

## **Offer Quality: Perceptual Differences Between Australian Rock Lobster Exporters And Japanese Rock Lobster Importers.**

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### **Abstract.**

*An empirical examination of the perceived difference in product offer quality between WA rock lobster exporters and their respective Japanese importers revealed that consistent quality, a willingness to provide market information and a willingness to meet importer's immediate needs were the most important variables influencing an importer's decision to purchase. While both importers and exporters agreed that delivering consistent quality was the most important variable, exporters ranked competitive price much higher than importers. Results demonstrate that WA exporters have an opportunity to add value to their product offer by providing continuous product support, market information and being able to respond better to importers immediate needs.*

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### **Introduction.**

Australia is the world's largest producer and exporter of rock lobster. In 1997/98, almost 12,250 tonnes of rock lobsters were exported from Australia, worth an estimated \$424 million (Australian Commodities Statistics 1998). The major export destinations for Australian rock lobster were Taiwan (34%), Japan (29%) and Hong Kong (23%).

In Japan, rock lobster has traditionally been used for decorating tables at weddings and other important celebrations (JETRO 1997). They are generally considered good luck, for the more the tail is curved and the back is bent, the longer one's life. However, more recently, the demand for wedding receptions has decreased as couples move towards more simplistic, less expensive weddings and prices have correspondingly decreased.

While Australia continues to dominate the Japanese import market for rock lobster (39%), Australian suppliers are facing increasing price competition from lower cost producers in Cuba and South Africa. Unable to compete on price, Australian rock lobster exporters must give much greater consideration towards methods of improving the product offer quality.

Hutt and Speh (1995) suggest that when industrial buyers purchase a product, they purchase not only a package of benefits derived from the physical product features, but also a bundle of services attached to the product. This might include such variables as product quality, price competitiveness, dependable delivery or a customized product offer. Kotler and Armstrong (1999) suggest that suppliers who are most capable of offering quality products and services, competitive prices, reliable delivery, ethical corporate behaviour and honest communication are most likely to be rewarded as preferred suppliers. Other decision variables include service capabilities, technical support, geographic location, performance history and reputation. Monczka, Trent and Handfield (1998) add financial capability and stability as key decision variables.

In the international market environment, while there are many similarities among the supplier selection criteria used by purchasing managers in different countries, significant differences may exist as well. Lehmann and O'Shaughnessy (1974) describe the differences in supplier selection criteria between US and European purchasing managers. Ford (1984) shows how distance influences supplier selection in Europe. Mummalaneni, Dubas and Chao (1996) present the relative importance of various supplier selection attributes in China, while Ghymm and Jacobs (1993) and Hirakubo and Kublin (1998) discuss the relative importance of various supplier selection criteria in Japan.

The Japanese purchaser-supplier relationship is typically described as cooperative, inter-dependent, integrated and often exclusive (Hirakubo and Kublin 1998). Such relationships focus on maximizing the efficiency of the entire value chain, where the principal goal of the partnership is to increase quality while minimizing the total value-added costs that both the supplier and the purchaser incur (Dyer and Ouchi 1993). Typically, both parties work jointly to solve problems and to expand the pie, rather than seeking how best to split the pie. While various efficiencies may be gained from having fewer suppliers, Nishiguchi and Brookfield (1997) attribute lower transactional costs to the prevalence of moral trading relationships which facilitate mutual investments, a broader flow of information and place greater emphasis on product quality. Hofstede (1991) finds that Japan is an extremely risk-averse society with a very high level of uncertainty avoidance. Japanese companies minimize the

risk of making an incorrect decision by purchasing from well known suppliers, staying with current suppliers or selecting a supplier with experience (Hirakubo and Kublin 1998). In evaluating a new supplier, purchasing staff will customarily visit the supplier's production facility and examine, in depth, their financial and management soundness. Even so, most Japanese companies will usually maintain at least two suppliers, encouraging and facilitating competition between the suppliers to help them improve their production techniques and achieve total quality, cost and delivery (Dyer and Ouchi 1993).

While the majority of the literature relates to manufacturing, and, in particular, the automobile industry, very little attention has been given towards the selection criteria Japanese companies use in making their decision to purchase food and agricultural commodities. This paper seeks to identify the criteria Japanese seafood importers use in their decision to purchase rock lobsters, how accurately Western Australian rock lobster exporters perceive the requirements of Japanese rock lobster importers, and, in turn, how well WA rock lobster exporters are able to satisfy those requirements. Various strategies for WA rock lobster exporters to improve their performance in the Japanese market are offered.

### **Methodology.**

In order to obtain information from Japanese rock lobster importers and WA rock lobster exporters, two structured questionnaires were developed. Scales were developed from previous research reported by Cunningham and White (1973), Lehmann and O'Shaughnessy (1974), Dempsey (1978) and Mummalaneni, Dubas and Chao (1996). Respondents were asked to respond on a scale of 1 (not at all important) to 6 (very important).

A list of Japanese rock lobster importers was obtained from the Japan Marine Products Importers Association in Tokyo. For the 25 rock lobster importers in the Association, data was collected by conducting personal interviews directly with the import managers. However, because of time and cost constraints, the survey was conducted only in the Kanto and Kansai regions. Japanese importers were asked to rate the importance of 14 criteria in their decision to purchase rock lobster from a potential supplier. They were then asked how well WA rock lobster exporters meet those same criteria. The interviews were conducted in Japanese.

From the list provided by the Western Australian Rock Lobster Development Association, all eleven members were approached for a personal interview. WA rock lobster exporters were asked how important they believed the same 14 criteria were to their Japanese importers and, in turn, how well they believed WA rock lobster exporters were able to satisfy those criteria.

The t test was used to determine if there was any significant difference in the importance of the supplier selection criteria between what importers ideally wanted, how well WA exporters met each of those same criteria and what criteria WA exporters thought were important.

### **Results and discussion.**

From the 25 Japanese rock lobster importers, responses were received from 10 companies (40%). The larger companies (4) imported between 2,000-3,999 tonnes of seafood per annum; the medium size importers (3) between 1,000-1,999 tonnes; and the smaller importers (3) less than 1,000 tonnes. Most respondents (8) imported whole frozen rock lobster in quantities ranging from 200-2,700 tonnes per annum, but only 4 respondents currently imported live rock lobster, generally in much smaller quantities (350-1,300 tonnes per annum).

Of the 11 WA rock lobster exporters, 8 exporters responded to the survey (73%). The smaller companies (4) exported less than 999 tonnes of seafood per annum; the medium size companies (2) between 1,000-1,999 tonnes; and the larger companies (2) between 2,000-3,999 tonnes. All eight companies were currently exporting both live rock lobsters (150-645 tonnes per annum) and whole frozen rock lobsters (100-1,630 tonnes per annum).

Consistent quality was the most important attribute Japanese seafood importers sought from rock lobster suppliers (Table 1). Fortuitously, it was also perceived to be the most important attribute WA rock lobster exporters believed Japanese importers required from their suppliers.

Table 1. Relative importance of supplier selection criteria between Japanese rock lobster importers and Western Australian rock lobster exporters.

	Japanese Importers		W. Australian exporters		t	Sign
	Mean	SD	Mean	SD		
Consistent quality	5.70	0.48	5.50	0.53	0.823	0.424
Provides market information	5.56	0.53	4.00	0.76	4.864	0.000
Willingness to meet immediate needs	5.50	0.53	4.50	1.07	2.421	0.037
Good reputation	5.30	0.67	5.13	0.35	0.708	0.491
Continuous product support	5.30	0.48	4.38	1.06	2.284	0.047
Frequent communication	5.00	0.67	5.00	0.76	0.000	1.000
Technical capability	4.90	1.52	4.50	0.93	0.687	0.503
Enable importers to visit exporters	4.80	0.79	4.25	1.04	1.281	0.218
Competitive price	4.40	1.43	5.25	0.89	1.545	0.143
Strong customer base	4.40	1.17	3.38	0.74	2.253	0.039
Financial strength	4.30	0.95	3.75	0.89	1.268	0.224
Favourable terms of repayment	4.20	1.03	3.88	1.25	0.593	0.563
Frequent visits with importers	4.10	1.52	4.13	0.83	0.042	0.967
Offer other seafood products	2.80	1.14	2.25	0.89	1.154	0.265

However, while Japanese importers perceptions of the product quality available from WA was well below the ideal, there was no significant difference at  $p = 0.05$  (Table 2).

Table 2. Extent to which Western Australian rock lobster exporters meet the selection criteria used by Japanese rock lobster importers.

	Japanese Importers		W. Australian exporters		t	Sign
	Mean	SD	Mean	SD		
Consistent quality	5.70	0.48	5.20	0.92	1.627	0.138
Provides market information	5.56	0.53	4.89	0.78	2.828	0.022
Willingness to meet immediate needs	5.50	0.53	4.50	0.97	3.354	0.008
Good reputation	5.30	0.67	5.00	0.67	1.964	0.081
Continuous product support	5.30	0.48	4.30	0.67	3.873	0.004
Frequent communication	5.00	0.67	5.10	0.57	0.287	0.780
Technical capability	4.90	1.52	4.70	0.48	0.375	0.716
Enable importers to visit exporters	4.80	0.79	4.10	1.10	1.655	0.132
Competitive price	4.40	1.43	4.20	0.63	0.429	0.678
Strong customer base	4.40	1.17	4.30	0.82	0.318	0.758
Financial strength	4.30	0.95	4.30	0.67	0.000	1.000
Favourable terms of repayment	4.20	1.03	4.00	0.94	0.557	0.591
Frequent visits with importers	4.10	1.52	3.90	1.10	0.318	0.758
Offer other seafood products	2.80	1.14	2.40	1.26	0.768	0.462

The second most important attribute Japanese rock lobster importers sought from their suppliers was the supplier's willingness to provide market information. Not only did WA rock lobster exporters rate this of only moderate importance, but their performance on this same variable was well below that desired by Japanese importers. While WA exporters considered frequent communication to be important, there is evidence to suggest they actually exceeded Japanese importers expectations. However, it seems that the content of the communication may be lacking, especially with regard to the provision of up-to-date market information. Such is surprising given that the WA rock lobster industry is heavily regulated. All exporters are aware of the size of the catch and distribution of sizes, but it is apparent that such information is not being conveyed to importers.

Conversely, WA rock lobster exporters believed that a competitive price was the second most important criteria Japanese importers sought in their decision to purchase. Given that Japanese importers consider WA rock lobsters to be somewhat more expensive than competitors offers and that the market itself is mature and declining, price competition is intense, not only between WA rock lobster exporters, but also from lower cost

producers such as Cuba and South Africa. Price competition will be most intense for the frozen product as there are a greater number of alternative suppliers. Even although WA is one of the few suppliers able to provide the Japanese market with live product, the Japanese practice of maintaining multiple suppliers (Dyer and Ouchi 1993) will ensure that importers benefit from supplier's efforts to reduce costs and improve the quality of the product offer.

The third most important attribute Japanese rock lobster importers sought from their suppliers was the supplier's willingness to meet their immediate needs. Here again there was a significant difference, not only between what WA rock lobster exporters believed to be important, but also the ability of WA rock lobster exporters to satisfy the importers demands. The inability of WA rock lobster exporters to meet the importers immediate needs is largely dependent upon two variables; (i) the availability of flights from Australia and (ii) the availability of the product. With limited air freight services from Perth, it may prove difficult for WA exporters to meet importers immediate needs. However, more importantly, the rock lobster industry is based on "wild capture". It is simply not possible to know in advance what proportion of the catch will fall into specified size ranges, nor is it always possible to catch sufficient product because of adverse weather at sea, although most exporters maintain some reserves of live product in purpose built tanks. Fewer problems are anticipated to arise with regard to the supply of frozen product, for with respect to the competitors in Cuba and South Africa, WA is geographically closer to the market and therefore should be better able to respond to importers requests.

The other area where significant improvement is required is in providing Japanese importers with continuous product support. Especially for the live product, a high level of technical expertise is required to achieve a successful out-turn in the market. However, product support also entails developing new products or adapting existing products for the Japanese market, reseller support and promotional allowances.

While Japanese rock lobster importers indicated that a strong customer base was significantly more important than WA rock lobster exporters believed, such may, in part, be due to the respective sizes of the firms; larger importers will seek larger suppliers and, in general, the Japanese import companies are larger than their WA counterparts.

Two other issues emerge, which despite the lack of statistical significance, have important strategic implications for WA rock lobster exporters. While WA rock lobster exporters often make numerous personal visits to the market, usually at the beginning of each season, given the high costs of conducting business in Japan, there may be better more cost efficient ways of building and maintaining relationships with Japanese importers. In particular, most Japanese importers suggested that exporters seemed reluctant to facilitate or encourage them to visit their operations in WA. Since it is accepted business practice for executives to even relocate to a supplier's production facility for short periods of time (Dyer and Ouchi 1993), WA rock lobster exporters may not only find it less expensive, but also achieve a much greater and longer lasting benefit by accommodating their Japanese buyers in Australia.

### **Implications.**

Consistent quality, the willingness to provide market information and willingness to meet importers immediate needs were found to be the most important variables influencing a Japanese seafood importers choice of supplier. In all three areas, WA rock lobster exporters need to improve performance. Because of the current decline in demand and intense price competition between lower cost producers and WA rock lobster exporters, from the exporters perspective, price competition was deemed to be significantly more important. Given the relatively homogeneous product offer provided by most WA rock lobster exporters and the reputation that each has established in the market, price will remain the main competitive tool for securing a Japanese buyers patronage. However, in the longer term, there are abundant opportunities for WA rock lobster exporters to add value to their current product offer and to move away from competing in a commodities market. Strategically, while there is a general trend for buyers to seek to reduce the number of suppliers they deal with, WA rock lobster exporters will need to find appropriate partners whose demands meet the firms capabilities.

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