

## **Justifying high price with *Total Cost of Ownership* Awareness**

- Possible or not on the Asian market?

Anna Lundgren  
Anna Nilsson

**Justifying high price with *Total Cost of Ownership* Awareness**

- Possible or not on the South East Asian market?

© Anna Lundgren, Anna Nilsson

Department of Energy Sciences  
Lund Institute of Technology  
Box 118  
221 00 Lund  
Sweden

Department of Business Administration  
Lund University  
Box 7080  
220 07 Lund  
Sweden

Master Thesis in Technology Management - No 137/2007  
ISSN 1651-0100  
ISRN LUTVDG/TVTM--07/7144--/SE

Printed in Sweden  
KFS in Lund AB  
Lund 2007

## Abstract

**Title:** Justifying high price with Total Cost of Ownership Awareness  
- Possible or not on the South East Asian market?

**Authors:** *Technology Management and Industrial Management and Engineering, Lund University*

Anna Nilsson  
*Technology Management and Business Administration, Lund University*

**Tutors:** Lector Göran Alsén  
*Department of Business Administration, School of Economic and Management. Lund University*

Professor Lennart Thörnqvist  
*Efficient Energy Systems, Department of Energy Sciences, Faculty of Engineering, Lund University*

**Purpose:** The aim with the report is to investigate if the South East Asian customer on the food processing market base their investments on *Total Cost of Ownership* and if so, which are the cost drivers considered most vital. Moreover, do these cost-drivers diverge from the perception FP Ltd has, and if so, can a *Total Cost of Ownership*-model help to achieve a mutual understanding?

**Methodology:** First a descriptive approach will be taken, identifying FP Ltd's employers' perception on how to meet the customer. This will later be compared to our empirical findings of the actual customer behaviour in Thailand and Vietnam. Thorough analyse of the gap between the two parts will give us the outcome whether or not FP Ltd will have any use of presenting a quantitative model justifying their higher price.

**Conclusions:**

- Buying decisions on the South East Asian industrial food process market are in general done by the Director or someone close to him, where the decisions tend to be based on feelings.
- We have found the time perspective to be long-term oriented.
- The importance of relations in South East Asia is evident which we consider to be strongly correlated to the thinking of

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

*Total Cost of Ownership*. The relationship thinking proves a wider approach of cost analysis.

- We have proven that the investment price do not matter to that extent that was initially considered which we believe strengthen the thinking of *Total Cost of Ownership*.
- Finally, even if the decision making style in South East Asia is characterized by being somewhat conservative with the hierarchy of decision makers, we consider the way of taking many circumstances in consideration, to prove a sophisticated way of *Total Cost of Ownership* thinking.

**Key words:**

Buying behaviour, Total Cost of Ownership, Cost-drivers  
Cultural aspects, Relationship, Long-term thinking

**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

## **Preface**

This Master Thesis has been conducted during the spring 2007, being by far the most interesting and valuable project we have ever made! First of all we would like to explain our gratitude to the Regional Director, Asia Pacific at FP Ltd who was the one initiating this project. During these four months of work we have been able to spend a lot of time at FP Ltd, which we believe have been very valuable for us, giving us great insight in the company. We also want to thank all the employees at FP Ltd who has taken them time to answer all our questions. Special thanks would we like to give to the International Director of Sales and the Regional Sales Support Manager, Food Solutions and Service Division, at FP Ltd, Sweden who always have taken time for us, even though their schedule has been fully booked.

We also want to explain our great gratitude to FP Ltd's customers in Thailand and Vietnam who has taken time to meet us, showing us great hospitality. This master thesis would not have been able to conduct without their input.

Our tutors Lennart Thörnqvist, Lund Institute of Technology and Göran Alsén, School of Economics and Management, Lund University has been very helpful during the process. They have inspired us a lot, given us valuable feedback and criticism so we have been able to make the outmost of this thesis, Thank You!

Last but not least we would like to give our thanks to the employees at FP Ltd in Singapore, Thailand and Vietnam who have arranged for our trips and stays while being in Asia, making them wonderful experiences!

Singapore, May 2007

Anna Nilsson

**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

## Table of Content

<b>1</b>	<b>INTRODUCTION.....</b>	<b>10</b>
1.1	BACKGROUND .....	10
1.2	PROBLEM DISCUSSION .....	12
1.3	PURPOSE .....	14
<b>2</b>	<b>METHODOLOGY.....</b>	<b>15</b>
2.1	LOOKING INTO TOTAL COST OF OWNERSHIP WITH “CULTURAL EYES” .....	15
2.1.1	<i>Data collection at FP Ltd in Sweden .....</i>	<i>16</i>
2.1.2	<i>Data collection in Thailand and Vietnam.....</i>	<i>17</i>
2.1.3	<i>Data collection concerning relevant theories.....</i>	<i>18</i>
2.1.4	<i>Secondary data collection.....</i>	<i>19</i>
2.1.5	<i>Reducing the Bias.....</i>	<i>19</i>
2.1.6	<i>Why it would be good for us to speak Vietnamese... ..</i>	<i>20</i>
2.1.7	<i>Securing validity.....</i>	<i>20</i>
2.2	MODEL DEVELOPMENT .....	21
2.3	THE READERS GUIDE.....	22
<b>3</b>	<b>FOOD PROCESSING.....</b>	<b>24</b>
3.1	THE FREEZING PROCESS .....	24
3.2	NEW DEMANDS ON THE PROCESSED FOOD MARKET .....	25
3.2.1	<i>Aspects to consider when processing food.....</i>	<i>26</i>
3.3	SUMMARY.....	27
<b>4</b>	<b>BUYING BEHAVIOUR ON INDUSTRIAL MARKETS.....</b>	<b>28</b>
4.1	BUYING BEHAVIOUR THEORIES .....	28
4.1.1	<i>Circumstances affecting decision-making on industrial markets .....</i>	<i>31</i>
4.1.2	<i>Decision maker .....</i>	<i>32</i>
4.1.3	<i>Investment calculations.....</i>	<i>32</i>
4.2	TOTAL COST OF OWNERSHIP .....	34
4.2.1	<i>Theories of Total Cost of Ownership.....</i>	<i>34</i>
4.2.2	<i>Parameters from FP Ltd justifying Total Cost of Ownership .....</i>	<i>37</i>
4.3	DOING BUSINESS BY RELATIONSHIP .....	43
4.3.1	<i>Relations – time consuming but efficient .....</i>	<i>43</i>
4.3.2	<i>What to consider in the supplier/customer relation.....</i>	<i>44</i>
4.4	SUMMARY.....	45
<b>5</b>	<b>CULTURAL ASPECTS.....</b>	<b>47</b>
5.1	CULTURAL ASPECTS WHEN DOING BUSINESS IN ASIA.....	47
5.2	THE HISTORY OF ASIA’S BUSINESS DEVELOPMENT .....	48
5.3	CULTURAL ASPECTS IN BUYING BEHAVIOUR.....	49
5.3.1	<i>A software of the mind? .....</i>	<i>49</i>
5.3.2	<i>Decision making theory in Asia.....</i>	<i>53</i>
5.3.3	<i>Guanxi – opens the gate for the right relationships.....</i>	<i>54</i>
5.4	SUMMARY.....	55



**Justifying high price with *Total Cost of Ownership* Awareness**

Possible or not on the South East Asian market?

<b>6</b>	<b>BUYING BEHAVIOUR IN ASIA - EMPIRICAL STUDIES AND ANALYSIS .....</b>	<b>57</b>
6.1	SHORT INTRODUCTION OF THE SITUATION IN VIETNAM .....	57
6.2	SHORT INTRODUCTION OF THE SITUATION IN THAILAND .....	58
6.3	DECISION MAKING IN SOUTH EAST ASIA .....	58
6.3.1	<i>Forces affecting the climate in South East Asia</i> .....	58
6.3.2	<i>Decision makers in the South East Asian region</i> .....	60
6.4	THE IMPACT OF CALCULATIONS IN SOUTH EAST ASIA .....	63
6.5	COST DRIVERS IMPACTING THE CHOICE OF SUPPLIER .....	64
6.5.1	<i>Parameters included in the top three choices</i> .....	67
6.5.2	<i>Parameters not included in the top three choices</i> .....	69
6.5.3	<i>Findings not considered in the forms</i> .....	70
6.6	RELATIONS AND LOYALTY – OVERESTIMATED TERMS? .....	71
6.6.1	<i>What is in it for the customer</i> .....	71
6.6.2	<i>Relationship statistics</i> .....	72
6.6.3	<i>Loyalty in South East Asia</i> .....	73
6.7	DOES THE TOTAL COST OF OWNERSHIP THINKING EXIST IN SEA? .....	74
6.8	HOFSTEDE’S DIMENSIONS IN REALITY .....	76
6.9	IS A <i>TOTAL COST OF OWNERSHIP</i> -MODEL OF ANY USE IN SOUTH EAST ASIA .....	78
6.10	SUMMARY .....	80
<b>7</b>	<b>DISCUSSION AND CONCLUSION .....</b>	<b>81</b>
7.1	FURTHER RESEARCH .....	83
<b>8</b>	<b>REFERENCES .....</b>	<b>84</b>
8.1	ARTICLE .....	84
8.2	BOOKS .....	86
8.3	BROCHURES .....	88
8.4	ELECTRONIC SOURCES .....	89
8.5	VERBAL SOURCES .....	90
	<b>APPENDIX A – QUESTIONS FOR THE INTERVIEWS IN THAILAND AND VIETNAM .....</b>	<b>92</b>
	<b>APPENDIX B – RANKING FORM .....</b>	<b>93</b>
	<b>APPENDIX C – RESULTS FROM THE RANKING FORMS .....</b>	<b>95</b>
	<b>APPENDIX D – CREATION OF A MODEL .....</b>	<b>97</b>

## 1 Introduction

---

*The purpose of this chapter is to give the reader a basic understanding of the background that has given the idea for this report. The reader should hence reach comprehension of the problem of the report and understand the authors approach to it.*

---

### 1.1 Background

As a result of a higher degree of globalisation, the environment for companies gets more and more complex. One industry that is struggling with those issues is the global food equipment industry. Lately the situation on the global food equipment market has changed a lot due to changed customer behaviour. These circumstances may be complex to map on the home market where the company is located and familiar with the conditions. The complexity does however increase when it comes to analysing another market, like for instance the Asian, with a completely different culture and with that, different ways of doing business. Western companies are today struggling with understanding the Asian environment in order to better meet their demands. To get an understanding for the Asian way of doing business, culture and its impact on the business environment has got to be investigated.<sup>1</sup>

One perception is that the customers in the food processing industry on the Asian market have started to think in a shorter perspective.<sup>2</sup> When making a large investment it is often based on the belief that it will last for several years in order to be valuable in the long run. When the demands from the customer however changes in the way that they are satisfied with a shorter lifetime, it will become more difficult for the supplier offering equipment which cost structure is built upon a long lifetime. Their equipment requires a long term thinking in order to be valuable. One aspect that explains the short-term thinking is the new business environment in which the end customer demands changes in a faster way than before. The consequence of this is that the customers in business-to-business are afraid to make too large investment since they can not know if it will be useable after a few years. Hence, if the supplier offers rather expensive equipment with the justification that it is the latest technology and has a longer lifetime, it might be difficult to reach acceptance.

One approach to decrease the focus on a high investment cost is to analyse the investment by *Total Cost of Ownership*. This method takes all costs that can be derived to the investment during its lifetime in consideration.<sup>3</sup> Hence, if a company

---

<sup>1</sup>Sing Halbauer, Ph.D in Economics with orientation towards the Asian business environment, 2007-03-05

<sup>2</sup> Regional Director, Asia Pacific, FP Ltd, 2006-11-17

<sup>3</sup> Hutt.K., Speh.T., *Business marketing management*, The Dryden Press, 1998

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

can offer a longer lifetime on their products, this is a favourable method to use. Companies in this situation should therefore try to make the customer not to focus on the lowest bid but rather on finding the supplier with the lowest total cost over time.<sup>4</sup> To make this possible the aim for the supplier should therefore be to find out what factors that are cost drivers for the buying company in order to make it suitable for the specific situation. However, identifying the right cost drivers might be difficult for the suppliers since it demands that the customer is willing to share this information. However, as have been seen when making research into the theory of *Total Cost of Ownership*, the customer's own knowledge about the cost drivers for a specific investment is often lacking.<sup>5</sup>

When acting on a market that is different in the cultural aspect, this issue becomes more complex. Western individuals are for instance seen to be quite rational in their way of doing business compared to in Asian where the rational man does not seem to exist.<sup>6</sup> This has an impact for the seller since the buying behaviour can become more unpredictable. The Asian culture is categorised as a relation focused culture where people are collectivistic in their way of acting.<sup>7</sup> Hence a buying decision may not have its base in thorough calculations, but rather based on a "good feeling".<sup>8</sup> Most of the theories concerning *Total Cost of Ownership* are written by western authors with the consequence that it can be biased to a western style. Due to this, the theory of *Total Cost of Ownership* has got to be complemented with cultural aspects for the specific market.

When discussing *Total Cost of Ownership* in this thesis it is vital to remember that it is within the field *industrial markets* where selling business to business. This distinction is important to do since it affects the way of doing business with the customer. The selling products are defined as large investments with the consequence that the relation with the customer may have a great impact. An investment can be defined as any act, which involves the sacrifice of any immediate and certain level of consumption in exchange for the expectation of an increase in future consumption.<sup>9</sup> Relationship theories mean that when dealing with specific investments, it is not solely the products that are in focus but also the fulfilling of need for the customer. This implicates that the seller has got to put a lot of effort also on building a relationship with the customer.<sup>10</sup> With the same discussion as above, this might be difficult due to the cultural differences since a relationship is built on that the parts

---

<sup>4</sup> Ellram, L., Perrrot, S., *Purchasing: the cornerstone of the Total Cost of Ownership concept*, Journal of Business Logistics, vol. 14, no. 1, pp 164, 1993, p164

<sup>5</sup> Ferrin, B., Plank, R., *Total Cost of Ownership Models: An Exploratory Study*, Journal of Supply Chain Management, vol. 38, no. 3, 2002, pp 18

<sup>6</sup> Sing Halbaur, 2007-03-05

<sup>7</sup> Ibid

<sup>8</sup> Ibid

<sup>9</sup> Holmes, P., *Investment appraisal*, Chapman & Hall, Florida, 1997, p 3

<sup>10</sup> Kleinaltenkamp, M., Ehret M., *The value added by specific investment: a framework for managing relationships in the context of value networks*, The Journal of Business and Industrial Marketing, vol. 21, no. 2, pp 65-71, 2006, p 68

## Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?

can understand each other. It is with this background therefore also essential to consider the relationship on the industrial market when analysing the *Total Cost of Ownership*.

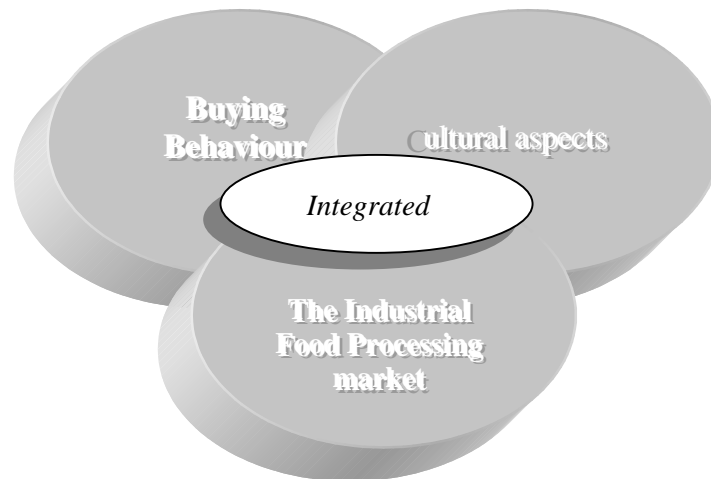


Figure 1.1 – The three different areas integrated in this report

## 1.2 Problem Discussion

One company that is facing the problem of justifying a higher price on their equipments is the global food equipment company FP Ltd. They have, according to themselves, been the number ones regarding quality and technology compared to their competitors. As a result of this they have been able to require a higher price. It has however become more difficult to vindicate the higher price in Asia due to the rather price sensitive market. They have for the past years been competing with local competitors that can offer similar products but with a 40 %<sup>11</sup> lower price. The biggest competition comes from local suppliers, but also international players have started to fight their way into the Asian market. This is a threat for FP Ltd, since they have a position on the Asian market that they have to defend. The international suppliers often comes in trying to win single orders and without a current market position to defend, they are able to drop their prices more then FP Ltd is able to do.<sup>12</sup>

FP Ltd competes with a differentiated strategy rather than a priced focused strategy. This differentiation is something that can be done if you have a unique product or service. FP Ltd strives for being the leading company regarding innovation and R&D on their market. With this strategy it is essential to offer an extra value and also be able to show the customer the extra value they have from buying from FP Ltd rather

<sup>11</sup> Chief of Representative Office, Country Sales Manager Vietnam, FP Ltd, 2007-04-02

<sup>12</sup> Regional Director, Asia Pacific, FP Ltd, 2006-11-17

### Justifying high price with *Total Cost of Ownership Awareness*

---

Possible or not on the South East Asian market?

then from their competitors. With this extra value, FP Ltd means that the cost ought to be lower in the long run with their equipment rather than the less expensive alternatives on the local market. The issue is however difficult to prove to the customer and by this make them accept the higher initial price in order to receive lower cost in the long run. It is hence important to identify the cost driver for the specific investment to be able to show the customer that their equipment is the most favourable in the long run. Parameters in this industry that can have an impact on the lifetime cost are for example:<sup>13</sup>

- *Reliability* – a machine that is out of order affects the whole product line, which is expensive for the customer
- *Yield* – the figure derived from comparing the finished weight to the raw weight of the product.<sup>14</sup> This figure is important to the customer since their products often are sold according to weight.
- *Operational cost* – cost of labour for running the machine
- *Lifetime on the machines* – cost of investment and cost of use is lower when the lifetime is longer.

The Asian market for food processing is growing a lot and the growth is predicted to continue. FP Ltd sees a lot of potential in being one of the big players on this market so that they can get a fair share of the coming growth. In Thailand, the largest producers of chicken in Asia, companies start to think about consolidation to be able to survive on a shrinking market. This increases the customer's bargaining position and the price focus gets even more enhanced. Another problem on the Asian market is that the protection of patents is not that strong, which results in that local competitors copy FP Ltd's technology and offer the equipment to a lower price. With the competitors using almost the same technology in some of the food processing areas, FP Ltd's higher value position is threatened. The price sensitivity on the Asian market also derives from that a lot of the production is for local distribution. Products that are to be sold locally are much more price sensitive, since the local consumer often cannot pay as much as the Western consumer. Also the regulations about food quality is not as strict on the local markets as for the products being exported, why the producers for the local markets do not need the high quality equipment in the same extension. Local producers therefore tend to settle for other alternatives that are "good enough". A third perspective for the price sensitivity in Asia is the poorly developed cold chain for products supplying the local market. Even if the producers choose the best quality on the cold processing equipment, the high quality often cannot be sustained throughout the cold chain. If the products cannot keep the same temperature or below the one achieved in the process, the quality on the product will be poorer. The importance of keeping the quality during the entire cold chain is something that FP LTD wants to make their costumers aware of.<sup>15</sup>

---

<sup>13</sup> Regional Director, Asia Pacific, FP Ltd, 2006-11-17

<sup>14</sup> Pashely, K, The Processor's guide to coating and cooking, USA, 2002

<sup>15</sup> Regional Director, Asia Pacific, FP Ltd, 2006-11-17

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

On a price sensitive market as the Asian, the issue FP Ltd is facing is consequently to justify the higher price that identifies companies that are competing with a differentiated strategy. FP Ltd's wish is to present a quantitative model that shows their customers that their equipment are superior. We think that this can be done by showing the buyers that the *Total Cost of Ownership* will be lower by using FP Ltd's equipment that for instance have a lower running costs. The issue with a model that visualise the *Total Cost of Ownership* is hence to try to move the customer's focus from the initial price to the lifetime cost. If FP Ltd can make the customer see that their equipment are the ones with the lowest lifetime cost, they will have a great advantage. However, before a model can be developed, the customer's behaviour on the Asian market has got to be analysed. Human beings are affected of the culture surrounding them. Also there is no way to differ how the private self and business self is influenced of the cultural aspects, hence the buying behaviour of customer on industrial markets will also be affected of the cultural environment.<sup>16</sup> If the cultural research shows that the Asian customer do not think in *Total Cost of Ownership* terms, the quantitative model that FP Ltd wants to develop will not be of any use. It is therefore important to initially investigate whether or not customers on the Asian market think in terms of *Total Cost of Ownership*. If the investigation shows that they do, the cost driver that the customer find vital has to be identified in order to be able to take the right parameters in consideration in the model.

### **1.3 Purpose**

The aim with this report is to investigate if the Asian customer on the food processing market base their investments on *Total Cost of Ownership* and if so, which are the cost drivers considered most vital. Moreover, do these cost-drivers diverge from the perception FP Ltd has and if so, can a Total Cost of Ownership-model help to achieve a mutual understanding?

---

<sup>16</sup> Hofstede, G., *Cultures and organization – software of the mind*, McGraw-Hill book company, London, 1991

## 2 Methodology

*In this chapter we aim to present the methods that has been used when conducting this report and to explain why we find these methods the most suitable. Since our report is not designed in a traditional way, a readers guide will be presented in order to give the reader a better guidance throughout the report.*

### 2.1 Looking into Total Cost of Ownership with “cultural eyes”

In order to answer our questions in the purpose, research into two different fields has to be made. First we have to receive information from FP Ltd employees. It is vital that we understand their perception on how their customers reason to be able to bear this in mind when we are making research into the second field – how the Asian customers reason when making an investment.



Figure 2.1 – Differences in customer's and seller's perception

Of course FP Ltd has a perception on how they believe their customer to reason, the question is how far this perception is from the reality. Hence, the gap between FP Ltd's view and the customers view has to be identified in order to see if it is possible to achieve a common understanding. This can be done by analysing the two different groups, starting by analysing the model that FP Ltd has conducted from their experiences. A normative model is categorised by presenting something in the way it *ought to be*,<sup>17</sup> which in the case of FP Ltd is a model of how to meet the customer in a sale process. This is based on a descriptive model, that describes how they think that the customer reason. Since our aim with this report is to investigate how the South East Asian customer reason, this descriptive model will however be modified. When this is done, also the normative model will be modified with the new empirical findings. When using normative statement it is important to highlight that the

<sup>17</sup> Sapsford, R., Jupp, V., *Data collection and Analysis, Second edition*, Sage Publication, New Dehli, 2006, p 148

## Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

statements are not about how it *is*, but rather how it is *wanted* to be. Descriptive models however, are used to describe and summarise the basic features in the collected data, trying to present it in a quantitative manner.<sup>18</sup> Hence, by using a descriptive model visualising how the Asian customer reason, given the cultural context they are in, the actual gap between the two can be analysed. Given how big the gap between the two groups is, it can be analysed whether or not FP Ltd would have any advantage in presenting a model to the customer taking the equipments lifetime in consideration.

As FP Ltd wants to have a quantitative model, our aim is to meet their needs. However, when choosing a quantitative method the purpose is to be able to describe the situation in a measurable way. This implicate that those parameters that are of interest are measurable and is in no need of interpretation.<sup>19</sup> When it comes to this report where the aim is to get an understanding for how the customers reason when making an investment, also the qualitative approach has to be considered. A qualitative approach is concentrated on the perception from the involved parties rather than the actual facts.<sup>20</sup> What furthermore makes it valuable for this report is that it takes the social environment and its context in consideration, which is interesting since the study will be based on the cultural differences concerning the Asian market.<sup>21</sup> As a result of above, our report will be a *mixed model study*. A mixed model study is suitable when the quantitative and qualitative approaches will be valuable in different phases in the process.<sup>22</sup> We believe that we are able to integrate the qualitative and quantitative approach in this report, given that we by the qualitative approach strive to understand the cultural context and the “softer side” on how the customers reason, and then by the qualitative approach will be able to weight the different parameters that the customers have chosen to enlighten. This means that we aim to present our results in a quantitative model in accordance to FP Ltd’s demand.

### 2.1.1 Data collection at FP Ltd in Sweden

In order to receive data from the source of interest there are several methods to be used. This can for example be observation, interviews and questionnaire. Since it is of interest to investigate how customers reason when making an investment it is seen as critical to do this by questions in some way and observation can therefore be excluded. What distinguishes interviews from questionnaire is that the received information is more detailed and deeper which makes it more personal. This has got

---

<sup>18</sup> O’Leary, Z., *The Essential Guide to Doing Research*, Sage Publication, New Dehli, 2004, p 189

<sup>19</sup> Lundahl, U., Skärvad, P-H., *Utredningsmetodik för samhällsvetare och ekonomer*, Studentlitteratur, Lund 1999, p 41

<sup>20</sup> Denscombe, M., *Forskningshandboken – för småskaliga forskningsprojekt inom samhällsvetenskaperna*, Studentlitteratur, Lund, 2000, p 244

<sup>21</sup> Lundahl, Skärvad, 1999, p 102

<sup>22</sup> Tashakkori, A., Teddlie, C., *Mixed Methodology, Combining Qualitative and Quantitative Approaches*, Sage Publication, California, 1998, p 19



### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

to be weighted with the quantity to be questioned that will be fewer since interviews are more time consuming.<sup>23</sup>

The data collection for our report has according to above been separated into two parts. The first part has taken place at the head office in Sweden. Since the interaction with the employees in Sweden took place in the beginning of our study, we decided that interviews were the best option. This decision was taken based on that we did not have much knowledge in the industry yet and according to that we wanted to have a rather open discussion so that we involuntarily would not close any doors by specifying the questions too much.

Interviews were carried out with approximately 15 employees from different departments. This gave us a general picture of the company and an understanding in their values and ways of thinking. The empirical facts that have been collected from FP Ltd have however also been picked up during lunches with the employees and short meetings in the hallway. We have experienced that those less strict occasions sometimes makes people speak more openly than when being interviewed.

The interviews have been conducted so that one of the authors asked the questions and the other one took notes. Directly after the interview was finished the notes has been rewritten and documented as a receipt for each interview. This receipt has then been discussed between the two authors in order to see that the answers had been understood the same way. If there has been any diverged opinion on how to interpret the respondents' answers, the respondents have been contacted to clarify his opinion to make sure that the reliability is as good as possible. In average the interviews has lasted for one hour, but when scheduling the interviews with the employees they have been asked to set aside 90 minutes. This to make sure that we have enough time for all the questions and also to make sure that the respondents are not in a hurry to another meeting and therefore might leave out interesting aspects as a result of lack of time or stress.

#### **2.1.2 Data collection in Thailand and Vietnam**

The Second part of the Empirical research has taken place in Asia, where customers in Thailand and Vietnam have been the target of interest. Since our perception was that the cultural aspects play a big role in how the customer reason, thorough studies concerning this has been made. We have for example been given the great opportunity to consult a professor in economics that has been researching a lot about the Asian way of doing business. For the meeting with her we had an open discussion, mostly about the professors own experiences from her research, since we believed that we in this way was given a fair picture about the market, rather than if we, with much less knowledge than her, limited the discussion to concern our fixed questions. However we were able to guide the discussion towards suiting our interest.

---

<sup>23</sup> Denscombe, 2000, p 132

## Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

In Vietnam and Thailand 10 customers have been interviewed. Also customers to whom FP Ltd has lost orders have been interviewed in order to get the report less biased. The interviews done in Asia have had a more structured approach than the ones in Sweden, and the questions have been the same to all the customers to ensure a good reliability. (The questions are presented in Appendix A) However also these interviews have been held in a semi-structured way, which means that even if it exists a structured question plan, the questions do not necessarily have to be taken in that exact order. That is, with a semi-structured interview you may be starting with some predefined questions choosing the order of questions so that it suits the specific conversations flow. The semi-structured approach also makes it easier to follow up unexpected turns that with a structured approach might have gone lost.<sup>24</sup> Another level differing the type of interview you choose to have is the level of formality. As written above, the interview held with the Swedish employees were rather informal in its approach, where we rather strived for having an open discussion in order to give us a broad perspective over the company. In Thailand and Vietnam, however, the interviews have been strictly formal, including formal handshakes and proper business behaviour,<sup>25</sup> in order to adapt to the difference in cultural environment that we have identified in Asia.

All the interviews lasted for approximately one hour, and in most cases after the interview was done we went into the factory to get an insight of the production. This was valuable for us, not only because it gave us a good picture of the business, but also because it invited for a more open discussion with the respondents while walking around the factory.

To be able to compare the output of the interviews and to take advantage of that we attained many answers, filling in a form did a standardisation of the answers. This form contained the parameters that we thought would be of value for the customers and is presented in Appendix B. It should be clarified that the customer we have visit mainly had freezing equipment from FP Ltd, why the parameters have been formulated to suit this. We asked the respondents to grade all the factors from one to five and also pick out those parameters that they considered being the three most vital ones.

### **2.1.3 Data collection concerning relevant theories**

To get a broad theoretical base different theories will be included in this thesis. It is essential that the reader understands the importance of the theories and the connecting line throughout the theoretical framework in order to get a better understanding of the empirical studies and the following analysis.

The theoretical part of this thesis starts by a chapter concerning buying behaviour on industrial markets. Concerning the buying behaviour our main approach is to see how

---

<sup>24</sup> O'Leary, 2004, pp 161

<sup>25</sup> Ibid

the *Total Cost of Ownership* theories are used when making an investment, hence theories regarding this is a large part of the theoretical framework. Since the Asian market is seen to be a market that puts great value into a good relations<sup>26</sup> we chose to also include theories regarding doing business by relationship. This chapter is followed by a chapter discussing cultural differences. The theories regarding this are essential for our report, as we believe that the whole study is pervaded by the cultural differences since the main part of the study is taking place in South East Asia.

When we started to seek published information that we found valuable for our thesis, we found a wide range of theories we wanted to take into consideration. However, we came to the conclusion that we had to make delimitations in what to include. We saw the need of being critical in the selection of theories and therefore every theories relevance have thoroughly been investigated to see whether or not it adds value to our thesis. The marketing theories in this report for example, only concerns to identify how the customers act on the Asian market. We will not seek into how the supplier should use these identified needs. Our focus does not lie on how the companies market themselves on the Asian market. The focus is instead on the customers and their way of reasoning. In the beginning we were also interested in whether the industry was a high tech industry with the characteristics that could imply. After some research on this subject, we however came to the conclusion that the food processing industry could not be seen as a high tech industry, which is why the theories concerning this not is included in the report.

#### **2.1.4 Secondary data collection**

Data that is not conducted for the cause of this specific report is called secondary data. Examples of this type of data is literature, articles and brochures. Literature and articles have been conducted both from discussion with the two tutors of this report and by searching in the database of Lund University Library, Elin and Lovisa. The references from the material initially found have been to great help in further literature search. Also, the data collection has been an iterative process during the whole time of working with our thesis, as interesting findings has been done throughout our work. When using secondary data it is important to take into consideration that the authors of the data may have personal interest, which might affect the way they present the information. This implies that this secondary data has to be interpreted critically.<sup>27</sup> In order to reduce this risk we have read many articles in the same subject but with different authors.

#### **2.1.5 Reducing the Bias**

Since the report originates from FP Ltd it is vital to have in mind that the assignment might be biased from the company's point of view. For two outsiders, as we consider us to be, it is important to reduce the bias, so that we look at the problem with our

---

<sup>26</sup> Sing Halbaur, 2007-03-05

<sup>27</sup> Denscombe, 2000, p 158

## **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

own eyes and tries to contribute with our overall knowledge collected from for example our university studies.<sup>28</sup> This highlights the need for us to meet the customers on the Asian market our self, so that we can get our own opinion on how they reason in a buying decision. Even though the sales personnel at FP Ltd have their opinion on how their customer reason, it might be an opinion that is not absolute correct, and also that might be biased from FP Ltd's own organisation culture.

### **2.1.6 Why it would be good for us to speak Vietnamese...**

The lack of English language skills the customers in Thailand and Vietnam possess contributes to a less reliable data collection. A report with a high degree of reliability is distinguished by not being affected of different circumstances when doing the survey, there is in other words a low degree of haphazard defects.<sup>29</sup> Hardly any of the customers in Vietnam spoke English, which resulted in that we used an interpreter during the interviews. Though, also the interpreters English was far from perfect. Hence the reliability should be questioned. One of the risks by using an interpreter is that there are no guarantee that he understood our questions in the right way, and hence, the answer we got from the customer might have been on another question then the one we had in mind. In some cases we could understand that this was the case, and we were then able to reformulate the question and make sure that the interpreter understood it correctly.

In Thailand the English skills of the customer were much better, and an interpreter only had to be used during one of the interviews. All the customers in both Thailand and Vietnam were very open and it felt as they shared all the information that we needed, without keeping any information for them selves. A reason for them being so open might be that they did not see us as a threat since we did not belong to the suppliers organisations as we only were students gathering information for our master thesis. However one representative from the local sales office of FP Ltd has also been present on the interviews, but he did only enter the discussion if we had any specific questions to him, or if he understood that our questions were not interpreted the right way.

### **2.1.7 Securing validity**

Validity is defined by the absence of systematic defects and is avoided by using measurements that evaluate exactly what is to be measured.<sup>30</sup> To assure the validity in this report the questions that were used was conducted in a thorough manner by testing them before using them at the actual market. This gave us a hint of the current situation and what to measure. By consulting the local salesmen in Vietnam, who are Vietnamese, and in Thailand, who are Thai, and by making sure that they understand the questions, we decreased the risk of misunderstandings according to cultural aspects. The salesmen are good to consult since they are native, but also since they

---

<sup>28</sup> Lundahl, Skärvad, 1999, p 76

<sup>29</sup> Lundahl, Skärvad, 1999, p 152

<sup>30</sup> Ibid, p 150

## Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

are used to work with western people and therefore are aware of the misunderstandings that might occur regarding cultural differences between East and West.

Since the collected data will be the base in this research, it is vital to assure that the data is being interpreted in a correct way. One way of doing this is to always be more than one present at the interviews. All the interviews have therefore been performed with both of the authors present. It is also essential to follow up the interview answers and confirm the information given from other sources, for example from other interviews or literature concerning the subject.<sup>31</sup> We have chosen to first study literature concerning the subjects so that we have a good knowledge in the theories concerning industrial markets and *Total Cost of Ownership* before the customer interviews were carried out. However the interviews were held in an open manner, by starting to let the customers speak freely about their buying process and we did therefore avoid questions like “is *Total Cost of Ownership* something You consider when making an investment”. Also thorough studies in the cultural field has been made, in order to be able to have a prior understanding of the cultural differences that might occur when analysing the Asian market.

## 2.2 Model development

Since the focus of this report lies on the concept of *Total Cost of Ownership* and whether or not the customers on the Asian market think in those terms when making an investment, it is of interest to see what the drivers are for *Total Cost of Ownership* of the investments in the food processing industry. What drivers that affect the *Total Cost of Ownership* are customer specific. For example what type of products that are processed and how the customer utilize their equipment affect the *Total Cost of Ownership*. We believe that a good way to visualize the *Total Cost of Ownership* is to develop a model that can be suited for the specific customer and his or her needs. When developing a model, simplicity is one of the most important issues to consider.<sup>32</sup> A model’s simplicity is both its strength and its weakness since a simple model creates a better overview but also often restrict the number of parameters to include.

The model should be developed based on the information collected from the customer interviews, where we have gotten a picture of what they believe are the cost drivers for equipment after the investment has been made. We also got information from the sales personnel in Sweden, and they also had thoughts about which parameters the customers find important. We have of course also taken their information into consideration, however we have been careful not to see their beliefs as fact. We found it important that we met the customers with an open mind and was not affected by FP Ltd’s perception of the customers.

---

<sup>31</sup> Denscombe, 2000, pp 158

<sup>32</sup> Hägg, I., Wiedersheim, P., *Att arbeta med modeller inom företagsekonomi*, Lieber Tryck AB, Stockholm, 1985

## Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

We believe that it is vital to be able to visualise the customer's value of purchasing from FP Ltd, especially since the investment price of their equipments are much higher than other suppliers on the market. We have therefore recommended to develop a model that visualise the customer's value as the savings that can be achieved in the long run, when using equipment from FP Ltd. There are several strengths to be identified with a model that can present this value in a quantitative manner. The model is supposed to be used in the sales process together with the customer that often needs to contribute with data to complete the model. Since the model is used together with the customer the result may be seen as more reliable compared to if the supplier himself establishes the parameters and there is also given opportunity for the sales man to educate the customer in the importance of a high quality process. There is also a value in the process of using the model, as it forms a relationship between the salesman and the customer. Though, it should be highlighted that some models for this already exists within FP Ltd. Many sales offices have developed their own tools to use in the sales process. However, as we have been able to take part of the different models, it has been shown that they are very diverging in their assumptions. This emphasise the need of a uniform tool to use.

It has to be stated that a model will not be presented in this report. Instead recommendations for what to take in consideration when developing the model will be presented. For more detailed information about this please turn to Appendix C.

### **2.3 The readers guide**

Traditional reports often consist of three distinguished parts: theory, empirical findings and analysis. In this report however we have chosen an integrated approach, meaning that empirical findings and analysis will be integrated. This approach has been chosen in order to make the report as reader-friendly as possible. Since it is not conducted in a traditional way a "readers guide" follows below to eliminate any misunderstandings that might occur.

#### **3 – Food Processing**

This chapter is conducted in order to give the reader an insight in the specific industry that we are making research into. We believe that some basic knowledge concerning food technology and food processing techniques will result in a better understanding throughout this report. The different processing steps will be described, so will the importance of the processing according to product safety.

#### **4 – Buying behaviour on industrial markets**

This chapter handles the different theories regarding buying behaviour on industrial markets. Focus lies on the importance of a good relationship between the buyer and the seller and on theories regarding *Total Cost of Ownership*. Cost drivers for the specific industry will be discussed in the part called *Parameters from FP Ltd justifying Total Cost of Ownership*. This part of the chapter is an integration of the empirical findings from Sweden and the theories regarding *Total Cost of Ownership*.

## **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

### **5 – Cultural aspects**

The chapter concerning cultural aspects is conducted in order to give an understanding of the cultural differences that we believe has a big influence on the customer's way of reasoning and acting on the Asian market. Theories regarding this subject stand as a framework in this chapter, but are also complemented by expert knowledge collected when interviewing Professor Sing Halbaur and FP Ltd's manager for the Asia Pacific region. As presented in this chapter, the Chinese culture have had a great impact on the business environment in South-East Asia, why this has been of great interest even though the empirical findings not have been collected in China but in Thailand and Vietnam.

### **6 – Empirical findings and analysis**

This chapter consists both of the empirical findings collected from customers in Thailand and Vietnam and the analysis of the same. We believe that this integrated approach makes it more convenient for the reader to get a holistic view of our findings and the interpretation of them.

### **7 – conclusion and discussion**

As in traditional way, this report will end with a chapter where the conclusions are presented along with suggestions to further research with in the field.

### 3 Food Processing

---

*This chapter implies to give the reader an insight in the food technology including the processing techniques commonly used. We believe that some basic knowledge about this will contribute to a better understanding throughout this report. Moreover, when discussing the cost drivers of food equipment later on in the report, this chapter will facilitate the comprehension.*

---

The main reason for processing of food is preservation. One definition of food processing is “conversion of raw materials or ingredients into a consumer food product”<sup>33</sup> where the food processing industry is focusing on making a raw material into a product of higher value.. All different ways of processing food has an impact on the food quality. The impact can both be positive, like the reduction of microbial population, or negative such as loss of nutrition. Also the appearance of the products changes, for example a change of colour or surface structure.<sup>34</sup>

#### 3.1 The freezing process

The process of removing heat from a product is called freezing when the processing temperature is well below those where ice crystals begin to form.<sup>35</sup> In general when you are referring to chilled or cold food, the temperature is in the range between 16°C to -2°C. When reaching temperatures below -20°C the normal deterioration of the food are reduced to minimal rates.<sup>36</sup> All food processing considered in this report has the freezing process as the last step.

One advantage of freezing as a preservation process is that it hardly affects the size, shape, texture, colour or flavour of the product. This makes freezing a very attractive choice for food processing companies since the appearance of the product is an important parameter for the end consumer. The little impact the freezing process has on the products, also makes it possible to prepare the products or even an entire meal in the way you want it to look before the freezing, knowing that the outcome will not change to much. The only thing needed before eating is to heat it. This is why the freezing process has had a great impact on bringing convenient food to the households.<sup>37</sup>

In general the faster the products are fully frozen, the better is the products quality. This is explained by the size of the ice crystals, which are smaller the faster the

---

<sup>33</sup> Heldman, D., Hartel, R., *Principles of food processing*, Aspen Publishers, Inc, Maryland, 1998, p 1

<sup>34</sup> Ibid, p 10

<sup>35</sup> Andersen, Risun, 1991, p 33

<sup>36</sup> Heldman, Hartel, 1998, p 113

<sup>37</sup> Potter, Hotchkiss, 1998, pp 176



Possible or not on the South East Asian market?

freezing is.<sup>38</sup> The poorer quality derived from the larger ice crystals arise since the big crystals can destroy the cell walls which affects the product structure negatively. Another negative parameter of slow freezing is that it encourages diffusion of water from one cell to another, which leads to dehydration of the product. However, also a too fast freezing process may harm the product quality, since it might result in stress cracking.<sup>39</sup>

The knowledge FP Ltd's customers have about processing techniques however differs a lot. Food processing companies that have been in the industry for a while have good knowledge in the complexity of freezing, being able to carry out calculations on how to optimize the freezing process. The companies rather new in the business instead take advantage of FP Ltd's knowledge in the area. However, for a customer not aware of the great correlation between product quality and the faster freezing time, the higher price for FP Ltd's equipment is harder to justify.<sup>40</sup>

In other words, the food processors have to balance the higher product food quality they have from using a fast freezing process and the higher costs derived from using a faster process. As the food processing companies often sell their products according to weight, the dehydration that is greater with a slow freezing process is also a vital parameter to consider.

### 3.2 New demands on the processed food market

Not only is food processing a way to eliminate undesired microorganism in the food, or to make it last longer. Freezing is often the last step in a process, to maintain the sustainability of the products. Along with changed consumer behaviour on the food market the demands on processed food has grown a lot. The customer demands food that needs less preparation time which results in a trend towards convenient food. This trend is also to be seen in Asia, where a major change in consumer behaviour for food is expected. A driving force in this change is the rapid urbanisation, along with higher living standards. More women in the families are working and over all there is less time for shopping food and cooking. Other parameters driving the change are that the urban population in Asia is rather young. Young people tend to adapt faster to new tastes, and also, they are travelling abroad more often, getting exposed to different types of food.<sup>41</sup> For the food processing market to meet the new customer needs, they have to supply more ready to eat meals or components that can be prepared only with a bit of heating in the microwave, oven or a pan. Customers in Asia now demands food that is in line with today's grab-to-go society, and are also willing to pay more for the convenience.<sup>42</sup>

---

<sup>38</sup> Potter, Hotchkiss, 1998, pp 179

<sup>39</sup> Heldman, Hartel, 1998, p 130

<sup>40</sup> Regional Sale Support Manager, FP Ltd, 2007-03-06

<sup>41</sup> Selwyn, M., *The New Food Chain*, Asian Business, vol. 27, iss 12, pp 26, Dec 1991

<sup>42</sup> Riell, H., *High Expectations*, Frozen Food Age, vol. 54, Iss. 12, p 16, July 2006

Along with the changed customer demands there is also legalisations that has had impact on the market for processed food. Since the Avian Flue struck Thailand, the biggest poultry exporting country in Asia, no poultry products have been allowed to export if not being fully processed. This forced Thailand, that prior the Avian Flue where big in exporting frozen chicken, to invest in whole processing lines for cooking the chicken before the export.<sup>43</sup>

### 3.2.1 Aspects to consider when processing food

How a process line is design is highly customized for the specific needs of the type of product, but also to the different customers needs. Deep-fried food is very popular around the world and the aim with the process is to seal the product by immersing it in hot oil. The result is a crispy cover that preserves the good flavours in the product.<sup>44</sup> An example of an average process line for example for processing chicken nuggets consists of weighting and forming equipment<sup>45</sup> a preduster and a batter-machine in order to improve the adhesion of the breading.<sup>46</sup> After this is done the batter applicator covers the product in the chosen breading. The next step in the process is frying. There are two different options when choosing a fryer process, either to fully-cook the product in the fryer, or just to pre-fry it. To get a product fully cooked in the frying process the oil has to be between 165°C-180°C with a frying time between one and ten minutes, depending on the product. The disadvantage with fully cooking by frying is that it results in a big moisture loss and does hence have a negative impact on the product since dehydration will make it loose a lot of weight. If instead choosing to pre-fry the product, the frying time is only between 25-45 seconds and hence the weight loss of the product is not as extensive. The pre-frying is done in order to set the coating, colour the surface and to attain the “fried taste”. In the frying process, the oil is the most vital thing to consider, since the oil in the process is absorbed by the product and hence included in the end product reaching the consumer.<sup>47</sup> This implies that the oil management is a critical factor that has to be thoroughly controlled, and also one of the parameters that customers tend to value the most.<sup>48</sup>

Oven cooking is an alternative to fully cooking by frying and is not as costly as the frying process. Along with the absence of oil handling, oven cooking has become an attractive choice for fully cooked products. There is a wide range of different ovens on the market that uses different airflow techniques and technical solutions according to product flow.<sup>49</sup>

---

<sup>43</sup> Application Manager, FP Ltd, 2007-04-17

<sup>44</sup> Moreira, R., Deep Fat Frying – *Fundamentals and applications*, Aspen Publication, USA, 1999, pp 2

<sup>45</sup> Service Manager Asia Pacific, FP Ltd, 2007-04-16

<sup>46</sup> Pashely, 2002

<sup>47</sup> Rossel, J., *Frying – improving quality*, Woodhead Publishing limited, USA, 2001

<sup>48</sup> Application Manager, FP Ltd Thailand, 2007-04-17

<sup>49</sup> Pashely, 2002, pp 45

### **3.3 Summary**

The food market is today recognized by demands on products that can match the changed behaviour that is identified by shorter time for eating and preparing. In addition to this, the requirements for product quality have increased. This means opportunities for the food processing industry with its suppliers that offer products that are processed, making the durability longer and the quality safer.

The most obvious advantage with freeze processing is that the products remains a much longer durability without affecting the features of the products such as size, shape and colour. The process is rather complicated since there are many factors to consider in order receiving satisfying product quality where some of them are freezing time and dehydration. These are consequently parameters that companies compete in to offer the most suitable equipment to the customer.

## 4 Buying behaviour on industrial markets

---

*In this chapter we aim to give the reader a good comprehension for what the buying process looks like on the industrial market. We will in the buying process focus on the decision-making including who it is that is making the decisions. We will further discuss theories regarding Total Cost of Ownership that we believe is an interesting issue on the industrial market. Finally an investigation of the relation between the buyer and seller will be conducted.*

---

In a world where competition is a significant concept, it is vital to find new ways to compete in. In for example food processing, the possibility to store food as long as possible might be an advantage since it makes the products more flexible in order to match the market demand. The most common way to save food is by making it colder in order to stop the formation of bacteria. This does also imply that if the distributor wants to offer a high quality product to the end user, a well-developed supply chain is to prefer. In the case of food, as described above, the chain is often referred to as the *cold chain*.<sup>50</sup>

The supply chain does therefore have a great impact in especially the food market, which is why it is an important issue to consider also for the end-seller. The quality of the food is of great importance meaning that quality from the suppliers further back in the supply chain, has got to be guaranteed. This makes the purchasing process most relevant for the supplier in order to live up to those requirements that are stated. This reflects the situation of most large buying company today that possess a great purchase division since they know that there are many potentials for improvement in this area.<sup>51</sup>

### 4.1 Buying behaviour theories

This report aims to investigate the buying behaviour on industrial markets for products that are defined as investments and capital intense equipment. There are many definitions of industrial markets where we have chosen the following by Kotler:<sup>52</sup>

*“The industrial markets consist of all the organizations that acquire goods and services used in the production of other products and services that are sold, rented or supplied to others”*

---

<sup>50</sup> Salin.V., Nayaga Jr. R., *A cold chain network for food exports to developing countries*, International Journal of Physical Distribution & Logistic, vol. 33, no. 9-10, pp 918-933, 2003, p 919

<sup>51</sup> van Weele, A., *Purchasing and Supply Chain Management*, Thomson Learning College, 2005, pp 16

<sup>52</sup> Kotler, P., *Marketing Management*, Prentice Hall Marketing, 2003, p 216

### Justifying high price with *Total Cost of Ownership Awareness*

Possible or not on the South East Asian market?

When analysing the purchasing process marketers often use and refers to a model called AIDA that stands for Attention, Interest, Desire and Action. The purpose with this is to identify the different stages in the buyer's process. This identification becomes extra vital when managing and marketing differentiated products. It has earlier in this report been stated that the product of interest is differentiated as it has got a higher price and is competing with its features that is seen as of added value. The added value contains a feeling of that the product is superior compared to competitors even though it has a higher price. It is for this reason important to create this feeling among the customers so that they pay the added price.<sup>53</sup>

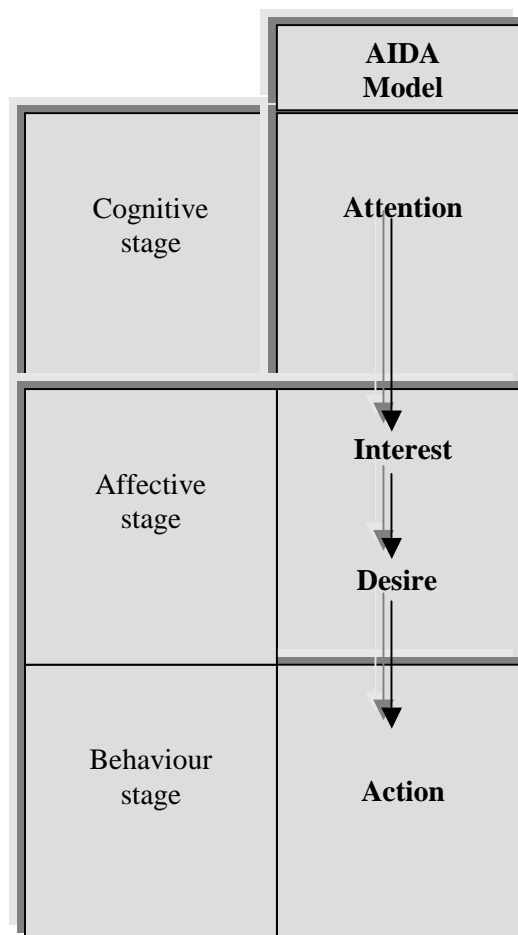


Figure 4.1 – Visualising the AIDA model

The stages are described as “learn-feel-do” where a purchase is done given that the buyer feels that it is right. It is in the literature compared with the purchase of an

<sup>53</sup> Kotler, 2003, pp 568-569

### Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?

automobile.<sup>54</sup> This makes the model further accurate since many sellers at FP Ltd compare their equipment with a BMW that is being the superior supplier due to quality and technology.<sup>55</sup> Hence, if this assumption from FP Ltd is correct, a purchase partly based on a feeling, is not only applicable when selling to end consumer but also in business to business.

There does however exist other models of the buying process where a specific one for the *industrial* purchase is seen as necessary to define.<sup>56</sup> As can be seen in table 4.1, it is more specific and concrete than AIDA and does therefore describe in a more specific way the stages for the buying company.

Table 4.1<sup>57</sup> – Different stages in a buying process for companies on industrial markets

1. Anticipation or recognition of a need and a general solution
2. Determination of characteristics and quantity of needed item
3. Description of characteristics and quantity of needed item
4. Search for and qualification of potential sources
5. Acquisition and analysis of proposals
6. Evaluation of proposals and selection of supplier(s)
7. Selection of an order routine
8. Performance feedback and evaluation

Thus, models defining the stages in the buying process have been stated. It is however, when analysing the customers buying process, furthermore vital to consider that there exist a difference between the first time buyers and those who are experienced in the area.<sup>58</sup> They will accordingly act different and their maturity will reflect their choice of supplier.<sup>59</sup> The different buyers can be separated in the following groups, (1) new task, (2) modified re-buy and (3) Straight re-buy. The first one involves that the decision makers lack information of the purchase that is important for the marketers to be aware of. In order to be a considered supplier, it is important to be involved in the initial stage so that they can meet the problems that the customer is facing in a good manner. The latter one means that the buying organisation has got experience in dealing with the need. This implies that they have a routine for the process and already suppliers on a list that they are using. If the marketing company is the preferred supplier they have got to work on the relationship to stay preferred. If they on the other side not are considered, they have got to put an effort in breaking the existing routine and show why this will be superior. If it is a

<sup>54</sup> Kotler, 2003, pp 568-569

<sup>55</sup> Director of Sales Europe, FP Ltd, 2007-02-28

<sup>56</sup> Hutt, Speh, 1998, pp 71

<sup>57</sup> Ibid

<sup>58</sup> Ibid

<sup>59</sup> Application Manager, FP Ltd., 2007-04-17

### Justifying high price with *Total Cost of Ownership Awareness*

---

Possible or not on the South East Asian market?

modified re-buy, the buyers are re-evaluating the alternatives to make sure that they are using the most cost efficient solution.<sup>60 61</sup>

#### 4.1.1 Circumstances affecting decision-making on industrial markets<sup>62</sup>

When investigating the buying behaviour in industrial organisations there are different kinds of forces that are in need to consider. In general decision-making theory is, among others discussed by Trompenaars. It is for this report however more suitable to consider forces that are specific for the industrial market. These can be divided into the following groups: *Environmental, organisational, group and individual*.

The environmental forces are factors outside the organisation that might have an impact on the decision-making. Examples of this can be economic influences like the currency, current bank interest, price stability etc. Other ones are political factors where for example taxes and tariffs might have an impact. The final one is technical influence that can affect if for example dramatic changes appear. All of these factors are distinguished by having a large impact and further being difficult to influence as a single company.

The second force is defined as organisational which manages specific conditions for the company. The main issue when analysing these is for the marketer to understand how the buying company thinks and acts. It might for example be vital to consider if the purchasing process is centralised or decentralised.

The third issue to consider is the group force, i.e. how many in the company that actually has got an impact on the decision to be done. Further, when the members are identified, what role do they have and what is their influence? This is also discussed by Kotler and further examined below.

The last one is the individual force that involves understanding the individuals behind the decisions in the organisation. Every person is unique with its specific experience. It is of great importance for the marketer to understand who that makes the decision, and most of all how the decisions might diverge depending on who it is that is making the decision. If it is an engineer the decision will rather be based on product quality and standardisation, and if it is a professional purchaser it is rather the price and possibilities to negotiate that is vital.

Hence, for a supplier, all of the above issues will be important to consider when trying selling to an organisation since they are affecting the final decision.

---

<sup>60</sup> Hutt. Speh.1998, p73-74

<sup>61</sup> van Weele, 2005, p 30-31

<sup>62</sup> Hutt. Speh.1998, p 76-95

### Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?

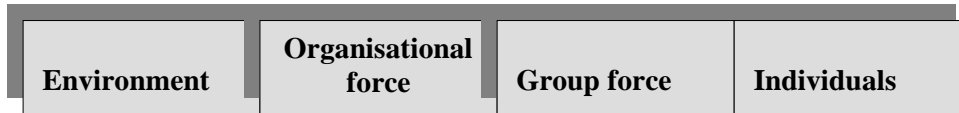


Figure 4.2 – Forces affecting buying behaviour on industrial markets

#### 4.1.2 Decision maker

Who does actually make the decision of what investment to choose? This can be more complicated than it seems initially. For a marketer it is important to know whom in the organization to put focus at. Kotler means that there exist several different members in the organization that may have an impact on the decision:

Table 4.2 - Different members in the organization having impact in a buying decision

1. **Initiators:** Those who request that something is to be purchased
2. **Users:** Those who will use the product or the service
3. **Influencers:** People that influence the buying decision. They often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers
4. **Deciders:** People who decide on product requirements or on suppliers
5. **Approvers:** People who authorize the proposed actions of deciders or buyers
6. **Buyers:** People who have formal authority to select the supplier and arrange the purchase terms.
7. **Gatekeepers:** People who have the power to prevent sellers or information from reaching members of the buying center. For example purchasing agents and receptionists.

Kotler further means that when the buying organization have a large buying center with many members, it will not be possible for the marketer at the supplying company to reach all. It is thus vital to identify the *key buying influencers*.<sup>63</sup>

#### 4.1.3 Investment calculations

When the buying organisation considers making a large investment, the aim is to make best possible use of the resources of interest. In other words, the reason for that the owners or stakeholders want to invest is because they want to increase their invested capital. Hence, it is vital to make sure that the investment to be done is conducted in the most cost efficient way as possible, considering all the given information.<sup>64</sup> Since the information is limited, one cannot predict the future, it is important to use the available information in the right way. There are several tools for

<sup>63</sup> Kotler, 2003, pp 221

<sup>64</sup> Holmes, 1997, p 3



### Justifying high price with *Total Cost of Ownership Awareness*

---

Possible or not on the South East Asian market?

making this sort of calculation, where the most vital for this report will be presented below.

#### **The Pay Back Method**

When making investments, the aim is to receive value in the future; this means that it is vital to consider the coming revenues that can be related to the investment made. Some investment requires a long time before they can be credited; it is in these cases even more vital to consider the future income and not solely the initial price.<sup>65</sup>

The method called *pay back* is one of the oldest and most used tools and is, despite many new techniques, also today one of the most common used. This can be explained by that it is easy to use and to understand. The aim of the method is simply to calculate how many years it will take before the investment is *paid of*, i.e. how long it takes before the incomes exceeds the costs of the investment for every period. With these methods, it is possible to calculate and compare different investment alternatives. After making these calculations, one can consider which one that will be the most appropriate given the requirements from the decision maker. For example, if the company has problem with cash flow, a solution offering a short payback will be chosen.<sup>66</sup>

There is however disadvantages with the payback method where the most obvious one is that it does not consider the time value of money as is done in discounted methods. Though making the payback solves this discounted with an appropriate discounting rate.<sup>67</sup>

#### **ROI**

Return On Investment is today a rather common key number to look at in order to see how large the return is in proportion to the capital invested. The purpose is to analyse the ratio of the profit in the relation to the employed capital. If comparing this with the above-mentioned payback, the benefit is that it considers the entire life of the investment and not solely a given period. The difficulty lies however in that there are many different ways of calculating the profit.<sup>68</sup>

$$\text{ROI} = \frac{\text{Average annual accounting profit (After depreciation)}}{\text{Average capital employed}}$$

However, a more common used method is ROCE that is described below. This one aims to see how much average capital that is employed.

---

<sup>65</sup> Holmes, 1997, p 27

<sup>66</sup> Ibid 28-29

<sup>67</sup> Ibid, p 29

<sup>68</sup> Ibid, p 32

### Justifying high price with *Total Cost of Ownership Awareness*

---

Possible or not on the South East Asian market?

$$\text{ROCE} = \frac{\text{Initial cost of investment} + \text{Scrap value of investment}}{2}$$

Van Weele shows that, according to the DuPont model, when lowering the purchase costs the ROI will naturally be improved which therefore has a great impact on the financial result. It is however not, as might be seen initially, solely dependent on the cost of direct material which is the initial cost or investment cost. Van Weele means that the buying company can improve the ROI with its purchase costs also by improved quality from the supplier and by having better relations with the suppliers. In fact, the savings in this area do often have a greater impact than a lowering of costs for purchased material when seen in a long perspective.<sup>69</sup> It does yet implicate that it is elements other than initial price that is evaluated.<sup>70</sup>

The purchase function is to lower the price but also to increase the competition power on the market. This can, in addition to above described, be done by technical innovation from the supplier that can enable the buying company to product innovation, lowering of the quality costs and lowering of lead times. These parameters might however not be as obvious as the initial investment cost that is often considered when first evaluating a new supplier.<sup>71</sup>

## 4.2 Total Cost of Ownership

When analyzing the cost of the investment, many authors mean that it is vital to consider all costs that can be linked to the investment. Theory of this will be presented below.

### 4.2.1 Theories of Total Cost of Ownership

With the same thinking as above in mind, the discussion of cost for the ownership can be done. This was initially analysed by Cavinato where he aimed to emphasize the importance of the entire cost for using a certain product/equipment. He meant that advantage would appear when improving the supply chain management and therefore the relations between the firms, interfirm, and attaining joint costs savings. Cavinato further means that it is important to identify key factors affection the economy in the long run. By doing this one can see whether the potential relationship can be of value.<sup>72</sup> This does however require a long-term thinking, in order to see the savings in a longer perspective. It does further require a wider perspective from the purchaser point of view since the result will cover more areas. Ferrin et Al highlight that the thinking partly has got to be extended to other business functions than the specific purchase and partly that the purchaser has got to understand all the costs that can be

---

<sup>69</sup> van Weele, 2005, pp 16

<sup>70</sup> Ferrin, Plank, 2002, p 18

<sup>71</sup> van Weele, 2005, p 30, 83

<sup>72</sup> Cavinato, Joseph L., *Identifying interfirm total cost advantages for supply chain advantages*, International Journal of Purchasing and Materials Management, vol. 27, no. 4, pp 10-16, 1991

**Justifying high price with *Total Cost of Ownership* Awareness**

Possible or not on the South East Asian market?

related to the purchase.<sup>73</sup> This means that the cost is not only related to the price of the purchased product but also to other indirect costs that easily can be left out when evaluating a supplier. Ellram and Siferd have mapped all those activity with its costs that occur when buying a new product. It is illustrated below in figure 4.2.<sup>74</sup>

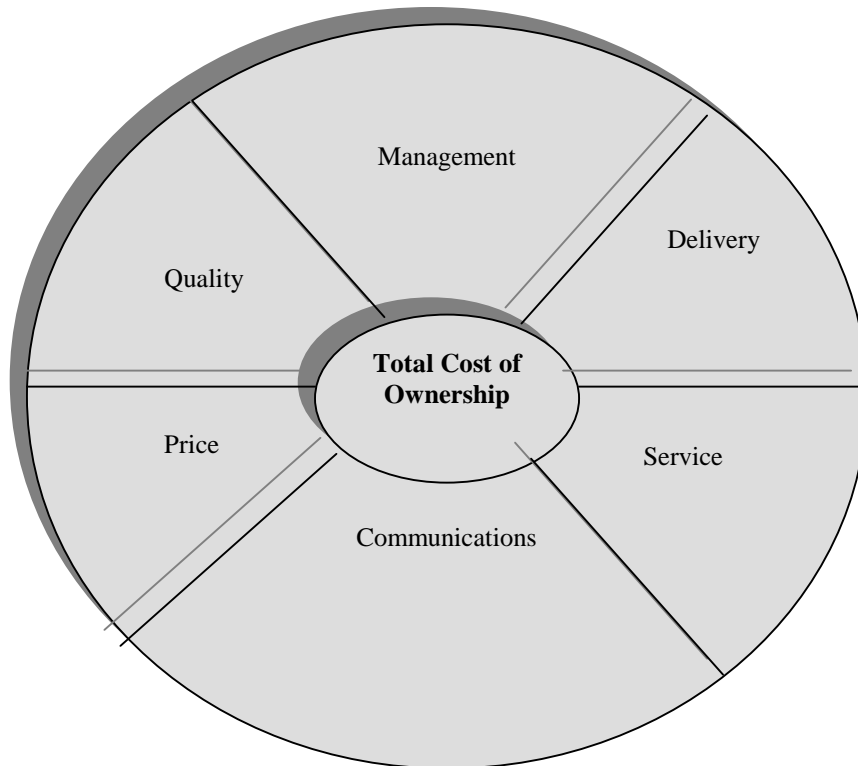


Figure 4.2 – Activities and its costs that occurs when buying a new product

This way of thinking can be linked to activity-based costing where it is of importance to map all costs, and not only the direct cost which often is the price, for owning the product. By doing this one can analyse which of those activities that add value and which that do not. The importance is however that the firm can distinguish the true cost of an activity.<sup>75</sup>

Further studies have been done by Ferrin et Al in order to see whether the large companies actually think in *Total Cost of Ownership*-terms or not. The purpose was to see if the way of thinking could be seen in an overall perspective or limited to the initial cost. The investigation was extended to different business but with capital goods as the most common respondent (79%), which makes it well applicable in this

<sup>73</sup> Ferrin, Plank, p 18

<sup>74</sup> Ellram, Perrot, 1993, pp166

<sup>75</sup> Ibid, p 164

### **Justifying high price with *Total Cost of Ownership* Awareness**

Possible or not on the South East Asian market?

report. The result shows that the *Total Cost of Ownership* concept is not yet used to a great extent, 38% in general, but for moderate *Total Cost of Ownership* users 62 % was for capital goods. This means that when using the tool it is first used for the non-routine purchases such as capital goods.<sup>76</sup>

Since the price is not the only parameter that drives the cost when thinking in *Total Cost of Ownership* there are several others that the respondents identified as important in the buying process. It is therefore vital to identify them in order to see where to put focus. The trend is however that it is quite difficult to identify these as well as it is when analysing the activity-based costing. A summary of all the respondents answer of cost drivers has however been done to get a general impression of what they find important. The categories are the following:

Table 4.4<sup>77</sup> – Categorization of identified *Total Cost of Ownership* cost drivers

<p><b>Categorisation of identified <i>Total Cost of Ownership</i> cost drivers:</b></p> <ul style="list-style-type: none"><li>• Operating costs</li><li>• Quality</li><li>• Logistics</li><li>• Technological Advantage</li><li>• Supplier Reliability and Capability</li><li>• Maintenance</li><li>• Inventory Costs</li><li>• Life Cycle</li><li>• Initial Price</li><li>• Customer Related</li><li>• Opportunity Costs</li><li>• Miscellaneous</li></ul>
---

These are hence parameters that they consider when being in a purchase process. The authors conclude that it is difficult to find out the driving elements in the buying process but does still emphasize that it can be very valuable to do so. As this report is

<sup>76</sup> Ferrin, Plank, 2002, p 23

<sup>77</sup> Ibid, p 25

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

written to make a comprehension from the supplier point of view, with the buying behaviour as a tool, an identification of these drivers is of great value also here. The authors does further argue that a standard model for *Total Cost of Ownership* can not exist since there are so many different elements, but do however mean that there are some universal elements that exists that can appear in every model.

The above-described parameters can further be complemented with the factor *company reputation* and *the source credibility*. Batt means that with a good reputation, the probability for a successful differentiation is increased since it will make the supplier trustworthy. With a good reputation, the supplier has good possibilities to become a considered supplier that requires a reputation that is at least average. For buyers that have a high uncertainty and little knowledge of the suppliers market, a well-known brand may be a solution.<sup>78</sup> Thus, the reputation is also a parameter to consider in the discussion from above.

#### 4.2.2 Parameters from FP Ltd justifying *Total Cost of Ownership*

Due to increased competition in which parameters such as price have become an even more important factor in a customer point of view, food equipment companies have realised the importance of identifying arguments of buying from them.<sup>79</sup>

This chapter is divided in several parts, which represent those parameters that are seen as valuable for the customers of FP Ltd. To obtain information of what information that is vital, salesman as well as customers has been interviewed in order to gather the most common questions and arguments. These parts are furthermore described more detailed to get a good understanding since they represents the customer's need and also affects the *Total Cost of Ownership* of the equipment.

#### **Investment cost**

The investment cost is defined as the total cost the customer has to sign up for the equipment. In a high competitive market the price is naturally an important factor to compete with. Sales men at FP Ltd highlights the importance of measuring the total cost and not solely the initial capital cost. Their equipment is indeed 20-40 % more expensive in capital cost but is explained by having a "best life time economy". This is further described below but it involves measuring all costs for managing the system such as maintenance, cleaning, reliability etc. Earlier calculations show that they, compared to their competitors, are superior in cost efficiency in the long run.

#### **Product safety**

---

<sup>78</sup> Batt, P., 2001, *Relational quality: further evidence of a single higher order construct in an industrial market*, Interactions, Relationships and Networks: Strategic Dimensions, Proceedings 17th Annual IMP Conference, Oslo, Norwegian Institute of Management (BI), [www.bi.no/imp2001/papers](http://www.bi.no/imp2001/papers), p 8

<sup>79</sup> Regional Sale support Manager, FP Ltd, 2007-03-06

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

The presence of bacteria's has always been complicated to conquer and has gotten more important today since some products have become more sensitive due to a change in the consumer behaviour. Elimination of the bacteria is one of the main tasks for the food process. If it is done by freezing, decreasing the temperature in a fast way reduces the risk for bacteria. This can somehow be quite challenging today with more complex food with for example more ingredients and a higher degree of processing. Therefore demands for more sophisticated equipment that can live up to the requirements that exist arise.<sup>80</sup>

The task for FP Ltd is to retain the product quality so that it is the same as it was before it was processed. It is an advantage that the equipment has a closed and captured products zone where the product cannot touch anything else but other products in the same process. It also secures the products movement and it cannot fall out from the product zone. Also, in some of the equipment there is no mechanical construction on the inside, which is a competitive advantage for FP Ltd since it makes it a lot easier to clean.<sup>81</sup>

The quality of the product has today become an important issue to consider partly because of a more aware customer and partly due to legal obligations. The consequence of this is partly supposed to be that the average customer has enhanced his willingness to pay more in order to secure quality.

### **Throughput**

The demand of food is dynamic and changes along with changed customer behaviour. When a customer decides to invest in capital-intensive system productivity has got to be guaranteed so that the customer will not be locked to a certain system.<sup>82</sup>

The product capacity refers to the more traditional view of throughput and is a measure of how much quantity of the product that can be processed per hour. The refrigeration capacity is a measurement on how much energy that the process need per hour.<sup>83</sup>

The belief from FP Ltd's side is that customers tend to focus on throughput more than on product safety. FP Ltd has an advantage in the throughput aspect since the footprint of their equipment is smaller than their competitor's equipments and therefore they achieve a higher capacity/m<sup>2</sup>.<sup>84</sup>

### **Yield**

---

<sup>80</sup> FP Ltd, business overview

<sup>81</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>82</sup> Economics of Freezing, Conducted by sales Support, FP Ltd

<sup>83</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>84</sup> Regional sale support Manager, FP Ltd, 2007-03-06

### Justifying high price with *Total Cost of Ownership Awareness*

Possible or not on the South East Asian market?

Yield as a parameter is one of the most important to consider since it describes how much that gets out of the process in proportion to the input.<sup>85</sup> It is driven by the degree of dehydration where a low degree is to be preferred, as the output of the product will be larger. The degree is dependent on parameters such as time, process medium temperature, process medium velocity and process medium turbulence. For example, the shorter the product is exposed in the process the less dehydration. Thus, by having equipment that reduces the dehydration the customer can obtain a larger amount of weight per hour.<sup>86</sup> This is important since the price of the end product to the customer often is based on the product weight.

Nowadays the concept of yield has come to include more than the dehydration of the product. Weight loss on the product, concerning both dehydration and mechanical weight loss that occurs when products get stuck in the belt or blown off according to the air blast has to be taken into consideration as well.<sup>87</sup>

Other benefits with having a low degree of dehydration is that one can run the equipment for longer intervals before defrosting. This is simply because of the smaller amount of water loss results in a smaller amount of water that lingers in the equipment.<sup>88</sup>

When discussing yield for different product groups the yield is dependent on how much value that is added to the product prior in the process. If the product is raw the weight loss is less than if it is porous and warm with a big surface. The yield is also dependent on the time between the different processing steps, where shorter time in between results in less dehydration. For example, as described in chapter 3, the faster the process is carried out, the less dehydration, since the process “closes” the product surface. In general the products groups can be ranked as follows where the one on top is the one with the highest weight loss:<sup>89</sup>

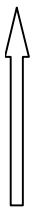


Figure 4.3 – Weight loss according to product type

<sup>85</sup> Regional Director, Asia Pacific, FP Ltd, 2006-12-13

<sup>86</sup> Economics of Freezing, Conducted by sales Support, FP Ltd

<sup>87</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>88</sup> Economics of Freezing, Conducted by sales Support, FP Ltd

<sup>89</sup> Ibid

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

According to different markets, yield is believed to be as important on the Asian market as it is in the rest of the world and is a parameter that when considered properly can save the customer a lot of money. Often competitors, especially on the Asian market, forget the importance of a high yield and FP Ltd has as a result of this an advantage when they can present the amount of money that can be saved if achieving a higher yield.<sup>90</sup>

#### **Uptime reliability**

It is for a customer desirable to be able to run the equipment as smooth as possible without any interruptions. When interruptions occur it takes valuable time to repair instead of processing and it can be very expensive in the long run. This is why it is of great value to sustain full productivity every minute.<sup>91</sup> Competition is for example on how long the equipment can be run before having to be stopped for defrosting. FP Ltd means that they are superior also in this issue thanks to their patented technology where the number of interruptions is close to none, which makes them very attractive. Uptime reliability is seen as one of the most important parameters that the customers focus on.<sup>92</sup>

Moreover there are some parameters in the up-time reliability that FP Ltd cannot affect. These might be different demands that are industry dependent. For example the chicken industry is the one with the highest demands of control. These controls often results in stops in the process and will affect the uptime negatively even though it has nothing to do with the equipment reliability.<sup>93</sup>

#### **Maintenance**

To be able to have high uptime reliability as described above, it is for example beneficial to have a rather simple construction in order to make it easy to clean and maintain. This means that the fewer components that are involved, the fewer parts to maintain. FP Ltd does in most of the equipment have a structure that is rather simple, which affects the maintenance cost positively.<sup>94</sup>

#### **Resource management**

Besides maintenance described above, there are other costs during the use of the equipment to consider. Energy consumption is one factor that has come to be rather important partly since it is expensive and partly because of the actualized concern regarding the environment. Due to this it is, in a supplier point of view, important to have this in mind when designing the equipment. Since the equipment from FP Ltd has a rather simple construction and is easy to clean, the consumption of water is a lot

---

<sup>90</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>91</sup> Economics of Freezing, Conducted by Sales Support, FP Ltd

<sup>92</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>93</sup> Ibid

<sup>94</sup> Economics of Freezing, Conducted by sales Support, FP Ltd



### Justifying high price with *Total Cost of Ownership Awareness*

---

Possible or not on the South East Asian market?

less than with conventional equipment. Since the environmental issue is given a growing focus from customers, our case company do their best to meet this demand.<sup>95</sup>

The consumption is further dependent of the fan power, which is important since a high velocity can hurry on the process, which is desirable. FP Ltd has in this issue solved this by using a fan that uses less energy than a conventional.<sup>96</sup>

Another parameter affecting the energy consumption is the set-up time for the different equipments. Of course it is always desirable to have a set-up time as short as possible, so that you can start to run the production.<sup>97</sup>

#### **Operation**

Operation concerns the cost of handling the equipment, which thereby is the cost of labour. This means that if the equipment is easier constructed and simple to use, the cost of labour should be reduced. The equipment from FP Ltd is delivered with a training package and a detailed manual, in order to make it as easy to use as possible.<sup>98</sup>

The operation parameter is closely related to which market you are on. For Western and central Europe it is a much more important parameter than for example in Asia where the labour cost are much less.<sup>99</sup>

#### **Up-grading**

It is also of value to take the costs of up grading in consideration when calculating the total cost of the equipment. Easy up grading allows a more flexible business for the customer. The belt that FP Ltd offer does, as mentioned earlier, last for a much longer time (approximately 50 % longer) and is easy to up grade by adding more belt and making the equipment higher or longer.<sup>100</sup> If up grading the existing equipment is not enough for meeting the customers new demands, our FP Ltd re-buy the old equipment for a fixed price depending on either how many hours it has been running or how many years it has been running. The re-buy price also depends on how the service on the machines has been taken care of. If FP Ltd has a service contract, they can offer the customer a better re-buy value. A customer buying from FP Ltd knows that he/she is able to sell it for a profitable resale value since the company has a good reputation among the industry. Of course FP Ltd wants to buy the equipment back as cheap as possible, but they are still careful so that the customer do not feel cheated, since FP Ltd wants the customer to buy upgraded equipment from them.<sup>101</sup> If for some reason

---

<sup>95</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>96</sup> Economics of Freezing, Conducted by sales Support, FP Ltd

<sup>97</sup> Solution Manager, FP Ltd, 2007-03-06

<sup>98</sup> Economics of Freezing, Conducted by sales Support, FP Ltd

<sup>99</sup> Regional sale support Manager, FP Ltd 2007-03-06

<sup>100</sup> Economics of Freezing, Conducted by sales Support, FP Ltd

<sup>101</sup> Regional sale support Manager, FP Ltd, 2007-03-06

## Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

the customer does not want FP Ltd to re-buy the equipment, there are many second hand dealers that would be pleased to re-buy it.<sup>102</sup>

### **Relocation**

The cost for moving the equipment can seem rather extensive because of the size but it is, according to FP Ltd, a marginal cost in relation to the total cost. They do however claim that since their equipment, as explained earlier, is smaller due to the construction, it is rather easy to move. An example of this is that 40 % of the existing equipments in UK have been moved with good results.<sup>103</sup> Though, relocation is not a parameter that the customer puts much value into and should not be given much focus in a sales process.<sup>104</sup>

### **Product handling**

The colour of the product is important for the customer. The product has to have a nice appearance to attract the end consumers.<sup>105</sup> The product handling considers all aspects influencing the mechanical handling of the product in the equipment, thereby having an effect on quality and output. For FP Ltd it is important to be able to show their customers how the appearance will be affected of the process. FP Ltd has a major advantage from other competitors since they have a centre where they offer the customer simulation of the processes so that the customer can get an impression how the process will affect their products. However these centres are situated in Sweden and in USA, which makes it more convenient for customers on those markets, where the Asian customer has to travel a long way to get access to the centre. However, as a solution of this problem, lab centres has been put up in Asia. These are not as developed as the other centres, but they give the customer the opportunity to try some of the equipments. A fully equipped and high-developed Technology Centre in Asia is not economical defendable, but there is a need of more lab equipment that you either can bring to the customers site, or have the customer to come to the lab centre. As integrity of the customer's product is getting more and more common, the customer might feel that he/she does not want to bring their products outside their site while it is convenient if the equipment is portable.<sup>106</sup>

### **Customer relationship**

When building a model that takes the customer buying behaviour into consideration, one must not forget about the value of customer relationship. Though this is a difficult parameter to quantify, it is often a key parameter when doing business, especially when doing business in Asia.<sup>107</sup>

### **Handling of oil**

---

<sup>102</sup> Service Manager (Special Projects), FP Ltd, 2007-04-20

<sup>103</sup> Economics of Freezing, Conducted by sales Support, FP Ltd

<sup>104</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>105</sup> Stein Europe Business Manager, FP Ltd, 2007-02-19

<sup>106</sup> Regional sale support Manager, FP Ltd, 2007-03-06

<sup>107</sup> Ibid

Possible or not on the South East Asian market?

As described in chapter 3, the oil management is one of the most vital parameters to consider when processing food. Especially since the product absorbs the oil and hence an ingredients included in the end product reaching the customer the freshness of the oil is very important. Furthermore, the oil is rather expensive, approximately \$1,3 US, which makes a good filtration of the oil essential since it can improve the oil life.<sup>108</sup> When discussing oil management, the products pick-up rate is important, since this decides how much of fresh oil that continuously has to be added to the system. Another parameter to focus on is the size of the equipment. A smaller size needs less oil in the system, which not only is good because less oil has to be thrown away when changing the oil but also the energy consumption becomes less since less oil has to be heated up.

### **4.3 Doing business by relationship**

As have been mentioned earlier in the report, the relation issue is to be considered as vital on the industrial market. Its significance can however differ for different customers but is still vital to consider when acting on industrial markets.

#### **4.3.1 Relations – time consuming but efficient**

As was described in the initial part of the chapter, a well working chain on industrial markets processing food is essential. This is created by a good relationship between the seller and the buyer, which will facilitate the logistic flow and hopefully make it more effective. Salin and Nayaga mean that a relationship can contribute to consistency, which is a parameter that the buyers often value more than technical competence and financial stability.<sup>109</sup> This indicates that giving time and resources on the relationship with the buyer can be of most value for the seller. This is however not valid for all products, it is especially studied for specific investments on the industrial market which should be treated imperative. Here, larger investments are treated differently than commodity products since they often have a strategic impact.<sup>110</sup>

Thus, by having a well-developed relation with the buyers, a resource advantage is established since their position has been improved with customers preferring them to their competitors. This is obviously not enough to gain a customer's trust, the features of the product is certainly also of most value. But with competitors offering similar product, the way of selling becomes important as well.<sup>111</sup>

There are, according to Michael Porter, two mainly ways to compete in: by being a cost leader or by differentiation. The company can furthermore compete by focusing on a certain segment. To be a cost leader means that the company is competing by price and aims to have the lowest price on the market. Differentiation is the opposite

---

<sup>108</sup> Stein Europe Business Manager, FP Ltd, 2007-02-19

<sup>109</sup> Salin, Nayaga, 2003, p 920

<sup>110</sup> Kleinaltenkamp, Ehret, 2006, p 68

<sup>111</sup> Kleinaltenkamp, Ehret, 2006, p 64

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

where they rather compete by being unique in the industry, which means that the price is of less importance.<sup>112</sup> The way to differentiate can differ which means that the selling process mentioned above also can be a competitive advantage. Hence, with a good relationship with the customer the selling company can receive higher profits and the customers will perceive added value that makes it a win-win situation.<sup>113</sup>

It is therefore stated that relations are of value particularly on industrial markets, why is this and how can it be assured? The discussion is only applicable when referring to business-to-business managing specific investments, meaning more complex and strategic procurement. This contributes to that the investment is of strategic value for the customer, which makes the buying process most vital. A good relation with the supplier can therefore be an advantage also for the customer. Consequently there is a mutual gain for the seller and the buyer, which is important to be aware of, in this report, especially for the selling part.<sup>114</sup>

In the literature, this focus is referred to as *inter-organisational* rather than *intra-organisational*. This means that the focus for the company is set on the supply chain compared to solely the company's own competences. In a theoretical perspective this is compared with the theory of *resource based view*. This theory is quite complex but its main issue has earlier been to focus on the companies' internal aspects rather than the external. Meaning that the companies' possibility to grow is dependent on how the company uses the internal resources.<sup>115</sup> This has however been criticized since it does not consider how the resources is transformed into customer value. In order to do so, the inter-organisational perspective has got to be considered, i.e. how companies also work externally. Thus, the relation perspective ought to be included when discussing how the organisation is creating value.<sup>116</sup>

#### 4.3.2 What to consider in the supplier/customer relation

As has been discussed above, it is of great importance for the supplier as well as for the customer to appreciate the relation between the two of them. Focus is however on investigating how the customer acts in order to be as cost effective as possible. Some of the content of this has so far been that the cooperation between the parties has an impact on the output for the customer. This is due to that they can help each other find market driven solutions, which will optimize the product development. Theories do however emphasize that even though the supplier think that they act in a customer orientated manner, the way of doing so may not be as beneficial for customer as they want for it to be. An example of this is that the supplier often adds a cost raise for the customer but seldom a cost reduction. This may lead to that they lose faith with the

---

<sup>112</sup> Grant, R., *Contemporary Strategy Analysis*, Fifth Edition, Blackwell publishing, 2005

<sup>113</sup> Kleinaltenkamp Ehret. 2006, p 68

<sup>114</sup> Möller, K., *Role of competences in creating customer value: A value-creation logic approach*, *Industrial Marketing Management*, vol. 35, no. 8, pp 913-924, 2006, p 914

<sup>115</sup> Grant, 2005, p 132-133

<sup>116</sup> Möller, 2006, p 913

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

customers that can be destructive for the relation.<sup>117</sup> This sort of thinking leads to that the customer chooses their supply management with care in order to be as effective as possible. It might further lead to that the customer loose faith in the supplier, which evidently is destructive for the relationship.

It is therefore vital that the supplier realise that the information is quite transparent and that the customer understands how the supplier act. This way of thinking is even more important to consider on a market where trying to get a greater share of the given market. Van Weele highlights that a buyer/seller relationship is developed over time and that it takes time to make it well integrated.<sup>118</sup> This step cannot be avoided; taking time for the customer and also showing this to the customer so that they feel important distinguish a relation. Along with this it is also vital to be transparent to the customer including the price setting. A raise of the price may be unavoidable but it requires that the price discussion also is done with the customer in order to make the relation more integrated. This will increase the feeling that they have common goals. Hence, an open relation ought to increase the conditions for a good cooperation.<sup>119</sup>

#### 4.4 Summary

Common for the buying behaviour on industrial market as well as the consumer market is the assumption that a feeling might have an impact on the decision that is to be done. A feeling can be difficult to define but implicates that the product stands for high quality. This aspect becomes interesting when managing differentiated products that have got a higher price justified by the superior quality.

It is further in the chapter discussed how the cost of a large investment is to be calculated where the main theory is to consider the *Total Cost of Ownership*. This aims to map all the costs that can be related to the investment. It has been investigated by many authors with all of them pointing out that there can be many indirect costs to consider. To get an understanding of what parameters that are driving the *Total Cost of Ownership*, suitable factors from FP Ltd have been presented. These are conducted from the sellers' point of view, meaning that they may not be as accurate as preferable. This will however be further invested later on in the report.

The buying process on industrial markets is in addition seen to be distinguished by being based on the relation between the seller and the buyer where aspects such as loyalty and long-term thinking becomes vital to consider. Theories means that a well-developed relationship even might lower the *Total Cost of Ownership* in the long run and with the same discussion increasing the ROI.

---

<sup>117</sup> van Weele, 2005

<sup>118</sup> Ibid

<sup>119</sup> Bacon, T., Pugh, D., *The behavioural advantage*, Amacom/American Management Association, USA, 2004

**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

It is further discussed that there exists several decision makers in the process where some may not be as evident. Authors writing about this means that the decision makers are vital to analyse for the selling company in order to suite the argument in a correct way. It is also important to remember that some of them may not be as obvious as others, which is why it is of value to investigate.

## 5 Cultural aspects

---

*This chapter is conducted in order to give an understanding of the cultural aspects that might influence the buying behaviour for customers on the Asian market.*

---

### 5.1 Cultural aspects when doing business in Asia

When doing business with another country cultural differences can be huge, even in countries that share similar heritage and language. For a western to do business in Asia the cultural differences are many. The language is not the same which, even though both Westerners and Asians often speak good English, can imply for misunderstandings.<sup>120</sup>

One thing to be aware of in Asia is the concept of the face. To lose face in front of others is one of the worst things an Asian can experience, which is why they rather make something up than tell you that they do not know the answer to your question. This enlightens the need of a humble attitude for Westerners that want to do business with people in East.<sup>121</sup> For business relationships in Asia a few things should be kept in mind. Relationships in Asia are based on trust, so is business relationships. Trust is something you have to deserve and words are not believed until actions have proven them right.<sup>122</sup> Though loyalty and trust are important factors in Asia it takes different shape in different to countries. In India loyalty is bound to a corporation or firm where it in China instead is personalised, that is loyalty and trust is bound to a person and not to his occupation or firm.<sup>123</sup>

For the customer to trust a supplier the supplier has to show that he/she is there to help the customer to find better solutions. Many Asian share a belief that all Westerners try to fool them on money. They have the perception that all Westerners are rich and therefore feel that they have enough to share, and hence try to lower the prices. A way for an Asian person to find out if another person's intentions are good, is to talk about the other person's family. If it can be shown that the person from the selling company takes good care of his family, for example give the children of the family a good education, it is more likely for a good and long-lasting relationship to be formed.<sup>124</sup> Often a Western sales man do not know the importance of the conversation about family matters, why he/she sometimes tries to rush this conversation so that business matters instead can be discussed. This however might have fatal

---

<sup>120</sup> Reeder, John A., *When West Meets East: Cultural Aspects of Doing Business in Asia*, Business Horizon, January-February, 1987

<sup>121</sup> Sing Halbauer, 2007-03-05

<sup>122</sup> Reeder, 1987

<sup>123</sup> Haley, George, T; Tan, Chin-Tiong, *East vs. West: Strategic marketing management meets the Asian networks*, The Journal of Business and Industrial Marketing, vol. 14, iss. 2, p 91, Santa Barbara, 1999

<sup>124</sup> Sing Halbauer, 2007-03-05

consequences that might cause the deal to fail. It is first after a good relationship is formed and the customer feels that he can trust you, that business matters can be discussed. Halbauer further describes the importance of the sales mans attitude and personality and that Western sales men that are doing business in the East has to be carefully picked so that they suite the Eastern environment. There is a lot of tacit knowledge that exist on how to behave in East that is very difficult for Westerns to understand or learn about.<sup>125</sup>

## **5.2 The History of Asia's Business development**

To better get an understanding for the business environment in South East Asia, one may go back in history to examine the business development in the region. South East Asia business environment has had three clusters of large business: The government-linked corporations (GLC:s), overseas Chinese Family business and Multinational corporations (MNS:s).

The GLC:s has played a big role in forming the business environment in South East Asia. They were often operating in the country without serious competition since they were protected or sometimes even monopolistic on their market. The strategic planning in these companies were often linked together with the countries plan for the economic growth and development, which resulted in little or no impact on the managers need of external information for strategic planning.<sup>126</sup>

The overseas Chinese families have had a great impact in the South East Asian business development. It is still the Chinese people that have the greatest influence in the economy in Asia, and on the business environment as a whole.<sup>127</sup> This is why the Chinese culture is in focus also when analysing the business environment in South-East Asia. The overseas Chinese family business often started as merchant or trade companies. Once present on the South East Asian market they were categorized by entrepreneurial minds and with a fast decision-making style. They were not well educated, especially not in business and the decisions they made were based on their business sense, former experience and individual degree of risk taking. If a very critical decision was to be taken, the Chinese family rather turned to their network of friends than to printed business information. Trust and loyalty formed the business environment, and this still plays a major part in the business today.<sup>128</sup>

The Multi National Corporations was the latest to arrive on the market. It was after world war two that many large corporations started to focus on low-cost manufacturing and hence saw South East Asia as an attractive option. The

---

<sup>125</sup> Sing Halbaur, 2007-03-05

<sup>126</sup> Ibid

<sup>127</sup> Sing Halbaur, 2007-03-05

<sup>128</sup> Haley, Tan,1996, p 37



informational void was not seen as a threat though they aimed to export the goods instead of serving the local markets.<sup>129</sup>

### 5.3 Cultural aspects in Buying Behaviour

National culture has been proven to have a great impact on individual's value and attitudes. The world is getting more and more globalised and borders between countries are getting more diffuse. It has been posed that as a result of this consumer behaviour also has become more homogeneous, but little proofs of this is to be seen.<sup>130</sup>

#### 5.3.1 A software of the mind?

Geert Hofstede has done a lot of research into the effect peoples culture have on their way of acting. He believes that people's handlings are a result of their culture and further calls the culture a software of the mind. Hofstede categorise five dimensions of culture consequences: power distance, collectivism versus individualism, femininity versus masculinity, uncertainty avoidance and long-term versus short-term orientation. These dimensions are aspects of the culture and can be measured relatively other cultures to get an understanding of the differences that exists. The five dimensions mentioned are all present in theories of social science and Hofstede shows with his empirical research that they together form a model that visualise the differences existing between national cultures.<sup>131</sup>

#### **Power distance**<sup>132</sup>

Power distance is a measure of the interpersonal power or influence between for example a boss and his subordinate as perceived by the less powerful of the two. One have to keep in mind that power distance is not something that exists because of the boss. Power distance is something created just as much out of subordinate ship as much as of leadership. One of the main issues in this dimension is human inequality and occurs for example in questions of prestige, wealth and power. These areas are handled different in different cultures and one should be very careful to suppose that it is the same wherever you go. In organisations it is often formalised hierarchical relationship where it is more obvious who has the most power. Hofstede's definition of power distance is “ *The power distance between boss B and subordinate S is the difference between the extent to which B can determine the behaviour of S and the extent to which S can determine the behaviour of B*”. He means further that this distance accepted of both B and S and the surrounding environment is to a big extent affected and determined by the national culture. Hofstede has created a way to calculate countries power distance index. In countries with low power distance index

---

<sup>129</sup> Haley, Tan, 1996, p 37

<sup>130</sup> Leo, C., Bennet, R., Härtel, C., *Cross-cultural Differences in consumer decision-making styles*, Cross Cultural Management, vol. 12, pp 32-62, 2005

<sup>131</sup> Hofstede, 1991

<sup>132</sup> Hofstede, G., *Culture's consequences – international differences in Work-related values*, Sage Publication, California, 1980, pp 92

power needs less legitimation than in countries that score high in power distance index. In countries with low power distance index, a person with power often wants to underplay his power and instead of brag about his power, the power may even be something he is ashamed of. According to Hofstede's calculation Thailand scores 64 on power distance index, compared to Sweden that has a low score on 31. Vietnam was not included in the research, which is why the index for Vietnam is not presented here.<sup>133</sup>

### **Uncertainty avoidance<sup>134</sup>**

Societies try to cope with uncertainty in different ways since a high degree of uncertainty often results in people feeling anxious. How to handle uncertainty in a society is affected by the cultural heritage. Technology is a way of coping with uncertainty caused by nature, law is to defend us from uncertainty in other people's behaviour whereas religion helps us cope with uncertainty we cannot affect. In organisations these factors are instead technology, rules and rituals. Technology is for creating short-time predictability and rules cope with the internal insecurity. Rituals however, are often non-logical and do not prevent uncertainty in itself. What they do are instead to relieve some of the stress that can result in people feeling anxious in an uncertain environment. Rituals like this can for example be underlying procedures for how to act on a business meeting. Coping with uncertainty in organisations is divided into those believing in the "rational man", that is that actions are logical, and those who believe in the "non-rational", that is a human's actions can not always be seen as logical and easy to explain. Here one should have in mind that what might be logic and rational behaviour in one culture may be non-logic in another culture. Halbaur emphasises however, that the rational customer as referred to in the West, do not exist in Asia. Asians often lack knowledge in calculations, and their decisions are rather based upon a good feeling towards the other part in a relationship.<sup>135</sup>

The three parameters used for calculating the uncertainty avoidance index is rule orientation, employment stability and stress. From Hofstede's calculations can be seen that the uncertainty avoidance index for Thailand is 64 whereas for Sweden it is 29. A high uncertainty avoidance index tends to show upon searching for the ultimate truth, this by using theories and certainties as a base. A country that scores low on the index are more likely to take a more realistic stand and do not search for certain theories instead they strive for capturing the applicable and usable knowledge.

### **Individualism / collectivism<sup>136</sup>**

The relationship between individualism and collectivism is both related to the way we choose to live together with others but is also closely related to the norms of the society we live in, hence it is dependent of our cultural heritage. In organisations one can derive that a person that has a high level of collectivism acts morally as for an

---

<sup>133</sup> Hofstede, 1980, p 104

<sup>134</sup> Hofstede, 1991, pp 153

<sup>135</sup> Sing Halbauer, 2007-03-05

<sup>136</sup> Hofstede, 1980, pp 213

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

individualistic person actions might be more calculated. Calculations can derive a positive correlation between small firms being more collectivistic and larger firms being more individualistic and hence more calculating. When calculating the individualism index, as well as the masculinity index that is explained further below, peoples work goals are identified. One can see that persons with high individualistic index tend to focus on having personal time and freedom, which makes the individual less dependent on the organisation. Low individualistic index shows more on the need of training and physical condition, which is more a question of what the organisation can do for you. One can see, from Hofstede's calculations, that Sweden has a rather high individualistic index on 71, where Thailand has a much lower index on 20.

Also collectivistic societies tend to be more loyal. This can derive from two causes. One reason is that they instead of published material rather depend on the mouth-to-mouth transfer of information, especially if the information comes from somebody belonging to the family. In an individual environment, as often the western is, one always strives for being "yourself". Often the private self and the business self is the same and the goal is to be yourself in every situation. The more collectivistic societies share instead of the wish of being yourself a wish to be as your family. Findings has been identified that persons with individual self's tend to evaluate uniqueness in a purchase decision, while the collectivistic rather build a purchase decision upon a group affiliation.<sup>137</sup> Also persons in a collectivistic society tend to follow the groups consensus until absolute evidence exists that proves others to be better. Findings show that both uncertainty avoidance and collectivism is positively correlated to loyalty. This implies that marketing strategies has to take the degree of loyalty into consideration.<sup>138</sup>

#### **Masculinity / Femininity<sup>139</sup>**

Another dimension in national cultures is masculinity versus femininity. The duality of the sexes is something societies cope with in different ways where the main issue is whether the biological impact should or should not affect the person's role in the society. There are some absolute differences between men and women, but except these absolute differences one can question what is biological and what is a cause of socialisation, which means that both men and women learn their place in the society and after they learned it they accept it to be that way. In organisations the labour often have members of both sexes. What goals an organisation strive for is due to the distribution of sexes in the labour. Often business goals are set by men and therefore for men to achieve. This because men often lead organisations and as they set the rules and goals they make the climate masculine. Moreover, countries scoring high on the masculinity index tend be more materialistic. Money and things are seen to be important, along with the idea of what is "fast and big" is also beautiful. It should be emphasised that it is not necessarily the men that act masculine and women that act

---

<sup>137</sup> Usunier, Lee, 2005

<sup>138</sup> Ibid

<sup>139</sup> Hofstede, 1980, pp 261

feminine but statistically masculine behaviour more often can be derived from men than from women.

When studying the calculation of the masculinity index that Hofstede has carried out one can see that countries close to the equator scores high on masculine index and countries far from the equator tends to show more feminine behaviour. One can further see that the Nordic countries are the ones that have the lowest score on the masculinity index.

### **Long- term versus short-term orientation**<sup>140</sup>

When making research into cultural consequences in his first book, Hofstede used a questionnaire that he later found out was biased of the western way of thinking. The parameter concerning uncertainty avoidance came to mirror the way of handling the situation according to a belief of the existent of being able to find the absolute truth in uncertainty avoiding cultures. For the uncertainty acceptant cultures it all came down to taking a more realistic stand in accepting the uncertainties. In west there is a belief that if A is true, the opposite of A must be false. This belief is however not shared in the eastern cultures, where if A is true, the opposite of A can be just as true, depending on the circumstances.<sup>141</sup> This was found out when Hofstede made research concerning China. Hofstede found that in his prior work, one fundamental parameter was missing. This parameter is complemented in his second edition of his book *Cultural Consequences* and became the fifth parameter, Long-Term orientation index. Instead of reflecting the truth, this parameter is taking the concept Virtue in consideration. In long-term oriented cultures the virtue is taught with the future in focus such as in the education. In short-term oriented cultures, virtue is instead taught directed at the past and present where respect for traditions are in focus. Moreover, the short-term oriented cultures have a belief in the absolute truth of good and evil, but often feel unsatisfied with their contribution of doing good and help to better the injustices in the society. In the long-term oriented cultures where virtue plays a big role, moral and practice are integrated in the way of acting. Even though virtue is based upon the absolute standard for good and evil, what is virtue is dependent on the circumstances. When always having the belief that your behaviour is based on virtue, there is no need to do more according to cope with the injustices in the society.<sup>142</sup> Calculations showed that the East Asian countries were the one scoring highest on the Long-Term Orientation index, where the Western countries were in the middle range and the third world countries were the one that scored the lowest. One can see in the calculations that Thailand scores 56 on the Long-Term Orientation index and that Sweden scores 33.<sup>143</sup>

---

<sup>140</sup> Hofstede, G., *Cultural Consequences*, Second Edition, Sage Publications, Inc., California, 2000, pp 351

<sup>141</sup> Hofstede, 2000, pp 362

<sup>142</sup> Ibid

<sup>143</sup> Ibid, pp 356

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

In a paper written of Haugland the influences of culture in international business relationships is discussed. He took into consideration the cultural differences that Hofstede has presented in his works, and the approach of Haugland's work was that the cultural aspects had a big impact on the buyer-seller relationship. However, the result of Haugland's research shows upon that the cultural differences do not influence business relationship as much as it was expected to. One reason for this might be that it is only one type of business that research is carried out on, where the product sold was a standard product.<sup>144</sup> The business our report is making research into is concerning a customized product, which implies for a closer interaction between the buyer and the seller. It might therefore imply that Haugland's result of the rather small impact of cultural differences not is true for our report.

#### 5.3.2 Decision making theory in Asia

A traditional model categorising the consumers behaviour assumes that a customer reviews opportunities, evaluate alternatives, rationally search for information, rely on market leaders and depend on word-of-mouth communication and that consumers are affected by the social environment and situational factors. Moreover it is assumed that the consumers are affected by marketing stimuli and always tries to choose the best alternative on the market. This model is however not suitable for all markets. When focusing on the Asian market one has to be aware of the differences existing in the consumers' cognitive style where the buying behaviour rather has a synthetic, concrete and contextual orientation.<sup>145</sup>

The lack of information in South East Asia described earlier in this chapter has resulted in an ad-hoc strategic planning style. Often decision are based upon the CEO's own knowledge of the market which implies for decisions being highly personalized, idiosyncratic to the leader and limited in environmental scanning.<sup>146</sup>

This can be compared to the decision making process in for example Sweden. In big international company, many different departments are given influence when for example a big investment is to be made. One result of this might be the rather low power distance index in Sweden, meaning that everyone wants, and dares, to have a say when a decision is to be taken. In South-East Asia, that scores high on the power distance index, no one dares to question the boss' decision. This often results in that the owner of the company makes the decision on his own, even though he might not have enough knowledge in the area. As an effect of the lack of knowledge, decisions are based on feeling instead.<sup>147 148</sup> However, even if the decision is made of one man

---

<sup>144</sup> Haugland, S., *The Cultural Dimension of International Buyer-Seller Relationship*, Journal of Business-to-Business Marketing, vol. 4, 1998

<sup>145</sup> Usunier, Lee, 2005

<sup>146</sup> Haley, Tan, 1999, p 91

<sup>147</sup> Regional Director, Asia Pacific, FP Ltd, 2007-03-18

<sup>148</sup> Sing Halbaur, 2007-03-05

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

alone, no rushed decisions are taken. In China there is a saying that goes: “always think at least three times before making a decision”.<sup>149</sup>

As described in the prior chapter, when a decision is to be taken there are almost an infinite number of variables that the decision maker has to consider. More over, all the variables have different degree in complexity, which makes the full scope of the decision impossible to grab for the human mind.<sup>150</sup> This makes the nature of decision-making very complex, a complexity that increases when also taking cultural aspects into consideration.

To understand the Asian way of making decisions one has to let go of the usual analytical model that in West is used to base business decisions upon and instead always strive for having a holistic view. This can be further strengthening from that the Asian countries are highly collectivistic, implying that they are less likely then the individualistic society to carry out thorough calculations to base the decision on. For Westerns this can be difficult to cope with according to lack of personal network in Asia. For a non-Asian company it is therefore vital to try to integrate as many locals as possible in the organisation.<sup>151</sup> Another thing to strive for is to have a flexible corporate culture. A flexible culture gives the opportunity to be able to compete with the fast moving actors on the Asian market by being able to deal with different cultures in the business environment.<sup>152</sup>

#### 5.3.3 *Guanxi* – opens the gate for the right relationships

*“The best advice to give a western salesman in Asia is that he should treat his customer as delicate creatures. He also has to learn about how to develop his guanxi and how he can improve it”*<sup>153</sup>

*Guanxi* is a Chinese word that consists of two characters. *Guan* is the Chinese word for gate and *xi* is the word for connection. *Guanxi* means that you must pass the gate to get connected to the network.<sup>154</sup>

In an environment where focus goes from transactional marketing to more of a relationship-marketing,<sup>155</sup> establishment, development and maintenance of successful relationships is essential. What in the western world often is referred to as social

---

<sup>149</sup> Sing Halbaur, 2007-03-05

<sup>150</sup> Harrison, F., *The Managerial Decision-Making Process*, Houghton Mifflin Company, USA, 1999

<sup>151</sup> Haley, Tan, 1996, p 37

<sup>152</sup> Haley, Tan, 1999, p 91

<sup>153</sup> Sing Halbaur, 2007-03-05

<sup>154</sup> Lu Wang, Cheng, *Guanxi vs. relationship marketing: Exploring underlying differences*, *Industrial Marketing Management*, 2007, vol. 36, pp 81-86

<sup>155</sup> *Ibid*

networks are sometimes thought to be equivalent with the Chinese *guanxi*.<sup>156</sup> This however is not the case. Both the western relationship and the *guanxi* are based upon mutual understanding and long-term orientation, but the western relationships are often driven by regulations and rules and the *guanxi* is driven by morality and social norms.<sup>157</sup> The importance of *guanxi* in China and South East Asia can be further explained by the collectivistic view the countries in the region have. Also the Long-term orientation is connected to the *guanxi*, since it contributes to a long-term focus. *Guanxi* is seen to be valuable during the whole lifetime, and no one would dare to harm this for a short-term reason. The high uncertainty index to be seen in for example Thailand may also show upon the importance of *guanxi*, since having a network to rely on eliminates some of the uncertainty when a decision is going to be made.<sup>158</sup>

The importance of *guanxi* when doing business in China can be enlightened by referring to that though business in West often are done according to corporate image and brand, business in China are based upon contacts or bonds with specific individuals.<sup>159</sup>

It is very difficult for westerners to build up a good *guanxi*. Given that western countries are individualistic, the importance of a good *guanxi* might be difficult for the Westerners to understand. Even though westerners comes to the insight of the importance, the chances to success are dependent on your social position, where a higher social position makes you more attractive to do business with. Also that you are aware of the importance of face will contribute to your chances to succeed in a *guanxi* environment, since nobody will risk doing business with you if they believe you might cause them a loss of face.<sup>160</sup>

## 5.4 Summary

It has in this chapter been stated that cultural aspects ought to be considered when doing business in South East Asia. This has its ground in the history that is reflecting the business environment. This is indeed an issue to have in mind in this region since there still are some obvious matters affecting the circumstances, such as the importance of relationship, loyalty and trust, which are all very soft factors.

Due to the importance of the cultural aspects, specific theories of this have been presented. One of these is from Hofstede, that means that there are five dimension to consider when analysing how people behave in different cultures which are: Power

---

<sup>156</sup> Fu, P, Tsui, A., Dess, G., *The Dynamics of Guanxi in Chinese High-Tech Firms: Implications for Knowledge Management and Decision Making*, Management International Review. 2006, vol. 46, pp 277-305

<sup>157</sup> Lu Wnang, Cheng, 2007

<sup>158</sup> Hofstede, 2000

<sup>159</sup> Lu Wnang, Cheng, 2007

<sup>160</sup> Sing Halbauer, 2007-03-05

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

distance, Uncertainty avoidance, Individualism/Collectivism, Masculinity/Femininity and long-term versus short-term orientation.

The specific decision making theory for Asia is further presented to give the reader a feeling of what aspects that are vital to have in mind when trying to sell on this market. Issues such as decisions being made by the CEO himself, hierarchy and centralisation are examples of what may have an impact and therefore important for the marketer to have in mind.

Finally, the Asian concept *Guanxi* is described since it is seen as something that is affecting the mentality of the Asian people. It origins from China but have shown to be applicable also in other countries in the Asian region. The meaning of it is basically that networking and relationship are factors that are vital in this culture and thus also affect the way of doing business.



## 6 Buying Behaviour in Asia - empirical studies and analysis

---

*After thorough investigation in needed theories in the subjects' culture and buying behaviour on industrial market, empirical findings from Asia within the fields will be presented in this chapter. The empirical studies will further be complemented with our analysis in the same chapter, since it is considered to be more readers friendly.*

---

### 6.1 Short introduction of the situation in Vietnam

The customers in Vietnam are mainly in the seafood and fish industry. The fish industry does today have an approximate yearly growth of 40 % while the seafood is growing with approximately 20 % a year. The total export for the both is growing with about 20% a year, which is seen to be rather extensive.<sup>161</sup> This does, naturally, make the fish industry more profitable, which is why some of the producers are aiming to put more focus on this market. That does of course give consequences also to the suppliers of the equipment since the needs are specific according to the specific industry. For FP Ltd this issue has been difficult since they do not offer the specific equipment that is requested for the fish industry. The technique that is used in this industry in Vietnam is different from the one that FP Ltd recommends. The dilemma is that FP Ltd is not offering this technique since they consider it to be old and not innovative and that it exists more efficient techniques that are more favourable to use. We believe that the consequence of this will be a loss of customers for FP Ltd on the Vietnamese market. Already, some of the customer extending their fish production, has turned to other suppliers than FP Ltd, even though they where the preferred suppliers if they would have offered the equipment needed.<sup>162</sup> However, Vietnam is the only market requesting this specific technique, which makes the market very limited. Though, considered the extensive growth of the fish market, FP Ltd will loose a big opportunity in not offering the right equipment. Even though FP Ltd is aware of this situation, they of course have to consider the cost of developing this new type of equipment including R&D, manufacturing and everything in between. This has to be put in relation with the expected sales of the new equipment. However, even though the costs of developing this new product is higher then the expected revenues, we believe that the situation of not offering the equipment the customer wants may harm FP Ltd reputation. The customer might feel that FP Ltd do not care about their specific needs, and especially on the Asian market, where a humble attitude is vital to get acceptance, this might be devastating for the, so far, very good relationship between FP Ltd and their customers. Also, if the customer starts to get used to another supplier's equipment, we believe that this might increase the

---

<sup>161</sup> Minot, N., *Competiveness of food processing in Vietnam: A study of the rice, coffee, seafood, and fruit and vegetables subsectors*, p 106-107, 123, 1998

<sup>162</sup> Vice Director, Fish processor, Vietnam, 2007-03-29

possibility for the customers in coming investments to choose this equipment for processing seafood as well.

## 6.2 Short introduction of the situation in Thailand

In Thailand the customers are not as concentrated in one industry as in Vietnam, but the majority is in the poultry industry. The growth in this industry has, unlike the seafood industry, been less continues partly due to the avian flue (bird flue) that struck the Asian region. Until 2001, the average growth was about 17,5% over a period of 20 years.<sup>163</sup> After the bird flue in 2004, the industry has however stagnated with the same exports in 2006 as in 2005, about 280.000 tons.<sup>164</sup>

It should also be mentioned that the customers' interviewed in Thailand, except for one, are the largest ones on the market, making their view most vital.<sup>165</sup>

## 6.3 Decision making in South East Asia

Before our visit in Thailand and Vietnam we had the perception that the behaviour was quite similar in both the countries and that it would be differentiated rather for Asia versus other continents than for the separate countries. The findings did however show that the buying process was quite different also in the different countries and that it was more developed in Thailand than in Vietnam. It should however be emphasized that, in accordance with what Halbauer mentioned above, the ambiance in the entire South East Asia area has been affected by the Chinese culture that has pervaded the region with its strong background. The strong network environment and the *guanxi* that exists exemplify this. This is further discussed below within the field individualism versus collectivism.

### 6.3.1 Forces affecting the climate in South East Asia

As for the forces affecting the decision making in South East Asia there are some distinguishing issues to consider. The environmental issue is evidently different from the one in Europe due to a different history. As have been stated earlier in the report the history has been characterized by partly being controlled by families with an increased network through trust in relations. Although not all companies are family owned today, the mentality of doing business with people that you trust and have faith in, is still valid. Thus, the discussion of relationship management is important to have in mind when doing business in South East Asia.

---

<sup>163</sup> Costales, A, *A review of the Thailand Poultry sector*, Food and Agriculture Organization of the United Nations, 2004, p 2

<sup>164</sup> Preechajarn, S., *Thailand Poultry and Products Annual 2006*, GAIN Report, USDA Foreign Agricultural Service, Nr TH6086, 2006, p 8

<sup>165</sup> Service engineer, Thailand, FP Ltd, 2007-04-05

**Justifying high price with *Total Cost of Ownership* Awareness**

Possible or not on the South East Asian market?

Further, the organisational discussion is of value on the market of topic. In the theory, a difference is made for centralised and decentralised climate. Our empirical studies have showed that the culture in this region tends to be centralised to a rather broad extent. This is grounded in organisations being hierarchic by not giving their employees as much responsibility. The conclusion that can be drawn from this is that decisions, that are in focus in this report, mostly ought to be done high up in the organisation. There can however be influencers, discussed below, but maybe with less influence than in Western companies. This since the perception seems to be that decisions are made by having trust in the supplier, which requires a feeling for relations, often attained through many years of experience.

The same discussion can be held for the group force that is the third force. This level manage whether there is a strong group feeling at the company, meaning that decisions are made by group members from the entire company and thus not only by top management. As can be seen, this reasoning can be done in the same way as the organisational that is distinguished by the formal hierarchy giving the group force less influence.

The last dimension handles the individuals in the organisation. This means that it is vital for the marketer to understand whom it is making the decisions and thus who has the strongest influence. In Thailand that we consider have a more developed buying process then Vietnam, the individuals are seen to have more impact. The organisation is often more professional with more distinguished roles and therefore more responsibility. In Vietnam on the other hand, the process is less professionalized, giving lots of responsibility to people higher up in the organisation.

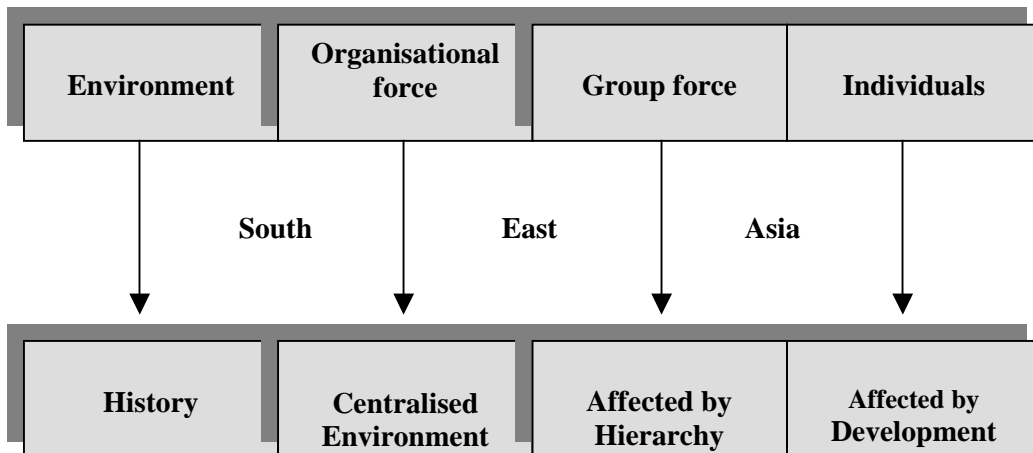


Fig 6.1 - Forces affecting buying behaviour on industrial markets as seen in Thailand and Vietnam

### 6.3.2 Decision makers in the South East Asian region

As have been seen in the theory regarding decision-making it is seldom done by a single individual but rather by a group of people. This means that even if it might be the general manager that has the final right to make the decision, he has been influenced a lot by staff surrounding him. Empirical studies in Thailand and Vietnam do partly correspond to this assumption where they mean that the final decision is made by influence from different divisions. The extent of this is however diverging, especially if comparing the information from Thailand versus Vietnam.

There is nevertheless always an official decision maker in the organisation that has got the authority to make the final decisions. If the company is private owned it is mostly the general manager (or the director depending on which country) that has got this power. If the government owns the company, as is the case in some Vietnamese companies, the supremacy lays with the state that also are the ones defining the plan that is to be used. In these cases, the technical team has the function of providing the government information. Hence, they are the ones conducting the investigation and do further give a suggestion of what solution they find applicable to the specific situation.<sup>166</sup> It should however be highlighted that the power distance in these situations can be rather evident. We did in our interviews, most of the times, have the chance to meet the Director together with the technical manager so that they could complement each other in the answers. The respect from the technical manager to the Director was quite obvious, especially when seen with western eyes like we did. Our reflection of this is that the consequence might be that the technical staff may bias the information to the director in order to suite his general opinion. This means that the decision making process may be less influenced by the entire “business centre” as Kotler describes, in the South East Asian region.

If the company furthermore is private owned, it can also be distinguished by whether it is a small business or a large one. This since if it is a rather small company, the power is often with the director (often also the owner). In these situations, the decisions made by the director are never questioned and the plant managers have little or no influence. They do however emphasize that it is the staff that possess the knowledge in many cases and that it can be rewarding to listen to them. Nevertheless, if the director feels that one solution is better, this is the final decision that no one wants to question.<sup>167</sup> If the company is smaller, we consider the buying process to be somewhat less professional as mentioned before and more based on simple assumptions.

Even if the above-described situation is more common in smaller companies, the pattern is to be found also in larger companies, above all in Vietnam due to the less developed environment. Since the process is limited in its professionalism, there does not exist any professional buyer in the organisation. The director of the company does

---

<sup>166</sup> Vice Director, Fish and Seafood Processors, Vietnam, 2007-03-27

<sup>167</sup> Deputy Director, Sea Product Processor, Vietnam, 2007-03-27

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

instead perform this function. The final decision maker is hence the director and the board of management at the company, although they to some degree listen to the staff. This means that they take advice from the technical department in order to meet the requirements that they might have.<sup>168 169</sup>

For the situation in Thailand it is however a bit diverse. Here, the buying function is more developed and has gotten more attention compared to in Vietnam. One of the customers puts together a team that consists of people from all departments including a quality team, engineers, maintenance experts, people from the production to evaluate if the equipment is user-friendly, R&D and finance people. The same customer has also got to receive approval from their head office in USA if the investment exceeds US \$150.000. This does also result in that the process has got to be more professional in order to base the investment on concrete facts. To therefore make a decision based on “a feeling” as is often the case in Vietnam is more rare but still dependent on the size of the business.<sup>170 171</sup> For one of the companies, a Thai poultry processors, the buying process was a lot more developed with standards for purchase project including vital KPI:s, clear gates and roles for the project members.<sup>172</sup> This was however an exception since it was the only one of ten interviews that had such a defined purchase process. The reason for this is according to us the above-described discussion of basing decisions on feelings rather than on hard fact, no matter the size of the company. They do instead of focusing on details rather try to get a holistic view of the purchase to be done.

In the model below that is collected from the theory chapter, identification is done of what sort of staff that is a part of the decision making in the South East Asian region. After that, every step is compared with those parameters that have been identified as vital in Asia, discussed below, in order to see where they have importance. This becomes vital when the decision makers are identified since it explains in a further way which parameters to focus on. To further simplify the analysis, we have done a “digital” categorization, where **1** stands for great impact and **0** for less impact. As can be seen, all the ones with great impact are people high up in the organisation, strengthening the theory that is only the Director and people close to him, having an impact on the decision to be done.

---

<sup>168</sup> Director, Fish and Seafood processor, Vietnam, 2007-03-30

<sup>169</sup> Vice Director, Fish processor, Vietnam, 2007-03-29

<sup>170</sup> Commercial Manager, Poultry processor, Thailand, 2007-04-03

<sup>171</sup> Factory Manager, Poultry Processor, Thailand, 2007-04-03

<sup>172</sup> Ibid

**Justifying high price with Total Cost of Ownership Awareness**

Possible or not on the South East Asian market?

Table 6.1 – Decision-makers according to empirical findings

1. **Initiators:** Often comes from the management that wants to purchase new equipment to suite new product demands from their customers. *Product handling (1)*
2. **Users:** Production staff. **(0)**
3. **Influencers:** Technical staff often distinguishes this. Our perception is that they do not have much influence in Vietnam. Slightly more in Thailand in larger companies. **(1)**
4. **Deciders:** What features that are of value are defined by the deciders. As we asked to meet “the decision makers” in the company and got to meet the Vice Director almost every time, they ought to be the ones categorized in this group. *Product safety, yield, uptime reliability and cost of maintenance (1)*
5. **Approvers:** The same as fore number 4. *Product safety, yield, uptime reliability and cost of maintenance (1)*
6. **Buyers:** This is identified as professional buyers. As have been described before, they do not exist in a wider extent in South East Asia. *Investment cost (0)*
7. **Gatekeepers:** We have not identified any of these in our empirical findings

It should however also be mentioned that the customer with a smaller turnover, also had a buying process less developed. There, the final decision was made by the owner and could also sometimes be based on a feeling. He does however collect information from other people in the organisation but not so much from the engineers or plant managers that are the ones often possessing usable knowledge concerning the benefits of the equipments in the everyday use. The power distance in this company was huge, and few in the organisation would dare to question the decision taken.<sup>173</sup>

The conclusion from above is that there exists an Asian style of decision makers where the Chinese style has made an apparent impact on the region. The decision makers are quite often a smaller group than in Western countries, due to the hierarchy and the power distance explained above. The decisions are often partly based on a feeling that requires lots of experience and knowledge in networking. As for the suppliers it is vital to be aware of these forces in order to suite their way of doing business. For FP Ltd this issue is reduced since they are using local sellers that are aware of the importance of being relation focused.

<sup>173</sup> Key Account Manager Europe, Poultry processor, Thailand, 2007-04-03

## 6.4 The impact of calculations in South East Asia

For the marketers at the selling company to make a right approach to the customer it is important to know how they reason when calculating for the purchase. All the respondents laid focus on the payback time but with different requirements on the length. One of the customers, from Thailand and the one with a professional buying process, did however mention other ratios such as Net Present Value. They were however the only ones doing so.

Regarding the payback time it was defined from, as the least, one year, to ten years. The results from the customers is presented below, where a comparison is done between Thailand and Vietnam.

Table 6.2 – Payback time in Thailand and Vietnam

Type of customer:	Payback time, year:
Seafood and Fish, Vietnam	10
Seafood and Fish, Vietnam	6
Seafood and Fish, Vietnam	4
Seafood and Fish, Vietnam	6
Seafood and Fish, Vietnam	N/A
Seafood and Fish, Vietnam	N/A
Poultry, Thailand	1
Poultry, Thailand	5
Poultry, Thailand	5
Poultry, Thailand	2

As can be seen in the figure, the averaged payback time is longer in Vietnam and shorter in Thailand. This may however also be dependent on the different industries the customers are operating in. It is therefore, according to our opinion, difficult to draw any conclusions from this especially since the payback time in Europe may differ in the same way.

The finance solution is mostly represented by a loan in the bank for all except for three customers,<sup>174 175</sup> since this is considered to be the most cost efficient way. As one customer put it: “ *We do it the Chinese way, never spend money*<sup>176</sup>. The reason for financing it through the bank ought to be, according to above described theory, as they consider that the money from the company can be spent giving a higher return. We consider the finance solution being important to consider if the interest rate in the

<sup>174</sup> Vice Director, Seafood processor, Vietnam, 2007-03-28

<sup>175</sup> Director, Fish and Seafood processor, Vietnam, 2007-03-30

<sup>176</sup> Key Account Manager Europe, Poultry processor, Thailand, 2007-04-03

## Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?

country is exceptional. This is since the equipment considered in this report is distinguished by being differentiated with the consequence of a higher price. Even if the customers is aware of the benefits of a differentiated solution, it might be a costly choice if the current interest of the country is high since the customer will have to take a higher loan than with the cheaper alternative. The interest in Vietnam is today (2007-04-16) approximately 8,25 %<sup>177</sup>, which should not be considered extensive if comparing to Sweden where it is about 7,50%<sup>178</sup> In Thailand it is about 4 %.<sup>179</sup>This means that this should not be an extensive disadvantage for FP Ltd.

### 6.5 Cost drivers impacting the choice of supplier

When customers invest in expensive equipment they do it because it is necessary for different reasons. The equipment discussed in this report is, as mentioned earlier, defined as large investments making their impact on the business extensive.<sup>180</sup> This means that companies have good reasons for investing. These reasons are according to us, vital to identify since they describe the driving force from the customer. It is further important to classify those running costs that are critical for the customer since they affect the choice of supplier.

The forms from the interviews showed that there were some parameters having a much greater impact than others. The customer where asked to grade the importance of a number of parameters from 1-5 where 1 = very important and 5 = not important. The result is being analysed below.

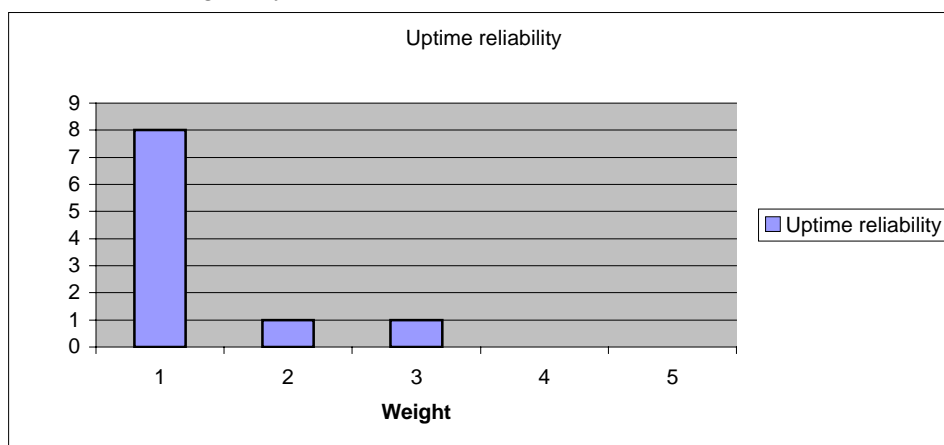


Figure 6.3 – Allotment regarding Uptime Reliability

<sup>177</sup> Chief of Representative Office, Country Sales Manager, FP Ltd, 2007-04-02

<sup>178</sup> Lars Öhberg, client executive, Swedbank, Trelleborg, 2007-04-15

<sup>179</sup> [http://www.bot.or.th/bothomepage/databank/FinMarkets/FinMarket\\_e.htm](http://www.bot.or.th/bothomepage/databank/FinMarkets/FinMarket_e.htm) --> Bangkok Interbank Offered Rate (BIBOR), 2007-05-03

<sup>180</sup> Holmes, 1997



### Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?

In the illustration above, the allotment of the answers regarding *uptime reliability* is shown. As can be seen, this parameter is vital for the customer. Eight of the respondents put this as “very important”, which made it the parameter containing most “number 1:s”. There are, for instance, some customers that have changed to FP Ltd as a supplier with the argument that they, with increasing production, had to secure the reliability and up time of the equipment in a better way.<sup>181</sup> It should however be emphasised that the information from the *interviews* did not put this parameter as the most vital one. Factors such as product quality and good appearance on the product are examples that were frequently mentioned.<sup>182 183 184</sup>

This is to be compared with the parameter called *operation cost*, which in Sweden is seen as important due to the high labour cost. The outcome from our investigation for this parameter is presented below. This shows that *operation cost*, in particular compared with the *uptime reliability*, is significantly less important for the customer. This is mostly explained by the fact that the labour cost is considerably lower in Asia than in the western countries.<sup>185</sup> According to research, the labour costs stands for approximately 10 % of the value of the final product. This is to be compared with costs for raw material that accounts for about 80 % of the value.<sup>186</sup>

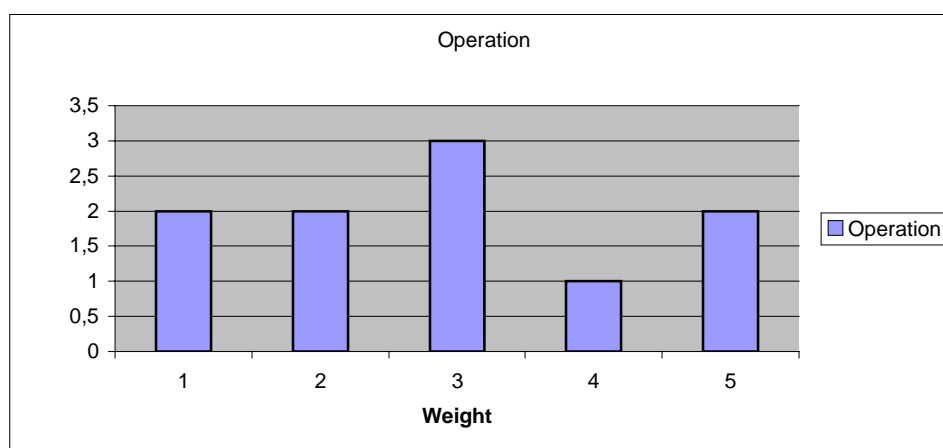


Fig 6.4 – Allotment regarding operations

We did however also find it vital to investigate the weighting between the parameters; what does the prioritising looks like? I.e., if they have got to choose between the parameters, which ones are the three most important? This is important since it might

<sup>181</sup> Deputy Director, Sea Product Processor, Vietnam, 2007-03-27

<sup>182</sup> Director, Fish and Seafood processor, Vietnam, 2007-03-30

<sup>183</sup> Vice Director, Fish and Seafood Processors, Vietnam, 2007-03-27

<sup>184</sup> Vice Director, Seafood processor, Vietnam, 2007-03-28

<sup>185</sup> Key Account Manager Europe, Poultry processor, Thailand, 2007-04-03

<sup>186</sup> Minot, 1998, p 104, 121

### Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?

show how they reason when the situation becomes critical and there are just a few things that are seen as vital.

The findings show that out of thirteen parameters only seven are in the group of the three most important parameters. This indicates that there is a trend in what customers in Asia consider being vital. The allocation of the remaining parameters is however relatively spread as can be seen in the figure that is illustrated below in figure 6.5.

We find it of importance to consider that the names of the parameters might be misleading. To assure that this would not affect the reliability of the answers, a short explanation of all the parameters were also presented in the form.

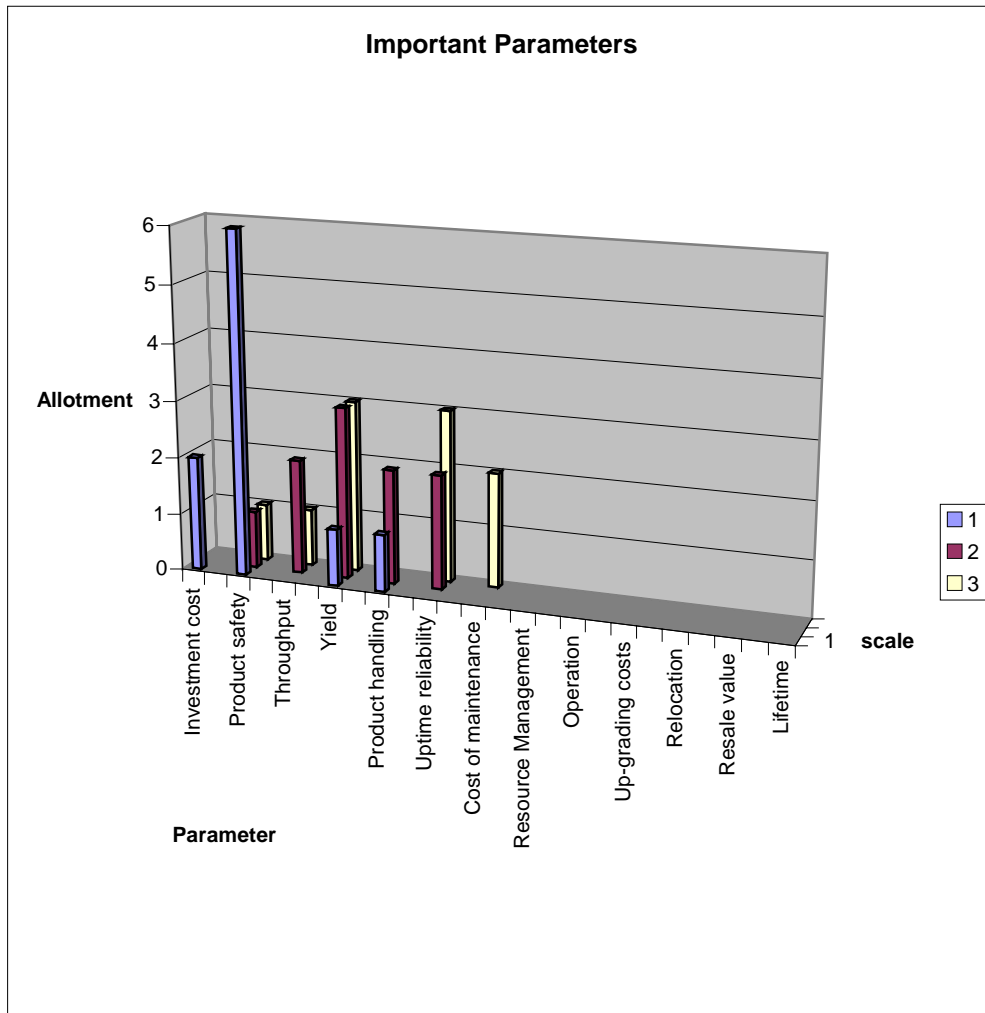


Fig 6.5 – Distribution of all the answers collected

### Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?

To be able to interpret the data from this in a better manner, a weighting has been done for the answers “1, 2 and 3”, where:

$number1 = value3$

$number2 = value2$

$number3 = value1$

Giving the following results:

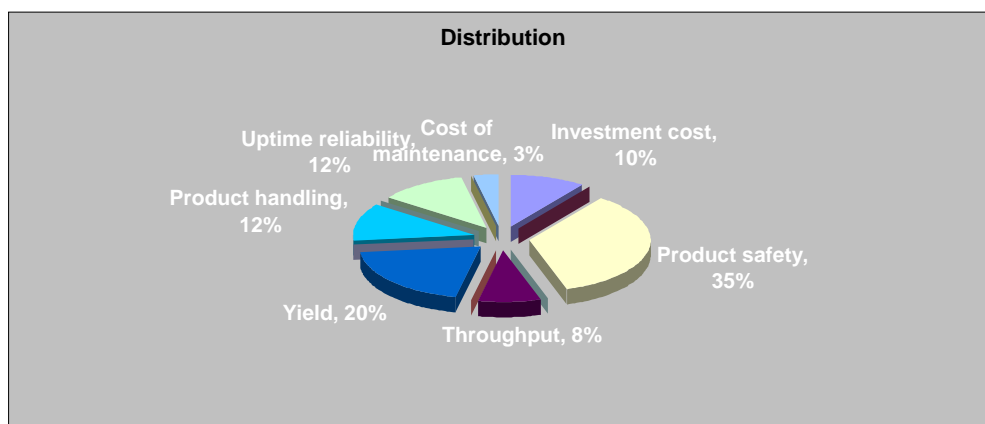


Figure 6.6 – Allotment of all the answers collected

#### 6.5.1 Parameters included in the top three choices

##### Product Safety – 35 %

Products safety is in the answers seen to be the most vital parameter for the customers. This can easy be understood, if seeing to the demands they have from their customers. If unwanted bacteria is found in the end product the supplier could loose a good reputation within minutes. It should however be mentioned that the customers in the *interviews*, not highlighted this factor when asking them to spontaneously tell us about what they consider in the buying process. We believe that the diverged answers can have two causes. First, *product safety* might be a parameter that is not given focus in the buying process, since it is a basic demand. The customers would probably not even consider a supplier if he/she was not convinced that the supplier could meet this demand. The other reason for the diverging answers is that the customer tries to show one side to the supplier but when it comes to business they act different. All information from the company has got to be “correct” in order to put the company in a good light. Obviously, they have got to put *Product safety* as the number one parameter to consider since that is what their customers and the end consumers care about the most. As for the company itself that has a single goal to make money, parameters such as *yield* and *uptime reliability* should be seen as the most vital.

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

Hence, the result from the forms in combination with the interviews seems quite logic.

#### **Yield – 20 %**

This parameter were put focus on both during the interviews and in the results from the forms. As a parameter that have great impact on the weight loss of the product it hence directly influence the sale since the products often are sold per kg. Sophisticated types of freezing offers less dehydration. For the customers we have spoken to, all were very satisfied by the yield in FP Ltd's equipment. The good yield they could achieve in FP Ltd's equipment was one of the reasons why they had chosen FP Ltd as a supplier.

#### **Uptime Reliability – 12 %**

As seen above, Uptime Reliability was the one parameter getting most “numbers ones” when asking the customers to grade the parameters, which was in line with FP Ltd's perception. When however having to choose the three most important parameters from the form, Uptime Reliability was not seen as the most important parameter. This can be explained due to the discussion above, where the customer has to be careful in which information that goes out of the company.

#### **Product Handling – 12%**

The product handling is something that has been put a lot of focus on during the interviews. The product handling reflects all aspects influencing the mechanical handling of the product in the equipment, thereby having an effect on the quality and output, where product appearance is highly important. Most of the customers emphasized that the most vital thing that they consider when investing in new equipment is that the equipment is suitable for their products. The initial need for new equipment is often based on that the company will change their product range and are therefore in need of equipment that can make this as good as possible.<sup>187 188</sup> This can be further explained by the dilemma in Vietnam, where FP Ltd do not offer the equipment the customers find most suitable for their products according the product appearance.

#### **Investment cost – 10 %**

What we believe to be one of our most interesting findings during the interviews was that the investment price was getting very little focus. This can further be emphasised when seeing to the results of the forms, where the investment cost only got 10 % total. One reason for this might be that the customers in Thailand and Vietnam almost export all their products to Europe, USA and Japan, where the quality standards are very high. To be able to meet this demand they foresee the higher investment cost and in order to be able to supply the best products according to product quality. It may also imply that the customer in Thailand and Vietnam posses' good knowledge about the importance of high processing standards, as for the fast freezing time discussed in

---

<sup>187</sup> Deputy Director, Sea Product Processor, Vietnam, 2007-03-27

<sup>188</sup> Vice Director, Fish processor, Vietnam, 2007-03-29

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

chapter 3. The conclusion of the little attention given to the investment price, is that the customers in this industry in this region do not put focus on the initial price but rather on factors that affects the business after running for some time. Hence, the price sensitivity mentioned in our problem discussion, have shown not to be as extensive as our initial beliefs. Further we believe that the importance of relations implies that less focus is given to the investment price. The importance of a good relationship is further discussed below.

#### **Throughput – 8 %**

The perception employees at FP Ltd had of their customer's reasoning is that they tend to focus more on throughput then on product safety. From our research in Thailand and Vietnam, we can however prove that this is not the case in these countries. We believe that throughput is not seen as a very important parameter since the customer in Thailand and Vietnam do not possess much knowledge of effective process planning. If they need to increase the production capacity they rather tend to buy another piece of equipment rather than see to that the one in their possession already operate on full capacity.<sup>189</sup> This lack of knowledge, or maybe focus, on effective process planning can further be emphasised by the fact that the whole factory often is turned down during lunchtime, rather than people working different shifts.<sup>190</sup>

#### **Cost of Maintenance – 3 %**

Maintenance of the equipment is often costly. As described above maintenance should be divided in two different tasks, one that is repetitive and the other more irregular. For the repetitive tasks the customer are satisfied with the equipment from FP Ltd. However, when it comes to spare parts and service they are not as satisfied given the high marginal FP Ltd takes on the spare part. On the other hand, one has to take the long lifetime on the spare parts in consideration, once again emphasise the importance of a *Total Cost of Lifetime*- thinking.

### **6.5.2 Parameters not included in the top three choices**

#### **Resource Management**

Even though Resource management was not chosen to be one of the three most important parameters of any of the customers, it should be mentioned that is occasionally has been mentioned during the interviews. What the customers then had in mind is the energy consumption. However, the focus towards energy consumption has purely to do with the energy costs. For the western countries focus on energy consumption is also an environmental awareness. When asking in Thailand and Vietnam about if they considered the environmental issues, none of the customers said they did.

---

<sup>189</sup> Key Account Manager Europe, Poultry processor, Thailand, 2007-04-03

<sup>190</sup> Application Manager, FP Ltd Thailand, 2007-04-17

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

#### **Operation**

As above discussed, operations is not anything considered in Thailand and Vietnam according to the low labour cost in the countries.

#### **Up-grading cost**

We believe that there are two reasons to why Up-grading is not something the customers take in consideration when making an investment. First, as has been described above, the customers chose not to calculate on a lifetime on the equipment of more than five years, and with this perspective, Up grading will probably not be necessary. Moreover we believe that the lack of interest in this parameter depends on the little knowledge they possess in effective production planning, as they rather tend to buy new equipment than to optimise the use of the existing ones.

#### **Relocation**

That relocation of the equipment is not a parameter of value for the customers in Thailand and Vietnam is not very surprising. Factories are seldom moved and therefore relocation of the equipments is not necessary. Both Thailand and Vietnam are countries that still have a lot of land still not built upon, which makes the relocation further unlikely.

#### **Resale Value**

The resale value is probably not important to the customers since they believe that they will keep the equipment during its lifetime. However we have identified the Resale Value as a parameter that should be given focus during the sales process. Since the customers in Thailand and Vietnam tend to be unwilling to calculate on lifetime on the equipment longer than five years, FP Ltd should have great advantage by being able to guarantee the customer that they will re-buy the equipment after these five years according to a fixed price. This would eliminate some of the uncertainty the customers face when making a big investment.

#### **Lifetime**

That more focus is not paid to the lifetime of the equipment came as a surprise to us. Especially since this is one of the biggest advantages with FP Ltd's equipment, and hence a way for them to justify their higher price. However, during the interviews we found out that the many of the customers probably did not know about the longer lifetime FP Ltd offers on their equipment. Only the customers that had had equipment from competitors and then chosen to return to FP Ltd's equipment talked about FP Ltd being superior in the issue. The other customers, also using competitor's equipment, had not had them long enough to be able to draw any conclusions.

#### **6.5.3 Findings not considered in the forms**

We did during our interviews find that the good reputation from FP Ltd seemed to have a rather great impact. Since most of the exports are for western countries with high demands on quality, it is seen to be important for the industrial buyers to show their customers that they are equipped with high quality machines. Thus, company

reputation is seen to be a vital parameter to consider as well when analysing the decision making process on this market. This does, according to Batt, increase the possibilities for a successful differentiation, which also is FP Ltd's purpose. We do therefore think that this is one of the reasons that FP Ltd may have a good base to rely on.

## **6.6 Relations and loyalty – overestimated terms?**

Since the market is characterised by companies making large investments that are suppose to last for many years, the relation between the buyer and the seller ought to be vital. This topic is discussed in the theory of relations on industrial markets where Salin and Nayaga means that this specific market requires a good relation in order to be superior. It is however difficult to quantify and therefore difficult to put a number upon. The relation between the parties is vital where a well comprehension between them is important. There may be difficulties when trying to reach understanding due to cultural aspects. This has however been solved at FP Ltd by only using local sellers, familiar with the market and culture.

### **6.6.1 What is in it for the customer**

The reason for companies on the Asian market to choose a differentiated supplier with a higher initial price is often that they are familiar with the brand of FP Ltd that in associated with high quality.<sup>191</sup> Thus, their way of making business corresponds well to the theory of AIDA where the aim from the supplier is to create a feeling that can make the customer pay a higher price. They do accordingly have an initial trust of the supplier. This is partly based on references that they have gotten from other users of the equipment. Further, Salin and Nayaga emphasize the consistency for a buyer of using one supplier that they are satisfied with rather than focusing on technical competence and financial stability and therefore seeking new alternatives. FP Ltd does however partly compete with the technical knowledge but we consider the theory to be applicable since it agrees with our empirical studies. Buyers that reason like this when they consider investment alternatives do often realise that it might take some time before the equipment can be credited. The customer that highlighted the relationship the most and the importance of being loyal did also have the longest allowing payback time. They did in their reasoning use the phrase "long term" very frequent.<sup>192</sup> A relation is identified by the parties knowing each other rather well, which is a result of a quite time consuming process. Hence, we find it logical that there is a correlation between the payback time and how the customers value the relationship with the supplier where a longer pay back time has a positive correlation with putting great value into the relationship.

But what is the value for the customer in this market of having a good relationship with the supplier? One of the customers did for three years use equipment from a

---

<sup>191</sup> Vice Director, Seafood processor, Vietnam, 2007-03-28

<sup>192</sup> Vice Director, Fish and Seafood Processors, Vietnam, 2007-03-27

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

local supplier that they after that time found insufficient. Thus, they changed supplier to FP Ltd in order to increase the capacity and the product quality. They did however also emphasize that one of the great advantages with using FP Ltd as a supplier instead, was the fast providing of service when needed.<sup>193</sup> They also explained about the benefit of FP Ltd and that FP Ltd came to visit them on a frequent basis just to make sure that everything works well. The sales representatives in Thailand and Vietnam go to visit their customers almost once a month, even if there is no specific reason, except to maintain the relationship. This also includes the customers that have left FP Ltd in favour of their competitors. This strengthens the theory of differentiation by relationship, where a good relation is seen as a competitive advantage. By being proactive, FP Ltd hence gains added customer faith.

#### 6.6.2 Relationship statistics

Eight of the interviewed customers mention the relation with the supplier as an important factor to consider. The other two customers, one in the seafood industry and one in the poultry industry, mean that a good relation is positive but not a vital factor.<sup>194 195</sup> Apart from that they explicitly said that it was not considered important, it can be explained by that they constantly seek new better alternatives to make the purchase more efficient. This means that they do not see loyalty to a certain supplier as necessary.

This should be compared to the other eight customers that on the other hand aim to find suppliers that they can have a good relation with. One of the customers did even say the following when asked about the relation with the suppliers: “*We do not see our supplier as suppliers, we prefer to see them as partners*”. This was further shown in his open manner to speak about how they reasoned in a buying decision and that he was not afraid of giving too much information away.<sup>196</sup> When analysing this, theories of *intra* versus *inter* organisations should be kept in mind. Inter organisational means that focus for companies in the supply chain is set on the chain rather than the single company and that a good relation improves the chain. We do however think that the extensive focus on relations in South East Asia not can be connected to the will of strengthening the supply chain. It is rather explained by the history of doing business where a possible good relation is considered as competitive since they can have trust in the supplier. One of the other customers explains that they want to find the best supplier on the market considering those parameters that they find vital. They do however in addition discuss that when they have found a good supplier that can live up to those demands that they have, they rather aim to stay loyal to that supplier so that they can improve the relation and use the advantages of that.<sup>197</sup>

---

<sup>193</sup> Deputy Director, Sea Product Processor, Vietnam, 2007-03-27

<sup>194</sup> Director, Fish and Seafood processor, Vietnam, 2007-03-30

<sup>195</sup> Vice Director, Fish and Seafood Processor, Vietnam, 2007-03-28

<sup>196</sup> Commercial Manager, Poultry processor, Thailand, 2007-04-03

<sup>197</sup> Vice Director, Seafood processor, Vietnam, 2007-03-28



### 6.6.3 Loyalty in South East Asia

Consequently, it has above been discussed partly those customers that do not see loyalty as something important, and partly those that consider it but still have their eyes open for alternatives. The third part is those that consider FP Ltd to be the preferred supplier meaning that they come to FP Ltd when they want to have new equipment.<sup>198 199</sup> One of the customers, a Vietnamese seafood processing company, says that FP Ltd is their first option when they are in need of new equipment. This means that they come to them when making a new investment to see if they can meet their needs. This customer puts great value in cooperating with a supplier that possess a lot of knowledge in their products and with that, their specific needs. They mean that it takes a lot of time to build up a good relationship like the one they have with FP Ltd that has developed through many years of close collaboration. When seeing the relation from the outside as we had the opportunity to do, it seemed very obvious that both the parties were working hard on the relation, meaning not only the supplier. This was exemplified when we after the meeting with the Director all went for a very expensive lunch together that the customers paid for. This implicates that also the customers have great interests in maintaining a good relationship with the supplier.<sup>200</sup>

Our perception is that the relation does have a rather great impact in Asia. Another example of this is that the salesman from FP Ltd, were very keen on sending wishes to the customer and his family, hoping for good business and healthy lives. When we asked the interpreter to express our gratitude to the customers for taking time to meet us this was done in the same manner, by him sending our best wishes to the customer's family and wishing them a healthy and successful life. This agrees with the theory of business in Asia where it is seen as vital not to only speak of business but also to understand each other on a private level. This since it is important for the customer to have the right feeling with the supplier so that they know they can trust them.

Hence, the relation acts as a factor when doing business in Asia. According to Hofstede, there are five dimensions to consider when analysing cultural differences. One of them is the distinction of the society being individualistic or collectivistic. The Asian society is according to his studies more collectivistic, meaning that they do business by having trust in people in their surroundings. This means that they rather search for people that they trust in order to reduce the number of calculations. This is to be compared with the Western companies that rather base their decisions on thorough calculations so that they have hard fact to lean back on when making the purchasing decision. We consider this to agree with our experience of decision making in Thailand and Vietnam. Except for one customer, all the decisions were based on only one calculation method, which was the *payback* method as can be

---

<sup>198</sup> Vice General Director, Seafood Processor, Vietnam, 2007-03-29

<sup>199</sup> Commercial Manager, Poultry processor, Thailand, 2007-04-03

<sup>200</sup> Vice General Director, Seafood Processor, Vietnam, 2007-03-29

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

studied above. One customer did complement the *payback* time with *Net Present Value* but it was a part of a new project that was only initiated three months ago. The Asian people do most certainly ensure that they have some sort of calculations to rely on but it is probably not the factor that has the largest impact. Thus, to be a preferred supplier in South East Asia, one has got to put effort on building up the relation.

When acting on a market where customers are being more collectivistic, the customers consequently act more loyal. This can of course be both positive and negative for the supplier if they are not the preferred supplier. It is however important to consider and being aware of when doing business. As Hutt and many other authors in this field discuss, the kind of purchase that is to be done is vital to consider. That is, the distinction of “new task”, “modified re-buy” and “straight re-buy” is of most value to carry out. If the assumption of loyalty on the Asian market is correct, especially “the straight re-buy” is of importance to have in mind. Being a preferred supplier ought to be very vital. It is of course always important to be preferred, but on a market that puts great value to relation issues, the cost issue may be considered on second place. The relation might have an impact to that extent that it can increase the differentiation for the supplier, in this case FP Ltd.

#### 6.7 Does the *Total Cost of Ownership* thinking exist in SEA?

As have been seen above, there are several aspects to consider when analysing the *Total Cost of Ownership*. Theory in the field suggests that other costs than just the initial investment cost is to be considered in order to be as accurate as possible. These factors are often more difficult to spot initially and does therefore demand a more sophisticated way of thinking. The parameters may be complex to identify initially but are seen to be very valuable according to Ferrin et al.. Ellram et al. discuss that there are many activities related to the purchase even though many of them may not be as obvious initially. More abstract activities such as communication and service are among other things highlighted as vital to consider. Ferrin et al. do in their article develop this by pointing out many factors that they categorize as affecting the *Total Cost of Ownership*. These are, as described above, collected from companies making purchases on the industrial market. All together they sum up to 134 factors but categorized in thirteen groups and with a wide range of fields. When analyzing these, we find it possible to pick out numerous parameters that, even though with different names, correspond to issues from buyers on the food equipment market in Thailand and Vietnam.

In the figure below a comparison is made of our empirical findings and the parameters that customers found vital for *Total Cost of Ownership* in the investigation of Ferrin et al. Those parameters that are highlighted are the ones that customers saw as vital according to the figures above of prioritizing complemented, with information from the interviews. Again, we would like to emphasize that the investment cost that also is considered by Ferrin et al. only comes up to 10 % by the customers that we interviewed.

**Justifying high price with *Total Cost of Ownership* Awareness**

Possible or not on the South East Asian market?

Table 6.3 – Total Cost of Ownership parameters highlighted in the empirical findings

<b>Parameters, food equipment Market, Asia</b>	<b>General research Ferrin et al.</b>	<b>Category</b>
• Uptime reliability	Customer downtime	Quality
• Service	Service	Supplier Reliability
• Trust & Faith	Trust	Supplier Reliability
• Flexibility	Capability to grow	Supplier Reliability
• Product safety	Cost of quality Quality improvement	Quality Quality
• Innovative	Long term advantage	Tech. Advantage
• Relation orientated	Team costs Supplier support	Supplier reliability Supplier reliability
• High Quality	Long term usage	Life Cycle
• Life time	Life of product	Life Cycle
• Yield	?	?
• Delivery time	Delivery time	Logistics

Our interpretation of the information from above is that there exist costs thinking at the South East Asian companies where they consider the investments in a long time perspective even though not to a full extent. When analysing the diagrams above, it is however mostly the factors such as yield and uptime reliability that is highlighted but they should be complemented with parameters such as relation orientated and innovative that have been mentioned frequently during the interviews. Information from the open interviews did nonetheless emphasize that the relation issue was of great importance,<sup>201</sup> meaning that once they have a supplier that they are satisfied with, they value the relation a great deal. Thus, one may say that the aim from FP Ltd to be differentiated is fulfilled by having good relations with the buyers on the South

<sup>201</sup> Vice Director, Fish and Seafood processor, Vietnam, 2007-03-28

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

East Asian market. When asking the customers about the most important parameters, the investment cost is far from the highest one with its 10%. The parameters presented in the figure above are rather seen as vital, which in the theory of *Total Cost of Ownership* are seen as important to consider.

It is nevertheless necessary to draw the right conclusion from the categorization above. The important findings are not some specific parameters that indicate a *Total cost of Ownership* thinking. It is rather that a long-term thinking is distinguished by taking many parameters in consideration where its extreme is to solely consider the initial price. Common for all the authors in this field is that many aspects has got to be kept in mind, even those that are indirect such as communication that are difficult to quantify. By considering these aspects, the buyer ought to show a more, according to us, sophisticated way of thinking.

Further, the payback time in Thailand as well as in Vietnam does according to us indicate of an insight that a large investment might need some time before it can be profitable. This means that they ought to be willing to pay a higher initial price in order to make it efficient in the long run. It is here important to add that Thailand and most of all Vietnam are countries with a poorer economy meaning that they have less money to spend.<sup>202</sup> This should mean that they would be more dependent on having a fast payback, which seems not to be the case. Many of the customers have also mentioned that they consider the brand being of importance since it indicates good quality to their customers. This emphasizes the theory of creating a good feeling as important when managing differentiated products. Hence, it ought to be applicable in the food equipment industry in Asia.

## 6.8 Hofstede's Dimensions in Reality

Even though Hofstede's dimensions have been discussed integrated in the chapter above, we believe that some findings should be further highlighted.

### **Power Distance**

As stated above, the Power distance in the organisations we had chance to visit was mostly visible. However we find it important to emphasise that, according to Hofstede's definition the Power distance is something just as much created by the subordinates as by the boss. One example of this is when me went to visit the different factories. The workers we went passed all demonstrated the extent of the Power distance, by not daring to have eye contact with us and by bowing as we went passed. We believe that we by no attempt ourselves created this situation, but since we where accompanied by a person often from top management, they wanted to show us great respect.

It should also be added that the power distance was noticeable also on a general basis. We got to experience this, especially in Vietnam, where the physical distance always

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

was present during the interviews in order to highlight that difference in rank. When having the interviews we always sat on one end of the table and the respondents on the other end, often several meters away.

The great Power Distance that we have identified, might affect the “collectivism” meaning that even if the decisions are to be taken on group consensus, the opinion from the subordinates, if being questioned, is in our belief modified to go hand-in-hand with the bosses opinions.

#### **Uncertainty Avoidance**

We believe that technology is the way for the customers in Thailand and Vietnam to cope with the uncertainty they are facing when making a big investment. As FP Ltd has the best reputation on the market regarding high quality equipment, we have identified the Uncertainty Avoidance as one of the reasons why customers chose to buy from FP Ltd. Since FP Ltd also is known for giving quick and good service, this also reduces the uncertainty for the investment. Further the focus on avoiding uncertainty as we have identified in Thailand and Vietnam, can be a reason why the parameter Uptime Reliability is given so high scores in the forms. Another way to reduce uncertainty is to secure that the relationship with the supplier is good. That a good relationship is highly valued in Thailand and Vietnam has been discussed above. Also in a *guanxi*-influences society, the uncertainty is seen to be reduced by belonging to the right networks.

#### **Individualism / Collectivism**

Even though, as discussed above, we believe that the rather big Power Distance is restraining the collectivistic approach in organisation in Thailand and Vietnam, the collectivistic stand can still be seen in the organisations. One example to emphasise this is the tendency not to base the investments on thorough calculations that have been identified in the empirical research, where the pay back time is mostly the only method calculated on. As our empirical findings have shown, the loyalty of the customers in Thailand and Vietnam are mostly very strong, an aspect that correlates positively to a high degree of collectivism.

#### **Masculinity / Femininity**

Regarding this parameter we have found it rather difficult to draw any conclusions according to our empirical research. However, we believe that, given Thailand having a more masculine orientation than Sweden, FP Ltd’s equipment might be seen as a show-off. Since Masculine societies is said to have a materialistic focus, equipment using the latest technology is something highly valued. As many of the customers have highlighted, the FP Ltd brand is something connected to superior quality, and the actual brand logo is something they put value on being able to show people coming to visit their factories.

### **Long-term / Short- term orientation**

The Long-term orientation that Hofstede has identified for South East Asia, can also be found in our empirical findings. Even though the findings have shown that customers are unwilling to consider lifetime longer than five years in their calculations, the long-term focus is strongly visualised by the great focus on good relationships. That countries having a long-term orientation tend to act according to virtue, is a finding we also have identified in our empirical research. The loyalty is, as priority discussed, very strong toward the supplier. Long-term oriented societies do not believe in the absolute true or false, instead, what is true or false is highly connected to the circumstances. Again, this enlightens the focus on relationship, where a good relationship can create circumstances that makes the supplier the preferred one. Further the long-term orientation can be proven by the little focus given the investment price. The long-term orientation also indicates that a *Total Cost of Ownership*-thinking exists. That the moral also is a key concept can be explained by *guanxi*. The *guanxi*, loyalty and long-term relation are aspects that are strongly correlated.

As can be seen in the discussion above, the great focus on relationships is no surprise. As we have identified both Thailand and Vietnam as being collectivistic, trying to avoid uncertainty and having a long-term orientation, these aspects are all met by having a good and stable relationship to a supplier.

### **6.9 Is a *Total Cost of Ownership*-model of any use in South East Asia**

As have been shown above, *Total Cost of Ownership* thinking does according to exist in South East Asia. Though, it is not fully developed to the extent that is preferred for a company like FP Ltd competing by differentiation and a long-term thinking. Since their aim is to attain a long-term thinking with the customer, *Total Cost of Ownership* thinking ought to be preferable.

We have earlier in the report stated that, according to the requirements that are to be fulfilled for *Total Cost of Ownership*, the South East Asian customers seem to have a thinking that gives good conditions for this kind of discussion. We do however think that in order to make the thinking fully developed, a tool has got to be used aiming to converge the selling company's way of thinking with the customer's way of thinking. Our aim with this report was partly to identify the gap between the seller and the buyer, which we consider have been done in the initial part of this chapter. The secondary purpose was to analyse if it is possible to develop a model to be used in the sales process in order to get a mutual understanding between the seller and customer. We believe that a model can work as that necessary tool where the supplier "helps" the customer to understand the real costs related to the investment. The South East Asian customer does surely already have a long-term thinking but it needs to be put on paper to make it more obvious.

**Justifying high price with *Total Cost of Ownership* Awareness**

Possible or not on the South East Asian market?

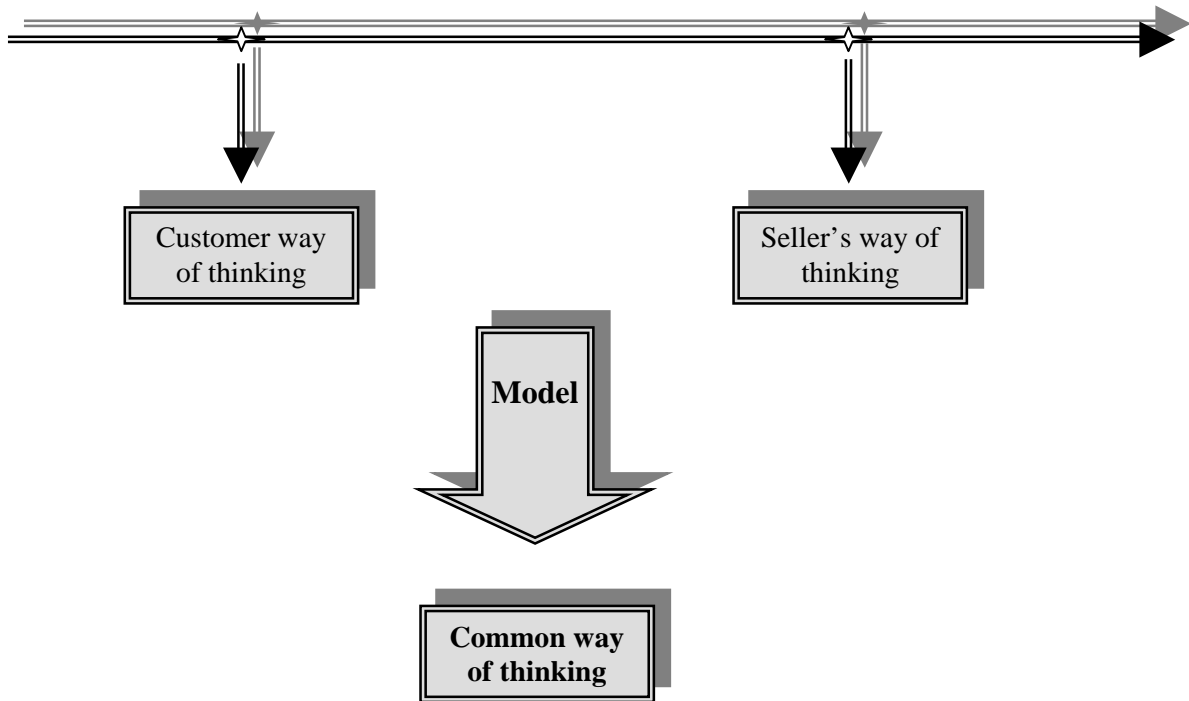


Fig 6.8 – Joining the perceptions together

As shown in the figure above, the purpose with a model is to achieve a mutual understanding, converging the language of the customer with the language of the selling company.

It is in addition vital to remember that the model that is to be used, will not be reflecting some of the most vital parameters discussed in this chapter due to the quantitative layout of the model. As has been concluded, the relationship issue is a great part of the long-term thinking, which is complex to consider in a model showing the accumulated cost over time since relation has a soft character. Thus, this has got to be kept in mind when using the model. It is of extra value on a market like the Asian with decision makers that are characterized by not being rational but rather emotional.

Having this in mind, we think that a model can work as a good tool as a complement in the sales process. Especially since the purpose will be to highlight those things that the customer already think of, but might not be aware of the extent of.

## **6.10 Summary**

We have in this chapter aimed to show those interesting findings that we experienced when visiting industrial buyers on the South East Asian market where some of them have shown to be somewhat surprising. No further summary of the findings will however be presented here, instead they will be discussed in the conclusion in chapter 7.



## 7 Discussion and Conclusion

---

*In this chapter the conclusions are presented along with suggestions to further research within the field*

---

To be able to answer whether the *Total Cost of Ownership* thinking exists in South East Asia, we believe that there are several aspects that have got to be discussed. We have identified the cultural aspects having great influence of the Asian way of doing business. It should therefore be kept in mind when reading our conclusions, that it is the cultural aspects that pervade our findings discussed below.

The first issue to be considered when analysing the buying behaviour is to identify who the decision-maker is. Our finding shows that there is an obvious hierarchical organisational culture in the companies we have been able to visit. This implies that the final decision makers have in most cases been people high up in the organization, often the Director or Vice Director, as a result of the organizations often have been characterized by being rather centralized, giving little responsibility to other parts of the organization. The consequence of this is that the parameters that become vital are the ones that these people find essential. Hence, often factors with a more holistic view rather than specific and detailed technical issues, stands as a base for the decisions. In lack of detailed knowledge, the decisions tend to be based more upon a feeling, given further wind in one's sails of the non existence of a "rational man" on the Asian market.

Our perception when facing the Asian market was that it was characterised by a short term focus, that hence would have a bad impact on FP Ltd's sales, given that they compete with equipment which cost structure are based on a long term focus. Our findings, however implicates that a more long-term thinking exist on the Asian market. Further strengthening this belief, is the little focus given the investment cost. This implies that the *Total Cost of Ownership*-thinking ought to be suitable on this market.

The importance of good relations in business to business is hand in hand with the long-term focus, since both of them indicates that a wider cost perspective exists. Our conclusion is that a good relationship is vital for even being considered doing business with. Thanks to that FP Ltd uses local sales men that are well aware of the importance of relationship, the maintaining of the relationship is assured. When a good relationship is established, it is most likely that it continues being a good relationship, since loyalty is a crucial parameter on the Asian market. Thus, on markets where the buyer concerns about the relationship with the supplier, we consider a more extensive perspective to exist that according to us improves the conditions for the *Total Cost of Ownership* awareness.

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

The most vital cost driver for the customers in Thailand and Vietnam is Product Safety, Yield, Up-time Reliability and Product Handling. These cost drivers diverge from the perception of FP Ltd that thought the Throughput and Investment cost were the most vital within this market. However, we do not believe that it is the specific parameter that is of importance, but rather the number of parameters the customer have shown to consider, including indirect and non-quantifiable parameters such as *relation* and *company reputation*. As well as for the above-described factors, the thinking of cost drivers indicates that there exists a cost thinking that goes beyond the more evident initial parameters.

The little focus given on the Investment cost implies that the customers already has moved the focus from initial price to total cost. This is favourable for FP Ltd, since they have a higher initial price then their competitors. Since the customers' way of thinking however often tends to be based on a feeling, there can nevertheless be a benefit of visualising this issue to the customer so that they have the option also to have more hard fact to rely on. Given all the parameters that affect the lifetime cost of the equipment, we consider a model that can help the customer and supplier to, with a common language, receive a mutual understanding both for what parameters the customer values when making an investment, but also to prove why FP Ltd's equipment is the superior in these issues.

With the above thinking in mind we would like to give the reader a summary of our findings:

- Buying decisions on the South East Asian industrial food process market are in general done by the Director or someone close to him, where the decisions tend to be based on a feeling.
- We have found the time perspective to be long-term oriented rather than short-term, which was the contrary of our initial beliefs that were based on the description from the European office.
- The importance of relations in South East Asia is evident which we consider to be strongly correlated to the thinking of *Total Cost of Ownership*. The relationship thinking proves a wider approach of cost analysis.
- We have proven that the investment price do not matter to that extent that was initially considered which we believe strengthen the thinking of *Total Cost of Ownership*.

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

- Finally, even if the decision making style in South East Asia is characterized by being somewhat conservative with the hierarchy of decision makers, we consider the way of taking many circumstances in consideration, to prove a sophisticated way of *Total Cost of Ownership* thinking.

## **7.1 Further Research**

We have identified that a *Total Cost of Ownership* awareness exists when FP Ltd's customer in Thailand and Vietnam make big investments. However, these findings are mostly based upon existing customers for FP Ltd. Hence these customers have already made the choice to pay a higher price for the equipment. It would be interesting to make further research into whether or not the *Total Cost of Ownership*-thinking also exist for the buyers settling for good enough options.

One of our most interesting finding was that the perception that employees at FP Ltd had about the extended price sensitivity on the Asian market turned out to be over estimated. Price was not one of the main parameters considered by the customers in Thailand and Vietnam when making a big investment. Since the customers we have interviewed are exporting their production, the quality demands on the products are very high, why product safety becomes one of the most vital factors to consider. Further research in this field would be interesting, in order to see if the same pattern is to be found in other industries then the food processing industry, where quality may not be such an important issue.

Moreover, we have identified the cultural aspects to have major impact on the way of doing business in Asia. This can be compared to Haugland's investigation where he came to the conclusions that the extent of the impact of the cultural aspects where not very big. As his research handled standard products that do not imply business-seller interaction to the same extent as the customized products we are handling, this might be the explanation of the rather diverging findings. However, we encourage further research in this field where to draw the line whether the impact of the cultural aspects are vital or not.

This research has been made with the Thai and Vietnamese market in focus. It would be of interest to see if the findings are the same on the rest of the Asian market, as we have learned that the different countries diverge a lot also within Asia.

## 8 References

### 8.1 Article

Batt, P., *Relational quality: further evidence of a single higher order construct in an industrial market*, Interactions, Relationships and Networks: Strategic Dimensions, Proceedings 17th Annual IMP Conference, Oslo, Norwegian Institute of Management (BI), [www.bi.no/imp2001/papers](http://www.bi.no/imp2001/papers), 2001, p 8

Cavinato, J., *Identifying interfirm total cost advantages for supply chain advantages*, International Journal of Purchasing and Materials Management, vol. 27, no. 4, pp 10-16, 1991

Costales, A, *A Review of the Thailand Poultry sector*, Food and Agriculture Organization of the United Nations, 2004, p 2

Ellram, L., Perrrot, S., *Purchasing: the cornerstone of the Total Cost of Ownership concept*, Journal of Business Logistics, vol. 14, no. 1, pp 163-185, 1993

Ferrin, B., Plank, R., *Total Cost of Ownership Models: An Exploratory Study*, Journal of Supply Chain Management, vol. 38, no. 3, pp 18-29, 2002

Fu, P., Tsui, A., Dess, G., *The Dynamics of Guanxi in Chinese High-Tech Firms: Implications for Knowledge Management and Decision Making*, Management International Review, vol. 46, pp 277-305, 2006

Haley, G., Tan, C-T., *East vs. West: strategic marketing management meets the Asian networks*, The Journal of Business & Industrial Marketing, vol. 14, iss. 2, pp. 91-101, 1999

Haley, G., T., Tan, C-T., *The black hole of South-East Asia: strategic decision making in an informational void*, Management Decision, vol. 34, iss. 9, pp 37-48, 1996

Haugland, S., *The Cultural Dimension of International Buyer-Seller Relationship*, Journal of Business-to-Business Marketing, vol. 4, 1998

Hofstede, G., *Cultural Constraints in management theories*, Academy of Management Executive, vol 7, no 1, pp 27-49, February, 1993

Kleinaltenkamp, M., Ehret M., *The value added by specific investment: a framework for managing relationships in the context of value networks*, The Journal of Business and Industrial Marketing, vol. 21, no. 2, pp 65-71, 2006

**Justifying high price with Total Cost of Ownership Awareness**

---

Possible or not on the South East Asian market?

Leo, C., Bennet, R., Härtel, C., *Cross-cultural Differences in consumer decision-making styles*, Cross Cultural Management, vol. 12, pp 32-62, 2005

Lu Wang, Cheng, *Guanxi vs. relationship marketing: Exploring underlying differences*, Industrial Marketing Management, vol. 36, pp 81-86, 2007

Minot, N., *Competiveness of food processing in Vietnam: A study of the rice, coffee, seafood, and fruit and vegetables subsectors*, 1998, p 106-107, 123

Möller, K., *Role of competences in creating customer value: A value-creation logic approach*, Industrial Marketing Management, vol. 35, no. 8, pp 913-924, 2006

Preechajarn, S., *Thailand Poultry and Products Annual 2006*, GAIN Report, USDA Foreign Agricultural Service, Nr TH6086, 2006

Reeder, J., *When West Meets East: Cultural Aspects of Doing Business in Asia*, Business Horizon, vol. 30, no. 1, pp. 69-74, January-February, 1987

Salin.V., Nayaga Jr. R., *A cold chain network for food exports to developing countries*, International Journal of Physical Distribution & Logistic, vol. 33, no. 9-10, pp 918-933, 2003

Selwyn, M., *The New Food Chain*, Asian Business, vol. 27, iss 12, pp 26, Dec 1991

## 8.2 Books

Andersen, P E., Risun, J., *Livsmedelsteknologi 1 – konserveringsmetoder*, Studentlitteratur, Lund, 1991

Bacon, T., Pugh, D., *The behavioural advantage*, Amacom/American Management Association, USA, 2004

Denscombe, M., *Forskningshandboken – för småskaliga forskningsprojekt inom samhällsvetenskaperna*, Studentlitteratur, Lund, 2000

Grant, R., *Contemporary Strategy Analysis*, Fifth Edition, Blackwell publishing, 2005

Harrison, Frank E., *The Managerial Decision-Making Process*, Houghton Mifflin Company, USA, 1999

Heldman, D., Hartel, R., *Principles of food processing*, Aspen Publishers, Inc, Maryland, 1998

Hofstede, G., *Cultural Consequences*, Second Edition, Sage Publications, Inc., California, 2000

Hofstede, G., *Culture's consequences – international differences in Work-related values*, Sage Publication, California, 1980

Hofstede, G., *Cultures and organization – software of the mind*, McGraw-Hill book company, London, 1991

Holmes, P, *Investment Appraisal*, Chapman & Hall, USA, 1997

Hutt, M., Speh.T., *Business marketing management*, The Dryden Press, 1998

Hägg, I., Wiedersheim, P., *Att arbeta med modeller inom företagsekonomi*, Lieber Tryck AB, Stockholm, 1985

Jeremiah, L E., *Freezing Effects on Food Quality*, Marcel Dekker Inc, USA, 1996

Kotler, P, *Marketing Management*, Prentice Hall Marketing, 2003

Kulp, K., Loewe, R., *Batter and Breeding in Food Processing*, American Association of Cereal Chemists, Inc, USA, 1996

Lundahl, U., Skärvad, P-H., *Utredningsmetodik för samhällsvetare och ekonomer*, Studentlitteratur, Lund 1999

**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

Moreira, R., *Deep Fat Frying – Fundamentals and applications*, Aspen Publication, USA, 1999, pp 2

O’Leary, Z., *The Essential Guide to Doing Research*, Sage Publication, New Dehli, 2004

Potter, N., Hotchkiss, J., *Food Science*, Fifth edition, Aspen Publishers, Inc, Maryland, 1998

Riell, H., *High Expectations*, Frozen Food Age, vol. 54, Iss. 12, p 16, July 2006

Rossel, J., *Frying – improving quality*, Woodhead Publishing limited, USA, 2001

Sapsford, R., Jupp, V., *Data collection and Analysis, Second edition*, Sage Publication, New Dehli, 2006

Tashakkori, A., Teddlie, C., *Mixed Methodology, Combining Qualitative and Quantitative Approaches*, Sage Publication, California, 1998, p 19

Usunier, J-C., Lee, J., *Marketing across cultures*, Prentice Hall, 2005

van Weele, A., *Purchasing and Supply Chain Management*, Thomson Learning College, 2005

**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

**8.3 Brochures**

Economics of Freezing, Conducted of Sales Support, FP Ltd

FP Ltd, business overview

Pashely, K, The Processor's guide to coating and cooking, USA, 2002



**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

**8.4 Electronic sources**

<http://www.bot.or.th/bothomepage/databank/FinMarkets/FinMarket>, 2007-05-03

Svenska Livsmedelsverket hemsida -

[http://www.slv.se/templates/SLV\\_Page.aspx?id=14671&epslanguage=SV](http://www.slv.se/templates/SLV_Page.aspx?id=14671&epslanguage=SV), 2007-04-10

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

## **8.5 Verbal sources**

After Market Manager, Asia Pacific, FP Ltd, 2007-03-21

Aftermarket Manager, Europe, Middle East and Africa, FP Ltd, 2007-03-01

Application Engineer, Asia Pacific, FP Ltd, 2007-04-27

Application Manager, FP Ltd Thailand, 2007-04-17

Chief of Representative Office, Country Sales Manager Vietnam, FP Ltd, 2007-04-02

Commercial Manager, Poultry processor, Thailand, 2007-04-03

Deputy Director, Sea Product Processor, Vietnam, 2007-03-27

Dipl.ing, Manager, FP Ltd Germany 2007-01-30

Director of Sales Europe, FP Ltd, 2007-02-28

Director, Fish and Seafood processor, Vietnam, 2007-03-30

Factory Manager, Poultry Processor, Thailand, 2007-04-03

Key Account Manager Europe, Poultry processor, Thailand, 2007-04-03

Lars Öhberg, client executive, Swedbank, Trelleborg, 2007-04-15

Manager Sales Support & Application, FP Ltd, 2007-02-07

Market Communications Manager, Europe, FP Ltd, 2007-02-14

Product manager for cold processing, FP Ltd, 2007-02-14

Purchasing officer, Swedish Customer, 2007-03-02

Regional Director, Asia Pacific, FP Ltd, 2006-11-17

Regional Manager, Scandinavia and Baltic, FP Ltd, 2007-02-14

Regional Sale Support Manager, FP Ltd, 2007-03-06

Regional Sales Support Manager, FP Ltd, 2007-02-16

**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

Sales Area Manager Italy, FP Ltd, 2007-04-16

Sales Engineer, Thailand, FP Ltd, 2007-04-05

Senior Vice President, Poultry processor, Thailand, 2007-04-02

Service Manager (Special Projects), FP Ltd, 2007-04-20

Service Manager, FP Ltd, 2007-04-16

Sing Halbauer, Ph.D in Economics with orientation towards the Asian business environment, 2007-03-05

Solution Manager, FP Ltd, 2007-03-06

Stein Europe Business Manager, FP Ltd, 2007-02-19

Vice Director, Fish and Seafood Processor, Vietnam, 2007-03-28

Vice Director, Fish and Seafood Processors, Vietnam, 2007-03-27

Vice Director, Fish processor, Vietnam, 2007-03-29

Vice Director, Seafood processor, Vietnam, 2007-03-28

Vice General Director, Seafood Processor, Vietnam, 2007-03-29

## Appendix A – Questions for the interviews in Thailand and Vietnam

- Please tell us shortly about your business
- How do you calculate the cost of the equipment in a buying process, investment cost or total lifetime cost?
- Which features do You value most in a buying process?
- Which is the first parameter you consider when analysing the different options on the market?
- Who is the decision-maker in your organisation?
- Is he the only one with that power or do other employees influence him?
- Do you take the entire supply chain in consideration before a decision is made?
- Do you see the relationship with a supplier as a competitive advantage in the long run? I.e. do you believe it can contribute to better sales for your business?
- Do you feel that FP Ltd aim to improve your product and its sales?
- How do you try to reduce the uncertainty in an investment and is the reduction of uncertainty something you choose to focus on?
- Are you often loyal to an existing supplier or do you constantly seek for better alternatives?
- If loyalty is something you value a lot, is the loyalty bound to a person or to his company?
- Do you rely more on a verbal contract or a written one?
- Are you satisfied with the information communicated by the supplier? Is there a mutual understanding?
- How important is the interaction between you and the salesman?
- Is the environmental issue important for you in a buying decision?
- Do you have any national legalisation that might impact on your choice?
- Engineering influence
- Options to finance the investment, happy to take loan?
- In calculating total cost, how is a good relationship valued?
- Is your decision often based on feelings or on hard fact?
- How do You compute and evaluate different suppliers before an investment decision?
- Do You rely more on word-of-mouth from people you trust, or do you rather tend to seek published material?
  
- You already have FP Ltd's equipment; do you also have similar equipment from any other company?
- Has FP Ltd lost an order from you, and if so, what was the reason?
  - What could the competitors offer you that you felt FP Ltd could not?

**Justifying high price with Total Cost of Ownership Awareness**

Possible or not on the South East Asian market?

- What do you feel is the strength in FP Ltd's equipment?
- Which are the weaknesses?

## Appendix B – Ranking Form

Investment cost – *The initial price a customer commits himself to, by signing a purchase contract for the equipment*

<b>Very Important</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Not Important</b>
-----------------------	----------	----------	----------	----------	----------	----------------------

Product safety – *All aspects of processing which influence food product quality and processing hygiene*

<b>Very Important</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Not Important</b>
-----------------------	----------	----------	----------	----------	----------	----------------------

Throughput – *All aspects of the productivity and flexibility of the equipment that makes it deliver the required actual capacity*

<b>Very Important</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Not Important</b>
-----------------------	----------	----------	----------	----------	----------	----------------------

Yield – *Ratio of output to input in the equipment*

<b>Very Important</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Not Important</b>
-----------------------	----------	----------	----------	----------	----------	----------------------

Product handling – *All aspects influencing the mechanical handling of the product in the equipment, thereby having an effect on quality and output*

<b>Very Important</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Not Important</b>
-----------------------	----------	----------	----------	----------	----------	----------------------

Uptime Reliability – *Maintaining full productivity in the equipment during every minute scheduled operation time*

<b>Very Important</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Not Important</b>
-----------------------	----------	----------	----------	----------	----------	----------------------

Cost of Maintenance – *All preventive and corrective measures taken to keep the equipment in good working order*

**Justifying high price with Total Cost of Ownership Awareness**

Possible or not on the South East Asian market?

**Very Important**    **1**    **2**    **3**    **4**    **5**    **Not Important**

Resource Management – *All aspects of utilization of energy and media in the process*

**Very Important**    **1**    **2**    **3**    **4**    **5**    **Not Important**

Operation – *Aspects of operability and labour costs for normal operation of the equipment*

**Very Important**    **1**    **2**    **3**    **4**    **5**    **Not Important**

Up-Grading costs – *Costs and feasibility of adding capacity or functionality to the equipment system*

**Very Important**    **1**    **2**    **3**    **4**    **5**    **Not Important**

Relocation – *Costs of aspects of moving the whole equipment system to a new location*

**Very Important**    **1**    **2**    **3**    **4**    **5**    **Not Important**

Resale Value – *Aspects of residual value of second hand equipment*

**Very Important**    **1**    **2**    **3**    **4**    **5**    **Not Important**

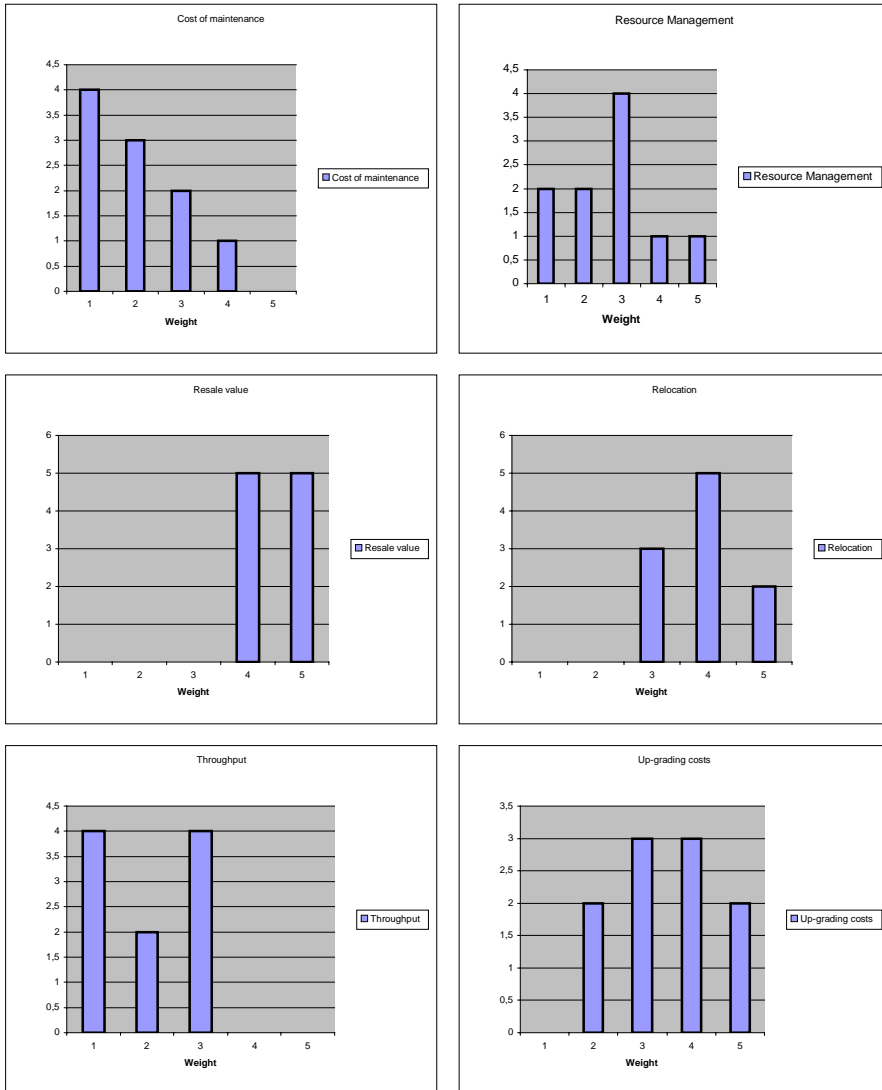
Lifetime – *The total lifetime of the equipment*

**Very Important**    **1**    **2**    **3**    **4**    **5**    **Not Important**

Justifying high price with *Total Cost of Ownership Awareness*

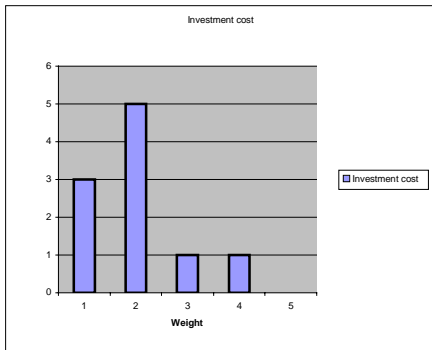
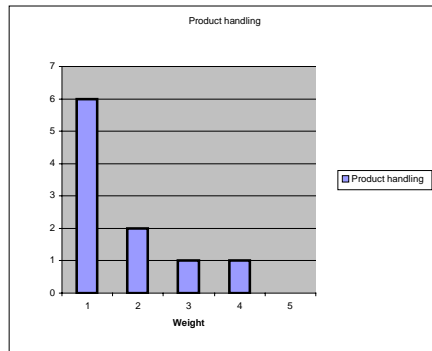
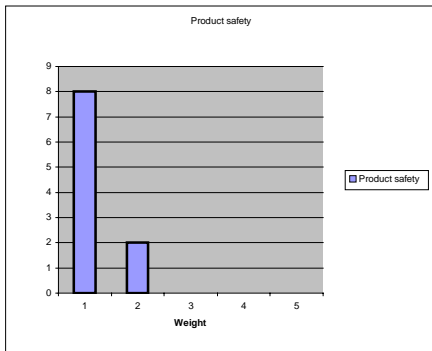
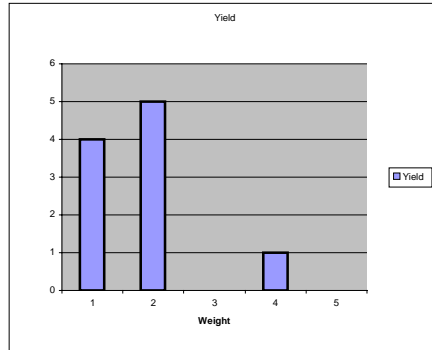
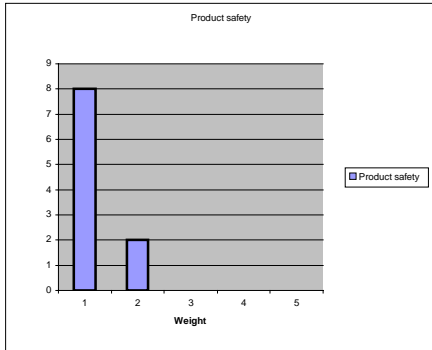
Possible or not on the South East Asian market?

## Appendix C – Results from the ranking forms



## Justifying high price with *Total Cost of Ownership* Awareness

Possible or not on the South East Asian market?





## Appendix D – Creation of a model

---

In this appendix development of a model concerning Total Cost of Ownership of equipment in the food processing industry will be discussed. The discussion has its base in the empirical findings and is conducted in order to show the customers which cost drivers that will affect the lifetime cost of the equipment

---

### Model design from the stakeholders point of view

With the aim to make a model that is supposed to be used in the sales process, it is vital to consider different stakeholders in order to please their needs as good as possible. The most important ones are evidently the customers and the salesmen since they are the targets of interest. In order to satisfy the needs from the stakeholders, a thorough study has been done, by interviewing the different parties. The result of this is presented below.

### Adopting to a customer's market

It is, as described above, of great importance to get a fair idea of how the customers act when choosing their supplier. To therefore, as is often the case, conduct a model in which the sellers opinion is in focus, might be misleading and a loose-loose situation for the seller/buyer.<sup>203</sup> Centre of attention should rather be on the customer and how he/she wants for the model to look like. This means that the model should focus on presenting the customer's benefits instead of showing the benefits from the equipment of the selling company.<sup>204</sup> This can be done by presenting to the customer how their product will be better by utilising certain equipments. By doing this, the customer will feel more prioritized. This means that the model have got to be developed together with the customers so that their needs are assured.<sup>205</sup> In earlier attempts to conduct a model, focus has mainly been on the function of the equipment rather than on what is vital for the specific customer. I.e. every customer has different parameters that they value, which is why the tool has got to be dynamic to suite the specific situation.<sup>206</sup>

It is consequently a challenge to find out what the customers want to hear in order to meet their demands in a good manner. This emphasizes the need in a further way for a tool to use in the sales process. The use would be to prove to the customer that the company of topic is superior in a technical and economic way.<sup>207</sup> However, especially on the Asian market, the model will also meet another demand, namely to make the

---

<sup>203</sup>Manager Sales Support & Application, FP Ltd, 2007-02-07

<sup>204</sup>Regional Manager, Scandinavia and Baltic, FP Ltd, 2007-02-14

<sup>205</sup>Product manager for cold processing, FP Ltd, 2007-02-14

<sup>206</sup>Ibid

<sup>207</sup>Product manager for cold processing FP Ltd, 2007-02-14

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

customers aware of all the costs that is connected to a big investment in a long-term thinking.

To make the model as believable as possible from a customer point of view, the model should be used in cooperation with the customer. That is, the seller should not come to the buyer with a calculation conducted solely by the seller since that will make it less convincing. A model taking this in consideration does in addition make it possible to make changes together with the customer, as it is dynamic in its structure. It is however vital to highlight the need of a thorough pre-study at the selling company in order to assure that the calculations will be favourable for the selling company when presenting it for the customer.<sup>208</sup> However, a not favourable outcome is valuable for FP Ltd since it makes FP Ltd aware of which areas they have to improve in order to remain a competitive advantage on the market. However, this outcome should of course not be presented to the customer, but kept internally in the company.

#### **Content of the model from the stakeholders point of view**

The purpose with the model is to demonstrate those benefits that exist when buying from FP Ltd. With the above-described discussion the focus should be on how the customer will benefit by buying from a specific company.<sup>209</sup> This is preferably presented by a demonstration of the parameters that are of most value for the specific customer. It is therefore vital that all of those parameters can be proved being superior compared to alternatives from competitors offering the same equipment. It is suggested that the parameters that are to be included in the model only should be those that have the character of being provable. Otherwise there is no reason for the customer to believe that the supplier of interest is superior as the competitors may uphold the same promises.<sup>210</sup> Examples of provable parameters are: Lifetime, energy consumption, yield, dimension, investment etc. Maintenance and hygiene are parameters that are more difficult to quantify.

It is further seen as vital not to have too many parameters to consider. The sales manager at FP Ltd means that the customer often may think that he/she takes many parameters in consideration but that in the reality only is about two or three that really matter<sup>211 212 213</sup> As mentioned above, there are both the technical and the economical part to consider. They do however converge in the end, where price is seen as the only really important parameter to consider.

---

<sup>208</sup> Product manager for cold processing FP Ltd, 2007-02-14

<sup>209</sup> Ibid

<sup>210</sup> Sales Area Manager Italy, FP Ltd, 2007-04-16

<sup>211</sup> Director of Sales Europe, FP Ltd, 2007-02-28

<sup>212</sup> Market Communications Manager, Europe, FP Ltd, 2007-02-14

<sup>213</sup> Regional Manager, Scandinavia and Baltic, FP Ltd, 2007-02-14

### **Justifying high price with Total Cost of Ownership Awareness**

---

Possible or not on the South East Asian market?

Hence, price is of great importance and fundamental to consider. Since FP Ltd uses a differentiated strategy in which the price premium is higher than their competitor's<sup>214</sup>, it gets even more critical to analyse the price with the aim of making it justified.

The equipment of discussion goes into the group of investments that has a long lifetime. This means that the cost for the equipment should be calculated by minimizing the total cost over all this years taken all costs in consideration that influences the equipment in consideration. With this argumentation, focus should be on the cost of running the equipment rather than the initial investment cost, i.e. life cycle cost.<sup>215 216</sup>

The investment is often depreciated in three to five years, which will make the cost more extensive during these years. Others does however emphasize the need of a simple tool in which the customer, in a flash, can see that the equipment of interest will be more economic in the long run. It should also be emphasized when discussing the content and the output of the model that there has got to be a balance on which data that FP Ltd can communicate to their customer and which that has got to be kept in secret in order not to provide competitors with critical information.<sup>217</sup> This is also due to the importance of providing the right information to the customer, i.e., the information has got to be favourable for FP Ltd.<sup>218</sup>

When it comes to the after market this has not been taken in consideration in earlier models. However the importance has become greater during the past year which is why it should be included in the model.<sup>219</sup> The reason for this is twofold; it is partly due to a higher margin and partly due to a higher demand from the customer. The demand is due to change in surrounding where after market solution has become rather extensive.<sup>220 221</sup>

### **Layout of the model from the stakeholders point of view**

One of the most common issues that are mentioned when asking sales personnel of what a model preferably should look like is the simplicity of the design. Earlier work done in the area has been rather extensive in its structure, which has made it difficult to use. This is why there is a demand for a model that has a clear and lucid design and is simple to use. The simplicity does mostly concern the output of the model that is to be shown for the customer. This follows the discussion above of not using too many parameters; only the information that is of importance for the specific customer is to

---

<sup>214</sup> Regional Director, Asia Pacific, FP Ltd, 2007-03-18

<sup>215</sup> Product manager for cold processing, FP Ltd, 2007-02-14

<sup>216</sup> Sales Area Manager Italy, FP Ltd, 2007-04-16

<sup>217</sup> Regional Sales Support Manager, FP Ltd, 2007-02-16

<sup>218</sup> Product manager for cold processing, FP Ltd, 2007-02-14

<sup>219</sup> Market Communications Manager, Europe, FP Ltd, 2007-02-14

<sup>220</sup> After Market Manager, Asia Pacific, FP Ltd, 2007-03-21

<sup>221</sup> After Market Manager, Europe, Middle East and Africa, FP Ltd, 2007-03-01

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

be presented. The model should however also be easy to use for the seller so that it feels like help and not as something that is necessary.

The model is to be computerized in order to be dynamic; this is something that almost is taken for granted since it is supposed to be applicable in many different regions with different demands. There is also a perception that other models are seen as very old since they are not digital. Or as an employee on FP Ltd puts it: “Nobody wants to sit down and read a book, the model should be available 24/7 on the laptop”.<sup>222</sup> To meet this, the salesmen in each region have got to adapt the model and the content with his/her specific need. This does also mean that the model is done so that it can suite every specific product.<sup>223</sup> The benefit of having this approach is that it also could render possibilities for a model on the web, as to be found on FP Ltd’s homepage, meaning that the customers can try out the model themselves if downloading the model.<sup>224 225</sup>

Graphically there are many options with a model however excel is the most often requested since it is a common tool that is user friendly and that employees at FP Ltd already are familiar with. This can however be complemented by other ways such as presentations in PowerPoint, guarantees, pictures, diagrams etc in order to make the output graphically appealing.<sup>226</sup>

### Developing a *Total Cost of Ownership* model

There are almost an infinite number of parameters that can affect a decision, including those that are impossible to quantify as for example the value of a good relationship with the supplier. This implies that when making a model simplifications have to be made. These simplifications are one of the things that characterise a model. It is important not to forget what is the object and what is the model and that the model does not try to present the reality as it is; instead one wants to capture the reality that might solve one specific problem. Hence, this model presents a simplification of the actual situation, where the reality of the buying decision is narrowed down in order to see which parameters that affect the *Total Cost of Ownership* for the equipment from FP Ltd. We have earlier in this report come to the conclusion that customer in Asia take the *Total Cost of Ownership* in consideration when making a large investment. For those customers that did not reason according to the *Total Cost of Ownership* terms, we still believe that our model can be of great use. The *Total Cost of Ownership* model will for those not familiar with the concept, create an awareness of which are the cost drivers for the equipment, and hence affects the lifetime cost. Our aim with the model is to transfer the customer’s focus from the

---

<sup>222</sup> Market Communications Manager, Europe, FP Ltd, 2007-02-14

<sup>223</sup> Stein Europe Business Manager, FP Ltd, 2007-02-19

<sup>224</sup> Regional Sales Support Manager, FP Ltd, 2007-02-16

<sup>225</sup> Market Communications Manager, Europe, FP Ltd, 2007-02-14

<sup>226</sup> Product manager for cold processing, FP Ltd, 2007-02-14

### Justifying high price with *Total Cost of Ownership* Awareness

---

Possible or not on the South East Asian market?

initial investment cost to the complete lifetime cost. This will not only be valuable for FP Ltd, but also for the customer themselves since they get a more holistic view of the total cost of their equipment.

As described above, we have put great value into integrating the stakeholders' opinions when it comes to the content of the model. However, we believe that we can contribute with coming from outside the industry, and hence having a different frame of references. It is possible that people working in the industry might see the situation differently than two students like us that instead of knowledge in the specific industry have a frame of references much affected of our education and university studies. Still we feel that it is important to emphasise that also we might be biased by FP Ltd's opinions and way of thinking, since the stakeholders that we have interviewed all are part of the same industry. Though, as we found it valuable to integrate the stakeholders as early as possible in the process of developing the model, we found their opinions was more valuable then leaving them out in order not to be biased.

As was discussed by employees at FP Ltd, there are different opinions on which parameters to include in the model. Some say it is important to be able to prove supremacy in all parameters included, while others instead chose to highlight the need of daring to make assumptions. Our solution to this rather diverging opinions is to differ the provable and easy quantifiable parameters and the ones where only making assumptions. The parameters where assumptions are taken are presented as *Opportunity savings* and the parameters that are easier to calculate in a reliable way are presented as *Actual savings*. An example on an *Opportunity saving* is delivery time, where we have made the assumption that with a shorter delivery time, the customer can start the production earlier and hence generate money in an earlier stage.

As written above, we believe that FP Ltd would have advantage in having one uniform model to work with throughout the whole organisation. As one example it will save a lot of time that it might take for the different offices to develop the models. Moreover we see a great advantage in that if the whole organisation uses the same tool, the sales personnel at the different offices can help each other in order to improve the model, and also share their experiences of using it with the customers. However we want to emphasise that the model we have developed is based on our empirical findings partly from interviewing sales personnel at FP Ltd but mainly from interviewing customers on the Asian market. Therefore there might be a need to adjust it to the different markets it will be used on.

### **What makes our model superior**

We believe that the interface of the model is of great importance, since a professional looking model often is experienced as more serious and trustworthy. To therefore develop a model that is uniform in its appearance was one prioritise of ours. More over we found it essential that the model should be dynamic, and that the customers themselves could contribute with the numbers for the calculations. This has also been

### **Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

the case in some other models developed by FP Ltd. What we believe is an advantage with our model is however that it has a pedagogic layout throughout the model, which is easy for the users to follow and hence makes it user-friendly. To further improve the user-friendly aspect, we found it important not to include too many details in the model, since it may rather confuse than simplify the picture for the customer.

Moreover, to make our comparison of the *Total Cost of Ownership* between FP Ltd's equipment and their competitors' as trustworthy as possible, we have been collecting references for the numbers used throughout the whole organisations, including, North America, South America, Europe and Asia Pacific. We have also been careful not to be biased in the assumptions in order not to make them too beneficial for FP Ltd. We have found many assumptions in prior models from FP Ltd that has shown not to be correct when consulting experts in the different areas.

In our empirical research on the Asian market we found out that many customers did not want to take more than for example five years in consideration when making calculations on the equipment. We believe that also the *Total Cost of Ownership* model should be adjusted after how many years the customer wants to take into consideration when carrying out the calculations. Even though they were aware of that FP Ltd's equipment had a much longer lifetime than for example these five years, they chose not to include these years in the calculation, but rather see it as bonus years of production. This, of course, makes it much more difficult for FP Ltd to justify their higher price. However, FP Ltd's equipment has a very good second hand value. We believe that this is a very important parameter to emphasise on the Asian market according to the short period of time they want to calculate on. We have therefore chosen to present the resale value of the equipment after the years that the customer chooses to make the calculations on. Our opinion is that the customers will find the calculations much more convincing if they get to decide some of the vital assumptions themselves, rather than it is FP Ltd that set the standards in for the calculations.

#### **Layout of the *Total Cost of Ownership* model**

The *Total cost of Ownership* model is developed in Excel, which we see as a big advantage, as many of the coming users probably already have some knowledge and experience from using this tool. Also, it makes the model dynamic, since it is easy for the users to change the number in the different cells, in order to suit it to their specific needs. If any of the parameters should not be applicable or not important for any of the customers, this parameter can be excluded in the calculations by putting N/A in the specific cell. The first page presented to the customer, after he/she has chosen which type of equipment the purchase handles, is a page with instruction on how to use the model. The next page is the main part of the model, and consists a thorough comparison of the *Total Cost of Ownership* for FP Ltd's equipment and a competitor's equipment. Which competitor to compare the costs with, can be suited after the specific situation and which other competitors that are competing for the same order.

### **Important parameters not justified in the model**

Even though we believe that the *Total Cost of Ownership* model will serve as a very useful tool in the sales process, we want to highlight that one should not rely too much in it. By this we mean that there are still a lot of essential parameters that the model is not able to reflect. One of these can for example be the value of a good relationship. Especially on the Asian market, business is not done before the customer feels he/she has a good relationship with the supplier. This implies that without a good relationship being formed, the model will not be of any use at all.

Many of the issues that make FP Ltd's equipment superior are difficult to quantify, which is often the case when supplying products that are competing with a differentiated strategy. Examples of this can be the service and support provided by FP Ltd. Also the hygiene, product quality and appearance of the products are "soft" numbers difficult to put a quantitative value upon. However, as long as the sales man is aware of these aspects not being included in the model, we do not identify the absence of them as a problem. The aim with the model is not to eliminate the parts in the sales process. We find the personal interaction between the customer and the supplier as the most vital aspect in the sales process. Therefore, these "softer" aspects still have to be communicated by the seller in traditional ways.

Another thing that has to be highlighted is that the different values and numbers in the model are very specific for the particular situations. If the model shall give an exact reflection of the reality, all numbers have to be calculated for the specific customer, including type of product, hours running, level of maintenance and service and so forth. As for the example we have conducted many of the values we have used are according to a standard product like the chicken nugget in a two shift running factory, supposing 4 000 running hours yearly.

### **Summary**

The purpose with this Appendix has been to show how we are reasoning when creating the model and what aspects that have been vital to consider. First of all we have been stated that it is important to conduct the model in such a way that it communicates with the customers' demands. Earlier attempts to create a similar tool have failed due to a too large focus on the own company.

The purpose with the model was further discussed with the main issue to show the customer the advantages of buying from a certain supplier, where advantage meaning lower costs in the long run. To prove this all the parameters that the customers find vital will be considered visualising the savings that a certain supplier can offer. By doing this, the focus is transferred from the investment costs to other parameters affecting the costs in the long run.

**Justifying high price with *Total Cost of Ownership* Awareness**

---

Possible or not on the South East Asian market?

The use of the model is however multiple since it also has the benefit of making the customer more aware of all the costs related to the investment. Further, since it is developed together with the customer, it shows an interest from the supplier to help the customer find the best solution.