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INTERNATIONAL BUYING PROCESS AND RELATIONSHIP
BUILDING IN FINNISH BUYER AND THAI SUPPLIER
PERSPECTIVE

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KANSAINVÄLINEN OSTOTOIMINTA JA ASIAKASSUHTEN
RAKENTAMINEN SUOMALAISEN OSTAJAN JA THAIMAALAISEN
TOIMITTAJAN NÄKÖKULMASTA

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Tämän opinnäytetyön aiheena oli tutkia kansainvälistä ostoprosessia sekä ostajan ja toimittajan välistä asiakassuhteen rakentamista. Lisäksi tavoitteena oli paremmin ymmärtää Thaimaan liiketoimintakulttuuria sekä siihen liittyviä tapoja ja käytäntöjä. Yksi tutkimuksen tavoitteista oli selvittää pystyykö Thaimaa tarjoamaan tuottoisia, kannattavia ja luotettavia toimittajia suomalaisille yhtiöille jotka etsivät niitä ulkomailta. Tutkimus suoritettiin kvalitatiivisena tutkimuksena haastatteluja käyttäen talven 2007 ja kevään 2008 välisenä aikana.

Tutkielman teoreettisessa osuudessa käsiteltiin kansainväliseen ostotoimintaan liittyviä vaiheita sekä ostajan ja toimittajan liikesuhteen rakentamista ja kehittämistä. Teoreettisessa osuudessa käsiteltiin myös Thaimaan liiketoimintakulttuuria sekä muita Thaimaahan liittyviä asioita ja käytäntöjä. Osuus nojautui vahvasti ammattikirjallisuuteen kuten myös luotettaviin Internet lähteisiin ja haastatteluihin.

Tutkimuksen tavoite työn empiirisessä osassa oli tutkia kansainvälistä ostotoimintaa jalkineiteollisuuden näkökulmasta. Lisäksi empiirisessä osiossa päämääränä oli analysoida kansainvälistä liikesuhteen rakentamista suomalaisen ostajan ja thaimaalaisen toimittajan välillä. Kvalitatiivinen tutkimusmenetelmä oli sopivin menetelmä työn empiiriseen osaan, johon kuuluivat henkilökohtaiset haastattelut ja avoimet kysymykset. Kysymysten avulla onnistuttiin keräämään hyödyllistä tietoa Thaimaan liiketoimintakulttuurista ja selvittämään, miten Suomen ja Thaimaan yhteistyö toimii kansainvälisessä jalkineiteollisuudessa. Haastateltavat yhtiöiden edustajat olivat Aleksis Oy:n naisten ja miesten OIS jalkineiden ostaja Maria Malkamäki ja Nontanadda Sangkham Thanafotwears Co., Ltd. yhtiöstä Thaimaasta.

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The purpose of this thesis was to increase the understanding of international purchasing process and buyer-supplier relationship building. Another objective was to comprehend the business culture in Thailand. One of the goals of the study was therefore to conclude whether or not Thailand can offer profitable and reliable supply market for Finnish companies that are seeking suppliers from abroad. The research was conducted through qualitative research method with personal interviews between the winter of 2007 and the spring of 2008.

The topics discussed in the theoretical part of the thesis include the different phases of international buying process and the international buyer-seller relationship building. The theoretical part also deals with the business culture in Thailand as well as Thailand in general. The theoretical part of the thesis relies heavily on professional literature along with reliable Internet sources and interviews.

The goal of the research in the empirical part was to study international buying process in the field of footwear industry. Another objective was to analyze international relationship building between the Finnish buyers and Thai suppliers. Qualitative research method with personal interviews and open-ended questions was the most suitable research technique for the empirical part. Questions managed to gather valuable information about the business culture in Thailand and clarify how Finland and Thailand work together in an international footwear industry. The company representatives interviewed were the buyer of women and men's OIS footwear Ms. Maria Malkamäki from Alekski 13 Oy and Ms. Nontanadda Sangkham from Thanafotwears Co., Ltd.

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1 INTRODUCTION

This thesis examines the increasing international trade and the challenges that the companies have to be prepared for. These challenges include a more complex buying process and relationship building because of the cultural differences, diverse macro environments of the countries and other important factors. The research discusses the topic from the perspective of Finnish buyer and Thai supplier in the field of footwear industry. I personally find this topic interesting because I had a chance to carry out my practical training in a Thai company in Bangkok which supplies footwear mainly to Europe and which also has customers in Finland. I hope that in the future I will be working in this field of business and that the thesis can enhance my knowledge about international trade.

One of the objectives of the thesis is to find out why international outsourcing is becoming more and more common among Finnish companies. Another objective of the thesis is to determine why firms should invest on relationship building when doing business internationally. The third objective is to study Thailand as a potential supply market and to understand the country's different culture, macro environment and the way of doing business. All of these objectives gives in-depth knowledge for Finnish companies looking for a cost-effective supply markets while providing information about the challenges they might face when entering the world of international trade. The purpose of this work is to give guidelines especially for Finnish companies instead of Thai companies, which is why the Finnish national and industrial culture as well as the Finnish organizational culture have been deliberately excluded from the thesis.

Outsourcing in an international perspective offers such advantages for the buyer as lower price and higher-quality products. In some situations products that are purchased from another country are not even available domestically or foreign sources may for example offer more advanced technology. Also key account management has an important role in international relationship building between buyer and seller. The development of key account relationship is always different

between organizations, which is why firms have to find their own method to identify potential accounts and build relationships. This thesis also presents the basic stages of key account relationship building, which can be distinguished in most relationship developments.

The chapter on international buying process is the first main subject of the thesis. It describes the stages involved in the international trade from supplier to buyer including supplier selection, contracting, ordering and evaluation. International buyer-seller relationship building is another main topic of this work, which defines the benefits that a well-managed relationship can bring to both parties regardless of the time or resources it requires. Culture is also examined in this chapter because international relationship building requires people to work in multi-cultural environments. The last key topic deals with Thailand's business culture including the advantages and disadvantages of doing business with a Thai supplier. The chapter illustrates how to manage and understand Thai culture along with business culture and gives a general glance at the macro environment of Thailand.

2 INTERNATIONAL BUYING PROCESS

Purchasing is about buying the right products, in the right quantities, at the right time, at the right prices, and from the right supplier. Purchasing is a vital part of companies' internationalisation development and by choosing the best suppliers the company is able to assure the best possible products for its end-users. The international buying process in brief means that a customer makes an agreement with a foreign supplier to purchase and import a number of products that meet the specifications set by the buyer. The supplier handles the whole production process while the seller is able to focus on other tasks. International outsourcing also has its own problems and disadvantages that should be taken into account. These challenges include the difficulty to evaluate and select qualified suppliers, possible political and labour problems, currency fluctuations and payment problems as well as the difficulty to respond to market changes. The whole buying process can be long and requires effort in order to ensure the best possible quality and delivery times. International trade involves more paperwork and extra documentation as well as added costs such as freight, insurance, import duties, costs of letters of credit, travel costs and others that domestic trade does not include. Figure 1 below gives a guideline of what stages can be included in the international buying process.

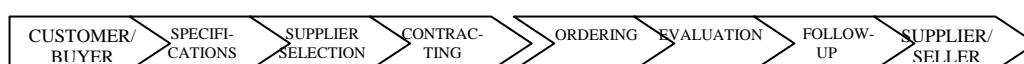


Figure 1. International Buying Process. (van Weele 2005, 13)

2.1 Purchase Order Specifications

In this first phase of purchasing process the company has to decide which products, components, or activities are made inside the company and which ones are more profitable to acquire from specific suppliers. These products should be unique, less expensive, possess proven market demand and be of better quality. After the decision, company has to compile specifications for products that will be purchased

outside the company. Functional specifications are vital for the product and also something the users expect to have. Technical specifications illustrate design, characteristics and installation requirements and other technical features of the product. Finally, the logistics and maintenance specifications describe the logistic process including mode of transportation, and all requirements for the maintenance and after-sales service. (van Weele 2005, 47-48)

The whole purchase order specification is drawn with the help of the above-mentioned specifications finally including quality-, logistics- and maintenance specifications as well as legal and environmental requirements, and target budget used for founding the potential supplier. Purchase order specification might have an important role in the future for example by enhancing all the important qualifications needed and preventing possible product changes made by the supplier. (van Weele 2005, 48)

2.2 Supplier Selection

Firms constantly seek ways to lower costs, simultaneously improving products and services in order to stay competitive. They could have numerous suppliers in various countries, within the same country, or only one supplier. The right supplier is assessed and selected based on a several significant aspects including quality of the imported products, delivery time, reliability of the supplier, transportation costs and capability to meet all the other requirements set by the buyer. It is crucial that the supplier is able to deliver a product that satisfies consumer needs but at the same time is competitively priced. Other core supplier benefits are possible warranties, after-sales service, protection of intellectual property rights and overall reliability. Low-cost suppliers should also be taken into consideration when choosing suppliers because of their labour costs, exchange rates, transportation costs or convenience to raw materials. (Seyoum 2000, 347-348, 350)

The supplier selection begins by screening the potential markets. Usually the specifications done in the first step have already given some indication for possible markets or even suppliers. On the contrary, if there are not enough accepted suppliers

available to the shortlist they can be found through careful supply market survey. The buyer needs information about the circumstances and culture in the supply country, legal issues and official papers, finance, payment transactions and other practicalities included in the buying process. Information can be found from corporate directories, business organizations and magazines and nowadays from the Internet too. Suppliers' web pages can also include a lot of information about their products and services. (FINTRA 2002, 11-14)

Global sourcing is usually advisable when acquiring large amounts of products with lower prices than local or domestic suppliers are able to provide. If products are so exclusive that they are only available in some particular countries, global sourcing might be the only option. Even though global sourcing offer more supplier possibilities, it also requires longer lead times when it might be difficult to follow consumer demand changes. Trade shows are an efficient way to find potential suppliers because these events are organized for specific products at a time. Buyers are able to see product samples, meet company representatives of various suppliers and request quotations or even place orders if they are pleased with what they have seen. (Varley 2001, 80-81)

Shortlists will eventually consist of best possible suppliers. A request for quotation is send to the suppliers on the shortlist, which includes all the purchase order specifications in details. In the quotation the supplier is also requested to include contract conditions, terms of payment and price offer for the products. (Baily, Farmer, Jessop, Jones 2005, 371-372). All the quotations or product proposals are evaluated and analysed in view of choice criteria set in the product specification phase (see chapter 2.1 p. 7) (Jobber 1998, 86).

In international trade there is always a distance between buyer and seller that should be evaluated before selecting the final suppliers. This so called distance has five different dimensions that are explained next. Social distance refers to individuals' and organizations' way of working and how two or more different societies are able to work together in order to form any relationships. Cultural distance is strongly affected by the national culture that includes norms and values (see more in chapter 3.3.1 p. 27). Technology – including for example products and production - can vary

a lot between companies in different nations and that is called technological distance. Time distance is obviously different in international business than in domestic market, which is why ordering and transferring the products should be carefully measured, evaluated and considered. Finally, the geographical distance refers to the physical distance between buyer and seller. (Jobber 1998, 95-96)

2.3 Contracting

After the supplier is selected the purchasing contract is prepared whose content depends on the industry, the product characteristics, market situation and other factors. The contract involves crucial issues including prices and terms of delivery, terms of payment, warranty issues and other arrangements. Most popular terms of delivery are Incoterms, whose purpose is to achieve a common interpretation. Both buyer and supplier negotiate and prepare the agreement to minimize risks and responsibilities related to the purchase and the whole buying process. (van Weele 2005, 54-57). The invoice solely can be adequate in small, one-time purchases but in long time relationships a formal purchasing agreement is more common because it clearly defines the parties' rights and responsibilities. (Shippey 2003, 30)

2.3.1 The Purchasing Agreement

Careful purchase contract preparation can significantly reduce risks. In international contractual practice, both parties can determine the content of the contract. Standard conditions of contract and contract samples can give guidelines when developing purchasing agreements but these are only directive. It is important to state clearly both parties' rights and responsibilities to avoid any misunderstandings in the future. A common procedure in international trade is that the buyer makes an offer to the supplier about the particular products. If the seller is willing to deliver products according to the terms in the bid, the order is confirmed and the contract comes into operation. If the supplier's answer to the buyer's offer includes any additional terms, it is a counteroffer. (FINTRA 2002, 15-19)

The object of the contract should be somehow specified in the actual contract but as strictly as possible in the appendix also. Everything the buyer wants and expects to be included in the bargain should be written into the contract. With the terms of delivery the parties can agree on who is liable of taking care of the carriage. Terms also state when liability of the risk is transferred to the buyer, how the costs are divided, what is the division of the risk, who is responsible of the packaging and who is taking care of the formalities in the customs. Contracting parties can freely decide the place of delivery. When the seller delivers the products, the delivery is completed after the goods are in the buyer's possession. Liability for risk is transferred to the buyer when delivery is done as mentioned in the contract. If parties have agreed to use the Incoterms, the time and place of the delivery as well as the responsibilities will be clearly defined regardless which of the terms is used (Shippey 2003, 34). If the goods are damaged, disappeared, are destroyed or reduced beyond the supplier's control and the buyer has the liability of the risk, the buyer has to pay the whole purchase price. Delivered products have to be exactly what is agreed on the contract including quantity, quality, packaging, and other features. The buyer is entitled to compensation if the delay or damage is caused by the seller's negligence. The purpose of contractual penalty is to specify in advance the amount of compensation in the case of breach of contract. (FINTRA 2002, 19-21)

One of the essential clauses in the purchasing contract is the purchase price, which has to be mentioned as clearly as possible. Purchase price should also include the currency, possible index- and exchange rate conditions as well as who is responsible for value added taxes and other indirect taxes, and whether the purchase price includes transportation, warehousing, packaging or other operations. The contract comes into operation when it is signed. A fixed-term contract terminates when time expires without separate notice. If the contract is made for the time being, the expiration requires a notice. Both parties have the right to execute the notice. The purchase agreement includes several important sections that can be seen in the checklist of figure 2 below. (FINTRA 2002, 21-30)

CHECKLIST FOR PURCHASING AGREEMENT	
Contracting parties and the target of the contract	
Purchase price	
Terms of payment and method of payment	
Terms of delivery	
Packaging	
Passing of the risk and ownership	
Warranties, maintenance and after sale service	
Legal papers	
Inspections and reclamation	
Annulment of purchase	
Compensation of damage	
Price reduction and contractual penalty	
Force majeure	
Licences	
Altering of a contract and endorsement	

Figure 2. Checklist for Purchasing Agreement. (FINTRA 2002, 18)

2.3.2 Incoterms 2000

Incoterms are a set of international rules promulgated by the International Chamber of Commerce for the interpretation of the common sales terms in foreign trade defining the obligations of buyer and seller at every stage of a transaction excluding the transfer of the title. The Incoterms were first issued in 1953 but again revised in January 1 2000. (Hinkelman 2003, 24; Gardner 2004, 102-104). All the thirteen Incoterms are listed in figure 3 and individually explained in details below.

EXW	Ex Works (named place)
FCA	Free Carrier (named place)
FAS	Free Alongside Ship (named port of shipment)
FOB	Free on Board (named port of shipment)
CFR	Cost and Freight (named port of destination)
CIF	Cost, Insurance, and Freight (named port of destination)
CPT	Carriage Paid To (named place of destination)
CIP	Carriage and Insurance Paid To (named place of destination)
DAF	Delivery at Frontier (named place)
DES	Delivered Ex Ship (named port of destination)
DEQ	Delivered Ex Quay (named port of destination)
DDU	Delivered Duty Unpaid (named place of destination)
DDP	Delivered Duty Paid (named place of destination)

Figure 3. Incoterms 2000. (ICC, 2007)

In EXW the seller places the goods at the buyer's disposal in the agreed place within the certain time period. The seller is not responsible for loading the goods in to the vehicle provided by the buyer because it is the buyer's responsibility to transport the goods from the seller's location to the final destination. When the buyer bears all the costs and risks involved in the transportation, EXW is the least obligation to a seller. The seller's responsibility in FCA is to deliver the goods into the custody of the carrier at the named place both specified by the buyer. Only if the named place is the seller's place of business, it is the seller responsible for loading the goods into the transport vehicle. FCA can be used in any transportation modes including multimodal transportation, which is why the carrier can be anything from a shipping line, airline, trucking firm or railway to an individual transportation company. In FAS price for the goods also includes the charge for delivery alongside a vessel at the port. While the seller pays for the inland transportation to the port of shipment, the buyer is responsible for the loading costs, ocean transportation and marine insurance. (ICC 2007; Wood, Barone, Murphy & Wardlow 2002, 278-283)

When using FOB, the quoted price also includes the cost of loading the goods into transport vessels at the specified place. The seller is responsible for the export formalities and placing the goods on board at the port of shipment while the buyer designates the ship and pays the freight. All the expenses and liability of the risk are transferred to the buyer after the goods pass the rail of the ship. Under the CFR Incoterm seller's liability is to take care of the shipping formalities including acquiring necessary export licences, loading the goods on board, selecting the shipping company and paying the freight to the named overseas port. The quoted price therefore includes cost of the goods and freight charges. The buyer's responsibility is to arrange insurance and transportation from the port of shipment to the destination. In CIF, the seller has the same responsibilities as in CFR in addition to acquiring marine insurance against of loss or damage to the goods during the carriage. In other words, the cost of goods, insurance and freight to a port of destination are included in the quoted price. Under CPT, the seller pays the freight for the carriage of the goods to the named destination. The risk of loss or damage to the goods is transferred from the seller to the buyer after the goods have been delivered to the custody of the carrier. CIP is the same as CPT, but the seller also has to acquire transport insurance. (ICC 2007; Wood et al 2002, 278-283)

In DAF the seller's responsibilities end after the goods arrive at the frontier of export or import depending on the named place. The seller is not obligated to unload the goods or responsible for import clearance. Under the DES Incoterm the seller is obligated to make the goods available to the buyer on board the ship at the named port of destination. The seller is therefore responsible for selecting the ship, paying the freight and bearing the risk during the transportation. In DEQ the seller is liable for delivering the goods on the quay, wharf or port of destination bearing all costs and responsibilities up to this point. The buyer on the other hand is responsible for any duties and charges in the import clearance as well as transportation to the final destination. Under DDU the seller is obligated to deliver the goods available to the buyer for import at the agreed place in the country of import. The seller bears all costs and risks involved in transporting the goods but it is not responsible for import clearance. The buyer is responsible for any custom formalities, duties and charges on import. DDP is the Incoterm in which buyer assumes the least responsibility and seller bears all risks and all costs until the goods are delivered to the buyer. (ICC 2007; Wood et al 2002, 278-283)

2.4 Documentation

International trade requires numerous important documents and both the buyer and seller have their own responsibilities regarding of the documentation. The Seller is responsible for export documentation that is needed in the customs clearance. On the contrary, the buyer is responsible for import documentation and when all requirements for import are carried out, buyer can notify seller that goods can now be shipped. (Shippey 2003, 35). Documents have a vital role in international trade acting as a guideline to each party involved and providing evidence of the products' ownership during the process. Documents provide information to the shipping company about where the goods are transported and how the shipment is handled. Banks get instructions of how to collect and disburse the payment. The insurer can evaluate the risks and specify the value of the shipment. Documents also provide evidence to the exporting and importing countries that goods are legal to export- and import from/to that specific country. Documentation is not always the same

depending on the transaction, products and countries and parties involved. (Hinkelman & Mansergh 2002, 2, 4)

Documents used in international trade can be divided in several categories depending on to whom they are issued or required by. Transaction documents are made by the buyer and seller to make sure that the purchase is done according to the terms and conditions mentioned in the purchase agreement. These documents can include the following

- Letter of Inquiry
- Request for Proposal (list of product specifications) and the actual Proposal
- Purchase Order that is a written offer done by the buyer to the supplier including proposed terms and conditions (Hinkelman 2002, 158).
- Contract of Sale states all the conditions and payments that must be met before the title of the products can be conveyed to the buyer. It includes product descriptions and prices, rights and responsibilities as well as terms and conditions.
- Pro-Forma Invoice is an invoice that supplier prepare before the shipment. It informs the buyer about the products' quantities, value, and other important specifications. With pro-forma invoice buyer is able acquire possible import licenses and apply for a letter of credit (see more on pages 16 & 20).
- Commercial Invoice authenticates products' seller and buyer. It also include other vital information about the goods such as invoice number, mode of transportation, delivery and payment terms, as well as detailed product description. Customs require commercial invoice to determine the value of the products to assess customs duties and buyer needs it to clear goods from customs, prove ownership and arrange payments. (Johnson 2002, 81)

(Hinkelman & Mansergh 2002, 31-37)

The export and import authorities require Export and Import Documents, which are depended on countries' requirements to export and import as well as the type of products. The most common and important documents apart from the Commercial Invoice are:

- Export and Import Licences that government authorities draft to permit exportation and importation to specific country.
- The Bill of Lading is a vital document that the carrier issues to the supplier. It acts as a document of the title (whoever has it can claim possession of the goods), a contract of carriage and a receipt for goods.
- The Certificate of Origin states the country where the products were manufactured.
- Export and Import Declarations are formal statements made by the country's export and import authorities containing full details on goods being exported or imported. Documents are used for export and import control and defining possible duties.
- The Inspection Certificate is a proof that products are inspected before the shipment, which usually is done by an impartial organization.

(Hinkelman & Mansergh 2002, 56-67, 68-75)

Transport or Shipping Documents are issued by the company or organization that is taking care of the transportation.

- The Bill of Lading (B/L) is the most important of the shipping documents and it is required in every international transaction that involves transportation. There are several forms of bill of lading depending on the carriage meaning for example the mode of transportation.
- The Packing List includes the amount and kinds of products being shipped as well as other information needed for transportation purposes. It is not always requisite but still useful enabling the consignee to control that correct amount of products are received.

(Hinkelman & Mansergh 2002, 38-55)

Banking Documents are required if banks engage in the transfer of money between organizations. Documentation is usually dependent on the supplier and buyer's requirements as well as the method of payment (see chapter 2.6 p. 18) but the transaction is generally handled with either the two most common documents:

- Documentary Letter of Credit (L/C) is issued by the seller's bank – meaning advising bank – on behalf of the buyer. The document guarantees that a

buyer's payment to a supplier is received on time and for the correct amount. L/C can be either revocable or irrevocable; of which revocable credits have more advantage to the buyer because they can be cancelled at any time without prior notification to the supplier. Irrevocable credit on the other hand cannot be cancelled which guarantees that buyer has pay to a supplier on time and for the correct amount.

- With Documentary Collection, the supplier transport the products and presents documents to the advising bank specifying that the documents should be given to the buyer after the payment or acceptance of a time draft promising payment at a later date. The advising bank will send the documents to the importer's bank in order to collect payment.

(Hinkelman & Mansergh 2002, 76-99)

Even though there seems to be a huge amount of documents involved, the majority of all international transactions are handled with only five documents including Commercial Invoice, Bill of Lading, Certificate of Origin as well as Export and Import Declaration (Hinkelman & Mansergh 2002, 5). The number of documents mainly depends on exporting and importing countries' requirements that can usually be checked up from government departments (Seyoum 2000, 155)

2.5 Ordering

The order is placed after the most suitable supplier is selected but the purchasing contract is not formed until the seller accepts the order. The official order form defines clearly what the buyer wants and what it will accept. Every order form usually has its own order number, which is then later found in the invoice made by the supplier. Usually when the order is large the buyer can send two copies of the order to the supplier where the first one is the so-called acknowledgement. With this method the supplier accepts the price, terms and conditions of the order by signing and sending it back to the buyer. (Baily et al 2005, 372-375). The time and process that are needed from placing an order to the customer receiving it is called order cycle. It includes processes like order placement, order processing, production and transportation to the final destination. (Hinkelman 2002, 145).

2.6 Methods of Payment

Finding an ideal payment method is a key to ensure that both seller and buyer will have an interest to carry on with the relationship in the future. Whereas Cash in Advance has the least risk to seller it has the highest risk and cost to buyer, Consignment Sales and Open Account are the cheapest choice to buyer while imposing the highest possible risk to seller. The terms of payment normally depends on the relationship between supplier and buyer, the type of products and industry, currency, as well as political and economic situations in both countries. In international trade it is crucial for the supplier to have access to buyers' credit reports in order to make sure in advance that the customer is reliable. There are five main payment methods used in international trade, which include Consignment Sales, Open Account, Documentary Collection, Documentary Letter of Credit and Cash in Advance. All of these methods have their own variations and special characteristics that are explained next in details. (Seyoum 2000, 193-194; Hinkelman 2003, 10)

In Consignment Sales method the supplier is not paid until the buyer has sold the products forward. The title of the goods passes to the buyer when the products are sold and the payment is made. It is common that only the products that are sold will be paid and the unsold goods are returned to the supplier. With this method supplier takes a huge risk, which is why it is generally used when there is an increasing demand for a product, the supplier wants to test its products in a new market or when the buyer is well known. Verifying the buyer's creditworthiness is crucial and can prevent possible risks such as payment delays that can create liquidity problems for the seller, non-payment and costs of returned goods including freight charges. Incoterms used in this payment method includes DES, DEQ and DDP (See explanations on Incoterms in chapter 2.3.2 page 12-14). (Seyoum 2000, 194-195)

Open Account is a term of payment in which goods are transported to a foreign buyer without banks involved and no guarantee of payment. It is an agreement only between seller and buyer that payment will be made within a specified period of time. The risk is high for the supplier, which is why this method is usually used between parent and subsidiary companies as well as familiar customers with good credit ratings. Incoterms that is most frequently used in Open Account are EXW,

FCA, FAS, FOB, CFR, CIF, DES, DEQ and DDP. (Seyoum 2000, 195-196; Hinkelman 2003, 11, 15, 25-28)

Documentary Collection is one of the prevalent methods in international trade because it is able to ensure almost equal risk and security for both buyer and seller. Banks in supplier and buyer's country are involved in the transaction that presents the commercial documents to the buyer with a payment demand. Banks collect the payment but do not guarantee that the actual payment is made. DES, DEQ and DDP are Incoterms used in this transaction. (Seyoum 2000, 196-197; Hinkelman 2003, 11, 14, 25-28). The whole transaction is illustrated in figure 4 below.

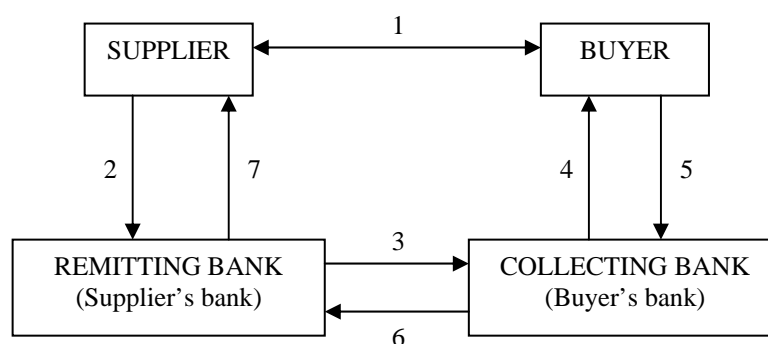


Figure 4. Documentary Collection. (Seyoum 2000, 198)

(1) Seller and buyer make a purchasing agreement that states the terms of sale and payment (documentary collection) before the goods are shipped. The supplier is also responsible for preparing the documents needed in documentary collection, (2) which are presented to the remitting bank. (3) Documents are transferred to the collecting bank, (4) which then present them to the buyer. (5) Depending on the agreement the buyer either accepts or pays in exchange for the documents to the collecting bank, (6) that subsequently advises the remitting bank about the acceptance or transmits the payment. (7) The remitting bank finally advises the supplier that the buyer has accepted or remitted the payment. In the documents against payment, transaction documents for collection can be delivered to the buyer only against of the payment. In the documents against acceptance on the other hand, documents that transfer the title of goods are delivered to the buyer only upon the buyer's acceptance of the attached draft. With this method, the customer agrees to pay at some period of time

and is able to delay the payment by delaying the acceptance of the documents. (Seyoum 2000, 196-200)

Documentary Letter of Credit (L/C) is used when a considerable sum of money is involved in the transaction and the supplier requires a guarantee of payment. L/C is issued by a buyer's bank that guarantees the payment to the supplier on the condition mentioned in the purchasing agreement. This method of payment is common because the division of risk is almost the same as in Documentary Collection. Incoterms used in this method includes FAS, FOB, CFR, CIF, DES, DEQ and DDP. (Seyoum 2000, 201; Hinkelman 2003, 11, 13, 25-28). The steps involved in the transaction of irrevocable L/C are shown in figure 5 below.

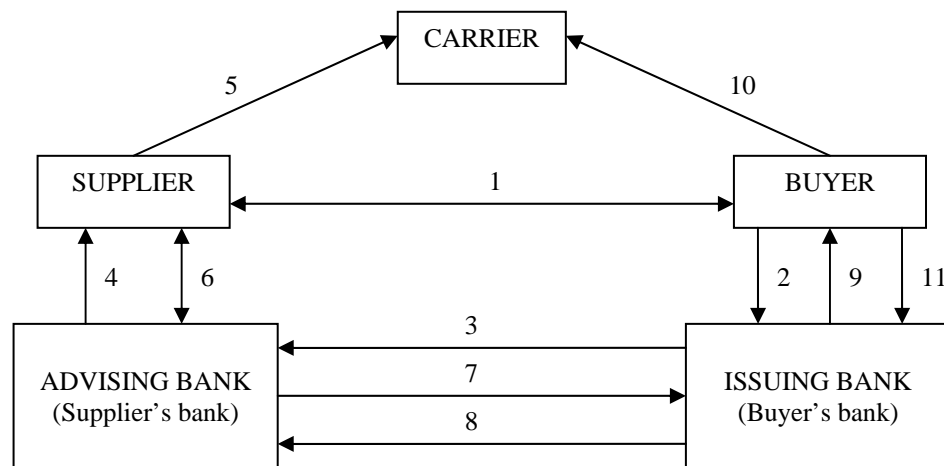


Figure 5. Documentary Letter of Credit. (Seyoum 2000, 203)

(1) Seller and buyer make a purchasing agreement that states the terms of sale and payment under the irrevocable L/C. (2) The buyer contacts to its bank that issues the L/C with the supplier as a beneficiary. (3) The L/C is then send to an advising bank, which also has to confirm it (4) before the bank can notify the seller that the L/C has been issued on its behalf. (5) The supplier scrutinizes the credit, arrange the shipment and prepare the necessary documents. (6) After the goods are shipped, the supplier delivers documents to the advising bank in order to get the payment. (7) The advising bank sends the documents and instructions to the issuing bank that (8) then reimburses to the advising bank. (9) The issuing bank gives documents to the buyer as well as the term draft for acceptance. If the draft in question is a sight draft, the

issuing bank will be paid by the buyer on presentation of documents. (10) The buyer receives the goods by giving up the bill of lading and takes a receipt of goods. (11) Finally the buyer pays the issuing bank as dated in the draft. (Seyoum 2000, 201-203)

In the Cash in Advance method of payment the buyer has to pay before the shipment is made, which gives a better guarantee for the seller making sure that there is not going to be any delays in payment. It ensures the greatest security for the supplier but the greatest risk for the buyer. This method is normally used when the buyer is new and unknown or when the customer's creditworthiness is known to be poor. It is also a common method for samples that are sent before the actual order, small purchases and products that are built to order. Incoterms used in this method are EXW, FCA, FAS, FOB, CFR, DES, DEQ and DDP. (Seyoum 2000, 211; Hinkelman 2003, 11-12, 25-28)

2.7 Evaluation

After the goods are received the buyer will evaluate the products and the supplier as well. Products should meet the specifications mentioned in the order form but it is also vital that the supplier has performed as agreed when it comes to delivery reliability, quality, technical assistance and other services. (Hollensen 2003, 138; Jobber 1998, 86). The quality of the supplier's products and service offered are vital in order to reduce the possibility to trade quality to price. The buyer is expecting reliability and consistency in product and service quality that includes for example stable production process. When evaluating the price, the buyer should also consider the overall life cycle costs that may well affect to savings in productivity and maintenance costs. Possible delays in production or deliveries should also be evaluated because they can affect the buyers' loss of sales. Supply continuity can therefore be the most important element in the evaluation of the buying process. Those suppliers able to promise reliable just-in-time (JIT) deliveries and production are able to have a huge advantage in supply markets. (Jobber 1998, 87)

Continuous supplier monitoring and regular evaluation ensures that the supplier's standard for product quality, price, delivery and service do not fall. Supplier evaluation continues even after the products are received and transferred to the stores for end-users to buy. Products' time in shelves and the volume of goods sold at full price indicates to products' ability to generate profit. The amount and value of returned products by the buying organization or end-users also provide crucial information when evaluating suppliers regardless of the condition of the product (damaged or not). (Varley 2001, 83-85)

3 INTERNATIONAL BUYER-SELLER RELATIONSHIP BUILDING

Suppliers can be more than just organizations that provide products in a reasonable priced when requested. An excellent relationship between the buyer and the seller can bring huge value to both parties but the relationship building will take time and resources. Key Account Management is part of relationship building, and it is merely about developing customer focus in business-to business markets. It can ensure benefits and opportunities for both buyer and seller when it comes to profit. Key account is a customer in business-to-business market that is strategically important to the supplier (Millman & Wilson 1995, 9-21).

Cultures can vary tremendously on how much value they place in relationship. International trade force people to work in multi-cultural environments where they have to cope with differences in communication, social behaviour and values. Culture has a huge impact on people as individuals but it also affects to whole organizations that can be seen in their decision-making as well as management style. That is called organizational culture, which is strongly determined by the national culture. Every culture is different; some cultures want to get straight to business, some want to get to know the people first.

3.1 Buyer-Seller Relationship Building

An ideal buyer-seller relationship leads to a long-term partnership where two organizations work closely together. Cooperative relationship will usually exceed the benefits that only one organization is able to reach. It is also beneficial to the seller because acquiring a new customer is a lot more expensive than keeping the old one and the existing customer's needs and wants are already known. (Hollensen 2003, 609)



Figure 6. Buyer-Seller Relationship Building (Hollensen 2003, 610)

To develop a long-term relationship between buyer and seller in business-to-business (B-to-B) market typically contains three different phases as illustrated in Figure 6. The development starts with the courtship phase that usually takes place in the end of the supplier selection process when the shortlist is drawn of the possible suppliers (see Chapter 2.2 p. 8). The goal of the supplier in this stage is to convince that they are able to offer those specifications the buyer is expected to have. The courtship phase is a long process where organizations are learning from each other but the relationships is not always that strong and connections between parties can break easily. (Hollensen 2003, 610)

The bond that is built during the courtship stage is getting stronger during the relationship-building phase (Hollensen 2003, 610). Buyer is ordering more frequently from the supplier and usually the buying process has proceeded to the contracting phase where the purchasing agreement is signed (see chapter 2.3 p. 10) (Jobber 1998, 96). Organizations are now working together better mainly because they are more familiar with each other's norms and values and they rely on each other's knowledge and expertise, which means that ideal buyer-seller relationship is built on trust and loyalty (Hollensen 2003, 610)

The partnership phase begins after several purchases and deliveries, and when the relationship has already been established between the two parties. Organizations

have reached mutual trust and are concentrating more on the actual purchasing process. Several buyers and sellers have developed exclusive supplier contracts in the partnership phase because of their well functioning business relationships. To reach this final stage of relationship development requires effort, time and share of information, which is why it would be expensive to end the existing relationship. Buyers are usually looking for only few suppliers with long-term contracts, which makes this stage so important. With this partnership organizations are working as a team, sharing their expertise as well as increasing efficiency, quality and profits. But on the other hand, any problems the either organization faces will easily affect the other as well such as employer strikes, break of machinery, et cetera. (Hollensen 2003, 611-612). However, an extended relationship between buyer and seller typically brings more advantages than threats. Communication is constantly improved and personal contacts are made over time, which can also ease the mutual problem solving between organizations. Close partnership will also make it easier to develop new products together by taking advantage of both parties' knowledge and expertise. (Jobber 1998, 97 & 99)

3.2 Key Account Management

The main idea of Key Account Management (KAM) is to focus on only a few buyers and especially on those who buy the biggest quantities and are therefore the largest, most profitable and strategically important customers for the supplier. By using the KAM the supplier is able to form a close relationship with the buyer and improve the after sale service which buyers usually highly value. In general, with key account there is more time for buyer-seller relationship building than without it. (Jobber 1998, 368; Cheverton 2004, 5-9)

3.2.1 The Benefits of Key Account Management

The ultimate goal of KAM is to reach a profitable long-term relationship with the customer. In order to discover possible key accounts the supplier can estimate such factors as the customers' sales volumes to determine how profitable the customer

really is, the duration of the relationship to define the loyalty of the relationship and other important aspects to form KAM. It is vital to know all the possible features of the key accounts starting from the basic information including the markets they operate in, possible other suppliers, products and services as well as their financial situation. Evaluation of previous activities and events occurred during the time of relationship reveals the total profit each key account has brought to the supplier. These activities could consist of sales volumes, special requirements and others. The key account proves to be profitable if the revenues are bigger than the costs of creating and sustaining the relationship. However, before ending the relationship with the present key account the supplier should consider and calculate presumable switching costs that incur when replacing the existing key account with another one. KAM is about providing (additional) services to key accounts in addition to the products purchased by the buyer. These personalized services are what make the seller to stand out among its rivals and lead to a competitive advantage. (Hollensen 2003, 631-635)

3.2.2 Development of Key Account Relationship

Five stages can be identified when the seller and buyer are forming their key account relationship. The process, which is illustrated in figure 7, is in some ways similar to Buyer-Seller Relationship Building (see chapter 3.1 p. 23) but begins when the relationship is already formed. The development of key account starts with the pre-KAM stage when the supplier identifies a possible profitable buyer among its customers that would also be interested to reform their relationship towards KAM. The communication at this stage is mainly handled between the key account manager and purchasing manager. In the Early KAM stage the supplier is working hard to win over the buyer's trust by offering advanced services and products that separates them from the rival suppliers. It is important that in this stage the supplier learn every important aspect of the buyer and the market they are in. (Hollensen 2003, 635-636; Whalley 2001, 91)

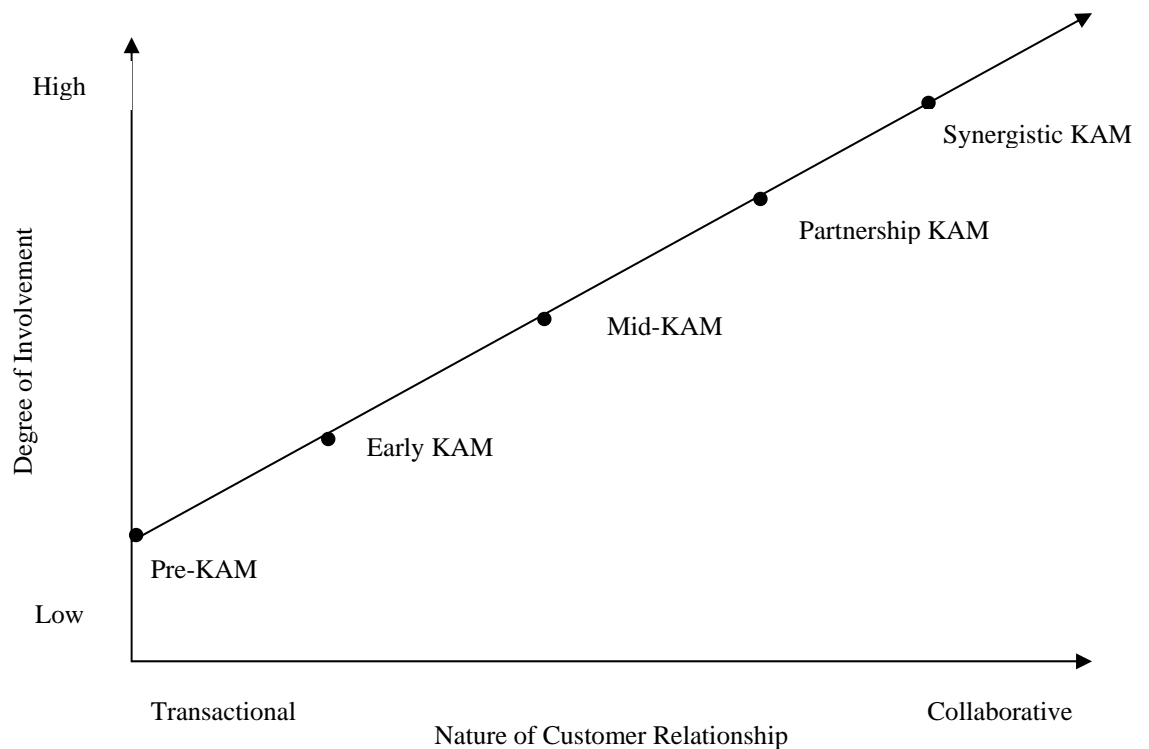


Figure 7. Key Account Relationship Model (Hollensen 2003, 636)

When the development of KAM reaches Mid-KAM stage the supplier has been able to establish a strong relationship with the buyer that is based on trust. The two organizations are becoming more dependent on each other's but the relationship is not necessarily exclusive for the buyer, which is what the supplier is usually aiming for. In the other words, the supplier is seen as a preferred seller but the buyer is still purchasing from others as well with the purpose of having alternative or substitute suppliers. In the Partnership KAM stage the supplier should be able to offer customized and value-added services to its key account that could include continued supply, quality materials and latest technology. In this fourth phase of key account relationship development very sensitive information about both organizations is shared as well as expertise and knowledge that also address the trust between parties. Communication between organizations should occur on all organizational levels while key account manager and buyer's main contact, usually purchasing manager, act as controllers. In Synergistic KAM stage supplier and buyer work and act together to create value and therefore these two separate organizations can be now seen as a large entity. Interaction occurs on every level in the organizations, information is shared between the partners and strong exit barriers have been built.

(Hollensen 2003, 636-638; Whalley 2001, 92-97). A possible sixth phase, the Uncoupling KAM stage, can happen at any stage in relationship development if for some reason the relationship can not develop any further (Millman & Wilson 1995, 9-21).

3.3 Effect of Culture to the Relationship Building

Culture in general is about learned beliefs and habits, shared values and norms as well as the way of life. Values define what is important in a specific culture whereas norms describe social rules and guidelines of how to behave (Bartlett & Davidsson 2003, 15-18). Cultural distance determines all the differences between countries including language, values, manners or social behaviour and other related to cultural issues (Czinkota, Ronkainen & Moffet 2003, 333). Internationalisation forces companies to take into account both national- and organizational culture as well as the relationship or distance between them. Even though national culture usually has a great influence to organizational culture, they should not be considered automatically the same. Cultural distance is not necessarily a negative issue because it can provide advantages such as new technical expertise and know-how. (Silverthorne 2005, 41-55). The concept of culture in Thailand is dealt more specifically on chapter 4.

3.3.1 National Culture

Geert Hofstede's studies identify four dimensions that can distinguish differences between national cultures. Power Distance deals with hierarchies and the degree of respect for authority. Uncertainty Avoidance defines how people tolerate uncertainty and risks. Individualism versus Collectivism differentiates self-reliant and independent individuals from group-oriented people. Masculinity versus Femininity is the last dimension, which reflects the hardness or softness in a culture. (Hofstede 2002)

According to Hofstede's studies, Thailand has a high Power Distance, which can be seen in people's respect for authority and elder people, distribution of power as well

as social differences. Status and hierarchy are important and directive top-down communication is very common in business life. People are expecting strong leaders who give clear instructions. High Uncertainty Avoidance in Thailand shows that people feel very threatened by ambiguity. People are concerned about the future, which is why rules and regulations are strictly followed in order to reduce the level of uncertainty. Any changes can cause stress so everything needs to be under control. Importance of the family for Thai people indicates to Collectivism rather than Individualism. Relationships are important and people usually work as a team where goals are achieved as a group, not as individuals. Femininity can also describe Thai culture, which refers to low assertiveness and lack of competition that is influenced a lot by Buddhism. (Hofstede 2002; Bartlett & Davidsson 2003, 24-29)

The biggest differences between Thailand and Finland are in Power Distance and Individualism versus Collectivism. Whereas Thailand can be seen as a Collectivist culture, Finnish people are Individualist and for example take more personal responsibility. People from an Individual culture are more task oriented than relationship oriented and usually motivated by salary or promotion. Finland does not have that high Power Distance which means that flat organizations with less supervision are more common. Both countries have high Uncertainty Avoidance but Finland has a slightly more Masculinity and people are more assertive. (Hofstede 2002; Bartlett & Davidsson 2003, 24-29 106-108)

3.3.2 Organizational Culture

Organizational or corporate culture connects together all organization's values, norms, behaviour as well as policies and procedures (Mitchell 2000, 148). It is not influenced only by national culture but also by industry and the nature of the product or service, managers and leaders in addition to laws and regulations. Growing international trade and business as well as globalisation have made corporate culture more complex but still an important issue that has to be taken into consideration when building relationships between organizations. The challenge is to work together with companies whose national- and corporate culture is a lot different than with what one has got used to. Typical differences include clothing, language, behaviour,

decision-making process, problem solving, strategy and way of negotiating (Bartlett & Davidsson 2003, 65-66). Culture has a huge effect on how organizations operate for example to sudden change in strategy, how the organization is managed, what is the relationship between managers and employees and how the organization interacts with customers. (Alvesson 2002, 1-15)

There are at least five elements that can help to better understand different organizations and their goals and values. The reward system tells how employees should behave in the organization. In some companies employees who take risks are considered better managers and are therefore more easily promoted but in other companies loyal and long-term employees are more appreciated. Hiring decisions refer to the company's workforce. Developing and growing organizations are employing more diverse people who can bring new ideas and skills into the company. The structure of the management strongly refers to power distance and the possible hierarchical structure of the organization. Strategy towards risk taking tells whether the company is willing to take risks and ready for changes for example by entering new markets or whether it rather operates the same way all the time. Physical settings of the organization are a huge factor when determining communication flow inside the company and the equality between staff. (Mitchell 2000, 148-149)

4 BUSINESS CULTURE IN THAILAND

Thailand's economical situation has transformed tremendously over the past decades. The export sector has undergone big changes and it is now one of the most important factors for the rapid growth of the economy. Thailand can offer excellent business opportunities but threats also exist. Thai culture emphasizes and values politeness, courtesy, respect and discipline in order to maintain harmonious relations. Most rules and customs are influenced by Buddhist religion. The family is the cornerstone of Thai society reflecting to the importance of hierarchy where the parents as well as managers are at the top.

4.1 Why to Choose Thailand?

Well-known and high-quality international schools in Thailand can better ensure skilled workforce in the future while the rich culture guarantees not only friendly and welcoming but also hard working people. Thailand has one of the largest growing markets in Asia and its foreign investment policy, fast growing economy, good infrastructure, tax policies and location in the heart of Asia makes Thailand an interesting location for international business. Other positive features of markets in Thailand are low inflation and interest level as well as decrease in country loans. (Thailand Board of Investment 2006; Nuutinen [Finpro] 2007, 7)

Enhanced and modern transportation facilities are one example of Thailand's improved infrastructure. Government also takes part in improving the infrastructure but mainly in transportation industry. These recent reformations include building of new roads in all over the country, mass transit systems in Bangkok (BTS Sky Train and subway) that have been of tremendous help in traffic problems, and the opening of the new International Airport Suvarnabhumi in 28 September 2006. Thailand has more than 3000 kilometres of coastline so the ports play an important role in international trade also because of the country's central location in South-East Asia. (Thailand Board of Investment 2006)

Trade between Thailand and Finland is growing which can also be seen in the fact that Thailand's exports to Finland between January and September 2006 were worth 186 million euros that is 21.57 per cent more than in the same period in 2005. The biggest group of exported products between January and September 2006 were machinery and transport equipment including mainly telecommunications and sound recording products. Miscellaneous manufactured articles including for instance clothing and footwear were the second biggest group of exported products from Thailand of which footwear accounted for 2.3 per cent of the all imported products. (Thai-Finnish Chamber of Commerce 2006)

4.2 Threats

People and companies who are willing to invest to Thailand may face some problems with corruption and ghosts of the depression (started in 1997) are still slowing down investments. At the present, the political situation can be a threat to do business in Thailand because there is no direction yet where it is going. (P. Tekajarin, personal communication on 14 May 2007; Nuutinen [Finpro] 2007, 7). Other threats are a low educational level in some part of the country and budget deficit (Nuutinen [Finpro] 2007, 7). If Thailand is going to maintain its growth more skilled labour will be needed, technology has to be improved as well as measures to support productivity and competitiveness (World of Information 2006, 276).

4.3 Business Culture

The dress code in generally is a formal standard business suit including shirt (usually long-sleeved) and tie. Women usually prefer skirts to pants even though pants are also quite common nowadays. Nicknames are very common in Thailand and normally used inside the company instead of real names. For foreign businessmen it would be advisable to avoid using nicknames but to address their hosts with the title and first name. If there is not any specific title to use, mister/miss or khun (means you in English) before first name is also polite.

The hosts of the Thai company normally invite their guests to dinner to show hospitality where the small talk should also include some other topics than business and work. Thais can be quite interested in their guests' families as well as their experiences and opinions on Thailand. When guests talk about Thailand and how they feel about the country, it would be wise to discuss only the positive features so the hosts do not take it personally. Topics that should be avoided are politics and some issues concerning religion. It is all about building a good relationship during the negotiations but also in different activities organized by the host outside the office are good opportunities to get to know each other. If the guests are able to make hosts to like them it can be a positive thing regarding a possible partnership in the future because building a relationship is very important to Thais but this can take time.

A business gift given by the guests to show respect is quite a common custom also in Thailand's business culture. Small, inexpensive, and even something from the home country would be appreciated gifts. For example Finnish guests could give a pictured book about Finland or a souvenir from some Finnish design store like Aarikka. Prohibited gifts include knives and other sharp objects as well as alcohol. Usually gifts are not opened in front of the guests, which should not be considered rude. Business cards are also often exchanged in the beginning of the meeting normally with the person holding the highest position in the company first. Cards are accepted the same way the host gives it, which is normally done by using both hands. Before putting the card away it would be polite to study it carefully.

Thais, like many other Asian people, are avoiding the 'loss of face' (both own and others too). When giving direct criticism or just disagreeing with something it is important to clearly explain the reason for that. Also the way of saying one's own opinion can be important such as the tone of voice and body language. Loss of face can also happen in situations where someone refuses to do a small favour. People in Thailand are becoming more and more open-minded towards losing the face also because of the increased international trade (Executive Planet 2006; P. Tekajarin, personal communication on 14 May 2007)

4.4 Macro Environment of Thailand

Government has a strong influence on the countries' political environment that also can hinder or support the overall business culture. Legal frameworks give guidelines of how organizations should operate including national laws and regulations. Economic factors like demand, supply, inflation and other issues influencing the business environment are part of the economic environment. The sociocultural environment describes the general public trends influenced by the population, way of life, manners and in general the whole culture. (Pearson Education 2007)

4.4.1 Political and Legal Environment

Thailand is a constitutional monarchy with a democratic form of government. The present King Phumiphon Adunyadet (Bhumibol Adulyadej) signed the constitution on 11 October 1997, which was abrogated on 19 September 2006 after the overthrow of Prime Minister Thaksin Chinnawat (Thaksin Shinawatra). A temporary constitution was drafted on 1 October 2006 and the new constitution was supposed to be approved by mid 2007 (CIA 2007). On 19 August 2007 a new constitution was selected in the country's first referendum. 57.8 per cent of the voters approved the new constitution while 42.2 were against it. Several voters opposed the new law on principle and because of the fact that the military government and not any democratic organ established it. Prime minister Surayut Chulanon (Surayud Chulanont) then promised that a parliamentary election would be held sometime in the middle of December 2007 after the celebration of the King's birthday. King Phumiphon turns 80 on 5 December 2007. (Turun Sanomat 21 October 2007, 29). The King of Thailand (since 1946) is highly respected among Thai people and acts as "a moral authority". He does not have direct power under the constitution like the Prime Minister but can still have a positive influence on national crises and other situations concerning the country and citizens. (U.S Department of State 2006)

The approved constitution is said to weaken Thailand's representative democracy. The essential changes in the new constitution include for example that the state is obligated to offer any weapons, missiles, equipments and technology to the armed

forces that they need to control country. Also all the soldiers that participated in the coup will be granted an amnesty. The Prime Minister can be in office a maximum of eight years while in the old constitution there was no limit for that. For the vote of no confidence against the Prime Minister it is enough when a fifth of the representatives is supporting it while before it was two of five. 76 members of the senate are chosen directly and the authorities select the remaining 74 senators. Before there were 200 senators which were all chosen directly. The electoral system of the House of Representatives was changed in a way that populous electoral districts get more representatives in the House of Representatives. (Turun Sanomat 21 October 2007, 29)

The parliamentary election was finally held on 23 December 2007 in which the People Power Party (PPP) proclaimed themselves as winners. The PPP party is a supporter of the former Prime Minister Thaksin Chinnawat. The voting result was a serious backlash for country's military, which has tried to diminish Thaksin's political influence in Thailand. In March 2007 military forbade Thaksin's Thai Rak Thai –party's operations as well as banned Thaksin and other TRT-party's leaders to participate in the country's politics for five years. Some specialists believe that PPP-party's victory may lead to another military coup. More likely, the military will first try to fail as many PPP candidates as possible pleading to the ballot rigging. (Turun Sanomat 24 December 2007, 31)

4.4.2 Economic Environment

Thailand's fast economic growth lasted almost a decade up until the Asian financial crisis in 1997 that caused economic and political instability in all South-East Asia. Prices in stock and property markets fell considerably and therefore the baht currency in Thailand was down which led to bankruptcies of several companies, recession as well as unemployment. (BBC 2007). It seems that Thailand has already recovered from the crisis, which can be seen in country's developed infrastructure and economy. Focus to increase exports through trade agreements has facilitated Thai economy's growth and because 60 per cent of the country's GDP comes from exports (Executive Planet 2006), Thailand is very much dependent on them.

Economic growth in the export section was mostly based on cheap labour but at the present it is more important to concentrate on an expertise-oriented method in the production sector (Warr 2000, 862-977). To maintain export growth also depends on the economic situations of Thailand's key trading markets Japan, USA and EU (World of Information 2006, 276). Exported products are mostly textiles and footwear, fishery products, rice, rubber, jewellery, automobiles, as well as computers and electrical appliances. Imported goods on the other hand include capital goods, intermediate goods and raw materials, consumer goods, and fuels. (CIA 2007)

Thailand is part of several international organisations in order to enhance international business. Regionally the most important organisation is Association of Southeast Asian Nations (ASEAN) in which Thailand is one of the founding members. Other organisations are Asia-Pacific Economic Cooperation (APEC), Economic and Social Council (ECOSOC), International Labour Organisation (ILO), International Monetary Fund (IMF), World Bank and World Trade Organisation (WTO). (Nuutinen [Finpro] 2007, 12)

Thailand is the world's biggest exporter of rice but the goal is to diversify and expand its economy further. The country has a long tradition in agriculture and now it is becoming more and more industrialized with the help of the government's five-year economic development plans. Available incentives have also encouraged both domestic and foreign companies to invest in Thailand. The economy succeeded to grow annually until 2005 when unexpected incidents started to occur. In December 2004 a tsunami harmed the tourist industry as well as did the bird flu that hit soon after. Rising oil prices and growing inflation also affected the economy by decreasing the trade and deteriorating account balances. (World of Information 2006, 276)

According to the Ministry of Labour the minimum wage is 194 baht - that is about 4.24 euro (February 2008) - per day in the Bangkok area, which is clearly a lot less than the average in Finland. The labour force is known to be cost-efficient, flexible and cautious which makes Thailand appealing in the supply market. (Thailand Board of Investment 2008)

4.4.3 Sociocultural Environment

According to CIA's The World Factbook (2007) population in Thailand was estimated in July 2006 to be 64.6 million people of which around six million live in the capital city, Bangkok (Ministry of Foreign Affairs, Kingdom of Thailand 2006). Over 94 per cent of the population follow Therawada Buddhism that is the strongest influence in the nation's culture and behaviour of the people (CIA 2007). A strong belief to Karma teaches people to follow the middle path in life, which is shown in people's behaviour and effort not to be too modest or too ambitious. This is also seen in business life where the competition between companies and workers is not that strong and fierce. The competition does exist but it is not about for example pushing rival companies off the market or to overreach promotion before someone else. (P. Tekajarin, personal communication on 14 May 2007)

The concept of family is important among Thai people and elder family members are respected. This is also applied to the business world where seniority is common, subordinates pay respect to superiors and the collective management style is very widespread and influenced by the cultural environment and social hierarchy. (McCampbell, Jongpipitporn, Umar & Ungaree 1999, 318-320).

Wai is an important and simple custom among Thai people and it would be polite to get to know it before going to Thailand for both businessmen and tourists alike. This gesture is for greetings (when meeting and saying goodbye), showing respect, apologizing, and for other various situations. Wai is always done to the person who is older than the person doing the wai and some people may even feel insulted when an older person wais to them. Thai culture also includes lots of prohibited issues such as touching someone on the head, which is considered rude because the Thai people believe that the head is the most respected and highest part of the body. Moreover, it is believed that the feet are the dirtiest and lowest part of the body, which is why no one should ever reveal one's own sole or touch or point anything with their feet. Men should also be careful of touching women and avoid hugging or even a friendly touch on the shoulder, something that is not considered impolite in Finland. (Executive Planet 2006; P. Tekajarin, personal communication on 14 May 2007)

5 PURPOSE OF THE STUDY AND CONCEPTUAL FRAMEWORK

5.1 Purpose of the Study

The main object of this thesis is to study and analyze the international purchasing process and buyer-supplier relationship building between the Thai supplier and the Finnish buyer in order to improve business processes. The research task of this work is to understand more about the business culture in Thailand and learn how Finland and Thailand work together in the international footwear industry. Internationalization is a common trend at the moment and many Finnish companies are seeking suppliers from abroad. One of the objectives of the thesis is to clarify and determine whether or not Thailand can offer a profitable and reliable supply market for the footwear industry. Another objective of this thesis is also to act as a guideline for a Finnish company that is planning to internationalize its business and is looking for a profitable supply market. Because the purpose of this work is to give guidelines especially for Finnish companies instead of Thai companies, Finnish national and industrial cultures as well as Finnish organizational culture have been deliberately excluded from the thesis.

The theoretical part illustrates the phases involved in international buying process as well as the issues that one has to take into account when building international buyer-supplier relationships. The theoretical part also introduces the most crucial aspects of Thailand that distinguish it from Finland, including the national culture as well as the business culture and the macro environment. A variety of books, articles and Internet sources were studied in order to collect enough information to compile the theoretical part.

The empirical part represents the challenges in international trade in the field of footwear industry as well as Thailand as a supply market. It also covers the current situation and trends in the global footwear market. The research was conducted as qualitative research. In the end of the study some propositions are made and information is given for both buyers and sellers on how to improve business

processes in their buying process and relationship building between these two countries.

5.2 Conceptual Framework

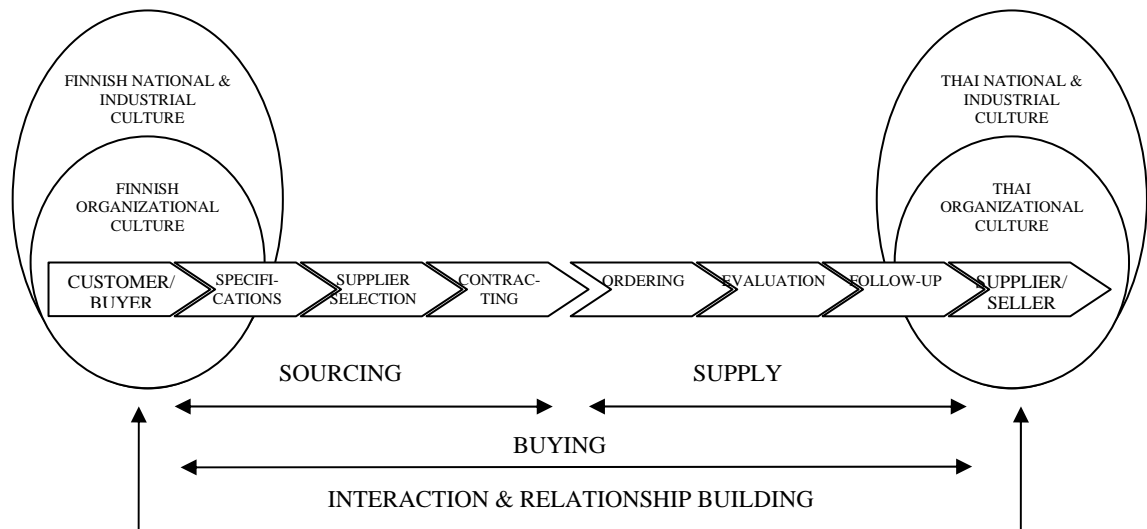


Figure 8. Conceptual framework of the thesis: International buying process, relationship building and the effects of national, industrial and organizational culture (van Weele 2005, 13 & Hollensen 2003, 222)

Conceptual framework illustrates the complexity of international business and all the aspects that should be taken into account when entering a new supply market. The framework shows how the customers and supplier's national and industrial cultures as well as organizational cultures affect the international buying process and relationship building.

The International buying process includes sourcing and supply stages but not every company is going through all the phases that are mentioned in the buying process and some of them might be dealt with only once or twice. The interaction refers to the communication between the companies in order to know how the other company is doing, what is the situation of the orders and so on. Relationship building is a vital part of the framework, which includes the development of Key Account Management and the effect of cultural distance.

6 RESEARCH METHODOLOGY

6.1 Research Method

A qualitative research method was used in this thesis in order to better illustrate international buying process and relationship building in real business life. In general, qualitative research gives a real experience of the subject to support the literature and theories with help of a certain kind of observation or interview to gather information. The information gathered is based on interviewees' opinions, experiences and knowledge, which in turn is compared to the facts got from the literature. The results are therefore derived from verbal data rather than measurements. Qualitative research is an empirical research where the aim is to study written rather than quantitative information. The types of qualitative research methods include case studies, observations, and interviews. The results of the qualitative research cannot be easily generalized to other similar subjects. (Daymon 2002, 3-7)

In-depth interviews are some of the main research forms in qualitative research having their own advantages as well as disadvantages. Advantages include the possibility for the interviewer to get more detailed information and to make sure the interviewee has understood all the questions in the correct way. The interviewee is able to react freely to the open-ended questions rather than select the answer from existing options. One of the disadvantages in qualitative interview is that the results can be affected by the personalities, mood or interpersonal dynamics between the interviewer and the interviewee, which is unlikely to happen in methods like surveys. Analyzing the qualitative interviews is also harder than interpreting quantitative interviews. (Kayrooz & Trevitt 2006, 191-192)

6.2 Data Collection and Analysis

The information for the theoretical part in the thesis was collected from several different sources including books, Internet sites, newspapers, studies, organizations, articles and by interviewing. The goal was to combine the knowledge from different authors, researchers, organizations et cetera into one study that would emphasize the important issues of international trade between Thailand and Finland.

Personal interviews were chosen to be the most suitable research method for the empirical part in order to get in-depth knowledge from the company representatives and their business situations. Questionnaires with open-ended questions were made by using the qualitative research method. With this method the person interviewed was able to answer more freely with more than one word and it also made it possible to ask additional questions during the interview. The main goals of the interviews were to gather information about the companies, discover possible problems, verify previously gathered knowledge in the theoretical part, and to provide more information. Before designing the questions for the interviews, the research problem, goals and purpose of the work has to be clear. Broad or general questions about the subject helped to formulate the final questions. Because in-depth interviews can easily bring out additional questions during the actual interview, well-structured questions acted as a guideline throughout the discussion. In order to analyze the information gathered from the interviews, the theoretical part of the thesis had to be fully understood and clear. Personal experiences and knowledge about both of the companies as well as Thailand also helped to analyze the information from the interviews. Overall, the information from the interviews were analysed by comparing it to the theory as well as to the personal knowledge and experience. Questions managed to gather valuable information about the business culture in Thailand and clarify how Finland and Thailand work together in an international footwear industry.

Aleksi 13 Oy and Thanafotwears Co., Ltd were chosen to be the sample of the research because of the personal work experiences from both of the companies. Aleksi 13 Oy was also chosen because of their own footwear brand, OIS, that is not available in any other stores and therefore they have their own buyer that is

responsible for the footwear collection in the whole of Aleksis 13 chain and is in a close contact with the suppliers. The population of the research includes small and medium sized Finnish companies that are working in a footwear industry and planning to find a potential supplier from Thailand.

6.3 Validity and Reliability

The research is valid when measurements are made accurately and results equal the theory. The purpose is to refer exactly to the theoretical part of the thesis and not to some similar subject. The questions for the interview are based on the theoretical part with the emphasis on international footwear industry. Reliability on the other hand evaluates the coherence or consistency of the measurements by repeatability with the same results. In this thesis the research is done by interviewing the representatives of one footwear supplier from Thailand and one Finnish customer, which is why the repeatability of the results is not all so evident. The reliability can be hard to measure but it can always be estimated. The main difference between validity and reliability is that validity is about to measure exactly what is supposed to be measured and reliability focuses on the accuracy of the measuring process. Reliability can be hard to achieve when measuring different events, behaviours and processes because results can be strongly based on the researcher's own observations. (Muijs 2004, 64-74)

Reliability in quantitative research can be understood in the way that a particular research method used several times will repeat the same results. Reliability in qualitative research is not usually this simple because the main research instrument is the researcher itself. That is why the final research cannot be completely reliable or replicable because the researchers' own characteristics and background influence to the conclusions. (Daymon 2002, 90). The reliability of the research in this thesis is limited because different companies could have given different results.

Validity is said to be more relevant in qualitative research than reliability. There are three features of validity including internal validity, generalizability and relevance. Internal validity refers to the truthfulness of the research findings and whether they

really reflect to the theory. Generalizability is complicated to accomplish which is why researches usually focus on specific cases that are not similar to any other. Generalizability, therefore, is often irrelevant if only a one case or process is considered like in this thesis. Relevance means that the research should be somehow important and useful for those who will use it and read it by providing solutions to problems. A controversial issue for that statement is the fact that a research can be conducted for example to simply find out how something works. This research is made for the Finnish companies and buyers who are looking for new supply market in Thailand and those who are interested in improving their international buying process as well as to better understand the importance of relationship building. (Daymon, 2002, 90-92)

7 RESEARCH FINDINGS AND ANALYSIS

7.1 Presentation of the Companies

Aleksi 13 Oy is a Finnish chain store selling clothing, bags, footwear and accessories. It has twenty-seven stores in twenty-three cities all over Finland. Aleksi 13 Oy is known for its trendy domestic and international brands for both men and women. OIS is Aleksi 13's own brand that is not available from any other stores offering quality products at reasonable prices.

Thana Footwears Co., Ltd. is a privately owned company in Bangkok, Thailand established in 1990. The company acts as a footwear supplier exporting shoes mainly to Europe but also to the USA and some Asian countries. They also have customers in Finland including Sokos, Anttila, Halonen, Kesko, and Pick Import. The company is rather small and in their Bangkok office the number of personnel is about thirty people including management, the marketing, logistics, and accounting departments as well as the makers of the sample shoes and other personnel. (N. Sangkham, personal communication on 19 September 2007)

Almost all the sample shoes are made in the office building (a few of them come from China) where the showroom of the shoes is also located. Many of the customers from all over the world come to visit the office in order to see the new shoe models and to place new orders. Usually before the actual order is made the company sends sample shoes to the customers in order to make sure they are exactly what the customer wants. If the customer is not pleased with the color, style or anything else, a new sample will be sent again and again until the customer gets what he/she wants. When the order is made, all the shoes are produced in some of the factories in Thailand or China that the company has rented. (N. Sangkham, personal communication on 19 September 2007)

7.2 Analysis of Interviews

Maria Malkamäki is a buyer in Alekski 13 Oy and responsible for the footwear collection in the whole of Alekski 13 chain. She is in a close contact with the existing suppliers and has a great impact on the decisions when choosing new suppliers or terminating present business relationships. The interview with Nontanadda Sangkham, the representative of Thanafotwears, was made via Skype. Miss Sangkham works as a marketing representative in a company and is therefore responsible for orders and contacting the customers. For the questions that Miss Sangkham was not able to answer by herself, other Thanafotwears employees were consulted. In these situations Miss Sangkham acted as an interpreter because of the language barrier. The questions are discussed and dealt with in the next two chapters one by one.

7.2.1 The Interview with Aleksí 13

Question 1. Are the suppliers of your company mainly domestic, foreign or equally both?

- a. Why have you ended up with these suppliers?
- b. When did you choose them?

Answer: Aleksí 13 has both domestic and foreign suppliers mainly depending on the brand. Most of the foreign suppliers come from Italy, Spain, and Portugal as well as from the Far East and Asia.

- a. Price-quality ratio is the most important factor that is required from the supplier. It is also a fact that suppliers from different countries or continents can offer different things (e.g. quality) depending on what Aleksí 13 is looking for. The Far East can usually offer high quality synthetic products, Asia can offer soft and high quality leather shoes whereas the majority of the comfort shoes (such as Gabor) are produced in Europe. Due to the increase in the customs duty it is not that cost-effective to buy in the Far East or Asia anymore.
- b. Supplier selection is an ongoing process in Aleksí 13. There are also numerous suppliers that Aleksí 13 has worked with for years now. Usually new suppliers are searched and selected when there is a need for a different type of design or model.

Question 2. What are the main criteria when choosing suppliers?

Answer: Quality is the number one criteria for Aleksí 13 when choosing suppliers where price is almost equally important. The time of delivery and a reliable supplier are also vital criteria. Legal and environmental requirements are carefully examined at least in the Far East and Asia in order to avoid child labour etc. Ecological products are in fashion now and consumers are more and more looking for these products. In footwear industry the Spanish El Naturalista shoes are a good example of those products and also available in Aleksí 13.

Question 3. What are the Pro's and Con's of low-cost suppliers?

Answer: Price is one of the most positive sides of low-cost suppliers. Many of the low-cost suppliers come from Asia where collections are forerunners and they have

superior skills for fashion knowledge. The quality of these suppliers is also usually high even though many consumers do not believe or think that way. Comfort shoes are rarely produced in Asia or Far East. Some of the negative sides of the low-cost suppliers are long delivery times that could extend to 60 days or more. That is a risk because trends change quickly and buyers have to be able to predict these changes. Even though the delivery times can be long, the delivery costs are usually low or not that expensive.

Question 4. How the suppliers are selected?

- a. Is the supply market survey conducted and how?
- b. Where to find information about the possible suppliers and from where are the most suppliers found

Answer:

- a. Alessi 13 does not conduct any specific market surveys but when new suppliers are selected, their financial records as well as credit ratings are inspected.
- b. Information about the new suppliers is mainly found in trade fairs, which are held twice a year in Italy. Sometimes more information about specific suppliers is found on the Internet.

Question 5. Have you faced any problems with suppliers when considering social distance, cultural distance, technological distance, time distance or geographical distance?

Answer: There have not been any problems with social distance but on the contrary the interaction is very fast. Also cultural distance has not posed any problems and it is merely seen as enrichment. The only problem is faced in the time and geographical distance that can be seen in delivery times and in minimum order quantities that are usually from 600 to 1000 pieces.

Question 6. What is included in the purchasing contract or is the invoice used for that also?

Answer: It is vital that before making or signing the purchasing contract supplier's financial records and credit ratings are inspected. The actual purchasing contract that

Aleksi 13 is normally using includes at least the contracting parties and the target of the contract, price, terms and method of payment, terms of delivery, and reclamation.

Question 7. Do you use Incoterms and which of them?

Answer: FOB is most commonly used Incoterm. FOB is clear because the price already includes the transportation cost at the specified place. The supplier is also responsible for the export formalities and placing the goods on board at the port of shipment, which makes it easier for the buyer.

Question 8. What kind of payment method you are using or are they agreed individually with customers?

Answer. When doing business with suppliers from Asia or Far East the payment method is always Letter of Credit.

Question 9. How do you evaluate the products and the suppliers?

Answer: In the case of reclamation with a consumer the seller in Aleksi 13 store writes down the name and number (every supplier has its own number) of the supplier as well as the product in question and the reason for reclamation. This way Aleksi 13 is able to follow the number of damaged or faulty products of specific suppliers. Evaluation of the products and suppliers is constant in order to know if it is profitable to continue the collaboration with that specific supplier.

Question 10. Do you invest time and money or pay any attention to relationship building with suppliers?

Answer: Aleksi 13 considers the relationship building with new and old suppliers important and a lot of time is spent on communication but there is no money invested on relationship building.

Question 11. Could you consider yourself as a key account of any of your suppliers?

Answer: There are some suppliers in Finland that are solely selling their products to Aleksi 13 and can therefore be considered a key account.

Question 12. What are the major problems when dealing with different cultures?

Answer: There are not any problems that can be thought of as a problem when dealing with different cultures. As mentioned before, they can only be considered

enrichments. Suppliers for example from Asia are so used to working with different buyers from different countries that they are able to adapt their behaviour.

Question 13. Does Aleksi 13 have any suppliers from Thailand?

Answer: There is one long-term footwear supplier from Thailand that Maria Malkamäki already found in her previous job before Aleksi 13.

Question 14. Do you try to build a relationship with Thai supplier and how?

Answer: There is not any specific way of building a relationship with a Thai supplier but it is obvious that they consider it important to have good relationship with their customers at least when compared to many suppliers from other countries. The first meeting is mainly for getting to know each other and communication as well as keeping in contact after the meeting is vital.

Question 15. What do you see as the most important differences or similarities in Finnish and Thai business cultures?

Answer: Socializing and entertaining or taking care of the guest seems to be much more important in Thailand and a lot of time and effort is spent on that. During the business trips to Thailand, customers are taken to dinners, to popular sights, and so on. There is hardly any time for one's own plans, which in turn could be very much needed sometimes. It is also surprising how much conversations include other things than business. Hierarchy is very clear in a Thai company and religion plays a surprisingly huge role in everyday life.

Question 16. What are the main problems when dealing with a supplier from Thailand?

Answer: Thai people are very kind and mainly easy to work with. One problem is the difficulty for them to say 'no' which could cause problems. Sometimes when you think everything is understood and clear, something comes up that is supposed to have already been agreed on.

(M. Malkamäki, personal communication on 30 November 2007 & 13 March 2008)

(Appendix 1)

7.2.2 The Interview with Thanafootwears Co., Ltd.

Question 1. How many customers does Thana Footwears have and from which countries? How many customers come from Finland?

Answer: There are a total of forty customers of which eight comes from Finland and the other European customers come from the UK, Sweden, Denmark, Germany, Italy, France and Holland. Altogether seventy percent of the customers come from Europe.

Question 2. From where does Thana Footwears get new customers?

Answer: Thana gets most of its new customers from the trade fairs and some from the Internet as well as with the help of an agent. Thana attends in trade fairs in Italy two times a year where thousands of new potential customers are looking for suppliers. It is also a good opportunity to meet existing customers, present the newest collection for them as well as to take orders. Some of the new customers come from the forwarding agent that the customer has contacted.

Question 3. What are the main problems when dealing with customers from different countries?

Answer: Language is the biggest problem that comes to mind when dealing with foreign customers. It causes misunderstandings because the pronunciation varies so much in different countries. These misunderstandings also occur in written documents, e-mails and others. The national culture or business culture has not caused any problems that can be thought of.

Question 4. What does your purchasing contract includes or do you use only Invoice as a purchasing contract? Do you use Incoterms and which one?

Answer: When order details are confirmed with the customer, the Proforma invoice is issued and sent to the customer. The customer will then check it and confirm the payment terms, order number, style number, quantity of each item, unit price and total price, the shipment date terms of payment as well as the method of payment. This way the customer is aware of the details. The purchase price as well as the terms of payment and the method of payment has to be mentioned in the Proforma invoice. The purchase price is normally given with Incoterm FOB that clears passing of the

risk and ownership. The packing details are confirmed in the quotation. Terms of delivery including the shipment date are mentioned in the purchasing contract. Price reduction can be included in the contract if customer requests it. Reclamation is not either mentioned in the contract but if something happens, Thanafotwears will pay back as the customer has requested.

Question 5. What are the main documents you are using in international trade?

Answer: The documents that are used in international trade when it comes to shoes are the proforma invoice, packing list, certificate of origin, invoice for shipment and the purchase order that is issued to the factory. The order details, price, term of payment and delivery time are all mentioned in the proforma invoice. Other documents are export and import licences as well as the bill of lading that are asked of the forwarding agent. A commercial invoice is made together with the packing list.

Question 6. What payment method you use with your customers?

Answer: The payment method is agreed individually with every customer but the most common method is L/C or sometimes T/T. T/T, that is a telegraphic transfer, is a prepayment or advance payment where the buyer pays the seller in advance before receiving the goods. T/T requires the use of cable or telegraph to make the payment.

Question 7. Do you try to build relationship with customers and how?

Answer: Taking care of the customers when they come to the office in Bangkok is very important. The guests are picked up from the airport, taken to dinner and generally taken good care of while they are staying in Bangkok. All in all, the communication is considered a very important tool in building a relationship with the customers.

Question 8. Is Key Account Management a familiar concept to your company?

Answer: No it is not and never even heard of by most of the staff.

Question 9. Do you divide your customers in different categories (which are more important customers) and pay more attention to them?

Answer: Every customer is considered as important as everyone else but sometimes you have to prioritize. The customers that demands urgent delivery are handled first as well as those whose product details, shipping details, etc. are not clear yet.

Finnish company Rikke Oy is an exception and could be considered as the most important customer (or even a key account). Rikke Oy is an import and trading company of footwear established in 1980. The company is importing footwear from the most important footwear manufacturing countries of Asia and Europe. Rikke Oy has eight different trademarks from which Chantana is their own trademark and Thanafootwears is the only supplier. Chantana consists of an extensive selection of women's fashion shoes. The models and samples are designed together by Rikke Oy and Thanafootwears, which is why the owner of Rikke Oy spends most of his time in Bangkok.

Question 10. How do the different cultures affect to the relationship building with customers? Is it easy to build a relationship with Finnish customers?

Answer: The Finnish customers are very easy to work with and very much liked. For example Italian customers are much more difficult to work with mainly because of the language and the misunderstandings it usually causes.

(N. Sangkham, personal communication on 19 September 2007)

(Appendix 2)

8 SUMMARY

Thailand is an interesting supply market offering lower-cost suppliers than for example many European countries but still reliable and hardworking contractors. One of the biggest barriers or obstacles is the different and strong culture. This thesis gives a guideline on how to develop the company's buying process, build relationships with suppliers and to better understand Thailand as a potential supply market. Many end consumers in Finland are still looking for footwear that is produced and made in Europe rather than Asia. They believe that shoes made in Europe (or the United States) are of better quality but still many known, recognized and old European footwear companies are producing their shoes in Asia. One of these companies is Danish ECCO that was founded in 1963 by Karl Toosbuy. ECCO footwear is unique and advanced in design and has even a patent for its sole. All of their products are individually designed into prototypes in Denmark but at least some shoes are produced in Thailand. (Ecco 2007). This is not mentioned on their webpage but can be found inside the shoes. Another well-known European footwear company, the Swedish Vagabond, is producing their shoes primarily in Asia mainly in China, Vietnam and Indonesia. They have both their own factories as well as rented factories. Even when using other factories than their own the counterfeiting or copying has not been a problem in Asia but other brands for example in Finland have copied Vagabond's models and designs after they have come into stores. (Vagabond 2007)

The footwear industry is very globalize and low labour cost countries like Thailand makes the competition even stronger in Europe or in the European Union region. However, numerous footwear brands are still designed and manufactured in Europe. One of these brands is the German Gabor Shoes AG founded in 1949 by Bernhard and Joachim Gabor. All the products are manufactured in Europe in Germany, Austria, Portugal and the Slovak Republic. Quality and tradition seems to be important for the company, which is seen in the fact that they have numerous loyal customers around the world and the company is still family owned. (Gabor Shoes AG 2008). Another example is Spanish El Naturalista founded in 2002 and therefore

a rather new company. Its ideology, values and business idea is somewhat different than what Gabor has. The eco-policy of the company makes El Naturalista to stand out from its competitors. The least harmful materials are used in the production including recycled materials and natural dyes. El Naturalista also takes part in charity by working together with non-profit organizations. (El Naturalista 2008). These two companies have differentiated their European production from their competitors of low cost countries for something else than price, at which they are unable to compete. These factors include for example high quality production and technical qualities such as all-weather shoes. The idea is to build and maintain high quality brands with a strong image by promoting and marketing mainly tradition and sustainability.

The EU footwear industry is one of the leading players in the global market when it comes to high quality products. However, countries of low labour cost (mainly China) are decreasing the EU industry's market share in the whole global footwear market as well as on its internal market. (The European Commission 2005, 8). The EU has placed autonomous quantitative restrictions for footwear products that originate and are exported from China. The goal is to protect European manufacturers against the Chinese industry mainly because of the enormous price gap between their footwear products. (The European Commission 2006). The Council of the European Union imposed an anti-dumping duty on footwear imports with leather uppers from China and Vietnam on 5 October 2006 for two years. The duties are 16.5 percent on imports from China and 10 percent on imports from Vietnam. (The Council of the European Union 2005). According to the Eurostat data, China was the EU's main supplier in January to August 2007 with 1 798 614 582 pairs of shoes imported. Thailand was in sixth place with 22 512 924 pairs imported after Vietnam, India, Indonesia and Brazil. (The European Commission 2007).

Qualitative research method is about studying someone's experiences, values and opinions. In this thesis, these people are professionals in their field of business but it may still cause some limitations for the research. The empirical part of the thesis is based on a small qualitative study with two respondents which makes it almost impossible to generalize the information for example to another field of business than the footwear industry. The qualitative research method also has its strengths

such as in-depth interviews that are not restricted to a specific list of questions and the issues can be studied in detail and profoundly. The results of the research are reliable mainly because both of the company representatives who were interviewed have knowledge as well as experience on international footwear industry.

The thesis includes numerous research problems and development tasks, which were successfully solved. The study provides answers for research problems such as why Finnish companies in footwear industry are outsourcing abroad and why it is so important to invest in relationship building and understanding other cultures when doing business internationally. The thesis also provides vital information about Thailand as a supply market and how Finnish companies could better understand the Thai culture, the macro environment of Thailand and the way of doing business with them. The study in general can act as a guide for a Finnish company that is working in a footwear industry and is planning to find a potential supplier from Thailand. In-depth interviews with the company representatives from Finland and Thailand produced new information for the study that could not be found from books or even the Internet. Both interviewees thought that relationship building in international trade is very important but they still could not clearly say what their companies' effort on relationship building really is. However, communication was something they both emphasized. Another surprising issue that came up during the interview was how much Thai companies value Finnish customers and think that Finns are very easy to work with. This was surprising because Thai and Finnish cultures are so different from each other. Third issue that was learned from the interviews was the amount of benefits low-cost suppliers are able to bring to customers. Money is not the only positive feature of low-cost suppliers from Asia in footwear industry but they can also be forerunners in fashion and the quality is usually better than what the consumers think.

The study brought up a several ideas for further studies mainly because international business is such a comprehensive subject. The thesis primarily deals with the international trade but does not question the threats and opportunities of globalization or how internationalization affects to the companies. There could also be a whole new research subject about the transportation or logistics as part of foreign trade. The EU can also influence international trade as shown in the anti-dumping duties

imposed by the Council of the European Union. It would be therefore interesting to study the role of the EU in international trade and what is the impact of European Trade Law on trade between the member states as well as trade between other countries. Small and medium sized Finnish footwear companies, such as Aleksi 13 and Mekka (see more information at www.mekka.fi), could utilize the results in the future if or when they are doing business with Thai supplier. However, it is crucial to take into account the fact that circumstances in international business can change rapidly.

9 CONCLUSION AND RECOMMENDATIONS

International relationship building or business with customers and suppliers from different countries can cause problems if the participants are not prepared. The cultural differences should be considered a strength or enrichment as Maria Malkamäki described it. It is important to know and identify any cultural differences in order to adapt one's own behavior accordingly. These differences usually include language, customs, opinions, history, wants and needs as well as the time concept, personal space and family. Time and geographical distance that are seen in for example delivery times are concepts that neither the customer nor supplier can affect, but for which they are able to get prepared for. Thanafootwears concentrates on relationship building mainly while customers are in Bangkok and by keeping in touch with them from time to time. Finnish Rikke Oy uses Thanafootwears' services effectively and these two companies are working very closely together in design and other areas. In the development of Key Account Relationship the companies are presumably in the partnership KAM stage with customized footwear products, continuous supply and quality materials. As the owner of Rikke Oy spends most of his time in Bangkok and is working in the Thanafootwears' office, there is inevitably trust between them and information about both companies is shared. Understanding the differences among cultures is essential in international relationship building. To be able to communicate, socialize, negotiate and manage relationships in different

cultural environments is vital for successful global business operations. Investing time in building a good relationship with key suppliers will pay back in the future. A cornerstone in building a relationship with a supplier is the benefit it will bring for both parties. The customer is able to enhance the relationship in many ways but at first it is essential to really know the supplier and meet face to face to see how the supplier is working. Another important factor to maintain a good relationship with the supplier is placing the orders on time, which gives the supplier enough time to handle the order. Advance payment or paying on time can in turn positively affect the delivery times. Constant supplier evaluation is essential for profitable business collaboration, which should include at least pricing, quality, delivery times and communication such as is the supplier responding when contacted.

Thanafootwears has inevitably concentrated its business on European customers that are looking for stylish and low-priced shoes. The fact that seventy percent of their customers are from Europe and even from Italy and Germany, which are considered to be the biggest footwear producing countries in Europe, proves that they have succeeded well. Trade fairs seem to be the best place to find new suppliers as well as customers. Thanafootwears and Aleksi 13 both attend the same trade fair in Italy twice a year.

Thailand has a rich and unique culture with which Finnish or any other western companies should get acquainted with before meeting any potential suppliers. Family is the cornerstone of the Thai culture and older family members are respected. This hierarchy also reflects to the whole Thai society including business society. In other words, authorities are highly respected such as the King of Thailand. The importance of hierarchy and status is one of the differences between Thai and Finnish societies. Power and money have a huge impact on status in Thailand. There is still a clear class society with a difference between the minority of the rich population and majority of poor people. Individualism versus collectivism is also a difference between Thai and Finnish cultures. In short, Finnish people think more as 'I' whereas Thai people think in terms of 'we' and put more value on relationships and pay more attention to others than themselves. The respect of others clearly differentiates Thai culture from many western cultures. A Thai national culture strongly affects the business culture that also differs from Finnish business culture in various ways.

Showing respect to superiors is very important in Thai business culture. Men should also be careful of how to approach women in a correct way meaning for example touching and in general paying attention to one's personal space. Another difference between these two business cultures is how to behave or show emotions. Thais do not show their emotions easily whereas Finns can show even negative emotions like being upset. Smiling is very common for Thais whether they are happy, upset or even angry. It is said that Finns are extremely honest and say what they truly mean. Because of the concept of losing the face in Thailand, 'yes' can also mean 'no'. For example for Thais to admit that they did not understand what someone said is a loss of face, because they do not want to embarrass anyone. In order to build a business relationship with a Thai supplier, the relationship has to be earned first and it does not happen in the first meeting. Long-term relationships are important and valued for Thai companies.

The purchasing contract is a vital part of international business and includes at least contracting parties, target of the contract, price, terms and method of payment as well as terms of delivery. A proforma invoice should be prepared in advance to provide information of the final purchasing contract and amount of invoice. With the proforma invoice both parties are able to confirm and be aware of the details. The Letter of Credit is most commonly used form of payment mainly because it offers assurance to the both supplier and buyer. FOB is one of the most common Incoterms used in international trade and also used by Thanafotweares and Aleksis 13. It is easier for the buyer because seller is responsible for delivering goods to the named port, export customs clearance and loading them onto the vessel. The responsibility of the goods transfers to the buyer when the seller releases the goods to the buyer's forwarder.

The end customers in footwear industry can be very product sensitive and the variety of these consumers is huge. Some of them are looking a domestic or EU produced shoes, others want the latest design and the rest are buying high quality comfort shoes. There are numerous suppliers in the global footwear industry but so there are different kinds of consumers also. The challenge is to find the most suitable supply market for each product. The principle for choosing suppliers is mainly the same as

in supplier evaluation that are price and quality (price-quality ratio) as well as delivery times and reliability but also legal and environmental requirements.

Thailand, as many other Asian countries, can offer low-cost suppliers with high quality products. The challenge is also the skeptic consumers to believe it. The main benefit of a low-cost supplier is inevitably the price. Another one is the fashion knowledge that can be seen for example in daring designs and use of colors. The disadvantage of low-cost suppliers is a long delivery times that can be a threat in a fast changing footwear industry. The goal of using low-cost suppliers is to reduce the costs and at the same time to increase profit. The challenge in here is to keep up with changes in consumer demand and manage the extended supply chain. To be able to determine the total cost, a buyer has to calculate the price of the product as well as shipping costs, duties and other expenses that may occur during the supply chain. Sourcing low-cost suppliers can also bring potential threats such as cultural and political differences, the quality of the work force, technical capabilities and even fraud or piracy. To determine the best supplier, the buyer needs to consider the facts like product quality, managing the extended supply chain, contracting legal requirements, taxation as well as language and cultural challenges.

The footwear industry is like any other industry where the competition is strong and fierce including several players. In order to compete in the footwear industry the designs have to be strong, unique and/or stylish and the brand should be able to separate itself from others. It is difficult to stand out from the competitors by doing something differently or being unique. The goal is to offer exclusivity and individuality rather than lowering prices and quality in order to attract and maintain customers who are becoming more and more demanding. Another key to success is a well-managed distribution network including the best possible suppliers. However, even though costs, quality and other essential issues are strictly considered in the international trade performance, factors like trade barriers and geographical distances inevitably will influence the trade flows.

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THE IINTERVIEW WITH ALEKSI 13

Question 1. Are the suppliers of your company mainly domestic, foreign or equally both?

- a. Why have you ended up with these suppliers?
- b. When did you choose them?

Question 2. What are the main criteria when choosing suppliers?

Question 3. What are the Pro's and Con's of low-cost suppliers?

Question 4. How the suppliers are selected?

- a. Is the supply market survey conducted and how?
- b. Where to find information about the possible suppliers and from where are the most suppliers found

Question 5. Have you faced any problems with suppliers when considering social distance, cultural distance, technological distance, time distance or geographical distance?

Question 6. What is included in the purchasing contract or is the invoice used for that also?

Question 7. Do you use Incoterms and which of them?

Question 8. What kind of payment method you are using or are they agreed individually with customers?

Question 9. How do you evaluate the products and the suppliers?

Question 10. Do you invest time and money or pay any attention to relationship building with suppliers?

Question 11. Could you consider yourself as a key account of any of your suppliers?

Question 12. What are the major problems when dealing with different cultures?

Question 13. Does Aleksi 13 have any suppliers from Thailand?

Question 14. Do you try to build a relationship with Thai supplier and how?

Question 15. What do you see as the most important differences or similarities in Finnish and Thai business cultures?

Question 16. What are the main problems when dealing with a supplier from Thailand?

THE IINTERVIEW WITH THANAFootWEARS CO., LTD.

Question 1. How many customers does Thana Footwears have and from which countries? How many customers come from Finland?

Question 2. From where does Thana Footwears get new customers?

Question 3. What are the main problems when dealing with customers from different countries?

Question 4. What does your purchasing contract includes or do you use only Invoice as a purchasing contract? Do you use Incoterms and which one?

Question 5. What are the main documents you are using in international trade?

Question 6. What payment method you use with your customers?

Question 7. Do you try to build relationship with customers and how?

Question 8. Is Key Account Management a familiar concept to your company?

Question 9. Do you divide your customers in different categories (which are more important customers) and pay more attention to them?

Question 10. How do the different cultures affect to the relationship building with customers? Is it easy to build a relationship with Finnish customers?