers, customer or other external resources. Nowadays, firms need to co-operate or working together with other firm because of the spread of knowledge and limited access to (technical) resources. This co-operation can have various forms, for example a joint development project, a research project or a simple mutual try to reduce costs. These relationships can differ in form but also in the level of commitment. Arm`s length relationships are appropriate to certain situations as well as a close partnerships are more appropriate to other situations.

Small and medium sized companies have different presuppositions as larger firms and therefore it is interesting to see how these firms encounter the task of performing purchasing in an effective and sustainable way. How can these firms influence its daily operations? Do they consider purchasing as a tool to be successful in future? Is it generally possible and meaningful for small and medium sized enterprises to make effort within the purchasing area? Mentioned facts about the importance of purchasing, the importance of small and medium sized enterprises and the importance of the firms that is engaged in relationships should be part in this research. As Mudambi and Schruender (1996) outlined in its research, the strategic importance of purchasing, the purchasing partnership paradigm and the importance of the SMEs for the economy are interrelated and therewith worth to be topic of research.

A lot of research was done on every single issue, - purchasing performance, small and medium enterprises, and business relationships. Seldom was a study done in the context of all issues. It was found only one scientific article, which was from year 1996. Since that time, business environment has changed rapidly. Due to this fact, the research of SMEs purchasing practice appears to be meaningful and will be the topic of this master thesis.
1.3 Purpose

“The purpose of the paper is to examine the purchasing practices of small and medium sized enterprises with focus on strategic considerations and supplier relationships”

In order to fulfill the above stated purpose, following research questions are developed:

- How does SMEs perform its purchasing activities?
- Which strategic considerations incorporate SMEs in its purchasing activities?
- Which kinds of relationships have SMEs to its suppliers?

These research questions are developed after critical reviewing the literature and this development will be presented later in this thesis (see 2.4).

1.4 Delimitations

Due to the limited frame of time for this master thesis and a possible wide application area of the research topic, it is necessary to make some delimitation. First, the thesis is limited to four cases of industrial manufacturing. A further delimitation is the geographical spread of the participating companies, which are all situated in Sweden. The perspective of the thesis constitutes an additional limitation. Only the manufacturing companies where interviewed about its purchasing performance. No interviews with, for example, suppliers or customer of the firms were done. This would be more a supply chain perspective, which the author does not want to consider but rather the distinct purchasing performance of small and medium sized enterprises.

1.5 Outline of the Thesis

Chapter 1

In this part of the thesis, the reader will be provided with a short introduction into the research area. In order to give the reader a clear picture about it, the problem is discussed. This will lead to the thesis purpose and potential delimitations. Finally, the outline of the thesis is presented.

Chapter 2

In this part of the thesis, important theoretical knowledge within the area of purchasing is presented. It is divided into three parts. Firstly, the notion of small and medium sized enterprises is defined. Further, the concept of purchasing is presented in a general manner while in the third part it is explained in the context of SMEs.
Chapter 3

In the method section of this thesis, the author outlines which scientific way she chose to come to valuable findings. It includes a description of the research approach and design, the way literature was found and used. Further, different statements are done covering the validity and reliability.

Chapter 4

In the fourth part of the thesis, the findings of the empirical study are presented. The findings are the result of the conducted interviews with the participating small and medium sized companies. Firstly, the firm is presented in order to give the reader a picture of the firms’ business. Then the findings regarding purchasing process, strategic considerations and the firms’ relation to its suppliers are summarized.

Chapter 5

In this chapter, the analysis takes place. The findings from the frame of references are connected to the findings of the empirical study in order to enable a valuable conclusion for this paper.

Chapter 6

In this part of the paper, the author wants to answer its research questions and in that way to fulfill the thesis purpose.

Chapter 7

The last chapter of this paper provides ideas for future research that appeared throughout the writing process of this thesis.
2 Frame of References

In this part of the thesis, important theoretical knowledge within the area of purchasing is presented. It is divided into three parts. Firstly, the notion of small and medium sized enterprises is defined. Further, the concept of purchasing is presented in a general manner while in the third part it is explained in the context of SMEs.

2.1 Defining Small and Medium Sized Enterprises (SMEs)

Past descriptions of SMEs used often the amount of employees with various and different amounts, for example < 500 (Park and Krishnan, 2001), < 200 (Quayle, 2002) or <100 (Dollinger and Kolchin, 1986). In addition, sometimes the annual turnover was used (Park and Krishnan, 2001; Quayle, 2002). According to Ellegaard (2005), the small and medium sized companies share characteristics with entrepreneurial businesses and so called small businesses, which make that these notations are often used interchangeable. The European Commission established a definition for small and medium sized enterprise, the 6 May 2003 that entered into force the 1 January 2005 (EC, 2009). According to the Commission’s recommendation (2003), enterprises are defined as follows, `an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity`. Further, the enterprises are defined according to its headcount and either according to the amount of the annual turnover or the annual balance sheet. The maximum ceiling for these dimension is illustrated in figure 1.

<table>
<thead>
<tr>
<th>Enterprise Category</th>
<th>Headcount</th>
<th>Annual turnover</th>
<th>Annual balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium sized</td>
<td>&lt; 250</td>
<td>&lt;= 50 million Euro</td>
<td>&lt;= 43 million Euro</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>&lt;= 10 million Euro</td>
<td>&lt;= 10 million Euro</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>&lt;= 2 million Euro</td>
<td>&lt;= 2 million Euro</td>
</tr>
</tbody>
</table>

Figure 1: European Commission (2009) SMEs Definition
The first article of the European Commissions’ recommendation implies with the statement, ‘in particular, self-employed persons and family businesses’, the firms’ characteristics that one also can find in other related literature. Often small and medium sized companies are characterized as managed by the owner or by a few key employees, which are closely related to the owner (Ellegaard 2006, Ramsay 2008).

The SMEs take an important and substantial role in the business world and were denoted as the ‘backbone of European economy’ (EC, 2010). According to the SME report about the implementation of the SMEs definition (2009), the Member States of the European Union and other interest groups employ the definition without difficulties. Therefore, the European definition is used for this paper in order to make use of a generally known and used concept.

According to Tam, Moon, Ng and Hui (2006) SMEs are very flexibility and be more efficient as larger firms due to its unsophisticated organizational structures. Often these firms are highly innovative even if they are often bound by its limited resources, which are often of financial nature/ human resources nature or a thereof resulting resource limitation (Tam et al., 2006; Ellegaard, 2006; Pressey et al, 2009). Often small firms are in possession of less power, when dealing with larger firms. Hence, they cannot be as demanding as larger firms, regarding prices or product quality. Therefore SMEs are often more vulnerable and have to find other sources of competitive advantages (Tam et al., 2006).

2.2 The Purchasing Concept

As underlying base for this research, the concept of purchasing should be explained with the view of popular and well-known concepts in this area. Firstly fundamental concepts, namely the purchasing process model by Arjan van Weele and the Kraljic’s matrix, are presented. Then, a strategic definition of purchasing by Chris Ellegaard (2006) is presented. Further, strategic purchasing considerations are presented out of the existing literature and are followed by the concept of relationships in the business area of purchasing. Once the understanding of the general purchasing area is created, former research findings within the purchasing performance of small and medium sized companies are depicted. Summarizing, the frame of references should offer the author the possibility to come to meaningful analysis and conclusion when connecting the outcome of the empirical study. This means that the actual purchasing performance can be seen in the light of the outcome of former purchasing research, which leads to fulfillment of the thesis purpose,— an examination of the purchasing practice of SMEs.

2.2.1 The Purchasing Process Model

According to van Weele (2002; p. 14) purchasing is the `obtaining from external sources all goods, services, capabilities and knowledge which is necessary for running, maintaining and managing the company’s primary and support activities at the most favorable conditions’. Following activities are covered by this definition:
• Determining the specification (what quality/quantity) of the goods and services that need to be bought
• Selecting the most suitable supplier
• Preparing and conducting negotiations with the supplier in order to establish an agreement
• Placing the order with the selected supplier
• Monitoring and control of the order
• Follow up and evaluating (van Weele, 2002; p.14)

Hence, the purchasing process model of van Weele (2002) includes determining specifications, selecting the supplier, contracting, ordering, expediting/evaluation and follow-up/evaluation (see Fig 2). This model is fundamental, to gain an overall understanding of purchasing activities and how they are related.

![The Purchasing Process Model](image)

Figure 2: The Purchasing Process Model (van Weele, 2002; p.14)

The model of van Weele applies the process approach, which is important for the outcome of the model. Each step is dependent to the previous step; hence, the quality of the outcome is dependent on the quality of the earlier steps. For example, if the quality of sourced supplies is low it will be visible at the end of the purchasing process when deliveries are rejected (Enarsson, 2006).

Further, it is useful to integrate internal functions in the purchasing process because it is not limited to the purchasing department. Open communication and co-operation between the different departments is vital for the outcome of the purchasing process. For example should the first step, determining specifications, be done jointly with engineers and purchaser (Enarsson, 2006).

### 2.2.2 Strategic Definition of the Purchasing Concept

Another definition of purchasing is the concept of Ellegaard (2006) who defined the purchasing function as `supplier management´ with `rationalizing the supply base and selecting, coordinating, appraising the performance of, and developing the potential of suppliers´. The author considered the definition of purchasing rather in a strategically
manner than in an operational sense which means activities as for example logistics, ordering or payment are excluded (Ellegaard 2006).

The author made up a concept that has the purchasing structure (PS) in its center, including strategy, organization and infrastructure. This supports five other purchasing areas. One of these five purchasing areas is the Network Structure Management (NSM) that encompasses the external network of a firm with regard to make-or-buy decisions, multiple versus single sourcing decisions, supplier selection, local-national-global sourcing decisions or supply base rationalization. The second area is the Negotiating and Contracting (NC) area that outlines contracts and the pricing decision. The Supplier Performance Management is a further area that includes benchmarking of the suppliers, as well as measuring and evaluating of the suppliers performance. Another area is the Product/Process Development (PPD) that deals which the mutually developing of products or processes internally or in co-operation with suppliers and the related purchasing issues. The last area is the Supplier Relationship Management (SRM), which is concerned with developing and management of relations with supplier (Ellegaard, 2006).

2.2.3 Portfolio Approach

Not every product a company wants to buy can be sourced in the same way. Different situations demand different strategies regarding it supplier-buyer relationship and due to changes in relationships or the firms’ situation strategies have to be adjusted. The Kraljic’s portfolio approach is a basic tool to determine appropriate purchasing strategies. In this part, first the portfolio model of Peter Kraljic should be presented. This is useful for the underlying understanding of strategies in purchasing but also useful knowledge for the interaction of buyer – supplier relationships in the SMEs business area that is discussed later in this paper.

The portfolio model consists of two dimensions in order to classify products; - purchasing impact on financial result (profit impact) and the supply risk. The goal is to minimize supplier risk and to exploit the buying power. In his famous article, supply must become Supply Management; Kraljic (1983) defined the products as either leverage products, strategic products, routine products or bottleneck products. In addition, he recommended strategies how to source these products (Enarsson, 2006).

The routine products have a high profit impact but a low supply risk that means usually the value of every item is low and many suppliers are available. The buyer power is high because of various suppliers and therefore the competition between the suppliers is high. Competitive bidding is the recommended sourcing strategy to achieve the best financial result (van Weele, 2002).

Strategic products are important for the financial result of the firm and the supplier risk is high. Often these products are delivered on the buyers’ specification and only one supplier of this product is available. The information exchange between the participants is usually high and the recommended sourcing strategy is to develop a kind of partner-
ship with the supplier. In this case three different partnership characteristics could occur, namely supplier dominance, buyer dominance or a balanced partnership (van Weele 2002). Later in this paper, relationships will be discussed closer.

Bottleneck products are characterized by a low value within its price but a high supply risk. Also in this case, only one source of supply is available which results in the recommendation to perform a secure supply (safety stock) and/or searching for other supply alternatives.

Normal products are easy to source and do not have a significant financial impact on the financial result of the firm. Because the time and resources used for supplying the routine products are often higher than the value of the product, the recommendation is to reduce the number of supplier and develop efficiently purchasing routines.

According to Gelderman and van Weele (2005), the better the position of the purchasing function within the company the more likely a portfolio approach will be used. The same finding pertain the professionalism of the purchasing responsible; - the more educated the person is the more likely he or she will use the portfolio model (Gelderman et al, 2005).

In the next part, different dimensions of sourcing decisions are covered. The dimensions are of geographically nature (local/national/global) and the question of how many supplier the purchasing activities should rely on. Further supply base development and supplier evaluation will be covered with regard to its connection to strategic purchasing considerations.

2.2.4 Strategic Sourcing Decisions

As mentioned above sourcing decisions have different dimensions. According to Hines (2004), the sourcing decision is separated into geographical considerations: local/national or global.

According to Enarsson (2006), there are companies that adapt global strategies but there are also firms that source local. It depends on different dimensions including the complexity of the firms’ products and the related demands on supplies.

Local sourcing has according to Hines (2004) following advantages and disadvantages:

+ Close co-operation through close proximity, e.g. enabling of JIT solutions
+ More certain delivery dates since lead time not affected by transport delays
+ Short lead times may eliminate inventory
+ Faster replenishment possible
+ Discrepancies and disputes may be more easily resolved
+ Implied social responsibilities to the local community may be satisfied.
– Local cost of items is higher
– Particular goods cannot be supplied locally to the same standard, specification nor price
– Markets supplied are not local and therefore it makes more sense to source closer to the market
– Better service is possible from a non-local supplier
– Restrictions may limit the local supply source (Hines, 2004; p.137)

Enarsson (2006) stressed that the motivations for geographically close sourcing are faster deliveries, lower transportation costs and possibilities to have a personal relationship to the supplier.

Global sourcing strategies are enhanced through globalization and the possibilities to source worldwide enabled through information technology and lower barriers for international trade. Hines (2004) defined following issues way organizations source international. Firms have to source ‘superior quality’, which means that the firm may demand certain attributes or qualities only some firms are able to meet. Another fact is lower costs, which often is possible to achieve when sourcing in so-called low cost countries. Maybe advanced technology is only available abroad or international exist a broader supply base a company want to use in order to have further options to choose from. However, of course there are also problems that can occur when sourcing global. Cultural issues, longer lead times or lower quality are only some among others (Hines, 2004). Enarsson (2006; p.87) summarized and compared local and global sourcing strategies regarding several issues (see. Table 1).

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Global Sourcing</th>
<th>Local Sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead time</td>
<td>Long, unless using expensive air transportation</td>
<td>Short, with opportunity of improvement</td>
</tr>
<tr>
<td>Ability to produce custom-</td>
<td>Yes, but large batches to get acceptable price</td>
<td>Yes, with opportunities of more flexible production systems, fast transportation</td>
</tr>
<tr>
<td>ized products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production costs content</td>
<td>Low for high labor</td>
<td>High</td>
</tr>
<tr>
<td>Workforce</td>
<td>Basic, low wages, low demand</td>
<td>Skilled, Possibilities of multi-training and improved flexibility</td>
</tr>
<tr>
<td>Level of production tech-</td>
<td>High for industrialized countries, low for developing countries</td>
<td>Medium to high, need to invest in flexible manufacturing and computer support tasks</td>
</tr>
</tbody>
</table>
Risk per deal

High for developing countries, low for industrialized countries

Low

Information system comparable

Very low to low, need for trade office and contacts

Medium to high, possibilities of improvement through internet with VAN support

Future (vertical and horizontal integration)

Low, depends on juridical environment and business culture

High, various opportunities for concentrations

Table 1; Comparison between Local and Global Sourcing (Enarsson 2006, p.87)

Another important and strategic purchasing activity is either to have one supplier or to have several suppliers. This is called to source single or multiple. Enarsson (2006) defined single sourcing as `planned decision by the organization to select one supplier for an item even when several sources are available´ and multiple sourcing as contrary `the use of more than one supplier for an item´ (Enarsson, 2006; p.84). Naturally, both methods have its advantages and disadvantages which the table 2, summarized by Costantino and Pellegrino (2010), shows (see Table 2).

<table>
<thead>
<tr>
<th>Single sourcing</th>
<th>Multiple sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADVANTAGES</strong></td>
<td><strong>ADVANTAGES</strong></td>
</tr>
<tr>
<td>• Partnership between buyers and suppliers allows cooperation, shared benefits and long-term relationship based on high levels of trust</td>
<td>• Alternative sources of materials in case of delivery stoppage by a supplier</td>
</tr>
<tr>
<td>• Reduction of risk of opportunistic behavior</td>
<td>• Reduced probability of bottlenecks due to insufficient production capacity to meet peak demand</td>
</tr>
<tr>
<td>• Large commitment of the supplier that is willing to invest in new facilities or new technology</td>
<td>• Increased competition among suppliers leads to better quality, price, delivery, product innovation and buyer’s negotiation power</td>
</tr>
<tr>
<td>• Lower purchase price resulting from reduced production costs, due to better knowledge of the manufacturing process by supplier and achieved economies of scale</td>
<td>• More flexibility to react to unexpected events that could endanger supplier’s capacity</td>
</tr>
</tbody>
</table>
When reflecting about the strategic decision of either source single or multiple the underlying consideration is the risk of supply that Zsidisin (2002) defined as follows ‘the potential occurrence of an incident associated with inbound supply from individual supplier failures or supply market’. Therefore, firms have to take into account this consideration when creating its sourcing strategy.

As Hines (2004) mentioned is supplier development an important factor in the purchasing performance. He mentioned some simple criteria for developing an appropriate supply base. Naturally, the firms should first choose the most appropriate supplier. Secondly companies should have a look how well the suppliers’ capabilities meet the companies needs. Further firms should try to develop measurements in order to evaluate and follow-up the suppliers’ performance. Lastly, firms should try to generate trust and commitment in its relationships to its suppliers (Hines, 2004).

This part of the frame of references, addresses the second part of the thesis purpose und will help in connection to the empirical study’s outcome to analyze and conclude about the strategic considerations, small and medium sized firms incorporate in it purchasing performance.

### 2.2.5 Buyer – Supplier Relationships

This part of the frame of references adresses the third part of the thesis purpose and will provide, in connection the the empirical studys outcome, the possibility to analyze and conclude about the small and medium sized enterprises supplier relationships.

The buyer – supplier relationship is documented as a strategy for firms to work together and a powerful method for increase a company sourcing performance (Monczka, Trent & Handfield, 2002). In order to get an impression of the term relationship, one should have a look to the possible interactions between purchaser and supplier. Campbell (1985; cited in Hines, 2004; p.173) defined several interaction variables. Interaction concerning the product could be the frequency of purchase or the product complexity while the interaction variables out of the industrial character could be the number of alternative partners or the intensity of competition. Regarding the buyer- and supplier side, the interaction variables could be the preferred interaction style, the centralization

| DISADVANTAGES | • Great dependency between the buyer and the supplier  
|               | • Increased vulnerability of supply  
|               | • Increased risk of supply interruption, especially for asset specific products  
|               | • Reduced efforts by supplier to match buyer's requirements  
|               | • Higher costs for the purchasing organization (greater number of orders, telephone calls, records, and so on)  |

Table 2: Advantages and disadvantages of multiple and single sourcing strategy  
(Costantino and Pellegrino 2010, p. 28)
of purchasing or the risk aversion (Hines, 2004). Mentioned interaction variables influence the characteristic of a relationship. Webster (1992; p.5) defined different types of relationships and alliance as a `continuum of pure transaction on the one end to fully integrated hierarchical firms on the other end´ (see Fig. 3).

Firstly, the pure transaction is a onetime exchange between buyer and supplier. The next step is the repeated transaction, which means that the exchange between both parties at least occurred once before. The nest issue is the long-term relationship that still is characterized by being adversarial and depending on market control. Then comes the buyer-seller partnership that changes the adversarial behavior against mutual trust and the participants are dependent on each other. Strategic alliances are defined as developing a new entity as for example a product development team or research project. Both parties commit resources and the goal is strategic beneficial for both parts. Finally, network organizations are defined as `corporate structures that result from multiple relationships, partnerships and strategic alliances´ (Webster, 1992, p 5).

The intensity of involvement within a relationship range from arm`s length over collaborative to strategic (Langley, Coyle, Gibson, Novack & Bardi, 2009). The arms length relationship appears to somewhat extent negative (Hines, 2004), but according to Langley et al. (2009), there are types of transactions where this kind of relationship is preferable. An example for this low level involvement transaction would be the purchase of standard products. Nevertheless, often these relationships are referred as being a `win-lose´ relationship which is characterized by adversarial negotiation techniques (Hines, 2004). The quite contrary side would be the already mentioned strategic alliance that is defined as `a relationship in which two or more business organizations cooperate and willing modify their business objectives and practice to help achieve long-term goals and objectives´ (Langley et al, 2009; p.111).

According to Kannan and Tan (2006) the benefits of developing relationships to key suppliers is beneficial on an operational and strategic dimension. The operational level of closer relationships to supplier conduces to the improvement of quality and /or delivery service or enhances cost reductions. The benefits of such a close supplier buyer relationship can offer improvements of the firms’ product through enhanced innovation possibilities, higher competitive and hence an increased market share (Kannan & Tan, 2006). When a relationship is not characterized to be arm`s length and it is somewhat closer, it is a kind of partnership. Enarsson (2006; p. 88) defined a partnership as `a tai-
lored business relationship based on mutual trust, openness, shared risk and shared re-
wards that yields a competitive advantage, resulting in business performance greater than would be achieved by the firms individually”. According to Lambert (2008, p.54) `supplier relationship management represents an opportunity to build on the success of strategic sourcing and traditional procurement initiatives. It involves developing partnership relationships with key suppliers to reduce costs, innovate with new products and create value for both parties based on a mutual commitment to long-term collaborations and shared success’. Different kinds of partnership are broadly discussed topics in the supply and purchasing management area. In order to mention only some of the notations one can list for example co-operations, collaboration, joint ventures, vertical integration or strategic alliances. As the definition of Enarsson (2006) and Lambert (2008) clarified it, need transparency and willingness to share information as well as mutual trust. Even if this sounds easy, this is the hardest challenge for a firm that wants to engage in a partnership. Where is the boundary of sharing information, when run the firms the risk to share too much and too sensitive information? How to find the border in order to do not lose the competitive advantage towards its competitors? As van Weele (2002) state, to build a successful partnership takes time and could be characterized by disappointment and perseverance.

As mentioned in the portfolio approach part above, supplier – buyer relationship are characterized by different power circumstances. According to Cox (2001), there are four typical power circumstances in supply chains, hence in buyer - supplier relationships. The extended buyer dominant supply chain means that mostly the buyer side have more power in the supply chain. The extended interdependence supply chain is characterized by balanced power circumtances between buyer and suppliers while in the extended independence supply chain are no dependences existent at all. The last typical supply chain structure is the extended supplier dominance where the supplier have the greater power regarding the relation between supplier and buyer in a supply chain (Cox, 2001).

To sum up, there are the different relational circumstance a buyer could be situated. As named by Webster (1992) a relationship could be represented by a simple transaction, a buyer-supplier relationship, a buyer-supplier partnership, a strategic alliances, a network organisation up to a vertical integration in the firm. In this concept the arm’s length relationships, which means the involvement is low, would be situated in the pure transaction direction up to the simple buyer-supplier relationship. The contrary side would be a more integrated relationship, hence a partnership or co-operation. Different power circumstance have influence on the partnerships and it is a very complex process to develop a working co-operation. Huge investments of time, trust and other resources are necessary to gain a mutual beneficial partnership.

After defining the purchasing concept, including the portfolio approach, the purchasing process model, sourcing strategies (local/global; single/multiple; supplier base development & evaluation) and the relational dimension in purchasing, one have a base to go on and apply it to the business area of small and medium sized enterprises. According to
Zeng et al. (2007), the structure of purchasing and its importance appeared to be different. The purchasing function of large enterprises is often characterized by a huge investment and having a vast number of well-educated purchasing professionals (Ramsay, 2007). However, for this paper, the focus is on small and medium sized companies and the next part will outline former findings about the characteristics of SMEs and how it create and manage its purchasing activities.

2.3 Purchasing in SMEs

In order to gain understanding of the purchasing function in small and medium sized companies the concept of purchasing and associated strategic considerations were outlined in the previous part. With these knowledge in mind, the following part present former results of purchasing research on small and medium sized enterprises.

2.3.1 Purchasing Performance in SMEs

As already mentioned, the SMEs are characterized as managed by the owner or a few employees that are closely related with the owner (Dollinger and Kolchin, 1986). Often purchasing is not considered as an important or key function but more a part of the day-to-day operation in the SMEs (Gadde and Håkansson, 2001). As Ramsay (2007) stressed, purchasing is done by the manager when they have a few minutes left. In his study, Quayle (2002) found out that purchasing was ranked as less important for the organizations success as other issues like leadership, strategy, waste reduction, or teamwork. Further Ellegaard (2006) stated that small business owners do operational purchase of components but do not develop its purchasing procedures. In his interviews of small and medium sized company managers, only one out of sixteen had seen purchasing as a key activity (Ellegaard, 2006). Quite contrary the finding of a recent study from Pressey et al. (2009, p.223), which stated that, ‘purchasing in the majority of SMEs appears to play an essential role, especially amongst SMEs offering high-tech products and operating in markets where competition is based on product characteristics’.

Another trait of small and medium sized companies is the lack of resources (Quayle, 2002; EC, 2005; Ellegaard, 2006). As the European Commission, stated SMEs often have problems to obtain to financial resources like capital or credits. This often results in lower access to innovations or new technologies. As already mentioned, SMEs are often managed from the owner, a few key employees or are family-businesses, which result in limited personal staffing. Additional, often the companies suffer from inappropriate education and market knowledge. Dobler (1965) stated that small companies because of its limited resources spent too little time for purchasing activities (cited in Ellegaard, 2006). Due to the limited resources of capital, knowledge and time, the purchasing abilities and purchasing activities lack and the vulnerability of the small and medium sized companies is high (Ellegaard, 2006).
2.3.2 Strategic Considerations

Strategic purchasing is not an issue, which small and medium sized companies are dealing with frequently. As Ellegaard (2006) found out, SMEs are aware of supply risk in case of quality difficulties or delivery problems. They rather find ways to stay away from these risks instead to manage these risks with strategic purchasing. A strategic purchasing subject would be a sourcing strategy. The most of the interviewed companies, in Ellegaard’s study (2006), tried to source as local as possible in order to decrease the supply risks. Against that, the study of Scully and Fawcett (1994) and the study of Overby and Servais (2005) showed evidence that small and medium sized companies started respectively do source international. Confirmed was the finding that the level of strategic purchasing is quite low within the SME business area, of Pressey et al. (2009). They found only limited evidence for strategic purchasing in small and medium sized companies. More frequent and may the closest appertaining activity to strategic purchasing was supplier evaluations, indeed on an informal basis (Pressey et al. 2009).

In the study of Tam et al. (2006), no SME adopted a global sourcing strategy, which according to the authors is associated with the barriers in terms of language, culture and foreign regulations. They stressed that global sourcing is associated with growth expectations and business expansion, which is not as important for a SME as for a large company. Instead, SMEs try to “survive, be profitable, and maintain its small-firm culture” (Tam et al., 2006; p.302). Regarding single and multiple sourcing strategies, the study of Tam et al. (2006) found out that those SMEs prefer multiple sourcing strategies. The authors justified that finding with the limitation of small and medium sized companies resources. While utilize the strategy of multiple sourcing, SMEs can achieve low prices through bidding and in this way increase its buying leverage over the supplier (Tam et al., 2006).

Pressey et al. (2009) defined in its study three different groups of SME purchasers regarding the desired capabilities of the suppliers. The capabilities were delivery capability, production capability, managerial capabilities, financial capabilities, relationship/networking capabilities, innovation capabilities and mastering the Customers business. The first group, which is named holistic purchaser, selects its suppliers on a comprehensive series of capabilities. Most important are production and delivery capabilities, followed by process, managerial, financial and network/relationship capabilities as well as mastering customers business was important when selecting its suppliers. Less important was the innovation capability. Process purchaser, which is the second group of SME purchaser put emphasizes mostly on delivery capabilities. Capabilities as production, process, networking and managerial were also of importance while innovation has no relevance for them. The last group is called logistic purchaser and this group was looking to delivery capabilities only with certain interest for production capabilities. No or very low interest is showed for the other mentioned capabilities (Pressey et al., 2009).
2.3.3 **Buyer-Supplier Relationships within SMEs**

There are only a few researches of relationships in the area of SMEs. Mudambi and Schruender (1996) as well as Mudambi, Schruender and Mongar (2004) did several researches on that topic, which will beneficial for this paper. In the research from 1996, `Progress towards buyer-supplier partnerships`, the authors highlighted the interrelation of the strategic importance of purchasing, the purchasing paradigm and the importance of SMEs for the economy. For its study, they defined so-called partnership indicators, which should show if the companies, included in its study, tend to have closer partnerships, or not. The partnership indicators (PIs) are supplier site visits, joint production design and long-term contracts. Further indicators are if firms are engaged in just in time (JIT) production or if they apply EDI technology. Both indicated that the firm is working close together with its partners (Mudambi et al, 1996). The finding was that SMEs engagement in partnerships with suppliers is not very common (Mudambi et al., 1996). One has to be careful with this finding, due to the time gone and the more and more importance of relationships in this area in the last decade.

The second research of Mudambi et al (2004) was allocated to the co-operation purchasing behavior of SMEs. They stated that a co-operative relationship between buyer and supplier has different strategic characteristics when the buyer is small (Mudambi, 2004, p.86). The asymmetry within the size of the participant influences the relationship especially when the supplier is bigger than the buyer is. Also in this study the authors defined important attributes of co-operative supplier relationships, which are develop supplier partnering, improved communication, just in time processes, joint product development or/and cost reduction projects (Mudambi et al., 2004). In the following table, one can find the important attributes explained (see tab.3; Mudambi et al., 2004; p.90).

<table>
<thead>
<tr>
<th><strong>Develop Supplier Partnering</strong></th>
<th>The task of working towards long-term co-operation or partnership with suppliers requires top management to understand the importance of purchasing. This is a high-level strategic dimension requiring an overall view and control of the buyer– supplier interface.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Improved Communication</strong></td>
<td>A key aspect of building trust and reducing concerns about vulnerability in co-operative supplier relationships is regular contact. This contact includes and facilitates the sharing of information and the lowering of barriers regarding confidentiality. It is desirable to have top management involvement to assuage concerns of lower level managers.</td>
</tr>
<tr>
<td><strong>JIT Processes</strong></td>
<td>The co-ordination of JIT delivery practices requires considerable co-ordination between buyer and supplier, especially since JIT delivery is usually part of a JIT manufacturing program.</td>
</tr>
</tbody>
</table>
Joint Product Development
This refers to the analysis of the pre-production and production processes that are used to create the delivered goods. Building on communication and JIT processes, the buyer and supplier are jointly focused on designing and producing for the downstream market requirements. Mutual suggestions regarding process improvements are a part of this factor dimension.

Cost Reduction Projects
In addition to producing a better product, detailed attention to the production process is undertaken to reduce costs. This dimension denotes individual (regular or irregular) activities to reduce the total cost of purchased goods or services. These projects are usually aimed at the purchasing bottom line and include product, process and logistical improvements.

Table 3: Key factors of co-operative relationships (Mudambi et al., 2004; p. 90)

Finally, the former finding of rarely occurrence of partnership among SMEs was confirmed. The authors stated that only a quarter of all the participating SMEs show co-operative purchasing activities (Mudambi et al., 2004). In addition, the authors defined three approaches of co-operative purchasing performance of SMEs. The first behavior is the deliberate strategy where the co-operative behavior is conscious and purposely. It is a long-term plan that is a part of the company’s overall strategy. The second behavior is called `close-but-adversarial´, which means that the firms have close ties to its suppliers but still `defensive, short-term and low-trust attitudes are predominant´ (Mudambi et al., 2004; p.85). The last one is the emergent behavior, which means that co-operations `just happened´ (Mudambi et al., 2004; p.85).

Summarizing, purchasing in small and medium enterprises is different from purchasing in large companies. Mostly, it depends on the limit resources that make the difference. SMEs need to survive in the business world and try to be profitable more than growing and expending its business. Often they cannot compete with larger competitors, again due to its limited resources and need to find other ways to be competitive.

In the next part, the research questions for this thesis are developed based on the previously outlined theoretical framework.
2.4 Research Questions

“The purpose of the paper is to examine the purchasing practices of small and medium sized enterprises with focus on strategic considerations and supplier relationships.”

2.4.1 Research Question I

- How does SMEs perform its purchasing activities?

The first research question aims to answer the overall meaning of the thesis purpose. The author wants to know the practical approach to perform purchasing, e.g., how do they classify the products the firms purchase and how is the purchasing process designed. Finally, the author will come up with typical characteristics of SMEs purchasing process and in this way confirm or reject former research findings.

2.4.2 Research Question II

- Which strategic considerations incorporate SMEs in its purchasing activities?

This question is derived from the former literature covering SMEs purchasing performance. A lot of previous research described that purchasing and especially strategic purchasing plays a minor part or even not a role in SMEs business routine. As mentioned in the problem discussion, an appropriate purchasing performance offers the possibility to create competitive advantages. However, according to the purchasing concept of Ellegaard (2006; see 2.2.2.) the author wants to find out SMEs activities in the area of network structure management, supplier performance management and the product/process development. Examples for this would be if SMEs source local/national/international, single/multiple or if they have any activities to evaluate supplier’s performance.

2.4.3 Research Question III

- Which kinds of relationships have SMEs to its suppliers?

The last research question aims to figure out the nature of the SMEs relationships. As frequently discussed in the general purchasing literature are relationships and the integration between supplier and buyer essential in the complex business world of today. The question is, if this is also the case for small and medium sized companies. Limited research is done on (close) relationships within the small and medium sized enterprises purchasing performance, which is the reason why this research question has emerged. The author will classify the relationships of the interviewed SMEs according to the definition presented in the theoretical framework. In order to achieve a meaningful classification the author wants, among others, use the partnership indicators (PI) from the research of Mudambi and Schruender (1996).
3 Methodology

In the method section of this thesis, the author outlines which scientific way she chose to come to valuable findings. It includes a description of the research approach and design, the way literature was found and used. Further, different statements are done covering the validity and reliability.

3.1 Literature

The author of this thesis started its research by a critical literature study in two steps related to the thesis topic. Firstly, the basic literature about the purchasing and purchasing methods was reviewed. Even former purchasing researches in form of scientific articles were read. Literature about small and medium sized enterprises constitutes the second part of the literature review as well as small and medium sized enterprise and its purchasing behaviors. This approach of literature review aims to give the reader first a valuable and complete overview on underlying purchasing theory, which is followed by existent findings in the purchasing area of SMEs. According to Saunders, Lewis and Thornhill (2009) a critically literature review will help the author to understand previous research and to get insights in the relevant theory which is relevant to the research topic.

In the area of business research are different sources of literature are available. There are primary literature sources, secondary literature sources and tertiary literature sources. The primary sources are the first occurrences of a piece of work and could be for example reports, theses, emails or company reports (Saundra et al., 2009; p.69). Tertiary literature sources are search tools which are existent in order to introduce something or to find primary or secondary sources (Saunders et al., 2009; p.69). It could be for example indexes, abstracts or encyclopedias. Secondary sources, which are the most used sources for this thesis, are book or journals that are the subsequent publication of primary literature (Saunders et. al., 2009; p.69).

Articles for this thesis were found in scientific literature that are mainly have the focus on purchasing, supply chain management or small and medium sized enterprises. Examples are the Journal of Purchasing and Supply Management, the Journal of Supply Chain Management, the International Journal of Physical Distribution and Logistics Management or the Journal of Small Business Management. In addition, books from the purchasing area were used as underlying base for the theoretical framework. Under these books is the classic book of Arjan van Weele Purchasing and Supply Chain Management, Analysis, Planning and Practice.

Firstly, the author went through different online databases and searched for relevant research articles while she already had the important books from former studies. When scanning different databases the author read many tertiary literature sources in order to find interesting articles as well as scanned the references list from articles the author already read and that were relevant to the topic. After a first scan of relevant literature, the
author used a kind of relevance tree. A relevance tree is a `technique for generating research topics that starts with a broad concept from which further topics are generated´ (Saunders et al., 2009, p. 599). However, the author had already its topic generated and therefore used this method to find out the most interesting concepts she wants to go in deeper in the theoretical framework and at the same time generate keywords that should help to find more relevant literature.

3.2 Research Approach

According to Saunders et al. (2009) it exist two kinds of research approaches. The first approach is called for deduction and means `it represents the commonest view of the nature of the relationship between theory and research´ (Bryman and Bell, 2007; p.11). The research is built on existing theory tested by the researcher. It includes of firstly finding related theory. Based on that, it should be formulated hypothesis, which is followed by the data collection. The author then will have some findings that help the researcher to confirm or reject its hypotheses. The second way to conduct a research project is called for induction. Basically, it builds new theory while the above-mentioned approach is more about testing the existent theory (Saunders et al., 2009).

As Bryman and Bell (2007) mentioned sometimes it is not that clear cut between the two approaches as it is often presented in methodology literature. Often it is stated that a deductive approach comes along with quantitative data and the inductive approach is associated with qualitative data (Bryman & Bell, 2007). Saunders et al. (2009) stated that the deductive approach could even use qualitative data.

This thesis is largely characterized by an inductive research approach because of the use of qualitative data and the attempt to come up with some new theory about small and medium sized companies purchasing performance. The author based its study on existent theory from the area of purchasing and from the area of small and medium sized companies and its purchasing practice. Due to this, fact the research is also somehow deductive characterized. Silverman (2001) stressed that pre-specified theories could be tested with qualitative data, which authorized the author's method for this paper.

3.3 Research Purpose

In this part of the methodology chapter, the purpose of the research should be outlined. According to Saunders et al. (2009), a research project could be either exploratory, descriptive or explanatory. The exploratory study ‘aims to seek new insights into phenomena, to ask questions, and to assess the phenomena in a new light´ (Saunders et al., 2009; p. 592). An explanatory research ‘focuses on studying a situation or a problem in order to explain the relationships between variables´ (Saunders et al., 2009; p.591). Lastly, there is the descriptive study approach that, as the name implies, describes accurate a situation, relation or a person (Saunders et al., 2009).
According to the thesis purpose, relevant literature was reviewed which was followed by the development of research questions. In the next part, the research questions are categorized according to it nature if it is either exploratory, descriptive or explanatory.

- **How does SMEs perform its purchasing activities?**

The first research question is of descriptive nature as well as to some extend of exploratory nature. It should be described how small and medium sized firms perform it purchasing activities why it is descriptive. Because this research question is derived from previous research, it is also exploratory. Already developed theory about purchasing should be treated in the light of small and medium sized enterprises.

- **Which strategic considerations incorporate SMEs in its purchasing activities?**

This research question is exploratory, the author wants to find out which strategic considerations small and medium sized companies have. The aim is to get new insights if SMEs acting different regarding strategic considerations as previous literature and research found out or not.

- **Which kinds of relationships have SMEs to its suppliers?**

The last research question could emerge as explanatory because the author want to find out of which character the relationships are. In the case of the third research question, it was also derived from previous literature and research. As mentioned, many researchers stated the importance of relationships, close relationships or its management. The author wants to find out to what extent SMEs have relationships, how deep they are and how they manage them. Basically, the phenomena of the importance of (deep) relationships should be treated in the light of small and medium sized companies, which make the research question to an exploratory one.

Summarizing the whole research is mostly characterized by exploration according to the definition of exploratory studies mentioned above. The author wants to see the phenomena of purchasing performance in the light of small and medium sized companies. Obviously, there are differences to the already in-depth researched purchasing theory, which is mostly done in the context of large companies. As Ramsay stated `giant corporations are the celebrities of the business world´ and therefore often the frame of purchasing research (Ramsay, 2007; p.567).

### 3.4 Research Strategy

According to Bryman and Bell (2007), the research strategy can be divided into quantitative research and qualitative research. The authors stated that some researchers do not like the classification into qualitative respective quantitative research strategy but for its book about research methodology, it is suitable. Hence, the author of this paper uses the distinction of the research strategy in quantitative/qualitative approach as well.
The quantitative research strategy uses quantification when collecting and analyzing data. Due to that, it is often a deductive research approach, as mentioned it means to test theories. Further, it `embodies a view of social reality as an external, objective reality´ (Bryman et al., 2007; p.28). The qualitative research strategy utilizes rather words than quantifications when collecting or interpreting data. It appertains mostly to the inductive approach where the focus is on building new theory. It emphasizes how individuals interpret its environment (Bryman & Bell, 2007).

As already stated, this research is mainly characterized by an inductive research approach that is confirmed by the use of qualitative data. The author is using only quantitative data in form of interviews with purchasing responsible persons from small and medium sized enterprises.

### 3.5 Research Design

One could apply several design choices in business research, - namely, the most famous ones, experimental design, cross-sectional design/ social survey design, longitudinal design, case studies and comparative design (Bryman & Bell, 2007). In the authors’ opinion, a mixture of a case study design and a comparative design is useful and appropriate. In the next part, the characteristics of both design method are explained followed by the authors’ clarification of the reason to apply a mixed method for this research.

#### 3.5.1 Case Study

A case study is `a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence´ (Robson, 2002; cited in Saunders el al., 2009). As Bryman and Bell (2007) stated, often case studies are associated with qualitative research, which they think is not always the case. However, in this study qualitative data will be used and according to Morris and Wood (1991, cited in Saunders et al., 2009; p.146) it is suitable if the researcher want to gain a `rich understanding of the context of the research and the processes being enacted´. Data collecting techniques could be interviews, documentary analysis, observations or a combination of the mentioned ones. In this study, the interview technique is used and will be discussed later in the methodology part. There are different types of cases researchers could make use. Yin (2009) defined case study strategy according to use single cases or multiple cases. Single cases are appropriate when the case is critical, which means that one could `selecting those cases based on making a point dramatically or because they are important´ (Saunders et al., 2009; p.590). In addition, single cases could be useful if it is a so-called extreme case, which means that the sampling is focusing `on unusual or special cases´ (Saunders et al., 2009; p. 592). The multiple case design strategy, which uses more than one case, is an extension of the single case study strategy (Bryman & Bell, 2007). Researchers use multiple case studies if they want to confirm findings from another case and outgoing from that need to generalize its findings.
According to Bryman and Bell (2007), the multiple case design strategy is often used in addition to other design methods, especially as a kind of a comparative design. It let the researcher compare different case studies outcomes and thereby find out what is different or common in the different cases. It gives an opportunity to avoid bias towards a certain direction when reflecting on the cases outcomes (Bryman & Bell, 2007). This bridges the methodology part to the next research design opportunity, - the comparative design.

3.5.2 Comparative Design

“The comparative research design entails the comparison of two or more cases in order to illuminate existing theory or generate theoretical insights as a result of contrasting findings uncovered through the comparison” (Bryman & Bell, 2007; p. 726). According to this definition, the relation to the case study research design is clear; - these both research designs are interlocked. The comparative design could be useful in both, already mentioned, research strategies. One example of using a comparative research design is the cross-cultural, which means that particular issues or phenomena are examined in the context of different countries (Bryman & Bell, 2007). As already mentioned, comparative research design is also appropriate if the researcher collect qualitative data. Mostly, this is in form of a multiple case study. This is a popular research design when it comes to business research where two or more organizations or companies constitute the cases and being the basis of the comparison (Bryman & Bell, 2007).

3.5.3 The applied research design

According to Bryman and Bell (2007), both the case study and the comparative research design are a typical form when it is combined with a qualitative research strategy. In this research, a multiple case study is used by interviewing four small and medium sized industrial companies. Thereby it is differentiated between the sizes of the companies, which is expressed by having two companies that are small sized and two that are medium sized according to the definition of the European Commission. The reason of having two of each category is the try to generate a certain variation. The reason for not have more than two of each category was causes due to resources and time restrictions. The comparative research design finds expression when analyzing the findings, differences or similarities of the four cases.

3.6 Collection of Qualitative Data

As mentioned before the author of this thesis is using a qualitative research strategy, which makes it necessary to collect qualitative data. Bryman and Bell (2007) outlined several methods for qualitative research as observation, qualitative interviewing, focus groups or the collection/analysis of text or documents. However, the empirical study of this thesis is based on interviews; hence, several important points about the method of interviewing will be discussed in this part.
There are several concepts to the definition of interviews (Saunders et al., 2009; Bryman & Bell, 2007). Often used is the classification of interviews into structured interviews, unstructured interviews or semi-structured interviews. Even other terms like intensive interview, qualitative interview, in-depth interview or focused interview are existent in the methodology literature. The first mentioned concept should be outlined and applied in this part. Structured interviews are characterized of `questionnaires based on a predetermined and standardized or identical set of questions (…) which is referred as interviewer-administrated questionnaire ’ (Saunders et al., 2007). It is also referred as standard interview and has the aim to give the participants of the interview in the exactly same context of questioning. The questions are usually specific and offer the participants a fixed series of answers. These kinds of questions are so-called closed-ended, closed, fixed choice or pre-coded questions and often used in `social survey research’ (Bryman & Bell, 2007, p.210). The quite contrary way of interviewing is the in-depth or semi-structured interview, which are also called for non-standardized interviews. The semi-structured interview is referred as to a `wide ranging category of interview in which the interviewer commences with a set of interview themes but is prepared to vary the order in which the questions are asked and to ask new questions in the context of the research situation’ (Saunders et al., 2009; p. 601). The unstructured interview or in-depth interview is an informal one, which has only a list of topics. The style of questioning and scheduling of questions vary from interview to interview (Bryman & Bell, 2007). As mentioned before, this study is an exploratory characterized research. According to Saunders et al. (2009), the semi-structured and unstructured interviews are appropriate for exploratory characterized research projects.

For this research, semi-structured interviews are chosen in form of a face-to-face encounter. According to Saunders et al (2009), non-standardized interviews can be divided into one-to-many or one-to-one interviews. A face-to face interview, which is used in this research counts to the one-to-one interviews. Other alternatives for this would be telephone interviews or internet interview. The author had chosen the face-to-face interview in order to establish personal contact. The author wants to ensure herself to get the full view of the interviewees to the research topic, which is most possible with the personal contact. First, the firms were contacted by telephone and the author asked for a person that runs the purchasing activities of the company. Then, the author explained her concern and gave a short presentation of the research topic. Altogether, four companies were willing to spend time one an interview and appointments were done as follows:

- Uppåkra Mekaniska AB; Peter Domby, Sales person; 2010/05/05; 10 a.m.
- Mattssons Mekaniska AB; Sven Anderson, VD; 2010/05/06; 8.30 a.m.
- Stacke Hydraulik AB; Anders Källberg, Purchasing Manager; 2010/05/10; 2 p.m
- Thor Ahlgren AB; Britt-Marie Andersson, Purchasing Manager; 2010/05/11; 8.15 a.m.
All the interviewees got an interview guide in advance via e-post in order to prepare for the interview. This was done mostly because the interviewees asked for any kind of questions in advance in order to can prepare before the interview. According to Bryman and Bell (2007; p.728), an interview guide is a `structured list of issues to be addressed or questions to be asked in semi-structured interviews´. Previously, the author creates a list of questions, which were discussed with her tutors Professor Susanne Hertz and Ph.D Candidate Lianguang Cui. After the discussion of the questions, the final version of the interview guide was designed and sent to the interviewees (see Appendix 1/2).

The interview guide was provided in English language and Swedish language and organized according to the thesis’ research questions. The first part is an introduction part in order to get a picture of the company but also in order to introduce the interview and gives the interviewee the possibility to be `warm´ with the interview situation. The following part covered the purchasing activities of the firm, the strategic considerations and the relationship of the company and its suppliers.

Saunders et al. (2009) provide in its methodology book a list of preparation issues in order to achieve appropriate data quality. It is mentioned that the interviewer need to have a certain level of knowledge about the research topic. Through the literature and previous research review, the author of this thesis had a quite good overview on the topic and was prepared for the interview. It is also mentioned that the level of provided information for the interview partner should be appropriate, which was achieved through the before mentioned interview guide supplied to the interviewees. Another point in the list of Saunders et al. (2009) was the appropriateness of the location. The interview took place in the interviewees’ offices in order to make them feeling more comfortable and secure with the interview situation. In the beginning of the interview, the author thanked for having the possibility to making the interview and explained again the research topic and her personal context to the interviewees. A last point that should be mentioned at this point was the approach of recording the interview. This was done with help of the authors’ computer and with consent of the interviewees. This was done in order to achieve a good communication between the participants, which should not be interrupted by pauses causes by the authors note making. As Bryman and Bell (2007) mentioned it is not only important `what´ the interview said but also `how´ it was said. The author had through the recorded interview the possibility to follow up the qualitative data in a more secure way. In this way, bias could be avoided and the reliability of the collected data was not harmed.

3.7 Respondent and Case Selection

According to Boeije (2010), it is necessary to sample, which means to select a cases in order to cover in an appropriate way the research subject. The notion of sampling is often connected to the quantitative research strategy. Nevertheless, `the term sample is widely used in qualitative research terminology´ (Boeije, 2010; p.35). The sample is purposely chosen in qualitative research design `according to the needs of the study´
(Boeije, 2010; p.35) and therefore the sampling of this thesis is characterized by a purposeful sampling, which enables the author to select cases appropriate to the research topic and the research questions. According to Saunders et al. (2009), the purposive sampling is usually used when working with small samples as in case studies. According to Patton (2002; cited in Saunders et al., 2009; p. 234), the sample size is dependent on four issues, - `what want the researcher find out, what will be useful, what will have credibility and what can be done in the researchers available resources´. In the current research, the author wants to examine the purchasing practices of small and medium sized companies. Therefore, four companies from this category were chosen. The author is convinced about that four cases just from the industrial manufacturing industry are useful to the thesis purpose and creates sufficient credibility. Because of the manufacturing nature of these firms, they are in fundamental need to purchase regardless whether raw material, components, machines or services. The last point is essential in the current research. Due to limited time and personnel resources the sampling is somewhat smaller than it may were chosen with more available resources.

According to Yin (2009), there are two methods to select multiple cases, - literal replication or theoretical replication. The literal replication means that similar results will be found while the theoretical replication `predicts contrasting results but for anticipatable reasons´ (Yin, 2009; p.54). However, it is important for the literal replication to develop a theoretical framework where it is likely to find the phenomenon described. In this study the literal replication is used with, of Yin (2009) suggested number of four cases.

Finally, after the selection of the cases (case companies) it has to be decided, which person within the company is the most suitable to make the interview with. In the current study, the judgemental (purposive) sampling design was used. In this sampling design, the researcher chooses respondents depending on their capability to provide appropriate information in order to achieve meaningful outcomes (Kumar, 1999). In this master thesis, the responsible people for purchasing of three of the case companies were chosen for the interviews. Only one respondent was not from the purchasing department but was according to the purchasing manager Tommy Ekström (personal communication, 2010/05/05) involved in all purchasing procedures and therefore a meaningful interview partner.

### 3.8 Data Analysis

As mentioned before, the collected data were from interviews with persons from the chosen SMEs. The interviews were done in the Swedish language that makes it necessary to translate the data into the English language. Further, the interview were recorded and hence needed to be transcribed. A summary of the empirical findings is presented in the fourth chapter and the data analyzes is done in the fifth chapter. For the data analyzes the frame of references was connected to the empirical findings in order to answer the thesis research questions.
According to Saunders et al. (2009), one could use a deductive, an inductive or a combination of both for analyzing qualitative data. The deductive approach is somewhat problematic according to Bryman (1998; cited in Saunders et al., 2009). Basically, a deductive approach means to analyze qualitative data with help of existing theory. The problem is that with the deductive approach the risk of premature conclusions rise. Therefore, a combination of both the deductive and inductive approach is recommended (Saunders et al, 2009). The author of this thesis wants to follow this recommendation in order to avoid bias towards a certain direction. The previously literature was used to formulate the research questions and is further used in order to organize and direct the qualitative data analysis. Additional the inductive approach of data analysis is applied by explore the qualitative data and consider issues that will come up and being valuable to the thesis purpose.

According to Saunders et al. (2009), there are different methods to analyze the qualitative data, - summarizing, categorizing and structuring of meanings using narrative. According to Strauss and Corbin (2008, cited in Saunders et al., 2009) it exist three sources to obtain names for categories. Namely, - terms emerging from data, terms based on statements of the interview participant or terms emerging from existing theory or literature. For this thesis, mainly categorizing is used. The categorizing takes already place when developing the research questions and hence when the interview guide was designed. According to Saunders et al (2009), categories are derived from the theoretical framework, which confirms the authors proceeding. The categories for analyzing the qualitative data are the performance of purchasing activities, strategic considerations and the supplier relationships.

### 3.9 Reliability and Validity

Reliability and validity are necessary issues researchers need to take into consideration. Both are broadly discussed topics when quantitative research strategies are applied but it needs also to be considered when a qualitative research strategy is used (Bryman & Bell, 2007). Hence, in the next part, these both dimensions, which are essential to the thesis quality and credibility, will be discussed.

Reliability is `the degree to which a measurement of a concept is stable´ (Bryman & Bell, 2007; p. 731) or to what extent the `data collection techniques´ would create the same findings if it would be used again (Saunders et al., 2009; p.156). If the qualitative data are gathered trough interviews, the reliability it is threatened through bias. According to Saunders et al. (2009), there are several biases that can occur, which could be harmful to the reliability of the research. The first bias that has to be considered is the interviewer bias. That means that the interviewer tends to influence the interviewee with comments or nonverbal behavior that creates bias towards a certain direction. This can occur for example because of the knowledge of the researcher he or she got through the literature review (Saunders et al., 2009). The author of this thesis tried to be restrained and as neutral as possible in the interview situation, which gave the interviewee the pos-
sibility to speak ongoing. With help of the interview guide, which is neither considered to let come up bias, the interviewees had the possibility to speak ongoing without interruptions. The author is fully aware about the risk of gaining bias outgoing from her and considers this when analyzing the interview data. The second bias mentioned by Saunders et al. (2009) is the interviewee or response bias. This could be closely connected with the before mentioned bias but could also be the unwillingness to expose some kind of information. This would cause uncompleted information or adulterated information. The author encountered this risk of bias through the choice of the respondents. Only firms were chosen that were willing to participate in this research and therefore were willing to expose information. In one case, the purchasing manager wanted first to ask her CEO to get the permission to take part in the research.

In the part about collecting qualitative data, several issues were mentioned, researchers have to consider when collecting the data through an interview. The former knowledge of the interviewer, the information supplied to the interviewee or the appropriateness of the location as well as recordings of the interviews are important deliberations to consider in order avoiding unintended bias.

According to Bryman and Bell (2007; p.733), validity is `a concern with the integrity of the conclusion that are generated from a piece of research ´. It is distinguished between several types of validity, - measurement validity, internal validity, external validity or ecological validity (Bryman & Bell, 2007; Saunders et al., 2009). Bryman and Bell (2007) stated that when using the term validity on its own, it refers usually to measurement validity. According to Saunders et al. (2009; p. 595), the measurement validity is `the extent to which a scale or measuring instrument measures what it is intended to measure´. This definition appears to belong to a quantitative research design but in this thesis it can applied as well to the qualitative research. The measurement instrument of this research was the interviews made with the participating firms. Through the interview guide provided to the interviewees, data could be created that are meaningful to the research’s purpose. The interview guide in itself was created through the critically literature review, which made it possible to ‘measure’ what it should measure.

According to LeCompte and Goetz (1982, cited in Bryman & Bell, 2007; p. 410) the external validity is `the degree to which findings can be generalized across social settings´. This could be problematic due to the use of case studies and therewith problematic to generalize the purchasing activities of small and medium sized companies, for example, to other regions or other SMEs industries. The author is aware about this risk and comprises the fact in her conclusion and the thesis delimitations above.

3.10 Summary of the used method

Summarizing this research is mostly characterized by an inductive research approach because the author tied to gain new insights about the small and medium sized firms and its purchasing activities. Nevertheless, the study is also deductive characterized due to the connection to former findings and theory, which summarized in the frame of refer-
ences. Due to the willingness to see the phenomena of purchasing performance in the light of small and medium sized companies the research is of exploratory nature. Further, a qualitative research strategy is applied and a mixed design, consisting of case study design and comparative design, is used. This combination is called for a multiple case study design.

Practical the research started with a critical literature review. Out of this review the frame of references was built, which in turn led the author to develop her research questions. With help of the frame of references and the research questions, the empirical study was planned. The empirical study consisted of four interviews with small and medium sized companies from the manufacturing industry. Finally, the findings from the empirical study and the frame of references were connected in order to come to meaningful findings and conclude the research. The practical approach is depicted in figure three below (see figure 4).

![Diagram](image-url)

Figure 4, Practical approach of the research
In the fourth part of the thesis, the findings of the empirical study are presented. The findings are the result of the conducted interviews with the participating small and medium sized companies. Firstly, the firm is presented in order to give the reader a picture of the firms’ business. Then the findings regarding purchasing process, strategic considerations and the firms’ relation to its suppliers are summarized.

For the empirical part of this research, the qualitative data, gathered through semi-structured interviews, were used. The structure of this part is as follows, - a presentation of the firm and its business, the overall purchasing process of the firm, its strategic considerations and finally the nature of the relationships to the companies suppliers.

4.1 Uppåkra Mekaniska AB

4.1.1 Company Presentation

The company Uppåkra Mekaniska AB was founded in 1948 by Birger Ekström. Uppåkra Mekaniska AB is a family owned company located in the small town Skillingaryd, southern of the municipals capital Jönköping. It is a subcontractor firm to the Swedish engineering industry within cutting machining. In the present situation, the company has 175 employees and an annual turnover about 220 million Swedish Krona. According to the definition of small and medium sized enterprises, the company counts to the category of medium sized enterprises. According to Peter Domby (personal communication, 2010/05/05) the number of employees was reduced, due to the economical crises, from 235 employees to 175 employees today. In addition, the annual turnover almost halved from 398 million to 220 million. When referring to cutting machining it includes also turning machining, milling machining and welding machining. Services the company offers to its customers are contract work, prototyping and tool sharpening. Through a good developed and flexible factory and facilities, the company offers production according to the customer requirements. The firm has available 90 CNC machines and well-educated stuff. Uppåkra Mekaniska AB has its own development department in order to provide the customer with prototypes and short product series. Uppåkra Mekaniska AB stated on its homepage `No machine is more exact than the cutting tools it is equipped with´ which described an additional service the company offers to its customers, - grinding and sharpening of tools. The main customers of the company are the heavy automotive industry like Volvo, Scania or the SKF concern. Because of its high quality-demanding customer, the firm is certificated according to the ISO/TS 16949 and ISO 14001 (Uppåkra Mekaniska, 2010; P. Domby, personal communication, 2010/05/05).

4.1.2 The Companies Purchasing Performance

The company purchases mainly raw material like steel but also services like hardening of materials – or components surfaces. Because of the core competence of turning and
milling in large volumes, services that do not belong to the core competence are purchased. The purchase of raw material corresponds to 35 percent of the annual turnover. By the estimation of Peter Domby, the firm has average 200 active suppliers, which includes all suppliers, from very frequent ones to suppliers that supply less frequent to the company. Out of the 200 supplier, it is a number of 20 suppliers which are the most important ones and which stay for 80 percent of the purchased value (P. Domby, personal communication, 2010/05/05). To the question, if the firm classify its products with a special method this was negated of the interviewee. However, he reported about a monthly meeting were the suppliers are evaluated and within that the suppliers are classified, for example, into raw material supplier, oil supplier or expendable items suppliers.

The purchasing process is characterized by the try to cherish on well-known and trusted suppliers. The firm buys a new product mostly out of a new customer order or new customer requirements, which in turn provides the Uppåkra Mekaniska AB with material specifications. With help of this specification, the firm goes out with an enquiry to, for instants, three known suppliers. The most suitable offer gets the order and following the product is included in the contract between Uppåkra Mekaniska AB and the supplier. Because the firm mostly use already known suppliers, they also have already contracts where the new product only have to be included. The firm usually does not going out of the market in order to search new suppliers. Because the firm is specialized and therefore concentrating on its core competence, they like to work with suppliers where they know what they get.

The purchasing function is spread to different employees in the firm. The main responsibility has Tommy Ekström, who is also one of the owners of the company. Purchasing activities are distributed, for example, into purchase of services, material, routine products and contracting. Further, the firm has supply chain employees that watch the deliveries and directly purchase when it is necessary in order to uphold an effective production. This happens in certain borders without contacting the responsible person. The educational level is low in the sense of university education. Mostly the purchasing stuff that is involved in these activities has high school education or vocational education. However, all involved employees have substantial and mostly long-time work experiences that qualify them to work with purchasing. An additional important factor for the successful purchasing performance is the stable number of employees. ‘We have groomed up each other (…) and we do not often change employees who are involved’ stated Peter Domby which shows clearly the firms position within the human resource policy (P. Domby, personal communication, 2010/05/05).

As mentioned before is the firm certified according to the ISO standards and therefore requires corresponding quality in order to hold the certification requirements. Another requirement to some of the firms’ suppliers, tries to ensure supply according to the supply plans the firm’s business system generates. Sometimes Uppåkra Mekaniska AB
requires the suppliers to have safety stock in order to ensure the uninterrupted production.

The question about the most important reason why the firm purchases a certain product of a certain supplier is according to Peter Domby (personal communication, 2010/05/05) a combination of quality, accessibility and price. Quality seems to be the most important due to hold its own customers requirements and the firms’ certification. The price is important but only in relation to an appropriate quality.

4.1.3 Strategic Considerations

Uppåkra Mekaniska AB consider strategic deliberations as important both, - for the day-to-day drift but also for the long-term result of the company. The strategic planning is according to Peter Domby (personal communication, 2010/05/05) an underlying issue and he think Uppåkra Mekaniska AB could be better within this area. The firm is often customer controlled which reduce the possibility to source in a strategic way. If the company for example wants to change the raw material supplier, they have first to ask its customers. Does the customer accept the material regarding quality; they often also want to realize an advantage for themselves. The customer wants to make profit with this change and therefore Uppåkra have to reduce the price towards the customer. Basically, that means that these critical information, to change a provider of raw material, cannot be occur hidden. Through the need of authorizing the new material, the small company loses the possibility to make some more profit through better prices.

Uppåkra Mekaniska AB have mostly Swedish suppliers but also some international suppliers. These are concentrating over Europe like Germany, Denmark, Switzerland or France. Worldwide sourcing do the firm not consider because they do not know potential suppliers in, for example, Far East. Peter Domby (personal communication, 2010/05/05) stressed, ”we cannot trust a supplier from China for example, because we do not know their qualitative performance. Further, even if they are cheaper, we cannot estimate additional cost through paperwork, transportation or suchlike”. Even here, the small company is often controlled by their big customers. For example, customers like Scania or Volvo have authorized international suppliers, which they want the small firm to work with. Contrary could the Uppåkra realize through these constraint benefit. ”We got some good contacts with international supplier through customers, which we still have in our supplier base” (P. Domby, personal communication, 2010/05/05).

Regarding the sourcing strategy of single/multiple sourcing, Uppåkra Mekaniska AB uses both. Single sourcing is used when the already mentioned customer controlled relationships exist. Otherwise, the firm has some products where they have different suppliers in order to reduce supply risk.

A formal way to evaluate the suppliers is not used in the company. However, this does not mean that the firm is not following up its supplier. The before mentioned monthly meeting in the leading group is used to follow up the purchasing activities as well as the
suppliers performance. Furthermore, the firm has its business system (MOVEX) which generates reports about the complaints that occur per supplier. Peter Domby stated as well that, ‘often it is also a feeling; for example, if a supplier continuously delivers to late’ (P. Domby, personal communication, 2010/05/05). The usually procedure is to try to find jointly reasons for complaints and solutions in order to be better.

The most appreciated capability of a supplier is the ability to communication in an appropriate way. As already mentioned is a good developed deliver capability and high-quality products are important as well.

4.1.4 Supplier Relationship

‘We dare not to purchase from anyone. It is also important to trust the supplier to a certain extent. We do not use to change the supplier often but rather stay with supplier where we already know its strength and weaknesses.’ (P. Domby, personal communication, 2010/05/05). This statement is characteristic for this company. The relations to its suppliers range from arms-lengths to co-operational relationships. The very frequent suppliers, which the firm has contact almost every day is considered as close. The definition of close relationships is limited to continuous contact, - face-to-face, via telephone or e-mail. Often the close relationships occur with local suppliers, who sometimes visit the company and the employees `know each other´ (P. Domby, personal communication, 2010/05/05). In the interview was emphasized of the interviewee that these close relationships are not only on a professional level but also on a private and friendly level. The so-called arms length relationships occur as well mostly with suppliers who deliver less frequent or are not situated in the closer proximity. According to the relationship indicators, the continuously visits can be confirmed as well as to some extent the use of EDI. Uppåkra Mekaniska AB tries to build up more EDI communication to its supplier, which indicates the firm tries to get closer to its suppliers. Another indicator is the sometimes-occurring discussions with suppliers to develop products or to minimize costs. Peter Domby emphasized discussions between the firm and its suppliers about prices, logistical routines or sub-suppliers performances in order to create new products/routines or improve existing products/routines (P. Domby, personal communication, 2010/05/05).

As mentioned before, the most appreciated capability is the communication ability of the supplier. This is typical for this company and appears to be essential through the whole interview. ‘If problems occur, it is nice to have the possibility to call the supplier and jointly find out what to do´ (P. Domby, personal communication, 2010/05/05). Just as much important is the mutually trust for Uppåkra Mekaniska AB. As the statement from the beginning implies, this firm is in essential need to trust its suppliers. They rather try to develop an existing supplier than searching for a new one. The reason are not only the high cost of searching a new supplier but more the over years grown relationship. Because of the already mentioned customer controlled purchasing performance, the firm is sometimes forced to include safety clause in its contracts
4.2 Mattssons Mekaniska AB

4.2.1 Company Presentation

The company was founded in 18th century and developed over time within the business area. In 1905, the main business was the manufacturing of promenade carriages. Following, in 1912, the company was concentrating on producing own patented drill chucks. Fourteen years later, the additional production of tools and machines was included. During the 1950’s the company was leading in the manufacturing of hydraulic cylinders and valves at the request of Swedish crane manufacturers. In 1972, the firm Mattssons Mekaniska AB started in its legal form and was/is specialized in manufacturing timber grabs and racks. Today the firm is a private owned business; the owner name is Sven Andersson, who was also the interview partner.

Currently, the firm has 20 employees and an annual turnover of 25 to 27 million Swedish Krona. According to the definition of small and medium sized enterprises, Mattssons Mekaniska AB counts to the category of small enterprises. Products of the firms are columns and cogwheels of different material like steel, casting or moulded plastic. Additional the firm produces rack rails from various materials and as mentioned before parts for the manufacturing of excavator or similar heavy vehicle. The firm is facilitated with several CNC machines, automatic cog milling machines and drilling machines.

Customers of the firms are located in Sweden, Nederland, Finland, Belgian and Great Britain. The firm is not certificated to any standards but it tries to manufacture with high quality and according to the ISO standards (Mattssons Mekaniska, 2010; S. Anderson, personal communication, 2010/05/06).

4.2.2 The Companies Purchasing Performance

According to Sven Andersson (personal communication, 2010/05/06) the company buys mainly raw material, casting components, steel products or plate products. Additional routines products are purchased for the machines and the office. Mattssons Mekaniska AB has around 10 main-suppliers and around 30 ‘beside’ suppliers. The purchasing process is mainly influenced by the company business system (Monitor). Customer orders are put in the system, which calculates and generates purchasing demand. The orders are sent to the suppliers the firm have contracts with. Thereby are products classified in the sense of material for the production, material for the machines and other necessary items the company need.

The specification of a certain order is often done through the end customer. The company get a construction plan where all materials are defined and in this way, the customer is strong involved in the purchasing activities of the firm. ‘It is a three-parts-relationship; we work together with different suppliers and our customer. In that way accrues an open dialog about the suppliers’ qualification, competences and of course its prices’ (S. Andersson, personal communication, 2010/05/06). The proceeding is naturally different, the more complex the product is. The example of casting components
was mentioned by the interviewee, which is much more complex than the purchase of steel or plates. If the three-parts-relationship occurs, in case of casting material than a long-term relationship is normal. When the firm sources steel or plates, they only send an enquiry to three or four potential suppliers and do only a prices comparison. Summarizing, the firm have different sourcing methods for different products.

The firm has no specific purchasing function in its leading group but it is rather the CEO, who is responsible to perform the purchasing activities. Additional the purchasing function is automated by the business system and long-term agreements between Mattssons Mekaniska AB and its supplier.

Reasons for buying material or other items at a certain supplier are according to Sven Andersson (personal communication, 2010/05/06) a combination of quality, price and accessibility. All three mentioned reasons are enormous important in the manufacturing industry and when the company purchases material for the production. The respondent could not determine one reason that is more important than the others are. “We had offers to buy material very cheap but then we had serious problems with the quality, even if we are not certificated according to ISO standards have we customers which need a certain level of quality” (S. Andersson, personal communication, 2010/05/06). Even when the firm buys less important material like office stuff, do they consider these three reasons equally. ‘If the copy machine does not accept the paper we bought it does not matter that we paid less for it’ (S. Andersson, personal communication, 2010/05/06).

4.2.3 Strategic Considerations

Strategic purchasing is important for the company within the stability of prices they can offer to its own customer. They try to settle prices as long as possible in order to develop a stable price level. Often this is not possible, due to fluctuating price levels of raw material. The importance of purchasing activities is unquestioned when reflecting about the day-to-day operations but also the long-term planning of purchasing activities is according to Sven Anderson (personal communication, 2010/05/06) considered as essential to the firms result. Following, the interviewee was ask to which percentage purchasing activities have influence to the companies result, he answered with the 80/20 rule. However, Sven Andersson (personal communication, 2010/05/06) instances some very practical issues within the company’s strategic purchasing work. He mentioned for example the necessity to keep control and know what happen on the market. He also mentioned that the prices he pays for material and components have an essential leverage to the firms result.

When it comes to sourcing strategies, the CEO of Mattssons Mekaniska AB is open-minded. The company have local contacts and suppliers but also suppliers in Europe. The casting supplier seems to play an important role since these suppliers are mostly in the European foreign countries like Germany, Great Britain or Spain. ‘The products are of the same quality and standard as in Sweden, but the prices are better in the EU’ (S. Andersson, personal communication, 2010/05/06). Contrary, regarding the strategy to
source single or multiple, the company has a straight direction into the single sourcing strategy. The reason is according to Sven Andersson (personal communication, 2010/05/06) the high cost and time demanding process of searching further and equal suppliers.

The evaluation of the suppliers is done mainly through the business system, which make it simple to follow the delivery continuity of the suppliers, potential complaints or the price level. The business system the firm uses is called MONITOR and is according to the interviewee easy to handle and therefore appropriate to a small manufacturing company. It is important for the company to follow up the suppliers’ performance because the companies own customers measure in turn Mattssons Mekaniska ABs supply performance.

Regarding the capabilities of its suppliers, the interviewee divided it again in casting suppliers and suppliers of less complex products. While the less complex item providers should have good delivery- and quality capabilities, should the supplier of casting items have additional innovation capabilities and good communication capabilities. "Sometimes, something went wrong from the beginning of the cooperation between our firm and a supplier; therefore good communication and innovation abilities are so important. Mutual innovation capabilities contribute to improve processes and enhance products. In this way, rationalization effects could be achieved as well as better prices and larger win marginal’ (S. Andersson, personal communication, 2010/05/06).

### 4.2.4 Supplier relationship

The most supplier relations Mattssons Mekaniska AB has today are grown over years and therefore very close. "We know the strength and weaknesses of the suppliers and often it is not only a strict business relation but also a more intimate relationship where it can be talked about topics like family, sports or similar issues’ (S. Andersson, personal communication, 2010/05/06). These relationship were not plant but rather happened over time. The firm is in need of these kinds of close relationships primarily to organize the daily operations well and being successful with its business. For example, the area of supply safety was mentioned of the respondent. "We do not want to call the supplier always and being worried about the in-time deliveries. This is often the reason why relationships break; when the commitment is one-sided’ (S. Andersson, personal communication, 2010/05/06).

The company is been visiting by suppliers constantly, primarily by suppliers of routines products. When thinking of suppliers of raw material are visits unusual and the communication is limited to automated purchasing order from the business system and telephone calls if something happened. On the other hand, suppliers of requisites for the production visit the company regular. Some of these suppliers offer to update the company within news and improvements of products, which the Mattssons Mekaniska AB appreciates and takes on.
Regarding mutually product development, occurred this only in the already mentioned three-parts-relationship. Basically, these projects were performed together with the end-customer, a supplier and the small company, which contributes its expertise. Even if this could be considered as a product development project, this is more a project aiming to provide the end-customer with a product and not a project between supplier and buyer. The company is here more in the role of the supplier rather than in the role of a buyer.

Concluding, the firm considers the communication between supplier and buyer as essential and even so, the mutual trust plays a significant role. Additional, the personnel stability in the supplier company seems to be an important factor. ‘We had the case that a contact person was not longer available and we had to familiarize often with other persons; this is not conducive to a buyer supplier relationship’ (S. Andersson, personal communication, 2010/05/06).

4.3 Stacke Hydraulik AB

4.3.1 Company Presentation

The company’s roots go back to the early 1920. It was managed by Carl Johan Bergkvist. In 1987, the company Bergkvist Hydraulik AB was sold and expanding its business into the 21st century. Today the companies name is Stacke Hydraulik AB and is a family owned business. In the current situation, the firm has 90 employees and the annual turnover is estimated for this year around 140 to 150 million Swedish Krona. According to the definition of the European Commission, the company counts to the category of medium sized enterprises. Because of the already mentioned economical crises, this company was suffering a lot and needed to release around 80 employees. In comparison to the estimated turnover for 2010, the turnover for 2008 was about 265 million Swedish Krona. This provides a clear picture of the critical situation this company was in the last year and still work with the aftereffects. The company produces hydraulic cylinders and related components for mobile applications in four business areas; - construction equipment, forestry machines, vehicle-mounted systems and forklift trucks. The firm is certificated according to the ISO 9001:2000 standard. The interview is made with the purchasing manager Anders Källberg. (Stacke Hydraulik, 2010; A. Källberg, personal communication, 2010/05/10)

4.3.2 The Companies Purchasing Performance

Items the company purchases are raw material, already turned components and subcontractor services, for example painting or welding. Additional purchases are IT services, financial services and routine products. According to Anders Källberg (personal communication, 2010/05/10) 50 percent of the final product are purchased. The firm has around 50 active suppliers, which means they deliver frequently to the production. The purchasing process is guided by the firm’s business system (Monitor). The company
gets the order of a customer, which is entered into the system and which generates the 
purchasing demand. The system calculates the demand according to parameter, for ex-
ample safety stock or lead-time, which were developed by the purchasing manager be-
fore. From this purchasing demand, purchasing orders are sent to the respective suppli-
er.

The specifications are determined according to the customer’s order. For instance, if a 
unique customer order comes in which special material requirements the construction 
department, the purchase department and the production department are involved to de-
termine the specifications of the materials and components of the products. If, for ex-
ample three potential suppliers are available that can deliver products according to the 
specifications, the purchasing department chooses one of them, outgoing from consider-
ations that are more of economical nature.

Stacke Hydraulik AB does not require ISO certification of its suppliers. The company 
has its own quality specification, which are sometimes even higher than standard quality 
specifications. The aim is to serve the customer with high quality products. Additional 
requirements to its supplier have to do with the handling of the material in the produc-
tion plant. Deliveries should have certain dimensions so that the company’s material 
handling system works. `These requirements could appear somewhat strange but they 
made the daily operations much more effective´ (A. Källberg, personal communication, 
2010/05/10).

Personnel that are involved in purchasing activities are the purchasing manager and the 
planning/logistic department. The purchasing manager develops the before mentioned 
parameters and put them in the data system. Negotiations and contract work is part of 
the purchasing managers area of responsibility as well as problematic situations. The 
logistic employees have the function, among others, to send out the purchasing order 
and change planning if changes from the supplier side occur. However, for the company 
it is important to spread the purchasing function over more than one employee. `The 
firm is much more vulnerable if only one person is responsible for the purchasing per-
formance. A one-man show works only as long as the person is healthy and do not re-
sign itself´ (A. Källberg, personal communication, 2010/05/10).

The reasons to buy a certain product are also considered as a combination of quality, ac-
cessibility and price. Additional Ander Källberg (personal communication, 2010/05/10) 
stressed additionally, that these issues can be achieved appropriate only in co-operation 
between buyer and supplier.

4.3.3 Strategic Considerations

As mentioned in the part above, the purchasing function is an essential function for this 
firm for the daily working operation. Anders Källberg (personal communication, 
2010/05/10) emphasizes the strategic importance of purchasing in today’s business sit-
uation. `The purchasing function has been more and more important the last 10 -15
years; before the purchasing function was not even included in the company’s leading groups. A firm can make more saving with purchasing than with for example in the production. For example, if one can save one Krona in the purchase, one have one Krona more in the result; contrary if one saves one Krona in the production, one can only realize twenty Öre in the companies result. (...) if the company is somewhat larger, it have to plan more than a small company; we try to plan some years in the future.’ (A. Källberg, personal communication, 2010/05/10). This statement shows that the company really considers strategic and plans in advanced.

When referring to Stacke Hydraulik AB s sourcing strategies, one could state they use all of the possible ones. The firm tries to work with local suppliers as much as possible. ‘We found equal supplier regarding its price level and quality level, international and national; in that case we try to work with the local supplier due to the more effective working routines; for example if problems occur is it much more easier to have the supplier from Sweden at our plant than a supplier from Italy ’ (A. Källberg, personal communication, 2010/05/10). Small component are mainly local sourced, casting products are purchased in China and some products are purchase in France and Italia because no others supplier of these products is available.

Regarding the single or multiple sourcing, the company work according to a risk analysis. As mentioned before, the company is certificated and in order to keep its certification it is, among others, necessary to fulfill its customer’s requirement within quality and delivery safety. According to the risk analysis’s result, products are classified in different risk classes. Within these products classes, the firm adjusts its sourcing strategy. For example, for products, those who are essential to have in time, right quality and right quantity, it exist always at least two suppliers.

The evaluation of supplier plays an essential role in that firm. The starting point is again in this company the business system, which register differences to the corresponding parameter in the system. According to Anders Källberg (personal communication, 2010/05/10), the supplier is allowed to have not more than five differences per quarter. Should the supplier have more than five, it is required by Stacke Hydraulik AB to find out where the reason is and how it can be solved. This is done in co-operation between the company and its suppliers. Stacke Hydraulik AB educates its suppliers within the so-called 8D report in order to give them the possibility to find out problems and solve it in an appropriate way. It appears that the company is advanced in its procedures within the relationship to its suppliers. ‘To have a demanding customer is the best way to develop us and also a great possibility to develop our suppliers’ (A. Källberg, personal communication, 2010/05/10).

The company appreciated some different capabilities as the other companies, taking part in this paper. One of the important capabilities of a supplier of Stacke Hydraulik AB should have good leading competences. It is substantial to have well-developed routines in the supplier firms in order to provide the buyer with required pros and within an appropriate way. A second mentioned capability is that the firm should be evolvable. If a
supplier is not willing or able to evolve itself, such efforts like the supplier education are senseless. Stacke Hydraulik AB strives after long-term relationships with its suppliers and makes some efforts to achieve this goal. Capabilities like offering good quality, in-time deliveries or having the ability to go in relationships is fundamental for the firm and therefore not particular mentioned in this part of the interview.

### 4.3.4 Supplier Relationship

As it already appeared in the former part, in the case of Stacke Hydraulik AB the long-term relationships to its suppliers is essential for the company. As the interviewee was asked to describe its supplier relationships, he stated `you should ask our suppliers what they think` (A. Källberg, personal communication, 2010/05/10). This shows the truly effort this company wants the make within its relationships. According to Anders Källberg should a relationship been characterized by openness and honesty in order to develop it in an appropriate way. `It is fundamental to talk to each other; maybe we make mistakes but if my opposite does not say anything we cannot solve the problem. It is the same if supplier makes mistakes, - how should they know if we not tell them.` (A. Källberg, personal communication, 2010/05/10). According to the purchasing manager are the existent main supplier relations for its core business, the production if hydraulic components, close and characterized of co-operation. Other suppliers, as supplier for office material or other routines products are reduced to pure transactional relationships.

When the interviewer ask about the relationship indicators as for example supplier visits the firm this was affirmed by the purchasing manager. Every second month they perfom a meeting with the main suppliers in order to talk and co-ordinate important issues. Further, the firm has one 3-year contract with a supplier but strives to gain more of these long-term contracts. According to Anders Källberg (personal communication, 2010/05/10), is this a sign, not only for customer but also for supplier, that Stacke Hydraulik AB try to work with sustainable relationships.

An additional issue within the relationship was emphasized by the interviewee. Communication is done by face-to-face meetings, telephone calls and e-mail. The last mentioned method is not very appreciated of the purchasing manager even if it necessary in today’s business. `E-mail takes away the social aspect of a conversation, which I think can be dangerous for a relationship; sometimes when problems occur it is better to talk to each other. How fast is something written in a stressful situation with frustration, e-mails could be interpreted by different people in different ways. Just in situations of trouble, I prefer the telephone call or a dialog face-to-face` (A. Källberg, personal communication, 2010/05/10).

Finally, the firm uses EDI towards it suppliers and its customers, which also could be interpreted as an indicator for close co-operation between the participants.
4.4 Thor Ahlgren AB

4.4.1 Company Presentation

Thor Ahlgren AB is a subcontractor firm founded in 1918 in Skillingaryd, Sweden by Thor Ahlgren. The company is a family business in its third generation and managed by Sven Ahlgren. In its beginnings, the company manufactured tools and machinery in-house. After some years of development, the company was focusing more on automatically pressing and stamping of sheet steel components from various materials. Products the firm produces are punched metal parts and converted metal parts. The company is facilitated with automatic press equipment, tool manufacturing, alkaline cleaning, vibration trembling and an automatic packing line. The firms’ customers are mainly from the automotive industry, for instants Volvo or Scania, but they also have customers from electronics, engineering, telecoms and the furniture industry. The company is connected to different networks, for example to the network of the Scandinavian Automotive Suppliers (FKG) and the network of GnosjöRegion. Today it has around 4000 m² production plant located in Skillingaryd, Sweden and a smaller production unit located in Hok, Sweden. The number of employees varies because of occasional additional rented personnel according to the order situation. The number of employees varies around 25 to 30 and the budgeted annual turnover for 2010 amounts to 70 million Swedish Krona. According to the definition of small and medium sized enterprises counts this company to the category of small companies (Thor Ahlgren, 2010; B.M. Andersson, personal communication 2010/05/11).

4.4.2 The Companies Purchasing Performance

The firm purchases raw material like steel or plates but also semi-finished components or other details out of plastic or gum. Services the firm purchases are surface treatments like hardening or sub-contract services like welding. According to Britt-Marie Andersson (personal communication, 2010/05/11) the firm has average about 60 to 65 active supplier. Again in this company the base of the purchasing activities are the orders of the end-customer. The firm works with a business system, which generates purchasing plans and delivery plans. A common purchase process start with the enquire of the customer. According to Britt-Marie Andersson, the next step is the internal cooperation of the technical, sales, quality and purchasing personnel that tries together to determine the specification of the purchase for that order. Due to the most of the customers are certificated and the company on itself, Thor Ahlgren AB requires certification of the suppliers or at least the qualitative standard according to the ISO certificate. Responsible for the purchasing activities for the companies’ production has Britt-Marie Andersson, who is the purchasing manager. Purchasing activities for the production facility in Skillingaryd is done by the CEO and routines products, for example oil for a machine, is done by the production manager.
When asking about the firms preferences to buy a product because of a certain reason, the clear statement of quality importance was made. According to Britt-Marie Andersson, the most essential reason is the high quality of the purchased product due to the requirement to hold its own certificate and naturally because of its customer’s quality requirements. The price appears to play a minor important role, hence is ranged as second most important. Other reasons were not mentioned.

4.4.3 Strategic Considerations

Strategic purchase activities are considered as important for both, the daily operation but also for the long-term result of the company. When the economical crises arrived, it was not that much important according to the interviewee. It was more important to sell the company’s products in order to survive the situation. The company tries to hold the purchased percentage in its products as low and try to produce as much as possible on its own. When talking about the sourcing strategy, the respondent divided the method according to the kind of product. While raw material is sourced mainly international, been services mainly sourced local. International sourcing means in the countries of the European Union, like Germany, Finland or Great Britain. The reasons for respective sourcing strategy are a good developed logistics, short transportation ways and good prices. Some supplies collect components at the plant, treat them and finally deliver them back. A further approach was to choose a supplier that was close located to a customer and in this way offer fast and uninterrupted deliveries to the end-customer. Concerning the number of suppliers of a certain item, the purchasing manager stated that for example for raw material they usually have at least two suppliers. Reasons are mostly of strategic nature; as to use this fact in price negotiations or to ensure deliveries. For service they source local, the firm has main suppliers but always a second supplier for safety side. The evaluation is done by the company’s business system, which follows up and registers complaints. The capabilities of the suppliers should be good when it comes to deliveries abilities, production processes and relational abilities. Other mentioned capabilities like innovative abilities or good financial abilities play not an essential role.

4.4.4 Supplier Relationship

The relationships to its suppliers are according to Britt-Marie Andersson different. The company made a classification into A, B, C, and D suppliers. A-suppliers are the most frequent used suppliers and therefore the relationship is close. The relationships to the rest of the suppliers are somewhat more transactional characterized. Important, in order to keep the close relationships are trustworthiness of the supplier, the delivered quality of the products and the communication between the participants. When it comes to the relationship indicators, the respondent stated that suppliers’ visits occur and that the firm has some general agreements with its suppliers. Thereby it has to be distinguished between price agreements and general agreements. Price agreements were often for a half a year but because of today’s price fluctuations, these are less usual. The general agreements include all issues that are important to a long-term relationship and are applied usually for one year. Both kinds of contracts are used in the company. As men-
tioned before, trust and good communication abilities are important for this firm in order to keep the close relationships over time.
5 Analysis

In this chapter, the analysis takes place. The findings from the frame of references are connected to the findings of the empirical study in order to enable a valuable conclusion for this paper.

5.1 Small and medium sized enterprises

The interviewed companies where different in size, - two of them were small sized companies and two were medium sized companies. When Tam et al. (2006) stated that SME are efficient due to unsophisticated organizational structures this can be confirmed by several examples from the case studies. One example was the, of Uppåkra Mekaniska AB (P. Domby personal communication, 2010/05/05), reported monthly meeting, where almost all leading functions are represented. It is possible to generate a comprehensive dialogue where important issues are discussed. This procedure is only possible and feasible because of less people and an unsophisticated organizational structure. In addition, when Stacke Hydraulik (A. Källberg, personal communication, 2010/05/10) reported `the quality manager ask me for a meeting to find ways to decrease the quality problems of the purchased items and we just found an approach together’, it is obvious that with sophisticated structures, a fast developed approach to decrease quality problems would be less probably. Contrary the author found the problem of the `one-man-show’. If only one person is responsible for a company’s function serious problems could be caused and make a small company vulnerable. This risk is more probably in the small firms with less complicated structures than in companies, where the functions are spread among more than one employee. The statement of Tam et al. (2006), that small firms have less power when they deal with larger firms could be confirm through the empirical study. It was shown that the participants of the empirical study where often heavily customer controlled in its purchasing performance. This fact will be discussed additional in the last part of the analysis chapter.

As stated in the frame of references, suffer small and medium sized companies from its limited resources within capital, knowledge or technologies (Dobler, 1965; Quayle, 2002; Ellegaard, 2006). Even if the author did not included questions regarding this area in its interviews, she could make herself a picture about it. It cannot be confirmed that the case companies have problems due to limited resources. Regarding the educational level (knowledge), it cannot be confirm that low educational cause’s poorer purchasing performance in the SMEs. Even if the educational level is low in some case companies, in the sense of university education the performance was successful and characterized by the rich working experiences of the purchasing personnel. However, these long work experiences were built mostly very practical and through additional education. These firms doing very well and made a god job through such difficult phases like the economical crises 2008/2009. As Stacke Hydraulik AB stated, `we did a lot of mistakes before the crises and it took us a lot of years to grow. Now we have learned and developed our business and expect to grow faster than before’ (A. Källberg, personal communica-
tion, 2010/05/10). Within the limited resources of capital or technologies it although cannot confirm that theses small and medium sized firms are limited. As one interviewee said, that the firm recently bought a new CNC machine or the other firm is equipped with 90 CNC machines. This let the author assume that the case companies have no limited resources within capital and equipment. As one can see in the presentations are the case companies are grown over years, which means these firms have a long tradition achieved through entrepreneurship and innovation.

5.2 Performance of purchasing in SMEs

Firstly, in this part should be analyzed which importance purchasing have in small and medium sized companies nowadays. That the purchase function is done always of the owner or closely related employees can be confirmed partly (Dollinger and Kolchin, 1986). In one of the case studies, the owner was the person who performs the purchasing activities. The other three companies had one employee for this position; even so, the firm Uppåkra Mekaniska AB has three persons that are responsible for the companies purchasing activities as well as the company Stacke Hydraulik AB has spread it purchasing function among several employees. This can be seen in relation to the importance of the purchasing function, which was throughout all case companies considered as very important. Several researcher stated is the purchasing function not a key function, only a part of the day-to-day operation or done when the owner have some minutes left (Gadde and Håkansson, 2001; Ramsay, 2006; Quayle, 2002). This is not the case in the participating companies and therefore the finding of the empirical study can confirm much more the finding of Pressey et al. (2009, p.223). In this research was stated that, `purchasing in the majority of SMEs appears to play an essential role, especially amongst SMEs offering high-tech products and operating in markets where competition is based on product characteristics`. The case company’s products are maybe not that high-tech characterized but these firms are acting in markets were competition is based on characteristics like quality. Argumentative in this context was the statement of Stacke Hydraulik AB who emphasizes the strategic importance of purchasing in today’s business situation. `The purchasing function has been more and more important the last 10 -15 years; before the purchasing function was not even included in the company’s leading groups. A firm can make more saving with purchasing than with for example in the production (...) ` (A. Källberg personal communication, 2010/05/10).

According to van Weele (2002), the purchasing process includes following stages, – determining specifications, selecting the supplier, contracting, ordering, expediting and evaluation, and finally follow-up and evaluation (see Fig 2). In the main, all case companies followed this purchasing concept, always supported thorough a business information system. All companies get their information’s for the specifications from the customer through product drawings and/or material and quality requirements. The selection of supplier is often already done due to the long-term relationships of the companies and its supplier. However, if it is needed to purchase a new item, for example if a new product should be produced, the selection depends mostly of the quality the suppliers
can deliver. More or less, it is for all companies important to work regarding quality standards in order to hold their own certification or to fulfill high quality requirements of the most large and demanding customers. This is could be seen as an industry specific attribute which maybe plays not an important role in other small and medium sized enterprises business areas. Price is naturally important but only in the relation to an appropriate quality when the firms purchase manufacturing material or components. The contracting part of the purchase process is characterized often by framework agreements. If a new item is purchased it is often only included in an already existent agreement. The ordering of the material or components is done by the business system, which generates regularly purchasing demand. Orders are sent by mail or through EDI technology. The last two parts of the process model seems to be a fundamental function in the case companies. No formal form is sent out to the supplier but enabled through the business system, follow the companies up and evaluate the supplier performance. The system is measuring complaints like late deliveries, quality discrepancies or quantity mistakes. The system measures according to the parameters, which were developed previously when the specifications were determined by the purchasing function.

Regarding the portfolio approach of Kraljic (1983) it is no clear picture winnable. The firms classify its purchased products to a certain extend but rather to make purchasing more practical than gain some strategic insights from it. None of the interviewees could state that they classify its products due to supply risks and/ or financial impact. Mattsons Mekaniska AB divided the sourcing of raw material and casting components according to sourcing strategies (multiple/ single and local/ national/ international sourcing) and the relationship to the respective supplier. Even if this is kind of following the portfolio approach, it is considered by the author as more in the nature of the thing. The sourcing of casting components and the relationship to this special supplier is, according to Mattson Mekaniska AB (S. Anderson, personal communication, 2010/05/06) more complex than the sourcing of raw material like, for example, steel.

5.3 The importance of strategic consideration in SMEs purchasing activities

An additional definition of purchasing was provided in the frame of references. The concept of Ellegaard (2006) defined the purchasing function as ‘supplier management’ with ‘rationalizing the supply base and selecting, coordinating, appraising the performance of, and developing the potential of suppliers’. Regarding this strategic definition of purchasing one can find some evidence from the case studies that small and medium sized companies are very well known about the strategic importance of purchasing. Following the author goes through the definition of Ellegaard and provides arguments and evidence from the case companies in order to show the SMEs strategic awareness. The rationalizing of the supply base is an underlying goal for all of the case companies. As Thor Ahlgren AB said, ‘we have always too many suppliers’ (B.M. Andersson, personal communication, 2010/05/11) can be interpreted as the preference to reduce the number of supplier. Additional all four interviewees stated that the companies have a classifica-
tion of its suppliers into main suppliers and beside suppliers, active suppliers and less active suppliers or frequent and less frequent supplier. Always, the number of the main supplier was less than the others are which indicates a supplies base rationalization. The before mentioned selection of suppliers seems to be very important to the case companies within qualitative characteristics of the purchased items as well as the evaluation of the suppliers performance. The last point in the definition of Ellegaard (2006) is the development of the suppliers’ potential. A good example for this the education Stacke Hydraulik AB offers to its suppliers. In order to enable an uninterrupted production and to offer its own customers high quality products, the firm educates its suppliers if complaints become more frequent over time. That this procedure is selfish is obvious but it offers also the supplier (which are often even smaller or at least also a SME) access to knowledge and developing its own procedures. Clearly, this behavior is only possible to this company because it is somewhat larger than other SMEs. It enables the often emphasized but seldom achieved win-win situation. The above arguments of the case companies’ behavior are evidencing for strategic purchasing considerations in SMEs.

The author wants to go in somewhat deeper in particular strategic sourcing decisions. Carefully developed sourcing strategies could be seen as a tool to avoid supply risks. Ellegaard (2006) find out, that SMEs are aware of supply risks within quality difficulties and delivery problem. They rather find ways to stay away from these risks instead to manage it with strategic purchasing. This finding is the complete opposite of the case companies’ behavior. In the case of geographical considerations, all the interviewees had reasons for or against particular strategies. For example, the statement from Stacke Hydraulik AB, `we found equal supplier regarding its price level and quality level, international and national; in that case we try to work with the local supplier due to the more effective working routines; for example if problems occur is it much more easier to have the supplier from Sweden at our plant than a supplier from Italy´ (A. Källberg, personal communication, 2010/05/10)´. It shows a clear strategic deliberation behind the sourcing strategy. Additional the firm sources material and components in France and Italy only because it exist no other supplier for it. Mattssons Mekaniska AB stated to source international because of the better price while have the same qualitative standard. Thor Ahlgren AB uses local sources because of the better logistical possibilities it offers. It appears that all these firms have carefully weighing the advantages and disadvantages (see. 2.2.4) of respective strategy according to its business situation. Former research concluded with contrary findings about the international sourcing of SMEs (Scully & Fawcett, 1994; Overby & Servais, 2005; Ellegaard, 2006). However, this research found no evidence for avoiding international sourcing; quite contrary, all firms source international. Nevertheless, the author has to admit that ‘international’ sourcing is mostly restricted to Europe and only one firm is sourcing in China.

Regarding the strategy to source single or multiple, the finding of Tam et al. (2006) can be partly confirmed. They stated that SMEs utilize often multiple sourcing strategies in order to achieve low prices through bidding and in this way increase its buying leverage over the supplier. Yes, the most of the companies uses multiple sourcing strategies but
the reason is rarer the price. Of course said some of the companies that they can try to negotiate better prices but mostly the supply safety and the appropriate quality was the reason for choosing two or more suppliers. This is maybe again an industrial specific attribute. Nevertheless one company, Mattssons Mekaniska AB, stated that it trust its over years grown supplier relationships and consider the cost for searching a second or third supplier as too cost - and time intensive.

The study of Pressey et al. (2009) defined following groups of SME purchaser, - the holistic purchaser, the process purchaser and the logistic purchaser according to the capabilities they require from its supplier (see 2.3.2). The author would classify all case companies with its purchasing performance within the process purchaser. According to Pressey et al. (2009), the process purchaser put emphasizes mostly on delivery capabilities but also production-, process, - networking, and managerial capabilities where also important. Nevertheless, some of the case companies have a good tendency to belong to the group of holistic purchasers, which select its suppliers on a comprehensive series of capabilities. For example, Stacke Hydraulik appears to have quite hard and overlapping requirements to its suppliers that could make its purchasing performance to a holistic one.

5.4 SMEs supplier relationships

According to Webster (1992), relationships can be of different nature according to the level of commitment. The author defines a range of possible relationship as a `continuum of pure transaction on the one end to fully integrated hierarchical firms on the other end´ (Webster, 1992; p.5; see figure 3). All of the respondents stated to have close to very close relationships with its supplier. The author wants to find out the actual nature of the firms relationships. Apart from the close relationships, the case companies think to have, all said that they have arms length relations or pure transactional relations. Mentioned were these within the case of routines products or necessities in order to make the company work. In the range of relations, defined by Webster (1992), are mentioned the so-called long-term relationship and the buyer-seller relationship. The long-term relationship is adversarial and depending on market control. The buyer-seller relationship is characterized by mutual trust and the participants are depending on each other. Within the case studies, the author of the thesis could not find evidence either for an adversarial characteristic or for equal distributed dependency. Therefore, another starting point should be analyzed in order to find out the real character of the relationships of industrial SMEs.

According to Kannan and Tan (2006), the relationship to key suppliers is beneficial on an operational level, where closer relationships conduce to the improvement of quality and /or delivery service or enhances cost reduction. All case companies stressed that through the close co-operation with its `main´ supplier the production can be designed effective and efficient within areas like quality or costs. Statements as, `it is fundamental to talk to each other; maybe we make mistakes but if my opposite does not say any-
thing we cannot solve the problem. It is the same if supplier makes mistakes, - how should they know if we not tell them’ (A. Källberg, personal communication, 2010/05/10) show obviously the importance of the relationship for the daily operation and within the achievement of quality standards.

Enarsson (2006; p. 88) defined a partnership as `a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that yields a competitive advantage, resulting in business performance greater than would be achieved by the firms individually’. This definition is the most suitable one in relation to the current case companies. The relationships are mostly organized according to the respectively business situation which means they are tailored. All respondents emphasize the important role of trust, honesty and openness within its relationship participants. Additional was stated by Stacke Hydraulik AB, ‘it is not necessary to win all the time; sometime the firm have to cut back its own interest in order to create a win-win situation, - in everyone’s interest’ (A. Källberg, personal communications, 2010/05/10). That shows the companies willingness to share risks and rewards. The outcome of the business performance is according to the participants much better when working mutually together with it suppliers than to make it in an adversarial way.

Within the current case companies, the notion ‘long-term’ relationship get a unique relevance due to the often over years grown relationships the companies have and try to keep. ‘We dare not to purchase from anyone. It is also important to trust the supplier to a certain extent. We do not use to change the supplier often but rather stay with supplier where we already know its strength and weaknesses.’ (P. Domby, personal communication, 2010/05/05).

According to Mudambi and Schruender (1996) following partnership indicators, which should indicated if SMEs have close partnerships to its suppliers. These indicators are supplier site visits, joint production design, long-term contracts, JIT production or use of EDI technology (see 2.3.3). All of the interviewees stated to have regularly visits of suppliers as for example Mattssons Mekaniska AB confirmed. This firm often used the possibilities to being updated within new products or products features. Additional Mattssons Mekaniska AB stated, ‘(…) it is not only a strict business relation but also a more intimate relationship where it can be talked about topics like family, sports or similar issues’ (S. Anderson, personal communication, 2010/05/06). In addition, Stacke Hydraulik AB reported about the meeting with its key suppliers every second month, which are clear indications for a more close relationship. Jointly developed products is rather seldom and occurs only in the so-called three-parts-relationship, where the case companies act more in the role of a supplier than in a role of a buyer. Long term contracts are existent among the participating companies to a certain extent but according to some of the interviewees could be more frequent. As Stacke Hydraulik AB conceded, is the development of long-term agreements a future goal the firm strives to have more frequent with its supplier. The reason is to show supplier as well as customers the firms’ willingness to work co-operative and in a long- This indicates additional the striving af-
ter closer partnership. The use of EDI technology exists among the companies towards both its customer and its suppliers. Uppåkra Mekaniska AB said that the firm wants to extend the use of EDI, especially among its suppliers, which are not that good within the use of EDI currently.

Summarizing, one could say that the small and medium sized companies have close relationships and be experienced in the co-operation and coordination of its supplier relationships. Regarding the finding of Mudambi and Schruender (1996), the current research cannot confirm that partnership among small and medium sized companies occurs rarely. Further, the case companies’ co-operative purchasing behavior is conscious and purposely. Mostly the close, long-term relationships were part of the firm’s strategy and of the firm’s business philosophy.

Finally, the author wants to analyze the power circumstances the small and medium sized companies are situated in. It was mentioned before that the industrial manufacturing firms are often very customer controlled due to its own role as suppliers and therefore often situated in an extended buyer dominant supply chain. As Cox (2001) defined, could buyer be situated in either buyer dominance, interdependence, independence, or supplier dominance. When looking to the phenomenon of the customer control in the case companies, one can determine that the firms are rather supplier than buyer and therefore are situated in a buyer dominant supply chain. Cox (2001) suggested different strategies to change the power circumstances the buyer is situated in. Naturally, the case companies customer are in a favorable position by being dominant and this makes it often difficult for the small and medium sized companies to perform its purchase freely and without intervention of the dominant customer. Therefore Cox (2001) states not only strategies for buying companies to change its power position but also depicted strategies that supplier could take in order to change its power circumstances. In this way, a company could change its position, for example, from buyer dominance to supplier dominance. Cox (2001; p. 45) stated, ‘as can be seen from the supplier’s perspective, the preferred and ideal power circumstances that maximize its ability to appropriate value are the direct opposite of those that favor the buyer’. However, if the case companies would change its power situation, they maybe have also to change business procedures, have to grow or increase its market share, which is not always desirable. In the case companies, it seems to be the right way within the power circumstances and relationship with its customers and suppliers. Furthermore, it seems to be inspiring for small and medium sized companies to have more powerful customers, which the statement of Stacke Hydraulik AB is argumentative for, - ‘to have a demanding customer is the best way to develop us and also a great possibility to develop our suppliers’ (A. Källberg, personal communication, 2010/05/10). Concluding one can say it is the perspective one uses to see this power circumstances phenomenon.
6 Conclusion

In this part of the paper, the author wants to answer its research questions and in that way to fulfill the thesis purpose.

The purpose of the paper was to examine the purchasing practices of small and medium sized enterprises with focus on strategic considerations and supplier relationships. In order to fulfill this purpose, three research questions were developed, which constitutes the structure of this conclusion part.

The first research question addresses the performance of purchasing in the small and medium sized companies. In difference to many former research findings, purchasing is very important to the small and medium sized companies and resources are used to perform it in an appropriate, effective and professional way. One could say the medium sized companies make somewhat more effort to the purchasing function but by using business information systems, even the small companies employ resources to develop useful purchasing procedures. The operational level of purchasing is largely characterized by the firm’s business system as mentioned before. There is a clear purchasing process recognizable; firstly, specifications are determined and parameters for the business system are developed. The second step is to choose the most appropriate supplier, where selection constitutes of already known key supplier of the firm. Therefore, the third step (contracting) is sometimes dropped or already made within general or long-term agreements. Purchasing demand is generated by the business system and orders are sent through EDI or similar information technology automatically to the supplier. Evaluation of the suppliers’ performance is done by the system as well and according to the previous developed parameter. Involved in the purchasing process are professional of purchasing and logistic, as well as the production department and/or development department. Some of the case companies are purely subcontractor companies who do not have any production development. Hence, these companies have no more business functions involved in its purchasing activities.

The second research question asks if small and medium sized companies incorporate strategic considerations in its purchasing activities. To a certain extent, consider SMEs strategies to its business situation. The analysis showed that sourcing strategies (single/multiple; local/nation/international) are incorporated and all case companies could explain the reason for using or not using respective sourcing strategies. For example was local sourcing strategy used in order to enable more effective logistic routines or to have better contact possibilities with its suppliers. Internationally sourcing strategies were used because products could not be found local or the price level was better than elsewhere. The reasons for multiple sourcing were mostly to meet the problem of supply risk. Single sourcing was preferred when the company’s customer required a certain supplier or if the cost of searching additional supplier were considered as too high. Supplier evaluation is a fundamental part of the strategic work of the SMEs, which is used frequent in order to develop better supply and the relationships to the suppliers. Further,
it could be proven that the medium sized companies generally have a more holistic behavior to perform its purchasing than the small companies. Nevertheless, even the small companies of this study showed strategic deliberations in order to design its production effective.

The last research question aimed to define SMEs relationships to its suppliers. Small and medium sized manufacturing companies have close partnerships and long-term relationships as well as pure transactional relations. The level of integration depends often on the nature of the purchase product. The relation to supplier of products, material and components purchase for the core business is often closer. Thereby it is often divide in raw material and other components. Even if it is necessary for the core business, raw material considers as less complex product and the relationship to its suppliers is more arms length. Other items for the core business, like casting components or semi-finished products are seen as much more complex and therefore the relationships are closer and characterized by co-operation or partnership. Other expendables items as oil or office material purchases in arms length relations as well.

Commitment, trust and good communication between buyer and supplier is seen as substantial and was emphasized believable throughout all case companies. Additional the development and education of suppliers was important to some of the firms as well as the mutual solving of problems.

Concluding one could state that small and medium sized enterprises have developed its purchasing performance positively when comparing the current findings with former research findings. By using business technology, strategically planning/deliberations and finally through building close and long-term relationships, manufacturing SMEs found a suitable ways to perform its purchasing activities successful and found its place in sophisticated supply chains.
7 Suggestions for future research

The last chapter of this paper provides ideas for future research that appeared throughout the writing process of this thesis.

It would be interesting to look to other industries within the area of small and medium sized companies. During the research project, it appeared more and more that some of the findings and characteristics are especially matching the manufacturing industry. It would be interesting to conduct a similar research within small and medium sized enterprises that provides services.

It would be also interesting to change the perspective and try to find out how the suppliers experience the relationship between the small and medium sized firm and the customer.

One of the thesis findings is that the small and medium sized companies are customer controlled and therefore sometimes only partly capable to perform its purchasing activities. An interesting topic would be to outline a supply chain within the power circumstances.

A last suggestion is a research project where large firms and SME are compared regarding its purchasing performance. Even the comparison of small firms and medium sized firms is a research worth regardless which industry its is about.

Concluding it is recommended to consider even other research strategies like a quantitative study when looking to one of the above-mentioned research topics. This could provide maybe a broader view to the respective area.
8 References


Monczka,R.,Trent, R., & Handfield, R. (2002), Purchasing and Supply Chain Management,South Western Publishing Co., Cincinnati, OH.


Appendix

Appendix - 1 Interview Guide (English Version)

Interview guide

My name is Stephanie Knäck and I am student at the International Business School in Jönköping. At the moment I write my master thesis and I am thankful for your willingness to spend time on an interview with me. Below you can see some questions that should give you the possibility to prepare yourself a little bit. The aim is not to straight answer the questions but it should be an underlying guide for a fruitful conversation about your firm's purchasing performance.

Facts & Figures about the Company

1. What is your business about?
2. How many employees do you have the company?
3. Which annual turnover has the firm? (roughly)
4. What products/services does the firm purchase?
   - How many value added to the firms products/services is purchased?
5. How many suppliers does the firm have?

Performance of purchasing activities

6. Can you describe a normal purchasing procedure your company performs?
   - How does the firm classify the products it buys? (delivery risk, financial impact)
   - Determining the specifications (e.g. who is involved)
   - How does the firm choose its suppliers?
   - What are important requirements for the firms’ suppliers (certifications, certain delivery methods etc.)
7. Who are the persons involved in purchasing activities? (position, educational level etc.)
   - Are there differences in different product categories?
8. Who have the responsibility for the purchasing activities? (position, educational level etc.)
9. What are the most important reasons for buying a product (e.g. price, quality, availability etc.)
Strategic considerations

1. Does your firm consider purchasing as strategic important?
   - ...for the firms result
   - ...for the daily operations

2. How does the firm plan your purchasing activities?

3. Does the firm purchase local, national or international?
   - What are the reasons for a certain sourcing strategy?

4. Does the firm have more than one supplier for a certain item?
   - If yes – what are the reason for this?

5. Does the firm have any activities to evaluate the suppliers' performance?

6. Does the firm have certain requirements for its suppliers? (Certifications, certain delivery methods or something else)

7. How does the firm manage supply risk?

8. What are important capabilities the firms' supplier should have?
   - Delivery-, production-, managerial-, financial-, relationship-, innovation-capabilities?

9. Does the firm evaluate its suppliers' performance?
   - Does the firm have formal/informal procedures for this?

Supplier Relationship

10. How would you describe the firms' relationship to its suppliers?
    - If there are different kinds of relationship - what are the reasons for the differences?
    - Would you define any of your supplier relationships as co-operative or very close?
    - How came this close relationship into being?
    - What are important and practical issues to keep the closeness or the co-operation?

11. Does the firm
    - ... have often suppliers who visit the company?
    - ... have joint production development projects /cost reduction projects?
    - ... have long term contracts?
    - ... use EDI or JIT?

12. How would you describe the communication between the firm and its suppliers?

13. Play trust or exchange of vital information an important issue when acting with a supplier?
9.2 Appendix – 2 Interview Guide (Swedish Version)

**Interviuguide**


Siffror & fakta om företaget
1. Vad gör ditt företag?
2. Hur många anställda har ni?
3. Vilket belopp har du årsomsättning? (Ungodstrad)
4. Vilka produkter/tjänster köper ni?
   - Hur många procent av företagets slutliga produkter/tjänster är inköpt?
5. Hur många leverantörer har ni?

Uttörende av inköpsarbete
6. Kan du beskriva en vanlig inköpsprocess företaget utför?
   - Hur klassificerar företaget de produkter som blir köpt? (t.ex. påverkan på företagets resultat, leveransrisk osv.)
   - Fastställande av specifikationer (t.ex. vem är involverad)
   - Hur väljer ni era leverantörer?
   - Vad är viktigt för företagets leverantörer (certifikat, en viss leverans metod etc.)
7. Vilka är de personer som deltar i inköpsarbete? (Position, utbildningsnivå etc.)
   - Finns det skillnader i olika produktkategorier?
8. Vem har ansvaret för inköp av verksamhet? (Position, utbildningsnivå etc.)
9. Vilka är de viktigaste skälen varför företaget bestämmer att köpa en viss produkt (t.ex. pris, kvalitet, tillgänglighet etc.)
Strategiska överväganden

10. Betrakta ditt företag inköpsaktiviteter som strategiskt viktigt?
   • ... för företagets resultat
   • ... för den dagliga driften

11. Hur planeras inköpsarbete?

12. Köper företaget lokal, nationell eller internationell?
   • Finns de olika strategier för visst produktkategori?
   • Vilka är skällen för respektive strategi?

13. Har du mer än en leverantör för en viss produkt/tjänst?
   • Om ja - vad är orsaken till detta?

14. Har företaget något verktyg för att utvärdera leverantörernas prestationer?

15. Har företaget vissa krav på sina leverantörer? (Certifieringar, vissa leveransmetoder etc.)

16. Hur hantera företag leveransrisken?

17. Vilka är viktiga förmågor företaget leverantörer skulle ha?
   • Leverans-, produktion-, lednings-, finansiella, relations-, innovations-förmåga?

18. Brukar företaget utvärdera sina leverantörers pristanda?
   • Har företaget formella/informella förfaranden för detta?

Leverantörs Relationer

19. Hur skulle du beskriva relationen till företagets leverantörer? (armstängd, nära, etc.)
   • Om det finns olika typer av relation - vad är orsakerna till skillnaderna?
   • Skulle du definiera någon av dina leverantörsrelationer som kooperativ eller mycket nära?
   • Hur upptäckte nära samarbete? (planerad eller "bara hänt")
   • Vilka är viktiga frågor för att upprätthålla närheten eller samarbete?

20. Har företaget
   • ... ofta besök av leverantörer?
   • ... gemensamma produktionsutvecklingar/kostnadsminskningar projekt med leverantörer?
   • ... långsiktiga kontrakter med företaget?
   • ... använt sig av EDI eller JIT?

21. Hur skulle du beskriva kommunikationen mellan ett företag och er leverantörer?

22. Spela förtroende eller utbyte av viktig information en viktig fråga när det handlar sig om en nära relation med leverantörer?