Buyer-Seller Links for Export Development

March 1990
BUYER-SELLER LINKS IN EXPORT DEVELOPMENT

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Industry Development Division
Industry and Energy Department
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ABSTRACT

i. Close, long term relationships with overseas buyers are the key for LDC firms to establish their products in international markets. These buyer-seller relationships provide information on international markets and market segments, product specifications, and appropriate production methods. These linkages can generate externalities for other LDC domestic suppliers—through demonstration effects, training, and buyers' familiarity with the country.

ii. Bicycle and footwear imports into the U.S. have been chosen to illustrate buyer-seller relationships.

iii. One important lesson for LDC firms trying to enter international market is that when product quality and delivery standards are not met, the value of the product to the buyer declines substantially—in high to low end market segments. Overseas buyers are interested in developing and retaining long term relationships with reliable suppliers.

iv. While buyers are willing to transfer to their suppliers enough information to get the product made and shipped, they will not offer information that would help their suppliers become competitors. Thus, it is generally up to supplier firms to take advantage of their buyer-seller relationships to learn. This learning opportunity is one of the key advantages of long term buyer-seller relationships.

v. Buyer-seller relationships usually do not start out as long term or close. If the relationship works to mutual benefit, trust develops, more information is transferred, and the relationship is established in increments.

vi. It is important first for suppliers to get noticed by buyers. This can be difficult if a country's reputation for product quality is poor. Many LDCs are perceived as lacking crucial prerequisites. Nevertheless, most buyers believe country reputation alone is too broad a criterion, and are willing to evaluate individual producers directly. Generally, they rely on the buyer network for information about specific suppliers.

vii. In consumer goods, several alternative market channels exist: retailers who buy directly from foreign manufacturers; importers who buy abroad and wholesale the merchandise to retailers; and, increasingly, producers who buy directly from foreign manufacturers and resell the goods to domestic retailers or use the components in their own products. The largest retailers have their own buying offices, which operate worldwide. Smaller companies rely on wholesale importers. The retail bicycle and footwear industries depend on all three buying channels.

viii. A new trend that is gaining momentum in both bicycles and footwear is for firms in NIEs to become partners and intermediaries in LDCs. NIE firms establish trading and subcontracting relationships with LDC firms that might not ordinarily have access to overseas markets. The NIEs take advantage of the LDCs' lower wage rates to develop new sources and in turn, provide expertise to LDC firms and open market channels for their products.

ix. To increase their exports of manufactured goods, developing country producers need as much information as possible on product differentiation, marketing channels, and product-market niches. Industry associations can take the lead in building the needed information and helping establish forums for exposing buyers to the countries' production capabilities in promising product-market segments.
Public sector institutions are useful only when they can provide specific help to suppliers in identifying market niches, export channels, and potential buyers. As an alternative to public sector export support institutions, a number of LDCs have set up public export marketing funds and clinics, or have started quality control programs to upgrade their countries' products. These are the first steps to expanding export capability by facilitating firm-to-firm links, and pulling in best commercial practitioners into programs to build quality and delivery standards.

Public infrastructure is also important for export capability. This includes roads and shipping facilities as well as reliable communications. Facilitating access to imported inputs and trade finance also is crucial.
I. INTRODUCTION

1.01 Rising wage rates in newly industrialized economies (NIEs -- Hong Kong, 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. A window of opportunity is being created for some LDCs to enter international markets.

1.02 Even for a product at the low end of a market, however, meeting specifications and adhering to reliable delivery standards is of primary importance. Many LDC firms cannot meet these standards. Buyers' skepticism about LDC capabilities, and buyers' own inertia in terms of their existing business relationships with NIE firms, are preventing LDCs from achieving the rapid increase in exports that would be expected on the basis of their low labor costs.

1.03 Supplier firms worldwide commonly try to overcome such entry barriers by establishing close and long term relationships with buyers--mass merchandisers, wholesale importers and large manufacturers (Hakansson 1987, Yoon 1986). The buyer-supplier links are a useful and sometimes essential method for entering the supplier network and retaining a foothold in the maze of international marketing channels:

- They are conduits for information on international markets and help determine the most appropriate market segment to target.
- They help suppliers develop production strategies to meet the requirements of targeted market segments. (Morawetz 1981; Rhee, Larson and Pursell 1984; Keesing and Lall 1988; Rhee and Belot 1989).
- They have the potential of generating externalities through orders and trained workers for other domestic suppliers.

1.04 How can less developed countries attract collaborative business relationships? And how can existing relationships with buyers be deepened to maximize transfer of knowhow? To answer these questions it is necessary to study narrowly defined product categories. Buyers form long term relationships principally because of the importance they attach to product quality and timely delivery. Extensive market segmentation, requiring specialized skills or access to markets and resources, also motivates long term relationships. Quality and delivery requirements and the extent of segmentation vary greatly between products. To demonstrate their effect on the formation of relationships and ultimately on trade performance, concrete examples from well defined product categories are necessary.

1.05 We have chosen to focus on imports of shoes and bicycles into the United States. Shoes and bicycles are good case studies because U.S. consumption of these products is heavily dependant upon imports. Many types of buyer-seller relationship exist in these industries and interesting changes in the pattern of relationships are occurring.

1.06 In 1988, retail sales of footwear in the United States amounted to about US$27 billion for 1.1 billion pairs of shoes.\(^1\) 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 U.S. in 1988 (U.S. Industrial Outlook 1989). China, and more recently, Indonesia have grown as footwear exporters, requiring the development of a new set of relationships. Other low wage countries have shown less dynamism and would require to rapidly develop links with buyers before buying patterns get set.

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\(^1\) This figure refers to nonrubber footwear, SIC 314, which includes all footwear except rubber, rubber-soled, and fabric footwear.
1.07 Beginning in the late 1970s, the U.S. bicycle market began to rely heavily on imports as the so-called baby-boomers embarked on fitness regimes and U.S. producers were unable to meet the increased demand. Imports of bicycles for adults rose from 20% of the bicycles sold in 1973 to 54% of the 12.6 million sold in 1987. Taiwan has dominated the import of bicycles 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 surprisingly has been a late entrant in this industry. Among low wage countries, China appears to be the most serious contender.

1.08 The paper is based on the perceptions of buyers. It is based on interviews in the United States with mid-level and senior managers who are responsible for their firms' international sourcing and investment decisions. The buyer firms include manufacturers, retailers, importers, buyers' agents, and joint venture partners. Trade association staff, consultants, and other industry experts also were interviewed.

This paper complements related econometric work in which we demonstrate the quantitative importance of non-price factors and hence the significance of product differentiation, product quality and stickiness in manufactured goods trade (Mody and Yilmaz 1989).

1.09 We conclude that, ultimately, the efforts of buyers and suppliers will determine whether export links are formed and how effective they are. However, government measures can support domestic firms in forming long term relationships. Such measures may be viewed as occupying the middle area between macro policy (exchange rates, import policies, export regimes) and micro, firm-level coupling with overseas companies. We spell out some promising government measures in the concluding chapter.

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2/ A list of persons interviewed in the course of this study is provided in Appendix A to this paper.
II. THE INSEPARABLE TRIAD: PRICE, QUALITY AND DELIVERY

2.01 Purchasing decisions--including whether to import from a developing country--are typically major, multilevel corporate decisions for U.S. firms. The average industrial firm in the United States spends about 60% of its sales revenues on services, materials and capital equipment (Reck and Long 1988). Since purchasing decisions have a large impact on the "bottom line", inefficiencies in the purchasing process can severely harm a firm's financial health and competitive ability. Moreover, dollar value does not always indicate the importance of a purchase. Lack of a particular component can hold up production of an item that must meet a seasonal delivery schedule. Purchasing also interacts with other major corporate decisions, including product development, marketing and financing.

2.02 Regardless of the distribution channels they use, or market niches for their products, virtually all U.S. firms have minimum product criteria that their suppliers must meet -- criteria that apply to developed and developing countries alike. These consist of an indivisible triad of price, quality, and delivery. If any one of these is not met, not only is profit foregone but company reputations are damaged.

A. Price

2.03 Price is the first condition for forming a relationship between buyer and seller. Unless a developing country supplier can undercut domestic suppliers' prices, few U.S. firms are likely to consider purchasing abroad. Most U.S. buyers, however, are not naive about the implication of a low initial price quote. Buying firms typically express their objective as a "competitive" price -- meaning within a range of acceptable prices for a given product's market niche.

2.04 With the idea in mind that "you get what you pay for," buyers are aware that suppliers who cut prices severely may be cutting quality and/or delivery as well. Such dependence of quality on price is also observed in labor, credit and insurance markets (see Stiglitz 1987). One U.S. buyer found that to save a few cents per bicycle, poor packing material was used by an LDC supplier; 100 bicycles were damaged in transit. Developing country suppliers should expect close examination by foreign buyers about how they intend to achieve their price quote without sacrificing quality or delivery.

2.05 Buyers are concerned about driving the price too low for another reason. A supplier may agree with one buyer to supply bicycles or components at a price that is very low compared to the price he offers to other buyers. However, if problems occur at the factory, the better paying buyers will get their orders first.

B. Quality

2.06 Quality is the second key demand of U.S. buyers. Adequate quality is a prerequisite whether the product is a low or a high end product. Quality requirements are specific to each market niche. If quality is not up to the level expected, the product usually is not marketable, regardless of a good price or on-time delivery. For all product niches, "quality not only makes money, it saves money." The cost of inadequate quality includes product returns, price concessions, service costs, repeated inspections, inventory waste, manufacturing slowdowns, and eventually the loss of market share.3

Variation in the definition of product quality according to product niche or price range is exemplified in the footwear market. For inexpensive leather, vinyl or plastic shoes, quality is considered adequate if the shoes, though of minimum fashion, do not fall apart shortly after purchase. They are not expected to be the latest style, nor of top grain leather, nor are they expected to last through replacement heels or soles. Inexpensive shoes generally are not required to be stocked in half sizes or in widths other than medium and wide. In contrast, shoes at the higher end of the retail market must embody fashion elements that vary by season, year and function. Shoes in these price ranges are expected to be well made, with the most expensive shoes expected to be perfectly made. 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 primarily by performance and looks. These features are reflected in materials and components and the care with which the product is made. For mass merchandise bicycles, price and appearance are more important than performance. In the US$60-100 range (low end market segment) of adult lightweights, "good quality" is achieved if the bicycle runs properly, is made of carbon steel, uses good no-name components, and has a reasonable appearance, e.g., the finish is perfect, but the welding may be apparent along the joints. In this case, cheaper is better as long as the bicycle works and looks good.

Bicycles sold through independent bicycle dealers (higher end market segment) are identifiable by model, through decals and colors and performance. Trek, a U.S. manufacturer of high-quality bicycles, guarantees its bicycle frames for life. Components are of top quality (Shimano, Santur, or Campagnolo components), the paint finish is perfect and will not bubble under the sun, and the paint itself is of top quality. The welded joints are finished smoothly, the frame is not carbon steel but aluminum, chromoly, titanium, or carbon fiber, and the decals or graphics are perfectly executed.

On-time delivery is the third essential element demanded of a product. As well as being delivered on time, an order must be complete. Reliable, complete deliveries are essential for retailers to take advantage of seasonal sales peaks and fashion cycles. Vernon-Wortzel et al (1988) found that suppliers in the People’s Republic of China were surprised by U.S. buyers’ anger over incomplete deliveries on orders that "would be filled eventually." Based on their experience in their domestic market, Chinese suppliers misinterpreted supply and delivery, as specified in the contract with the American firms, as an indication, rather than a literal statement of what U.S. buyers expected to receive. The Chinese suppliers also felt they should not be penalized if failure to deliver was due to events beyond their control. The authors suggest that the Chinese suppliers’ confusion stems from a lack of understanding of the opportunity costs incurred by U.S. buyers for a late or incomplete order.

Most bicycle sales in the U.S. during the Christmas season or in temperate months. In the northeast U.S., the non-Christmas bicycle season is short -- primarily the summer. For the summer season, bicycle stock must be received by April. If importers are late getting bicycles to the independent bicycle stores, the prime sales opportunity can be lost. In one case, a thousand bicycles were late by a month -- because the foreign supplier had trouble getting parts -- causing the importer to miss the peak selling season. The importer was forced to cut his price, and the retail price of the bicycle was cut as well, causing losses all along the distribution chain.

In businesses with high fashion content, such as shoes and garments, delivery dates to retail stores are even more critical. Fashion cycles and peak selling seasons are short. Late deliveries, even by only a few days, can mean lost sales and substantial markdowns.
III. RELATIONSHIPS

3.01 Empirical research confirms that buying firms in developed countries often are willing to engage in long term relationships (Table 1). Indeed, they frequently prefer them (Hakanansson 1987 and Yoon 1986).

<table>
<thead>
<tr>
<th>Buyer Countries</th>
<th>Supplier Countries</th>
<th>Weight Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>Germany</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Italy</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Sweden</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>U.K.</td>
<td>6</td>
<td>12</td>
</tr>
</tbody>
</table>

Table 1: LENGTH OF BUYER-SELLER RELATIONSHIPS IN DEVELOPED COUNTRY MARKETS
(years)

Based on 500 firm-to-firm, buyer-seller relationships.


3.02 Most U.S. 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 Korea that have lasted from ten to twenty years. Several small bicycle importers reported buying from the same factories for more than ten years.

A. Buyer Motivation in Long term Relationships

3.03 Long term buyer-seller relationships become conduits to developing countries for information about marketing and production technology. Buyers willingly supply information via these relationships to ensure that products adhere to quality and delivery standards demanded in the developed country markets. When standards are not met, the value of the product to the buyer drops substantially. For these reasons, buyers invest in developing and retaining the "ideal" supplier.

3.04 Long term relationships 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. Further, relationships tend to become more efficient as buyers and sellers work together through several buying cycles and 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 technologies. Collaboration in design and manufacturing at the early stages of product development cuts costs and improves quality. Such mutual learning is cumulative, and buyers are therefore reluctant to lose this advantage and start from zero with new partners.
3.05 Even when buyers work through trading companies to identify a source of supply and finance the trade, they often deal directly with the supplier to handle defects, problems with specifications, and quality control problems. Bicycle importers, for example, send designs and specifications to the foreign factory and work with the factory to solve problems with shipments. For this reason, bicycle buyers want relationships that are as direct as possible.4

B. Gains for Suppliers

3.06 It is often not recognized that impressive differentiation is characteristic even of products commonly perceived as "homogeneous." Shoes and bicycles are sold in broad market segments differentiated by retail price. (Table 2). Within each broad segment (discount, intermediate and premium), many finer divisions exist. Additional dimensions of differentiation include:

- demographic group (men, women and children);
- type of use (tennis, basketball, jogging and walking shoes; racing bicycles and leisure use bicycles);
- material (leather, canvas, vinyl, plastic; aluminum, titanium, chromalloy and carbon fiber); and
- current styles or fashions.

4/ Buyers also want to eliminate the middleman, as often as not, so they do not have to pay his commission.
Table 2: CHANNEL STRUCTURE BY MARKET SEGMENT IN THE U.S. BICYCLE AND FOOTWEAR INDUSTRIES

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Total Sales 1987 (units)</th>
<th>Main Retail Outlets</th>
<th>Percentage of Total Units Sold (%)</th>
<th>Percentage of Imports (%)</th>
<th>Primary Importers in Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bicycles (1987)</td>
<td>Discount 12.6 million, of which 7.4 million (59%) imported</td>
<td>Mass Merchandise Chains, Discount Chains</td>
<td>70%</td>
<td>53%</td>
<td>U.S. Producers, Mass Merchandisers</td>
</tr>
<tr>
<td>Premium</td>
<td>Independent Bicycle Dealers</td>
<td>30</td>
<td>73</td>
<td>Importers/Wholesalers</td>
<td></td>
</tr>
<tr>
<td>Footwear (1988)</td>
<td>Discount 1.1 billion pairs, of which 877 million (80%) imported</td>
<td>Discount Chains, Self-Service Stores</td>
<td>25%</td>
<td>95%</td>
<td>U.S. producers and mass merchandisers import 75% and importers and buying groups 25% of all imports</td>
</tr>
<tr>
<td>Intermediate</td>
<td>Shoe Store Chains, Mass Merchandisers Chains</td>
<td>32</td>
<td>81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium</td>
<td>Independent Shoe Department Stores</td>
<td>34</td>
<td>71</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author Interviews.

3.07 Buyers provide the crucial link to this maze of product varieties and market channels. They provide the information on what products are selling in a particular season, they provide product specifications, and they take most of the risk in selling the product.

3.08 Buyers also render long term benefits to suppliers, principally through in-plant training in different forms. They send international experts to train local workers and supervisors. During the development of the Taiwanese shoe industry, for example, an overseas importing firm brought in Italian shoemakers and designers to train the Taiwanese technicians; some of these technicians have since become plant technical supervisors.

3.09 Buyers may also arrange short-term worker training in a developed country plant. To emphasize the differences in expectations about production quality, one importer had his supplier visit a U.S. plant to observe production. At the end of the week, the supplier conceded that only one in ten of his components would be adequate for the buyer's product. Such appreciation is crucial in motivating quality improvements 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 the threads and prevent the bicycle from being "knocked down" for shipment. A bicycle frame maker stacking too many finished frames on a dolly can bend the ones on the bottom. If he knows that U.S. consumers are not willing to bang out dents on their new bicycles, he is more likely to modify his production habits. (See also Dahlman and others, 1985).

Our interviews, however, 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. U.S. producers and importers feel it is their exclusive responsibility to interpret the U.S. market, forecast trends, and maintain control of relationships with their customers (such as retailers) next in line in the channel. In many relationships, the buyer provides specifications, and the supplier is expected to produce samples and the final product only.

Generally, it is up to the foreign supplier to go beyond producing under specifications and to take 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 on-the-job training abroad (in Italy). Another developing country firm's management was interested in selling its product in the U.S. under its own brand name once the product was technologically competitive. While acting as a supplier to a large U.S. firm, the company management traveled to the U.S. often, went to trade shows, accompanied its buyer's sales people on calls to U.S. dealers, and sent its staff to the U.S. to learn the market and the distribution system firsthand. This exposed the supplier and his staff to the demands of the U.S. market and to distribution channels. Eventually, this developing country supplier entered international markets under his own brand name.

C. Not All Relationships Are Long Term And Not All Long Term Relationships Are Close

Although U.S. buyers generally prefer long and stable relationships with suppliers, in practice this preference is expressed in subtle ways. Relationships tend to grow incrementally, and their duration and depth often are more evident ex post.

A relationship often begins with a short term agreement—perhaps a one-year production contract—and may continue with annual renewals. By far the most common procurement method for bicycles and footwear is yearly ordering under contract. The process of achieving a stable relationship often is a matter of re-winning the contract each year.

Similarly, 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.

It is not uncommon for buyers to balance the desirable stability and depth of a relationship against other considerations, such as flexibility and risk aversion. In particular, many buyers and suppliers explicitly avoid becoming overly dependent on a single buyer-seller relationship. A typical example involved a firm that was willing to support a "good" supplier with regular and large orders but would never buy more than 10% of any supplier's production.

Contract orders are the predominant purchasing method because they allow buyers the flexibility to change suppliers without losing invested capital. They prevent buyers from becoming captive to one
supplier; they also diversify the risk of nonperformance by a supplier. This arrangement still allows long term and deep relationships to form without tying up capital in one plant and with one supplier. However, under the contract system, the U.S. buyer does not control production priorities or factory management. Thus, the buyer's only method of control lies in the promise of future orders, volume of orders, price, and market entry.

3.18 Joint ventures, or equity investments in foreign operations, are rare in bicycle and footwear manufacturing (outside of athletic shoes). Joint ventures appear to be the result of firms' specific strategy. Schwinn Bicycle Company, for example, has a history of developing close, long term relationships with suppliers in developing markets. The company recently invested in plants in China (low labor costs) and Hungary (access to European markets in 1992) to share in the profits and management of particularly good companies. Another joint venture between a Korean bicycle firm and Murray Ohio Manufacturing Co. had other goals. Murray saw an opportunity for profit by supplying to the Korean market as well as a way to "catch up" in Asian sourcing. The Korean partner was able to provide local market knowledge and management.

3.19 If buyer and supplier work for each other's benefit, over time a system of mutual obligation and trust develops. 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 competitor offers a lower price, the buyer goes to his 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".

3.20 In short, the commitment of each side to the depth of the relationship often is implicit. A corollary is that the legalities of a buying arrangement are not good predictors of the depth or duration of the buyer-seller relationship.

3.21 Efficient communication is a prerequisite for creating long term, deep relationships. Buyers cite the need for frequent communication between partners because of physical and cultural differences. Smaller importers—who cannot afford their own representatives overseas—indicated that it was helpful if a supplier or joint venture partner spoke at least technical English. Communication also means that a partner must be willing to communicate before a crisis occurs.

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5/ Reliable equipment such as faxes, telephones, and telexes are a first step.
IV. HOW BUYER-SELLER RELATIONSHIPS ARE FORMED

A. The Ideal Supplier

4.01 U.S. buyers speak of the ideal supplier as a supplier with the right business attitude. Suppliers with the right attitude 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 consumer demands for variety and quality. Some suppliers, especially those trying to get a foothold in the market with new orders, promise a level of production, delivery, or price they cannot achieve. They are then surprised at the buyer's angry reaction (Vernon-Wortzel et al. 1988). Footwear buyers spoke well of early Korean suppliers who were asked to produce a low cost shoe that U.S. firms would not manufacture; the Korean firms carried through as promised. Thus, an ideal supplier is a firm run by an excellent manager able to:

- exercise good judgement;
- communicate directly, clearly and often with U.S. buyers;
- understand U.S. consumer demands for variety, quality and design;
- control production to produce according to agreed upon terms of the contract; and
- operate efficiently in the local environment (e.g., obtain export licenses, inputs, foreign exchange, hire necessary skilled personnel, and arrange transportation and packing).

4.02 The right attitude also includes "doing what they say they will do." Some suppliers, especially those trying to get a foothold in the market with new orders, promise a level of production, delivery, or price they cannot achieve. They are then surprised at the buyer's angry reaction (Vernon-Wortzel et al. 1988). Footwear buyers spoke well of early Korean suppliers who were asked to produce a low cost shoe that U.S. firms would not manufacture; the Korean firms carried through as promised. Thus, an ideal supplier is a firm run by an excellent manager able to:

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- operate efficiently in the local environment (e.g., obtain export licenses, inputs, foreign exchange, hire necessary skilled personnel, and arrange transportation and packing).

4.03 The importance of a good manager was evident among importers looking for new sources of supply and producers looking for joint venture partners. They searched for suppliers who managed their factories efficiently regardless of the level of technology employed. Buyers mentioned that machines could always be installed, but the ability to use them efficiently and absorb lessons for moving on to the next stage of technology required good, on-site management. For many buyers the most important factor in defining an ideal supplier, and the main reason to visit a factory, was to see management in action. One buyer said he did not invest in plant X but in Mr. Y. Another summarized the feelings of many buyers: "it all depends on the people."

B. Sources of Information About Suppliers

4.04 When evaluating potential suppliers, virtually all buyers first seek information within their own buyer 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.

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6/ One developing country representative in the U.S. complained to the authors that his country's consumer products were not selling well in the United States market because the U.S. 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 U.S. buyers of shirts, watches, and chinaware from Asian NIEs, reached the same conclusion.
4.05 Important information comes from watching and imitating veteran buyers noted for finding
good sources of supply. For example, everyone in the bicycle industry learned through the network that
the Schwinn Bicycle Company had linked up with companies in China and that the Pagoda Trading Company
had gone into Indonesia for suppliers. Buyers also note where component manufacturers locate new plants.
For example, Shimano, the Japanese component supplier for upmarket bicycles, opened a plant in Indonesia.
(This was considered a point in favor of Indonesian suppliers in case Indonesian firms later decide to export
completed bicycles to the U.S. market.)

4.06 "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 time invested in tracking market develop-
ments. 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.

4.07 Buyers also use trade fairs and conferences as sources of information. Since buyers primarily
inspect products at the 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 logistic and human
resource capabilities. Buyers also rely on intermediaries such as trading companies or manufacturing
representatives to locate suppliers for them.

4.08 Relying on the personal judgement of other buyers and on watching the actions of leading
firms for evaluating supplier capability makes good sense for buyers, for several reasons:

- Foreign buyers cannot rely on brand names in developing countries to give them accurate
  signals about marketability of these products in developed countries.

- Developing country firms' perception of what constitutes a good supplier may differ from
  a U.S. buyer's perception. Experienced U.S. buyers are able to evaluate suppliers from a
  comparable point of view.

- Information from developing countries' trade press is not easily available to foreign buyers,
  due to language and distance. Further, it is less technically sophisticated, therefore less
  reliable. Similarly, lists and directories from trade promotion organizations,
  recommendations from the supplying country's embassies, and advertisements from suppliers
  often have little credibility (Deng 1987 pp. 204-205).

4.09 U.S. buyers do not necessarily approach other American buyers for information. One small
independent bicycle dealer/importer preferred asking Japanese buyers about suppliers because of their
product knowledge and their 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 (e.g., if unofficial payments were expected), and past performance. Such supplier references are
a tacit part of the mutual obligations within the industry network. Over the years, one importer stated "one
learns who to trust in terms of information."

4.10 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 from all three for evaluation,
and even visit their plants.

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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, one of the ways lead firms protect their
source of supply is through a joint venture in which they are guaranteed a percentage of the
production.
4.11 No matter how careful the selection process, the real test of a buyer's decision comes when the buyer and seller are working together. For this reason, buyers tend to remain cautious after the final selection. For example, buyers often begin with small orders, perhaps of 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, doubts about the reliability of one or the other will cripple their relationship eventually.

C. The Role of Country Reputation in Supplier Choice

4.12 In surveys of European export performance, positive national reputations are found to benefit widely different industrial sectors. West Germany, for example, benefits from the international reputation of its workforce for excellent technical skills across industries. This has helped West German manufacturers make inroads into new markets even when a particular industrial sector did not warrant an outstanding reputation (Turnbull 1987).

4.13 It is common for buyers to perceive 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 U.S. 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 or technology (premium market bicycles).

4.14 Skepticism about LDC capabilities manifests itself in two ways. A single buying experience may have a major impact by confirming an importer's already cautious attitude. This exacerbates a perhaps negative view of a particular country's manufacturing ability. For example, one U.S. 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.

4.15 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 market goods in Asian LDCs in the near future. One importer said it would be five to

9/ Yoon (1986) found that U.S. purchasing managers' demographic characteristics (age, sex, purchasing experience) or firm 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/ 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 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.

11/ The reluctance to move to an LDC from Asian NIEs may also be a function of the buyer's experience in his current export 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 knew the commitment in resources it took to learn a market and did not want to invest in developing and learning another market.
ten 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. Another importer felt it would take at least five years before China could produce a range of bicycles worth noticing at all. One buyer had no confidence at all in Asian suppliers’ ability to interpret fashion or designs that would sell in the U.S. market.

4.16 The combination of reliance on buyer networks for information and the significance attached to country reputation leads to an apparent “herd behavior” among international buyers. They tend to follow each other into specific countries, which only further reinforces their biases.

4.17 Our interviews and other surveys, however, clearly indicate that buyers do scan and seek opportunities in countries with a low reputation for 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, the importer said: 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 order. However, excellent production of other goods in an LDC, even manufactured items that require similar production skills as bicycles (e.g., tricycles), would not be enough to entice buyers into placing orders. Thus, evaluating industry capability through proxies was not deemed valuable. At the same time, although buyers are generally skeptical about the potential of LDCs, they are willing to work with specific firms.

4.18 Further, professional buyers are less concerned about the country of origin than are final consumers. Professional buyers are able to "hide" components sourced from a developing country (leather uppers stitched in Costa Rica) by emphasizing the country in which the components were assembled (United States). Finished goods sourced from developing countries thus can be shielded through U.S. brand names that convey specific 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 (e.g., Chinese toasters from Woodward and Lothrop, a quality retail chain in the Washington, D.C. area).

4.19 It is clearly very difficult for developing country suppliers to establish their brand names. Even a Taiwanese firm with long experience in marketing bicycles under foreign brand names faces an uphill battle in convincing retailers to stock its brand name goods, despite the fact that the same bicycle may have been sold through the retailer under another, successful brand name. 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 reputable English companies, as a means of taking advantage of the links between those established companies and their buyers. However, improving country reputation for most LDCs does not require brand names. It requires greater emphasis on worker training, management practices, and international standards of quality and delivery.

4.20 In brief, when buyers look for a new supplier, they rely on a variety of information cues. They place the greatest weight on the perceptions of other developed country members in their network. Buyers are generally skeptical about the potential of LDCs but are willing to work with specific firms to get the product they need.
V. CHANGING RELATIONSIPS

5.01 Buyers have performed different roles over time. For LDC firms seeking buyer-seller links, an understanding of changing buyer motivations and relationship patterns is critical.

A. Traditional Buyers

5.02 Three types of buyers in the United States dominate the import trade:

- retailers, who buy finished products directly from foreign manufacturers, often through their own buying offices;
- importers/wholesalers, who buy from foreign manufacturers for resale either to U.S. retailers or to other intermediaries; and
- producers, who buy directly from foreign manufacturers either finished goods that they resell to retailers or other intermediaries, or components that they incorporate into their own products before resale.

5.03 Buying offices. Large U.S. retailers have been aggressive in establishing networks of representatives to scour the world for potential producers. 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).

5.04 In turn, U.S. buying offices have contributed greatly to the export development of many NIE and LDC firms by freeing these firms from the necessity of consumer/market research, product development and design, distribution, and access to U.S. markets. Often the firms were provided with financing as well, and U.S. firms have set quality control standards.

5.05 Large retailers have been less active in market development activities in recent years and have delegated the task first to wholesale importers and now increasingly to well-established manufacturers from industrialized countries and NIEs.

5.06 Small retailers in the U.S. do not have the resources for direct importing or for identifying foreign markets and developing new sources of supply. Instead, they participate in buying groups or rely on importers/wholesalers.

5.07 Wholesale importers. In addition to their normal task of importing, they specialize in market identification and development of new sources of supply, activities that retailers often are not able to do. Some importers forecast and interpret fashion and develop design specifications accordingly; they then market the product to retailers.

5.08 Larger importers are typically better equipped financially than are small importers to develop sources of supply—a process that might take six to eighteen months before a new item is ready to be exported. Large importers employ their own staff designers, engineers, and marketing experts to provide

12/ In the United States, there are about 1,923,000 retail establishments employing about 14 million people, and 416,000 wholesaling establishments with about 5.3 million employees. Together, these two sectors account for about 15% of U.S. national income (Kotler 1988, p. 224).
technical assistance to suppliers. These importers often can afford to visit plants and evaluate management to judge a likely supplier.

5.09 **Manufacturers.** The importance of producers as direct importers has increased in recent years. Many U.S. manufacturers have perceived their comparative advantage in organizing their international marketing themselves--rather than merely producing.13 Goods imported directly by producers may well exceed the amount accounted for by retailers' buying offices (Kirchbach 1988). Producers use subcontractors or joint ventures as sources of supply and often provide substantial technical expertise to their suppliers, especially on manufacturing technology.

5.10 All three channels described above are used to import bicycles into the United States. Producers and mass merchandise retailers tend to import for the discount market, for which over half the bicycles are imported (see Table 2). Importers/wholesalers and some small U.S. producers (e.g., Trek, Canondale) supply imported bicycles for the premium market.14

5.11 Footwear is shifting gradually from three to two main importing channels as a result of marketing consolidation. Importing functions once performed and controlled by many independent importers are shifting to producers or retailers, who hire agents or take over independent importing firms. Volume retailers and domestic producers account for 75% of shoe imports. Of the two, domestic producers seem to have become the largest direct importers. Independent wholesale importers and buying groups are responsible for only 25% of shoe imports ("Country Survey", 1989).

**B. NIE Firms as Partners and Intermediaries: A New Trend**

5.12 Relationships between LDC firms and those in newly industrialized economies (NIEs) are becoming another route for products into the U.S. market. As Hong Kong, Taiwan, Singapore, and Korea face rising production costs, they risk losing buyers to less expensive (i.e. low-wage, low production cost) sources of supply in Thailand, Indonesia, and Malaysia. The NIEs, as a consequence, are being aggressive in finding and maintaining trade partners in LDCs.

5.13 NIE footwear and bicycle firms can rely for a time on their production expertise and their long term relationships with U.S. buyers while they attempt to develop new supplies from Asian LDCs. Three types of intermediation can be distinguished. The most direct intermediation occurs when a long term NIE supplier to a U.S. firm begins sourcing in a low wage country on behalf of its long term buyer. One U.S. importer said its Taiwanese partners were providing on-site training, supervision, and assistance in an LDC while the U.S. firm supplied financial support and kept up the orders from major retailers and producers.

5.14 Second, the U.S. buying firm may seek the assistance of an NIE firm in finding a manufacturing partner. All three firms, the U.S. buyer, the NIE intermediary, and the developing country supplier form a joint venture. The top management of such a venture is typically American, and the production supervisors are usually from the NIE. Schwinn Bicycle Company's joint venture in China is an example of the new partnerships. Schwinn entered the already existing arrangement as a third partner in 1987. The joint venture company, Shenzhen China Bicycles, Co. Ltd., was formed in 1984 between a Hong

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14/ The top two U.S. producers in 1987 for the discount market (by number of units) were Huffy Corporation and Murray-Ohio Manufacturing Corporation. The top three bicycle companies at the importer/wholesaler/distributor level (by dollar sales) were the Schwinn Bicycle Company, WSI, and West Coast Cycle.
Kong bicycle producer and exporter, Mr. Jerome Sze of Hong Kong Link Bicycles Ltd., and a local Chinese partner, Shenzhen Light Industry Co. Mr. Sze, who had been producing and exporting bicycles since 1969, moved operations to China to avoid the rising land and labor costs of Hong Kong. Schwinn, one of the largest importers and distributors of bicycles in the independent bicycle dealers market (e.g., a million bicycles per year), is able to offer access to the U.S. market through its established channels, provide technical assistance, and bring capital to the partnership. Some Japanese ventures in China have evolved and are managed in a similar manner.

5.15 Finally, NIE firms may develop new sources of supply without the involvement of a developed country firm. Rhee (1988) has described a collaborative relationship between Daewoo Corporation of Korea and Desh of Bangladesh in the garment industry.

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15/ Schwinn has also recently formed a joint venture in Hungary with the aim of opening up that country as a source of supply to Europe.
VI. IMPLICATIONS FOR EXPORT MARKETING STRATEGIES

A. What Suppliers Need To Do For Themselves

6.01 To expand manufactured goods exports, developing country firms need a detailed knowledge of the extent and nature of product differentiation and of marketing channels. Such knowledge is essential to target specific product segments and does not accrue automatically even if border prices and incentives faced by exporters are "correct" in some well defined sense. Industry associations can play a very important role by creating detailed libraries of product information. Modern desk-top computers with optical storage devices are increasing an inexpensive and powerful method of accessing detailed information.

6.02 Once exporters have good information on product differentiation and market channels, they need to focus on building long term relationships in the international marketing network, by market niche. Although the network is not a closed system, entry is difficult. Consequently, firms outside the network lack access to immediate market opportunities and risk losing access to necessary technologies in the longer run. The network benefits not only individual suppliers but also, indirectly, other firms in a developing country.

6.03 A competitive price is a necessary, but not sufficient, condition for entering international markets and maintaining a buyer-seller relationship—since buyers are aware of the trade-offs implicit in an artificially low price. Developing country firms need to keep in mind instead that a product's marketability is defined as much by quality and reliable delivery as by price.

6.04 Suppliers need to emphasize their access to a steady supply of components and their ability to deliver complete orders reliably. Suppliers may have to encourage buyers to visit the factory and meet the management so that buyers will gain confidence about the suppliers' production methods.

6.05 Throughout this paper, we have emphasized that the transfer of benefits through buyer-seller relationships occurs firm-to-firm within the context of well defined market channels. It is not surprising, therefore, that public sector institutions, which undertake general trade promotion functions across a variety of industries, have a disappointing reputation for expanding their countries' exports and encouraging successful new exporters (Keesing 1983). How then can public efforts increase suppliers' ability to identify export channels, increase suppliers' attractiveness to buyers, and help suppliers maintain relationships that allow economic benefits to occur?

B. Public Efforts Should Supplement and Support Firms' Export Marketing Efforts

6.06 Product market surveys are an essential tool for aiding export market development. Such surveys should be done by industry associations in collaboration with international consultants. Since market channels and product varieties are always evolving, survey mechanisms need to be in place that ensure updating of information. Similarly, identification of international network partners is an important task for firms in developing countries. One way is for governments to facilitate and subsidize market identification and product adaptation in that market. Institutions that oversee export marketing funds, such as the Export-Import Bank of India, can play a crucial role in this process (see Box A). As we have noted above, however, the actual task of identification is handled best by industry associations and international consultants knowledgeable in a specific market segment.

6.07 Creative approaches are required to facilitate long term relationships with international buyers. Rhee (1988) has emphasized the effectiveness of bringing domestic producers in contact with leading international firms that can act as catalysts. Wheeler, Cole and Irianiwati (1989) 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.

6.08 A more activist approach is one in which international experts are invited to work with domestic firms for extended periods of time. These experts may include current or retired staff of large international buyers, industry consultants, faculty of design institutes, manufacturing specialists and information technology specialists. They set up workshop clinics for groups of firms where they provide an understanding of international market specifications and quality standards. These experts also provide lessons on how to achieve these standards. Such clinics provide both a training function and a network linkage function, both of which are central to export development. They have been successfully used for export promotion in the Philippines (see Box B.)

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**BOX A: EXPORT MARKETING FUND IN INDIA**

The Export Marketing Fund (EMF) in India has been used creatively for a number of market development activities:

- **Technology and Product Development.** Hero Cycles used the EMF to hire a Japanese expert for designing a new model suited to export markets. A company named Pricol was financed to customize dashboard instruments for sale in Europe. Bharat Gears used the EMF for product development to acquire Original Equipment Manufacturer (OEM) status with Dana Corporation, a major U.S. OEM automotive component supplier.

- **Identifying partners and market channels.** Kirloskar Oil Engines have been supported by EMF to identify joint venture partners. ERGO Software used the EMF for partner search and intermedation during the first year of contract. Malhotras used the EMF for extensive study of marketing channels for razor blades in the British market.

- **Identifying niche segments.** Sundaram Fasteners used the EMF to identify the segment of the specialty fastener market most suited to their capabilities.

- **Acceptance testing and quality assurance.** WIPRO used EMF funds to finance testing in the European markets to assure buyers of product quality. Infosys used the EMF for product evaluation and testing in the United States.

- **Travel.** The EMF has financed extensive travel for Indian exporters.

The EMF was set up in 1985 and has been financed by the World Bank as components of Industrial Export Development projects. It is managed by the Export-Import Bank of India. At the discretion of the Export-Import Bank, up to 50 percent of the cost of the market development activity is given as a grant to the exporting firm.
BOX B: MARKETING CLINICS IN THE PHILIPPINES

The Product Specialists Program (PSP) is designed to improve Philippine manufacturers' competence in design and marketing through close links with foreign product experts. The program includes identification of international product specialists; surveys of market trends; seminars for manufacturers and designers; firm-level design and adaptation consultancy services; and planning, design and implementation of specific marketing events.

The program is focused on export priority sectors (currently, crafted consumer products but to be extended to industrial products). The central features of this program are the seminars and firm-level consultancy services. These are conducted as "clinics" for a limited number of firms at any one time. The clinics co-deliver design and manufacturing information to Philippine suppliers. In turn, they are also marketing mechanisms since many of the experts are associated directly or indirectly with leading international buyers. The PSP was set up in 1982 and is managed by agencies of the Department of Trade and Industry. It is aid-funded and services till recently were free to users. Now a nominal fee is charged.

6.09 Building domestic capabilities to meet international quality and delivery standards is another area where public policy can help. 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 flows.

6.10 Filling in gaps may also include training for both managers and production workers. The interviews conducted for the present study and other empirical evidence stress the importance of good management and worker preparation before quality control systems can be effective. Buyers search for good managers--good communicators, productive and able to manage their resources efficiently. Specific programs to inspect and upgrade product quality have worked in Taiwan (see Box C).

6.11 Public support of technical inspection and certification institutions to upgrade quality, as in Taiwan, may not work as well in other developing countries. Under the Export Inspection Control Order, India has established an Export Inspection Agency. This agency has been plagued by problems of inefficiencies and delays. The capability of providing diagnostic assistance is very limited. Even if such systems are basically sound, buyers in this study either were unaware of such domestic institutions or were skeptical of their value. One U.S. joint-venture partner was aware of a local standards institution but preferred to send locally-produced components back to the U.S. parent plant for inspection.

6.12 Thus, it might be desirable to link up with foreign standards and certification institutions at an early stage. International firms such as Lloyds, Bureau Viretas, American Petroleum Institute, and the Underwriters Laboratories could provide the required service. They have considerable experience and can provide not only testing but also diagnostic help. They are linked to firms in all parts of the world and can provide information on best practice and even provide links to potential buyers. To enable these firms to operate in an LDC economy, regulations and restrictions on their ability to operate should be minimized, if not eliminated, as a necessary first step.

6.13 Another innovative possibility requires a group of suppliers to cooperate in setting up testing facilities in the importing country. The buyer then has close physical access to the test site and is likely to feel greater confidence in the results, particularly if the tests were supervised by people who were credible to him. The other advantage of this approach is that the buyer is more likely to provide feedback to the supplier, aiding the process of supplier learning.
Starting in the 1950s, Taiwan began compulsory quality inspection of product lines that were drawing complaints from international buyers. This evolved into a much larger system, and by 1976 as much as 60% of Taiwanese exports were subject to quality inspection. In fact, firms that do not meet minimum quality standards were barred from exporting.

Exporting firms are divided into three categories. Final products are inspected for quality, but quality procedures within the firm are monitored as well.

- The top category of firms includes those that meet international standards. Their quality control system is inspected once a year, but their final products are not inspected.
- The middle-grade firms have their quality control systems inspected twice a year, and their products are subject to random inspection (a one-in-thirty chance).
- The bottom-grade firms are inspected three or four times a year, with random inspection of their products (one-in-fifteen chance of inspection)

Frequency of inspection was higher in the earlier years of the inspection system, while products were being brought up to internationally acceptable standards. Fees charged for inspecting export products are inversely related to the grade of the producer, the bottom-grade firms paying the highest and the top-grade firms paying the lowest fees.

The Bureau of Commodity Inspection and Quality supervises the inspections. The Bureau has about 800 technically qualified inspectors. In some cases, visual inspection is adequate; however, for many products, testing is a more elaborate process requiring access to good instruments and technicians. The Bureau outsources the inspection processes to specific industry associations and also uses laboratories of firms that have the required facilities. In recent years, the Bureau has also begun to collaborate with international testing and certification agencies such as the Underwriters Laboratories.

The quality inspection program has served not only to certify quality but also to upgrade quality. In 1987, the Bureau of Commodity Inspection and Quarantine concluded that packaging of electrical equipment was substandard. Producers protested, and indicated that buyers seemed satisfied. The Bureau sought the intermediation of legislators, and a trial quality improvement program was set up for six months. Quality of packaging is since reported to have improved, although no independent evaluation has been made.

If an exporting firm claims that its shipment is being delayed because of the inspection procedures, its products are retained by the inspectors, and the main shipment is allowed to go. If the quality of the tested products is found to be substandard, the exporting firm faces severe penalties, including a bar from exporting.

Corruption is a potential problem in such a system. Salaries earned by quality inspectors are much lower than those offered in the private sector, and it is common for inspectors to move to the private sector. Corruption is kept under control through various mechanisms such as an anonymous complaint system through the mail.

Since the mid-1980s, the concern with firms' abilities to meet international quality standards has declined, and the value of exports covered by inspection requirements has fallen to 23% of exports.

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Based on Wade (1990)
A less direct, but possibly critical, method of public support for firm-level exporting is through provision of public infrastructure to permit efficient channel operation or to support individual firms in a specific product segment. Infrastructure support includes basic communications (e.g., fax, telephone, telexes), transportation and storage facilities. Similarly, the importance of assuring supply of imported inputs is well understood but not necessarily acted upon.

In a related area, difficulty in building long term relationships arises from the lack of adequate credit management institutions. Suppliers, particularly the 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. Such credit rating facilities are rarely available in developing countries. As in the product inspection schemes, the use of international agencies, possibly in partnership with domestic firms, can be an efficient method for providing credit rating services. These might have further benefits in lowering the costs of transactions.

A final area for public support concerns a country's reputation. Since buyers tend to associate the level of development of a country with the level of technological capability and product quality, public efforts targeted at selected market segments could help change buyers' expectations about new products. This may include governments compensating buyers for defective products sold by domestic suppliers and, at the same time, creating penalties for poor quality. Improvements in quality and technology could be advertised by inviting international buyers to tour model factories, for example. Nevertheless, it is well to remember that country or firm reputation is often too general a cue for buyers making decisions on product selection. Even if a supplier has an excellent reputation, a prospective buyer is still likely to proceed cautiously—to see how a relationship works out.
APPENDIX A

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