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Identification of Market Assets and Relationship Merits as Major Sources of Sustainable Competitive Advantage in the Pacific Market

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I. Introduction

A variety of papers on relationship marketing have been published in recent years. The issues raised in the second research conference on relationship marketing include channel management, business-to-business marketing, consumer behavior, and marketing strategy (Sheth and Parvatiyar, 1994). But the benefits which can be derived from relationship marketing have not yet been clearly defined. Who are the relationship partners that are involved in marketing performance? Is it possible to apply the concept of relationship marketing to the study of international marketing? How can we compare U. S. trade policy and Japanese trade policy from the perspective of relationship marketing in Pacific trade?

This paper attempts to answer the questions above with special emphasis on the following issues : (1) The concept of market asset and relationship merit explained to discuss the competitive advantage of relationship marketing. (2) Different types of economies in Asia and their relationship structure are classified to describe major trade flows in the Pacific Rim countries. Special attention was also attributed to the impact of the Japanese Yen appreciation on the relationship restructuring of Asian economies.

II. Market Assets and Relationship Merits as Major Sources of Sustainable Competitive Advantage in the Pacific Market.

Something that benefits for a certain period of time in the future can be defined as an asset. Brand asset or good will accrue from the reliable relationships with customers or trade partners. Tangible assets are evaluated in the balance sheet. Intangible assets in the market system are defined as market assets. A company can enhance and develop market assets by the management of its relationships with the participants in the market system.

1. Where can we identify Market Assets?

Market Assets Related to Global Hierarchy of the Business Network: General Motors (GM) was the world leader in the automobile industry. As a global company, it established a network of business joint ventures throughout the world. The key anchors of GM's hierarchy are Opel of Germany and Isuzu of Japan. GM has enjoyed the domesticated demand from its network. Survival and growth of a joint venture company depends on the global policy of GM in addition to the competitive structure of its market. Through the joint venture, Opel and Isuzu were able to utilize GM's network to expand their marketing activities. Global business network is an essential market asset for GM, Opel and Isuzu.

Global companies can be divided into several divisions which compete against one another. Each division also has many business units throughout the world. For example, an affiliate of GM in Korea may have to compete against other affiliates in Taiwan and Australia.

GM's Korean partner, Daewoo, failed to utilize GM's network for its growth. The company regarded GM network as a barrier or a constraint for its future growth, therefore eventually ending its relationship with GM.

Market Assets Related to Environmental Organizations: General Electric (GE) took Iljin Diamond Company of Korea to court in the U. S. over patent infringement through the American legal system. The legal threat made by GE was published in detail as unfair treatment by the daily newspapers in Seoul. GE must have calculated its market asset in Korea when it decided to settle the dispute with Iljin Diamond Company.

Korean Air-Line (KAL) planned to add a new service to Europe via Beijing, China. If the company attains permission from the authorities concerned, KAL will be able to earn a stipulated amount of future profit which can be capitalized as market asset.

A company can develop mega-marketing or cause-related marketing to enhance the profitable relationships with environmental organizations. The term, "green", in green marketing implies the effort of a firm to relate public interest with superior marketing performance. Any investment to enhance the relationships with the media, academic societies, consumer organizations and other environmental agencies will result in an increase in market assets.

Market Assets Related to Group Affiliates: In a struggle to compete against a giant market leader, the market followers would organize a strategic group sharing symbiotic marketing programs. Kuk Dong Refinery Korea became an affiliate of the Hyundai business group. Therefore, it became much easier for Kuk Dong to receive large orders from the Hyundai group. Japanese conglomerates would manage financial institutions which supply the affiliates with funds needed. Japanese trading companies are directing the flow of the commercial and the financial functions among the member companies of the conglomerates. Membership of a conglomerate can be considered as a valuable market asset and a source of competitive advantage.

Market Assets Related with Suppliers: Buyer-seller relationships have proved to be very critical for the Just-In-Time marketing. While there has been research identifying the importance of consolidating relationships with the suppliers, very few studies concerning how much the asset value of the relationship is worth, and which factors are to be managed to enhance the market asset of the relationship have been conducted.

Market Assets Related with Distributors: It takes time and money to establish and maintain a distribution network. Potential profit gained from the distribution network can be capitalized as a market asset.

Customer-Related Market Assets: The value of relationships with customers has been studied in the area of either brand assets or brand equity.

Market Assets Related with Suppliers, Distributors and Customers: American Hospital Supply (AHS) linked hospitals and its suppliers to provide more efficient service to the hospitals. SABRE of American Airlines is an electronic market place which links customers, travel agencies and other airlines. Information technologies are heavily utilized to link participants of the marketing system.

It is easy to imitate the quality of a competitive brand. However, it is quite difficult to imitate the way of doing business which differentiates the level of integration of system participants. The strength of the relationship among the system components is a major source of competitive advantage, and therefore, can be regarded as a valuable market asset in the market system.

2. What are the characteristics of Relationship Merits?

Scale merit and Scope merit are widely known as the sources of competitive advantage. Scale merit (economies of scale) is the cost reduction of production or distribution when an operation unit increases its size of production or distribution. Scope merit (economies of joint production or distribution) is another form of cost reduction from which the use of processes within an operating unit produce or distribute more than one product.

As competition shifts from product-oriented competition to business system competition, the relationship structure of a business system creates merits and demerits to the system participants. Relationship merits are defined as the benefit which accrues from the market assets which the company developed by the efficient management of the relationship structure with participants in its market system.

Relationship merits are portrayed through the following hypothetical case example. Assume a case in which there are five beauty salons, 400 square feet respectively, which competed against one another but then decided to consolidate into one institute, "The Missy Scarlet." The new institute consists of one beauty salon (700 square feet), one skin care clinic (200 square feet) and one cosmetic and beauty supply shop (500 square feet). The Missy Scarlet subsequently added franchise networks in major cities. The Missy Scarlet had the following market impacts which typically affect the relationship merits on the part of the participants of the Missy Scarlet.

① **Development of a New Business Unit:** The Missy Scarlet was a new style of business unit in the market. Consumers were also able to solve their skin problems at the Missy Scarlet.

② **Restructure of Competition:** The Missy Scarlet enjoyed a monopoly position in the one stop skin care market. Hence, competition among small beauty shops came to an end. Manufacturers of cosmetics could not easily control the Missy Scarlet.

③ **Development of New Products and New Technology:** Consumers acquired an appropriate solution for their skin and beauty problems. The professional advice offered at the skin clinic was valuable in reducing consumers' costs.

Various types of skin problems were investigated by the researchers at the clinic and by the manufacturers of cosmetics. All the data gathered at the clinic, supply shop, beauty shop, and at a seminar with customers were passed on to the laboratory to develop new products and technologies.

④ **Cost Reduction:** Franchise operations of the Missy Scarlet were able to develop private brands at a lower cost.

⑤ **Sales Increase:** Attraction power of the Missy Scarlet became much stronger than the independent beauty salons or clinics. Members of the Missy Scarlet received a systematic and a scientific treatment for their skin problems. Satisfactory relationships with member customers generated a further flow of customers.

3. Cross Analysis: Market Assets vs. Relationship Merits

Market Assets are identified in seven different sources, while Relationship Merits can be classified into five categories. Cross analysis of the two dimensions can generate a seven by five matrix table. It might also be useful to identify prior researches and practices in relationship marketing by the cross table. The performance of relationship merits depends on the relationship structure of the marketing participants, which are the major sources of market assets.

Quick Response System (Q. R. S.), for example, controls tasks ranging from inventory management at every level of distribution channels to material supply management and production scheduling at the factories. Q. R. S. has also been adopted by the apparel industry.

Japanese General Trading Companies are very competent at organizing diversified business partners (sources of market assets) to generate a variety of relationship merits.

Levi Link of Levi Strauss after reducing their inventory cost, were able to increase sales and restructure the competition in the apparel industry. Alliance of Toyota and GM belongs to the group affiliation category of the market assets. The alliance generates relationship merits such as cost reduction, sales increase, and restructuring of competition.

Competition between GM and Toyota is shifting into a new type of encounter between the GM team and the Toyota team. Members of each team belong to sources of market assets. The performance of each team can be explained by the five types of relationship merits.

III. Relationship Restructuring of Pacific Rim Economies

1. The Relationship management : two track policy of the U.S. and FDI increase of Japan

The U.S. has increased its pressure to open the Pacific Market through the World Trade Organization (WTO:Multinationalism) and to protect the North American Market by NAFTA (North American Free Trade Agreement:Localism), creating the North American Economic Block which is almost equivalent to that of European Union in size. U.S. economists and politicians believed that the appreciation of the Yen could reduce enormous trade deficit with Japan and weaken the Japanese competitive power in the global market.

When one U.S. dollar equalled 300 Yen, Foreign Direct Investment (FDI) of Japan from 1976 to 1978 amounted to 12 billion dollars. Japanese FDI increased to about 103 billion dollars from 1986 to 1988 when the exchange rate of Yen to the dollar became 150. The stronger the Japanese Yen became, the stronger the Japanese competitive power rose. In 1995, the exchange rate of the Yen to the dollar reached 90 Yen, and hence Japanese FDI for the next three years will be more than 1000 billion dollars which will undoubtedly change the relationship structure of the Asian Economies.

2. Characteristics and Relationship Restructure of Asian Economies

(1) From North-South to East-West Trade Relationship

North-South Trade refers to the trade where manufacturing countries (North) export consumer goods to and import resources from the natural resource-intensive countries (South). Manufacturing-oriented countries developed alternative resources in reaction to the declaration of Resource Nationalism by resource-intensive countries. As a result, the trade between the developed countries (East-West Trade) increased, and the dual economy of the resource-intensive countries intensified.

(2) Emergence of Mass Markets in Low Wage Countries and Dependence on Japan

In the early 1960s, Korea was an agricultural country which had to import grain and cotton from the U.S. Since its small land could not provide for all of its people, Japan was wise to select Korea as its production base of consumer electronics for the domestic market and low-end mass markets in the developed countries. Japanese General Trading Company arranged financial programs and manufacturing facilities from Japan. For one dollar of export, Korean manufacturers of electronic products had to rely on the sourcing of its parts as much as fifty cents worth of the Japanese Yen. Even if the Japanese Yen was appreciated by 10 percent and the Korean Won by 5 percent, the manufacturer had to import Japanese parts at an increased price. If a company is managed by Japanese capital or technology, it is not easy to change suppliers from Japan to other countries.

Mass markets began to emerge as the low-waged employees participated in the industrialization process. These mass markets expedited commercial activities by stimulating the development of new products, distribution and consumption.

Demand for capital goods was derived from the industrialization process in the Newly Industrialized Countries (NICS) such as Korea, Hong Kong, Singapore and Taiwan. Japan being in the best position to meet these industrial demands, gained an excellent opportunity to test its quality and price in international markets.

Establishment of a production base using Japanese capital, technology and management know-how in low-wage / large population countries provided relationship merits and demerits to Japan and the host countries. For Japan, it was successful to penetrate low-wage / large population markets and low-end markets in the developed countries, which reduced production cost. Japan reduced trade conflicts with the U.S. through indirect exporting from the production bases in low wage countries. Joint venture companies in low wage countries suffered relationship demerits when the Yen severely appreciated.

(3) Original Product Development and the Growth of Multilateral Trade

Hyundai Motor Company decided to manufacture its own model of passenger cars. The company was lucky to develop its own original model, Pony, with the help of an Italian design company in 1974. Its engine and transmission were produced under the license of a Japanese motor company. Also with the assistance of U.S., England, Japan and Germany, parts suppliers were able to improve their quality. The model was very successful in competing against the imported cars from Japan and West Germany. The company introduced a series of new products, each of which created its own market in Korea as well as in foreign countries. Hyundai was quite free and flexible to select the best parts suppliers, technology, and know-how.

Hyundai was able to select horizontally and vertically related companies to launch superior products at a lower cost within a short period of time.

A joint venture company with GM was forced to make decisions under the constraints of GM's global strategies. It was not allowed to export its cars to the European and Asian countries where GM kept its assembly plants under the local joint venture agreements. Another motor company in a joint venture with Toyota investment enjoyed a reasonable growth rate in its own domestic market. It was regarded as a manufacturing wholesaler in its country by Toyota, and in turn, the company was forbidden to expand its overseas market.

NICS were Japan's first choice in building its overseas production bases, which were used as a basis to develop the domestic market in NICS and to penetrate low-end markets in the U. S. and developed countries. The export flow from Japan to NICS and from NICS to the U.S. and European Union caused trade conflict with the developed countries. Japan started to shift its production bases from NICS to mainland China, Malaysia, and Thailand which are regarded as new NICS in Asia.

The three cases above suggest an important criteria in selecting a foreign partner when a company is in that stage of foreign market development.

(4) Economies characterized by Production Factor Markets and Personal Markets

A gram of semi-conductor made by a man is much more expensive than a gram of gold. Synthesized fiber and textile, artificial rubber and super-engineering plastics are examples of artificial production factors. As a country moves into a technically developed era, demand for production factors increase rapidly.

The more firms a country has that export artificial production factors, the more its national competitiveness strengthens. Such innovation is highly regarded by society. In the process for forming an atmosphere in which creativeness of an individual is viewed very important, markets for computers, audios and cars for personal use will grow.

Korea imports artificial equipment and production factors from Japan to make products for exports to the U. S. and other countries. The recent Yen appreciation can provide momentum to shift cooperative relationships between Korea and Japan. Japan, a representative of the production factor exporting countries in Asia, will supply more foreign direct investment to build production and R&D bases in Asia.

(5) Economies distinguished by the Development of New Business and Intangible Goods Markets

Las Vegas is a man-made city in the middle of a desert. Just as water is formed through the chemical combination of hydrogen and oxygen, new types of businesses are created along with restructuring of inter-industry relationships. Through the multi-level spider's web of business networks, many firms are in the process of forming a large conglomerate as another form of competitive unit. The location of capital ownership was primarily used to link different organizations. Information technologies are currently utilized to link consumers, distributors, suppliers, banks and other related and supporting institutions. The U.S. is the leader in the area of organizational ecology.

(6) Japan Disease and its Treatment: Another Direction of Restructuring in Pacific Trade

Many firms in the Asian countries are suffering from so called, "Japan disease," a weakening of competitiveness due to a cost-push and a debt increase resulting from Yen appreciation. The appreciation of the Yen accelerated the trade deficits of Asian countries with Japan and Japanese FDI (foreign direct investment) in these countries. Accumulated trade deficits of Korea with Japan since 1965 amounted to 100 billion U.S. dollars by the end of May 1995.

The industrialization of Asian countries generated mass markets in Asia which caused a substantial increase in Pacific trade. It can be seen from the expansion of major airports in Asia such as Hong Kong, Osaka, Seoul and Singapore that there is a steep trade increase within and out of the Asian block.

The mass market attracted strong attention from developed countries. Relationship building of Asian companies with market leaders in Europe was used as a leverage to restructure their business relationships with Japanese companies. It is also the Asian companies who have a better understanding of the Japanese domestic market.

Unlike the European Union and NAFTA block, Pacific Rim countries are a mixture of different stages of economies: resource dependent-dual economies, low-wage-mass market economies, NIES (newly industrialized economies), New NIES, and Japan, the organizer and leader of Pacific trade. These economies are mutually complementary and will increase within-block trades by multilateral transaction as the positive sum logic is applied.

If Japan was located in Europe or North America or South America, the economy would not be as it is today. The U.S. has already realized the importance of Pacific trade. But economists may have to investigate further the role of the Japanese economy in Asia. Japanese influences are scattered all over Asian countries and the Yen empire has begun to accumulate competitive power to penetrate EU and NAFTA.

Another strategy has to be devised for the U.S. to compete against the Yen empire. The two track policy of the U.S. is not sufficient to build sustainable competitive bases in the Pacific Trade market.

Ⅳ. Conclusion

There have been many articles investigating the Japanese competitive advantage from the cooperative behavior of marketing participants in Japanese industry. But very few have noticed the growth of the Yen empire in Asia under the framework of relationship marketing.

The two-track policy of the U.S., NAFTA (localism) and WTO (multilateralism), will surely lead to penetration of the Pacific markets. The super Yen of Japan on the other hand is utilized as a strong thread to link Asian economies together. Japanese FDI has already established the Yen empire in Asia through the restructuring of the Asian economies. While the U.S. has placed more interest in the penetration of the Pacific market, Super Yen has consolidated Asian economies and cultivated Asian markets with built-in bases in Asia. Due to the appreciation of the Yen, Asian countries are suffering from debt increase and a trade deficit with Japan. They have to escape Japanese governance, by restructuring their relationships with Japan, the U.

S., and European countries.

This paper suggests the usefulness of such concepts as Relationship Merits and Market Assets in international marketing. Instead of looking for short-term profit, a company must maximize long-term market assets through the management of relationship building with various participants in the market system. In the age of global competition, a company should pay attention to the establishment of a cooperative relationship network, which is the critical market asset in international marketing.

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