

# Relationship Value Creation Between Machine Tool Manufacturer and Overseas Agent: The Perspective of Seller

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## Abstract

For understanding the importance about relationship value that cross countries from seller's perspective, the study subjects are Taiwan tool machine manufactures (TMMs) who are becoming the main supplier position in global. This research uses grounded theory to investigate the relationship value created by oversea agents. Our finding showed that the agents created 30 values for the manufactures, and after open coding, 6 relationship benefits (market expansion, information offering, product innovation, cost reduction, promotion assistance, and network interaction) and 3 relationship costs (contract limit/ risk, marketing/ sales cost, and service cost) are generated by classification. These values are not only the advantage that overseas agents made for manufacturers but also the standard that the manufactures choose for this competing environment.

## Introduction

In the past, products and price were emphasized by trade mode. It ignored the mature relationship of buyers and sellers. However, both scholars and professionals in this field thought the source of the competing advantage is from this cooperating relationship, therefore the follow up relationship became the key of keeping the relationship.

The share relationship of suppliers and enterprise was very important, but in the field of value management the content was not fully understood (Muthuraman, Sen, Gupta, Seshadri, &

Narus, 2006). Therefore the ignorance of the importance of investigating relationship value from the perspective of suppliers. Comparing to the study of relationship value, investigating the keeping of trade relationship from the seller's perspective might be a worthy topic.

According to the literature review, the subject of this relationship value was big enterprise in Europe and America (e.g., Cannon & Homburg, 2001; Ulaga & Eggert, 2006). However, the type of Taiwan enterprise was small-medium size which was very different to Europe and America. Therefore, when global vision and marketing field was enlarge, the relation keeping of small-medium enterprises (SMEs) and overseas cooperation showed its importance. The export rate of Taiwan tool machine grew in 2008, export rate rank Number 4 in the world and production rate rank Number 5 in the world. In addition, the enforcement of the system of supply chain in precision machine industry in Taiwan and Mainland China. These implied the TMMs of Taiwan working toward the suppliers in the world. In other words, Taiwan TMMs needed the assistance of overseas agents for selling. Therefore, the motivation of this study was what nature of value was SMEs needed.

The export rate of Taiwan tool machine was around 80%. It was hard to manage when it came to operation activities because of the enlargement of management scale. Therefore, it needed agents to handle sales and other activities. It is clear to see that distributor played an important role in the value chain activities. However, the research subject of B to B relationship value was more between manufactures and manufactures (e.g., Cannon & Homburg, 2001; Vandebosch & Dawar, 2002). It was difficult to reflect if it makes any difference that the value was created by distributor. Therefore, the third motivation of this study was what the difference of value created by international channels and manufacturers.

### **Relationship Value in Business Market**

Value can be created through three domains: relationships with suppliers, alliance partnering, and relationships with customers (Sharma & Sheth, 1997). However, its position within the nomological network of relationship marketing is still unclear (Ulaga & Eggert, 2006). While it is defined variously in marketing literatures, four recurring characteristics can be identified: (1) value is a subjective concept; (2) it is conceptualized as a trade-off between benefits and sacrifices; (3) benefits and sacrifices can be multifaceted; and (4) value perceptions are relative to competition. Above all, value is generally defined as the trade-off between the benefits and the sacrifices in a market exchange.

From the seller's perspective, supplier will choose the right customer to create value in the cooperation, too. Walter, Ritter, and Gemünden (2001) explore the relationship between buyers and sellers by interview with staff in the German manufacturers from supplier's perspective. The result shows that whether it is "direct functions" or "indirect functions" of the performance,

supplier will have better perceived relationship value; of these, direct functions included profit function, volume function, and safeguard function; indirect functions included innovation function, market function, scout function, and access function. Baxter & Matear (2004) measure intangible value in buyer-seller relationships from an intellectual capital perspective. The result indicates that relationship value is divided into intangible individual value (competence, attitude, and intellectual agility) and structure value (relationships, organization, and renewal and development). Because of the intangible values proposed by Baxter & Matear (2004) are slightly different to the purpose of this study, exploring the relationship values, we just only compare with the finding of Walter et al. (2001) to find out the relationship values that SMEs concerned and fill the gap in the theory.

### 3. Result

After open coding, relationship value can be divided into relationship benefits and relationship costs. Extracting the concept and category as index and alternating the conversation of some interviewees in content to be persuasive and realistic. The italic showed the conversation of interview with A~F represented companies of interviewees.

#### 3.1 Relationship Benefits

There were 17 concepts in the relationship benefits in this study. It could be induced into 6 categories after classification, including market expansion, information offering, product innovation, cost reduction, promotion assistance, and network interaction.

##### 1. Market Expansion

- (1) **Sales assistance.** There was 80% tool machines that made in Taiwan exported to foreign countries. It was very important to sell products, expanding customers through the assistance of overseas agents. It would be more benefit through the introduction and promotion of local agents.(Company B)
- (2) **Sales growth.** Agents assisted manufactures not only for selling produces but also for the growth of selling volume and market share that brought more profits for manufactures.(Company A)
- (3) **Sales promise.** Agents met with manufactures annually and confirmed with the sales volume of the following year. They guaranteed the sale profits of manufactures by signing agreements of the contract on the sale numbers and other supplements.(Company E)

##### 2. Information Offering

- (1) **Market information offering.** Agents offered latest information such as market, competition and customers' need for manufactures. Manufactures would use the information to plan the development of marketing. (Company E)

(2) **Sales information offering.** Agents informed the manufactures about the sales situation and forecast sales volume. Manufactures got over latest sales situation and understood the purchase intension of customers because of the information that agents provided.(Company D).

(3) **Politics and business information offering.** Agents informed manufactures about policies, special options and business information of local government in order to help manufactures to take advantage of planning business.(Company B)

### **3. Products Innovation**

(1) **Foreign products features offering.** Agents offered related products made by other countries for manufacturers to inspect and learn from their special design and in order to level up the capability of manufacturer's design and production. (Company B)

(2) **Technology assistance.** Agents introduce related factories and stores to manufacturers in order to help manufacturers to breakthrough the design of products and bottle neck of technology. They expect products to fit the standard. (Company A)

(3) **New products R&D assistance.** Agents discussed and adjusted the design of future products according to its familiarity with the market. (Company A)

(4) **Quality improvement assistance.** Agents offered related concepts or experience of quality improvement, and helped manufactures improve product quality and fit in with market demand.(Company A)

### **4. Cost Reduction**

(1) **Quantity adjustment assistance.** Both agents and manufacturers would make a sales target. However, agents would inform manufacturers in advance when they found out the economic downturn or the sales volume was not as expected. Thus they precede the adjustment of production plan.(Company A)

(2) **R&D cost reduction.** Agents assist manufacturers with applying for special subsidy of the government in order to reduce the cost of products invention and other inventions.(Company B)

### **5. Promotion Assistance**

(1) **International exhibition assistance.** Agents participate in all international exhibitions, including layout, settings of machine installation, cleaning and product show. Agents deal with all details in order to lighten the burden of manufacturer. (Company D)

(2) **International advertisement assistance.** The local agents are responsible for the promotion of advertisement, including TV media, newspapers and magazines in order to lighten the load of manufacturers on promotion of advertisement. (Company C).

### **6. Network Interaction**

- (1) **Good interaction relationship.** It inferred the relationship of agents and manufactures was more than commerce. It also inferred the relationship including personal relationship that influenced the close interaction.(Company A)
- (2) **Other agent introduction.** Agents help manufacturers with expanding undeveloped overseas markets by introducing other agents that have other channels in other countries. (Company A)
- (3) **Other manufacturer introduction.** After long term cooperation, agents and manufacturers have close relationship. Therefore, manufacturers introduce other local manufacturers in the same industry to agents. (Company B).

### 3.2 Relationship Cost

There are 13 concepts of relationship cost in this study. It was induced into 3 categories after categorizing these concepts. They include contract limit/risk, marketing/business cost, and service cost.

#### 1. Contract Limit/Risk

- (1) **Area protection cost.** Usually there will be a notice in one year contract that it allows only one agent to help the manufacture sells products with the same type. This is to protect agents the benefit on sales. Manufactures can't interfere with sales activities.(Company A)
- (2) **Unexpected Business stagnation.** The problems of agent organization lead to the temporary stagnant sales of manufacturers. It affects the profit of manufacturers. However, manufacturers can't interfere because of the limitation of contracts.(Company F)
- (3) **Below Sales target.** The number of sales volume below the target that agent made with the manufacturer leads to the unexpected loss of manufacturers. It also leads to unexpected storage. (Company C)
- (4) **Breaking trading rules.** Agents break trading rules, for example, agreement of paying, agreement of selling products... It leads to the risk of selling and conflict of types of products. (Company D)
- (5) **Payment risk after delivery.** Agents break trading rules. They ask manufacturers to ship first and offer L/C and pay on delivery afterwards. Manufacturers might take the risk of being deceived. (Company B)

#### 2. Marketing/Business Cost

- (1) **Commission cost.** There are two ways for agents to pay for products. One is that after giving L/C and down payment, they pay the rest of money and have agency. The other is that after giving L/C and down payment, giving commission based on sales volume after they receive products and sell. When agents reach sales target, manufacturers have to pay sales commission to agents. (Company D)

- (2) **Special price.** Manufacturers agree to offer agents special price in order to hold together the partnership with agents. Manufacturers decrease their profits because of offering agents special price. (Company F)
- (3) **Special payment.** Manufacturers offer special extension of payment based on the purchase volume and negotiation condition from agents. (Company D)
- (4) **Exhibition cost sharing.** The cost of international machine exhibition and international tool exhibition is up to million dollars so some agents would ask manufacturers to share the cost of exhibition. (Company D)
- (5) **Advertisement cost sharing.** Agents are responsible for advertisement because of different language and culture in different countries. However, agents might apply for sharing some of the cost of advertisement from manufacturer because the huge amount of money on print media, magazines and so on. (Company E)
- (6) **Building up market status assistance.** Because customers doubt local agents, manufactures guarantees and proves the relationship between agents and manufactures and build up the important status in the market. (Company D)

### 3. Service Cost

- (1) **Maintaining/warranty cost.** The cost that manufacturers assign technical personnel flies overseas to maintain products for agents. If parts are under warranty period, manufacturers will be responsible for the cost; if not, buyers should be responsible. (Company A)
- (2) **Training cost.** It means the cost that manufacturers send technical personnel fly overseas to demonstrate features of products or agents send personnel fly to Taiwan for training of basic maintaining skills. (Company B)

## 4. Conclusion

### 4.1 Discussion

#### 1. Relationship benefits

This research discusses relationship value between manufacturers and distributors from sellers' perspective. Therefore, the researcher compares this study with Walter et al. (2001) who probe relationship value from suppliers' point of view. In addition, the researcher compares if there is any difference of relationship value between distributors and manufacturers. The finding shows as table 2. There are some similarities between this study and the study of Walter et al. (2001). "Information offering" in this study is equivalent to scout function. Information offering represents that the customers offer suppliers information of management or marketing and assist sellers to respond the transformation in environment in advance. "Market expansion" is equivalent to profit function. They both refer to direct profit which was brought by customers by

promoting marketing activities for suppliers. However, “sales promise” is a new concept in this study. It was speculated that there are many choices for manufacturers in agency so domestic manufacturers request that there must be a footnote of sales target of next year in contract to protect manufacturers themselves when it comes to international agent sales. “Product innovation” in this study is equivalent to innovation function. It refers to customers with high technical skills or professional knowledge can assist suppliers carry the innovation of products and making process out. What makes this study so special is that agents introduce manufacturers with factories and shops with advanced technical skill. Therefore, manufacturers can make products which fit in the standard of agents’ country. What’s more, agents introduce foreign products for manufacturers to observe and learn the design based on the channels of agents. Therefore, they can develop same kind of products with lower product price. In addition, “network interaction” is equivalent to market function. It suggests that customers can support suppliers join new market and build business relationship. On the other hands, suppliers reach its customer group with the building up of trading and the building up of interaction of the relationship. However, the difference in this study is that the network interaction includes not only the building up of personal relationship but also interaction with increasing frequency. What’s more, the network interaction includes not only friendship but also family trips. It becomes the main reason of keeping agency.

**Table 2 the comparison of relationship value**

|                   | Walter et al. (2001)  |                    | This research               |                             |
|-------------------|-----------------------|--------------------|-----------------------------|-----------------------------|
|                   | Relationship benefits | Relationship costs | Relationship benefits       | Relationship costs          |
| <b>similarity</b> | scout function        | volume function    | information offering        | marketing/<br>business cost |
|                   | profit function       |                    | market expansion            |                             |
|                   | innovation function   |                    | product innovation          |                             |
|                   | market function       |                    | network interaction         |                             |
| <b>difference</b> |                       |                    | <i>promotion assistance</i> | <i>contract limit/risk</i>  |
|                   |                       |                    | <i>cost reduction</i>       | <i>service cost</i>         |

The differences of relationship profit between this study and Walter et al. (2001)’s study are reducing cost and promoting assistance. First of all, manufacturers produce product based on the sales volume of agents’ estimate. Therefore, it may cause storage problem if the sales volume is not as high as expected. **First**, tool machines are made based on features and needs of local companies. They are made by customers’ order. It becomes quite important to assist the adjustment of production volume. **Second**, the expense of invention and development is a must for manufacturers to keep their strength in competition. It can not only alleviate the burden of suppliers but also decrease additional expense of product price if agents can offer the information

of government's subsidy plan. **Third**, the promotion model of tool matching industry is mainly exhibition. However, the expense of international exhibition is above million dollars and the transportation of machines is not convenient. Therefore, it can bring agents a great fortune and excellent reputation in marketing if they can offer assistance and promotion.

## 2. Relationship costs

The study starts with the comparison with the study of Walter et al. (2001) from the perspective of sellers. Moreover, the study investigates that if there is any difference between distributors and manufactures on the topic of relationship cost. The result shows on table 2. "Marketing/business cost" of this study is equivalent to volume function of the study of Walter et al. (2001). It suggests that special price of products is based on the huge orders from buyers. Although sales volume is increasing, profit is decreasing. The Marketing/business cost in this study refers not only special discount of product price from huge orders but also special price that is made after agents negotiate with manufacturers. There is no relationship between the special price and sales volume. The difference is made because of negotiation situation and company condition. On the other hand, agents seek for the donation and support of manufacturers when they can't bear huge expense of promotion. Therefore, manufacturers should bear the cost of promotion cost. In addition, if agents encounter difficulties, such as customers distrust agents, manufacturers will solve the problem and build up local reputation for agents.

The difference between the study of Walter et al. (2001) and this study is that there is no value content of relation cost in the study of Walter et al. (2001). There are two categories that are discovered in this study. They are "contract limit/risk" and "service cost". **First**, it is not easy for manufacturers to control foreign sales activities of agents. Through making contract, it can not only protect basic sales volume of manufacturers but also protect the agency of sales for agents in local places. Therefore, contract restriction, one of the relation cost, forms the constraint of one agent in one area. Even if other companies want to fight for authority of agency, the decision is still made by original agents. It won't let go the authority of agency for others. Besides, if the sales capability of agents is not good enough to extend business, agents are protected as long as it is under the expiration date of contracts. It leads to the cost of manufacturers. **Second**, agents easily make excuse for long term cooperation relationship and the lateness of applying for letters of credit. They ask manufacturers to deliver products first and then they will attach letters of credit and money latter. The above-mentioned behaviors are breaking rules and regulations. They might cause manufacturers fail to collect payment for goods and might cause bad relationship between agents and manufacturers because of the unhappiness of manufacturers. **Third**, manufacturers assign personnel to train agents who agent tool machine for the first time to operate and maintain tool machines based on the feature of tool machines.

When it comes to the problem of products that have been sold, manufacturer will be responsible for the cost of maintenance and parts of machines if machines are under warranty date. If machines are out of warranty date, manufacturers still do the maintenance but they charge parts of the fee.

## **4.2 Implications**

Taiwan tool machines export overseas. One company has more than ten sales agents to cooperate with. Agents with related sales experience have personal relationship and channels in local area. It can save the time of marketing and personnel training for suppliers if suppliers cooperate with top sales ability of local agents. Second, agents who understand local culture background can make correct decisions of the market. Third, agents with good marketing ability can alleviate the burden of suppliers in international exhibitions and advertisement. If agents don't have enough money, they still can do something on helping and decoration of exhibitions to reduce transportation time and spirit of suppliers. Fourth, when agents provide with professional and fluent negotiation ability, they also provide a sense of safety when suppliers negotiate with customers. That is because they show their understanding of products. According to the rising of export value of Taiwan tool machines, the government plan to nurture Taiwan tool machine industry. Therefore, data of indispensable ability would be the reference of agents with the inclination of cooperation. Price is the most important consideration in the nature of customer value. Suppliers are at area protection cost, below sales volume, and exhibition cost sharing. It suggests that if agents who under the protection of only one contract in one area don't achieve the sales target and manufacturers share a huge expense of marketing promotion, it is hard to keep mutual relationship. Therefore, how agents can reduce the awkward situation would be a topic that is worthy to consider.

## **4.3 Future Research Directions**

**First** of all, this research investigates relationship value between domestic manufacturers and foreign distributors from suppliers' point of view. The researcher suggests those who are interested in this topic would take this quantitative research as a reference by making use of factors in this research. **Second**, the interviewees in this research are manufactures in central of Taiwan because of Clustering Effect. In order to compare the differences of relationship profit and relationship cost in different countries, the suggestion for subjects of future research is manufacturers in other countries and even manufacturers in other industries. **Third**, this research investigates the content of relationship value of trading relationship of foreign agents. The study suggests future research to add cause and effect relationship (e.g. inclination of cooperation) and regulation variable (e.g. relationship quantity) to extend the enrichment of content.

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