

Buyer-Seller Links in Export Development

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Summary. — Export development benefits are generated by links between developed country buyers and developing country suppliers. These relationships reduce barriers to entry into developed country markets by acting as conduits for information about marketing and production technology and by providing access to larger industry networks. Benefits are maximized when the relationships are collaborative and long term. In this paper, bicycle and footwear imports into the United States are used to illustrate the formation, maintenance, and effects on developing country reputations of buyer-seller relationships. Public efforts to support developing country firms in forming and maintaining long-term, collaborative relationships are also discussed.

1. INTRODUCTION

Rising wage rates in newly industrialized economies (NIEs — Hong Kong, South Korea, Taiwan, Singapore) are diminishing their long standing competitiveness in lower end, price-sensitive product segments. Firms in developed countries are looking for new sourcing relationships with lower wage firms in less developed countries (LDCs). A window of opportunity is being created for some LDCs to enter international markets.

Even for the lowest cost products within a product segment, consistently meeting that product's quality specifications at a competitive price and adhering to reliable delivery standards are minimum requirements for selling in international markets. Many LDC firms cannot meet these minimum requirements. Skepticism about LDC capabilities and buyer's reluctance to replace NIE business partners with whom they have a satisfactory, long-term and collaborative relationship also slow LDC efforts to achieve the rapid increase in exports that would be expected on the basis of their low labor costs.

Two analytical themes run through the paper. First, for developing country suppliers, long-term collaborative relationships with developed country buyers are often an essential source of information about developed country markets and production technology as well as product quality and delivery standards. Such specialized

industry information for narrowly specified market segments is not easily acquired. For many developing country firms that cannot afford other means to acquire this information — such as hiring internationally experienced management, sending management abroad to study developed country markets and production technology or acquiring an experienced export firm — collaborative relationships may be the only source.¹

The second theme concerns the formation and maintenance of these valuable relationships. Although in some cases the primary reason buyers invest in collaborative relationships is strategic, the majority of buyers participate to obtain reliable deliveries of the product they need at a competitive price. Collaborative, long-term relationships continue if they are of mutual benefit to each party. Over the life of the relationship, a system of mutual obligation and trust develops incrementally. Buyers in such relationships are reluctant to change satisfactorily performing suppliers because of the stock of mutual obligations, trust and learning that has been created over the length of the relationship

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to produce and sell products that meet the three minimum requirements of price, quality and delivery reliability. This reluctance to change partners creates a barrier to entry for LDC firms in the formation of relationships with buyers which in turn prevent entry into valuable industry networks.

Firms that are not a part of industry networks risk losing sales opportunities in the short run and access to innovative technologies and practices in the longer run (Hakansson and IMP group, 1982). Moreover, being part of a network benefits not only individual suppliers but also, through recommendations, other firms in the supplier's country. These networks, narrowly specialized by industry and even market niche, are considered one of the most reliable sources of information about the performance of suppliers.

How can less developed countries attract collaborative business relationships? How can existing relationships with buyers be deepened to maximize the transfer of information?

We address these questions through the experience of footwear and bicycle imports into the United States. Each of these product groups has more than a 20-year history of relationships between developed country buyers and developing country suppliers.

The paper is written from the perspective of buying firms in the United States. These firms include manufacturers, retailers, importers, buyers' agents, and joint venture partners. Trade association staff, consultants, and other industry experts (including specialists from the US International Trade Commission) were also interviewed. In these various organizations, we interviewed mid-level and senior managers responsible for international sourcing and investment decisions. The distribution of the 28 interviewees is given in Table 1 (two specialists interviewed were common to the two industries).

Throughout the paper, we emphasize that the transfer of benefits through buyer-seller relationships occurs firm to firm within narrowly defined product groups and industry networks. Broader

public measures, however, can support developing country firms in forming and maintaining collaborative, long-term relationships. We discuss some promising public measures in the concluding section of the paper.

2. US BUYERS

In 1988, retail sales of footwear in the United States amounted to about US\$27 billion for 1.1 billion pairs of shoes.² Imports represented about 80% of the amount (877 million pairs). Taiwan (38% of the quantity), South Korea (21%) and Brazil (13%) accounted for almost 75% of nonrubber footwear imports into the United States in 1988 (*U.S. Industrial Outlook 1989*).

Beginning in the late 1970s, the US bicycle market began to rely heavily on imports as so-called baby-boomers embarked on fitness regimes and US producers were unable to meet the increased demand. Imports of bicycles for adults rose from 20% of the bicycles sold in 1978 to 54% of the 12.6 million sold in 1987. Taiwan has dominated bicycle imports into the United States; its share of imports in 1987 was 76%. Higher value bicycles are imported from Italy, France and Japan. In the low- and medium-quality segments, Taiwan's emerging competitor is South Korea, which has been a late entrant in this industry. Among low-wage countries, China appears a serious contender.

(a) Three types of buyers

Three types of buyers account for the majority of US purchases of manufactured goods from developing nations (Kotler, 1988):

(i) *Retailers* Many large US retailers buy finished products directly from foreign manufacturers. Large retailers often maintain networks of international representatives to both seek out potential suppliers and maintain overseas buying offices. It is estimated that about 20% of developing countries' manufactures are exported through buying offices of large retailers. For some products, such as garments and textiles, buying offices account for more than 50% (Kirchbach, 1988). Retailers have contributed greatly to the development of many LDC firms by allowing them to make export sales without having to do market research, product development, and design. Retailers may also provide financing, quality control, and distribution systems. Large retailers are important US importers of low- and intermediate-price bicycles and footwear (Table 2).

Table 1. Number of US buyers interviewed

Buyers	Bicycle	Footwear
Retailers	1	0
Importers/Wholesalers	2	4
Manufacturers	4	2
Trade association representatives	4	4
Other industry representatives	6	3
Total	17	13

Table 2. Channel structure by market segment in the US bicycle and footwear industries

Total sales (units)	Market segment (price per unit)	Dominant Retail outlets	Percentage of total units sold (%)	Percentage of imports (%)	Major importers in channel
12.6 million, of which 7.4 million (59%) imported	Discount < US\$250	General merchandise chains, discount chains	Bicycles (1987) 70%	53%	US producers, mass merchandisers
	Premium > US\$250	Independent bicycle dealers	30	73	Importers/wholesalers
1.1. billion pairs, of which 877 million (80%) imported	< US\$15	Discount chains, self-service stores	Footwear (1988) 25	94	US producers and mass merchandisers import 75% and importers and buying groups 25% of all imports
	US\$15-34	Shoe store chains, general merchandise chains	32	81	
	> US\$34	Independent shoe stores; department stores	43	71	

Smaller US retailers are less likely than large ones to engage in direct importing or to invest resources in developing new sources of supply. Instead, they more typically participate in buying groups or rely on importers/wholesalers.

(ii) *Importers/wholesalers.* US importers and wholesalers buy from foreign manufacturers for resale either to US retailers or to other intermediaries. They specialize in importing, market identification, and development of new sources of supply. Some importers also develop design specifications for products.

Large importers generally have greater resources than small importers for investing in the development of new sources of supply — a process that can often take 6–18 months before an exportable product is ready. Large importers are also more likely to employ designers, engineers, and marketing experts who can provide technical assistance to suppliers.

(iii) *Manufacturers/Producers.* Many US manufacturers also buy from foreign manufacturers, either finished goods (which they resell to retailers or other intermediaries) or components (which they incorporate into their own products before resale). Goods imported directly by manufacturers may well exceed the amount accounted for by retailers' buying offices (Kirchbach, 1988). They often bring substantial technical expertise to these purchasing relationships that other US buyers do not offer, especially in production technology.

Importing functions once performed and controlled by many independent importers are shifting to manufacturers or retailers, who hire agents to take over smaller independent importing firms. In shoes, for example, volume retailers and domestic producers account for 75% of imports. Of the two, domestic producers seem to have become the largest direct importers.

(b) *NIE firms as partners and intermediaries: A new trend*

Relationships between LDC firms and those in NIE economies are becoming another route by which products enter the US market. As Hong Kong, Taiwan, Singapore, and South Korea face rising production costs, they risk losing buyers to less expensive (low wage, low production costs) sources of supply in Thailand, Indonesia, and Malaysia.

In response to these circumstances, two types of intermediation are developing. The most direct occurs when a long-term NIE supplier to a US firm goes to an LDC for goods it once sourced for its US partner in the NIE. For

example, a Taiwanese firm might begin to source inexpensive footwear in Thailand instead of in Taiwan. In spite of the change in the source of supply, the NIE supplier's relationship with the US partner remains basically the same.

A second type of intermediation occurs when the US buying firm seeks an equity partnership or assistance from its NIE supplier in locating, selecting, managing, or training a manufacturing partner in an LDC. One US importer interviewed for this study and its Taiwanese partner located a promising but new-to-export manufacturer in a low-cost LDC. In exchange for export orders, the NIE firm provided on-site training, supervision, and assistance to the LDC manufacturer while the US firm supplied loans and assured orders from major retailers and producers.

In one formal joint venture agreement, Schwinn Bicycle Company entered an ongoing joint venture, China Bicycles Co., between a well-known NIE bicycle producer, Hong Kong Link Bicycles Ltd., and an LDC partner, Shenzhen Light Industry Co. in China. (Hong Kong Link Bicycles, which had been producing and exporting bicycles since 1969, moved operations to China to avoid the rising land and labor costs of Hong Kong.) As one of the largest importers and distributors of bicycles in the middle to upper end of the US market, Schwinn offers access to the US market through its established channels, provides technical assistance for its US orders, and brings capital to the partnership. Another example of a formal joint venture is among some Chinese, German and Hong Kong firms. They created the firm Xiamen Euro-Bike to produce frames and bicycles for export (Cycle Press, 1989).

(c) *The inseparable triad: Price, quality and delivery*

For US firms, purchasing decisions — including whether to import from a developing country — are typically major, multilevel corporate decisions. The average industrial firm in the United States spends about 60% of its sales revenues on purchases of services, materials, and capital equipment (Reck and Long, 1988). Purchasing also interacts with other major corporate decisions, including product development, marketing, and financing. As a result, such decisions are an important part of a firm's overall competitive strategy.

Regardless of a firm's place in the distribution channel or its market niche, virtually all US buying firms have minimum product criteria for

suppliers: an inseparable triad of price, quality, and delivery. If these criteria are not met, the buyer loses revenue on the particular transaction; moreover, the buyer's reputation with the eventual customer is damaged.

(i) *Price.* Most US buyers are not naive about the implication of a low initial price quotation. Buying firms typically express their objective as a "competitive" price. Thus, a developing country supplier offering a very low price should expect close investigation of how that low cost will be achieved without sacrificing product quality or timely delivery. One US buyer, for example, recalled that to save a few cents per bicycle, their overseas supplier used poor packing material, resulting in costly damage to 100 bicycles.

(ii) *Quality.* Quality is the second key demand of US buyers. Quality requirements exist for every product niche whether or not it is a high-priced product. If the quality of the product does not meet the defined standards the product is usually not marketable, regardless of price or on-time delivery. In addition, for all product segments, "quality not only makes money, it saves money." The cost of inadequate quality includes product returns, price concessions, service costs, excessive inspections, inventory waste, and manufacturing slowdowns.³

The definition of product quality, however, varies according to product niche or price range. This variation in definition is well exemplified by footwear. Inexpensive leather, vinyl or plastic shoes (retailing for US \$15 or less per pair) are not expected to be the latest style, nor of top grain leather, nor are they expected to last through replacement heels or soles. They are generally not required to be stocked in half sizes or in widths other than medium or wide. In contrast, shoes at the higher end of the retail market must embody fashion elements that vary by season, year and function. A man's leather dress shoe that retails for over US\$100 must be perfect in terms of fit and finish, must wear well, and be available in a variety of sizes and widths.

For bicycles, quality is defined in terms of performance and appearance. These features are reflected in the components and materials in the product and the care with which the product is made. In the low-end range (less than US\$250) of adult lightweights and children's bicycles, "good quality" is achieved if the bicycle runs properly, is made of carbon steel, uses nonbrand name components, and has a reasonable appearance (the finish is perfect, but welding may be visible along joints). For bicycles in the premium range, however, standards are higher on all counts. For example, one US manufacturer guarantees its frames for life, requiring the frame to be made of

aluminum, chromally, titanium, or carbon fiber. The joints are finished with perfect smoothness, the paint finish is also perfect, the paint itself is of the highest quality so that it does not bubble when exposed to the sun, decals and graphics are applied flawlessly, and components are of the highest quality.

(iii) *Delivery.* Goods must be delivered when agreed upon, and an order must be complete every time.⁴ The importance of on-time delivery stems from the need to meet manufacturing production schedules and from fashion cycles and seasonal sales peaks. For example, the stock of bicycles for sale during the US summer season must be in the warehouses of importers/wholesalers by April. Delay, even by a month, can cause the peak season to be missed, resulting in extra costs of carrying inventory to the next season or substantially marking down price. For fashion-dependent products, such as certain types of shoes and garments, delays of even a few days are critical.

3. THE IDEAL RELATIONSHIP: THE BUYER VIEWPOINT

Empirical research confirms that buying firms in developed countries often are willing to engage in long-term relationships (Table 3). Indeed, they frequently prefer them (Håkansson, 1987; Yoon, 1986).

Most US buyers interviewed for this study preferred long-term, stable and direct relationships with both developed and developing country suppliers. Footwear importers spoke of relationships in Taiwan and South Korea that have lasted 10–20 years. Several small bicycle importers reported buying from the same factories for more than 10 years.

(a) *Buyer motivation in long-term relationships*

Buyers prefer long-term, stable, and direct relationships because they "make good business sense," according to buyers interviewed. The costs of finding and evaluating new suppliers are avoided. Moreover, through repeated transactions with a supplier, buyers can reduce various business uncertainties (and resulting costs) as they learn each other's demands and capabilities. Furthermore, relationships tend to become more efficient as buyers and sellers work together through several buying cycles and confront various problems. In exchange for larger, more regular orders from buyers, suppliers collaborate with buyers' product designers and may play a critical role in developing manufacturing tech-

Table 3. Length of buyer-seller relationships in developed country markets (years)

Buyer countries	Supplier countries				Weighted average
	France	Germany	Sweden	United Kingdom	
France	21	10	10	3	8
Germany	7	15	20	6	11
Italy	7	12	20	7	12
Sweden	6	12	24	12	10
United Kingdom	6	15	14	30	12
Weighted average	7	12	16	7	11

Source: Adapted from Hakansson (1987), based on 500 firm-to-firm, buyer-seller relationships.

nologies. Collaboration in design and manufacturing at the early stages of product development cuts costs and improves quality.⁵ Such mutual learning is cumulative, and buyers are therefore reluctant to lose this advantage and start over with new partners.

Even when buyers work through trading companies to identify a source of supply and to finance the trade, they often deal directly with the supplier to correct defects and handle problems with specification or quality control. Bicycle importers, for example, send designs and specifications to the foreign factory and work with the factory to solve problems with shipments. For these reasons, buyers often want relationships that are as direct as possible.

(b) The ideal supplier

US buyers speak of "ideal" suppliers as those with the right "business attitude." Such suppliers do everything to get products out on time and meet quality expectations. They correct mistakes quickly and assume the cost, understand that retailers face severe price competition and time constraints, and understand US consumer demands for variety and quality.⁶ It is also seen as important that suppliers "do what they say they will do." Some suppliers, especially those trying to penetrate a new market, promise quantities, delivery dates, or prices which they cannot achieve, and then are surprised at the buyer's angry reaction (Vernon-Wortzel, Wortzel and Deng, 1988).

In describing ideal partners, US firms also emphasize the importance of strong management within prospective supplier firms. Buyers looking for either new sources of supply or joint venture partners search for suppliers who manage their factories efficiently, often regardless of the level of technology those factories currently employ;

interviewees commonly felt that new machines could easily be installed so long as workers already had the ability to use them efficiently and absorb training readily. For many buyers, management was the most important factor in defining an ideal supplier. It was also the main reason to visit a factory before forming a relationship: to observe management in action. As one buyer phrased it, "I do not invest in plant X but in Mr. Y. It all depends on the people."

Another essential element of successful long-term relationships is close communication among partners. Reliable communication services and equipment (fax, telephones, and telex) are one prerequisite. Frequent contact and openness are also important. Smaller importers, particularly those without representatives overseas, also indicated that it was helpful if a supplier or joint venture partner spoke technical English.

(c) Not all relationships are long-term; Not all long-term relationships are close

Although US buyers generally prefer stable, long-term relationships with suppliers, the way in which this preference is expressed in practice is often subtle and complex. Relationships tend to grow incrementally, with their duration and depth more evident *ex post* than *ex ante*. A relationship often begins with a short-term agreement — perhaps a one-year production contract — and continues with annual renewals; this is by far the most common arrangement in both bicycles and footwear. Thus, a close, long-term relationship may arise with no more formal structure than a continuing series of renewed short-term contracts.

While performance is the glue of buyer-seller relationships, the trust that is built as partners gain experience with each other is the lubricant. Trust implies a moral contract and long-term

commitment which "reflects a condition of mutual dependency where both client and subcontractor are in a position to influence the other by their behavior" (Lorenz, 1988, p. 206). Buyers find trust important because it facilitates information exchange. It also encourages incremental investments on each side for which there is no guaranteed immediate return. It allows partners to adapt to unexpected contingencies. In these roles, some buyers consider trust an essential adjunct to formal legal agreements, and some even use trust as a substitute. For example, one experienced buyer stated that the only feasible course is to choose partners with great care and then proceed "based on a handshake."

If buyer and supplier work for each other's benefit, over time a system of mutual obligation and trust develops. A relationship often begins with each side committed to a limited range of responsibilities, but gradually the relationship deepens as each party goes slightly beyond its contractual commitments. Thus, the collaboration deepens in small increments. Each side helps the other in many ways. For example, if exchange rates fluctuate outside a certain range, the buyer and seller may share the cost. If a competing supplier offers a lower price, the buyer goes to the long-term supplier first to see if the latter can match the offer. The buyer maintains a certain level of product orders to keep the supplier going regardless of the buyer's immediate demand. One large importer of low-priced shoes spoke of the necessity of "keeping his good suppliers happy."

It is not unusual, however, even in close, long-term relationships to have each side seek to reduce its risks. Several situations in particular often cause buyers to feel vulnerable and motivate them to develop protective arrangements. Prominent among these is one in which the buyer has only one source of supply. To both preserve credibility in negotiating prices and to protect against nonperformance, a buyer may maintain relationships with two or more alternative suppliers. Relatedly, some buyers limit the percentage of a supplier's total production that they are willing to buy. An example involved a firm that was willing to support a good supplier with regular orders but would never buy more than 10% of any supplier's production. Buyers also insert clauses in letters of credit which protect them against late or defective orders.

Buyers value the flexibility to change suppliers without losing invested capital and so are often in favor of maintaining relationships through a series of short-term contracts. On the other hand, under these arrangements, the buyer does not fully control the producer's factory, produc-

tion priorities, or internal management. The buyer's ability to control the producer firm is limited to negotiating future orders, price, and access to markets and information. Such control, in practice, is often sufficient. Willingness to commit to and to invest in formal joint ventures often arises when a buyer firm is seeking access to complementary assets or is trying to capture a good source of supply in a country with few good suppliers.

In short, the commitment of each side to the depth of the relationship often is *implicit* rather than explicit, revealed in practice rather than in stated policy. The corollary is that the legal forms or buying arrangements are not necessarily accurate indicators of the depth or duration of a buyer-seller linkage. Many arrangements based on annually renewed contracts will last longer, grow larger, transfer more information, and involve greater commitment by each partner than many formal joint ventures.

4. GAINS TO THE SUPPLIER

(a) *Marketing information*

For suppliers, buyers provide a crucial link into the maze of product varieties and market channels.

A marketing channel is a chain of firms or other actors that handle the physical and legal transfer of products as well as the flow of information regarding products, markets, and technology. As illustrated throughout this paper and in Table 2, channel structures tend to evolve in response to industrywide changes and vary considerably among industries. Only by focusing on a specific market segment within an industry is a supplier able to identify market access and related competitive strategies (see Rosson and Reid, 1987).

Bicycles and footwear readily illustrate industry variations. In Table 2 market segments are delineated by price range. The discount bicycle market segment (less than \$250) accounts for about 70% of all bicycles sold in the United States, of which over 50% are imported. The main retail outlets are mass merchandisers and discount chains such as Sears, K-Mart and Walmart. The other 30% of bicycles, of which 73% are imported, are sold through over 6,000 independent bicycle dealers that comprise the premium market segment. Within each segment, there are several subsegments defined by size, adult/child, and end-use (e.g., leisure, racing).

The footwear industry may also be divided into market segments based on retail price. For

example, about 25% of the total pairs of shoes sold in the United States are sold through discount retail outlets. Of these shoes, it is estimated that about 95% are imported. Within each price segment, the footwear market can be further divided according to male/female, adult/child, use, physical components (leather, vinyl, canvas, plastic), and style.

Mapping the channel structure of an industry is not an easy task because information is not often regularly collected or found in one place. Channel structures are typically pieced together by talking to industry analysts, channel members, and consultants specializing in a particular market segment. Buyers may assist sellers in this process by providing marketing information as to what products are selling in a particular season and product specifications. Buyers also reduce suppliers' needs for such information by themselves taking most of the risks of selling the product.

(b) *Production information*

Buyers also render long-term benefits to suppliers in the form of information on production technology. This occurs principally through various forms of in-plant training. The buyer may send international experts to train local workers and supervisors. During development of the Taiwanese shoe industry, for example, a US importing firm brought in Italian shoemakers and designers to train Taiwanese technicians, some of whom have since become plant technical supervisors.

Buyers may also arrange short-term worker training in a developed country plant. To emphasize differences in expectations about production quality, one importer had his supplier visit a US plant to observe production. At the end of the week, the supplier conceded that only one in 10 of his components would be acceptable for the buyer's needs. Such appreciation is crucial in motivating quality improvement in LDC factories.

Learning transferred to a supplier firm typically includes specific lessons on product details, such as correct paint finish, cutting stray wires off bicycle seats, and using appropriate packing materials — lessons learned in the course of fulfilling many orders. For instance, on-line lessons about how far to tighten a bolt are important because excessive tightening might strip threads and prevent the bicycle from being "knocked down" for shipment. When a bicycle frame maker stacks too many finished frames on a dolly, the bottom frames become bent.

Training in discrete production operations — such as teaching a production worker how to accomplish a particular task or how to operate a specific type of machinery — is not sufficient to maximize the benefits of the relationship in the long run, from both the producers' and buyers' perspectives. US buyers report that if suppliers understand what is required in developed country markets, discrete production lessons take on more meaning, and suppliers are able to extrapolate from these lessons when faced with other production decisions. For example, one bicycle buyer said it was difficult for his developing country supplier who was unfamiliar with the US market to believe that white was an appropriate color for a bicycle, that US bicycle buyers would return a bicycle if it needed even a little tinkering after they bought it, or that the US Consumer Product Safety Commission would reject an entire shipment of bicycles because of one bicycle with a loose wire. Until suppliers understand the market for which they are producing, quality control might not consistently meet US standards.

(c) *Buyers willing to transfer what it takes to get the product out*

Interviews suggest that buyers are willing to transfer to suppliers only the minimum information required to get the product out. Buyers are not particularly motivated to transfer information that might help their suppliers bypass them in the distribution channel or even enter the market as competitors. US producers and importers typically feel that it is their exclusive responsibility to interpret the US market, forecast trends, and maintain control of relationships with the customers (such as retailers) next in line in the channel.

Accordingly, it is generally the responsibility of the developing country supplier to go beyond producing under specifications to take full advantage of the linkages developed through buyers. Creative and aggressive suppliers use their contacts to learn more than their buyers may offer directly. For example, one LDC footwear firm was very successful at deepening relationships with buyers because it complemented the information received from them by upgrading its plant and providing its staff with job training in Italy.

Another developing country firm's management was interested in selling its product in the United States under its own brand name once its product became technologically competitive. While acting as a supplier to a large US firm, company management traveled to the United

States often, went to trade shows, accompanied its buyer's sales people on calls to US dealers, and sent its staff to the United States to learn the market and the distribution system firsthand. This exposed the supplier and his staff to the demands of the US market and to its distribution channels. Eventually this supplier entered international markets under his own brand name.

5. FORMATION OF BUYER-SELLER RELATIONSHIPS

(a) *Barriers to entry for new suppliers*

As indicated above, US buyers prefer to stay with suppliers they know. Collaboration over an extended period generates a cumulative stock of information not only for the supplier but for the buyer as well. This stock includes both production details learned over the course of many orders and information about the supplier's resources and behavior. Buyers commonly report taking on new suppliers only when they foresee increased sales beyond current suppliers' capacity or when existing suppliers cannot meet changing quality or price requirements. While buyers are always looking for information about good suppliers in case a need arises, the number of "windows of opportunity" for new supplier firms may be limited.

This circumstance is exacerbated by a general trend in US manufacturing to reduce the overall number of suppliers. As US manufacturers come to rely more on external vendors to provide technology and design, as manufacturing processes increasingly are based on just-in-time inventory management, and as standards of production quality are enhanced, many US firms are reducing their number of suppliers in favor of closer partnerships with a few of their best suppliers. Under these closer arrangements, buyers visit plants frequently, engineers spend time at each other's facilities, and buyer's management invests time in building relationships with supplier's management. In consequence, the number of firms on supplier lists becomes fewer, and the barriers to entry for new suppliers become higher.

Advances in data processing technology have promoted the development of these closer relationships between suppliers and buyers. Some firms now closely manage worldwide supplier networks through real-time communication links and sophisticated logistical programming. Computerization allows customer orders to be sent directly to suppliers, and frequent deliveries in response to actual sales save on inventory

carrying costs and reduce the amount of goods sold as "remainders" at discount. These same technological developments, however, tend to restrict supplier opportunities to firms already tied into these data processing systems.

As these trends continue, developing country firms may find it more difficult to enter relationships and thereby break into industry networks. Without the ability to compete on the basis of technology, quality, and delivery — as well as price — developing country firms may find they are increasingly unable to get their first orders.

(b) *Sources of information about suppliers*

When evaluating potential suppliers, virtually all buyers first seek information within their own network. This network is a tight system of product-specific buyers and suppliers of both finished goods and components. The first source of information is the personal judgment of other buyers.⁷

Important information also comes from watching and imitating veteran buyers noted for finding good sources of supply.⁸ Buyers also note where component manufacturers locate new plants. For example, Shimano, a Japanese supplier of components for premium bicycles, opened a plant in Indonesia. (This move was considered a point in favor of Indonesian suppliers in case Indonesian firms later decide to export complete bicycles to the US market.)

"Following the leader" can be a relatively inexpensive method of identifying suppliers, if done effectively. It saves on direct search costs. The main cost is the timelag involved in tracking market developments. Watching too long is not a good strategy since the later a buyer enters a market, the greater is the probability that the best suppliers have already formed long-term relationships.

Buyers also use trade fairs and conferences as sources of information. Since buyers inspect products at trade shows and product exhibitions, the burden is on potential suppliers to make good presentations. Lack of capability in making effective presentations limits the usefulness of trade shows. A more direct method of identifying suppliers is to visit their factories to assess their logistical and human resource capabilities. Buyers also rely on intermediaries such as trading companies or manufacturing representatives to locate suppliers for them.

These approaches — relying on personal judgment by other buyers, watching leading firms, and visiting factories to evaluate supplier capability — make good sense for buyers for several

reasons. First, developed country buyers cannot rely on brand names in developing countries to give accurate signals about the marketability of these products in developed countries. Second, a developing country firm's perception of what constitutes a good supplier may differ from a US buyer's perception. Experienced US buyers are able to evaluate suppliers from a comparable point of view. Third, information from developing countries' trade press is not easily available to foreign buyers, due to barriers of language and distance. Further, it is typically less technically sophisticated than trade press in developed countries. Similarly, lists and directories from trade promotion organizations, recommendations from the supplying countries' embassies' and other advertisements from suppliers often have little credibility (Deng, 1987, pp. 204-205).

US buyers do not necessarily approach only other US buyers for information. One small independent bicycle importer preferred asking Japanese buyers about suppliers because of their product knowledge and influence among Asian suppliers. Although buyers typically do not tell other buyers the details of particular deals with suppliers, they often will discuss the suppliers' qualifications, demands, and past performance. Willingness to supply accurate supplier references is a part of the mutual obligations within the industry network. Over the years, one importer stated "One learns who to trust in terms of information."

After consulting others in the network, buyers typically use several approaches to making a final choice on suppliers. One is to rely on affiliate offices and/or the firm's own employees in the supplier country to make the final selection. Small importers and retailers without representatives on site may develop a short list of several likely candidate suppliers, order samples for evaluation, and even visit their plants.

No matter how careful the selection process, the real test of a buyer's decision comes when the buyer and supplier are working together. For this reason, buyers tend to remain cautious after the final selection. For example, buyers often begin with small orders, perhaps for a simple product, and let the relationship build gradually. Because partners in the buyer-seller relationships are concerned with reducing uncertainty through learning and mutual assistance, initial poor experiences or lingering doubts on the part of one or the other will cripple their relationship.

(c) *The role of country reputation in supplier choice*

Another information source for buyers and

consumers is a country's general national reputation, shared by almost any product produced in that nation. In surveys of European export performance, positive national reputations are found to benefit a broad range of industrial sectors, even industrial sectors that did not warrant outstanding reputations (Turnbull, 1987). In Germany, for example, the general reputation of its workforce for excellent technical skills has helped manufacturers make inroads into product lines where they had no prior experience.

It is common for buyers from developed countries to assume a product quality hierarchy proportional to the economic level of the country. Products from developing countries are perceived as less technologically advanced and of poorer quality than those produced in developed countries (Chiang and Masson, 1988; Yoon, 1986; Deng, 1987). According to many US buyers, in comparison with NIEs, LDCs do not have production prerequisites such as access to the right components, raw materials, and skilled labor, nor do they work in politically stable environments or have a good transport infrastructure. Such general skepticism causes a buyer to be more cautious in expectations about specific products, especially if the products require high-quality production or sophisticated technology (e.g., premium market bicycles).

Such skepticism about LDC capabilities manifests itself in two ways. A single unfavorable buying experience may have a major impact by confirming an importer's already cautious attitude and this exacerbates a perhaps negative view of a particular country's manufacturing ability. For example, one US bicycle importer tested a supplier from a country not noted for supplying quality bicycles. The first shipment from the LDC was of such poor quality that the buyer decided not to order again. Word of that buyer's experience spread among other buyers and independent bicycle dealers. This "public good" effect of individual experiences was taken into account by the Taiwanese government when Taiwanese firms began exporting bicycles. The government was reported to have paid for the return shipment of 300,000 defective bicycles to Taiwan rather than let them be sold in the United States and damage the reputation of Taiwanese firms.

A second way in which buyer skepticism is demonstrated is in the buyer's estimate of how long it might take before a particular product reaches a level of quality that would allow the product to be marketed abroad. Buyers interviewed were especially skeptical of finding the quality and skilled labor to produce upper mar-

ket goods in Asian LDCs in the near future. One importer said it would be 5–10 years before Asian LDCs could produce upmarket leather shoes, for example. Another was doubtful that Asian LDCs would ever be able to produce a quality bicycle comparable to what could be obtained currently from Taiwan. One buyer had no confidence at all in Asian suppliers' ability to interpret fashion or designs that would sell in the US market.

The reluctance to move to an LDC from Asian NIEs may also be a function of the buyer's experience in his or her current supplier markets and unwillingness to invest in learning a new market. As one importer said, he had spent 20 years in Asia and felt that he knew that market best. Even though other importers had suggested going to Mexico because of low labor costs, he was dissuaded from doing so by the commitment in resources it would take to learn a new market.

Our interviews and other surveys, however, clearly indicate that although buyers are generally skeptical about the potential of LDCs, they are often willing to work with specific firms. They frequently scan low-cost countries for specific opportunities despite general reputations for low product quality and delivery. Most buyers indicate in surveys that country reputation is, in fact, too broad a category to be useful in evaluating specific products for particular market niches (Yoon, 1986). Direct evaluation of an individual product remains an extremely important source of information to a buyer. Asked what it would take for an experienced buyer to try a supplier in a specific LDC, one importer replied: a plane ticket to the country to visit the factory, meet the management, and discuss samples. If the product and management of the firm were good, he might put in a small initial order. Excellent production of other goods in an LDC, however, even manufactured items that require similar production skills as bicycles (e.g., tricycles) would not be enough to entice buyers into placing orders. In short, evaluating industry capability through proxies is not generally deemed valuable.

Further, professional buyers are often less concerned about the country of origin than are final consumers. They are able to "hide" components sourced from a developing country (e.g., leather uppers stitched in Costa Rica) by emphasizing the country in which the components were assembled (the United States). Finished goods sourced from developing countries thus can be shielded through US brand names that convey positive signals about quality, performance or fashion levels. Goods also can be sold through retailers who have strong reputations for good return policies, after sales service, and for honoring warranties.

It is clearly difficult for developing country suppliers to establish their own retail brand names. For example, even a Taiwanese firm with long experience in marketing bicycles under foreign brand names faces an uphill battle in convincing retailers to stock identical bicycles under its brand. An intermediate strategy employed by some NIE firms is to buy well-known international brand names. Toy producers in Hong Kong, for example, have bought brand names from established British companies, as a means of taking advantage of the links between those companies and their buyers. Brand names, however, do not play a role in improving LDC country reputations in most cases, particularly outside the relatively limited cases where the goal is direct retail sales. Improving reputations instead requires greater emphasis on worker training, management practices, and international standards of quality and delivery — elements important to professional buyers.

6. IMPLICATIONS FOR PUBLIC SUPPORT OF BUYER-SELLER LINKS

Throughout this paper we have emphasized that developing country exports need specialized industry information on product market requirements and production techniques. For many developing country firms, such information is not easily or costlessly acquired. One means of overcoming this informational barrier is long-term collaborative relationships with developed country buyers. Developing country firms, however, face barriers to entry in the formation of these sought-after relationships. For entry and maintenance of buyer-seller relationships, US firms require a combination of price, product quality and reliable delivery. In addition, turnover in existing buyer-seller relationships tends to be slow because partners are reluctant to throw away their stocks of learning and mutual obligations.

Much of the burden of overcoming these barriers necessarily falls on supplier firms. They must be ready to do whatever is required to meet buyers' demands and must maintain the "right business attitude." Once involved in a buyer-seller relationship, a supplier is more likely to maximize benefits if he or she proactively takes advantage of opportunities presented indirectly through the relationship and is willing to invest resources in his or her own operation.

Public efforts at export promotion will be most effective when they supplement and support development of these linkages within the context of well-defined, narrow markets. Historically,

many public efforts at export promotion have been highly general, seeking to serve a range of differing industries or emphasizing general types of support. It is not surprising, therefore, that public sector institutions have a disappointing reputation for expanding their countries' exports and encouraging successful new exporters.¹⁰

How can public efforts be recast to support the development of buyer-seller linkages? How can public institutions become the ally of supplier firms in identifying marketing channels, increasing suppliers' attractiveness to buyers, and helping suppliers maintain relationships that allow transfers of market and production information to occur?

Some public approaches operate directly to encourage long-term relationships with developed country buyers. Rhee and Belot (1989) have suggested that the demonstration (or catalytic) effect of a single, high-visibility relationship is very strong. The spillovers from this relationship occur through movement of trained workers and orders from that relationship to other firms in the supplier's country. The public role in such situations can be quite limited. For example, investment incentives may encourage foreign investment, but empirical evidence on how public efforts can identify, attract, and encourage the "catalytic agents" described by Rhee and Belot remains quite limited. Wheeler, Cole and Irianiwati (1989) hold a contrary view. They have suggested that a policy of "benign neglect" worked in the development of garment exports from Bali: Italian and other buyers there had great freedom to link up with suppliers without facing restrictive investment and labor laws.

A more activist public approach invites experts to work with developing country firms for extended periods of time to "fill in the gaps" in their current capabilities (Keesing and Lall, 1988). Lack of information about product design may be an important entry barrier for a particular product; for another, manufacturing technology may be the crucial missing input; for a third product, poor delivery reliability may be a constraint. These gaps can be self-reinforcing: lack of information results in low export activity, which in turn perpetuates poor information flow.

These "gap-filling" experts may include current or retired staff of large international buyers, industry consultants, faculty from design institutes, manufacturing specialist and information technology specialists. They might provide workshop clinics for a selected number of firms where they provide lessons on how to meet international market specification and quality standards. An example of this approach is the Product Specialists Program managed by the Department of Trade and Industry in the Philippines. The

program is focused on export priority sectors and features seminars and firm-level consultancy services. These clinics convey design and manufacturing information to Philippine suppliers as well as market information support such as surveys of market trends and help with planning, design and implementation of specific marketing events. In addition to specific training, the experts provide some linkages into the international network for that industry.

Public support of technical certification institutions to upgrade local production standards is sometimes suggested as a way to improve the quality or technology reputation of firms in a developing country. India, for example, has established an Export Inspection Agency under the Export Inspection Control Order. This agency has been plagued by problems of inefficiency and delays. Its capability to provide diagnostic assistance is limited. Even if such systems are basically sound, US buyers interviewed in this study either knew little about such institutions or were skeptical of their value. One joint-venture partner was aware of a standards institution within the developing nation in which he had a plant but still sent local components back to the US parent plant for testing. Certification strategies are therefore better pursued by forming links with standards and certification institutions in developed nations, since they provide greater credibility.

Informational gap-filling activities may also include training for both managers and production workers. The Indian Export Marketing Fund (administered by the Export-Import Bank of India) serves a similar function to that of the Philippine's Product Specialists Program, only this fund sends Indian exporters abroad rather than bringing specialists to them. The fund also supports market surveys and product development and adaptation. The fund has succeeded in developing new exporters, but it is too early to judge its impact on entry of Indian firms into international networks or in developing internal networks of information.

A related information gap is a lack of credit management institutions. Suppliers, particularly smaller ones, need to assure themselves that their buyers have good credit histories. Similarly, buyers use the credit rating of potential suppliers to determine whether long-term relationships can be sustained. Credit rating facilities are rarely available in developing countries. The use of international agencies, possibly in partnership with domestic firms, may be an efficient method for providing credit rating services. These might have further benefits in lowering the costs of transactions.

A less direct, but possibly crucial method of public support for firm-level exporting is through provision of public infrastructure to permit efficient channel operations. Basic communication systems (e.g., fax, telephone, telexes) and transportation facilities (allowing reliable, low-cost movement of goods to port, and storage and transfer facilities at dockside) are highly relevant.

A final area for possible public support concerns a country's reputation. Since buyers tend to assume that the level of technological capability and product quality in LDCs matches their level

of economic development, public efforts — especially if narrowly targeted at selected market segments — might be important in overcoming buyers' initial negative expectations. Improvements in quality and technology could be advertised by inviting international buyers to tour model factories. Additional actions in support of this objective might include compensating buyers for defective products sold by their suppliers and, at the same time, creating penalties for poor quality.

NOTES

1. The experience of East Asian exporters clearly demonstrates the development role played by business linkages in overcoming shortages of technical, marketing and managerial information that hampers developing country suppliers. See Morawetz (1981); Rhee, Ross-Larson and Pursell (1984); Keesing and Lall (1988); and Rhee and Belot (1989).

2. *U.S. Industrial Outlook* figure refers to nonrubber footwear, SIC 314, which includes all footwear except rubber, rubber-soled, and fabric footwear.

3. See "Designing in Quality" (1989) and Mody, Susi, Sanders and Van Zoest (1990) for a discussion on how quality control at every stage of the manufacturing process saves money.

4. Vernon-Wortzel, Wortzel and Deng (1988) found that suppliers in the People's Republic of China were surprised by US buyers' anger over incomplete deliveries on orders that "would be filled eventually." Based on experience in their home market, Chinese suppliers misinterpreted supply and delivery as specified in the contract with the US firms as an indication rather than a literal statement of what US buyers expected to receive.

5. See also Casson (1987) for a link between product quality and ownership structures.

6. One developing country representative in the United States complained to the authors that his country's consumer products were not selling well in the United States because the US consumer was "too picky." This was exactly the attitude that would convey to buyers that the supplier would not cooperate in meeting customer demands.

7. Deng (1987), who examined the information source preference of US buyers of shirts, watches, and chinaware from Asian NIEs, reached the same conclusion.

8. This circumstance, in turn, often requires these "lead" firms to make arrangements to protect their access to sources of supply they pioneered — for example, through a joint venture in which they are guaranteed a percentage of production.

9. Yoon (1986) found that US purchasing managers' demographic characteristics (age, sex, purchasing experience) or firms characteristics (size, volume of foreign sourcing, size and degree of centralization of the buying center) did not have an effect on the formation of country stereotypes.

10. For description of more enterprise-based export promotion programs, see Keesing and Lall (1988), and Seringhaus and Rosson (1991).

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