

SAVONIA UNIVERSITY OF APPLIED SCIENCES  
UNIT OF BUSINESS AND ADMINISTRATION, KUOPIO

**THE IMPORTANCE OF PARTNER RELATIONS IN INTERNATIONAL  
BUSINESS**

A case study of a Finnish distributor doing business with Chinese exporters

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Abstract

The objective of this thesis was to explore how foreign partnership between distributor and exporters were managed. The case study is used from the perspective of a Finnish importer's experience doing business with four Chinese exporters. The project was commissioned by EN Oy, which is a construction machinery trading company in Finland.

The partner relationships were reviewed from the perspective of both foreign distributor and exporters. Assessment criteria were based on determinants of channel relationship and role performance factors. The research included interviews, questionnaires and company internal material analysis. The data in the research was collected through direct contact and managers who are in responsible positions in each company.

The result shows that the partnerships between EN and the Chinese exporters are stable but in the preliminary stage. Further in-depth communication and management integration in marketing feedback, setting prices, service support and joint promotion would help to enhance the partnership. After EN received feedback from this research, action has been taken to contact these suppliers for improving cooperation. Some positive results have already shown. Further effects of the development efforts remain to be seen in the near future.

Keywords

Distribution channel management, business relationship, distributor manufacturer relationship

Note

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## 1 INTRODUCTION

### 1.1 Introduction to the topic

International business consists of a large and increasing portion of the world's total business. Today almost all the companies no matter large or small have been affected by the global events and competition. When a company operates internationally, it will engage in modes of business such as exporting and importing, which differ from the modes it uses domestically. Global competition and distribution are essentials for today's business environment (Daniels et al. 2007, 7).

As manufactures trend to expand internationally, their choice of distributors becomes more important. From a manufacturer's point of view, the use of foreign distributor is a market entry and expansion mode most commonly developed by exporting firms. It is viewed as a key issue in the establishment and development of the international operations. (Bello et al. 1991) Foreign distributors are responsible for marketing the manufacturer's products and serving customers in the local market. Compared with other modes of foreign entry modes, such as foreign manufacturing operation and joint venture arrangement, manufacturer exporting products through a distributor is a less resource-laden strategy. Particularly for companies that are short of foreign market knowledge or necessary financial, operational and strategic resources, exporting through intermediaries is a moderately simple and practical way to enter foreign markets. (Bello & Gilliland, 1997)

Meanwhile from a foreign distributor's perspective, overseas purchasing and supplier relations are crucial to its survival and growth in modern business (Katsikeas et al. 1995, 51). A good quality network between manufacturers and distributors can contribute to both parties' business greatly. However developing a successful distribution channel between manufacturer and its foreign distributor is by no means easy, since it is influenced by geographical distance, cultural differences and organization differences (Moore 1992). Therefore the importance of developing a sustainable relationship between the foreign distributor and the manufacturer is needed to be further investigated.

Recent studies in international distribution contribute to the topics such as partnering motives and partner selection, cost consideration, and cultural importance in supplier-buyer relationships (Wang & Kess 2006; Håkansson et al. 2008 & Salmi 2006). These studies have paid attention to the starting point of the relationship formulation. However, few studies focus on the developing and maintenance the on-going relationship with suppliers in a high commitment level, specially the research from both manufacturer's side and foreign distributor's prospect. The author is going to fill the blank in this field of research. This paper is a case study exploring the management and development of partnership between a Finnish distributor and their four suppliers in China.

## 1.2 Research questions and limitations

This thesis is commissioned by EN Oy. EN as a trading company specialized in selling construction machines and machinery attachment tools in Finland. The major suppliers of EN are from China. EN represents as a Finnish exclusive distributor for two Chinese excavator manufacturers, one manufacturer producing excavator attachment tools and one spare parts trading company. Marketing and selling machines and attachment tools purchased from Chinese suppliers are the major business in EN, which dominated over 80% of the net sales.

After a few years of cooperation with suppliers from China, EN's management believes it would be strategically important to consider what suppliers' opinion and attitude are toward cooperation with EN over the past a few years and more about the suppliers' way of doing business, plans for developing their management and prospects for doing business together in the future. The focus is especially paid on how to deal with the time that the Finnish market is recovering from the economic recession started from end of 2008 (CIA 2010).

The main focus in this research is to investigate the partner relations experienced by a Finnish distributor in their trading activities with manufacturers from China. This study will exam the current business performance from both distributor and manufacturer's point of view and look for the mutual understanding in order to develop a long-term supplier-manufacturer relationships for EN and their Chinese suppliers. The consideration has paid to how Chinese exporting firms can develop a

committed partnership with their foreign distributor in a high-end marketplace like Finland.

The research questions are the following:

How has EN and its Chinese suppliers managed their relationship?

How do EN and their Chinese suppliers evaluate each other during the on-going cooperation?

What are the issues EN and their suppliers could do to improve the cooperation?

The first question is to reveal the current partnership status between a Finnish based distributor and their suppliers in China. The goal is to provide readers some knowledge of the cooperation how it is managed between a distributor in a developed country like Finland and their supplier in a fast-developing worldwide sourcing center like China. The second question is to discover the satisfaction levels evaluated from one party to another in order to understand EN and their suppliers' role performances and where the weakness are in their cooperation. The third question is to analyze the expectations and future plans from both parties with the previous evaluation results to integrate the factors which can improve the partnership.

This study is a case study between Chinese suppliers and Finnish distributor in the construction machinery sector and therefore due to the preset industry, the results cannot be applied to all the Chinese and Finnish supplier relationships. Another limitation is that the companies involved in this study are companies which have already been doing business with Chinese suppliers for a few years. Therefore it may not be possible to apply the results to companies which have just started importing or looking for suppliers in China. Last but not the least the distributor company is limited to a small and medium sized Finnish owned enterprise. In this case the result may not be able to apply to distribution channels owned by multinational firms and foreign investment from abroad to Finland. However, this study provides practical knowledge and valuable information for further utilization.



Despite the limitation, the study may provide valuable information and strategy to Finnish companies who are doing business or planning to do business with Chinese suppliers. Correspondingly some Chinese exporting firms may benefit from this study in their efforts to enter the high-end market in the Nordic countries.

### 1.3 Background of case companies

This paragraph gives a brief description of the case companies in this research. EN and their four manufacturers are introduced by their current business, development of international business and business record with each other. The information introduced below is gained through author's observation, internal material and discussion with each company's personnel. The names of the case companies have been disguised in order to maintain the promise of confidentiality.

#### 1.3.1 Distributor overview

EN is an earthmoving equipment importer in Finland. The company was established in 2004. The founders are two brothers specialized in the steel selling and excavating business. By the time in the late 1990s they perceived the emerging demand for foreign construction machines from Finnish market. To take this opportunity they started importing machines in European countries such as Germany, the UK and the Netherlands under the name of the steel company RK Ky. With the rapid increase in sales, the two brothers decided to establish a machinery trading company to consolidate their business and learn reputation in the machinery market.

At the beginning of the business, company purchased second-hand machines and excavator attachment tools like buckets, dumpers, excavators from Germany, Italy, Spain, the UK, France, the Netherlands and Sweden. From some auctions held in Europe, company purchased new machines as well. Business with Russian and Sweden are purchasing and selling with these companies in both side.

The first approach EN Oy made to Asia was in 2003. EN found and established business with a machinery company in Tokyo, Japan. EN imported mini-excavators and small dumpers from this Japanese company. Sizes of excavators bought from

Tokyo ranges were from 1 ton to 15 ton. The business in this year was very good. EN imported 40 containers of excavators during the whole year. At this point company realized the business from Asian was very important, which took a big share of the net sales in the company. Therefore management decided to establish EN as an importing company for products purchased out of European Union.

From Year 2004 EN was established and almost at the same time, company found Chinese excavator manufacturer AY on a B2B website. After meeting the company representatives in Bauma Construction Machinery Exhibition in Germany, EN bought their first machine from AY in the same year. EN signed exclusive agent contract with AY responsible for sells in Finnish market in the same year.

In 2005 the sells of excavators imported from AY became the major business for EN Oy. EN sold the most AY's excavators in this year. Business with AY was moving smoothly at the beginning like a dream and the turnover was increasing rapidly.

Business with Japan lasted until year 2006 due to the EU legislations about all the machines required meeting with CE qualification no matter second-hand or new machines. As a result the Japanese exporter could not provide relevant CE qualification for its machines, EN determined to focus their cooperation with AY, because AY had complete documents for entering market in European Union.

In 2007 with the market demand increasing heavily, the problem of delivery emerged during this time with manufacturer AY. They could not delivery machines for sale to EN on time, meanwhile AY also had a shortage in product line for excavators from 13 ton to 21 ton. For that reason EN contacted another excavator manufacturer AJ from China and established business to fill the shortage of products and expand the product categories from 13 ton excavator to 21 ton. In the same year EN started business with Manufacturer JH to produce its own designed excavator attachment tools under EN's own brand. In 2008 EN started purchasing from one Chinese trading company HH to strengthen the spare parts supply.

EN is the exclusive distributor of Finland for two excavator manufacturers, one manufacturer of excavator attachment tools and another trading company from China. EN's business with China accounted for 80 percent of the turnover in 2008. The rest

of the sales came from machines purchased in Europe. The turnover of EN in 2009 amounted only to 1.29 million Euro due to the economic crisis while in 2008 the turnover had amounted to 2.25 million Euro. (EN 2010)

### 1.3.2 The overview of suppliers

There are four suppliers which have current business with EN. Background knowledge of the companies and a brief introduction to their trade status with EN are introduced below.

Supplier AY is an excavator manufacturer located at the south-west part of China. Company has a total asset of RMB 1.56 billion (about 22.8 million dollars) and over 1000 staffs. It is one of the largest mini engineer machinery production and export base in China. AY's hydraulic excavators are the leading products. AY was the first manufacturer of mini hydraulic excavator in China. The export business of AY started in 1990. The orders were from exhibitions held in Cairo International Fair and the New Zealand International Fair. The company exported their first machine to Germany in 1991 as their first step to enter European market. Nowadays AY has established business with distributors in over 30 countries in Asia, North America, Africa and Europe. Especially in European countries AY's distributors are situated in each of the countries in the European Union. The export business added up over 228 million dollars for AY's net sale from the time started exporting. Export business is about 10% of AY's turnover per year. Western Europe and especially the Nordic countries are the main market for AY's export, standing for 60% of AY's export sales. (AY 2010)

Supplier AJ is an excavator manufacturer located in Shandong Province. It is the main subsidiary company of a state-owned construction group. Company's turnover in 2009 was 2.9 million dollars. The dominant business of AJ includes 9 series of hydraulic excavators. The company started their export in 2004. AJ has exported to over 20 countries such as Canada, Pakistan, Yemen, Australia, Russia, Finland, Norway, the Netherlands and Iran. AJ has foreign distributors in Finland, Australia, Pakistan and South African. The export held about 10% of the net sales in 2008. EN is the only country AJ has business with in Europe right now. The value of export to EN counts 30% of AJ's export business. (AJ 2010)

Supplier JH was found in 1990. It is located in Guangdong Province, southern part of China. Company has a total area of 200 thousand square meters composing of factory area and lands. The company has staff of 200 persons. JH's main business is in the development, design and production, marketing for the engineering mechanical equipments, parts and components. Company started sales to abroad from year 2005. In 2009 export stands for 60% of JH's net sales, which was about 2.63 million Dollars. JH has exported to 14 countries and have exclusive distributor in New Zealand, USA and Finland. In Europe JH exported to Germany, the Netherlands, the UK and Finland. The sales to Europe cover 15% of the net export value. (JH 2010)

Supplier HH was found in 1998, HH is located in the northern coast of China. HH is a trading company specialized in providing all kinds of undercarriage parts for construction machines. Company has 8 staffs and a turnover of 50 000 Dollars in year 2009. Company started its export business since 2007. Now HH mostly exports to South America, Africa and Southeast Asia. EN in Finland is the only country HH has been cooperating with in Europe. Export took over 80% of HH's turnover in year 2009. EN's purchase made up nearly 10% of HH's export sales. (HH 2010)

#### 1.4 Structure

The layout of this thesis is organized in five chapters: In Chapter 1 it starts with background information why doing this thesis and presented the three research questions. After that the case companies and their cooperation with each other in details are introduced. In Chapter 2 the relevant partnership theories and role performance satisfaction criteria are reviewed for providing a theoretical background for conducting the research. From Chapter 3 the methodology of the study is introduced focusing on the choice of method used in the research, design of questions and data collection method. Thereafter in chapter 4 the findings are presented and analyzed. Primary data findings from interview, questionnaire and company inner materials were examined. It traced the prevailing attitudes and experiences of a Finnish importing firm that are dealing business partnerships with suppliers in China. Finally the conclusions and discussions are given in Chapter 5. The research questions are answered and key findings and suggestions for improvement to the cooperation between EN and their suppliers are given.

## 2 PARTNERSHIP IN INTERNATIONAL BUSINESS

This chapter introduces background information and the background theory that are relevant to this study. First of the chapter covers a basic fact of recent trading data between Finland and China, give the reader the general idea of the current business between Finland and China. Then a basic knowledge how manufacturer and foreign distributor work with each other are explained and what motives and weakness are in joint distributor-manufacturer partnership in the international marketing channel. Then the focus is paid on the elements which affect the performance during the on-going business partnership between manufacturer and their foreign distributors. At the end, the assessment factors on how manufacturer and foreign distributor evaluate each other are launched in detail for the use of questions and questionnaire used in the research.

### 2.1 Recent trends in China's export and Finland's import from China

China as been seen as a place with low labor costs and expanding market has attracted more and more Western companies to move production there. (McKinsey Quarterly, 2004; Peng, 2006) Even though China suffered the hit of worldwide economic crisis, China's economy continued to experience growth by 8.7 percent in 2009 (CNN 2010a). During 2009, China overtook Germany ranked the top exporting country in the world (CNN 2010b). Thanks to the competitiveness, China exports in many industrial sectors, China constitutes an important country for sourcing from Western companies. Therefore in today's world economy, China is viewed as an important place for manufacturer base and an essential trade partner. (ibid) However according to the data from the National Bureau of Statistics of China, the obstacles for China's export are 58% of China's export are named as processing trade which means the components are sent to China to assemble and ship the final product out. This caused rather low value added within China. For example like consumer electronic company such as IPod or an iPhone. These Apple devices are assembled in China but the value added in China only counted less than 10% of the export value. In total of all the exports, value added within China is around 33% according to the senior official at China's Commerce Ministry. (Gupta & Wang, 2009) This leads to little profit learned

by China's export. Meanwhile as China gets richer, the labor cost is increasing. China is losing its cost competitive advantage to countries like India and Vietnam (ibid). However due to the role China has played in export, Chinese firms has gained useful experience in export as a result. The large volume of processing trade has taught a lot of Chinese managers how to produce high-quality products for the world's demanding markets, how to build a supply chain to response customers situated thousands of kilometers away, and how to efficiently manage production operation with tens of thousands of workers at a single location. Those experiences will spillover into different industry sectors to serve the foreign customer. (ibid)

Finland was the largest trade partner for China in Nordic countries from 2004 to 2008. In past 7 years from 2003 China exports the most to Finland among Nordic countries. (China Net 2009) Finland depends on imports of raw materials, energy, and some components for manufactured goods. In terms of imports, electric products lead to 17%, followed by chemical products at 16.8%. The major import partners of Finland are Russia, Germany, Sweden, the Netherlands, China and the UK. (Economy Watch 2010) Finland had been one of the best performing economies within the EU in recent years and its banks and financial markets avoided the worst of global financial crisis. However, the world slowdown hit exports and domestic demand hard in 2009, with Finland experiencing one of the deepest contractions in the euro zone, and will serve as a brake on economic growth in 2010. Finland's GDP decreased 7.6 percent compared with 2008. (CIA 2010) Finland imports took a beating by the recession as well. The value of import goods dropped from 90.94 billion dollars in 2008 to 54.1 billion dollars in 2009. Finland ranks 43<sup>rd</sup> in the world in terms of import volumes. (EconomyWatch 2010)

## 2.2 Foreign distributor as a market entry strategy

Selling through distributors into independent target countries is the most common foreign marketing entry strategy. Distributor selection and positive relationship continuity with them are the most important factors for a manufacturer who makes export. The primary benefits are that the manufacturers gain the market coverage, market expertises, customer contacts, selling skills and services at rather low costs and risks. This foreign market entry strategy is applied by various small firms and

inexperienced exporters which are lacking of financial resources, export specialists and market understanding. (Cavusgil et al. 1995)

Exporting through distributors does provide a lot of benefits. However it has apparent disadvantages as well. Compared with direct exporting selling and operating through foreign subsidiaries, it limits the manufacturer's learning about the target markets and their different cultures. Hence it compromised the development of exporting skills and constrained the manufacturer's market visibility. The major shortcoming is the shortage of a permanent market presence and manufacturer has little control over distributors and the marketing strategies they employ on their behalf. (Rosson et al. 1982 & Terpstra 1987)

In order to overcome these critical control issues, manufacturer requires taking positive actions to ensure distributors are able and willing to execute the strategy according to its objectives. In most of the case, the problem is that distributors are usually small and family-owned firms who are less growth-oriented than producers and who otherwise pursue different goals (Narus et al. 1986; Webster 1976). Furthermore distributors in general represent several suppliers so that manufacturer only gain a part of distributors' effort and productivity on its products (Anderson & Coughlan, 1987; Shipley & Coughlan, 1987). Nevertheless, foreign distributor or agent takes the responsibility to promote manufacturer's products and provide customer service in the local market (Cavusgil et al. 1995). Being as small business, distributors may not endow with finance, functional specialists, management and marketing skills. They need assistance from manufacturers to implement corresponding strategies to reach producer's satisfaction. (Shipley 1987 & Webster 1975) Under this circumstance the best way to contribute a successful marketing network with foreign distributors is to build strong, effective relationships based on trust, abundant communication, cooperation and integrated planning and operations (Narus & Anderson, 1987).

### 2.3 What is partnership?

Hendrick and Ellram (1993) defined partnership is an ongoing relationship between two organization with a commitment over an extended time period, sharing the mutual risks and rewards of the relationship. Mohr and Spekman (1994, 135) illustrate

partnership is an intentional strategic relationship between independent firms who share compatible goals, strive to mutual benefit, and acknowledge a high level of mutual interdependence. For the purpose of the manufacturer-distributor partnership study, Wang and Kess (2006, 467) defined an interactive relationship is a continuous cooperation between independent companies for long-term mutual benefits. In the study of relationship marketing, firms are able to successfully achieve marketplace by cultivating relationships with its selected partners (Morgan & Hunt 1994; Sheth & Parvatiyar 1995). This result is apparently showing in the industrial markets that manufacturers and distributors rely on each other closer with a less variety-seeking customer motivation, partner relationship has strong positive effects on the long-term cooperation to both parties.

Relationship quality has been seen as high-order relationship composed of trust, commitment and satisfaction (Skarmeas et al. 2007, 23). In an exchange relationship between manufacturers and distributors, the main indicator for developing the future performance potential is relied on each party's input to the relations. The interdependence increases and exchange performance is enhanced by partners returning each other's input to the relationship. On the contrary if partners do not give in return contribution to the cooperation, the performance is likely to suffer from effort to continue the relationship. If exchange parities experience that their contribution to the exchange are rewarded by the other party, an exchange relationship is expected to be recognized as satisfactory. (Lee et al. 2006, 10) The commitment from distributor is positively affected by its satisfaction in a relationship. A distributor who is satisfied with relationship with manufacturer would likely to continue to do business with that exporter in the future. Therefore a distributor's satisfaction with the relationship would increase the possibility of keeping in the relationship. Aulakah, Kotabe and Sahay (1996) have proved relationship satisfaction is positively related to expectation of commitment.

## 2.4 Commitment

Commitment has been defined as a channel member's willingness to maintain and strengthen that relationship. It is vital to the long-term success of a business relationship. Commitment is one of the core concepts in the understanding of organizational success. (Goodman and Dion 2001, 289) Commitment forms the



foundation for a cooperative spirit in the marketing channel relationships and guide into an overall stronger partnership (Anderson & Weitz 1992, 29). A distributor with high commitment which is based on the trust that built up in the relationship with manufacturer has a higher possibility to offer market intelligence to the manufacturer. Moreover in the nowadays distribution network, what important is that the distributor's willingness to carry only a single manufacturer's family products or if multiple product families are existing, the distributor partner will keenly promote the products from manufacturer who has already established commitment with distributor organization. (Goodman and Dion 2001, 290)

To evolve into a long-term committed relationship, distributor personnel requires to evaluate the related rewards and costs that commitment bring to them and as the time of the relationship expand, what the rewards and cost will be in the long run. Distributor as an organization has to verify if the rewards outweigh the cost. If it is so, typically the relationship between distributor and manufacturer continues. (Goodman and Dion 2001, 290)

Commitment level ranges from an influential individual to the entire organizational team. According to Goodman and Dion's (2001) research result, there is a range of behavioural determinates influence the commitment in a partner relationship between distributor and manufacturer.

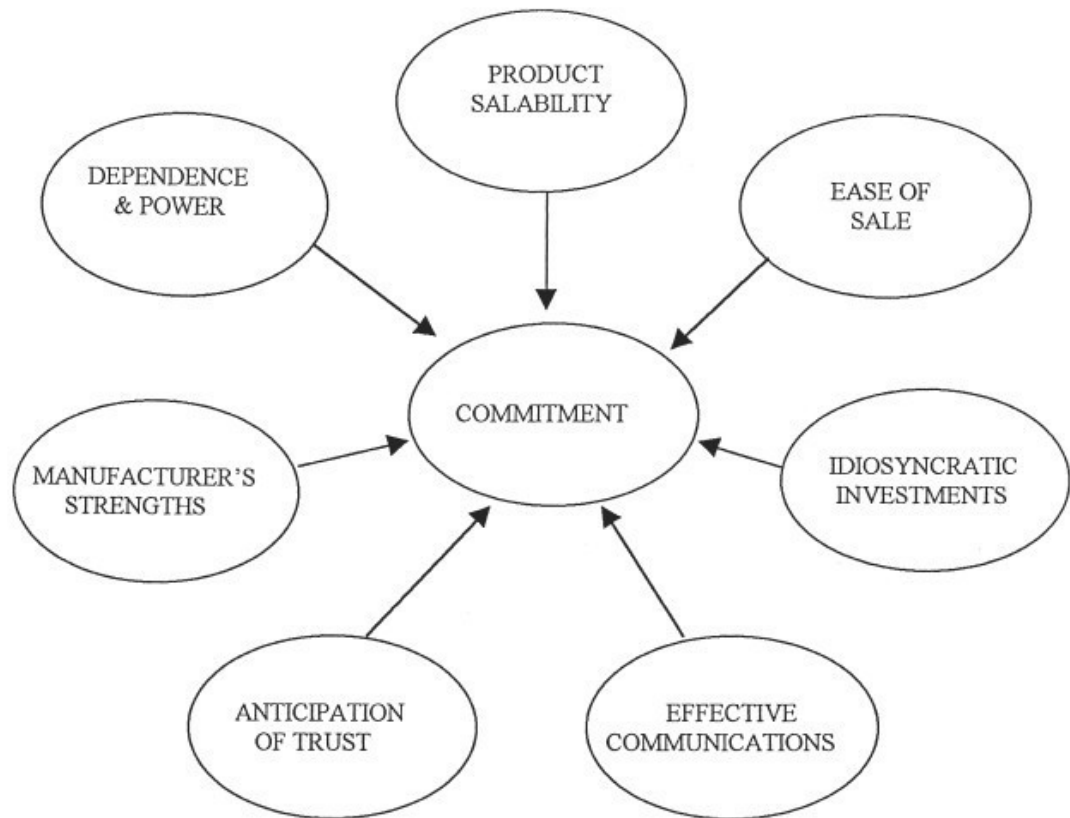


Figure 1 *Commitment determinants for a partnership*  
(Goodman and Dion's 2001, 298)

### 2.5 Determinants in a distributor-manufacturer partnership

In order to study the distributor-manufacturer relationship between EN Oy and its suppliers from China, one has to identify the determinants that affect the relationship satisfaction. So as previously described, the relationship satisfaction is closely linked to the commitment from distributor to manufacturer. From Figure 1 there is the research model for this thesis developed by Goodman and Dion (2001). The model is structured by examining over one hundred of distributors' experiences on their companies' partnership with manufacturers in high-tech industry as same as EN Oy's main product line excavator which is a highly complicated products applied by a lot of advanced and complicated technology. The model includes determinants as trust, dependence, power, communication, idiosyncratic investment, non-coercive power, ease of sale, and product salability. This model is used as the organizing framework for the theory used to make questions for interview and questionnaire.

### 2.5.1 Trust

Moorman, Deshpande, and Zaltman (1993) define trust as the circumstances when a channel partner has confidence in its partner attributable to partner's ability to provide know-how, reliability, and direction. Today and most likely in the long future, trust plays a significant role in the distributor-manufacturer relationship. Trust positively sustain a working relationship and one can believe another cooperate firm will execute actions that produce positive results for them in addition to not implement unpredicted movement that lead to harmful outcomes for the firm. (Goodman & Dion 2001, 290) Manufacturer and distributor need to be willing to look at the relationship from the other's point of view and enable each to accomplish more to sustain the same line of business. Developing trust from another party is difficult. But many aspects of trust exist in the manufacturer-distributor relationship already, such as confidence, expectation, reliance and support. In this modern business world development of trust needs to take place fast. Earning trust from another party is simple by doing what is promised to do every time. Promise should not be over control and do delivery on what is promised. Endeavour to complete the promise and trust will be earned for a long-run. (Thorne 2009)

### 2.5.2 Power

“Having power is the ability to influence outcomes and achieve goals, outside your realm of direct control, not necessarily through your own efforts.”  
(Pilgrim 2010)

The famous definition written by Raven and French (1954 cited in Goodman & Dion 2001, 290) defined five source of power. The power source is based on the success of utilization of reward, referent, and legitimate, coercive and expert factors. It is defined for this study as follow:

1 Legitimate power refers to the ability that manufacturer organization executes power over its distributing partner. This is the power manufacturer gets by default due to its position in the distribution channel. For example for the products exports to EU, manufacturers have the responsibility to guarantee their products comply the quality and service with the regulation in EU. Manufacturer also needs to decide if the foreign

distributor is able to service the end customers in the market according to the EU regulation.

2 Expert power is relied on the know-how a manufacturer have. When manufacturer's representative is acknowledged as expert in the field of business and in another side the distributor's personnel have to rely on this know-how, power is formed as outcome.

3 Referent power is obtained in an emotional level between manufacturers and distributors. When a manufacturer could build up a strong connect during expressing concern, management style, and organizational personality, power rooted in a positive emotional fasten effects.

4 Reward power is about manufacturer's ability to reward its distributor with attractive incentive. The rewards are restricted by manufacturer's capability, which ranges from economic rewards, for instance higher discount rates to less tangible rewards, such as verbal compliments.

5 Fear and force is the foundation of coercive power. Termination of distributorship, discount cuts, and less significant support are examples of the tactics for most of the manufacturer utilize to demonstrate coercive power.

Hunt and Nevin (1974) broke the separate powers into coercive and non-coercive power in their distribution studies. Coercive power includes legitimate power, fear and force. Reward power and expert power has been categorized as non-coercive power.

As the result in Goodman and Dion's (2001) research, coercive power is almost nonexistent compared to other variables. Meanwhile with the decrease of manufacturer's direct control on distributor, non-coercive power has increased its role in developing distributor commitment to their manufacturer partner.

### 2.5.3 Communication

Effective communication has significant outcome to social and business relationship. In this study communication is the tool to help sharing the information between distributor and its manufacturer (Goodman & Dion 2001, 5). The exchange of

information provides the working relationship with a sense of meaning and direction. It is also a mechanism to allocate and coordinate resources. Without effective communication, the purpose and direction of the working relationship become unclear, decisions become guess work. Investment and valuable resources could be wasted by unclear implementation. (Ibid) Unlike the domestic settings, the international distribution across the boundary and could located in any place in the world, which makes the personal visits and face-to-face communication difficult and expensive (Bello et al. 2003). Other differences in culture, ethnic and religious between suppliers and distributor may cause misunderstandings due to a shortage of shared frame of reference (Zhang, Cavusgil, & Roath 2003).

There are two primary type of information exchange between distributor and manufacturer: one is product related information, another one is relationship management information. Product-related information ensures that the right products can be in the accurate quantity to go the right place at the right timing in a cost-effective manner. Relationship management information refers to information in managing the relationship between manufacturer and distributor. It has equal importance as product-related information exchange. (Channel focus 2006)

As Anderson and Narus (1984) mentioned about the benefit by effective communication between manufacturer and their distributors, Manufacturers is able enhance the profit from distributors through cultivating meaningful communication. This is especially apply to unpredicted changes such as price, product and quality (ibid, 70). In Mohr and Spekman's (1996) study on partnering, they categorized three communication aspects as the "key to vitality" in a partnership: a joint effort in setting goals and market planning, the quality of the communications, and the extent of the sharing of information in the partnership. A relationship with high scores in these three communication factors should strengthen commitment. Goodman and Dion (2001, 297) highlighted in their result the quality of communication instead of quantity is the key that further commits distributor to manufacturer partner.

#### 2.5.4 Dependence

Dependence is explained as the level of difficulty experienced by distributor if they did not have access to manufacturer's product (Bucklin 1973). The distributor's

dependence on a single manufacturer is determined by amount of alternatives of products the distributor hold. The apparent consideration is the supplier alternatives which a distributor has for exclusivity. If one manufacturer could not provide a competitive product in the market, distributor has a strong possibility to replace it with another supplier.

When a distributor consider to switch from one supplier to another, the evaluation criteria such as product comparisons, supplier reputation, type of relationships, ability to switch customers to a new product line and sunk cost in the existing partnership must all be considered. Dependence increases with more difficulty a distributor perceived. (Goodman & Dion 2001, 300) No matter what the source of dependence, when a distributor realizes the needs to rely on one particular manufacturer, they will show a greater level of commitment to that manufacturer's products and promotion (Andaleeb 1996).

#### 2.5.5 Idiosyncratic investment

Idiosyncratic investment refers to the expenditures such as time, effort, funds at marketing promotion invested for a particular manufacturer's product in a channel relationship. The list of idiosyncratic investment depends on a distributor's capability and ingenuity. Examples of distributor idiosyncratic investments are product training sessions, dedicated personnel, promotional programs, advertising campaign, direct mail programs, and demonstration equipment. Meanwhile manufacturer also can contribute their share of idiosyncratic investments to a partnership. (Anderson & Weitz 1992) With the increase of idiosyncratic investments that a manufacturer brings to the partnership, the distributor's total investment raise as well. The investment of manufacturer generates a mounting motivation for the distributor to develop and sustain the partnership. (Goodman & Dion 2001, 292) A few studies proved that idiosyncratic investment is one of the most significant determinants in developing commitment in a distributor-manufacturer relationship (Anderson & Weitz 1992; Goodman & Dion 2001).

### 2.5.6 Product salability

Product salability is defined by Goodman and Dion (2002, 292) as the distributor's observation of the product as "having value, being useful, well serviced, and of good quality". The core competitiveness of a product such as technical advance than competing products, costless for the money, useful for customers or being recognized as high quality or being supported by good service are the core factors to the sales of a distributor. The nature of distributor-manufacturer partnership is to sell the manufacturer's product through distributor's channel in the market. Hence a manufacturer's product and its salability are the major concerns in the development of commitment in the distributor-manufacturer partnership. Goodman and Dion (2001) demonstrated salability has the highest level of correlation to commitment of all the variables. This result giving the numerical support that product salability has played the most significant role in any distributor-manufacturer commitment model. (ibid, 297)

### 2.5.7 Ease of sale

Ease of sale was separated from product salability as one factor in the model developed by Goodman and Dion's (2001). Ease of sale denotes the level of difficulty to sale manufacturer's products experienced by a distributor. When a product is easy to be accepted by customers, distributors trend to commit themselves into the partnership with the product's manufacturer. However ease of sale is a less significant factor compared with product salability.

## 2.6 Satisfaction for role performance

Role performance is described as how well an exporting firm or importing firm actually achieve its roles compared with industry average in its distribution channel (Kim 2000). The level of dependence increases from an importing firm to an exporting firm if the role performance is increased by exporting firm. On the other hand exporting firm's dependence increases as well if the role performance increases from the importing firm. (Frazier et al. 1989) In an international distributor-supplier relationship, the distributor hopes the positive performance from their supplier and vice versa. For example exporter hopes they can rely on their distributor to sale products and implement promotion programs for their products in the selected market.

Meanwhile distributor wishes the exporter can provide consistent support in order to server customers. Hence effective implementations of channel roles are crucial in exporter importer relationship. (Skarmeas et al. 2007, 27) In the following text, each role performance criteria is listed from the point of view of importer and exporter.

A distributor's awareness of a supplier's role performance has been summarized into eight basic elements by Kim's (2000, 394) research. The elements of the supplier's role in an international distribution channel were examined on the basis of field interview and pre-tests. These elements are product quality, pricing policy, sales and product training, product parts availability, sales promotion programs and promotional aids, technical assistance, order processing and delivery, return goods policy and carrying of product line.(ibid, 394)

To assess the satisfaction of a foreign distributor's performance, Suppliers' evaluation to distributors is an essential element in distribution channel management (Shipley et al. 1989, 10). According to research conducted by Shipley, Cook and Barnett (1989), achieving sales is the most significant criteria for manufacturers' evaluation on foreign distributor. This is due to the prime reason of the objectives of starting a supplier-distributor relationship. In this way sales volume and sales value are the most commonly applied measures. The following commonly used criteria are like distributors' market feedback, customer services, selling/marketing inputs and new product introduction. Other criteria in use from previous literatures are: keeping commitments, distributor costs, profit from sales to distributor, personal compatibility, and coordination and growth objective. (Shipley et al. 1989 & Cateora & Graham 2002)

Specifically to the field of business between EN and their suppliers, asked from suppliers' evaluation system, the following four criteria are the most valued to their satisfaction of a foreign distributor's performance. These are: volume of sales, product line, area coverage, attitude and enthusiasm, and product knowledge. (AY, AJ, JY and HH 2010)



### 3 METHODOLOGY

In this chapter the research method of the study is introduced. It starts with the reason why qualitative research method and case study are used in this study. And then the interview question and questionnaire design are introduced. At the end the data collection method and implementation procedure are explained.

#### 3.1 Qualitative research method

Qualitative and quantitative researches are the two commonly used methods on data collection. The use of quantitative research requires a few variables and a big amount of respondents to attain generalizability; on the other hand qualitative research demands few respondents with many variables to develop a deeper understanding of research problem. Beside these common characteristics, qualitative research seeks to reveal the understanding of a given research problem from the people who is involved in the research. Qualitative research is mostly efficient in achieving values, opinions, behaviors, and social contexts of particular populations. (Maylor & Blackmon, 2005)

This study is exploratory in nature, and its attention has paid on the partner relations between Finnish distributor and their Chinese suppliers. Since this study involves cases which require deep understanding of the exporting firm and foreign distributor relationships and it is hoped to give suggestions to managers in EN and their suppliers for further developing the business in the distribution channel, the focus is the qualitative evidence where questions such as “how” and “why” will be answered. Therefore the research design of this thesis is conducted by qualitative research.

#### 3.2 Case study

A case study is an in-depth study about a particular participant or small groups. In a case study the aspects which affect the subject’s life and history are analyzed to seek for a patterns and causes for behavior. The objective of a case study is to learn from the case and it can be generalized to others. (Cherry 2010)

The use of case study in this research is due to case study can give reader an understanding and perceptive that how the business are performed from a foreign distributor in a developed country to their suppliers in China. Meanwhile case study is well suited to qualitative research method due to it answers the question “how” (Yin 2003). Moreover cited by Yin (2003) case studies should be applied once the investigator has little control over behavioral events and are investigating contemporary events.

Interview and questionnaire were used in this research to gather ideas from respondents. The purpose of interview is to reveal the current partnership from EN’s point of view. The reason is that importers are in the critical role for a successful export ventures; importing firm as the organizational customer is the ultimate decision maker to their business with exporting suppliers. Importers’ perceptions of the relationship quality determine the business. (Skarmeas et al. 2008, 24) The use of questionnaire is to gain the numerical satisfaction and feedback from both parties to each other’s current performance. This is due to questionnaire is a better way to gather reliable subjective measures, such as user satisfactions (Georgia College of Tech Computing). The other reason to choose questionnaire as the research method is that questions are about giving evaluation and feedback which require in-depth considerations before answering. Especially for respondents from Chinese suppliers, they usually have business with more than five foreign distributors. The person from managing level might need to check the trade record with EN and compare it with the performance before. Therefore questionnaires leave enough time for respondents to review the past and give the thoughtful answers.

### 3.3 The questionnaire design

Import distributor’s relationship with Chinese suppliers provided the research setting. Interview questions are designed from the determinants which influence the partnership between suppliers and their foreign distributor listed in the theory part. There are two version of questionnaires separated from EN and their suppliers. One is for EN and another one is for EN’s four suppliers. The questionnaires are designed with the help from author’s supervisor Mr. Jari-Pekka Jääskeläinen according the theory part and Likert-type’s scoring model. The questionnaire includes two parts, open-ended questions about current transaction implementation between the two

trading partners and evaluation for satisfaction of the current performance. The set of open questions are to reveal how the business and partnership are going on between EN and their suppliers in China. Thereafter the evaluation part aims to measure each party's satisfaction to the other corporate partner based on criteria in their role performance. The score ranges from 1 to 10, 1 is the most dissatisfied and 10 is the most satisfied. 6 is marked as a qualify score for its corresponding role performance as an export manufacturer or a foreign distributor. If the score is lower than 6, the respondent is asked to fill the reason behind the score. Score 7 and 8 is considered as rather good and score 9 and 10 refers to excellent in the rating of performance for both party. Open ended questions are applied in the interview. Respondents are allowed to explain their ideas freely in their own terms and frames of reference to illustrate interesting issues, meanwhile the author is able to investigate the causes behind each reply (Liu & Wang 1999, 135). When any answers were ambiguous or beyond the pale, inquiries were further made after author received the questionnaire.

The open questions are designed for understanding the distributor and supplier relationship and providing suggestions on improving the corporation. Some of the open questions and evaluation criteria were varied in EN and its suppliers' questionnaire due to the different prospective between foreign distributor and manufacturers in the theory part.

The evaluation criteria are following: Evaluation from EN to their suppliers, product performance, delivery performance, service support, price satisfaction, innovation and adaptation and payment terms. On the other side, evaluation criteria from Suppliers to EN are volume of sales, product ranges, area coverage, product knowledge and attitude and enthusiasm. The categories of the open questions are from following aspects: idiosyncratic investment, dependence & power, communication, trust, product salability and ease of sales.

The languages of the questionnaires are both in English and Chinese. In order to collect in-depth answers and make the research possible to be answered by some suppliers' management, the questionnaires translated in Chinese are distributed to all the supplier contact persons whose mother tongues are Chinese. All the questionnaires were collected and kept in file. Interviews were recorded. Later then the answers from the questionnaires were translated into English by author and checked by each

company's sales person who can speak English. The questionnaires to EN's staff were in English, but the answering language was preferred by the respondents. The author received one in Finnish from the general manager in EN which was also later translated into English with the help of company's import manager and double-checked again with the general manager. To allow the use of respondent's mother tongue to reply the questionnaire was to reduce the language influence on expressing respondent's thoughts. Although there is a risk that some of the ideas were lost or misunderstood during the translation, the checking and later phone calls are made to confirm the ideas expressed correctly by respondents to avoid the risk.

### 3.4 Data collection

In order to reduce the unintended prejudice at the data collection step, triangulation of evidence was integrated in this research design and three main data collection methods were used:

- (1) Questionnaire survey of the managers and daily contact person from each company
- (2) Interview with EN's staff after each questionnaire were returned
- (3) Study of internal company material and secondary sources from each company and traced the trading history from EN to their suppliers

To meet the aim of this research, altogether 11 questionnaires were sent out by the import coordinator from EN Oy in April. Three of the questionnaires were made to staff in EN Oy and rest eight questionnaires were sent to EN's four suppliers in China. All the respondents replied their questionnaires before 7<sup>th</sup> of May 2010. The respondents were selected from each company's management and the daily contact person. All the respondents' title within the company can be seen from table 1. As also can be seen in company AJ, there were two regional salesmen were asked to fill the questionnaire due to the change of position made 3 weeks before the questionnaire was sent out. The previous salesman was in changed of business with EN Oy over past three years from the starting point. Therefore his opinion was considered very valuable to this research idea. However the salesman in the position now had taken two month training in EN in Finland. He had the chance to take closer observations about EN and how the operation was in the company. In this case his opinion is

equally important to fulfill the aim of this paper. In HH company the reason why only one person was contacted for this research is due to the general manager himself was also the daily contact person in business with EN. For the details of the respondents who were chosen from each company are listed in Table 1 below.

Company name	Number of questionnaires	title of respondents
Distributor		
EN Oy	3	Import coordinator Import manager General manager
Supplier		
AY	2	Export manager Regional sales
AJ	3	Export manager Regional sales (Now) Regional sales (Preivous)
JY	2	Regional sales Export manager
HH	1	General manager
Total	11	

Table 1 *Information of respondents*

## 4 RESULTS AND ANALYSIS

In this section the main findings of this thesis has been summarized in categories. First it starts with general commitment status between EN and their suppliers in China, after that how each of the determinants influence EN's commitment to their suppliers in China are described according to the order of theory. Subsequently the evaluation results of the channel role performance from both EN and their suppliers are listed and described for giving improvement suggestions. At the end the research result is analyzed and possible suggestion for improvement is given.

### 4.1 The commitment status between EN and their suppliers

EN is the exclusive distributor responsible for Finnish market for AY, AJ and JH. With HH, there is no concrete exclusivity contract signed by both party. However EN is the only sales distributor HH has in Europe right now. The business with AY has lasted for 6 years. Corporation with AJ and JH has been continuing about three years now and with HH as regards two years. One of the key commitments EN asked all manufacturers to promise is that gaining the exclusivity of covering Finnish market when corporate with EN due to the small market capability in Finland and possible cut-throat competition. EN as an exclusive distributor is in charge of the brand promotion, sales, and after sales services in Finland for their Chinese suppliers. EN also consistently provided technical adaptation advices for their suppliers to improve and change their products according to the demand from Finnish market.

Although EN carried four different manufacturers' products at the same time, the product ranges are varies mostly and relatively complemented. AY's products are small excavators range from 1 ton to 13 ton, AJ's products are from 13 ton to 21 ton. The corporation with JY, EN sourced their own designed products focused on the excavator attachments. The last but not the least company HH are mainly providing spare parts and undercarriage parts. To the reason carrying diversified products, EN's import manager said "market demand are extremely variable, we need to provide different kind of tools and many different model of machines for customer to choose." EN's management also expressed a very strong willingness to promote products from

one supplier due to the operation costs will be low and promotion is easy to concentrate with a single brand, but currently none of the four suppliers is able to provide a full range of products.

Being as a committed foreign exclusive distributor, EN has gained sound profits in the past a few years. However with the increasing expenses in Chinese labour costs and weaken in Euro to dollar exchange rate, EN's management admitted the products from Chinese suppliers are losing their competitiveness in pricing. Meanwhile under the financial crisis influence, competitors from Japanese and Korean reduced their sales price for machines to remain market share. Moreover more and more Chinese excavator brands coming to Finnish market, the price competition was intensified in the construction machinery field. If none of the price, quality or service can be improved, EN's commitments to suppliers are going downwards.

#### 4.2 Trust

EN showed their confidence in Chinese suppliers' reliability in the way how suppliers handling the orders to EN. However EN has rather weak trust in the technical support due to its own staffs' advanced knowledge and Chinese suppliers' technical suggestion made from a far distant without really inspecting the situation. Even though EN would like to trust suppliers' expertise more, but not it is not really possible during the on-going cooperation. EN showed strong confidence in believing what the supplier promise to do even though mistakes and failure in products happens sometimes. This was because in this case all four suppliers showed their willingness to take the responsibility and compensate the loss occurred by their fault. Therefore EN trusted suppliers that they have the good intention to do what is promised, but shortage of export experience sometimes limited their performance.

All four manufacturers showed fully trust in operation with EN. This is due to the business history that EN always achieves their promise like on time payment, open dialogue, familiarity with their products and technical know-how.

### 4.3 Power

From the review of the empirical material, there are limited power Chinese manufacturers implemented in operation with EN. The most implemented power is by rewarding power. All the suppliers authorized EN as the exclusive distributor for its sales in territory of Finland as a priority to started business with EN. Although EN didn't sign a paper contacts with company HH about exclusivity, but HH promised not to sell any products to Finland during the on-going business. Beside rewarding exclusivity, supplier AY use discount and giving free attachment tools for distributor who reached their universal rewarding range of orders to stimulate distributors' purchase. However due to Finnish market capacity is small to products from AY, EN hasn't ever reached the rewarding range. Company AJ uses an advanced credit payment like 50% payment when ordering the products and rest payment in three month after the delivery reached EN to encourage purchase. Exporting manager of JH mentioned sharing of the adverting costs in their rewarding power, but still EN hasn't been involved in this rewarding system due to EN sourcing their own designed range of products. Company HH doesn't have any favourable supporting except a negotiable price.

EN's four manufacturers' expert power was limited due to the short years of experience in understanding the marketing situation in the Nordic standards, and know-how in providing service for their products. Coercive power has never been used from any of EN's suppliers due to the rather stable order quantity and fine business relationship. EN as a foreign distributor has been merely influenced by Chinese suppliers' demonstrated concern or management style which belongs to the referent power.

### 4.4 Communication

Since the establishment of the distributor-manufacturer relationship with these four suppliers from China, the management from EN visited AY two times, AJ one time, JY one time. EN's management haven't visited HH so far due to the amount of trade is small. The visits took place mostly at the starting of the business when both companies try to know each other. Sometimes executives from EN meet their suppliers in the major trade shows. About once per year, the sales manager from AY



visits EN in Finland. AJ's salesperson and assemble worker has worked in EN two times in last 3 years. In 2009, AY's salesperson and service engineer spent 2 month time in EN to learn the Finnish market and provide product training for EN's engineers. EN visited JH one time in the past and met managers in the trade shows with JH and HH once, however both company JH and HH have never visited EN so far in Finland although the open invitation.

The daily contact are mostly conducted through Internet chatting tools like MSN and email due to the low costs and convenience of exchanging files including pictures and document. Phone calls and fax are used when necessary. However the communication is limited by the time differences between Finland and China. The efficient working hours are usually from 8 a.m. to 12 a.m. in Finnish time.

Information passed from EN's management to their import manager, and from him to the salesperson in the manufacturer's company. Due to the Chinese supplier sides were poor in communication for difficult technical terms in English, misunderstanding had happened during the past. Because of that, three years ago EN hired a Chinese native speaker joining the company to enhance the communication with manufacturers in processing the orders and taking care of claim for after sale services. Currently the coordinator is taking a major part of the communication responsibility for the cooperation with manufacturers in China. In the manufacturers' side, messages from AY, AJ and JY usually forward by the salesperson to their management and factory engineers. The only special case is with company HH, the general manager is also the daily contact person with EN. Direct communication between EN's management with supplier's management were seldom due to the language barriers. When necessary, the import coordinator in EN makes phone calls to suppliers' management.

Product-related information exchange takes a share of 90 percent communication conducted between EN and their suppliers. Information exchange are about giving orders, asking for specification of the products and parts, price negotiation, delivery time and after sales service support. The relationship management information exchange like integrated planning and marketing strategy are seldom discussed by both parties. Neither company has access to the others' computer files. The goals and plans for the future are not often exchanged between EN and their suppliers in China.

Most of the information exchange is related to product performance feedback and ways to improve. From the reply about communication in integrated planning on distribution and strategy formulation from supplier contacts, there is a strong willingness that the suppliers would like to discuss market promotion strategies, demand feedback, new product sales and product diversity with EN. In the meantime EN would like to have concrete conversation about price level and improving services and quality. Long-term plans are seldom mentioned by EN due to the uncertainty of market situation under the influence of the economic crisis from 2009.

From the question asked about the satisfaction status of current communication with EN, Chinese supplier contacts expressed they are rather satisfied with the daily-based communication. Still all suppliers showed their strong interest that EN could visit them more often. Suppliers considered constant visits are very necessary for developing a deep and meaningful partner relationship, especially the face to face meeting organized from people in both companies' management level. In the mean time, EN's management admitted that visits are important but only when there is a necessary to go due to the associated costs and time taking. EN's manager explained the necessity means "new product launching, breakthrough offering and management discussion about distribution matters" Otherwise visit is unnecessary and business transactions can be conducted by communication tools instead.

All suppliers also expressed they would like to have more information about Finnish market in a report edited by EN in a year or half a year in order to receive in time feedback to adjust marketing strategy.

#### 4.5 Dependence

EN had a rather high dependence on suppliers' product and services from AY and AJ, a lower dependence to JY, and lowest dependence to HH. This is due to the years of promotion to the AY and AJ's brand popularity and EN need constant support for after sales services to already sold machines in Finland. EN has been promoting AY's brand from year 2004 and advertising AJ from 2007. Both brands have a good customer-base. Construction machines as its nature needs constant after sale services, therefore EN is hard to switch from one manufacturer to another due to the spare parts support and technical information needed by customer. With a few years of

experience in working with each other, the strong brand recognition and consistent support needed by customers made EN a challenge to switch from current operation with AY and AJ. If the partnership terminates, EN is more vulnerable in this way.

Cooperation with JH, EN sourced their products under its own brand. In this case the reputation remains with the same brand no matter if EN switches to another brand or not. And for the nature of products, there is little demand for after sales services from a customer. However JY has the most adopted products among all suppliers to EN for Finnish market. It would require a long time of coordination and practise to source the same products from another supplier. Compared with AY and AJ, switch JY to another supplier is rather easy but time consuming.

HH is viewed as the most replaceable company among the suppliers of EN. This is because the business with HH mainly about parts used on AJ and AY. There are many companies in China can supply these products and there is no brand-switching costs in between. Even though certain amount of adaptation for products are conducted by HH, the purchasing amount is little and easy to purchase from another supplier.

Supplier AJ, JH and HH showed a strong dependence to EN as the distributor for Finland. The reason is that EN is the only importer of their products in Finland or even the only distributor in Europe. AY has a weak dependence to EN because EN's purchasing volume slumped in last year, which took only a little share of overall export value in AY. In general Chinese suppliers' dependence showed in the following aspects:

First EN has a stable purchasing volume per year and their staffs are good in knowledge of suppliers' products. Moreover EN has given advices to suppliers' technical know-how on improving the products and service requirement, which enhanced the product competitiveness and adoption needs for other markets in Europe as well. As a result suppliers gain valuable experience in doing business with EN especially for these manufacturers who just entered European market. The last but not the least with EN's marketing promotion, supplier gained their brand popularity to importers and end customer from other countries especially among the Nordic countries.

#### 4.6 Idiosyncratic investment

EN's idiosyncratic investment showed in the following aspects: Its major funding contributes to product advertising on the Finnish machinery magazine and newspapers issues monthly, organizing trade shows. Investment also showed in EN's willingness to take a stock of machines and spare parts for customer support. Time and effort are showed in sharing the information of market and getting to know the counterparty from establishing the relationship. Dedicated personnel and engineers have a very good base of knowledge of suppliers' products.

However all four suppliers haven't contributed any idiosyncratic investment specially to the business relationship with EN. The joint investment programs are non-existent between EN and their suppliers. Advertising and sales activities are the individual work for each company and never have been jointly developed. However with the investment of the European spare parts centre from company AY, EN will benefit in speeding up the spare parts delivery and customer information support.

#### 4.7 Product salability

EN's management and their suppliers both admitted low price is the core competitiveness for products imported from China. Trace the sales record, EN's products are mainly sold to customers in the low-end of the market segment such as small to medium contractors, farmers and private users. These customers are usually price conscious. Their demand is a simple durable machine with a good after sales support.

EN's management believed that competitive price with a good quality and working service support would help the most to enhance cooperation and expand the business due to ease of sale of products and good reputation given from customers. When EN's general manager talked about the quality he highlighted the importance of durability in the cold weather in the Finnish winter, with a rather high expectation in the Nordic countries for quality, the manufacturer should consider the extreme cold conditions when design and test the machine.

Delivery on time is also important, delayed delivery and failed to delivery broke the image of the brand and losing of selling opportunity. Also EN mentioned about the customer demand in this field is extremely various. Company need to prepare a wide range of products for sales to customer. The supplier who can provide most of ranges of products would help to enhance the commitment due to the cost of promoting a single brand is much more costless and effective than marketing a few brands at the same time.

#### 4.8 Ease of sales

EN's management admitted that products from Chinese suppliers are quite easy to sale a few years ago when the price was low. With the increasing costs from Chinese labour force and appreciate in value of Yuan (Chinese currency), the cost performance is not obvious any more compared with products from Japan and other European countries. Meanwhile more and more Chinese brands entered the market in EU also increased the competition and reduce the profits in business.

#### 4.9 Role performance

## 4.9.1 EN's attitude on Chinese suppliers' role performance

From EN	Quality	Delivery	Service support	Price	Innovation and adaptation	Payment term	Average
To AY	8	9	6	7	7	8	7.5
	7	8	7	7	9	8	7.7
	6	8	6	6	8	7	6.8
Average	7.0	8.3	6.3	6.7	8.0	7.7	7.3
To AJ	8	7	6	8	8	9	7.7
	8	7	7	7	8	9	7.7
	7	7	7	7	7	9	7.3
Average	7.7	7.0	6.7	7.3	7.7	9.0	7.6
To JH	7	9	7	6	6	7	7.0
	7	9	7	7	8	8	7.7
	7	6	6	7	8	6	6.7
Average	7.0	8.0	6.7	6.7	7.3	7.0	7.1
To HH	9	9	8	8	10	8	8.7
	8	9	9	8	8	8	8.3
	9	7	8	8	9	7	8.0
Average	8.7	8.3	8.3	8.0	9.0	7.7	8.3

Table 2 *Score of suppliers' role performance evaluated by EN*

Score under 6 is considered as unqualified; 6-7 qualified; 7-8 rather good; 8-10 excellent; 0 means I don't know

The result in table 2 showed that EN as a foreign distributor rated their Chinese suppliers a rather equal scores with small difference in general performance except a significant higher score to supplier HH. All the suppliers were rated as a qualified supplier from EN's point of view. The score given to suppliers showed that EN was rather satisfied with the performance with four current suppliers. And what is worth to highlight was that EN were very satisfied with supplier HH with a score of 8.3 for their general performance, on the contrast the lowest point goes to supplier JH at 7.1 with a slightly 0.2 differences compared with AY.

Comparing each criterion for supplier's performance AY is rather good in keeping on-time delivery and consistent product innovation and adaptation to EN. Their weakness is poor in their pricing and service support. Furthermore the quality of their products scored lower than the average among four suppliers. Supplier AJ has the best score among four suppliers in payment terms and rather good in product innovation and quality. The weakness showed in service support and on-time delivery. Supplier JH has also quite good score in delivery and the weakness is in price and service. And also the quality and payment terms ranks low compared to other suppliers.

Supplier HH is rated as the best performance in product quality, on-time delivery, and service support and product innovation among four suppliers. Due to the nature of supplier HH is a trading company, their product innovation and adaptation ability refers to HH's ability to find the right product and coordination ability with sub-supplier to implement necessary adaptation for Finnish market. The only average performance HH has is payment terms.

By analyzing the company trading history with these four suppliers, there is a few concern author wants to explain. Business with AY lasted the longest time about 6 years and correspondingly with AJ, JH lasted 3.5 years and HH in 2 years. Except the excellent performance rated by EN, one has to consider company HH compared with other suppliers is short in time, and the trading quantity is small, therefore HH is rather easier to gain a better score in a short trading history with simple products.

From EN	Quality	Delivery	Service support	Price	Innovation and adaptation	Payment term	Mean
Mean	7.2	7.8	6.6	6.9	7.7	7.9	7.4

Table 3 *Average performance in score to Supplier AY, AJ and JH*

When considering manufacturers' long time performance, author took an average grade for each criterion to supplier AY, AJ and JH. HH is excluded from this table due to HH's nature as a trading company and short in trading value and years of working with EN. Generally one can see from table 3, the score given from EN to their suppliers in China, the average grade is listed in the table above. EN commented

suppliers as qualified. From the score illustrate that Chinese suppliers of EN executed well in on-time delivery and payment terms. Compared with these criteria, product quality, price, service support and innovation still have room for improvement according to EN's expectation.

#### 4.9.2 Suppliers' evaluation on EN's role performance

From suppliers	sales volume	Product range	market coverage	Staff knowledge	attitude and enthusiasm	Mean
Export manager-AY	3	7	4	8	7	5.8
Daily contact person-AY	4	7	0	7	6	6
Mean	3.5	7	4	7.5	6.5	5.7
Previous contact person-AJ	9	9	7	9	9	8.6
Export manager-AJ	8	9	10	10	10	9.4
current contact-AJ	7	6	7	6	7	6.6
Mean	8	8	8	8.3	8.7	8.2
Daily contact person-JH	6	5	0	6	8	6.3
Export manager-JH	9	8	8	8	9	8.4
Mean	7.5	6.5	8	7	8.5	7.3
General manager	8	8	0	8	9	8.3
Mean for all	6.8	7.4	7.2	7.8	8.1	7.4

Table 4 *EN's role performance as a distributor evaluated by suppliers*

Table 4 above shows the four manufacturers' satisfaction for their distributor EN as an exclusive distributor for their products selling in Finland. There are three respondents filled 0 as I don't know to the field of market coverage. In this case, the mean calculated to the general performance and mean for each category of performance are excluded market coverage as one of the criteria. From the score given by each supplier,



as can be seen from the Table 4, great difference in score has taken place from each supplier. Score varies from 5.7 to 8.3. AY gives the lowest point and HH gave the highest in average.

When look at each suppliers' performance individually, the statistic exhibited that AY were extremely not satisfied with the sales volume and market coverage to EN as an exclusive distributor for Finland. The reason explained by respondents from AY was that the sales volume to EN in 2008 was good, but with the economic crisis in 2009, the purchase volume of EN dropped dramatically. Compared with other distributor in Europe, orders from EN were very few. AY's export manager commented EN's market coverage as "EN has regular customers for selling machines over 13 ton, but lack of channels in selling machine under 13 ton, that is our main product range about. From recent years of purchasing record, EN's market coverage in Finland for our products was less than 3% of the total market share." Another rather low score given to EN was the attitude and enthusiasm, with a passable score of 6.5. Good score went to EN's product range and staff knowledge with 7 and 7.5 in each.

Company AJ is generally very satisfied about their cooperation with EN. The score for all the performance criteria are over 8. Interesting phenomenon is that compared with the previous salesperson and export manager, the current salesperson gave the lowest score for each criterion. One reason it could be because the economic crisis influenced the business since this salesperson started to work with EN, which gave the less positive image to him, another concern could be this person saw the how the real business were going in EN as he had worked in EN's company for about 2 month. Both possibilities need to draw attention to EN's current performance after the financial crisis.

Supplier JH gave an average score of 7.3 for EN's role performance as a foreign distributor. The highest score went to attitude with 8.5 and lowest points went to staff knowledge of their product range with 6.5. The daily contact person gave her explanation for score 5 to product range as follow: "EN sourced their own range of products in our company but rarely bought our own range of products." Also the score 6 in staff knowledge was concerned by EN's staff knowledge about JH's own products. The high points went to the market coverage and attitude and enthusiasm, which both points are over 8. The figure shows that JH is rather pleased with their

current business with EN, the only concern is that JH wanted EN could take attention and promote their own products as well.

With supplier HH the score given to EN was as good as evaluation from EN to them. HH gave an average score of over 8 to EN except HH's general manager didn't know about EN's market coverage for their products. From the score, it can be seen that both EN and HH were very satisfied with each other's role performance during the current corporation.

From suppliers	sales volume	Product range	market coverage	Staff knowledge	attitude and enthusiasm	Mean
Mean for all	6.8	7.4	7.2	7.8	8.1	7.4

Table 5 *Average score to EN's role performance as a foreign distributor*

In conclusion with analyzing the mean of scores from data in Table 5 for each distributor evaluation criteria, EN is a rather good distributor, performing well in attitude and enthusiasm and product knowledge. Compared to that, the weak point is in sales volume, especially its ability to make sales during the effects of economic crisis. It is notable that three of the eight respondents from three suppliers didn't have clue about EN's market situation and coverage in the Finnish market. This may be caused by the shortage of market information exchange between EN and suppliers and distant location between distributor and suppliers. Another explanation to this phenomenon is that EN is the only distributor HH and AJ have in Europe, as a result they did not have an alternative to consider about the market coverage of EN.

#### 4.10 Adaptation and expectations from suppliers for future operation

Every supplier is willing to adopt their products according to the demand from target country, although supplier AY mentioned the adoption would take some time in process. All suppliers have adjusted their products in certain degree for the requirement of EN. The most significant adoption examples are: EN and supplier AJ jointly developed a special excavator model for use in the Finnish forest. With company JH, EN sourced a range of self-designed attachment tools. When question asked about the expectations from supplier contacts, all the suppliers expressed the

same willingness that EN could increase the sales and taking more market share in Finland. AJ also mentioned hoping EN could open more sales channels in the market coverage. Supplier JY hopes EN can increase the variety of their products and promote their company's main products.

#### 4.11 How to improve the cooperation?

When asked about what it is needed to improve in the cooperation with EN, all suppliers answered about improving the regular information exchange, understanding to each other and in time feedback. Beside that, AJ mentioned to formulate marketing strategy together, training technical staff for foreign after sales service. HH stated increasing product variety and more flexible sales strategy. From EN's point of view, close personal contacts are needed to keep in the work relationship with suppliers. The details and demands should be always reminded to suppliers in order to make sure not to be forgotten.

One can see from the questionnaire evaluation and open questions that low price with a passable quality is the core interest and motive for EN to establish a purchasing partnership with Chinese companies. It is also Chinese suppliers' admitted where their competitiveness were. However with the rising labour costs in China and appreciation in Yuan (Chinese currency), products from China are losing its competitiveness in pricing but still the price is lower than products from major market competitors from Japan and Europe. If suppliers can improve their service support and product quality to remain cost performance, product attractiveness is still in an advanced position in the market. More expert power exhibited by suppliers will enhance the reliance from distributor. From suppliers they need to improve the learning of their products and way to express them to make the service support process simple and understandable.

However significant quality and service improvements are not easy to happen in a short run, long time exporting experience, product control and investment in service system takes time to build. For short term improvement, EN should provide suppliers a current price comparison for products from other brands on the Finnish market and urge suppliers to provide favourable price strategy according to the marketing situation. As requested by supplier contacts, EN should visit suppliers more often. The face to face meeting between each company's management is expected by suppliers.

## 5 CONCLUSIONS AND DISCUSSIONS

In this chapter three research questions stated in the chapter one will be answered from the findings and analysis. After that some implications, criticism to this research and suggestions to future researches in the development of partnership in international distribution channel are presented.

### 5.1 Conclusions of research questions

How has EN and its Chinese suppliers managed their relationship?

Based on the case studies of EN and their four suppliers' channel relationship, one can see EN as the exclusive distributor for Finland to four Chinese suppliers, EN has trust to suppliers and willing to trust even suppliers more but due to the experience and knowledge, EN can not fully rely on the expert knowledge provided by suppliers. Suppliers showed their fully trust to cooperation with EN. Also mentioned by suppliers, EN's suggestion on technical improvements and sales and service experience are great value to their company to do business in Europe. As can be seen from the findings the integration between foreign distributor and manufacturer are still in the preliminary step as EN buying products from supplier and making its own sales and marketing promotion. There were not any integrate planning for marketing or joint promotion programs right now. To this point the partnership is stable and suppliers are looking forward to negotiate for future integrations to the cooperation with EN.

However with the economic recession, the product salability from Chinese suppliers reduced by appreciation in Chinese currency, labor costs increasing and price reduction from Japanese and Korean brands. Further actions on discount in price, quality improvement and enhancement in service support are expected to achieve from suppliers to remain EN's market competitiveness. Otherwise from EN's point of view the partnership is going downwards with suppliers in China.

To suppliers in China, they expected EN can take more market share for their products in Finland. Meanwhile hoping EN could provide more feedbacks in product improvement, marketing situation and competitor analysis to adjust their exporting strategy in order to remain competitiveness. In addition some suppliers also expected EN could expand import on more ranges of products.

How do EN and their Chinese suppliers evaluate each other during the on-going cooperation?

The evaluation is based on the counterparty's assessment to their partner in role performance as a distributor or a supplier. The evaluation criteria to a distributor are as follow: Sales volume, product range, market coverage, staff knowledge, attitude and enthusiasm. Suppliers recognize EN as a rather good distributor in staff knowledge and attitude and enthusiasm for promotion. The weak point is in sales volume and market coverage.

The evaluation criteria to a supplier are includes: quality, delivery, service support, price, innovation and adaptation, and payment terms. The suppliers from China are rather good in providing payment terms and innovation and adaptation abilities. The weak point is in providing service support and price competitiveness compared with before. Also from the research findings, one can see the cooperation with small companies like HH, keeping direct contacts with the manager and purchasing simple parts in the company have increased the satisfaction score dramatically.

What are the issues EN and their suppliers could do to improve the cooperation?

As the research finding and evaluation by distributor and suppliers, one can see the conflicts is in EN's sales volume, suppliers' price competitiveness and service support. Meanwhile it can be see the sales volume is positively in relation with the price competitiveness provided by suppliers. When the purchasing price is high, the sales price by EN to customer increase relevantly. If the sales reduction is only come from distributor, the profitability and service support implemented by distributor will decrease. Therefore it would suggest EN to discuss their purchase price with suppliers according to the market situation and competitor prices. Thereby constant communication and providing marketing report and competitor analysis would help

suppliers to set their price level according to the market demand. In this case EN should keep informing their suppliers about the market demand and competitor status. As preferred by supplier contacts, they would like to have a formal written report from EN to hand over to their management for consideration. Not only rely on the price reduction, EN should also be more active in selling the product like advertising promotion, increasing sales force, authorize sub-distributors in different area.

Face to face communication is also suggested to EN since EN hasn't visited AY in 3 years, AJ and JH in two years. EN hasn't visited HH since started cooperation. A lot of new product launched, a lot of company changed their personal and company restructure made the company different compared with a few years ago. It would be worth paying another visit for EN to get to know the scope of the suppliers' management and situation in the supplier companies. Further negotiation and business integration would be easier to discuss by visits, because opinions can reach to the management directly.

## 5.2 Criticism to this thesis

As the factors which can influence the partner relationships and role performance factors are extensive, author just listed the most important ones that considered by their supplier, more factors could have been included for this thesis. This case in this thesis is about one distributor's cooperation with four distributors. From foreign distributor's prospective the way of management the partnership is limited to EN as one company, more companies from distributor side could make the study more persuasive. The mean grade for role performance is calculated by assuring each criterion has same influence on the role performance. However these criteria should have their importance in order. Therefore if there is theory about the significant ranks for each of the criterion, the result could be more accurate.

## 5.3 Suggestions for further research

This study poses several challenges for companies in the international distribution. Further researches on how foreign distributor and their manufacturer integrate planning and management to promote brand awareness would be interesting to focus on. The degree how culture and company structure differences influence the

cooperation in international distribution channels would also be attractive. Chinese manufacturers' way of building relationship compared with Japanese or European companies for their way of building the partnership with foreign distributors would be most interest since these companies have much more years of experience in international distribution. In the research suppliers expressed a strong willingness for distributor's constant visit. However EN as the distributor consider constant visit is not necessary unless there is breakthrough transaction in the business with suppliers due to the associated time and costs when going to meet suppliers. Therefore a study about the degree of contribution of constant visit to suppliers can improve distributor and supplier performance would be great help to settle down the conflicts.

#### 5.4 Discussion

This paper examines how a foreign distributor company in a high-end market handles their Chinese supplier partnerships during the on-going business cooperation. This thesis topic was a big challenge to me especially due to the lack of prior researches and theory support with a similar interest to explore Chinese manufacturers' relationships with a foreign distributor in the high-end market to promote the brands of Chinese suppliers. Until now most of the sourcing and supply chain management researches are focused on multinational companies which purchase components from Chinese suppliers under their own label. Hence this thesis has focused on the how the on-going relationship are managed between Chinese manufacturers and their foreign distributors to promote a Chinese brand in the highly developed country like Finland. This thesis includes the perspectives of both the distributor and suppliers. By the request of the authorised company EN, this thesis is not only a case study exploring how relationship is managed between foreign distributor and suppliers, but also a consulting work on how to improve the business performance and partnership. Readers can gain a thorough understanding from both the supplier and the distributor's point of view. Since more and more Chinese machinery companies are exploring overseas markets, especially to high end market in Europe and US (Overmoon 2010). This study can benefit these manufacturers and their foreign distributors on how the businesses are conducted and what the main interests of both parties are. Since the topic was authorised by EN, I have been closely observing the operations and keeping company EN informed about the thesis process and the results. The suggested way to improve cooperation in the analysis part has been consistently

reported to EN and their suppliers. Action was taken after the feedback had been handed over to EN's management to improve their current performance with suppliers. Some effects of the suggestions given in this thesis have been shown in the following aspects. EN has recruited new salesman who is willing to travel and visit customers to improve their market coverage in Finland; meanwhile EN has also increased their advertising budget for brand promotion. In the importing department of EN, the manager and the coordinator have given their marketing feedback, technical improvement suggestions and competitor analysis in a report to suppliers. In the communication with the suppliers, as request for EN's constant visit to the suppliers and face-to-face meetings on the management level, a recent visit to all four suppliers in China is planned by EN's management. In the meantime supplier AY and AJ have also decided to pay a visit to EN before the end of 2010 to promote a new product launch and listen feedback. After studying the market competitor analysis sent by EN, supplier AY has already decided to give EN a special payment term to incentive sales and release the financial pressure. Moreover supplier AJ decided that they not only granted their favourable payment terms, but also a price discount to EN in order to sustain their product competitiveness on the market according to the current market situation. Further actions is expected when EN meet their suppliers.



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## APPENDIX 1 Questionnaire to EN

The purpose of this questionnaire is to research the attitude of EN Oy to your four Chinese suppliers and your expectations from the suppliers. The answers are to be based on your personal experiences.

The scale ranges from 1 to 10, in which 10 refers to the most satisfied and 1 to the most disappointed. Please give your evaluation on the following questions, if the evaluation is lower than 6, please explain the reason. If you don't know the answer, please mark it 0. For the open questions, you can write about your thoughts freely in your own words. Your opinions are truly appreciated.

### Product performance

Quality includes functionality (speed, capacity, etc.), reliability, maintainability, damage tolerance and compatibility.

Please give the score of the product quality delivered by

AY	___
AJ	___
JH	___
HH	___

### Delivery performance

Please give the score for your satisfaction with the product packaging during transportation and delivery time from place the order to receive the product.

AY	___
AJ	___
JH	___
HH	___

### Service support

Please give the score to the service support provided by each supplier. Service includes: timeliness, accessibility, responsiveness, and know-how.

AY	___
AJ	___
JH	___
HH	___

### Price



Please give the score for your satisfaction with the price-quality performance offered from each supplier and total operating costs occurred during purchase transitions for Entrepot trade Oy.

AY \_\_\_\_\_  
 AJ \_\_\_\_\_  
 JH \_\_\_\_\_  
 HH \_\_\_\_\_  
 Operating cost \_\_\_\_\_

#### Innovation and technical improvement

Please give the score to each supplier's innovation capability, technical improvement and adoptability for its products.

AY \_\_\_\_\_  
 AJ \_\_\_\_\_  
 JH \_\_\_\_\_  
 HH \_\_\_\_\_

#### Payment terms

Please give the score for your satisfaction to the payment terms agreed with each supplier.

AY \_\_\_\_\_  
 AJ \_\_\_\_\_  
 JH \_\_\_\_\_  
 HH \_\_\_\_\_

#### Customer Insight

What are the expectations of end users to the products provided by EN's Chinese suppliers?

---

#### Products and Services

What is the demand for machines and attachment tools in the Finnish market?

---

#### Core Competence Transition

What is the core competence we have from the products imported from Chinese suppliers?

---

#### Opportunities

What would be the new opportunities in developing the business with the Chinese suppliers?

---

My motivation

What motivates you to work with Chinese suppliers?

---

Supplier relations

Do the good partner relationships contribute to your business?

---

If yes, please answer following two sub questions. If your answer is no, please specify the reason.

---

How could we improve our co-operation with suppliers?

---

Where do we have challenges?

---

To the future

What is the picture of ENde Oy with Chinese suppliers in five years? What is EN's target in the future (Eg. volume, market share, sub-distributors and customers)?

---

## APPENDIX 2 Questionnaire to suppliers in China

### EN 公司中国供应商咨询问卷

The purpose of this questionnaire is to research the attitude and expectation from your company to EN Oy. Answers are based on your personal experience. Score ranges from 1 to 10, 10 is the most satisfied and 1 is most dissatisfied. Please give a point to following questions, if the score is lower than 6 please explain the reason behind the score.

尊敬的合作伙伴，感谢您长久以来对芬兰 EN 公司的支持和贡献。此调查意在听取您的反馈意见以用来提高与贵公司的合作。问题回答没有格式限制，您的中肯意见最为重要。整个问卷大概需要 20 分钟完成。

请给下列问题打分，分数从 1 到 10。1 为非常不满意，10 为非常满意。如果分数低于 6 分，请在分数后阐述您的观点。如果您对所问的领域不了解，请选择 0。

#### Volume of sales

##### 销售量

Compared with other overseas distributors which your company has, please give score for your satisfaction with the volume of sales En Oy made?

与其他海外代理商相比，请对 EN 公司近两年的采购量或价值进行评分。

---

##### 产品

Please give the score to the current product line Entrepot Trade Oy carried

请对 EN 公司目前所代理贵公司产品种类的满意度评分。

---

##### 销售范围

Area / customer coverage of Finland

请对 EN 公司在芬兰的销售渠道和市场覆盖率进行评估。

---

##### 人员

请对 EN 公司员工对贵公司产品的专业知识进行评估。

Please evaluate the staff's product knowledge in EN Company.

---

请对 EN 公司对推销贵公司产品的积极性和对贵公司产品的重视程度评分。

Please give the score for EN's enthusiasm and focus on marketing your products.

---

开放性问题

Do you think rewarding overseas distributors would motivate sales?

贵公司有哪些支持或刺激海外代理商销售的方法？（比如授予独家代理权，达到销售指标的奖励，广告等产品宣传费用的支持等）

---

Strong, effective relationships are based on trust and good communication. Are you satisfied with the daily-based communication with EN? How can be improved? Do you think frequent visits would be necessary?

足够的沟通和信任是增强合作关系的基础。您对现在与 EN 公司的日常沟通是否满意？哪些方面还可以提高？您认为定期的相互访问是否有必要？

---

贵公司是否有意与海外代理商一起参与制定未来出口的综合规划和战略实施？如果是的话请注明在哪些程度上愿意与之商讨？（比如：价格，市场推广，需求反馈等）

Would your company like to discuss integrated planning and strategy implementation with overseas distributors? If yes, could you tell to which certain degree you would like to take part in it, for example in terms of price, market promotion, demand and customer feedback?

---

What are your expectations of the business with EN Oy?

贵公司对 EN 公司有哪些期待？

---

Products and Services

产品和服务

Is your company ready to modify products according to EN Oy's needs in the Finnish market?

贵公司是否愿意按照芬兰当地市场的需要改进产品？

---

How many products have been planned to sell in the Finnish market in 2010?

在 2010 年是否对芬兰市场销售有哪些销量的规划?

---

Core Competence Transition

核心竞争力

What is the core competence in your company or your product?

贵公司或贵公司产品的核心竞争力是什么?

---

Opportunities

What new opportunities can you think of in developing business with Finnish distributors?

您认为现在与 EN 公司一起有哪些新的机遇可以拓展?

---

Motivation

动力

What motivates you in your work with Finnish distributors?

什么是贵公司与 EN 公司合作的动力?

---

Supplier-buyer relations

合作关系

Do partner relationships contribute to your business?

您认为良好的合作伙伴关系是否对之间的贸易有推动作用?

---

If yes, please answer following two sub questions. If not, please explain the reason.

如果是, 请回答以下两个问题, 如果不是, 请在下面解释原因。

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How could you improve the co-operation together?

我们如何一起增进合作?

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What are your biggest challenges?

我们现在面临哪些挑战？

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To the future

What are the prospects of your company's business with EN Oy in five years? What is your company's goal in the future (E.g. volume, market share, sub-distributors and customers)?

您怎么看未来五年内与 EN 公司合作的前景？ 贵公司在未来五年内出口的目标是什么？（比如：销量，市场份额，代理商和客户的目标）

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在面对后经济危机的现实，欧洲工程机械市场的缓慢恢复与各品牌纷纷以降价为促销手段的激烈竞争中，您认为我们应该如何应对以求生存和发展？

At present European construction machinery market is recovering slowly after being hit by the worldwide economic recession. Most of the machinery manufacturers cut down their selling price to stay competitive in the market, which caused keen competition on the market. What do you think you need to do as the result of that to develop our business?

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## APPENDIX 3 Interview questions to EN as a foreign distributor

### Interview questions

If the interviewee don't know the term of words, interviewer explains to interviewee first.

#### Trust

In which degree you trust your suppliers ( know-how, reliability, direction)?

Can your partners achieve what they promised to do during the cooperation?

#### Power

Are there any legitimate power used from suppliers to your company during the cooperation?

What about referent power, and reward power? If have, please specify....

Has any supplier from China using fear and force power as a way to implement their power on your company?

#### Communication

Do you perceive any influence from culture difference and company structure different from your operation with suppliers?

What is the content of the information exchange in the daily-based business?

How often do you visit your suppliers and how often they come to see you?

Any communication related to managing relationship?

Are there any joint efforts in setting goals and market planning?

How much degree do you share of information with your suppliers?

Are you satisfied with the communication now?

#### Dependence

Are there any alternatives to your suppliers' current product?

How much do you rely on the manufacturers' product?

What effects may have if your company do not have access to manufacturers' products any more?

If your company switch the supplier from the current one to another, what are the switching costs related to changing supplier? (product comparisons, supplier

reputation, type of relationship, ability to switch customers to a new product and sunk cost in the existing partnership)

Do you need to rely on a specific manufacturer?

Idiosyncratic investment

What are the investments you made on suppliers' products?

Are there any specific idiosyncratic investments to you from suppliers' support?

(Product training sessions, dedicated personnel, promotional programs, advertising campaign, direct mail programs, and demonstration equipment.)

Product salability

What is the core competitiveness of your products?

Ease of sale

How difficult to sale manufacturer's products?