THE CHANGING ROLE OF PURCHASING
- reconsidering three strategic issues

Lars-Erik Gadde
Dept of Industrial
Marketing
Chalmers University
of Technology
S-412 96 GOTELEBURG

Håkan Håkansson
Dept of Business
Administration
Uppsala University
Box 513
S-751 20 UPPSALA

SUMMARY

During the 1980s the attitude towards purchasing has changed considerably. From being regarded almost a clerical function - with the ultimate purpose to buy as cheaply as possible - it is today considered a major strategic resource.

To be able to benefit from the potential resource, however, buying companies have to change their purchasing behaviour and deal with suppliers in a different way than before. The objective of this paper is to analyse the effects of the new view of purchasing on the following three aspects of purchasing strategy:

- the decision whether to make or buy
- the design of the supplier structure
- the relation to an individual supplier
THE CHANGING ROLE OF PURCHASING  
- reconsidering three strategic issues

Lars-Erik Gadde & Håkan Håkansson

1. A NEW VIEW OF PURCHASING

During the 1980s it has been possible to trace a fairly new way of looking at purchasing. From being considered almost a clerical function - with the ultimate purpose to buy as cheaply as possible - it is today regarded as a major strategic resource. The new attitude towards purchasing is not surprising per se. In fact, the purchasing function is responsible for more than half of the total cost in many companies. Nevertheless, the change in view is so considerable that an analysis of this development should be of interest.

Let's start by a quotation giving a rather representative view of the traditional way of regarding efficiency in purchasing:

"Price has been the principal yardstick by which manufacturers have traditionally selected their suppliers. By spreading their purchases among several suppliers, it is argued, manufacturers can achieve the cheapest prices and the greatest assurance of a secure flow of material."

(Dillforce, 1986, p.3)

Such purchasing behaviour will result in lost opportunities concerning the possibilities of utilizing vendors as the strategic resources they could be. Analyses pointing to such weaknesses have been provided by e.g. Axelsson & Håkansson (1984) and Spekman (1985). During the last decade, however, many companies have changed their behaviour in the directions proposed by these reports (see for example Burt, 1989 and Frazier et al, 1988).

Morgan (1987) has observed a tendency among customers to move from an "arm's length" relation (a number of competing suppliers) towards "single-sourcing" and even to "alliances". The last type of relation involves a deepened cooperation between the customer and a specific supplier. Similar analyses have been provided by Lamming (1987) and Frazier et al (1988). Lamming's discussion is based on empirical observations from the automobile industry. Frazier et al have developed a conceptual model where the traditional view is denoted as "market exchange". The deeper relations are then labelled "relational exchange" and "just-in-time exchange".

The observations of these analysts, leading to their conclusions about the emergency of a new kind of relation, can be summarized by this statement from the purchasing policy of a customer company:

489
The suppliers to Saab Car Division are to be regarded as an integrated part of the total production system. Supplier relations shall be based on a high degree of openness within a maintained business relation. That will call for a mutual trust and confidence and long-term agreements. (Saab Car Division, 1989, p.2)

It is obvious that such a view of purchasing and suppliers is very far away from the "arm's length"-relation characterizing traditional purchasing. The aim of our paper is to analyze how these changing attitudes and policies affect purchasing behaviour. We will discuss the effects of the new view on three aspects of purchasing strategy. The first factor analyzed will be the question regarding make-or-buy, i.e. the decision to purchase from others or to own the production facilities. The second one deals with the effects on supplier structure. Morgan (1987) argued that one factor characterizing development was an increasing occurrence of single-sourcing, i.e. using only one supplier instead of a number of competing suppliers. The third aspect will concentrate on the customer-supplier relationship. Saab state that they are going to regard suppliers as part of an integrated production system (i.e. what Morgan called an alliance). Such a relation is very different from the picture provided by Dillforce (1986), which was earlier given as an example of the traditional purchasing model. Therefore, changing customer-supplier relations is an obvious choice for analysis.

2. MAKE OR BUY

The first strategic issue deals with the decision of whether to make or buy. This question has been a major topic ever since industrial activities were established. In spite of that, it seems not to have been considered as a major strategic problem by purchasing firms. Culliton (1942) concluded that most managers, when they were asked about their make-or-buy problems, said they had none. According to Culliton, however, that answer should be considered as a lack of insight in strategic issues rather than a lack of the problem itself. The relevance of this aspect seems to have been fairly neglected even in more recent times, see for example Jansch & Wilson (1979) and Leanders & Nollet (1984). These authors conclude that make-or-buy problems generally have been ignored by top management. When considered, they have been handled by purchasing departments on the basis of historical cost rather than strategic analysis.

In spite of the absence of strategic decisions it is possible, however, to identify a rather clear trend over time towards an increasing importance of "buy". In 1942 Culliton found that very few tools seemed to exist that could be of help in the actual decision-making. In the conclusions of the thesis he stated that he had hardly been able to give clear propositions
regarding the advantages of the strategies in various situations. Based on his experience, however, Culliton argued that, in general, it seemed to be that "buying is preferable to making". The reasons for this conclusion, however, rather seem to be disadvantages connected to a "make" strategy. Aspects discussed were, for example, rapid changes in the market and a lack of flexibility characterizing own production as a strategic choice. Reasons supporting a buy strategy that were mentioned included rapid progress of production techniques at independent suppliers, increasing need of specialization in production activities and increasing efficiency of transportation systems resulting in an improved service level from outside suppliers. This conclusion was drawn in 1942. Considering the further development of the factors mentioned it is not surprising that the importance of "buy" has increased over time. This is the same as to say that the degree of vertical integration has decreased over time.

Hayes & Abernathy (1980) agree with Culliton and advocate a "buy"- strategy. The major reason is that it's risky for a manufacturing company to be locked into a specific technology which might be challenged by new developments. A company with asset-specific investments then can meet problems with innovativeness. The author's therefore warn companies against a too high degree of vertical integration.

Dirrheimer & Hubner (1983) analysed the vertical integration in the automobile industry. The degree of integration showed a considerable variation between different companies and different countries. For all manufacturers analysed, however, the vertical integration had decreased during the last five year period. In a study of four large multinationals in the Swedish engineering industry, components and systems purchased from outside suppliers accounted for about two-thirds of the turnover (Grant, 1990). The same figure holds true for the second largest construction company in Sweden (Håkansson & Gadde, 1990). The situation also seems to be similar for small and medium-sized firms. In a study of 123 Swedish companies, purchasing accounted for more than 40 per cent of the turnover for 70 per cent of the companies. Almost every fifth firm showed a purchase share of more than 70 per cent (Håkansson, 1989).

The figures also represent a general trend in other countries and other industries according to Kumpe & Bolwijn (1988). Their findings show that many manufacturing companies have increasingly been relying on innovative suppliers, which have been able to contribute to the customer's efficiency in production as well as in R & D. It is also obvious that customers have been able to achieve some kind of control over supply resources without ownership of suppliers. Instead, it seems as if one ambition has been to get suppliers to regard themselves as "members of the family". Kumpe & Bolwijn argue that buying firms through various forms of cooperation and other joint activities have been rather successful in achieving the advantages characterizing ownership - without the corresponding disadvantages. The same conclusion has been drawn for firms in the automobile industry, where Gadde & Grant
(1984) found the existence of various forms of quasi-integration.

So far we have observed a decreasing rate of vertical integration. A strategic shift of this kind will lead to advantages as well as disadvantages. One relevant question, therefore, is whether we are approaching a situation where the degree of vertical integration could be considered to be too low. Miles & Snow (1986) don't consider this to be a risk. On the contrary, they foresee even more disintegration. Due to changing environmental conditions and new forms of competition they mean that industries in the future will be characterized by completely new organizational forms (figure 1).

![Figure 1 A future dis-integrated production network](Miles & Snow, 1986, p. 65)

They propose that the functions necessary in an industrial system will be performed by different companies, specializing in separate activities. These dynamic networks are fairly loose coalitions. They are connected by "brokers" responsible for the integration of the activities. In this integration, exchange of information will be a crucial determinant of efficiency and effectiveness as the network actors and activities are based on market mechanisms. Such an industrial system is characterized by a complete lack of vertical integration.

Kumpe & Bolwijn (1988), on the other hand, argue that the degree of vertical integration will increase in the future. The reason being that most value-chains (Porter, 1985) today are characterized by an imbalance regarding profitability. Firms in the final stages - assembly and marketing/distribution - usually earn a lot of money. The profits in the earlier stages of the value chains (e.g. component production) are, in general, substantially lower. In these stages, on the other hand, there is a great need for investment if the chain as a whole is to be competitive. There is an obvious risk then, that the investments necessary for long-term competitiveness (in design, product development and component production) will never be undertaken as suppliers might be unable to raise the required financial resources. Therefore, Kumpe & Bolwijn argue, firms in the final stages will be forced to integrate backwards and provide these resources. Otherwise suppliers might be driven out of business, implying severe problems for the
customer. A strategy aiming at an even lower vertical integration than today, therefore, is considered a disaster in the long run, according to Kumpe & Bolwijn.

We have, thus, been able to identify two completely different views of the future of vertical integration. The differing opinions can partly be explained by their sharp focus on the formal degree of integration, i.e. ownership between the parties. As we have seen, vertical integration in this respect has decreased over time. It has been replaced, however, by informal arrangements that keep the industrial networks together. This is what has been called quasi-integration by various authors; Blois (1972) was the first to use this concept. Quasi-integration can take various forms and include, among other things, customer investments in supplier tools, various financial solutions, etc. The trend seems to be obvious, that these informal integration arrangements are increasing in importance, but unfortunately there is no statistical evidence. If this is so, the difference in opinions held by Kumpe & Bolwijn and Miles & Snow need not be as large as they appear. Through quasi-integrative activities customers can give suppliers support without moving back to ownership relations. On the other hand, buying firms will not be free to change suppliers as easily as indicated by Miles & Snow. Investments undertaken on either side of the dyad will delimit the potential changes that might be provided by, for example, the development of information technology.

Our opinion is that the tendency observed - towards buying more from outside suppliers - will continue. The driving forces towards increasing specialization will still be strong in the future. Purchases from independent suppliers concern not only components and product systems, but also design and development. One necessary prerequisite for this development is the emergence of various forms of quasi-integration that have shown up during the last two decades, as well as a new way of looking at supplier relations which will be another topic of our discussion.

3. DESIGN OF THE SUPPLIER STRUCTURE

The question of supplier structure can be divided into two strategic aspects. One of them has to do with the number of suppliers, the other with the way in which suppliers are organized.

The number of suppliers has always been an important aspect of purchasing strategy. As was earlier mentioned the traditional view of purchasing implied a group of suppliers eagerly competing with each other - mainly on price. We know that this view has been increasingly questioned - and changed - and will now discuss the implications of that. One of the reasons for the changing view is the appearance of advantages in deeper cooperation relationships with single suppliers. Activities that deepen single relationships will effect the supplier structure as a whole. In fact many companies today have clear
strategic aims concerning the shape of the supplier structure. This is a rather new dimension of purchasing strategy. We will now discuss these two aspects in turn.

The number of suppliers.

The choice between single-sourcing and multiple-sourcing is a classical issue in purchasing strategy. The established criterion of efficiency has often resulted in multiple sourcing as supplier competition has been given priority. Through that, customers are expected to be given better control over price levels as well as more reliable supply through spreading of risk (Melin, 1986). Multiple sourcing has also been shown to be an important strategy for firms aiming at reducing uncertainty in purchasing (Puto et al, 1985).

It is obvious that purchasing strategies have undergone considerable changes regarding this aspect during the 1980s. Newman (1988) has identified a clear trend towards single-sourcing, or at least a substantial reduction in the number of suppliers. The significance of these changes differs between industries. They seem to be most obvious for the automobile industry. Chrysler reduced the number of suppliers of wiring harnesses from fourteen to three and the number of paint suppliers from five to two - one for US plants and one for Canadian plants (Raia, 1988). Helper (1989) found in a survey of 1024 suppliers that the average number of competitors that a company met at a specific customer, had decreased from 2.0 to 1.5 in two years. Such changes for specific components will cause substantial effects for the supplier structure as a whole. Changes in the number of suppliers are reported for Volvo Car Corporation, from 850 to 614 between 1984 and 1988 (Dagens Industri, 1988) and Ford US, from 3200 in 1981 to 2100 in 1987 (Burt, 1989). Similar changes are also evident in other industries and companies. The most drastic reduction so far has been reported for Rank Xerox. This company had almost 5000 suppliers in 1981. Six years later the number had been reduced to a little more than 300 (Morgan, 1987).

These observations contrast sharply with the view advocated by traditional purchasing. Newman (1988) states that only a decade ago a purchasing strategy relying on single sourcing would have been characterized as an "invitation to disaster". As compared to multiple sourcing, customers lose the opportunities for price control, as well as spreading risk. The reason for looking at this trade-off with other eyes is the changing role of purchasing. Today it is possible, in fact, to argue that single sourcing will lead to an increase in the reliability of supply. Buying firms that decrease the number of suppliers and try to strengthen the relation to the remaining ones might be able to establish very efficient logistical systems together with their suppliers. We will discuss that later on when dealing with the quality of supplier relations. Regarding the price control, Newman (1988) argues that the price competition perceived when dealing with multiple sourcing can often be illusory. Price is only one aspect of the costs that are affected and changed by different ways of handling the purchasing activities of a company. A number of other costs
will also be changed. Håkansson & Wootz (1984) therefore distinguish between two major purchasing strategies "low price" and "low cost". Depending on the relation between direct cost (mainly the price) and indirect cost either strategy can be the more appropriate. A strategy aiming at low cost might lead to single sourcing from a supplier quoting a higher price. We will come back to that later on.

Organization of the supplier structure.

The other dimension of the supplier structure has to do with organization. To illustrate the effects of various organizational forms we refer to observations from Gadde & Grant (1984). According to their results the number of suppliers dealing directly with three automobile manufacturers were as follows:

- General Motors: 3,500
- Volvo Car Corp: 800
- Toyota: 168

The difference between GM and Volvo can be explained by differences in size (number of cars produced, number of plants etc). Toyota, on the other hand, does not fit into this pattern. Despite the fact that the production volume of Toyota was close to GM, the number of suppliers was less than a fourth of the figure for Volvo. The major reason was the different ways the companies organised their supplier structure. GM and Volvo, in fact, had no organization at all. The strategy of supporting competition among suppliers through multiple

Figure 2 The supplier hierarchy of Toyota.
(Berry, 1982, p.25)
sourcing had resulted in fairly "wild" structures. Toyota, like a number of other firms in Japan, had organized their suppliers in hierarchies (figure 2). The first-tier suppliers had been made responsible for just-in-time deliveries. They also had become more system- than component-suppliers over time and to an increasing extent responsible for product development within their specific areas. Further they were responsible for the activities of the rest of the supply system, including sub- and sub-sub-suppliers. For a detailed discussion of these systems and their characteristics we refer to Nishigushi (1987).

Obviously supplier structures of this type follow from a reliance on single-sourcing. The major difference between this organization form and the traditional way of solving purchasing problems is the degree of dependence. In the traditional purchasing model, customers are much less dependent on any single supplier. The Toyota structure, on the other hand, implies a very high dependence in relation to the first-tier suppliers. Gadde & Grant (1984) conclude that traditional purchasing strategy promotes avoidance of dependency, while the Toyota approach has been to manage the dependency that is an inescapable side-effect when obtaining other advantages.

Another observation is that the Toyota approach provides better opportunities for controlling the supply system as a whole (Ikeda, 1987). This is also witnessed by Nishiguchi (1987), showing the differences in human resources necessary. In 1987 GM used around 6000 purchasers, handling an average of 1500 suppliers per factory. The central purchasing department of Toyota consisted of 337 people. The difference is accentuated when considering the fact that Toyota purchase 70 per cent of their components from external suppliers, while the corresponding figure for GM was only 25 per cent.

4. THE RELATION TO AN INDIVIDUAL SUPPLIER

The major reason for reducing the number of suppliers has been to provide opportunities for a deeper cooperation with individual suppliers. Two driving forces can be identified in this process. One of them deals with reduction of costs - that is the potential for rationalization through a deeper relation. The other one deals with the possible exploitation of supplier resources in order to improve technical development - that is development through a deeper relation. We will discuss these two dimensions of increasing quality in supplier relations.

Rationalization through supplier relations

A number of indirect costs can be affected through a deeper cooperation with suppliers. We will group them in three categories:
- administrative costs
- production costs
- material flow costs
Costs of R&D and product development can also be effected. They will be discussed in the section on development cooperation.

Administrative costs

It is possible to offset substantial effects through rationalization of the administration of supplier relations. In Håkansson & Gadde (1990) a number of examples are provided. One customer was eager to decrease the flow of paper associated with one of the supplier relations. Some of the changes undertaken were that purchase orders were eliminated, daily deliveries introduced and invoicing reduced to only once a month. Through these arrangements the number of documents regarding a delivery was reduced from seventeen to three. Costs for administration of supplier relations can be very high. A big Swedish construction company receives around 1.2 million invoices a year. The costs for handling one invoice have been estimated to be more than 200 SEK (about 30 US dollar). Obviously the administration costs must represent an enormous potential for rationalization.

A powerful tool for attacking these costs has been obtained through the development of information technology. Inquiries, orders, invoices etc, can today be transmitted automatically in a fast and accurate way. Besides reducing administrative costs, such arrangements provide purchasing officers with more time for working with strategic questions rather than operative. A more thorough analysis of information technology and its possible consequences for purchasing are presented in Dubois et al (1989).

Production costs

One way to decrease production cost would be to exploit the production capacity and capability of suppliers. This is the general make-or-buy problem as already discussed. By moving activities from one party to the other it is possible to increase efficiency. It is obvious, however, that this issue can also be handled in a more sophisticated way within a deeper customer-supplier relationship. When considered in a longer time perspective, successive adaptations can be made implying an even more optimal distribution of production activities. Another way could be to increase the cooperation among the suppliers. One example is presented by Marier (1989). Ford told all their suppliers of door components that they no longer wanted to buy separate components. Instead, suppliers were asked to form alliances - however they wanted to - and then come back with an offer for a complete door.

This is also another example of an increasing role for system supply rather than component supply. The implication of this general trend seems to be the development towards networks of highly specialized production units. Such systems have to be integrated in some way to achieve the potential rationalization effects. One important prerequisite for efficiency is a new view of the material flow, which will be our next point for analysis.
Material flow costs

The indirect costs associated with material flow are, for instance, costs for handling goods, costs for keeping inventories and costs of capital. A reduction of these costs is probably the most significant advantage possible to obtain through a closer supplier relation. A number of companies have witnessed substantial gains in efficiency by reducing stocks of incoming goods and stocks of work in process. Activities of this kind were originally inspired by observations from Japan:

It only takes 10 minutes inside an assembly plant in Japan to realize that relationships with suppliers are very different. The visitor accustomed to the loading docks, the large storage areas and the large incoming inspection area, typical of US plants, is likely taken aback by the stocking of Japanese assembly lines. Trucks from suppliers back up through large bay doors right to the assembly line; supplier personnel unload a few hours of parts, clean up the area and depart. There is no incoming inspection, no staging area, no expediting of material, just a seemingly continuous flow of material. (Hervey, 1982, p. 6)

This just-in-time philosophy has been considered one of the most important determinants of the competitive power of the Japanese auto-industry (Gadde & Grant, 1984 and Ikeda, 1987). Therefore it is not surprising that competitors in other parts of the world have tried to neutralize this competitive advantage. One example is Chrysler. In the recovery of this company, during the first half of the 1980s, substantial initiatives to utilize JIT have been mentioned as one of the major reasons for the prosperous come back (Raia, 1988). Due to an increased efficiency in material flow, it was possible to reduce the capital stock by more than one billion dollars.

For auto-manufacturers, thus, reduction of capital costs have been the most important rationalization effect. In the construction industry, in contrast, capital cost is less important, as less capital is tied up in the production process. In this industry the great potential of rationalization has to do with the handling of goods. By changing the system for packaging and introducing new ways of unloading goods, one company has been able to reduce handling costs by two-thirds. Handling costs are very important in the construction industry. For certain products they can be as high as 40 per cent of the value of the goods (Håkansson & Gadde, 1990).

Development through supplier relations

Customers can benefit in a number of ways from deeper cooperation with suppliers in product development. Through closer relations it is possible to affect the supplier's
development, to make mutual adaptations and also to make use of the suppliers' resources for development. Due to the increasing specialization of industry it is becoming impossible for large assemblers to be in the lead in all the various fields of diversified technologies, characterizing the components and systems required for final assembly. It is not surprising, therefore, that suppliers have, over time, been increasingly utilized as resources in product development. Examples from the automobile industry are provided by Hervey (1982).

Another factor of importance for joint development is the obvious need for a shortening of lead-times in R & D and product development. It is often said that this will become the major competitive tool in most industries in the future. By shifting certain development activities to suppliers it should be possible to decrease the length of these lead-times. One important prerequisite for achieving such effects is that suppliers come into the development process earlier than they usually have been allowed to. For further discussions of this aspect we refer to Burt (1989), Hay (1988), Kagono et al (1985) and Takeuchi & Nonaka (1986).

Problems in changing supplier relations

New forms of supplier relations provide customers with opportunities for rationalization as well as development, according to our analysis. We should observe, however, that such effects do not follow automatically from a concentration to fewer suppliers and policy declarations of new relations. On the contrary, for the potential effects to be attained, massive activities have to be undertaken within the purchasing company. It is, thus, necessary also to make other changes when purchasing ambitions and activities are altered. We will show this for the rationalization role as well as the development role of purchasing.

Problems in rationalization

One author analyzing the impact of just-in-time in American industry reports from a visit at a high-tech firm where the company had proudly shown deliveries from suppliers arriving very punctually according to scheduled time-tables. Within the factory, however, the situation was quite different:

"But when I walked through the plant I saw weeks of stampings, acres of work-in-process, and sub-assemblies strewn around the body-shop. Boxes of parts were stacked so high on the chassis and trim lines, that it was difficult to see what was going on in these areas. In fact, the inventory took up so much room that they could have put five major press lines in the same space. This is JIT, I wondered?"

(Harbour. 1986, p.14)

Consider the sharp contrast between this quotation and the observations of the American researcher visiting Japan. It is
very evident that companies looking at JIT only as a purchasing strategy even might decrease efficiency in handling material flows when deliveries are made with greater frequency. In fact, JIT is a basic, but not the only, determinant of the efficiency of an integrated production system. Therefore, activities and requirements directed towards suppliers will have few positive effects if they are not followed - or rather proceeded - by changes within the buying firms.

One important aim with JIT-deliveries is to decrease stock levels, thus decreasing the tied-up capital. For a real competitive advantage to be realized, the effects have to be obtained for the value-chain as a whole. When JIT was first introduced, the new customer requirements seem to simply have lead to a back-wards movement of inventory to suppliers. Such observations have been reported from the auto-industry (Nishiguchi, 1989) and Rank Xerox (Hutchins, 1988). In the American car industry, suppliers increased the frequency of deliveries, an important part of the new supply strategy. In many cases, however, these deliveries were made from very big inventories which the suppliers had established in order to ensure delivery reliability. The warehousing business in Detroit was booming; one company even picked the name "JIT-Warehousing" (Raia, 1988).

The conclusion to be drawn from this is that rationalization of material flow is a major change, demanding a number of changes from suppliers, but also imposing requirements on the buying company. JIT-strategies imply an increase in dependence to external suppliers, but also between various functional actors within the purchasing company.

Problems in development

Regarding cooperation in development, we can only identify rather limited effects so far, in spite of the potential benefits discussed. Burt & Sukoup (1985) concluded that suppliers at that time, were a rather neglected resource concerning product development. Most customers did not seem to understand the potential available, which the authors considered a major strategic default. Even today the situation does not seem to have changed very much. A study of a large number of small and medium-sized firms in Sweden showed that more than a fourth of them had no cooperative development projects with any supplier during the last three years (Håkansson, 1989).

Which, then, are the explanations for this reluctance towards using supplier resources. One major reason obviously could be a lack of insight into the actual potential. Another can be identified on the supplier side. So far we have discussed the issue only from the customer point of view. An increase in cooperation should also be of interest to suppliers. Through such activities they might be able to strengthen the ties to customers, a marketing strategy advocated by, for example, Hammarkvist et al (1982).
In spite of this potential advantage suppliers hesitate to enter into deeper relations with customers (Berry, 1982 and Flax, 1983). The reason is that market investments of this type have a cost-side to compare with the benefits. Suppliers have to invest in specific resources in order to be an attractive partner. These resources can be hard to achieve — the costs associated with them can be substantial. Furthermore, they sometimes create a very strong dependence as there might be no alternative use due to the call for specialized solutions.

It is also obvious that suppliers that are used to customer activities like playing suppliers off against each other, will think it over a number of times before entering a deeper relation. For these firms one prerequisite for increased involvement is some kind of confidence in a long-term business relation. This calls for a new kind of openness in the buyer-seller relation. The common adversarial relation must be changed to a more symbiotic one. Suppliers must be convinced that customers really will change their behavior if supplier attitudes towards deeper relations are to be affected. And before this can be achieved customers themselves have to change their attitudes. These attitudes must be manifest in a new kind of behaviour. Communication of long-term strategic ambitions must be undertaken within the buying company as well as in the supplier company. It is obvious that changing attitudes is a very time-consuming activity in a large company, especially if the new attitudes deviates substantially from the old ones. Only after these changes within the companies it is possible to change the relation between them.

5. IMPLICATIONS

In the article we have identified the following tendencies regarding the way our three strategic purchasing issues are handled in companies today:

- **an increasing importance of "buy" as compared to "make", i.e. decreasing degree of vertical integration**

- **a systematic attempt to decrease the number of suppliers used per buying company, sometimes the suppliers are organized into hierarchies**

- **a deeper cooperation with individual suppliers, resulting in benefits in terms of rationalization and development**

These changes have important implications in several ways. A first type of implication is with regard to purchasing, how it should be organized and who should be handling it. A second type of implication is with regard to the way suppliers should design marketing strategies. Finally, a third type of implication is regarding effects on the industry level in terms of production structure and degree of innovativeness.
Purchasing implications

The new way to handle supplier relationships requires quite another organization of purchasing as well as another competence of individual purchasers. One major shift has been towards a decentralization of purchasing. Decisions must be made by those who know about the use of the products and about the problems regarding logistics and administrative routines. Decentralization of purchasing has also been well in accordance with the general business trend towards an increase in use of profit centers. Each business unit within a company, in this way, takes care of the suppliers. In general, this makes it much easier to develop deeper relationships, but at the same time makes it more difficult to coordinate different units within the buying company.

Another, but related change, is a trend away from functional specialization towards integrated problem solving. Purchasing today is much more focused on technical and logistical matters than it was before when strictly commercial issues dominated. Purchasing today means finding efficient solutions where direct costs (price) and indirect costs (administration, capital, stock, etc.) are balanced against the benefits from the relationship.

A third shift can be found on the individual level. There is a trend from highly specialized purchasers towards more general problem solvers. Earlier the purchaser was often seen as a lonely commercial specialist who was only involved in the purchasing process during certain stages, and responsible mainly for commercial aspects. Today, the purchaser must be a member of a team, working very close to people from other departments. In some companies the purchaser as a functional specialist even disappears.

Marketing implications

The change of the buying companies' purchasing strategies has given the selling companies new conditions, in which to operate. Some suppliers have seen the changes as opportunities while others have seen them as threats and have more or less fought against them. Thus, the first implication is a strategic one; how should the supplier see the changes.

Those who consider the change as an opportunity have to learn a new way to deal with customers. Many of them first have to unlearn the old established way. One characteristic of the new view is deeper relationships with customers. This means that it can not be only the sales or marketing department that has customer contacts, but several other departments as well. Often direct contacts between technicians in the production departments of the two firms must be established, as well as between departments taking care of logistics. Furthermore, questions concerning development must be handled by R & D people and even the purchasers of the supplier company might need to be involved in the process as the customer company can
have strong feelings about which subsuppliers should be used by the supplier, especially for critical components or materials.

Marketing will, during these conditions, be much a question of organization. Major issues become the handling of individual relationships, coordination of different relationships, coordination of internal activities with the relationships, and furthermore coordination with other external relationships such as suppliers, technical consultants and others.

**Implications on an aggregate level**

The new purchasing philosophy also have effects on an aggregate level. Companies will become much more parts of networks where they have a certain specified role. Limiting the number of suppliers to each buying company will decrease the direct competition between suppliers. In total, however, the number of suppliers might be rather unchanged. The degree of specialization on the firm level will consequently increase. Production activities in the future, therfore, will be undertaken by highly specialized companies which together will form a production network. These producing firms will be chracterized more by complementarity than firms in the present production structure, which more easily can be substituted.

Innovations and the way they occur will also be influenced. To an increasing degree, innovations will be developed in the interaction between users and suppliers. In general, this will make the innovations more in line with the needs of the established structure, and it might even, as an adverse effect, decrease the number of revolutionary innovations.
REFERENCES


Culliton, J. (1942): Make or Buy. Graduate School of Business Administration. Harvard University, Boston.


Håkansson, H. & Gadde, L-E (1990): The new role of purchasing. (forthcoming)


