Supplier Motivation
- A case study of Scania in the Ecuadorian market

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Program: Growth Through Innovation & International Marketing

Subject: Master Thesis

Level and semester: Master level, Spring 2009

Baltic Business School
Abstract

Globalization has made it easier for multinational companies (MNC) to expand their markets and sell their products abroad by means of dealers. Different characteristics such as size, growth rate, and number of competitors determine profitability of the different markets. When dealers belong to marginal markets, they can sometimes perceive discrimination from the MNC since they are considered less profitable than the large country markets. It is easy to find market and industry analyses, nevertheless, there are very few authors that bring up the issue about how the local dealer in a marginal market can motivate its supplier to co-operate as efficiently as with the high profit market.

The aim of our study is to describe and analyze the network relationship between the MNC and its distributor, for this purpose chapter one gives a brief description of our case company, it describes our problematization, it states our research questions and the purpose of our study. Chapter two describes the methodology used to conduct our research and study. Chapter three introduces the theoretical approaches used as a base for our analysis. Chapter four is an account of all our empirical findings. Chapter five is the analysis of the case study and chapter six contains our conclusions and recommendations.

Overall, we propose that although the dealers from marginal markets are often the ones that frequently need big support from the MNC to grow and be more profitable, they also need to improve their internal operations in order to improve their performance and look more attractive for the MNC.
Acknowledgements

It has been a very interesting experience doing master thesis basing our research on the case company Scaneq, the dealer of Scania vehicles in Ecuador. We would like to thank all the people that have contributed with their knowledge and experience to develop our study.

In particular, we would like to thank Fernando Arellano, Chief of the Repair and Service Department of Scaneq in Quito, Ecuador, who was always willing to provide us with useful information and accepted as many interviews as it was considered necessary.

Finally, we would like to extend our gratefulness to our tutors Joachim Timlon, and Hans Jansson for their support and guidance and for having helped us directly and indirectly in accomplishing this study.

Högskolan i Kalmar, June 2009
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About the Authors

**Aracely Clavijo** was born in March 3rd, 1983 in Quito, Ecuador. After getting her Multilingual Bachelor Degree in Business and Internationals Affairs in Ecuador in 2006, she had the opportunity to work in the marketing department of Exxide S.A. in Ecuador, a company that produces and exports high quality roses to different important markets around the world. Her motivation for this master thesis comes from her previous experience in the marketing field. She would like to go back to her home country to take charge of her parents business to acquire more experience and afterwards undertake her own business.

**Magnus Wigernäs** was born July 12th, 1983 in Svedala, Sweden. In 2008 he graduated with a bachelor in Business administration with a Marketing Major from University of Kalmar, Sweden. He also has international academic experience, spending three semesters in the U.S, studying marketing, business and psychology. His motivation for writing this thesis was to get deeper insight in the relationship issues that can occur in a multinational company, which for him as a marketing major is intriguing. In the future he would like to work with marketing in a multinational company.
List of Abbreviations

B2B – Business to business
B2C – Business to consumer
JIT – Just in time
MNC – Multinational Company
RDT – Resource dependency theory
SCM – Supply Chain Management
SME – Small & Medium Sized Enterprises
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1. Introduction

We will in this chapter present the background why we have chosen the topic of this thesis. Our intention is to lead the reader into the thesis by introducing the case, case company, problematization and finally present our research questions.

1.1 Background

During the last century the rapid internationalization has made it easier for companies to broaden their market and sell their products abroad. Multinational corporations are exporting and establishing subsidiaries all over the globe in order to be closer to their customers in the specific region and as Hollensen (2007) states “the fundamental reason for exporting, in most firms, is to make money”. The competition on the world market has increased since the distance between the continents has decreased because of the technological development and easier movement of products and services.

The specific country markets have different characteristics in terms of size, growth rate, and number of competitors. These characteristics of the markets are according the GE/McKinsey matrix (Grant 2008) one of the axes in determining the profitability of the market, which the MNC’s has to take in consideration when allocating the resources for different markets. This has lead to an uneven market focus where the MNC’s sometimes are discriminating the dealers in the small country markets since they are perceived as less profitable than the large country markets. The dealers of these marginal markets are often the ones that frequently need support from the MNC in order to grow to be more profitable. It has become like a “Catch-22” situation where the these smaller country markets are in need of support from the mother company in order to be more profitable, and the MNC is a bit ignorant about the needs of these dealer because of its relative small size and the profitability rate is low compared to the larger markets.

Market and industry analyses have been discussed by a great number of authors and there are a variety of matrixes and models available for doing these types of analysis. Although the number of analysis tools available is many, there are very few authors
that bring up the issue about the outcome for the dealers that by the reason mentioned above are ignored by the mother company.

The relationship between the actors are according to Ford et al. (2003) affected by the current and future experience and expectations, which sets the degree of interaction.

We will further in this chapter discuss our problematization, the outcome and finding behind the problem and how it relates to our case company.

1.2 Case company, Scania heavy vehicles

Scania (Manufacturer)

For this thesis we are utilizing Scania heavy vehicles as a case company where we are focusing on the dealer in the relatively small market of Ecuador, its relation with the mother company, and how it relates to the Brazilian Scania manufacturer.

Scania is a pioneer in the automotive industry and currently the world's third largest manufacturer for both heavy trucks and heavy buses. The company was founded in 1891 and throughout its history, the Scania name has been associated with superior quality and customer service, and the strength and value of the brand has made Scania one of the most profitable companies in its industry.

Scania Brazil (Subsidiary)

Scania is a global company with production facilities in Europe and Latin America. For the past 50 years, Scania has been manufacturing trucks in Brazil, which was the first manufacturing site outside of Sweden. Scania Latin America employs approximately 3,500 people and is located in São Paulo, Brazil. With a production capacity of 20,000 vehicles annually, Scania Latin America accounts for 20% of sales for the global corporation.

Scania Ecuador (Dealer)

Scania has more than 1500 dealers in 100 countries; the Scania dealer in Ecuador, SCANEQ started its activities in 2001. Currently, the company is located in Quito and employs 15 people and constantly uses service suppliers such us Engine Rectifying, Engine Cleaning, Lathe Service, Injection System Laboratory, Electric Workshop.
The dealer of Scania in Ecuador has been facing some problems lately. The Ecuadorian market for heavyweight vehicles is considered marginal because of its small size compared to other markets in Latin America. Therefore, the dealer in Ecuador considers that the Factory in Brazil does not put enough emphasis and efforts in order to solve the current problems that the dealer faces. As a result, nowadays, the reputation and reliability of the Scania brand in Ecuador are threatened because of the aforementioned problems. Brands such as Mercedes and Hino are big competitors with lower prices than Scania in the Ecuadorian market for heavyweight commercial vehicles and therefore, they are increasing its market share in the country.

The main problems are related to low quality products and service, poor information flow, and service delays.

- **Poor information flow**

Insufficient information about the damaged trucks and repair needs is according to the Brazilian factory- sometimes sent by the Ecuadorian dealer. They claim that they can’t diagnose the truck issues efficiently with the poor information they get, and instead they base their diagnose on previous experience and repair guides.

- **Low quality products and service**

Some auto part defects are well known in the Brazilian Factory, and the inferior quality auto parts from the Brazilian manufacturer have sometimes not been detected in time and the trucks have broke down.

- **Delay in delivery of auto parts and warranties**

Because of lack of stock in the factory in Brazil, and the fact that the Ecuadorian market is of low priority for the manufacture, the delays of auto parts can sometimes be up to two months. The delays are costing the customers large amounts of money since they can’t operate business as usual during the period they are waiting for the spare parts from the supplier.

The claim for warranty to be processed has sometimes taken up to five moths and then been canceled, this also relates to the low degree of attention that the marginal markets gets from the supplier network.
1.4 Problematization

Gary et al. (1989) states that the dependence level between firms within the distribution channel determines how the firms work within the relationship. There has been a tendency during the last decades towards more intense interaction between firms and the firms gets more and more dependent on the network that they are working in. Ford et al (2003) states the more coordinated supplier/distributor relationship is an important reason for the more intense focus on the supplier relationships.

As mentioned above, many researchers are stressing the importance of the supplier relationship; one other reason for this is that in many industries the purchased goods and raw material are a large part of the total expenses (Ford et al). The internationalization of the world marketplace has made the access to more suppliers in different countries easier, as a result of this; firms can more easily lower their expenses by choosing a low cost supplier. Although, in some cases a company can for corporate reasons be heavily dependent on one specific supplier.

“The dependence of a target firm on a source firm refers to the target’s need to maintain the channel relationship in order to achieve desired goals” (Gary et al. 1989).

In this case there is an unsatisfactory relationship between a dealer and a supplier, the consequence is a less motivated supplier that is manufacturing products that doesn’t meet the quality requirements of markets from developing countries, which are characterized by a low level of transportation infrastructure compared to developed countries.

Gary et al. (1989) argues that a highly dependent dealer are more likely to be dissatisfied with the relationship than a less dependent dealer if they have conflicting goals, values and interests.

We have identified the main problem for our thesis being the discrimination of marginal markets which is expressed in three ways from the distributor network; low quality products and service, poor information flow, and service delays. These issues will be presented in more detail below, and are resulting in our research question for the thesis.
- Supplier Motivation -

![Diagram showing the problem of discrimination of marginal markets caused by low quality, poor information flow, and delays, leading to impaired brand reputation.]

**Problem**

Discrimination of marginal markets

**Caused by**

- Low quality
- Poor information flow
- Delays

**Impaired brand reputation**

How can the local dealer in a marginal market motivate its supplier to cooperate as efficiently as with the high profit markets?

How to establish an efficient supply chain in order to improve the network relationship between the supplier and its distributor?

How does power distribution and dependency affect the supplier – distributor relationship?

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**Figure 1**

- **Poor information flow**

Communication is defined by Blyth (2003) as a transactional process between two or more parties whereby meaning is exchanged through the intentional use of symbols. The information flow over country borders can be an issue from an institutional perspective when the information doesn’t get interpreted as it was originally meant, and it gets easy for the receiver to avoid responsibility.

- **Low quality products and service**

A drawback for a marginal market is that suppliers do not prioritize the market because the market size is not perceived as profitable enough. The result could be that the suppliers for the less profitable markets ignore to meet the quality standards or gives hasty and negligent service in order to be more attentive to the needs of the larger market customers.

- **Delay in delivery of auto parts and warranties**

Problems such as lack of stock, delays in the delivery of spare parts or in the execution of warranties affect the end-customer who may consider switching to other brand. In
developing markets the price sensitivity is considered as rather high and the customers are more concerned about the costs than about the quality of the products.

1.5 Research question

The issue stated above concerning the discrimination of marginal markets and the consequences of this problem is the foundation of our research question:

1. How can the local dealer in a marginal market motivate its supplier to co-operate as efficiently as with the high profit markets?

Sub-question:

2. How to establish an efficient supply chain in order to improve the network relationship between the supplier and its distributor?

3. How does power distribution and dependency affect the supplier – distributor relationship?

1.6 Purpose

The overall purpose of this study is to describe and analyze the network relationship between the MNC, the subsidiary and a dealer in a marginal market from a supply chain management point of view and propose strategic recommendations about how to motivate a supplier to work more efficiently with a dealer in a marginal market.
2. Methodology

The purpose for this chapter is to introduce the reader to the research methods that we utilized through this thesis. We will describe and motivate the methods that we have applied and give account for the framework behind these methodology-theories. We will further discuss our research approach, the research strategy, case study, data collection and analyzing methods, the validity and reliability of the collected data.

2.1 Research approach

2.1.1 Choosing approach
There are three commonly used alternatives for the research approach; these are inductive approach, deductive approach, and abductive approach. The alternatives have different characteristics and standpoint to the theoretical framework and empirical studies that has be taken into consideration when deciding what research approach to follow.

2.1.2 Abductive research approach
In our study we have identified our research approach being a abductive research approach, this is based on how the research question evolved and how the research process developed through the thesis. According to Dubois & Gadde (2002) the abductive approach is a “continuous movement between an empirical world and a model world”, which the authors are calling Systematic combining. The authors are further explaining the concept as a process where the theory, empirical study and case analysis evolve simultaneously. The process is divided in two blocks where the empirical study is matched with the theory and secondly directing and redirecting the research process along the study.

In our research, the problem evolved from the reality where a relationship issue occurred in a MNC, in order to fully understand the problem related to the case company we gathered theory and matched this to the problem. Further on, we
gathered more empirical data by doing a case study to confirm the theoretical framework that we found most suitable for the study. Continuing on, we analyzed the theoretical framework with the empirical findings by comparing them in order to give an accurate conclusion of how to explain and answer the research questions, and further give the case company recommendations for how to manage the problem.

2.2 Research strategy

2.2.1 Qualitative research

The nature of our research approach and the issue we identified relating to the case company, we consider that a qualitative research is best suited for collecting the information needed. Qualitative research is according to Merriam (1998) an umbrella concept that covers a variety of research methods for helping the researcher to understand and explain the meaning of social phenomena; these research forms can for example be case study, field research, or participant observations. Merriam (1998) states that the focus for qualitative research should be to explain the nature of the phenomena in its context and not to predict what may happen in the future. When doing this type of research, the sampling is rather limited and could include a few non-random interviews or observations.

A qualitative research was the best-suited alternative for our research were we made a qualitative case study which we based on several interviews with the case company Scania Ecuador and their supplier Scania Brazil. We also made an interview with a representative from Scania in Sweden in order to get an outside perspective on the issues that we are basing our research on.

Since the informants were located in both Brazil and Ecuador the time differences made it rather difficult to synchronize the phone interviews, which were made during evenings. To get the most out of them we first sent the informants some questions in advance that they replied by e-mail, and then several phone interviews were made. By e-mailing the questions firstly, the informants had time to reflect upon the complex issues and therefore gave us more insightful answers.
2.3 Case study

A case study is according to Yin (2003) allowing the researcher to obtain the holistic and important characteristics of real-life events, e.g. organizational and managerial processes or personal relations. Case studies can be divided into three categories depending on the purpose of the study: exploratory, explanatory, and descriptive.

Deciding what strategy to use, there are three conditions that has to be taken in consideration:

1. The type of research question posed
2. The extent of control an investigator has over actual behavior
3. The degree of focus on contemporary as opposed to historical events

From these three conditions it’s according to Yin (2003) possible to decide upon which strategy to utilize from the following choices: experiments, surveys, archival analyses, histories, and case studies. We have from evaluating these conditions determined that a case study is the most suitable for our research about the relation between Scania Ecuador and Scania Brazil, and the motivation of suppliers.

Our research question “how” is suitable for the case study strategy and we consider it being a research of exploratory nature where we investigate the contemporary events in order to recommend guidelines for solving the present issues.

The research question that we formulated require us to dig deeper into the specific companies involved in the relationship, which will best be done applying the case study method.

2.3.1 Designing the case study

The design of the case study have according to Yin (2003) five components that are of significant importance, 1) the study question, 2) its propositions, 3) its units of analysis, 4) the logic linking the data to the propositions, 5) the criteria for interpreting the findings.

We are designing our case study in a way that it reflects the empirical findings that our research question is based on and guide us through the research to a satisfactory end result. We are firstly collecting data from the units of analysis, which in this case
is the Scania dealer in Ecuador, the Scania manufacturer in Brazil, and to some extent Scania Sweden. We start to get some general background of the research problem, and further on deepen into a more specific substance of the problematization.

2.3.2 Embedded case study

In this section we intend to clarify which type of case study reflects our research and explain the rationale behind our choice for the specific research type, further we will in detail account for the principles of the types of case study method.

We are only going to give account for the type of case study that is relevant for our research but we will briefly explain the overall reasoning behind the research design. Yin (2003) explains that there are four types of case studies that are based on a 2 x 2 matrix. These types is based on either single-case studies or multi-case studies and is combined with how many units that is being researched at the same time. This results in four types of case study designs; Type 1 (single-case, holistic), Type 2 (single case, embedded), Type 3 (multi-case, holistic), and Type 4 (multi-case, embedded). We have identified our research to be a single-case design, embedded case study, which is represented as the Type 2 in Yin’s case study matrix.

A single-case study design can according to Yin (2003) be motivated by five rationales:

1. **Critical case**: when testing a well-formulated theory, to conform, challenge, or extend the theory. Single case study can determine if the theory’s proposition is correct or to give an alternative explanation.

2. **Extreme or unique case**: used in situations that is rare and worth documenting

3. **Representative or typical case**: used when typical issues that occurs to capture the circumstances and conditions

4. **Revelatory case**: this situation occurs when researchers have the chance to observe and analyze phenomena that previously was not possible.

5. **Longitude case**: when studying the same issue at two or more points of time.

The same single case study can according to Yin (2003) involve one or more units of analysis, which characterize the Holistic versus Embedded case study. When studying
more than one unit in a single case for example a MNC, and the analysis involves separate divisions or department in the organization, the design is called * Embedded design*. The embedded units can be sampled in different ways, for example through sampling or cluster techniques. In the *Holistic* case study design it only includes one unit of analysis but in a holistic view.

We are in our research utilizing the Type 2 (*single-case, embedded*) case study design. We are investigating one specific company, Scania in Ecuador and its relation with Scania Brazil which both are included in Scania heavy vehicle group. The case has rather unique circumstances since the problem with motivation of supplier management usually are in the opposite way, that is, the motivation emphasis has its starting point from the manufacturer’s perspective to motivate the dealers to work harder to sell their products. In our case, the starting point is the dealer’s perspective, to motivate the supplier to work more efficiently with the products and not neglect them just because Ecuador is a small market compared to the surrounding markets.

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*Figure 2*, Yin (2003)

### 2.4 Data Collection

According to Yin (2003), data for case studies can come from different sources of evidence. The author identifies six sources of them in doing case studies: documentation, archival records, interviews, direct observations, participant-
observation, and physical artifacts. Our research has been mainly based on interviews.

2.4.1 Interviews

Yin (2003) considers that the interview is one of the most important sources of case study information. Gillham (2008) argues that when doing individual case studies, as in our case, interviewing is practicable and probably essential. According to Fisher (2004), interviews can be conducted in an open, structured or semi-structured manner. For our research study, the semi-structured manner is the most applicable because we used a schedule to remind the informants the main issues and topics that needed to be covered but at the same time, the informants felt free to respond to the questions in the way they considered more appropriate. Fisher (2004) states that the critical incident approach is a form of a semi-structured interview. This one was applied to our case because it implies asking the informants to think about a particular case in their working life when having to deal with a specific issue and encouraging them to explain the event in detail.

Yin (2003) points out that throughout the interview process, the investigator has two tasks: to follow an own line of investigation, as reflected by the case study protocol and to ask conversational questions in an unbiased way that also serves the needs of the line of inquiry. Our two tasks were well executed because our questionnaires follows a structure always based on our study protocol. At the same time, sending our open questionnaires by e-mail and afterwards making phone interviews was helpful in order to achieve an unbiased way of making questions. Fisher (2004) considers that the main advantage of making telephone interviews is that it is possible to get access to people by phone that would never find the time to give you an interview. In our case, we made telephone interviews because our informants were in other countries and it was not possible for us to travel there.

When it comes to the kind of questions used in our interview questionnaires, in order to avoid creating defensiveness on the informant by using “why” questions as Yin (2003) mentions, in our interviews we posed mostly “how” questions. By this way, we are satisfying the needs of our line of inquiry but at the same time we are using
“friendly” and “nonthreatening” questions in our open-ended interviews. Thanks to our way of posing questions our interviews appeared to be more guided conversations rather than structured queries.

In our case we consider that we had informants rather than respondents and in order to avoid becoming overly dependent on a key informant, which in our case is the one representative of Scania Ecuador, we are relying on other sources of evidence that can provide us a contrary position, in this case it is a representative of Scania Brazil and another of Scania Sweden.

2.4.2 Three principles of Data Collection

These principles are relevant to all six sources and when used properly, can help to deal with the problems of constructing validity and reliability from the case study evidence.

**Principle 1: Use of multiple Sources of evidence**

According to Yin (2003), a major strength of case study data collection is the opportunity to use many different sources of evidence. Any finding or conclusion in a case study is likely to be much more convincing and accurate if it is based on several different sources of information. For our research we have used different sources of evidence such as information coming not just from the focal company that in this case is Scania Ecuador but also from Scania Brazil and Scania Sweden. These different sources of evidence have provided us with different perspectives of the same topic that have helped us to develop convincing and accurate conclusions.

**Principle 2: Create a Case Study Database**

A second principle has to do with the way of organizing and documenting the data collected for case studies. A case study database increases markedly the reliability of the entire case study. In order to develop our database we have case study notes and case study documents; which are organized, categorized, complete and available for later access.

**Principle 3: Maintain a Chain of Evidence**

According to Gillham (2008), the multiple sources of evidence; which have to be related to each other and then put together into our narrative represent the ‘chain of
evidence’ proposed by Yin (2003). The principle is to allow an external observer –in this situation, the reader of the case study- to follow the derivation of any evidence, ranging from initial research questions to ultimate case study conclusions. Concerning our research, in order to facilitate this principle, we made sure that the data collection followed the procedures contained in our protocol and we did sufficient citation in our documents and interviews.

2.5 Analyzing the data

According to Yin (2003), data analysis is about examining, categorizing, tabulating, testing or recombining both quantitative and qualitative evidence to address the initial propositions of a study. Fisher (2004) states that before starting to write the analysis it is important to code the information which implies drawing out the usable material from all the collected information. In our case, we identified themes; we divided the research material into units and allocated the units to the themes. As Gillham (2008) states, the more orderly we are in our habits, the easier it will be to proceed with the analysis.

Yin (2003) states that producing high quality analysis requires investigators to display and present all the evidence in an objective way and afterwards use it to explore alternative interpretations. According to Gillham (2008), it implies moving from one form of evidence to another, reading, studying and thinking. In order to examine the data, Yin (2003) proposes a set of helpful analytic manipulations to display data such us flowcharts and other graphics. In our case, we have developed several flowcharts and graphics; which helped us to put evidence in a preliminary order.

Yin (2003) proposes three strategies and five specific techniques to analyze case study data. The three strategies are theoretical propositions, thinking about rival explanations and developing a case description. In order to conduct our case study analysis, we chose the first strategy based on theoretical propositions. This strategy consists about following our theoretical propositions to guide our analysis. In our case, our theoretical propositions shaped our data collection plan. We had theoretical orientation guiding our case study analysis. The proposition helped us to organize the entire case study and to define alternative explanations to be examined.
Yin (2003) also mentions specific analytic techniques to be used as part of and along with any of the general strategies. According to the author, these techniques aim especially to deal with the problems of developing internal validity and external validity in doing case studies. The five specific techniques for analyze case studies are pattern matching, explanation building, time-series analysis, logic models, and cross-case synthesis. The first four are applicable for studies that involve a single or a multiple case design.

From the techniques proposed by Yin (2003), the most suitable for us was explanation building. The goal of this technique is to analyze the case study data by building an explanation about the case. The procedure is mainly relevant to explanatory case studies as in our case. According to Yin (2003), the better case studies are the ones in which explanations have reflected some theoretically significant propositions and this is exactly what we have done. Using this technique we have basically made an initial theoretical statement or proposition and compare it against our findings. The case study evidence has been examined, theoretical propositions have been revised and the evidence has been examined once again from a new perspective.

Yin (2003) considers that one of the potential problems at using this technique is that much analytic insight is demanded and for example, the investigator may slowly begin to drift away from the original topic of interest. In order to avoid that, we have tried to make constant reference to the original purpose of our inquiry and possible alternative explanations helped us to reduce this potential problem.

2.6 Research Quality

Yin (2003) proposes four tests in order to measure the quality of an empirical research and includes the identification of some tactics to deal with them. These tests are construct validity, internal validity, external validity, and reliability.

2.6.1 Construct Validity

According to Yin (2003), this first test has to do with “establishing correct operational measures for the concepts being studied”. In order to avoid having an insufficiently operational set of measures and especially, subjective judgments, multiple sources of evidence coming from three different parties with different points of view are being used, as it was already described in the first principle of data collection. At the same time, as it is mentioned in the third principle, a chain of
evidence has been established by especially making sure that the data collection followed the procedures contained in our protocol.

2.6.2 Internal Validity

Internal validity can be applied to our research because, as Yin (2003) mentions, it is for explanatory or casual studies only, and not for descriptive or exploratory studies. The author also mentions that a case study involves an inference every time an event cannot be directly observed. Nevertheless, we need to prove that our inferences are correct and therefore prove a high internal validity in our research. For this purpose, we are using one of the techniques proposed by Yin (2003) to analyze data; which is explanation building. As it was already described in the previous part, this technique is based on making an initial theoretical statement or proposition, and comparing it against our findings in order to build an explanation about the case.

2.6.3 External Validity

According to Yin (2003), this third test “deals with the problem of knowing whether a study’s findings are generalizable beyond the immediate case study”. There is a general assumption that states that a single case offer a poor basis for generalizing. The fact that we are using case study instead of survey research constitutes an advantage because case studies rely on analytical generalization. Merriam (1998) proposes two strategies for enhancing the possibility of generalization of a single case study; which allow the readers to make relevant comparisons related to their own situation. The first one is called ‘rich thick description’ and requires enough description provided by the researchers. The second one is called ‘modal category’ and describes how typical the phenomenon studied is. These methods allow the readers to make relevant comparisons related to their own situation. In our case, as we have presented a very detailed and deep description of the problems that a dealer in a marginal market has, readers can make comparisons related to their own cases easily finding similarities. Our external validity is high because our theory, empirical findings and analysis can be applied to other cases related to marginal markets.

2.6.4 Reliability

Yin (2003) states that reliability has to do with demonstrating that the procedures of a study can be repeated by other investigator with the same results, meaning that the later investigator should arrive at the same findings and conclusions. The goal of
reliability is to minimize the errors and biases in a study. For this purpose we have applied the ‘probing technique’ proposed by Merriam (1998). For example, with the main informant of our case company we have more than seven interviews in order to get more details and examples and avoid oversimplify or exaggerate the situation. At the same time, our case study protocol has guided us in carrying out the data collection. The way that our study protocol has been designed has had enough guidelines to keeps us targeted on the subject of our single case study.
3. Theory

In this chapter we are going to present the theoretical framework that is relevant for the research topic we have chosen to study. The theories we consider being useful for this purpose has been divided in two blocks: Supply chain management and Relationship marketing, which is the fundament of this study.

3.1 Supply chain management

According to Schary et al. (2007), the concept of the supply chain is referred to a “linear sequence of operations organized around the flow of materials from source of supply to their final distribution as finished products to ultimate users”. Supply chain involves sources of material resources, and the organization of manufacturers, distributors, and users. At the same time it includes supporting enterprises providing transport, communications, and other specialized functions.

Manufacturer is the entity in the supply chain that makes a good through a process involving raw materials, components, or assemblies, usually on a large scale with different operations divided among different workers (BusinessDictionary.com, 2007-2009).

Distributor is the entity that purchases products from the manufacturer, warehouses them, and resells them to retailers or direct to the end users or customers. Distributors usually provide a range of services to their customers such as technical support, after-sales services, credit, and so on (BusinessDictionary.com, 2007-2009).

User is the entity that has authority to use an application, equipment, facility, process, or system, or one who consumes or employs a good or service to obtain a benefit or to solve a problem, and who may or may not be the actual purchaser of the item (BusinessDictionary.com, 2007-2009).
3.1.1 Characteristics of supply chain

According to Schary et al. (2007), the characteristics of the supply chain are:

- Supply chain is a complete process for providing goods and services to end-users.

- Correlation includes all parties, from initial material supplier to final user.

- Supply chain operations includes procurement, production, and distribution.

- Management extends across organizational borders and includes planning and control of other organizational units.

- Coordination between organizations is possible by using a common information system accessible to all members.

- The performance of the supply chain as a whole allows member organizations to achieve their own individual objectives.

Supply Chain

![Supply Chain Diagram](image)

Figure 3 Schary et al. (2007) p. 42
1. Supply Chain Management (SCM)

Christopher (1998) mentions that due to current intense competition, rapidly changing technologies, and evolving customer requirements, it is impossible for a firm alone to fulfill the whole process of meeting the demands of the market. As a countermeasure, organizations need to develop connections to other organizations in a network relationship. Taking into account that according to Christopher (1998), “supply chain is a concept of closely coordinated, cooperative networks, competing with other networks”, Supply Chain Management (SCM) is referred to the management of multiple relationships across the supply chain. Lambert and Cooper (2000) states that SCM deals with “total business process excellence and represents a new way of managing the business and relationships with other members of the supply chain.”

SCM links operational units together but at the same time deals with the full extent of supply activities: procurement, production, and distribution.

*Procurement* is also known as sourcing and involves purchase planning, supplier research and selection, value analysis, financing, price negotiation, making the purchase, supply contract administration, inventory control and stores, disposals and other related functions (BusinessDictionary.com, 2007-2009).

*Production* is the process and method employed to transform tangible inputs (raw materials, semi-finished goods, or subassemblies) and intangible inputs (ideas, information, know how) into goods or services (BusinessDictionary.com, 2007-2009).

*Distribution* plays an essential role in the supply chain because it makes the final products and services available to the ultimate customers. Therefore, beyond its functional role of product delivery, it makes the supply chain sensitive to the market.

According to Schary et al. (2007), it is the final stage of supply chain management and is an important part of the marketing mix that involves two major processes: sales and physical distribution.
The basis of the concept of the supply chain is the *value chain* of Michael Porter (1985). Porter described a sequence of primary activities that add value to the output of the firm: inbound logistics, operations, outbound logistics, marketing & sales and services. Schary et al., (2007) states that these activities require management as well as strategic direction and planning, operational planning, finance, accounting, and quality management. The value chain analysis proposed by Grant (2008) is useful to identify linkages among activities and therefore analyze how problems are interrelated. Product reliability is likely to be the outcome of several linked activities for example, quality control and product testing. To make this analyze it is important to construct a value chain for the firm and for the buyer and locate linkages between the value chain of everyone of them.
SCM recognizes interdependent behavior among member organizations as well. Therefore, directing this interaction becomes the purpose of supply chain management. Schary et al. (2007) states that SCM takes “charge of all decisions that affect the chain and make decisions for the system as a whole”.

3.2 Elements of Supply Chain Management

Lambert and Cooper (2000) propose that SCM can be divided into three interrelated elements in order to design and successfully manage a supply chain, as it is illustrated in Figure 6. The SCM interconnected elements are: the supply chain network structure, the supply chain business processes, and the supply chain management components.

Figure 6 Lambert and Cooper (2000) p. 70

3.2.1 Supply chain network structure

The supply chain network structure consists of the member firms, and the links between them. The members of a supply chain include all companies/organizations with whom the central company interacts directly or indirectly through its suppliers or customers, from point of origin (raw materials) to point of consumption (ultimate consumer). The complexity of the product, the number of available suppliers, and the availability of raw materials determines how much of the supply chain needs to be managed.
Lambert and Cooper (2000) states that one important aspect of the network structure has to do with the members within the supply chain. In order to make a very complex network more manageable, it is important to distinguish between primary and supporting members. Primary members of a supply chain are all the companies or business units that “carry out value-adding activities (operational and/or managerial) in the business processes designed to produce a specific output for a particular customer or market”. In contrast, supporting members are “companies that simply provide resources, knowledge, utilities, or assets for the primary members of the supply chain”. Supporting companies include for example banks that lend money to a retailer, the owner of the building that provides warehouse space or companies that supply production equipment.

3.2.2 Supply chain business processes

Davenport (1993) states that the activities that produce a specific output of value to the customer are called business processes. SCM implies a change from managing individual functions to integrating activities into key supply chain processes where the customer remains as the most important focus. Operating an integrated supply chain requires continuous information flows, which in turn help to create the best product flows. The customer remains the primary focus of the process. Achieving a good customer-focused system requires processing information both accurately and in a timely manner for quick response systems that require frequent changes in response to fluctuations in customer demand.

According to Davenport (1993), a process is “a structured and measured set of activities designed to produce a specific output for a particular customer or market”. Bowersox (1997) states that “thousands of activities are performed and coordinated within a company, and every company is, by nature, in some way involved in supply chain relationships with other companies”. In a relationship between two companies for example, certain activities will be linked and managed between them.

Lambert and Cooper (2000) mentions that due to the fact that both companies have linked some internal activities with other members of their supply chain, a link between two companies is therefore a link in what might be conceived as a supply chain network. For instance, the internal activities of a manufacturer are linked with
and may affect the internal activities of a distributor, which in turn are linked with and can influence the internal activities of a retailer. At the same time, the internal activities of the retailer are linked with and may affect the activities of the end customer.

The quantity of business processes that it is important and beneficial to integrate and manage between companies will possibly vary. In some cases, it may be convenient to link just one key process and in other cases, it may be suitable to link several or all of the key business processes. The main components to integrate and manage a supply chain will be described next.

### 3.2.3 Supply chain management components

The management components are elements by which the business processes are integrated and managed across the supply chain. Lambert and Cooper (2000) have identified nine components that must receive managerial attention when managing supply relationships: planning and control, work structure, organization structure, product flow facility structure, information flow facility structure, management methods, power and leadership structure, risk and reward structure, and culture and attitude.

**Planning and control** of operations are important in order to move an organization or supply chain in a desired direction.

**Work structure** indicates how the firm performs its tasks and activities. The level of integration of processes across the supply chain is a measure of organizational structure.

**Organizational structure** is referred to the individual firm and the supply chain.

**Product flow facility structure** is related to the network structure for sourcing, manufacturing, and distributing across the supply chain.

**Information flow facility structure** has to do with the kind of information passed among channel members. The frequency of information updating has a strong influence on the efficiency of the supply chain.

**Management methods** are referred to the corporate philosophy and management techniques. The level of management involvement in day-to-day operations can differ across supply chain members.
Power and leadership structure may affect the form of the supply chain. One strong channel leader will drive the direction of the chain. The exercise of power, or lack thereof, can affect the level of commitment of other channel members.

Risks and rewards sharing affects long-term commitment of supply chain members.

Culture and attitude has to do with compatibility of corporate culture in the supply chain. Compatibility of corporate culture across channel members cannot be underestimated. Aspects of culture include how employees are valued and how they are incorporated into the management of the firm.

Fundamental Management Components

Figure 7 illustrates how the management components can be separated in two groups. The first group is the physical and technical group, which includes the most visible, tangible, measurable, and easy-to-change components. According to Lambert and Cooper (2000), if this group of management components is the only focus of managerial attention, then the results will be very disappointing.
The second group is formed by the managerial and behavioral components. These components are less tangible and visible and are often difficult to evaluate and modify. These last components define the organizational behavior and influence how the physical and technical management components can be implemented. If the managerial and behavioral components are not used in order to guide and reinforce an organizational behavior supportive to the supply chain objectives and operations, then the supply chain will risk of becoming less competitive and profitable. If one or more components in the physical and technical group are changed, then management components in the managerial and behavioral group may have to be readjusted as well. Taking into account that SCM is referred to the management of multiple relationships across the supply chain, it is important to have a broad understanding of this kind of relationships.

3.4 Relationship marketing

3.4.1 Relationship marketing concept

Gummesson (2006) defines the term relationship marketing as; “Relationship marketing puts relations, network and interaction in the center of attention”. Auruškevičienė et al. describe further the same term as having a clear focus on the creation of long-term relationships and profitability for the parties involved based on a mutual benefit assumption.

There are some key-purposes of engaging in relationship marketing, the first one is through personal relations with the customers build up a long-term relationship and create loyal customers. A second key aspect is the notion that a firm sometimes may benefit from just having one of very few suppliers, where they can gain efficiency by connect their supplier systems to create long-term relations, lower the delivery costs and facilitate delivery.

Networking is another key activity of relationship marketing, firms create collaborations with customers, suppliers and competitors with whom they share and complement each others resources in order to gain time and cost advantages.
Sheth & Parvatiyar (1995) argues that Relationship marketing reduce the transaction costs, which to a higher extent arise in traditional marketing, they also argues that the product quality of the products increase when the companies collaborate.

Relationship marketing relies according to Gummesson (2006) on four common believes that pervades this theoretical framework:

1. *Marketing management should be viewed as marketing oriented corporate management:* Marketing and sales pervades the whole organization and cannot be viewed as separate divisions. Every employee regardless of position affects the customer relations in one or another way, which means that the marketing departments task is also to guide the company internally towards marketing oriented thinking.

2. *Long-term co-operation and win-win:* A crucial way of thinking when it comes to the relationship marketing is the co-operation aspect, where suppliers, customers and other parties are viewed as possible collaboration partners and less as competitors. The purpose of this is to create a win-win situation where the different firms complement each other in order to create more value for the network as a whole. The focus has shifted from the traditional marketing view where the emphasis was on acquire new customers, and now the focus instead lies on maintaining durable relationships. The long-term perspective that Relationship marketing promotes is the opposite to the traditional way of marketing thinking, which focus on the single short-term transactions.

3. *All parties in a relationship have mutual responsibility of the actions. They have to be active:* the notion of the relationship depends on the trust between the firms, and this is based on the past and current actions taken by the organizations. Both the sales company and the buyer are forced to take responsibility for how the relation evolves in order to be satisfied with the outcome.

4. *Relation and service oriented values, not bureaucratic values:* Relationship marketing builds on a service oriented organization approach and the creation of good relationships. Bureaucratic values are quite the opposite of this and do
not put the customer in the center of attention, rather it’s an internal focus on rigid routines.

3.4.2 Fundamentals of a relationship

A relation described by Ford et al. (2003) as “the pattern of interaction and the mutual conditioning of behaviors over time, between a company and a customer, a supplier or another organization”. Time is an important aspect in this definition since the relationship is affected by past experience in the relation with the other party but also about future expectations. This matter requires that the managers constantly evaluate the business relationships over time in order to determine how much to invest in the relationship.

The interaction within the relationship is crucial since different parties are connected to their customer, suppliers, and other parties that define the business. For the firm to be profitable, they have to provide, exchange, and get access to the resources within the relationships.

Ford et al. (2003) states that every relationship has its unique characteristics concerning its dynamics, content, and how it affects the different parties involved. This means that there is no standard form of what a relationship looks like and in which ways it affects the parties within it.

3.4.3 Relationship benefits

Ford et al. (2003) argues that the obvious benefit of this kind of relationship is that a supplier is a source of the offerings that the company needs for its development. Specific supplier relationship allows access for a company to a bigger source of both technical and commercial skills. These offerings may include elements of product, service, advice, logistics and adaptation and provide the facilities, equipment, components and operations that a company needs. When supplier relationships are properly used they can dramatically enhance the resources and capabilities of a company and improve its market effectiveness.

Ford et al. (2003) make a distinction between two types of relationship benefits: cost benefits and revenue benefits. Cost benefits are economic gains to the company from
reduction of costs in other areas of its operations than in the relationship with the particular supplier. Revenue benefits are the benefits from a supplier relationship that enhance the revenue-generating capacity of the customer.

Understanding the importance of the different types of benefits of a relationship provide the basis for developing appropriate relationships with suppliers. Obtaining benefits may require substantial involvement with them, which in turn increases relationship costs. Therefore, it is important for the buyer to balance the level of involvement with suppliers in relation to the benefits and costs that goes along with the increasing involvement.

3.4.4 Relationship characteristics

There are a few characteristics of a relationship that are especially important from a Relationship marketing point of view for the business relations to reach the objectives of the theoretical framework. These characteristics and guidelines has to be taken in consideration by the companies involved in the relationship/network to create a balanced relationship.

Co-operation

As mentioned earlier, co-operation is the foundation of a relation and is according to Gummesson (2006) the most important aspect of relationship marketing. The author mentions that the degree of co-operation can be compared with the degree of competition. A high degree of collaboration between different firms and a low degree of competition gives the companies a good opportunity for a long-term relationship.

The close involvement with the suppliers, customers, and other parties integrated in the firms supply chain is according to Sheth & Parvatiyar (1995) resulting in an interactive way of doing business and promotes interdependence instead or independence of the separate firms. This view of company interaction is according to the same authors encouraging co-operation instead of competition and conflicts.

Commitment

The degree of importance that the separate companies consider the relation has for them, decides the level of commitment that they are prepared to invest in the relationship.
If the firm considers the relationship being of great importance, they have to commit heavily to the relationship and take responsibility to make it work. The commitment is related to level of dependence that a company has on the counterpart and it determines the behavior towards one another. Sorce (2002) describes that Relationship marketing strategies are more and more aiming for creating commitment with its customers since just customer-satisfaction alone doesn’t prevent customers to try new brands. The commitment is being build by the creation of long-term relationships for B2B customers, and by creating brand loyalty for the B2C customers.

Trust

Trust is a fundamental issue in business relations and relationship building; Gummesson (2006) states that trust between a supplier and its customer often can be the strength in the relationship. Trust can for example be the trust in that the deliveries are in time, quality of the products or services provides by the supplier, or financial trust in the counterpart. The degree of trust differs between cultures and the size of the companies involved, and Gummesson (2006) gives the example of the small companies that surround themselves in a limited network have their own set of rules while the large corporations also seek for legitimacy by the society.

Sorce (2002) refers to Hunt & Morgan (1994, p. 20-38) when she explains that trust and commitment are key variables in relationship marketing since they encourage firms to invest in long-term relationships and resist short-term alternatives.

Adaptation

For a long-term relationship to be successful the firms within it have to develop a certain amount of mutual adaptation towards each other. Adaptations take a lot of investments since they are specific adjustment to the needs of the counterpart and usually cannot be used for any other purposes than to the specific relationship. Adaptations of this kind can for example be common information system, payment systems, manufacturing or financial adaptations in order to make the relationship easier to manage. These long-term relationships with a high degree of adaptations can be costly for the firms involved to terminate.
Power

The power distribution that Gummesson (2006) refers in the Relationship marketing concept is the very similar characteristics as the Peterson et al. (2008) are describing in the resource dependency concept. The power in the relationship is rarely equal and one part is often in a stronger position to gain advantage. Although the power is not static, the power can easily change since the world markets are constantly changing and the supply and demand follows the trends. Gummesson (2006) states that all the heavy power usage by the stronger part will damage the relationship in the long run, both parties needs to have good intentions for the relationship to last.

3.4.5 Relation to the dissatisfied customer

Gummesson (2006) refers to the theory by Hirschman (1970) when he states that customers have three possible strategic ways to go if they are dissatisfied with the current relationship-situation with the supplier, Exit, Voice, and Loyalty.

The exit strategy is a simple case of termination of the relationship with the supplier, and seeks other suppliers. Voice relates to the customers ability to require the supplier to improve the performance and demand some kind of compensation for their mistakes. If the customer has more power compared to the supplier e.g. being a larger corporation, they have are in a good position of using the Voice strategy for improving the situation.

The last of these strategic means, Loyalty means that the customer for loyal or other personal reasons stays with the supplier although they are dissatisfied with the relationship. The decision of what strategy to utilize has its ground in the company’s preferences and the market structure relating to supply and demand Szabó (2008) referring to Hirschman (1970). Szabó furher claim that the exit strategy may be the most useful strategy in a highly competitive market where there are a variety of suppliers, while the voice strategy is better suited for monopolistic markets.

Additionally to the strategies that Hirschman (1970) developed, Gummesson (2006) added another strategy to the Relationship marketing concept, Co-operation. This means that the firms, through interaction solve the issues so both parties become satisfied.
3.4.6 Relationships with suppliers

According to Ford et al. (2003), developments on the supply side of companies have led to an increasing importance of the relationships with suppliers. As a result, this kind of relationships are considered important assets for the buyer company. The main aspect is not about “buying the right products at the right time and the right price”, but handling and developing a long-term relationship with key suppliers.

On the other hand, Ford et al. (2003) argues that supplier relationships often affect many areas of the business, such as operations, development, logistics and marketing. It is difficult to estimate the extent to which individuals in each company learn both technically and commercially through their interactions with supplier personnel. The two participants in a relationship are likely to have quite different perceptions of the importance of that relationship to themselves and each other.

Due to this fact, it is important to analyze the potential contribution of suppliers is important to understand the consequences of how these relationships should be handled and developed. For this purpose, it is important to remark supplier relationship benefits.

3.5 Fundamentals of a Network

The overall theme of Relationship marketing as well as SCM is to coordinate separate divisions inside the company or co-operations within the network in which the company is working in.

A network can have a variety of shapes depending on what the relationships within it looks like. Networks consist of complex interactions within and between companies and are not viewed as individual and isolated transactions. A network can according to Ford et al. (2003) be viewed as a number of nodes that are tied together by specific threads; the threads represent the relationships between the firms whom are symbolized by the nodes.

The nodes can for example be producers, suppliers, distributors, service companies or other organizations that influences the network on its specific market. The threads and the nodes have different characteristics and content depending on the relation between the different firms and their specific roles in the network. Ford et al. (2003) explains
that the nodes and threads have tangible and intangible resources such as financial and intellectual.

The firms in the network are contributing with different resources in terms of physical, technical and human resources that ties them together with the other companies in the network. A network can according to Zhu et al. be viewed as organizations that are involved in long-term relationships, which are more reliable in terms of information flow and information density than short-term market relations.

3.6 Involvement and power distribution in Supplier Relationships

Buying companies develop various types of relationships with their suppliers. According to Ford et al. (2003), they can be categorized in terms of high and low-involvement relationships:

3.6.1 Low-involvement relationships

This kind of co-operation does not impose dependence with a supplier. Some of the advantages of this kind of relationships are that they are cheap to operate because the relationship-handling costs are low. Too much investment and commitment to one supplier could lead to less long-term flexibility. At the same time, high involvement with a single supplier makes it difficult to promote competition among different suppliers to improve their offerings or reduce their prices.

In practice a low involvement approach can work when there are several suppliers available. The interaction can be restricted to sales and purchasing administration. In low-involvement relationships there is limited co-ordination, adaptations and interaction and no specific product or service adaptations are made. In contrast, when it comes to the relationship benefits, the low-involvement approach offers few opportunities to contribute to cost and revenue benefits.

3.6.2 High-involvement relationships

In this kind of relationships there is a close co-operation that imposes dependency. This kind of involvement requires both companies to adapt some of their activities and invest dedicated resources in the relationship. These adaptations create
independencies and when this happens, it is not possible for a customer to switch to another supplier easily. Integrating resources with suppliers can increase the profit of both companies by contributing to better relationships between the buyer and its customers. Increased involvement may generate cost benefits in terms of reduced costs of operations, material flows and service.

In high involvement relationships, it is possible for the customer to take advantage of supplier skills and capabilities to improve its own offering which, in turn, leads to revenue benefits. Besides, the buyer is not focused on trying to get the best price; instead, it will try to improve its operations in the long term by using its suppliers’ resources more effectively. For instance, using the supplier to enhance buyer’s offerings for its customers. An example of this includes changes in the product designs to provide a higher performance offering to buyer’s customers.

However, high-involvement relationships are costly and resource demanding because they require adaptations of resources, co-ordination of activities and intense contacts between individuals. The gains in terms of relationship benefits cannot be achieved without extensive co-ordination, adaptation and interaction, which demand high costs. Therefore increased involvement is paid off when the increased relationship costs are compensated by relationship benefits.

### 3.7 Motivation of suppliers

According to Ford (2003) it is necessary for any company to actively try to manage its supplier relationships to make the best use of the resources of its suppliers, especially when it is about high-involvement relationships. As it was already mentioned, this kind of relationships brings considerable costs for buying companies because they require significant and continuing investments. However, these relationships impose high costs for suppliers as well. Hence, buyers have to encourage and motivate suppliers to be able to invest in high-involvement relationships.

A supplier must be continuously encouraged and motivated to continue the relationship and contribute to performance enhancement. One important incentive that a buyer can offer to a supplier in high-involvement relationships is securing a long-term business; which make the supplier able to plan for its future investment and use of resources. Besides, some interesting examples of motivational programs are
business activities where suppliers and buyers are able to identify potential benefits from high-involvement relationships. It contributes to establish a common perspective on business operations. Another activity has to do with a system for quality assurance where suppliers are given the option to present what they can offer.

3.8 Dependency

3.8.1 Power distribution

The relationship between the supplier and the customer is to a large extent characterized by the dependency and power dynamics between the firms. An organizations operations and the profitability is more and more correlating to how the relations with the supplier network has been developed. Customers are relying on the supply chain to a bigger extent than before relating help to drive cost reduction, process improvement, and quality of the products.

Gary et al. (1989) argues that the buyer is heavily dependent on the supplier in order to achieve their goals and must take actions and counteraction to keep the balance in the relationship.

Petersen et al. (2008) states that the power dynamics in the supplier - distributor relation has changed significantly in the past few years to the favor of the suppliers, where they now are in better position to “call the shots”.

3.8.2 Resource dependency theory (RDT)

The Resource dependency theory (RDT) theory is based on the notion that firms are embedded within the network in which they are operating in, and are dependent on the other firms within the network in order to survive. The dependency level is according to Petersen et al. (2008) determined by the resource dependence it has with other firms, e.g. if a buyer is highly dependent on the resources of another firm in order to produce their products then the supplying firm has the relative power in the relationship.

The RDT is based on the three factors that is used to evaluate the supplier chain partners:
1. **The importance of the resources**

2. **The availability of alternatives**

3. **The deployment of the resources**

These three factors are closely related to each other and the combination of them becomes the basis for the dependency level that a firm has for a specific resource.

The first factor; *importance of resources* refers to how important the specific resource is to the buyer and their operations. The second factor refers to the fact that the fewer alternatives that a company has to gain the necessary resources, the more dependent they are on the company or the few companies that provides the resources to the market. The last factor refers to the competition among competitors controlling the specific resource.

Wal-Mart is according to Mottner and Smith (2009) considered to be a good example of the dependency theory since they are working closely with their suppliers in order to gain competitive advantage. The company is using its position as a large corporation to gain bargain power in order to extract financial benefits from their small and medium sized suppliers.

Another good example of the same supplier-customer relationship is the ones between IKEA and a majority of their suppliers. In most of the cases the suppliers are only selling their products to IKEA and are thereby very dependent on the business that they have with this big MNC. This gives IKEA a great advantage for bargain the prices of the products, because without IKEA many of the suppliers would go bankruptcy.

### 3.8.3 Performance

Another aspect of dependency and the power dimension in the supplier-buyer relationship is the performance aspect. The investment in the relationship depends to a big extent of how satisfied the different companies are with each other and how well they meet their agreed commitments. Gary et al. describes the performance of an organization as “how well it carries out its role in a channel relationship with another firm”. The same authors further explains the rational of performance as when the level of performance from the supplier is perceived as high then the buyer is more likely to be highly motivated to maintain the relationship with the supplier. The
available alternatives for replacing the supplier when the performance level is high are perceived as rather few from the buyer side since they are satisfied with the current situation.

**Theoretical framework model**

![Image of the theoretical framework model](image-url)

*Figure 9*
Summary Theory

Supply Chain Management (SCM)

Supply Chain Management (SCM) is referred to the management of multiple relationships across the supply chain; which involves manufacturers, distributors, and end-users. SCM links operational units together but at the same time deals with the full extent of supply activities: procurement, production, and distribution. Distribution plays an essential role in the supply chain because it makes the final products and services available to the ultimate customers. It is the final stage of supply chain management and is an important part that involves two major processes: sales and physical distribution.

Elements of Supply Chain Management

The SCM can be divided into three elements helpful to design and successfully manage a supply chain: supply chain network structure, supply chain business processes and supply chain management components.

1. Supply chain network structure consists of the member firms, and the links between them. The members of a supply chain include all companies/organizations with whom the central company interacts directly or indirectly.

2. Supply chain business processes are the activities that produce a specific output of value to the customer. SCM implies a change from managing individual functions to integrating activities into key supply chain processes where the customer remains as the most important focus. For instance, the internal activities of a manufacturer are linked with and may affect the internal activities of a distributor.

3. Supply chain management components are elements by which the business processes are integrated and managed across the supply chain. Nine components have been identified and divided in two groups that must receive managerial attention when managing supply relationships. The first group is formed by Physical and Technical Management Components which are planning and control; work structure; organization structure; product flow facility structure; information flow facility structure. The second group is made up by Managerial and Behavioral Management Components, which are management methods; power and leadership structure; risk and reward structure; and culture and attitude.
**Relationship marketing**

Relationship marketing puts relations, network and interaction in the center of attention and has a clear focus on the creation of long-term relationships and profitability for the parties involved based on a mutual benefit assumption. Specific supplier relationships allow access for a company to a bigger source of both technical and commercial skills. When supplier relationships are properly exploited they can dramatically enhance the resources and capabilities of a company and improve its market effectiveness. Furthermore, co-operation, commitment, trust, adaptation and power are characteristics that have to be taken in consideration by the companies involved in the relationship/network to create a balanced relationship. A high degree of collaboration gives the companies a good opportunity for a long-term relationship.

**Dependency**

Firms are embedded within the network in which they are operating in, and are dependent on the other firms within the network in order to survive. The dependency level is determined by the resource dependence it has with other firms. If a buyer is highly dependent on the resources of another firm in order to produce their products then the supplying firm has the relative power in the relationship.

**Power Distribution**

The power dynamics in the buyer – supplier relation has changed significantly in the past few years to the favor of the suppliers, where they now are in better position to negotiate. The power in the relationship is rarely equal and one part is often in a stronger position to gain advantage. The heavy power usage by the stronger part may damage the relationship in the long run, both the parties need to have good intentions for the relationship to last.

**Involvement**

The close involvement between suppliers and buyers results in an interactive way of doing business and promotes interdependence instead or independence of the separate firms. In high-involvement relationships there is a close co-operation that imposes dependency. This kind of involvement requires both companies to adapt some of their internal activities and invest dedicated resources in the relationship. However,
high-involvement relationships are costly and resource demanding because they require adaptations of resources, co-ordination of activities and intense contacts between individuals.

**Commitment**

The degree of importance that the separate companies consider the relation has for them, decides the level of commitment that they are prepared to invest in the relationship. If the firm considers the relationship being of great importance, they have to commit heavily to the relationship and take responsibility to make it work. The commitment is related to level of dependence that a company has on the counterpart and it determines the behavior towards one another.
4. Empirical Study

In this chapter we are presenting our empirical findings, firstly by describing the marginal market of Ecuador, continuing with interviews from the separate countries. We are presenting the empirical findings countries wise in order to more clearly discover the different opinions from the suppliers and the dealer.

4.1 Ecuador market

Ecuador belongs to the group of small developing economies; which have certain characteristics, such as a high degree of openness, limited diversity in economic activity, export-concentration on a reduced number of products and small size of firms.

The small size of the Ecuadorian market results in market structures, which are characterized by significant imperfections. These derive from the limited number of participants and in many cases there are monopolies and oligopolies. Even where there are a large number of producers or traders, one or a few firms effectively dominate the operation of markets.

Firms in Ecuador are small by comparison with multinational corporations and firms in large economies. Small firms are at a disadvantage in the global marketplace because they cannot develop economies of scale, are not attractive business partners, and cannot spend significant funds on marketing, research and development.

In Ecuador there is heavy reliance on external trade because of a narrow range of technological resources and the inability to support certain types of production, given the small scale of the market. The import-concentration is high in some important industries such as the automotive industry.

4.1.2 Automotive Sector in Ecuador

The automotive sector in Ecuador involves vehicles assembling but mostly other productive activities such as vehicles and spare parts commercialization, (including national production and importations), garages and repair shops. This industry is an important labor generator and one of the most important taxpayers.
The automotive sector is very sensitive to macroeconomic variations. The exchange stability as a result of the dollarization process has had a positive influence in this sector, which has registered an important sales growth in the last years. Financing to buy vehicles has played an important role in automotive industry growth. The demand in the national automotive market concentrates especially in the segment of vehicles considered economical.

Regarding importations, during 2000 to 2004, total supply has been made up of the importation of vehicles basically. The variation of the number of imported vehicles has been very irregular. This behavior depends mainly on the economic situation of the country. In 1999 and at the beginning of 2000, vehicles importation suffered the worst crisis of its history. Nevertheless, it achieved to recover in 2001 with a growth record of 428.7% due to the distrust on the Ecuadorian financial system, which forced people to invest their money in durable goods. In 2004, national production decreased in 0.04% whereas vehicles importation increased in 23.6%.

Internal sales of vehicles are very irregular, in 1999 it was registered a decrease of 71.5% and an increase of 200% in 2004. Average prices of the different kinds of vehicles have remained steady. The average price for trucks and buses is the one that greater variation presents. In 2003 and 2004, the average price of this kind of vehicles grew in 3.6%.

**4.1.3 Scania Brand in Ecuador**

According to Francisco Clavijo, one of the principal shareholders of Scania Ecuador, a company called Baca Hermanos, in 1960 imported the first Scania vehicles from Sweden. At that time, this importation represented a big success for the company because those were the first vehicles with diesel engines that entered the Ecuadorian market. Between 1960 and 1985 a large amount of Scania vehicles (Scania L80, L110 and L111) were sold bringing high incomes for the company. In 1985, the corporation was dissolved and another company took the representation of the Scania brand in Ecuador, this company was called “Ponce Yepez”. Nevertheless, this company did not succeed this time because the vehicles prices started to get more expensive and it was difficult for them to compete with those prices in the Ecuadorian market. Due to this failure, “Ponce Yepez” lost the Scania representation in 1996.
From 1996 to 2001, the Scania did not have any representative in Ecuador and the brand risked to be lost. It was in 2002 that it was decided to activate the Scania brand in Ecuador and for this purpose the company Scaneq was created.

4.2 Scania Ecuador

Interviews with Fernando Arellano, Chief of the Service and Repair Department, who also is shareholder of Scania Ecuador provided us with useful information for our research through several interviews. According to the informant from Scania Ecuador, Spare parts, Warranties and Repair and Service departments have direct communication with Scania Brazil. Coordination between these departments and Scania Brazil is made mainly by e-mail and by phone when it is about high important issues.

4.2.1 Scania Ecuador Departments Activities

Spare parts department: Spare parts department main activities are related to purchasing and sales. Concerning purchasing activities, this department executes all the procedures related to importation of spare parts and vehicles (buses and trucks). On the other hand, regarding sales activities, this department supplies Ecuadorian customers with Scania products. Furthermore, this department provides spare parts to the Service and Repair Department.

Repair and Service Department: Repair and Service Department is in charge of repairing vehicles, when there is any specific issue or problem this department usually contact the Service and Technical Support department in Scania Brazil. Concerning the technical part, this department in Brazil is in charge of solving the problems by giving phone instructions to the department in Ecuador or sending information by e-mail such as guides, depending on the complexity of the problem.

When there is damage impossible to be repaired in any spare part or vehicle, the Repair and Service Department send a report to the Warranties Department.

Warranties Department: After receiving the report of a damaged vehicle or spare part, this department sends the information to the Warranties Department in Scania Brazil and monitors the cases until the warranty execution is done.
4.3 Relationship Marketing

4.3.1 Communication

According to Scania Ecuador, the Spare Parts Department has contact with the factory in Brazil almost every day. This communication is mainly to coordinate spare parts orders and to verify the availability of them in the Factory in Brazil. Before sending the spare parts, Scania Brazil always asks for a pre-payment, in some occasions it has happened that Scania Brazil has confirmed the availability of spare parts and then the payment has been made by Scania Ecuador, but still some spare parts have been missing. Scania Ecuador has received them afterwards, when another spare parts order is made. Warranties Department communicates with Scania Brazil once a week and the Repair and Service Department has it when there is some specific problem with a vehicle.

The information flow between these two companies is not considered so effective from the Ecuador dealer’s point of view in the case of warranties because sometimes the information is not comprehensible enough and there are problems when processing them. The informant explains that the communication between the Ecuador dealer and the manufacturer in Brazil is mostly done through e-mails, and this has according to him have had some shortcomings. For example, due to this means of communicating one problem occurred when processing warranties because of not receiving an e-mail from Scania Brazil that contained important information. The issue was related to articulated vehicles, Scania recognized that there was a design problem with the transmissions of these vehicles. The e-mail contained information stating that Scania acknowledged the problem and that the transmissions of all the vehicles that have been sold and that were identified as likely to have those problems were going to be changed without any cost. Nevertheless, the Scania dealer did not receive this information.

It was in the belief of Scania Ecuador that this could have been a consequence of the fact that there was a possibility that the dealership contract was not going to be renewed. The possibility that the contract was not going to be renewed was due to a delay with the construction of new facilities in order to have a bigger workshop with Scania worldwide standards. This delay was the result of a lack of agreement among the members of the shareholder board in Scania Ecuador. It is important to remark
that the only reason not to renew the contract was the delay with the facilities construction, for Scania worldwide, infrastructure to offer quality services to the customers is a very important issue. Nevertheless, as it was already decided that Scania Ecuador and Scania Sweden were going to continue co-operating, the information flow is currently considered to gradually improve.

On the other hand, Scania Ecuador consider that the explanation why Scania Brazil doesn’t reply e-mails as quickly as desired, could be that the company receives a big amount of claims and questions on a daily basis. Simple questions are not answered as fast as complicated ones. If the issue is very important and emergent, Scania Ecuador always has the opportunity to make a phone call and receive a prompt answer. Especially when it comes to technical matters, Scania Ecuador usually calls when the issue has to do with expensive spare parts. The positive aspect is that Scania Brazil always gives a solution to this kind of problems, by means of phone instructions or e-mails.

Scania Ecuador has identified the biggest problems related to the e-mail communication to be the ones that contain warranty claims. They consider that it’s difficult for Scania Brazil to completely understand the problem as they cannot make a physical verification and therefore sometimes they do not approve the warranty.

There is an advantage when there are pictures, graphs, and diagrams but mainly when the problems have been repeated before in other markets. When the problems are rare for them it would be a good idea to send the damaged spare part to Brazil. The problem is that some spare parts are very heavy and delivery costs can be very expensive.

Since the last year, warranty issues have started to decline and it’s estimated that warranties were paid in 90% of the cases. This figure can look very positive but this was not easily and quickly achieved. The most useful method to accelerate warranty executions was visits from members of Scania Ecuador to Scania Brazil and vice versa, especially visits from members of Scania Brazil allow them to really see the problem.

Scania Ecuador considers that in order to solve the problems related with warranties, it will be helpful to have a person with deep knowledge in the field in Scania Brazil,
which Scania Ecuador claims that is missing at the moment and a cause of a big part of the delays and confusions. In Scania Ecuador, the person that currently is in charge of warranties issues has a deep knowledge in the field.

4.3.2 Commitment

Members of Scania Ecuador are visiting the Scania Brazil facilities on an average of once or twice a year where the purpose of the visits mainly has been warranties checking. Scania Brazil also visits Ecuador once or twice per year, and the purpose of these visits is usually checking a specific kind of vehicles and for specific business, for example, when selling big amount of vehicles to transportation companies. Visits from Scania Sweden are unusual, but one of the previous has for example been made in order to inspect problems with articulated vehicles.

4.3.3 Relationship benefits

The dealer in Ecuador perceives a variety of benefits of having Scania as a supplier, e.g. the possibility of having access to the original products. Purchasing prices can be considered a benefit as well because in some cases the original Scania spare part can be cheaper than the alternative ones; furthermore, the Scania brand supports service quality. The main advantage is the possibility of claiming warranties directly to the factory that made the product, in this case Scania Brazil. In the case of working with alternative spare parts which in most cases are characterized by being cheaper than the original products and not coming from well known brands- claiming warranties directly to the factories that produce them is difficult because the business relationship in general is made with a representative or dealer, and not directly with the main factory.

Another important benefit that Ecuador receives from the co-operation is the possibility to attend educational courses offered by Scania Brazil. The company usually covers 70% of the expenses, while the dealers participating in the courses are required to pay for the plane tickets and accommodation, and Scania Brazil usually pays for the course, transportation and food.

Scania Ecuador considers that the relationship with Scania has allowed access to a bigger source of both technical and commercial skills. Scania Ecuador has access to the worldwide system of Scania, both technical and commercial; which allow the company to at the same level as Europe and Brazil, technically speaking. With the
relationship it allows access to advances and improvements based on previous experiences in other countries and giving advice in order to solve them. This information available to them via a database on a Scania private website where it is possible to find and download codes, user’s guides and catalogues.

Although the Ecuador dealer perceives many advantages with the relationship, there is the disadvantage of not been able to commercialize other brands. The most apparent areas affected as a result of the disadvantages are Sales and Repair and Service Department because it is not possible to reduce prices and make better offers to the customers.

### 4.4 Dependency and power distribution

The informant from Ecuador explains that the relationship with Scania world wide, Scania Brazil, and Scania Ecuador are depending on each other in diverse ways. Since our case company have exclusive representation rights in Ecuador, Scania worldwide are depending on them in terms of them selling their vehicles and making a good profit. The relationship between Ecuador and Brazil is as mentioned before a supplier – distributor relationship where the dealer are dependent on the supplier to provide them with sufficient products and service.

Annually, profitability of Scania Ecuador is of a 30% in spare parts and 10% to 14% in vehicles. The income from labor fees are not considered a profit generator; it just helps to cover some costs such as mechanics salaries for example. Profitability of Scania Ecuador can be considered very good compared to other companies in Ecuador. Nevertheless, it is different if it is compared to other countries such Colombia, Argentina or Peru, profitability in these countries tends to be higher because of their market size. Ecuadorian market size compared to the ones of the aforementioned companies is very small and that is the reason why Brazil is less interested.

The current dealership contract for the exclusive rights to sell Scania in Ecuador is for a year, and restrictions in the contract are mainly related to commercialize only the Scania Brand. The informant describes that one of the latest requirements from Scania Brazil for Scania Ecuador was the construction of a bigger repair shop with new facilities. There was a delay with this because of difficulties reaching
agreements inside the company quickly and keeping the budget as a result of costly expenses derived from problems with the vehicles. Nevertheless, Scania Ecuador has currently started the construction of these new facilities that have been required to keep the dealership license.

The power distribution in the Brazil/Ecuador relationship is pursuant to the informant in Ecuador: 100% Scania Brazil and 0% Ecuador. For example, Scania Brazil always asks pre-payments to Scania Ecuador, if there is something pending orders are not shipped. If the amount is big and exceeds USD 10,000, Scania Brazil gives credit but with an interest rate. The low level of negotiating power is an example of this unbalanced power distribution in the relationship where the dealer in general is not able to negotiate prices with Scania Brazil. For instance, in the case of warranty execution, Scania Brazil usually recognizes amounts of money for spare parts and also for labor fees. Scania Ecuador pays its mechanics a labor fee $25 but are only receiving $7 in compensation from Scania Brazil. Nevertheless, at one occasion the manager of Scania Ecuador was able to travel to Brazil to negotiate prices, he was then able to get a significant discount since the business was about selling a big amount of vehicles to one transportation company in Ecuador.

During a period of time there was a negative change in the business relationship especially because of a delay with one of Scania Brazil most important requirements that was already mentioned, the construction of the big repair shop with new facilities. This could have been a reason to lose the exclusive Scania representation in Ecuador. These negative changes appeared because of problems with the internal organization of Scania Ecuador, different opinions inside the company; that is why it was difficult to fast achieve consensus. To solve this problem adaptations have to be made, especially from Scania Ecuador side to save the co-operation with Scania, and the company finally started the construction of the new facilities.

Since the relationship with the Brazilian supplier is of significant importance for the dealer they are trying to do its best to improve the relationship because Scania is its exclusive and only main supplier in the Ecuadorian market. Without Scania representation the dealer in Ecuador would close its operations in the country. As the renewal of the contract was already confirmed, lately the trust level has increased
because of the interest of both parts to continue working together. The main objective for Scania Ecuador is at the moment to improving the brand management and increasing the quality service.

4.5 Involvement and power distribution

Scania Ecuador considers that there is a high involvement in the business relationship because in spite of being an independent dealer there is a high control coming from Brazil. Scania Ecuador has to send monthly reports about labor fees and sales. Concerning the technical part, Scania Ecuador has to send four reports per year pointing out the main problems with the spare parts and vehicles.

Scania Ecuador has recognized that an incentive system been developed by Scania Brazil to motivate the commercial relationship specifically in Ecuador. An example of this incentive system would be in the cases when the dealer takes the initiative, then Scania is always willing to offer its support for any activity that could improve the relationship. In general, Scania Brazil offers some incentives to motivate the dealers, for example a financial reward for the representative that sells the most vehicles per year.

4.6 Supply chain management

4.6.1 Purchasing

Regarding products sent from Scania Brazil to Scania Ecuador, the amount of spare parts is roughly $50,000 and an average of 2 vehicles per month. For spare parts it takes an average of 15 days by plane to arrive to Ecuador and for vehicles it takes three months since the order is sent. According to the informant of Scania Ecuador, any adaptation neither for spare parts nor for vehicles has been done specifically for the Ecuadorian market. Scania Brazil makes general improvements or new designs according to the reports sent by different markets.

4.6.2 Inventory Holding

In Scania Ecuador they believe that it’s important to avoid having a big inventory holding. Therefore, in general, the spare parts that register high demand are ordered
frequently and stocked. Thanks to this policy Scania Ecuador does not have outdated products in stock.

Nevertheless, there are some problems with the spare parts for articulated vehicles, there is a big fleet of this kind of vehicles and most of them operate an average of 16 hours per day. Hence, these vehicles need more spare parts than the amount that Scania Brazil is able to deliver. As a result, the vehicles cannot be repaired on time and it could take a month until they can start working again.

4.6.3 Marketing

Currently there is not a specific department for marketing activities in the company; the manager is the one in charge of these activities. The promotion of the brand has basically been based on promoting the brand in trade magazines circulating among transportation companies. The company has not done advertising campaigns using TV or radio.

Regarding marketing issues, Scania has not stated any requirements in the contract, only when utilizing billboards, Scania asks for specific parameters. Any activity related to events has been undertaken by Scania Ecuador especially because of the argument of lack of budget but mainly lack of the ability to achieve agreements within the company.

4.6.4 Sales

Regarding prices that Scania Brazil offers to Scania Ecuador and when it comes to competing between original brands it is considered that prices are very competitive. In contrast, in relation to alternative spare parts it is considered that there is a big difference and taking into account that Ecuador is a country of prices, not quality, customers have the tendency to acquire cheaper products. That is why Scania Ecuador considers that it is difficult to establish a long relationship with its customers, a representative of the brand always have high prices in labor fees and spare parts mainly due to its organizational structure. Customers usually go to other repair shops and to other spare parts suppliers especially when the warranty finishes or even before this. On the other hand, very few customers change their old Scania for a new one. Anyway, Scania Ecuador recognizes that high prices for Scania products help to maintain the brand recognition. Nonetheless, Scania Ecuador considers that with the
new repair shops and the new facilities that will be ready in June 2009, the image of the company will be improved and therefore its organization

On the other hand, which is interesting about Scania products and the alternative ones is that nowadays their quality does not differ a lot because some of their products belong to the same manufacturer. The explanation is that Scania cannot manufacture the whole range of products and that is why they turn to specialized manufacturers who produce the alternative products as well. For Scania Ecuador it is not possible to sell other brands but as an alternative to deal with competing suppliers, it is allowed to sell complementary products such as platforms, tanks, gas containers and tires. Never selling things that could represent Scania own competition. It is important to remark that buying products from Scania suppliers is not convenient for Scania Ecuador because these suppliers had usually very high prices.

4.7 Scania Brazil

*Interview with Rafael Oliveira who is representing Scania in Brazil.*

4.7.1 Relationship management

According to the informant of Scania Brazil, there is a difference between handling the business issues of a dealer in Ecuador and a dealer in Argentina and Peru because the latter are dealers owned by Scania. Therefore, there is a higher control and involvement with these dealers than with the independent dealers that are selling Scania trucks and buses on a dealer license. The dealer in Ecuador is an independent dealer; which means that it is operating under an independent dealer license and not owned by Scania.

Concerning communication between Scania Ecuador and Scania Brazil, it is handled by e-mail in a 90% and by phone in a 10%. The informant considers that communication flow between the two companies is rather effective but there could be some improvements to make it even better, he estimates the communication to be 90% efficient.

When it comes to the benefits of having a dealer in the Ecuadorian Market, Scania Brazil consider Ecuador to be a small market for heavy weight vehicles compared to markets such as Argentina or Brazil. In spite of that, Scania is able to have a relative
significant market share for buses and trucks in Ecuador. However, it cannot be compared to Peru for example, where Scania has been working for more than 50 years and therefore has been able to consolidate its participation in that market.

The disadvantage with the Ecuadorian market for heavy weight vehicles is that it is a market based mainly on prices and less on the quality of the products, which is a common characteristic of developing countries. This is a drawback for Scania since they are a more quality-oriented company with rather high quality products.

The business relationship with the Ecuadorian dealer for Scania Brazil is viewed as important because the dealer in Ecuador is an exclusive representative of the Scania brand in Ecuador; therefore it has all Scania support.

4.7.2 Trust

Scania Brazil has a high level of trust in the Scania dealer in Ecuador, despite the internal conflicts and difficulties that Scania Ecuador has had in the past. Scania Brazil has decided to continue working with the company in Ecuador, and as a result of this, the level of commitment in the relationship is considered high as well.

4.7.3 Adaptations

When it comes to adaptations that have been made by the company in order to improve the business relationship with the dealer in Ecuador, Scania Brazil states that there are several support systems (software) that are updated from time to time. These improvements have been made in order to make the systems easier to use and make the co-operation between the companies more efficient. For instance, one of these programs is related to the order system that is mainly focused on the technical part where Scania has developed a program where the design of the vehicle can be configured according to the customer requirements.

4.7.4 Communication

In order to improve the quality of Scania products, all the problems reported by every market where Scania has participation are analyzed and standardized by Scania Brazil. They in their turn are processing the information to Scania Sweden where development engineers are in charge of designing and improving the spare parts, this is where all spare part designs are made.
4.8 Dependency and power distribution

When it comes to negotiation and power distribution in the business relationship, Scania Brazil considers that it is responsibility of the dealer in Ecuador to set the prices and negotiate with the customers themselves. However, when negotiating specific business with for example big transportation companies, Scania requires to be directly involved to make the negotiation but always working together with the local representative in Ecuador.

4.8.1 Involvement and power distribution

Concerning the level of involvement in the relationship with the dealer in Ecuador, it is considered to be a medium involvement level compared to the level of involvement in the relationship with for example Argentina and Peru who are dealers owned by Scania.

According to Scania Brazil, all markets have incentives systems, where there are financial supported for any specific activity and help to execute events, in this case, Scania covers 50% of the expenses as long as the budget has been sent in advance. These incentive systems are developed to motivate the business relationship between Scania Brazil and the dealer in Ecuador.

4.9 Supply Chain

Within the organization structure of Scania Brazil there is one department that handles the business issues of the dealers in Ecuador, Peru and Colombia. It has been divided in two areas, one for buses and another for trucks. This department handles commercial activities related mainly to sales and technical activities linked to support. Warranties department is another section that has been divided in the same way.

4.9.1 Brazil - dealers dealer

The informant from Scania Brazil says that all companies sometimes have problems with their suppliers, and Scania Brazil is no exception of this. Nevertheless, they have warranties from the suppliers that cover the spare part or the defective batch. He
explains that they are working under just in time (JIT) production systems with their suppliers, and that is why they sometimes have stock problems and cannot deliver the spare parts on time to the customer.

Summary Empirical study

Ecuador belongs to the group of small developing economies and firms operating there are small by comparison with multinational corporations and firms in large economies. Firms related to the automotive sector in Ecuador register an import-concentration and involves mostly productive activities such us vehicles and spare parts commercialization, garages and repair shops. Concerning Scania Brand in Ecuador, it entered the Ecuadorian market in 1960, being very successful at the beginning but risking to be forgotten from 1996 to 2001. It was in 2001 that it was decided to activate the Scania brand in Ecuador and for this purpose the company Scaneq was created to be the exclusive dealer of Scania brand in the Ecuadorian market controlled by the subsidiary of Scania in Brazil.

SCM

Within the organization structure of Scania Brazil there is one department that handles the business issues of the dealers in Ecuador, Peru and Colombia. This department handles commercial activities related mainly to sales and technical activities. Warranties department is another section that has been divided in the same way. Regarding Scania Ecuador, Spare parts, Warranties and Repair and Service departments have direct communication with Scania Brazil. Spare parts department main activities are related to purchasing and sales. Repair and Service Department is in charge of repairing vehicles. Warranties department sends the information to the Warranties Department in Scania Brazil and monitors the cases until the warranty execution is done. Coordination between these departments and Scania Brazil is made mainly by e-mail and by phone when it is about high important issues.

In this part, the most important problems per area will be described. Concerning Purchasing and Inventory Holding, sometimes there is lack of stock due to Scania (JIT) production systems. In the Marketing area there is not a specific area for these
activities in Scania Ecuador. Regarding Sales area, Scania prices are higher compared to alternative products and Ecuadorian customers have the tendency to acquire cheaper products. The area of Service and Technical Support does not register important problems. The area of Quality and Warranties usually presents delays or not approval of warranties because of poor information flow.

**Relationship Marketing**

Communication between Scania Ecuador and Scania Brazil is based on an often information flow. Nevertheless, it is considered that most important communication problems are related to the warranties area and the reason of it is that more physical verification from Scania Brazil of damaged spare parts is needed.

**Dependency**

The current dealership contract for the exclusive rights to sell Scania in Ecuador is for a year, and restrictions in the contract are mainly related to commercialize only the Scania Brand. One of the latest requirements from Scania Brazil for Scania Ecuador was the construction of a bigger repair shop with new facilities. During a period of time there was a negative change in the business relationship because of a delay with this requirement due to problems in the internal organization of Scania Ecuador. Nevertheless, Scania Ecuador has currently started the construction and the renewal of the dealership contract was already confirmed.

**Power Distribution**

For Scania Ecuador it is considered that the power distribution in the Brazil/Ecuador relationship is 100% Scania Brazil and 0% Ecuador. An example of this is that Scania Brazil always asks pre-payments to Scania Ecuador, if there is something pending orders are not shipped. It is also considered that there is a low level of negotiating power from the side of Scania Ecuador.

**Involvement**

According to Scania Brazil, there is a higher involvement with the dealers of Peru and Argentina because Scania owns them. The Ecuadorian dealer is independent; nevertheless, it is considered that there is a high involvement in the business relationship because in spite of being an independent dealer there is a high control
coming from Brazil. Scania Ecuador has to send monthly reports about labor fees and sales and reports about technical issues every three months.

**Commitment**

Despite the internal conflicts and difficulties that Scania Ecuador has had in the past, Scania Brazil has a high level of trust in the Scania dealer in Ecuador. As a result of the decision of renewing the dealership contract for the company in Ecuador, the level of commitment in the relationship has increased.
5. Analysis

In this chapter we will analyze the case based on the theoretical framework and the empirical findings from previous chapters in the thesis. The chapter is structured and analyzed from our major theoretical frameworks point of view, Supply Chain management and Relationship Marketing.

5.1 Supply chain management

5.1.1 Supply chain

In our theoretical framework, the concept of the supply chain is referred to a sequence of operations organized around the flow of materials from source of supply to their final distribution as finished products to ultimate users and it involves the organization of manufacturers, distributors, and users. As described in the empirical findings, Scania supply chain includes a factory in Sweden; which executes mainly design and manufacturing operations, a factory in Brazil which activities are basically vehicles and spare parts manufacturing to supply the Latin American market of heavyweight vehicles. Several dealers in Latin America; which can be dependant dealers as in the case of Argentina and Peru for example, and independent dealers as in the case of Ecuador, execute distribution activities in this supply chain.

In our theoretical part, we have described some characteristics of the supply chain. One of them refers to supply chain as a complete process for providing goods and services to end-users and its correlation includes all parties, from initial material supplier to final user. In order to provide the Ecuadorian market for heavyweight vehicles with spare parts, vehicles and repair services, the correlation include mainly the relationship between Scania Brazil and Scania Ecuador, Scania Sweden does not have a big influence in this relationship, because, as our empirical findings show, Scania Brazil acts on behalf of Scania Sweden interests because it is its direct representative for the Latin American market.
5.1.2 Supply Chain Management

Our theory mentions that due to current intense competition, rapidly changing technologies, and evolving customer requirements, it is impossible for a firm alone to fulfill the whole process of meeting the demands of the market. Due to the Ecuadorian market characteristics, where there is an intense competition because of the presence of alternative products that are cheaper than the original ones and therefore, customers look always for the less expensive ones, it is impossible for the dealer in Ecuador to succeed without having a big support from Scania Brazil in different areas to offer a product that creates value for the customers. As it is stated in our theory, organizations need to strength connections in a network relationship. For a dealer in a marginal market, having difficulties at strengthening these connections may have a negative effect on its performance.

The theory states that SCM deals with the full extent of supply activities: *procurement, production, and distribution*. It outstands the role of the last one stating that distribution plays an essential role in the supply chain because it makes the final products and services available to the ultimate customers. Therefore, we consider that the role of a dealer, even if this one belongs to a marginal market, is very important because beyond its functional role of product delivery, it makes the supply chain sensitive to the market.

5.1.3 Linking activities

According to our theoretical chapter, Supply Chain Management links operational units together and the value chain analysis proposed in our theory as well is very useful to identify linkages among activities and therefore analyze how problems are interrelated. To make this analyze, as it is illustrated in Figure 10, we constructed a value chain for Scania Brazil and another one for Scania Ecuador and located linkages between their value chains.
As described in the empirical data, the main activities linked between Scania Brazil value chain and Scania Ecuador value chain are related to inventory holding, purchasing and sales, service and technical support, and quality and warranties. Our theory states that product reliability is likely to be the outcome of several linked activities. Based on the overall empirical findings we consider that the linked activities in the area of quality control and warranties is the one that presents more problems and which makes difficult to create product reliability. This issue will be further described and analyzed in the part of Supply Chain Business Processes.

Taking into account that the theoretical chapter declares that a supply chain is a concept of closely coordinated, cooperative networks, and that it is referred to the management of multiple relationships across the supply chain. Due to the latest problems, we consider that coordination, co-operation and management of the relationships between the main actors of this supply chain have not been efficient and therefore it has affected some important linked activities. Therefore, it is important to identify the origin of this problems and using the elements of Supply Chain
Management proposed in our theory is very helpful for this purpose. It is because just when these elements are interrelated in an effective way it is possible to design and successfully manage a supply chain. For the next part of our analysis, our supply chain will be analyzed from a distribution point of view.

5.1.4 Elements of Supply Chain Management

As it is stated in the theory, the Supply Chain Management interconnected elements are three folded: supply chain network structure, supply chain business processes and supply chain management components.

A. Supply chain network structure

The members of a supply chain include all companies with whom the central company interacts directly or indirectly through its suppliers or customers. The central company in this case is Scania Ecuador and it interacts mainly with Scania Brazil because it is its exclusive supplier. Concerning linked activities, as it was already mentioned in the previous part, the main activities linked between Scania Brazil value chain and Scania Ecuador value chain are related to inventory holding, purchasing and sales, service and technical support and quality and warranties.

B. Supply chain business processes

In our theoretical part it is stated that business processes are the activities that produce a specific output of value to the customer and that a successful SCM requires a change from managing individual functions to integrating activities into key supply chain processes. Operating an integrated supply chain requires continuous information flows, which in turn help to create the best product flows. According to our empirical findings, there are continuous information flows in the different areas where there are links among activities. Nevertheless, especially in the part of quality and warranties, in spite of having a constant information flow by phone and e-mail, this one seems not be effective because of the delays with warranties approval or sometimes unjustified answers when some of warranties have not been approved, as it is described in our empirical data. Therefore we consider that physical verifications of the damaged spare parts are extremely important in this area because, as described in our empirical findings, just when members of Scania Brazil have visited Ecuador, it
has been possible to approve warranties in a very fast way. As it is mentioned in our theory, the customer remains the primary focus of the process and achieving a good customer-focused system requires processing information both accurately and in a timely manner for quick response systems.

Concerning integration of activities of the other areas of our supply chain such as inventory holding, purchasing and sales, and service and technical support, we consider that these areas do not seem to have main problems compared to the Quality and Warranties Area. As our empirical findings show, concerning inventory holding, purchasing and sales, the main problem has to do with lack of stock and delays in delivery of spare parts. It can be explained by the fact that Scania operates with (JIT) production systems. Concerning Service and Technical support activities, this one seems to be the most effective one, because as our empirical findings show, Scania is able to give detailed and useful instructions using different sources such as phone, e-mail or specialized websites in order to help the dealer to solve technical problems.

It is important to observe that from the overall empirical information it is evident that there is one important activity that has not been integrated in this supply chain and it is the marketing area. This part will be further analyzed in the second part of this chapter.

C. Supply chain management components

As it is described in our theory, the management components are elements by which the business processes are integrated and managed across the supply chain. The components have been divided in two groups, *physical and technical management components* and the *managerial and behavioral management components*.

5.1.5 Physical and Technical Management Components

These components belong to the first group called the physical and technical components which according to our theory includes the most visible, tangible, measurable, and easy-to-change components. This includes *planning and control* which according to our findings can be related to the contract signed by Scania Ecuador and Scania Brazil; which guides the operations to move the company in a
desired direction. Work structure indicates how the firm performs its tasks and activities. According to our empirical findings, several activities across the supply chain of Scania are integrated and most of them are working efficiently except the one related to Quality and Warranties areas, as it was already described. The level of integration of processes across the supply chain is a measure of organizational structure. Regarding organizational structure, the company seems to have suitable one. The product facility structure seems not to have important problems because the main problems are related just to occasional lack of stock and some delivery delays. Regarding information flows facility structure, according to our empirical findings, our informants from Scania Brazil and Scania Ecuador agreed that coordination is made mostly by e-mail, therefore it can be considered that it is the common information system accessible to the members of Scania supply chain but that causes problems specially when it comes to quality issues where physical verifications is very important to make effective evaluations.

5.1.6 Managerial and Behavioral Management Components

Management methods are referred to the corporate philosophy and management techniques. From the overall empirical information, it is evident that bureaucracy within the company has affected the corporate philosophy of Scania Ecuador. This is especially evident since there is a big influence from the shareholder board when making management decisions.

Regarding power and leadership structure, our theory mentions that it may affect the form of the supply chain. One strong channel leader will drive the direction of the chain. In the case of Scania, the strong channel leader is Scania Brazil. Even if Ecuador is an independent dealer, there is a strong control coming from Scania Brazil as evident from the empirical data.

Risks and rewards sharing affects long-term commitment of supply chain members. According to our empirical findings, Scania Brazil does show to share risks and a good example of this is that they always ask for a prepayment before sending spare parts or vehicles to Scania Ecuador. Based on our empirical findings, it is possible to get credit from Scania Brazil but with interest rates. Sharing rewards can be related to the incentives that Scania Brazil offers to its dealers when they have reached a
significant amount of sales per year.

*Culture and attitude* has to do with compatibility of corporate culture in the supply chain. The values of a corporate culture influence the ethical standards within a company, as well as managerial behavior. Regarding this aspect, we consider that Scania Ecuador has shown to have a weakness because, as our empirical data described, all the shareholders have to agree over some specific issue, which causes delays when making decisions. According to the theory, aspects of culture include how employees are valued and how they are incorporated into the management of the firm. Shareholders involvement in most decisions can give the impression that they do not trust their employees to make right decisions.

Based on our findings, we have found weaknesses in this second group. According to the theory, if these last components are not used in order to guide and reinforce an organizational behavior supportive to the supply chain objectives and operations, then the supply chain will risk of becoming less competitive and profitable.

### 5.2 Relationship management

#### 5.2.1 Components of a relationship

In our theory it is mentioned that relationships have a few characteristics that need to be taken into consideration when creating a balanced business relationship; *Co-operation, commitment, trust, adaptation, and power*. These keywords are according to us of significant relevance when further discussing how relationships evolve and how they can lead to considerable winnings for the parties involved.

*Co-operation* is by the theoretical framework the base of a relation and is the most obvious aspect of relationship. Furthermore, the author’s states that *Commitment* is being build by the creation of long-term relationships for B2B customers, and by creating brand loyalty for the B2C customers. This relates to the *trust* that is build within long-term relationships to make it lasting.

For a long-term relationship to be successful the firms within it have to develop a certain amount of mutual *adaptation* towards each other. The issue of power distribution will be described and analyzed later in this chapter.
The commitment and trust levels is according to our empirical findings not always equal between the companies involved in the relationship, where we saw that the Brazil company has a high level of trust and commitment to the Ecuador dealer. This is somewhat contradictory of the what the Ecuadorian dealers perception of the commitment level since they are considered being ignored in the regards of communications and have beliefs that the manufacturer are to some extent hiding their business intentions. Commitment to the relationship can be displayed in various ways and in our case, the annual visits and education sessions that Brazil sets up every now and then is consider to be a gesture of commitment to the relationship with the dealer. These visits are from the dealers point of view considered very helpful in terms of clarifications of uncertainties that is difficult to manage over the phone, and this is according to them a sign of commitment to the relationship.

The informant from Brazil describes that they have made adaptations for improving the relationship with its dealers and in our case, they have for example developed a customary support system to improve the efficiency between the companies.

5.2.2 Relationship marketing

In order to develop and engage in long-term relationships with its network, relationship marketing is according to our theory a useful concept to utilize for several reasons. The first one and most valid is based on the notion that relationship marketing promotes building long-term relationship and creating loyal customers through personal relationships. Relationship marketing is according to the interpretation of Gummesson (2006) based on four pillars:

1. **Marketing management should be viewed as marketing oriented corporate management**

2. **Long-term co-operation and win-win**

3. **All parties in a relationship have mutual responsibility of the actions. They have to be active**

4. **Relation and service oriented values, not bureaucratic values**
Utilizing these four statements or pillars we can get a better understanding of what in some cases is the issue in the business relation, we clearly saw some correlations with the empirical study.

There are according to the empirical study currently no specific marketing activities made by the Ecuadorian dealer, and no department in the company that is in charge of this, the manager is the person in charge of these activities. Furthermore it’s explained that the promotion of the brand has basically been based on advertisements in trade magazines from the transportation industry. The lack of consensus among the shareholders within Scania Ecuador have had the consequence that marketing events and other promotion tools are difficult to implement since the three large shareholders needs to agree before any execution of these activities.

It is further described in the empirical study that the dealership contract with Scania is negotiated on a year-to-year basis and can be terminated if they don’t meet the requirements that Scania sets up. Therefore it can be difficult for them to establish long-term relationships with its customers regarding sales and warranties, and also the supplier relationships get heavily affected.

The relationship with the dealer in Ecuador is according to Scania Brazil viewed as important because the dealer in Ecuador is an exclusive representative of the Scania brand in Ecuador; therefore it has all Scania support. Furthermore, they give them incentives and the same support as other markets for executing events for promoting the brands as well as financial incentives for sales. As stated above, the dealer in Ecuador has difficulties to take advantage of these incentives because of the internal difficulties that occurs inside the company.

Scania Brazil demanded that the dealer should build a bigger repair shop with new facilities for renewing the license, which the dealer delayed because of the same reasons with internal issues.

From the identification and requirements according to the theory stated for relationship marketing, and describing relationship characteristics we can clearly see correlations and contrasts that could be obstacles in the relationship between the dealer and supplier. The dealer is not marketing oriented at all and have no marketing department that understands the importance of marketing. Doing one of the follow-up interviews with the Ecuadorian dealer and discussed the marketing issue and Brazils
point of view, it became obvious that they did not recognize the marketing issue and the supplier’s effort of helping them with promoting the brand.

We found in the empirical study that the organization is rather conservative and has the characteristics of a bureaucratic organization, which is a disadvantage when having to take rational decisions of this kind.

5.2.3 Involvement

We found according to our theoretical framework that relationships are a close co-operation that imposes dependency. This kind of involvement requires both companies to adapt some of their activities and invest dedicated resources in the relationship. It is also mentioned in the theory that it is necessary for any company to actively try to manage its supplier relationships to utilize the resources of its suppliers, especially in high-involvement relationships in best possible way.

As mentioned earlier, Brazil has made adaptations in their customer service in order to increase the efficiency within the relationship and has special training sessions about their products for the dealers. Although the Ecuadorian dealer appreciates the visits and training sessions, they think that they could dedicate more attention to them in order to create a higher degree of involvement. The most useful method for accelerating warranties executions, considered by Scania Ecuador was visits from members of Scania Ecuador to Scania Brazil and vice versa. Especially visits from members of Scania Brazil allow them to really see the problems with the spare parts.

Since a big problem for the dealer in Ecuador is regarding the misunderstandings and definition of the spare part defects, which has lead to delayed and misjudged warranty claims, both the companies could benefit from having a higher degree of involvement in the relationship. The win-win situation that relationship marketing promotes could in this case be achieved through a higher the degree of involvement since the companies can specify the issues with the spare parts and more efficiently prevent the same issue from happening again. Although a high involvement relationship is more costly, the expenses could be lowered in the long run by less warranty claims caused by higher quality products.
5.2.4 Relationship benefits

Specific supplier relationships allow access for a company to a bigger source of both technical and commercial skills. These offerings may include elements of product, service, advice, logistics and adaptation and provide the facilities, equipment, components and operations that a company needs. In the theory chapter it is given the distinction between two types of relationship benefits: cost benefits and revenue benefits.

According to the informant from the dealer in Ecuador there are for them great benefits in the relationship with Scania Brazil, e.g. the possibility of having access to the original products. Purchasing prices can be considered a benefit as well because in some cases the original Scania spare part can be cheaper than the alternative ones; furthermore, the Scania brand supports service quality. This conforms to the theoretical findings where the Scania dealer in Ecuador gets cost benefits from the cooperation with the supplier by receiving good purchasing prices. Another is considered to be the advantage of having the possibility of claiming warranties directly to the factory that made the product, in this case Scania Brazil. The obvious benefit for Scania Brazil for being in a long-term relationship with the dealer in Ecuador would be that they have an established and profitable dealer that is selling their products. Without the dealer, they would lose representation in the country, and the costly process to find other dealers representing them is a motivation factor itself.

5.3 Power distribution

The relationship between the supplier and the customer is to a large extent characterized by the dependency and power dynamics between the firms.

In our theories it is argued that the buyer is heavily dependent on the supplier in order to achieve their goals and must take actions and counteraction to keep the power balance in the relationship.

According to the informant from Scania Ecuador the negotiation and power distribution in the business relationship is the responsibility of the dealer in Ecuador to set the prices and negotiate with the customers themselves. However, when negotiating specific business with for example big transportation companies, he
explains that Scania requires to be directly involved to make the negotiation but are in close connection with the local representative in Ecuador.

On the other hand the dealer in Ecuador perceive that the power distribution is 100% Scania Brazil and 0% Ecuador. They gives the example of the low level of negotiating power as a reason for claiming the unbalanced power distribution in the relationship, where the dealer in general is not able to negotiate prices with Scania Brazil.

The theories are to a high degree corresponding to the empirical findings regarding the distribution power, although we believe that the dealer in Ecuador is exaggerating the power distribution percentage or maybe they don’t fully understand their responsibility in the relationship.

5.4 Resource dependency

The Resource dependency theory (RDT) theory states that the notion that firms are embedded within the network in which they are operating in, and are dependent on the other firms within the network in order to survive. The RDT is based on the three factors that are used to evaluate the supplier chain partners:

1. The importance of the resources
2. The availability of alternatives
3. The deployment of the resources

The empirical study explains that the relationship between Scania world wide, Scania Brazil, and Scania Ecuador are depending on each other in different ways. Since our case company has exclusive representation rights in Ecuador, Scania worldwide is depending on them in terms of them selling their vehicles and make a good profit. The relationship between Ecuador and Brazil is as mentioned before a supplier – dealer relationship where the dealer is dependent on the supplier to provide them with sufficient products and service.

Purchasing prices can be considered a benefit as well because in some cases the original Scania spare part can be cheaper than the alternative ones
Since the relationship with the Brazilian supplier is of significant importance for the dealer they are trying to do its best to improve the relationship because Scania is its exclusive and only main supplier in the Ecuadorian market.

When analyzing the relationship between the two parties we can see how the theory is supporting the empirical findings in this case, and we believe that the findings can be applied to similar cases. The dealer in Ecuador is an exclusive dealer, which means that they are only allowed to sell Scania and it restricts them from selling other brands. This makes the resources that in this case are the Scania trucks and the spare parts very important for them, and since Scania in Brazil is the only supplier who provides the whole South America with the vehicles there are no available alternatives. For complementary products, they are allowed to have other brands but these are sometimes even more expensive and are rather often of inferior quality. Since Scania Brazil are the only provider of Scania trucks in South America there are no competitors for them in terms of providing the dealers with vehicles. These arguments can according to us explain the dependency that currently occurs between the dealer and the supplier, as well as companies in similar seller-buyer relationship.

5.5 Dissatisfied customer

In the theoretical framework we found that the customer have three possible strategic ways to go if they are dissatisfied with the current relationship with the supplier, Exit, Voice, Loyalty.

In our empirical chapter we state a number of things that the dealer in Ecuador are not satisfied with in the relationship with Scania Brazil, e.g. lack of communication, poor quality products, and delays of spare parts and warranty. This has been like this for some time and we can from the theoretical perspective identify what strategy they have chosen in terms of exit, voice or loyalty. We know that they have considered changing distributor (exit) but the alternatives are rather limited as mentioned in the resource dependency analysis. This has leaded the dealers to take the matter in their own hands and try to improve the situation by utilizing the voice strategy. They have done this by promoting more frequent visits from both sides in order to improve issues, which can lead to a long-term relation with less friction. They have currently decided to stay loyal to the supplier since the situation is improving.
5.6 Summery analysis

We have through the whole thesis divided the chapters in two building blocks, *Relationship management* and *Supply chain management*. Following summery consists of the most important findings from the analysis chapter.

**Relationship management**

Relationships are relying on e few keywords; *Co-operation, commitment, trust, adaptation*, in which we could identify the relationship characteristics in the case.

We found that the commitment and trust levels are not always equal between the companies involved in the relationship, where we saw that the Brazil company have a high level of trust and commitment to the Ecuador dealer, whom on the other hand had lower ratings for the counterpart. The dealer desires more commitment actions and adaptations e.g. visits in order to improve the relationship.

According to our theoretical framework there are four pillars to consider for building a long-term relationship; *long-term co-operation and win-win, mutual responsibility, marketing oriented corporate orientation, and not bureaucratic values*. Here we found some pitfalls that the relationship has fallen into. The Ecuador dealer has no marketing department and this is the responsibility of the manger, which has low degree of knowledge in this field. The dealer has also the characteristics of a bureaucratic organization, and the lack of consensus among the shareholders has therefore made the strategic decision-making process slow and complex. Furthermore, the dealer contracts are renegotiated every year, which has the consequence that the dealer in their turn has difficulties to establish long-term relationships with its customers.

The misunderstandings regarding communication and warranties could be partly solved through higher involvement from the supplier side with more frequent visits, since it has shown to be efficient in the past. This could create the *win-win* situation, which is one of the foundations in a relationship.

The power distribution in the relationship heavily effects who in the relation call the shots and the negotiations between them is dependent by this.
The resource dependency has to do with the *importance of resources, available alternatives and deployment of the resources*. We found in our case that these three statements well reflected the dependency level of the supplier, less availability, few alternatives and few competitors among suppliers created a high dependency in the supplier.

**Supply chain management**

The concept of the supply chain is referred to a sequence of operations organized around the flow of materials from source of supply to their final distribution. This is impossible for a firm alone to fulfill the whole process of meeting the demands of the market. Additionally due to the Ecuadorian market characteristics, where there is an intense competition where cheaper alternatives are available and this market is price oriented, this becomes very complex.

*Supply chain network structure, business processes, and management components* are the main connecting elements in SCM. Operating an integrated supply chain requires continuous information flows, which in turn help to create the best product flows. There are continuous information flows in the different areas where there are links among activities in the supply chain, but one important aspect seems to be ignored, marketing, which according to our supplementary findings needs to pervade the organization.

*Physical and technical management components* include planning and controlling the company to guide it forward in a desired direction. We found the supply chain in the case of Scania being sufficient build, with the exception of quality and warranties where they have to be improvements in the communications part since it is the missing link that could break the supply chain and the relationship.

The *managerial and behavioral management components* are referred to the corporate philosophy and management techniques within the company. It is rather clear that bureaucracy within the company has affected the corporate philosophy of Scania Ecuador and how it operates. Power and leadership may affect the form of the supply chain where a strong channel leader will drive the direction of the chain, in the case of Scania; the strong channel leader is Scania Brazil.
6. Conclusions and recommendations

We will in this chapter answer our research questions with the basis of the analysis made in previous chapter. Additionally we are in this section going to give concrete recommendations to the case company of how to manage the situation.

6.1 Academic Conclusion

6.1.1 Main research question

How can the local dealer in a marginal market motivate its supplier to co-operate as efficiently as with the high profit markets?

The conclusion of the main research question is two folded where we identified that both the internal and the external aspect has to be taken into consideration in order to solve the issue. The smaller dealers in the marginal market have, as we argued, a disadvantage of being small and not being able to compete for the attention from the MNC’s as the dealers in the larger markets. To unravel this matter, the dealer needs to begin with evaluating the own organization and how it could be improved.

The dealer firstly has to fully understand its role in the relationship and the norms and rules that is applied in the supply chain network. From what we found out, on occasion neither the supplier nor the dealer could really identify the possible co-operation nor adaptation advantages in order to create the win-win situation that a relationship is suppose to create. This is both the dealers and suppliers responsibility to see and take advantage of the possibilities that the relationship can generate.

Furthermore, the dealer has to take responsibility to create a better position for themselves in the supply chain and not only hold the supplier responsible for the supposable ignorance that they consider being subject to. The dealer needs to take responsibility for marketing themselves in the supplier network as well as to their own customers. A problem relating to the marketing issue that we found being one of the main sources to this subject is the often-neglected marketing function in smaller firms. These dealers are often lacking the marketing competence necessary for
recognize and further develop the marketing opportunities that is given by the MNC or the market itself.

As we interpret the situation with the dealers smaller market and how they can motivate the suppliers, it mostly comes down to their performance and less focus should be addressed on the supplier itself. It is reasonable to think that the suppliers are addressing more attention to the more profitable dealers which means that smaller dealers has to present themselves as even more attractive.

To perform better and appear more attractive, the dealers have to recognize and take advantage of all opportunities that the supplier are giving them in terms of support with marketing. By doing this, there will be opportunity for them to strengthen the brand and the position in the network.

The key to motivate the suppliers is to level out the power distribution in the relationship and lower the level of dependency on the supplier in order to achieve a more balanced relationship where both parties perceives the relationship to be a win-win situation.

6.1.2 Second research question

*How to establish an efficient supply chain in order to improve the network relationship between the supplier and its distributor?*

We can conclude that if within the supply chain not all the activities of the dealer and the MNC are linked, it is very important for the dealer to generate a change from managing individual functions to integrate them with the ones of the MNC, in order to improve the business processes within the supply chain. Even if there is a continuous information flow between linked activities in the supply chain, it does not always mean that communication is effective. Achieving an efficient customer-focused system requires that the dealer and the MNC process information both accurately and in a timely manner.

In order to manage the aforementioned business processes across the supply chain, two components have to be taken into consideration by the dealer in a marginal market. Concerning physical and technical components, these are the easiest to
change for a dealer because they are related to issues set in the contract with the MNC, linked activities, product facility and information flow. Adopting new measures or policies it is possible to generate a change in these areas.

Regarding managerial and behavioral components, bureaucracy may affect the corporate philosophy of the dealer especially because of the big influence of the shareholder board in managerial decisions; which may provoke a negative image for the dealer. As in this kind of supply chain structure, the strong channel leader is usually the MNC, a strong control is always coming from them, and a delay with any important decision may affect the efficiency of the supply chain.

Therefore, to establish an efficient supply chain for improving the network relationship between the MNC and its distributor, it is important to put more emphasis on improving the managerial and behavioral components. These components used to guide and reinforce an organizational behavior supportive to the supply chain objectives and operations, can have a positive influence in the supply chain becoming more competitive and profitable.

6.1.3 Third research question

*How does power distribution affect the supplier -distributor relationship?*

In order to evaluate how power distribution affects the supplier-distributor relationship, there is another aspect that has to be taken into consideration, resource dependency, which we touched upon when discussing the main research question. The party that is considered being the largest is traditionally the one with the most power in the relationship, which is followed by a higher degree of negotiating power and other advantages. Nowadays, the largest company does not necessarily have to be the most powerful player anymore. The resources of the supplier and the availability of the resources as well as the competition among competing suppliers can change the conditions in the power distribution quickly in the ever-changing global market. SME’s that are producing highly specialized products or services can be very powerful in terms of power distribution compared to large corporations just because the limited availability of the special goods or services as well as the extremely high importance of the product from the dealer side.
Furthermore the power distribution in a supplier – distributor relationship has to be at a balanced level in order to preserve a successful relationship. When a large MNC is using its power as the stronger firm to an all too big extent, the dealer might not get the impression of being a vital part in the distribution network and the notion of ignorance from the supplier side gets evident. The dealer will gradually become dissatisfied with the situation, which will have consequences on the performance. From what we can experience this is when the “catch-22” situation occurs, as the distributor needs more support and mutual co-operation with the supplier in order to turn the profitability around. At the same time the supplier gets less interested to help them since their performance and profitability gets lower.

6.2 Recommendations for the case company

Based on our research and the findings we made, we have come up with some recommendations for the case company Scaneq, which in the thesis is identified as the Ecuadorian dealer. Although these recommendations are specifically meant for the Dealer side, they aim to contribute to create the win-win situation.

Firstly we would recommend the company to re-organize the organization, and empower the management in charge. In order to reduce bureaucracy within the company we recommend to determine what kind of decisions are considered being of high importance and need to receive the approval from the shareholders. The management staff should take decisions that do not fit these requirements and are in need of quick response.

Secondly we recommend the creation of a specific marketing department within the organization that manages all the marketing activities. In order to develop marketing skills it is not just necessary economic resources from the supplier, but also knowledge within the company. That is why we recommend for the beginning to establish a direct contact with the marketing department in Scania Brazil to receive from them advice, guidance and support to create a common understanding.

The main tasks for this department should be trying to take advantage of all the programs and incentives offered by Scania worldwide but mainly create new marketing projects to promote the brand in the Ecuadorian market and being gradually less dependent on Scania Brazil in this field.
Thirdly, In order to improve the relationship we recommend Scania Ecuador to put more emphasis in promoting Scania brand in the Ecuadorian market. By this way the amount of sales will likely rise and Scania Ecuador will have the potential to present themselves more attractive. By this sales increase, Scania Brazil will be more motivated to work with Scania Ecuador and therefore will be interested in providing more support to the company.

It is likely that with an increase of sales in the Ecuadorian market there will be more visits from members of Scania Brazil to Ecuador. Therefore, during these visits, topics related to warranties can be discussed face to face to get a better understanding about how the physical verifications could be made and the warranties approved faster.
References:

Journals


- Supplier Motivation -

Books


Internet sources


Picaval, La industria automotriz en el Ecuador, Available at: www.picaval.com.ec/picavalG/xmlpicaval/AUTOMOTOR.pdf

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Scania Ecuador, Available at: www.webside.com.ec/scaneq/

Interviews

- Supplier Motivation -

Fernando Arellano, Chief of the Services and Repair Department, Scania Ecuador, Interviewed on April 6\textsuperscript{th}, 18\textsuperscript{th}, 23\textsuperscript{th}, 24\textsuperscript{th}, 2009; May 6\textsuperscript{th}, 12\textsuperscript{th}, 13\textsuperscript{th}, 2009.

Rafael Oliveira, Responsible for the Department for the Ecuadorian, Peruvian and Colombian market, Scania Brazil, Interviewed on April 30\textsuperscript{th}, 2009.

Jörgen Andersson, Development Engineer, Scania Sweden
Appendix

Interview questions for Scania Ecuador

Communication

1. Which department in the company has direct communication with Scania Brazil?

2. How often is communication between Scania Ecuador and Scania Brazil?

3. How effective is the communication flow between Scania Ecuador and Scania Brazil?

4. How coordination between Scania Ecuador and Scania Brazil is made?

5. How often are visits from members of Scania Ecuador to Brazil?

6. What has been the purpose of the visits?

7. How often are visits from members of Scania Sweden and Scania Brazil to Ecuador?

8. Do you think that the involvement level from Scania Sweden would make the relation better?

9. What has been the purpose of the visits?

10. How often employees of Scania Ecuador receive training from Scania Brazil?

Products

11. Which amount of spare parts and/or vehicles are sent monthly from Scania Brasil

12. How often are deliveries of spare parts in time?

13. Has adaptations been made in the spare parts to adapt them to the Ecuadorian market?

14. Which activities has Scania Brazil undertaken to improve the design of the spare parts?

15. The prices of the products allow Scania Ecuador to be competitive in the Ecuadorian market?
16. What and how many alternatives are there to deal with competing suppliers? Restrictions from Scania?

17. Is it possible to buy from other Scania suppliers?

**Advantages and Disadvantages of the relationship with Scania Brazil**

18. Which do you consider are the benefits of having Scania as a supplier?

19. Has this relationship allowed access for Scania Ecuador to a bigger source of both technical and commercial skills?

20. Which are the disadvantages of having Scania as a supplier?

21. Which do you consider are the most important areas affected as a result of the disadvantages?

22. How important is the relationship for Ecuador? How dependent?

23. How is the power distribution in the relationship?


25. What improvement actions has Scania Ecuador taken?

26. Has there been any adaptations done by the two parties?

27. What alternatives does Scania Ecuador consider for the future of the relationship? Exit, (and so on)

28. What is Scania Ecuador trust level regarding Scania Brazil?

29. Consider high/low involvement?

30. Has any incentive systems or something similar been developed to motivate the commercial relationship?

31. Relationship with Ecuadorian customers

32. Is it easy for Scania Ecuador to establish long-term relationships with customers? How is this done?
**Interview questions for Scania Brazil**

1.a. Which department in Scania Brazil handles the business issues of the dealer of Scania in Ecuador?

1.b. Does this department handle business issues of another dealers in other countries?

2. Which are the activities executed by this department?

3. What is the difference between handling the business issues of a dealer in Ecuador and a dealer in Argentina for example?

4. How effective is the communication flow between Scania Ecuador and Scania Brazil?

5. How information between Scania Ecuador and Scania Brazil is handled?

6. Which do you consider are the benefits of having a dealer in the Ecuadorian Market?

7. Which are the disadvantages of the Ecuadorian market for heavy weight vehicles?

8. How important is the business relationship with the Ecuadorian dealer for Scania Brazil?

9. What is Scania Brazil trust level regarding the Scania dealer in Ecuador?

10. Is there a high or low level of involvement in the relationship?

11. Is there a high or low level of commitment in the relationship?

12. How would you describe negotiation power distribution in the business relationship?

13. Has any incentive system or something similar developed to motivate the business relationship between Scania Brazil and the dealer in Ecuador?

14. Has adaptations been made in order to improve the business relationship with the dealer in Ecuador (order system, process improvement, financial support)?

15. Which activities has Scania Brazil undertaken to improve the quality of Scania products? Could you describe the process?

16. How is the relationship of Scania Brazil with its suppliers of raw materials? Do you have quality problems or delivery delays of the products?
**South America country comparisons**

Ecuador, Argentina, Colombia, Peru

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<td>1,285,220</td>
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<tr>
<td><strong>IMPORTS</strong></td>
<td>$16.6 billion</td>
<td>$59.9 billion</td>
<td>$38.88 billion</td>
<td>$29.08 billion</td>
</tr>
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<td>f.o.b. (2008 est.)</td>
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The University of Kalmar

The University of Kalmar has more than 9000 students. We offer education and research in natural sciences, technology, the maritime field, social science, languages and humanities, teacher training, caring sciences and social service.

Our profile areas in research are: biomedicine/biotechnology, environmental sciences, marine ecology, automation, business administration and informatics, but we have research proceeding in most subject areas of the University.

Since 1999, the University of Kalmar has the right to accept students in postgraduate studies and to examine doctors within the subject area natural sciences.

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