

## Value Creation Logic in Buyer-Seller Relationships in Garment Industry in Thailand

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— *Review of* —  
**Integrative  
Business &  
Economics**  
— *Research* —

### ABSTRACT

The purpose of the research is to explore and identify value creation logic and strategies developed by firms and their supply chain partners in garment industry in Thailand. The methodology employed involves in-depth semi-structure interviews. The article synthesizes the empirical data and presents a summary of the finding. Dimensions of the value creation logic consist of a value creation initiative, an interaction for learning, an objective and a focus of coordination on the exchange of relationships. These dimensions vary according to the type of business of the firms and their supply chain partners. In this respect, 2 types of value creation strategies are explored in the research: (1) information supply, supply chain partner learning and transactions; (2) coaching, supply chain partner development and interactions. The research provides a better understanding of the strategic implications of the variable dimensions of the value creation logic in buyer-seller relationships and offers a practical guidance on the selection of the appropriate value-creation strategies.

Keywords: Value creation, Buyer-seller relationship, Thai garment industry

### 1. INTRODUCTION

Value creation is a process based on an exchange of relationships between a buyer and a seller; of which interactions and strategies can be varied depending on its value creation initiative, focus of coordination, buyer-seller's role, and objective of the value creation. The exchange of relationships contributes to mutual benefits as well as an enhanced capability of supply chain partners. (Dominguez-Péry *et al.*, 2011; Hammervoll and Trond, 2012; Ritala and Laukkanen, 2009) The purpose of this research was to perform an in-depth study about the value creation logic in term of buyer-seller relationship of the garment industry in Thailand. This research aims to facilitate better understanding of the value creation strategies and the value creation logic management in various dimensions.

### 2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

#### 2.1 Value creation initiative and learning interaction in exchange relationship

Hammervoll and Tofen (2010) studied the buyer-seller relationship in various business; it was found that the value creation between the buyers and the sellers could be divided into 2 major groups, e.g., (1) the value creation initiative in transactions; (2) the value creation initiative in interactions. Hammevoll (2009) summarized and categorized the buyer-seller relationships into 3 categories; (1) Unilateral Learning.; (2) Unilateral Development; (3) Mutual Learning.

## **2.2. Value creation strategies in buyer-seller relationship**

Moller (2006) studied the value creation logic in business to business (B2B) and concluded that the value creation strategies can be divided according to the roles and the objectives of value creation between buyer and supplier as follows; (1) Matching core value strategy; (2) Value-adding strategies, which could be subdivided into these following sub-strategies, (2.1) Supplier driven value-added strategy (2.2) Buyer driven value-added strategy (2.3) Joint value-added strategy. (3) Radical innovation strategies–future-oriented value production, which was subdivided into sub-strategies, e.g., (3.1) Supplier driven radical innovation strategy, (3.2) Buyer driven radical innovation strategy, (3.3) Joint/networked radical innovation strategy.

## **3. RESEARCH METHODOLOGY**

### **3.1 Design and Setting**

This research studied the comprehensive data from the industrial sector by means of the in-depth interview and employed the purposive sampling method which the sample groups were divided as follows:

- The sample group of the experts from government sector, foundations, associations and the other supporting divisions that help in promoting the garment industries in Thailand with experience related to the garment industry for no less than 10 years .
- The sample group of the chief executives from garment industrial firms with experience related to the garment industry for no less than 10 years. The types of manufacturers were the original equipment manufacturer (OEM), the original design manufacturer (ODM), the original brand manufacturer (OBM). In a case of brand positioning, there were levels of the brand positioning, e.g., the design-led brands, the market-led brands, the mass market brands, and the craft-led brands.

### **3.2 Data Collection and Analysis**

The data collection in this research was carried out by using the semi-structured in-depth interview. There were both discussion and some set questions in the interview. Additionally, the interview guide were generated, and developed from the conceptual framework of the research and was distributed to the interviewees prior to the interviews. The interviews were done at the determined locations and times. Each interview took approximately 1 hour 30 minutes. Each interview was recorded and transcribed. The information obtained from the interviews was analyzed by utilizing the NVIVO 10 qualitative data analysis software to process the data and data analysis.

## **4. FINDING**

### **4.1 Finding on types of learning interaction in exchange relationship**

From the interviews with the sample group in the garment industries, it was found that interactions in the exchange of relationships between the companies and the supply chain partners caused differences in the interactions for learning. Additionally, it was shown that the interactions for learning among the supply chain partners were different depending on the types

of manufacturers, the sizes of the business, the brand positions, and the distribution channels as follows:

**4.1.1 Unilateral learning**

The sample group consisted of the 6 OBM companies that were in Market-led brands and Design-led brands group (as shown in Table 1) and they were the retailers or the department stores’ tenants that trade on consignment. It was found that the exchange of relationship between the retailers and the department store was classified as the unilateral supplier learning. In addition, the retailers and their business partners established the value creation initiative in the exchange of relationship for information supply and transaction. The firms and the department store set the focus of coordination to efficiently send and receive the information between the buyers and the sellers, to increase business transaction-efficiency, to increase sales volume, to support sales promotion of brands, to create business revenue that agrees with sales space, to develop the brand’s products that meet customers’ expectation in each area of distribution, and to develop the image of the retailer’s sales space.

**4.1.2 Unilateral development**

The sample group consisted of the 6 OEM firms that were the manufacturers for exporting the products to the international brand buyers (as displayed in Table 1) and the sample group of 4 OBM companies that exported their own brands to the distributors or franchisees buyers. They were in the design-led brands, the market-led brands, and the mass market brands group, (as shown in Table 1). The exchange of relationship in this case, was categorized as the unilateral supplier development. The supply chain partner development came from sharing information between the buyers and the sellers; coaching; and problem solving for their partners such as sharing the sales information, supporting sales and marketing tools, monitoring on buyers or sellers for future development, coaching and training to enhance manufacturing-efficient, disseminating, and joint investment, etc. The exchange of relationship for the supply chain partners set the focus of coordination in various dimensions for example improving suppliers’ capability, enhancing the production efficiency, and developing sales and marketing.

**4.1.3 Bilateral learning**

The sample group consisted of the 2 OEM firms that were the manufacturers for the big buyers or conglomerates. It was found that there was the exchange of relationship as bilateral learning, which originated from the buyers and the sellers which are business partners. The buyers and the sellers shared their strategic knowledge. Additionally, the buyers educated and trained the sellers. Furthermore, the buyers and the sellers cooperatively solved the problems, developed the product and innovation. In addition, the buyers participated in specifying the sellers’ supply chain. The buyers also monitored and evaluated the seller systematically. Moreover, the buyers and the suppliers were reciprocal independence to each other.

Table 1. Type of learning interaction in exchange relationship

<i>Unilateral learning</i>	<i>Unilateral development</i>	<i>Bilateral learning</i>
<i>Main type of manufacturers:</i> OBM	<i>Main type of manufacturers:</i> OEM	<i>Main type of manufacturers:</i> OEM
<i>Brand position:</i> Market-led brands, Design-led brands	<i>Buyers:</i> Global brands	<i>Buyers:</i> Conglomerates
<i>Buyers:</i> Department stores	<i>Type of Business:</i> OBM	
<i>Type of Business:</i> OBM	<i>Brands position:</i> Market-led brands, Mass market brands	
<i>Brand position:</i> Craft-led brands	<i>Buyers:</i> Distributors, Franchisees	
<i>Buyers:</i> Duty free shops		
<i>Value creation initiative:</i>	<i>Value creation initiative:</i>	<i>Value creation initiative:</i>
<ul style="list-style-type: none"> <li>● Information supply</li> <li>● Information sharing</li> </ul>	<ul style="list-style-type: none"> <li>● Coaching</li> <li>● Problem solving</li> </ul>	<ul style="list-style-type: none"> <li>● Knowledge sharing</li> <li>● Coaching</li> </ul>

<ul style="list-style-type: none"> <li>• Transaction</li> <li>• Sequential interdependent</li> </ul>	<ul style="list-style-type: none"> <li>• Information sharing</li> <li>• Reciprocal interdependent</li> </ul>	<ul style="list-style-type: none"> <li>• Reciprocal interdependent</li> </ul>
<p><i>Focus of coordination:</i></p> <ul style="list-style-type: none"> <li>• Supply chain partner learning</li> <li>• Effective information supply</li> <li>• Effective transaction</li> <li>• Volume of sales per sales space</li> <li>• The image of distribution area</li> <li>• Event and promotion activities</li> </ul>	<p><i>Focus of coordination:</i></p> <ul style="list-style-type: none"> <li>• Supply chain partner development</li> <li>• Improving product development capability of supply chain partner</li> <li>• Improving production efficiency of supply chain partner</li> <li>• Developing sales &amp; marketing of supply chain partner</li> </ul>	<p><i>Focus of coordination:</i></p> <ul style="list-style-type: none"> <li>• Mutual learning</li> <li>• Strategic knowledge sharing</li> <li>• Enhancing efficiency and capability of suppliers</li> <li>• Co-product development</li> <li>• Joint innovation</li> </ul>

**4.2 Finding on value creation strategies in buyer-seller relationship**

According to the interviews with the sample groups, it was shown that the value creation strategies in buyer-seller relationship depended on the roles of buyers and sellers, the objective of value creation, and the management mechanisms of value creation.

**4.2.1 Matching core value strategy**

The findings derived from the sample group consisted of the 4 OEM firms (as shown in Table 2), which were the suppliers to the international brands and the domestic brands, and the 10 OBM firms that had their sale distribution channel through the department stores (as displayed in Table 2). It was found that there was the value creation strategy between the buyer and the supply chain partners as the Matching core value strategy. The buyer and the supplier were well accustomed to the activities and the value creation process. This process was defined as the matching core value process due to the ability of the buyers to utilize the products, whereas the suppliers supplied products of sufficient quality that met with the buyer’s demand. Both the buyers and the suppliers clearly perceive and able to acquire their benefits.

Table 2: Types of the firms and the sales distribution channels according to the matching core value strategy.

<i>Type of manufacturers</i>	<i>Buyers</i>	<i>Matching core value strategy</i>
OEM	Hi-end brands, Global brands	<ul style="list-style-type: none"> <li>• The selection of the suppliers based on the buyers’ requirement.</li> <li>• The learning and development to meet the buyer’s requirements and needs.</li> </ul>
OBM	Department stores	<ul style="list-style-type: none"> <li>• The brand image that increase a number of the department store’s customer.</li> <li>• The brand performance that increase revenue with the amount of sales space available to them.</li> <li>• The branding that can support the customer segment of the department store.</li> <li>• The brand identity that support the success of the department store.</li> </ul>

**4.2.2 Value-Added Strategies**

The sample group of 13 companies (as shown in Table 3) described value creation strategy between the buyers and the supply chain partners as a Value-Added strategy, which was divided according to the roles of the buyer or the supplier as the drivers of the value creation into these following strategies:

4.2.2.1 Supplier driven value-added strategy: the 3 OEM firms, which were the suppliers to the international brands and the domestic brands (as shown in Table 3), had the supplier driven value-added strategy, they uses the expansion or improvement of their offerings to maintain or increase their competitiveness such as increasing complex value offering to meet the buyers’ needs, customizing the production to satisfy a specific buyer need, etc.

4.2.2.2 Buyer driven value-added strategies: the 6 OEM, which were the manufacturers for the international brands, and the 1 OBM brand, who had the buyers as the regional brands (as shown in Table 3), had the buyer driven value-added strategies. The buyers uses their power to induce their core suppliers to improve their offerings such as the buyers required their core supplier to develop their offerings that met the new requirement, the buyers would also monitored and evaluated their core suppliers to improve their competence etc.

4.2.2.3 Joint value-added strategy: the 2 OEM companies (as shown in Table 3) had the value creation strategy between the buyers and the supply chain partners as the Joint value-added strategy which the buyers and the suppliers are both actively seeking improvement in their offerings and processes such as, by establishing the buyer-supplier networking, sharing and creating collaborative R&D competence among the net, mobilizing a developed net containing firms having the required capabilities, enabling a motivated combination of the competences of the buyer and the seller, co-product development and joint innovation by linking and coordinating the efforts of its key suppliers, etc.

Table 5: Types of the firms and the sales distribution channels according to the value-added strategies

<i>Type of manufacturers</i>	<i>Buyers</i>	<i>Value-added strategies</i>
OEM, ODM	Inter-brands, Regional brands, Local brands	<b>Supplier-driven strategy:</b> <ul style="list-style-type: none"> <li>• Modification within existing value system.</li> <li>• Incremental changing value system to increase complex value offering for the buyers.</li> <li>• Expanding and customizing value offering to satisfy a specific buyer need.</li> </ul>
OEM, OBM	Inter-brands, Regional brands	<b>Buyer-driven strategy:</b> <ul style="list-style-type: none"> <li>• Improving the offerings that meet the new requirement.</li> <li>• Developing the competence to response the buyer’s request</li> </ul>
OEM	Conglomerates	<b>Joint value-added strategy:</b> <ul style="list-style-type: none"> <li>• Establishing the buyer-supplier networking.</li> <li>• Motivating combination of the competences of the buyer and the seller.</li> <li>• Sharing and creating collaborative competence among the net members.</li> </ul>

**4.3 Summary of finding**

From the study, it can be summarized that there were 3 types of interactions in buyer-seller relationship and 2 types of the value creation strategies in the exchange relationship as shown in Table 6. This research further suggested that the objective of value creation were diverse various depending on the types and the boundaries of the buyer- seller’s business; they

also created a significant impact on the differences of the value creation initiative, the focus of coordination, and the value creation strategies in buyer-seller relationship.

Table 6. Learning interaction and value creation strategies in buyer-sell relationship

		<i>Buyers</i>			
		<i>Department stores</i>	<i>Distributors &amp; Franchisee</i>	<i>Hi-end brands, Inter-Brands, Local brands</i>	<i>Conglomerates</i>
<i>Sellers</i>	<i>OEM/ODM</i>	<i>Supply chain partner learning</i>	<i>Supply chain partner development</i>	<i>Supply chain partner development</i>	<i>Mutual learning</i>
		<i>Unilateral learning</i>		Buyer driven value-added strategy Supplier driven value-added strategy	
	<i>Bilateral learning</i>			Joint value-added strategies	
	<i>OBM</i>	<i>Unilateral learning</i>		Buyer driven value-added strategy Supplier driven value-added strategy	
	<i>Unilateral development</i>	Matching core value strategy			

**5. Conclusion and implications**

The purpose of this research was to study the significance of the value creation in buyer-seller relationship by exploring the value creation initiative, the focus of coordination, the roles, and the objective of the value creation in the exchange of relationship, in order to be able to indicate the interactions for learning and the value creation strategies that are appropriate for the types and the boundaries of the buyers and the sellers’ business. The researchers proposed some implications from this study that the value creation for each type of business has the different value creation logic; thus, there should be the interaction in the exchange of relationship and appropriately selection of the value creation strategies that can response to the objective of the value creation as follows:

- The value creation objectives in the supply chain relationship which are set at sales volume and image such as OMB Retailers & Department stores; and the value creation that focuses on matching product quality of the competitive offering for example OEM Exporters & Inter-Brands; in these 2 cases, the buyers and the sellers should have the value creation strategy that aims for the information sharing and the effective transaction.
- The value creation objectives in the supply chain relationship which is set at expansion or improvement of the offering to maintain or increase competitiveness; in this case the suppliers should have the value creation strategy that focuses on increasing complex value offering. The examples of the partners in this group are OEM & ODM Exporters & Hi-end fashion brands.
- The value creation between the supply chain partners which objectives are set

at developing of the offering to response the new requirement; in this case, the suppliers should have the value creation strategy that emphasizes on developing the competence that the buyers request; The examples of the partners in this group are OEM & ODM Exporters & Hi-end fashion brands, OBM Wholesalers & Distributors, OBM Exporters & Franchisees.

- The value creation between the supply chain partners which objectives are set at co-product development and joint innovation; in this case the buyers and the suppliers should have the value creation strategy that aims for strategic knowledge sharing, mutual learning, and establishing the buyer-supplier networking to motivate combination of the competences of the net members. The examples of the partners in this case are OEM Exporters & Conglomerates brands.

## 6. Limitation and future research

Data of this research were obtained from the sample groups consisting of 23 companies, and 8 experts in the garment industry in Thailand. The researchers attempted to collect the data from the sample groups that covered types and boundaries of the business in the garment and fashion industry in Thailand in order to be able to correctly indicate the types of the interactions and the value creation strategies for each business partner. Nevertheless, the data were obtained from 31 interviewees and the majority of the data also came from the firms served as the sellers or the suppliers; therefore generalization of the findings to be used in the other context must be carefully considered.

The research result represented the value creation logic that was obtained from the in-depth interviews; however, some exploratory research should be added so the research result could further be generalized. In addition, according to the research result, it was found that the value creation logic for each type of business was different, so there should be some extended in-depth research to study about the value creation in buyer-seller relationship with various types of business and different brand position levels. Furthermore, this research was a study of the value creation from collaboration between supply chain partners that was the vertical collaboration. As a result, there should be a future study about the value creation for different types of collaboration for example collaborative value creation in fashion brand alliance, co-value creation in LEs and SMEs firms, collaborative value creation in fashion industry and the other industries, etc.

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