MASTER THESIS

SUPPLIER DEVELOPMENT WITHIN DYADIC RELATIONSHIPS IN THE SWEDISH FURNITURE RETAIL INDUSTRY

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Executive Summary

Globalization and associated economic changes have led to a lot of opportunities and hazards that companies are facing. Especially the increased role of customer demands and the interconnected shift from seller markets to buyer markets were the driving factors and incentives for the research work of this Master Thesis. One quite new strategy that companies tend to apply in order to meet the occurring challenges is supplier development. By reason of the actuality of this topic, it was of high worth to investigate, especially when it comes to the lack of theoretical findings about challenges, difficulties and problems. Therefore, the main objective of this thesis was to find out which problems can occur in the process of supplier development, and how they can be solved. Hereby, the focus was laid on the furniture retail industry, as it is one of the fastest growing sectors in Sweden. For the empirical research the retailers Ikea and Mio were selected, because they play a very important role within the Swedish furniture retail industry due to the fact that they are the two biggest when it comes to market shares. Furthermore, the suppliers Bitc Möbel AB, Lundbergs Möbler and AB Wilo were chosen in order to examine their dyadic relationship with Mio. For the purpose of investigating the supplier development within the dyadic relationship of Ikea and its supplier, Bodilsen a/s was interviewed.

Almost during the whole research of this thesis a lack of knowledge occurred. It was noticed that only few references exist regarding this topic, therefore the objective of this thesis was to attach importance to this issue, illustrate further problem areas and possible solutions. Hereby, a conceptual model was created that served as a basis for the empirical part. After collecting empirical data, a close analysis was accomplished. In the end, suggestions for companies to improve their supplier development were made and a final model was generated in order to illustrate the results of the study.

The Swedish furniture retail industry is exposed to a strong price pressure and stress of competition, which makes it necessary to improve companies’ performance in order to withstand the competition and to succeed in the end. Its proximity to end
customers makes a continuous product development necessary, which can only be successful when working closely together with manufacturers. Therefore, deploying supplier development is a recommendable strategy, but one should be aware of challenges that can occur. The results of this thesis provide support for the improvement of supplier development, especially when it comes to problem areas and correspondent solutions within dyadic relationships.

Supplier development is an up-to-date topic and plays a crucial role within the fast changing business environment. It was chosen to raise the reader’s interest and to give an insight into current economic developments. The Swedish furniture retail industry turned out to be very interesting for the topic of this Master Thesis. Finally, there is nothing more to say than: ‘Enjoy the trip through the Swedish furniture industry!’
Acknowledgement

This Master Thesis has been established on researches based on scientific standards and rules, which resulted in profound outcomes and cognitions for our studies of economics. Working in accordance with scientific methods provided us with credent and tenable results due to the appropriate researches that have been assured. The support of many people have enriched the quality of this Master Thesis and made it possible to accomplish it on a competent level.

At this point, we would like to take the opportunity to express our gratitude to individuals whose support has been of vital value for the success of this Master Thesis.

First of all, we would like to thank our tutor, Petra Andersson, for all the consultancy and guidance from the very beginning of our research. She gave us essential advices and suggestions in order to improve our thesis step-by-step to a higher level with the purpose to create an interesting and conclusive research work.

Furthermore, we would like to express our gratitude to our examiner, Helena Forslund, who gave us substantial feedback and counsels during the seminars, so that we were able to increase the accuracy of our research.

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Last but not least, we would like to express our deep gratitude to our interviewees from Mio, namely Mr. Kenneth Eriksson, purchasing manager, who provided us besides the interview, with contact persons from Mio’s three suppliers, from AB Wilo Mr. Peter Füst, managing director, from Bitc Möbel AB Mr. Per Lind, financial manager and from Lundbergs Möbler Mr. Stefan Lundberg, managing director and of
the owners. Furthermore, we would like to thank Ms. Carina Stjernkvist, purchasing strategist of Ikea and additionally to Mr. Henrik Kudsk Jakobsen, assistant key account manager of Bodilsen a/s, Ikea’s supplier. They added a vital value to our research work by providing us with relevant and substantial information during personal interviews as well as during telephone interviews. We thank them for taking time and effort in order to support our research with their knowledge and experiences.

In the following we are proud to present our readers our Master Thesis and we hope that they will enjoy the reading.

Växjö, May 2006

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Gesa Behrens  Canan Celik  Amra Kemura
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<th>Description</th>
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<tr>
<td>AB</td>
<td>Swedish: Aktiebolag; English: Corporation</td>
</tr>
<tr>
<td>a/s</td>
<td>Danish: Aktieselskaber; English: Corporation</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of South-East Asian Nations</td>
</tr>
<tr>
<td>EDI</td>
<td>Electronic Data Interchange</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>Inc.</td>
<td>Incorporation</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>IWAY</td>
<td>Ikea Way of Purchasing</td>
</tr>
<tr>
<td>JCI</td>
<td>Johnson Controls Inc.</td>
</tr>
<tr>
<td>n/a</td>
<td>not applicable</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>United States of America</td>
</tr>
<tr>
<td>VMI</td>
<td>Vendor Managed Inventory</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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1 Introduction

The first chapter of this Master Thesis provides the reader with an overview of the ongoing globalization process with its affects on companies’ performance on the world market. Furthermore, it illustrates how the competitive challenges lead to new business strategies such as supplier development. This topic is problemized in the course of this chapter and a research question is formulated correspondingly to the objectives of this research work.

1.1 Background

Globalization as a challenge of today’s economy makes companies facing a lot of important opportunities but also hazards. Developments such as founding the World Trade Organization (WTO), creation of international economic agreements (e.g. North American Free Trade Agreement (NAFTA), Association of South-East Asian Nations Free Trade Agreement (ASEAN), European Union (EU) etc.) and trade deregulations led to the coalesce of national markets to a global market. As a consequence of the globalization process, companies are expanding their supply and sales markets while searching for enhanced economic terms and conditions. Advantages expected by companies from the global market are mainly concerned with cost, quality, delivery and performance issues.¹

Ever growing pressures due to internationalization of the markets make it difficult for companies to stay competitive or even to survive. In addition, there is an obvious tendency of shifting from seller markets to buyer markets in today’s economies whereby customer demands are playing an increasingly important role.² In times of short product life cycles, new technologies and the innovation pressure, customers are more and more demanding. They are expecting the right product at the right place at the right time and to the right price with the right quality. In order to fulfill these requirements, companies are increasingly taking global sourcing as a favorable

¹ Leenders, M. R., et al., 2002, pp. 542-543
² Moore, T. G., 2001, p. 23
opportunity to search for suppliers worldwide into consideration. In this context it is of huge importance for companies to be aware of their core competencies and non core competencies which might be even more difficult than the companies could expect.³

Apparently, there is an increasing tendency towards focusing on core competencies whereby global sourcing is considered for non core competencies. In this context, there are several possibilities such as outsourcing of business processes to a supplier, different kinds of co-operation with external partners, purchasing of products from the global market etc. When it comes to purchasing products from suppliers, buying companies are expecting their suppliers to perform according to their requirements.⁴

However, there are certain occasions where requirements of the buying company can change for example in case of new product developments, opening up of new markets or unsatisfactory supplier performance. Dependent on the situation, companies are facing in general four possibilities which they have to cope with, namely producing products internally which are core competencies, sourcing in products which have been transferred to external suppliers, searching new suppliers or finally improving existing supplier’s performances.⁵

The performance of current suppliers needs to be monitored permanently in order to ensure the fulfillment of requirements. Nevertheless, new suppliers should be prospected so that new potentials can be considered for future projects.⁶ It is product specific which way a company chooses, but according to cost considerations sometimes it is more reasonable to search for or switch to new suppliers when it comes to non strategic products. On the other side, it seems to be more advantageous to improve an existing supplier’s performance for innovative products.⁷

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⁵ Ibid.
There is an obvious tendency of the so called supplier development activity.\(^8\) In literature the term supplier development is defined as:

“…any effort of a buying firm with its supplier(s) to increase the performance and/or capabilities of the supplier and meet the buying firm's short- and/or long-term supply needs.”\(^9\)

Through supplier development, it is possible for the buying company to act in a more proactive way and thus improve the relationship with its supplier. As opposed to a limited buyer's involvement in the business processes of its supplier, a long-term and highly collaborative relationship can be founded through their co-operation during the supplier development process.\(^10\)

1.2 Problemizing

Under today’s economic conditions buyer-supplier-connections as a form of dyadic relationship are gaining increasingly in importance. This is primarily caused by the necessity to transfer activities, resources as well as responsibilities for decision making to suppliers, who are more and more expected to deliver whole package solutions instead of single products or activities. Thereby, both sides tend to create a long-term relationship based on trust and commitment. Suppliers are more often seen as a valued and integral factor for companies' long-term success.\(^11\) Supplier development as a long-term business strategy includes the idea of having similar interests and goals. This means that needs and capabilities have to be communicated between buying and supplying companies very clearly. Hereby, the aim is to create a win-win relationship for both sides. Since creating such a win-win relationship requires more efforts, mutual admissions and compromises on both sides, it is very important for companies to be aware of the opportunities and threats with which companies are confronted within the scope of supplier development.

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\(^8\) Institute of Management & Administration, 2005, p. 1
\(^9\) Krause, D. R., Ellram, L. M., 1997, p. 21
\(^10\) Cox, A., 2004, p. 349
\(^11\) Cerasale, M., Stone, M., 2004, pp. 151-152
activities. Nevertheless, the number of companies applying supplier development programs is increasing. The future perspective shows that by 2008 about 70% of the companies will employ supplier development activities.\textsuperscript{12} Some of the reasons are the early payback and the continuous improvement of sales figures.\textsuperscript{13}

In the course of globalization and its effects, companies are not only focusing on their domestic markets, but also looking out for possible suppliers worldwide. Through global sourcing, companies expect to benefit especially from cost savings, quality products and faster delivery and continuity of supply caused by tough competition between various suppliers. In some cases desired products and resources are not available on the domestic market so that the companies do not have any other possibility than to purchase from the global market, e.g. bamboos for furniture and other accessories.\textsuperscript{14} Even if companies are not participating in the international market directly, they are still influenced by the globalization effects through other supply chain members.

In the last decades it was especially interesting to see how countries such as Sweden were facing important changes in their international trade. Due to its relatively small domestic market and several crises which affected the whole world economy, Swedish companies were also increasingly forced to cross the domestic boarders and search for alternative suppliers and business partners worldwide.\textsuperscript{15} In the beginning, there was a tendency of co-operations between Scandinavian countries, but nowadays Sweden is expanding its export and import activities to a global level. In the meantime, the Swedish industry is known worldwide through their most famous global players: Volvo in the automotive industry and Ikea in the furniture industry. The research field of this Master Thesis is set on the Swedish furniture retail industry since it is one of the fast growing sectors in this country. This is illustrated by increasing export and import figures. Hereby, Sweden’s exports were approximately

\textsuperscript{12} Institute of Management & Administration, 2005, p. 1  
\textsuperscript{13} Nelson, D., 2004, p. 111  
\textsuperscript{14} Leenders, M. R., et al., 2002, pp. 548-549  
\textsuperscript{15} http://www.smorgasbord.se/smorgasbord/industry/dev/, 07.03.2006
8 percent higher in 2005 than in the previous year and imports also increased by 5 percent.\textsuperscript{16} The fastest changes and developments on the furniture market were observed in the last 15 years as – like in the most industries – a switch from trading between Scandinavian countries to the global market took place. Swedish furniture retailers are reasoning these developments with arguments such as minor variety or unavailability of suppliers due to the limited market size, impossibility of domestic suppliers’ performance to fulfill fast changing requirements because of high innovation pressure or inability of suppliers to deliver due to already existing contract terms and bindings with competitors.\textsuperscript{17}

The above mentioned developments and changes in recent years indicate that it is very challenging for companies to create a reliable supply base. Companies have recognized that partnering with suppliers can lead to significant competitive advantages when it comes to improve their supply chain performance. In this context, early supplier involvement within a dyadic relationship in company’s business processes is playing an increasingly important role. Companies tend to include their suppliers already in product development in order to reach best results and make it noticeable in company’s bottom line. There is also a tendency to support suppliers with technologies, resources and know how within the process of supplier development.\textsuperscript{18}

When it comes to dyadic partnerships between buyers and suppliers, there are different perspectives which can be observed as e.g. support and development of supplier’s skills and competences, communication between the two parties, power dimension within the relationship etc. When it comes to the development of suppliers’ skills and competences, it can regard to communication between a company as a buyer and its supplier, but also to technologies used in this dyadic relationship, collaboration and other dimensions. Nevertheless, technical solutions will not be

\textsuperscript{16} http://holz.fordaq.com/fordaq/news/Swedish_furniture_industry_2643.html?MemberLang=De, 07.03.2006
\textsuperscript{17} Eriksson, K., Purchasing Manager at MIO, 06.03.2006
\textsuperscript{18} Handfield, R. B., et al., 2000, p. 38
subject of this research as the main focus will be laid on the improvement of companies' business processes as supplier development itself.

Since supplier development is a quite new issue in today's economy, there seem to be some differences between theoretical findings and practical appliances. Therefore, further investigations in this area appear as necessary in order to provide an enhanced contribution to the existing theory. In addition, there seems to be a lack of knowledge in theory when it comes to any kind of difficulty or problem during the supplier development process. Companies are expecting a lot of advantages, but their fears and possible problems which might occur connected to knowledge transfer, data security, free access to strictly internal information etc. need to be taken into consideration very carefully.\(^{19}\) It is questionable whether these problems and concerns are justified and how they can be solved or avoided by minimizing the risks at the same time.

### 1.3 Problem Formulation

The above discussion leads to the following research questions of this Master Thesis:

> Which are the potential problem areas of Supplier Development within dyadic relationships in the Swedish furniture retail industry?

> Which possible solutions for these problem areas can be found in order to improve Supplier Development?

\(^{19}\) Nelson, D., 2004, p. 110
1.4 Objectives

The main objective of this Master Thesis is divided into two parts in order to find out which problems can occur in the process of supplier development, with the focus on the Swedish furniture retail industry, and how they can be solved. The precondition is to see how the supplier development process is performed in a dyadic relationship. This course of action will make it possible to solve the problems of the companies selected and to improve their supplier development process in the end.
2 Methodology

The methodology chapter depicts different methods that can be used within scientific studies and it emphasizes those used within the scope of this Master Thesis. More precisely, the selection of the scientific approach and credibility are reasoned. The data collection consists of a theoretical as well as empirical part and ends with a time schedule. An overview is presented at the end of this chapter, which summarizes the methodology.

2.1 Scientific Approach

The scientific approach of this Master Thesis emerges from several perspectives, which are presented in the following in order to foster the readers’ access to this research work. The several scientific perspectives can be categorized into four different approaches:

- Deductive versus Inductive Approach
- Hermeneutic versus Positivistic Approach
- Quantitative versus Qualitative Approach
- Research Strategy

The description of these four approaches will enlighten the complexity of the research methodology and adduct the reader to the applied approaches in this thesis.

2.1.1 Deductive versus Inductive Approach

An important decision, concerning a scientific methodology basis, is the decision between the deductive and inductive approach. The outstanding difference is the starting point of both of them. While the deductive research explores existing theories and ends in testing hypotheses, the inductive approach starts from the opposite direction, which means that real-world data, experiences and observations are figured out and then new theories are emerged from this empirical data. The
The combination of these two methods is called abductive, which is not considered as further model.\textsuperscript{20}

“Deductive reasoning [is] an inference in which the conclusion about particulars follows necessarily from general theory. In science, deductive reasoning would involve stating a hypothesis first, and then trying to find facts that reject the hypothesis.”\textsuperscript{21}

“Inductive reasoning [is] the process of observing data, recognizing patterns, and making generalizations from the observations; reasoning from particular facts to a general conclusion.”\textsuperscript{22}

Concerning the research methodology of this Master Thesis, the deductive approach is considered as the appropriate access. First of all, this can be reasoned by the fact that the starting point of this research work is the investigation in existing theories regarding supplier development strategies. A further reason for approaching the research field of this thesis deductively is given by the fact that it continues with the observation and evaluation of the practical appliances of supplier development efforts. After exploring the theoretical and practical facts, the research on the supplier development subject results in developing a new model in this research field. Hence, it is appropriate to constitute the approach of this Master Thesis as a deductive one, since it explores existing theories and ends in testing hypotheses.

2.1.2 Hermeneutic versus Positivistic Approach

A further category of scientific approaches is depicted by the hermeneutic and positivistic approach. In order to differentiate these two perspectives, one can say that the hermeneutic angle concentrates on understanding and interpretation by emphasising subjectivity, whereas the positivistic angle consists more on descriptions

\textsuperscript{20} Gummesson, E., 2000, pp. 63-64
\textsuperscript{21} http://www8.nos.noaa.gov/coris_glossary/index.aspx?letter=d, 22.03.2006
\textsuperscript{22} http://www8.nos.noaa.gov/coris_glossary/index.aspx?letter=i, 22.03.2006
and explanations by searching for objectivity, which furthermore a deductive aspect within this approach.\textsuperscript{23}

Within the framework of this thesis the positivistic research method is used. This is dispositional to the fact that the deductive approach is used in the theoretical part, which is based on descriptions and explanations of theories. In addition, in order to guarantee objectivity, a clear distinction between facts and value judgements is maintained in the theory chapter and subjective interpretations are avoided in order to remain neutral and finally positivistic.\textsuperscript{24}

2.1.3 Qualitative versus Quantitative Approach

When it comes to data collection there are two different methods to employ. One of them is the qualitative approach to data collection. Hereby, the term qualitative approach depicts a narrative-oriented research where the focus is on how persons understand and interpret information.\textsuperscript{25} The other method is the quantitative approach, where the emphasis lays on statistically and mathematically measurable data.\textsuperscript{26}

Regarding this thesis the qualitative approach is considered as the proper method to employ. Within the scope of this Master Thesis, descriptions and explanations of theoretical as well as of empirical facts concerning supplier development are presented and discussed and furthermore the analyzing part evaluates the information from the theoretical and practical findings.

2.1.4 Research Strategy

For scientific data collection and analysis five different research strategies are available that differ from each other by “… the type of research question posed, ...

\footnotesize\textsuperscript{23} Gummesson, E., 2000, p. 178
\footnotesize\textsuperscript{24} Ibid.
\footnotesize\textsuperscript{25} http://en.wikipedia.org/wiki/Qualitative_method, 22.03.2006
\footnotesize\textsuperscript{26} http://en.wikipedia.org/wiki/Quantitative_method, 22.03.2006
the extent of control an investigator has over actual behavioral events, and ... the
degree of focus on contemporary ... events”

- Experiment
- Survey
- Archival Analysis
- History
- Case Study

Exerting the experiment research strategy investigators measure the causal effects
on response variables when the treatment variables are changed. This is done as
close to reality as possible and a focus on contemporary events is laid. Kinds of
experiments are the time series experiment, the pretest-posttest control group design
and equivalent material design, to name only some examples.

The investigators of a survey analyze attitudes, beliefs, behavior and the
environment of people. This strategy is often used for the researches of political and
economic attitudes. Forwarded questionnaires, personal and telephone interviews
are often used in order to identify important variables, to increase understanding and
even to add value to already existing theory. Comparable to the experiment the
survey also focuses on contemporary events.

When the archival analysis strategy is deployed, investigators utilize already existing
data archives. Sources such as historical documents, journals, articles, annual
reports of companies etc. serve the analyses. As those secondary data resources
can be recent as well as old, it is possible that the focus is both on contemporary
events and not on contemporary events.

27 Yin, R. K., 2003, p. 5
30 Yin, R. K., 2003, p. 5
31 Smith, M., 2003, p. 142
32 Yin, R. K., 2003, p. 5
The history approach never has its focus on contemporary events as it examines the past. No relevant person can be interviewed by the investigators, as contemporary witnesses are already dead, which means that there is nearly no access or control to actual behavioral events. The only sources that are mainly used to answer the relevant “how” and “why” research questions are documents as well as cultural and physical artifacts.33

Finally, the case study “… investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”34 A single person, a group, a system, a process etc. is described and analyzed within this research strategy. In order to find out how anything works and to acquire those parameters affecting the outcome, the investigators’ course of action is very detailed.35

This Master Thesis approaches the research field of supplier development in the Swedish furniture industry as a case study. This means that the research strategy is concentrated on the comprehension of the present dynamics within single setting.36 The term single setting can be referred to the given fact that this study deals with a certain number of companies within the Swedish furniture industry. Another typical feature of the case study approach is the combination of different data collection methods like e.g. theoretical sources, questionnaires and interviews.37 Projecting this procedure onto the Master Thesis, the case study approach becomes obvious. Entering the issue of supplier development from case study perspective makes it possible to provide the reader with descriptions of existing theories, facilitates the testing of practical appliances of theory and enables the novel contribution to theory.38

33 Yin, R. K., 2003, p. 7
34 Ibid., p. 13
36 Eisenhardt, K. M., 1989, p. 534
37 Ibid.
38 Ibid., p. 535
2.2 Scientific Credibility

For the evaluation of relevant data within an academic work scientific credibility is inevitable, therefore the following paragraph will present essential elements regarding the credibility of this Master Thesis.

Scientific credibility implies two basic perspectives, namely reliability and validity. It is important to distinguish between those two perspectives since reliability refers to constant weight measuring. In addition, a measure can be reliable without being valid, but not vice versa.\textsuperscript{39}

2.2.1 Reliability

Reliability aims to minimize measurement failures as well as research prejudices in the course of a scientific study.\textsuperscript{40} Consistent measurement results shall be reached, regardless who is investigating and how often the study is accomplished.\textsuperscript{41} This means that “... if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusion.”\textsuperscript{42}

The reliability of this Master Thesis is obtained due to its mainly descriptive and explanatory character. Theoretical findings are quoted as those and empirical data can be researched in co-operation with the respective companies. To the use of similar questions in company interviews, data becomes comparable and reliability is increased.

\textsuperscript{39} Graziano, A. M., Raulin, M. L., 2004, pp. 90-91
\textsuperscript{40} Yin, R. K., 2003, p. 37
\textsuperscript{41} Gummesson, E., 2000, p. 91
\textsuperscript{42} Yin, R. K., 2003, p. 37
2.2.2 Validity

Validity refers to “… the extent to which researchers are able to use their method to study what they had sought to study …”\(^{43}\) Moreover, validity is divided into the following three different categories:

- Construct Validity
- Internal Validity
- External Validity

Construct validity can be defined as the “extent to which an operationalization measures the concept which it purports to measure.”\(^{44}\) High construct validity can be achieved by deploying a “… multiple source of evidence, in a manner encouraging convergent lines of inquiry …”\(^{45}\)

The use of several different sources for instance books, articles, journals and internet sources ensures the construct validity of the theoretical part of this Master Thesis. Validity is also given for analyses within the empirical chapter as they are based upon questionnaires and interviews. The scientific soundness of this thesis is guaranteed by utilizing the profound knowledge and consolidated findings out of literature, questionnaires and interviews of competent scientists and experts.

The focus of internal validity is on the causality of independent and dependent variables.\(^{46}\) It is only adequate for explanatory or causal studies, which are occupied with making causal propositions. As this Master Thesis is a descriptive and exploratory study, the relevance of internal validity is not given.

\(^{43}\) Gummesson, E., 2000, p. 91
\(^{44}\) Thietart, R.-A. et al., 2001, p. 198
\(^{45}\) Yin, R. K., 2003, p. 36
External validity is given, when the results of a study can be generalized beyond the research context.\textsuperscript{47} In the scope of this Master Thesis only a limited number of companies is interviewed, which can not guarantee external validity for the whole furniture retail industry.

2.3 Data Collection

Accomplishing a qualified fundament for the scientific credibility depends strongly on how reliable the data input is. The necessary data can be collected in different ways and generally there are two vantage points, namely the desk and the field research. While the first one employs existing written material the second one functions with survey techniques in order to acquire empirical data.\textsuperscript{48}

2.3.1 Theoretical Data Collection

Theoretical data for this thesis is based on previous studies and on several sources like books, articles, journals, and the Internet. The Växjö University Library is the main source for books, articles and journals especially due to its possibilities of ordering books from different universities through LIBRIS and downloading electronic books and articles through ebrary and ELIN. Furthermore, the value of this thesis is dependent on the novelty of its topic. To put it in other words, the subject of supplier development is more or less a new area with high degree of actuality. Therefore articles, journals as well as the relevant and reliable Internet data bases provide the most up-to-date information concerning this research field. Hereby, the keywords for Internet research were: supplier development, supplier development process and practices, problem areas and solutions within supplier development, dyadic relationships, buyer-supplier relationships, Swedish furniture retail industry etc. In this context the topic of this Master Thesis is investigated in terms of actual developments and changes in today’s economic world. The first insight into the selected companies was also gained through their websites on the Internet.

\textsuperscript{47} Yin, R. K., 2003, p. 37
\textsuperscript{48} Gummesson, E., 2000, p. 35
2.3.2 Empirical Data Collection

Creating a profound empirical research requires first of all the co-operation of selected companies. In order to get in contact with companies from the Swedish furniture industry, several telephone calls have been made and applications have been sent with the purpose to provide the companies with a clear picture of the research field of the thesis. Parallel to telephone calls, e-mails have been sent with deeper information about the topic.

The selected companies for this research were Mio and its suppliers, Bitc Möbel AB, Lundbergs Möbler and AB Wilo, as well as Ikea and its supplier Bodilsen a/s. During the company selection process, the focus was laid on Mio and its suppliers as they do not apply supplier development as long as Ikea. Therefore, it was obvious that there is more need for improvement in the case of Mio, especially when it comes to potential problem areas and corresponding solutions within the process. In addition, Ikea applies its supplier development process on all its key suppliers in a very similar way, so that Bodilsen a/s can be seen as a representative for all Ikea’s suppliers.

After getting in contact with responsible managers by phone or mail, questionnaires have been sent, which have served as a guideline for the interviews. They have only provided a frame for the meetings with the managers, but have left them the opportunity to skip or enlarge certain questions. This made it possible for the interviewees to go more into depth on certain issues. In order to be able to compare the answers, identical questionnaires have been sent to the buying companies, which have been adapted for the suppliers later on. In this context, non-standardized semi-structured questionnaires provided the most appropriate form.

According to the questionnaires and personal and telephone interviews, theoretical findings were examined in order to find out about their practical appliances. As different answers and other empirical data were received from the selected companies, it is not possible for the results of this Master Thesis to be generalized for the whole furniture retail industry. The following table provides an overview of the population, i.e. the selected companies, buyers and their suppliers, as well as their location, interviewees, their positions, types and dates of the held interviews.
Table 1: Selected Companies for the Empirical Study

Source: Own creation

2.3.3 Time Schedule

In the following, each research step within the scope of the thesis is illustrated in order to respectively present the needed period of time. Thereby, this creates the time frame for this Master Thesis:
2.4 Summary of Methodology

The following overview pictures the selected proper methods and procedures that are used in this Master Thesis. The choice of methodology is a composition of different approaches, which are bounded to each other logically and create together the scientific foundation of this thesis.

<table>
<thead>
<tr>
<th>General Methodology</th>
<th>Thesis Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific Approach</td>
<td>Deductive</td>
</tr>
<tr>
<td>Scientific Credibility</td>
<td>Positivistic</td>
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<tr>
<td>Theoretical Data Collection</td>
<td>Qualitative</td>
</tr>
<tr>
<td>Empirical Data Collection</td>
<td>Case Study</td>
</tr>
<tr>
<td></td>
<td>Reliability, Construct Validity</td>
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<tr>
<td></td>
<td>Theoretical Data Collection</td>
</tr>
<tr>
<td></td>
<td>Books, Journals, Articles, Internet</td>
</tr>
<tr>
<td></td>
<td>Empirical Data Collection</td>
</tr>
<tr>
<td></td>
<td>Questionnaire, Interview, Internet</td>
</tr>
</tbody>
</table>

Table 2: Summary of Methodology
Source: Own creation
3 Theory

The third chapter of this Master Thesis introduces the Swedish furniture industry and dyadic relationships between buyers and their suppliers. Furthermore, the process of the supplier development is discussed in order to find out which the potential problem areas in this context are and which the possible solutions are. This chapter ends with a conceptual model, which is based on the theoretical findings.

3.1 Selected Research Areas

According to the topic of this Master Thesis and in order to answer the research question, different research areas need to be investigated and discussed within the theory chapter. The following figure serves as a basic theoretical framework for the subsequent procedure.

![Selected Research Areas Diagram]

Figure 2: Selected Research Areas
Source: Own creation
3.2 Swedish Furniture Industry

In the end of the 19th century Sweden seemed to be a slow starter regarding its industrial development, but its breakthrough to the scene was at the right moment as other European countries were increasingly demanding from the international market. Consequently, this made it possible for Sweden to increase the value of its industrial production by 150 percent in the period from 1895 to 1914, whereby the production itself doubled. However, Sweden was facing a lot of difficulties since then, like e.g. deep recession after the First World War, the depression and devaluation of the national currency in the beginning of the 1930s or the oil crisis in 1973, inflation etc. In the past, there was a tendency of co-operations only between Scandinavian countries. But due to the limited size of its domestic market and opening up of new markets worldwide, Sweden was increasingly crossing its national borders and taking advantage of the ongoing globalization process. Thus, Sweden developed to a strongly industrialized country with a free enterprise economy and its companies such as Ikea are world famous global players today.\(^{49}\)

Accordingly, the Swedish furniture industry also developed toward the global acting trend. New markets worldwide and consequently new opportunities were considered by the Swedish companies as a great opportunity to extend their national selling and buying market in order to increase the demand for their end products and to look for potential partners and suppliers in other countries. The best example of this development is again delivered by Ikea, which is buying needed components from 1,300 suppliers in 53 countries and selling its end products worldwide, too.\(^{50}\) Nevertheless, other Swedish companies, which are acting in the furniture industry, are also taking advantage of the globalization process and extending their markets increasingly. Due to the increased domestic consumption, but also ever growing exports of these companies, a breakthrough for the Swedish furniture production was finally possible after not really favorable period in the beginning of the 21st century. Statistical data show that there is a constant increase of the production, as well as of

\(^{49}\) http://www.smorgasbord.se/smorgasbord/industry/dev/, 26.03.2006  
\(^{50}\) http://www.ikea.com/ms/de_DE/about_ikea/facts_figures/factsfigures05.pdf, 25.03.2006
Sweden’s export and import figures. Thus, the export rate was eight percent higher in 2005 than in the previous year and imports also increased by 5 percent. The estimated total amount of Sweden’s exports was SEK 12.6 billion in 2005.

Sweden’s most important export markets for furniture and furniture parts are Norway, Denmark, Belgium and Germany which represent only few out of approximately 100 countries all over the world. Sweden imports mainly from Germany, Thailand, Poland, Portugal, Italy, Denmark etc. Hereby, there is a tendency of increasing imports of furniture and furniture parts from the former East European block countries such as Poland and the Baltic states.

In addition to many advantages of the global sourcing and opening up of new markets, there are many different factors which force the Swedish imports and exports. The main reasons for the imports are due to the limited size of the domestic market and no availability of suppliers for special products or components. The price also plays an important role in this context. Domestic suppliers are often not able to deliver products to the prices as low as in other countries like e.g. in Eastern Europe or Asia. Another reason for global sourcing is the limited capacity, which companies are facing e.g. in a boom year. Therefore, they are mainly forced to import from abroad. The focus on high quality in the Swedish furniture industry is quite obvious and results mostly from the efforts made by the ‘Swedish Furniture Research Industry’, which is actively working on quality standards for all kinds of furniture. This institute also awards the tested furniture with a seal of approval called Möbelfakta. Due to this strong focus on quality, Swedish companies also expect their suppliers to fulfill their quality requirements. Additionally to price and quality, another important aspect are dependable deliveries as the Swedish industry applies the just-in-time principle, through which the buffer-stocks should be minimized. Therefore, on-time
deliveries are expected from the suppliers in order to transfer the components directly to the production line.\textsuperscript{54}

An important issue to mention regarding the Swedish furniture industry is that this industry is especially famous worldwide due to its focus on the extraordinary design. This was even honored by the Swedish government by pronouncing 2005 as a ‘Year of Design’ (Designåret 2005). Hereby, the goal was to attract attention of as many people as possible to the growing importance of design and its potential benefits for the society. This idea was initiated by the world’s oldest design association called Svensk Form (Swedish Society of Crafts and Design) founded in 1845 and the Swedish Industrial Design Foundation.\textsuperscript{55} Today, Sweden can be proud of its many famous furniture designers like e.g. Prof. Bruno Mathsson, who invented an ergonomically designed stool.\textsuperscript{56} He is only one of many designers in Sweden, who make their country famous for its high qualitative and extraordinary designed furniture.

As there was an obvious growth in the past, the Swedish furniture industry’s foresight is quite positive. Demand for the Swedish products will keep increasing due to their famous Scandinavian design and high quality. Additionally, demand of the Swedish companies for parts and components of high quality, appropriate price and reliable delivery will also increase and create a great opportunity for many suppliers worldwide to co-operate with Swedish companies.\textsuperscript{57}

\section*{3.3 Dyadic Relationships within Supplier Development}

The ever-growing economic pressures on the global market are forcing today’s companies to reinvent their business activities according to new challenges on the supply and sales market. In order to remain competitive and moreover to gain extensive economic advantages, more and more companies are willing to collaborate

\textsuperscript{54} http://www.hondurasembassy.se/furnipart.pdf, 25.03.2006  
\textsuperscript{55} http://www.sweden.se, 25.03.2006  
\textsuperscript{56} http://www.supportstool.co.uk/index.htm, 26.03.2006  
\textsuperscript{57} http://www.hondurasembassy.se/furnipart.pdf, 25.03.2006
with other companies.\textsuperscript{58} In this regard, collaboration describes a co-operation strategy between companies with the aim of achieving a common goal,\textsuperscript{59} such as cost minimization, market growth and future sales and profits.\textsuperscript{60} Since companies are facing an increasing complexity of business activities, they become aware of the need to coordinate their work more efficiently in terms of cost reductions and minimized work duplication. Therefore, particularly companies of one supply chain are establishing relationships with their supply chain partners to an extended degree.\textsuperscript{61} Today’s business environment has made this kind of relationships indispensable for companies, which want to resist the global competition. Consequently, managers recognized in recent years that building tighter relationships with supply chain partners will contribute to their own company’s business performance considerably and therefore the focus is more and more laid on collaborative efforts. The aim of collaboration between the partners is to create value-added processes in order to become more responsive for the demand on the markets.\textsuperscript{62}

Especially when it comes to dyadic relationships between buying companies and its suppliers, it is worth mentioning that there is an obvious trend towards creating long-term co-operative relationships. Buying companies are developing so called dyadic relationships particularly with critical suppliers in order to maintain a reliable supply base.\textsuperscript{63} A dyadic relationship can be referred as

“A relationship between two interacting and mutually influencing organizational entities.”\textsuperscript{64}

\begin{flushleft}
\textsuperscript{58} Bititci, U. S., et al., 2004, p. 255  \\
\textsuperscript{59} http://www.marketingpower.com/mg-dictionary-view600.php, 30.03.2006  \\
\textsuperscript{60} Prahinski, C., Benton, W. C., 2004, p. 44  \\
\textsuperscript{61} Forker, L. B., Stannack, P., 2000, p. 37  \\
\textsuperscript{62} Fawcett, S. E., Magnan, G. M., 2004, p. 67  \\
\textsuperscript{63} Prahinski, C., Benton, W. C., 2004, p. 39  \\
\textsuperscript{64} http://www.marketingpower.com/mg-dictionary-view1162.php, 30.03.2006
\end{flushleft}
The dyad between a buying company and its supplier can enhance the performance throughout the whole supply chain, but the more essential issue concerning improved performance of the buying company, is the fact that the company can only be as good as its supplier. This means, the business performance of the buying company is only as strong as its weakest link, which is often the supplier. Only when the dyadic relationship between the buying company and its supplier is based on a common strategy and goal, the benefits of such a relationship can be transferred to the end customers. The performance of the supplier has direct impacts on the buying company’s performance to meet customer requirements. As a result, the buying company will not be able to offer quality products to its end customers without pushing quality responsibility upstream to its supplier.65

Since the consequences of a dyadic relationship can be huge for the buying company as well as for the supplier, both parties have to adjust their expectations from such collaboration. The buyer and supplier have to consider whether their objectives are compatible, like e.g. regarding willingness for continuous performance improvement and contribution to each other’s expertise and competence, with the aim of growing together under the premise of joint goals.66 In this respect, many buying companies are reducing their supply base and are deepening their relationship with the remaining suppliers by collaborating closer with them. For the mutual benefit of this tight relationship, buying companies employ supplier development programs in order to support their suppliers within the dyads. The buying company’s supplier development strategy depicts a method that aims to meet the buyer’s and supplier’s objectives within a win-win relationship. By following such collaborative efforts, the supplier can stay economically developable, the buying company can stay competitive and their relationship remains intact.67

Within the framework of supplier development in dyadic relationships, a high degree of resource commitment from the buying company is required. The buyer has to take

65 Benton, W. C., Maloni, M., 2005, p. 2
66 Bititci, U. S., et al., 2004, p. 253
into account that investments in a supplier might be necessary in order to gain economic advantages on the global market on the long sight. But the buying company should also consider that those investments have to be fully based on the warranty of supplier’s commitment to the relationship. Joint goals and efforts can be seen as evidences for buyer’s and supplier’s commitment to the exchange relationship.\(^6^8\) Furthermore, commitment to the dyad can also be reflected by reciprocal loyalty and confidence in the stability of the long-term relationship between the buyer and its supplier. Indeed, the buying company’s commitment influences the supplier’s commitment positively and vice versa the perception of the supplier’s commitment influences the buyer’s commitment to the supplier.\(^6^9\)

Particularly nowadays, companies are focusing increasingly on their core competencies and outsourcing other activities to suppliers. Thus, the buying company has to be able to rely on its’ suppliers efforts to meet customer requirements. In this regard, trust plays a crucial role when it comes to build a close business relationship. The term trust can be defined as the “…confidence or predictability in another’s behaviour, and confidence in another’s goodwill.”\(^7^0\) In this context, the buying company as well as its supplier has to rely on each other when it comes to meet expectations, fulfill obligations and negotiate fairly. Trust is based generally on three pillars, namely ability, benevolence and integrity of the supply chain partners.\(^7^1\)

Another very important characteristic of dyadic relationships is the power dimension, which generally plays a significant role in the supply chain relationships. It is essential that both partners in the dyad understand each other in all respects in order to avoid the exploitation of the dyadic relationship by the power partner. Otherwise, this will lead to dissension and under performance.\(^7^2\) Additionally, the partners have

\(^6^8\) Wen-li, L., et al., 2003, p. 248  
\(^6^9\) Prahinski, C., Benton, W. C., 2004, p. 42  
\(^7^0\) Bell, G. G., Oppenheimer, R. J., Bastien, A., 2002, p. 66  
\(^7^1\) Ibid., p. 67  
\(^7^2\) Benton, W. C., Meloni, M., 2005, p. 3
to be interested in a win-win relationship that satisfies both sides and motivates for developing the collaboration e.g. by employing supplier development programs.

The creation of a dyad between a buying company and its supplier can have various reasons. The starting point for both parties is the fact that the buying company as well as the supplier are collaborating in a dyadic relationship because of economic advantages. In the following table some major benefits that motivate both parties to collaborate in a dyadic relationship are presented.\(^{73}\)

<table>
<thead>
<tr>
<th>Financial Benefits</th>
<th>Non-financial Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased market shares</td>
<td>Increased product quality</td>
</tr>
<tr>
<td>Increased asset utilization</td>
<td>Reducing the time for product development</td>
</tr>
<tr>
<td>Improved customer service</td>
<td>Improving skills and know-how</td>
</tr>
<tr>
<td>Shared, reduced product development costs</td>
<td>Technological gains</td>
</tr>
<tr>
<td>Minimized risk of product development failure</td>
<td>Faster time-to-market cycle with new products</td>
</tr>
<tr>
<td>Reduced inventory</td>
<td>Focusing on core competencies</td>
</tr>
<tr>
<td>Achieving economies of scale in production</td>
<td>Improving public image</td>
</tr>
<tr>
<td>Reduced cycle times</td>
<td>Increased trust and interdependence</td>
</tr>
<tr>
<td>Efficient use of human resources</td>
<td>Increased sharing of information and ideas</td>
</tr>
</tbody>
</table>

Table 3: Benefits of a Dyadic Relationship

3.4 Supplier Development

In the last years, a rapid and ongoing change in the behavior of buying companies could be observed coming along with increased international competition. Technological improvements, shortened product life cycles as well as changes in customer requirements are influencing intracompany actions. Companies’ focus on their core competencies and efforts to increase competitive advantage, raise their dependency on the supplier performance in respect of product quality, timely delivery and services.\(^{74}\) Therefore, several different possibilities to improve the suppliers’

\(^{73}\) Bititci, U. S., et al., 2004, p. 255
performance are utilized, e.g. the increase of supplier performance goals, providing the supplier with crucial equipment, technologies and in addition investments if necessary. Other possibilities are personnel exchange between the two companies, evaluating supplier performance and awarding supplier’s progresses.\textsuperscript{75}

Contingent on the level of involvement within a buyer-supplier relationship and the level of work scope with the supplier or in the supply chain, there are four basic sourcing options for buyers discussed in literature, which are illustrated in the following Figure 3.\textsuperscript{76}

![Figure 3: The Four Sourcing Options for Buyers](Source: Cox, A., 2004, p. 349)

Sourcing is in the main part based on short-term relationships between the buyer and the supplier, where only limited contractual information is exchanged. The two main non-collaborative approaches are supplier selection and supply chain sourcing,

\textsuperscript{75} Humphrey, P. K., Li, W. L., Chan, L. Y., 2004, p. 132

\textsuperscript{76} Cox, A., 2004, p. 348
which are based on a reactive buyer behavior. The buyer selects its supplier in response to the supplier’s offer on a competitive market. The basis for the buying decision is build by the best available trade-off between functionality and cost for the product or service. By means of the existing competition between the different available suppliers on the market, innovations are constantly generated. This matter of fact reasons the short-term relation as it allows the supplier to test the market again at a later date. Supplier selection and supply chain sourcing differs in the level of work scope. Within the supplier selection approach the buyer selects from currently competent suppliers on the first-tier in the supply chain, whereas the supplier selection within the supply chain sourcing approach is done at each tier throughout the supply chain, which means that it is by far time and resource intensive.\(^{77}\)

In comparison to the reactive sourcing options the supplier development approach is far more proactive and highly collaborative. It is built on a long-term dyadic relationship on the first-tier of the supply chain. In order to increase the functionality and to decrease the costs of ownership for products and services, both buyer and supplier invest in the relationship and create technical bonds. Corporately new products can be developed and further services can be offered, which is not possible within short-term and non-collaborative sourcing options. The collective efforts enable companies to be innovative and one step ahead of competitors. This proactive relationship is based on mutual trust and commitment and includes a greater insight into input costs, margins and production techniques on the buying as well as on the supplying side. Commonly, supplier development is conducted by the buyer, who determines the required objectives for improvement, but it is also possible, that buyer and supplier manage the supplier development process together. Of course, the supplier development approach is much more cost and resource intensive than supplier selection and supply chain sourcing, particularly as in addition to expenses for search, selection and negotiation costs for development accrue.\(^{78}\)

\(^{77}\) Cox, A., 2004, p. 349
\(^{78}\) ibid.
The supply chain management approach is comparable to supplier development as the same proactive actions are taken. The only difference is again the level of work source that extends through all levels of the supply chain including raw materials as well as end products and services of first-tier suppliers.

The consciousness of how important supplier performance is for any company’s competitive advantage leads to an ongoing increase of companies which focus on supplier development.\textsuperscript{79} Supplier development shall not be short-term and tactical, real improvement can only be gained within a long-term buyer-supplier relationship.\textsuperscript{80}

It is important that companies work together in a co-operative and collaborative manner to achieve a win-win situation for both involved parties. In the traditional buyer-supplier relationship a maximizing of shared interests was hardly possible due to the fact that each company tried to obtain only its own objectives in order to increase its benefits. Negotiations on prices as low as possible and price based competitions between suppliers are appropriate examples for conventional relationships.\textsuperscript{81} Seeing the supplier as a partner and not only as the provider of goods improves the value that can be gained when deploying a supplier developing program.

An open exchange of information is necessary in order to gain a reasonable return for both sides within an international competition.\textsuperscript{82} It is important that the information exchange is of a high intensity and not only formal, but also informal, sensitive and confidential. Therefore, a basis of trust and commitment is of high importance. In addition, the supplier development approach is a proactive arrangement of supplier relationships through several divisions of a company in order to improve the collaboration with suppliers and to procure products quicker and for fewer prices.\textsuperscript{83}

\textsuperscript{79} Humphrey, P. K., Li, W. L., Chan, L. Y., 2004, p. 131
\textsuperscript{80} Handfield, R. B., et al., 2000, pp. 38-39
\textsuperscript{81} Beckford, J., 1998, p. 266
\textsuperscript{82} Ibid.
\textsuperscript{83} http://www.bwi.unistuttgart.de/fileadmin/abt6/dokumente/Ringvorlesung/Ringvorlesung_2003_Einfhrungsvortrag_Arnold.pdf, 05.04.2006
The formation of close and long-term relationships facilitates the integration of key functions and activities as well as a structured frame of references. A proactive approach for solving problems and at the same time an appliance of a win-win philosophy supports a continuous process of improvement on both sides within the dyadic relationship.\textsuperscript{84}

In practice companies have special expectations towards the relationship with their suppliers in order to achieve their objectives. Beside the assistance of innovative processes of development and supply, a maximum of reliability with the supply of key products, services, technologies and complete solutions is required. The ideal supplier should be innovative, flexible and proactive as well as customer oriented. In addition, it shall be integrated in the supply chain with faultless and competitive products.\textsuperscript{85}

3.4.1 Supplier Development Drivers

Beside the main objectives of supplier development, namely the improvement of supplier performance, buyer competitive advantage and buyer-supplier relationship, there are further drivers that stimulate companies to implement supplier developing programs. Obviously, supplier development drivers are interrelated with a company’s business goals and its future success in an increasing competitive marketplace. Therefore, it is of high importance to ensure product and service quality as well as the availability of supply throughout the business connection between a buyer and its supplier. Furthermore, it is inevitable to develop innovative products in times of fast changing customer demands and innovation pressure through new technologies that are steadily coming on the market. Shortened product life cycles make it also necessary to improve the cycle of time to market in order to stay competitive. These future determining objectives can be reached through a focus on improving the management of buyer-supplier-relationships, which includes advanced supplier

\textsuperscript{84} http://www.onpulson.de/lexikon/liefenantenentwicklung.htm, 05.04.2006
\textsuperscript{85} http://www.tesa-ag.de/corporate/DEU/company/einkauf/liefen_ent.html, 05.04.2006
development initiatives and programs as well as better coordination and collaboration.\(^{86}\)

For buying companies that are working on the improvement of their suppliers’ development and collaboration one of the top drivers is the pressure to engender year-to-year improvements in the overall performance and quality of suppliers.\(^{87}\) The purpose of lower inventory levels on the one hand and faster order fulfillment cycles on the other hand makes a development and improvement of suppliers capacities and cycle time necessary.\(^{88}\) Furthermore, the supplier’s capabilities and throughput can be developed and improved through a proactive buyer-supplier-relationship.\(^{89}\) Supplier development drivers also include the effort to determine opportunities to remove no-value-adding tasks and costs, which are comprised within the dyadic relationship.\(^{90}\)

Cost reduction pressure, lower inventories, just in time deliveries, changed customer requirements, accelerated order fulfillments and all further efforts in conjunction with globalization have made supply chains more extended, more time-sensitive and even more fragile than ever before.\(^{91}\) This matter of fact leads to yet another supplier development driver, namely risk migration endeavors.\(^{92}\)

Moreover, direct involvement, incentives and enforced competition can be found in literature as supplier development factors. Direct involvement contains actions such as “…formal evaluation of suppliers, supplier certification, site visits, supplier recognition, feedback to suppliers, training, informal evaluation of suppliers, inviting suppliers’ personnel to the firm’s facilities, and verbal or written requests to improve performance.”\(^{93}\) In order to motivate suppliers to improve their performance and to

\(^{86}\) Institute of Management & Administration, 2005, pp. 1, 10
\(^{87}\) Ibid., p. 10
\(^{89}\) Institute of Management & Administration, 2005, p. 10
\(^{90}\) Ibid.
\(^{93}\) Sánchez-Rodríguez, C., Hemsworth, D., Martínez-Lorente, Á. R., 2005, p. 290
collaborate in a successful manner with the buyer, benefits are promised, which is meant by incentives. Enforced competition is created by using several suppliers for each purchased item instead of only two or three.\textsuperscript{94}

3.4.2 Supplier Development Practices

In the case of supplier’s unsatisfying performance, there are different practices which can be applied by the buying company in order to increase the whole success of the supply chain and also its own performance. Some of these practices are supplier evaluation and feedback, supplier recognition, supplier training etc.\textsuperscript{95} These practices mostly differentiate from each other by unequal level of the buyer’s involvement in the supplier development process.\textsuperscript{96} In this context, the complexity of their implementation also plays an important role and should be taken into consideration.\textsuperscript{97} According to literature, there is a possibility of grouping these different supplier development practices under the terms of buyer’s involvement and implementation complexity (i.e. skills, time and resources needed in order to perform an activity successfully) into three sets called constructs in the following, namely basic supplier development, moderate supplier development and advanced supplier development.\textsuperscript{98}

The construct of the basic supplier development is characterized by the most limited buyer’s involvement as well as minimum investment of the company’s resources like i.e. personnel, time and capital. The second construct called moderate supplier development includes middle-rated level of buyer involvement and implementation complexity. Consequently, this construct requires more company’s resources (personnel, time and capital) than the basic supplier development. When it comes to the advanced supplier development, high levels of implementation complexity and buyer’s involvement with its suppliers are required, which consequently implies a

\textsuperscript{94} Sánchez-Rodríguez, C., Hemsworth, D., Martínez-Lorente, Á. R., 2005, p. 290
\textsuperscript{95} Krause, D. R., Ellram, L. M., 1997, p. 25
\textsuperscript{96} Krause, D. R., 1997, pp. 12-13
\textsuperscript{97} Trent, R. J., Monczka, R. M., 1999, p. 930
\textsuperscript{98} Sánchez-Rodríguez, C., Hemsworth, D., Martínez-Lorente, Á. R., 2005, p. 290
greater use of buying company’s resources – personnel, time and capital – than the first two constructs.99

The following table illustrates a summary of different supplier development practices of each construct, i.e. in accordance to their levels of implementation complexity and the required involvement of the buying company:

<table>
<thead>
<tr>
<th>Basic Supplier Development</th>
<th>Moderate Supplier Development</th>
<th>Advanced Supplier Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Evaluation of suppliers’ performance and feedback to suppliers</td>
<td>• Visiting suppliers’ plants</td>
<td>• Training to suppliers</td>
</tr>
<tr>
<td>• Sourcing from a limited number of suppliers</td>
<td>• Awards and approval of supplier’s performance improvements</td>
<td>• Collaboration with supplier</td>
</tr>
<tr>
<td>• Parts standardization</td>
<td>• Collaboration with suppliers in materials improvement</td>
<td>• Involvement of suppliers in the buyer’s new product development process</td>
</tr>
<tr>
<td>• Supplier qualification</td>
<td>• Supplier certification</td>
<td>• Intensive information exchange with suppliers</td>
</tr>
</tbody>
</table>

Table 4: Supplier Development Practices
Source: Adapted from Sánchez-Rodríguez, C., Hemsworth, D., Martínez-Lorente, Á. R., 2005, p. 291

3.4.3 Supplier Development Stages

In literature, seven stages of supplier development are suggested with the aim to answer the question ‘how is supplier development undertaken?’100 These stages are illustrated by the following table:

100 Beckford, J., 1998, p. 266
Table 5: Seven Stages of Supplier Development

<table>
<thead>
<tr>
<th>Stage</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Senior management commitment to supplier development</td>
</tr>
<tr>
<td>2</td>
<td>Audit and evaluation of internal standards</td>
</tr>
<tr>
<td>3</td>
<td>Define and quantify the desirable or necessary changes</td>
</tr>
<tr>
<td>4</td>
<td>Develop agreement with identified suppliers</td>
</tr>
<tr>
<td>5</td>
<td>Form joint teams and develop training programme (if necessary)</td>
</tr>
<tr>
<td>6</td>
<td>Teams define precise objectives, deliverables and timescale</td>
</tr>
<tr>
<td>7</td>
<td>Implement changes and monitor impacts</td>
</tr>
</tbody>
</table>

Source: Adapted from Beckford, J., 1998, p. 266

After a decision to adopt a policy of supplier development is made, the first stage of the supplier development process is crucial for its whole course and success. That means that commitment from the higher management levels is the most decisive factor as they have to provide financial and workforce resources in order to reach the final aim of the whole supplier development process and its outcomes.  

The second stage in this process is to audit and evaluate the internal standards in order to be sure that supplier’s inputs were used to meet the current expectations of the buying company. In the case that the process is unsuccessful due to the internal factors, it is rather improbable that supplier development will be of any help. On the other hand, if the supplier’s performance is to be improved, it is of upmost importance that the buyer can show its need by demonstrating the impact of supplier’s own output.

The third stage of the supplier development process is about defining and quantifying the desirable and necessary changes. In addition to the second stage, this step aims to define the gap between the suppliers’ present performance and their necessary

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102 Ibid.
performance. Therefore, these two stages are very important in order to define the primary outline for the supplier development strategy but also to build a fundament for data recording of supplier’s performance improvement. This will also make it easier for the supplier to meet requirements and standards needed by the buying company.\textsuperscript{103}

After the first three stages, where the basis for approaching suppliers is built and the buying company has gathered all needed information, the next fourth stage deals with developing agreements with selected suppliers. Hereby, it is crucial that both parties need to bring equivalent commitment to the supplier development process and to the performance improvement. This agreement should include the aims and objectives of the process, but also define the benefits which should be delivered as an outcome.\textsuperscript{104}

The fifth stage has its aim to form joint teams, which should deal with the problem solving areas in order to reach the expected benefits of the supplier development process. Contingently, it might be necessary to develop training programs at this stage, so that the process can function effectively. It would be the best to include experts from both parties into the joint teams, so that all relevant functions in both organizations are represented. This is why e.g. also operational staff (accounting staff for costing, statisticians for control measurement etc.) should be involved in addition to product buyers and sellers as they probably have only limited knowledge about problem areas regarding the use of the certain product.\textsuperscript{105}

The sixth stage is considered as the implementation stage, whereby precise objectives, activities and timescales are defined. This is done by the joint teams which should keep in mind the background of the present performance gap.\textsuperscript{106}

\textsuperscript{103} Beckford, J., 1998, pp. 267-268
\textsuperscript{104} Ibid., p. 268
\textsuperscript{105} Ibid.
\textsuperscript{106} Ibid.
The last seventh stage is about implementing needed changes, but also about monitoring the impacts on the expected benefits from both buyer’s and supplier’s perspective. In some cases it might be necessary to involve a supervisory or steering board at this stage, which could be assigned to control the implementation process. In addition, it is to say that the supplier development process cannot be considered as complete at this stage. It is rather to be seen as an ongoing and changing process in order to ensure the continuous performance improvement for both parties.  

3.4.4 Supplier Development Process

According to literature, there is one suggested layout of the supplier development process which includes two factors: need and impact for strategic (long-term) and tactical (short-term) decisions and activities. Correspondingly, this matrix illustrates three different possibilities of the supplier development process. These are: ‘drop everything’, ‘understand supplier capability’ and ‘improve supplier capability’. The following Figure 4 depicts this matrix of the supplier development process and the three stages of the supplier development process are elucidated afterwards.

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In the first case of the rather low buying company’s need and also low short-term impact, the company can consider the possibility to ‘drop everything’ whereby the continuity of supply should be recovered. At this stage, it is essential to perform different activities such as supplier assessment in order to find out its current position and performance weak points where action is needed, actual-target comparison of supplier’s business performance and to make other analyses regarding root cause, quality, lead times etc. In this context, an immediate response is also necessary so that the process can be improved by both parties – buyer and supplier. If the need is rather mediate and also the impact on the buying company, it is critical for the buyer to understand the capability of its supplier. In order to do so, there are several instruments which can be used like e.g. supplier capability planning, as well as other tools such as value stream mapping, six sigma etc. This will allow the buyer to manage supplier’s flexibility constraints, again with the aim of improving the collaboration in the dyadic relationship. The last case is about strategic need and also strategic, long-term impact on the buying company whereby it is essential to
eliminate supplier’s constraints with the goal of improving its capability. For this process, there are also several supplier development tools which can be used like e.g. kaizen for rapid continuous improvement, the concept called 5S which stands for the reference to five Japanese words describing a ‘standardized cleanup’ within an organization, quality tools etc.

In this context, it is also important to take into consideration and see which the desired and expected outputs of the supplier development process are. The following table shows a list of representative and desired supplier development outcomes assembled from the literature:

<table>
<thead>
<tr>
<th>Desired Outputs</th>
<th>Selected Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased reliability / trust / confidence</td>
<td>Cerasale, M., Stone, M., 2004</td>
</tr>
<tr>
<td></td>
<td>Cox, A., 2004</td>
</tr>
<tr>
<td>Innovation opportunity</td>
<td>Bean, R., 2001</td>
</tr>
<tr>
<td>Improved quality standards</td>
<td>Beckford, J., 1998</td>
</tr>
<tr>
<td>Long-lasting partnership and collaboration</td>
<td>Handfield, R.B., et al., 2000</td>
</tr>
<tr>
<td>Benefits through process streamlining</td>
<td>Beckford, J., 1998</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>Beckford, J., 1998</td>
</tr>
<tr>
<td></td>
<td>Tracey, M., Tan, C.L., 2001</td>
</tr>
<tr>
<td>Cost reductions</td>
<td>Beckford, J., 1998</td>
</tr>
<tr>
<td>Enhanced productivity</td>
<td>Beckford, J., 1998</td>
</tr>
<tr>
<td>Increase of profitability</td>
<td>Handfield, R.B., et al., 2000</td>
</tr>
<tr>
<td>Upgrade of supplier’s performance/skills</td>
<td>Sánchez-Rodríguez, C., Hemsworth, D., Martínez-Lorente, À.R., 2005</td>
</tr>
<tr>
<td>Supply chain success</td>
<td>Sánchez-Rodríguez, C., Hemsworth, D., Martínez-Lorente, À.R., 2005</td>
</tr>
<tr>
<td></td>
<td>Quayle, M., 2006</td>
</tr>
<tr>
<td>Increase of purchasing performance</td>
<td>Sánchez-Rodríguez, C., Hemsworth, D., Martínez-Lorente, À.R., 2005</td>
</tr>
<tr>
<td>Mutual satisfaction among buyers and suppliers</td>
<td>Forker, L.B., Hershauer, J.C., 2000</td>
</tr>
</tbody>
</table>

Table 6: Desired Outputs of the Supplier Development Process
Source: Own creation

In addition to these desired outputs of the supplier development process stated in the table, it is to say that only a long lasting relationship and commitment from both sides – buyer and supplier – can really lead to success and wanted results. The process of supplier development should be seen as an opportunity for both parties to improve their performance and thus become a part of the same system which is characterized by a co-operative and closely interrelated relationship.\footnote{Bean, R., 2001, p. 102} This is only one of the facts that most authors agree upon to be a prerequisite and fundament for the whole process and thus for the desired results in the end. After such a basis is formed once, buyer and supplier are in the position to jointly make dedicated investments within their relationship, but also to create technical bonds and adaptations in accordance with their partnership with the aim of creating new products and improving their performance in an innovative way.\footnote{Cox, A., 2004, p. 349}

### 3.5 Potential Problem Areas

As the supplier development is rather a new area in today’s businesses and still not examined and approved sufficiently, companies are expecting a lot of advantages of this process, but at the same time they are facing several fears and concerns when it comes to its successful implementation. Although some companies such as Dell, Honda, Harley-Davidson, IBM etc. reported their success stories regarding their supplier development programs,\footnote{Nelson, D., 2004, p. 44} there are still many different problem areas which have to be considered very carefully even before a decision to pursue supplier development is made. In order to ensure reaching the goals of supplier development, all parties should see the supply chain as a critical part of the extended enterprise and feel like being ‘in the same boat’, whereby they should put all their efforts together and be committed to the supplier development process and its implementation.\footnote{Pooler, V. H., 2004, p. 426}
Nevertheless, the process of supplier development is very much challenged by increased cost pressures, need for innovations, complex product developments, higher quality expectations etc. This is why every stage of the process, starting with identifying needs and demands, to monitoring and continuously improving, needs to be deliberated and executed in a proper manner.\textsuperscript{115} Due to the fact that supplier development demands from both – buyer and supplier – to employ financial, capital and personnel resources to the process, but also to share rather confidential information and measure their performance mutually, this process is seen as very challenging for both parties and they first have to be convinced that it is worth the trouble.\textsuperscript{116} However, nobody can guarantee them that the process of supplier development can be executed without any problems and that it will meet their expectations in the end. Many companies were facing unexpected problems and pitfalls during the implementation of the process. Hereby, these problem areas can be divided into three categories: supplier-specific, buyer-specific and buyer-supplier interfacial problem areas.\textsuperscript{117} These problem areas will be discussed in the following.

3.5.1 Supplier-Specific Pitfalls

According to literature, the most pitfalls and problem areas within the supplier development process are supplier-specific. For that reason, the main focus should be laid on the potential problem areas related to the supplier’s performance. There are three major supplier-specific reasons for the failure to implement improvements within the supplier development process: supplier’s lack of commitment, lack of technical resources and lack of human resources.\textsuperscript{118}

In order to form a fundament for a successful supplier development process, it is of essential importance to convince supplier’s top management about benefits for their company with the aim of ensuring their full commitment. Otherwise, the implementation of the process might fail, if the supplier’s management does not see

\begin{flushleft}
\textsuperscript{115} http://www.kapsconsulting.com/sd.php, 05.04.2006
\textsuperscript{116} Handfield, R. B., et al., 2000, p. 38
\textsuperscript{117} Ibid., p. 41
\textsuperscript{118} Ibid.
\end{flushleft}
the benefits out of the process.\textsuperscript{119} Within supplier development as a business strategy different improvement targets are set in order to be the primary measures for specifying whether the relationship will be continued or not. Therefore, another reason for failure could be that the supplier does not fulfill the requirements settled and does not understand the measures (e.g. reliability, fulfillment lead time, just-in-time performance, cost etc.) used for the evaluation of its performance. In the case that buyer and supplier are not able to jointly set these improvement targets, the supplier development process might be doomed to failure.\textsuperscript{120}

Many companies have been using kaizen and other lean methods for years with the goal of improving their performance. Unfortunately, by applying these methods results could be improved only in the beginning phase, but with time they frequently stall out and companies had to make a huge effort in order to restart their processes. This might also affect supplier development programs, again in the case that supplier does not commit to the effort of the process.\textsuperscript{121} Suppliers might also have difficulties to implement the tools and techniques presented within the supplier development process. Consequently, this potential problem area needs to be considered very carefully in order to avoid the failure of the process and to ensure that the suppliers become proficient in specific areas.\textsuperscript{122}

Another potential problem area within supplier development can occur when it comes to the supplier’s lack of technical resources. In this context, the supplier might not possess e.g. engineering resources, equipment, information systems, employee skills or training, which is necessary in order to improve its performance or to implement the ideas settled in the supplier development process. This issue requires a lot of effort from both parties, so that a failure of the whole process can be excluded. Hereby, it might also be problematic that the improvement of supplier’s technical resources is very often connected to significant investments like e.g. in new

\textsuperscript{119} Pooler, V. H., 2004, p. 426
\textsuperscript{120} Handfield, R. B., et al., 2000, p. 42
\textsuperscript{121} Nelson, D., 2004, p. 15
\textsuperscript{122} Handfield, R. B., et al., 2000, p. 43
technology. In addition, it is necessary that buyer and supplier share information, which need to be accurate and transferred very quickly. Therefore, the supplier might be constrained to implement new information processing systems like e.g. electronic data interchange (EDI). In the case that the supplier is not able to implement or finance these systems, support from the buyer is required in order to avoid the failure of the process.\textsuperscript{123}

The last but not least potential supplier-specific problem area considers its lack of human resources. In many cases the supplier does not have skilled labor which is required to fulfill the requirements and accomplish the targets settled in a supplier development process. On the one hand, this problem might also lead to the failure of the process, if the supplier is not able to recruit additional employees. On the other hand, it might require some support from the buyer, either financial or support by providing the services of its own employees. As these issues are closely connected to the investment of significant resources (time, capital, human resources etc.), they need to be taken into consideration very carefully so that potential problem areas and pitfalls of the supplier development process can be excluded as far as possible.\textsuperscript{124}

3.5.2 Buyer-Specific Pitfalls

Potential problems do not only exist on the supplier side, buyer specific problems can also appear when it comes to implementing and utilization of supplier development programs. First of all, employees often adopt a negative position against supplier development when benefits can not obviously be seen.\textsuperscript{125} It is important to clarify the idea of supplier development and its positive outcomes, especially concerning profitability and growing revenues.\textsuperscript{126} A lack of immediate benefits may hinder a company to implement supplier development activities.\textsuperscript{127} In a short run, costs prevail

\textsuperscript{123} Handfield, R. B., et al., 2000, p. 43
\textsuperscript{124} Ibid., p. 44
\textsuperscript{125} Ibid.
\textsuperscript{126} Nelson, D., Moody, P. E., Stegner, J. R., 2005, p. 44
\textsuperscript{127} Handfield, R. B., et al., 2000, p. 44
of course, but in the long term benefits will be gained, which has to be stated clearly right from the beginning.\textsuperscript{128}

Another negative image against the supplier development approach is the assumption that buying only small quantities from several different suppliers may not justify increased efforts and expenses that are actually necessary to develop one certain supplier. In addition, a supplier may not be important enough in relation to the investments that are expected to improve the supplier’s performance successfully.\textsuperscript{129}

A basic requirement when accomplishing supplier development is building up high-level partnerships and managing all suppliers in a proper way, which is hardly possible when a company has too many suppliers. Also the quality of delivered products and services can be affected when working together with too many suppliers as there is no mutual product improvement possible. Decentralized purchasing fosters a high quantity of different suppliers. Furthermore, offers and decisions within the buying process are seldom coordinated and supplier development strategies are not linked, when procurement is not centralized. Other disadvantages of decentralized purchasing that can cause supplier development problems are not leveraged volumes, relationships on a low level within the company as well as local instead of global incentive plans.\textsuperscript{130}

A buyer’s commitment to supplier development can be low as a result of unsteady management encouragement.\textsuperscript{131} This lack of attention and acceptance through top managers leads to low expectations in consideration of the result that should be gained. Also low expectations regarding the supplier can exist, especially when no excellence is anticipated.\textsuperscript{132} This can be caused by bad experiences already made while developing any other supplier. Often unrealistic prospects are established that cannot be achieved by suppliers. Those previously made experiences may

\textsuperscript{128} Nelson, D., Moody, P. E., Stegner, J. R., 2005, p. 44
\textsuperscript{129} Handfield, R. B., et al., 2000, p. 45
\textsuperscript{130} Nelson, D., Moody, P. E., Stegner, J. R., 2005, p. 40
\textsuperscript{131} Handfield, R. B., et al., 2000, p. 45
\textsuperscript{132} Nelson, D., Moody, P. E., Stegner, J. R., 2005, p. 39
discourage and reduce the enthusiasm for further supplier development endeavors in the future.  

Further problems on the buyer side can be a lack of trust in the supplier as a lot proprietary information is shared. Before a supplier development project is started, mutual trust has to be established as a basic requirement. But it is not only a lack of trust in the supplier; concerns about the security of data transfer do exist as well. Hacker can get illegal access to confidential information and give it to competitors or cause any other harm to the company.  

Finally, bad requisites on the buyer side can hinder successful supplier performance improvement and development. First of all, only worse analytical tools can be available and a lack of adequate data can exist, but those are necessary in order to follow up changes and to establish a good basis for negotiations. Furthermore, inadequate monitoring and control systems may interfere the advance in supplier development.  

3.5.3 Buyer-Supplier Interfacial Pitfalls  

There are several pitfalls that emanate from the interface between the buying company and its supplier. Three major problem areas can be distinguished, namely lack of trust within the dyad, alignment of organizational cultures and ineffective communication of potential benefits. In the following these problem fields are presented and discussed.  

Within the scope of supplier development one huge challenge for the partners is to create a trustful fundament for their dyadic relationship. Partners, often suppliers, hesitate to share information concerning their costs and ineffective processes. The

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133 Handfield, R. B., et al., 2000, p. 45  
135 Nelson, D., Moody, P. E., Stegner, J. R., 2005, p. 41  
137 Handfield, R. B., et al., 2000, p. 46
lack of trust in the partner’s behavior is very often a barrier for the collaborative efforts in the dyad. Intransparent communication flows hamper the supplier development efforts.\textsuperscript{138}

An additional problem area is depicted by the poor alignment of organizational cultures, which describes the failure of adapting supplier development efforts to the changing conditions in the organization and in the supply chain. The critical point is, that any changing terms and conditions in an organization’s internal and external surrounding cannot be converted and aligned appropriately and this affects the supplier development adversely.\textsuperscript{139}

Finally, it is of great importance that the buying company is able to communicate the potential benefits of the supplier development efforts appropriately to its supplier in order to ensure its commitment to the dyad. This is often neglected by the partners and leads to insufficient inducements and motivation for the supplier. Thus, the willingness to collaborate with the partner declines.\textsuperscript{140}

The following table illustrates a summary of the potential problem areas within the supplier development process, which are divided into three categories as stated above:

\begin{footnotesize}
\begin{itemize}
  \item \textsuperscript{138} Handfield, R. B., et al., 2000, p. 46
  \item \textsuperscript{139} Ibid., p. 47
  \item \textsuperscript{140} Ibid., p. 48
\end{itemize}
\end{footnotesize}
In addition to these theoretical findings and according to some other authors, there are also other potential problem areas within supplier development process like e.g. drawbacks from vulnerability of suppliers, unbalanced power within the value chain, reduced choice and variety of suppliers or their products etc.\textsuperscript{141} Other factors which might lead to the failure of the process are connected to transfer of knowledge and security of data, whereby suppliers provide competitors with some confidential information about the buyer etc.\textsuperscript{142} All these potential problem areas need to be considered carefully in order to ensure the success of the supplier development process.

### 3.6 Possible Solutions

In order to exclude potential problems and possible pitfalls within the supplier development process and to prevent it from failure, different factors need to be examined first and a strong fundament needs to be built. Supplier development as a business strategy and also long lasting partnership primarily requires commitment from both sides, so that desired outcomes and benefits can be reached.\textsuperscript{143} Nevertheless, it is an ongoing and fast changing process, during which many

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\textsuperscript{141} Beckford, J., 1998, p. 269  
\textsuperscript{142} Nelson, D., 2004, p. 110  
\textsuperscript{143} Pooler, V. H., 2004, p. 426
problems can occur. In the following section, possible solutions will be presented, both from buyer’s and supplier’s perspective, but also from their interrelation.

3.6.1 Supplier-Specific Solutions

According to the problem formulation stated above, where potential problem areas can occur due to the supplier’s lack of commitment, technical and human resources, in literature different solutions can be found. Supplier’s commitment to the project can be ensured through the early meetings between buyer’s and supplier’s top management, whereby benefits for both parties should be clearly stated. In this context, it is advisable to illustrate which rewards the supplier can expect for the improvement of its performance. This can be done by providing the supplier with monthly, weekly or even daily reports regarding its performance measurements, so that any change can be recognized. In addition, suppliers are able to compare their results with competitors’ performance. A good example provides Honda by illustrating benefits in form of target pricing to identify cost-saving opportunities, but this can also be provided for other factors such as lead time, quality, competitiveness etc. On the other hand, suppliers can also be penalized in the case that they are not able to fulfill the requirements or improve their performance as settled within the supplier development process. This can be done by reducing the amount of orders from a concerned supplier.

When it comes to the lack of supplier’s technical resources, this might be connected to high investments in engineering resources, equipment, information systems, employee skills or training. In order to minimize these investments and thus avoid the failure of the whole process, supplier’s infrastructures often need to be forced up. There are different techniques used such as kaizen and other lean methods, which are focusing on areas with high impact and aiming for simple, effective, low-cost and quickly executable solutions. Nevertheless, suppliers often have difficulties due to

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144 Handfield, R. B., et al., 2000, pp. 41-42
146 Handfield, R. B., et al., 2000, p. 42
147 Ibid., p. 43
the different information systems from those of the buyer. In order to ensure smooth and collaborative partnership and data exchange, buyer and supplier need to become part of the same system and in the most cases implement EDI.\textsuperscript{148} If this is not possible for the supplier, the buyer will need to provide access to its databases or information systems.\textsuperscript{149}

In some cases, there is a lack of supplier’s human resources and the buyer needs to support its supplier financially or to offer certain services of its employees. In this case, the buyer often provides its supplier with assistance or training in order to fulfill its inadequacies. Some companies such as Johnson Controls Inc. (JCI) have even built facilities, which are used as special training centers for their suppliers, but also internal groups, customers etc. Such projects are more often supported by the government in order to strengthen industry collaboration.\textsuperscript{150}

3.6.2 Buyer-Specific Solutions

For the buyer-specific problems several actions can also be taken in order to avoid and solve them, respectively. One possibility is to reduce the quantity of suppliers a company buys its products and services from.\textsuperscript{151} This shows employees that the management is committed to the deployed supplier development program and the value of investing in this program is communicated. Buying from fewer suppliers can be realized by standardizing parts, because this allows increasing the order size with one supplier.\textsuperscript{152} Additionally, it shortens the complete list of parts bought from all suppliers and reduces procurement costs in the long run.\textsuperscript{153} Examples in practice have shown that standardization is even possible for design-to-order productions. Indicative for this procedure is IBM, which aims continually to increase the commonness of parts and only buys unique components when this is advantageous.

\textsuperscript{148} Bean, R., 2001, p. 102
\textsuperscript{149} Handfield, R. B., et al., 2000, p. 44
\textsuperscript{150} Ibid.
\textsuperscript{151} Nelson, D., Moody, P.E., Stegner, J. R., 2005, p. 42
\textsuperscript{152} Handfield, R. B., et al., 2000, p. 45
\textsuperscript{153} Nelson, D., Moody, P.E., Stegner, J. R., 2005, p. 44
for the company. Parallel to the standardization of parts it is to recommend optimizing the supply base by buying at single suppliers in order to achieve economies of scale. Utilizing this strategy reduces administrative costs and buyers can put more effort in the supplier development actions with each of the fewer suppliers. But one has to be aware of the fact that single sourcing is not always secure, especially when it comes to labor disputes. Therefore, a company should prepare itself for such situations by knowing where to get parts in case of shortages.\textsuperscript{154}

Keeping the focus on long-term relationships is inevitable, especially when it comes to investments in the suppliers. Not only because those have to be justified to top managers, but also because it takes time until they pay off. Furthermore, it is helpful to determine the total cost of ownership for each single supplier in order to compare those to the accruing cost reductions through supplier development. These measures visualize the success or failure of conducted efforts and provide a basis for following decisions. Furthermore, suppliers are sometimes not able to achieve the buyer’s expectations, because they may be too high. This discourages and reduces the enthusiasm of buyers regarding further efforts. To avoid throwbacks and frustration through unrealistic prospects it is recommendable to set small goals. Step-by-step, those goals will be achieved and both sides have encouraging senses of achievements. At the end, also the higher goals will be achieved by splitting them into smaller ones.\textsuperscript{155}

Finally, executive commitment should be made a priority, because otherwise all efforts will hardly reach the objectives. Convincing top management of the value of supplier development is often only possible when profits rise. It is of course not easy to demonstrate the relation of improved supplier performance and higher profits, but taking the costs into consideration for not moving forward through late deliveries, line shutdowns, customer reclaims etc. should convince. All these and also other

\textsuperscript{154} Handfield, R. B., et al., 2000, p. 45  
\textsuperscript{155} Ibid.
complementary solutions used by companies to avoid buyer-specific pitfalls are recommendable when it comes to supplier development.\textsuperscript{156}

3.6.3 Buyer-Supplier Interfacial Solutions

Several solution strategies exist, which are helping companies to cope with the three major problem areas of the buyer-supplier interface. As already mentioned, the lack of trust, the poor alignment of organizational cultures and the insufficient motivation of the supplier make it indispensable for the companies to disregard the possible consequences of these pitfalls. However, various solutions for dealing with these problems in a more appropriate way are illustrated in the following.\textsuperscript{157}

In regard to the lack of trust in the buyer-supplier relationship, it is to say that developing a supplier must be strongly based on mutual trust. If this is not given, the buying company should take into consideration to delegate an ombudsman for improving the buying company’s relationship with its suppliers. The reason for deploying ombudsmen is the fact that supplier are often more open with them because they do not deal with any contractual issues. Particularly in respect of poor communication problems between the buying company and its supplier, the ombudsman can improve the situation by conciliating between both companies. Thereby, he can communicate the supplier’s perspective to the buying company under the premise of confidence. In the course of time, the supplier is going to be more willing to share information in all fields and a trustful relationship will be built up.\textsuperscript{158}

Sometimes the lack of trust within the buyer-supplier dyad can be overcome by applying nondisclosure agreements, where both parties can be sure that information will be kept confidentially and exclusively. Especially when it comes to advanced technologies that are affecting the companies’ competitive advantage, this kind of

\textsuperscript{156} Handfield, R. B., et al., 2000, p. 46
\textsuperscript{157} Ibid.
\textsuperscript{158} Ibid.
agreements can contribute considerably to creating trust in the relationship. A further way to gain the supplier’s trust is to use kaizen, because this is often considered as a method that contributes much to the relationship by clear written and signed terms concerning the business activities and processes. Another solution for reaching a trust-based relationship with the supplier is to minimize the legal involvements as much as possible. This means, in some cases it is better to rely on the partner’s goodwill without applying many mutual agreements. This kind of strategy is very strongly relationship-based and aims to see suppliers as extensions of the buying company. There are only a few contracts between the buying company and its supplier, which involve legal issues like patent and intellectual properties.\textsuperscript{159}

Changes in the organizational culture of a company can affect the buyer-supplier relationship deeply, when they are not communicated to the partner immediately. These changes can often cause changes in the supplier development approach of the buying company, too. As a matter of fact, any shifting of requirements regarding product quality or technologies, have to be discussed with the suppliers in order to solve discrepancies and find compromises. In this respect the supplier gets the chance to adapt to changing conditions. By discussing expectations, criteria and standards with the supplier, the buying company can align its supplier to its organizational culture within the supplier development process.\textsuperscript{160}

Furthermore, the buying company can involve its suppliers into its future business expectations by presenting them a road map. In this respect, suppliers get a clear picture of their responsibilities and what is expected from them. Thereby, the supplier development can be enhanced and the alignment between the corporate cultures can be improved, too. Those road maps show the current situation and the future prospects of the company. Based on that, the buyer and supplier can originate a mutual goal and collaborate more deeply.\textsuperscript{161}

\textsuperscript{159} Handfield, R. B., et al., 2000, p. 46  
\textsuperscript{160} Ibid., p. 47  
\textsuperscript{161} Ibid.
One way to motivate suppliers’ commitment to the relationship is by offering financial incentives. Thereby, the supplier knows exactly what its benefit will be and is motivated to strive for this benefit. If the buying company is able to communicate potential gains of the supplier development to the supplier, the commitment will increase considerably. Furthermore, a motivating factor could be to design the supplier’s products into the buying company’s products. In this case, the supplier has a greater opportunity for future business and this design-in motivation leads to increased participation in the supplier development process. Finally, it can be motivating for suppliers to have a chance for contract renewal and ongoing business relationship with the buying company, when their expectations have been met. If the supplier has the prospect and moreover the confidence to repeat business activities with the buying company, then it will be more motivated in committing in the supplier development program.  

3.7 Conceptual Model

The theory chapter of this Master Thesis ends with the visualization of the theoretical findings in form of a conceptual model. This model presents selected research areas, which are determined as characteristically important for the topic of the thesis. The investigation in the field of supplier development is focused on the potential problem areas that can occur within dyadic relationships in the Swedish furniture retail industry and furthermore possible solutions are in essential interest of this Master Thesis. By examining both, the problems and the corresponding solutions, suggestions for improving the supplier development process can be made.

Thereby, the Swedish furniture retail industry depicts the overall framework of the research field and within the scope of this industry the focus is laid on two topic-relevant actors, namely the buying company and its supplier. There is a dyadic relationship between both companies and the collaboration is deepened by supplier development efforts from both sides lately. Supplier development endeavors involve

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162 Handfield, R. B., et al., 2000, p. 48
different aspects like e.g. drivers, practices, stages and the process itself. By investigating these areas and including the different perspectives of the actors in the relationship, some problem areas are identified. These can be considered as challenges for the buying company only, buyer-specific problems, or for the supplier only, supplier-specific problems, but there also occur problems in the interface of both companies. Consequently, all these three problem areas need corresponding solutions and in theory there are several methods for buyers as well as for suppliers to cope with these problematic challenges. Finally by solving them, a further step can be made in terms of improving the supplier development and enhancing the dyadic relationship.

Besides the aim of visualizing the theoretical findings in an overall concept, this model provides a guideline for the further procedure in the empirical part and in the analysis of this Master Thesis. Additionally, this conceptual model serves as a basis for the questionnaires that are used to gather empirical data for the research work.
Figure 5: Conceptual Model

Source: Own creation
4 Empirical Study

The empirical chapter comprises the collected data from the selected companies, both buyers and suppliers. General facts about companies are presented as well as results of interviews and questionnaires. Furthermore, potential problem areas within the supplier development process are illustrated according to the empirical findings. Finally, solutions to these problem areas, which companies are applying, are presented.

4.1 Selected Companies for Empirical Research

In order to provide the reader with an overview of the selected companies for the empirical study, the following figure is developed. In addition, the figure illustrates the dyadic relationships between the companies, whereby the Swedish furniture retailers Mio and Ikea represent the buying companies. Bitc Möbel AB, Lundbergs Möbler and AB Wilo are Mio’s key suppliers and Bodilsen a/s exemplifies Ikea’s supplier base.

![Figure 6: Selected Companies](source: Own creation)
4.2 Mio

The first interview with Mio was made by phone on the 6th March and the second one took place at its headquarter in Tibro on the 3rd May 2006. The interviewee, Mr. Kenneth Eriksson, has been in charge of co-operating with Mio’s suppliers and logistics, especially the movement of all goods between suppliers, central warehouse and Mio stores for almost thirty years. His main tasks as the purchasing manager are to select suppliers, to develop the relationships with the suppliers, to work on the strategies and improvements within the collaboration, as well as to take care of logistics. The following information originates from the interviews with Mr. Eriksson.

4.2.1 Mio within the Swedish Furniture Retail Industry

Mio was founded in 1962 and since then its chain was steadily growing. They developed from a purchasing organization to a brand name and today Mio is Sweden’s largest retail chain for furniture and home furnishing regarding their number of stores. The company is owned by a majority of the stores in the chain and by other parties with interests in the Mio chain. Mio’s headquarter is located in Tibro, together with central services office, showroom, photographic studio and central warehouse. Around 1400 employees are working at Mio and they play a key role in the success of the company. With approximately 70 stores throughout Sweden, Mio’s target groups are quality-conscious and design-conscious customers who have modern values. Hereby, the product range is recognizable by its contemporary design, good quality and its appeal to a variety of tastes. There are five furniture categories: romantic, modern, classic, Scandinavian and rustic, which are offered in three price categories: low, middle and high. The focus is laid on the various current trends and modern designs which are the result of the close co-operation with a number of important suppliers and talented designers from Sweden and abroad. Mio’s turnover mounts up to SEK 2 billion every year with steadily increase. In addition, Mio’s important role within the Swedish furniture retail industry is also obvious by its market share of around 15 percent, which is the second largest after Ikea’s market share on the Swedish furniture market.\(^\text{163}\)

\(^{163}\) Mio - Company Presentation, brochure, 2005
4.2.2 Dyadic Relationship within Supplier Development

According to Mr. Eriksson, Mio works together with around 110 suppliers today, whereby 20 percent of these account for 80 percent of the product range and are thus the key suppliers. Bitc Möbel AB, Lundbergs Möbler and AB Wilo are three of Mio’s key suppliers and the dyadic relationships between these companies are similar to the relationships between Mio and its other suppliers. It is very important for Mio to have long-term relationships with its suppliers, as they do not often start new ones unless they open a new market. Consequently, the relationships with the key suppliers are even closer, as they have resulted from the long lasting partnerships as e.g. 30 years co-operation with Wilo. All three key suppliers are delivering their products in the middle price category, but Lundbergs excels in delivering also in the high price category and Bitc delivers its products in all three price categories. Due to the fast changing environment and market conditions in the last decades, a lot has changed on the buying markets, too. In the past, Mio preferred domestic or suppliers from other Scandinavian countries. Today, only 25-30 percent is delivered by domestic suppliers and the rest is imported through agents and sales persons from East Europe or Far East. In addition, some Swedish suppliers also have their production abroad nowadays. This whole development makes it important for Mio to take care of the assortment for all 70 stores in order to provide them with around 70 percent of the whole catalogue collection, which is mainly based on furniture. In the future, they plan to increase this amount to the total collection by providing the stores also with other products, such as lamps, carpets and other smaller products.

Mio does not have any special criteria for the selection of the key suppliers as this develops with time. Most of the key suppliers also delivered their products to Mio twenty years ago. Today, these key suppliers deliver special products to Mio, as they are specialized in their business area. The relationship between Mio and its suppliers is also reflected through the turnover between the companies. The best example is provided by Bitc, which had among the three selected suppliers the highest turnover of SEK 70 million with Mio in 2005. When it comes to the power dimension within the partnership, the key suppliers are in a more favorable position than the others, as Mio trusts them more than e.g. some new suppliers and knows exactly what to
expect. However, Mio as a bigger company in comparison to its suppliers, also has more influence and is rather in the position to exert pressure when it comes to price negotiations e.g. The relationships are based on certain agreements and contracts, which are always limited for the period of one year. In the most cases, new suppliers are found on the fairs all over the world. Hereby, the quality and design are in the main focus for Mio, but in many cases the price also plays a decisive role.

For Mio it is very important to share information with their suppliers, but also the risks. Especially with its key suppliers, Mio tends to keep the books open and expects the same from the supplier too, as this will strengthen the collaboration, trust and commitment in the long run. In addition, Mio involves its suppliers in the processes as early as possible, like e.g. when the price calculations are made or when new product design and quality standards are developed. In some cases, Mio also provides its suppliers with some ideas and suggestions about new products and designs. Thus, both parties can benefit from this process the same. However, when only the price is decisive, Mio tends to buy products directly from the source like e.g. from China. Otherwise, it is also possible to get an exclusive right to sell certain products on the Swedish furniture market for a supplier, which was found on a fair and was not participating on this market yet.

4.2.3 Supplier Development

When it comes to supplier development, Mr. Eriksson stated in the interview that this practice mostly depends on the product type. The best example in this context is delivered by the mattresses, which are very difficult to sell unless one has good knowledge of how they are made, of which parts and materials etc. For this reason, Mio helps their mattresses suppliers to educate their employees in order to improve their knowledge and thus to increase the profits. As this has approved in a positive way for both parties, Mio is planning to apply supplier development for all products, especially for the furniture as in this area the support is mainly based on suggestions and ideas for new product development and quality improvement. In order to improve the quality, Mio’s employees are visiting the suppliers’ plants within the supplier development process, in order to assure the fulfillment of quality expectations and
requirements, but also to support them during the production. According to Mr. Eriksson, this is the case with all their suppliers, Bitc, Lundbergs and Wilo. Otherwise, the contact is mainly maintained by phone or mail.

At the moment there is a process of restructuring the business system at Mio with the goal of increasing the quality and the performance as a whole. In this context, there are only some small product changes, but the plan is to work even more closely with the key suppliers and to implement more supplier development projects in the future. There are already teams built like e.g. three employees, who are working on quality matters only. Their task is also to find new models, especially for products such as lamps and carpets, where Mio was not very strong in the past. In addition, Mio established a school for its employees, where professionals are invited to report and lecture about newest trends, developments, techniques and practices within the furniture industry. However, there are no written frameworks or guidelines with different stages of the supplier development process at Mio.

The expected benefits out of the supplier development process are to increase the profits by at least 10 percent in the next five years. It is hard to say if the partnership between Mio and its suppliers is a win-win relationship, but Mio’s goal is to ensure the collaboration which is based on benefits for both parties in the same way. Today, it is not possible for Mio to provide their suppliers with any kind of financial or technical support, but this is also planned to be considered in the future. However, Mio is not in the position to apply the supplier development in such a huge extent like Ikea does and this is also not going to change in the next years.

4.2.4 Problem Areas

According to Mr. Eriksson, there is always a fear of some problem areas which can occur within the supplier development process and also of supplier’s inability to fulfill the requirements or contractual agreements. The main reasons of this concern are the consequences which might cause a huge damage for Mio’s businesses for a longer time period. These problem areas refer to different matters like e.g. information exchange, which is very important in order to strengthen the confidence
and trust between both parties. Not only the information but also the risks need to be shared within the relationship. For Mio it is out of the question to reject products, which are delivered according to the placed order. However, not only the order placement, but also a forecast is almost as binding as an order nowadays. In addition, the on-time delivery plays a critical role and is also seen as problematic, as many suppliers have their production or even buy the products abroad, which sometimes leads to delays. This can be illustrated on the example of the supplier Bitc, which is buying its products from East Europe or Far East and has to deal with delivery delays very often, although the company itself is located in Sweden. In this context, it is easier for Mio to deal with domestic suppliers due to their nearness – which is e.g. given in the case of Lundbergs – but also the tradition of keeping a promise and thus the delivery time. When it comes to the information technology (IT) systems, Mio does not have any common system with any of its suppliers, which might enable Mio to place orders directly into supplier’s system or enable the supplier to control Mio’s current inventory.

As there are currently some structural changes at Mio, it might also be problematic and questionable if all suppliers will be able to keep the right track according to Mio’s expectations or if some contracts need to be determined. These changes also force Mio to find new suppliers for some products such as lamps and carpets, and this is rather challenging for the company as they have planned to keep the number of suppliers constant or even to reduce it to some extent. Hereby, Mio does not want to be the only buyer for its suppliers Bitc, Lundbergs, Wilo and others, as this might be problematic for the supplier in the case that the contract with Mio might be determined.

Some other problems can occur when it comes to unequal design or quality expectations and perceptions, like e.g. with Lundbergs, which was focused on the Gustavian furniture style in the past and is now changing to a modern style. In addition, the negotiations about the price also play an important role in order to agree in the end. As Mio does not apply any measures for the supplier evaluation, suppliers are not able to compare their performance with other suppliers. To some extent, a
measurement system would not enable suppliers to compare their performance with others due to different kinds of products like e.g. sofas and carpets.

4.2.5 Solutions

In order to solve the problems and ensure a beneficial partnership for both parties, Mio is closely working with its suppliers Bitc, Lundbergs and Wilo, as well as with almost all its other suppliers. In this context, both parties need to compromise during the negotiations. The strategy to start with the right consumer price and then to find the right production price and quality level has been approved by Mio, when it comes to the contractual agreements with its suppliers. Hereby, the information exchange plays an important role and especially in the last two years there was an increasing willingness to share even confidential information within Mio’s partnership with its key suppliers. When it comes to supplier’s requirement fulfillment and especially on-time delivery, Mio only accepts a one week delay and has therefore introduced a penalty for delayed deliveries. If suppliers inform Mio that there will be a delay early enough, they only get 2 percent penalty. In the case that they do not report the delay, they are forced to pay 10 percent penalty. However, Mio does not award their suppliers in any way, which might increase their motivation for performance improvement. In order to reduce the after-sale costs for Mio, suppliers need to bear the costs for reclamation, damaged products or spare parts according to the contracts. Nevertheless, both parties have the opportunity to renegotiate the prices and conditions of the contract after its expiry every 12 months. This also makes it possible for Mio to have the up-to-date prices for its catalogue, which is published every year in August.

Nevertheless, it is of the upmost importance for Mio to have a conversation with its suppliers first, when it comes to problems and challenges within the partnership. Hereby, both parties try to find solutions together and also to compromise, in order to solve the problems and benefit from the collaboration in the end. Only in some cases, like e.g. when delivery delays repeat very often, Mio takes different measures like penalties into consideration. It is rarely necessary to determine the contract, but both parties have this possibility for any purpose.
4.3 Bitc Möbel AB

The direct information about the company’s business was originated from a personal interview with Mr. Per Lind on the 4th May 2006 in Bjärnum, where Bitc Möbel AB is located. He is the financial manager of Bitc and is in charge of taking responsibility for personnel and administrative issues as well as for computer science at Bitc. Furthermore, Mr. Per Lind takes part in setting up the business plan for the company.

4.3.1 Bitc Möbel AB within the Swedish Furniture Retail Industry

Bitc Möbel AB was founded in 1990 in Bjärnum, southern Sweden, as a supplier of wooden furniture for several Swedish retailers. It is one of the largest furniture wholesalers in Sweden and possesses more than 14,000 sqm storage room for its customers. The company believes in a strong and growing interest in solid wooden furniture and is specialized in kitchen, dining room and bedroom furnishing. Bitc is not manufacturing its products by itself, but it supplies them from different manufacturing companies and sells them to furniture retailers primarily in Scandinavia. In order to secure environmental quality and quality for all its products, Bitc is ISO 14001 and ISO 9002 certified. The company has 42 employees in Bjärnum and shows a stable and rapid growth especially during the last five years. In the year 2000, it achieved a turnover of SEK 85 million and nowadays, the turnover is about SEK 400 million. Bitc is a global operating company with suppliers and customers from several countries like Norway, Denmark, Germany, Austria, Switzerland, France, Lithuania, Poland and China.

4.3.2 Dyadic Relationship within Supplier Development

Bitc supplies to around 500 customers in Sweden, to approximately 300 in Norway and Denmark together and furthermore to 100 customers in several countries. Hereby, 30 of them are Bitc’s key customers. In regard to the Swedish market it is to say that Mio is Bitc’s main customer and the biggest one, too. Both companies contribute to their mutual turnover to the same extent. Hereby, Bitc’s turnover with Mio achieved SEK 70 million in 2005. Especially since 1999, the collaboration
between both companies has increased to a considerable level. Bitc's strategy with Mio is to work together very closely in order to bear up against the tough competition on the Swedish furniture industry. According to Mr. Lind, “…you must always increase your capabilities and what you are adding into the supply chain, so that your customers are satisfied.” In this respect, he stated that “…you have to optimize the situation in your company, so that you have good competition capabilities…” The close relationship between Bitc and Mio is based on a long lasting collaboration for years, but since 1999 the dyad has become even closer, which Mr. Lind reasoned with the fact that Bitc and Mio work closely together when it comes to new furniture developments. Bitc supplies Mio with wooden furniture in the high, medium and low price segment. Consequently, Bitc is aware of its customer’s requirements and standards and therefore, it can develop and improve the business activities correspondingly.

For Bitc it is very important to create long-term relationships with its customers, as well as with its own suppliers. The company knows that Mio has certain criteria for its suppliers that have to be fulfilled, but Bitc does not know how these criteria look like. Therefore, they are trying to develop their operations permanently in order to remain competitive. The dyad between Bitc and Mio is based on a win-win relationship, where both parties gain from the collaboration. But when it comes to the power dimension during negotiations, Mio’s influence on Bitc’s business activities is always higher than the other way round. In order to balance the situation, a close relationship and mutual commitment on the collaboration are preconditions for both parties.

4.3.3 Supplier Development

When it comes to supplier development between Bitc and Mio, it is to mention that Bitc considers the close inter-working with its key customer Mio as a way of supplier development, but there are no written frameworks or guidelines for supplier development between both companies. Mr. Lind stated that the close relationship with Mio provides Bitc with the opportunity to change, develop and improve their operations in order to fulfill the requirements. There is always a motivation and an
idea to develop further on. Sometimes there are projects for new furniture developments and in these cases Bitc is in permanent consolidation with Mio in order to create the right product for them. In general, the product development can be originated by both parties, either Bitc presents its new ideas to its customer or Mio asks Bitc to produce certain furniture models that have been created by Mio’s own designers. The products of Bitc are always shown to Mio in the first place and furthermore, Bitc is not allowed to sell the same furniture to other customers, since Mio has an exclusive right for these products. These conditions are regulated in contracts, which are mostly limited to 12 months and always open for renegotiations.

Bitc and Mio are communicating on a daily basis by e-mail, phone calls, fax and visits with the aim to keep each other well informed about the current situation in the companies. Furthermore, there are meetings for discussing the common objectives and strategies throughout the year. The focus of the supplier development process for Bitc is laid on “…getting even more competitive products on the markets…” as Mr. Lind said. In this respect, on-time delivery, lead times and product quality are playing a crucial role when it comes to measure Bitc’s performance and the company tries to improve in these areas constantly with the aim to insure the long lasting co-operation with its main customer Mio. When it comes to the desired outputs and benefits, Mr. Lind pointed out that good sales and high turnover for the furniture, as well as a good margin for Bitc are the most striking issues and goals. In these terms, there is a balanced level of desired outputs and benefits for both parties.

The supplier development efforts between Bitc and Mio are limited with close consolidations in product development processes in order to be sure about requirements and standards. There is no financial, technical or personnel support from Mio towards Bitc. In this context, creating the appropriate operational systems in order to be able to work with Mio is considered by Bitc as its own challenge and they do not expect support in these areas for the next years.
4.3.4 Problem Areas

The most striking pressure that Bitc is facing is the issue of high prices. There is a very strong price pressure on the Swedish furniture market and Mr. Lind stated that they have to deal with high prices from the production companies both in Europe and in Asia, which means that Bitc is confronted with the problem to cut the costs somewhere else in its supply chain, like e.g. in logistics, so that it is not forced to forward the high prices to its own customers. This issue depicts an essential challenge for Bitc and according to Mr. Lind, it becomes obvious how important close relationships are and how they have to be developed. In order to sort out problems, Mr. Lind stated that the information flow between Bitc and Mio plays a substantial role.

Another worth mentioning challenge for Bitc is to keep its own business independent from Mio’s business to a certain degree. This means, if Bitc is dependent on its main customer Mio to a large extent, and then in case of a failure of this business relationship, the consequences for Bitc could be extreme decreases in their sales and the worst case would be bankruptcy. Keeping this in mind, Bitc is aware of Mio’s importance for its business success, but there is also the challenge to balance the bond strength with Mio. The focus on Mio can hinder the relationships to other customers like it did in former years, because then the other customers are disadvantaged when it comes to new furniture developments that are offered by Bitc only to Mio.

Since Mio is the key customer of Bitc, the company always tries to be one step ahead of Mio, which is not easy to achieve. To be one step ahead with product developments and operational changes would ensure Bitc’s position in the supply chain of Mio, but it would also require the appropriate financial, technical and personnel funds. Therefore, Mr. Lind stated that the economic basis has to be stable and growing and Bitc is becoming better concerning this issue every year.
4.3.5 Solutions

According to Mr. Lind, the close relationship between Bitc and Mio can get even closer by adding together the districts, adapting the computer systems to each other, improving the way of working with logistics and simplifying administrative questions. Therefore, it is indispensable for Bitc to communicate with Mio on a trustful and open level. Information exchange has to be ensured by developing and improving the communication systems and the technologies on both sides. In this context, Mr. Lind stated that “…it is also a part of the supplier development process that we need to develop the co-operation to get more efficient, to get more information in order to make better decisions”.

Mr. Lind emphasized the importance of permanent developing and improving as the way of solving problems and accepting challenges. The commitment to the collaboration must be equal and open discussions as well as willingness for compromises are preconditions for creating problem solutions.

As Mio is generating many changes in its own structure, it could be a possibility for Bitc to adapt itself to these changes right from the beginning, in order to save time in the further years. The collaboration of both parties can be deepened by creating teams, which consist of employees from both companies and who are working together in certain projects throughout the year. Thereby, the exchange of expertise and knowledge can add increased value to the products.

The co-operation between Bitc and Mio has its roots in a long lasting and profound co-operation for many years. Bitc is confident of the successful course of their relationship with Mio in the future.
4.4 Lundbergs Möbler

The personal interview with Mr. Stefan Lundberg from Lundbergs Möbler took place in Tibro on the 3rd May 2006. Mr. Lundberg is the managing director and one of the three company owners. His main tasks reach from the general and everyday matters within the company to leadership tasks. He is also responsible for negotiations and collaboration with Mio, whereby he is supported by the marketing director and product managers.

4.4.1 Lundbergs Möbler within the Swedish Furniture Retail Industry

Lundbergs Möbler was established in 1945 and since then it has been the family property. An important role within the company’s history plays the so called Gustavian style furniture, which is nowadays a famous Swedish design with French roots. Hereby, the focus was laid on hand-painting and handcraft furniture and Lundbergs was a leading company with Gustavian furniture exports all over the world until the 1980’s. Nowadays, the customers’ expectations are gaining more and more in importance and this also caused the shift to modern style furniture at Lundbergs. Thus, the company plays an important role in the premium segment of the Swedish furniture market, especially by producing modern dining room furniture with Scandinavian flair. 20 employees are working at Lundbergs and the turnover amounted to SEK 33 million, whereby the yearly profit was SEK 825 thousand in 2005.

4.4.2 Dyadic Relationship within Supplier Development

Mio is one of Lundberg’s three key customers within Sweden and Finland, which make around 85 percent of the yearly turnover. Hereby, the turnover with Mio amounted to SEK 20 million in 2005. Nevertheless, there are around 100 customers throughout Scandinavia. Lundbergs’ strategy within the collaboration with Mio is to deliver the products, which will meet Mio’s expectations for their furniture categories called romantic, modern, classic and Scandinavian. Hereby, the highest quality is provided, so that the products only fit in the high price category within Mio’s catalogue collection. Lundbergs’ way of competing is based on customer-oriented
solutions, whereby the customer has a lot of opportunities to choose and the highest quality to rely on. After fifteen years of collaboration with Mio, a very close relationship has been established, whereas both companies involve each other in their processes such as new product design or quality standards. In addition, both companies are located in the same city and benefit from this, too. The relationship is based on 12 months contracts, which then need to be renegotiated. When it comes to the power dimension within the relationship, Mio is rather in a more favorable position as a big company, so that Lundbergs needs to be oriented on their expectations and requirements, which makes the company rather dependent on Mio. Lundbergs’ suppliers for raw materials, semi-finished and finished products are mainly located in Sweden, but also in Lithuania and Croatia. Long-term relationships to Lundbergs’ customers and suppliers are very important for the company nowadays, so that they can ensure their stable position on the market and sustain a tough competition.

4.4.3 Supplier Development

According to Mr. Lundberg, the best example of the supplier development process between Mio and Lundbergs is illustrated by the latest project of new product development. After several analyses of Mio’s product categories, it became obvious for Lundbergs that there is a gap when it comes to furniture categories called classic and Scandinavian. This gap was recognized as an opportunity and the new product development process started in August 2005. In order to fulfill Mio’s requirements and expectations, Lundbergs involved Mio in their process already in October 2005. Since then, both companies are working together very closely, so that they can benefit in the same way in the end. Mio’s employees visit Lundbergs’ plant in order to support the production process and ensure that design and quality standards are met in a proper manner. Both companies are combining their ideas in order to create design furniture with top quality. In addition, a well-established designer was also involved into the project, so that the final product will meet customer expectations and fit into Mio’s catalogue collection. Nevertheless, there are no written guidelines or special contracts for the supplier development process, as it is mainly based on plant visits and discussions at the moment.
From this kind of co-operation with Mio, Lundbergs expects to have a long lasting and secure customer for its products. One can never be sure what the future will bring, but Mio is one of the most expanding furniture chains in Sweden and is therefore seen as a good partner for a long-term collaboration with Lundbergs. For a small company such as Lundbergs it is not easy to invest Euro 50-100 thousand in the new product development, if they are not sure that they will be able to sell the new product on the whole Swedish market. Therefore, Mio’s role as a buyer plays a critical role for Lundbergs’ businesses. However, Mio also benefits from a partner such as Lundbergs, which is very good at product development. This makes it possible for Mio to concentrate on other product categories.

4.4.4 Problem Areas

As Mr. Lundberg stated in the interview, there are always some concerns and challenges when it comes to a partnership with Lundbergs’ customers. Regarding Mio, it can be observed that they are trying to do more and more of the product development by themselves and without contacting Lundbergs. If this trend continues, Lundbergs might become only a producer. In this case, where it is only about production, it might happen that Mio will rather prefer suppliers from low-cost countries. This would have huge consequences for Lundbergs as a small company to lose one of their key customers. Another problem area is reflected in the decreasing importance of salesmen. It is very difficult for the end customers to find out every possibility they have when it comes to products, as e.g. there might be around fifty models of one table. Although salesmen could play a very important role in this context, this option is increasingly abandoned.

When it comes to communication between Mio and Lundbergs, it could always be better and Lundbergs would prefer to have a common IT system with Mio, so that customer’s orders could be placed directly or stock level could be controlled by the supplier. In addition, the websites of both companies are not linked in any way, which would make it easier for the end customers to inform themselves directly about certain products of Lundbergs. It is also problematic that Mio provides its supplier only with the price expectations and not with forecasts. Lundbergs’ employees need
to make their own forecasts and this is not very easy if they do not have the certainty that Mio will take all produced products. Nevertheless, the partnership is based on trust and commitment from both sides, which resulted from very long and close collaboration.

4.4.5 Solutions

As it is the case in almost every partnership, Lundbergs and Mio also need to compromise and look for solutions very often, especially when negotiating for contracts. In Mr. Lundberg’s opinion, “Mio is as a very good customer, as they have a lot of understanding for their suppliers as smaller companies.” They premise high quality and good design, but it is always possible to have a conversation and try to solve any problem. As Mio is increasingly adopting new product development in their own business, it might be an opportunity for Lundbergs to work on this subject together with responsible employees from Mio. At Lundbergs, this is seen as a chance to improve and benefit in the same way like Mio, if they start the product development together and work more closely. This is planned at Lundbergs to be a next step within the collaboration in the near future. Nevertheless, Lundbergs would not prefer customer’s involvement in their processes like Ikea is involved in the businesses of its suppliers. This makes the suppliers more dependent, so that they have to focus on Ikea only. This is not considered as a solution at Lundbergs within their relationship with Mio.

In addition, the importance of the salesmen should be increased, especially in the stores, so that the end customers can be informed about the opportunities they have in an adequate manner. Therefore, trainings are the best way to educate salesmen in a proper manner. It is also desirable for Lundbergs to implement common IT systems together with Mio or at least to connect their websites, in order to provide the end customers with detailed information about their products.
4.5 AB Wilo

Mr. Peter Füst, managing director of AB Wilo, was interviewed as a representative for one of Mio’s most important suppliers for upholstered furniture such as sofas and chairs. The personal interview took place on the 19th April 2006 in Nybro, where Wilo is situated. Within his position as managing director, Mr. Füst is, despite other things, responsible for negotiations regarding models and prices.

4.5.1 AB Wilo within the Swedish Furniture Retail Industry

Wilo was founded by Einar Johansson in 1947. Right from the beginning, he and four employees manufactured Swedish designed furniture. During the years, the company developed and the production increased. Today, Wilo employs 40 people, 30 of them are working in the production and 10 in the administration. Wilo produces large quantities of middle priced upholstered furniture, sofas and chairs for a broad mass of end customers. Despite Mio, they also have some other customers in Sweden as well as on the foreign market. Wilo is working on enlarging their exports throughout Scandinavia, where their customers are mainly situated. The company is proud of having the largest production of upholstered furniture and sofas within Sweden, but they are facing a tough competition, due to the fact that their competitors transferred most of their manufacturing to the Baltic States and Poland. Mr. Füst explained that Wilo is convinced that it is important to have a production in Sweden and that they can bear up the competition with its very good skilled labor. This is also shown by their turnover that was about SEK 86 million in 2005.

4.5.2 Dyadic Relationship within Supplier Development

The business relationship between Wilo and Mio already lasts thirty years and was mainly developed by the current owner. It is reflected in the turnover between the companies, which amounted to SEK 40 million in 2005. Mio was chosen as a key customer because the product range in their retail shops suited the production of Wilo very well. The products which Wilo sells to Mio are of a very high quality and they are placed in the middle price range. Wilo’s sofas are not the most modern
ones, but they have a suitable degree of design, because that is “…what the typical Mio customer wants to buy”, as Mr. Füst stated in the interview.

Since the beginning of their co-operation, the relationship between Mio and Wilo was very strong and to a great extent supported by the former managing director, who was convinced that a very strong relationship between Mio and Wilo was the most important thing and should not be disturbed by selling to other shops, too. But in Mr. Füst’s opinion, the risk of relaying only on one big customer surmounts the advantages. He has planned to spread the risk on many customers in order to enhance the balance.

At the moment, Mio is changing its organization a lot, which also means a lot of changes for Wilo. Therefore, they currently have to put a lot of effort into the relation. Mr. Füst explained that it is really tough working with them right now, as the new direction is not quite clear yet. At the moment, Mio’s main goals are raising its turnover very quickly and becoming a more important player on the Swedish market.

4.5.3 Supplier Development

Mio is only involved to a very small extent in Wilo’s processes, which means that Wilo is mainly designing and developing new products on its own, as they pretty much know the taste of Mio and its end customers. When Wilo has designed new models, they present the prototypes to Mio in order to get their opinion. Sometimes, Mio tells Wilo in what direction they want Wilo to move and it is very seldom that Mio comes to Wilo showing them a product and asking if Wilo wants to produce it for them. There is a high competition on the furniture market, which makes it possible for Mio to choose freely between different suppliers. Mr. Füst explained that this is the reason why Mio’s support is very small.

The relation between both companies is based on a normal buyer-supplier contract, which is renewed after one year. Wilo grants Mio a sole right for their furniture on the Swedish market at least. Contractual renegotiations are only necessary when terms of the contract have to be changed. Currently, there are a lot of negotiations between
them due to the restructuring of Mio that also affects Wilo. Both parties want to continue their co-operation in the future, but the conditions have to be clear in advance. Mr. Füst stated that the only measurement for their development and performance are sales figures and turnover.

Mr. Füst is aware of the imbalance that currently exists within their relationship to the retailer Mio. They currently have the smaller part, but however Wilo still benefits from their co-operation. The main advantages Wilo gains from its co-operation with Mio are raising sales and profits. Furthermore, they want to make the Wilo-brand stronger within the product range of Mio. It is important for them to be known for their design and quality, because they are not able to compete against the low price markets, as they do not want to buy from China like many of their competitors do. Working together with suppliers from Scandinavia and the Baltic States offers the opportunity to be more flexible and keep their high quality standards.

4.5.4 Problem Areas

The main challenge Wilo is currently facing within the relationship is Mio’s change of direction. Their plans to concentrate more on bigger cities like Stockholm, Gothenburg and Malmö has a huge influence on the product range of Wilo, as the demand of sofa models and its design is very different in cities compared to the countryside. Of course, it is also an opportunity to increase sales, because most people live in the big cities.

Even though Wilo is Mio’s third or fourth biggest supplier, they are treated in the same way as any other one in order to keep the competition. Also when it comes to the exchange of confidential information no difference is made. The competition is even forced by the current question of prices. Wilo knows that they are very good in developing new models and that they also have a very good production process that keeps their costs down, but it is hard for them to compete against other suppliers that manufacture in low wage countries. Mr. Füst explained that sooner or later the price will no longer be the main aspect; instead the focus will be laid on quality, design or flexibility again. Producing on a market that is closer to the sales market means more
flexibility when it comes to customer wishes. The variety within the product range is much bigger and more customer specific.

Compromises play a major role when doing business, especially when it comes to establishing new ideas. Designs, quality and materials have to be weighted against costs and technical conditions. Due to the fact that the dimension of power is currently not balanced, Wilo is forced to compromise even more than Mio does. The small size of Wilo makes them very flexible so that they can easily handle that.

4.5.5 Solutions

The most important and common way of finding solutions for appearing problems are dialogues between both parties to find out what went wrong and what can be done in order to come back to a better situation. Normally, the result is a compromise that they have to agree on. Wilo is a very flexible company with very well skilled labor, so that they can easily react on customer wishes and suggestions.

Wilo wants to stay independent in regard to any of their customers, so that they do not want Mio to get involved in their processes more deeply. It is volitional that Wilo designs its products on its own and presents them to Mio later on. The only admission they give to Mio is a sole right on the Swedish market for those products, which Mio buys from them. As Mio is their biggest customer, they also have the privilege to see new models first.

For Wilo, a mutual commitment is an important condition for doing business on a fair level. Therefore, they favor their relation to Mio and are interested in keeping it in the long run. Adapting their product range to the demand of Mio’s customers is one way to keep the business running. But in order to spread the risk they also try to find further customers, as they do not want to be dependent on just one big retailer, even though the company can gain good sales.

To be up-to-date regarding changes in tastes and design, they work closely together with a designer school in their area. This gives young designers the chance to make
experience within the furniture industry and also allows Wilo to get an impression how future designs will look like. Sometimes, they even manufacture a sofa whose design is peak and very modern. Although they are aware that only very few of Mio’s customers will buy it, they know that the press reports about it will attract customers to go into one of Mio’s retail stores and perhaps buy any other product which probably is also designed by Wilo.

4.6 Ikea

Ikea is one of the buying retailers chosen for supplier development studies within this Master Thesis. A personal interview was conducted with Ms. Carina Stjernkvist in Älmhult on the 2nd May 2006. She is working at the Swedish head office of Ikea as a purchasing strategist, which means that she ensures production capacity around the world for Ikea’s products. She is also involved in the process of selecting suppliers that satisfy Ikea’s demands.

4.6.1 Ikea within the Swedish Furniture Retail Industry

The Swedish furniture retailer Ikea has become one of the world’s most competitive and leading furnishing brands over the last six decades, since its foundation by Mr. Ingvar Kamprad in 1943. In the beginning, the company sold a lot of different kinds of articles, people needed for their everyday life. In 1947, Ikea also started to offer furniture that was build in small cabinet makings. Four years later, Mr. Kamprad realized that furniture could be the company’s future, so he concentrated all efforts on this business. This was the beginning of Ikea’s success story and its expansion, first within Scandinavia and later throughout the world.\(^{164}\) Today, the company offers its Scandinavian designed furniture within more than 200 stores all over the world.\(^{165}\) With about 90 thousand employees in 44 different countries, the company could gain a turnover of Euro 14.8 billion in 2005, which means an increase of 15 percent compared to 2004.\(^{166}\) According to Ms. Stjernkvist, Ikea itself does not have a

\(^{165}\) http://franchisor.ikea.com/, 13.04.2006
production, but some of its suppliers belong to the Ikea combination and are situated throughout Europe.

4.6.2 Dyadic Relationship within Supplier Development

Ikea has a wide range of suppliers all over the world, which means that it is working together with approximately 1,300 suppliers in 53 different countries. Bodilsen a/s is one of Ikea’s key suppliers, which is selected for this research, as appropriate representative for Ikea’s whole supplier base. Ikea’s main countries of supply are China, Poland, Sweden, Italy and Germany.\(^{167}\) Ms. Stjernkvist stated that Ikea always tries to keep long-term relations with the companies involved in its business like it is the case with Bodilsen, too. The contracts between Ikea and its suppliers are mainly limited to a time period of five to six months. Nevertheless, Ikea does not change suppliers very often, because they have to fulfill a lot of demands, e.g. special working conditions for their employees and protection of the environment. To be able to fulfill Ikea’s demands, a lot of effort has to be put in the development of a supplier from both sides, which only pays off on a long-term basis. The decision to work more closely with key suppliers is made by a small group of people working in the strategic and operative purchasing departments. To become one of Ikea’s key suppliers, a company’s production capacity has to be high enough in order to be able to produce the coming five years of demand, because Ikea often doubles its production volume within this timeframe. Bodilsen has also developed to a key supplier through all those criteria. Despite being good in quality, delivery and price, suppliers also have to be willing to invest, improve and grow, due to the fact that some of them are even involved in Ikea’s business processes, e.g. product development. In order to facilitate the communication between both parties, Ikea applies e.g. the Vendor Managed Inventory (VMI) system with its suppliers like Bodilsen, so that orders can be placed directly through the system, Bodilsen can monitor Ikea’s inventory level etc.

4.6.3 Supplier Development

Ikea always tries to create good business relations between the companies involved in its business, so that supplier development projects have become part of Ikea’s business plans, Ms. Stjernkvist explained. Ikea focuses its supplier development efforts mainly on key suppliers like Bodilsen, but of course other suppliers can also be involved in such processes. Supplier development becomes necessary, because the suppliers can often not fulfill all of Ikea’s demands from the beginning. Especially Asian suppliers are normally not on a good level, when Ikea starts working with them. All Ikea’s demands are illustrated in their code of conduct, called ‘Ikea Way of Purchasing’ (IWAY), which includes topics such as child labor, environmental issues, social premises etc. The current focus of Ikea’s supplier development is on improving the lead times with its suppliers in order to reduce the quantity of warehouses. Despite improving lead time, also delivery security and prices are typical factors of supplier development. Although Ikea wants their suppliers to improve, usually no written contracts exist, unless the supplier wants it, e.g. when a high investment becomes necessary, like it sometimes was the case with Bodilsen.

For the supplier development a special team is built, consisting of a business developer, who is responsible for all purchasing issues, a technician, concerned of production and quality, and a supply planner for all issues regarding logistics. To measure the development of their suppliers, Ikea uses key figures such as keeping the lead time and the availability in the stores. It is a great responsibility for the suppliers to have all goods available for customers in Ikea retail stores all the time.

One of the main goals Ikea tries to reach with supplier development is to keep their purchasing prices as low as possible, in order to reduce the retail prices on a yearly basis. Further outputs Ikea expects from supplier development are keeping a good quality and cost reductions through reduced stocks and warehouses. Not only Ikea benefits from its supplier development efforts, but also the suppliers do by increasing their volumes and sales. Furthermore, suppliers are becoming more competitive on the market and further customers are interested in buying their products.
For Ikea, supplier development is an ongoing process and a lot of support is offered for suppliers all the time in order to reach the goals. The support is of course not equal for every supplier, but rather depending on the current situation. When there is the necessity, Ikea even supports their suppliers financially.

4.6.4 Problem Areas

For a successful co-operation Ikea is willing to share information with their suppliers. Ms. Stjernkvist stated that “Whatever information we have about our business, whatever we can give, we want to give, so that they are aware of what is happening with the range and with the development.” Especially information about the future, Ikea’s beliefs and volumes, as well as about the product range are important for the supplier, in order to plan their capacity, materials and to evolve prototypes. Even though Ikea is very careful, it can happen that a copy of a new designed product is on the market before Ikea sells it. The information that is given or not given to the supplier has to be balanced in advance.

In spite of every effort that is put into supplier development, it is always possible that some of the demands Ikea has, cannot be fulfilled by the supplier. Sometimes the supplier is no longer able to keep the required quality or the lead time. It is also possible that the availability in the stores cannot be guaranteed or the price increases. To improve quality, it is a challenge for Ikea to reduce chemicals within their products. On the communications level, it is mainly the difficulty of providing correct forecasts to the supplier, Ms. Stjernkvist stated. Especially when it comes to new developed products, forecasts probably do not match actual sales figures and lead to overproduction or to a lack of availability in Ikea’s retail stores.

Ikea is aware that suppliers also have problems with them, in particular when it comes to documentations for products. Ikea is currently working on simplifying their technical documentations and tests that have to be done in the production in order to make it easier for their suppliers.
Ms. Stjernkvist is convinced that collaboration with suppliers needs to be on a basis of trust. Therefore, it is very important to be straight on statements and actions. Although doing business often requires compromises, Ikea is not willing to compromise when it comes to prices and quality. Ikea is always aware of the risks that can appear in the long run, when compromising with a supplier. Therefore, they only compromise on short-term basis, e.g. when a problem a supplier might have can be solved within a certain frame of time.

4.6.5 Solutions

Depending on the situation and the product, Ikea has different problem solving solutions. First of all, they try to solve the problem together with the supplier. But if the supplier cannot manage to fix the problem within an agreed period of time, the only option Ikea has is to find another supplier, who can deliver the product.

Since Ikea employs supplier development processes, the number of suppliers has decreased. Working with fewer suppliers has been one of their business strategies within many years until now. While giving a supplier the responsibility for more products and more volume, its knowledge also increases. But supplier concentration does not only include the advantage of high skilled and well trained people, but also a higher risk when anything fails, which Ikea is aware of.

The time frame, in which suppliers have to solve appearing problems, mainly depends on the kind of problem. In the case of a crucial problem, e.g. quality or not fulfilling current demands, it has to be solved directly or at least as quickly as possible. When lead times have to be reduced or capacities extended, then suppliers get more time for the improvement. Ikea’s employees also provide different kinds of support to their suppliers, like e.g. by visiting their plants.

In order to improve the suppliers’ lead time, Ikea is just in the process of changing their order systems in a common one. Having one equal system for ordering allows working together more closely and placing orders more frequently. Adapting
computer systems within a company of Ikea’s size means a very huge target and specialists have to work on it for many years until it can be implemented.

Another way of avoiding difficulties within a buyer-supplier relationship is to adapt the way of treating a supplier with regard to his culture. This means that Ikea behaves different when it comes to supplier development processes with Asian companies than with European companies. Ikea’s demands and the period of time within they have to be fulfilled can very much differ within different countries, especially when it comes to working with Chinese companies. In China e.g. laws regarding working hours are not fulfilled by any company, so that Ikea also cannot fulfill them, when employees are not willing to do so.

4.7 Bodilsen a/s

The telephone interview with Mr. Henrik Kudsk Jakobsen from Bodilsen a/s was conducted on the 11th May 2006. Mr. Jakobsen is the assistant key account manager. His main task is the operational part of the collaboration with Ikea, especially logistics, orders and dispatch, but he also takes part in a special team called ‘IKEA Team’, which was created in order to take care of everyday business between the both companies. Thus, he is also responsible for negotiations and collaboration with Ikea, whereby he is supported by colleagues from other departments.

4.7.1 Bodilsen a/s within the Swedish Furniture Retail Industry

Bodilsen was established in 1973 in Nykøbing Mors in Denmark and since then it has developed to a globally acting company, which has its production facilities and trading houses not only in Denmark, but also in England, Estonia, U.S.A. and China. Their core competence is producing furniture for kitchen, living and dining rooms. Hereby, the focus is laid on the lowest possible price, but also on design and quality. Around 1,000 employees worldwide are working for Bodilsen currently. Company’s turnover amounted to Euro 137 million in 2005. Although Bodilsen is a Danish company, it plays a significant role within the Swedish furniture market as it is one of
Ikea’s biggest suppliers and thus its position on the Swedish furniture market is significant, as Mr. Jakobsen said.

4.7.2 Dyadic Relationship within Supplier Development

Bodilsen is collaborating with around 15 customers of which three are key or so called ‘star customers’. Hereby, Ikea is the largest star customer and the turnover between the companies amounted to Euro 62 million in 2005. As Mr. Jakobsen stated in the interview, Bodilsen’s strategy is to be the most preferred partner and to work as closely as possible with Ikea. At the moment, the relationship between the companies is very close, which resulted from 20 years long collaboration. In addition, high sales volume of kitchen, living and dining room furniture makes Ikea the most important key customer for Bodilsen.

The relationship between Ikea and Bodilsen is based on contracts, which are mainly limited to 6-12 months. Ikea is very involved in Bodilsen’s processes such as new product development and design. In the most cases, Ikea’s employees communicate their price, design and quality expectations and Bodilsen’s employees proceed with the production and take care of necessary documentation. All these issues are discussed in the meetings between the teams of both companies, as well as supported by Ikea’s experts later during the process. Additionally, there is a possibility for Bodilsen’s employees to access Ikea’s extranet and obtain further information about their expectations, standards and guidelines. Special teams are built for each key customer of Bodilsen, so that the ‘IKEA Team’ is dealing with daily issues of the partnership with Ikea. Hereby, both companies make use of the VMI system, which allows Bodilsen to control Ikea’s inventory levels and makes it possible for Ikea to place their orders directly through the system. Thus, information sharing plays an important role for both companies, but also benefit and risk sharing. Nevertheless, Ikea is in a more favorable and powerful position, due to its size and amount of products it buys from Bodilsen. This makes Bodilsen rather dependent on Ikea’s expectations and demands.
4.7.3 Supplier Development

According to Mr. Jakobsen, “Bodilsen is always developing, also together with Ikea.” Thus, the company is almost constantly involved in different kinds of supplier development processes. The projects within the supplier development process are mainly small, like e.g. smaller changes of logistics, product labeling etc. Nevertheless, as the company wants to grow together with Ikea, it is also involved in larger supplier development processes, like e.g. new product development and design, improvement of lead times and quality standards, cost reductions, start of the production in a low-cost country etc. When it comes to planning a new plant, both companies need to agree upon different criteria of the project; on the one hand, Bodilsen commits to build or rent a plant and start the production and on the other hand, Ikea commits to buy a certain product volume. As this project is connected to a high investment for Bodilsen, a special contract between the companies is needed, which specifies the business plan with the strategy, objectives, timeframes etc. Otherwise, it depends on the project size or needed investment whether a special contract for the supplier development is necessary. Although Bodilsen’s employees are very skilled and specialized in their business area, Ikea supports them by providing some special training or by visiting their plants. Nevertheless, Ikea does not provide any financial support.

In the most cases, Bodilsen is selected for a supplier development process according to the company size, capacity and ability to invest, but also due to its long relationship with Ikea. Depending on the project size, special teams are built, which include experts from several departments, like e.g. production technicians, designers, purchasing managers, account managers etc. As there is no written structure how the supplier development process should look like, they have several meetings and discussions during the whole process. The improvements are measured and evaluated upon several criteria, like e.g. according to an objective to reduce the number of reclamations or to reduce the costs by 10 percent. Within the supplier development process, the focus is always laid on the lowest price, so that Ikea is able to ensure its future position on the market. But also other criteria and Ikea’s demands, which are illustrated in the IWAY, are considered very carefully. Hereby,
Bodilsen and Ikea are working together very closely, in order to benefit in the same way. Bodilsen’s expected benefits of the supplier development process are to increase the margin and have an even closer relationship with Ikea. In Mr. Jakobsen’s opinion, Ikea also benefits from the process, as it receives desired products at lowest possible price. Thus, he added that a win-win relationship exists between both companies, which is supported and encouraged by the top management.

4.7.4 Problem Areas

According to Mr. Jakobsen, “…there are not many problem areas within Bodilsen’s relationship with Ikea.” Nevertheless, he stated that there is no guarantee for a supplier development process to be successful in the end. Hereby, the most feared consequence is the loss of encouragement after an unsuccessful project. As Bodilsen is a steadily developing company, new projects play a significant role for company’s future success. Therefore, there is always a fear that the expected benefits will not occur in the end of the process and that this might discourage the top management and employees of both companies to start a new project.

In addition, it seems that there is a lack of Ikea’s commitment to some projects. In Mr. Jakobsen’s opinion, Bodilsen is always fully committed to every supplier development process, but they would prefer more commitment from Ikea, too. He also found it problematic, that sometimes no compromising is possible, especially when it comes to Ikea’s price expectations. Although Ikea provides Bodilsen with a lot of input, they do not receive any information about the plans or forecasts for the next year, which would be very helpful for their own forecasts. On the one hand, Ikea does not apply any kind of penalties for Bodilsen’s possible late deliveries, but on the other hand, there are no awards or incentives for their good performance either. This might be problematic when it comes to motivation and further encouragement within the relationship.
4.7.5 Solutions

Like in every relationship, the collaboration between Bodilsen and Ikea also needs to be based on trust and commitment from both sides. According to Mr. Jakobsen, this is ensured by frequent meetings, whereby both parties have the possibility to represent their expectations, demands, goals and objectives, in order to develop a common strategy and ensure the success of their partnership in the end.

In some cases when Ikea is not willing to accept compromise about the price e.g. and Bodilsen is not able to produce to the expected price, one solution is to produce the product to a higher price at that certain moment, but to set an objective to reduce the costs and thus to lower the price after few months, so that both parties are satisfied in the end. Time frames and step-by-step objectives are used in the most supplier development projects. Hereby, Ikea also provides Bodilsen by visits to its plants and support of experts in a certain field. Another important issue is that both companies are connected through the common VMI system, which makes it possible to reduce inventory and to avoid underproduction of Bodilsen’s products.

It is of a significant importance for both companies to measure and evaluate their performance improvements during the supplier development process. This is mainly be related to lead times, cost reductions, improved quality, reduction of reclamations etc. Contracts, which are rather of a short term, make it possible for both parties to renegotiate certain issues, like e.g. prices.
5 Analysis

The fifth chapter of this Master Thesis contains the comparison between theoretical and empirical findings. Furthermore, it shows the adaptation of the conceptual model to the outcome of the analysis. Additionally, differences between theoretical and practical appliances of the supplier development process are illustrated.

5.1 Fundament of the Analysis

In order to execute the analysis of the research subject in a proper manner, theoretical and empirical findings need to be compared. As a fundament for this comparison the conceptual model on page 54 is used, which resulted from the theoretical study. In addition, the following two tables are developed according to empirical findings in order to illustrate the selected research areas for each buying company and its suppliers.

Table 8: Fundament for Analysis of Mio and its Suppliers

<table>
<thead>
<tr>
<th></th>
<th>Mio</th>
<th>Lundbergs Möbler</th>
<th>AB Wilo</th>
<th>BITC Möbel AB</th>
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</thead>
<tbody>
<tr>
<td><strong>Supplier Development</strong></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>Headquarter: Tibro</td>
<td>Location: Tibro</td>
<td>Location: Nybro</td>
<td>Location: Bjärrum</td>
</tr>
<tr>
<td></td>
<td>Founded in 1962</td>
<td>Founded in 1945</td>
<td>Founded in 1947</td>
<td>Founded in 1990</td>
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<tr>
<td></td>
<td>Turnover: SEK 2 billion</td>
<td>Turnover: SEK 33 million</td>
<td>Turnover: SEK 86 million</td>
<td>Turnover: SEK 400 million</td>
</tr>
<tr>
<td></td>
<td>Employees: 1,400</td>
<td>(SEK 20 million with Mio)</td>
<td>(SEK 40 million with Mio)</td>
<td>(SEK 70 million with Mio)</td>
</tr>
<tr>
<td></td>
<td>Stores: 70</td>
<td>Employees: 20</td>
<td>Employees: 40</td>
<td>Employees: 45</td>
</tr>
<tr>
<td></td>
<td>Price category: middle</td>
<td>Price Category: middle/high</td>
<td>Price Category: middle</td>
<td>Price Category: middle</td>
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<tr>
<td><strong>Dyadic Relationships</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Suppliers: 110</td>
<td>Customers: 100</td>
<td>Customers: n/a</td>
<td>Customer: 1,000</td>
</tr>
<tr>
<td></td>
<td>(20 key suppliers)</td>
<td>(3 key customers)</td>
<td>(Mio is key customer)</td>
<td>(30 key customer)</td>
</tr>
<tr>
<td></td>
<td>Close collaboration</td>
<td>15 years relationship with Mio</td>
<td>30 years relationship with Mio</td>
<td>7 years relationship with Mio</td>
</tr>
<tr>
<td></td>
<td>No supplier selection criteria</td>
<td>12 months contracts</td>
<td>Close collaboration</td>
<td>Close collaboration</td>
</tr>
<tr>
<td></td>
<td>Favored power position</td>
<td>Disadvantaged due to the size</td>
<td>12 months contracts</td>
<td>Disadvantaged due to size</td>
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<tr>
<td><strong>Supplier Development</strong></td>
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<tr>
<td></td>
<td>Depends on product</td>
<td>For new product development</td>
<td>Mio's limited involvement in</td>
<td>For new product development</td>
</tr>
<tr>
<td></td>
<td>Visits to suppliers’ plants</td>
<td>No special practices/contracts</td>
<td>business processes</td>
<td>Plant visits with suggestions</td>
</tr>
<tr>
<td></td>
<td>Contact by phone/mail/meetings</td>
<td>Close collaboration/discussions</td>
<td></td>
<td>No special contracts/guidelines</td>
</tr>
<tr>
<td></td>
<td>No financial or technical support</td>
<td>Designers involved</td>
<td>Benefits: raising sales and profits; strengthen the Wilo brand</td>
<td>Benefits: increase sales, turnover and margin</td>
</tr>
<tr>
<td></td>
<td>Benefits: profit increase by 10% in the next 5 years</td>
<td>Benefits: profit increase; Mio as a secure customer</td>
<td>Mio's limited involvement in new product development</td>
<td>Tough price pressure on the supplier market</td>
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<td></td>
<td></td>
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<td>Dependency on Mio's business</td>
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<td></td>
<td>Limited information sharing</td>
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<tr>
<td><strong>Problems</strong></td>
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<td>Information and risk sharing</td>
<td>Mio's increased involvement in new product development</td>
<td>Change of Mio's direction</td>
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<td></td>
<td>Requirement fulfillment</td>
<td>Lower importance of salesmen</td>
<td>Limited information sharing</td>
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<td>On-time delivery</td>
<td>Communication</td>
<td>Difficulties due to high competition</td>
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<td>Binding forecasts</td>
<td>No common IT systems/Links</td>
<td>Imbalanced power dimension</td>
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<td>Supplier's inability to follow Mio</td>
<td>Lack of information sharing</td>
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<td>Increase of supplier number</td>
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<td>No common IT systems</td>
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<td><strong>Solutions</strong></td>
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<td>Even closer collaboration</td>
<td>Compromising</td>
<td>Dialogue/Mutual commitment</td>
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<td>Compromising</td>
<td>Closer collaboration</td>
<td>Compromising</td>
<td>Closer collaboration for information exchange</td>
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<td>Increased information sharing</td>
<td>Salesmen training</td>
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<td>Penalties for delays</td>
<td>Common IT system</td>
<td>Limited involvement</td>
<td>Teamworks with Mio</td>
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<td></td>
<td>Postponement of after-sale</td>
<td>Linked websites</td>
<td>Cooperation with designer schools and other organizations</td>
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<td>Contract renegotations</td>
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<td>Contract determination</td>
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Source: Own creation
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<tr>
<th><strong>Swedish Furniture Retail Industry</strong></th>
<th><strong>Ikea</strong></th>
<th><strong>Bodilsen a/s</strong></th>
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<tbody>
<tr>
<td><strong>Headquarter:</strong> Älmhult</td>
<td></td>
<td><strong>Headquarter:</strong> Nyköbing Mors</td>
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<tr>
<td><strong>Founded in 1943</strong></td>
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<td><strong>Founded in 1973</strong></td>
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<tr>
<td><strong>Turnover:</strong> € 14.8 billion</td>
<td></td>
<td><strong>Turnover:</strong> € 137 million</td>
</tr>
<tr>
<td><strong>Employees:</strong> 90,000</td>
<td></td>
<td><strong>Employees:</strong> 1,000 worldwide</td>
</tr>
<tr>
<td><strong>Stores:</strong> 200 worldwide</td>
<td></td>
<td><strong>Price Category:</strong> low</td>
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<td><strong>Price category:</strong> low</td>
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<td><strong>Price Category:</strong> low</td>
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| **Suppliers:** 1,300 (ca. 30 key suppliers) | **Customers:** 15 (3 key customers) |
| **Long-term relationship**               | **Long-term relationship** |
| **Close collaboration**                  | **Close collaboration** |
| **5-6 months contracts**                 | **20 years relationship with Ikea** |
| **Special teams select suppliers by**    | **Ikea's high process involvement** |
| their size, capacity, quality, price     | **Special team built: “Ikea Team”** |
|                                         | **Ikea in a more powerful position** |

<table>
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<tr>
<th><strong>Supplier Development</strong></th>
<th><strong>Design / New product development</strong></th>
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<tr>
<td><strong>New product development</strong></td>
<td><strong>Improvement of lead times, prices / acc. IWAY</strong></td>
</tr>
<tr>
<td><strong>Improvement of lead times, delivery security, prices and acc. IWAY</strong></td>
<td><strong>Focus on the lowest price</strong></td>
</tr>
<tr>
<td><strong>No written contracts unless wanted</strong></td>
<td><strong>Selected through company's size, capacity and close relationship</strong></td>
</tr>
<tr>
<td><strong>Special teams built</strong></td>
<td><strong>Written contracts depending on the projects and investments</strong></td>
</tr>
<tr>
<td><strong>Performance measurement and supplier evaluation</strong></td>
<td><strong>Special teams built / Meetings</strong></td>
</tr>
<tr>
<td><strong>Financial support if needed</strong></td>
<td><strong>Performance measurement</strong></td>
</tr>
<tr>
<td><strong>Benefits: low prices, good quality, cost reductions</strong></td>
<td><strong>No financial support</strong></td>
</tr>
<tr>
<td><strong>Loss of encouragement due to former unsuccessful projects</strong></td>
<td><strong>Benefits: margin increase, closer collaboration</strong></td>
</tr>
<tr>
<td><strong>Inability to fulfill the requirements</strong></td>
<td><strong>Sometimes lack of IKEA’s commitment to the supplier development process</strong></td>
</tr>
<tr>
<td><strong>Incorrect forecasts</strong></td>
<td><strong>Sometimes no compromising possible</strong></td>
</tr>
<tr>
<td><strong>Product documentation</strong></td>
<td><strong>Lack of information exchange</strong></td>
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<tr>
<td><strong>Long-term compromising</strong></td>
<td><strong>No incentives / awards</strong></td>
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<tr>
<th><strong>Problems</strong></th>
<th><strong>Solutions</strong></th>
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<tr>
<td><strong>Discussions and deadline setting</strong></td>
<td><strong>Meetings and discussions</strong></td>
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<tr>
<td><strong>Reducing supplier number</strong></td>
<td><strong>Timeframe setting</strong></td>
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<tr>
<td><strong>Transfer more responsibility to the suppliers</strong></td>
<td><strong>Compromising in a long term</strong></td>
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<tr>
<td><strong>Plant visits and support</strong></td>
<td><strong>Plant visits and support by experts</strong></td>
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<td><strong>Sub-ordinate targets</strong></td>
<td><strong>Sub-ordinate targets</strong></td>
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<tr>
<td><strong>Change of order system</strong></td>
<td><strong>Vendor Managed Inventory system</strong></td>
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<tr>
<td><strong>Adaptation on local conditions</strong></td>
<td><strong>Performance measurement</strong></td>
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<tr>
<td><strong>Contract determination</strong></td>
<td><strong>Contract renegotiations</strong></td>
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Table 9: Fundament for Analysis of Ikea and its Suppliers
Source: Own creation

5.2 Analysis of the Swedish Furniture Retail Industry

Ikea and Mio are the two biggest Swedish furniture retail chains. Hereby, the market leader in terms of sales volume is Ikea, but Mio has a larger number of stores on the Swedish furniture market. Contrary to Mio, which is concentrating on bigger cities within Sweden, Ikea is a global player with 200 stores worldwide. On the one hand, both companies are very similar, when it comes to their focus on quality standards and famous Scandinavian design. On the other hand, they operate within different
price categories. In this context, Ikea’s main focus is laid on low prices, whereas Mio operates in the middle price category and concentrates more on the higher quality. In the past, both companies were mainly co-operating with domestic and Scandinavian suppliers. Due to the limited size of the domestic furniture market and as a consequence of the ongoing globalization process, Ikea and Mio were increasingly crossing their national borders in order to benefit from partnerships with companies from low cost countries. Today, many of their suppliers are located abroad or have their production in Eastern Europe and Asia.

Bitc Möbel AB, Lundbergs Möbler and AB Wilo are three of Mio’s key suppliers. Lundbergs and Wilo are manufacturers, which have their production plants in Sweden, but also partly abroad. Bitc operates as a wholesaler, which mainly supplies from Baltic States and Asian countries. Hereby, Bitc is the biggest supplier of Mio according to its size and turnover volume with Mio of SEK 70 million, followed by Wilo with SEK 40 million and Lundbergs with SEK 20 million per year. Their similarity is also illustrated by their number of employees, which amounts from 20 to 42. These three suppliers deliver their products in different price categories of Mio’s product range. Lundbergs’ products are in the high and middle price category, Wilo’s in the middle price category and Bitc’s in the high, middle as well as in the low price category.

Bodilsen a/s is one of Ikea’s biggest suppliers and thus its key supplier. The company is a furniture manufacturer, which is acting on the global market. Bodilsen has its production plants in Europe and U.S.A. and is also participating in the trading business, mainly through buying finished products from Far East by its trading house in China. Their core competence is producing furniture for kitchen, dining and living rooms. Bodilsen sells its products worldwide, but mainly in Europe, whereby England, Germany and Sweden are their biggest sales markets. Its yearly turnover with Ikea amounts to around Euro 62 million. Bodilsen is a very good representative for Ikea’s other key suppliers due to its similarity with these suppliers, especially when it comes to their focus on producing goods at the lowest possible price and on a good quality and design. This is a very important issue in order to make it possible
for Ikea to keep its strong position on the furniture retail market in the low price segment.

All these companies play an important role within the Swedish furniture industry as they account for the largest part of Sweden’s import and export quotes on the furniture market. In addition, their contribution to the Swedish economic wealth is rather substantial.

5.3 Analysis of Dyadic Relationships within Supplier Development

Dyadic relationships between Mio and its suppliers, as well as between Ikea and its suppliers are getting more and more important nowadays, particularly in order to stay competitive and even survive on the market. Especially when it comes to the ongoing globalization process and fast changing environment, the selected companies are exposed to an increasing pressure regarding costs, competition and requirement fulfillment. In this context, there is a conformance between the theoretical and practical findings. An important prerequisite is that both companies are willing to collaborate in the same way, so that the final aim of achieving the common goals can be realized.

Mio collaborates with around 110 suppliers, of which 20 are their key suppliers. As there are no special criteria for key supplier selection, Mio develops the relationships with their key suppliers through long lasting collaboration, which result from mutual experience. In this context, the best example is provided by Wilo, which has been Mio’s supplier for 30 years now. Nevertheless, the most attention is paid to on-time delivery and quality expectations, which are also measured by Mio. Nowadays, the focus is more and more laid on long-term relationships and their further development, as a lot of effort is needed for selecting new suppliers and establishing a successful partnership. In addition, close collaboration is increasingly important for Mio, in order to ensure a partnership with its suppliers, which is based on trust, commitment, information exchange, as well as on risk and benefit sharing. These close collaborations between the companies are even more strengthened in the case that the supplier provides Mio the exclusive right for its products on the Swedish market.
The fact that the willingness for continuous performance improvement with the companies’ aim of growing together, which is found in theory, is also illustrated in practice, where Mio and its suppliers often need to compromise. Hereby, the desired output for both parties is to create a long lasting win-win relationship. Mio enters the contracts with its suppliers for a time period of 12 months, in order to ensure the possibility for renegotiation of prices and contractual conditions for both parties. When it comes to contract negotiations and power dimension between the companies, Mio is in a more favorable position as a large customer and can easier exert pressure on their suppliers, which are in the most cases dependent on Mio as their biggest customer. Although Bitc is the largest of the three researched suppliers, it is dependent on Mio almost in the same way as Lundbergs, which is a small, family-owned company. In addition, it can be said that Mio is again in a more favorable position regarding information sharing, as it can demand more information from its suppliers than it provides to them. Nevertheless, both parties endeavor to base their relationship on loyalty and confidence, as well as to improve it continuously. Hereby, the aim is that expected benefits recompense their efforts. Similarly to the theory, companies expect benefits such as increased market shares, increased trust, information and risk sharing etc.

Ikea works with 1,300 suppliers from 53 countries, which differentiates it, as a global player, from Mio. Another difference to Mio is that their key supplier selection is based on special criteria regarding suppliers’ product prices, company size, production capacity, quality standard and dependable deliveries. This is also reflected in the example of Bodilsen, which is selected through its company size, sales volume and requirement fulfillment by Ikea. In addition, the suppliers should be willing to invest, improve and grow together with Ikea. Alike the trend of focusing on long-term relationships found in theory, Ikea also pays attention to long lasting and close collaborations to its key suppliers. The focus is also laid on mutual trust and commitment, similarly to Mio and its suppliers. An additional similarity to Mio is that Ikea does also not change its suppliers very often, because they have to fulfill a lot of Ikea’s demands and requirements as e.g. regarding IWAY. In this context, it would be connected to high investments to build some new partnerships consistently, which
would not pay off in the long term. Therefore, the focus is laid on the long-term relationships with its key suppliers, like it is the case with Bodilsen.

The collaboration is based on special contracts, which are limited to a time period of 5 to 6 months. When it comes to contractual negotiations and power dimension, Ikea is also in a more favorable position, as its suppliers mostly depend on them. Although Bodilsen is a global player, it still depends on its biggest customer Ikea very much – which is also the case with Ikea’s other suppliers – and is thus in a less powerful position, when it comes to negotiations. Another important aspect in this context regards information sharing, which needs to be balanced by Ikea in advance due to a high risk to passing confidential data over to third parties. Nevertheless, information sharing is of crucial importance for Ikea, as its suppliers can only plan and produce the needed products according to Ikea’s forecasts as well as quality and design expectations. This is also very important for the suppliers, as they rely on Ikea’s input and in the most cases their production depends on Ikea’s plans, forecasts and orders, which is also reflected in the example of Bodilsen. Ikea’s expected benefits from its close collaborations with the suppliers are reflected in cost reductions, quality improvement, increased willingness to share information, lower inventories, gained experience etc. Not only benefit sharing, but also risk sharing plays an important role, in order to be able to rely on each other. Thus, by providing the supplier with forecasts and other information regarding Ikea’s plans and expectations, the supplier can adjust its production and avoid overproduction. Bodilsen’s expectations are reflected in the long lasting relationship with Ikea as a secure customer, whereby Bodilsen aims to be a preferred and reliable partner.

5.4 Analysis of Supplier Development

The ongoing process of globalization and the increased international competition forced companies worldwide to adapt their business strategy and their way of co-operating with business partners in the last years. Focusing on core competencies and efforts to increase company’s competitive advantages could be observed within all researched companies. With the aim of improving the availability of supply, lead times, delivery security, quality and prices, Ikea already started to develop their
suppliers five years ago with the introduction of IWAY. Mio is also collaborating much
closer with its suppliers than it did few years ago, but the effort highly depends on the
product. For the future success of a company, theoretical findings point out the
importance of being proactive, highly collaborative and long-term oriented when
employing supplier development processes, which could also be observed in
practice. Supplier development facilitates Ikea and Bodilsen, as well as Mio,
Lundbergs and Bitc to design and develop new products together. Commitment, a
high exchange of information and mutual trust are basic requirements theoretically,
but those factors are interpreted differently in practice. Especially Bodilsen noted that
due to its dependency on Ikea, they are often more committed to their customer than
the other way around. The information exchange within the dyadic relationships is
also seen differently. On the one hand, Mio stated to have open books, but on the
other hand Lundbergs, Wilo and Bitc agreed that they only get information about
prices, while further information like forecasts would ease and advance the suppliers’
work. Within the relationship of Ikea and its suppliers much more information is
shared, but according to Bodilsen, this could be extended through future product
information. When it comes to mutual trust, all companies agreed that it is a given
fact.

In order to achieve continuous improvements, different initiatives and programs are
deployed. Ikea is providing its suppliers with crucial equipment, technologies and in
addition financial support. As Bodilsen is a very big and sound company, there is no
financial support necessary. Even though there is no financial or technical support
from Mio to its suppliers, they contact their suppliers regularly and visit Wilo and Bitc
to see their newest developed products and to make suggestions.

For Ikea, supplier development is of high importance, therefore the retailer and its
supplier Bodilsen build up special teams and discuss their mutual business within
meetings. Furthermore, supplier performance is measured, all suppliers are
evaluated and feedback is given. One of IKEA’s current development focus is to lower
their inventory level and to expedite its suppliers’ order fulfillment cycles. Therefore,
they changed their ordering systems and are setting long-ranged goals with
suppliers. Technical bonds and adaptations would be further steps in deepening the
buyer-supplier relationship, but as this is a very time and cost intensive project, Mio and Ikea have just started to develop their own and suppliers’ systems. Nevertheless, Ikea already applies some common systems with few of their suppliers, like e.g. VMI with Bodilsen.

In comparison to the theoretical findings, there are no written contracts regarding supplier development activities between Mio and its suppliers Bitc, Lundbergs and Wilo. However, Ikea agrees on contracts, when the suppliers want them, but usually they are also not common. Bodilsen, for example, negotiates a contract with Ikea only when it comes to special projects or high investments.

Depending on the supplier and its products, the buying company can be involved in the supplier development process on different levels. In theory three different constructs could be found, namely ‘basic supplier development’, ‘moderate supplier development’ and ‘advanced supplier development’. Those constructs cannot be retrieved in practice as there is no differentiation made between them. Nevertheless, the different practices described are unknowingly applied by the researched companies, e.g. evaluation of suppliers’ performance and feedback to the supplier, visiting suppliers’ plants, collaboration with suppliers etc. Furthermore, there are no written frameworks for different stages of supplier development that are described in theory in any of the studied companies. Nevertheless, their supplier development process is still similarly structured as it is described in theory, as their process needs to be approved by the top management, they build special teams, arrange meetings for goal and timeframe settings, apply training programs etc.

According to some theoretical findings, it is necessary to verify the supplier’s current position and its capability in order to adopt the supplier development process successfully. Thus, it becomes possible to detect need for action, compare actual targets and make analyses regarding root cause, quality, lead times etc. All suppliers that have been researched within this thesis are characterized as flexible and innovative, which are the ideal attributes for supplier development processes.
Finally, there are a lot of benefits, which the retailers Ikea and Mio as well as their suppliers Bodilsen, Bitc, Lundbergs and Wilo gain from the supplier development process. Ikea benefits from low prices, good quality and cost reductions, whereas Bodilsen increases its margins and narrows the collaboration. Mio expects a profit increase by 10 percent within the next five years. For Bitc, gained benefits are increased sales, turnover and margins, whereas Lundbergs profits from the supplier development in the way of taking a supplier for granted and a possibility to increase its profits. Besides raising sales and profits, Wilo additionally expects a strengthened Wilo-brand in the future. Further benefits, which are mentioned in theory and can also be found in practice, are removing no-value-adding tasks and costs, improved quality standards, customer satisfaction, enhanced productivity, supply chain success etc.

5.5 Analysis of Problem Areas

The empirical findings show that, in today’s business operations, supplier development is still considered as a new concept, which has to be examined and highlighted further on. For this reason, companies are very sensitive concerning the potential problems that can be caused by implementing such a concept. On the one hand, there are companies, like e.g. Ikea, which are generating supplier development to a broad extent but, on the other hand, there are companies, like e.g. Mio that keep distance to this concept mainly because of unknown consequences in case of failures. Especially because of increased cost pressures, the need for innovative products, complex product developments and higher quality expectations, Mio and Ikea have recognized that an optimized supply chain performance is necessary in order to remain competitive. Moreover, to gain competitive advantages makes it indispensable for Mio and Ikea to collaborate even closer with their suppliers. The striking point is to enhance their suppliers’ skills and core competencies in order to develop the dyadic relationship and the close collaboration. When the supplier has the proper skills and core competencies to fulfill Mio’s or Ikea’s expectations, then there is no vital need to change anything. But in reality, there are always possibilities to improve the performances of supply chain members and in this respect supplier development supports Mio and Ikea to improve their position on the market. Within
the scope of supplier development, all researched companies as Mio and its suppliers Bitc, Lundbergs and Wilo as well as Ikea and its supplier Bodilsen, are aware of supplier-specific, buyer-specific and interfacial pitfalls when it comes to supplier development efforts.

In terms of supplier-specific pitfalls, it has been observed that the lack of commitment is an important issue, especially for Ikea. This means that the company tries to convince potential supplier’s top management about the benefits and outcomes of the collaboration with Ikea. It happens sometimes that smaller suppliers are frightened by Ikea’s size and power. Insufficient commitment from the suppliers’ side leads to inability of fulfilling the requirements of Ikea and furthermore to misunderstandings concerning measurements that are used to evaluate the supplier’s performances. The same problem exists for Mio’s suppliers concerning meeting the company’s product requirements. Mio is evaluating its suppliers Bitc, Lundbergs and Wilo by taking into consideration on-time deliveries, lead times and product quality, but the company is not on funds of a measurement system like it is the case with Ikea. This company measures and evaluates its supplier Bodilsen’s performance carefully in order to be able to give feedback, so that Bodilsen can develop its processes. Furthermore, Mio and Ikea do not employ concepts like kaizen or other lean methods in order to adjust their systems with their suppliers, mainly because of the disruptions that can be caused when such a method is not used properly by the suppliers.

In respect of technical resources, Bitc and Lundbergs try to adjust their information systems to the system of Mio, but since Mio is going through many structural changes currently, both suppliers have to await the issue until Mio provides them with the right input. Ikea is also using a new order system since a few months and the aim is to simplify the order and purchase proceeding. The striking point for Mio’s suppliers Bitc, Lundbergs and Wilo is the fact that new information processing systems are mostly connected with significant investments and since they cannot get any financial support from Mio, it is difficult to bear up with their customer Mio. Unlike Mio, Ikea follows the supplier development strategy in terms of supporting the suppliers with knowledge, expertise and personnel funds in order to bring Bodilsen to
a higher level. Additionally it is to say, as Bitc, Lundbergs and Wilo are specialized on certain product lines and segments, it is not a big challenge for them to overcome the lack of technical resources, because they possess already the engineering resources and equipment, which is needed for their business activities; only the information system needs to be extended, so that product specifications can be met in proper manner. The same can be stated concerning Ikeas supplier Bodilsen.

Since, Mio’s suppliers do not receive any personnel support from their customer when it comes to unfulfilled product requirements and targets, it is especially problematic for the smaller suppliers, Lundbergs and Wilo, to recruit additional staff, due to essentially increased costs. In contrast to that, Ikea is able to provide support by its own employees to the suppliers.

Since Mio does not implement supplier development processes with Bitc, Lundbergs and Wilo, in the form like it is described in theory, it is important to find out the reasons for that. In this regard, it is to mention that some buyer-specific pitfalls can lead to a negative attitude of the employees against supplier development when benefits of this concept are not obvious. In general, it is noticeable that Mio does not have any huge interest in employing supplier development to the large extent like Ikea does. In fact, the benefits like increased profitability and growing revenues are not sufficiently communicated to Mio’s own employees. Moreover, the lack of immediate benefits hinders Mio to implement supplier development. But taking into consideration that both companies, Mio as well as Ikea, are strongly interested in long-term relationships, it is to say that Ikea is the one which trusts more in its suppliers enrichment for the own company. Nevertheless, there is always the fear that expected benefits from the collaboration with Bodilsen will not occur. This leads to reduced commitment of Ikea to some projects with Bodilsen. Another very interesting point with Mio and Ikea is their strong focus on key suppliers and the disregard of other suppliers that have the potential to become key suppliers, but do not get the chance. Ikea makes some exceptions and applies sometimes its supplier development process also on other suppliers. Nevertheless, both companies try to reduce their supply base as much as possible in order to concentrate on main suppliers, but this is also critical due to the fact that the more extended the product
range of Mio and Ikea becomes, the more suppliers are available for the various products. The trend to a larger product variety is apparent in Mio’s case, since the company wants to enlarge the range with carpets, lamps and other smaller interior equipment.

In respect of lack of trust, the security of data transfer plays a crucial role for Mio and Ikea. Mio does only forward price expectations to its suppliers Bitc, Lundbergs and Wilo. While Mio states to have open books for its suppliers, Bitc, Lundbergs as well as Wilo could not confirm this statement. But of course, all parties mention that they have their limits, when it comes to confidential information. The more information is held back from partners, the more difficult it is to have future scenarios. Furthermore, inadequate monitoring and control systems are hindering Mio to get even closer in the collaboration within its trust-based relationship with its three key suppliers.

A trustful fundament is indispensable for a dyadic relationship, where the buying and supplying company collaborate very closely. Both parties have to be sure about permanent information exchange in order to remain up-to-date and to cope with interfacial pitfalls. As already mentioned, Mio accomplishes many organizational changes currently. Since Bitc, Lundbergs as well as Wilo do not really know how the business course of Mio will look like in the near future, they have certain concerns. All three suppliers are dependent on Mio very strongly and an unknown future leads to insecurities for them. The most affected suppliers due to their size and turnover with Mio are Lundbergs and Wilo. Those changes in the organization of Mio can lead to poor alignment of organizational cultures between Mio and its suppliers in the near future. Furthermore, Mio’s and Ikea’s suppliers have to deal with the unbalanced power dimension in the supply chain. The suppliers are all together strongly dependent on their customers and influenced in their activities. Also the close collaboration in the dyad between Ikea and Bodilsen confirms the assumption that suppliers are mostly more dependent on their buying companies than it is vice versa. Especially in regard to the willingness to compromise, Ikea refuses to compromise when it comes to price expectations from Bodilsen. Furthermore, in Ikea’s dyadic relationship with Bodilsen there is the fear that unsuccessful projects can lead to loss of encouragement in the top management as well as among the employees of both
companies. This would affect the focus on a long lasting relationship and it would unhinge the collaboration.

5.6 Analysis of Solutions

Investigations in the practice have shown that big companies such as Mio and Ikea have reached different levels of supplier development. This can be derived from their various strategies, which they apply in order to sort out problems and find appropriate solutions that can improve their relationship with the suppliers. As already mentioned, Mio and its suppliers as well as Ikea and its suppliers are interested in long lasting relationships with the purpose of secure future business. The concept of supplier development is realized to a bigger extent by Ikea than by Mio, but there are certain methods that Mio employs together with its suppliers, which apparently are features of the supplier development process, too. In order to view the future without anxiety, the buying companies as well as their suppliers have to find ways how to avoid problems and how to overcome challenges in their interrelation in order to enhance the suppliers’ skills and core competencies.

First of all, supplier-specific problems such as lack of commitment, technical resources and human resources are solved at Mio and Ikea with similar methods and strategies. Both companies arrange early meetings with their suppliers’ top management in order to discuss benefits and outcomes of the collaboration and thereby the aim is to ensure the suppliers’ commitment. Ikea motivates its suppliers to the commitment by announcing higher purchase volumes like from its supplier Bodilsen. In this context, Mio uses penalties as a solution for insufficient supplier commitment, whereby the supplier is confronted with 2 to 10 percent higher costs in case of delays. Another similarity between Mio and Ikea can be observed in their effort to become part of the same system through employing the same information technologies, like e.g. VMI, with their suppliers. Therefore, a VMI system is established between Ikea and Bodilsen in order to facilitate the inter-working between both companies, which is moreover supported by Bodilsen’s free use of Ikea’s extranet. Mio plans to go this path with its suppliers Bitc and Lundbergs in near future and Ikea has a new order system with its suppliers for a few months now.
Bodilsen has a special ‘Ikea Team’, which is in charge of all Ikea-connected issues. In addition, in some cases Ikea supports its suppliers financially, whereas Mio does not provide any financial help. When it comes to the lack of human resources, Ikea provides its suppliers with services from its own employees and experts by sending them to the suppliers’ plants in order to optimize their activities. Furthermore, assistance and trainings are routine for Ikea. In this respect, Mio has once a year schooling days for its own salesmen, where experts and also suppliers’ employees, like e.g. from Bitc, are informing about their own company’s product features, so that the salesmen know more about the products, which they are selling to the end customer.

When it comes to buyer-specific solutions, one striking issue for Mio and Ikea is to reduce the number of suppliers in their supply chain in order to save costs and retain the overview of its business partners. In this respect, both companies are standardizing parts, because this allows increasing the order size with one supplier and makes it even easier to optimize the supply base by buying from a single supplier; thereby economies of scale can be reached. One more similarity between Mio and Ikea is the strong focus on long-term relationships with their suppliers, but in contrast to Mio, Ikea deepens the collaboration by investing in the suppliers’ processes if it is needed. This is an obvious sign for Ikea’s confidence in the long-term relationship with its supplier. Above all, Ikea sets small goals for its suppliers, which shall be achieved step-by-step and thereby Bodilsen is supposed to develop from one level to a higher one until it achieves the high standards of Ikea and this is considered as the goal of the supplier development process. Of course, the supplier development process needs the executive commitment of the top management of Mio and Ikea; otherwise it would fail, because strategic decisions need the justification and support of the upper management in order to lead to business success.

Furthermore, there are some ways of solving problems and overcoming challenges at the interfacial level. Here it is essential to point out the importance of mutual trust in the relationship between Mio and its suppliers Bitc, Lundbergs and Wilo as well as Ikea and Bodilsen. Mio and Ikea are challenged when it comes to sharing confidential
information with their suppliers. Mio applies nondisclosure agreements and lays claim to exclusive rights for certain products from its suppliers in order to ensure its competitive advantage on the market. From another perspective, Mio as well as Ikea try to minimize the legal involvements with the purpose to ease the bindings. Contracts are determined with 12 months at Mio and with 5 to 6 months with Ikea. Thereby, the partners keep some freedom for renegotiations. Apparently, Ikea prefers rather short-term contracts with Bodilsen in order to renegotiate more often and adjust contracts to the changing environmental conditions. Since Mio is going through some organizational changes, it is indispensable to arrange meetings in order to inform their suppliers about the new developments and changing conditions that will influence Bitc, Lundbergs and Wilo. In this context, open discussions and willingness to compromise from both parties is required in order to solve discrepancies. Thereby, the supplier gets the chance to adapt to the changing conditions at Mio. When Ikea has changes in the organizational culture too, then it follows the same strategy like Mio, in order to simplify the alignment of Bodilsen to the own company’s structure.

Besides that, Ikea depicts a road map for its supplier, which shows them the future prospects, plans and intentions of Ikea and provides exact data about price and design expectations. By following this road map, Bodilsen can be more secure about its future business activities with Ikea. Such a road map cannot be found in Mio’s strategy of supplier support, but nevertheless the suppliers of Mio can also get certain information about price and design expectations. Another ongoing process is the method of designing the suppliers’ products into Mio’s products. By doing this, Mio and its suppliers are more adjusted to each other, processes can be optimized more easily and design efforts can be originated commonly.

Finally, it is to say that Ikea uses certain measurement and evaluation strategies in order to determine Bodilsen’s performance. In Mio’s case, there is no obvious measurement and evaluation system, but of course they keep an eye on the three key suppliers’ performances by comparing target and actual figures.
6 Conclusion

The conclusion chapter of this Master Thesis gives the final reflections about the work based on the research questions by providing a final model for the supplier development process. In addition, improvement recommendations for selected companies are illustrated. It is described how far results and recommendations can be generalized. After depicting the relevance of this thesis, which is followed by reflections and critical review, suggestions for further research are presented.

6.1 Results and Improvement Recommendations

In order to illustrate the results of the research in the most appropriate way, the research question of this Master Thesis needs to be reviewed first:

*Which are the potential problem areas of Supplier Development within dyadic relationships in the Swedish furniture retail industry?*

*Which possible solutions for these problem areas can be found in order to improve Supplier Development?*

In the course of the research, it became obvious that the problem areas found in theory are very similar to those in practice. Hereby, some of them can be described as critical within the supplier development process between the companies in the Swedish furniture retail industry: requirement fulfillment, commitment, motivation, willingness to compromise, as well as information, risk and benefit sharing. In addition, some companies are influenced by globalization effects, although they are acting only on the domestic market, through their suppliers or sub-suppliers. This is especially illustrated by delivery delays or inappropriate quality standards within the international trade, which will affect every company in a supply chain in the end. These factors influence the dyadic relationships between the selected companies to a high extent and need to be considered very carefully, in order to find appropriate solutions and suggest improvement possibilities.
Correspondingly to above stated problem areas, several solutions could be found in theory and practice. When it comes to applying a supplier development process with the aim of developing and improving suppliers’ skills and core competencies and thus of ensuring the requirement fulfillment, it is necessary to sort out problem areas. This can be improved by setting sub-ordinate targets, whereby companies are able to assist each other by trainings, expert supervision, financial and other kinds of support. Hereby, commitment from both parties is necessary, where it is essential to clarify mutual expectations, responsibilities, goals and benefits within the supplier development process in the dyads. Motivation can be increased by applying awards and other kinds of incentives, but also penalties for delays can be seen as motivating factor. The outcome of the process should be to benefit in the same way for both companies, whereas willingness to compromise plays an important role for future collaboration. In addition, it is crucial for those relationships to be based on trust, whereby information exchange, as well as benefit and risk sharing are vital to keep the dyads successful in a long term.

The improvement of the supplier development process can be reached by advancing the suppliers’ skills and core competencies through permanent inter-working between both parties. During the close collaborations, suppliers should be supported in becoming specialized in their business areas due to the focus on and improvement of their core competencies. In order to provide the partners with the security of future business and motivate constant commitment, long lasting relationships need to be created and strengthened. Furthermore, it is substantial to create a win-win relationship by balanced benefit and risk sharing, where each company will profit by the collaboration in the end. Hereby, both parties should be willing to be ‘in the same boat’ with their partner and thus to share not only benefits but also risks within the dyadic relationship. In this context, improving the supplier development process means that stress should be laid on trust, commitment and communication within the scope of the close and long lasting collaboration.

Communication and process flows can be improved by applying common IT systems between the companies, which will facilitate their inter-working and data exchange, so that e.g. orders can be placed directly through the system, inventory levels can be
controlled, overproduction avoided etc. Thus, information sharing can be increased, which will result in stronger and closer co-operations in the end. A further suggestion for the improvement of supplier development is that both parties should be willing to compromise. Especially buying companies should accommodate their suppliers, as they are in a less favorable position due to their size and power. Hereby, it is very recommendable to keep both companies motivated and encouraged from the very beginning of the supplier development process by illustrating benefits and applying incentives. Of course, there is no guarantee that the supplier development process will be successful in the end, but companies should not lose faith in it and should not interrupt their new projects and plans or even end their current collaboration.

In order to visualize the outcome of this Master Thesis, the conceptual model is presented in a modified final version. This model aims to depict the theoretical and practical findings in the selected research fields – problem areas and possible solutions – in order to illustrate the improvement suggestions for supplier development finally.
Figure 7: Final Model

Source: Own creation
6.2 Generalizations

The purpose of this Master Thesis was to investigate the supplier development concept within dyadic relationships in the Swedish furniture retail industry. Hereby, the theoretical and empirical findings have led to the conclusion that, indeed, there are similar applications of theoretical issues concerning supplier development in practice, but still it is not justified to draw generalizations for the whole supplier development progresses in the Swedish furniture industry and especially not for any other industry sector. This conclusion is based on the fact that the observations and results as well as the cognitions are gained from only two buying companies, Mio and Ikea, and its suppliers. Thus, it is possible that other companies follow different strategies within the scope of supplier development, especially because it is a new concept, which needs to be examined further on. The focus on the Swedish furniture retail industry is another reason for the impossibility of drawing conclusions for supplier development in general.

6.3 Relevance

The number of new methods and strategies for improving a company’s performance on the market is increasing permanently. As mentioned before, supplier development is one of these more or less new concepts, which are worth to examine and look upon more deeply. The practical relevance of this thesis can be supported by the fact that companies are not aware of their supplier development appliances, mainly because they do not have any written practices, guidelines or structure for the process. This thesis reveals the unobvious appliances used in practice, which are indeed very effective. Since this topic has a high degree of actuality, the theoretical and practical relevance of investigations in this area is mainly the identification of not previously noticed problem areas and the contribution of new solution strategies to theory in order to improve the supplier development process in practice.

6.4 Reflections and Critics

Retrospectively, investigating the Swedish furniture retail industry was a good choice, as the studied companies are mainly situated closely to Växjö University. This made personal interviews possible, except for one company, with which a telephone
interview had to be conducted. Personal interviews allowed diverging from the prepared questionnaire in order to ask further questions, when it came to very interesting or unforeseen sections. Moreover, visiting the companies allowed an insight into the organization itself and in some cases also in its production.

When it comes to the critical review of this thesis, it is to say that the focus on the Scandinavian companies could be examined from a global perspective in order to explore the supplier development process on the international level. In addition, it could be possible to research the subject more deeply, as e.g. by concentrating on a special product or product family and by selecting a certain operation like production. In spite of these critics, this Master Thesis still achieves its main objective of finding occurring problems within the process of supplier development, with the focus on the Swedish furniture retail industry, and how they can be solved. Furthermore, suggestions to improve the supplier development process are made through comparing theoretical investigations and empirical findings.

6.5 Suggestions for further Research

The focus of this Master Thesis was laid on the Swedish furniture retail industry. Although one company is situated in Denmark, its role on the Swedish furniture market is considerable. In addition there is a high similarity between the Swedish and Danish market. For further research an investigation in supplying companies outside Scandinavia can be recommended in order to research global aspects regarding supplier development. Concerning problem areas and possible solutions, further observations could be done, especially when it comes to intercultural differences and communication problems due to different languages.

Within this case study dyadic relationships have been covered, so that an additional suggestion for further research could be analyzing complete supply chains. Sub-suppliers as well as third party logistics providers do also play a crucial role within the business performance of any furniture retailer. Therefore, it would be interesting to ascertain how far companies are involved in developing the performance of their supply chains and additionally which problem areas arise and what kind of solutions are recommendable to improve the process.
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Appendix 1: Questionnaire (Buyer Version)

General information
1. What are your name and your position in the company?
2. What is your role in your company’s relationship with supplier?
3. Can you briefly introduce your company (e.g. history, employees, turnover, profit, customers etc.)?
4. Where is your company positioned within the supply chain?
5. How do you see the position of your company within the Swedish furniture retail industry?

General information about suppliers
6. How many suppliers do you have?
7. How would you describe your strategy with your suppliers?
8. How would you describe your relationship with your suppliers (e.g. close collaboration, arm-length, distant relationship etc.)?
9. Does your company prefer domestic suppliers or rather source from the global market? Why?
10. Does your company prefer to have long-term relationships with its suppliers or rather short-term or even one-time relationship?
11. Does your company have any key suppliers and how many?
12. Why were they selected as key suppliers and by which criteria?
13. Which products are sourced from the key suppliers? Why?
14. How would you describe the relationship with key suppliers (e.g. power dimension within the partnership; information, plans, forecasts and other data exchange etc.)?
15. How far are they involved in your processes (e.g. in product design and development)?
16. When did your company start to collaborate with its key suppliers more closely and by whom was this decision made?
Supplier Development

17. Does your company apply any supplier development projects and for which products? Why?

18. Which suppliers are selected for this process and upon which criteria (e.g. only key suppliers or others too?)? Why?

19. What is the main focus of the supplier development process? Why?

20. How do you communicate with your suppliers (e.g. telephone, fax, e-mail, visits etc.) within the supplier development process and how often?

21. Do you have a common strategy for supplier development, written objectives and plan? How do they look like?

22. Do you enter special contracts with selected supplier and are they renegotiated after a certain period of time?

23. How is the development measured and evaluated within the supplier development process?

24. How does the process of supplier development look like in your company? (e.g. are there different drivers, practices or stages within the process and which are they?) Please describe the process.

25. To what extent are you working together within the supplier development process?
   - on a limited basis by coordinating activities and planning,
   - by coordinating activities with different functions of the two companies,
   - by integrated operating?

26. For how long do you think you will be working closely together (is there any timeframe for supplier development process determined?)? Why?

27. Do you build a special team for the supplier development process? Who is involved in this team?

28. Which are the desired outputs and benefits your company expects from the supplier development process?

29. Which are the desired outputs and benefits for your supplier out of this process?

30. Do you think that your company and your supplier benefit from the process equally? Can you describe it as a win-win relationship? Why?
31. Is the decision to apply supplier development a permanent occurring issue or a one-time decision due to long-term based relationships with your suppliers?
32. Does your company provide any support in form of trainings, services of your own employees, financial or any other kind of support within supplier development process? Why?

Potential Problem Areas
33. What are the most feared consequences of an unsuccessful supplier development process (wasted time, wasted money, wasted management resources etc.)? Why?
34. Does your company have adequate funds (staff, time, money, materials) for supplier development or did you have to hire additional skilled labor for this process?
35. Is your company willing to share rather confidential information, risks, resources and efforts? Why?
36. What are the main problems you face when collaborating with your suppliers (e.g. communication, technology used, trust, commitment, power dimension etc.)? Why?
   - from your own perspective
   - from your supplier’s perspective
   - from the interrelation between your company and its supplier
37. Is it the first time your company applies supplier development processes or you have experience in it?
38. How far is your supplier development process supported by the top management?
39. How would you describe your company’s own and supplier’s commitment to the process?
40. How would you describe the aspects of trust, knowledge transfer etc. within the collaboration with your supplier?
41. How often do you need to compromise when it comes to problems within the process?
42. Is your supplier development process able to adapt to changing conditions such as limitation of resources, change in leadership or environment etc.?

Solutions
43. Which solutions are possible for potential problem areas:
   - from your company’s perspective
   - from your supplier’s perspective
   - from the interrelation between your company and its supplier?

44. Which of these solutions does your company apply? Why?
Appendix 2: Questionnaire (Supplier Version)

General information
1. What are your name and your position in the company?
2. What is your role in your company’s relationship with Mio / Ikea?
3. Can you briefly introduce your company (e.g. history, employees, turnover, profit, customers etc.)?
4. Where is your company positioned within the supply chain?
5. How do you see the position of your company within the Swedish furniture retail industry?

General information about customers
6. To how many customers do you supply?
7. How would you describe your strategy with your customer Mio / Ikea?
8. How would you describe your relationship with your customer (e.g. close collaboration, arm-length, distant relationship etc.)?
9. Does your company prefer domestic suppliers / customers or rather supply to and source from the global market? Why?
10. Does your company prefer to have long-term relationships with its customer or rather short-term or even one-time relationship?
11. Does your company have any key customers and how many?
12. Why were they selected as key customers and by which criteria?
13. Is Mio / Ikea one of your key customers?
14. Which products are supplied to the key customers? Why?
15. How would you describe the relationship with key customers (e.g. power dimension within the partnership; information, plans, forecasts and other data exchange etc.)?
16. How far are they involved in your processes (e.g. in product design and development)?
17. When did your company start to collaborate with its key customers more closely and by whom was this decision made?

**Supplier Development**

18. Is your company involved in any supplier development project and for which products? Why?
19. How is your company selected for this process from Mio / Ikea and upon which criteria (e.g. from only key customers or from others, too?)? Why?
20. What is the main focus of the supplier development process? Why?
21. How do you communicate with your customer (e.g. telephone, fax, e-mail, visits etc.) within the supplier development process and how often?
22. Do you have a common strategy for supplier development, written objectives and plan? How do they look like?
23. Do you enter special contracts for the supplier development process with your customer and are they renegotiated after a certain period of time?
24. How is the development measured and evaluated within the supplier development process?
25. How does the process of supplier development look like in your company? (e.g. are there different drivers, practices or stages within the process and which are they?) Please describe the process.
26. To what extent are you working together within the supplier development process?
   - on a limited basis by coordinating activities and planning,
   - by coordinating activities with different functions of the two companies,
   - by integrated operating?
27. For how long do you think you will be working closely together (is there any timeframe for supplier development process determined?)? Why?
28. Do you build a special team for the supplier development process? Who is involved in this team?
29. Which are the desired outputs and benefits your company expects from the supplier development process?
30. Which are the desired outputs and benefits for your customer out of this process?
31. Do you think that your company and your customer benefit from the process equally? Can you describe it as a win-win relationship? Why?
32. Is the decision to apply supplier development a permanent occurring issue or a one-time decision due to long-term based relationships with your customer?
33. Is your company receiving any support from the customer in form of trainings, services of your customer’s employees, financial or any other kind of support within supplier development process? Why?

Potential Problem Areas

34. What are the most feared consequences of an unsuccessful supplier development process (wasted time, wasted money, wasted management resources etc.)? Why?
35. Does your company have adequate funds (staff, time, money, materials) for supplier development or did you have to hire additional skilled labor for this process?
36. Is your company willing to share rather confidential information, risks, resources and efforts? Why?
37. What are the main problems you face when collaborating with your customer (e.g. communication, technology used, trust, commitment, power dimension etc.)? Why?
   - from your own perspective
   - from your customer’s perspective
   - from the interrelation between your company and its customer
38. Is it the first time that your company is involved in a supplier development processes or do you have experience in it?
39. How far is your supplier development process supported by the top management?
40. How would you describe your company’s own and customer’s commitment to the process?
41. How would you describe the aspects of trust, knowledge transfer etc. within the collaboration with your customer?
42. How often do you need to compromise when it comes to problems within the process?
43. Is your supplier development process able to adapt to changing conditions such as limitation of resources, change in leadership or environment etc.?

Solutions

44. Which solutions are possible for potential problem areas:
   - from your company’s perspective
   - from your customer’s perspective
   - from the interrelation between your company and its customer?

45. Which of these solutions does your company apply? Why?