



# CHALMERS

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## **Go big or go home**

### **A case of a challenging supply situation at a company in the convenience store industry**

*Master of Science Thesis*

*in the Management and Economics of Innovation Program*

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MASTER'S THESIS E2016:003

# Go big or go home

A case of a challenging supply situation at a company in  
the convenience industry

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## **Abstract**

Purchasing strategies are important for buying companies as they declare what, how and when the purchase will be conducted. These strategies make a difference between managing to compete with other firms and failing to do so. Purchasing strategies have to be re-evaluated over time in order to keep up with the competition. Evaluating suppliers is a common practice among buying companies, but it is far more complex to evaluate potential suppliers than existing ones.

The aim of this thesis was to evaluate the client's strategy in order to lower the dependency of the current supplier and making an impact on the purchasing performance. In order to fulfill the purpose of this study a case study is performed at a company within the convenience store industry. Four different scenarios were designed and analyzed using the developed framework, in order to answer three research questions. First, a general investigating of potential suppliers and opportunities was conducted. Second, the impact and consequences of each scenario was analyzed in order to see how it affected the client's supplier relationships. Third and last, the impact on the clients purchasing performance was analyzed for each scenario. The four scenarios were presented as; (1) staying with the current supplier, (2) moving only services to potential suppliers, (3) moving only categories to potential suppliers or (4) replacing the current supplier with a new one, thus moving both services and categories.

The analysis showed that moving distribution or replacing the current supplier with one of the three presented suppliers were most likely to make an impact on the supplier relationships, and the client's purchasing performance. Furthermore, the analysis showed that dependency would not necessarily be bad for the client as long as the supplier also is dependent on the client. Moreover, this thesis is conducted as a pre-study for the client in order to map possible suppliers and therefore the conclusion was to; go big or go home. Either trying to get the current supplier to be more dependent on the client or replace them with a new relation that has potential to be focusing on good cooperation instead of price focus.

Key words: convenience store industry, supplier evaluation, purchasing performance, supplier relationship, category management, and wholesaler

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# 1 Introduction

*This chapter presents the background of this study. The aim, problem discussion and research questions will be described. Furthermore, the scope of this thesis and the limitations will also be presented.*

## 1.1 Background

Previous studies show that purchasing strategies is a central concern for any buying organization. It is important to have a well-conducted strategy in order to compete with other firms. There is also a great need of re-evaluating current strategies in order to find new ways of buying or to evaluate whether the strategy is good enough for the situation (van Weele, 2012).

The main aspects of purchasing strategies are what to buy, how to buy and from whom (van Weele, 2012). Companies need to understand and decide upon these aspects in order to make a sustainable strategy. According to O'Brien (2014) and Gadde, Håkansson & Persson (2010) there are different levels of dependency within a relationship that determines the power balance between the parties involved. The ideal outcome for every company is to have the power balance and therefore strategies are conducted in order to increase the own power and lower the others (Kraljic, 1983). When the dependency is too high for one actor, there is a great need of doing something to change the situation (Van Weele, 2012).

The client, a company within the convenience store industry, wants to evaluate their strategy and look for new opportunities, as they want to change today's purchasing situation. The main problem today is that the client only has one big supplier and they are dependent on them, but the supplier is not equally dependent on the client. This entails less cooperation and reduces the ability of innovation and development. As the client has franchising stores it is of importance to always develop the offer in order to satisfy them.

The supplier who operates as a wholesaler named Supplier A, sells almost all goods included in the convenient store assortment, both to the client but also to most of the client's competitors. Supplier A also offers distribution, warehousing and other services. Generic goods bundled together with services like wholesaling, warehousing and distribution tend to increase the dependency (O'Brien, 2014). Furthermore O'Brien (2014) argues that high dependency and bundling creates a feeling of uniqueness and exclusivity. Supplier A's offer is perceived as unique and irreplaceable, including that the wholesaler offers the same exclusive solution to other actors with different spend. The client, who is one of the bigger convenient store actors within this industry, perceives this situation as unsustainable.

Supplier A clearly holds the power of this relationship as the competitors with higher spend use this solution, together with the fact that the client perceives supplier A as a key supplier. Hence, the client sees the wholesaler as a strategic supplier and the supplier see the client as a less strategic customer.

Purchasing performance can be described as how well the purchasing work. Purchase performance is often showed as tangible hard coded kpi's like amount of deliveries, sold item or category spend but can also be defined as intangible soft kpi's. Soft kpi's are often described as the ability to change or cooperation (Nair et al, 2015). But, in order to change the situation and improve the purchasing performance something has to be done, either the client will become a strategic customer or they will have to find another strategic supplier.

## **1.2 Aim and problem discussion**

The aim of this study is to investigate how the client can improve their purchasing performance. Since the contract with the current wholesaler, supplier A is about to expire, the present relation need to be analyzed and new solutions need to be explored in order to improve the existing situation. This thesis is a preliminary investigation to see if there are other solutions besides the current one that can decrease the dependency and obtain better prices and service. This is done by analyzes of the client's category management and by investigate the impact of changing suppliers, categories and services.

A relationship between two or more parties is dynamic over time and therefore it is important to constantly re-evaluate the purchase situation and the supplier base in order to improve the purchasing performance. The client-Supplier A relationship started as a developmental relationship but according to the client this relationship has transformed into unsustainable situation. When a firm is too dependent on a supplier, something has to be done to change the situation (van Weele, 2012). There are two main solutions regarding the clients situation, either terminate the contract or renew it. To find out which solution that benefit the client the most both situations need to be evaluated.

In order to explore and investigate new purchasing strategies and discuss its consequences the current solution need to be analyzed. Four scenarios were created; 0 (zero) or status quo, A, B and C, describing three different solutions and then being analyzed. The analysis will present the impacts and consequences of each scenario when conducted. Scenario 0 includes the present state, regarding today's relationship between the client and supplier A but also the client's current purchasing performance. All other scenarios therefore will be compared with Sc.0. The choice of each scenario is based on supplier A's offer today. Thus, having relevant impact on both the relationship and purchasing performance. The chosen scenarios are within changing suppliers, different sourcing strategies or other categorization due to that they are expected to make impact on the purchasing situation.

To examine the aim of obtaining better service and prices, three research questions will be asked. Possible opportunities for change will be dealt with in research question one, the impact on supplier relationships in research question two and the impact on purchasing performance in research question three.

**RQ1: What possible opportunities for change can be determined for each scenario?**

In order to affect the current purchasing performance existing opportunities for each scenario need to be investigated. Moreover, potential suppliers for each scenario needs to be mapped in order to see which suppliers that are useful. Furthermore, this question will explain more closely what to look for in each scenario.

Sc. A - Move services from existing supplier. Current offered services need to be identified and investigated and also what solutions that can be taken in-house or outsourced to other actors within a specific industry.

Sc. B - Move categories from existing supplier/wholesaler. It is necessary to investigate which categories that can be moved by gaining an understanding of which categories that will make an impact, has growing potential and where there are other suppliers.

Sc. C - Replace the contract. Current contract with supplier A is terminated and replaced. A termination of the contract means moving all categories and services from existing supplier and replace with other options. Each scenario is later on matched with potential suppliers.

**RQ2: What are the impact and consequences of each scenario for the client's supplier relationships?**

There is a need to analyze the previous research question in order to understand the impact and consequences of the client's supplier relationship. This research question concerns both the impact on current supplier relationships and new potential supplier relationships. O'Brien (2014) suggest a preference matrix model to analyze to what degree a supplier values the focal firm as a customer, from the focal firm's point of view. The preference matrix values aspects of size, volume, power distribution between supplier and buyer as well as potential development, simply the level of attractiveness and the value they receive from the focal firm (O'Brien, 2014). According to Gadde et al. (2010) the level of deepness in a relationship has to be analyzed in order to estimate the dependency and Vitasek & Manrodt (2012) stress the need for collaborative outsourcing in order to maximize the outcome for all parties included.

To answer this research question both the current supplier's relation and the potential new supplier relation must be analyzed. The impact and consequences for each scenario will be analyzed throughout the preference matrix and the deepness of each relationship. The impact on the current supplier and the new potential suppliers presented will change the relationship, either by lowering or increasing the attractiveness and value for them. Lower attractiveness and value means less deep and good relationship (O'Brien 2014; Gadde et.al. 2010)

**RQ3: How adopting each scenario can impact the client's purchasing performance?**

In order to determine how each scenario will affect the client's purchasing situation, a purchasing performance analysis will be conducted. According to Parmenter (2010) firms can measure success from new-implemented strategies and operations by looking at performance indicators and their direction. Performance indicators are useful to the purchase department as they show key figures of the current performance. Organizations often use a combination of

various indicators in order to find co-variations that can provide a deep explanation and good decision support (Johansson & Johrén, 2007). There are a number of parameters that cannot be valued just as hard coded as the traditional measurements; price, cost, deviations or time. Since there are no traditional measurements in this study, purchasing performance is investigated in terms of its ability to respond to change or to provide a foundation for innovation (Nair, Jayaram, & Das 2015). Parameters measured are proactive involvement, risk, cooperation and complexity.

The presented research questions and the scenarios will then be combined and analyzed as below. First, matching suppliers with opportunities and changes with each scenario. Secondly, analyzing impact and consequences for each supplier relation within all scenarios. Third and last will be to understand the impact on the clients purchasing performance for all scenarios. The layout of the analysis will be illustrated in table 1.

	Sc 0	Sc A	Sc B	Sc C
RQ1				
RQ2				
RQ3				

Table 1. Grid with research questions and scenarios.

### 1.3 Scope

This study focus on purchasing strategies for convenient stores at the client’s purchasing department. A pre-investigation was made to find a new potential wholesaling distributor or several other distributors that could cover parts of the assortment.

Several limitations have been set in order to narrow down this study. This study is based on overall solutions, thus new and old suppliers must have a distribution solution. Due to the distribution, the focus is pointed at actors within the industry with that service available. Furthermore, catering firms are not presented in this study due to that the assortment range differs and their focus is more directed towards restaurants.

There are also several category groups that not have been considered in this study (Car services, Tobacco, Car, Hobby, Media, Services, Pharmaceuticals, Home supplies, Store expenditure, Pant, Undefined and Coupon). This is due to low volumes, overall profit and future trends. The four chosen category groups (Fastfood, Kiosk, Cold beverages and Food) are presented in the empirical chapter. Three services (distribution, additional warehousing and planogram) are also presented in this thesis. These three services were chosen due to case relevance and having impact on both the client and the current supplier. Moreover, no numbers are presented in this report due to that they are classified by the client. The client among with suppliers and supplier’s suppliers will also remain anonymous.

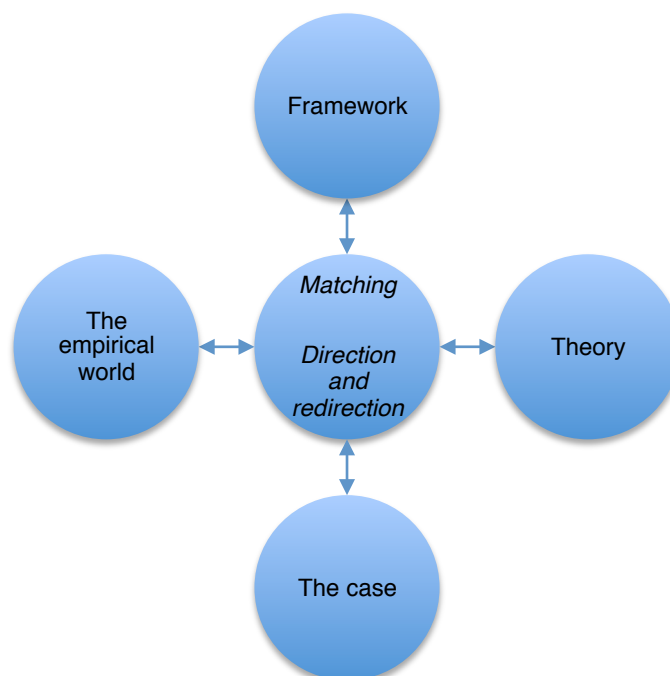
## 2 Method

*This chapter present the research processes conducted in order to answer the research questions. Furthermore, the choice of method is elaborated and discussed in order to validate the thesis.*

### 2.1 Research approach

The empirical research will be based on both theory and findings from the empirical research in order to shape the theory. This is according to Pierce (1931) called an abductive research approach, to start with a theory and then let it continuously get shaped by empirical findings. Dubois & Gibbert (2010) describe it as a travelling “back and forth” between theory and empirical phenomenon.

According to Dubois & Gibbert (2010) the abductive research approach is suitable in fields where a lot of information is available and where there are several viewpoints on knowledge and truth in the field. Dubois & Gadde (2002) argue that an abductive research approach, also called the systematic combining approach, has potential to yield more than an inductive approach. This leads to the possibilities of capturing and taking advantage of the systematic character of both the empirical world and the theoretical models. An abductive approach is fruitful if the researcher’s aim is to discover new things, other variables and other relationships (Dubois & Gadde, 2002). The abductive research approach is suitable for this study since the problem, the empirical focus and the theoretical tools changed along the process of the study. The abductive research approach is illustrated in figure 2.



*Figure 2. The abductive research approach/systematic combining approach. Adapted from Dubois & Gadde (2002).*

## 2.2 Research process

This study is a case study at a company within the convenience store industry. The research approach used is abductive, which means that the study was pending back and forth between both empirical evidence and theoretical framework.

The journey of this study started with the client searching for candidates within industrial engineering (Industriell Ekonomi), in order to answer the question whether there are other alternatives to the current supplier. After meeting with the client the main direction was set and the search for theory started. The focus was pointed at category management; portfolio analysis and critique of portfolio analyze but also network relationships and purchasing performance.

Further on help from the supervisor, different mind games and several other processes narrowed the search area down. As the abductive research approach is open for going back and forth between theory and empirical data the first interviews with the client managers were an important keystone, due to that the study changed focus towards scenarios. The scenarios were based upon valuable category and supply chain services. Both valuable offers for the current supplier, but also for the client's purchase performance. The decision to split each offer into a scenario instead of mixing services and categories was based on the investigation of how much impact and value each offer would bring on it's own. However, the last scenario was a mix between both categories and supply chain services but not spread out on several providers, instead gathering everything together.

The three research questions were based upon the client's problem description, to be less dependent, obtaining better prices and service from the suppliers. Looking at other opportunities within the market, but also see how a change affected the supplier relation helped form the research questions. Not only for the client, but also how the supplier perceived the change. The last question was pointed within the client's performance, as these changes would certainly impact in some way. The chosen parts of theories were therefore within market analysis, supply chain management and purchasing key performance indicators.

The three suppliers were chosen upon few limitations, mostly similar to the current supplier, as changing from having a wholesaler with warehousing to get an own warehouse was not a viable option. Solutions as distribution were also valued high. The market of wholesalers within this convenience store industry is quite limited and therefore the three Suppliers A, B, C were chosen.

The impact and consequences of each change was measured upon aspects like size, spend, distribution points, administration and assortment both for supplier relations and for the client's purchasing performance.

## 2.3 Research strategy

A research strategy is an orientation of the execution of a business research. There are two different approaches of research strategy, a qualitative approach and a quantitative approach (Bryman & Bell, 2011).

The aim of the quantitative approach is to generalize theories about an environment, by findings made from samples in that environment. Moreover, the data collected and analyzed must be quantifiable, i.e. the data should consist of numbers. The aim of qualitative studies is to gain a deeper insight into the studied phenomenon. Qualitative data is textual and the collecting of the data can be performed through e.g. research of literature or archival data and case analyses (Bryman & Bell, 2011). The strategy approach for this study is qualitative since that the aim is to gain a deeper insight of how the company can improve their purchasing performance. This is an empirical study, based on qualitative interviews with selected people at the company and potential suppliers. The data is qualitatively analyzed by letting the interviewees read and approve the empirical chapter to ensure that the authors have understood the information from the interviews correctly.

## 2.4 Research design

According to Bryman & Bell (2011) the choice of research design provides a framework for how to collect and analyze data. Case studies entail a detailed analysis of a single case. The case can be a single organization, a single location, a person or a single event (Bryman & Bell, 2011). Moreover, there are several different types of cases and the conducted case study falls in line with *the representative or typical case*, which is a type of case that seeks to explore something that exemplifies an everyday situation or form of organization. This is a single case study performed at a company within the convenience store industry where the goal is to answer the three research questions presented in the previous chapter.

## 2.5 Data collection methods

The collected data in this study is empirical data and are collected through qualitative interviews. The empirical data is primary, meaning that the authors of this study collect the data specifically for the purpose to answer the research questions (Churchill and Iacobucco, 2005).

All sources of empirical data are anonymous in this report due to requirements from the company, who also wants to be anonymous and therefore is referred to as the client. Moreover, the current supplier, the new potential suppliers and the supplier's suppliers will also be anonymous. To be able to distinguish the category managers and the potential suppliers they are given fictive names in this report. The fictive names of the category managers are based on the names of the categories and the fictive names of the potential suppliers. All names are handed out randomly, each one given a letter. The fictive names are presented in table 2 and table 3.

<b>Category managers at the client</b>	<b>Names (fictive)</b>
1	Fastfood Manager
2	Cold beverages Manager
3	Kiosk Manager
4	Food Manager
<b>Potential suppliers</b>	
1	Supplier A
2	Supplier B
3	Supplier C
4	Supplier D

*Table 2. Fictive names of all the interviewees*

<b>Supplier's suppliers</b>	<b>Names (fictive)</b>
1	Supplier E
2	Supplier F
3	Supplier G
4	Supplier H
<b>Competitors</b>	
1	Competitor 1
2	Competitor 2
3	Competitor 3
4	Competitor 4
5	Competitor 5

*Table 3. Fictive names of supplier's suppliers and competitors.*

### 2.5.1 Interviews

The research method used for collecting the empirical data in this study is semi-structured interviews, however few interviews has been unstructured. Bryman & Bell (2011) describes an semi-structured interview as were the interviewers typically has only a list of topics or issues, often called a interview guide, that are covered. The difference between an unstructured interview and a structured interview is that the interview guide does not have to be followed strictly, meaning that other questions can occur during the interview depending on the interviewee's answers.

Interview guides were used to make the interview questions with different actors as similar to each other as possible. All questions in the interview guides used in this study are open, which means that the interviewee is asked questions that can be answered in their own terms and examples that the authors can create cases from. The interviewees are partly category managers and partly potential suppliers. All interviews are recorded and notes were taken during the interviews. This was done to reduce the risk of missing out on important information for the study and also to get as rich data as possible. Moreover, the interviews were for the client and therefore made in their name. Thus, the result could have been different if the interviewees were interviewed without the client's name mentioned. Students from Chalmers would have get different answer as the new potential supplier would not see



them as potential buyers, therefore not trying to selling their offer. It was also important to not damage the current relationship with the existing supplier, thus no interviews were conducted there. The interviews could have affected the relationship as the interviewer asks and evaluate the situation. The decision to not interview the current supplier, who is the main actor of scenario 0 but also the reference supplier for each all scenarios may have affected the outcome too.

### **2.5.2 Interviews with category managers**

In the first round of interviews, four category managers at the company were questioned. Qualitative interviews in person with both purchase department and regional managers were performed to understand the current state and to understand how the procedure is done but also what's working and not. Interviews are conducted at the department of Product Management Shops & Marketing as the categories lies within "shop category".

### **2.5.3 Interviews with potential suppliers**

In the second round of interviews three potential suppliers were interviewed. The three suppliers were selected on request from the client but the choice was also based on the presented limitations in this study. Qualitative interviews with all three potential suppliers were performed and one of the interviews was face to face and the other two interviews were conducted by telephone. These interviews were conducted in order understand what these offered, if they were interested in working with the client but also if they were right for the client.

## **2.6 Data analysis**

This study started with gathering theory regarding category management, supplier relationships and purchasing performance. Further on in the study the authors went back and forth between the empirical findings and theory. The literature search, the interviews, the formulation of the aim, the research questions and also the analysis went almost hand-in-hand and changed along the way. The scenarios were created during the process of data collection. The scenarios were chosen out of which current services and categories that are most valuable for the current supplier. These would have a significant impact or "sting" with the current supplier.

## **2.7 Quality of the study**

The purpose of the method discussion is to discuss and questioning the credibility and quality of the research. The choice of using an abductive research approach is considered to be positive for the research but also a natural choice since the theory evolved simultaneously and interactively with the empirical findings. Regarding the choice of research design, the case study design was suitable since the purpose of the research entails the detailed and intensive analysis of a single case.

Dubois & Gibbert (2010) argue that the strength with an abductive approach is that it is based on a true dialogue between empirical and theoretical questions. The weakness of the approach

is that it is vulnerable to unintended “blindness” by the researcher towards unexpected empirical evidence and unconventional theoretical insights. Therefore it is important for the researcher to be extremely open and transparent towards the research process as well as the concerning research ethics (Dubois & Gibbert, 2010).

According to Dubois & Gibbert (2010) the most important thing is to provide a transparent approach to the interplay between theory, empirical phenomenon and method. Transparency is referring to reducing (rather than increasing) the level of complexity and walk the reader through the various stages of the argument, in an effort to make the logic, reasoning, and causalities clear. Transparency throughout the study and not fall in to the trap of getting fascinated by the complexity of the phenomenon was conducted in order to strengthen the weakness that comes with this approach.

The data collection from the interviews is considered to be rich. However to wider the scope of the thesis the research could be complemented with more observations and input in form of questioning the current supplier and other suppliers but also the staff at the convenient store. The reason why these observations weren't chosen to be a part of the data collection was that the time period for this study was too short.

### **3 Literature review**

*This chapter will cover previous studies and theoretical data from the literature review. The literature review includes three main parts; business processes, relationships and purchasing performance.*

#### **3.1 Previous research**

Previous studies have been conducted regarding firm's purchasing performance. Either to evaluate suppliers in order to see if they are up to standard but also to find potential improvements for the future. According to Wang (2010) supplier performance evaluation is increasingly seen as a strategic issue for companies to maintain and enhance the competitive edge. Purchasing performance is often measured in cost, delivery and quality according to Krause, Pagell and Curkovic (2011) however Krause, Handfield, and Tyler 2007; Narasimhan and Das (2007) argues that measurements like responding to change and flexibility are important as well.

These studies are however based upon supplier evaluation on current supplier relations, with data and knowledge about suppliers. This study is based upon similar factors, but instead evaluating potential suppliers. Thus, finding out which potential suppliers that can match a firm's requirement without data and knowledge about them. This particular study will work as a guideline to show how an evaluation with potential suppliers can be conducted.

#### **3.2 Business processes**

This section contains the different business processes; category management, sourcing strategies and supply chain management. Each of these processes enables a company to purchase but also to be the foundation of creating a purchasing strategy that is sustainable in the long term.

##### **3.2.1 Category management**

O'Brien (2014) defines category management as a strategic method that mainly focus on firm's spend among products and services. By categorizing products and services according to their functions new categories appear. These categories are measured in total spend among all departments in order to gain knowledge about the current state. This process is developed to highlight business possibilities and then implementing it, e.g. by lowering the purchasing prices or reducing risk in the supply chain (O'Brien, 2014).

Category management was mainly developed to strengthen the strategic purchasing as suppliers gained more power through globalization and found new, cleverer ways to the market. According to O'Brien (2014) departments must operate cross-functional, in order to involve all departments in the process. O'Brien (2014) also states that the potential of removing the brick wall between e.g. purchasing and marketing and let them work together will lead to new opportunities and more efficient processes.

Category management's fundamental structure is based on three different blocks. The following principles are the most important in order to gain a successful outcome, the first one is sourcing strategy, the second is about market management followed by change management (O'Brien, 2014).

### **3.2.2 Sourcing strategies**

There are two different but important strategies firms should relate to within category management. First an overall purchasing strategy that reflects the company's overall business strategy (Nair et al 2015; O'Brien, 2014). Secondly, sourcing strategies for each individual spending category. According to Imeri, Shahzad & Takala (2015) and Antosova, Senova & Csikosova (2014) the choice of suppliers is important and the suppliers have to match the firm's strategy as well. Category management mostly affects the latter strategy as such strategies will re-transform, get new definitions and be re-implemented when a firm's category management changes (O'Brien, 2014). According to Van Weele (2012) spending areas are categories that include a bunch of similar products where the customer can replace a product with another one in the category.

O'Brien's (2014) broad definition of a sourcing strategy is, a strategy that indicate the scope of and the direction for a single defined spend area, in medium term by defining what and how the organization should buy in order to meet the expectations of their stakeholders. Van Weele (2012) adds that the sourcing strategy is used to define the number of suppliers for each category and the degree of relationship with each supplier, i.e. matching immediate and future needs and requests with the existing and future market (Van Weele, 2012; O'Brien, 2014). In addition to relationships and number of suppliers the geographical aspect is important, sourcing from local sources or that if the categories are fitting into global sourcing (Van Weele, 2012).

Market management is an important part of sourcing strategies as it is about looking outside the boundaries of the firm. This gives knowledge of how the market is structured and how firms relate to the specific market. Hence, which suppliers are available, how competing firms solve things etc. Understanding the market means that the firm know how to adapt in the best way and which interactions that are needed to maintain and improve the market situation (O'Brien, 2014).

Portfolio analysis is one of the most popular tools within purchasing, providing information about whether to have leverage on a specific category as well as how to use that leverage (O'Brien, 2014). Kraljic (1983) developed the portfolio analysis to prevent supply interruptions by having different sourcing strategies for different products i.e. make the most out of buying power and minimizing supply risks (Gelderman & Van Weele, 2003). Kraljic (1983) states that firms need to make things happen for their own interest and advantage. Further on talking about uncertainty of supplier relationship, availability of items and technological changes. When uncertainty becomes greater, supply management becomes more important. Managers of buying firms get the sense of new options, however vulnerabilities can occur as well.

Van Weele (2012) says that suppliers have different interest than the focal purchasing department. Developing different strategies towards the supplier can affect the power balance between the firm and their most important suppliers (Van Weele, 2012). Suppliers often behave as the customer needs them more than what they need the customer. This is usual when buying firms don't realize that they have leverage (O'Brien, 2014). Van Weele (2012) stresses that when the dependency is too high buyers have to do something to change the situation.

According to O'Brien (2014) and Kraljic (1983), the power position on the market is estimated by weighting the bargaining power against the buyer's strength. O'Brien (2014) describes it as working on a big transnational firm with huge spend gives the sense of having the power and influence on the market, but the power might actually lie with the supplier. In other words, if there aren't any or very few other alternatives on the market i.e. the complexity of the market is high, it makes the firm less powerful. There are situations that might change that as well, e.g. a small restaurant compared with a big supplier of spices, where the power is on the supplier side. A restaurant with prestige will however minimize that power. According to O'Brien (2014) bottleneck categories give the supplier power, and lever categories gives the buyer most power.

### **3.2.3 Supply chain management**

When a company buys from a manufacturer the time between buying and selling the goods is short. Due to the short time, retailers often integrate the buying and selling function. Van Weele (2012) says that this function often is known as category management. The category managers operate the contact with suppliers and wholesalers. Category management operates centralized, meaning that the retailer's store has to get replenishment distributed from either its own warehouse or wholesalers warehouse (Van Weele, 2012). Trading companies or wholesalers lack the process of manufacturing goods, instead they buy from manufacturers. Wholesalers often buy goods of a relatively large range in order to sell it further to other companies as retailers, industries and service companies. These companies then sell the goods to the end customers (Van Weele, 2012). Wholesalers also utilize the buying volume when buying large quantities, and then split them on their customers. The suppliers that sell to wholesalers often reach a bigger mass, the risk is less and the wholesaler operate the transportation (Van Weele, 2012).

#### ***Distribution***

Jonsson and Mattson (2011) claim that the transportation can be minimized through a high degree of filled transportation and usage of the transports more effectively. Furthermore, mixed loading to more than one destination is preferred in order to lower the number of transportation or maximizing the loading. Routes and unload planning are also important in order to find the optimal route (Jonsson and Mattson, 2011).

### Bundle theory

O'Brien (2014) present a "day one analysis" that can be described as a presence analysis of today. Analyzing a situation for categories by investigating how many suppliers exist together with the number of customers. Figure 3 describe a 2x2 matrix including the boxes; custom, generic, tailored and proprietary (O'Brien, 2014).

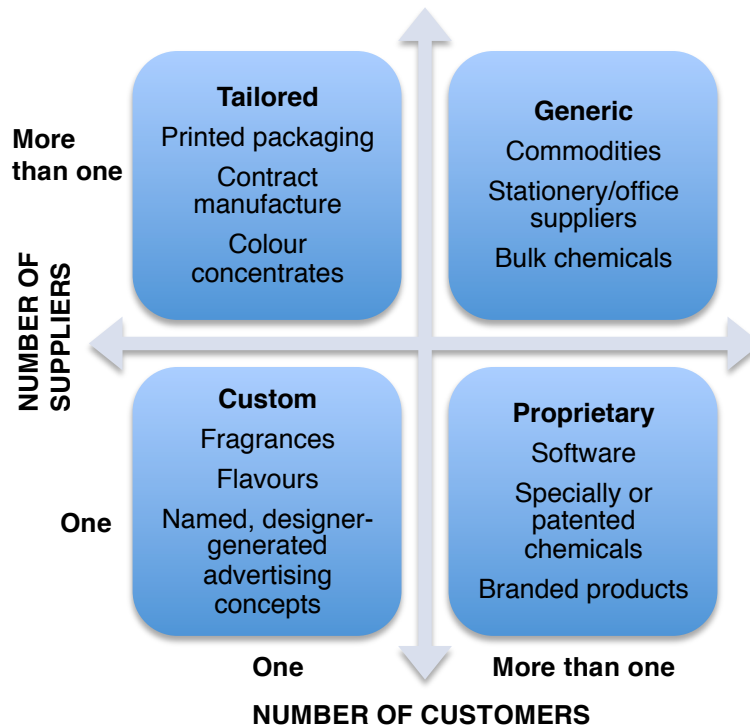


Figure 3. Day one analysis with examples. Adapted from O'Brien (2014).

The boxes in figure 3 explain the distribution of power between buyer and seller. The generic box contains products that have both most buyers and suppliers. However suppliers can bundle more than one product or service to a custom made offer, therefore pretending to be more exclusive. The custom refers to custom-made products for one company by one supplier. The tailored box has many suppliers and one buyer. Here the products and services are produced directly to one company. In the proprietary box there is one supplier and many buyers. The suppliers want the buyer to be here as it gives them power and a certain control (O'Brien, 2014).

### 3.3 Supplier relationships

Developing appropriate relationships with suppliers is the primary strategic issue for purchasing and relating to suppliers has a key role in any supply network strategy (Gadde et al, 2010). The degree of proximity in relationships differs and there exist both high- and low involvement relationships. One argument is to avoid too much involvement with individual suppliers in order to not become too dependent on a specific supplier. This type of low involvement relationship is also called "arm's length relationships". According to Gadde & Håkansson (2010) the buyer should probably keep some relationship at arm's length because

a more in-depth relationship is not the best way to utilize a supplier. On the other hand, deep relationships with high involvement can result in a more long term relationship.

However, there are three arguments for avoiding supplier dependence. First argument is reduced transaction uncertainty. Dependency on one supplier might increase transaction uncertainty, whether or not the supplier will be able to fulfill their obligations. Buying firms can reduce this uncertainty by having a number of alternative suppliers to rely on. The second argument is enhanced technological flexibility and not becoming too dependent to one supplier, but long-term flexibility in terms of technology is considered. If the technical capabilities take a direction that is disadvantageous for the buying firm the situation becomes problematic. The third argument, opportunities for price pressure, encourages competition among suppliers (Gadde et al, 2010).

In all three cases above the buyer avoid getting too close to single suppliers. However the buyer relate differently with respect to the degree of stability. According to Gadde & Håkansson (2010) there is a connection between proximity and stability. Developing proximity in a relationship requires stability, however stability is not necessarily accompanied by proximity. This is illustrated in figure 4.

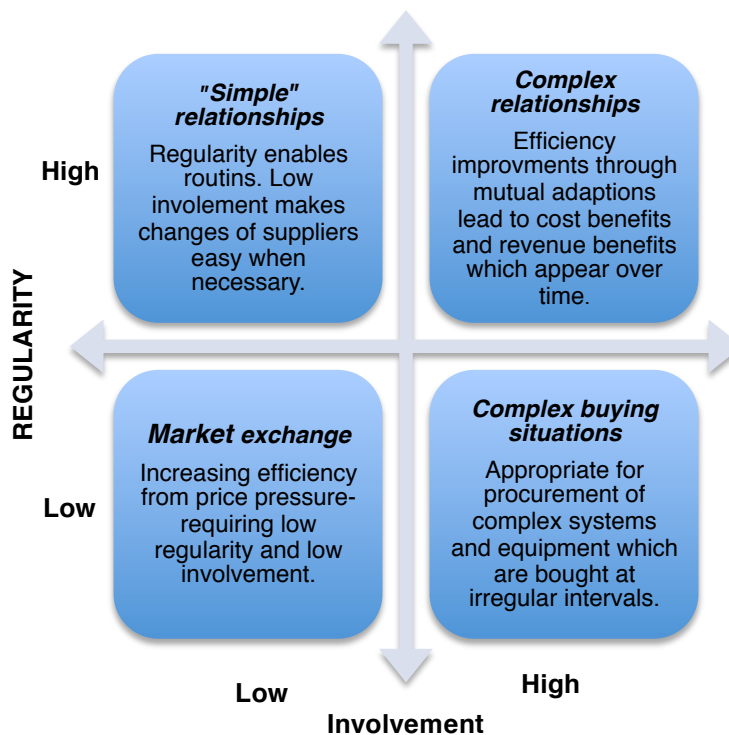


Figure 4. Involvement and regularity in supplier relationships. Adapted from Gadde & Håkansson, (2010).

### 3.3.1 Cooperation and partnership

One alternative method for more efficient purchasing is moving focus away from the choice of supplier to the best way to work with the supplier. There are different ways of finding the best way to work e.g. vertical integration or Vitasek & Manrodt's (2012) model vested outsourcing.

Vertical integration prevents buying companies from establishing deeper relationships with the supplier, both Gadde & Håkansson (2010) and Vitasek & Manrodt (2012) states that a close relation between the focal firm and the supplier leads to a decrease in number of suppliers because the company chose to focus on the relationship with one supplier instead of several. However, every relationship does not have to be complex or deep. Some relationships have close interpersonal contacts and others keep their suppliers at arm's length. Arm's length relationships can be handled with limited coordination, adaptation and interaction. There are also relationships of various types depending on what the buying firm wants to achieve and the capability of the supplier (Gadde & Håkansson, 2010).

Gadde et al (2010) discuss three perspectives on relationships. First perspective is based on a traditional view of purchasing saying that the market mechanism is the best way to handle suppliers. Being independent of others is the ideal situation. The second perspective argues for a mixture of relationships where close relationships with a few suppliers are developed that represent especially important resources. This makes the buying firm dependent on the "vital few" and independent on the "trivial many". The third perspective claims that full use of interdependence to suppliers is the most appropriate approach. Relationships with suppliers should be handled and managed so they become important to both parties.

Becoming important for both parties is a tricky situation. One way to achieve this is vertical integration, by investing in the supplier, hence letting the importance be the focal firm's own interest. One another way of achieving importance for both parties is vested outsourcing, a hybrid model between a simple performance based model and an investment based model (Vitasek & Manrodt, 2012).

According to Vitasek & Manrodt (2012) the vested outsourcing model creates a win-win situation between the buyer and the supplier by establishing an outsourcing relationship based on working systematic and collaboration. This by sharing goals, information and mutual advantages in order to reach the best shared outcome. Being "vested" means that both firms are mutually committed to each other's success instead of accepting the old approach "I-win-you-lose" (Vitasek & Manrodt, 2012).

According to Prahinski & Benton (2003) and Kearney (2013) firms want cooperative relations to strategic and critical suppliers and they stresses that this is needed in today's business environment. There is a great need to develop long-term relationship with vital suppliers. As firms reduce their supplier base, buying volume and quantities increase for the remaining suppliers but also decreases the administration. Prahinski & Benton (2003) also stress the need of collaborative communication in order to confirm that the suppliers can take the



buying firm's expectations. When the buying firm communicates, the supplier tends to get a positive influence for the relationship and often increases the commitment. When problems appear, the managers need to solve it by communicate if the relationship will kept maintained.

### 3.3.2 Suppliers perceived relation with client

To fully understand a relationship between buyers and suppliers it is also important to understand the supplier's view of the relation. This can be done by communicating with the supplier in order to understand their perspective of the relationship (Prahinski & Benton, 2003) or by the preference matrix. The preference matrix consists of two axes; Relation attractiveness and Relative value and four boxes; Developable, Core position, Stressful and Exploitable (O'Brien, 2014). The preference matrix is illustrated in figure 5.

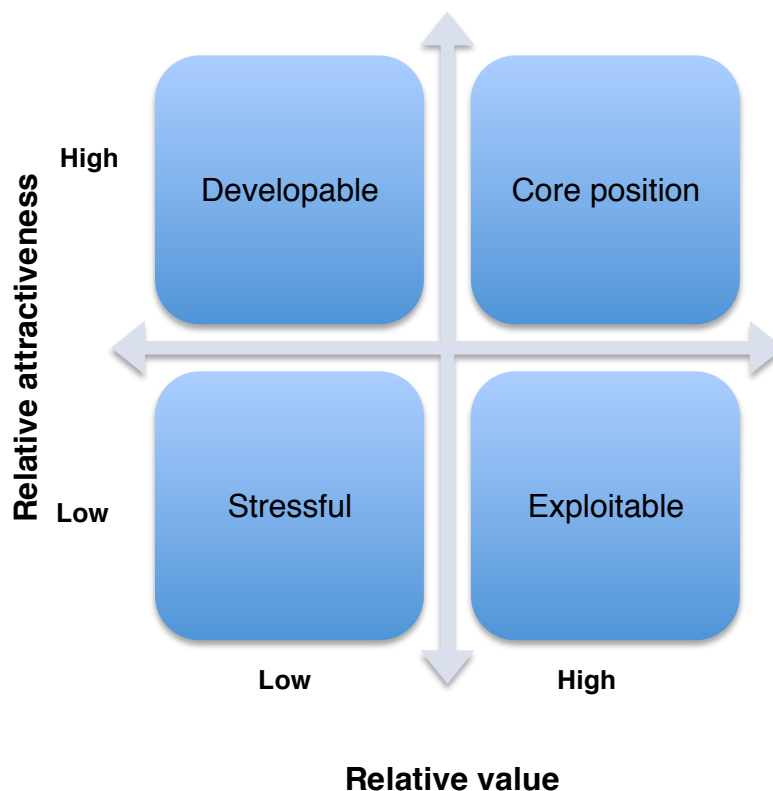


Figure 5. The preference matrix. Adapted from O'Brien (2014).

O'Brien (2014) define the four different boxes as developable, the relation is attractive to the supplier but the spend is low. The core box is the very heart of the supplier and this relation must desperately be maintained. In the stressful box the supplier pretends that everything is nice but really they don't pay much attention or care about the buyer. The exploitable box is neither a nice place to be for the buyer. The relation is not attractive for the supplier but as long as the spend is high they will maintain the relationship. The preference matrix is used to map out how the buying company believes that the supplier perceives the relationship. By combining the portfolio analysis and the supplier preference matrix provides a thorough insight into the overall relationship, (O'Brien, 2014).

If the buying firm wants to strengthen the relationship they need to communicate with the supplier and letting them know that the buyer firm will develop the relationship by enhancing cooperation, offer problem solving and expressing commitment and loyalty (Prahinski & Benton, 2003).

### **3.4 Purchasing key performance indicators (Kpi's)**

Kpi's represent a set of measures focusing on aspects of organizational performance that are most critical for the current and future success of the organization (Parmenter, 2010). According to Nair et al (2015) kpi's are important factors of a firm's competitive advantage. It is important to measure both the buying firm's and the supplier's production in order to get an efficient purchasing organization. Key figures between all interactions in the supply chain are needed and according to Johansson & Johrén (2007) it is important that the kpi's aren't isolated from each other. They stress that co-variations can give better decision support due to a deeper explanation of the performance. Van Weele (2012) defines hard coded kpi's as four main areas of measuring purchase performance; cost/price, product/quality, logistics and organization.

#### **3.4.1 Tangible kpi's**

According to Nair et al (2015) there are both hard coded and soft coded kpi's. Hard coded kpi's are e.g. price, cost, deviations and time. The cost and price dimension is about the relationship between standard prices and the prices that actually pay for goods and services, e.g. indirect cost that was not included. The product and quality dimension is purchasing contribution to total quality management. The measurement uses parameters like number of approved/not-approved suppliers, reclaims on delivered products and that information is used to determine the degree to which the company can expect flawless deliveries from the suppliers. Purchasing logistic dimension, defined by Van Weele (2012) includes administrative lead-time, number of orders delivered, and accuracy of deliveries in time and quantity. The organization dimension is mainly about how purchasing is conducted, how accessible the purchasing process is and to which degree improvements are performed to facilitate for the staff.

#### **3.4.2 Intangible kpi's**

There are parameters that cannot be valued as hard coded as the traditional kpi's. According to Nair et al (2015) purchasing performance can be measured in terms of its ability to respond to change or to provide a foundation for innovation. Parameters that could be measured are proactive involvement, risk, cooperation and complexity.

The traditional supplier management is often focused on procurement; spend analysis, categories, contract and financial aspects. Kearney (2013) stresses that there is a need to extend this into risk, relationship management and Corporate Social Responsibility (CSR). Moreover, strategic suppliers are important when focusing onto lowering risk and manage suppliers. One way to lower risk is to strive for proactive suppliers, but in order to get strategic suppliers to be proactive you have to be the customer of choice for the supplier.

According to Gadde & Håkansson (2010), Kearney (2013), Vitasek & Manrodt (2012) and Van Weele (2012), a two way relationship with reciprocal engagement demand investments from both parties.

The soft values of kpi's are similar to theories about relationships and they are quite hard to measure. Van Weele (2012) stresses that transparency and the willingness to share are important factors when two or more companies cooperate and form a partnership. A proactive supplier will plan for the future, being in the front of technology and innovation and preferably be involved in an early stage of process development instead of waiting for requests (Kearney, 2013). Kearney (2013) also stresses that firms need to have an open communication and adapt strategically to suppliers, not only focusing on lowering the price but instead it is imperative to be transparent about business priorities as expansion plans and new services. The focus on decreasing price leads to business challenges and reducing competitiveness. However, to increase the competitiveness and reduce risk Kearney (2013) stresses the need of open books in terms of financial performance and understanding the relationship between the supplier's suppliers. This is of great need in the complex environment of today and could prevent the problem with companies tend to act to supplier related problems after they arise, instead of earlier trying to solve it proactively (Prahinski & Benton, 2003; Kearney, 2013).

## 4 Empirical description

*This chapter covers the current state of the client's situation by describing the category management, current suppliers and potential new suppliers.*

### 4.1 Market description

Several big companies operate in the convenience store industry with big geographical spread around Sweden. The stores within this industry sell goods that may come convenient and facilitate for people. The assortment is often similar between all actors and the range includes food, beverage, coffee, ice cream and other goods that not have to be bought at the grocery store.

It is common that the actors use wholesalers in order to procure the goods, but also uses services as distribution to the stores. Almost all of the client's competitors together with the client previously used Supplier D as wholesaler, but almost all of them now use Supplier A instead. Thus, all of the bigger players in this market use the same dominant wholesaler. The companies that operate within the industry have several choices of suppliers to choose from, either by buying goods direct from suppliers without wholesalers or by using wholesalers. Wholesalers often offer services like distribution and warehousing in addition to the goods.

### 4.2 Firm description

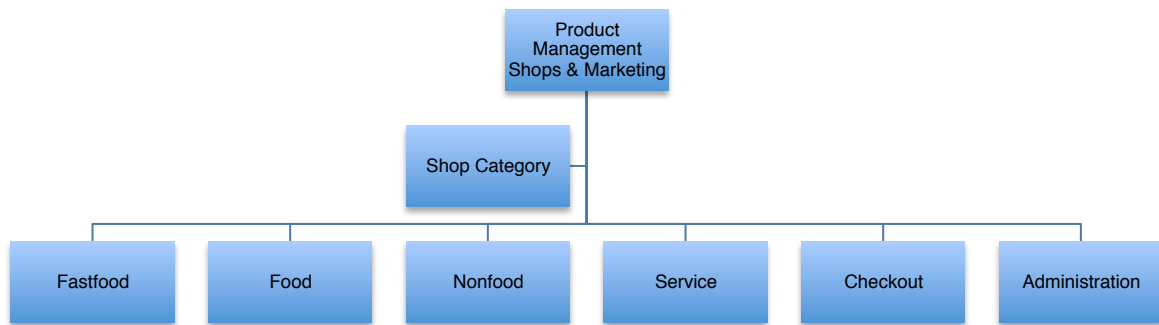
The client in this study operates within the convenience store industry with around 100 franchise stores in Sweden. The client's stores turnover represent a small part of today's total turnover. Due to that the client's stores sell other goods and services too, is the category spend quite low.

#### 4.2.1 Categories

The client has approximately 100 stores in Sweden, all managed by the client's partners. The convenient stores assortment range is standardized, meaning high volumes create better prices. In other words, economies of scale are a vital part of the purchasing. Replenishment is managed by the client's franchise stores and purchases outside supplier A assortment, locally produced products, is accepted.

The client use category management to manage their purchases with more than the purchasing department involved. Management of purchasing is operated centralized, agreements and contracts are taken care of at the clients headquarter. Currently there is one dominating supplier but also other distributing suppliers within the client's supplier base. Supplier G, supplier B and supplier F also distribute a small part today's assortment, where supplier B will be described more in detail later.

The shop category is divided into six different categories, each operated by a category manager. The categories are Fastfood, Food, Nonfood, Service, Checkout and Administration. However, Checkout and Administration have no attachment to supplier A's category products and therefore will not be included in this thesis. This is illustrated in figure 6.



*Figure 6. Organization: Marketing and sales → Product Management Shops & Marketing → Shop Category → Fastfood, Food, Nonfood, Service, Checkout and Administration. Adapted from the client.*

Based on interviews with category managers and current key supplier only four out of all categories has been chosen to focus on. The categories Car service, Tobacco, Car, Hobby, Media, Services, Pharmaceuticals, Home supplies, store expenditure, “Pant”, Undefined and Coupon will not be included further on. The categories considered in this thesis are Fastfood, Cold beverages, Kiosk and Food. The argument for this choice is also due to low profitability, un-trending numbers, too complex areas (Tobacco) and low volumes. When deciding on the four focus categories also distribution possibilities and already existing flows was considered. In table 4 all categories, including the ones not considered in the thesis, are listed along with quantity, price, margin and cost. Due to that the client wants to remain anonymous and that no numbers are rereleased, no numbers are presented in any of the tables.

<b>CATEGORY</b>	<b>Quantity year 2015</b>	<b>Sale SEK excl. VAT 2015</b>	<b>Margin SEK 2015</b>	<b>Cost SEK 2015</b>
FASTFOOD	...	...	...	...
CAR SERVICES				
TOBACCO				
COLD BEVERAGES				
KIOSK				
CAR				
FOOD				
HOBBY				
MEDIA				
SERVICES				
PHARMACEUTICALS				
HOME SUPPLIES				
STORE EXPENDITURE				
PANT				
UNDEFINED				
COUPON				
<b>SUM TOTAL</b>	...	...	...	...

Table 4. Quantity, price, margin and cost for all categories.

#### 4.2.2 Fastfood

This category includes products that customers are supposed to “eat here and now”. Products like hot beverages, hot dogs, sandwiches, bake off, salads, smoothies/yoghurts and other hot food can be found within this category. This category’s suppliers are Supplier A, Supplier E, Supplier G, Supplier B and Supplier H. This category is not very complex in the sense that all concerned product are not hard to get a hold of. The coffee is bought from supplier A and is easy to come by because of its large buying volumes. Nor hot dogs are difficult to get hold of sense they are frozen and the suppliers to choose from are quite many. However sandwiches for example are difficult to obtain because of the requirement of freshness. The freshness flow is a major logistical challenge ant the earning is low for those types of products. The subcategories hot beverages such as coffee and hot dogs are the most profitable. This is presented in table 5.

<b>Category</b>	<b>Quantity year 2015</b>	<b>Total share in % 2015</b>	<b>Sale excl. VAT 2015</b>	<b>Margin SEK 2015</b>	<b>Cost SEK 2015</b>
<b>FASTFOOD</b>		30%			
Hot beverages					
Hot dogs					
Sandwiches					
Bake off					
Salad					
Cold food					
Hot food					

Table 5. Category Fastfood.

### 4.2.3 Kiosk

This category includes products like candy, ice cream, snacks, refreshments and fruit. Supplier G supplies all ice cream and Supplier A distributes the rest. However, sometimes the fruit is distributed locally and not through Supplier A. Neither this category is very complex due to easy access to these types of products. The Kiosk category and subcategories are presented in table 6.

Category	Quantity year 2015	Total share in % 2015	Sale excl. VAT 2015	Margin SEK 2015	Cost SEK 2015
<b>KIOSK</b>		15%			
<b>Candy</b>					
<b>Ice cream</b>					
<b>Refreshments</b>					
<b>Snacks</b>					
<b>Healthy snacks</b>					
<b>Fruit</b>					
<b>Gift</b>					

Table 6. Category Kiosk.

### 4.2.4 Cold beverages

This category includes all cold beverages and Supplier A distributes them. The complexity in this category lies within the power of the brand of the beverages e.g. coca cola. According to the current contract with Supplier A, coca cola is bought outside of Supplier A but Supplier A handle the procurement as additional goods and the same goes for other brands like Spendrups. Also the “pant” system that exists in Sweden makes it difficult to purchase beverages outside of Sweden. Cold beverages and subcategories are presented in table 7.

Category	Quantity year 2015	Total share in % 2015	Sale excl. VAT 2015	Margin SEK 2015	Cost SEK 2015
<b>COLD BEVERAGES</b>		15%			
<b>Functional drinks</b>					
Energy drinks					
Functional drinks					
Sport drinks					
<b>Small soda</b>					
<b>Small water</b>					
<b>Still drinks</b>					
<b>Large soda</b>					
<b>Beer</b>					

Table 7. Category Cold beverages.

#### 4.2.5 Food

This category includes dairy, frozen food, bread and groceries. Supplier A, Supplier G and Supplier F distribute these products. According to food manager, Supplier F and Supplier A distributes (50 percent each) the dairy products. The dairy part in this category is a bit complex due to today's split up between Supplier F and Supplier A. The largest convenient stores buy directly from Supplier F. Moreover, Supplier G distributes a small part of the frozen food and the bread is bought locally. The category Food and subcategories are presented in table 8.

<b>Category</b>	<b>Quantity year 2015</b>	<b>Total share in % 2015</b>	<b>Sale excl. VAT 2015</b>	<b>Margin SEK 2015</b>	<b>Cost SEK 2015</b>
<b>FOOD</b>		5%			
<b>Dairy</b>					
<b>Frozen</b>					
<b>Bread</b>					
<b>Groceries</b>					
<b>Toppings</b>					
<b>Biscuits, cakes &amp; pastries</b>					
<b>Prepared food</b>					
<b>Drinks</b>					
<b>Vegetables</b>					
<b>Milk drinks</b>					
<b>Cold food</b>					

Table 8. Category Food.

#### 4.2.6 Category trends

According to the client's category managers, future trends have been identified as growing and non-growing categories. Fastfood and Cold beverages are both growing categories. Food is a non-growing category as the assortment of unfinished food is bought less every year. Also new products, especially in the beverages category are always interesting, the turnover is high and will probably remain high.

Due to sustainability for the future the client would like to be the local choice in every town but that could mean 500 different suppliers in total and is not a very sustainable solution. That solution will however be demanding.

### 4.3 Supply chain services

The client has outsourced services in order to focus more on the main process of managing categories. These services are logistics, warehousing, store planning and purchase planning.

The largest and also one of the most important services today is distribution. Supplier A offers, beyond selling products also transportation for their customers. The transportation from Supplier A reach nationwide and deliver ordered products to all of the client's



convenient stores at least two times per week. The trucks loading area are divided into different spaces in order to differ frozen goods and dry goods from each other, which make it more unique logistic service. The convenient stores use a hand scanner to scan EAN-codes that later on is sent to Supplier A for replenishment through Supplier A’s e-store.

Supplier A’s assortment range is however not always enough for the customers. Therefore is storing of additional goods, “warehousing service” also offered. This is something the client use for several products within their own assortment range. This service is also important for the client.

One other service that is outsourced to Supplier A is planogram. Planogram can be described as a manual for how products should be presented in a store in order to maximize the sale. These planograms are updated three times per year. The client determines their range and their planograms. The planogram is often based on products that always are in stock and where the frequency is high. However Supplier A has an enormous purchasing power since they are buying into their own chains/food stores and service trades.

According to the client category managers, new products have to match above criteria and other customer need to buy the products, in order for Supplier A to offer them, otherwise the client has to take the procurement risk. Indirectly, this can be seen as a service as well, due to that Supplier A buy products for their customers together. Buying for all customers leads to increasing volume and most probably decreasing prices for the customer.

**4.4 Suppliers & Potential suppliers**

<b>Suppliers</b>	<b>Services</b>	<b>Categories</b>
Supplier A	Wholesaler/distribution	All
Supplier B	Logistic provider and procurement	All
Supplier C	Wholesaler/distribution	All
Supplier D	Wholesaler/distribution	All

Table 9. Grid of each supplier and offered services and categories.

**4.4.1 Supplier A**

Supplier A is one of the dominating wholesalers in the convenience store industry and one of the bigger players within the fast-moving consumer goods industry. Supplier A offer services within retail trade and wholesaling. Supplier A sales to food stores and service stores (Supplier A is a full-line wholesaler specializing in convenience stores). Supplier A also distributes most of the consumer products that the client sells at the convenience stores. Concerned products are anything from cold and frozen food to car chemicals.

Supplier A is a wholesaler with broad assortment of products from different suppliers and present an overall solution for their customers. This is extremely convenient for the client as almost all products is gathered under the same roof. Supplier A has two full-range

warehouses, two cold-storage warehouses and three distribution centers that cover the whole country.

The relationship between the client and Supplier A is perceived as functional, with regular contact by mail and telephone, and physical meetings at least once a month. Since the beginning of the current contract Supplier A has gotten better and better, however Supplier A tend to not behave as a usual supplier or wholesaler as they are near to having monopoly on this market section.

Despite a working relationship Supplier A is uncooperative, especially with new solutions and improvements, which can be seen as a problem when the client tries to be innovative or create more efficient processes. However at the instance of delivery changes, or when goods are backordered (normal range or campaign) they act strongly to resolve the issue. Other typical problems that often occur are technical and often have to do with Supplier A's IT system. Supplier A controls their own shops and assortment and therefore the client feels that Supplier A treats them as one of their own in aspects of assortment and planograms.

The client isn't the only player in the convenience store industry that uses Supplier A; competitor 1, competitor 2, competitor 3 and competitor 4, also use Supplier A. But, suppliers A also deliver to their own stores. High volume of purchased products gives a big momentum of buying prices and many customers sharing Supplier A's logistic flow lower the transportation cost for supplier A, thus lowering the price for the customer.

#### **4.4.2 Supplier B**

Supplier B is a logistic provider with customers mainly within the restaurant industry. Supplier B operates as a full service provider; hence after the customer has decided what to purchase Supplier B manage suppliers, by taking over the contract, procure the goods, handling pre-freight, warehousing and distribution plus customer service and reclaims. But, Supplier B is not like Supplier A in the sense of being a wholesaler as they only purchase for the customer. Thus, purchasing only what they been told to do. Supplier B also delivers to other restaurants, coffee bars, hotels, other convenient stores, bakery stores, and caterings for hospitals, airlines and events.

The client's supplier E uses Supplier B to distribute the salad bar, which according to the category managers worked out good in relation to the old solution Supplier A provided. Currently, 40 of the client's convenient store have this salad bar. Supplier B has one big customer whereto they deliver products and this customer has at least one of the client's stores nearby, which makes joint deliveries more convenient. The procurement for their customers is managed through forecasts that propose actual delivery for each store. Supplier B's has three distribution centers, distributing products six to seven days a week to their customers, usually two to three deliveries per week.

#### **4.4.3 Supplier C**

Supplier C is a wholesaler that mainly focus on snacks, beverages and candy. They have six wholesalers around Sweden with nationwide distribution. The client does not use supplier C today, but is a potential new supplier for the client. Supplier C operates their own store concept, a similar convenient store to the client except non-food like car products.

According to the interviewees at Supplier C, the technological solutions are similar to Supplier A, using e-commerce, hand scanners or apps to order refinements for the store. They also offer services as optimize the assortment range, build planograms and distributions for their customers. Supplier C stresses that they want to be proactive, trying to please their customers by being flexible. They have no problem to take in products from others or making exclusive assortment for their customers. Supplier C does not differ between small and big customers and adapts wants and needs to each individual customer. Furthermore, Supplier C values cooperation and shared goals and explained that their focus is to create a win-win situation for each customer.

Supplier C's six distribution centers have around 2500 fixed articles, but up to 8000-9000 articles depending on different center and location. They have both local and nationwide retail chain customers. Supplier C sale staff include of 40 people, and the customers gets both contact persons nationwide and for every store to get a local presence.

#### **4.4.4 Supplier D**

Today Supplier D is one of the leading wholesaler with specialties within fresh food. Supplier D has 900 employees and are represented at seven different places around Sweden, the cities are Stockholm, Gothenburg, Karlstad, Malmö, Helsingborg, Sundsvall and Västerås. Their regional warehouses contain fresh food centers and are complemented with a central warehouse in Strängnäs. Their total amount of articles within food, beverage, non-food and equipment are approximately 31 000, however pharmaceuticals and flowers are still missing from the assortment. Before the client moved to supplier A was supplier D the client's wholesaler. Thus, there is a relationship between the client and supplier D already.

Furthermore, the technical solutions are similar to what Supplier A offers today like hand scanners connected to e-store. The total amount of customers is 15000, spread nationwide and according to the interviewees at Supplier D will the client be around top 10 customers regarding size. Supplier D mention that they want to get away from the original way of wholesaling and work close to their customers and strengthen the focus on relation and cooperation in order to have a strong foundation to build on.

## 5 Analysis

*In this chapter the empirical data will be analyzed. The existing relation will be analyzed and compared to the three scenarios, moving supply chain services, moving categories and replacing the current relationship.*

Table 10 refreshes the structure of the analysis. Which research question and scenarios that will be analyzed together. The structure will be Sc 0, A, B, C.

	Sc 0	Sc A	Sc B	Sc C
RQ1	---	Possible opportunities for change; Distribution, warehouse and planogram	Possible opportunities for change; Fastfood, Kiosk, Beverage, Food.	Possible opportunities for change; Supplier B, C D
RQ2	---	Impact and consequences for supplier relationships if moving services	Impact and consequences for supplier relationships if moving categories	Impact and consequences for supplier relationships if replacing supplier A
RQ3	---	Impacts on clients purchasing performance if moving services	Impacts on clients purchasing performance if moving categories	Impacts on clients purchasing performance if replacing supplier A

*Table 10. Grid with research questions and scenarios.*

### 5.1 The existing relation with supplier A

In this section Scenario 0 (Status quo) will be described. The current state and which things that can be done differently when it comes to services and categories are presented.

#### 5.1.1 Offer

Supplier A is the main supplier/wholesaler of goods for all the client's convenient stores today. Supplier A provides the client with several other services like warehousing, distribution and planograms on top of being a wholesaler. Thus, supplier A offer a bundle of several generic services that together creates a unique offer. O'Brien (2014) claims that bundling increases the degree of dependency as firms tend to think that no one else offers the same solution. The client perceives and handles Supplier A as a strategic supplier, but Supplier A perceives the client as a less strategic customer. Companies tend to think that their solution is unique and suited only for them, but often are these solutions offered to similar actors as well (O'Brien, 2014). Supplier A has several other customers with different size (spend) than the client and they receive the same offer. On one hand, Supplier A lowers the

price of purchasing and distribution due to high volumes and increasing dropping points but on the other hand, the assortment range will be similar for all customers and the focus on each buying firm decreases.

### **5.1.2 Relation**

The degree of involvement in this relationship differs due to that the client perceives Supplier A as a strategic supplier while Supplier A treats the client as less strategic. The client is just one customer among others. According to Gadde & Håkansson (2010), one way to decrease the involvement in a relationship is to be independent of a specific supplier. Usually the supplier firm has higher dependency of the buying firm than vice versa. The client is more involved in Supplier A than what supplier A is involved in the client.

The power distribution is one of the main reasons why the client feels dependent on Supplier A, but also because of the bundling with the warehousing, logistics and goods. Even if the relationship between supplier A and the client is deep and seems to be working there are some problem with development for effectiveness and improvements for the client. According to Vitasek & Manrodt (2012) the approach “I-win-You-lose” can be used in situations like this, due to that Supplier A do things for their own benefit instead of cooperating.

The Food Manager revealed in one interview that Supplier A doesn't pay as much attention to the client as the client preferred but supplier A has never complained about having the client as a customer. However, earlier in the relationship was the client in the developmental box, but now when supplier A put less effort and attention to the client is the client in the exploitable box of the preference matrix. Being in the exploitable box can be described as low attractiveness but enough spend to be maintained customer. The client still is one of Supplier A's smaller “big” customers where the spend is high.

### **5.1.3 Purchasing performance**

According to Nair et al (2015) and Parmenter (2010), kpi's are important factors for success and competitive advantages. There is no measurement of the relationship between Supplier A and the client today. Kearney (2013) claims that you have to be the supplier's choice of customer in order to get your supplier to be proactive. Being Supplier A's choice of customer on the other hand, will be difficult for the client. Either growing the spend or trying to find any shared interest and goals, in order to work for each other instead of against each other.

This is what Kearney (2013) Vitasek & Manrodt (2012) mention that communication is one of the first ways to bring up problems in order to start improving the relationship. They mention that cooperate and invest in each other's interests and success is preferable over doing what is best for them. This type of behavior would probably increase Supplier A's involvement and should affect the relationship positively, making the client move into the developable box and increasing the attractiveness. If not doing something to increase Supplier A's involvement, the relation would just be maintained as described above.

## 5.2 Scenario A - Move supply chain services

This scenario includes moving services from supplier A to other potential suppliers. The services are distribution, warehousing and planogram.

### 5.2.1 Distribution

#### *Impact and consequences for supplier relationships*

The logistic service is one of the main services that Supplier A offers today, and according to O'Brien (2014) the size of the spend has big impact on the preference matrix. Thus, making the client more valuable for Supplier A. Furthermore, the supply chain is complex due to several criteria's that has to be fulfilled in order to change service provider. A convenient store has plenty of different categories in the assortment and some of the categories need to be delivered frozen, cold or dry. This makes deliveries more complicated, as these products are preferably delivered together. The logistical provider, Supplier B, offers this solution and they deliver to approximately 40 convenient stores today for Supplier E.

Due to that Supplier A's services are bundled today the client-Supplier A relationship is deep. However losing this service to another actor can either move the client into the stressful phase due to no value and no attractiveness. As mentioned before, the distribution service is a valuable service and will therefore affect Supplier A. Replacing distribution result in that all deliveries to the clients stores disappear for Supplier A. It would probably raise the total delivery cost for Supplier A. Thus, replacing with another provider would not strengthen the relationship with Supplier A. According to Gadde et al (2010) and O'Brien (2014), this kind of solution would lower the involvement and decrease the dependency.

The relation with Supplier B, who the client already use through Supplier E, will be affected positively, by increasing the amount of delivery points with approximately 150 percent. That size of increase would put the client in the development phase, as it is attractive for Supplier B, but not so valuable. This is due to the spend on only distribution is quite low compared to Supplier B's other customers.

#### *Impacts on clients purchasing performance*

Buying services and products from one actor often entail better prices due to higher volumes, but the dependency increases as well. According to O'Brien (2014) there are risks with bundling as the offer seems unique and creates the feeling that the supplier is the only one with this solution. If the logistical service is moved away from Supplier A, the loss from the distribution can be spread out on other services and goods, thus increasing the cost in order to balance the finance. As the client purchase all goods and services from one company today with Supplier A, which entails Supplier A to spread cost in-house in order to lower prices. According to Jonsson & Mattson (2011), mixed loading and route planning to more than one receiver are not unusual within distribution as it lower the total cost. Thus, if the distribution is removed from Supplier A, the price for their logistic may increase, and possibility resulting in price reduction of certain goods eliminates. Thus resulting that the goods will become more expensive than before.

According to Van Weele (2012), indirect costs appear between two parties in a relationship. The indirect cost will most likely affect the change of a service provider, as there are many hidden costs, e.g. initial problems and delivery problems etc. However, the cost of using only one logistic provider instead of two would most likely lower the price as 40 stores get one delivery instead of two.

One advantage of this is the decreasing degree of dependency to Supplier A. According to Kraljic (1983) and O'Brien (2014) the power balance can change when other possibilities appear, e.g. if the client let Supplier B handle the distribution instead of Supplier A, the power balance might move towards the clients benefit. However, according to Gadde & Håkansson (2010) playing a supplier against other suppliers is not preferred in an ongoing relationship, as it tends to decrease the trust and cooperation between the parties.

## 5.2.2 Warehousing

### *Impact and consequences for supplier relationships*

The second most important Supplier A-service is warehousing of additional goods. According to Van Weele (2012) a wholesaler gather a broad range of different goods for their customers. This is a vital part for the customers as they find most of the goods at the same place. Supplier A offers the service of buying and storing additional goods outside their assortment in order to gather everything for the distribution. There are three potential actors for the warehouse service that can replace Supplier A service; Supplier B, Supplier C or Supplier D.

According to interviews with Supplier B, Supplier C and Supplier D all of them can handle the additional warehousing. However one can argue if storing additional goods at one place and buying the rest from the current wholesaler is necessary. Wholesaling and warehousing services are generic, but they fit well together and should be bundled. Supplier B is the only actor that offers a completely different solution while Supplier C and Supplier D are more similar to Supplier A's solution today. According to O'Brien (2014) moving a service or a category of this size will affect the relationship.

The impact of moving warehousing to Supplier B would have similar effects as moving the logistics as Supplier B reach out to around 100 convenient stores instead of today's 40. However only moving the additional warehousing to Supplier B, Supplier C or Supplier D without the wholesale or the distribution would put the client in the stressful box in all relationships. Gadde et al. (2010) mention that suppliers with low involvement will be handled with one arm's length relationship. Thus, the relationships with Supplier C, Supplier D or Supplier B would not be much deeper than an arm length's relation. This due to the small amount of products handled, on the other hand, the chances of getting these three actors handling this service without distribution are slightly low. One can also argue how the cost of not gathering all goods at the same place will affect the logistical solution when the number of loading points increases.

### *Impacts on clients purchasing performance*

Changing warehousing will not affect the client's purchase performance drastically. This service seems to be small and needs to be bundled together with other services in order to make impact on the parties involved. Nair et al. (2015) and Van Weele (2012) argue about costs and risks regarding purchase performance when dealing with suppliers as miscommunication and deliveries can emerge. It may be so that the situation of changing provider becomes more expensive than staying with Supplier A, thus extra administration for both the client and the new actor. The client will also be a relatively small customer due to the additional goods, with low volumes and would not be one of the mentioned suppliers top priorities. The client might consider making Supplier B handle all additional goods, however without moving the logistic solution to Supplier B, narrowing down the range of additional products to 40 convenient stores, like the delivery for Supplier E today.

### **5.2.3 Planogram**

#### *Impacts and consequences on purchasing performance and supplier relationships*

The planogram changes three times per year to maximize the selling in stores. However these changes are not too extensive and three times per year is barely noticeable. There are changes when new best selling products turns up and others are moved away. One can argue that this service not will affect the purchasing situation, as the assortment will be similar to the competitors. According to O'Brien (2014), generic services and goods bundled when they can be matched together. The planogram service is bundled and would benefit from further being bundled due to the low involvement it demands. However it might be good to handle this service in-house instead of outsourcing it too. Figures needed for the planogram is gathered in-house and it opens for changes according to the client's wishes.

Moving this service would affect Supplier A slightly due to the small amount of yearly changes. This service is however more powerful with the bundling than on its own. By moving this service in-house the client will enhance control, however it will lead to administrative cost for finding new employees and teaching them the process.

## **5.3 Scenario B - Replace categories**

This scenario includes moving only one category from Supplier A to other suppliers. The categories dealt with are Fastfood, kiosk, cold beverages and food.

### **5.3.1 Category 1: Fastfood**

This category could be moved to Supplier C or Supplier D because they both offer a wide assortment range. Fastfood include coffee, bake off and hot dogs, the three most profitable subcategories within this category. The Fastfood category is shared between different suppliers today and both coffee and hot dogs are stored as additional goods and distributed by Supplier A. Fastfood represent 30 percent of the total scorecard. Supplier C or D would not benefit much from this change due to that this category is spread between different suppliers. However, if the client chooses to gather everything at Supplier C or Supplier D, this would make a bigger impact.



### 5.3.2 Category 2: Kiosk

This category could be moved to Supplier C or D due to that the assortment range is wide. The Kiosk category includes candy and ice cream, the two most profitable subcategories within this category today. The category Kiosk represents 15 percent of the total scorecard. This category will impact the new suppliers relationship positive as everything can be moved from Supplier A to Supplier C or Supplier D directly.

### 5.3.3 Category 3: Cold beverages

This category could be moved to Supplier C or Supplier D due to their wide assortment range. Cold beverages include all the cold beverages and this category is profitable due to its popularity. Energy drinks like red bull and sodas are the most profitable. Cold beverages represent 15 percent of the total scorecard. This category will impact the new supplier relationship positive as everything can be moved from Supplier A to Supplier C or Supplier D directly.

### 5.3.4 Category 4: Food

This category could be moved due to that Supplier C and Supplier D offer a wide assortment range. Food is the least profitable of the four categories. Food represents four percent of the total scorecard. However the subcategory dairy is big within this category with 50 percent of the total 5 percent. The manager of the category food mentioned that only 50 percent of the dairy is distributed through Supplier A, the rest through Supplier F directly.

#### *Impacts and consequences on purchasing performance and supplier relationships*

Each category has similar impact on the supplier relation with Supplier A. It is either low or no impact on the client-Supplier A relationship due to that the categories aren't big enough compared to other customers. However, moving out more than one category can have a negative impact as more goods disappear from Supplier A.

Moving categories to new suppliers without distribution results in that Supplier A would deliver as usual which not lower the dependency and all categories require distribution in order to be delivered to each of the client's stores. Moving categories from Supplier A results in increasing numbers of distribution channels and according to Jonsson and Mattson (2011), situations like this will enhance more transportation with less degree of filled trucks.

Distribution is both costly and time consuming for the client. The cost would probably be higher since there would be dual freight, one for each category but also for the other categories outside the limit of this thesis. From a distribution view, this can be seen as unnecessary (Van Weele, 2012). The client will pay a higher freight per item because of that one category will disappear, that otherwise would extend the total freight cost. The cost will increase due to that something is taken away from Supplier A, and the total cost is divided on a smaller amount of products.

One other solution that has not been presented yet is to use Supplier B and find different suppliers for everything included in every category. This is however one solution that will be mentioned more in scenario C.

## **5.4 Scenario C - Replace supplier A**

This scenario covers the part where the contract with Supplier A is eliminated and replaced with one of the other available suppliers. This means moving both all services and categories from Supplier A to Supplier B, Supplier C or Supplier D.

### **5.4.1 Supplier B**

Supplier B is one of the actors that offer a solution different from the others. Supplier B will take care of procurement, warehousing and distribution but the client has to handle the main contact with the all sub suppliers. The buying process is different from the one with Supplier A due to that the client has to handle the relationships with all suppliers, instead of letting Supplier A gather the goods. According to Van Weele (2012), situations like this can be problematic as suppliers might decide that only wholesaler or big customers can buy from them in order to increase the volume and minimize the risk. This might impact the clients purchasing due to that some of the supplier may refuse to sell directly to the client due to that the buying volume is too low.

#### *Impact and consequences for supplier relationships*

The relationship with Supplier B will be at medium involvement. On one hand, the client has to handle the relation with Supplier B, but on the other hand, the client has to handle the contact with all suppliers too. Supplier B offer both procurement and distribution, thus the dependence to Supplier B is lower than for the other overall solutions presented in this study. Regarding O'Brien's (2014) preference matrix and the supplier relationship, the client will if the spend is high enough, be in the core box, otherwise high up in the development box due to Supplier B's other big customers. According to Jonsson & Mattson (2011) companies strive to find the optimal degree of filling when loading, but also to find the optimal route for the transportation. Thus, combining Supplier B's share from Supplier E with the rest of the client's supplier distribution would be advantageous.

This solution demands a more extensive sourcing strategy due to the emerging supplier base. O'Brien (2014), Kraljic (1983) and Van Weele (2012) points out that sourcing strategies are important in order to success within purchasing, thus a bigger supplier base needs more strategies in order to manage all relations. When more supplier relations are created, that may come in different shapes depending on volume and power balance between the client and the new individual supplier. This is also the only scenario where Kraljic's portfolio model is useful due to the ability to buy from more than one supplier instead of buying everything from a wholesaler.

Regarding the Supplier A relationship, due to that the purchasing of all services and goods are moved away from Supplier A the relation should decrease in terms of attractiveness and

value, which may damage the relation. Supplier A's offer would not be used any more, thus affecting this particular relationship negative.

Furthermore, an emerging supplier base demands more administration according to Van Weele (2012), however the degree of dependency and proximity decreases (Gadde et al, 2010). This creates arm's length relations with many suppliers and deeper relations with few important and strategic suppliers. Strategic suppliers can be needed for deals and cooperation towards the end customer. Van Weele (2012) claims that wholesalers buy large volumes distributed on several customers in order to lower the risk, which can be bad for the client as they only buy for themselves in this scenario.

#### *Impacts on clients purchasing performance*

Van Weele (2012) mention the wide assortment range wholesaler has. The wholesalers manage to have a broad range of different goods due to that the risk is spread over all customers. However the upside is that the client can choose which suppliers they want and can make a unique assortment range instead of having almost the same as their competitors. According to one of the category managers this is a problem as several brands have new flavors etc., which make it hard to buy correct amount. One example of that is the huge amount of Loka flavors; it is difficult and complex to buy, as you don't know if the new flavors would replace the original ones for example. However, Supplier B solves the replenishment for other customers throughout forecast, which can be different than the current solution with hand scanners. But, they need to have to some kind of data available in order to make these forecasts.

There are risks with replacing a supplier. According to Van Weele (2012) and Nair et al. (2015) indirect costs can occur due to problems with e.g. deliveries and miscommunication. However, the fact that this relationship can be developed from the beginning with good cooperation and shared interest in each other's business can lead to positive changes and would possibly overcome the supplier change cost in the long term (Vitasek & Manrodt, 2012; Kearney, 2013). Regarding the long term, this kind of solutions would result in higher prices regarding purchasing, due to the decreasing volumes and according to Van Weele (2012) this leads to higher administration cost when maintaining the bigger supplier base.

#### **5.4.2 Supplier C**

Supplier C is one of the actors who can take both all categories, even those categories outside the limitation, and the services, thus replacing Supplier A. Supplier C's focus today is mainly snacks, beverages and candy but they want to grow at other categories too. However, today's assortment range is not enough for the client, but Supplier C clarifies that they can manage to make it broader and adjust it towards the client's wishes.

#### *Impact and consequences for supplier relationships*

O'Brien (2014) and Gadde et al. (2010) measure involvement, dependency and value for the supplier. When the relationship with Supplier A is interrupted and replaced it will be changed from medium involvement and high dependency to none involvement and dependency. The

relationship with Supplier C on the other hand will be changed and make bigger impact. The client would be Supplier C's biggest customer, thus putting the client into the core box of the preference matrix. According to O'Brien (2014), high value and high attractiveness is what defines the core box. Resulting in a deeper relation with high involvement and it will have a big impact on Supplier C. But, the dependency on one specific supplier remains due to that the change to supplier C is of the same nature as the present with Supplier A, however Prahinski & Benton (2003) argue that it is not a problem as strategic suppliers are important for a firm.

#### *Impacts on clients purchasing performance*

There is a risk in this scenario as well regarding replacing Supplier A. According to Nair et al. (2015) indirect cost will appear due to appearing problems. However this solution is more similar to Supplier A's, which would make the shift easier than changing to Supplier B. Supplier C wants to be perceived as a supplier that adapt to every customer and during the interview, Supplier C said that the assortment range could be adjusted to the clients wants and needs.

Moreover, Supplier C values cooperation and shared goals and explained that their focus is to create a win-win situation for each customer. Gadde et al. (2010) states that an attitude like win-win is one thing that characterizes deep relationships and according to Vitasek & Manrodt (2012) that state of mind is important when a two-way relationship with reciprocal engagement is on the board. This could be a start on a new relation with shared interest and high engagement.

Supplier C cannot compete with Supplier A's low prices, so the question is if this approach can last in the long term. According to Kearney (2013) a firm should never only focus on decreasing prices as it often leads to business challenges and reducing the competitiveness. Hence, instead valuing a long-term relationship with an actor can be more valuable than cutting prices.

#### **5.4.3 Supplier D**

Supplier D is a wholesaler that can replace Supplier A. Supplier D have been a supplier to the client earlier, and is therefore more explored than Supplier C and Supplier B. Supplier D are also the biggest wholesaler after Supplier A, with a big number of different customers.

#### *Impact and consequences for supplier relationships*

The relation to Supplier A goes from high dependency and relatively high involvement to no dependency and low involvement when Supplier D replaces Supplier A. The relation to Supplier D on the other hand will change remarkably as the client will be a top 10 customer, thus moving the client to the core position in the preference matrix. Top 10 at Supplier D in relation to today's top 5 at Supplier A can't be compared. Supplier A's top 5 customers are much bigger than Supplier D's top 10, which make top 10 at Supplier D better than top 5 at Supplier A.

In this scenario the high dependency to the supplier will remain and the involvement for Supplier D will be high, thus affecting Supplier D, as one big customer like the client with intention to cooperate demands much energy.

#### *Impacts on clients purchasing performance*

Similar to the other scenarios it is risky to move everything to a new relation, but due to the similar working process as Supplier A's the shift to Supplier D would be less big and risky compared to Supplier B. Supplier D stated that they value cooperation and shared goals, but they were also curious about the future strategies according to the interview. Thus, it was important to understand the plans for the future in order to see if they could offer anything to the client. Furthermore, supplier D believes in close cooperation, but also that communication and dedication leads to win-win for both parties. That is what Vitasek & Manrodt (2012) points out in their article, it is important that the relation is a two way street, with mutual involvement.

The client will be top 10 of the biggest customers and with a deep relation to Supplier D where the attitude seems right. Even in this solution can be a new start for the relationship, with high interest and involvement to each other. But, it is important not to put Supplier A's price advantage against Supplier D without measuring the soft value as well, during the procurement of a contract. According to the interviewees at Supplier D the price difference is often what differs from each other. Kearney (2013) also states that companies should not only focus on lowering prices due to that it often results in business difficulties and that the ability to compete decreases in the long term. Valuing a long-term relationship can therefore be more worth than cutting prices. In other words, if the cooperation were tight and functional it would most certainly give synergy effects in the long term that would be bigger than what you lose from the short-term price reduction.

## 5.5 Analysis summary

Table 10 presents the outcome of each research question for all scenarios.

	Sc 0	Sc A	Sc B	Sc C
<b>RQ1: What possible opportunities for change?</b>	Offers wholesaling, distribution, warehousing and planogram	Moving distribution, warehousing and planogram	Moving categories	Replacing Supplier A with other potential suppliers
<b>RQ2: Impact and consequences for the client's supplier relationships?</b>	Strategic for the client, not for the supplier	Moving distribution is most affective for both new and current suppliers	No big impacts without moving all categories	Decreasing relationship with supplier A and increasing with new potential suppliers
<b>RQ3 Impact on the client's purchasing performance?</b>	Cost of distribution and goods are low.	Improve the distribution but also making it effective	More administration and more distribution channels	More cooperation, going with supplier B enables own assortment

Table 10. Grid summarizing the result of the analysis.

Moving only the distribution service would impact both the client's purchase performance and the new service provider mainly due to that the effectiveness of the supply chain increases, but also that a huge amount of workload will be available for the new logistic provider. Supplier B already has 40 out of around 100 stores today. The relationship with Supplier A is going to deteriorate due to that the distribution was the most valuable offer. Thus, they will lose all deliveries to the client's stores. If distribution were replaced, it would enable replacing the additional warehousing of goods too. But this is only possible if the supplier B reaches around 100 convenient stores.

Moving categories in scenario B demands distribution too, as buying from other actors but letting Supplier A take care of the distribution is worse than buying from Supplier A from the beginning. It is however possible to use other actors for distribution but that increases the amount of different distribution channels for each store. Moreover, it would be a logistical

issue if the client still use supplier A for distribution but choose to buy any category outside, especially if the category is available at supplier A from the beginning. Thus, the client is still dependent on supplier A. But, moving only one category won't impact the clients purchase performance or change the relationship with new or current suppliers. The big impacts appear when all categories are moved together, which can be found in scenario C, moving both categories and services to one of the three proposed suppliers.

As the client has around 100 convenient stores, the complexity of not having a solution like the present with Supplier A, wholesaler or distribution center, would be ineffective and even hard to solve. Even if all suppliers can offer distribution across the country, the number of deliveries to each store must be high in order to get a spread on the assortment. Thus, scenario C and Scenario 0 are the scenarios worth highlighting together, but the distribution service can be moved away too. However, moving only distribution will result in less attractiveness for the client as a customer for any wholesaling actor. Thus, the remaining solution is to either completely replace supplier A or stay with them.

In the end, supplier B offer a different solution, but both supplier C's and Supplier D's offer are similar to supplier A's. Supplier C's offer has big potential but is the more risky choice as the client will be their biggest customer, thus demanding much attention and that they have not yet introduced the assortment needed for the client. Supplier D on the other hand has previously been the client's wholesaler and has big potential. Furthermore, both supplier C and supplier D has the attitude of cooperation and win-win, which is one of the cornerstones for a deep involvement relationship.

## 6 Discussion

*In this chapter the analysis part of the report will be discussed. The discussion is divided into two parts, managing supplier relationships and changing supplier relationships. The first part discusses how the client would handle the suppliers and the second part the impacts of changing supplier.*

### 6.1 Managing supplier relationships

Managing supplier relation deals with how the supplier relation should be handled. Thus, the degree of dependency, the power balances between the parties and whether focusing on price or cooperation will be discussed.

#### 6.1.1 Dependency

As mentioned in 3.1.2, when the dependency is too high, the buying firm needs to do something to change the situation (van Weele, 2012). Gadde et al. (2010) claims that dependency on one supplier increases transaction uncertainty and one way to prevent uncertainty are to rely on a number of alternative suppliers. Thus, it is arguable that dependency is a problem for the client. Dependency could also be good for the client when working closely with a supplier. That however requires the supplier to be equally dependent on the client as well.

In this case the client is more dependent on supplier A than what supplier A is on the client, thus supplier A is perceived as a strategic supplier for the client. This is based on the client's spend in relation to Supplier A's other customers spend. When a firm's spend is small the firm feel like they are treated differently than the other bigger customers.

On one hand, there is an opportunity to replace Supplier A with supplier B, C or D but on the other hand, the relationship with Supplier A is functional today. However, a new relation would bring deepness and cooperation from the beginning and also changing supplier would probably entail new solutions and a more responsive attitude than the current relationship.

#### 6.1.2 Power balance

The power balance lies with Supplier A and it might be hard to convince them to see the client as a strategic partner. The client has to choose between buying from Supplier A and try to develop the relationship further or cooperate with some of the other mentioned suppliers instead. A new relationship entails the opportunity to focus on developing other dimensions of a relationship from the beginning. We argue that this is a matter of invest for short or long term.

The client can continue to buy from supplier A, but due to the bad power balance and the dependency problem between them would it be a possibility to begin a new relationship with high potential. However, the latter alternative is risky, but can pay off and leverage the situation in the long term.



### **6.1.3 Price focus or cooperation**

Kearney (2013) mention in his study that cooperation leads to competitiveness against the competition, due to that a well known supplier can increase the effectiveness. But, in short term when the client has to get to know the new supplier many things can get less effective.

We also want to mention the importance of thinking further than the actual price per goods. This is a factor that applies to almost every interviewed supplier. Other suppliers face difficulties when competing with Supplier A regarding the price. The hard factor, price, usually determine who will win the procurement/contract. Kearney (2013) claims that focusing on decreasing price is negative as it leads to business challenges and less competitiveness. Thus, trying to see which soft values, as cooperation and right attitude can benefit the profit instead of just minimizing the price.

Moreover, a well-known, stable cooperative relation can be more valuable than the focus on price in the long term. A deep supplier relation with increased cooperation can prevent or solve problems before or during they occur, because that is their concern too. Furthermore, the supplier could be introduced early to development of processes but also to improve processes together with the client for optimal change. The trade-off between price and cooperation is however not tangible, therefore it is difficult to measure. But, when gathering data and creating kpi's can measure the difference in order to see if the change were a success or not.

We need to argue that if the client choose to stay at Supplier A, but thinking in terms of moving out some services or categories is a bad idea. To threaten a supplier with other suppliers that seems more dependent to the client will result in a lower price but also less trust and would not improving the relationship.

## **6.2 Changing supplier relationships**

Changing supplier relation deals with how a buying firm can change suppliers, thus discussion bundling of services and goods, how to purchase goods and services and the risks changing supplier.

### **6.2.1 Bundling**

Bundling contributes to high dependency, but it's worth discussing if high dependency is good or bad for a company. The bundling of goods and services creates a convenient feeling due to that everything is handled by the same actor, but it also increases the dependency. This case shows that high dependency occurs when bundling, but when moving distribution the dependency decreases. But, we do not think that the client need to lower the dependency, there is a great need of more involvement and better communication from the supplier. The analysis rather shows that the client has to get the supplier to be dependent on the client too.

Furthermore, bundling contributes to a more effective supply chain as managing wholesaling, warehouse and distribution together, at the same location results in less transportation and administration.

Coming back to Gadde et al., (2010) that presents three different perspectives on relationships, market mechanism, dependent on vital few but independent on trivial many and interdependence. The client has to decide whether they want to be independent to their suppliers or try to manage them dependent so they become important for both parties. The market mechanism perspective and to be dependent on vital few can be compared to separating the bundling into single generic services bought from several different providers. Distribution is one generic services that often are outsourced to other parties. The distribution service can also be outsourced in this situation. But bundling does not necessarily have to be negative for the client, rather more comfortable. Bundling also enhances the relationship due to that the supplier is more interested in your company and creating a more cooperative relation instead of having many small relationships.

### **6.2.2 Purchasing**

Furthermore, the client has to figure out what way of organizing purchasing they want. Either use wholesalers or direct contact with each supplier. The third scenario deals with this as using supplier B enhances the control of the assortment and which suppliers they prefer to use. However, high control results in more administration. We argue that this is one of the most complex solutions presented, however both today's overall distribution in this business area decreases and the firm's profile can be changed with a different assortment range than their competitors.

If the problem with Supplier A is that the client doesn't get as much attention as desired, one solution that were stated before, is to replace them with an actor with fewer big customers. But, there are risks with changing supplier, for example indirect costs and errors that will occur, but also to be sure that the new supplier can handle everything, e.g. Supplier C states that they value all customers no matter of size and that they adapt to each customer's interest. The client will become one of the biggest customers, which may put pressure on them. Especially when Supplier C's strive for cooperation and the attitude is pointed at win-win.

### **6.2.3 Risks**

This sounds promising for the client as they have an opportunity to build a new relationship with cooperation and trust from the beginning. But once again, how long can Supplier C deal with pleasing the client's size? Supplier C's assortment is not suited for today, which also will be seen as a risk, can they manage it? Supplier D on the other hand has an old relation to the client and has proven that they can manage a convenient store chain before.

As mentioned in 3.1.1, the category management is about reducing the supply chain risk and increases the chains effectiveness. The client wants to develop new solutions, but in order to develop new solutions that will affect the supply chain it is of importance to have someone who wants the same. This can be a problem if the client chooses to stay with Supplier A.

In the end, the client has to decide how much changes there are willing to make in order to impact the big picture. The client's stores have a turnover is a small share of the total turnover. This includes everything that relates to the stores. The client's categories spend is

quite small compared in comparison to the stores turnover. The change of supplier could impact big, but could also damage the whole firm as well. There is a risk that the change of supplier can make less effort than staying with the current one. There is also one other aspect of this situation, as almost all of the stores are owned by franchise it is extremely important to offer a solution that makes them stay with the client.

## **7 Conclusion - Go big or go home**

*This chapter describes the important findings identified in order to fulfill the aim of the report. The aim was divided into three research questions however the first research question had the intention to map existing and potential suppliers and was answered in the empirical chapter, hence it will not be treated here. Answers to both the second and the third research question will be presented here.*

The aim of this thesis is to investigate ways of lowering the dependency towards the client's suppliers and to obtain better service and prices. Moreover, the thesis is a preliminary investigation of possible opportunities regarding increasing the purchase performance. The purpose is not to answer what the client should do. However, several directions can be pointed out to help the client decide which way they want to go.

First, the analysis showed that various outcomes regarding impact and consequences for the client's supplier relationships. However, the most powerful consequences and impacts for both the current supplier relationship and new possible relationship were moving the distribution or replacing the current supplier with one of the new suppliers presented. Moving only one selected category without services or vice versa will only have a small or no impact at all. Secondly, the analysis showed that there were various outcomes regarding the client's purchase performance. Changing the distribution or replacing the current supplier are the scenarios that will have the most impact on the purchase performance.

The recommendation for the client is therefore to GO BIG OR GO HOME. If there is no interest in changing supplier for the long term both regarding relation and leverage the purchase performance, go back to Supplier A. It will demand much energy and it will be hard to convince them that the client is a strategic customer. The alternative is to go big and replace them with a new supplier with the right attitude. This approach will probably develop the purchasing performance and also be facilitating for future goals for the client. Furthermore, it is also recommended for the client to rethink their situation and try to find what they value when handling with suppliers.

This case shows that it can be problematic to change suppliers when a buying company isn't satisfied enough with the existing ones. There are always risks with changing to potential suppliers, as they are new untested relationships. But, leaving a problematic supplier relation where the power is very negative for the buying company is not easy. The analysis shows that leaving or replacing parts of the total offer can have a negative impact on existing relationships. Furthermore, dependency between two companies is not necessarily bad as long as both firms are equally dependent on each other.

The conclusion, based on this particular case is that it is important to have and evaluate purchasing strategies, but the strategies has to be well thought out as it will affect other relationships and impact on the purchasing performance.

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