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Purchasing Strategy and Collaboration with Suppliers

(Case Study: JSC Lebedyansky in Russia)

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Abstract

The significance of purchasing makes it relevant for manufacturing firms to understand which purchasing approaches are effective and efficient, and thus contribute to their overall market success and profitability by cutting hidden costs. Accordingly the importance of the establishment and maintaining of valuable relationships and collaboration with suppliers inevitably increases. The success of the company on the market depends greatly on these factors. The research aims to study how the factors of purchasing strategy and collaboration with suppliers influence the performance of the company and its market position. The case study of largest juice manufacturer in Russia JSC Lebedyansky and its management of relationships with suppliers is conducted. The main aim of the research is to identify and describe the factors of purchasing strategy of the manufacturing company and collaboration between the manufacturer and its suppliers, and to describe how the influence of these factors on the possibilities and threats of the surrounding context of the company can be analyzed. The estimation of purchasing strategy and collaboration with suppliers is made in accordance to the most important factors of collaboration and purchasing strategy that were determined during the literature review. The data gathered through the interview with the employees of the company showed the weak and strong sides of the purchasing strategy of JSC Lebedyansky and its work with the suppliers. The SWOT-analysis was used in order to show the influence of the main characteristics of the collaborative relationships on the opportunities and risks of the company on the market.

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Chapter 1

Introduction

1. Introduction

The aim of this chapter is to present a clear idea about the key issue of concern of this research and why it is worth studying. In the first place, the introduction is supposed to show the motivation under the importance of the subject. Next, the problem statement and the purpose of the study are provided. The structure of the research is included after that.

1.1. Background

The supply practices of the enterprises and the organization of the continuous operating conditions is one of the major subsystems of logistics, which is constantly in the center of attention of scientists, experts and practitioners. Modern businesses recognize that it is very difficult to gain competitive advantage without collaboration with another companies and today producers cannot dictate their rules and have to build partnerships not only with consumers of their products, but also with suppliers whose performance influence the whole level of satisfaction of the end customer. Accordingly the importance of the establishment and maintaining of supply strategies and valuable relationships with suppliers inevitably increases. Supplier-manufacturer relationships and collaboration in the supply chain are one of the most important elements of supply chain integration and establishing, managing effective relationships in the supply chain is becoming the prerequisite of business success (Hsiao et al 2002). Facing market volatility and diversity, manufacturers are encouraged to develop relatively flexible and at the same time solid relationships with suppliers to deal with unexpected market fluctuations and to organize a support for continuing production.

As a result many companies are trying to find tools for performance improvement in response to turbulent business markets and for efficiently controlling their business activities (Hsiao et al, 2002). The significance of purchasing makes it relevant for manufacturing firms to understand which purchasing approaches are effective and efficient, and can thus contribute to their overall market success and profitability by cutting hidden costs of wastage, rework, returns, etc. (Narasimhan R. and Das A., 2001).

1.2. Delimitation and Outline

In general this study will be in the area of the supply side of supply chains that is responsible for the acquisition of materials, parts and components. The focus will be on the factors of the supply strategy of manufacturing company and its collaboration with suppliers. In this respect on the basis of literature review the supply chain will be addressed as “as several independent firms or alignment or network of firms that are involved, through upstream and downstream linkages, that manufacture products and produce services and deliver them to the ultimate consumer” (Mentzer J. et al, 2001). The purchasing strategy (the term supply strategy is also used in the text) will be defined “a program through which the procurement procedures and selection and development of suppliers are carried out” (Kouchtsh, Smirnova 2007). Although there is a large variety of different definitions of collaboration between the manufacturer and suppliers the one that is the closest to the topic of the research has been chosen “the formation of inter-firm linkages or partnerships in which the parties involved work together and share information, resources, and certain degrees of risk in order to accomplish mutual objectives” Min S. et al (2005).

The understanding and interpreting the knowledge about the factors of the supply strategy and collaboration with suppliers is obviously impossible throughout all the contexts, thereby concrete country (Russia) and company (JSC Lebedyansky) was chosen. This means also that some of the Russian practices and features of the strategic view on supply chain collaboration are to be discovered.

The example of the juice manufacturing company JSC Lebedyansky seems to be very representative for the Russian context, since this company has a very long history (it was founded in 1967) and, according to the information given by various market researches, today Lebedyansky JSC is the largest natural juice producer in Eastern Europe and it has a market share in terms of volume about 31% in Russia. Lebedyansky is among the 300 largest companies in Russia according to the revenue and market capitalization and in the top-10 global producers of juice (Overview of JSC Lebedyansky, downloaded on the 30th of March from the official website of JSC Lebedyansky, <http://lebedyansky.com/about/overview/>). Due to the volume of the market and the specifics of juice production, the company has a large profile of suppliers, including international and domestic ones.

1.3. Relevance of Research and Motivation

Several empirical studies conducted in Russia (Tretiyak O. and Rumyanceva M., 2003, (Kouchtsh and Smirnova, 2007, Popov N. and Tretiyak O., 2008) support that supplier-manufacturer collaboration affects positively on a manufacturer performance, supplier performance and on the overall supply chain coordination and performance. Some of the studies in Russia (Kouchtsh, Smirnova 2007) showed that firms engaged in long-term relationship with their suppliers achieve higher profitability than firms using a transactional approach. The authors also stated that both academics and practitioners have recognized that purchasing is a key to a firm's competitive advantage, and that increased profitability, market share and technological innovation can be achieved through an appropriate purchasing strategy.

The study of inter-firm relationships and collaboration within the supply chain has been the central topic in several fields of research, such as purchasing, supply chain management and industrial marketing, due to such cross-functional nature of the topic. However, literature review has shown that there is evidently the lack of research of the supply side of the relationships of the manufacturing company. Moreover, although multiple factors that constitute the collaboration between supply chain partners are presented by various studies, there is a lack of the formalization of these factors and of a useful typology of such factors.

Furthermore, the frameworks for the study of the degree of collaboration with suppliers are also very different within the existing literature and there is a need for creating an understandable and descriptive model of study, which will be applicable for any firm to estimate the satisfaction of the existing level of supply strategy and collaboration with suppliers. The creation of such model will give the companies the opportunity to estimate if the existing portfolio of the suppliers and the ways of collaborating with them is satisfactory and positively impacts firm's performance, it's possibilities and risks on the market, or such portfolio and view on the strategic purchasing should be changed.

1.4. Problem Statement

Initially there is a need to post the problem, since that is a bottom line which explains the aim of the research. As it has been stated above one of the main aims of logistics in the manufacturing company is to organize the continuing production and to give flexibility to this production according to the changes within the market. In this respect, every manufacturer depends in that way or another on its suppliers, the availability of the materials and components and the quality of these materials, so the manufacturing firms create supply strategies and try to manage their relationships with suppliers in order to perform effectively on the market. In the recent years most of the manufacturing companies have understood the importance of these

factors (Kouchtsh, Smirnova 2007), but still it is hard to say if there is a plausible framework for the estimation of the effectiveness of the supply strategy and collaboration with suppliers in terms of the surrounding market situation. These set the main **question of the study**:

How the supply strategy of manufacturing firm and its collaboration with suppliers can be described?

Following from the research question **the goal of this paper** is *to identify and describe the factors of purchasing strategy of the manufacturing company and collaboration between the manufacturer and its suppliers, and to describe how the influence these factors on the possibilities and threats of the surrounding context of the company can be analyzed.*

In order to answer the question and to reach the aim of the research **the following tasks** seem to be important to be fulfilled:

To overview the literature and articles about supply chains, supply strategies, collaboration with suppliers in order to distinguish the most important factors of these concepts;

To work out the conceptual framework for the estimation of the factors of supply strategy and collaboration with supplier and work out some assumptions, that are to be proved or disapproved during the empirical study;

To use this conceptual framework for the analysis of the Russian manufacturing company (JSC Lebedyansky) and to uncover the factors of supply strategy and collaboration with suppliers;

On the grounds of theoretical basis, empirical study of the company JSC Lebedyansky and practice of SWOT-analysis to create an understandable framework for the evaluation of the effect of the factors of supply strategy and collaboration with suppliers on the context in which the company operates.

1.5. Structure of the Master Thesis

This Master Thesis includes six chapters, starting with the introduction.

The second chapter will concentrate on methodology of the research. First, the scientific position will be argued for. Then the research design and strategy are described, which in depict in details the descriptive case study research. Further, when the research methods are presented the aim is to characterize the secondary data and primary data collection stages, in particular the interviews, and data analysis stage of the research. Finally, the credibility of the research is argued for.

The third chapter is dedicated to literature review. The literature is used in describing the general context within which the collaboration with suppliers takes place. First, the definition of supply chain is given. The works of various authors are used in description of the general terms how the purchasing strategy should be addressed in the company. Furthermore, the main views on collaboration within the supply chain are presented and the elements of the collaboration with suppliers are described in more details. And finally conceptual framework is presented.

Chapter four describes the empirical study. The study is held in accordance with the conceptual framework and first examines the market factors and the position of the company Lebedyansky on the market. Then it goes for the description of the purchasing strategy of the company and finally discovers the characteristics of the collaboration of the manufacturer with its suppliers by viewing in details at: information sharing, formalization, trust and commitment, power and dependence.

Chapter five is concerned with the analysis and discussion of the empirical study on the keeping in mind the theoretical findings. As the analysis is carried through the SWOT-analysis, first the factors of SWOT-analysis are argued for, and further the SWOT-analysis is shown.

The last chapter draws the overall conclusions of the study. It describes the fulfillment of the tasks, shows the results of the literature review and its implications for the empirical study. The main results of empirical study are shown further. Finally, the applicability of the research for the future researchers and managers is discussed briefly.

Chapter 2

Methodology

2. Methodology

This chapter outlines the methodology underlying this study and provides the theoretical basis for the chosen research strategy and methods. First, the philosophical position of research is discussed by presenting the existing philosophical positions and then the one to which the paper is closer is argued for and described in more detail. Next part is dedicated to research design and strategy and depicts in details the descriptive case study research. Further, when the research methods are presented the aim is to characterize the secondary data and primary data collection stages, in particular the interviews, and data analysis stage of the research. Finally, the credibility of the research is argued for and the summary of the chapter is given.

2.1. Philosophical Position.

This part of work is dedicated to the discussion of the philosophical position underlying this research and describes how the knowledge is acquired. “Epistemology is the study of the criteria by which people can understand what does and does not constitute warranted, or scientific, knowledge; it also provides some foundation for scientific knowledge: a methodological and theoretical beginning located in normative standards that enable the evaluation of knowledge by specifying what is permissible and hence divides the warranted belief from the unwarranted, the rational from the irrational, the scientific from pseudoscience” (Johnson, 2003).

“The acceptance of a particular epistemology usually leads the researcher to adopt methods that are characteristic of that position” (Easterby-Smith, 2008), therefore the epistemology relates closely to *the methodology of the study*, which is in general “the combination of techniques used to enquire into a specific situation” (Easterby-Smith, 2008).

The philosophical view, or position, about the nature of reality will thus identify in which ‘light’ the problem is looked upon and how it is addressed, it also determines how the scientific

research will be organized and what approaches to the question will be used during the investigation.

To start with it is necessary to give a short description of existing philosophical positions, and this work will in particular concentrate on three of them, between which the main debates today take place, namely it is positivism, relativism and social constructionism. *Positivism* is one of the main epistemological stances, which states that it is possible to carry out independent, objective, and value free social research (Ritchie, 2003), and that the researcher should be independent, detached from the researched object . “This is the view that social science procedures should mirror, as near as possible, those of the natural sciences. [...] The aims of positivist research are to offer explanations leading to control and predictability” (Blaxter, 2006). Although there are many varieties of positivism (see Johnson, 2003), it prescribes a method of investigation which looks for cause-effect relationship (Brewerton, 2001).

On the other hand, *constructionism* (or interpretivism) provides “the assumption that reality is constructed and cannot be fathomed out or explained with direct reference to universal laws” (Brewerton, 2001) and interprets the social world as culturally derived and historically situated (Blaxter, 2006). Thus, according to Easterby-Smith (2008), the interest of scientists operating in this tradition is placed on meanings, interpretations and understanding why people have different experiences.

The *relativist* position can be described as laying somewhere in between the two contrasting views, the positivistic and constructionist. Same as positivism it assumes that “there is a reality which exists independently of the observer” (Easterby-Smith, 2008) and the regular patterns do exist in the human behaviour, but they are very hard to identify and to explain. So relativists see it necessary to adopt multiple methods of research and survey viewpoints and experiences of large samples of individuals in order to provide an accurate indication of the underlying situation (Easterby-Smith, 2008).

Furthermore, most of the literature in the field of scientific research emphasizes two research methodologies: quantitative and qualitative. The term ‘methodology’, as it was mentioned above, is closely connected with epistemology, so quantitative and qualitative methods are usually related to the specific philosophical positions. For instance, quantitative approaches that usually use numerical data, statistics and experiments are seen as classic examples of positivist position (Blaxter, 2006). On the other hand, qualitative research, which is concerned with “collecting and analysing information in as many forms, chiefly non-numeric, as possible, and tends to focus on exploring, in as much detail as possible, smaller numbers of

examples which are seen as being interesting or illuminating, and aims to achieve ‘depth’ rather than ‘breadth’” (Blaxter, 2006), is usually associated with the constructivist philosophy. So the qualitative research is usually subjective, close to observed situation and process-oriented, concerned with understanding behaviour from actors’ own frames and assumes that reality is dynamic and changing; while quantitative methods seek for objectivity, explore the facts and causes of social phenomena by controlled measurements and assume that reality is stable.

The methods underlying this research are very close the *constructionist perspective* since in order to answer the research questions there is a need to get closely to the data and understand the process from the point of view of the people who work within the field. The researched question enables to examine and understand the rich experience of the practitioners in the field. Moreover, when dealing with the studies examining elements of collaboration with suppliers and purchasing strategies of organizations, it becomes very hard to generalize over different firms and to find one particular answer. In this situation a lot depends on the market situation, the objectives of the firm and its top-management, people who are making the decisions and their personal judgments and observations, as work with suppliers is, in the first place, based on the relationships and cooperation.

As it was shown *qualitative research* is usually connected with the constructionist approach, thus collecting rich data through the interviews will concentrate on individuals’ perceptions of their experiences, on their views on the directions of development of the company and personal judgments and forecasts. These only can be reached through getting the reliable and honest answers during the interviews. Moreover, the research question expects to undercover the internal documentation of the company, to study the power relationships within the organization and undercover the judgments of the personal taking part in the process.

2.2. Research Design and Strategy: Case Study

A research design is a statement, which explains and justifies what data is to be gathered, how and where from, it also shows how the data will be analyzed and answer the central questions of the research (Easterby-Smith, 2008). Firstly, the most general classification of researches should be given and at this point it is felt necessary to adopt the typology from Gummesson (2000), since it seems to be the most comprehensive and agreed upon, so he specifies three types of research: explorative, descriptive and causal. Further, each of these types is described and the one or combination that is useful for the study is claimed for.

Explorative studies are applicable when the aim of the researcher is to explore phenomena in new light or to discover the nature of a problem.

Causal studies search to establish causal relationships between two or more variables and to explain the cause-and-effect the relationships between the variables. Causal studies can be facilitated by statistical methods, correlation tests, random sampling and uses statistical generalization. (Saunders et al., 2000)

Descriptive studies aim to show the scope of the problem, process, profiles of persons, events or situations in a precise and detailed way. The main issue in this type of research is one of the completeness of the information derived, and which will depend largely on the amount of trust the informant has to researcher; and the analysis of data will depend on the ability of the researcher to interpret and understand the meaning of gathered information (Brewerton, 2001), therefore it is necessary that *the researcher has the picture of the problem before data collection*.

This research is going to be *descriptive* and aims to uncover *the facts about the purchasing strategy and the process of collaboration with suppliers in the specific industrial organization, how managers of the organization treat the dependence between market situation, purchasing strategy and collaboration with suppliers*. Moreover, the study also has some *explorative features*, because the ‘Russian’ practices are going to be discovered. So the objectives are: to get a profound and clear understanding of the market situation in which the company operates; to learn who is responsible for the strategic purchasing and work with suppliers in the company; to concentrate on the description of purchasing strategy and the views of company’s specialists on the directions of company’s development, on the process of relationship building with suppliers; to understand what features of this collaboration in the organization influence the performance of the firm on the market and in what way; how the degree of satisfaction of existing purchasing strategy and collaboration with suppliers can be measured, and, if possible, find some new, specific features of practices in the frame of Russian realities. The chosen research strategy will be very helpful, because it will allow going deeper into the details and examining different aspects of the process.

According to the stated philosophical position and the intention to conduct a qualitative research, the strategy and design of the research should be formulated. There are a lot of methodologies associated with different epistemological positions (Easterby-Smith, 2008), and constructionist position is not an exception. For instance, Collis and Hussey (2003) list different research approaches which form the strategy responding to with this position. As it was already mentioned, qualitative methods concentrate on the situational constraints and seek to collect and

explore the data in variety of forms, usually in non-numeric, in order to investigate the situations in every possible detail and get a deep understanding of the underlying processes. As there is a large variety of possible strategies corresponding with the constructionist position (for instance, action research, ethnography, case study research) and the aim of deciding on the research strategy is not to describe all of them, but to provide evidence for and ground the choice of one particular strategy, therefore case study research strategy will be argued for in this paper.

Case Study Research

The research literature provides plenty of different definitions of the scope of case study, but one of the most comprehensive definitions was made by Yin (2002) and sounds as follows: “a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” So the case study looks in-depth on the particular situation or process over a fixed time in the ‘here-and-now’.

According to Eaterby-Smith, Thorpe and Jackson (2008) this method can be designed in the ways consistent with any of the philosophical positions (meaning positivism, relativism and constructionism). The case study may be designed as single or multiple one and this will actually depend on the research question and how much the researcher wants to generalize from the his/her study, and also on the philosophical perspectives that underlie the study.

As this research is conducted with the constructionist view in mind, I will stop more narrowly on *the qualitative approach to case studies* and thus will focus on *the in-depth investigation in a single case*, rather than work with large number of cases. As Brewerton and Millward (2001) specify the data yielded from such research design can be “rich and enlightening and may provide new leads or raise questions that otherwise might never have been asked” and provide the source for new hypothesis and for further analysis in the area. They also point out that as case studies build on actual practices and experiences of people, they can provide insights to practices and to describe events in detail (Brewerton and Millward, 2001). This what I look for in my research, so it becomes obvious that a single case study is the most appropriate research strategy for this work.

But nevertheless the researcher, undertaking such study, should be aware of a fact that “generalizations from case studies must be handled with care. To serve as a foundation for generalizations, *case studies should be related to a theoretical framework*, which in turn may be adjusted as case study results provide new evidence. The ‘generalizability’ of case studies can be increased by strategic selection of critical cases” (Mikkelsen, 2005).

The process of collaboration with suppliers (as it is accentuated in the supply chain literature) usually depends largely on the industry and market situation the company operates in, therefore it becomes very hard to generalize and to find one particular answer how these processes are going. In this situation a lot depends on the people who are making the decisions and their personal judgments and observations, as work with suppliers is, in the first place, based on the relationships and cooperation. Therefore, it seems logical to study the problem on the example of only one company and to describe the process in every possible detail. Making the study of several companies' practices may 'spoil' and confuse the results of the research, because in the frames of the research question it is impossible to make a comparison between different firms, as each of them will have very specific features applicable only for its practices and market position.

The objective was to find a company which can become the critical example for the studied process and help to uncover the best practices in the area, taking in account the Russian perspective of the study. In this respect it should be quite a large industrial company with a long and stable history of development, which shows good and stable financial results for the range of years, so that a retrospective observation could be made. Along with these it should be a company, to which it is possible to get a close access, as the research question expects to uncover the internal documentation of the company, to study the power relationships within the organization and uncover the judgments of the personal, taking part in the process, basing on the reliable and honest answers during the interviews.

Taking into the account these criteria and after the investigation into optional variants of companies, to which the study might address, the Russian company was found that will suite the research, and as it was mentioned previously this is JSC Lebedyansky. It is the largest juice producer, not only in Russia, but also in the Western Europe, and although it has recently become the part of PepsiCo, it has the longest history among all the companies in this area in Russia (Overview of JSC Lebedyansky, downloaded on the 30th of March from the official website of JSC Lebedyansky, <http://lebedyansky.com/about/overview/>). The company also works with a number of suppliers from all over the world ("Market of juice", *Journal of Trade News*, 11.12.2007. Downloaded on 29.11.2009: <http://www.yarmarka.net/marketplace/articles/soki.asp>) and thus becomes an even more interesting object for the study. Moreover, as my objective was finding a company, to which a close could be attributed, JSC Lebedyansky seems to fit my research even better, since in this company it is possible to get the internal information and also to organize interviews in a more free and informal way.

2.3. Research Methods.

Any of the approaches to the research uses several specific techniques to collect the data. These techniques can in common vary from exactly qualitative, such as observations, to quantitative, such as analysis of statistical information. Moreover, the sources of data also vary and can be classified as primary and secondary sources of data. Primary data is the data collected by the researcher him/herself; on the other hand, referring to secondary sources means examining any materials, which have been previously published.

According the chosen research design (namely single descriptive case-study) it seems logical to base my study mainly and foremost on primary data (interviews and internal documentary materials), but also in the first stages of research secondary sources of information should also be examined.

2.3.1. Secondary Data Collection

As the aim of this work is a description of the process at the beginning of research secondary data will be analyzed in order to see what other research has been done, to focus the ideas and to explore the context in which the company operates. The secondary data, mostly from several books, articles, periodicals and the electronic web pages, is used as the basis for the theoretical framework of the paper and to get a deeper understanding of the researched problem. The study of the relevant literature and recent studies in the area is also used to prepare and improve the questions for the interview and to understand the overall trend in the industry. Moreover, the investigation into the research literature is helpful to understand the best practices for the collection of primary data.

Great disadvantage of secondary data is that the question on which most of the data answers does not correspond with the aim of research (Saunders, Lewis, Thornhill, 2000), so the researcher should be very careful during the data collection. The main criterion of secondary data collection was its correspondence with the question of the research, not outdated and practically new information, and also the reliability of the source of information. So the periodicals in the field of the research were studied and only those corresponding with the topic were chosen for the theoretical framework.

2.3.2. Primary Data Collection: Interview

The *case study of the particular firm (JSC Lebedyansky)* was chosen as the research model for this study because it gives the opportunity to get into the details and carefully describe the

process of collaboration with the suppliers –which is literarily the aim of this paper. Also only one firm is taken into the consideration, since the supply strategies vary greatly between different industries and companies and the comparison of the process of collaboration between organizations seems to be rather difficult and time consuming, which made it impossible for such time limits. Moreover, the unwillingness of Russian companies to share the internal information make such research even more complicated.

Most common classification of the interviews is based on the degree to which they are structured, and can be described as follows (Easterby-Smith, 2008):

highly structured;

semi-structured;

unstructured.

Highly structured interviews presumes that the researcher wants to get answers to a number of simple questions, so the main objective of the researcher is to prepare appropriate questionnaire and to hold interview with a number of people (Easterby-Smith, 2008). On the other hand, unstructured (or non-directive) interviews suppose that the interviewee talks freely on the topic without interruption (Easterby-Smith, 2008).

The semi-structured interview includes the preparing of a list of themes and questions that are to be covered. At the same time the semi-structured interview gives the opportunity to ‘probe’ answers (Saunders, Lewis, Thornhill, 2000), where you want the interviewees to explain, or build on, their responses. This is particularly important in my research because the Russian features of the process should be explored. It seems the most appropriate type of interview for this research, since it lays the framework for the interview and helps to get rid of the odd information. The sequence of questions in such situation does not matter so much, and the conversation should go freely, but at the same time the objective is to cover all the topics that were planned to be covered.

In order to conduct a case study *face-to-face semi-structured in-depth interviews* were conducted with persons directly participating in the supply management of the company, namely these are the chief-executive of the Saint Petersburg department of JSC Lebedyansky, chief of purchasing department (responsible for the primarily choice and estimation of suppliers), and one of the supply managers (who is working with a particular list of suppliers and thus is directly taking part in the relationships with suppliers and has a wide insight in the problems which may arise during such cooperation). The structure of the interviews is presented in the

Appendix 1. The interviews were audio recorded in order to analyse it in more details afterwards and recall particular topics, discussed with the interviewees. It also helps to concentrate on the discussion and not on the record of what is said. Face-to-face interviews are used as they help to better understand the answer of the interviewee and also to see his/her reaction on particular questions.

Moreover, the analysis of internal documents of the company, connected with the strategy and process of work with suppliers and the estimation of the results of their performance was conducted, since the company has stated and formal procedures of such processes. Along with the interviews it will help to distinguish how the formal procedures work in reality and might explore how these procedures can be improved.

2.3.3. Data Analysis

When the stage of data collection is over, the researcher should aim to understand, explain and interpret the information in appropriate way. There are a lot of different views on how the qualitative data should be analyzed, but still the main concern with the analysis of qualitative data is how this complex and highly context dependent information may be transferred in meaningful and comprehensive conclusions. So the researcher should make a clear explanation of this process.

As the study is based on the in-depth semi-structured interview they provided rich information from the first hands, and the interviews were audio recorded, the interpretation of the of the language of the interview, in this respect the narrative analysis (how people describe or account for events), seems to be applicable. (Easterby-Smith, 2008).

One of the practical approaches to the analysis of the interviews was mentioned by Blaxter (2006), which is called explicitation of the data and consists of several stages, which are:

Bracketing and phenomenological reduction.

Delineating units of meaning.

Clustering of units of meaning to form themes.

Summarising each interview, validating and where necessary modifying it. Extracting general and unique themes from all the interviews and making a composite summary.

Such comprehensive, but practical approach helped a lot during the analysis of the large amount of data, that was to be collected during the interviews.

One of the tasks of the paper is to create a framework for the analysis of the influence of purchasing strategy and collaboration with suppliers on the external possibilities and threats that the company has. In this respect the use of SWOT-analysis (SWOT stands for **S**trengths, **W**eaknesses, **O**pportunities, **T**hreats) seems the most appropriate decision, as it is most frequently used for the estimation of strategic decisions (Houben G., Lenie K., Vanhoof K., 1999). “Responding to internal strengths and weaknesses is therefore an essential component of the management process” (Houben G. et al., 1999), therefore the analysis of strengths and weaknesses of purchasing strategy and process of collaboration with suppliers were uncovered during the interviews and study of internal documents of the company. However, “the success can only be achieved to the extent that company is familiar with the opportunities and threats resulting from the external environment” (Houben G. et al., 1999), thus the opportunities and threats of the external situation were determined. The final stage of the SWOT-analysis is the matching of the internal strengths and weaknesses to opportunities and threats of external environment.

2.4. Validity and reliability.

Validity and reliability are among the most important factors, that identify the value of the research, since it makes any sense only when the data collected is reliable and valid. Validity is usually addressed to as the factor ensuring that the study measures a particular phenomena using the appropriate methods of research, while reliability is connected with the accuracy of the measurements (Easterby-Smith, 2008).

It was decided to use the qualitative data in the paper, so it is particularly important to argue for the credibility of the research and the conclusions made during it. One of the main points is to demonstrate it through the methods of the research which are transparent (Easterby-Smith, 2008). This means showing in detail how the study was conducted and analyzed, which was described in this chapter, thus making the method of research transparent and understandable for reader.

According to Easterby-Smith (2008) the three main criteria for the validity of constructionist studies were defined by Golden-Biddle and Locke (1993): authenticity, plausibility and criticality. The aim was to make the research consistent with these criteria.

Authenticity means that the researcher has a deep knowledge and understanding of the situation in organization. Before starting with the interviews the situation on the market according to the periodicals and the open reports of the company were analyzed, this gives an

advantage to get a deeper understanding and decide what particular questions should be asked during the interviews. Moreover, before the interviews, the brief excursion around the manufacturing facilities and offices of the company in St. Petersburg was held by the specialist from production department of company Lebedyansky, so that I could get a deeper understanding of the company's activities and technologies, and how it all goes in "the real life". The in-depth personal interviews from the specialists of company from different management levels also creates clear picture of the researched questions, as the answers from three people were analyzed.

Plausibility can be achieved if the research is linked to some ongoing concern among other researchers (Easterby-Smith, 2008). As it was mentioned in the introduction chapter, the questions of purchasing strategy and collaboration with suppliers are in the centre of discussions in different not even in one, but in different areas of research. Large number of literature and articles were studied during the research, which showed that most of them look for the causal-effect relationships between the factors of supply strategy and collaboration with suppliers or try to identify which of these factors are more important. This study aims to summarize the factors of the purchasing strategy and collaboration with suppliers and measure them in the specific context of one company in order to find the framework that connects these factors with the external market influences.

Criticality is encouragement to question the taken-for-granted assumptions made by readers and the researcher. This means that the author should place under the question the existing view on the problem and get either the confirmation or non-confirmation of that view. Several views on the problem were studied during the literature overview and on this basis the framework with several assumptions for the empirical study was prepared. During the empirical part of research the assumptions were approved in part, which shows the critical view on the researched problem.

Not only the primary data is used in the analysis, but also the secondary sources, which adds the study generalizability, so the literature review and summarizing of the literature applicable to the problem statement helped to obtain reliability. The secondary data was gathered from the well-known periodicals and the studies known and respected in the studied area. Also the review of the research literature helped to formulate unbiased questions for the interviews. Moreover, the empirical data for the research was collected through the face-to-face interviews with the specialists who work in the company and have competence and experience in the

studied area. The records of the interviews helped to achieve the accuracy in the interpretation of the collected data.

However, it is necessary to say that generalization from the research based on the single case study should be made very carefully, since the any case study has very individual features, and what is applicable to one organization and market situation may not be applicable to another company and market situation.

2.5 Summary

Using the constructionist approach to the research problem, the process is to uncover by conducting a single descriptive case study. As the methods for the study the analysis of the applicable secondary data was chosen, and as a main method for the primary data collection the semi-structured face-to-face interviews with the people directly participating in the decision-making process are made, and such research design will ensure the reliable results and conclusions.

Chapter 3

Theoretical Background

3. Theoretical Background: Supply Chain Collaboration

In this section, the literature is used in describing the general context within which the collaboration with suppliers takes place. First, the overview of supply chain concept is made and the summarized definition of supply chain is given. Furthermore, the main views on the purchasing strategy and collaboration within the supply chain are presented and the elements of the collaboration are described in more details. And finally the research framework is presented.

3.1. Supply Chains

Since this paper will concentrate on the strategic aspects of the logistical decisions and in particular on the collaboration with suppliers and building effective relationships with them and throughout the whole supply chain, the discussion should start with a brief track of how the concept of supply chain has changed within recent years, what are the main trends in this area and the nature of the changes within the concept of supply chain.

The literature review on the topic of supply chain and supply chain management development indicates that the latest trend within this area is the transfer from the single and isolated purchasing from multiple suppliers to the strategic view on the acquisition of materials, which includes the development of clear supply strategy and work with the suppliers “over some time, developing a valuable working relationships” (Waters D., 2004). This means that the purchasing is regarded as the strategic function of the organization and “the supply chain should directly support and drive forward the business strategy of the firm” (Cohen S., 2004) and in today's global marketplace, individual firms no longer compete as independent entities with unique brand names, but rather as integral part of supply chain links (Min H., Zhou G., 2002). Croom S. et al (2000) concluded that there is no universal definition of the supply chain, and due to the fact that the concept is multidisciplinary, authors tend to focus either on the external environment of an organization, the dyadic relation between agents and wide networks, or on the internal chains and processes.

According to the definition by D. Waters (2004) a supply chain “consists of the series of activities and organizations that materials move through on their journey from initial suppliers to the final customers.” Moreover, according to the literature overview by Mentzer J. et al (2001), that concentrates on defining what is supply chain and supply chain management, many studies (La Londe and Masters 1994, Lambert, Stock, and Ellram, Christopher 1992) describe supply chain as several independent firms or alignment or network of firms that are involved, through upstream and downstream linkages, that manufacture products and produce services and deliver them to the ultimate consumer. Finally, Mentzer J. et al (2001) define supply chain as “a set of three or more entities (organizations or individuals) directly involved in the upstream and downstream flows of products, services, finances, and/or information from a source to a customer”.

Mentzer J. et al (2001) identify three degrees of supply chain complexity: a “direct supply chain,” an “extended supply chain,” and an “ultimate supply chain.” A direct supply chain consists of a company, a supplier, and a customer involved in the upstream and/or downstream flows of products, services, finances, and/or information. An extended supply chain includes suppliers of the immediate supplier and customers of the immediate customer, all involved in the upstream and/or downstream flows of products, services, finances, and/or information. An ultimate supply chain includes all the organizations involved in all the upstream and downstream flows of products, services, finances, and information from the ultimate supplier to the ultimate customer. (Mentzer J. et al, 2001)

More concisely, Min H. and Zhou G. (2002) propose a series of functions of supply chains: (1) acquire raw materials and parts; (2) transform these raw materials and parts into finished products; (3) add value to these products; (4) distribute and promote these products to either retailers or customers; (5) facilitate information exchange among various business entities (e.g. suppliers, manufacturers, distributors, third-party logistics providers, and retailers). They also describe a supply chain as a construct of two main business processes (Min H. and Zhou G., 2002): “material management (inbound logistics) - acquisition and storage of raw materials, parts, and supplies; physical distribution (outbound logistics) - outbound transportation, consolidation, pricing, promotional support, returned product handling, and life-cycle support”.

This study concentrates on the supply part of the supply chain, i.e. on the work with suppliers and acquisition of materials for the production. The literature review has shown that most of the articles concentrate on the distribution side of supply chains and collaboration with retailers, while the field of supply side is less covered within the periodicals.

3.2. Purchasing Strategy of the Firm.

Purchasing plays a strategic role in a firm's profitability and enhanced shareholder value (Narasimhan R. and Das A., 2001). Each company develops a program through which the procurement procedures and relationships with suppliers are carried out and according Russian authors Kouchtch S. and Smirnova (2007) the development of strategy of supply is not the most difficult task, the greatest difficulty lies in the adaptation of the strategy to the value system of partner companies. The authors describe the strategy for purchasing procedures as (Kouchtch S., Smirnova M., 2007): procurement strategy; selection and development of suppliers; management of the communication; logistics management; monitoring. Moreover, Krause D. et al (2001) specified that most of the purchasing companies placed the highest importance on the procurement planning and strategy, followed by the identification, analysis and selection of suppliers. Van Weele A. (2009) in his book "Purchasing and Supply Chain Management" also stressed out the same parts of purchasing strategy as most important.

3.2.1. Procurement Strategy

According to Van Weele (2009) procurement strategy should include the following attributes: the centralization of procurement, procurement strategies for each commodity group, the constant improvement of the quality requirements for purchased product, the annual review of procurement strategy. Kouchtch S. and Smirnova M. (2007) also proposed that centralization of procurement can significantly increase the power of the manufacturer: the higher the amount of centralized purchasing, the more savings and less is cost the purchase. Moreover, each group of purchased components and materials is unique and requires a special approach. Procurement strategy should be developed for each commodity group, which includes a number of factors to decide on: exclusive or multiple supply, determining the depth of integration, selection criteria, long-term suppliers and major directions of development of relations, the development of criteria for evaluating suppliers.

Kouchtch S. and Smirnova M. (2007) stated that higher quality requirements from customers has led, in turn, to the enhance in the quality requirements to the suppliers, who have to annually certify the status of long-term partner. If the quality of the product is lower than required, the supplier loses the status of long-term partner. Annual review of procurement strategy is made by many companies today in Russia, however that does not mean changing suppliers (Kouchtch S. and Smirnova M., 2007). If the company does not conduct an annual

market research suppliers (even surface), it can “miss” the emergence of new companies, significantly exceeding its current suppliers.

It can be summarized that under the procurement strategies authors understand the presence of one or more suppliers for individual product categories (Caniëls M. and Gelderman C., 2005; Van Weele, 2009; Krause D. et al, 2001). Moreover, Krause D. et al (2001) specified that most of the purchasing companies placed the highest importance on the procurement planning and strategy, followed by the identification, analysis and selection of suppliers. Van Weele A. (2009) in his book “Purchasing and Supply Chain Management” also stressed out the same parts of purchasing strategy as most important.

Caniëls M. and Gelderman C. (2005) and Van Weele A. (2009) described “Kraljic’s portfolio matrix” with the help of which professional purchasers can differentiate between the various supplier relations and choose strategies that are appropriate for each category and thereby effectively manage suppliers, i.e. create effective procurement strategy for each type of purchased product. The matrix differentiates among several groups of purchased products, according to their profit impact and supply risk, so the power of suppliers is weighted against the power of the company. The company should address these types of products in different ways and create a specific a strategy for each type of the purchased product. For the strategic products three general purchasing strategies were recommended: exploit (in case of buyer dominance), balance (in case of a balanced relationship), and diversify (in case of supplier dominance). However, Caniëls M. and Gelderman C. (2005) stressed out that the current researches has broadened the matrix and also developed strategies and common recommendations for each quadrant of the matrix, i.e. for each type of purchased products (Table1).

| <i>Profit impact</i> | <i>Supply risk</i> | |
|----------------------|----------------------------------------------------------|---------------------------------------------|
| | <i>Low</i> | <i>High</i> |
| <i>High</i> | <i>Leverage items</i> Exploit purchasing power | <i>Strategic items</i> Form partnerships |
| <i>Low</i> | <i>Non-critical items</i> Ensure efficient processing | <i>Bottleneck items</i> Assure supply |

Table 1. The Kraljic purchasing portfolio model
Source: (Caniëls M. and Gelderman C., 2005)

However, Choy K. and Lee W (2002) stated that even in the situations when the company prefers to work with a small group of partners on the long-term base, it also should have a list of preferred short-term suppliers - a kind of insurance for an urgent case, but each call to such a supplier should be justified and the planned procurement priority should always be given to long-term suppliers.

3.2.2. Selection and Development of Suppliers.

In the process of inter-firm collaboration each company creates a portfolio of relationships. According to Choy K. and Lee W (2002) large manufacturers cannot have direct control over the capability and performance of its hundreds of suppliers, so the evaluation of its suppliers' capabilities to provide raw materials/component parts becomes a crucial issue. The decisions related to supplier selection are complicated by the fact that various criteria must be considered in the decision-making process

Choy K. and Lee W (2002) claimed that supplier selection is the way to evaluate supplier capability. They summarized that "the supplier selection process should not only consider price, but also a wide range of factors such as quality, organization and culture, with a view to decision making by considering the whole supplier/partner capability in a long-term and strategic way. This long-term expectation developed between the manufacturer and supplier(s) can provide the opportunity for improving performance" (Choy K. and Lee W, 2002). So the authors proposed supplier attributes (integrated with literature studies) and grouped them into three main categories: technical capability, quality assessment, and organization profile, in order to form a generic supplier selection mechanism as follows (Choy K. and Lee W, 2002).:

technical capability includes the attributes of delivery, shipment quality, product price, manufacturing capability, and customer service.

quality assessment includes the attributes of management commitment, product development, process improvement, quality planning and assurance in supply, production, inspection and experimentation, and quality staff.

organization profile includes the attributes of an organization's culture, achievement of sales, marketing objectives, and financial status.

After the weighting of the value of each factor by the specialists of the firm, the comparison of different suppliers can be made.

Krause D. et al (2001) determined purchasing competitive priorities were operationalized through the five competitive priorities of quality, delivery, flexibility, cost and innovation. The competitive priorities were summarized as follows (Krause D. et al, 2001):

the quality factor is measured in terms of suppliers' ability to provide inputs that are reliable, durable and that conform to the buying firm's specifications;

the delivery factor is based on the importance of the following delivery dimensions in the buying firm's supplier selection: ability and willingness of a supplier to expedite an order, how quickly a supplier can deliver, the amount of time it takes a supplier to develop a new part, the ability of a supplier to provide just-in-time delivery, the ability of a supplier to meet due dates, and supplier location;

the cost factor is related to the importance of the following cost/price dimensions in the buying firm's supplier selection and retention process: total cost, the supplier's willingness and ability to share cost data, and unit price;

the flexibility factor includes measurement of the importance of the following flexibility dimensions: the ability and willingness of the supplier to change order volumes, and change the mix of ordered items;

the innovation factor stands for the analysis of importance of the level of the supplier's technological capabilities, willingness to share technological information, and ability of the supplier to design new products or make changes in existing products.

Sollish F. and Semanik J. (2005) claimed that the organizations keep trace of the suppliers, with whom they have established some sort of business relationships. These lists provide the information about the current state of particular supplier, as well as the historical information about the relationships and deals. Sollish F. and Semanik J. (2005) have outlined the most commonly used ways to list the suppliers and some of the more common listings in use, which include the commonly used approved supplier list (ASL), along with listings of certified, qualified, preferred, and disqualified suppliers.

Goffin K. et al (1997) claimed that current literature proposes a wide set of factors to be considered during supplier selection, and it is important to look not only at today's unit price but also the total purchase costs (including ordering, transport and inventory costs) and the potential for price reduction. Authors also stressed out that it is essential to audit the strategic capabilities of potential suppliers, such as their ability to contribute to product development, and concluded

that there is no universal model fitting all situations adequately. Consequently, the specialist from different departments should take part in choice of suppliers.

According to Krause D. et al (2007) “the term “*supplier development*” was first used by Leenders in 1966 to describe efforts by manufacturers to increase the number of viable suppliers and improve suppliers’ performance. More specifically, supplier development has been defined as any effort by an industrial buying firm to improve the performance or capabilities of its suppliers”. Kouchtch S. and Smirnova M. (2007) described the reasons for the investments of manufacturers in development of suppliers as getting tangible benefits such as reduced cost, greater quality and flexibility, and more reliable delivery. “In these situations, the buying firm may arguably be prepared to help the supplier through information sharing, technical assistance, training, and direct investment in supplier operations, in return for the benefits of improved performance and joint value creation. In return, the supplier firm may be expected to share information, dedicate human resources to the improvement effort, and invest in specific equipment” (Krause D. et al, 2007).

Kouchtch S. and Smirnova M. (2007) also stressed out that buying firms must determine what investments are likely to yield benefits and named two main directions of supplier development as: *overall development*, aimed at establishing and strengthening common values and goals; and *technological development* aimed at improving quality, ensuring compliance with quality standards.

3.3. Supply Chain Collaboration

According to Min S. (2005) the phenomena of collaboration has been studied very intensively across different disciplines, such as sociology, psychology, marketing, management, and supply chain management; and the fundament of collaborative behavior within supply chains is that today many companies seek coordination of cross-firm activities and long-term relationships to produce superior performance and share risks and rewards with partners. Collaboration can be defined as two or more companies sharing the responsibility of exchanging common planning, management, execution, and performance measurement information (Min S. et al, 2005). Min S. et al (2005) also mark out that there are two views on collaboration: first, it is described as “a business process whereby collaborative partners work together toward common goals that mutually benefit the partnering firms”, second, collaboration has been portrayed as “the formation of inter-firm linkages or partnerships in which the parties involved

work together and share information, resources, and certain degrees of risk in order to accomplish mutual objectives” (Min S. et al, 2005).

The rationale is that the collaborative structure can perform higher results than firms operating individually. This is also proved by Fiala P. (2005), who stated that “an increasing number of companies in the world subscribe to the idea that developing long-term coordination and cooperation can significantly improve the efficiency of supply chains and provide a way to ensure competitive advantage”.

Moreover, Min S. et al (2005) proposed a conceptual model of supply chain collaboration. The developed model covers the progression of such relationships including antecedents, collaboration, and consequences. The basis for the model was an exploratory empirical study that included surveys and interviews with key business people.

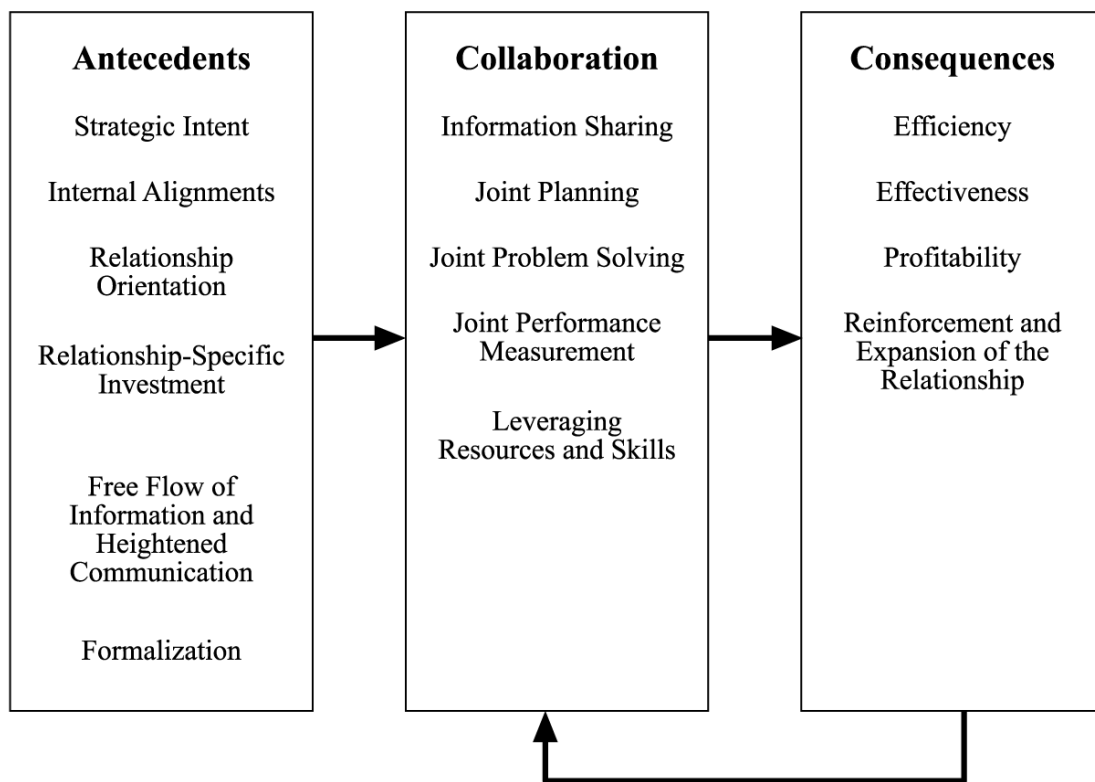
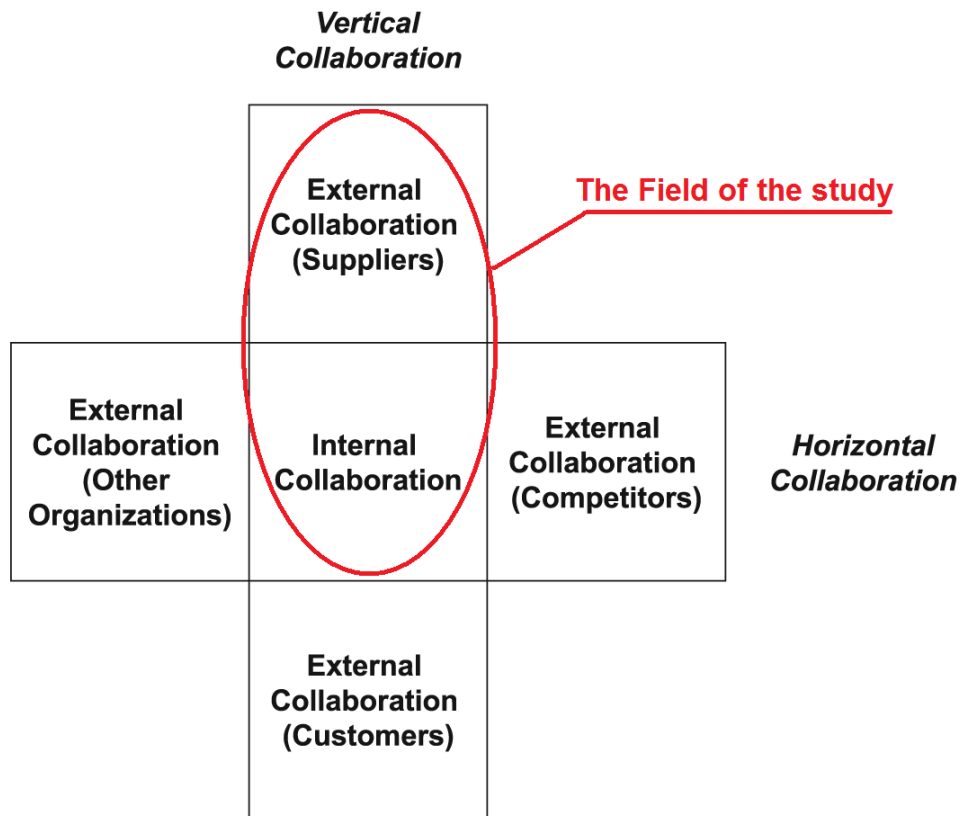


Figure 1. A conceptual model of supply chain collaboration
 Source (Min S. et al ,2005)

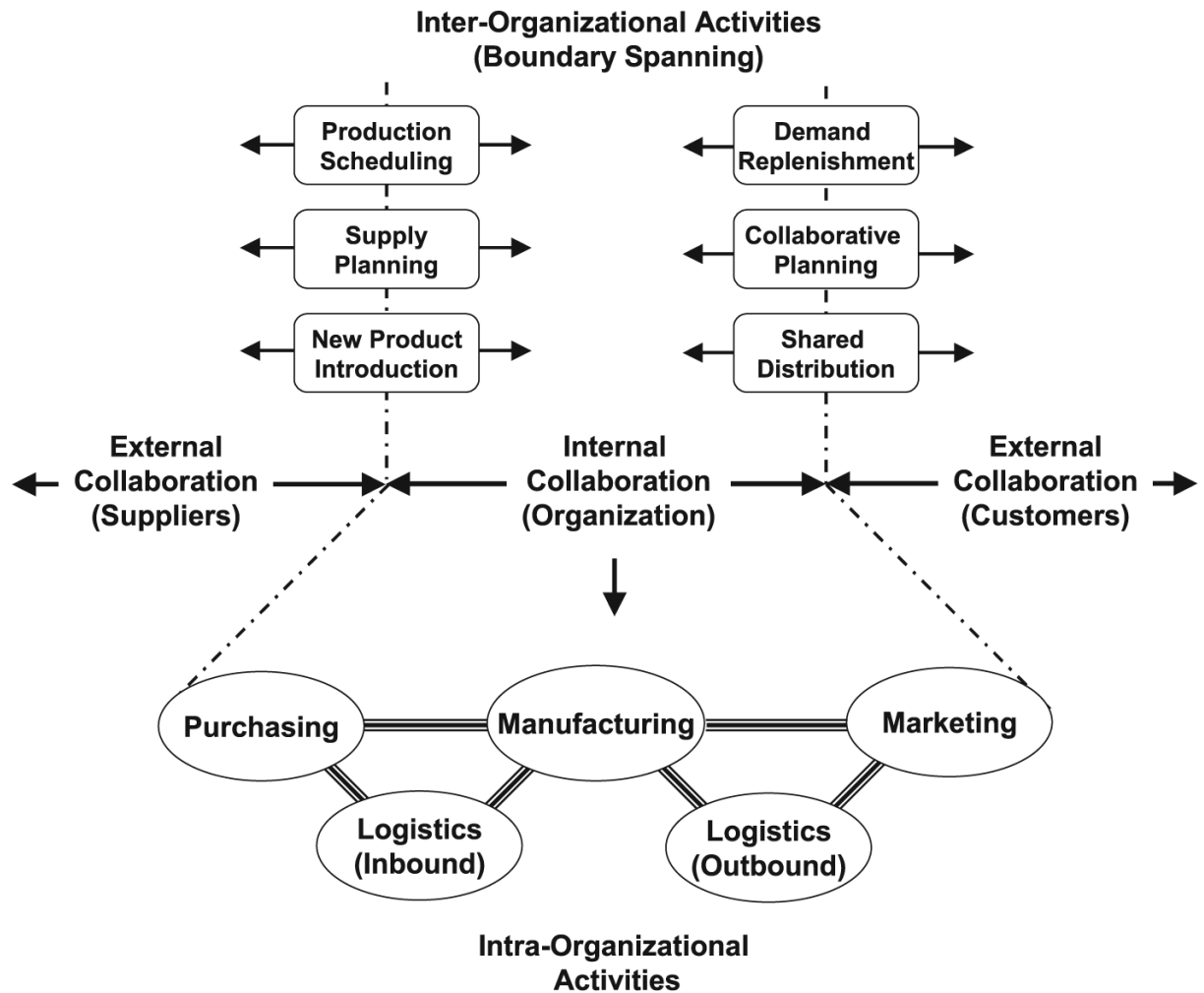
Barratt M. (2004) also tried to answer on the questions why should the firms collaborate, in what forms this collaboration is possible and with which partners. The author stressed out that the internal and external collaboration within the supply chain can help firms to “deliver significantly improved performance, and benefit from closer relationships that themselves foster more opportunities for greater improvement” (Barrat, 2004).

Futher, Barrat M. (2004) stated that there is a variety of forms of potential supply chain collaboration, which can be divided into two main categories: first, vertical, which could include collaboration with customers, internally (across functions) and with suppliers; and second, horizontal, which could include collaboration with competitors, internally and with non-competitors, e.g. sharing manufacturing capacity. The model of different types of collaboration is shown below; the field of interest in this study is also presented on the model.



*Figure2. The scope of collaboration: generally
Source (Barrat M., 2004)*

The author emphasized that collaboration of internal functions (i.e. purchasing-manufacturing-logistics-marketing) within the organization, first, is very hard to achieve, and second, should go along with external collaboration, in terms of developing closer relationships, integrating processes and sharing information with customers and suppliers. According to Barrat M. (2004) there is a number of potential opportunities for vertical supply chain collaboration which include on the downstream side of the supply chain: customer relationship management (CRM); collaborative demand planning, demand replenishment; and shared distribution. The upstream collaboration, which is the primarily interest of this study, includes supplier relationship management, supplier planning and production scheduling; collaborative design; and collaborative transportation. (Barrat M., 2004)



*Figure 3. The scope of vertical collaboration
Source (Barrat M., 2004)*

The model, that is very similar to the one presented above, was developed by Sahay B. S. (2003). It summarized the supply chain collaboration opportunities. According to the model collaboration with up-stream supply chain partners will be beneficial in terms of product development, order fulfillment, capacity planning and ensure that future material needs are satisfied.

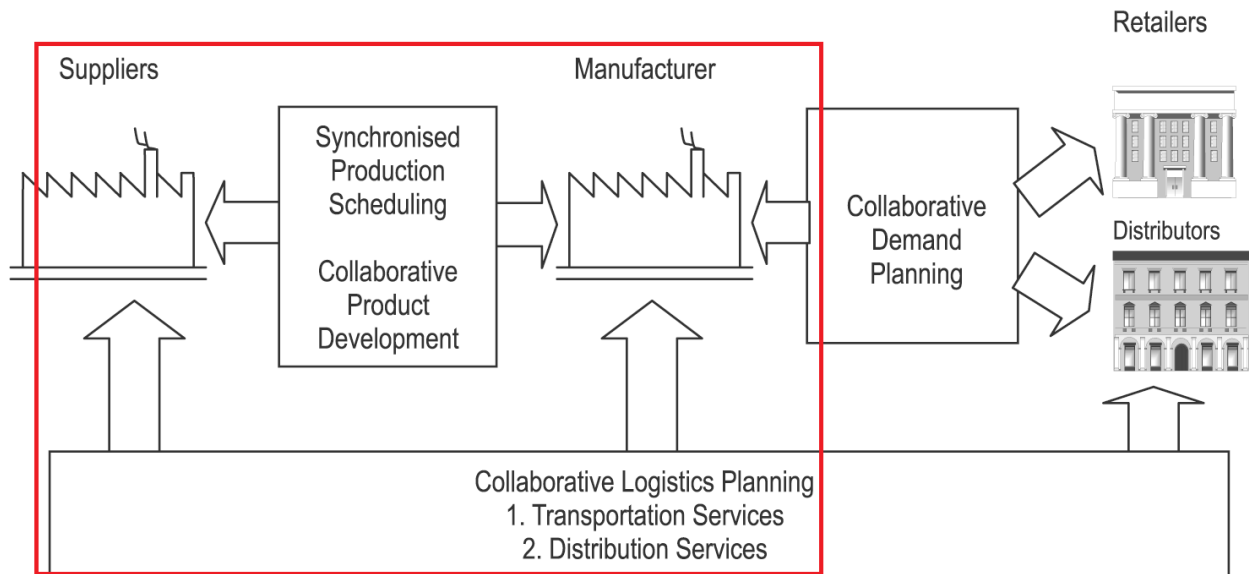


Figure 4. Supply chain collaboration opportunities
 Source (Sahay B. S., 2003)

Furthermore, on the basis of literature review Barrat M. (2004) concludes that the organization should make a segmentation of its relationships with partners. This supposes that the firm do not aim on collaborating with everyone, but should concentrate on a small number of close relationships, and some of the relationships should be left at the arm's-length and based purely on the costs, since such situation is optimal for the firm. Each type of the relationships should receive its distinct policies and strategies. The results from the survey made by Bagchi P.K. et al (2005) also confirm that although more firms seek to involve supply chain partners in decision-making and to build long-term relationships with key suppliers and customers, the nature and extent of integration between companies is rather selective. Vereecke A. and Muylle S. (2006) stresses out that not all collaboration is successful and performance benefits will be reaped only by the companies that effectively turn declared working partnerships with their suppliers into mutually beneficial collaboration.

The literature overview showed that different levels or types of collaboration in supplier-manufacturer relationships are distinguished and the recent studies does not propose one typology of the such collaboration. Many authors (Verecke A., Muylle S., 2006) identify operational, functional and strategic levels of collaboration between suppliers and manufacturers. While operational collaboration is geared towards transaction efficiency improvements, collaboration at the strategic level requires shared or matching objectives, either by coincidence or design (Verecke A., Muylle S., 2006).

Vereecke A. and Muylle S. (2006) conducted the factor analysis of factors influencing the relationships with suppliers and found out that it is in accordance with the two types of collaboration identified in the literature:

(1) The first type of collaboration the authors relate to is the exchange of information. “More specifically it consists of making delivery agreements, and exchanging information on inventory levels, production planning decisions and demand forecasts” (Vereecke A., Muylle S., 2006).

(2) the second type they described as related to “structural collaboration”, that include by the co-location of plants, and.. (Vereecke A., Muylle S., 2006)

Representatives of the Industrial Marketing and Purchasing (IMP) group enclosed a sufficient contribution in the research of business markets and their works received a wide acknowledgement all over the world and especially in Europe. Representatives of the group created the new model of relationships on the industrial markets, the “interaction approach”, which is a set of ideas, assumptions and philosophy about business problems and company’s purchasing activities, where the relationships between companies were stated to be the very central (Gadde, Håkansson, 2001).

The IMP interaction model (Håkansson 1982) provides researchers with a descriptive model which can be used to understand inter-firm relationships and is based on the premise that companies frequently enter into long term relationships in business. The IMP interaction model (see Figure) proposes three elements which can be used to describe inter-firm relationships: environment, atmosphere of the relationships and interaction process. Environment factors reflect the overall state of the market and the firm’s position on this market and can be described by the market structure, dynamism, internationalization, position in the manufacturing channel and social system. The factors of relationships atmosphere are power and dependence between companies, cooperation, closeness and expectations. On the basis of these factors the interaction process might be characterized either as short term exchange episodes or long-term relationships.

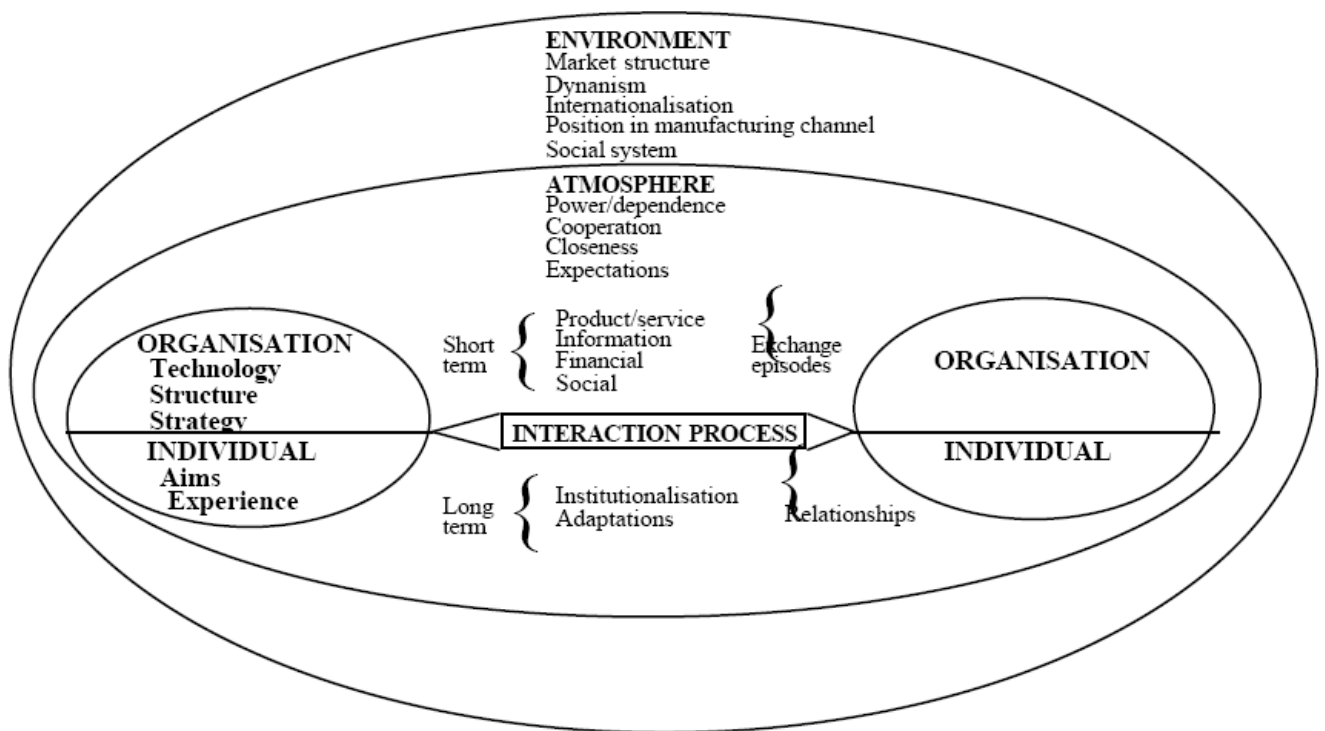


Figure 5. IMP Interaction model, Hakansson 1982
(Source: Gadde, Håkansson, 2001)

As it has been specified in most of the researches there are specific factors that influence the degree of the collaboration between supply chain partners. Within the most important factors of relationships are named: cultural or relationship elements, such as trust, commitment, power, dependence, mutuality, openness, communication; information sharing; degree of formalization, purchasing process, purchasing strategy and planning (summarized from the works of Kwon I-W. and Suh T. (2005), Min S. et al (2005), Holweg M. et al (2005), Barrat M.(2004), Hsu C. et al (2008), Bagchi P. K. et al (2005), Hsiao M. et al (2002), Kouchtch S. and Smirnova M. (2007), Gadde L. and Håkansson H. (2001), Mentzer J. et al, 2001). Considered from the point of view of IMP group model these factors can be related to the relationship atmosphere among the firms. These factors are proved to be inter-related to each other and much research has been conducted in order to understand, which of them are primary and the most important ones, but the aim of this study does not go for that, so it seems logical to generalize these factors in categories and to describe them in more details further in the work. Summarizing from the studied researches, in order to estimate the degree of collaboration between the companies, this paper adopts the following criteria of relationships: information-sharing, trust and commitment, power and dependence, degree of formalization.

3.3.1. Information Sharing

The topic of information sharing in supply chains has received much attention in the literature. According to Fawcett S. et al (2007) of all the resources a company manages, information has become critical for the implementation of the company's strategic supply chain response and Ghosh A. and Fedorowicz J. (2008) also claimed that supply chain performance is enhanced when chain activities are coordinated within the environment of information sharing. Hsu C. et al (2008) defined information sharing within a supply chain as "the integration of information systems, decision systems, and business processes used to conduct information searches, manage business operations, monitor business details and perform other business activities", and also they proposed that information sharing positively and directly affects the buyer-supplier relationship, which itself directly and positively affects firm performance.

According Hsu C. et al (2008) what "binds firms and can drive the effectiveness of relationships is information sharing". Companies are investing heavily in information technologies to enhance their ability to manage information and knowledge across the supply chain, since the awareness of new information helps them to adopt their structures to the rapidly changing environment and enable fast decision making (Fawcett S., et al, 2007).

Hsu et al (2008) divided the information shared between companies into two categories: tactical information, which is needed for tactical decisions and includes purchasing, logistics and operations scheduling; and strategic information – long-term corporate objectives, marketing and customer information.

Hsu et al. (2003) described three major advantages the information sharing offers to supply chain members: information is distributed throughout the supply chain, information senders and receivers become closer, and supply chain members can act on new information in a timely manner. In the respect to cooperation with suppliers Ghosh A. and Fedorowicz J. (2008) adhered to the very similar point of view, stating that information sharing helps in reducing slack, stockouts, safety stocks, inventory levels, thereby helping to maximize supply chain profitability. Fawcett S. et al (2007) also stated that "connecting managers across functional and organizational boundaries and providing them with relevant, accurate, and timely information reduces temporal and spatial distance enabling them to make better, more collaborative decisions".

Hsu et al (2008) pointed out that information sharing, however, requires supply chain members to integrate at various levels and shared information must exhibit certain attributes to

create value for the partners. Ghosh A. and Fedorowicz J. (2008) along with Simatupang T. and Sridharan R. (2008), listed some of the most important characteristics of information quality: accuracy, understandability, relevance, timeliness, accessibility, completeness, appropriate amount, reliability, and ease of use.

According to Ghosh A. and Fedorowicz J. (2008) apart from the quality of the data that is shared, the way how information is shared also influences supply chain performance and affect the success of the relationship. This goes along with what Fawcett S. et al (2007) observed during their empirical study, the results of which showed the success of information sharing depends on two factors: connectivity (the development of technologies in partnering companies) and willingness to share the information. The authors stressed out that while most of the managerial and theoretical focus has been the technological side of the information sharing capability and the need for better connectivity is readily seen, few companies have fully grasped the importance of the willingness dimension of information sharing.

Fawcett S. et al (2007) stated that the willingness side of sharing is intimately tied to a willingness culture, which builds trust among decision makers, enhances supply chain understanding, leads to more creative collaboration, and establishes the culture needed for managers to feel comfortable sharing sensitive information. The authors suggested that the technological ability and the willingness to share information should work supportively together to enhance the quality and impact of supply chain decision making (Fawcett S., et al, 2007).

Hsu et al (2008) also proposed some of the measurements of information sharing, which at their point of view are: information system integration, decision system integration, and business process integration.

Summarizing from what has been said above, the most important features of information sharing between firms are:

the quality of information shared (accuracy, understandability, relevance, timeliness, accessibility, completeness, appropriate amount, reliability, and ease of use);

the technological advances of the companies, who are sharing the information (this also includes the connectivity of the of information systems);

the willingness of managers to share the information (which is enhanced by the culture, that motivates managers to share the sensitive information in timely manner).

3.3.2. Formalization

Handfield R. and Bechtel C. (2002) showed in their research that while almost all transactions are covered by the law, buying companies often employ contracts, especially in cases involving nondomestic suppliers. Ghosh A. and Fedorowicz J. (2008) stated that contracts provide means for coordination between multiple organizations that are involved in the process and that try to pursue their independent and sometimes even conflicting objectives. Handfield R. and Bechtel C. (2002) described contracts as “legal instruments that explicitly define the terms of inter-organizational agreements”.

Handfield R. and Bechtel C. (2002) argued for the fact the contractual relationships appear between the companies, when there is a lack of trust between them. In the same terms Hsiao et al (2002) explained that when the trust between the organizations is high, the firms may prefer to operate with a “handshake” agreements without any formal contracts. “When trust is limited between the parties, contractual agreements are commonly established to enhance their legal obligations. These can range from limited single function agreements, to very specific and broad-based contractual agreements that cover complete business operational activities.” (Handfield R. and Bechtel C., 2002). Thus the authors stood for the opinion that the investigation of contracts between the companies can help to determine the level of trust between them. On the other hand, Handfield R. and Bechtel C. (2002) claimed that although organizational relationships may be based on trust, “the existence of formal contracts may help to ensure the buying organization that trust in the supplier is well-founded (and vice versa)”. Therefore contracts become the kind of safeguards of the trust between the companies, taking part in the relationships.

Handfield R. and Bechtel C. (2002) offered to measure the formality of contracts, first, by identifying whether the buying organization signs an agreement specifying price, delivery lead time, quality specifications, and estimated annual usage; second, by studying whether contracts contain the types of “evergreen” clauses (they provide for automatic renewal unless one or both parties opt out, Goodhue R., et al, 2002) and “escape” clauses (allow a party to that contract to avoid having to perform the contract, Goodhue R., et al, 2002); and finally, by finding out whether the buying company undertakes contractual agreements with the supplier beyond each order that is placed or signs long-term contracts.

According to Giannoccaro and Pontrandolfo (2004) contracts, as a governance mechanism, are designed to attain two main objectives: (1) delineate authority-responsibility structure; and (2) share risk among chain partners. Ghosh A. and Fedorowicz J. (2008) made an

enquiry in the contents of usual supply contract and described the main factors of contracts as: the existence of written, legal documentation; the inclusion of a risk sharing arrangement; the length of coverage period (period for which the contract is in force); and delimitation of responsibilities alignment. The authors also argued that the companies take part in contractual relationships and design a contract, when both parties in the chain earn a profit higher than they would earn without the contract. However, they noticed that the design and exhaustiveness of a contract and its role in governance and coordination much depend on the nature of production and the structures of the buying and supplying organizations (Ghosh A. and Fedorowicz J., 2008).

3.3.3. Trust and Commitment

In the context of supply chains trust has been frequently used as a key factor in developing long-term relationships, a prerequisite of cooperation between suppliers and producers and a determinant to high performance (Hsiao, 2007). This work will concentrate on the inter-organizational trust, and in the literature it is described as a trust perceived by individual companies with respect to their immediate business partners in the chain (Ghosh A., Fedorowicz J., 2008). Kwon I-W. and Suh T. 2005 described trust as “firm's belief that a partner's company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes”. Morgan R. and Hunt S. (1994) in their study of trust and commitment between supply chain members conceptualize trust as “existing when one party has confidence in an exchange partner’s reliability and integrity”.

Walter A. et al (2003) summarized the approaches of other scholars and stated that trust have three essential components: (1) the belief that the relationship partner will show benevolence in his or her actions; (2) honesty, which means that the trusting party relies to the relationship partner being credible; (3) the belief that the relationship partner has the competence to act for the benefit of the relationship.

The study conducted by several researchers (Ghosh A. and Fedorowicz J., 2008; Handfield R., Bechtel C., 2002, Hsiao, J. M., 2007) showed that many authors distinguished between different types of organizational-level trust and the significant overlap of definitions existed in the literature, so Ghosh A. and Fedorowicz J. (2008) tried to subsume the types of trust defined in the literature and issues of organizational behavior, and came up with four types of trust: calculative trust, competence trust, trust in integrity and trust in predictability.

Calculative trust is described as “an ongoing, market-oriented, economic calculation for assessing the benefits and costs that can be derived from creating and sustaining a relationship” (Paul and McDaniel, 2004). Ghosh A. and Fedorowicz J. (2008) claimed that this type of trust shows if the partners are likely to cooperate and it is developed in the first stages of relationships.

Competence trust refers to “the ability of the firm to perform a certain task and it covers technical, operational, human and financial abilities and one of the factors for development of such trust is the search conducted by one company for these skills and abilities before selecting the right partner for the relationship” (Ghosh A. and Fedorowicz J., 2008).

Trust in integrity is described as “the belief that a trustee makes good faith agreements, tells the truth and fulfils promises. Integrity is based on experience from interpersonal relationships between the trustee and the trustor and more specifically on their perceptions of each others’ past behavior“ (Ghosh A. and Fedorowicz J., 2008). It is important for supply chain collaboration as the companies make written and oral promises and should fulfill them.

Trust in predictability shows the trustor sees the actions of the partner as consistent, stable and that they can be predicted in given situation, taking for the basis the previous behavior of the company. “Relationship development explained by this type of trust depends on an ability to predict outcomes with a high probability of success, which is key to the effective and uninterrupted operation of a supply chain” (Ghosh A. and Fedorowicz J., 2008).

This typology shows that the retrospective of the relationships and the reputation of the partner are viewed as a precursor of trust, and security in a relationship cannot be created on a single occasion, but develops over time. The connection between two parties can only be built up through a process of interaction in which reciprocal trust can be successively deepened. In this process both sides gradually get a more accurate perception of the business conditions. Typically, the two parties first test one another through minor business deals and then move along to more complete deliveries. Firstly, it is important that the individuals involved get to know each other well on a personal basis. Secondly, it is important that they learn about the operations of both companies and how they can fit better together.

Kwon I-W. and Suh T. (2005) categorized key positive results from high-trust relationships: open communication and willingness to take risks; sharing relevant information and confidence in the information received; the overall performance enhance. Along with this, Hsiao J. M. (2007) also claimed that trust facilitates better communication between exchange partners, and thus it is a predictor of cooperative behavior between organizations and the lack of

trust is described as the unwillingness to share the information. On the basis of review of previous researches Hsiao J. M. (2007) summarized the influences of inter-organizational trust on the relationships between supply chain members and supply chain performance:

non-financial - enhance continuity in conventional channel relationships; reduce conflict and enhancing satisfaction of channel members; achieve cooperation in a relationships, commitment and long-term orientation;

financial - influence future purchase intentions and supplier selection; improve supply chain responsiveness, including on-time delivery and lead-time, reduction in inventory costs and production costs.

Developing trust is important because trust is a prerequisite for commitment (Gadde, Håkansson, 2001). Kwon I-W. and Suh T. (2005) claimed that any business transactions among supply chain partners require commitment by the parties in order to achieve their common supply chain goals and enduring commitment is a basic requirement for successful supply chain implementation.

Commitment is a tendency to persist with causes of action, often without an apparent causal motive, on the basis of vague expectations; it is always to some extent an 'act of faith' by which the actors handle uncertainty and complexity(Gadde, Håkansson, 2001). Morgan R. and Hunt S. (1994) defined commitment as “an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship endures indefinitely”, and viewed commitment as being central to business relationships. Gaining benefits from relationships requires a long-term perspective. Adhering to the similar point of view Krause D. et al (2007) revealed also that performance improvements sought by manufacturing companies are possible when they commit to long-term relationships with key suppliers, since when manufacturers are willing to commit to long-term relationships and to make investments to improve suppliers' performance, suppliers become willing to commit to relation-specific resource investments, that in turn is expected to improve the manufacturer performance.

Walter A. et al (2003) categorized three different dimensions of commitment: affective commitment describes a positive attitude towards the future existence of the relationship; instrumental commitment is shown whenever some form of investment (time, other resources) in the relationship is made; the temporal commitment indicates that the relationship exists over time.

Handfield R. and Bechtel C. (2002) identified four types of asset specificity that influence manufacturers to commit to long-term relationships, thus it identifies the situations when the suppliers will be committed to its customer (Handfield R. and Bechtel C., 2002):

physical asset specificity refers to the mobile and physical features of assets such as specific dies, molds, and tooling for the manufacture of a contracted product;

dedicated asset specificity represents discrete and/or additional investment in generalized (as opposed to specific) production capacity in the expectation of making a significant sale of a product to a particular customer;

human asset specificity arises in a learning-by-doing fashion through long-standing customer-specific operations;

site asset specificity refers to the successive stages that are immobile and are located in close proximity to one another so as to economize on inventory and transportation expenses.

Relying on the empirical research Morgan R. and Hunt S. (1994) concluded that commitment and trust develop between the companies, when the relationships (1) provide resources and benefits that are superior than other players can offer; (2) are between the partners, that have the similar values;. (3) provide the valuable information for planning and performance measures; (4) avoid giving one-sided advantages to one of the partners (Morgan R., Hunt S., 1994). Social exchange relations evolve in a slow process, starting with minor transactions in which little trust is required because little risk is involved and in which both partners can prove their trustworthiness, enabling them to expand their relations and engage in major transactions. Building trust and commitment are time-consuming processes in which relationships between individuals are crucial and these personal contacts are important for interpretation of what is going on.

3.3.4. Power and Dependence

Most of the literature within the field concentrates on the influence of power and dependence on the relationships of supplier-retailer, but still this theory can be well translated on the situation between manufacturer and its suppliers. Power and dependence have been defined in many different ways, but most of the definitions contains the idea of control, influence or direction of one party's behavior by another. Dapiran P. and Hogarth-Scott S. (2003) defined power in the supply chain as "the ability of one entity in the chain to control the decisions of another chain entity", and add that power of one party over another derives from the latter's dependence on the former. Hsiao et al (2002) also stated that the magnitude of dependence

between two actors in an exchange relationship determines their relative power, and thus, they made a conclusion that power is a function of dependence. Handfield R. and Bechtel C. (2002) considered that “dependence exists when one party does not entirely control all of the conditions necessary for achievement of an action or a desired outcome performed by the other party”.

According to Hsiao (2007) in a supplier-dominant market, the supplier, the strong channel member, has the sources of power that can be exercised to control the manufacturers, or the situation can be the opposite, when the large manufacturer is a strong supply chain member and dictates the prices and other conditions to a number of small suppliers.

The degree to which manufacturer is resource-dependent includes the importance of the resource, the extent to which the interest group has discretion over it, and the extent to which there are limited alternatives, and in this context, resource-dependence may be referred as a situation when there are few suppliers of an important material within market, or the supplier is the only party capable of providing the product or service (Handfield R. and Bechtel C., 2002). This situation can be also referred as situation when the supplier has the bargaining power (Ghosh A. and Fedorowicz J., 2008) and the supplier can potentially exploit market power, and manufacturers will have fewer opportunities to obtain competitive prices and less leverage in negotiating terms of agreements and dependence on a single supplier will be functional only if both companies perceive the strategic benefits of such an arrangement (Handfield R. and Bechtel C., 2002). On the other hand, on some markets in the situation of multiple suppliers the manufacturer can possess the bargaining power and thus the suppliers will largely depend on the prices and conditions dictated by the manufacturer (Ghosh A. and Fedorowicz J., 2008).

Handfield R. and Bechtel C. (2002) also considered the theory of “limitation of power” as the extent to which parties exercise voluntary restraints on the use of power. They assumed that the likelihood of a strong relationship between manufacturer and supplier being maintained over time increases if relational exchange norms emerge between parties that limit the exercise of market power, and negotiations and contracts can help to establish and insure these relationship exchange norms.

Hsiao et al (2007) also mentioned the five power bases, developed by French and Raven (1959), which are still relied to be true: reward power, coercive power, expert power, referent power, and legitimate power. Handfield R. and Bechtel C. (2002) noted that power over suppliers or dependence on suppliers can be reduced or increased by the manufacturer through single or multiple sourcing. Moreover, according to Handfield R. and Bechtel C. (2002) the dependence on suppliers also implies several advantages such as incentives for cycle time

improvements, supply base optimization, fewer suppliers can result in simplified supply chain networks and reduce transaction complexity, enforce decisions about insourcing or outsourcing and automated purchasing systems, potentially create greater supplier loyalty.

This mutual dependence arises because each party is likely to aspire to goals that are in some way conditional upon the actions of the other party. According to Kouchtch S. and Smirnova M. (2007) for large firms the most important supplier relationships always involve large volumes of business and represent major values from a financial point of view, and they also affect the manufacturer in a number of indirect ways, which further increases their significance. Significance imposes dependence and the way in which power and dependence issues are handled thus becomes an important issue for purchasing. In the past, it was recommended that buying firms should try to behave in such a way that dependence would not arise, because avoiding dependence on individual suppliers was a key objective. The present situation is characterized by more mutual dependence between manufacturer and supplier and the focus of purchasing efforts has been shifted from avoiding dependence on suppliers to finding mechanisms to handle dependence. Indirect control of the manufacturer can be established through the close relationships with suppliers based on trust and compliance (Kouchtch S. and Smirnova M., 2007).

3.4. Conceptual Framework of the Study.

Summarizing from what has been said in this chapter and keeping in mind one of the tasks of this study - creation of conceptual framework for the empirical study on the basis of theoretical review, - it is necessary to adopt several theories and researches described in the chapter to create a valuable and understandable framework. Since the aim of this research is description of the purchasing strategy and the collaboration with suppliers, the framework offered by Hakansson (1982) and known as IMP Interaction model (Figure 5), seems to be very relevant. Moreover, as this research is based on the *case study of Russian company*, including in analysis the factors of market situation and social factors (as it is supposed in the IMP model), which inevitably influence the way purchasing and collaboration are managed, makes this framework even more favorable.

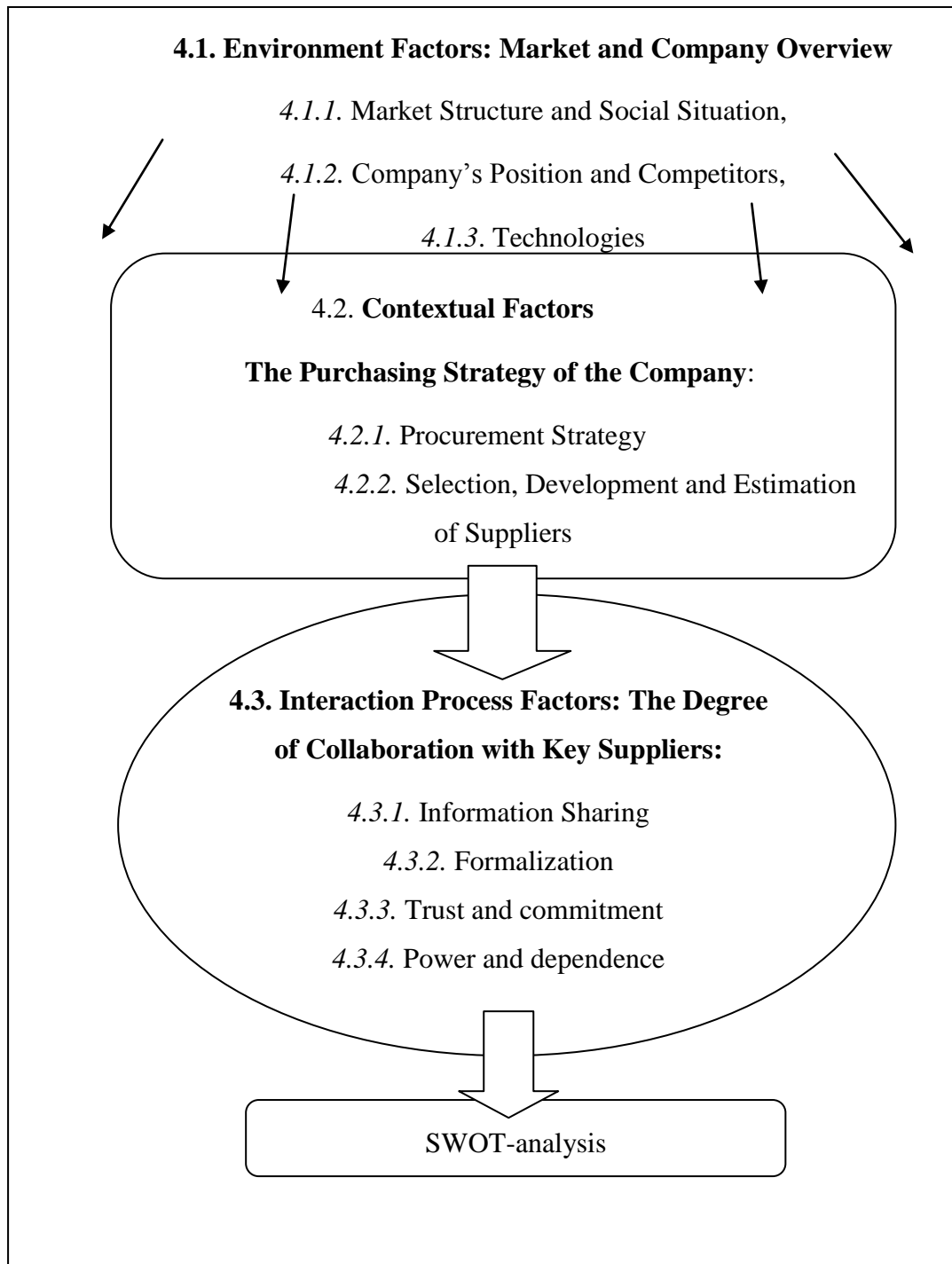
However, the latest model does not concentrate so much on the Purchasing Strategy of the company, so these factors should be included in the model. The purchasing strategy of the company (as it was mentioned in the IMP model) is influenced by the market factors, the studies of Russian authors in the field of purchasing strategy should be taken in consideration, since they

are more close to the Russian context. In this respect, the studies conducted by Kouchtch S. and Smirnova M. in 2007 (they are described in this chapter in part Purchasing Strategy) are the closest to the area of this research.

Further, it is important that the collaboration with suppliers should be in the center of the study, so using the review of the current literature, the most important factors of collaboration, which were described in many studies, were discovered. It seems rational to adopt those factors (described previously in this chapter) for the conceptual framework of this study.

According to the foresaid, it was decided to adopt from the framework by Hakansson (1982), known as IMP Interaction model (Figure 5), so called *Environmental Factors*, which include: Market Structure and Social Situation, Company's Position and Competitors, Technologies; *Contextual Factors*, which are characterized by the Purchasing Strategy of the company: Procurement Strategy, Selection and Development of Suppliers (Kouchtch S. and Smirnova M., 2007); *Interaction Process Factors*, which are described by the degree of collaboration with key suppliers and include the following factors: Information Sharing, Formalization, Trust and Commitment, Power and Dependence. The logic of the study is based on the assumption that the Environmental factors influence the Contextual and Interaction Process factors, i.e Purchasing strategy of the company and its way of Collaboration with suppliers. Moreover, all these factors together will be used for the SWOT-analysisю

Figure 6. Conceptual Framework of the study



According to this conceptual framework the study changes the logic of the analysis, (inherent to most of the studies) and is based not on the assumptions about the central role of procurement in the company and collaboration with suppliers, but on considering some of its elements and sequentially examining their impact on supply chain performance. It is assumed that such an approach would, firstly, help first, *to achieve the goal to analyze the features of*

purchasing strategy and the collaboration of “suppliers-manufacturer”; second, *to explain these characteristics from the point of view of specific context of interaction (i.e. Russian market of juice)*; third, *to analyze the interdependence of external factors, purchasing strategy and collaboration on the supply chain performance*.

Further, there is a consideration of a number of variables within each level of analysis in more detail. The analysis of *environmental factors* that influence the nature of the interaction and strategic priorities of the company, are traditionally described by the factors of dynamism of competition, the pace of technological change and changes in demand and market situation. Considering these factors, the study aims to uncover *how dynamic is the external factors in which the company operates and if such environment influences the orientation of the company to build long-term relationships with suppliers and enhance the collaboration between the supply chain partners*. This is based on the assumption that the company has the organizational skills of supply chain management and focus on development of cooperation strategy.

Analyzing the *contextual factors*, the study turn to the company's strategy in the area of procurement and the level of development of organizational capabilities to support relationships and receive additional benefits through cooperation between the parties. It is assumed that for the strategic approach to procurement management company requires the implementation and maintenance of supplier selection and evaluation of suppliers. The research will help to evaluate the formation of goals and strategic direction, degree of management of a portfolio of suppliers. Finally, the study aims to show *that the strategic approach to supply management and coordination of its separate elements have a direct impact on the degree of collaboration between the company and its suppliers*.

The next stage of the study is an *analysis of the collaboration of suppliers-manufacturer* on the example of a Russian company. Analysis allows, on one hand, *indirectly measure the success of the company's purchasing strategy and, on the other hand, highlight the main features of collaboration with suppliers of the company*. Considering the interaction with suppliers as part of this investigation covers both sides of the interaction, but is actually based on the assessment of interaction only in terms of the manufacturer. Such a limitation inherent to most studies of inter-firm collaboration because of the high complexity of the simultaneous investigation of two samples – manufacturer and a sample of suppliers selected.

Chapter 4

Empirical Study

4. The Practices of JSC Lebedyansky (Russia): Purchasing Strategy and Collaboration with Suppliers

This chapter describes the empirical study. The study is held in accordance with the conceptual framework and first examines the market factors and the position of the company Lebedyansky on the market. Then it goes for the description of the purchasing strategy of the company and finally discovers the characteristics of the collaboration of the manufacturer with its suppliers by viewing in details at: information sharing, formalization, trust and commitment, power and dependence.

4.1. The Environment Factors: Market and Company Overview

4.1.1. Market Structure and Social Situation

Russian juice market consists of several segments: market of nectars, natural juices and drinks containing juice. In 2006 the volume of nectars market was practically the same as the volume of natural juice market. The natural juice segment is targeted on the consumers with high incomes, premium segment. Nectars and juice-containing drinks are made mainly for middle and low segments. The producers supply a large variety of nectar tastes by mixing them with each other, which also increases the popularity of nectars (Review of Juice Market in Russia by Euromonitor International, Downloaded on 29.11.2009: http://www.kapital-rus.ru/strateg_invest/element.php?ID=8249).

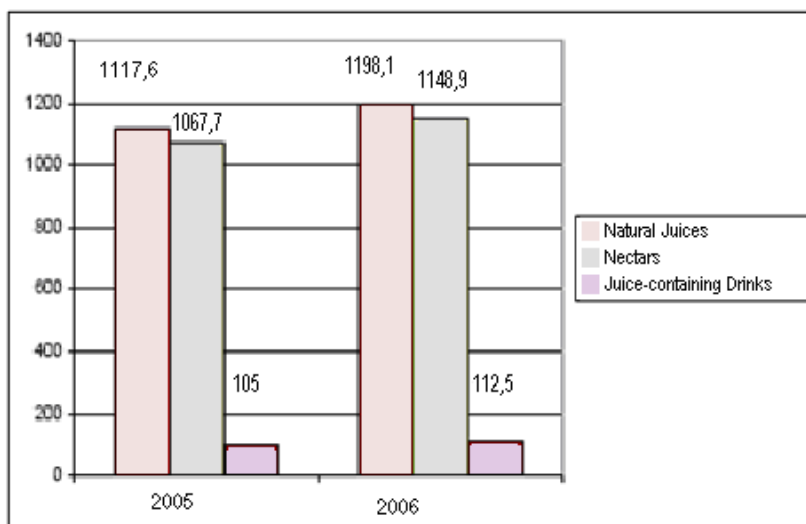


Figure 7. Dynamics of juice products in Russia 2005-2006, mln \$

Source: (Review of Juice Market in Russia by Euromonitor International, Downloaded on 29.11.2009. http://www.kapital-rus.ru/strateg_invest_element.php?ID=8249)

Today there is a development only of the lower middle and lower price segments of the juice market - together these segments occupy more than 70% of the market. A more prosperous part of consumers goes into the premium segment: their demand for fresh juices, special foods for fitness and other niche beverages. Another part of the customer goes to the middle segment of the market. Basically it is working, young people, seeking the best offer on the market. Premium segment takes less than 2% of the total market, but it is slowly growing. The increase is mainly due to the inhabitants of Moscow and Saint Petersburg. ("Market of juice", *Journal of Trade News*, 11.12.2007. Downloaded on 29.11.2009: <http://www.yarmarka.net/marketplace/articles/soki.asp>).

The main consumer audience of juices and nectars is women. They decide to buy juice, take care of the health of the families, children, and juices are in their view part of this care. Another trend observed in the Russian market - ease of use, that is connected directly to the packaging - its modern, attractive form, the presence of screw caps, from which the product is easy to pour, and through which the juice is easy to consume on the move. In recent years, according to observations of market players, buyers make the choice consciously juice, arguing their actions, recommending a particular product familiar. The consumer has recently become more accurate to the purchase and draw attention not only to affordability, but also the quality of the product. Awareness of the brand in the juice market is very high and close to 100%. In the average and the premium segments the brands have degree of recognition up to 90% (based on the article "Overview of Russian Juice Market". Downloaded on the 30th of March 2010: <http://www.marketcenter.ru/content/doc-2-12822.html>).

Consumption of juices in Russia has grown over the past five years in a rapid pace. During the period from 2003 to 2008, consumption of juices in Russia has nearly doubled. If the market volume of juice in 2003 amounted to 1.8 billion liters, in 2008 its capacity has already reached 3 billion liters (“Marketing Research of Juice Market” by Agency Top-Expert. Downloaded on 30th of March 2010: http://www.expert-rating.ru/market/product/sok_1.html)

. In recent years Russian juice market has grown rapidly as it is shown the chart below:

| Years | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------------------------------------------|------|------|------|------|------|------|
| Volume of the juice consumption in Russia (mln liters a year) | 1800 | 2052 | 2360 | 2737 | 3065 | 3035 |

Table 2. Volume of Juice Consumption in Russia (2003-2008)

(Source: “Marketing Research of Juice Market” by Agency Top-Expert. Downloaded on 30th of March 2010: http://www.expert-rating.ru/market/product/sok_1.html)

The average volume of consumption of juice per person in a year is still on the low level - only 16 liters, while in Europe this characteristic is about 30 liters (in Germany it is 60 liters, in Spain – 20 liters). In Moscow this characteristic is higher and is on the level of 35 liters, while in regions it is still very low - about 3 liters of juice per person. By the data of the company TGI Russia the share of juice consumers in Moscow and St. Petersburg totaled about 82 % (“Overview of Russian Juice Market”. Downloaded on 30.03.2010: <http://www.marketcenter.ru/content/doc-2-12822.html>). The market of juice in these cities is close to saturation, that is why there is a potential of growth in juice market, but mainly by the development of regional markets.

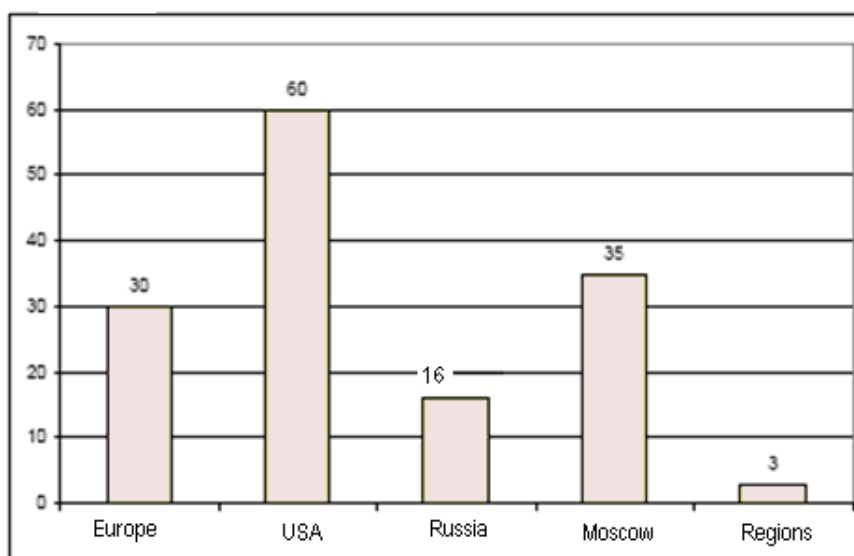


Figure 8. The level of juice consumption, liters per person in a year 2009.

Source: ("Overview of Russian Juice Market". Downloaded on 30.03.2010: <http://www.marketcenter.ru/content/doc-2-12822.html>).

However, in late 2008 and the first half of 2009 with the development of the financial crisis, falling of oil prices, on which the Russian economy shows a large dependency, the appreciation of international currencies to the ruble, which in the whole lead to the increase of unemployment and sharp decline of living standards, resulted in the fact that the juice market has shown negative dynamics. "The growing unemployment rate and dropping real disposable income led to panic among Russian consumers. The Consumer Confidence Index hit -20% during the fourth quarter of 2008 according to official statistics. It was at the lowest rate since 2000. Moreover, consumers expect that their welfare and economic situation will become even worse in the short term. As a result, people spend less money on goods and services, which will lead to further slow down of the Russian economy" (from the executive summary of Market Research "Soft Drinks in Russia, 2009". Downloaded on 29.04.2010 http://www.euromonitor.com/Soft_Drinks_in_Russia). Another problem of the juice market is the dramatic seasonality, which is common for any drinks and beverages markets. This makes the supply strategies for the producers even more complicated ("Overview of Russian Juice Market". Downloaded on 30.03.2010: <http://www.marketcenter.ru/content/doc-2-12822.html>).

The crisis in the juice industry in Russia has emerged even earlier than in other industries. "People start switching to cheaper products, middle class Russian consumers are affected the hardest by the economic slow down in the country. People are switching from premium to standard and from standard to economy products. Some consumers now only spend money on essentials. Brands that are positioned in the standard price segment will meet the most difficult challenges throughout the financial crisis, while great opportunities to increase market share opens for economy brands" (from the executive summary of Market Research "Soft Drinks in Russia, 2009". Downloaded on 29.04.2010 http://www.euromonitor.com/Soft_Drinks_in_Russia). Therefore, juice producers reorient production capacity with natural juices to produce juice drinks and soft drinks. In the natural juice sector industry sales leaders began to produce more of fruit and berry nectars (based on the article "Juices in Russia in 2008 showed negative dynamics". Downloaded on 29.11.2009: <http://b2blogger.com/pressroom/release/23002.html>).

According to analysis by "Nielsen", year 2009 was not an easy one for producers of juices. According to the company, in 2009 the growth of retail sales of juices in urban Russia amounted to only 4% in-kind. According to research by company "Nielsen", in IV quarter of 2009, the category could not recover after the traditional summer slowdown. Instead, growth in

October-November 2009, retail sales of juices showed decline by 3% in volume terms, compared with August-September 2009. Consumers seek to save money, and juices have not yet managed to become an indispensable part of the consumer basket. More than 26% of survey participants “Nielsen” reported that reduced or stopped buying the category (based on the article “Overview of Russian Juice Market”. Downloaded on 30.03.2010: <http://www.marketcenter.ru/content/doc-2-12822.html>).

4.1.2. Company’s Position and Competitors

There are four major companies on the Russian juice market which today account for more than 80% of all sales on the market: Lebedyansky (since 2008 owned by PepsiCo and Pepsi Bottling Group), Multon (since 2006 a part of Coca Cola); Wimm-Bill-Dann and Nidan (was merged by the British investment fund Lion Capital LLP in 2007) (article “Overview of Russian Juice Market”. Downloaded on 30.03.2010: <http://www.marketcenter.ru/content/doc-2-12822.html>). So it can be claimed that Lebedyansky has three main competitors.

According to research agency AC Nielsen, in the 2006 Lebedyansky controlled 32% of juice market in monetary terms, the share of Multon and Wimm-Bill-Dann in this period accounted for 23% and 13%, respectively. In the fourth place among large companies was Nidan Group, which occupies 12% share, the remaining 20% divided between a regional juice producers and importers, the share of each of which does not exceed 3% in the scale of the whole country (“Marketing Research of Juice Market” by Agency Top-Expert. Downloaded on 30th of March 2010: http://www.expert-rating.ru/market/product/sok_1.html)

“Today Lebedyansky JSC is the largest natural juice producer in Eastern Europe and it has a market share in terms of volume about 30% in Russia. Lebedyansky is among the 300 largest companies in Russia according to the revenue and market capitalization and in the top-10 global producers of juice. The Company has two production facilities: Lebedyansky production and storage complex (Lebedyan, Lipetsk region) and TROYA-Ultra juices plant (St. Petersburg).” (Overview of JSC Lebedyansky, downloaded on the 30th of March 2010 from the official website of JSC Lebedyansky, <http://lebedyansky.com/about/overview/>) The company does not have production facilities in other regions, but today one more production plant (in Ural) is in the stage of construction. The production facilities are equipped according to the newest technologies (production area in Lebedyan and Troya-Ultra in St. Petersburg) and represent a set of 55 filling lines for juices and drinks (of which: 52 in carton package supplied

by TetraPak, and 3 in plastic and glass) with overall capacity of around 1.72 billion liters per year (“Lebedyansky: Quarterly report for the third quarter of year 2009”. Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/615.pdf>).

For the last several years company Lebedyansky has been able to build a management structure consistent with modern management, they have developed and derived line of brands, which can serve any of the price segments. Between 1998 and 2005, the company managed to increase turnover by more than 20 times, while the share occupied by a segment of the market - juices and nectars increased from 4% to 30% (Overview of JSC Lebedyansky, downloaded on the 30th of March 2010 from the official website of JSC Lebedyansky, <http://lebedyansky.com/about/overview/>). Until 2002 Lebedyansky doubled sales every year and still keeps the pace of its development level, outstripping the average statistical indicators on the market. According to marketing researches for 2005 the company took first place in the juice market both in quantitative and monetary terms (Overview of JSC Lebedyansky, downloaded on the 30th of March 2010 from the official website of JSC Lebedyansky, <http://lebedyansky.com/about/overview/>).

Lebedyansky is oriented on the local market, it exports only 3% of its products. The export is made only in the countries of CIS (Commonwealth of Independent States): Ukraine, Moldova, Kazakhstan, Kyrgyzstan, Uzbekistan, Azerbaijan, Armenia, Georgia, and Belarus (“Lebedyansky: Quarterly report for the third quarter of year 2009”. Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/615.pdf>).

The portfolio of brands of Lebedyansky consists of such well-known in Russia brands of natural juices and nectars as “Ya”, “Tonus”, “Fruktovy Sad”, “Frustyle” refreshing juice drink and many others (“Brands of JSC Lebedyansky”. Downloaded on 29.04.2010 from the official web-site of JSC Lebedyansky: <http://lebedyansky.com/products/>) (see the chart below).

| Price Segments | Brands |
|----------------|------------------------------------------------------------------------------------------------------|
| Low - mass | Fruktovy sad (juice, nectars), Privet (juice, nectars), Frustyle (juice drink) |
| Middle | Tonus (juice), Dolka (juice), Severnaya Yagoda (fruit and berry water, compote- identical to nectar) |
| High - premium | Я (juice, nectars) |

Table 3. Leading trademarks of Lebedyansky in different price segments in 2009.
(Source: "Lebedyansky: Quarterly report for the third quarter of year 2009".
Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/615.pdf>).

The main competitive advantages of Lebedyansky is its proximity to raw material base (Lebedyan, Lipetsk region, central Russia) and the presence of well-developed distribution infrastructure in most regions of the country that allows a high level of representation and, as a consequence high rate of retail sales, far ahead of average market. Furthermore, an important competitive advantage is availability of full range of brands in all price segments, from affordable series of juices and nectars "Privet", "Dolka" and "Fryktovy Sad" to premium brand - juices and nectars with pulp "Я"(Ya). The quality of products, gained through the development of technologies and modern equipment, the long-term relationships with main suppliers of juice concentrates and packaging. ("Lebedyansky: Quarterly report for the third quarter of year 2009". Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/615.pdf>).

In August 2008, PepsiCo and Pepsi Bottling Group (PBG) acquired 75.53% of stakes of the juice business Lebedyansky for 1.4 billion dollars. Currently, PepsiCo and PBG control 99,65% of the manufacturer. Nevertheless, the net profit of JSC " Lebedyansky" (owned by PepsiCo and Pepsi Bottling Group) for the 9 months of this year decreased by 11 times (or 91.1%), to a level of 156.9 million rubles, compared with same period last year, according to the materials, published by the company. According to the data, the net profit for the first 9 months of 2008 amounted to 1.76 billion rubles (Source: Birukova, V. (2009) News of JSC Lebedyansky for the 26.11.2009. *Agency of Business Information ABIREG.RU*. Downloaded on 30.03.2010: <http://www.abireg.ru/?idnews=6672&newscat=23>).

It is noted that the revenue of Lebedyansky from sales of products for 9 months of 2009 compared with 9 months of 2008 decreased by 23,8% (from 21.93 billion rubles to 16.707 billion rubles). Return on equity over the same period decreased by 90,5%. The specialists of the company claimed that such a sharp drop in profits of the company might be connected with the increase in spending to expand distribution channels and costs on the transportation of finished goods, because of the expand to regions of the country, and also a very fast growth in prices for raw materials, compared with revenues from the sales, which drop dramatically because of the financial crisis and the decrease of the purchasing power of customers (Source: Birukova, V. (2009) News of JSC Lebedyansky for the 26.11.2009. *Agency of Business Information ABIREG.RU*. Downloaded on 30.03.2010: <http://www.abireg.ru/?idnews=6672&newscat=23>).

According to research company Nielsen at the beginning of 2007, the top five brands looked like (in alphabetical order): “Dobry”, “Lubimy Sad”, “Moya Semya”, “Tonus”, “Fruktovy sad” (two of the brands belong to company Lebedynsky). The combined share of these brands is 57,3% of the total volume of juice sales. For all of them imported juice concentrate is used and less Russian juice concentrate. (Review of Juice Market in Russia by Euromonitor International, Downloaded on 29.11.2009. http://www.kapital-rus.ru/strateg_invest/element.php?ID=8249).

In the report of Lebedyansky for the first quarters of 2009 some of the strengths and weaknesses of competitors are described (“Lebedyansky: Quarterly report for the third quarter of year 2009”. Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/615.pdf>). Wimm-Bill-Dann. Strengths - significant financial resources obtained by placing shares on U.S. exchanges, debugged marketing system in the regions, significant investments in advertising. The main weakness is that the company does not always have clear product positioning. From 2002 to 2006 Wimm-Bill-Dann increase its market share, because other juice producers have lost significant market share; in 2007, the market observed stable situation, with no sharp drop or increase, but in 2008 and in 2009, Wimm-Bill-Dann was able to slightly improve the situation and its market share increased.

Multon (Coca-Cola) - strong side is the use of international experience in promoting brands, the presence of strong brand in the mainstream segment (Dobry). Weaknesses - the difficulty of making operational decisions because of the large size of the international company.

Nidan. Strength - aggressive marketing policy. Weaknesses - lack of a strong brand in the middle and high-price segments, there is no strong system of sales in the regions.

Growing competition among major players in the juice market is forcing manufacturers to look for new combinations of tastes, for the extension of existing lines of brands to attract customers. Manufacturers often mix the most popular tastes with something more exotic, such as, for instance, apple with banana. From a consumer perspective, the main significance increased nutritional value, the attribution of dietary status, improved taste. Especially popular are those products, the favorable effect of which becomes quickly noticeable. Even today, there are many examples on the market. So, Lebedyansky brought to the market juices “Tonus active plus” enriched with vitamins and minerals.

At the same time, modern Russian juice industry is currently based mainly on imported raw materials. The share of imported raw materials in the Russian juice market is very high and is about 80%. Significant focus on imported raw materials is objective, since a large number of

species of fruit, defining a variety of juice products on Russian market, just do not grow in Russia. Over 70% of total imports of concentrated juices are orange juice, grapefruit, pineapple and other tropical fruits (based on the article “Russian juice market”. Downloaded on 25.03.2010: <http://juice.chile.ru/juices/market.shtml>).

4.1.3. Technologies

In order to understand what the company produces and the purchasing base, it is important to describe shortly what is the technology of juice production that the company uses. From 1 January 2001 on the territory of the Russian Federation new standard was developed GOST 51398-99 “Juices, nectars, juice drinks, canned. Terms and definitions”. GOST takes into account the specifics of modern juices and meets the requirements of the Association of juices and nectars of the European Union (AIJN). This document provides clear definitions of juices, nectars and fruit drinks. In accordance with the new standards (“Juices, nectars, juice-drinks. What is different?” Downloaded on 28.01.2010: <http://www.juice.chile.ru/juices/nectar.shtml>):

“Juice - is a liquid product obtained from fruit or vegetables by mechanical impact and preserved by natural means. Juice can be concentrated and then reconstructed with water. Not allowed to add preservatives to the juice (other than natural), artificial flavors, including flavorings, and dyes. Fruit juices can be produced with the addition of pulp and/or sugar, while the packaging should obligatory indicate, for example: “Apple-cherry juice with pulp and sugar”

“Nectar is prepared by mixing fruit juice, one or more of concentrated juice or puree of mature and fresh fruit with water, sugar or honey. Proportion of the mass of fruit juice should be at least 25-50% for different types of juice. As technologically in the nectar it is not permitted to use chemical preservatives. In the juice and nectar fruit pulp can be added - it is usually indicated on the package next to the name. The quality of juices and nectars is determined by the degree of crushing components.

Juice drinks: a mixture of natural fruit juice, not only with water and sugar, but also with citric acid. Canning fruit drinks may be made both with physical and chemical methods. In the juice-based drinks, fruit juice must be at least 10%, and vegetables - 40%. In fruit juice drinks it is allowed to add natural and artificial flavors, dyes and chemical preservatives” (“Juices, nectars, juice-drinks. What is the difference?” Downloaded on 28.01.2010: <http://www.juice.chile.ru/juices/nectar.shtml>).

Reconstituted juice – is juice produced on an industrial scale by the method of reconstitution from juice concentrate. The process of reconstruction from concentrate is made as

follows: concentrated juice is heated for 30-40 seconds up to the 100-110 ° C, is held 3-4 seconds and then 30 seconds cooled to room temperature (“Reconstituted Juice”. Downloaded on 28.01.2010: <http://www.juice.chile.ru/juices/100juice.shtml>).

In the “heated” concentrate clean water is poured in the same amount that was previously evaporated. Very important detail is that the reconstitution of the concentrate with water should be made similar to evaporation, i.e. if the evaporation was performed in 3 cycles, then the reconstitution should be made only in 3 cycles. This shows the importance of the compliance of technologies, used while producing the concentrate by the supplier, and the technologies used by the manufacturer in the reconstruction process.

After such procedure the 100% juice is ready, which according to the taste characteristics and content of nutrients is not inferior to natural. But it should be noted that 100% juice is the only one that doesn't include any sugar and in accordance with Russian standard GOST 51398-99 and international normative documents of 1 kg of concentrated orange juice (with concentration of juice solids 62° Brix) approximately 5.5 kg of reconstituted juice can be produced (with with concentration of juice solids 11.2 ° Brix – this concentration is assumed to be the same as in the freshly extracted juice) (“Reconstituted Juice”. Downloaded on 28.01.2010: <http://www.juice.chile.ru/juices/100juice.shtml>). For the reconstitution of juice it is allowed to use water with quality, which does not change the characteristics and qualitative properties of the juice Sometimes to such juice natural flavors derived from the peel fruit is added and sometimes also ascorbic acid is added in order to stabilize the color. Also while reconstituting the juice so-called Recovery Flavor (i.e. that complex of aroma forming substances, which was separated from the direct extraction of juice before it was concentrated) is added (“Reconstituted Juice”. Downloaded on 28.01.2010: <http://www.juice.chile.ru/juices/100juice.shtml>).

At the final stage of reconstitution technologies juice is subjected to thermal preservation (pasteurization) and then carry it pouring in retail packaging, among which the most common is the packaging of the combination of polymeric materials such as Tetra-Pak (“Overview of the Market of Packages for Drinks” Downloaded on 5.05.2010: http://www.polymery.ru/letter.php?n_id=3138&cat_id=&page_id=3). This is usually indicated on the packaging that the juice is reconstituted from the concentrated juice. However, even when the most technologically advanced methods were used for the production of juice concentrate, vitamin losses are inevitable, therefore, when reconstituting these vitamins (usually C, A and PP) are specially added. For the vegetable juices, unlike fruit, it is permitted to use food additives to improve the flavor, for instance, in tomato juice salt is usually added along with

vinegar or spices (“Reconstituted Juice”. Downloaded on 28.01.2010: <http://www.juice.chile.ru/juices/100juice.shtml>). Anyway in the composition list on the package all the ingredients should be listed, even not the main ones.

The juices in the package have pretty long shelf life – about two years (but the specialist claim that the best quality of the juice is during the first 6 month (“Reconstituted Juice”. Downloaded on 28.01.2010: <http://www.juice.chile.ru/juices/100juice.shtml>), this is achieved by the unusual heat treatment. In case of incorrect storage taste, color and aroma of the juice may slightly change. The price of reconstituted juice depends on the type of concentrated juice, the country of origin, size, packaging, type of packaging.

4.2. Contextual Factors: The Purchasing Strategy of the Company

4.2.1. Procurement Strategy

Lebedyansky produces juices from the purchased products, mainly juice concentrate, in the carton packages and plastic packages. The company also produces its own concentrate of fresh fruit, but in the much less volume. The company uses standard technology of juice reconstitution from the juice concentrate, followed by sterilization and packaging technology of the company TetraPak. Lebedyansky also produces a very small proportion of juice of direct extraction and concentrates, which means that the company also buys raw material – fruit and berries. Overview of the strategy of purchasing of the firm gives the opportunity to analyze purchasing management from the point of view of strategic orientation of the company, the degree of its formalization, aims of the company in the purchasing management.

The main types of purchases are (according to the Van Weele classification, 2000):

- semi-manufactured products (in this respect different types of juice concentrate, packaging and materials for packaging) and raw materials (fruits and berries);
- supplementary materials, components, services (mainly transportation, audit), maintenance, repair and operation items, finished goods.
- investment goods or capital equipment (packaging lines, equipment for preparing juice from juice concentrate);

During the interviews the discussion went about the purchasing of semi-manufactured products and raw materials. Main categories of purchasing were stated as follows:

- Fruit and berry juice concentrates (apple, orange, peach, grapes, cherry, maraquia, raspberry, strawberry, cowberry, cranberry, lemon, banana, melon, pineapple, apricot, grapefruit, mango), fruit and vegetable purees.
- Sugar
- Primary Packaging (aseptic bags, paper, glass jars and bottles, PET bottles, caps, tape, tabs)
- Other packaging and ancillary materials (trays, boxes, substrate, corners, labels, caps, straw; shrink film, stretch film)

As it was mentioned during the interview with the chief executive of St. Petersburg department of Lebedyansky, the most important part of purchasing strategy is the purchasing of juice concentrate and packaging, because the company is very dependent on the quality and the price of these particular products. Also there is a strong dependence on the suppliers of equipment and package, since there are only several suppliers in the market (the company is actively cooperating with such well known global equipment manufacturers as TetraPak, SIG Combibloc, Sidel, KHS AG, Sympak) and the companies, which supply the equipment, also supply the package materials. Lebedyansky has very little opportunities to influence the prices of the equipment and packaging or differentiate orders between different suppliers, because of very little amount of equipment manufacturers. However, the company has abilities to differentiate the suppliers of juice concentrate, since every year new and new suppliers appear on the market.

The company makes purchasing according to the purchasing strategy that is stated in documents “Provision: purchases” and “Standard of the company: the purchase of raw materials”. The purchasing in the company is mainly centralized, so the decision for the purchase of the main materials, the contracts with key suppliers are made through the main office of the company in Moscow, and then the contracts are forwarded to the regional department in St. Petersburg. Nevertheless, some of the purchasing items are left for the regulation of the regional offices, and are made by getting the approval from the central office (mostly, these items are not connected with production, for instance, personal cars for managers, furniture, other office equipment and materials, etc.)

The plan of the purchases is prepared once a year for next coming year and is based on the production plans and the demands of the regional offices. Adjustments to the plan of purchases are possible and are based on the contemporary needs of raw materials and production

plans). Moreover, the suppliers of raw materials are also informed about the production plan for next year to be ready to adapt to the needs of the company.

Top-management, corporate procurement department, marketing and financial departments and specialist from production department take part in preparation and approval of purchasing plan for the next year (so they take part in the strategic and tactical planning). As it is stated in the documents technological department, department of the entrance control and service of logistics of the company are directly involved in the process of raw materials acquisition and control.

One of the main suppliers of Lebedyansky is a firm TetraPak, which orientation is production lines and packaging materials. According to the annual report of Lebedyansky in 2008 the purchase of the packaging materials from TetraPak accounted for about 30% of all volume of purchases and amounted to 111,400,000 euro (“Lebedyansky: Quarterly report for the first quarter of year 2009” Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/592.pdf>), and in 2009, according to third quarter report, this portion was about 25% (“Lebedyansky: Quarterly report for the third quarter of year 2009”. Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/615.pdf>).

Another strategic part of the purchasing strategy is juice concentrate. Because of the dependence on the prices of juice concentrate Lebedyansky seeks varieties to reduce the dependence on one particular supplier. That can be proved by quite large number of suppliers and the wide geography of purchases. By having several suppliers to rely on, the company can reduce the uncertainty as to whether or not the supplier will be able to fulfill its obligations. Another reason mentioned by the respondents is the enhancing of long-term technological flexibility, so that the technical capability of the supplier cannot influence the technology of the firm.

The strategy of the company is based on the cooperation with several suppliers on every type of purchased juice concentrate. The structure of suppliers’ portfolio is not very stable – the company regularly seeks for new suppliers, because it is dependent on the prices of raw material and also on the fruit harvest, so the diversification and search for new suppliers (especially from different countries) is very important not only for cost reduction, but also for the support of planned level of production and reduction of the dependence on the technologies of one particular company.

However, new suppliers count only for a little volume of supply. This is due to several reasons:

- very long and expensive procedure of choosing the new supplier
- purchased products should be adapted to the needs of the company and it takes a very long time, the estimated time from the approval of supplier, contract signing and the first order to the first delivery is three to four months. On the other hand, the orders to the existing suppliers are fulfilled in about a month, so the lead time is obviously less when dealing with the existing approved suppliers.

The overall company's orientation is on the long-term cooperation with suppliers and although most of the contracts are made up for one year, they are commonly prolonged for next years. Relationship continuity tend to be long-term (the company has 16 raw-material suppliers with which it works more than 5 years, with other suppliers it also tends to make long-term, but flexible contracts). As it was stressed out by the purchasing specialist of the firm, the company is aimed to continue cooperation with available key suppliers.

The aims of procurement department in the company are stated as follows:

- ensuring the needed level of supply in accordance to the production plans
- reducing costs
- improving the quality of final products
- in time delivery
- reduction of lead time between the order and delivery
- providing long-term relationships with suppliers

Lebedyansky has a large assortment of juice flavors, this factor in great part explains the fact that large part of purchases of juice concentrate is from foreign companies. Due to the technology, the volume of the production and the variety of tastes all concentrates cannot be provided only by Russian suppliers. Many of the fruits, which concentrates are used in the production, do not grow in Russia, therefore such concentrates cannot be produced in Russia and are imported from abroad. Because of the specific kind of material (production of the concentrate depends on the harvest of fruit) the diversification of countries of supply is very important. Moreover, the company has a large turnover in terms of volume.

| <i>Country</i> | <i>Juice Concentrate Type</i> | <i>Supplier</i> |
|------------------|----------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Argentina | Grapes | Fecoviita, Destiladora |
| Brazil | Orange, maraquia | Marata Sukos, Marata Cutrale |
| Chile | Peach | Agrozzi |
| China | Apple, tomato | SDIC Zhonglu, Shaanxi, Tongda, Tunhe |
| Germany | Raspberry, strawberry, cherry | Jahncke |
| Greece | Peach, apricot | Aspis, Alexander, Pavlides, Christodoulou |
| Israel | Multifruit concentrate, orange, cherry, grapefruit | Gan Shmuel |
| Russia | Apple, cowberry, cranberry, raspberry, lemon, strawberry | Roskontsentrat, Progress, Ecoflor, Vologodskaya yagoda, SVZ, Citrusvil, Mondi, Mercury, Yuventa, Altezaidr, Egida, Concept |
| Spain | Tomato | Las Marismas, Alsat |
| Thailand | Pineapple | Saico, GO-LTd, Tagerng, Tipco |
| Turkey | Tomato | Tamek |
| Ecuador | Banana, melon, mango | Futurcorp S.A. |
| USA | Cranberry | Ocean Spray |

*Table 4. Geography of main suppliers of JSC Lebedyansky
(Source: internal documentation of JSC Lebedyansky)*

So as can be seen from the geography of purchases of just one plant the company purchases concentrate from 13 countries and deals with more than 30 suppliers all over the world. Practically all international purchases are made through independent international suppliers and are based on the long-term cooperation. Still, the largest part of purchasing of juice concentrate is made from the Russian companies and is on the level of 35%, the remaining part is supplied by the foreign companies (Sobinbank research “Lebedyansky: Revealing the Price of the Transaction”, 2008). In 2007 Ltd. Roskontsentrat accounted the largest share of the supply of raw juice materials - 10.09%. The remaining suppliers provide much less than 10%. However, the specialist of the purchasing department pointed out 12 companies (Egida, Concept, Yuventa,

Altezaidr, Roskontsentrat, Progress, Ecoflor, Jahncke, Ocean Spray, Gan Shmuel, Shaanxi, Marata Sukos) which supply about 45% (the estimation was made by the chief of purchasing department according to the volume of purchases). So the relationships with these particular companies are to the greatest importance for the company and its market performance. The relationships with these suppliers are described as long-term and also showing the high level of dependence.

Another reason for the large amount of foreign juice concentrate in the portfolio of purchases is that in 2004 there was a significant reduction in customs duties on imports of concentrated juice from 15% to 5% (Barsukova S. (2009) Russian Juice Market: Past, Present, Future. Downloaded on 25.03.2010 <http://kapital-rus.ru/articles/article/1035>), which made quite profitable to buy juice concentrates from foreign companies, that often offer more competitive prices than Russian suppliers. On the other hand, such reduction of the taxes of imported concentrate had a negative impact on incentives for the creation and development of domestic raw materials base, which is not enough to satisfy the market demand.

4.2.2. Selection and Development of Suppliers

JSC Lebedyansky uses different parameters for the analysis of interactions with suppliers and management of purchases. The selection of new suppliers is made on the basis of all-round estimation of the supplier. First of all, the managers of purchasing department gather information about new supplier's results of activity from financial estimation, publications and mass media about its work with firms, reliability of delivery. Then the estimation is made on the basis of data from the supplier, of company's requirements and standards of quality. New suppliers should provide documentation about the processes of production, samples of raw material and the documents confirming their safety. Next step is research of samples of raw material on physical, chemical and microbiological parameters, parameters of safety according to requirements of the normative documentation and also the estimation of conformity to the document "Juice Concentrates: Degree of quality" (internal document of the producer) is established.

If the samples correspond to all necessary parameters, the final estimation and comparison of suppliers are based on the following characteristics:

- the results of inspection of the production line of supplier
- the information about cost and a substantiation of this cost

- lead-time
- conditions of delivery (including packaging)
- conditions of payment
- estimation of the ability of supplier to create new product

The supply manager is responsible for the negotiations with supplier about the final conditions of delivery and payment for each order, but still these parameters should be in accordance with the supply contract. Further the information is given to director of the department of purchases who makes the final decision about the work with the given supplier. The specifications of orders are prepared for each supplier separately.

The estimation of the suppliers, with which company is already working, is made according to the performance of the plan of deliveries and a positive estimation of the manager of department of purchases. If all the factors are estimated on the high level, the manager can place new orders to this supplier according to the supply contract. Continuous control and an estimation of activity of suppliers are carried out by the manager of a department of purchases, responsible for work with specific supplier, on the basis of information given by the production department and following criteria:

- degree of quality
- price level
- timeliness of delivery
- presence of claims
- additional after-sales services

Another part of control is annual audit of the suppliers and visiting of places of manufacture by experts of the company for finding-out of conformity of manufacture to the quality standards. Common practice is the inspection of the plant of the supplier by the delegation from the firm, if the supplier is from Russia, and sometimes the audit of the plants is made by the consultant firms, if the supplier is international. The delegation from the company is lead by the supply manager, responsible for the particular order, and includes specialists from technological department and department of the entrance control.

The scope of the audit is determined by the internal document “Provision: purchases”. The suppliers are informed about the yearly audit procedures. When the company decides to

make the audit of the supplier, the manager who is responsible for the work with a supplier contacts the supplier and arranges the date, time and scope for the audit. First the review of previous audit is made and important findings and comments from previous audit are taken into consideration. Then the “Audit Plan” is filled out, which includes the details of the company to be audited, contacts, scope of the audit, the auditors and the lead auditor, program (including date, time, schedule, items to be discussed, important findings and comments from previous audit. Review a past audit report, if one is available. After the audit plan is approved by the management, the plan is send to the contact person of the supplier. The audit usually includes the

After the audit the closing meeting with the supplier is arranged, and the information is given when the results of the audit are ready and how they will be informed about the results. So the suppliers are given the opportunity to provide some additional information that seems relevant and are informed about what will happen when the audit report is ready. When the results and report are ready.

4.3. Interaction Process Factors: The Degree of Collaboration with Key Suppliers:

4.3.1. Information Sharing

Development of the company and increase of market share on the highly competitive market require advanced management decisions. As part of initiatives to ensure effectiveness, the company Lebedyansky implemented the deployment of enterprise resource planning (ERP) systems based applications Oracle E-Business Suite. Implementation was made by partner company TopS BI.

In 2009-2010 Lebedyansky continued to develop a corporate management information system. Based on the Oracle E-Business Suite, the system provides automated support for processes of production management and logistics, quality control of raw materials and products, as well as costing of finished products, raw materials and paying suppliers.

Creation of a unified corporate information system started in November 2006 when relevant modules Oracle E-Business Suite were configured according business processes of the company and were installed and started operating on the plants of Lebedyansky. The information system changes started with accounting automation of raw materials, production accounting and management of reference information, procurement and payments to suppliers, quality control of raw materials. Further, the project team undertook the formulation and configuration tasks in the

system of production planning. When the automate of process of operational planning has been implemented an optimization algorithm which form a package of production targets with specific plant (synchronized utilization of production lines, rules, transfer of equipment from one product to another, the characteristics of group output, existing formulations, and other limitations of technological and organizational).

Currently, the production sites in Lebedyan and St. Petersburg plant Lebedyansky, as well as in the central office of the company in a productive mode operate corporate information system, which implement the following functions and procedures:

payments to suppliers: forming a daily payment plan for purchases of raw materials, the possibility of adjusting the procurement plan, monitoring of budget execution of cash flow, automated document implementation when the calculating accounts and payments for suppliers.

procurement: information about schedules, volume of supply of raw materials and price conditions; opportunity to perform automated quality control of suppliers supply conditions.

the scheduling of production: management in real-time of flow of manufactured products and semi-Operations, redistribution of prefabricated products and part through the production targets.

maintain a real-time information on current stocks of raw materials, materials and finished products (including set up automated control of shelf life).

quality control: the system records the results of “incoming” quality control of procured raw materials, quality control of semi-finished products on the production lines, the finished product; provides information about the batches of raw materials, finished products and thus gives the opportunity to control what the batch of raw materials was used to produce specific batch of finished products.

calculating the cost of production, raw materials and materials with the possibility of cost analysis of cost components.

Within the plan of system development in 2010 the project team set up the functions of: formulation of annual plans of production and procurement of raw materials in view of sales forecasts; detailed calculation of unit production schedule of finished products for the next 10 days, that should meet industry criteria and restrictions; account of the current status of inventory, availability and interoperability of resources.

In the pilot-mode works a block system, which provides medium-term planning of production, that includes the calculation of the need for release on the positions of finished products at the three-month planning horizon, the balancing of capacity utilization, the structuring of demand for raw materials and materials in accordance with the calculated and actual recipes.

Another information system that is installed in Lebedyansky company is Solvo Warehousing Management System (WMS), which communicates the corporate information system and the “Elettric 80” packaging and wrapping equipment control system this project. Solvo successfully implements the management of tasks expiry recording, shipment, product acceptance control, outside vendor deliveries recording, etc (“Solvo Ltd. and Lebedyansky JSC announced the extension of their collaboration to deploy advanced logistics systems”, News for 12.03.2010. Downloaded on 25.03.2010: <http://www.warehouse-logistics.com/57/3/3880/solvowms-operational-testing-successfully-completed-at-lebedyansky-plant.html>) Solvo WMS and Lebedyansky's corporate systems are combined at every part of the logistic chain to send information about both expected and finished product butches, as well as the volume and other characteristics of the manufactured products. In addition, the Navision system dedicated to managing sales operations sends requests to Solvo WMS to ship finished products from the warehouse.

As it was mentioned during one of the interviews, development of corporate information systems at Lebedyansky is an important step in implementation of strategies to improve production efficiency: lower costs, loss of raw materials, equipment downtime, to ensure the deficit-free supply of production, availability of stock required product range, ensuring the transparency and quality in all stages of production and procurement.

Moreover, the company not only plans its relationships with different suppliers and forms the aims of the cooperation with the specific supplier, but also the company provides plans of production, forecasts of long-term needs and other helpful information to its suppliers so that they would be able to adapt their strategic plans to fulfill the needs of Lebedyansky. The company also communicates and discusses the plans of production for the next coming seasons with its suppliers, because the supply of the fruit concentrate depends much on the availability of fruits itself. So if the suppliers have some problems with their suppliers of fruits, who actually depend on the harvest, the company can adapt the output or replace one kind of juice with the other, but all this information should be given in advance to arrange the correction of production plan and continuous production. Each hour of downtime and further conversion of equipment

means to the company enormous financial loss, so for the company the exchange of information with key suppliers is vitally important.

The technologists of Lebedyansky develop the new receipts of the juices together with the technologists of the key suppliers. In the market situation when the competition between main produces is increasing, the consumers are looking for the new juice products and concentrate a lot on the prices together with the healthiness of the products, the company tries to diversify its portfolio of products. As the technology of the reconstitution of juice and its further mix with other juice is very dependent on the technology of production juice concentrate, it is very important to create new recipes together with the suppliers of juice concentrates. Moreover, as most of the suppliers provide materials not only for Lebedyansky in the industry, but practically to all of the main players on the market, the company seeks for differentiation from the other companies, which can be achieved by the special receipts of juice and concentrate production, so that the flavor of the juice products alters from the competitors.

The same situation is with the packaging materials. As the packaging material is customized product (the printing and the form of the packaging), when the design of packaging for new or existing products is created, the specialists from the packaging supplier take part in the process of creation (the main supplier of packaging is TetraPak, which the leader in technology in the area of packaging of food and drinks; source: “Overview of the Market of Packages for Drinks” Downloaded on 5.05.2010: http://www.polymer.ru/letter.php?n_id=3138&cat_id=&page_id=3). The center for technological development at TetraPak gives Lebedyansky helps to create the product and gives the opportunity to conduct tests and trials of the products in new packages, while providing full confidentiality of the new projects. TetraPak also conducts the teaching and of the operators of the production lines and the specialists from TetraPak conduct the planned maintenance of the packaging and production lines.

4.3.2. Formalization

All the work with the suppliers is based on the contractual relationships and the company does not use the “hand-shake” agreements. The contracts specify price (usually flexible), delivery lead time, quality specifications, and estimated annual usage and the procedure for the order placing. With some suppliers the company has a type of “evergreen”

clauses (they provide the automatic renewal unless one or both parties opt out, Goodhue R., et al, 2002).

Most of the supply contracts Supply contracts with JSC TetraPak contain terms that do not depend on the location and method of delivery of products. The delivery is made to the buyer's warehouse in Lebedyan, where the company subsequently distributes the packaging to its manufacturing facilities in various regions (Lebedyan and St. Petersburg). The delivery does not affect the price of products, and transportation costs are shown separately in the accounts. So the company places the orders to the suppliers and the suppliers obligates to fill the order according to the terms of the contract.

4.3.3. Trust and commitment

Reliability and trust are seen in the company as the grounds for the development of stable effective relationships with suppliers, because the company depends very much on the reliability of the deliveries, the time of the delivery and the quality of the purchase materials, and if the supplier shows the continuous high level of performance, the company can trust and rely on this supplier and plan the orders in the first hand with these suppliers. This shows that the level of trust to the main suppliers is quite high. This can be explained by the fact that the company has long-term relationships with its main suppliers and also has quite transparent relationships, where companies exchange the information about the producing process and their plans.

The work with the supplier depends on the personal relations only in the first stage of cooperation, when the managers get to know each other better, and personal relations play significant role only if the supplier is very big company and interacts with top managers. Later, when the supplier gets a good “history” of relationship and interaction, the strategic plans of company become more important than relationships between managers. Furthermore, in the long-term cooperation the managers responsible for specific cooperation often change, but the relationships between companies stay the same. Due to the size of the company personal relationships with suppliers’ representatives are not as important as the long-term cooperation of the companies and do not influence much on the trust between them. Also this can be explained by the well planned and objective procedure of suppliers’ actions estimation.

The commitment to the existing relationships is characterized as quite high, since the company orientates on the long-term cooperation and does not seek for the substitution of the existing suppliers because they are estimated as efficient and trustful, also the company plans to

work with these suppliers for the next 5 years, if their performance does not change for the worse side. The company seeks for long-term relationships and would refrain from breaking a long-term and trustful relationship for the sake of short-term benefits in other relationships

The company is aimed to continue cooperation with available key suppliers. With this purpose the organization tries not to place under risk the established relationships and is ready to protect reputation of the supplier in case of need, as the good reputation of the supplier is the key to success and good reputation of the company and allows it to build stronger relations in marketing channels. However, the company is not ready to invest in development of relationships more than in usual cooperation, since in that case it will be more favorable for the company to produce a necessary product within the company and not outsource it.

The specialist from the purchasing department estimated (during the interview) that in most cases the suppliers are flexible in the relationships with the company. They tend to react quickly and in time to the complaints of the company, can carry out not planned delivery in case of emergency. Moreover, long-term suppliers are also ready to adapt their level of stocks and the standard conditions of interaction, even if it is connected with economic inconvenience, because Lebedyansky is a very large and stable company, it has large volumes of orders, so long-term cooperation with it gives plenty of advantages to the supplier and has a strategic importance for the them. Therefore the company trusts its suppliers and can rely that they will fulfill the contracts in time and according to the conditions.

4.3.4. Power and dependence

In the conditions of increased price competition on the juice market, Lebedyansky depends greatly on the prices of its suppliers. Some information about price changes by more than 10% on basic materials and products (raw materials) during the three quarters of 2009 to the compared with the corresponding reporting period of year 2008 was presented in the company's report ("Lebedyansky: Quarterly report for the third quarter of year 2009". Downloaded on 29.04.2010: <http://lebedyansky.ru/upfile/doc/615.pdf>):

- Prices for fruit and vegetable purees increased by 21.91%;
- Prices for fruit concentrates grew on 12.8 %
- Sugar prices rose by 41.52%;
- Prices for primary packaging (aseptic bags, paper, glass jars and bottles, PET bottles, caps, tape, tabs) increased by 11.83%;

- Prices for other packaging (trays, boxes, substrate, corners, labels, caps, straw) increased by 17.95%;
- Prices for ancillary materials (shrink film, stretch film) increased by 11.80%.

Lebedyansky, as all Russian companies in juice market, depends greatly on the prices for juice concentrate, so the company becomes dependent on suppliers. At the same time, the specialists of the company noted that Lebedyansky purchases from a range of suppliers and thus reduces the influence of each particular supplier. Also Lebedyansky is the largest juice manufacturer in Western-Europe, the company tries to establish long-term contracts and faithfully and timely fulfill the conditions of contracts, therefore for many supplying companies it is one of the main buyers, so they also depend on it and on its level of purchases.

Because of the dependence on the prices of juice concentrate Lebedyansky seeks varieties to reduce the dependence on one particular supplier. By having several suppliers to rely on, the company can reduce the uncertainty as to whether or not the supplier will be able to fulfill its obligations, another reason mentioned is the enhancing of long-term technological flexibility, so that the technical capability of the supplier cannot influence the technology of the firm. Also in the situation of multiple suppliers the company has an opportunity for price pressure, it increases price competition between suppliers. As it was mentioned the company does not switch from one supplier to another, but uses all of the suppliers at the same time to some extent.

What was also emphasized during the interview with chief executive and is mentioned in the reports of the company, despite the fact that the company uses several major suppliers of raw materials, it largely depends on the packaging materials - TetraPak, which is the main supplier of equipment for filling and major supplier of packaging materials that are used in this equipment. In the case of the inability of the supplier to deliver its obligation because of one or other reason, Lebedyansky may experience considerable difficulty in reaching planned production volume. So if the company fails to find another supplier or this supplier is not able to timely produce additional products or cannot produce them at all, it could have a material adverse effect on the company. However, TetraPak is one of the main players on the market of packaging materials, the inability to perform its obligations of supply of raw materials could affect not only JSC Lebedyansky, but all the main producers of juices and juice products, since they all use the packaging produced by TetraPak. Moreover, recently Lebedyansky has increased the number of suppliers of packaging equipment, which makes possible to reduce this risk and

dependence on this particular supplier. (Company started to use the new packaging materials, such as plastic, glass and cardboard packaging, etc.).

Chapter 5

Analysis and Discussion

As in the previous chapters the conceptual framework for the study of the purchasing strategy and collaboration with suppliers was considered and the empirical data for the case study of JSC Lebedyansky in Russia on the basis of this framework was presented, it is reasonable to analyze and discuss the results in order to create an understandable framework for the evaluation of the effect of the factors of supply strategy and collaboration with supplier on the opportunities and risks for the company on the market.

5. Analysis and Discussion

The conceptual framework of this study (presented in the end of Chapter 3) aimed to uncover how dynamic is the external factors in which the company operates and if such environment influences the orientation of the company to build long-term relationships with suppliers and enhance the collaboration between the supply chain partners. *It can be claimed that the situation on the juice market in Russia is very difficult for the producers, because of the financial crisis, the reduction of consumers' willingness to buy juice, the competition between the main producers is becoming stronger. It also can be summarized that the market and technological factors of the external environment of the company Lebedyansky influence greatly the purchasing practices of the company and defines largely the status of relationships with the suppliers.* These questions will be discussed in more details below.

The analysis of the market situation showed that currently, juices of direct extraction in Russia are almost not produced. Actually, the whole juice market in Russia is the juice reconstituted of concentrated juice on Russian enterprises and about 80% of juice concentrates are purchased from the foreign companies. This influences the structure of purchasing of Lebedyansky. The company orientates on the production of juice from the juice concentrates, which also identifies the packaging for the juice. The company has international, as well as domestic suppliers.

There are four main players on the Russian Juice market (three of them today are owned by foreign companies): Lebedyansky (since 2008 owned by PepsiCo and Pepsi Bottling Group) – about 30% of the market, Multon (since 2006 a part of Coca Cola) – about 20%; Wimm-Bill-

Dann – about 15%, and Nidan (was merged by the British investment fund Lion Capital LLP in 2007) – about 15%. They stand for more than 80% of all the market and the competition between these companies is very high. So Lebedyansky has very strong competitors with large financial possibilities. The company seeks all the opportunities to create the competitive advantages and to cut the costs, in this respect the purchasing practices play not the last role.

Another reason for intensive seek for the cost cut is the financial crisis that influenced the purchasing ability of the customers and their willingness to buy the juice production, as it is not seen as the product of the first emergency. Prior to the global financial crisis, the country had a clear consumer trend: more and more customers began to pay attention to healthy food, natural and healthy products. Therefore, the development of the market was based on the desire of Russians to lead a healthy lifestyle and also on increasing incomes of consumers. Reduction of the rate of growth as the market has matured is a normal situation. However, the results of 2008-2009 on the juice market were spoiled by financial crisis, which resulted in the reduction of consumer confidence and willingness to buy. Consumers either started to switch to cheaper products or stopped buying the juice production at all. This influenced all the producers of juice in the market and decreased their revenues greatly. Also the customers became much more price sensitive, so the companies seek for price reduction.

The producers search for free niches in the juice market, enabling further growth and development, which led to the emergence of new and innovative products. The assortment lines of almost who take care of consumer expectations, include original and new products. Lebedyansky also diversifies its brands and lines of products, and seeks for the abilities of new products creation, which cannot be accomplished without collaboration with suppliers. The creation of new receipts for juices and nectars and also the packaging for them goes together with the specialists from the main suppliers. Lebedyansky also switched the production volumes to the brands of low price segment, because of the increased price sensibility of the consumers.

The set of technologies for the creation of juice and juice drinks is determined by the standards for the juice production in Russia, and the main players on the market use quite the same technologies and production lines, the main supplier for which is company TetraPak. Therefore Lebedyansky seeks to establish strong and reliable relationships with TetraPak, in order to get price discounts and to get the support of such a large market supplier.

The company Lebedyansky has several main competitive advantages that were determined during the interviews: usage of the latest technologies and automatization processes for the production; development of the wide distribution channels in all regions of Russia; well-

known brands in all segments of the market; pricing strategies consistent with the changing market situation.

5.1. Purchasing Strategy

The study of the Purchasing strategy as it was defined in the conceptual framework should help to measure the success of the company's purchasing strategy and, on the other hand, highlight the main features of collaboration with suppliers of the company. The top-management of Lebedyansky sees it strategically important to have a centralized purchasing procedures and it was concluded during the interview with chief-executive of the St. Petersburg department of the company that the purchasing strategy is well-developed and structured in accordance with the companies objectives and aims on the market, it has more strengths then weaknesses and helps to cope with the difficulties that exist today on the Russian juice market. The strategy in the purchasing also aims to form long-term relationships with the key suppliers and the strategies for the most important parts of purchasing: juice concentrate and primary packaging, are especially aimed on the development of long-term and reliable relationships, which shows that the degree of collaboration with the suppliers of materials should be very high. *Thus it can be concluded that according to the framework that the strategic approach to supply management and coordination of its separate elements have a direct impact on the degree of collaboration between the company and its suppliers.*

The detailed discussion of the strengths and the weaknesses of the purchasing strategy of Lebedyansky is presented below.

Procurement Strategy. Strengths of the procurement strategy can be estimated on the basis of the interviews. The company has formal documents that state the procurement strategy and the way the suppliers should be selected, which shows the strategic orientation of the company.

The purchasing procedure is decided in the centralized way and the company plans its purchasing for a year according to the demand forecasts and production plans. The main purchased products are: juice concentrates, sugar, carton and plastic packages. The most important suppliers for the company are the suppliers of packaging (about 30% of volume of purchases stands for the company TetraPak) and the suppliers of the juice concentrate, because the company needs to fulfill the planed volume of production. So the strategic role of relationships with the suppliers of these materials. The parallel can be drown to the theory that

claimed that with the strategic items' suppliers aim of the purchasing strategy is create collaboration and partnerships. (Van Weele A., 2009).

Lebedyansky works with the suppliers of juice concentrate from all over the world and seeks to diversify its portfolio of suppliers. Still about 35% of all purchases of juice concentrate stand for the only 12 companies. The company orients on the long-term relationships with key suppliers. This stands in line with the theoretical conclusion that the organization should make a segmentation of its relationships with suppliers and each type of the relationships should receive its distinct policies and strategies (Barrat M., 2004). So the company works with key suppliers on the long-term basis and uses the long-term contracts with them.

The aims of procurement department in the company are stated as follows: ensuring the needed level of supply in accordance to the production plans, reducing costs, improving the quality of final products, in time delivery, reduction of lead time between the order and delivery, providing long-term relationships with suppliers.

To one of the weaknesses of the Purchasing strategy relies to the inability of the company to narrow such a wide international portfolio of suppliers of juice concentrate is also due to the nature of the products, meaning the wide assortment of juice flavors and some of the fruits and vegetables just does not grow on the territory of Russia.

Selection and Development of Suppliers. Lebedyansky uses the standard process for the evaluation and selection of new suppliers, and due to nature of products, the attention is kept on the quality of the raw materials (juice concentrates), followed by the factors of the price, lead time and conditions of payment and deliveries, capabilities for the information sharing.

The company uses the inspections and audit of the suppliers production facilities as a common practice no less than once a year for each supplier. No matter that the companies are taking part in long-term relationships such practices are seen as the basis for the development of technologies of the supplier and the guarantee of the quality of purchased materials, especially in the situation when the company orients on the production of juice recommended for the children nutrition.

The weakness of the selection of new suppliers is that it is a very long and expensive procedure, so although the company monitors the market of suppliers, it prefers to work existing suppliers, thus sometimes it misses the opportunities for the price reduction. The audit of suppliers of juice concentrate is also a very expensive procedure but still Lebedyansky uses it in

order to get the needed level of quality of raw materials. Expensive and time-consuming entrance control of the quality of purchased raw materials

5.2. Degree of Collaboration with Suppliers:

The SWOT-analysis of the factors of the collaboration with suppliers should help to identify if there is a dependence between the the factors of collaboration and the market position of the company and show how these factors of collaboration help the company to cope with the threads on the market and to increase the opportunities for the development of the company in the existing market situation.

Information Sharing. The two major advantages of the information sharing for supply chain members were determined in the theoretical overview as follows: information senders and receivers become closer, and supply chain members can act on new information in a timely manner (Hsu et al, 2003). In the respect to cooperation with suppliers information sharing helps in reducing slack, stockouts, safety stocks, inventory levels, thereby helping to maximize supply chain profitability (Ghosh A. and Fedorowicz J., 2008). Lebedyansky sees the advantage in sharing the long-term production plans and the forecasts for the sales with the main suppliers, so that they can plan their production volumes and offer the continuous background for the production, since the volumes of production and purchasing in the company are very high. This gives the company the ability without delays in deliveries and makes it easier for the suppliers to adopt to the needs of the company.

The most important characteristics of information quality: accuracy, understandability, relevance, timeliness, accessibility, completeness, appropriate amount, reliability, and ease of use. (Simatupang T. and Sridharan R., 2008). For the information sharing JSC Lebedyansky uses the latest information technologies within all of it production, warehousing and distributional centers. This gives the company the ability to share the information within its divisions in timely manner. The company also keeps attention to the technological advances of information sharing with main suppliers, so that the company has the possibility to place orders via the information ordering systems that are connected with the corporate information systems.

The company also shares information about its new products with the key suppliers and even attracts the specialists and technologists from the main suppliers to the development of new products, since there is a great dependence on the technological correspondence between the supplied materials and the production and packaging technologies. Collaboration at the strategic level requires shared or matching objectives, either by coincidence or design (Vereecke A.,

Muyllé S., 2006), therefore it can be said Lebedyansky aims to share the information about the its objectives and tries to put them in line with the objectives of its suppliers.

The weaknesses of the information sharing system is that some of the suppliers does not possess the same level of the information technologies, that the company does, so it makes the exchange of information more difficult. Lebedyansky can share information only with the reliable suppliers, as most of the suppliers work also with the competitors of the company, so the information about the new product development can be disclosed.

Trust and Commitment. Kwon I-W. and Suh T. 2005 described trust as “firm's belief that a partner's company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes”. The specialists of the company refer to the fact that Lebedyansky builds the relationships with suppliers on the long-term basis as to the strength of the company, since the company can rely that the suppliers will follow the contractual agreements and the history of the work with supplier how reliable the supplier is. The company sees trust and reliability as the main factors for the establishment of long-term relationships with suppliers.

The company which the Lebedyansky trusts is the company TetraPak. The main reasons for such trust is the confidence in the expertise and great reputation of the company, that became a standard of quality in the eyes of consumers. The company want consumers to associate its technologies with the technologies of the company TetraPak, so every package of juice, produced with the help and technologies of this supplier bears the trade mark of TetraPak.

Also the history of work with this supplier is over 15 years and during this time Lebedyansky never had any bad situations with this company or the inability of the company to fulfill its obligations. The company does not have any inspections or audit for this supplier, but rather visits its factories for the replication of its experience and the education of the specialists.

The managers of Lebedyansky also stressed out that the company is satisfied by the performance of its key suppliers and wants to continue work and collaboration with them. influence future purchase intentions and supplier selection. This also shows that the degree of trust to main suppliers is quite high. This approves of what was stated in the theoretical part of this work, that inter-organizational trust influences non-financial factors of performance by enhancing continuity in conventional channel relationships; reducing conflict and enhancing satisfaction of channel members; achieving cooperation in a relationships, commitment and long-term orientation. It also influences the company from the financial point of view by economy on supplier selection procedures (Hsiao J. M., 2007).

Kwon I-W. and Suh T. (2005) categorized key positive results from high-trust relationships: open communication and willingness to take risks; sharing relevant information and confidence in the information received. The company estimates the degree of trust and commitment from the suppliers as quite high, since the suppliers show their flexibility in the relationships with the company and ability to fulfill emergency orders. Also the inspection to the production facilities of Lebedyansky are very rare.

Lebedyansky does not invest in the development of Russian suppliers of juice concentrates, which are usually more close to the production sites of the company, thus the economy on the transportation can be obtained. The specialists of the company address to this as to the weakness. Also there is a low level of personal connections between the company and its suppliers on the level of the middle management, which makes the development of trust between companies more difficult. Moreover, the inspections to the sites of suppliers with which the company has worked more than 5 years, are treated as the disadvantage for the trust creation between the companies by the purchasing manager of Lebedyansky.

Walter A. et al (2003) categorized three different dimensions of commitment: affective commitment describes a positive attitude towards the future existence of the relationship; instrumental commitment is shown whenever some form of investment (time, other resources) in the relationship is made; the temporal commitment indicates that the relationship exists over time. Thus it can be stated that Lebedyansky has the effective and temporal commitment to the relationships with its suppliers, because it orients on the long-term relationships and wants to continue its work with the key suppliers. However, the company is less committed to the relationships in terms of instrumental commitment, since it does not invest in the development of its suppliers.

Power and Dependence. The company has some influence on the suppliers, since they are interested in work with such a big manufacturing company with good reputation, timely payments and high volumes of purchase, which is the advantage for the exercise of the power and price reduction and getting other bonuses from the collaboration with suppliers. Lebedyansky diversifies its portfolio of suppliers in order to increase competition between suppliers and to have the abilities of price pressure on them. This stands in line with what was stressed out in the theoretical part of the study that power over suppliers or dependence on suppliers can be reduced or increased by the manufacturer through single or multiple sourcing (Handfield R. and Bechtel C., 2002).

Moreover, according to Handfield R. and Bechtel C. (2002) the dependence on suppliers also implies several advantages such as incentives for cycle time improvements, supply base optimization, fewer suppliers can result in simplified supply chain networks and reduce transaction complexity, enforce decisions about insourcing or outsourcing and automated purchasing systems, potentially create greater supplier loyalty.

The main weakness is that Lebedyansky depends greatly on the prices for the raw materials, which are constantly growing. The company also depends on the volumes of the production of its suppliers, who in turn depend on the unpredictable factors of nature (the volume of harvest).

The company depends on the supplier of packaging materials TetraPak and the prices that it establishes and the company has only one possibility to reduce this dependence is to find new packaging and new suppliers for these packaging. Lebedyansky tries to diversify the portfolio of the packaging suppliers, but still 52 of its 53 production and packaging lines are connected technologically with the technologies of TetraPak.

5.3. SWOT-analysis of JSC Lebedyansky in terms of Purchasing Strategy and Collaboration with Suppliers

As it was mentioned in the previous chapters the study relies on the SWOT-analysis procedures, therefore, the empirical data on the factors of collaboration with suppliers were analyzed in this chapter and summarized from the point of view of their weak and strong characteristics for the company development. As the inter-dependent factors in this analysis are the factors of the external environment they were analyzed from the point of view of the possibilities and threats that they give to the company. On the basis of these conclusions for each part of the analysis, the final table, that describes main dependences between the purchasing strategy and degree of collaboration with suppliers on the market position of the company and its possibilities and threats should be created.

In accordance with the description of the market situation (given in the Chapter 4) and the opinions of the specialists of company Lebedyansky, the *opportunities on the market* should include the following: increase of the market share in regions, increase of the market share in the premium price segment, increase of price competition between suppliers, entry on the market of new Russian suppliers of packaging and juice concentrates, development of new technologies in information sharing and production.

The threats that present in the market were described by the factors: deterioration of the economic situation in Russia, increase of prices on raw materials and packaging, increase of taxes on the imported materials, inability of suppliers to fulfill contractual terms, increase of the competition on the market, increase market power of competitors, increase of market share of competitors.

The strengths of the factors of collaboration with suppliers can be summarized from this chapter as follows: high level of the information exchange with suppliers: production plans, development of new products, system of corporate information, contractual agreements with the suppliers, long-term contracts with flexible price and order conditions, high level of trust to the main suppliers, suppliers' commitment to the aims of the company, suppliers' ability to fulfill emergency orders, mechanism for the price pressure on suppliers of the raw materials, the ability for the experience replication from main supplier TetraPak.

The *weaknesses of the factors of collaboration* with suppliers are summarized from what was stated above in this chapter: expensive estimation of new suppliers, expensive procedures for the audit and estimation of existing suppliers, dependence on the prices established by large suppliers, inability to narrow the portfolio of foreign suppliers, low level of personal connections with supplying companies on the level of the middle management, Lebedyansky is not ready to invest in its suppliers' development, dependence on the main supplier TetraPak and its prices for the packaging.

In the Table 5, presented below, the I section shows how the strengths of the company helps to increase the opportunities that exist on the market and II section how the strengths of the company helps to decrease the threats that exist on the market. So the strengths has either a highly, medium or low positive influence on the factors of the external environment.

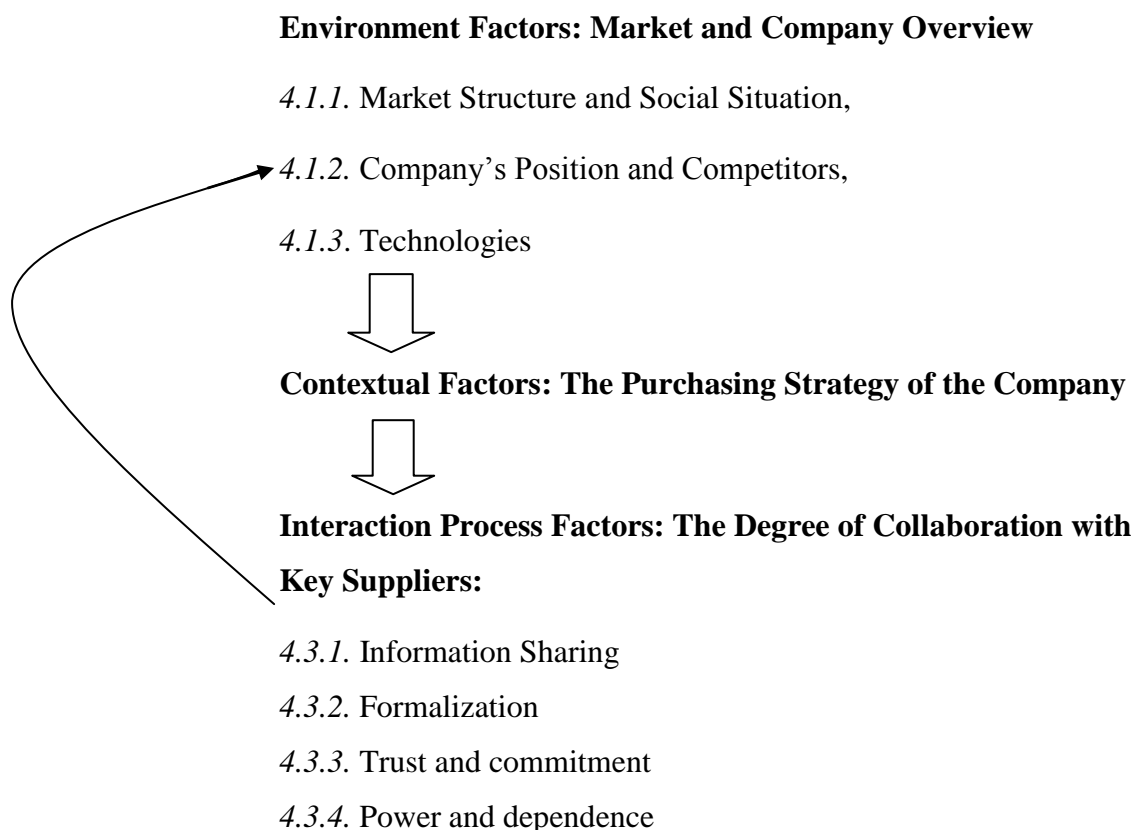
III section shows how the weaknesses of the company can decrease the opportunities and IV section shows how the weaknesses of the company can increase threats. The weaknesses may have highly, medium or low negative influence on the factors of the external environment.

Table 5. SWOT-analysis of JSC Lebedyansky in terms of Purchasing Strategy and Collaboration with Suppliers

| | | |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Opportunities <i>I. Increase of the market share in regions</i> <i>II. Increase of the market share in the premium price segment</i> <i>III. Increase of price competition between suppliers</i> <i>IV. Entry on the market of new Russian suppliers of packaging and juice concentrates</i> <i>V. Development of new technologies in information sharing and production</i> | Threats <i>I. Deterioration of the economic situation is Russia</i> <i>II. Increase of prices on raw materials and packaging</i> <i>III. Increase of taxes on the imported materials</i> <i>IV. Inability of suppliers to fulfill contractual terms</i> <i>V. Increase of the competition on the market</i> <i>VI. Increase market power of competitors</i> |
| Strengths | I section | II section |
| Information sharing 1. high level of the information exchange with suppliers: production plans, development of new products | <i>I- low, II - high, III –low, IV – low, V-high</i> | <i>I-high, II-med, III-low, IV-high, V-high, VI-high</i> |
| 2. system of corporate information sharing | <i>I-high, II – med, III –low, IV – low, V - high</i> | <i>high</i> |
| Formalization 3. contractual agreements with the suppliers | <i>I –low, II – high, III – high, IV – med, V - low</i> | <i>I-, II, V, VI- high, III, IV-low</i> |
| 4. long-term contracts with flexible price and order conditions | <i>I-med, II – med, III-high, IV-high, V-low</i> | <i>I, II, V. VI- high, III, IV-med</i> |
| Trust and Commitment 5. high level of trust to the main suppliers | <i>I – high, II – high , III , IV, V -low,</i> | <i>II, -high, V, VI –med, I, III, IV-low</i> |
| 6. suppliers’ commitment to the aims of the company | <i>I, II, - high, III, IV-low, V- med</i> | <i>I, II, IV, V, VI- high, III, -low</i> |
| 7. suppliers’ ability to fulfill emergency orders | <i>I, II- high, III, IV – low, V -high</i> | <i>IV, V, VI-high, I, II, III-low</i> |
| Power and Dependence 8. mechanism for the price pressure on suppliers of the raw materials | <i>I, II- med, III- high, IV-high, V- low</i> | <i>I, II, IV, V, VI- high, II-low</i> |
| 9. the ability for the experience replication from main supplier TetraPak | <i>I, II – high, III, IV- low, V -high</i> | <i>I, III, V, VI –high, II, IV-low</i> |
| Weaknesses: | III section | IV section |
| Information Sharing 1. low level of personal connections with supplying companies on the level of the middle management | <i>IV, V-med I, II, III-low</i> | <i>IV-med I, II, III, V, VI -low</i> |
| Formalization 2. expensive estimation of new suppliers | <i>III, IV-high I, II, V- low</i> | <i>II, III, IV –high I, V, VI-low</i> |
| 3. expensive procedures for the audit and estimation of existing suppliers | <i>V-high, IV-med I, II, III-low</i> | <i>IV –high I, II, III, V, VI-low</i> |
| Trust and Commitment 4. not ready to invest in its suppliers | <i>I, II –high V-med , III, IV-low</i> | <i>II, IV –high I, III, V, VI -low</i> |
| Power and Dependence 5.dependence on the prices established by large suppliers | <i>I, II- high III, IV, V -low</i> | <i>II, IV –high I, V, VI- med III-low</i> |
| 6. dependence on the main supplier TetraPak and its prices for the packaging | <i>I, II- high III, IV, V -low</i> | <i>II, IV- high I, III, IV, V-low</i> |

Table 5 with SWOT-analysis shows that there the ability to measure the influence of the factors of collaboration with suppliers on the opportunities and threats that exist for the company in the market, thus helping the company to achieve its goals and to reduce risks. Some of the factors have a higher influence on the factors of the market situation and some have the lower influence. However, the aim of this paper was not to identify the most important factors of collaboration and purchasing strategy, but to describe and summarize the factors of the collaboration with suppliers, using as a background the literature review and the case study, and to show that the influence of these multiple factors on the possibilities and threats for the company exists and can be measurement, which was proven during the research. Therefore, the kind of SWOT-analysis can be used to measure this kind of dependences and the conceptual framework can be changed in the following way, showing the influence of collaboration with suppliers of the market position of the company.

Figure 9. Reviewed Framework of the Study.



Chapter 6

Conclusion

6. Conclusion

The focus of this paper is the Purchasing strategy and Collaboration with suppliers of the Russian juice manufacturer JSC Lebedyansky, so the paper aims to create a descriptive research based on the single case study.

The tasks, set for this work, were conducted as follows:

- review of the literature and articles about supply chains, supply strategies, collaboration with suppliers distinguish the most important factors of these concepts were distinguished;
- the conceptual framework for the estimation of the factors of supply strategy and collaboration with supplier was prepared on the basis of literature review;
- the interviews with the managers of JSC Lebedyansky were conducted and the conceptual framework of the study was used for the analysis of the Russian manufacturing company (JSC Lebedyansky) in order to uncover the factors of supply strategy and collaboration with suppliers, to find out what are the perceived weakness and strengths of them and what possibilities and threats the company sees on the market;
- theoretical basis and empirical study of the company JSC Lebedyansky helped to conduct the SWOT-analysis of the weaknesses and strengths of the company in terms of its purchasing strategy and collaboration with suppliers; a framework for the evaluation of the effect of the factors of supply strategy and collaboration with suppliers on the context in which the company operates was created.

The literature showed that the main characteristics of Purchasing strategy of the company is its procurement strategy and the way how the company selects, estimates and develops suppliers. As most of the articles related to the topic showed the Purchasing strategy influences directly the portfolio of relationships that the company establishes with its suppliers and the view on the collaboration with suppliers.

Among the characteristics of the collaboration with suppliers the literature defines a lot of factors, however, the most frequently used factors were determined as follows: information sharing among the companies, degree of formalization of the relationships, trust and commitment, power and dependence. The study of these characteristics can help to determine the degree of collaboration between the buying company and its suppliers.

The empirical study showed that the situation on the juice market in Russia is very difficult for the producers, because of the financial crisis, the reduction of consumers' willingness to buy juice, the competition between the main producers is becoming stronger. It also can be summarized that the market and technological factors of the external environment of the company Lebedyansky influence greatly the purchasing practices of the company and defines largely the status of relationships with the suppliers.

The top-management of JSC Lebedyansky sees it strategically important to have a centralized purchasing procedures and it could be concluded that the purchasing strategy is well-developed and structured in accordance with the companies objectives and aims on the market, it has more strengths than weaknesses and helps to cope with the difficulties that exist today on the Russian juice market. The strategy in the purchasing also aims to form long-term relationships with the key suppliers and the strategies for the most important parts of purchasing: juice concentrate and primary packaging, are especially aimed on the development of long-term and reliable relationships, which shows that the degree of collaboration with the suppliers of materials should be very high. Thus it can be concluded that the strategic approach to supply management and coordination of its separate elements have a direct impact on the degree of collaboration between the company and its suppliers.

SWOT-analysis showed that there is the ability to measure the influence of the factors of collaboration with suppliers on the opportunities and threats that exist for the company in the market, thus helping the company to achieve its goals and to reduce risks. Some of the factors have a higher influence on the factors of the market situation and some have the lower influence. However, the aim of this study was to describe and summarize the factors of the collaboration with suppliers, using as a background the literature review and the case study, and to show that the influence of these multiple factors on the possibilities and threats for the company exists and can be measurement, which was proven during the research. Therefore, the kind of SWOT-analysis can be used to measure this kind of dependences and the conceptual framework can be changed in the following way, showing the influence of collaboration with suppliers of the market position of the company.

However, it is necessary to say that generalization from the research based on the single case study should be made very carefully, since the any case study has very individual features, and what is applicable to one organization and market situation may not be applicable to another company and market situation. Further research in the area and on the examples of other companies and markets should be conducted in order to prove the results of this study and to make any generalization of the findings. So the generalization of the use of SWOT-analysis is made more on the basis of literature review and the case study just shows the example of this.

Moreover, this paper may be applicable for the further researches in the field of purchasing, supply chain and collaboration as it shows a wide overview of the current literature in the topics. Also this study may be applicable for the managers who aim to analysis the strategic influence of the collaboration with suppliers on the market position of the company.

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Appendix 1.

Plan for the interview.

The preliminary plan and sections of the interviews. The main concern was getting information about the strategic intentions of the company in terms of the purchasing and collaboration with suppliers, and current market position. The aim for the creation of the plan was to give the direction of the discussion and to cover all the needed questions. There was no intention to follow the question as they are presented, since the conversation should go freely. The interviews were held in Russian, so the translation of the plan for the interview is presented below.

Personal information.

Your full job title in the company:

Number of years you have worked for Lebedyansky:

Your responsibilities on the current position:

The company

What is the structure of the company? What production sites and warehouses it possesses?

Are there any changes in the company after the acquisition by PepsiCo?

External environment of the company.

What are the aims of your company on the market?

What risks or threats do you estimate to be the most critical for the company?

How can you estimate the main competitors of the company?

Purchasing Strategy

Does your company have formally framed Purchasing strategy? Is there any document about the strategy and rules of purchasing?

Is the purchasing a centralized function?

Acquisition of what materials is seen as strategically important in your company?

What are the main suppliers for these materials?

What is the strategy in the work with suppliers? (Long-term relationships? Contractual agreements? International vs domestic supply?)

In your opinion, what are the most important aims of purchasing management in your company?

How can you characterize the strategic directions of development of purchasing in your company?

Selection and estimation of suppliers

Does the company intent to work with the existing suppliers or want to find new ones?

How does the company select new suppliers?

How it estimates the work with existing suppliers?

Information Sharing

How can you describe the information sharing system in your company?

Why do you think it is important to have a well-functioning information sharing system?

What information does the company give to its suppliers?

What kinds of information do your suppliers provide?

Formalization.

What types of contracts does the company usually use?

What are the main terms that are stated in supply contracts?

Does the company have “evergreen” clauses?

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Questions about the relationships with main suppliers

What do you think are the most important characteristics of good and stable relationship with supplier? Explain your opinion

Do you think the company is committed to its suppliers? Explain

Estimate the level of flexibility of suppliers and their ability to adapt to the needs of the company. Give examples of such adaptations

Does your company protect the reputation of suppliers if needed? If yes, to what extent? Why?

How do your personal relationships with particular supplier influence the cooperation between two firms? How can you explain that?

Does the company seek to decrease/increase its dependence on the suppliers? In what ways? Why?