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A model of Best Practices for a Sourcing Process

Case: Spotdealers Oy

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<p>Sourcing is not simply a way to find the best price for a certain product but it has become a decision-making process that can shape the business of an entire organization. Nowadays sourcing is a critical activity in order to get a competitive advantage.</p> <p>Managers can apply many different sourcing processes but these procedures should be tightly related to the overall strategy of the company and to customers' needs. The present thesis was based on a case study; a sourcing service provider for retailers professional in Finland.</p> <p>The theoretical framework was built on literature reviews about procurement, purchasing and sourcing strategies. A synthesis of the concepts found in the literature helped to create a framework and a background for the model of best practices.</p> <p>The purpose of this research was to analyse the current sourcing situation of Spotdealers Oy and understand how to implement a more streamlined sourcing process. This is important because a streamlined sourcing process could help the organization to have a more efficient and faster closure of the projects. A qualitative research was implemented by interviewing the team of Spotdealers and by analysing the activities of a past project.</p> <p>The outcome of the thesis is a model of best practices and a balanced scorecard for the sourcing process for the case study company. The combination of the theory and the current state analysis showed that, in order to have an efficient sourcing, cooperation with customers and suppliers is a crucial factor. The model of best practices focused on the customers' needs and suggested possibilities of value creation.</p>	
Keywords	Sourcing, purchasing, suppliers, procurement, best practice, model

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1 Introduction

Sourcing is a core activity in the procurement function that can create value for the customers, spur innovation and identify new products and market possibilities for modern organizations.

Sourcing, from a strategic point of view, can be defined as a systematic process that directs purchasing and supply managers to plan, manage, and develop the supply base in line with the organization's strategic objectives (Roger L. Ball 2005).

The purchasing function, in general, has become extremely important due to the fact that business is getting more competitive for the majority of organizations.

There are several reasons behind this gradual increase in the importance and the scope of the purchasing function. Much is due to the ongoing trend toward specialization, meaning that every organization specializes in the increasingly smaller range of value added in its production process (be it manufacturing or services production processes), which leads to an increase share of externally acquired goods and services. Nowadays, purchasing to sales ratios in general are in the range of 30%-60% for service organizations, 50%-70% for manufacturing industries and 80%-95% for retailing firms – and many organizations are seeing a further rise in this percentage. (Van Weele 2010)

In this thesis, however, we will use primarily the term "sourcing" rather than purchasing, to reflect our emphasis on strategic and tactical purchasing activities. (Björn Axelsson, Frank Rozemeijer and Finn Wynstra, 4, 2005).

Sourcing is a very popular word in the business-to-business (B2B) environment but we think many companies underestimate the capabilities, the skills and the strategy behind an efficient sourcing process. This is true especially for those companies that source for other business units or clients.

As we read from Deloitte's web-site even though many times the terms sourcing and procurement are used interchangeably, they actually represent two fundamentally different concepts. Sourcing refers to the value added process of selecting suppliers and the respective cooperation scheme and it must be supported by advanced analytics &

market intelligence, supplier performance information and a concrete and well-developed strategy (Deloitte 2014).

Sourcing has also become very international; we can state that sourcing nowadays has a global perspective. For example, global sourcing has become a new key strategy to find a competitive advantage in many organizations; especially for the ones that they prefer to use low prices as their core competitive advantage. Even small companies can source globally in order to achieve new levels of competitiveness.

For small companies sourcing on a global scale can be quite challenging though. Globalization and new technologies help small companies to contact suppliers from emerging markets all over the globe; however the challenges are many such as lack of skills, vague strategy and poor process management.

According to the Accenture's survey (2005) 230 global supply chain executives plan to double their low-cost country sourcing activities in the next three years; they also believe the savings achieved from such sourcing will increase by a third. This means that focus on sourcing process is the key element in order to make the supply chain thrive.

The key business issues regarding sourcing are time, profit, skills and cost saving. Critical decisions like the supplier's selection, performance's evaluation and cooperation are the challenges in the sourcing process. These decisions are even more crucial on a global scale where many different variables are involved.

We believe that improving the sourcing process is a critical factor for success and competitive advantage for companies. Purchasing policies fundamentally contribute to business success in several ways: improve sales margins, increase better quality and logistics arrangements with supplier and more competitive supplier's base and more effective business relationships. (Van Weele 2010).

In this thesis we will focus on sourcing's best practice in order to succeed in the procurement area for a case study company. The business issue is to study the sourcing process of the company and suggest ways how to improve it.

The author will analyse the sourcing process of a small sourcing service provider company from Finland: Spotdealers Ltd. The company, as a Sourcing Manager, employs the author.

This thesis is written as a managerial report for Spotdealers Ltd in order to get a better understanding of the sourcing and the organizational activities needed for the service company to be successful. We can in fact define this thesis as consultancy written piece around the sourcing.

We investigate the current state analysis and then apply the ideas we discovered from the theory in order to develop a better sourcing process. For the current state analysis we will also explain the process for an actual sourcing project.

The current state analysis will be conducted through interviews in the company with the CEO to gain a sourcing and strategy perspective of the requirements needed from the customers, with two sourcing managers and the purchasing assistant.

The findings in the literature review will be then compared to current state analysis of the company in order to get a better broad picture of the actual challenges and the possibilities of improvement.

This thesis can be very helpful to the author in order to understand, in a very practical way, the processes and the problems that a small company encounters providing sourcing services. This represents a great opportunity to gain a better insight and a deeper knowledge in the value chain management for the researcher.

The author is very interested in the subject because it could help him to develop better sourcing practice and increase his knowledge about the purchasing process. Furthermore the researcher would like to help the company by finding the best practice for the sourcing process in order to gain a competitive advantage.

This project can help the author to compare his professional experience with new theoretical aspects that they could be applied in his daily business duties.

1.1 Business problem

The business issue is that the actual sourcing process is not streamlined and does not flow seamlessly in the case study company. Many customers' touch-points are required in order to have the trades executed.

The sourcing team do not have a clear understanding of the customers' needs and that has a strong impact on the strategic sourcing and on the supplier management. This causes back and forth steps in the overall sourcing procedure. These bottlenecks in the process bring delays in the closeout of the trade.

These issues have a strong impact on the timing of the sourcing projects. Timing, in this case, is the main issue because the company earns its commission, only at the end, from the executed trades; the faster a trade is executed the better are the possibilities for a reworking and a new project.

The company needs to be more efficient, close more deals and rationalize the activities in order to be profitable. The overall goal is to achieve a long-term supply stability.

1.2 Objectives of the thesis

The main objective of the thesis is to formulate a managerial best-practice' model for Spotdealers Ltd. The issue is vital for this sourcing service provider because it affects the sales and the existence of the company itself. It is fundamental to meet the demand of the customer and close a trade through an efficient sourcing process.

The outcome of the research is a model of managerial recommendations that they could improve the sourcing procedure in the case study company. The overall goal of the model is to understand how to reach a better performance in the sourcing regarding timing, profit and customers' insight. We will show, using the vast amount of literature about sourcing strategies, that a good procurement process can actually shape the business of the company.

Spotdealers Ltd. is small and relatively new company, established in the end of 2010; in the beginning the strategy was to develop a stocklot web-portal for professional traders around the world but now, with the new strategy decided in 2013, the focus

has been moved toward a cost effective sourcing service for the customers in the retail business.

The company would like to offer a much customized sourcing service from the business needs of the customers but not only. Spotdealers Ltd. also aims to add extra value to its offer by managing also the logistic part of the procurement and provide the client a very complete solution from manufacture to order to regular supply.

We analyse the procedure for this much customized sourcing service around general activities such as sourcing responsibilities, requirements, capabilities, supplier selection, supplier relationships and contracting.

We will explain some major aspects of the sourcing job such as determination of the specification, strategy and necessities capabilities.

There is plenty of literature about sourcing operation and the main idea is to utilize that background to understand the decision-making and the managerial implications in the sourcing operations.

The research questions are based on the business issue. They are formulate to figure out the overall internal procedure of the company toward the sourcing projects.

1. How well does the company understand the need of the customer as a starting point for the sourcing process?

The first question is about the primary step of the sourcing process. We want to investigate how clearly the company understands the requirements and the specifications of what has to be source. We believe that the management and the whole team should share a common goal and knows how to achieve it.

2. What are the different steps of the sourcing's decision-making process that sourcing managers' follow?

This question wants to analyse the different possibilities and strategies connected to the sourcing process according to the academic world. Some of the most popular

sourcing and purchasing strategies will be presented. It is important to have a plan or a process that can help the company to be effective and increase the possibilities of a successfully executed trade. The question wants also to investigate inside the case study company how the managers take sourcing decisions.

When no clear directions and standardized processes exist to develop and apply a sourcing strategy, buyers commonly apply their own way of thinking and patterns of buying often resulting in sub-optimal use of company's resources (Deloitte 2014).

3. How does the company select suppliers in the sourcing process?

This question investigates, from the practical point of view, how and based on which criteria Spotdealers Ltd select the suppliers once the customer has requested a sourcing project.

This last point offers lots of suggestions and recommendations about how to develop and manage the supplier selection and why it is considered the crucial part of the sourcing process by most of the academic literature. It is part of the modern sourcing to rationalize the supplier base and develop strategic partnerships.

We believe these questions are critical if the company wants to stand the competition, offer a total service solution by creating real value for the business client and, most importantly, being profitable with solid foundation for a long-term business.

For this thesis a qualitative method has been used. The qualitative research method offers, in this case, more flexibility and a deeper insight of the current situation in the company. Primary data were collected from survey inside of the company with a semi-structured form. Primary data will come also from direct observation of the daily routines and the analysis of a past project.

The author collected and studied from different sources such as books, journals and Internet websites. These sources are very important to give a solid and grounded framework for the sourcing techniques and processes. The literature has been chosen based on the business issue. The presented multiple theories help to understand the common practice in the procurement area, with a special focus on the sourcing ones.

1.3 Thesis structure

The thesis starts with an introduction of the business problem and why the business issue is important for the case company; goals and research problems are also explained.

In the introduction we present key concepts in order for the reader to understand some of core definitions of the sourcing and the purchasing process. It is important to define some of the relevant terms used in the thesis. These terms are necessary to visualize the business sector and the role of the case company in the supply chain.

In the second chapter we present the theoretical frame of references. We start from a broad view, the purchasing function: role and objectives. We focus on how the purchasing function has changed and why it became deeply strategic for all companies.

In the second part of chapter we make a literature review of the key points of the sourcing process and strategies; which activities we can include and which are the best practice for the sourcing according to academics. At the end of the chapter we summarize and presents a framework that it will be used to present our proposal of best practice.

In chapter three we show the methodology of the research and we describe the face-to-face interviews we have been conducted in the company.

The case company Spotdealers ltd is introduced in chapter fourth. We present the company and explain its service. As the current state analysis we follow up the interviews about the sourcing process and we use, as an example, a real past case of the company.

In chapter five we present the results and the findings of our study. We show a model of best practice for the case company Spotdealers ltd. In the same chapter we exhibit a balanced scorecard as a measurement tool for the sourcing services; the core activity the organization.

In the last chapter of the thesis we conclude by sharing the learning outcomes and the limitations of the research. We also discuss about possibilities for further managerial and academic studies.

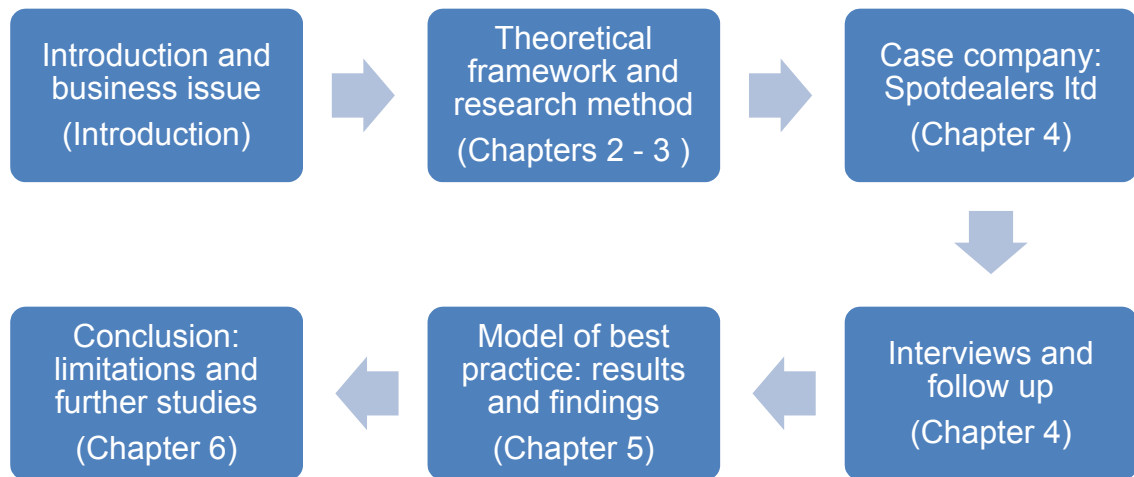


Figure 1. Thesis structure.

1.4 Key concepts

In order for the reader to understand the theoretical framework and the terminology that we will use in this thesis, we provide some definitions of the key concepts used in the supply chain management. The most important key concepts are procurement, sourcing, suppliers' selection, strategic sourcing, manufacture to order and sourcing strategy.

According to Van Weele the procurement includes all activities required in order to get the product from the supplier to its final destination. It encompasses the purchasing function, stores, traffic and transportation, incoming inspection, and quality control and assurance, allowing companies to make supplier selection decisions based on the total cost of ownership (TCO), rather than price. Procurement is used when relating to buying based upon TCO in a project environment (Van Weele 2010).

Sourcing is essentially is a cross-functional process, aimed at managing, developing and integrating with the supplier capabilities to achieve a competitive advantage. (Robert Monczka, Robert B. Handfield, Larry C. Giuniperro, James L. Patterson 2011).

A sourcing strategy identifies for a certain category from how many suppliers to buy, what type of relationship to pursue, contract duration, type of contract to negotiate for, and whether to source locally or globally (Van Weele 2010).

The supplier selection is relates to all activities, which are required to select the best possible supplier and includes determining on the method of the subcontracting, preliminary qualification of suppliers and drawing up the bidders' list, preparation of the request for quotation and analysis of the bids received and selection of the supplier (Van Weele 2010).

Strategic sourcing consists of processes of planning, evaluating, implementing and controlling' all sourcing activities undertaken by an organization to achieve its long- term goals (Carr and Smeltzer, 1997).

The overall goals of strategic sourcing is to achieve large and sustainable cost reductions, long-term supply stability and minimization of supply risk. The strategies to achieve such goals can be as wide as rationalizing supplier base, leveraging spending across departments, business units and geographical regions, reconfiguring supply specifications, and / or developing strategic partnerships / alliances with selected suppliers (Deloitte 2014).

The principal objective of strategic sourcing is to effectively handle situations when faced with supply, competitive, and demand uncertainties (Milliken, 1987).

MTO(Make to order or manufacture to order). Products are manufactured from raw materials or the purchased components inventory after a customer order has been received and accepted. Every customer order is a specific project. (Van Weele 2010).

2 The theoretical framework

2.1 The purchasing process

We begin our theoretical framework analysis by giving the reader a large view of the procurement function, definitions and role.

2.2.1 Definitions and concepts

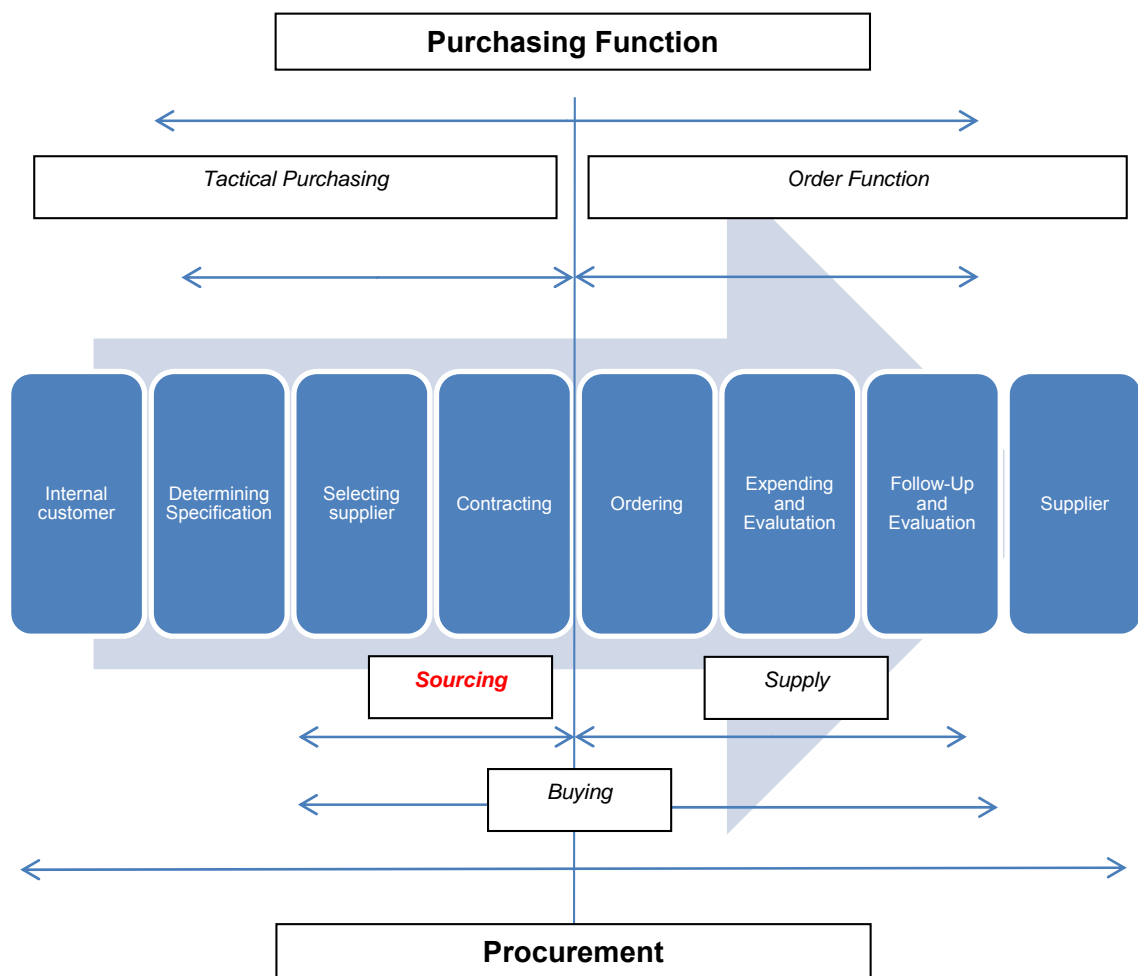


Figure 2. Purchasing process model and some related concepts (Van Weele 2000)

Webster and Wind (1972) define an organization's purchasing activity as the decision-making process by which formal organizations establish the need for products, identify, evaluate and choose among alternative brands and suppliers.

When we analyse the buying process we have to take in to consideration what the procurement function includes. It is really important to have a clear definition and, by doing so, to understand the role of the sourcing in the procurement function. As we can see from Van Weele (2010) sourcing is in the tactical part of the purchasing and procurement process.

According to Van Weele (2010) the purchasing function covers activities aimed at determining the purchasing specifications based upon fitness for use, selecting the best possible supplier and developing procedures and routines to be able to do so, preparing and conducting negotiations with suppliers in order to establish an agreement and to write up the legal contract, placing the order with the selected supplier or to develop efficient purchase order and handling routines, monitoring and control of the order to secure supply (expediting), follow up and evaluation.

As we read this definition and analyse figure number 2 we can see one important point: all of these activities are closely interrelated. In this thesis we will focus on the most critical sourcing's phases such as determining the specification, supplier selection and contracting.

In order to understand these activities of the sourcing process it is better to offer the reader this clear explanation from Van Weele (2010):

- Determining the purchasing specifications (in terms of required quality and quantities) of the goods and services that need to be bought. In the case of the case company we have to keep in mind that goods and service are bought for a third party; the business customer for his stores.
- Selecting the best possible supplier and developing procedures and routines.
- Preparing and conducting negotiations with the supplier in order to establish an agreement and to write up the legal contract.

We also believe it would be important to include other activities, although Van Weele does not include them in the sourcing activities, because they may be important for our case study:

- Placing the order with selected supplier and develop efficient purchase order routines.
- Monitoring and control of the order secure supply.
- Follow up and evaluation (supplier rating and ranking).

Van Weele defines this activity “expediting” as following up on a purchase order to make sure that the supplier is going to perform as it has confirmed through his purchase order confirmation. There are three types of expediting: routines status check, advanced status check and field expediting.

As we can understand from these first definitions the purchasing function does not include the responsibility for the materials requirements planning, materials scheduling, inventory management, incoming inspection and quality control.

Procurement refers to the transactional of the relationship and should be streamlined as much as possible in order to achieve efficiency (Deloitte 2014).

The purchasing process is used to identify user requirements, evaluate the user needs effectively and efficiently, identify suppliers who can meet that need, develop agreements with those suppliers, develop the ordering mechanism, ensure payment occurs promptly, ascertain that the need was effectively met, and drive continuous improvement. In every step of this process, managers are challenged to ensure that internal users are satisfied both with process and the outcome. (Robert Monczka, Robert B. Handfield, Larry C. Giuniperro, James L. Patterson, 2011).

2.1.2 The role and the scope of purchasing

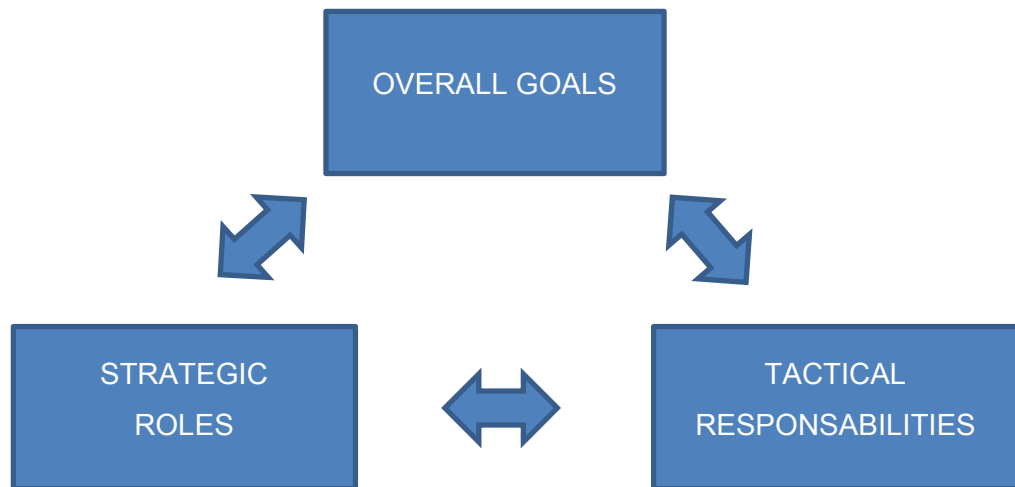


Figure 3. The purchasing's role adapted from (Robert Monczka, Robert B. Handfield, Larry C. Giuniperro, James L. Patterson, 2011).

To understand the role and responsibilities of the purchasing we have to start with the primary objectives. According to Monczka et al. they are divided in three categories:

1. Overall goals
 2. Tactical responsibilities
 3. Strategic roles
- Overall goals include: supply continuity, manage purchasing process, supply base management, engage Stakeholders, and develop sourcing strategies.
 - Tactical responsibilities include: forecast and plan requirements requisitioning, supplier identification and selection, control/PO preparation, receipt and inspection, invoice settlement and payment, records maintenance, measuring supplier performance, improving P2P (procure-to-pay) process.
 - Strategic roles include: demand management, commodity strategies, contract management, cost management, procure management, procure to pay improvement, supplier relationship management.

Monczka states that purchasing management has limited resources available to manage the purchasing process and must continuously work toward improved utilization of these resources. Limited resources include employees, working within the department, budgeted funds, time, information, and knowledge. Organizations are therefore constantly looking for people who have develop skills necessary to deal with the wide variety of tasks faced by purchasing.

In the past the 'dogma' for every buyer was to acquire the right quality of material, at the right time, in the right quantity, from the right source, at the right price. This simple statement does not take into consideration some measurable objectives and how the business environment has changed in our opinion. Furthermore it does not take into consideration the customers' needs as the primary source of information for the buyers.

The following broad statements about the overall purchasing objectives are suggested by Peter Baily (2005):

- To supply the organization with a flow of materials and services to meet its needs.
- To ensure continuity of supply by maintaining effective relationships with existing sources and by developing other sources of supply either as alternatives or meet emerging or planned needs.
- To buy efficiently ad wisely, obtaining by any ethical means the best value for every pound spent.
- To maintain sound co-operative relationships with other departments, providing information and advice as necessary to ensure the effective operation of the organisation as a whole.
- To develop staff, policies, procedures and organization to ensure the achievement of these objectives.

In addition, we share some even more specific objectives from Baily that also sourcing managers have to keep in mind:

- To select the best suppliers in the market.

- To help generate the effective development of the new products.
- To protect the company's cost structure.
- To maintain the correct quality/value balance.
- To monitor supply market trends.
- To negotiate effectively in order to work with suppliers who will seek mutual benefit through economically superior performance.
- To adopt environmentally responsible supply management.

Colin Coulson-Thomas lists the importance of the purchasing strategy by dividing companies between winners and losers accordingly to their approaches. We believe it is a smart approach for the reader to understand the role of the procurement inside organizations.

Losers tend to view purchasing as an administrative activity of relatively low status that is sometimes a source of both management and quality problems. For winners purchasing is a source of competitive advantage. They work with their suppliers to reduce costs, innovate, and improve quality or speed up deliveries. Involving purchasing and preferred suppliers earlier in the new product development process can often reduce the time required to bring new products to market by a quarter or more. (Colin Coulson-Thomas, 2008).

Nowadays the purchasing function is becoming more and more strategic for the success of the company. The purchasing function has gained great importance in the supply chain management due to factors such as globalization, increased value added in supply, and accelerated technological change. (A.A.Khaled 2011).

Innovation plays also a strong role in the purchasing function. The pace of change has quickened over the years. Organizations must be able to develop new practice and products quickly and effectively. This turn requires significant improvements in the internal interface between purchasing on the one hand and production, marketing, finance and so on the other, as well as with external suppliers and customers. Purchasing must be prepared to help and initiate new ideas and developments. (Peter Baily, David Farmer, David Jessop, David Jones, 2005).

In order to develop strategic sourcing the traditional purchasing function cannot cope with new the requirements and a fast paced supply chain. The role of purchasing has changed its nature. Old perception is based on the idea that purchasing is concerned with simple exchanges, with buyer and seller interacting with each other on arm's length basis. The underlying interest of the buyer in this rather simple scenario is to acquire as much resource as possible for as little money as it is necessary to pay (Peter Baily, David Farmer, David Jessop, David Jones, 2005).

Purchasing in its broadest sense is increasingly recognised as a strategic issue, since in-sourcing and outsourcing decisions have a crucial influence on an organisation's success (Carr and Pearson, 2002; Cousins and Spekman, 2003).

According to the author Peter Baily a new way to add value in the supply chain, and more precisely in the purchasing process, is to develop mutual supplier-buyer relationships, where the benefits of doing business together arise from ideas of sharing as well as exchanging.

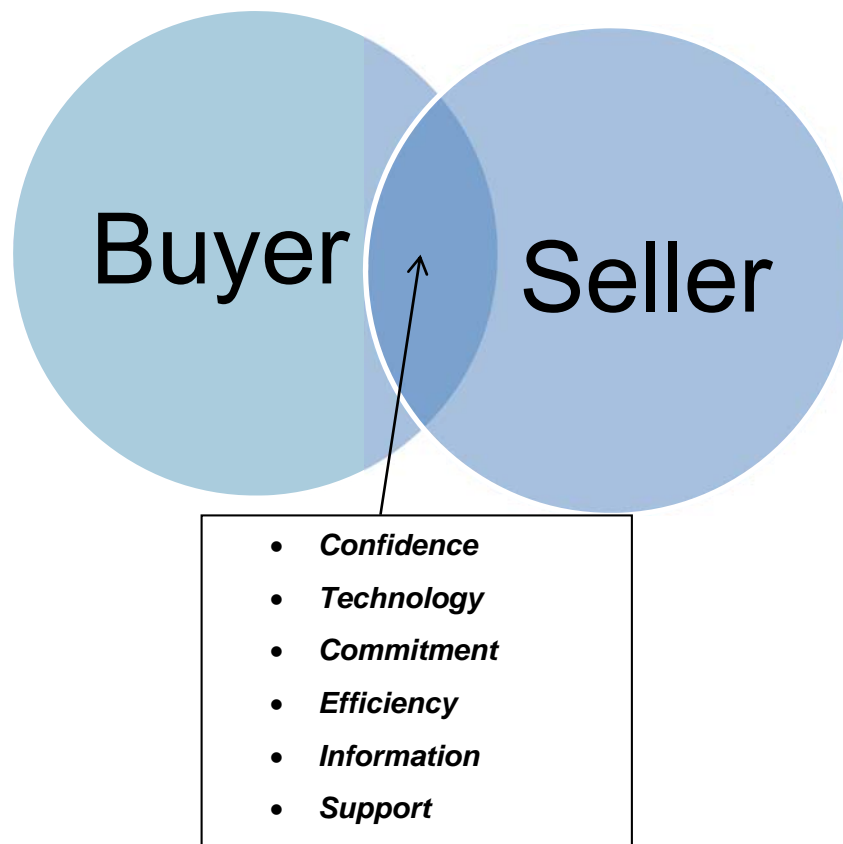


Figure 4. The "mutual" relationship between the buyer and the seller adapted from (Peter Baily, David Farmer, David Jessop, David Jones, 2005).

Managers have realised that they cannot achieve corporate objectives without the collaboration of satisfactory vendors (Handfield and Nichols, 1999).

This sentence is extremely important, in our opinion, because it states the impossibility of the achievement strategic corporate results without a profitable collaboration.

We want to emphasize now another important aspect of the purchasing: the buying price. According to Baily (2005), the buying price is probably the factor most often associated with procurement responsibilities. He argues that the procurement function has an important role in judging the correct price of any purchase and this aspect of the task is seen at its most dramatic in the commodity markets. Since prices are affected by costs, at least in the long run, an important function of procurement is to work with colleagues and suppliers to eradicate unnecessary costs.

Baily continues by stating that the total acquisition cost is more than the simply price, and has bearing on developing the wider role of the purchasing in total cost management.

It is often forgotten what the goods' price includes. For this reason we introduce here the concept of the total cost of ownership or TCO. Sometimes customers and managers are blinded by an aggressive price and they do not consider the real TCO in their buying estimation.

The total cost of ownership concept allows for the measurement of the integration of marketing, operations and purchasing policies. This notion takes into account the overall costs of a purchasing decision. It includes more than the cost of materials, freight, internal processing expenditures, and allocated overheads.

The specific elements of total cost of ownership are:

- . Management and administration.
- . Delivery of materials.
- . Servicing of equipment.
- . Communication with suppliers.
- . Price of materials, including delivery charges.
- . Quality-related costs.

(Ellram and Siferd, 1993).

The steps in the process may vary in different organisations, depending on the nature of the purchased item. New items may require more time upfront whereas repeat items usually already have approved sources. The purchasing process can be divided into two parts: the pre-order and post-order process. We present in the picture below the pre-order process which it is useful for our research (C. Scott et al., 2011).

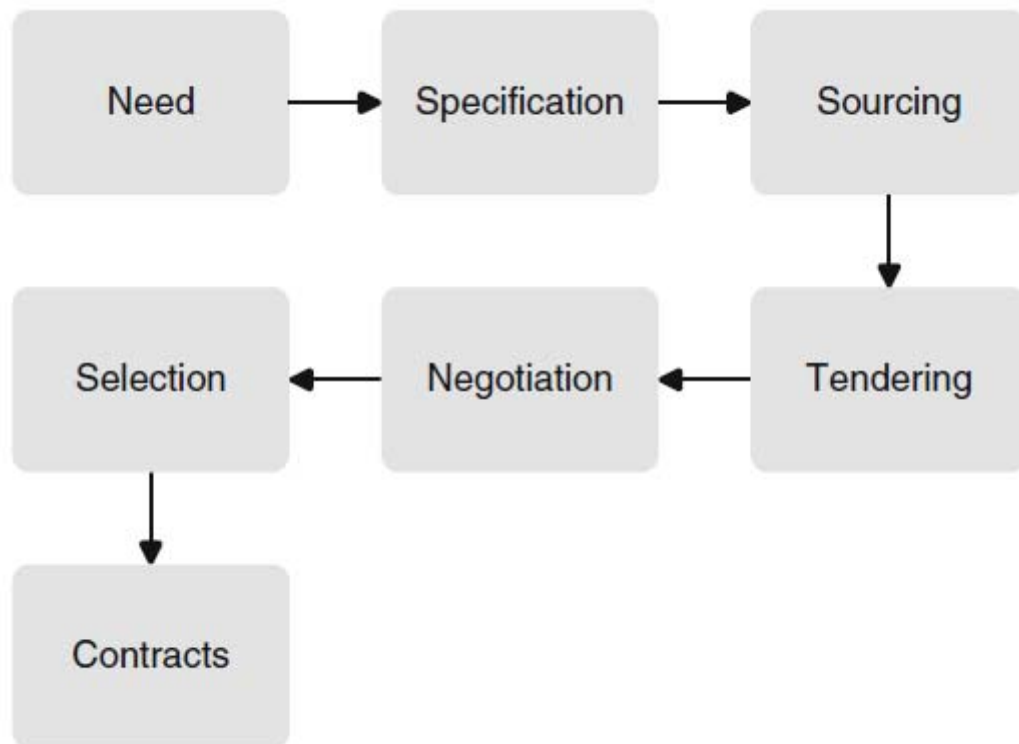


Figure 5. (Source). The Pre-order process (C. Scott et al., 2011).

After this broad introduction about the purchasing function we would like to proceed more in details within the sourcing process and the activities related to it.

2.2 The sourcing process

In this part we discuss about the sourcing role and strategies behind the decision making process.

2.2.1 Sourcing role and strategies

Sourcing is an activity we do every day in our personal lives. When we decide to buy a product or a service we start by deciding which specification we want, a target price and from whom we are going to buy it. Depending on products and on the budget the process can take time and efforts, for example for a car or for a new mobile device.

We usually read reviews from internet or we listen to comments from users. In essence we set up a strategy by researching the market and finding the best source to buy from, according to our personal criteria.

In this thesis we talk about sourcing between organizations in a business-to business (B2B) environment.

We present a first definition of sourcing taken from the author C. Scott (2011): sourcing is one of the components of the supply chain operations reference model, and it is the interface between suppliers and the buying company.

C. Scott splits sourcing in two main business activities:

1. The first one is selecting new suppliers. This includes finding suppliers that provide products and/or services that best meet the required needs, analysing them and setting up contracts.
2. The second main activity is to manage the supplier over a period of time. This could be short, such as a one-off purchase such as a factory buying a new generator. In terms of importance, sourcing is a key driver for bottom line improvement within organisations. (C. Scott et al., 2011).

The importance of sourcing is recognised by many academic papers and books that the author read. The importance of sourcing is related to the fact it is the most strategic part in the purchasing phase of the supply chain.

What are the benefits for an effective and streamlined sourcing process according to the literature? C. Scott present several effective sourcing benefits in general for the companies.

There are many benefits organisations can achieve from managing sourcing well. Effective sourcing can lead to improved product quality or reduced order cycle times for customers. (C. Scott et al., 2011).

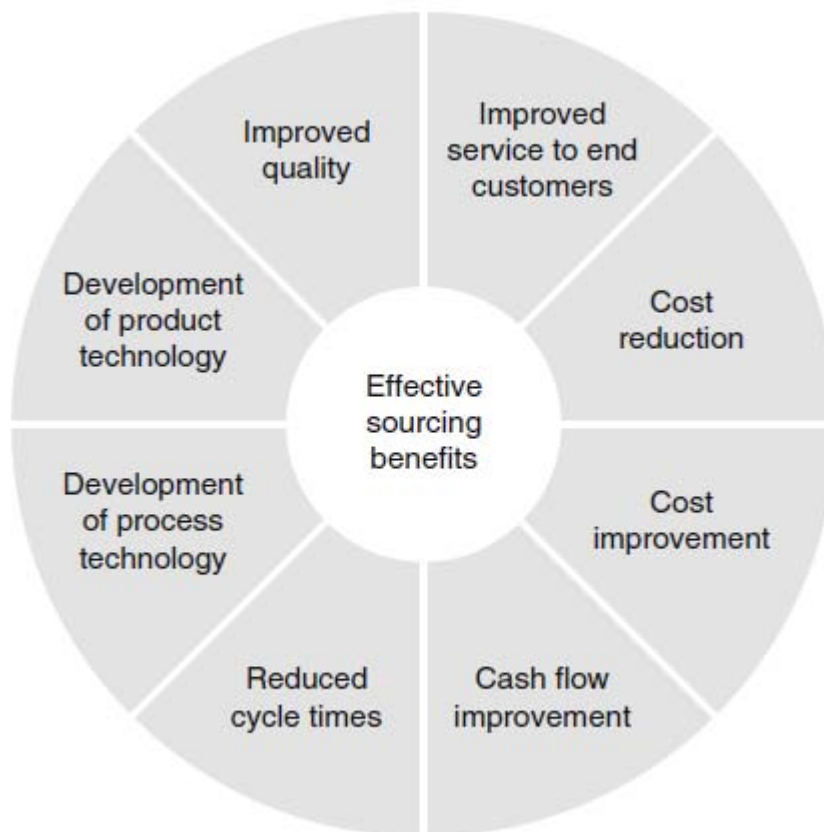


Figure 6. (Source). Effective sourcing benefits (C. Scott et al., 2011).

Sourcing involves crucial and strategic decisions because it involves much more than simply picking a supplier or contractor for each requirement in isolation. It involves continuing relationships, both with preferred sources, which are actually supplying the goods and services, and with potential sources, which may have passed over for the present but are still in running. It involves decisions about how to allocate the available business, and what terms to do the business. (Baily et al., 2005).

Sourcing strategies can be understood as comprised of two paramount strategic dimensions: the choice among various supply markets and the choice among various supply channels.

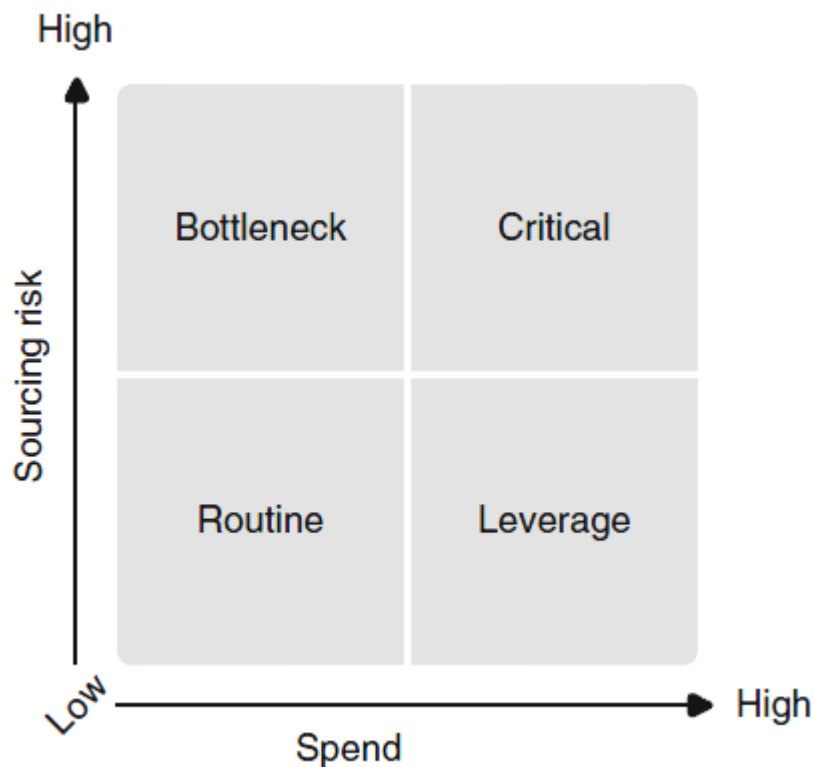


Figure 7. (Source). Kraljic matrix from van Weele A. (2010, 197).

The sourcing strategy matrix adapted from Kraljic adapted from van Weele (2010) is a tool to segment the different category groups. The matrix is a useful way to categorise items and to set different strategies to manage risk. The matrix tells us that we should take different approaches when we manage different categories.

Fraering and Prasad (1999) express these dimensions as national versus international sourcing and as internal versus external sourcing (in Johan Åkesson, Patrik Jonsson, Robert Edanius-Hällås, 2007). Most companies today engage in international sourcing in some form and to some extent (Trent and Monczka, 2003).

We found many authors that listed the motivations for companies to source internationally vary but generally they fall into one of the following categories:

- (1) Cost savings.
 - (2) The procurement of highly innovative products or technology that would be otherwise unavailable.
 - (3) Sales opportunities in the sourcing region.
- (Bozarth et al., 1998; Smith, 1999; Trent and Monczka, 2003; Steinle and Schiele, 2008).

It is worth stressing that international sourcing is only one way of achieving cost savings, the ultimate objective. International sourcing is one such tactic. Collaborative product improvement with a supplier could be another tactic used to achieve the strategic goal of supply cost reduction. (Holger Schiele, Philipp Horn, Bart Vos, 2011).

The sourcing strategy of a firm is generally characterized by three key decisions according to Burke and Vakharia (2004):

- (a) Criteria for identifying the pool of suppliers;
- (b) Criteria for choosing the appropriate set of suppliers (a subset of the pool) who receive an order from the firm;
- (c) The quantity of goods to order from each selected supplier.

As far as the approved supply pool is concerned, the decision is about the number of sources to use, namely the choice between single and multiple sourcing strategies. (Nicola Costantino, Roberta Pellegrino 2009).

In addition, organizational issues are often said to affect firms' choice among various sourcing strategies. Trent and Monczka (2003) as well as Cho and Kang (2001), in that sense, argue that firm size affects the degree of sophistication of sourcing operations, where large firms are more likely to have implemented advanced global sourcing practices.

2.2.2 Global Sourcing

Global sourcing is a strategy that became more and more applied due to the globalization of the markets and to the increase competitiveness of the retail business.

Information technology helps sourcing managers to reach easily new and emerging markets for various reasons. Usually the price is the factor that pushes companies to adopt this kind of sourcing anyway.

Global sourcing is also a new way to consider the world as a single trading area where companies try to find new competitive advantages by increasing their international operations. To benefit from the advantages of internationalization the procurement managers must define global sourcing as a strategic alternative. International purchasing has to be developed into global sourcing by using a strategic focus. This means creating a competitive edge through global operations.

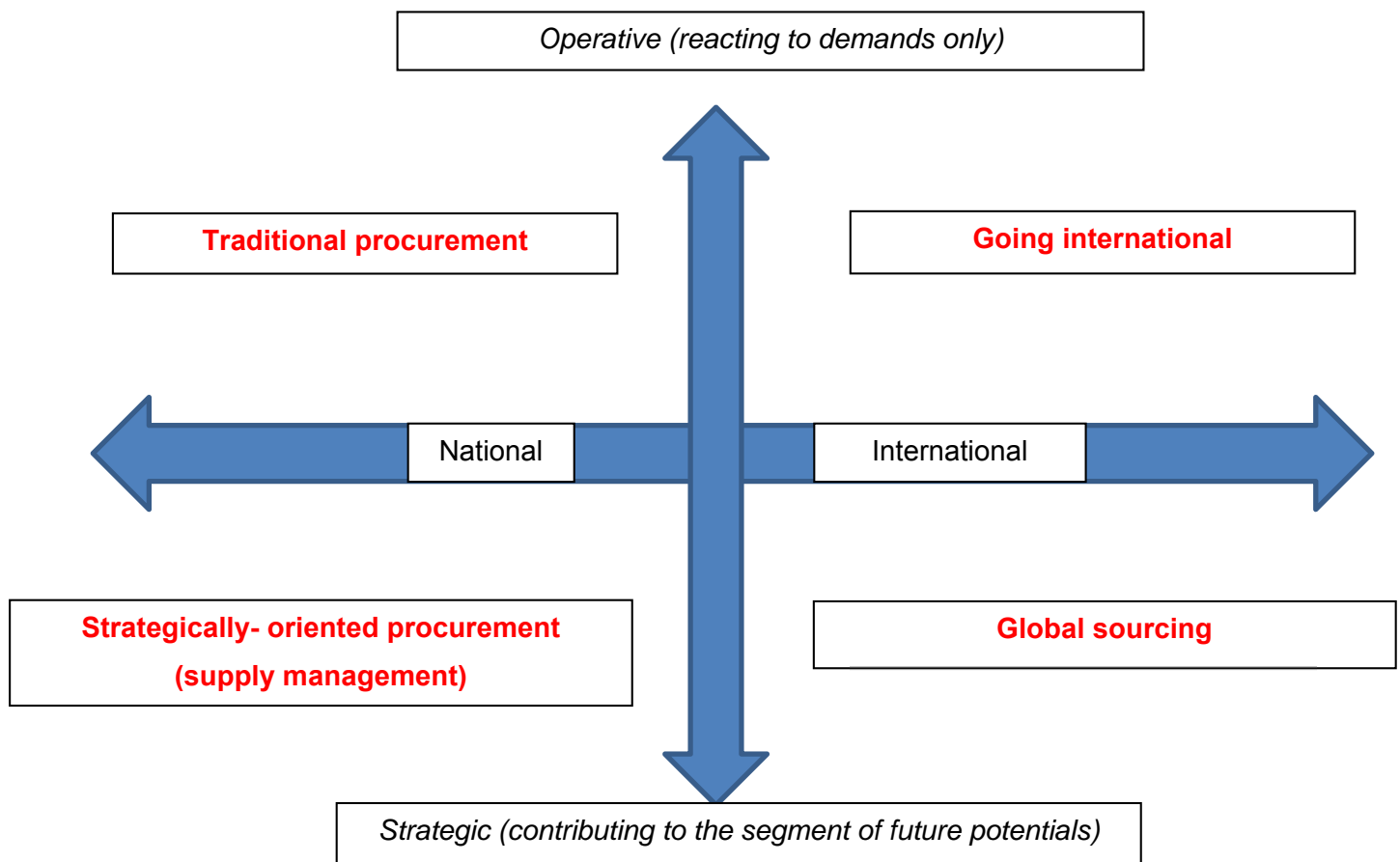


Figure 8. Global sourcing as a strategic purchasing program (Arnold, 1989, p. 20).

This is well stated and commented by Holger Schiele, Philipp Horn, Bart Vos, (2011) in their paper about estimating cost-saving potential from international sourcing and other sourcing levers.

In fact, globalization refers to two aspects according to Arnold (1989, p. 19):

- (1) Operating in international marketplaces: globalization as a systematically extending procurement policy toward sources in foreign markets at least worldwide.
- (2) Strategic orientation: globalization as an overall orientation of purchasing activities.

When choosing among alternative suppliers, there could be two options; globally or locally. The main reasons and facilitating factors for sourcing globally (Herbig and O'Hara, 1996; Laseter et al., 1997) are:

- Cost reductions through purchasing in low-cost markets.
- Improved quality, as competition overseas might be more severe in specific sectors than in the home market.
- Superior technology as know-how, experience and innovation might be superior outside the home market in specific sectors
- Reduction of logistics constraints through improved communication technology.
- Reduction of tariff barriers and customs constraints due to shifting public policy and regulatory attitudes.

There are many discussions about the real implications of a global sourcing strategy. As we can see from academics global sourcing offers many advantages, especially on the saving cost side, nevertheless there are many challenges that companies need to take into account.

For example Rajesh Nellore, Jean-Jacques Chanaron, Klas Eric Söderquist (2001) summed many different academic critiques in these points regarding a global sourcing strategy. Bearing in mind that, usually, this strategy is adopted for pricing reasons.

- Cost calculations are made complex due to fluctuations in exchange.

- Trade-balance and offset agreements lying outside the control of individual firms may have to be considered.
- Difficulties in ensuring integrated development due to long distances and cultural incompatibility.
- Problems in assessing suppliers' capabilities and developing trust.
- Increased transaction costs related to co-ordination.
- Increasing dependency upon agents and brokers.
- Higher logistics risk and costs due to complicated transportation and need for increased inventory buffers.
- Cultural differences that make negotiation difficult.

Laseter (1997) found that the cost reduction motive largely dominated a firm's global sourcing strategies. Their study shows that only a small set of truly global companies are focused on building a global supply base. The vast majority turn to global sourcing because their domestic suppliers are no longer providing world class cost.

Kotabe and Murray (2004) refer to the global sourcing strategy as to the management of logistics identifying which production units will serve which particular markets and how components will be supplied for production and the interfaces among R&D, manufacturing, and marketing on a global basis. The ultimate objective of global sourcing strategy is for the company to exploit both its own and its suppliers' competitive advantages and the comparative locational advantages of various countries in global competition.

According to Baily, Farmer, Jessop & Jones (2005) a company can encounter some of following problems with foreign sourcing:

1. Communication problems. (language difficulties even though English is, arguably, the standard language of the international trade, but also because of time differences between countries, and differing meanings attaching terminology and technical vocabulary.
2. Currency differences.
3. Payment.
4. Differing legal systems.

The fundamental concept behind cost-oriented cross-border sourcing is the idea of lower factor costs, in particular labour, resulting in lower comparative price levels in certain countries (Porter, 1990).

We want to summarize why it is important for a sourcing manager to have a good strategy plan and tools especially when they face global markets.

“Sourcing strategies provide a general orientation indicating how a company plans to purchase a particular commodity. Despite a plurality of definitions of sourcing strategies, “the most basic questions that need to be addressed in designing a coherent set of sourcing strategies are what to source, and where to source” (Kaufmann, 2002, p. 15).

We conclude this paragraph with an important assumption by Carr and Smeltzer (1997) about how strategy relates to specific actions that the purchaser may take to achieve his objectives. The challenge lies in transitioning from the general strategy to these “specific actions”.

Global sourcing is usually employed by companies in order to gain a better profit even though, sometimes, core competencies and hidden costs are underestimated. This underestimation could bring delays and, in general, issues in the procurement of the company. Sourcing on a global scale usually means big orders (economies of scale) in order to amortize the freight cost. That’s why usually this strategy is well deployed by large firms.

2.2.3 Supplier selection theories

The most strategic and critical step of the sourcing process is the supplier selection. For this reason there is plenty of literature and studies about the supplier selection. In this section we discuss how much it is important the supplier selection in the sourcing procedure and why, especially in the long term, it is connected to the strategy of the company.

According to Khaled (2011), suppliers are considered the best intangible assets of any organization. Suppliers have varied strengths and weaknesses that require careful assessment before order placement. It can be argued that it is extremely difficult for any one supplier to excel in all dimensions of performance. Suppliers have to satisfy minimum overall performance standards, but one of the scheme's objectives is to improve these continually.

We can clearly argue that selection of suppliers is the most important decision problem in today's competitive business environment. This decision could affect the business of a company in many ways. It is highly strategically and recommended to have a good network of suppliers if the company wants to create a competitive advantage. We believe that selecting a supplier for a particular criterion is the reflection of the company's strategy.

What is the definition of supplier selection according to the literature?

According to Damian Beil the supplier selection is the process by which the buyer identifies, evaluates, and contracts with suppliers. The supplier selection process deploys a tremendous amount of a firm's financial resources. In return, firms expect significant benefits from contracting with suppliers offering high value. (Damian Beil 2009).

The turning point about supplier management is the different approach of the company toward the relationship with the suppliers. In today's business environment, there is an emphasis on developing long-term cooperative relationships with critical suppliers. Business managers are reducing their supply base and thereby increasing the buying volume with the remaining suppliers. (C. Prahinski, W.C. Benton 2004).

Supplier Relationship Management (SRM) is the process that looks at proactively managing the link between buyer and supplier. It is a mutually beneficial process that works in two ways and should improve the performance of both.

We will list, according to C. Scott, the benefits of the SRM process. Some of them include:

- Breaking down functional barriers and functional mindsets
- Promoting innovation and joint thinking for “doing things better”
- Improving supply chain visibility for buyer and supplier
- Sharing assets across supply chain, removing duplications
- Enhancing forward looking visibility giving more reliability to all parties (C. Scott et al.,2011)

There is plenty of literature, also grounded with mathematical formulas about which criterion utilize for the correct selection of the suppliers. For this thesis we found that the model developed by Khaled (2011) is a good model because it shows, in a simple way, all the steps necessary for the decision-making.

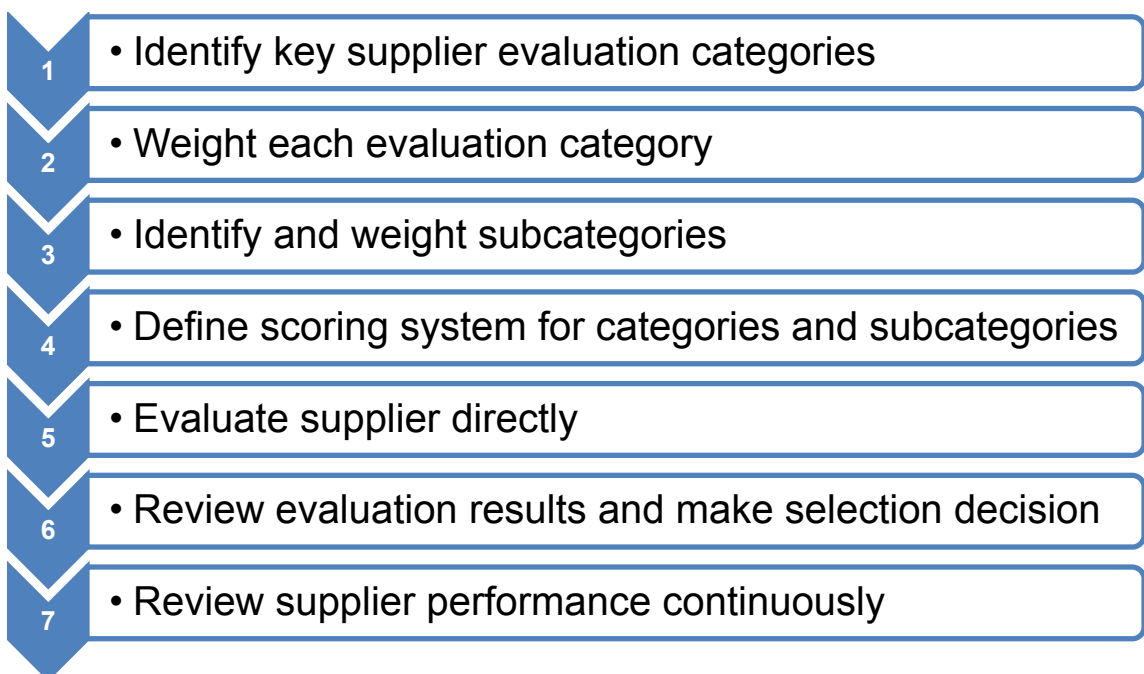


Figure 9. Adapted from “Different steps for supplier evaluation process” (A. A. Khaled, et al, 2011)

Interesting point can be found also in Baily (2005) where the author argues that in order for buyer to be able to make the right source decisions, they must know their markets.

Managers need to know the main suppliers well, to visit them and talk to the people who process their orders and make decisions about them, to keep in touch with business plans, product developments, and what is going on inside the key supply organizations. Today, enlightened buyer are seeking suppliers whom they can work to a mutual benefit. (Baily et Al. 2005).



Figure 10. Factors affecting supplier selection (A. A. Khaled, et al, 2011).

It is also primary that sourcing managers would be able to find the suppliers and through the right channels. Internet makes the process easier but it is still essential to understand this initial step: using the right source to find the right supplier.

Sourcing managers have many resources when they collect and collate the information about potential suppliers. The following points are given by Baily (2005) in order to understand some of the key sources for finding suppliers:

- Reputation.
- Appraisal.
- Approved lists..
- Catalogue library
- Publications.
- Trade directories.
- Sourcing services.
- Representatives.
- Exhibitions.
- Colleagues.

Choosing the right source is the most complicated and delicate work in the purchasing process because many factors must be taking into account before the final buying decision can be made. There are many ways to evaluate a prospect supplier but we can summarize them through quality, quantity, timing, service and price.

The final decision between many different possibilities is not made only accordingly to one factor but it is generally seen as a typical multiple criteria decision-making problem with multiple qualitative and quantitative dimensions. (Andreas P. Kakouris et Al, 2006).

Damian Beil (2009) argues in his article that there several factors in the supplier screening process, before the final decision concerning the right supplier could be made:

1. Reference checks
2. Financial status checks
3. Surge capacity availability
4. Indications of supplier quality
5. Buy-in from internal customer(s).
6. Ability to meet specifications.

We believe that the reference check plays an important role if we take into consideration the fact that feedbacks in the information age spread very fast and globally. Checking the rating of a supplier is getting easier, especially thanks to some well-known trading websites such as Alibaba.com; professional traders share their opinion on line and rate live their business partners, products and services.

Also the ability to meet specifications is crucial especially in the manufacture to order process:

- (i) Request samples of supplier products and test them to ensure conformance to the buyer's requirements.
- (ii) Visit the supplier's production facility, audit the production facilities to ensure that production can and will only proceed in a manner approved by the buyer.

Baily's list presents some key points: knowing your supplier and their products, compare them to overall market is the initial step for a sourcing project.

All in all it is not always easy to identify a good supplier. Baily makes another list of suggestions where he states that nowadays the relationship between supplier and buyer are going toward the direction of synergy (mutual benefits long-term relationships):

- Delivers on time.
- Provides consistent quality.
- Gives a good price.
- Has a stable background.
- Provides a good service back-up.
- Is responsive to our needs.
- Keep promises.
- Provides technical support.
- Keeps the buyer informed on progress.

Here we would like to add a supplier decision method for the planning and for the evaluation of the suppliers created by Andreas P. Kakouris, George Polychronopoulos, Spyros Binioris, (2006).

We believe it can very useful for the reader to understand how many variables have to be estimated before the final decision. This supplier decision criteria model can applied, for example, to outsourcing projects.

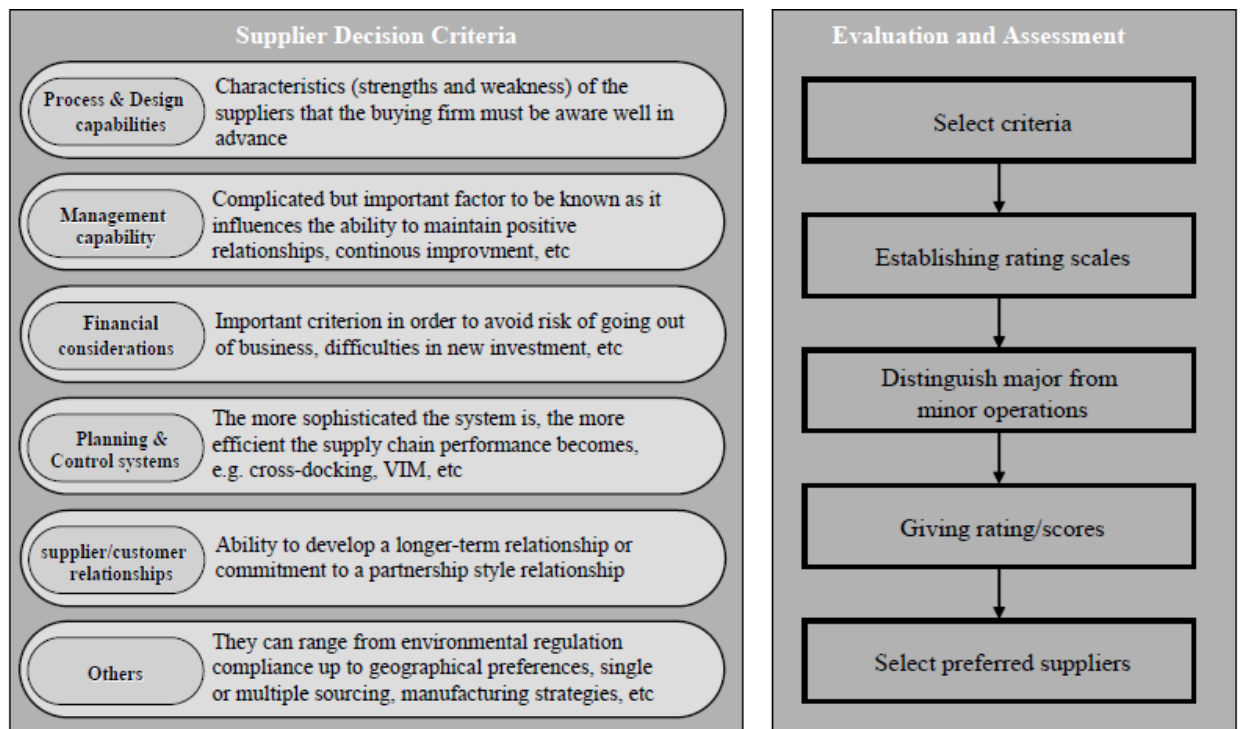


Figure 11. (Source). Supplier decision criteria, evaluation and assessment. (Andreas P. Kakouris, George Polychronopoulos, Spyros Binioris, 2006).

We conclude this paragraph by noticing that most of the literature considers the evaluation of sources a continuous process in the purchasing department. Especially the evaluation and rating of actual suppliers.

Actual sources with which one is dealing regularly can be evaluated largely on their track record on the actual experience of working with them. This is often known as vendor rating. (Baily et Al, 2005).

2.2.4 Multiple-Sourcing vs single-sourcing

In this paragraph we give a short explanation of the difference between multiple and single sourcing strategy. It is important to define the different sourcing alternatives when companies want to develop profitable relationships with partners.

A company is implementing a multi-sourcing strategy if it has business relationships with a number of suppliers. In this approach, each of the suppliers respond to the demands and specifications of a particular quotation from the buying company. (Zeng 2000)

This approach is normally used in order to increase the competition and the leverage between suppliers. Once we adapted this strategy we have to keep in mind that we will have a large supplier base with very short duration contracts. The reason why we could choose this approach is to bid to lower prices (competitive bidding).

Single-Sourcing involves the idea of reducing the number of suppliers a firm does business with. This concept is evolved with a growing popularity of Japanese just-in-time (JIT) philosophy. To eliminate waste and to emphasize value-added activities, one of the purchasing objectives is to ensure that orders are placed at the right moment, at the right time, and at the right place with the right quality. (Zeng 2000)

In this approach the good relationship between the buyer and the supplier is critical. There are advantages for the buyer and for supplier by adopting this strategy: improved communication, co-op in the design and in the quality process, stability and cost reductions and the order handling.

Disadvantages are all connected to the possibility that this relationship will not reduce the competition. In single-sourcing strategy the bargaining power of the buyer is very low because he deals with only one source and he depends very much on the seller performance. When this strategy is deployed the relationship between the two parties must be genuine and a great care during the negotiation of the contract is necessary.

2.2.5 Outsourcing

The case study company is a service provider of sourcing and logistics. Customers of the company decide to give out the sourcing phase of the procurement for their promotional campaigns in order to save time and money. For this reason we think it is important to understand the reason why nowadays the emphasis on the outsourcing decision has increased.

Outsourcing decisions are often distinguished from purchasing activities on the grounds that the latter are typically high-level, strategic decisions regarding what to make and Purchasing and outsourcing decisions what to buy; while the former include all activities associated with recognition of the need for new suppliers, setting of decision criteria, location and selection of suitable suppliers, negotiation of terms, and monitoring of supplier performance. It is clear that the outsourcing process itself is a critical, strategic operation. Once the decision has been made to outsource a product or service, a company is faced by the need to make a strategic choice between single and multiple sources. (Andreas P. Kakouris, George Polychronopoulos, Spyros Binioris, 2006).

Outsourcing is no longer a simple price-reduction game but an activity in which managers concern themselves with supplier coordination and development, market research, cost analysis, sourcing strategies and benchmarking, as well as the outsourcing choice itself (Carr and Smeltzer, 2000).

2.2.6 Sourcing decision making

In the previous paragraphs we listed some of the most common strategies and how they affect the decision making in the companies. In this paragraph we go through the sourcing process according to the literature. Sourcing is a critical process in many ways because it touches many important managerial aspects. We would like to study how academics define the different steps which are necessary to follow to have a streamlined and an efficient sourcing process. When does the actual sourcing starts? Which activities do we include? Which information do we need to gather in order to achieve a successful trade with the selected suppliers?

The sourcing process usually starts with a requisition which informs purchasing that needs to be sought. The buyer would check first if there is already some commitment by long-term contract, in which case an order could be placed immediately. In the absence of such agreement, the buyer would ask if there is an existing source of supply whose performance is satisfactory; if so, the usual practice is to reorder from that source unless there is reason to review the position. Reasons for reviewing the position include price increase request, failure to meet specification, unsatisfactory performance as demonstrated by vendor ratings, internal pressure to save money, or simply that some time has elapsed since the position was last reviewed. (Baily et Al. 2005).

C. Scott explains that the sourcing process in the company starts when the buying team establishes the commercial objectives. This includes all their specifications from a potential supplier, for example cost, quality, service and lead-time for delivery and then starts looking for potential suppliers (C. Scott et al.,2011).

We believe that in order to understand the sourcing process and the benefit of it, it is mandatory to have a clear view of what we want to achieve through the sourcing activities. We add now the concept and some key questions behind the strategic sourcing from Roger L. Ball.

With strategic sourcing, organizations analyze and decide on suppliers based on the strategic impact of potential suppliers and commodities on the organization or supply chain, instead of simply awarding supply contracts to suppliers with a narrow focus on lowest bid.

Key to strategic sourcing is gaining an understanding regarding the supplier landscape in order to determine the following:

- Who are the suppliers?
- How are they related?
- What is the customer buying?
- Who are they buying from?
- What are the risks?
- How much is spent with each supplier?

■ What is the quality of goods purchased?

(Roger L. Ball, 2005)

We stress on these points because, since the case study company is a sourcing service provider, these requirements are determined by customers and they can differ widely from item to item. Although we think many parameters of the supplier selection are usually the same such as quality, cost and the overall performance.

According to Monczka (2005) the sourcing process starts by recognizing the need for supplier selection. Then, as second step, the author present the key sourcing requirements. He argue that they are important throughout the supplier evaluation and selection process.

The third phase is to determine the sourcing strategy: as we have seen before the key decisions are single vs multiple sources, short-term versus long-term purchase contracts and domestic vs foreign suppliers.

The fourth step is to identify the potential supply sources. In this phase of the sourcing process is really important to understand the current state of the company.

The intensity of the search are influenced by several factors and according to Monczka (2005) this should be balanced according to the capability of the current suppliers.

The fifth stage is to limit the supplier selection pool and after that, as a sixth step, is to determine method of supplier evaluation and selection. The final step is select the supplier and reach an agreement.

2.2.7 The negotiation

We want to conclude the literature's review by introducing the last aspect of the sourcing process according to our literature review: the negotiation process.

Monczka (2005) defines negotiation as a process of formal communication, either face-to-face or via electronics means, where two or more people, groups, or organizations come together to seek mutual agreement about an issue or issues.

The same author states that negotiation process involves time, information, and power between individuals and organizations who are interdependent.

The negotiation process is made by a clear understanding between other's party needs and wants. During negotiation both parties have to reach a possible 'win-win' situation which we believe it would help to create a solid business ground for future possibilities. Below we add a negotiation framework for companies.

We see that, as part of the sourcing process, it is important to present how to conclude and get the best outcome from the sourcing process. The model has been developed by Robert Monczka, Robert B. Handfield, Larry C. Giuniperro, James L. Patterson (2005).

The negotiation framework includes a set of activities that we can summarise in five major steps. Each step includes several further decisions that the sourcing manager should be able to manage according to the strategy of the company and to the overall performance that wants to be achieved.

1. Identify or anticipate the sourcing requirement:
 - Purchase requisitions
 - Inventory counts
 - Reorder point systems
 - New product development
 - New facilities
2. Determine if negotiation or competitive bidding is required:
 - Is bid process inadequate?
 - Are many non-price issues involved?
 - Is contract large?
 - Are technical requirements complex?
 - Does contract involve plan and requirement?
 - Does contract involve a partnership?
 - Will supplier perform value-added activities?
 - Will there be high risk and uncertainty?

3. Plan for the negotiation:
 - Identify participants
 - Develop objectives
 - Analyse strengths and weaknesses
 - Gather information
 - Recognize counterpart's needs
 - Identify facts and issues
 - Establish positions
 - Develop strategies and tactics
 - Brief personnel
 - Practice negotiation
4. Conduct the negotiation:
 - Perform act finding
 - Recess as necessary
 - Work to narrow
 - Manage time pressures
 - Maintain informal atmosphere
 - Summarize progress periodically
 - Employ tactics
 - Keep relationships positive
5. Execute the agreement
 - Provide performance feedback
 - Build on the success of the negotiation

A win-win negotiation can increase and expand the outcomes for all the parties involved. Win-win negotiations provide a solid ground for what Monczka (2005) defines as "cooperation".

Here a list of the prerequisite offered by the author concerning negotiation and cooperation between the two parties involved in a business trade. Basically what we need to know before starting to negotiate and how to conduct the overall process with the right attitude:

- Understand each other's needs and wants.

- Focus on common rather than personal interests.
- Conduct joint efforts to solve problems and develop creative solutions that provide additional value.
- Engage in open sharing of information.

Managing trading terms and product negotiations, with analytical follow-up, contribute to maximize the profit in the present and in the future.

2.3 Framework of the study

The research theory framework is divided in several parts. These parts are connected together as each phase has to be followed accordingly in order to meet the needs of the customer. A company, in order to have an efficient and effective sourcing, has to take the correct decisions throughout all these steps.

All the theories about the sourcing process, presented in the literature review, are used as a starting point. Many ideas for the best practices are taken from the theoretical framework of references.

We want also to state that the initiation process of the sourcing, right after the company receives the request from the customer, is to analyse the entire project according to strategic and financial criteria decided beforehand (targets, goals, profit margins).

The organization, during the first steps of the sourcing, has to consider and analyse also its internal strengths and weaknesses because they could affect the overall performance. For this reason we believe that creating a sourcing plan is extremely important. Sourcing is a core activity that's why planning carefully the process, the touch-points with customers and selecting partners based on cooperation's possibilities is, in our opinion, mandatory.

For example we think that, before accepting a project and start sourcing, the company should give answers to these questions. What do we want to achieve with this sourcing project in terms of performance? Is it a win-win situation for the company and for the client we are working with? These are key questions for the entire organization because a poorly sourcing plan may deliver poor performances.

The sourcing process starts by analysing the customers' needs and the market situation. The company can encounter timing and prices issues without a profitable cooperation with the customer. This phase is uttermost crucial especially for time-consuming projects where many suppliers, decisions and requirements have to be taken into consideration.

According to the most part of the literature the crucial part of the sourcing process is the supplier selection. There are many different strategies for the supplier selection. The supplier selection is very much affected by the company's strategy. We believe that, during the sourcing procedures, cooperation is the word that management should keep always in mind.

A company with a strong supplier's network may have a competitive advantage; even in the negotiation with customer during the project's plan. The supplier's network it is extremely important in the short and in the long-term. The ability of meeting the demand through the company's network requires internal skills and a streamlined processes. A strong network of suppliers can be a valuable asset.

We saw from the literature's review that prices and cost savings are an important issue; even though, throughout the entire process, many others criteria appear and have to be evaluated.

When preparing the sourcing strategy, the company must take into account both its own position in the network as well as how the company develops. It is also necessary for the company to clarify its own strengths and weaknesses, and draw up an overall mission and strategy for the company in general (Jarillo 1988).

The right set of sourcing activities generates long-term value for the customers and for the company. The company has to match the client's needs with products and services, but it has to consider also its own goals, target and profits. The result of following the wrong plan is to have an unbalanced situation between company's targets and the use of company's resources.

The customers' wants and demands are crucial for understanding the company's role. The task may be divided into two stages: Matching the customers' present wants and demands, and matching the customers' future wants and demands. (Håkansson (1982), Turnbull & Zolkiewski (1995) in V. Freytag (2003)

The sourcing process can be seen as a working progress toward a sustained competitive advantage.

Here we summarize the different stages of the key elements of the sourcing procedure, according to Kakouris (2006):

- Feasibility study (phase 0)
- Decision criteria (phase 1)
- Service definition (phase 2)
- Service level agreement, contract (phase 3)
- Review procedures (phase 4)

In the figure 12 we present the different phases of the process. We consider it the right model for the reader to interpret the different activities that are required to successfully manage the sourcing procedure. We adapt and use this model, divided in phases, as a framework for our proposal of best practice.

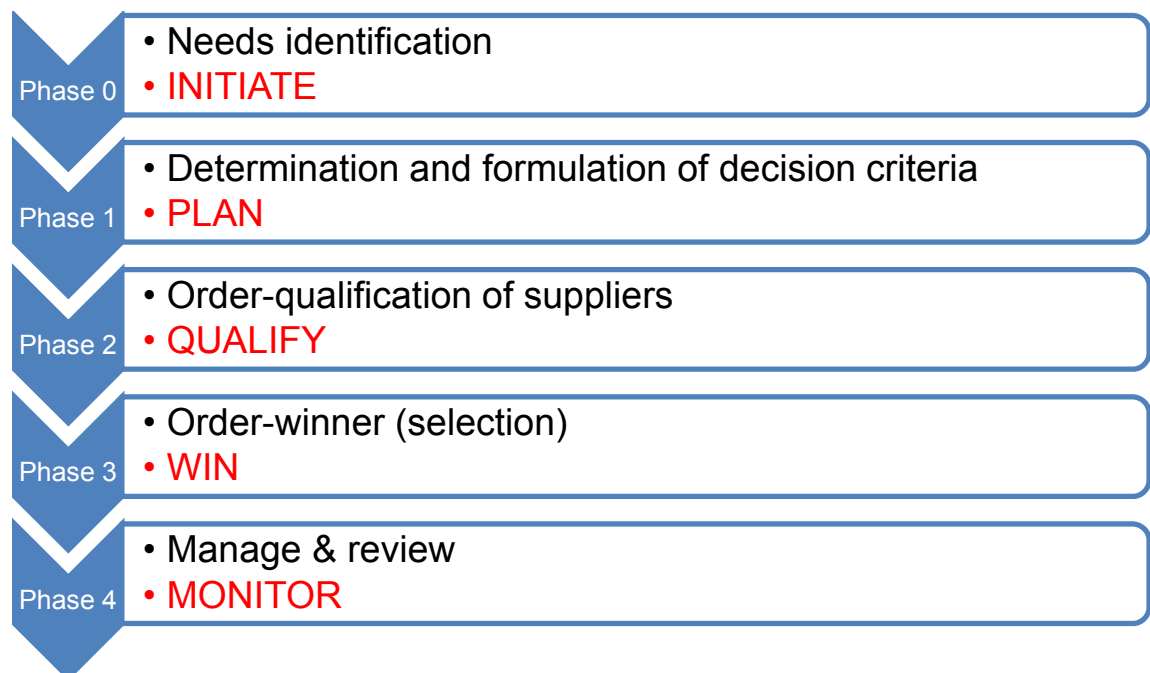


Figure 12. Framework of the study for the sourcing process adapted from Kakouris (2006)

3 The research method

Here we explained the method we use for the current state analysis and the reasons behind our choice.

3.1 Qualitative research

The research method, used for this thesis, was qualitative. Patton (1990) defines qualitative research approach as studying real-world situations as they unfold naturally; non-manipulative, unobtrusive, and non-controlling; open to whatever emerges with a lack of predetermined constraints on the outcomes.

We believe that, for the nature of the case study company, the qualitative model is the most appropriate approach. The qualitative method gives us the opportunity to gain a rich and deep insight of the sourcing process of the case study company.

The semi-structured questionnaires and the given answers, the researcher's observation are used as points of discussion in order to get the broad vision of the sourcing activities that employees apply in their daily business life.

3.2 Interviews

The interviews were semi-structured and conducted face-to-face by the author. The interviews were also open discussions, during the work day, about personal past experiences, procurement processes, sourcing activities and job responsibilities.

The author took notes during the interview about possible suggestions given by the colleagues for the research.

In order to have a clear picture of the sourcing process and strategy inside of the company we decided to involve all people inside the company.

Spotdealers Ltd employs 4 people at the moment of our research:

- CEO – Mr. Johan Wirta
- Sourcing managers – Ms. Sandra Xu and the author of the thesis
- Purchasing and sales assistant – Ms. Hanne Eerola

Since the author is employed by the company also his answers have been included as part of the survey. We believe it is always important to involve the company as a whole in the discovering process, especially when we deal with a small start-up company.

The questions were made in order to tackle the research questions that we presented in the introduction. The goal was to have a map of the sourcing process inside the start-up.

The questions were the same to all the members in order to create a model of best practice that it could unite all members' approaches toward the sourcing.

For the author it was difficult to elaborate the interviews because the team has a very different approach and attitude during all the procurement phases. The team is, although quite small, truly international with 2 Finnish, 1 Chinese and 1 Italian.

For the interviewees was challenging to explain the working process or the strategies that they deploy on a daily basis. We noticed that the team at every level takes many decisions almost automatically. For this reason they are quite difficult to analyse afterwards. Another reason why it is complicated to describe the sourcing process is because so much it is taken from past experience and 'guts' feeling.

The team also claimed that the questions were quite general (concerning purchasing strategy and process) but this was made on purpose because the study aims to develop a model of best practices that could help the company in different business projects. These interviews are used as primary data.

We thank the interviewees for their patience and collaboration during the face-to-face discussions. It was important this sort of cooperation from their side to achieve a good result.

4 The case study: Spotdealers Ltd

In this chapter we will introduce the company Spotdealers and we will give an example of a past sourcing project. After that we will discuss the result of the survey.

4.1 Company presentation

Spotdealers Ltd is a company established in Finland in the end of 2010 by two Finnish professional traders who wanted to change the way how stocklot were traded. The starting point can found in 2006 when these two friends reached a limit and were fed up with current state of the stocklot trading business. (Spotdealers 2014).

The core activity of the company has been always the sourcing procedure; first regarding stocklots then on special sourcing projects. Spotdealers Ltd now sources on behalf of big retailers in Finland.

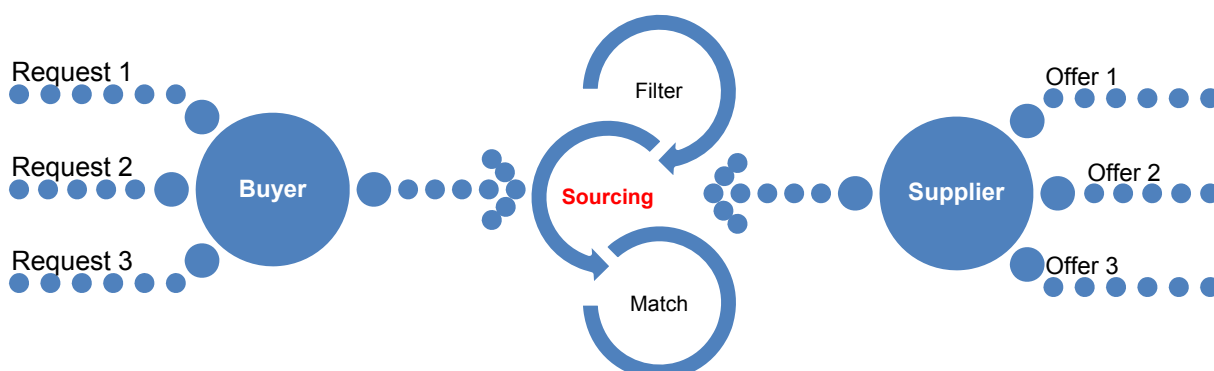


Figure 13. Spotdealers' concept

The strategy of the company is to take care of the sourcing and the logistics processes from the buyer's "spot request" until the products are delivered to the customer's warehouse. Spotdealers Ltd works on commission based on the executed trades.

The mission of Spotdealers is to help the customers to minimize the risks, reduce the transaction costs and speed up the time to market of the products in the procurement function. In essence Spotdealers exists to renew the traditional structure of trading by

speeding up the delivery cycle time and adding a personal touch to B2B e-commerce to bring substantial cost benefits to customers.

The tailor-made sourcing service is the core of the strategy in which the company acts like an interface between the suppliers and the buyers.

Spotdealers designed also an online business-to-business trading platform. The B2B web portal is built to gather the spot requests (demand) from buyers and the spot cards (offer) from sellers.

The web site brings buyers and sellers together online to trade swiftly and secure. Spotdealers uses his own network, team's skills and own expertise to find the best match. The concept is demand driven. Only verified and selected partners can access to it.



Figure 14. How does Spotdealers' service work? (www.spotdealers.com).

The service offered by Spotdealers is an e-procurement solution which Van Weele defines as all web enabled solutions aimed at supporting the purchasing process and all electronic data exchange that is needed for efficient transaction process (Van Weele 2010).

The web-portal can be seen as an electronic auction (e-auction) a tool used by buyer to invite suppliers to bid simultaneously based on a predetermined purchasing specification using web technology. After the buyer posted a request the suppliers are invited

to post their offer to tender, which meets the requirements as, laid down in the request for quotation. (Van Weele 2010).

4.2 An example of a sourcing project

After we have introduced Spotdealers Ltd we would like to present a concrete sourcing project from the previous year. For privacy reasons we will avoid any financial data or calculations regarding prices or costs. We will not reveal the names of the partners too. Our focus will be on the internal process and on the strategy behind the sourcing decision-making. This real project should bring extra value to the research because it will show how the actual sourcing process has been done before.

First we explain briefly how the service works and how the company interacts with customers. Spotdealers gathers the demand of the sourcing projects through its website's tool called "the trading table". The trading table is divided in two sections the showroom or goods on sale, and the wanted section where the buyers can post their requests. The enquiries from customers are collected through the spot request's tool on the web-portal of the company. The spot request is a tool where buyers can post their demand and list their product requirements according to different categories like DIY, Clothes, sportive clothes, pets products and many others. This is done by fulfilling an easy web-form.

Spotdealers received an inquiry about a new project in April 2013 from a Finnish retailer. The client requested a sourcing solution for three types of tape for general purposes. The client wanted to create a special promotion campaign for the summer period. The customers fulfilled the spot requests with some preliminary requirements and a target price for the products.

The sourcing team accepted the requests right after a fast checking of the spot request. There is no feasibility plan at this point; only a general understanding of the request. From that moment the sourcing process actually starts in the company.

In that occasion the client did not give any specific logistic instructions but he gave a due date. The tapes had to be in the client's warehouse by June – or, at the latest by,

July 2013. Delivering by that date seemed an easy task in the beginning but the process did not go as smooth as it should have been; even though it was successfully executed.

The main goal of the buyer's request was to create promotional products under the European standards with a very competitive price for their summer promotion. The quantity requested was very interesting. The three products were a duct tape, a packing tape and a masking tape. The tapes had to be packed singularly or in 3 rolls accordingly to the customer's needs and ready to be sold with barcode label in the stores. The client expressed, as a specific requirement, that the tapes should have been manufactured in Europe in order to avoid any problems, regarding certifications, and to speed up the entire process.

In agreement with the CEO the three tapes were considered as unique project in order to manage the sources and the logistics in an efficient way.

The first thing the sourcing team had to do was to analyse the current market situation and the prices of tapes between stockists, wholesalers and manufacturers. That was the standard procedure in the company.

After a briefly check we noticed that the prices requested were very aggressive so it was decided, in accordance with the CEO, to consider the project a manufacture to order and searching only for EU manufacturers. No stocklots or regular supply could have been found at the price and for that quantity. Also the customization requested was very particular in terms of packing. The strategy, in that case, was adapted to the customer's request.

We began to search for manufactures that they were able to satisfy the demand.

We decided to gather 2 or 3 suppliers per each sourcing manager. Unfortunately we did not have any feasibility plan so we understood later that the project was a little more challenging than expected. Especially when we had to start searching for suppliers able to manufacture that quantity at that requested

The supplier selection was done more than once, dividing the efforts between the two sourcing managers in several EU countries.

We decided to draw a list of the supplier based on the prices, delivery date and products specifications. We presented the list and several manufacturing issues to the CEO.

Payment terms were the same for all of the suppliers so it was not a valid criterion for the comparison. We qualified only 2-3 suppliers and we requested a preliminary offer in order to present ours to the customer. The best offer we received was from an Italian manufacturer. We used the term best offer as the best possible match between demand and offer.

We used the price and the flexibility of supplier's production as a criteria for selection this particular manufacturer. The manufacturer had also a very deep and wide international experience and that helped us to formulate the best offer to our client.

It was important the will of supplier to open a sales channel in Finland. In this case we can state firmly that the cooperation was fundamental. We can say that supplier helped the team to understand the feasibility of the project by giving advices and explain the market.

A preliminary first offer was made to the client in order to sense if we were on the right track, especially regarding the technical specifications and the target price.

The first approach was positive although the client required more technical details regarding the project. After receiving more detailed information we contacted again the supplier to discuss further about the feasibility of the project.

In fact in that part of the process the client asked us if it was possible to manage a different kind of logistic, a different sales packaging; instead of the normal cartons he wanted to evaluate the usage of a big carton, called pall-pack, where the tape rolls are already labelled and ready to be sold. It was an expected request. This caused a delay because the first offer did not contain these new logistic requirements in the price.

The idea of the "pall-pack" or "cartons free" came during a phone call meeting regarding new possibilities to sell the tapes in the stores. The pall-pack allows the client to reduce the warehouse's costs and the handling compared to cartons. In the stores the end-users can take the products directly from the pall-pack once opened by the staff of the store. They are also a convenient solution when many stores are involved because

it is easier to allocate a pall-pack or a half-pall-pack to a different store according to the selling capacity.

At this point we also required to the tape's manufacturer the samples of the three tapes and we asked the client to check if the products were according to the requirements. The client checked the price / quality ratio and decided to continue the project with two types of tape because one of sample was not satisfactory.

During the negotiation we talked with the tape manufacture and we asked his cooperation in order to fulfil the customer's needs. After an intense negotiation about pricing and production issues the agreement was found and we received a new offer. The Italian tape manufacturer helped Spotdealers by contacting the pall-pack manufacturer. We presented another offer to the client. That offer included tapes, the pall-packs and the barcode labels.

The client liked the solution but we all noticed that, for marketing purposes, it would have been better to add a brand in the tapes' core.

In order to help the client we decided to create with the cooperation of the tape manufacturer a logo for this particular project: Anita. This caused another delay and a new negotiation with supplier and its cores' suppliers of tapes.

This solution was not so easy because different suppliers were involved at many stages at this point: the tapes' manufacturer, the core manufacturers, two graphic designers and the pall-pack supplier. We were all negotiating toward a common goal.

Luckily the communication was beneficial with the tape's manufacture and, its willing to create a long term business relationships, made everything easier and faster. A graphic designer created the logo for the Anita brand. The tape supplier helped us to coordinate the activities with the core manufacturer because the new logo has to be pre-approved by the client before the actual production could start.

The last part of the sourcing process was to gather all the information about the products and to get a final confirmation from the client for the production to start. At this stage the final buying decision was made by the client.

At the very end of July 2013 the tapes were delivered accordingly. Spotdealers was able to satisfy successfully the demand of the client.



Figure 15. Spotdealers' tapes pictures.

We would like to help the reader by adding the figure 16. In that figure we summarize the different steps required in the process to satisfy the customer's needs for the tapes' project. The model is a simplification but it will be helpful for the researcher to analyse the current situation in comparison to the framework of theory.

We did not draw all of the touch-points, for example, many phone calls have been made to the supplier and to the customer, back-and-forth, in order to proceed from one phase to the other. There were also many emails exchanged in order to get the clearest picture of the project and make sure the supplier understood the requirements. We believe that those many back-and-forth were not all necessary. Those bottle-necks created delays in the sourcing process. They put suppliers and the case company on hold throughout the all sourcing procedure.

Spotdealers helped the client to understand the market and create a customize solution but the process did not go smoothly even though it was successfully executed. The whole team used own experience and skills to adapt the internal process toward the customer's needs.

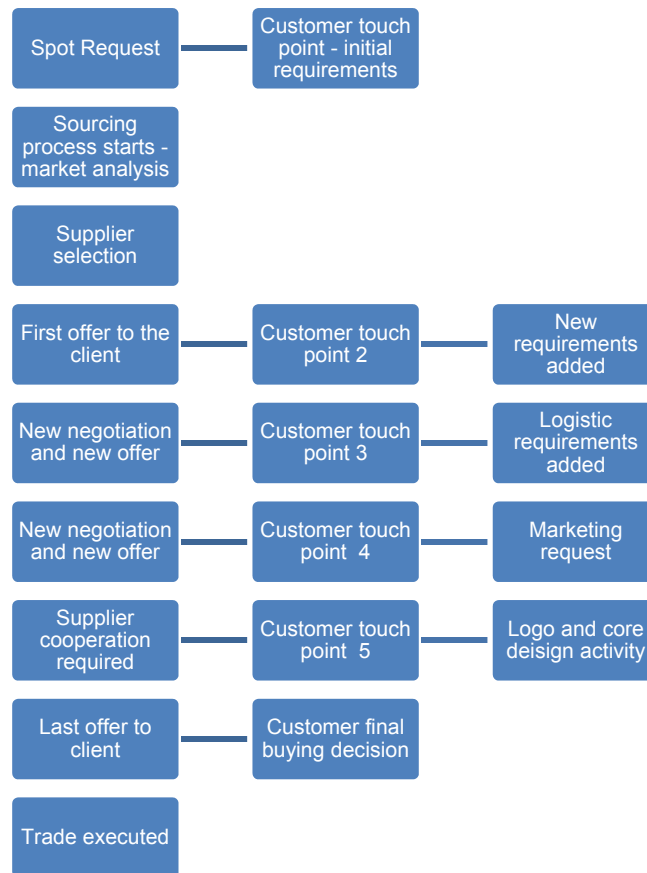


Figure 16. Spotdealers sourcing procedure for the tape project (simple model version).

4.3 Current state analysis of the sourcing process

In this paragraph we report the follow up to the interviews and we discuss the current state analysis. This part is extremely important for the research because we want to create, based on the interviews and on the tapes' project, a model of best practice for the company.

We compare the answers to the questionnaires to the research questions:

1. How well does the company understand the need of the customer as a starting point for the sourcing process?

2. What are the different steps of the sourcing's decision making process that sourcing managers' follow?
3. How does the company select suppliers in the sourcing process?

The spotdealers' team members answered that before starting the sourcing process the company should have a clear understanding of the customers' needs. They also stated that, unfortunately, this is not always possible. The first reason is that even the customer sometimes is not sure about what he wants. The second reason is that the company starts the sourcing projects promptly after receiving the request and, only after the first market analysis and /or contacting the first tier of suppliers, the sourcing team realizes that more detailed specifications are required from the client. The team or the CEO then has to contact the customer again for more information regarding the project even though the sourcing process has started.

They all agree regarding that the recognition of the customers' needs is the basic starting point for an effective sourcing process. Without a clear understanding of the customers' needs is hard to develop a strategy. The sourcing team explained that, often, experience is used and a sort of "gut feeling" in order to create a detailed specification request. The company does not a feasibility plan for the sourcing projects; also in this case prior work experience plays a major role regarding the feasibility of the projects.

Analysing the answers given in the interviews in comparison to the past project we noticed some interesting discussion points. We can clearly see that determination of the specification plays a crucial role because it is the trigger for the entire process. It is phase that creates the major issue at the moment in the company regarding timing and profits.

The company does not follow any particular sourcing procedure. The process is aligned to the customer's needs and it varies according to the product.

Accordingly to the interviews all projects are so different so there is not only one possible strategy or one only process to follow. There is a pattern though; based on products requirements the team tries to gather different offers from suppliers in order to

have an understanding of the market situation and a feasibility of the project. Sourcing managers normally apply their own way of thinking.

The overall main strategy is to get to best possible price/ratio from the supplier.

The sourcing team stated also that one of the most important step of the sourcing process is to ask for cooperation from the supplier to execute the trade faster. For the sourcing managers timing of the activities is a very important issue.

The supplier helps the sourcing managers and the company to evaluate if the deal is feasible or it needs more detailed information from the client in order to be executed.

When we compare the answers to the level of importance for the supplier selection and evaluation form is clear that cooperation plays a big role in the process.

We noticed also that reputation of the company and the financial situation of the company are strictly connected in order to take a decision regarding a new supplier.

It is important to note that price always comes first but after a first competitive offer has been reached other factors are evaluated in the sourcing process; for example trust is an important indicator for supplier selection. This is clearly understandable because the mission of Spotdealers is to reduce the risks for the buyer in the selection of the supplier so it is fundamental to have reliable suppliers.

We noticed that either for the company either for the client price is only the starting point. Price is used as a preliminary filter, followed by the quality. We saw in the tape project that one of the types was not accepted exactly for this reason.

The company decides to adapt the strategy of the sourcing process according to the customer's requirements. In this way every project is treated differently and the company tries to cope with that.

For the supplier selection there is not raking system after the trades are executed. There is no evaluation or any feedback internally. The only feedback is considered the success of the trade. There are no measurements systems either. Maintaining merchant review method could help to identify best partnerships, pricing and opportunity for growth.

We summarize the current state analysis based on the interviews, the tape project and the theory with figure 17 which is the foundation for our best practice' model.

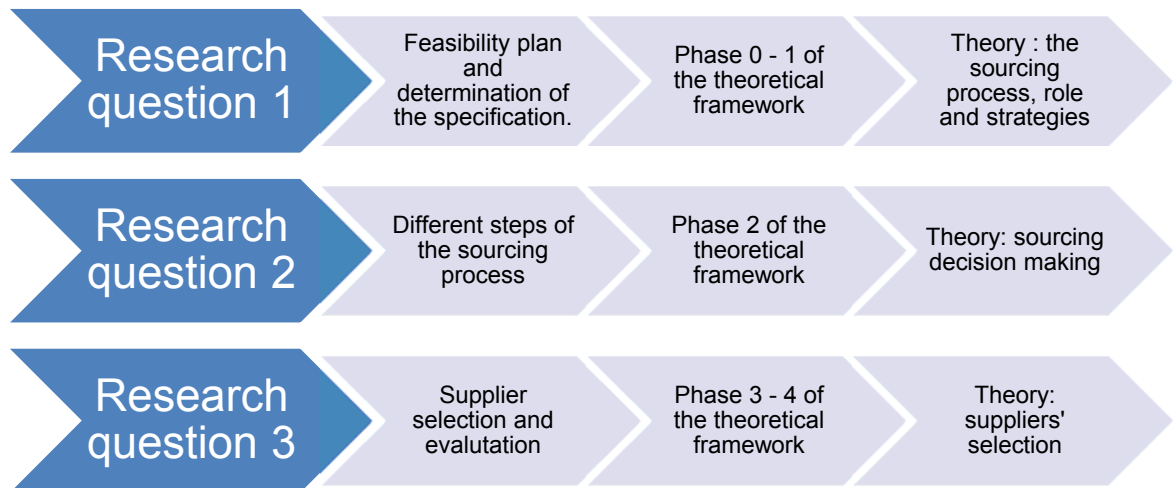


Figure 17. Theory research frame for the best practice' model.

To conclude the current state analysis we list three important points that helped us to create the model of best practice:

1. Research question N1 – The company does not have a feasibility base on any criteria. The company faces a challenge as there must be a strong customer touch point in the preliminary phase to trigger the sourcing activities: the determination of the specification before sourcing.
2. Research question N2 – The strategy of the sourcing is based on the customers' needs and the process is not sure and clear. This lack of strategy could cause many touch-points with client in order to adjust the process accordingly.
3. Research question N3 – The company does not have a ranking system or a feedback for the supplier. There is no reporting system or measurements when the trade has been executed.

5 Results and findings

In this chapter we introduce our model of best practice for the sourcing process. The theory at the base of this model is taken from the literature review. The model is also built from the learning points that we found through the analysis of the tapes' projects and from the interviews.

This set of best practice could help the company to streamline the sourcing activities and offer a better service to the client according to our proposal.

At the core of model of best practice there are fewer but decisive touch points with the clients. These touch points are managed in a different way than previously in the company because, without a clear understanding of the project requirements, it is not possible to proceed further in the process and execute a trade profitably.

Furthermore we believe that client and the supplier should be involved in the sourcing process and become co-operators or co-creators. The role of Spotdealers is develop this cooperative network and be a sort of intermediary between the two parties.

The project also requires a continuous monitoring and measurement in order to reduce the delays and increase the value creation. Timing is very big issue because sourcing can be a very demanding activity.

The company needs to develop a supplier selection matching criteria that it should be shared internally like a sort of general rules. After the trade has been executed and the project is done we advise to create a supplier evaluation with a possible ranking system. By doing so we believe that, in case of rework, the entire project could be re-executed faster.

In the sourcing process a major role is played by experience, skills and personal intuition but, with a ranking system shared inside the company, we could also avoid the possibility that all this knowledge could be lost due to a change in the team.

5.1 Our model of best practice for the sourcing process

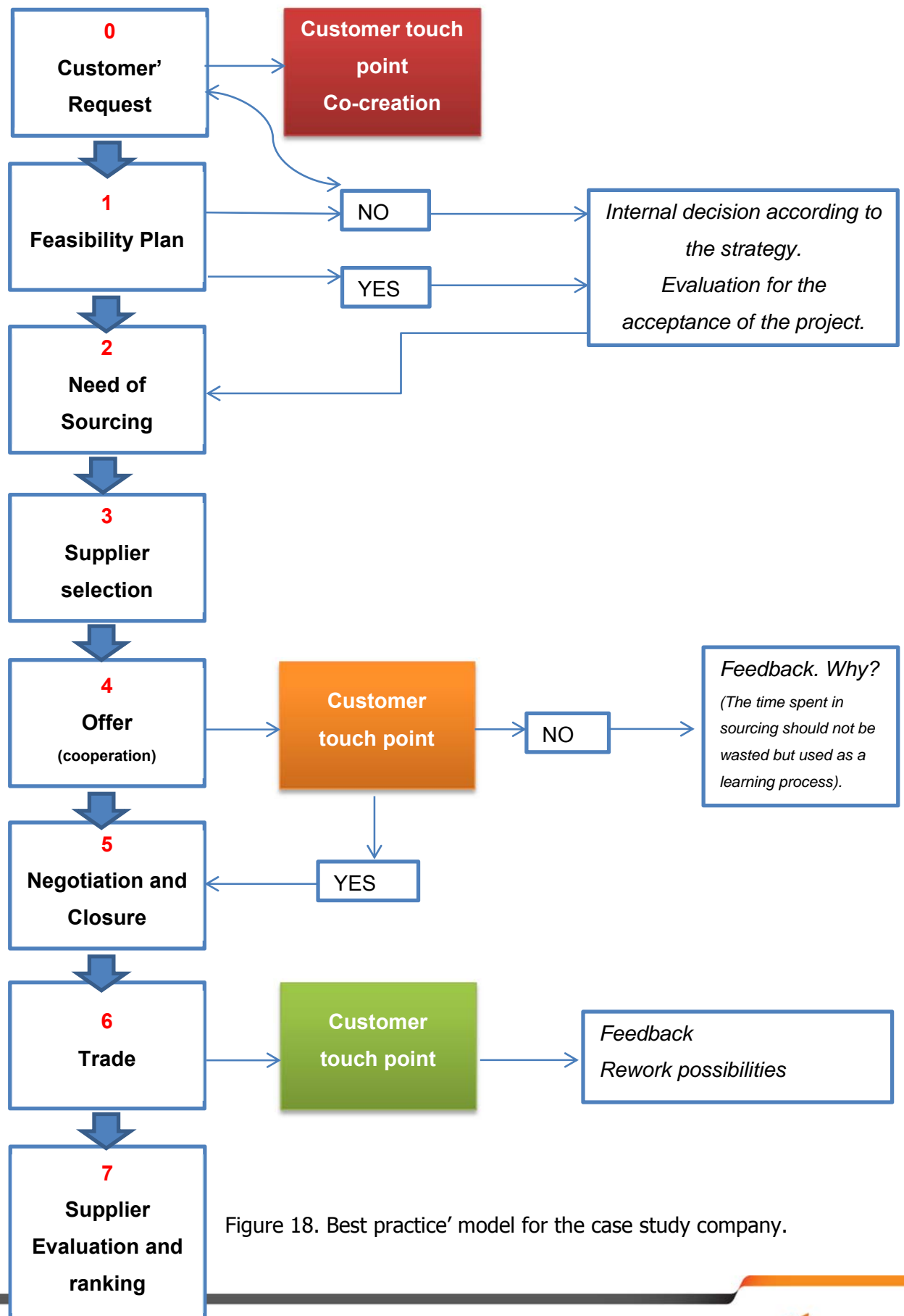


Figure 18. Best practice' model for the case study company.

In the phase 0 the company collects the spot request from the buyer concerning a new service or a product inquiry. In this phase, before the process could start, it is suggested to have a customer touch point. This touch point is crucial for the entire process; it is the co-creation point with the customer. We understood that the company faces a real challenge in managing the customer's needs. In this touch point the team should collect as many information as possible from the customer.

After having clarified with the customer the specifications, timings, marketing issues and products requirements the company could proceed to phase 1: the feasibility plan. Spotdealers ltd, according to its strategy, has to take a decision about the acceptance or not of the sourcing project: it is an internal decision based on prices, profit margin, risks, time and resources allocation. A preliminary market research may be necessary for particular products.

In case the company decides not to take a project, we advise to check and report to the client the reasons why the project cannot be executed and if there are any options for a new start. The feasibility could help the company to save time and money. The plan could also demonstrate the level of professionalism to the client in the business approach toward sourcing projects.

When Spotdealers ltd accepts the project, the sourcing procedure actually starts. The company enters in the phase 2 once the need of sourcing has been recognized. The sourcing managers start their activities by gathering information from various sources and sharing their ideas internally.

Once the company has gathered enough information about the market, the products and the potential suppliers we are in phase 3: selecting the right suppliers. The company as a whole has to decide the right approach for the project; for example how many suppliers to contact and which criterion to compare according to the customer request.

We understand that every project is different but the company should plan the process with the end in mind: how to achieve the best supplier selection for that particular re-

quest. Contacting too many suppliers may not be the perfect strategy and it could be even counterproductive.

Once the suppliers have been found (phase 4) we gather the information and compare them according to the most important criteria to get the best match. In this phase the company should find a profitable balance between the best match for the customer and for the company itself.

We have a customer touch-point also in the phase 4; the one where the company formulates a business proposal to the customer. At this point if the client decides not to continue it is highly suggested to collect the feedback in order to learn from what it has been done.

Once the customer has decided to proceed Spotdealers can close the sourcing process by starting the final negotiation with the supplier (phase 5) and execute the trade on behalf of the customer (phase 6).

In the 6th phase Spotdealers should have a customer touch-point with a feedback regarding the entire sourcing process and service provided. If the feedback is positive the management could discuss already a possibility of rework in a meeting with the customer.

We want to point out that this model of best practice for the sourcing is a process under continuous improvement using feedbacks systematically. Furthermore positive feedbacks can be used as a reference for other projects.

At the end of the process the company should add a ranking system for the suppliers (phase 7). Having such a tool in the company could help the sourcing team to create a network of qualified and verified suppliers. This is helpful in case of rework with the same supplier. A strong and profitable partnership is one of the most valuable competitive advantage that, through sourcing, companies could achieve.

At the end of every executed trades we advise the sourcing managers and the managing director to reviews sales and margin performance vs targets, analyse data which measure product performance and take agreed action to ensure their maximisation.

5.2 A balanced score card for the sourcing services

We would like to complete our recommendations by introducing an idea for the measurement of the sourcing process. We suggest a balanced scorecard method for this kind of measurement.

Managers always struggled to have a real measurement system for their strategies and activities. This is especially true concerning the innovation aspect of the business in the organization in order to stay competitive and aligned to the company's strategy.

The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals (Balanced scorecard institute 2014).

In 1992 Robert S. Kaplan and David P. published their article where they first explained how and why they created such a tool for managers.

According to Robert S. Kaplan and David P. the two main reasons why the balanced scorecard has met several managerial needs are:

1. The scorecard brings together, in a single management report, many of the seemingly disparate elements of a company's competitive agenda: becoming customer oriented, shortening response time, improving quality, emphasizing teamwork, reducing new product launch times, and managing for the long term.
2. The balanced scorecard forces senior managers to consider all the important operational measures together. The scorecard lets them know whether improvement in one area may have been achieved at the expense of another.

According to Margarita Isoraite (2008) Kaplan and Norton recommend a nine-step process for creating and implementing the balanced scorecard in an organization:

1. Perform an overall organizational assessment.
2. Identify strategic themes.
3. Define perspectives and strategic objectives.
4. Develop a strategy map.
5. Drive performance metrics.
6. Refine and prioritize strategic initiatives.
7. Automate and communicate.
8. Implement the balanced scorecard throughout the organization.
9. Collect data, evaluate, and revise.

Spotdealers Ltd. is a customer centric company so we present a feedback measurement tool for the customers' needs adapted from Robert S. Kaplan and David P (1993).

The tool could help to share the importance of the customer touch points inside of the organization. Customer touch points are essentials for the development of long-term business relationships.

In these touch points the company should work as close as possible with the customer in order to identify and satisfy the needs throughout the sourcing activities. As we suggested in our model the three most important touch-points are the beginning, the buying decision and the checking where we collect the feedback from the client.

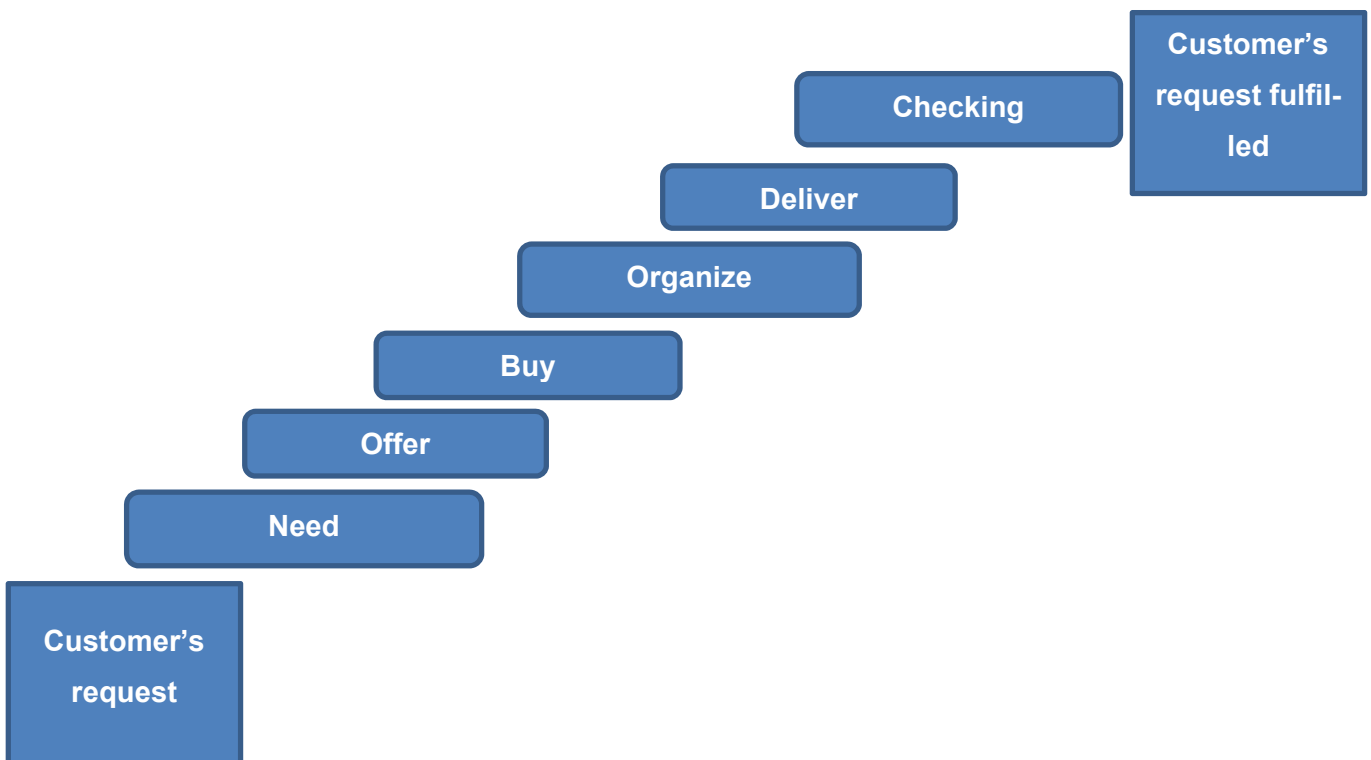


Figure 19. Spotdealers' customer needs scorecard.

We designed also a balanced scorecard for Spotdealers targeting its core activity, the sourcing process. The balanced scorecard translates the objectives and the vision into goals and actions. The balanced score card should focus on what the company wants to develop and measure. We suggest the company to list what are the important success factors and then decide which are the critical measurements to track them. In figure 20 we present, as an example, some important elements that the company should track.

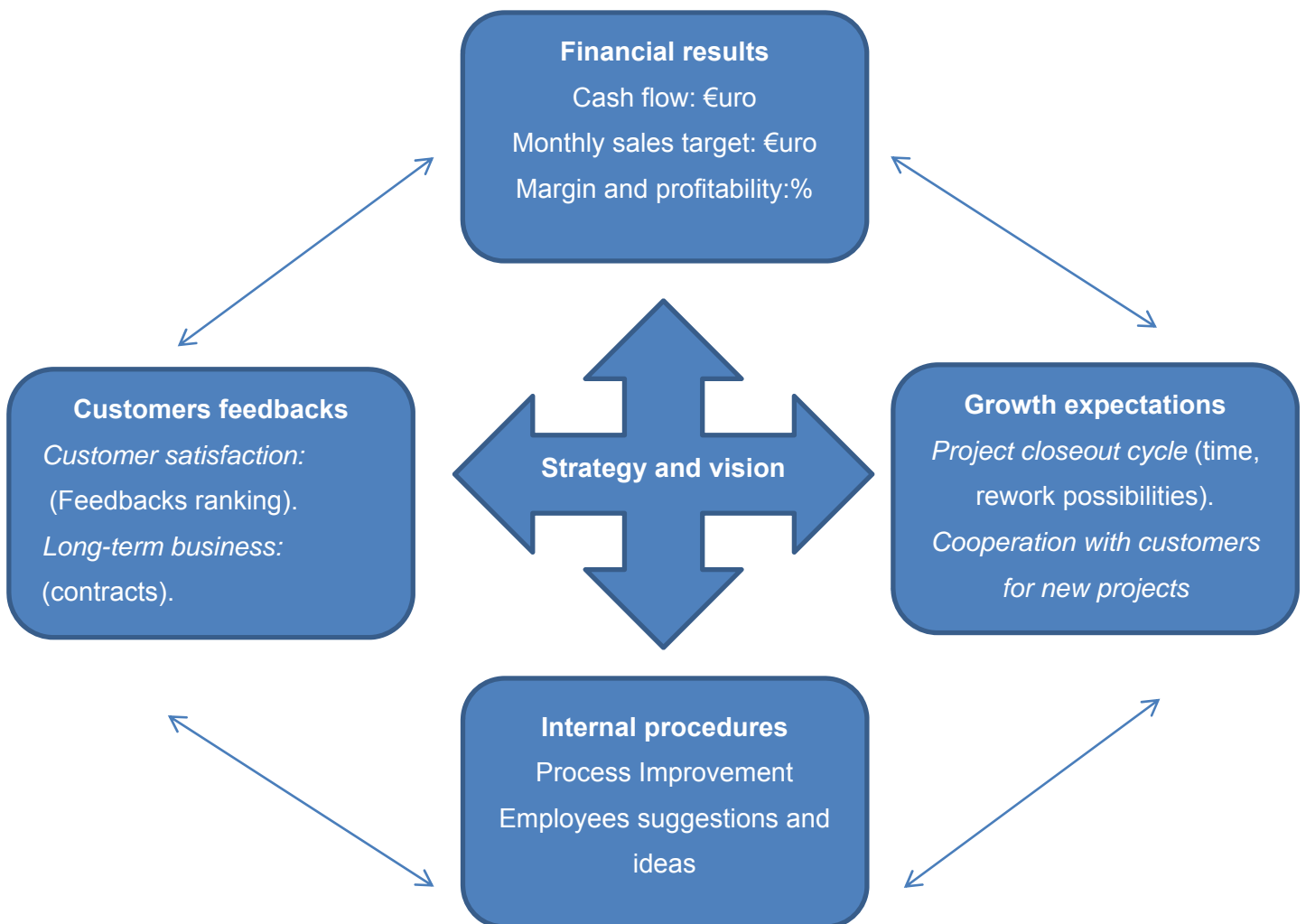


Figure 20. Spotdealers' balanced scorecard for the sourcing services.

6 Conclusion

To conclude this study we can state that our model of best practice can play a strong role in the business development of the case study company once implemented.

The best practice, we explained in the model, are fully grounded in academic theory and are developed using a qualitative method in case company.

We summarise some key learning points of our model of best practice for Spotdealers Ltd:

- Having clear understanding of the customer's needs is essential for a streamlined sourcing process.
- Creating a feasibility plan for the project, before the actual sourcing process starts, could avoid timing consuming issues later on.
- The sourcing process has to be implemented around company's strategy and targets.
- The company needs to have a continuous feedback between the partners in the supply chain.
- Sharing information internally regarding customer's insight is extremely important.
- Cooperation is the key element of the sourcing procedure. Without a profitable cooperation between the partners the whole process may not be successful.

We believe our proposal offers best practice ideas that they could facilitate the execution of incoming sourcing projects and trades. The model has been developed in such way that the company could achieve better sales and develop higher customer's satisfaction.

6.1 Validity and reliability of the research

The validity and the reliability of a study are important issues, as we can read from Silverman (2004), because in them the objectivity and credibility of the social scientific research is at stake.

From the same author we learn that reliability is the degree to which the finding is independent of accidental circumstances of the research. In ethnographic research, the reliability of research results entails whether or not (and under what conditions) the ethnographer would expect to obtain the same finding if he or she tried again in the same finding if he or she tried again in the same way.

This research can be considered a reliable qualitative research because face-to-face interviews have been conducted by the author through semi-structured questionnaires. The interviews were done singularly to avoid influence of different opinions between the team members. The interviewer took notes, listened to suggestions although the transcripts of the interviews are not published here.

The validity of the research concerns the interpretation of observations: whether or not the researcher is calling what is measured by the right name. In this kind of discussion about validity there is an underlying background assumption about separation between the 'raw' observations and the issues that these observations stand for or represent. Responses to questionnaires can be more or less valid representations of underlying social phenomena such as the respondents' attitudes or values (Silverman2004).

The validity of the thesis is based on the interviews, a real project analysis and several months of direct observation as an employees of the company regarding the challenges of the implementation of a streamlined sourcing procedure.

6.2 Limitations and further research

The first and most important limitations is that, unfortunately due to the timing of the thesis, the offered best practice were not tested in a new sourcing project in the case study company.

However the model is based on a strong literature background, primary data such internal interviews and the analysis of a real case project: for these reasons we believe it could be fully tested successfully in the future.

Our best practice are flexible managerial suggestions that they could be applied to many different sourcing projects in Spotdealers. Figure 18 page 58 represents the visual synthesis of our best practice model.

Another limitation is that the model has been created only for the Spotdealers' team as a practical managerial guide. We think that a more articulated model is necessary for big organizations where the supply chain is more complicated in terms of products and operators involved.

The author has considered this limitation from the beginning but the objective of this research was addressed to improve sourcing process only for Spotdealers Ltd. We believe that our model met this goal.

The responsibilities of sourcing managers in this thesis has been simplified in order to understand the overall process. Sourcing managers nowadays also reviews sales, interpret data with product performances and provide reviews to senior management.

One of the limitation though could be a starting point for future research studies in other companies. It would be interesting to develop best practice for those companies where multiple sourcing teams search for many items at the same time. It would be probably necessary to create models with different activities. It can be studied also how to manage the connections between those different groups.

Each team should be able to optimize the product portfolio, develop strategies and work with a buying director to deliver sales, margin and business goals.

If Spotdealers wants to pilot the model in future sourcing projects the company as a whole must be willing to share and embrace the new approach. The management's motivation is extremely important because without strong support it is not possible to implement it successfully.

Considering the learning outcome of this research we discovered how strategic the relationships with suppliers and customers are for the creation of a long-term profitable business. For this reason our presented model focuses on cooperation theories between the suppliers, Spotdealers and the retail professional. A profitable cooperation between these parties is a fundamental characteristic for the success of every trades. We introduced the co-creation touch point in order to make understand to the reader the importance of strengthening the cooperation between the company and the customer.

We discussed also about the importance of the supplier selection as a strategic phase of the sourcing process. We pointed out also how the overall company's strategy affects the decision making.

We were able also to investigate a crucial part of the sourcing process for the case study company: the initiation or the determination of the specification.

We have strongly pointed out that a successful sourcing project has to start with a clear understanding of the customer's needs. It may seem obvious to the reader but, during the current state analysis, we discovered that it is a phase most important where, sometimes, even the customer has to be helped.

This study helped the author to discover new ideas to enhance his knowledge of the sourcing procedure as a manager. The author would like to thank the whole team of Spotdealers Ltd. for the support throughout this research.

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Appendix 1. Interviews. Spotdealers Ltd

Supplier selection criteria

Interviewee:

Place: Spotdealers Ltd, Espoo – Finland

Date: February 2014 (Level of importance for the supplier selection in your opinion
1 – not important, 5 – very important).

Criteria / Factor	1	2	3	4	5
Quality of the products					
Price					
Delivery and lead-time					
Trust					
Long-term business relationship					
Reputation of the company					
Financial situation of the company					
Pre-sales and post-sales services					
Geographical location of the company					
R&D (innovative products)					
Reliability on continuous supply					
Payment terms					
Flexibility regarding meeting the customer's needs					
Co-operation					
Logistics operations					
Labour conditions					
Environmental and sustainability policies					
Certifications					
Your work experience					
Amount of past business					
Marketing (brands, packaging, etc..)					
Good impression, attitude					

Anything not mentioned:

Appendix 2. Interviews. Spotdealers Ltd

The Sourcing process

Interviewee:

Place: Spotdealers Ltd, Espoo – Finland

Date: February 2014

Sourcing process - determination of specification

1. Do you have a sourcing process or a strategy when you source?
2. Do you have a clear understanding of customer's when you source?
3. Do you ask co-operation from the supplier in order to fulfill the customer's needs?
4. Do you create a detailed specification request for the supplier?
5. Do you have any feasibility plan before you start sourcing for a client?

Sourcing process – Selection/negotiation/contracting :

1. Do you have any negotiation strategy?
2. Do you draw a short list of the potential suppliers? Do you compare only the prices or also other factors?
3. Do you suggest any products alternatives to the client?
4. Do you think that multiple sourcing (many suppliers – short term contracts) is a good strategy or do you prefer to work with few suppliers?
5. Do you have a ranking system for the supplier after the trade has been executed? (supplier evaluation)