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# **Trade Fair Business Development: The Role of Partnerships in Fiera Milano**

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## Executive Summary

Trade shows, trade fairs or trade exhibitions may vary in their names, but the basic function of all these events is the same. A trade show is an event that brings the manufacturers of products, suppliers, distributors, potential customers, and all those related service providers who manage to set up the exhibition of their products under one roof, in a given period of time and at a specific location or venue.

Partnering is another concept debated for more than 50 years by scholars. In reviewing the literature, there appear to be more similarities than differences in opinions concerning the definition of partnering. The most widely cited is “*A long-term commitment between two or more organizations for the purposes of achieving specific business objectives by maximizing the effectiveness of each participant resources. This requires changing traditional relationships to a shared culture without regard to organizational boundaries. The relationship is based on trust, dedication to common goals, and an understanding of each other’s individual expectations and values. (CII 1991)*”

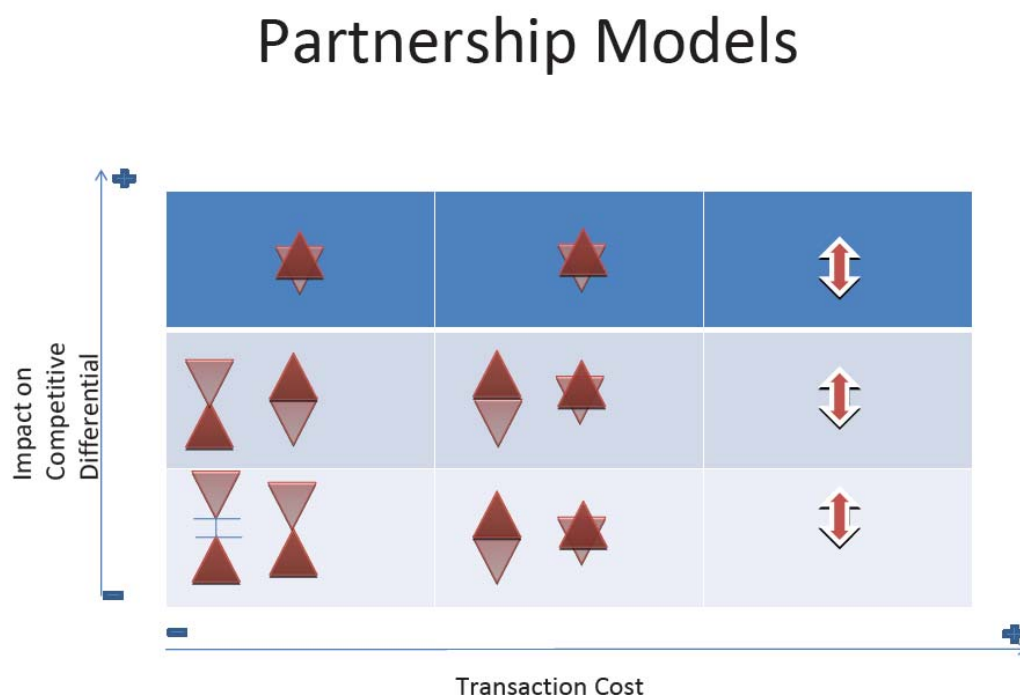
The trade fair organizer should think in 2 approaches to attract interesting clients to the exhibitions. In operative approach, trade fair organizer needs to have a good collaboration with service suppliers to increase customer’s satisfaction, sustain good relationship with clients, and turn them to be loyalty customers (exhibitors and visitors). In strategic approach, trade fair organizer needs to find an effective way to grow internationally. In this way, the organizer can attract more interesting clients to their exhibition to increase their incomes and profits.

The objective of this research paper is to understand the applicability and role of partnership in trade fair management.

A partnership mode is proposed by Vikash Sinha and I to understand the applicability of partnership with the help of transaction cost theory (Oliver Williamson, 1985) and the literature review result.



Figure1: Partnership Model



Triangle of different color stands for different companies. (Organizer and service providers in operative approach; new comer in international market and existing organizer in target market in strategic approach) The relative position of the triangles expresses the relationship between 2 parties (vertical integration, long term partnership, functional partnership and spot market)

In developing the partnership model, 2 variables (Impact on competitive differential and transaction cost) are used to define and describe the relationships.

**Impact on competitive differential:**

Impact on competitive differential means how important the service is for Fiera Milano to gain its competitive advantage comparing with other competitors.

High impact on competitive differential: These services make a real difference on competitive differential of trade fair in attracting key customers. Marketing and advertising have high impact because they convey the message that their fair has a different position with its competitors. With wide media coverage, trade fair attracts

more customers. The competence, organizational skill and management ability of organizers are keys to the successful organization of the trade fair.

*Middle impact on competitive differential:* These services can not make a real difference of the trade fair, but they are the backbone services which support the success the trade fair. For example, there are logistic services, reception, on line service, customized and common booth stand construction, advertise for exhibitors within Fiera Milano exhibition center, providing meeting center and so on. These services are quite related to customer's satisfaction in trade fair.

*Low impact on competitive differential:* These services are basic ones with little difference in any trade fair. For example, the food supply, flower supply, parking.

**Transaction cost:**

The idea from transaction cost theory by Oliver Williamson is used here. Frequency, asset specificity and uncertainty are the determinations. Search and information costs, bargaining costs, policing and enforcement costs are considered as specific costs related to transaction cost.

*High transaction cost* means the availability of service is with high uncertainty and it is costly to move the purchase from one supplier to another, because of the cost is high related with information searching, bargaining and confirmation of consistent service.

*Low transaction cost* means the availability of the service is with low uncertainty. It is easy to find the similar service by other sources. Usually the transaction frequency for this service is low.

Generally speaking on this partnership model, when the transaction cost is high, vertical integration is used. (Vertical integration means to acquire the other company) When the transaction cost is low, and impact on competitive differential is low, spot market is used. (Spot market means the common transaction as we usually see on the commodity market) In other cases, partnership is used. (Please also pay attention to the form of partnership: functional partnership with collaboration by departments; the long –term partnership which is supported by the top management from both companies)

Let me just interpret one example. Then the readers could understand the other similar cases of combination. Medium impact on competitive differential—Medium transaction cost: As both items are medium, the organizer prefer to establish partnership with service provider to ensure the quality and consistent supply of service. There are 2 choices for organizer, function partnership or long term partnership.

In order to understand the role of partnership, an explorative case study is appreciated for deeply investigation. The Fiera Milano case is under investigated in this paper. Fiera Milano is the largest exhibition group in Italy and a leading member in Europe. In this paper, qualitative research methodology has been used to find out the partnership and its role in trade fair management. The qualitative research approach is appropriate for this research because, this approach is associated with descriptive focusing on small-scale, in- depth understanding. Qualitative research approach gives full insights and deeper understanding regarding specific cases or events (Yin, 1989)

By interview and research of Fiera Milano, The key information is summarized in the following table.

Table 1: The Objective, relationship and drivers of relationship in Fiera Milano in both operative and strategic management

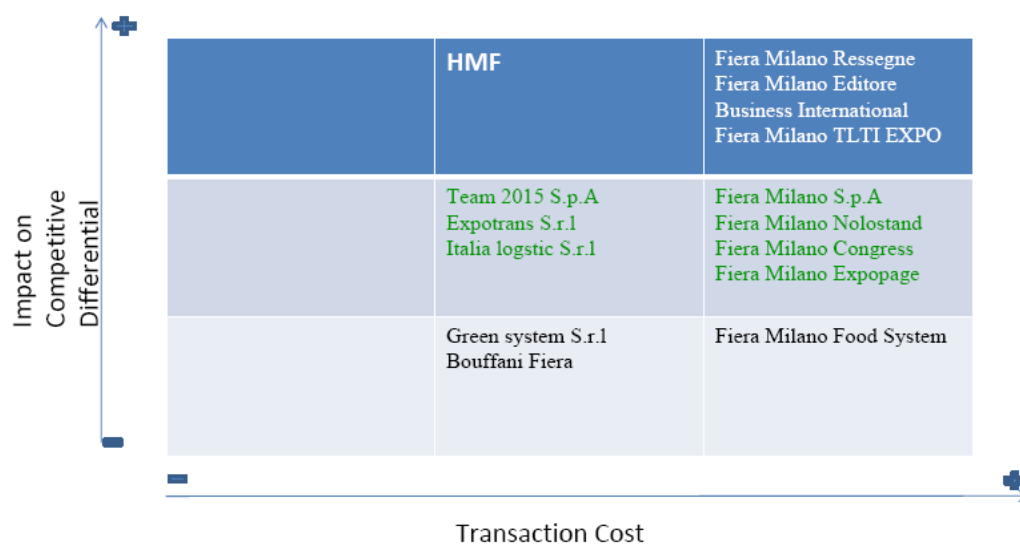
	Operational Management	Strategic Management
Objective	1,developing operation for the new events 2, promoting the event	International growth
Relationship Management	Vertical Integration and Partnership	Partnership

Drivers of Choice of Relationship	1,Manage events	1, cost of vertical integration
	2, Facility Management	2, "buy relationship?"
	3, skills	3, risk
		4, uncertainty
		5, profitability

The services related to Fiera Milano are plotted in the partnership model. There are 2 out of 15 services in the practical case of Fiera Milano which are *not* in consistent with the proposed partnership model. (The Fiera Milano food supply company and HMF—the joint venture company, the reason is interpreted in the main content of research)

Figure 2: Incidents of partnership with Fiera Milano

## Incidents of Partnership with Fiera Milano



In the operative approach, the service suppliers are grouped into 2 segments—the service suppliers owned by Fiera Milano group; the exclusive service suppliers.

The relationship between Fiera Milano and its owned service suppliers is Vertical Integration. According to the partnership model, when the transaction cost is high, which means it is really costly to find to the right service supplier, the company tends to use vertical integration to acquire the supplier.

Let us give an example on vertical integration case. The key factor of trade fair is to attract the key client. Due to this reason, marketing and advertising is really a must. Fiera Milano averagely organizes 70 trade fairs in a year, in this sense, the frequency of marketing and advertising is high (considering on different marketing channel, contacting different media, different topic for trade fairs related to diverse industries, etc). The department or agency working on advertising and marketing for trade fair should be specialized and familiar in trade fair promotion. This can be seen as asset specificity. The most appropriate marketing and advertising agency for trade fair should be an expert with the profound knowledge special in trade fair promotion. If the trade fair industry going down, when there are less business in promotion, it could be a problem for the agency. If the trade fair industry booms fast, the agency works for several clients. The agency may not serve all the clients well due to their limited resource. This could cause uncertainty for both the agency and their client. Considering all these factors, it is a good strategy for organizer (Fiera Milano) to own their own marketing and advertising agency because the transaction cost is high due to high transaction frequency, high asset specificity and high uncertainty. In the Fiera Milano case, Fiera Milano owns Fiera Milano Editore, Business international for marketing and advertising for the reason we have just interpreted. The same logic can be used to interpret the other services such as Fiera Milano Rassegne, Fiera Milano TLTI EXPO, Fiera Milano Nolostand, Fiera Milano SpA, Fiera Milano Expopage, MIC (Milano International Congress Centre), Fiera Milano Congressi.

Let us take another example to interpret why there is partnership. Take the flower supplier Green System S.r.l as an example, the transaction cost to find a flower supplier is low comparing with find an agency specialized in trade fair marketing and advertising. The impact on competitive differential of flower supply is low compared

with marketing and advertising. Due to the lower transaction cost and lower impact, the relationship between Fiera Milano and the service suppliers are positioned on partnership. Why is partnering relationship but not spot market? Good question. That is because trade fair industry is a service industry. In the service industry, the requirement usually comes at the last minutes. The spot market buying or contracts are not suitable in this condition. According to contract, everything is tight and fixed with little flexibility. Partnering provides more flexibility to service, quality service and collaboration between service suppliers and Fiera Milano.

For the success of partnership between Fiera Milano and its service suppliers, the following factors are critical: Frank discussion of expectation and equity, Support on partnership from top management, middle level management and operational level of the Fiera Milano and its service suppliers, Mutual trust, Effective communication and coordination, Continuously collaborative spirit, Mutual objectives and formal Commitment, Long term commitment, Continuous joint evaluation, Preparation and training.

In the strategic approach, Fiera Milano grows internationally for 3 reasons: 1) To develop events which are complementary to Fiera Milano portfolio. 2) To penetrate into the interesting target market and growing industry such as BRIC countries and automation technology, machine tools exhibition in China. 3) To attract key visitor internationally.

If Fiera Milano wants to grow in international market, it needs the support from 2 sources, local support and resource support (*financial resource and talent resource*). Local support can help the coming organizer to understand the local market better, contact the anchor exhibitors and visitors, establish a good relationship with local government and associations, selects the most effective media to promote the event and so on. Talent resource is always a key success factor for most of the industries including trade fair industry.

Fiera Milano is developing the exhibition business in BRIC countries through a strategic alliance with Deutsche Messe AG, leader in Europe and owner of the Hanover exhibition centre. Partnership is the way for international growth of Fiera Milano. Nevertheless, from the partnership model, it seems vertical integration is suitable for international growth because the impact to competitive differential and transaction cost is high to find a local trade fair organizer. However, there are 2 more factors to be considered. *“It is so costly to buy another exhibition company”, “It is easy to buy the company’s brand, how can you make sure that you have got the core competitiveness of the company”* Fiera Milano has the risk to keep the talent within the acquired company, to sustain the good relationship with associations, local government, media and service supplier and exhibitors and visitors and so on. Last but not least, vertical integration does not always work well. In the case that existing organizer has a really strong bargaining power in the existing market, the existing organizer prefer to use spot market method (contract for a period, such as one year) instead of being acquired by the coming company. In this case, vertical integration is not possible.

For the partnership of joint venture with Deutsche Messe AG, the critical success factors are: Clear partner roles, Equal sharing of risks and benefits, Top management support, Trust of the joint-venture manager, Manage crisis and conflict solving mechanism, The exist mechanism.

Considering all these factors, partnering is a good strategy in this situation. Partnering avoid the high cost of vertical integration and avoid the risk of loss in case the vertical integration is unsuccessful (the coming organizer can not sustain good relationships and keep core competitiveness). Partnership can bring the company the following kinds of benefits: easier access to the target market; gaining capabilities and market knowledge; sharing of financial risk; winning the political obstacle; achieving synergy and competitive advantage , combining the strength with partner to work compete more effectively and achieve better result.

## **Introduction**

In this section, the background, research purpose and research question of this study will be presented. These all will be followed by the limitations of this research.

### ***Background***

Trade shows, trade fairs or trade exhibitions may vary in their names, but the basic function of all these events is the same. A trade show is an event that brings the manufacturers of products, suppliers, distributors, potential customers, and all those related service providers who manage to set up the exhibition of their products under one roof, in a given period of time and at a specific location or venue.

The history of trade fair can go back to Ancient Egypt, the Greek Civilization and the Roman Empire, when journeying traders met local producers in market places and bazaars.

Nowadays the trade fair business is characterized by a continuously growing supply of fairs and exhibitions: fair organizers enlarge their field of activities on a worldwide level, while being engaged in international co operations.

Despite the prevalence of high-speed, electronic communications methods during the contemporary era, trade fair - as temporary marketplaces - continue to rank as one of the most dynamic and effective sales and marketing tools in existence. Fairs, as a complex mixture of information, communication and entertainment, are truly the only marketing communications media allowing the full exploitation of all five senses in an environment of face-to-face interaction.

Plenty of researches have done by scholars. For example, exhibitor organizer performance (Godar & O'Connor, 2001), (Munuera & Ruiz, 1993); Value chain view



of trade fair management (Golfetto, 2004); Factors contributing to competitive advantage of organizer ((Flynn and Flynn, 1994), (Collins, 2005); Books to the topic trade fair management (Kirchgeorg et al, 2005), (Marrow, 2002) and so on. These researches helps us to understand the role of trade fair and trade fair management from the perspective of organizer, exhibitor and visitor.

Partnering is another concept debated for more than 50 years by scholars. In reviewing the literature, there appear to be more similarities than differences in opinions concerning the definition of partnering.

Among all the definitions, the definition developed by the Construction Industry Institute (CII) in the United States is the most widely cited. The CII defined partnering as

*“A long-term commitment between two or more organizations for the purposes of achieving specific business objectives by maximizing the effectiveness of each participant resources. This requires changing traditional relationships to a shared culture without regard to organizational boundaries. The relationship is based on trust, dedication to common goals, and an understanding of each other’s individual expectations and values. (CII 1991)”*

Actually partnering is defined by researcher from different perspectives. For example, partnering is defined from *Instrumentalist view* by NEDO, 1991; Loraine, 1993; Bennett and Jayes, 1995; Evans and Bailey, 1996. Partnering is defined from the perspective of *Culture or behavior view* by Loraine, 1993. Some scholars claim that there is clear definition of partnering, such as Matthews, 1996, Crowley and Karim ,1995. However, all the researchers agree that fundamental principles of partnering— *commitment, trust, respect, communication, and equality*— should be designed to include proper consideration of the interests of all parties at every level.

Partnering is widely seen in the construction industry between client and main contractors and developing with subcontractors. Partnering brings the cooperation partners benefits on many aspects, such as *Better cost control, Better time control, Better quality product, Lower administrative cost, Better safety performance, Reduced litigation, Efficient problem solving, Closer relationship, Enhanced communication, Continuous improvement, Potential for innovation, Increased satisfaction, Improved culture and so on*. Since the beginning emerge of this concept, it seems partnering is destinate to play its role in and brings benefits in many aspects.

### ***Research Purpose***

By extensive literature review on trade fair, trade fair management, the topic “trade fair management” is really interesting. The trade fair industry is a booming industry which calls attention not only to the exhibitors, visitors, organizers, but also to the local government and other related stakeholders.

Lots of researches have been done by the previous scholars on many aspects, such as the function of trade fair on business, economic and social effect; the successful performance from the perspective of organizers, exhibitors and visitors; trade fair management model and methods and so on.

However, as we know, organizing a trade fair is really a very complex work. The organizer needs to coordinate with many stakeholders, such as visitors, exhibitors, services providers, associations and so on. As trade fair is such a complex work, the organizer could not do all the work by themselves. For sure, they need the support from other service providers, such as logistic service provider, flower supplier, media, catering service, accommodation and so on.

Partnering is an issue which is debated in many years in some industry, such as supply chain management, construction industry and so on. Previous researchers have debated a lot on the benefit of partnering, problems of partnering, critical success factors of partnering and so forth. However, according to my extensive literature review study, there are few research on the topic “partnering between organizer and service suppliers on trade fair management”.

Considering all these information, it seems to be interesting to understand the partnership between organizer and service providers in trade fair management.

### ***Research Question***

The aim of our research is clear and meaningful. We would like to do an explorative study on the partnership between organizer and service providers in trade fair management. The following questions should be answered in our research.

1, Why does partnering exists between organizer and service provider in trade fair management?

-- To justify the rationality for the existence of partnering relationship between organizer and service suppliers in trade fair management. (With the help of model developed by our work, the model is interpreted in the section 5.3)

2, Apply our finding to the case of Fiera Milano, understand the partnering situations in Fiera Milano, are the partnering relationships reasonable?

3, Understand the role of partnering in trade fair management in the case of Fiera Milano.

-- By the mean of a direct interview with key person from Fiera Milano

## **Limitation of research**

Thousands of trade shows are held all around the world and thousands of trade fair organizers are working for the shows. In our case study, it is an explorative research, especially based on the case study on Fiera Milano which is in the same city with my university—Politecnico di Milano. The resulting and finding of our study have limited effects, as it applies solely to Fiera Milano case. The research design provides a one side view of the relationship from the Fiera Milano side.



## **Chapter 1 Trade Fair**

### **1.1 Short history description of Trade Fair**

In order to understand the Fair and Exhibition, we could trace back to the history in order to get a sense the development of fair and exhibition by time.

#### *Ancient Times*

The historical traditions of trade go back to Ancient Egypt, the Greek Civilization and the Roman Empire, when journeying traders met local producers in market places and bazaars.

The Romans began to host fairs from itinerant locations to permanent places, thus developing a kind of "Fair Industry". In the Bible, a fair taking place in the town of Zor (now part of Lebanon) is mentioned in the Old Testament ("Ezekiel", Chapter 27). Herod King of Judea (37-4 B.C.) was the first to build a permanent fair centre (3,200 m<sup>2</sup>) with a wall around it, located in the town of Botana, and where archaeologists found evidence (coins mainly) indicating that visitors of this fair centre came from Syria, Egypt, Italy, Greece, Spain and France.

#### *Middle Ages*

The term "fair", which was only used for the first time in the Middle Ages, comes from the Latin word "feria", meaning a religious festival, usually taking place near a convent or a church. The same sense is to be found in the term currently used in German - "Messe", which derives from the Latin term "Missa", or religious service, at which the priest, on pronouncing the final words "ite, Missa est", declared the religious service at an end, thus giving the sign for the opening of the market, usually held in the church square. The first fair of this kind was the "Foire de Saint Denis"

near Paris, founded by King Dagobert in 629, and which by 710 was already attracting more than 700 merchants. (AUMA,2010)

The first fair which had not only cash-and-carry products, but also production means, was the Leipzig fair (Germany) held in year 1165.

Records found in the archives of the city of Utrecht (The Netherlands) also indicate that Bishop Godebald gave the city a charter in 1127, which included the permit to organize "fairs" outside of the town ramparts. At that time, the city of Utrecht already organized 4 fairs annually.

### *Industrial Revolution*

The process of industrialization, which began in the 18th century, required new sales and distribution channels, thus affecting the trade fair business.

During the 18th and 19th centuries, fairs indeed evolved from sites for direct sales to sites displaying a broad range of available goods: only samples of much more diverse product ranges were exhibited. These fairs were known as Sample Fairs (from the German "Mustermesse"), initiated for the first time by the Leipzig Fair. These sample fairs, with a wide range of investment and consumer goods, dominated the fair scene in Europe up to the middle of the 20th century.

In addition, at the end of the 19th century, and in the early decades of the 20th century, numerous exhibitions of national significance were organized, mostly dedicated to a specific theme, for example electricity, health or mechanical engineering, and primarily aimed at the general public.

### *Current Times*

After the Second World War, the fair business started following the trend of rising specialization of the economy. A large amount of specialized fairs, and consequently a broader diversity of fair locations, arose.

In particular, over the last few decades, the whole E. & C. industry witnessed to a first shift from generic trade fairs (that were quite similar to the aforesaid samples fairs) to specialized events dedicated to a specific sector and, afterwards, a second transition ending up in specialized events devoted to specific market segments. The following table shows the characteristic of the fairs among different time period in recent times.

Table 2: Evolution of the Role of International Fairs in Europe

<b>Typology</b>	<b>Exhibits</b>	<b>Attracted Markets</b>	<b>Visitors</b>	<b>Focus</b>	<b>Development Period</b>
<b>General Trade Fair</b>	All sectors	National-regional	General public	Scientific and technological innovations	1950-1960
<b>Show of Specific Sectors</b>	Offering from one sector, mainly national	National and foreign	Operators of the demand sector	Production of the specific sector	1970-1980
<b>Demand-Specific Show</b>	Technology and commodity aggregation; international offering	Segmentations : Geographic; Process-based; Productive issues,etc	Specific segmentation for business or consumer demand	Demand; Purchasing Process; Needs	1990-2000



Source: Golfetto, 2004

Despite the emergence of high-speed, electronic communications methods during the 20th century, fairs today - as temporary marketplaces - continue to rank as one of the most dynamic and effective sales and marketing tools in existence. Fairs, as a complex mixture of information, communication and entertainment, are truly the only marketing communications media allowing the full exploitation of all five senses in an environment of face-to-face interaction.

At the beginning of the 21st century, the fair business is characterised by a continuously growing supply of fairs and exhibitions: fair organizers enlarge their field of activities on a worldwide level, while being engaged in international co operations.

## **1.2 Type of Trade Fair**

Trade shows, trade fairs or trade exhibitions may vary in their names, but the basic function of all these events is the same. A trade show is an event that brings the manufacturers of products, suppliers, distributors, potential customers, and all those related service providers who manage to set up the exhibition of their products under one roof, in a given period of time and at a specific location or venue.

Trade shows are a bit like industrial versions of shopping malls: they are industrial examples of potential buyers visiting prospective sellers. And, like at the shopping mall, most attendees either have specific plans to buy a product in the category exhibited or at least exert some degree of influence on purchase decisions in the category (Trade Show Bureau 1986).

Nowadays the most widespread definitions of fairs is the following ones, also there is another concept Exhibition which is similar with Fair is also defined here.

- **Fair:** market events of a specific duration held at intervals, at which – with a predominant appeal to trade visitors – a large number of companies present the main product range of one or more sectors of industry and mainly sell to *commercial buyers* on the basis of samples;
- **Exhibition:** market events of a specific duration at which a large number of companies – with a predominant appeal to the *general public* – present a representative product range of one or more sectors of industry and sell it or provide information about this product range for the purposes of sales promotion (AUMA, 2005).

### *Classification by Nature of Audience Admitted*

The following classification is based on the nature of audience admitted to the fair, according to the literature review, the following classification could be made:

- **Business-to-Business fairs (B2B):** trade shows are commercial events dedicated to operators coming from the reference sector of the event. According to UFI definition the B2B shows have the following distinctive features: the exhibitor is typically a manufacturer or a distributor of products or services specific or complementary to the industries at issue; the typical buyer is an industrial end user or another distributor within the industry segment hosting the exposition. Attendance is restricted to these buyers and is often by invitation only. Business credentials or pre-registration are usually required to qualify the buyer as a legitimate member of the trade or industry. Visitors may also have to pay an access or registration fee prior to admission to the event; (UFI)
- **Business-to-Consumer fairs (B2C):** commercial events open to generic

public and are defined Consumer Shows. In these consumer events, typical exhibitors are retail outlets or manufacturers looking for exhibiting their goods and services directly to the end users. The primary purpose of a consumer (public) show is direct selling. Buyers (consumers) are brought together with sellers of goods and services and the former ones benefit from a diverse product mix, expert advice, education and entertainment while the latter ones benefit by consumer purchases, product and brand awareness, public relations, research and development, and product testing (Beier and Damböck - ©UFI, 2005).

### *Classification by scope of industry coverage*

- **General Trade Show:** display a mix of all areas of life and are mainly aimed at the public and general consumers
- **Multi-industry trade fairs:** display the basic and well-defined range of goods and services of several areas of industry or trade.
- **Specialized Trade Show:** Branch trade fairs or special interest fairs concentrate on manufacturers or customers of one sector of industry or of a very limited number of sectors, or even on specific services. As far as the catchment area and significance are concerned, these specialist trade fairs can have an international, national or regional orientation. (Beier and Damböck - ©UFI, 2005)

### *Classification by Geographic Scope*

- **National** trade fairs and exhibitions register visitors who come from a catchment area that extends well beyond the respective region;

- **Regional** trade fairs and exhibitions attract visitors mainly from that area;
- Trade fairs and exhibitions are classified as **international**, when they register both a substantial share of foreign exhibitors (at least 10% regularly) and a considerable share of foreign trade visitors (at least 5% regularly) and present the main product range of one or more sectors of industry (Kirchgeorg, 2005).

#### *Classification by the importance of trade show*

- **Premier trade shows:** are the most important international trade shows in a given industry sector or multi-industry sector.
- **Secondary trade shows:** exist alongside premier trade shows and focus on a national or regional market.

#### *Classification by the sales direction*

- **Export Trade Shows:** focus on initiating export relationships and deals.
- **Import Trade Shows:** focus on initiating import relationships and deals.

#### *Classification by trade show medium*

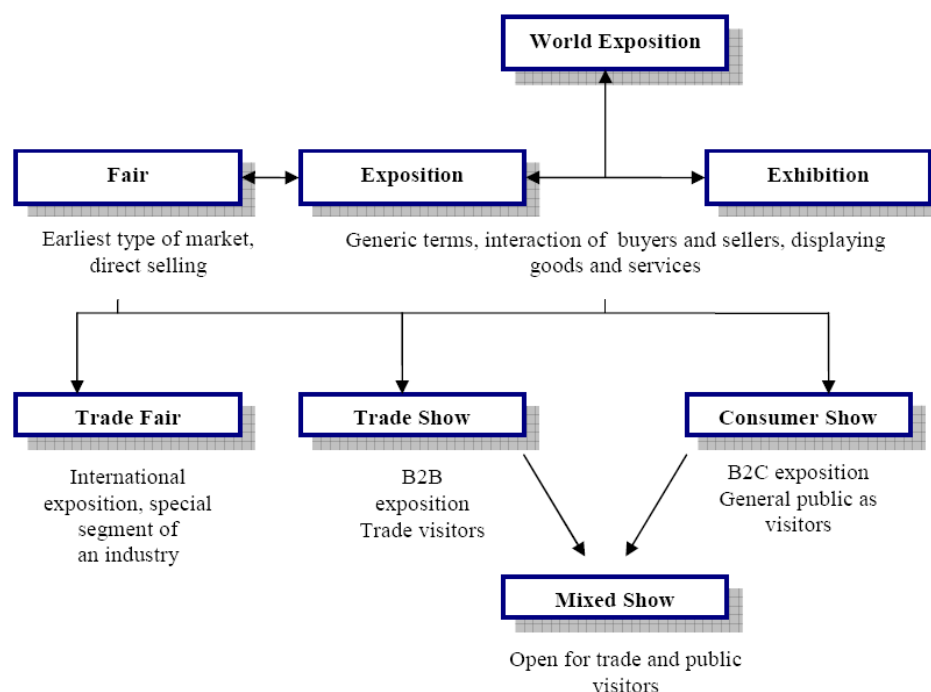
- **Traditional physical trade shows:** are bound to a specific exhibition ground, including halls and outdoor areas. Visitors and exhibitors must attend in person.
- **Virtual trade shows:** enable products and services to be displayed

permanently online. Visitors and exhibitors can attend online

The classification of trade fairs we introduced, in general, is solely for the purpose of providing a better and more comprehensive general description of the various trade fairs and is intended to show that trade fairs are by no means homogeneous entities. *“Each individual trade fair, whether it can be more or less clearly classified under one description or other, is in its own way unique and has its own characteristics, which change with the passing of time. Fairs reflect the market.”* (AUMA, 2005, pp.27).

Finally, the above content we explained can be summarized in the following graph, suggested by UFI, Union des Foires Internationales, the global association of the Exhibition Industry.

Figure 3: Classification of the Fairs



Source: Beier and Damböck - ©UFI, 2005

### **1.3 The effect and functions of trade Fair**

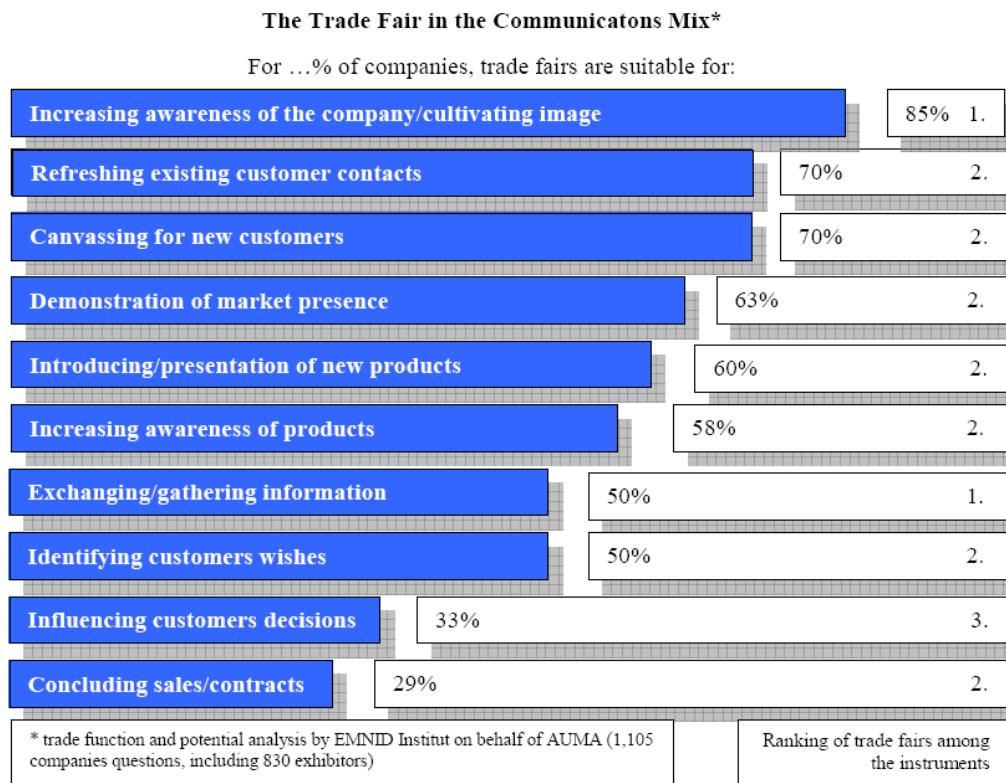
Thorough an extensive literature review, the following points could be found in books, research paper, on line resource, professional magazine, seminar, associations and so on. Trade fair has been playing an affective role in the marketing, business function for a company, the economic perspective and the social one.

#### **1.3.1 The role of trade fair in marketing communication**

##### ***The marketing communication role provide by trade fair***

Trade fair is a “medium” often used to accomplish a broad variety of different functions. With regard to the majority of the industrial sectors, trade fairs represent one of the most frequently used means for getting in touch with new markets, exhibiting innovations and the latest products, improving company and brand image, managing the relations with current customers or meeting and sizing up the potential ones. Moreover, as it’s possible to figure out by looking at the following graph, the fair “medium” ranks (look at the column on the right hand side) among the best suited and most used communications instruments (e.g. personal communication, advertising, public relations, etc.) for accomplishing the most varied functions and tasks related to marketing and communication.

Figure 4: The Trade Fair in the Communications Mix



Source: AUMA, 2005

Trade fair provides companies such a unique platform to promote its image, brand and the opportunity to establish a good relationship with clients. The high level of importance attached to such a kind of events is reflected in the considerable resources dedicated by the exhibitors for their trade fair participations: we mean not only the mere monetary expenditure necessary for taking part in the exhibition, but also the organizational and managerial efforts involving the whole organizational structure that shows off all its activities in a so highly competitive occasion.

Above all the other form of occasions, the trade fair event is conceived as the best suited circumstance for displaying innovations. That is because this event provides the platform for exhibitors and visitors to directly communicate with each other. Once the visitors raise some doubts on technology or the usage of the new product, the exhibitor could help them to clear the doubts on the pot.

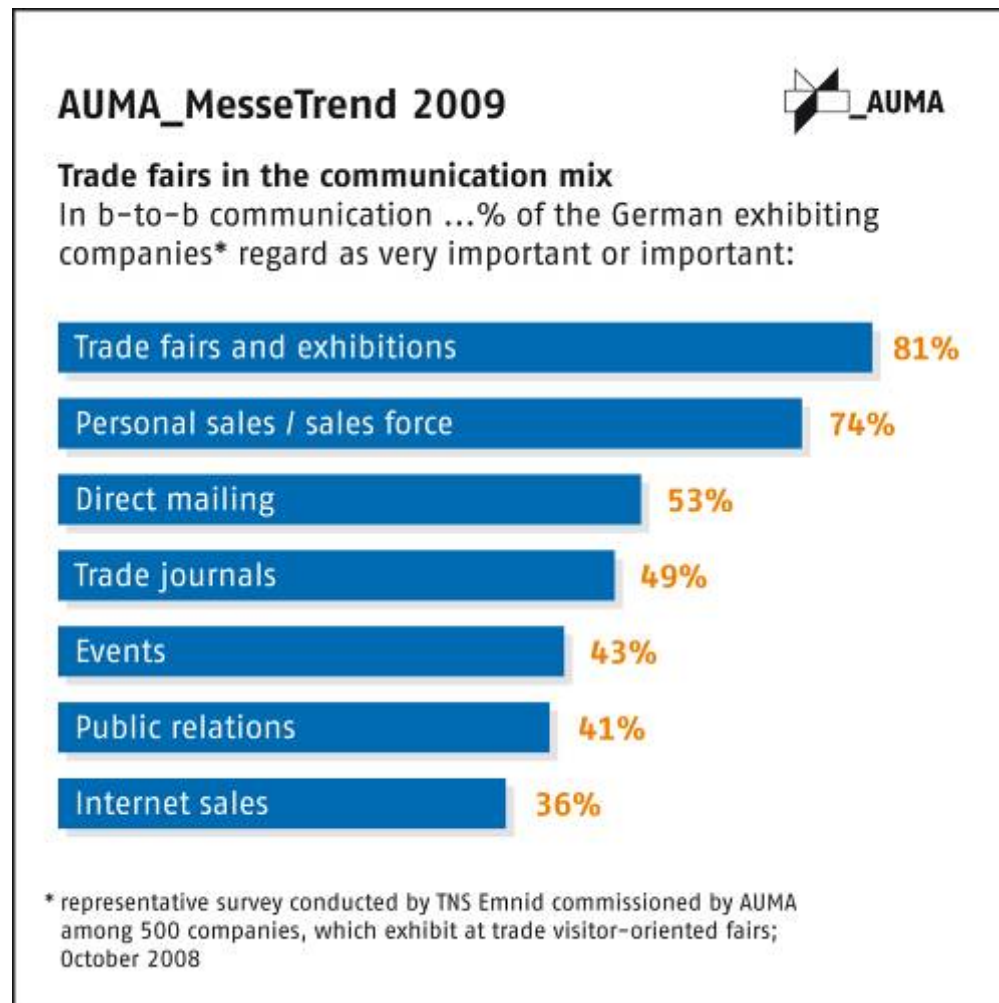
The trade fair provides such an opportunity that companies directly and in a specialist way facing and learning with the various competitors (e.g.: fashion fairs determine the meeting point for the main players involved in the reference sector; fairs concerning instrumental goods highlight the extent of technological innovation; events dealing with emerging markets or sectors represent the ideal situation for comparing internationalization strategies and the key competitors' diversified development approaches). Nevertheless, despite such an unanimously acknowledged relevance, the participation in a trade fair is rarely fully exploited if considering the particular features and requirements of the target (that is in the pre-purchase stage as it will be explained afterwards) and the characteristics of the medium structure (that's really effectively interactive).

### ***The importance of trade fair as marketing communication channel***

After checking the marketing communication mix function of trade fair, now we look at the perception of its importance as a medium comparing with other communication channels. AUMA (2008) reported that participation in a trade fair is a marketing activity, which includes elements of communication, pricing and conditions, distribution, and product presentation. AUMA found in its survey that the percentages of trade show exhibitors with the following goals for their participation were:

Figure 5: The survey result on importance of communication mix by AUMA





Source: AUMA 2008

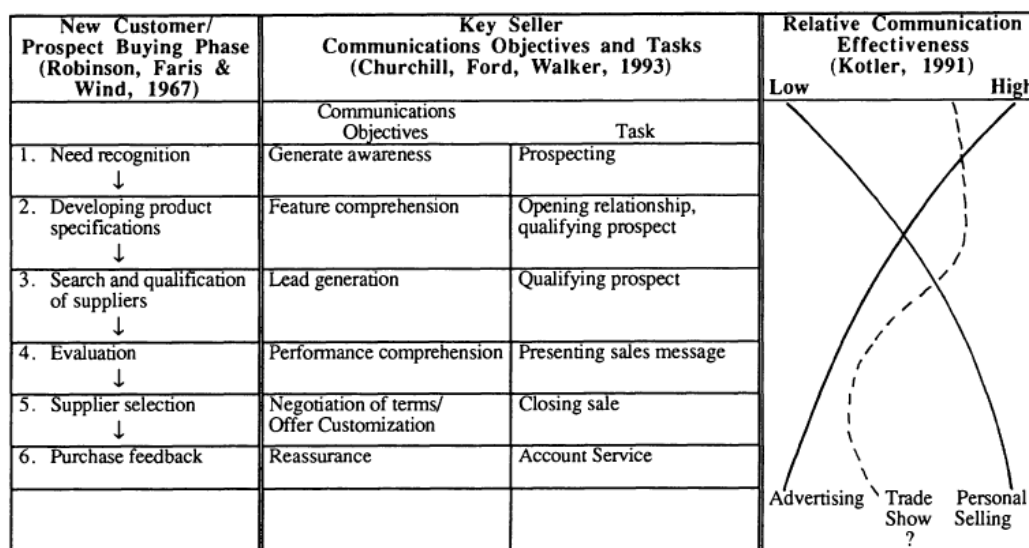
According to the above provided survey result, 81% of the companies taking part in trade fair and exhibition think that trade fair and exhibition is important as medium in marketing communication. 74% companies support that personal sales are important. Only 36% of the companies take internet sales as important communication channel as important. Nevertheless, according to the survey result, trade fair and exhibition are considered by most of the companies as the important marketing communication channel comparing with the other 6 channels.

### ***The Buying and Selling Process and the Communications Mix***

As agreed by the researchers in trade fair management field, the exhibitor/seller and the visitor/buyer have different aim in participation of trade fair. What is their aim, what is the buying and selling process, whether the communication between the 2 parts is effective? To answer these questions, the following 2 figure by different research period with the same research aim give us a really good in depth understanding.

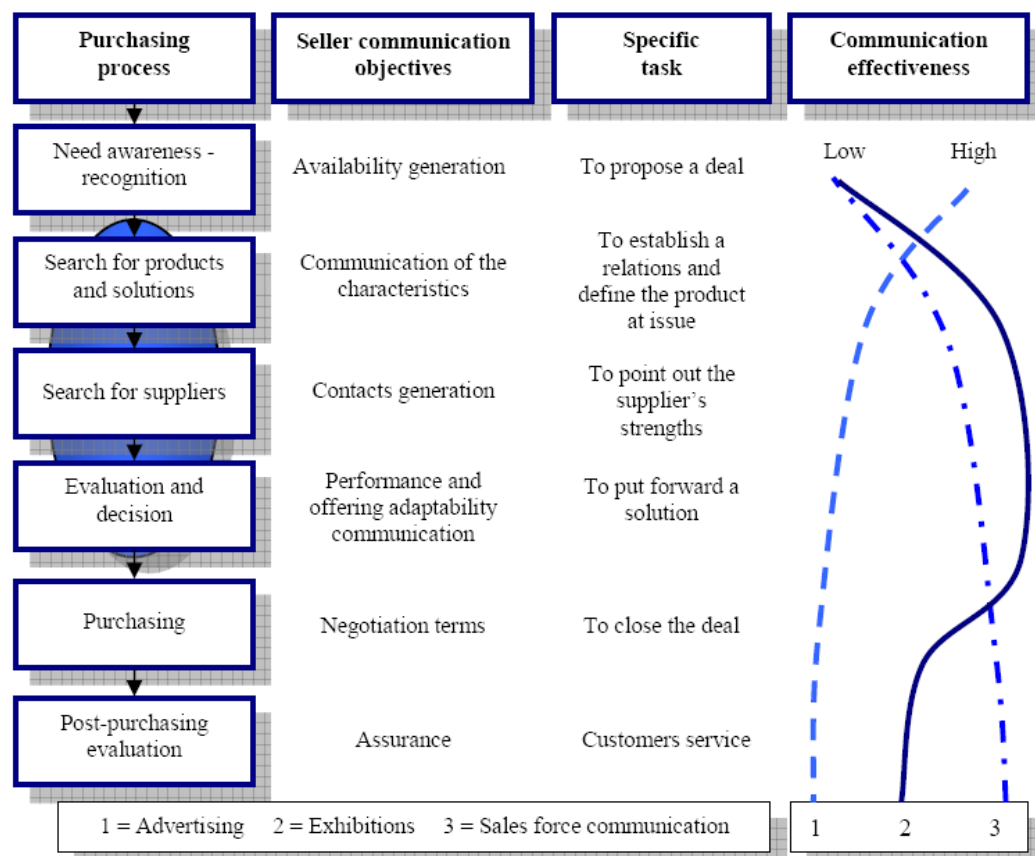
In the following similar 2 graphs, researchers Gopalakrishna, Lilien and Golfetto tell: the objective of new customers, the marketing communication objective of sellers and the relative communication effectiveness among them.

Figure 6: The Buying and Selling Process and the Communications Mix



Source: SRINATH GOPALAKRISHNA AND GARY L. LILIEN, 1995

Figure 7: Purchasing Process, Communications Objectives and Respective Effectiveness of the different Instruments



Source: Golfetto, 2004

To appreciate the role of the trade show in the marketing communications mix, it is useful to view the trade show in the context of both the buying and the selling process stages. Robinson et al. (1967), and many researchers since then have characterized the industrial buying process as a series of stages (see Wind and Thomas 1994). Column 1 of the exhibit highlights those stages. Buyers in these different stages have different information needs. Similarly, the seller also faces a multistage selling process that involves different communication objectives (Column 2), which in turn lead to different communication tasks for the seller (Column 3). As some of those objectives (like generating awareness) are handled more cost-effectively by impersonal marketing communications while others (like offering customization) by personal contact, most suppliers employ a mix of communication vehicles. The above graph also displays the relative cost-effectiveness of advertising and personal selling in

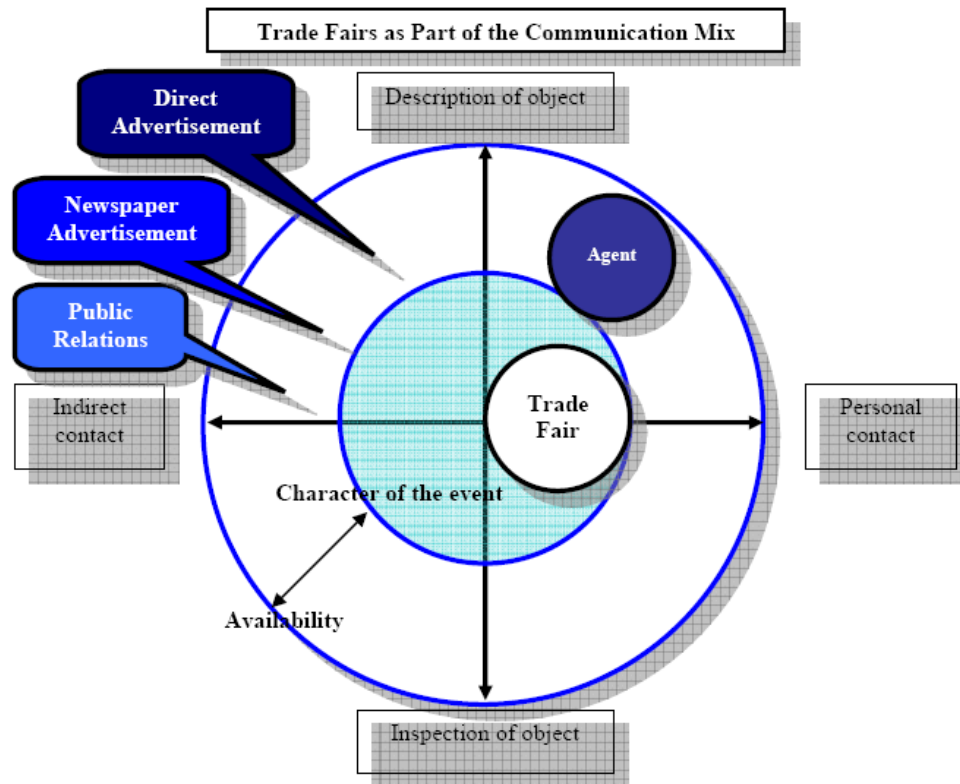
performing the needed communications tasks, depending on the stage of the buying process (Kotler 1991 ). In general, personal selling becomes more cost effective as the buyer moves closer to the selection phase (Column 4).

### ***The position of trade fair in marketing channel***

Where do trade shows fit in? The trade show is something of a mix between direct selling (usually there are some sales personnel at the booth) and advertising (the booth is designed to generate awareness, explain/demonstrate the product and answer key questions, even without the personal involvement of booth personnel). Trade shows can play a cost-effective role in the communications mix, especially in the early stages of the process-need recognition, development of product specifications and supplier search. Its cost-effectiveness diminishes as the buying process progresses toward evaluation and selection, but becomes a bit more cost-effective in providing feedback on product/service performance. On the seller (exhibitor) side, we see a similar picture: trade shows can be cost-effective in prospecting, opening a relationship, qualifying prospects, and even presenting the sales message (Churchill et al. 1993, p. 42).

The following figure could also be interesting. Horizontally, 2 factors (personal contact and indirect contact) are used to make a distinction. Vertically, description and inspection of the project are taken into consideration for analysis. With 4 variables, the parts of communication mix could be divided into 4 parts with different characteristics.

Figure 8: Trade Fairs as Part of the Communication Mix



Source: AUMA, 2005

Trade fair provides the visitors and exhibitors a platform on which they could directly contact each other. This function can never be replaced by other marketing tools such as public relationship, newspaper advertisement and direct advertisement. However, trade fair at the same time provides the organizer and exhibitor the opportunity to “experience marketing” which is unique among the trade fair occasion.

### 1.3.2 The business function of trade Fair

Of all the marketing instruments, trade fairs have by far and away the broadest range of functions: they serve the development and the cultivation of customer relations, the search for partners and personnel as well as the positioning of the entire company.

Trade fairs are test markets for new products and thus also market research

instruments. Trade fairs also serve to increase the level of awareness of the own company, to analyze the competitive situation and to prepare the sale of products and services. For young companies, in particular, it is important to have the opportunity to gain an overview of the competition, their presentation and their products. For this purpose, at an early stage of opening up a market, a visit to a trade fair can be sufficient. (UFI, 2009)

### ***Customer cultivation / Customer acquisition***

In business, the development of long-term customer relationships is taking the place of short-term thinking in individual transactions. Such links in the sense of relation management can be achieved particularly effectively through trade fairs, with which the customers are bound through quality standards that have proved themselves over many years as with a branded good. Trade fairs offer an ideal communication platform for the effective direct customer contact. The sales benefits for the exhibiting companies result from the contact opportunities with a powerful national and international buying clientele which extends well beyond the own circle of customers. As a result, frequently new additional markets are opened up. According to a study commissioned by AUMA, one-third of the visitors at German trade fairs are first-time guests at the respective event. Foreign visitors are particularly frequently first-time visitors. Almost every second foreign trade fair visitor (49%) is present for the first time, among the domestic visitors the figure is one in three (32%). Exhibitors, therefore, have excellent opportunities to win new customers by participating at a trade fair.

### ***Presentation of new products, technologies and services***

Especially as a result of their temporal and spatial concentration, trade fairs are perceived as events which make the many different sector trends visible and due to the spatial proximity of the respective competitors virtually demand that innovations are offered. Trade fairs are test markets for the acceptance of products ready for the

market as well as for prototypes and design studies. In particular, smaller and medium-sized companies benefit from a trade fair, because their innovations attract more interest in the spotlight of a trade fair than otherwise.

### ***Platforms for founders of new business***

Newly-founded companies need contacts to potential customers, sales and service partners and platforms for the public presentation of their products and their company. They can achieve all this directly by participating at a trade fair.

### ***Image improvement/Media effect***

Through attractive company and product information as well as competent communication, exhibiting companies strengthen their image among the visitors, but also among the wider trade public, because trade fairs are events with a powerful media effect. They are occasions that are widely used by the daily and trade press for intensive sector reporting. The topical media make use of trade fairs for reports on the situation in the sector and company reports; the trade press reports extensively on the exhibited products and design innovations.

### ***Benchmarking***

Due to the fact that during the trade fair the competitors present themselves to visitors in close proximity to each other, a unique competitive situation is created. The trade fair participation strengthens the consideration of the quality of own products and services and those of competitors. The trade fair is, therefore, within the sector, the classic instrument for benchmarking among competitors.

### ***Employee motivation/Employee recruitment***

Trade fairs represent a challenge in terms of logistics and planning for all concerned within the company, since their dates cannot be shifted. They thus create a powerful motivation for the achievement of company objectives. Surrounded by an impressive

trade fair stand, employees of exhibiting companies often feel motivated in a special way, to make contacts with customers and examine the competitive environment. In addition, trade fairs provide the exhibitors with the opportunity to meet potential new employees. Through the direct personal contact, the exhibitor can immediately obtain an initial idea as to whether the person would fit into the company. The arrangement appointments for an initial personal interview as well as the associated costs become superfluous.

### ***Personal communication***

The direct conversation between business partners and the joint experience generate trust and sustainability. At the trade fair the customer can extensively check out function and design, and pose his questions about them directly, explain his individual enquire and be provided with the appropriate counsel. As a kind of basic supply for the provision general information, the internet provides support for trade fair preparation and follow-up. The personal, trust-building communication cannot be replaced by this.

### ***Emotional approach***

Trade fairs are events for the senses: buyers want to assess product quality with all their senses. They want to see machines in action, feel fabrics and taste foods. At the same time, in marketing the emotional approach to the consumer is becoming increasingly important. These functions cannot be satisfied as effectively as by trade fairs by any other communications instrument. Therefore, even in the online age, trade fairs will continue to retain their leading position in the area of emotional product relations.

## **1.3.3 The economic function of Fair**

### ***Economic promotion for hosting region***



The conduct of trade fairs is of benefit not only to exhibitors and visitors, but also to a considerable degree to the regional economy in the catchment area of the trade fair city. In particular, the hotel and restaurant trades, transport companies as well as companies which render trade fair services for organizers and exhibitors, such as stand construction and logistics, interpreter and hostess services are the benefit. The regional economic effects at very international trade fair centers, amount to five or six times the turnover generated by the organizers. Trade fairs thus secure jobs on a considerable scale in the region, especially in small and medium-sized companies.

In addition, substantial additional tax revenues are created for cities, federal states and the federal government. Investments in a trade fair, combined with an attractive programme of events for the industry are consequently always investments in the location. The direct expenditures of visitors and exhibitors also lead to increased production and employment in up-stream sectors of industry. Trade fairs, therefore, promote industry well beyond the region and thus reinforce the overall economy.

### ***Market formation and market cultivation***

Trade fairs bring supply and demand together for a limited period of time in a concentrated manner. The market participants get platforms for interaction on a regular basis. These platforms contribute to the stimulation and development of markets. Trade fairs thus coordinate the interests of industry and trade.

### ***Creation of market transparency***

Trade fairs provide a comprehensive market overview and thus create one of the preconditions for a functioning market economy. Nowhere else buyers obtain such a comprehensive overview of the product ranges of a sector, make direct comparisons among extensive sellers and communicate personally.

### ***Platforms for the export expansion***

Trade fair provides the national and local companies the opportunities to expand their business abroad, to attract the foreign customers to the hosting country, to build a platform to export their products internationally. In this sense, the participation at trade fairs is one of the key reasons for the export success.

For example, the positive economic development in Germany in the last few decades is not least attributable to the German trade fairs with an international appeal. As “home game” trade fairs, they enable many German companies to make a start on world markets. Vice versa, the strong position of German industry on the world’s markets has made a significant contribution to the growth of German trade fairs, that are world-wide leading. The position Germany has reached as world export leader thus is closely connected with the development of the German trade fair industry to become the world market leader from the founding years of the Federal Republic of Germany to this very day. (AUMA,2010)

Without the marketing instrument of the trade fair, in particular, small and medium-sized German companies would have fewer opportunities to open up international customer potential. The participation at trade fairs is one of the key reasons for the export success of the medium-sized and smaller companies, which form the backbone of German industry.

The similar cases could also be found in Italy, France and some other European countries.

### **1.3.4 The Social Function of Fair**

#### ***Transfer of knowledge***

Trade fairs and congresses have always been platforms for the exchange of knowledge. Knowledge means information that is processed, refined and placed in the

right context. In today's knowledge-based society information has become a decisive resource. The production, selection, filtration and channeling of information is thus becoming one of the most important tasks in a national economy. For this reason trade fair-accompanying congresses and congress-accompanying trade fairs are increasingly frequently regarded and made use of as an attractive form of knowledge transfer with a rapid response.

### ***International understanding***

At trade fairs the international community of a sector meets. The interest in a joint sector marketing as well as in international contacts and cooperations overcomes political and geographical borders. In the direct exchange at close quarters, new ideas can be conveyed and national as well as cultural characteristics effectively communicated in the sense of multinational understanding. The intensification of trade associated with trade fairs not only has the obvious economic effects, but also an equally important positive influence on peaceful coexistence and friendliness of the various nations. Trade fairs are media of the personal border-crossing dialogue and, in this spirit, can also be described as "Marketplaces of international understanding".

### ***Contacts between business and politics***

Trade fairs reinforce the interest of the political institutions for a sector of industry. They offer a platform for the dialogue between representatives of companies and associations, on the one hand, and the representatives of government and parliament, on the other, on sector-relevant questions of finance, economic and social policy. At the same time, the trade fair city is a focus of attention for political decision-makers from home and abroad.

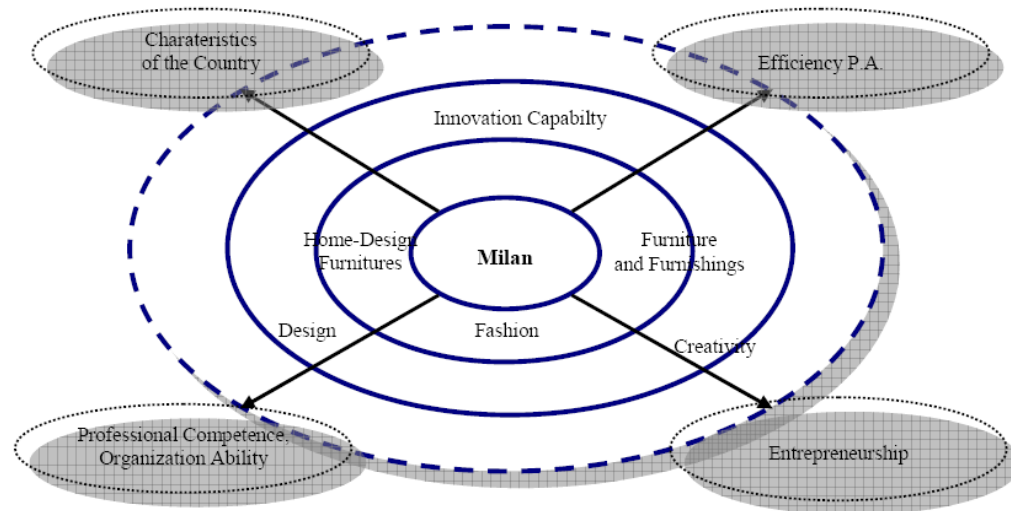
### ***The Social Effect of Hosting Area***

Fred Lawson, analysing the London exhibition facilities concluded that "... *in considering the motivations for taking part in exhibitions, the objectives are much*

*broader and more complex than creating sales. Exhibitions provide a means of demonstrating the latest products on offer and of reassuring prospective and existing customers of progress and achievement. These intangible benefits for a city or town cannot be easily quantified but are evidenced by the publicity and reputation gained...” (Lawson, 1983).*

Experts are used to include in the benefits of exhibitions the tertiary benefits: benefits to exhibitors, visitors and nation states which have a wider and longer-term perspective than short term sales or immediate regional benefits (©UFI, 1998). With regard to these intangible benefits, it is necessary to highlight the induced communication effect linked to the events. This concept concerns the propagation of the contacts made during the fair; such a propagation is amplified by the opinion-makers and divulged on a much broader audience than the one taking part in the fair at issue. Above all, those events that arouse a great deal of interest become extremely popular with a huge amount of targets (in addition to the attendees) that find out about the event hosted in a certain territory thanks to newspapers, radio, TV, web, etc. And thousands of people that receive a message concerning the hosting city, in addition to the information regarding the fair, associate the facts and the presentations of the event itself with the distinctive traits of that city. Thus fairs spread the reputation of the hosting area, connoting it with the productive competencies which are shown during the events. Let's consider, for example, the associations of ideas people have with regard to Cannes and the cinema industry, Hanover and technologies, Milan and fashion and design (Golfetto, 2004). As a consequence it emerges a sort of “place of origin effect” that is reflected in an improved and boosted image of the local enterprises that, in turn, brings up the related incomes and the export activities.

Figure 9: Milan connoted by the Contents of the Main Fairs Hosted



Source: CERMES Bocconi, 2004



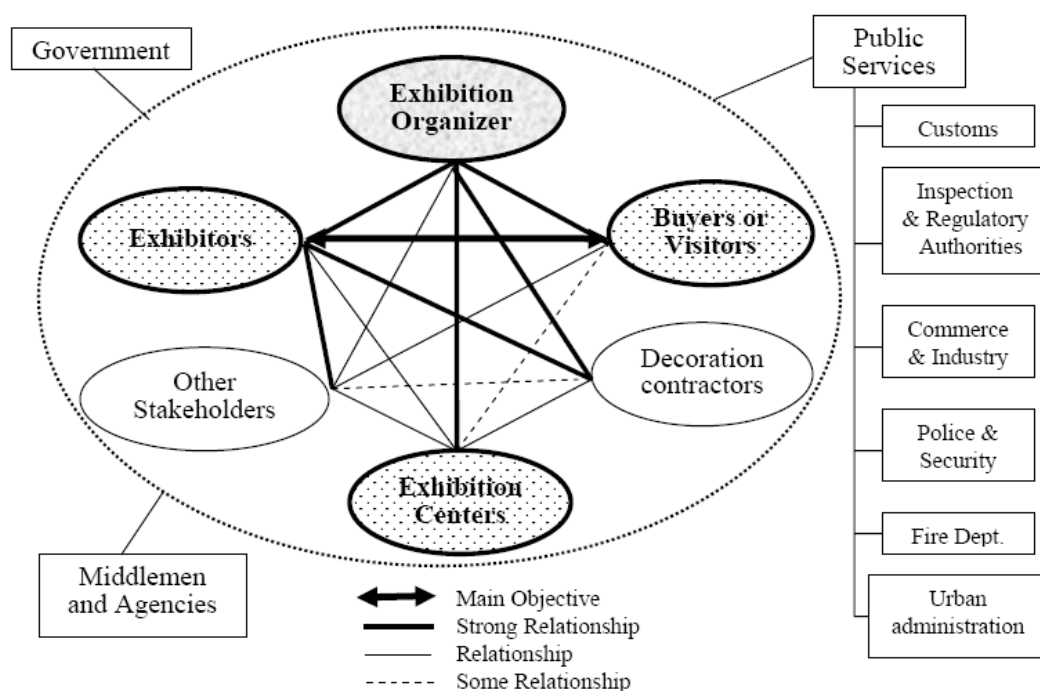
## **Chapter 2 Trade Fair Management**

### **2.1 Snapshot on stakeholders in trade fair**

The main stakeholders in the exhibition industry are exhibition organizers, exhibitors, visitors or trade buyers, exhibition centers, and decoration contractors and other service supplier. The other service providers are freight forwarders, transport and travel agents, hotels, conference organizers, public relations, and promotion agents.

The main objective of an exhibition is to create business between the exhibitors and trade visitors (or trade buyers). Liu's (2006) figure showed the strong between exhibitors, decoration contractors and other stakeholders. Outside the main core, there are the government supporting and regulating authorities, public service, middle men and agents. Public service includes customs, inspection and regulatory authorities, commerce and industry, police and security, fire department, and urban administration. Liu (2006) showed the relationship between exhibition organizers and other stakeholders in the following Figure.

Figure 10: Stakeholders in the exhibition industry



Source: Liu, 2006

## 2.2 On the perspective of exhibitor

### 2.2.1 The purpose of exhibitor in trade show

Studies of exhibition performance from the exhibitors' perspective focused on selling goods, including those on exposure to exhibits (Cunningham & White, 1974), booth contacts (Banting & Blenkhorn, 1974), overall sales (Bonoma, 1983), awareness of new products (Bello, 1992), tactical and strategic recommendation to improve the use of exhibitions during new product introductions (Barczak, Bello, & Wallace, 1992), and the motivation behind exhibition participation (Shoham, 1999). By the side of extensive literature review, the purpose of exhibitor in trade show can be grouped into 2 groups: promotion objective and sales objective. The following table is provided in order to help understanding the objective in a structure way.



Table 3: The literature review result on the purpose of exhibitor in trade show

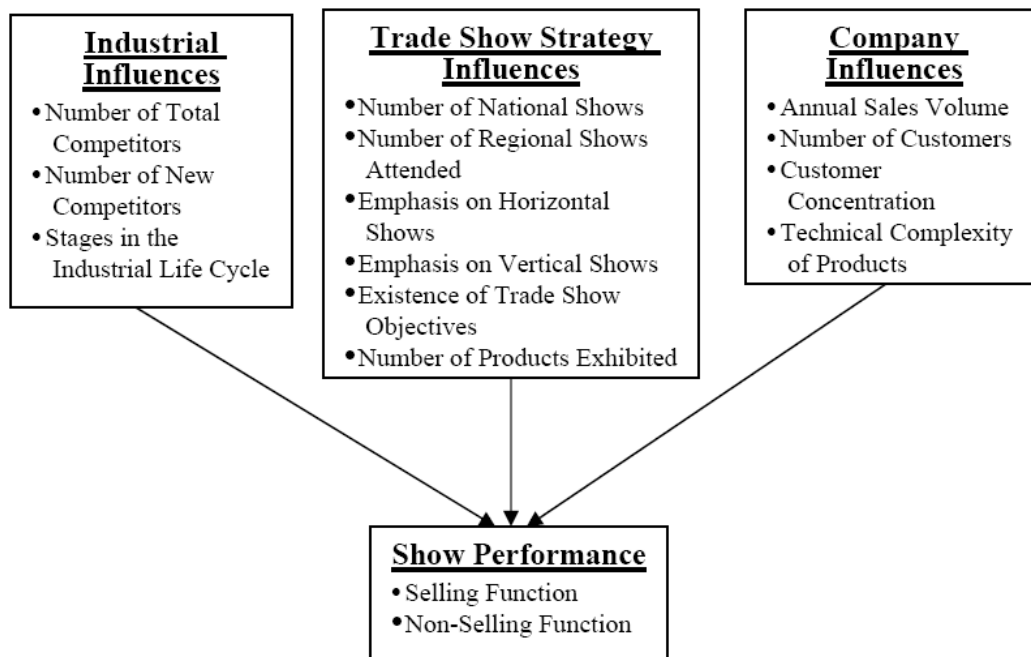
Promotion Objective	Introducing new products/services
	Entering new markets/regions
	Educating customers about our products services
	Gaining publicity or press coverage
	Accumulating competitive information
	Showing dealers how to effectively promote our product/service
	Promoting awareness of company and capabilities
	Handling customer complaints
Sales Objective	Meeting key customers
	Identifying new customers
	Generating sales leads from existing customers
	Generating sales leads from new customers
	Taking orders for products/services
	Reaching high quality prospects
	Conducting business with other exhibitors

### 2.2.2 Models review on trade fair management by exhibitor

Kerin and Cron (1987) were some of the pioneers in EP (Exhibition performance evaluated from the perspective of exhibitor and visitor) study. They identified two functions – sales and non-sales in the EP, as presented in the following figure. They grouped three dimensions:

- 1) Industry or competitive forces,
- 2) Choice of vertical / horizontal exhibition, international / national / regional exhibition and the topics of exhibitions (however, they did not consider organizers and location),
- 3) Internal factors of the exhibitor (company).

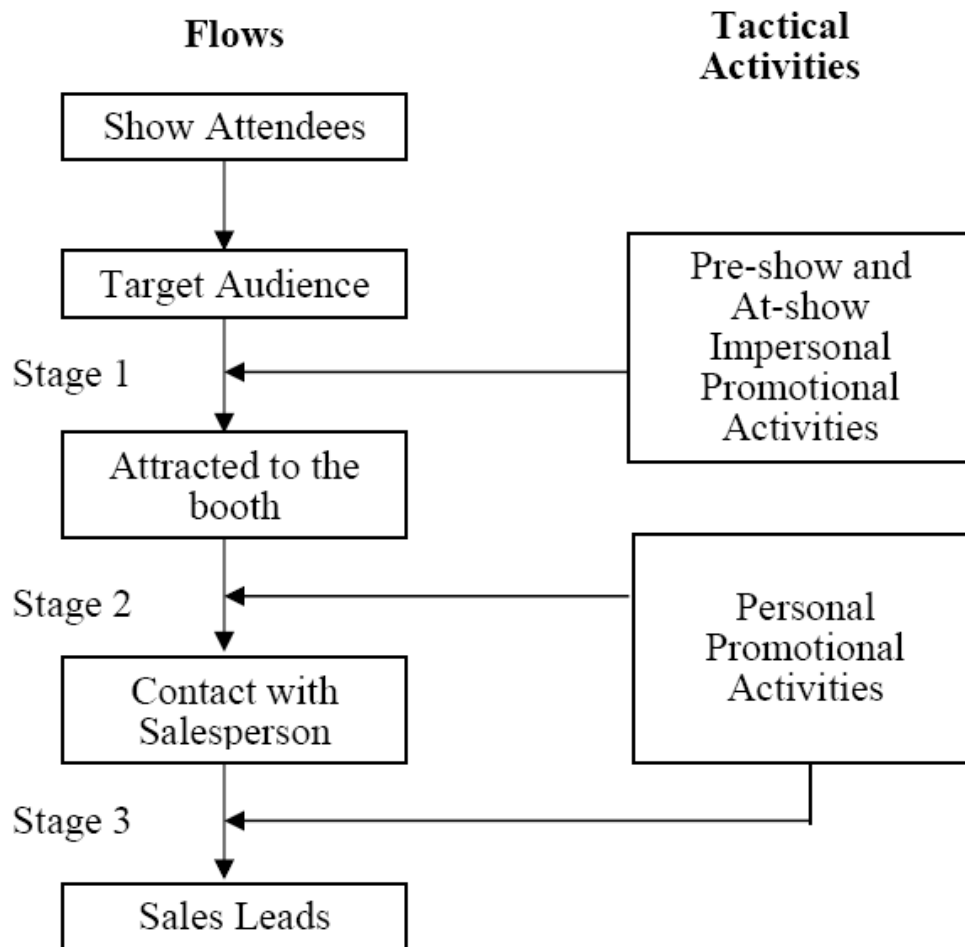
Figure 11: Variables affecting trade show performance



Source: Kerin & Cron, 1987

Gopalakrishna & Williams (1992), Gopalakrishna & Lilien (1995) and Gopalakrishna et al. (1995) approached exhibition performance from another angle. They studied how to attend an exhibition effectively. They modeled the impact of pre-show promotion, booth space, use of attention-getting techniques, competition, number and training of booth salespeople on the extent of attraction, contact, and conversion. They suggested a three-stage model of trade show performance, which measured the ratio of the target audience who visited the firm's booth, the ratio of those attracted who were contacted, and the ratio of those attracted who became effective leads.

Figure 12: A Three-Stage Model of Industrial Trade Show Performance

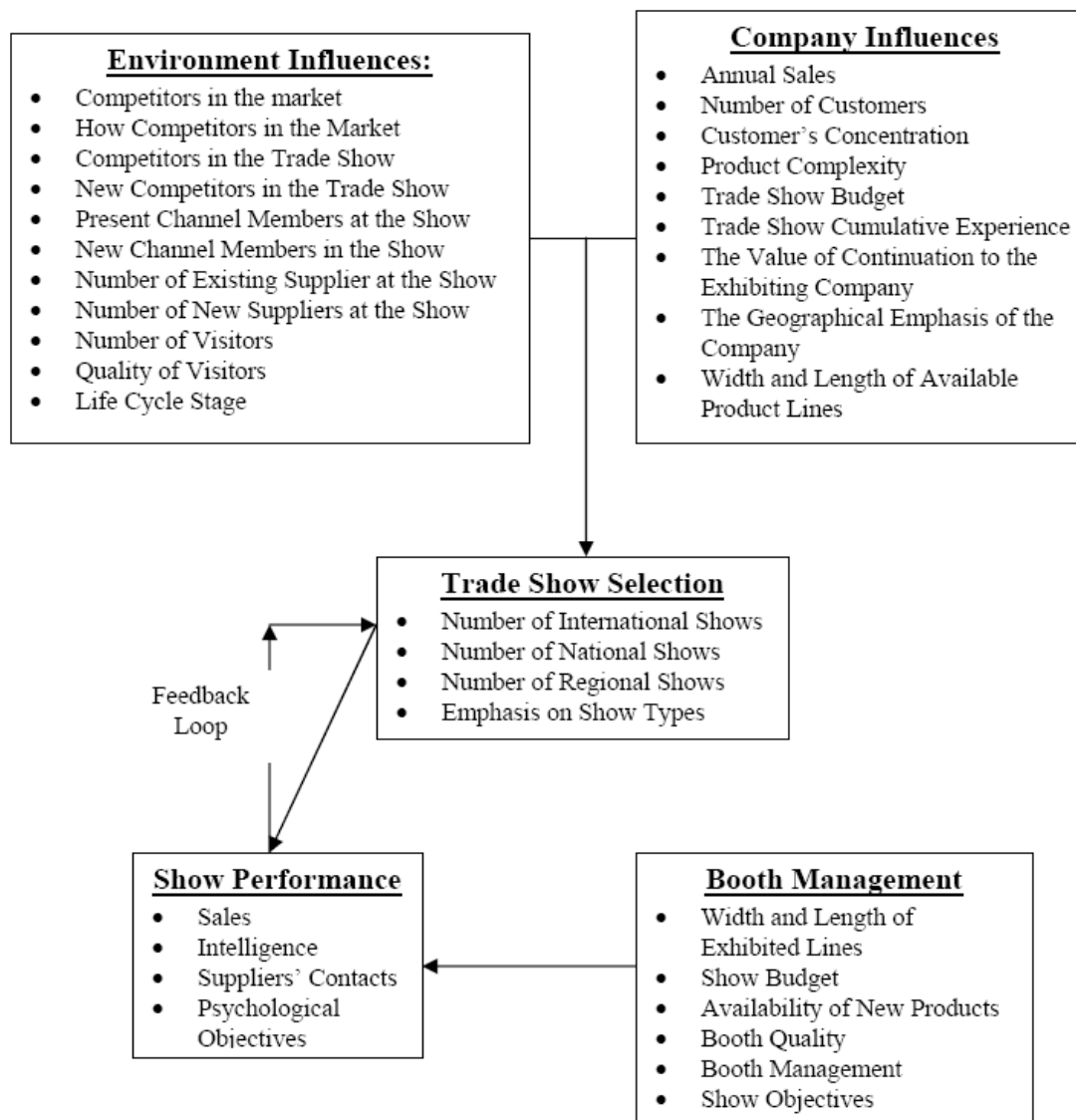


Source: Gopalakrishna & Lilien, 1995

Shoham's (1999) used information based on previous exhibition performance, especially that of Kerin and Cron (1987) and Gopalakrishna & Lilien (1995) and developed a general model using a five dimensional model, incorporating environmental influences, company influences, trade show selection, booth management, and trade show performance. Finally, Hansen (2004) analyzed the previous studies and found little agreement exists regarding how an exhibition performance should be conceived or assessed in different exhibition performance literature. He then distinguished the previous findings in two main activities (outcome-based and behavior based). The behavior can further breaks down to

information-gathering, image building, motivation, and relationship-building.

Figure 13: A General Model of Trade Show Performance

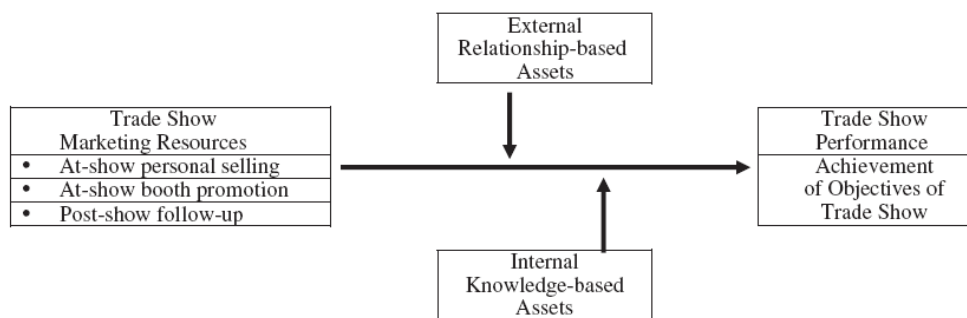


Source: Hansen, 2004

The following model is a resource based view exhibitor. A firm's resource assets are principally of two types: relationship and knowledge. Whereas relationship-based resources are outcomes of the relationship between the firm and key external

stakeholders like customers, channel members, and other strategic partners, knowledge-based resources are the types of knowledge a firm possesses concerning its competitive environment. The theoretical model used here indicates that relational and knowledge assets have important moderating effects on the trade show resource decisions–performance relationship.

Figure 14: Resource based view of exhibitor



Source: Brush & Artz, 1999

## 2.3 On the perspective of visitor

### 2.3.1 The purpose of visitors on trade fair

According to the literature review, the targets for the visitors joining the trade fair are the following items:

- Buying exhibited products
- Contacting potential suppliers
- Seeking new ideas.
- Carrying out market research
- Finding out about competitors
- Discovering new lines or new products
- Discovering new applications for the product

- Obtaining information about the operation of industrial machinery not easily transportable and investigating technical features by specialized staff
- Meeting specialists
- Comparing market prices

It is observed from explorative research that the aim of visitor in participation of an exhibition is “Discovering new lines or new products” and “Contacting potential suppliers” more than “Buying exhibited products”. (Jose´ L. Munuera, 1999)

Another studies of trade fair performance from visitors' perspective (Bello, 1992), focused on their buying motives and behavior during the show. Visitors to a trade shows are different than visitors to a consumer show. Trade show visitors are not that much concerned about spot purchases of promotional and discount goods. Their major motivations behind exhibition participation are to gather information about market access, new products, potential suppliers (Munuera & Ruiz, 1993), and alternative purchases (Godar & O'Connor, 2001). This research result is inherently consistent with the Jose´ L. Munuera’s research result in 1999.

## **2.4 On the perspective of organizer**

It is mentioned in section 2.2 and 2.3 that academics have performed much research on the performance of exhibitions based on surveys of exhibitors and visitors. This section summarized the trade fair organizer’s opinions about good performance and successful exhibitions.

There are plenty of works on the research of exhibition organizers. A lot of previous work could be found in books, research paper, on line resource, professional magazine, seminal, associations and so on.

The following ones are interesting for us to understand the work. Kirchgeorg et al's (2005) book, *Trade Show Management, The Art of Show* by Marrow (2002) published by the U.S.-based International Association for Exhibitions and Events foundation (IAEE, formerly named IAEM). A few associations, such as the UFI (Baier & Deamboek, 2005), Convention Industry Council (CIC), and Singapore Association of Convention and Exhibition Organizers and Suppliers (SACEOS) offer training materials for junior executives of exhibition organizers. There are several books on the meeting, exposition, event and convention industry (Fenich, 2005; Ladkin, 2000; Montgomery, 1995) and on "event management" (Goldblatt, 2005; Hoyle, 2002; Shone & Parry, 2004; Wagen & Carlos, 2004). Three textbooks are available on exhibition design and planning (Allwood & Montgomery, 1989; Lawson, 2000; Wang & Huang, 2002).

#### **2.4.1 Type of trade fair organizer**

There are 2 main types of trade fair organizers. The first type is the professional organizer. Their core business activity is the organization of exhibition and trade fairs. There is the director and all other players within the industry pyramid are the actors and backstage crews. Being the central coordinator, the professional trade fair organizer must ensure that everyone cooperates and keeps to their schedules, performs their respective roles efficiently, so that everything runs smoothly.

The second type of organizers is the professional organizations such as the Motor Traders Association. This group of organizers does not emphasize bottom line when holding events. To them, the staging of exhibitions is part and parcel of other promotional activities, and costs incurred do not directly affect their profit margins.

#### **2.4.2 Trade fair service provided by organizer**

Through the extensive literature review and the website of professional trade fair organizer's association, the following table is summarized in order to give a clear and structure view of the service provided by most organizers in an trade fair.

Table 4: Trade Fair Service provided by organizer

Trade Fair Service	
Customer Service	Reliable and consistent service
	Kindness of the hosting staff
	Reasonable number of employees for the trade show operation
	Staff knowledge about the show
	Prompt Service
Physical Facilities	Size of the exhibition hall
	Temperature of the exhibition hall
	Exterior of the exhibition hall
	Interior decoration
	Sound system of the exhibition hall
	Cleanliness of the exhibition hall
	Communication system of the exhibition hall
Guidance & Convenient Facilities	Restrooms
	Resting area and convenient facilities
	Service for the handicapped and the senior
	The booth map
	Guidance facilities and signage
	Availability of pamphlets and brochures
Exhibition programs	Entertainment of the trade show
	Opening, closing and other special events
	Accuracy of the show schedule notice
	Educational functions of the trade show
	The consistency of the schedule and actual running of the show
Reliability	Reliability of the exhibition
	Popularity of the exhibitors
	Reputation of the host
	Reputation of the exhibition
	Reliability and trust toward the host
Security	Safety system for the fire alarm
	Security for theft of the exhibition items



	Safety of the facilities such as booths or other equipment
	Controlling the order at the show room
Host and Public Relations	Trade show PR by the host
	Activities to host exhibitors
	Activities to invite visitors
	Managing website
Attendance Cost	Booth rental cost
	Booth setting cost
	The reasonable price for participation
Access	Availability of accommodations and restaurants
	Location & Easy to find/access
	Convenient public transportation
	Convenient parking
	Easy access to the inside and outside

### 2.4.3 The possible management problem

As the organizer of trade fair, possible recurring management problems could bother the organizers a lot, such as long lead time to book trade fair venue and its sub-effect.

#### *Long Lead Time to book trade fair venue*

It is common practice for an exhibition organizer to book the exhibition venue at least 1.5 to 2 years ahead of the actual event. Exhibition organizers, Firstly, the facility calendars of the exhibition venues during certain months of the year are very tight. These peak periods are especially popular because this is when exhibitors are most willing to venture overseas for international exhibitions. That is why exhibition organizers are most eager to secure the necessary space during these peak periods. To ensure that they get the space during the desired dates, they have to book or confirm their bookings with the hall owner as early as possible. (Doreen Tan, 2000)

Furthermore, the amount allocated to marketing and promotions is decided for most companies once a year during budget preparation. If the lead time of an exhibition is less than a year and the potential exhibitor's budget period does not fall within this

time slot, it will not be able to sign up for that particular exhibition.

However, a long lead time in the planning process poses several problems:

***a. Huge Deposit***

Booking of exhibition space at least one year ahead of time incurs a huge expenditure. Huge deposit is paid in terms of initial deposit for hall rental, 2 years before the actual staging of the exhibition. This exorbitant figure represents a sizable proportion of the project budget for a medium-sized organizer that must be paid up-front on a cash basis.

***b. High Risk***

Due to the nature of the business, advertising and promotion usually takes up about 20% of the project budget. Travelling and entertainment expenses are also relatively high compared to the other industries due to regular overseas promotions and client receptions. Thus, a significant proportion of the organizer's entire budget practically ends up in investment with no profits guarantee for the next 1 to 2 years. (Doreen Tan, 2000)

***c. Inaccurate Forecast***

The exhibition organizer would forecast the amount of venue space needed for an upcoming show, by gauging the potential number of exhibitors that would take part in the event. The forecasting process is a routine part of business, whereby experience and gut feeling play the primary role. Generally, for regular events that take place every 2 to 4 years, the organizer would build his forecast based on the success of the previous shows and on business instinct. As for exhibitions with new themes, the organizers would start off with a smaller space because of their lack of experience in dealing with such shows. If the current event faces excess demand, the organizer will arrange to increase the amount of hall space rented the next time the event is held.

Due to the long lead time, it is impossible to come up with any accurate estimates. Therefore, the organizer's original prediction is really as good as anybody else's.

*d. cancellation charges*

Since the exhibition space are booked at least 1.5 years before the actual show, the organizer may not have taken into account the likely changes in the external environment. Some factors, such as the economic climate, are completely unpredictable. For instance, the regional economic crisis has caused many shows to be cancelled or shrunk in size. This is extremely unfavourable to the organizer who would have to pay hefty penalty costs for such cancellations and shrinkage. The fees for the exhibition space are usually laid out in the following way: 20% for Initial deposit, another 20% to be respectively paid up 9 months and 6 months before the exhibition, and the last 40% to be paid up 3 months before the exhibition. At any point in time, if the organizer cancels an event, all previous deposits paid to the venue owner for that event would be forfeited. Reduction or shrinkage of exhibition space is also considered as a form of cancellation. Deposits may not be entirely forfeited if the organizer and the venue owner are able to come to a mutually beneficial agreement, such as booking the hall for another event. Therefore, it can be seen that a long lead time invites uncertainty that could seriously jeopardize the organizer's profit margins.

Generally, most organizers viewed the problems of huge deposits and high commercial risk as inherent characteristics of the industry. On a positive note, the need for a large capital base and the inherent commercial risk when conducting business can also be seen as barriers to market entry and reduce competition.

Many organizers also tried to minimize their risk by encouraging the potential exhibitors to sign up for the trade fair as early as possible. The exhibition organizer accomplishes this by offering cash discounts in 2 forms. Early bird discounts, for the same show next round, are offered to present participants of the current show. This

price promotion is normally valid for more reputable shows only and the promotion period can last from 3 days (on-site promotion) to a maximum of 2 months after the current show. Loyalty discounts, on the other hand, are offered to exhibitors who are regular participants of a particular trade show in order to encourage continued support for the show. At the same time, exhibitors who sign up are discouraged from withdrawing at the last minute. For some shows, exhibitors are required to pay a deposit of 5% when they make reservations for their booths. If they decide to pull out of the show 180 days before the actual staging of it, they would have to pay the organizer 20% of the original price. Within 180 days of the show, a heavier penalty would be imposed. Exhibitors would have to pay about 50% of the agreed-upon price to the organizer to compensate for his losses. (Doreen Tan, 2000)

#### **2.4.4 Performance of Successful Trade Fair Organizer**

Flynn and Flynn (1994) declared that nearly everyone agreed on the basic elements of successful shows, such as servicing the exhibitors and boosting the number of attendees. Flynn and Flynn (1995b) further declared that the most important things an exhibition management operation could do were to (a) satisfy customers, (b) provide employees with jobs, and (c) make money. To make customers or workers happy, a money-making business was a must.

#### **2.4.5 Factors Affecting Success of Trade Fair Organizer**

Flynn and Flynn (1993) suggested a magic formula based on the *Tradeshow Week Data Book* study, which tracked 32 new business show launches for four years in the United States starting in 1990. They found that 50% of the shows were canceled after the first year. Five more fizzled by the third year, and only eleven shows, or 34% of the original, remained in existence. The magic formula is: (1) learning the industry; (2) steering by committee, with experts for an advisory council; (3) unearthing the

competition; (4) surveying potential attendees; (5) using professional researchers; (6) evaluating exhibitor potential; (7) learning about education with seminar sessions; (8) learning pricing details; (9) investigating the background of financial backers; (10) keeping information confidential; and, (11) knowing when to stop running a losing exhibition.

F. J. Friedman and Collins (2005)—in an extract from Francis Friedman’s white paper on trends and challenges 2003–2010 based on focus groups with manufacturers and retailers—provided in-depth analysis of the structural shifts in the market. Show organizers and exhibitors must cooperate more closely than ever to attract customers by focusing on 10 major elements of future success: (1) specific community; (2) value; (3) content; (4) programming; (5) intimacy; (6) branding; (7) multiple forms of business; (8) research; (9) excellence; and, (10) exhibitor/organizer co-marketing partnerships.

### ***Factors Contributing to Competitive Advantage for organizer***

According to the extensive literature, it is observed that the following points add value to the competitive advantage of trade fair management

- Focusing concurrent shows to improve value to customers: Focusing was vital to the success of exhibitions, but expanding to include similar topics was essential to growth (Flynn and Flynn, 1994). Skolnik (1996) also suggested that when target markets (attendees) overlapped, concurrent shows (two or more exhibitions organized at the same venue at the same time) could boost the return on investment (ROI) for attendees, exhibitors, and organizers.
- Planning: Planning with short and long-range goals and objectives was important (Flynn and Flynn, 1994).

- **Intelligence gathering:** Intelligence gathering and analysis was critical to exhibit sales in today's increasingly competitive show environment (Collins, 2005). In some other research papers, it was referred as human resource which shares the same meaning as intelligence gathering. Some organizations also provide the training for the specific talent in trade fair management field. Business schools from three countries are working together on this research and education project: The Leipzig Graduate School of Management (HHL) based in Leipzig, Germany, the School of Economics and Management (Tongji University) based in Shanghai, China, and the Universiteit Antwerpen Management School, based in Antwerp, Belgium. IAEE (2007) offers a training program called "Certified in Exhibition Management (CEM)" in the United States, China, Europe, and Singapore for candidates with three years of full-time experience as practitioners in exhibition management.
- **Certification service:** the certification of the data concerning the audience and the performances of the individual events constitutes an "act of transparency" capable of communicating a professional, serious and qualified image of the trade show company. On the contrary, the organizers that avoid this kind of controls/audits provide a negative signal that can undermine their success chances in the eyes of the international users which are extremely cautious in selecting their own fair destinations (Ferriani, 2004). In fact, the lack or the inadequacy of official and certified data causes an increase in the risk associated to the investments for taking part in the event at issue; this obviously discourages the participation of the users.
- **Publication:** Vasos & Sherman (2004) showed that trade magazine publishers bring a unique business to business (B2B) perspective from publishing that both complements and contrasts with trade shows. The investigator found that organizers that own publications seemed to have a competitive advantage in

organizing exhibitions. The leading multinational trade fair organizer (such as REED and CMP) and the leading Hong Kong-based exhibition organizers (such as Adsale, Info Communication, Global Service, Sinostar and Business/Industry (B&I)) all have trade publications related to their trade exhibitions. Vasos & Sherman (2004) showed how exhibition organizers used publishing strategies to promote their exhibitions to:

- a) gain industry credibility and build loyalty. Publication editors had strong visibility in the industry.
- b) know their audience. Publications had to show value in every issue.
- c) prove their value. Media kits were much more complex than exhibitor prospectuses. In addition, magazine content could be a model for show content. Magazines focus on the buyers, and the suppliers follow.

- Direct mailing and IT: According to Trade Show Bureau research, 81% of show managers used direct mail as their primary means of attracting attendees, with an average expenditure of nearly US\$56,000. Typically, 38% of their attendees were attracted through direct mail. Tormohlen (2006) gave results from a survey conducted by EXPO Magazine and Exhibit Surveys Inc. in January 2005. The 226 U.S. show organizers who responded to an online survey said that they planned to spend an average of US\$84,000 on sales promotion to gain 525 exhibitors in 2005. On average, show organizers spent US\$160 per exhibitor on sales promotion, while 64% of the promotion budget went to direct marketing (lists, emails, brochures, prospectuses, postcards, printing, postage, etc.). Show organizers said that they planned to spend about the same on exhibitor sales promotion in 2005 as they did the year before—15.4% of their budgets in 2005 versus 15.3% in 2004.
- Role of exhibitor advisory committees: Quality of attendees is more attractive

than quantity (Kirkwood, 2005). Tesar (1992) suggested that another marketing skill was involved in forming the exhibitors advisory committee. The function of the exhibitor advisory committee is to make sure that trade show project managers received suggestions on how to improve their shows so that future events could attract more exhibitors and attendees. Then, exhibitors would benefit from more booth traffic and better selling opportunities.

- Merger and Acquisitions of Exhibitions as an Expansion Strategy: Take the European trade fair organizer as an example, with the aim of penetrating new, younger and more receptive markets, the main European fair complexes oriented toward extra-European areas (Asia, Eastern Europe, North and South America), replicating events/exhibitions models already positively tested in their respective home countries. This strategy boasts several benefits:
  - Entering in new markets represents a way for enlarging the reference market, as a consequence of the almost complete saturation of the European market and the subsequent fierce competition taking place there;
  - Exporting events abroad allows to respond to the increasing need of internationalization claimed by the national enterprises which aim at getting in touch with new markets by participating in those events themselves;
  - The internationalization of trade show companies implies significant repercussions in branding and publicity terms. Entering in new markets, in fact, enormously enhances visibility and image appeal (Ferriani, 2004).

Acquisitions are becoming very popular in China. Multinational trade fair organizers CMP, REED, VNU, Messe Frankfurt and Düsseldorf are buying local exhibitions to increase their market share in China. However, there were many bad experiences in



M&A internationally (Skolnik, 1992). To manage the acquired exhibition and the keep the loyalty of the key people has proven to be difficult.

#### **2.4.6 Conceptual Model on Exhibition Organizer Performance**

In order to summarize and generate a clear idea on the factors which have an effect on exhibition organizer and the performance of exhibition organizer, two models are cited here to make a clear structure.

Figure 15: Conceptual model on exhibition organizer performance

The conceptual model is on the next page.

Source: KAY, LI KUEN ANDREW, 2005

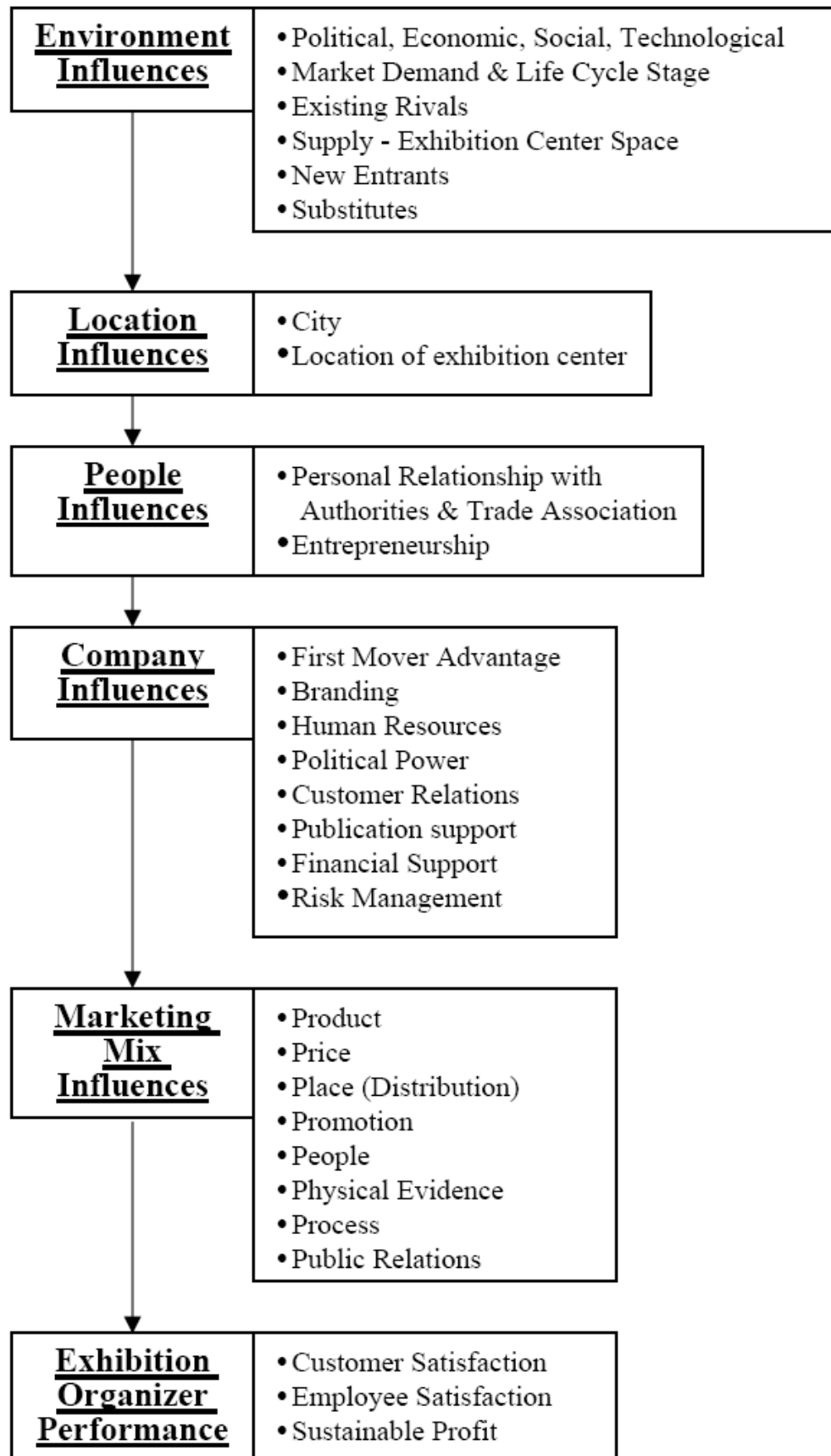
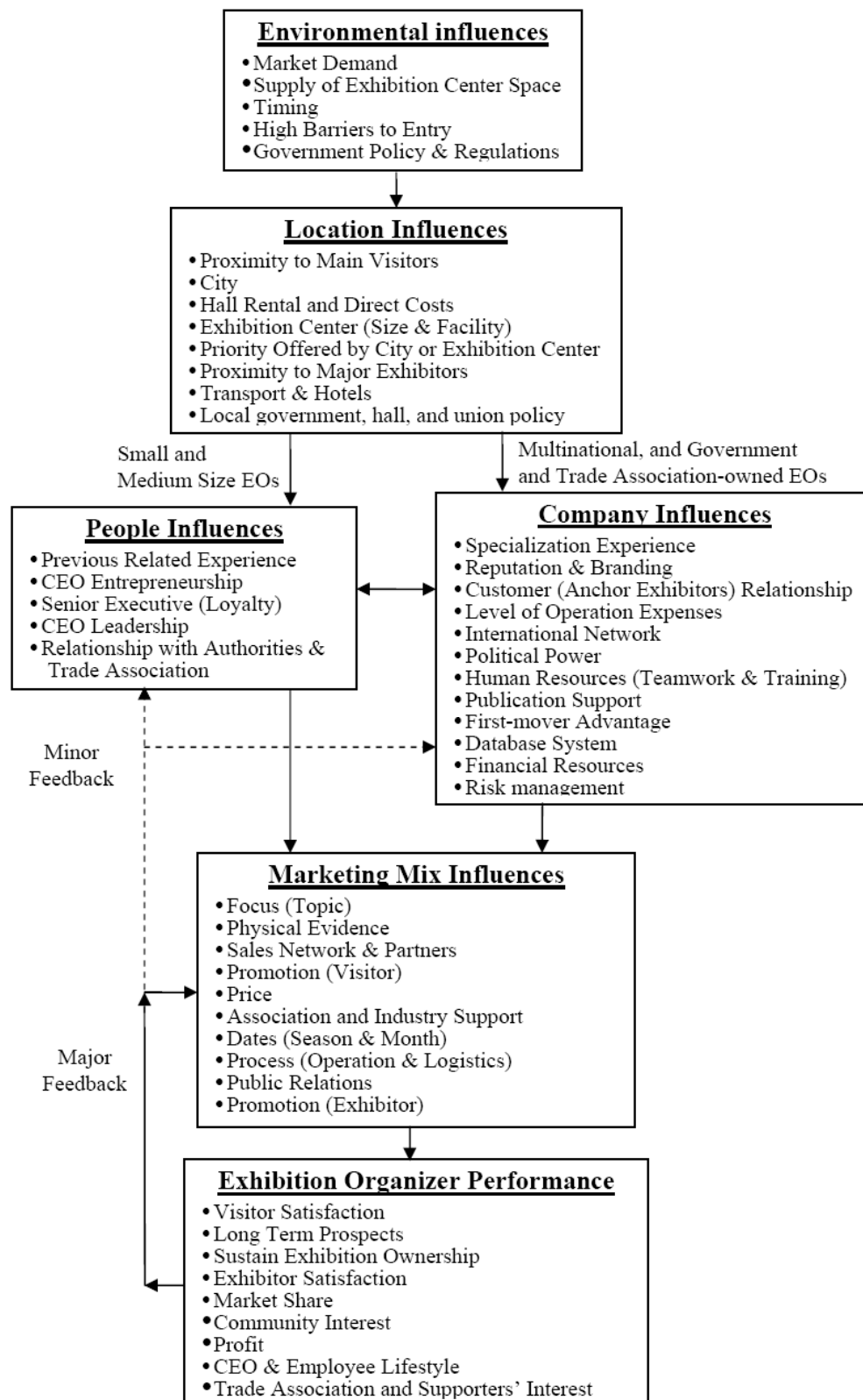


Figure 16: General model on exhibition organizer performance



**Source:** Li Ling--yee, 2006

In order to understand better the above 2 models, the following content is cited from the research papers of the authors. The information below is interpretation on the above model.

### ***Environmental Influences***

Environmental influences are major external forces that may be divided into five sub-forces: 1) economic forces; 2) social, cultural, demographic, and environment forces; 3) political, governmental, and legal forces; 4) technological forces; 5) timing; and Porter's five competitive forces (Porter, 1985) as a basis.

These competitive forces are the bargaining power of buyers (demand), barriers to entry (new entrants), threat of substitutes (other promotion media), bargaining power of suppliers (exhibition centers), and existing rivalries (Trade fair organizer).

- ***Market Demand***

The first most influential factor in the environment is opportunity, as seen in all cases under study. Is there a demand for the exhibition topic in that particular city at that particular time? Once an opportunity is found, it is necessary to seize the opportunity as soon as possible with persistence.

- ***Supply of Exhibition Hall Space***

The second most influential factor is the supply of exhibition hall space, since it is difficult to control a rival exhibition when there are empty rival exhibition centers available.

### ***Location Influences***

Location influences is another major external force. The most important sub-factor in

the location influences is proximity to main buyers (visitors) and exhibitors, including hotels, and international and local transport (Weinstein, 2006).

- *City, Hall Rental, Infrastructure, Transport, and Hotels*

The city itself is a decisive success factor for an exhibition. The industrial, commercial and political positioning of a city are major considerations when choosing the best suitable exhibition site. Domestic and international inter-city transportation, traffic flow within the city, and the hotels and tourist attractions also are considerations.

- *Proximity to Major Buyers and Exhibitors*

There was overwhelming agreement in all cases that the proximity to main buyers (visitors) is the most important sub-factor in choosing an exhibition location. The visitors as well as exhibitors must be able to reach the exhibition easily by public transport (air, sea or land). So, if the exhibition is meant for international visitors, a popular international airport with a lot of international air routes and international-standard hotels is preferred.

### ***People Influences***

People influences are major internal forces.

- *Previous Experience and CEO Entrepreneurship and Leadership* The CEO is normally the founder and the “brain” in most entrepreneur-owned Trade fair organizer. The CEO has to create, lead, market, and run the business from the start with pioneership, entrepreneurship, vision, persistence, and leadership

- *Relationship with Authorities/Association*

Good relationship with association is important. In some Asian countries, personal relationships are crucial for any enterprise. Take china as an example, the personal

relationship is called “guanxi” which is treated as important in Chinese business including the trade fair industry.

### *Company influences*

Company influences are major internal forces. The reputation and branding of a company is a major sub-factor. The bigger the organization, the more important is their specialization and branding, level of operation expenses, international networks, political background, teamwork and training, database system, and publication support. All these factors stand for the company’s internal competitiveness. Many Trade fair organizers keep their competitive advantage with first-mover advantage.

- *Customer Relations with Anchor Exhibitors*

For new and developing exhibitions, success in recruiting anchor exhibitors is the key to success. Anchor exhibitors were the key companies in the trade, whose exhibits could attract visitors to visit the exhibition. For a well-established exhibition, visitor promotion would overtake this importance

- *Level of Operation Expenses*

The operation expenses of the company, which include salaries, office rentals, traveling expenses, and general and administration expenses, are the primary expenditures of a company. For foreign-based Trade fair organizer, the expatriate salaries and benefits, and international communication costs are very substantial.

- *International Networks*

The connection and relationship of foreign trade fair organizer with the foreign government, trade associations, and key exhibitors provide the foreign Trade fair organizer a competitive advantage over local Trade fair organizer.

- *Publication Support*

Many successful trade fair organizers worldwide have started as trade magazine publishers. Hence, owning a magazine or having publication support were clearly a resource-based view competitive advantage and an influence factor.

- *Financial Resources*

Financial resources were not a key factor since organizing an exhibition does not require a lot of capital. However, multinational Trade fair organizer use mergers and acquisitions (M&A) to grow by acquiring other exhibitions or Trade fair organizer with financial capital.

### ***Marketing Mix Influence***

- *Focus (Product)*

Nearly all reputable exhibitions, no matter whether trade or public exhibitions, were focused on certain subject(s)

- *Physical Evidence*

The list of anchor exhibitors, quality and quantity of visitors, size, and appearance were the physical evidence of an exhibition. The easiest evidence is the appearance in size, decoration, and advertisement. With a good list of anchor exhibitors, good quality and quantity of visitors can be attracted. In contrast, good quality and quantity of visitors will attract good quality and quantity of exhibitors. It is just like the hen and egg. All cases under study had good physical evidence in terms of size and the quality and quantity of exhibitors and visitors.

- *Sales Network (Place)*

Place in the normal market mix meant (Kotler, 2000) distribution channels, which are the local and international sales networks in the exhibition industry. The foreign-based exhibition organizer had the advantage of international networks.

- *Promotion*

Promotion may be split into exhibitor promotion and visitor promotion. Exhibitor promotion is marketing and sales to recruit exhibitors. This is important to a growing exhibition, but less important for well-established exhibitions, where there is more demand for space than availability.

- *Association or Industry Support*

This was very important for a new exhibition and for infrastructure exhibitions. Relationship with association officials was important to keep the official support of the association.

- *Dates (Season & Month)*

The date (season and month) of an exhibition is an important asset of an exhibition. There were only a few months in a year when a location was most favorable to hold an exhibition. For example, January is one of the best months to hold exhibitions in America, because after Christmas sales, shops need to re-stock their inventory.

### ***Exhibition Organizer Performance***

Different types of Trade fair organizer had different kinds of expectations from an exhibition. The overall exhibition organizer performance expectation was to satisfy the visitor, exhibitors, CEO, staff, and shareholders of the organizers.

Since exhibitors are the customers of trade fair organizer, and visitors are the customers of exhibitors, it follows that visitors are the ultimate customers of exhibitors. Trade fair organizer need to provide platforms for the exhibitors to offer sales promotional opportunities for the visitors. The visitors come to trade exhibition for information about market access, new products, potential suppliers (Munuera & Ruiz, 1993), and alternative purchases (Godar & O'Connor, 2001).



- *Profit and Market Share*

Since this study was concentrated in for-profit trade fair organizer, profit was important. In this study, it was found that short-term profit or loss was not that important to an established exhibition organizer. Market share was important to the long-term growth of an exhibition.

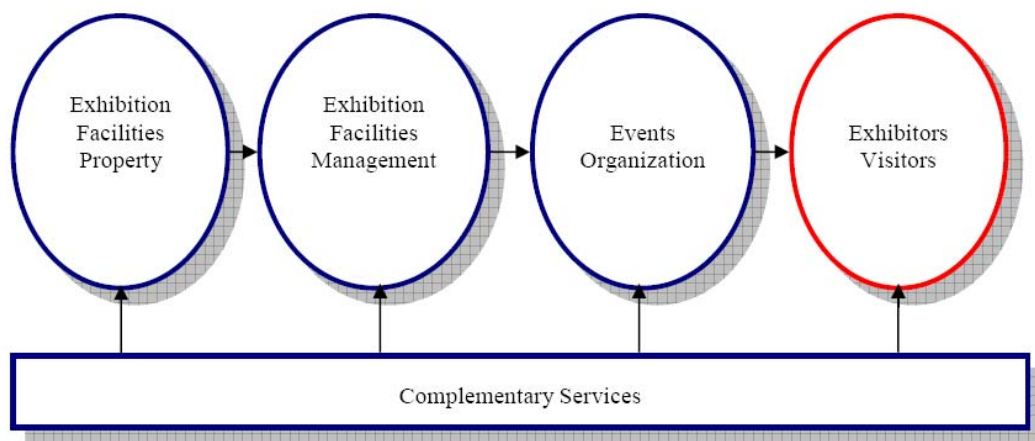
- *Feedback*

The feedbacks from the exhibition organizer performance help further adjustment to the market mix (tactics) influences for a particular exhibition; such as focus, sales network, anchor customer relation, visitor and exhibitor promotion budget and method, price, dates, operation and logistics process, and public relation. Of course, an individual exhibition would have minor feedbacks to the people and company influences as well.

## **2.5 Value chain view of trade fair management**

In the above sections, we talked about trade fair management from the perspective of exhibitor, visitor and organizer. The characteristic of each player from different perspective is uncovered properly. That understanding is detail level but separated. In order to have a general idea on trade fair management for value chain/supply chain point of view, we refer the following figure to connect the dots together.

Figure 17: The Fair Supply Chain



Source: Golfetto, 2004

***Exhibition facilities property:*** It refers to dedicated exhibition structures (i.e. fair complexes, exhibition centres) or to exhibition sites usually utilized for other kinds of event such as, multi-functional centres, hotels, convention centres, etc.

***Exhibition Facilities Management:*** the fair complex management refers to the activity of arranging exhibition spaces (and even of congress and convention ones) and, subsequently, renting them (in temporal and spatial terms) to the organizers of the events. This activity covers nearly always the maintenance of the structures and is often put together with the provision of special services pertaining the technical-structural aspects required for running and managing events (e.g. energy and communication consumptions, light/sound systems, assistance to the tracing and logistic of events) and that are demanded by organizers and exhibitors. Furthermore it includes the organization of logistic services of goods and persons as well as the arrangement of the systems for providing services within the fairground. It concerns especially the arrangement of services related to internal transports, forwarding, reception and customs clearance of goods and the management of the basic services of assistance to visitors and exhibitors within the area (e.g. catering service, transports, logistic, communication, booking etc.) (Rahmen, 2005).

**Events Organization:** such a compartment includes the organization of different kinds of events (exhibitions, congresses, trade shows, promotional events, etc.), the commercialization of the exhibition spaces to the exhibitors, the services provision to the various typologies of users (exhibitors and visitors), the commercialization of advertising spaces within the event and the research of possible sponsorships.

The escalation of the competition and the ever-growing complexity of competencies demanded to the events organizers have also supported the development of different forms of cooperation (also on an international level), together with intensive phenomena of mergers and acquisitions (Golfetto, 1988). The activity of trade shows organization has become in this way a very sophisticated activity, requiring elaborated capabilities which lead to processes of sectional specialization.

In particular it is requested:

- Good knowledge of the possible evolution of needs and purchasing behaviours of people, the expected developments of supply and demand main features as well as trends of the international trade;
- High level marketing and communication competencies referring to specific target sectors;
- Relational capacity with local and global systems of the industrial economy (Pallotta, 2006).

**Complementary Services:** this compartment includes a host of services provided to both exhibitors and visitors while taking part in an event. The following table allows us to better understand the main services provided by and associated to the exhibition centre and the organizer of the trade show at issue (if they are two separated entities).

Table 5: Trade Fair Services Associated to the Exhibition Centre and the Organizer

Trade Fair Services Focusing on the Exhibition Centre	Trade Fair Services that are not Necessarily Required to the Organiser
Renting out stand spaces, approval of stands	Planning and construction of the trade fair stand
Stand construction work	Trade fair marketing services
Insurance services during transportation and exhibitions	Preparation for the trade fair on behalf of the exhibitor
Advertising in trade fair publications and advertisements in the catalogue	Follow-up to the trade fair on behalf of the exhibitor/evaluation of the success of the trade fair
Cleaning, security, waste disposal	Arrangements for travel, hotels, events
Staging, hangings	Stand catering
Sprinkler system	Coaching/training personnel
Compressed air supply	Miscellaneous agency services
Smoke and gas extractor system	
Shipping, road delivery services	
Stand personnel	
Furniture hire	
Renting out parking spaces	
Trade fair passes for exhibitors	
Press service, photography	
Telephone and telex connections/new media	
Electricity supply	

Source: Rahmen, 2005

## 2.6 Virtual Fair—opportunity or threat

Virtual trade shows are trade shows found on the Internet that have been designed to resemble physical tradeshows. Almost every aspect of the exhibition is transformed into digital bits conveyed over highly powered cables. A physical location is not needed. The operators of these virtual trade shows are high-tech versions of the traditional exhibition organizers. But they perform basically the same functions of providing a “space” for exhibitors and interested buyers to group together, and allocating booth space to these exhibitors for a fee.

### 2.6.1 Benefit of virtual show

Having an exhibition on the web means that space constraint is no longer a problem for big events. Almost anything the exhibitor or web page designer would like to post online is possible, ranging from good old-fashioned text to multimedia extravaganza.

Geographical boundaries are no longer a concern for exhibition visitors. Literally borderless trade is enabled for a virtual tradeshow as people from all over the world can access the web site. Advertising costs are likely to be lower per head due to the mass reach of the Internet. At the same time, companies within the same industrial sector can harness the power of the Internet by participating in virtual trade shows targeted at a specific audience.

Simultaneously, time zones are no hindrances because the web site can be accessed hours a day. Re-visits are possible and can be conducted at very little extra costs. In addition, there are no booths to set up, no packages to freight back and forth. Hotel arrangements need not be made for exhibitors or visitors. The organizer is freed of most of his coordination responsibilities.

All the hassles of a physical trade show are minimized. Visitor statistics can be easily collected. The web visitor may be required to sign in the guest book before allowed entrance into the virtual trade show. The guest book would require that the visitor fill in personal details such as email address, country of origin, company name and industry that the visitor is in. The collation of such statistics to gauge the demand for the virtual trade show and would thus be able to plan future promotions and advertising more effectively.

### ***2.6.2 Constraints of virtual show***

Virtual trade shows are not appropriate for every category of products. For example, machinery and other industrial equipment are unsuitable candidates for virtual exhibitions, the reason being visitors to the trade show would like to witness the functions and output that the machines are producing. It is simply not enough to see a video demonstration downloaded from the web. A hands-on feel and on-the-spot inspection are especially important when it comes to buying complicated machinery because of the large amount of money involved.

Also, it is human nature to want interaction with another fellow being. Many businessmen pride themselves on accurate judgement of their potential business counterparts on their first meetings. In addition, it is very difficult to build up trust and respect when transacting on the Internet. When doubts cannot be clarified on the spot, it is highly unlikely that the deal would go through.

A physical trade show would have enabled exhibitors and visitors alike to observe which is fast-selling product by checking human traffic travelling to particular booths. When transactions are conducted online, it is simply impossible to gauge customer preferences and buying habits because exhibitor is unable to tell if the visitor/browser is ordering from his/her competitor, nor the approximate quantity bought. As such, virtual trade shows remain a rather passive type of marketing when compared to the physical ones because proactive counteractions against competitors cannot be implemented.

### *Opportunity or Threat*

The so-called “virtual fair” has been traditionally considered as a dangerous threat for the real events. Nowadays, a virtual fair is assessed as an opportunity for trade show companies: the Internet can support and integrate the traditional offer in several different ways. (Golfetto, 2004):

- Virtual fair as communication means: a well-defined web-site provides the trade show organizer with the possibility to timely and rapidly share a wide range of information regarding the exhibition centre and the various specific events hosted as well as the hosting area. This informative completeness can serve as an incentive for the users for taking part in the specific event while reducing the risks of unprofitable investments as well as minimizing idle times;

- Virtual fair as a business support system: the trade show company can utilize the Internet in order to facilitate and improve various managerial and administrative procedures; For example, EDI could be used as the way to finish the order from client. Virtual fair is effective for organizer to share information and communication both internally and externally.
- Virtual fair as an e-commerce platform: the trade show company can propose and display several other products/services that are addressed toward all of those that interested in them (not only the member exhibitor and visitor, but also people who have interest in it who may turn to potential customers)
- Virtual fair as a marketing tool: by the database and click analysis of the website, the organizer could find the events, products, areas in which the customer show strong interest. The information could be used to support organizing traditional events. The virtual one could be used as a pilot study, which is used to understand the potential market for some products and test the reaction of customers or potential customers.





## Chapter 3 Partnering

### 3.1 Introduction on partnering concept

#### *Definition of partnering as a general concept*

The principle of partnering is reviewed in various reports and research projects. In reviewing the literature, there appear to be more similarities than differences in opinions concerning the definition of partnering.

Numerous definitions of partnering have been derived from past studies. Among them, the definition developed by the Construction Industry Institute (CII) in the United States is the most widely cited. The CII defined partnering as

*A long-term commitment between two or more organizations for the purposes of achieving specific business objectives by maximizing the effectiveness of each participant resources. This requires changing traditional relationships to a shared culture without regard to organizational boundaries. The relationship is based on trust, dedication to common goals, and an understanding of each other's individual expectations and values. (CII 1991)*

There are also definition coming from numbers of researchers

Partnering is much more than a buzzword, a philosophy or an attitude. It is a *structured management process* that is effective on all sizes of construction projects to focus attention of all the parties on problem resolution, without prolonged disputes or litigation. (Associated General Contractors of America, 1991)

Project partnering is a formal management intervention designed to overcome the

tendency to manage projects in adversarial fashion. We have defined project partnering as a method of transforming contractual relationships into a cohesive, project team with a single set of goals and established procedures for resolving disputes in a timely and effective manner (C. Cowan, C. Gray, and E. Larson, 1992).

Partnering is the simple process of establishing good working relations between project parties. This helps avoid problems with the project that, in recent times, more often than not leads to litigation (Moore et al., 1992).

Partnering is more than a personal revelation or a simple handshake, but a formal attempt at instituting processes and activities designed to alter the working relationship between different parties working on a construction project. It typically entails a considerable up-front investment in time and resources to forge a team identity among participants from the different organizations and the institution of mechanisms designed to sustain and expand collaboration over the course of a project. (Erik Larson, 1997)

Another classical definition was put forward by Bennett and Jayes (1998) that partnering is defined as “*a set of strategic actions that deliver vast improvements in construction performance. It is driven by a clear understanding of mutual objectives and co-operative decision-making by a number of firms who are all focused on using feedback to continuously improve their joint performance.*”

### ***Definition of partnering from specific point of view***

#### ***Instrumentalist view of partnering***

There are some commentators who insist on a more pragmatic, instrumentalist view of partnering. With a *strong emphasis on tools and techniques*, this approach has led to

the generation of lists of systems and procedures that organizations should follow in order to establish a partnering arrangement. These include: charters and dispute resolution mechanisms; teambuilding exercises and facilitation workshops; continuous improvement processes; total quality management; business process mapping; and benchmarking (e.g. NEDO, 1991; Loraine, 1993; Bennett and Jayes, 1995; Evans and Bailey, 1996). In addition, information technology, such as 3D CAD and shared databases, often is seen as crucial in supporting open communications and information sharing.

### ***Culture or behavior view of partnering***

Therefore essentially partnering is seen as about changing behavior and/or attitudes, encouraging clients and contractors to transgress the conflicting interests that lie at the heart of their exchange relationship by appealing to common interests centered around specific project goals (e.g. Loraine, 1993) and/or more strategic long term relationships (CII, 1991; NEDO, 1991).

### ***“No definition for partnering concept”***

Although there are many researchers giving definition on partnering on construction, there are still other researchers who believe there can not be a clear definition for partnering.

“There are no fixed definitions used when defining partnering although common themes/elements prevail” (Matthews, 1996). Essentially the relationship is based on trust, dedication to common goals, and an understanding of each other’s individual expectations and values. Crowley and Karim (1995) state that partnering can be defined in one of two ways:

1. (1) by its attributes such as trust, shared vision, and long-term commitment; and
2. (2) by its process, whereby partnering is seen as a verb and includes developing mission statements, agreeing goals and conducting partnering workshops.

As Holti and Standing (1996) have suggested, “rather than being a separate or definable initiative in its own right, partnering or increasing collaboration is best understood as the result of making progress with one or more of a number of inter-related technical and organizational change initiatives’ (see also Loraine, 1993, NEDO, 1991)

According to Mike Bresnen and Nick Marshall, in their critical paper research on partnering “Partnering in construction: a critical review of issues, problems and dilemmas” in 1999. Thus partnering is an imprecise and inclusive concept capturing within it a wide range of behaviour, attitudes, values, practices, tools and techniques. Partnering is a complex subject that is difficult to pin down and define (McGeorge D, Palmer A, 2000) (Cheung SO, Ng STT, Wong SP, 2003). Generally, it is interpreted as a generic management term to align project goals like improving relationships among contracting parties and enhancing long-term alliances (Cheung SO, Ng STT, Wong SP, 2003). It has to deal with humans interactions and their balance of interests and powers (McGeorge D, Palmer A, 2000).

### ***Strategic and project partnering***

In construction, a distinction can be made between long-term (strategic) partnering and short-term (project) partnering (Barlow J, Jashapara A, 1998). Strategic partnerships are intended to last for significant periods of time, include several projects and seek gains for the long-term whilst project partnerships are created and

sustained for the life of a specific project and focus on short-term benefits (Barlow J, Jashapara A, 1998) (European Construction Institute, 1997) (Hamza A, Djebarnu R, Hibberd P, 1999) (Love PED, Irani Z, 2002)

- ***Strategic partnering***

Strategic partnering has been defined as a long-term co-operation between two or more organizations committed to achieving specific business objectives by maximizing the effectiveness of each participant's resources (CII 1991). This typically involves the adoption of collaborative inter-organizational strategies in which resources are committed to the development of a relationship. Organizations that develop collaborative relationships have been shown to achieve lower costs for as long as they maintain trust (Black C, 2000), possibly because they enhance an organization's capacity to continually improve the effectiveness of its systems and operations over time (Holt GD, 2000).

- ***Project partnering***

Project partnering is said to be a means of transforming contractual relationships into a cohesive project team with a common set of goals and clear procedures for resolving disputes in a timely and effective manner (Cowan CE, 1991). An approach applicable to both large and small projects, project partnering is based on limited co-operative relationships involving two or more parties striving for short-term project related benefits, which is unlikely to extend to advanced co-ordination, collaboration or substantive learning. Some doubt has been expressed about the extent to which this approach can be used in an industry, such as construction, which is so reliant on repeat business (Brensen M, 2000). Nonetheless, it is thought likely that short-term alliances will take the leading role in promoting closer relationships in the construction industry (Matthews J, 1996) (Li H, Cheng EWL, 2001).

### ***Summary on definition of partnering***

Many researchers have argument on definition and meaning of partnering. Although there is not a unified definition version for partnering, but the fundamental principles of partnering— commitment, trust, respect, communication, and equality— are designed to include proper consideration of the interests of all parties at every level. (CII 1991; Cowan et al. 1992; Uher 1999)

### **3.2 Traditional relationship VS Partnering**

According to Wenzhe Tang (2006), the three kinds of relationships are mentioned to understand the relationship in projects.

In *traditional forms of project* delivery the relationship between client and contractor is based on a contract.

Partnering adds a *cooperative philosophy* to the traditional contractual relationship. This philosophy is a trust-based relationship between project participants to facilitate the completion of a successful project to the benefit of both parties. In partnering, the cooperative philosophy resides outside the contract.

However, alliance links the ethos of partnering as a contractual requirement and uses clearly defined risk allocation with incentives to manage the process. Alliance is “where the arrangement is underpinned by an *incentive scheme*, whereby the rewards of the contractor and, indeed, the owner are linked directly to actual performance during the execution phase of the project” (Scott 2001). In this case, the cooperative philosophy is tied into the contract by *sharing rewards and risks among participants*.

Partnering is often used to refer to both the strategies of partnering and alliance, because they both contain a cooperative philosophy. However, if partnering is used as a generic term, use of incentives should be distinguished from other CSFs of partnering because of their strong influence on cooperative philosophy. (Wenzhe Tang, 2006).

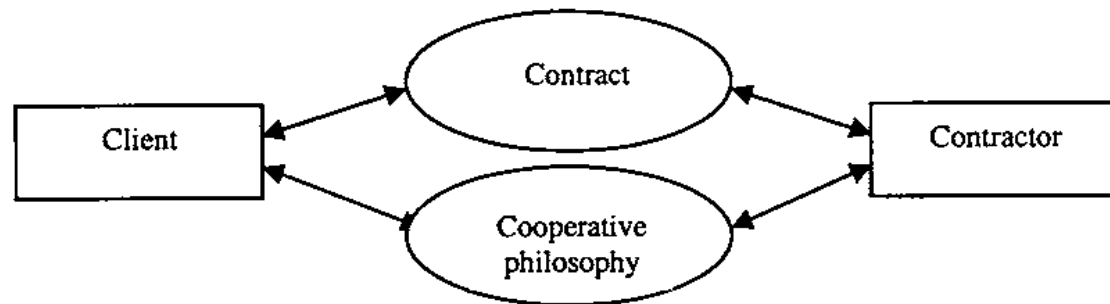
There are also many authors who support “alliance is a form of partnering”, or “partnering as an alliance”, such as H. Li , E.W.L. Cheng (1999).

In this paper, partnering refers to both the strategies of partnering and alliance. For the same reason as mentioned above, the cooperative philosophy is among the clients and contractors. In short, both of the concepts are called partnering in the following content.

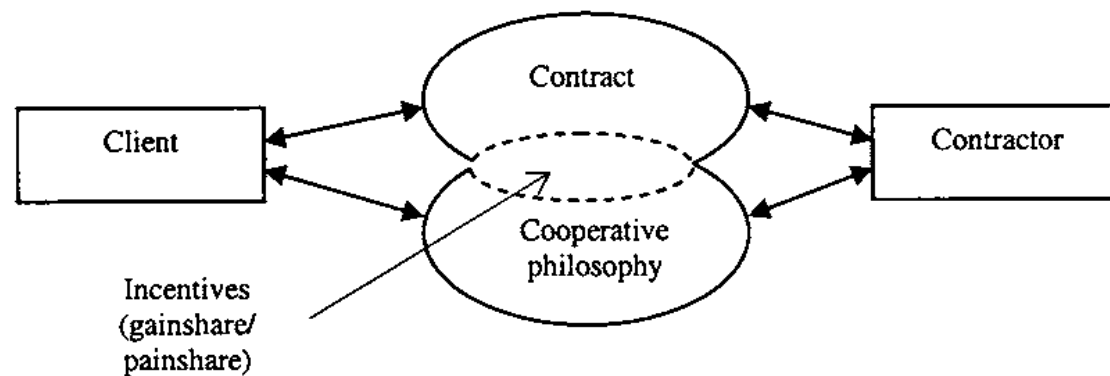
Figure 18: Traditional Relationship, Partnering Relationship and Alliance Relationship



(a) Traditional Relationship



(b) Partnering Relationship



(c) Alliance Relationship

Source: H. Li , E.W.L. Cheng (1999)

### 3.3 The reasons for partnering

The reason of client and contractor working together is because of their supply-demand relationship. But, working together more closely is because of a variety reasons which could be voluntary by evolutionary mechanism or engineered by compulsory mechanism (Bresnen and Marshall, 2002). For instance, an organization collaborates voluntarily to improve internal efficiency (Ellinger, 2000, Fawcett and



Magnan, 2002) or is required to collaborate in response to external challenge (Planning Advisory Service, 2007). Particularly, long-term working together can decrease transaction costs through avoiding the repeated tendering costs and saving time. Based on the above description, the paper will examine why they need work together more closely from two perspectives: external forces and internal demands.

- External forces

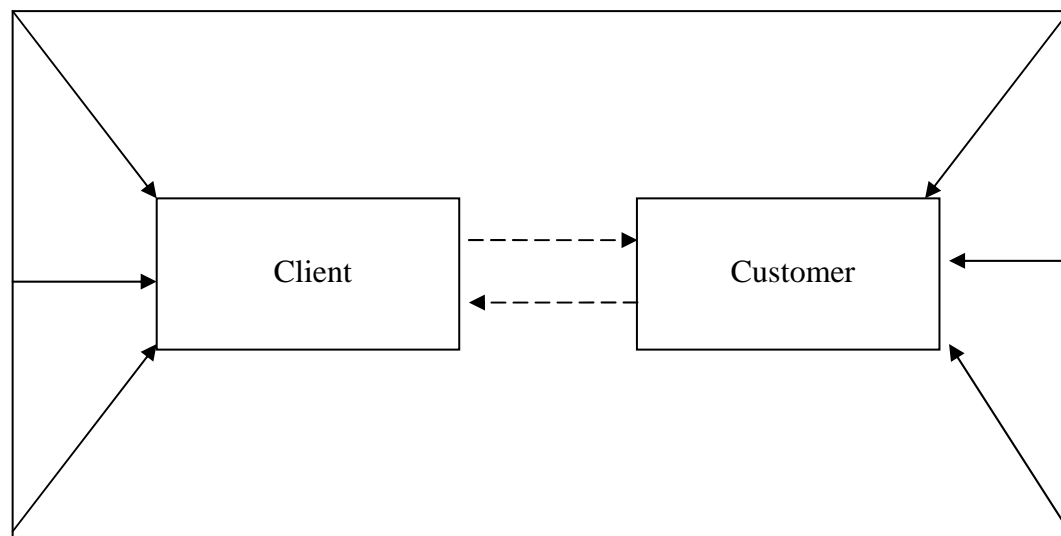
As the increased complexity of construction technology, the variety of building function, time pressure, the uncertainty and stronger competition in construction market, client and contractor need work together more closely to face those issues (Gidado, 1996, Pietroforte, 1997, Eriksson and Pesämaa, 2007). Through working together more closely, the information and resources are shared to a greater extent, and clients and contractors are viewed as ‘partnering or alliancing’ to face the challenges from the market (Egan, 1998, Wood, 2005). Thus, the external forces *push* the construction companies to work more closely to achieve collaborative advantage which is the synergy generated by combining resources, expertise and ideas from multiple authorities (Planning Advisory Service, 2007).

- Internal demand

Organizations have for many years strived to improve the efficiency of their interactions with their partners (Barratt, 2004). Encouraging collaborative working can facilitate procurement process e.g. early involvement of contractor can make the contractor respond the client’s requests more quickly and more effectively. Through long-term collaborative working, the client can achieve a higher level satisfaction and better project quality and the contractor can get a more stable workload (Egan, 1998, Wood, 2005). Otherwise, the constant replacement of actors between client and contractor will create cost inefficiencies and time wasting since a new learning curve

must be climbed by the actors each time and the process of knowing each other will have to be made (Cox and Thompson, 1997). Thus, internal demands *attract* companies to enter into collaborative working to improve efficiency and to lower the transaction cost through changing traditional cultures and building a more collaborative relationship.

Figure 19: External force and Internal demand for partnering



Note: Real line stands for external forces: push

Dashed line stands for internal demand: attract

### 3.4 Beneficiary of partnering

Partnering benefit all parties, including the owner, the general contractor, subcontractors, management, and on-site employees (Dozzi et al., 1996; Larson and Drexler, 1997). The fundamental principles of partnering – commitment, trust, respect, communication, and equality – are designed to include proper consideration of the interests of all parties at every level (CII, 1991; Cowan et al., 1992). The partnering process empowers all the project personnel accept responsibility and their jobs by delegating decision-making and problem-solving to the lowest possible level of

authority (Dunston and Reed, 2000).

In this part, I would like to talk about the benefit of partnering by two approaches. The first part is the description sight, in which I sum up the views by previous researchers. In the second part, some examples are raised either in numbers or questionnaires report to give readers a sense of practical view.

### ***Literature sight on benefit of partnering***

According to the numerous literature reviews, partnering was found to contribute to both the *hard* and *soft* side of project management.

Specific partnering elements like establishing problem solving procedures and provisions for continuous improvement were linked to controlling cost, meeting schedule, and to a lesser extent, technical performance (which indicate the hard side of project management). Likewise, partnering activities were also positively related to satisfying customer needs, enhancing the team spirit among the workers and so on.

These findings support the arguments made by advocates that partnering can contribute to more productive, collaborative working relationships between owners and contractors. Although the results did not involve specific cost savings, the findings suggest that engaging in partnering activities is well worth the investment of time and money.

Review of the literature indicates that common benefits of partnering can be grouped under thirteen headings: reduced litigation, better cost control, better time control, better quality product, efficient problem solving, closer relationship, enhanced communication, continuous improvement, potential for innovation, lower administrative cost, better safety performance, increased satisfaction and improved

culture. The thirteen headings are grouped into two, as we talked before, hard side and soft side.

### **3.4.1 Hard side of partnering benefit**

#### ***Better cost control***

Partnering has a great potential to improve cost performance (Albanese, 1994; Gransberg et al., 1999). Partnering reduces the risk of budget overruns because of improved cost control (Cowan et al., 1992; Moore et al., 1992; Abudayyeh, 1994; Bates, 1994; Brown, 1994; CII, 1996; Hellard, 1996; Ruff et al., 1996; Back & Sanders, 1996; Li et al., 2001). The reasons for better cost performance are many, such as: alleviating rework, reducing scheduled time, heightening involvement of team members, improving trust, reducing scope definition problems, opening communication, lowering change order rates, improving problem solving, eliminating blame shifting, improving understanding of project objectives and decreasing adversarial relations (Albanese, 1994).

#### ***Better time control***

Partnering can reduce delay as a result of better schedule performance (Cowan et al., 1992; Moore et al., 1992; CII, 1996; Ruff et al., 1996; Thompson and Sanders, 1998; Black et al., 2000), timely decisions (Albanese, 1994; Li et al., 2001) and reliable programming (Hellard, 1996; Matthews et al., 1996). A fair and equitable attitude resolves many disputes, discrepancies and changed conditions which arise during construction.

#### ***Better quality product***

Partnering produces high quality construction and service and reduces engineering rework (CII, 1991; Moore et al., 1992; Bates, 1994; CII, 1996; Hellard, 1996; Matthews et al., 1996; Thompson and Sanders, 1998; Black et al., 2000; Li et al., 2001). An effective partnering agreement improves project quality by replacing the potentially adversarial traditional relationship and case building with an atmosphere that fosters a team approach to achieve a set of common goals (Cook and Hancher, 1990; Brown, 1994). Albanese (1994) further explained that the partnering process facilitates communication of quality issues, enables earlier recognition of potential problems, and helps develop a quality consciousness. Many of the firms in Albanese's study were those who are practicing total quality management, a management approach that usually involves the use of partnering.

#### ***Lower administrative cost***

Partnering provides a way to lower administrative cost by eliminating defensive case building (Abudayyeh, 1994; CII, 1996; Hellard, 1996; Black *et al.*, 2000). Moreover, the cost to negotiate and administer contracts is decreased as partners become knowledgeable of the counterpart's legal and litigation concerns (CII, 1991). Hellard (1996) and Cowan *et al.* (1992) suggested other interesting benefits that partnering reduces paperwork and simplifies administrative procedure. Bayliss (2000) advocated that less paperwork and more face-to-face discussions were made possible in partnered projects.

#### ***Better safety performance***

Taking joint responsibility to ensure a safe working environment for all parties reduces the risk of hazardous working conditions and avoids workplace accidents. Actually, the safety performance can be improved as partners better understand each other and as the knowledge of construction process and systems improves drastically

(CII, 1991; Moore *et al.*, 1992; Albanese, 1994; Bates, 1994).

### **3.4.2 Soft side of partnering benefit**

#### ***Reduced litigation***

Litigation is a major problem in most construction projects. It does not help realize potential saving. In partnering arrangement, the problems of disputes, claims or litigations are greatly reduced through open communication and improved working relationship (Cook and Hancher, 1990; CII, 1991, 1996; Abudayyeh, 1994).

Gransberg et al. (1999) advocated that dispute and claim cost on partnering projects was relatively low. Similar conclusions can be found in the research of Li et al. (2001) and Ruff et al. (1996). Bayliss (2002) reported that not a single dispute had escalated to litigation in these partnering projects. This was in stark contrast to the number of disputes received on non-partnered contracts of similar scale (Bloom, 1997).

#### ***Efficient problem solving***

Partnering provides a way to develop a control and resolution mechanism for dealing with problems (Cowan et al., 1992). The partners anticipate potential problems and devise an action plan addressing how those problems are jointly identified and resolved. The partnering agreement allows each party the opportunity of learning and using the other's problem-solving methods (Cook and Hancher, 1990; Bates, 1994; Hellard, 1996; Conley and Gregory, 1999). Sanders and Moore (1992) concluded that partnering helps eliminate many personal conflicts.

#### ***Closer relationship***

The close working relationship between the owner, constructor, and engineer

provided a better environment of project (Cook and Hancher, 1990; Bayliss, 2000; Drexler and Larson, 2000). Enhanced communication, the identification of shared goals and objectives, the recognition that problems arose, and the agreement to address those problems through a special design procedure facilitated a harmonious relationship (CII, 1991; Harback et al., 1994; Matthews et al., 1996).

#### *Non-adversarial attitude*

The traditional adversarial relationship between owner and contractor is stressful and inefficient (Cowan et al., 1992). Partnering aims to reduce adversarial relationship that will allow focus on mutual goals to the benefit of both parties (CII, 1991; Albanese, 1994; CII, 1996; Nielsen, 1996; Conley and Gregory, 1999; Gransberg et al., 1999; Black et al., 2000). The transforming adversarial relationship is the actual change mechanism that transfers usual business into a trust based relationship (Lazar, 1997; Drexler and Larson, 2000).

#### *High level of mutual trust*

Partnering recognizes an implied covenant of good-faith dealing by all parties involved (Harback *et al.*, 1994; Lazar, 1997; Green, 1999). Within this atmosphere of cooperation and mutual trust, the parties can jointly determine and evaluate approaches to design, engineer, and construct the project and result in improving cost and schedule performance (Cook and Hancher, 1990; CII, 1991).

#### *Sharing risk and resources*

Partnering enables parties to share the benefits and resources collectively and develop management and technical advances jointly (Cook and Hancher, 1990; Cowan *et al.*, 1992; Li *et al.*, 2001). It also establishes the tools for both measurement and sharing of gains and risks (Ellison and Miller, 1995; Li *et al.*, 2001).

#### *Greater responsiveness to problems*

Partnering helps actualize the delegation of authority or empowerment to the project personnel. The flexibility and responsiveness of the owner increase under the partnering agreement (Cook and Hancher, 1990). It ensures problem solving at the lowest possible level of authority. A partner can be more responsive to short-term emergency, changing project or business needs (CII, 1991; Green, 1999)

### ***Enhanced communication***

To break the traditional hierarchical communication channels, partnering promotes openness, trust and efficient communication through common and alleviative language (CII, 1991; Sanders and Moore, 1992; Li *et al.*, 2001). Increased communication on various subjects means that the parties are less likely to be surprised by schedule delays and additional costs, which often lead to disputes and litigation (Sanders & Moore, 1992; Brown, 1994; Li *et al.*, 2001).

### ***Continuous improvement***

The traditional responsibility for improvement primarily rests with the contractor who is assumed as a burden maker, while the client and consultants act as a skeptical judge (Cowan *et al.*, 1992). Partnering provides a way for all parties to develop continuous improvement. It is a joint effort and with a long-term focus on eliminating for wasteful barriers to improvement (CII, 1991; Ellison and Miller, 1995; Green, 1999; Black *et al.*, 2000).

### ***Potential for innovation***

An effective partnering relationship encourages partners to evaluate advanced technology for its applicability (Cook and Hancher, 1990; Hellard, 1996). Proper use of innovation through open communication improves design and construction



processes (Abudayyeh, 1994; Bourn, 2001).

### ***Increased satisfaction***

Partnering provides a more conducive environment of achieving project objectives (Matthews *et al.*, 1996). All parties involved benefit from the partnering agreement. Partnering enhances customer satisfaction as the customer is closer to the construction process and better informed (Nielsen, 1996). Contractors obtain a reasonable profit and are assured of continued work at predetermined profit margins (Moore *et al.*, 1992; Back and Sanders, 1996). Joint satisfaction of all shareholders is possible (Cowan *et al.*, 1992). The work becomes enjoyable rather than a burden or an unreasonable risk (Bates, 1994). The project team – the contractors, suppliers, and designers – have higher levels of satisfaction and necessary actions are taken much sooner based on their active input (Nielsen, 1996).

### ***Improved culture***

Bloom (1997) indicated that evaluations of Army partnering contracts had shown a distinct improvement in the culture of the people working on the contract. When people work in a conflict-free environment, they concentrate on the job rather than on potential claims, and the morale and effectiveness of the whole ‘team’ is improved (Brown, 1994; Ruff *et al.*, 1996; Bloom, 1997).

### ***Learning and Innovation***

In addition, to the common perception that partnering promotes organizational flexibility, it is beginning to be seen as a means of developing an environment supportive of innovation and learning; the latter capability increasingly being used as a source of competitive advantage by those working in markets characterized by

uncertainty (Barlow J, 1998). Strategic partnering implies the use of double-loop learning and the generation of knowledge through higher levels of evaluation and analysis of information which can facilitate change for mutual benefit (Love PED, 2002).

### **3.5 The problems of partnering**

Partnering is not a simple question. According to researches, it does suggest that it is much too simple to presume that the application of tools and techniques, backed up by an expressed commitment to partnering, is all that is needed.

A practice cross-case analysis on projects were carried out by previous researchers to determine what were the problematic issues and how did these problematic issues contributed to the failure of project partnering arrangement in construction projects.

A total of 14 problematic issues were identified, and these issues can be broadly classified into four main categories.

#### **3.5.1 All stakeholders perspective**

##### ***Misunderstanding of Partnering Concept***

A thorough knowledge and understanding of the partnering process is essential to create partnering success; misunderstanding the partnering concept is thus a major problem for partnering implementation. Some project participants failed to understand how the partnering relationship could provide a competitive advantage (Cook and Hancher 1990; CII 1991, 1996). Larson and Drexler (1997) further noted that limited experience in the partnering approach affected the understanding and knowledge of project participants. Also the fair profit motive, like the concept of partnering, was not

fully understood and supported by the project participants. Unfamiliarity or misunderstanding of the partnering concept by the project participants could cause a failure in partnering (Sanders and Moore 1992; Harback et al. 1994)

### ***Stakeholders not developing a “win-win” attitude***

According to the previous research, a “win-lose” attitude was mainly attributed to the client’s unwillingness to be completely committed to the project partnering relationship, particularly with regard to a lack of client compromise and a conflicting organizational culture (Patching A., 1994). This could result in a lack of contractor’s faith in their client’s ability to effectively facilitate the project partnering process, which ultimately induced their lack of commitment.

### ***Communication Problems***

Communication should be two-way, clear, effective, and open so that the understanding of client’s requirements is enhanced. Partnering provides a timely, open, and direct line of communication among all parties. Problems need to surface and be solved on-site whenever possible (Moore et al. 1992; Sanders and Moore 1992). Nevertheless, various partners do not trust each other completely and are not willing to communicate and exchange information freely (Larson and Drexler 1997). Sometimes communication fails and results in less collaboration and unreasonable demands due to the ignorance of other parties (Harback et al. 1994; CII 1996; Gardiner and Simmons 1998). Therefore open, honest, and effective communication is the key ingredient for partnering success.

### ***Uneven Commitment***

Partnering requires the commitment of all project participants; it means overcoming

the perceived risk of trust and requires actual commitment rather than lip service. Project participants must have total commitment to the partnering process, but an uneven level of commitment is common in practice because of differing goals among parties (Moore et al. 1992). Some research revealed that the lack of agreement to commitment was a barrier to partnering; also, commitment is difficult to obtain and maintain (CII 1991; Gardiner and Simmons 1998). From behavior point of view, a commitment to partnering might be a truly felt experience or it might simply be skin deep; either way, it is extremely difficult to tell, since behavior can be misrepresented or rationalized (e.g. Hodgetts, 1991). All contracting parties should devote more effort to balance the levels of commitment on each side (Moore et al. 1992).

### ***Relationship Problems***

The objective of partnering encourages project participants to change from their traditional adversarial attitude to a more cooperative, team-based approach to preventing disputes (Moore et al. 1992; Loraine 1994). The unchanged traditional adversarial relationship and other inappropriate attitudes hamper the development of good relationships between contracting parties.

- ***Adversarial Relationship***

Win-win thinking is an essential element for partnering success (Hellard 1996; Ruff et al. 1996), but many parties do not trust the other party due to past experience and fear of the unknown and change (Larson 1995; Larson and Drexler 1997). Thus changing the myopic thinking of project parties is very difficult. Very often, project participants try to procure benefits out of their relationships and end up with a lose-lose environment. Participants gain recompense when problems arise (CII 1996; Hellard 1996).

- ***Distrust***

Partnering does not always work without risk; to develop trust for each other might be a risk in itself, although it is the key element of successful partnering (Cowan et al. 1992). Unfortunately, the project environment conducive to trust may be affected by bitter experience in litigation, dispute, and past adversarial relationships (Albanese 1994; Harback et al. 1994; Lazar 1997). It is difficult to build trust since parties bring adversarial experiences to partnering. It is also a hurdle to implementing more progressive approaches (Dozzi et al. 1996).

- ***Failure of Sharing Risk***

Risk sharing is another barrier to the success of a partnering project; project participants may find it difficult to share the risk fairly in the partnering process (Cook and Hancher 1990; CII 1991). They try to take full advantage of the partnering spirit to reduce their own risk and as a result may be unwilling to share the risk and maintain the trust relationship (Larson and Drexler 1997).

- ***Overdependency on Others***

The partnering concept is intended to accentuate the strengths of partners and as a result cannot compensate for fundamental weaknesses in the participants. In some cases, partnering created strong dependency on the partner (Cook and Hancher 1990; CII 1991). Gardiner and Simmons (1998) further explained that partnering did not remove or reduce interdependencies but could be used to strengthen the relationship and increase the trust between parties. Therefore, participants should better understand and appreciate the dependencies and damaging consequences of nonconformance to project requirements. On the other hand, partnering was a departure from business as usual; individuals and entire organizations often felt a loss

of control, being at risk or awkwardly dependent on others (Bresnen and Marshall 2000).

### ***Cultural Barriers***

Partnering is culturally opposed to the traditional implementation of construction projects. Established culture is hard to change (Hellard 1996; Lazar 1997). Many organizations are reluctant to change into the integrating culture. Very often bureaucratic organizations impede the effectiveness of partnering (Larson and Drexler 1997). When parties are faced with commercial pressure, they will compromise the partnering attitude.

### ***Issues are allowed to slide and escalate***

The previous practical experience indicated that many problematic issues that did arise in the project partnering relationships were not rectified at their lowest possible level, and therefore were left to further escalate.

Problems do not disappear automatically with the signing of the partnering charter (Sanders and Moore 1992; Brown 1994); conflicts among participants are still possible. Albanese (1994) pointed out that even if the partnering team is willing to identify, confront, and resolve problems, problems still occur.

## **3.5.2 Client perspective**

### ***Lack of top management support***

Lack of top management support is an obstacle to initiating partnering. If the top management is seen to only provide lip service to the partnering approach, the

partnering relationship is bound to fail (Hellard 1996).

In some practical cases, contractors believed that there was a lack of empowerment on the part of the client's representatives. This had a negative effect on the efficiency of the problem resolution process. This inefficiency in quick resolution of problems had a damaging effect on the budgets of the contractors in question, which further hampered their level of commitment to the project partnering process. The most common response with regard to the origin of this problematic issue was that the client was unwilling to break their traditional "chain of command" organizational structure, thus not allowing their junior counterparts greater authority to make appropriate decisions to solve problems at their lowest possible level.

#### ***Dealing with large bureaucratic organizations***

Dealing with large bureaucratic organizations did impede the project partnering arrangement in terms of their ability to form open and honest working relationships. This was attributed to the amount of administrative requirements, and the less flexible approach of the client, which directly affects the contractors' faith in their client, and in the project partnering relationship. This generated the financially detrimental administrative requirements imposed on the head contractors.

#### ***Controlling body's lack of technical knowledge***

The client's lack of technical knowledge negatively affected contractors' respect for the client, and consequently, confidence in their ability to solve mutual problems efficiently and at their lowest possible level. The lack of technical knowledge may impede the understanding and efficiency of the problem resolution process.

### **3.5.3 Contractor perspective**

### ***Inadequate Training***

Inadequate partnering training is an obstacle to implementing partnering (Albanese 1994; Matthews et al. 1996). CII (1996) explained that inadequate staff training is the essential reason for partnering failure; the participants do not fully understand the concept of partnering and hence are not able to implement partnering successfully. Since partnering facilitators play a significant role in the success of partnering ventures, inadequate training or expertise of the facilitators could also be a crucial reason for partnering failure.

In some cases, the problem was not attributed to a lack of training procedures, but because inappropriate information was given. This information did not allow the contractor to fully appreciate the requirements for success in project partnering in the specific project. This further affected the client's lack of commitment to the project partnering relationship.

### **3.5.4 Project perspective**

#### ***The conflict to build partnering relationship between client and contractors***

The use of a *competitive tendering arrangement* was described as the origin for many preceding problematic issues including the level of commitment of stakeholders for the project partnering arrangement. There is a real tension, on the one hand, the need for the development of trust between clients and contractors and, on the other hand, surrounding economic conditions that predispose contractual partners to act (for very rational economic reasons) in more 'traditional', adversarial and even exploitative ways (Bresnen, 1996). This is not meant to suggest that collaboration is made impossible or unlikely. Rather, that it is collaboration (rather than conflict) which is



the aberration to the norm: as over 30 years of government and industry reports have shown, lack of cooperation based upon fundamental differences in interests between clients, contractors and others is endemic and almost a defining characteristic of the industry (Higgin and Jessop, 1965; Latham, 1994).

### ***Key Parties Not Involved***

A common myth about partnering is that it only exists between clients and contractors. Partnering, however, involves all parties: key subcontractors, design consultants, and suppliers should also be included with clients and contractors (Sanders and Moore 1992; CII 1996; Love 1997). Their opinions and advice cannot be sought if they are not involved in the partnering process.

Some contractors who experienced heavy financial burdens in their project, suggested that the inclusion of subcontractor in the process could help ensuring a contractor to achieve the pre-determined profit. The exclusion of subcontractors from the partnering arrangement could induce a decrease in the stakeholder's commitment (Construction Industry Institute of Australia, 1996).

### ***What actually happen “on the ground” is deviation from partnering at the corporate level***

Even if top management aggressively pursues the partnering relationship, partnering does not filter down to staff at the project level easily. The partnering concept may be misunderstood by midlevel staff (Lazar 1997) and front-line staff alike.

However, it is rather less clear on how to narrow any gap between expressed intentions at a corporate level and what actually happens ‘on the ground’ , where behaviour can be influenced by a wide range of factors (including experience of

actually working directly with contractual partners). Thus it is difficult to convert formal partnering arrangements into real behavior at operational levels.

### **3.6 Critical successful factors of partnering**

The key strategy behind project partnering is building a foundation for collaboration between potential adversaries before disputes and problems arise. This typically begins with the principals from the different firms getting together and establishing the goals and guidelines for initiating the project partnering process. (Erik Larson, 1997)

#### ***3.6.1 Common critical success factors (Behavior aspects)***

- ***Frank discussion of expectation and equity***

Participants confront the issue of equity and what is a fair profit for the different contributors. This typically includes a frank discussion of expectations and some basic agreement as to what is a reasonable profit margin for the contractors as well as financial obligations of the owner. The purpose of this discussion is to develop a shared concept of “fair dealing” which will govern interactions between participants. Establishing normative pressures for fair dealing is critical to sustaining cooperative relationships and violation of such norms is a decisive factor to the dissolution of partnerships (P. S. Ring and A. H. Van de Ven, 1994).

- ***Support from Top Management***

Commitment and support from top management are always prerequisites for a successful partnering project (Harback et al. 1994; Slater 1998). As senior management formulates the strategy and direction of business activities, their full

support and commitment are critical in initiating and leading the partnering spirit (Cheng et al. 2000).

The significance of top management support of teamwork across organizational boundaries is consistent with the admonitions of proponents of partnering. Advocates repeatedly warn that top management must consistently and visibly endorse the principles of partnering both with word and action. Without such support, participants may quickly resort to traditional adversarial modes of behavior. For example, top management should review litigation costs of confrontation with front line managers. Although senior management typically understands these costs, front line supervisors have a tendency to see only the impact of a problem on their immediate situation. Such a review can sometimes temper hard line responses and encourage more collaborative problem solving. This is especially true early on in a project where the partnering agreement will be tested by the first disagreements that emerge. Top management needs to be vigilant and actively encourage that such conflicts are resolved collaboratively.

- ***Mutual Trust***

For partnering to work, parties involved must have mutual trust toward other partners (Hellard 1996). They should have the belief that others are reliable in fulfilling their obligations in an exchange relationship. It is essential to “open” the boundaries of the relationship because it can relieve stress and enhance adaptability, information exchange, joint problem solving, and promise better outcomes (Mohr and Spekman 1994; Cheng et al. 2000; Bayramoglu 2001). Trust can only be built on a strong degree of predictability. That means one party can comfortably assume that for a cooperative move he made, a reciprocating cooperative move will be returned. (Sai-On Cheung, Thomas S.T. Ng, 2003)

Trust is also an outcome from the partnering process, but it is also a critically enabling factor for any partnership. When trust is present, partners find it easier to communicate, share information and accept diminished control resulting in enhanced capabilities for the partnering relationship (CII 1991). The degree of trust between parties is dependent on factors such as the duration of the relationship, whether the project benefits were shared equitably and whether the behavior of the parties was consistent, appropriate and timely. With this in mind cultural change must be seen as a key outcome for organizations that want to build successful partnerships. As with trust, a partnering culture also takes time to build and consolidate. (R Beach, 2005)

- ***Effective Communication***

Partnering requires timely communication of information and the maintenance of open, direct lines of communication among all project team members (Larson 1995; Hellard 1996). Problems on site need to be solved immediately at the lowest possible level (Dunston and Reed 2000). If communication is used only for routine matters while important issues are conveyed from each site office to the respective head offices and then back to the site office before any interactions, partnering will fail (Moore et al. 1992). It is clear that effective communication skills can help in facilitating the exchange of ideas, visions, and the overcoming of difficulties (Cheng et al. 2000). Organizations should thus give careful thought to which information can be shared and which channels, forums and processes of communication will be most effective.

- ***Efficient Coordination***

Coordination reflects the expectations of each party from the other parties in fulfilling a set of tasks (Mohr and Spekman 1994). Good coordination resulting in the achievement of stability in an uncertain environment can be attained by an increase in

contact points between parties and sharing of project information (Bayramoglu 2001).

- ***Continuous collaborative spirit***

The collaborative spirits generated by the team-building sessions are sustained during the project through a number of different mechanisms that support partnering principles. For example, all parties regularly engage in joint evaluation of the project including an assessment of each others' adherence to the principles of collaboration. Likewise, the agreed upon ground rules for resolving problems are adhered to. Escalation guidelines are implemented so that problems are solved in a timely, efficient manner at the lowest appropriate level or they are "escalated" to the next management level. Procedures for continuous improvement are implemented so that owners respond quickly to proposals and share the risk as well as the savings from such improvements.

It is paramount for stakeholders to be accepting of others' mistakes, as stakeholders can learn from each other's mistakes and improve efficiency in future relationships.

### ***3.6.2 Functional critical success factors (Process aspects)***

Closer examination of findings suggests that partnering endeavors should be well grounded on technical and task related issue. Too often team-building activities involve artificial exercises that generate a strong, but temporary, sense of "partnering feeling". This "team feeling" may quickly vanish once participants are confronted with tough problems and complex challenges.

- ***Adequate Resources***

Because resources are scarce and competitive, it is not common for an organization to share its own resources with others. These main resources include knowledge, technology, information, specific skills, and capital. Several previous studies point out the importance of shared resources (CII 1991; Brooke and Litwin 1997; CIB 1997). It is also significant to ascertain the maximum use of shared resources. The complementary resources from different parties not only can be used to strengthen the competitiveness and construction capability of a partnering relationship (Cheng et al. 2000) but can be major criteria for assessing partnering success. (Albert PC Chan 2004)

- ***Mutual objectives and formal Commitment***

Without the commitment required under the partnering philosophy it is likely that the direction of the project will suffer leading to claims, disputation, and litigation (Larson E, 1995). The first step of partnering is to develop a partnering charter addressing mutual objectives. Joint goal formulation provides a deeper understanding of the project's overall goals and the difficulties and possibilities involved in their establishment (Kadefors 2004). All stakeholders' interests are considered in creating mutual goals, and there is a commitment to satisfy each stakeholder's requirements to ensure project satisfaction and success. This is attained by continuously searching for solutions that meet stakeholder expectations. (S. Thomas Ng, Timothy M. Rose, 2002)

- ***Long-Term Commitment***

Long-term commitment can be regarded as the willingness of the involved parties to integrate continuously to unanticipated problems (Bresnen and Marshall 2000; Cheng et al. 2000). More committed parties are expected to balance the attainment of short-term objectives with long-term goals and achieve both individual and joint

missions without raising the fear of opportunistic behavior (Mohr and Spekman 1994; Romancik 1995). In my opinion, the “long-term” could be understood in two approaches. In strategic partnering, long-term means the coming years. In project partnering, long-term could be understood as long as the project term.

- ***Early involvement of key participants***

An important factor for successful partnering to arise from the analysis of the literature was the early involvement of key participants as this allowed the parties to use their knowledge and expertise to ensure a positive project outcome.

For the partnering process to succeed, everyone who can influence the performance of the project must be involved. Major subcontractors and contract administration personnel should be included to ensure the full benefits of influence in the project partnering process (Construction Industry Institute of Australia, 1996).

The use of *integrated teams* has also been said to be crucial to achieving improvements in quality, productivity, health and safety and cash flow, and in reducing project durations and risks (Egan J, 2002). Integrated teams can complement the practice of early involvement by facilitating innovation during the design stage of the project, thereby increasing the potential for partnering benefits. However, this means that designers, specialist subcontractors and key manufactures must be allowed access to the client during this stage of the project as once the design is finalized.

Early involvement enables suppliers to build a clearer vision of both the client’s and MCs expectations enabling them to create value by meeting client needs more effectively. (R Beach, 2005)

- ***Continuous joint evaluation***

It is paramount to the success of the project partnering process that in-process reviews are conducted on a regular basis to ensure that project goals and objectives are on track, and to measure accomplishments. The stakeholders must develop a specific evaluation process that suits the nature of the project (Crane TG, Felder JP, 1999).

The continuous evaluation of a partnership in order to ensure that it developed according to the expectations of the parties involved was seen as essential. Bennett and Jayes (1995) noted that continual performance improvement was necessary in order to deliver the benefits of partnering; an observation also supported by Lenard et al. (1996) whose study revealed that 96% of participants in successful partnerships felt that this was an essential success factor. The use of feedback to capture any improvements or lessons learned from projects and the use of benchmarking to stimulate the incidence of continuous improvement from project to project was also advocated (Bennett J, Jayes S, 1998).

- ***Productive Conflict Resolution***

Because of the discrepancy in goals and expectations, conflicting issues are commonly observed among parties. Conflict resolution techniques such as coercion and confrontation are counterproductive and fail to reach a win-win situation (Slater 1998; Lazar 2000). In fact, conflicting parties look for a mutually satisfactory solution, and this can be achieved by joint problem solving in order to seek alternatives for problematic issues. Such a high level of participation among parties may help them to secure a commitment to a mutually agreed solution (Cheng et al. 2000).

Conflicts of interest will almost inevitably occur at some stage during a project and the purpose of any resolution process should be to permanently resolve them as quickly as possible and at the lowest possible level without the need for mediation or



legal processes. (R. Beach, 2005)

- ***Visible and consistent firm support from all levels of management***

Proponents agree that for partnering to be successful it must have the visible, unwavering support of all levels of management (S. T. Baker, 1990), (D. L. Cook and D. E. Hancher, 1990), (H. F. Harback, D. L. Bashim, and R. E. Buhts, 1994). The project managers must *walk their talk* and consistently display a collaborative as opposed to confrontational response to problems. This is especially true early on in the project when the partnering agreement will be tested by how participants react to the first major disagreement that emerges. Top management must consistently and visibly champion the partnering principles of openness, trust, and teamwork. Senior partners must continually emphasize the big picture, project objectives, and a win-win scenario. They must realign both the formal and informal reward system to recognize those who support and contribute the partnering process.

Stakeholders' strength and enthusiasm will provide an example and will aid in the success of the project partnering process. "Partnering champions" is the term given to those who have gone beyond acceptance to a level of true commitment and leadership, who will in turn actively promote the ultimate working relationship. Strong leadership is an essential component in supporting the functionality of partnering (Woodrich AM, 1997)

- ***Empowerment of stakeholders***

Stakeholders must be empowered with the requisite decision making authority for efficient problem solving. Higher management should empower their partnering representative with enough authority to make the appropriate decisions for the project (Construction Industry Development Agency, 1994).

If communication is used only for routine matters while important issues are conveyed from each site office to the respective head offices and then back to the site office before any interactions, partnering will fail (Moore et al. 1992).

- ***Preparation and training***

The participants in the project partnering arrangement must understand what partnering is, and truly believe that the current contracting process can be improved by a new way of conducting business in the construction industry. (S. Thomas Ng, Timothy M. Rose, 2002)

People within the partnering organizations need to be educated in order to be prepared for the operational and cultural change that partnering can entail. The success of this educational process plays a significant role in determining employee commitment to the concept and practice of partnering and the development of an organizational culture that freely shares knowledge with external parties. (R Beach, 2005)

In the above section, some critical success factors are mentioned independently. Actually their role and function are not independent from each other. We have always to keep in mind that company management or project management is a systematic work. Tanti factors are jointed together to contribute to the outcome. Not one of them can solo determine the success for the work. It is just like a famous saying “one person can not make a team”.

### **3.7 The process of partnering**

In order to understand the process of partnering, the following 3 models are cited to give the readers a clear structure.

### ***3.7.1 Customized model of partnering-- Cheng and Li (2001)***

Cheng and Li (2001) proposed a process of partnering that was composed of three stages—formation, application, and completion/reactivation.

This three-stage process is proposed based upon *two implications*. First, the partnering process represents a change process (Wilson 1995). A general change process is known to be composed of three stages (i.e. unfreezing, transformation, and refreezing). By unfreezing the refreezing stage, another cycle will form. Second, there is a common premise in the management perspective of strategic alliance (a related concept) that the process should be composed of three stages (i.e., formation, implementation, and evaluation) (Buono 1997; Das and Teng 1999). Incorporating these concepts results in the development of the proposed partnering stages, which are described below (Cheng and Li 2001).

- Partnering formation

*Partnering formation* refers to an agreement, implicitly or explicitly, made by all key construction parties to establish an informal relationship for the purpose of accomplishing mutually agreed upon goals and objectives. During this stage, involved parties should prepare to diagnose their current practices and to address their concerns about what partnering can help them to fill the performance gap. They may be required to unfreeze their mind to accept the needs for change when they accept the concept of partnering.

- Partnering application

*Partnering application* refers to the execution of the informal relationship to

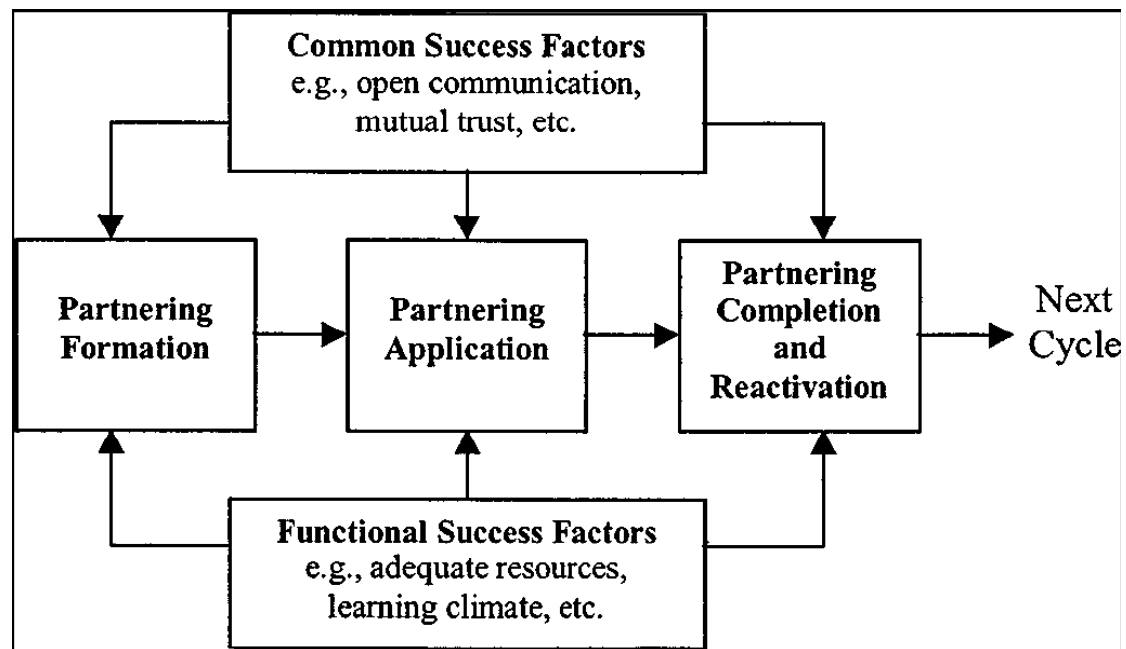
accomplish the mutually agreed goals and objectives in line with the construction project. At this stage, partnering is operating to exert its influence on the construction projects. It is a process to learn and experience the newly adopted concepts and practices derived from partnering.

- Partnering completion/reactivation

*Partnering completion/reactivation* refers to the intention of the construction parties to rerun an informal relationship with the same group of companies for a new project after the completion of the current project. Most often, if construction parties aim at implementing partnering for a single project, the partnering team will be resolved after the project is completed. However, if they want to form another partnering cycle, then measuring their intention to reinitiate the partnering process becomes crucial and relevant. This is called partnering reactivation in their research.

The three stages are in a sequential process transforming from left to right, while the loop connotes the occurrence of another cycle. This loop distinguishes *a single, short-term relationship from a long-term cooperation*. The former is *project partnering*, while the latter is *strategic partnering*. As Barlow et al. (1997) suggested, although the basics of the two types of partnering (project and strategic) are similar, they still possess distinct functions and provide different benefits.

Figure 20: Customized model of partnering



Source: Cheng and Li (2001)

### 3.7.2 Procedural Mapping Model for Partnering

After Customized model of partnering in 2001, Cheng and Li developed another model which is called “procedural mapping model for partnering” in 2004.

It portrays six integrative processes (sub-processes) within the partnering process. Representative Selection Process, Team Building Process, and Partnering Agreement Process, are in the process stage of partnering formation. Goals Attainment Process (GAP) and Joint Problem Solving Process are in the stage of partnering application. Reactivation Decision Process is in the stage of partnering completion and reactivation.

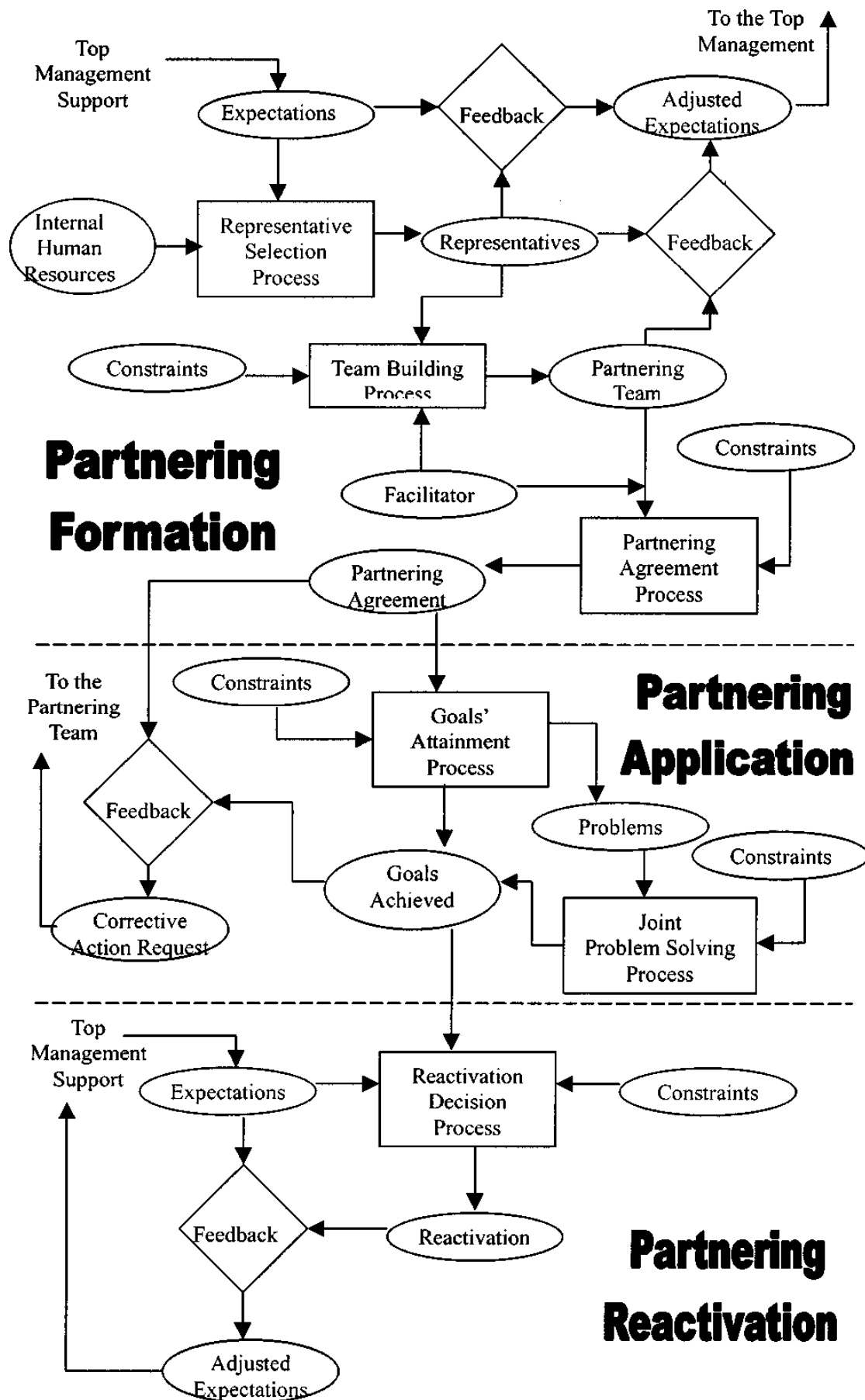
Here are the explanations of the graphics in the model.

- A rectangular box—represents the processing units. Processing units are

value-added activities, which can be processes for selection, decision-making, problem-solving, and monitoring.

- A circle—represents the inputs, outputs or directives constraints. Inputs are resources and necessities. Outputs are completed tasks and activities or deliverables. Directives can be plans, expectations or objectives while constraints can be trust, commitment, etc.
- A diamond shape—represents the feedback loop for control and breakthrough purposes. It also represents the learning capability inherent by the system.
- An arrow—represents the flow of processes and learning from feedback.

Figure 21: Procedural Mapping Model for Partnering



Source: Cheng and Li, 2004

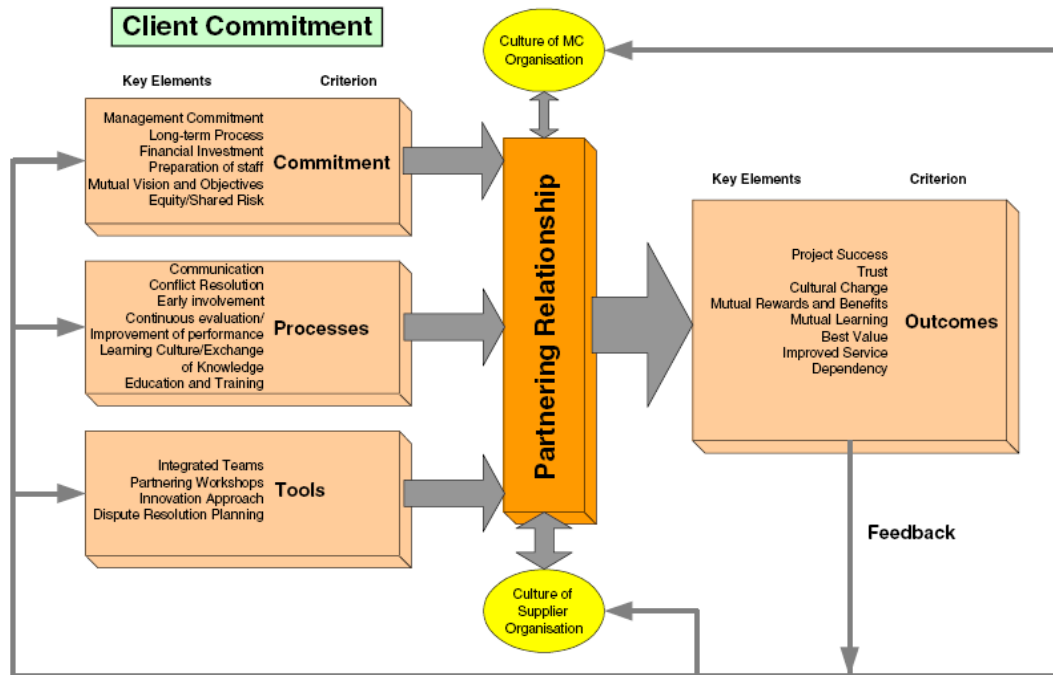
### ***3.7.3 A conceptual framework for partnering-- R Beach (2005)***

In this model, it can be seen that the commitment, processes and tools criteria are considered to have the greatest bearing on the establishment and development of the partnering relationship. The organizational cultures of both the main contractors and the suppliers are also likely to affect the development of the partnering relationship but as the cultures are subject to internally generated 'change' to meet the expected new demands of the relationship, the partnering relationship itself may have as much bearing on the cultures of the organizations as the cultures have on the relationship.

Successful outcomes of individual projects involving the use of partnering are likely to generate mutual rewards and benefits and create an opportunity for the organizations to develop and build trust, cultural change (organizational) and achieve mutual learning from the experiences. These outcomes act as feedback to the process further strengthening the role of each element and benefit the relationship development process overall.

Figure 22: A conceptual framework for partnering





Source: R Beach 2005



## Chapter 4 Transaction Cost Theory

### *4.1 Definition of transaction cost theory*

Transaction cost economics (Transaction Cost Theory) is most associated with the work of Oliver Williamson (see his book *The Economic Institutions of Capitalism*), though he was building on earlier work, particularly by the Nobel prize winner Coase. One reason why the theory is so important is that it represents one of the first and most influential attempts to develop an economic theory that takes seriously the structure of firms.

Previously, economic theories tended to treat the firm as a sort of “black box,” the internal workings of which were not considered to be important. This, of course, contrasts with most other people’s view of businesses, where the internal workings of the organization is given prominence.

It is sometimes said that transaction cost theory attempts to explain why firms exist. That is, why are some transactions directed by managers in the context of a hierarchy, as opposed to taking place in an open market? It’s more accurate, though, to say that transaction cost theory tries to explain the particular structure of a firm, most importantly, the extent to which it will integrate vertically.

It must be emphasized that while Williamson’s work is very distinctive, it falls well within mainstream economic thinking. It assumes that firms are profit maximizing, and that profit maximization involves costs minimization. By implication, it is an equilibrium theory. It assumes rationality on the part of owners and/or managers. Where it differs is in stressing *transaction costs* as well as production costs. Williamson envisions production costs as being analogous to the cost of building and running an “ideal” machine, while transaction costs are those costs which are incurred by departures from perfection, such as friction. In the economic sector, the ideal

machine would be a perfectly efficient market. As you know, such a market requires full information to be available to all parties and perfect competition, among other factors. Departures from this perfection (sometimes called “market failures”) can result in firms incurring costs when they attempt to buy or sell goods or services. For example, lack of information about alternative suppliers might lead to paying too high a price for a good. Lack of information about a customer’s creditworthiness might result in a bad debt. These are *transaction costs*. Williamson argues that firms want to minimize their total costs, which are made up of both production and transaction costs. Under some circumstances transaction costs may be lower if the transaction takes place in an open market, which in other situations costs will be lower if managers coordinate the transaction.

Williamson’s contribution rests in specifying the variables that determine whether “market or hierarchy” will have the lower transaction costs in various circumstances. Before discussing these variables, though, we also need to mention the *assumptions* that Williamson makes that underpin the theory. It is important not to confuse these assumptions with the variables. The assumptions are unchanging contextual factors. They are important in that if these assumptions were not valid, then the arguments about the effects of the variables would not be valid. But the factors mentioned in the assumptions don’t themselves vary, and so they cannot explain variation in organizational structure.

## ***4.2 Assumptions of the theory***

1. Bounded rationality
2. Opportunism

*Bounded rationality* refers to the fact that people have limited memories and limited cognitive processing power. We can’t assimilate all the information at our disposal, we can’t accurately work out the consequences of the information we do have. A good

metaphor is the game of chess. Despite knowing all the rules which fully specify the game, no one is capable of faultlessly analysing any given position during a chess game. This is partly because the game itself is inherently too complex (there are too many alternatives), and also because the actions of the opponent are unpredictable. Managers face the same problems. No matter how knowledgeable they might be, they cannot consider all the possible alternative courses of action. This is compounded by the fact that in reaching a decision they must take into account how competitors will react.

*Opportunism* refers to the possibility that people will act in a self-interested way “with guile,” as Williamson puts it. That is, people may not be entirely honest and truthful about their intentions, or they might attempt to take advantage of unforeseen circumstances that gives them the chance to exploit another party. Williamson doesn’t assume that all people will act opportunistically all of the time. He merely assumes that some people will act opportunistically some of the time, and that *you can’t tell in advance who is an opportunist and who is not*.

These two assumptions are important contextual factors, but in themselves they tell us nothing about why a firm will integrate vertically, because they are constant characteristics of our world. These assumptions represent something of a departure from standard economic models, but not a terribly dramatic one. People are still assumed to be rational, in the sense that they want to maximise the profits of the firms they manager, but that there are limits on their ability to make a truly rational decision to achieve this end. Similarly, self-interested behaviour is assumed in traditional economic theory, but guileful behaviour — “human nature as we know it,” as Williamson put it — is not expected.

### ***4.3 Variables and explanation of the theory***

#### **1. Frequency**

2. Uncertainty

3. Asset specificity

The real explanatory power of the theory, though, comes from the three dimensions or variables that are used to characterise any transaction. Transactions can be frequent or rare; have high or low uncertainty; or involve specific or non-specific assets. These three variables will, according to the theory, determine whether transaction costs will be lowest in a market or in a hierarchy. It is easiest to consider these variables with respect to decisions about whether to integrate vertically.

*Frequency* is the most easily dealt with. There will never be a situation in which a firm would want to integrate vertically so as to bring “in-house” the provision of a good or service that is very rarely used. For example, most firms will not want to set up their own management consultancy departments because they only use the services of a management consultant on a very infrequent basis. If a firm did nevertheless set up its own consultancy, that department would have to try to sell its services to their parties in the periods when it was not doing consultancy within its parent company. But why should we expect such a department to be able to perform better than specialist consultants? In general, we would expect the firms for which consultancy is a “core competence” to do better.

Of course, if firms use consultants frequently, they may decide to set up an in-house operation. National Westminster Bank, for example, have done just this, though they also use external consultants as well.

Because frequency is so clear cut, it is usually omitted from detailed discussion. But note that this is not because it is unimportant. On the contrary, the effect of frequency on transaction costs is very strong. It is just that the case where the frequency of transactions is low isn't very interesting.

*Uncertainty* is more interesting. The issue here is how hard is it to foresee the eventualities that might occur during the course of the transaction. One obvious factor here is the length of time over which the transaction will take place. Transactions that take place on “spot markets” will have relatively little uncertainty, because one doesn’t have to predict the future. On the other hand, transactions that involve a commitment over some time have some uncertainty built in to them. An example we considered before is the printer agreeing to provide a service to a newspaper publisher. Both parties are likely to want a reasonably long term agreement to enable them to plan. But the very long term nature of the agreement adds to the uncertainty. How can the printer be sure that the publisher won’t go out of business during the life of the contract, thereby putting at risk her investment in a printing press?

Uncertainty causes problems in part because of bounded rationality. We can’t foresee all possible eventualities. It might also come about because of information asymmetries: the printer doesn’t know as much about the financial health of the publisher than does the publisher himself. Uncertainty also causes problems because of the danger of opportunism. How does the printer know she can trust any figures that the publisher presents to her? How does she know that, having invested in a press, the publisher won’t try to renegotiate the contract at some future time?

What we have to ask ourselves is will uncertainty be reduced by vertical integration? If so, will any savings in transaction costs be enough to outweigh any costs there might be associated with vertical integration — administrative costs, for example? In our example, uncertainty would be reduced by vertical integration of printer and publisher.

*Asset specificity* is perhaps the most important element in Williamson’s theory. He argues that where transactions involve assets that are only valuable (or are much more

valuable) in the context of a specific transaction, transaction costs will tend to be reduced by vertical integration. In our example, if transport costs mean that the printer would not be able to compete for business from other publishers, her printing press would be a highly transaction specific asset: it would only be of value in the context of transactions with one publisher. This variable is again only a problem in the context of bounded rationality and opportunism. It is this that makes it risky for the printer to invest in a press. Other things being equal, when transactions involve highly specific assets, transaction costs are likely to be lower in a hierarchy than in a market.

The following table gives a summary of the relationship between asset specificity, uncertainty and governance structure.

Table 6: Transaction Cost Theory

		Asset Specificity		
		Low for Both parties	High for both parties	High for one party, low for one party
Uncertainty	High	Contract/Vertical integration	Vertical integration	Vertical integration
	Low	Spot contact	Long-term contract	Vertical integration

Source: Oliver Williamson, 1985

Transaction cost theory is perhaps most often applied to understanding vertical integration, but it can often be applied to any internalization/externalization question. For example, where employees develop skills “on-the-job” that are highly firm-specific, these skills can be considered to be transaction specific assets. The



transaction in this case is the employment relation. As we know, this can take several forms, from highly temporary (such as seasonal farm work), which is similar to a “spot market”, to an internal labour market, which is analogous to vertical integration.

#### ***4.4 Criticisms of the theory***

Although transaction cost theory is very useful, it is not without its critics. It is important to recognize some possible weaknesses in the theory.

1. The theory assumes that it is possible to neatly separate production and transaction costs, but in practice this is often not the case. More generally, it is often very difficult to measure transaction costs even if they can be defined.
2. Although transaction cost theory assumes that there are limits on the extent to which decision-makers can be rational (that is, it assumes bounded rationality), it still makes little allowance for the other factors that we know affect decision-making. For example, the profit maximising, cost minimising object is not considered to be problematic. In reality, we know that this is not the case. There are often conflicts of interest among managers, the interests of managers and shareholders may not be perfectly aligned, and so on. Consequently, power plays an important role in decision-making.
3. Reputation and trust are not considered. Transactions are treated as though they occur without any knowledge of previous transactions involving the parties concerned. Yet we know that trust does develop between people as they do business with each other. We know that a reputation for trustworthiness is an important business asset that firms will often be reluctant to jeopardise.



## **Chapter 5 Research Methodology**

### ***5.1 Research Approach***

According to Bryman & Bell (2007), there are two research approaches which are continuously used in research processes. These are described as Qualitative and Quantitative approaches. The basic aim of both research approaches is the same, that is, how research problems are to be solved with reality and authenticity.

The right research methodology is always closely associated with the research area, and it will lead the research to the right path to get empirical findings (Bryman & Bell, 2007) There are many researchers that argue that there is no ultimate research methodology when doing any research because both research methods have their advantages and disadvantages with them. But researchers believe that Qualitative and Quantitative research methodologies are effective tools to be used while researching on any subject (Kvale, 1989)

The qualitative research approach is associated with descriptive focusing on small-scale, in- depth understanding. Qualitative research approach gives full insights and deeper understanding regarding specific cases or events (Yin, 1989)

On the other hand, there are many researchers who consider that there is a big difference between the qualitative and quantitative research methodologies, as they think that qualitative research is exemplified by flexibility, deeper understanding of the research subject concerned and different behaviours. Quantitative methodology is used when a researcher is to manipulate quantitative data that has been collected from a large population. In Quantitative methods, the findings are mostly associated and practiced with already written principles and rules (Bryman & Bell, 2007)

In this paper, qualitative research methodology has been used to find out the partnership and its role in trade fair management. The qualitative research approach is appropriate for this research because, by using this research approach will enable the researcher to pay great attention to the views, values, opinion and attitudes of respondents.

Table 7: Qualitative & Quantitative Research Methods Compare

<b>Qualitative Methods</b>	<b>Quantitative Methods</b>
Emphasis on Understanding	Emphasis on testing & verification
Focus on understanding from respondent	Focus on facts
Interpretation and Rational approach	Logical and critical approach
Observation & Measurement in nature setting	Controlled Measurement
Subjective “Inside View”	Objective “Outside View”
Explorative Orientation	Deductive & Hypothetical orientation
Process Oriented	Result Oriented
Holistic perspective	Particularistic & Analytical

Source: Ghauri, 2005

The following table clarifies the Qualitative research method and its relevance to this Study

Table 8: Qualitative Research Method and its Relevance to this study

Factors Involved	Qualitative Method	Thesis's point of View
Objective	To have qualitative understanding of phenomenon	To understand partnering and its role in trade fair management
Samples	Few but truly representative	Fiera Milano case
Data Collection	Structured or Semi-structure or unstructured	Semi-structured and unstructured
Analysis	Non Statistical	No statistical
Finding	Helpful for further explanation about research topic	In depth understanding of the role of partnership in trade fair management

Source: Ghauri 2005, edited by author

## 5.2 Research Framing

Bryman & Bell (2007) explain that the research framing process provides the structure for gathering empirical findings in such a way that they are closely associated with the research question and the research purpose. In this research, the Fiera Milano case study has been chosen to analyze the partnering with service providers and its role in trade fair management. With the help of Fiera Milano, researcher can get an in-depth understanding on this topic.

## 5.3 Data Collection

Data is required for all research. Data is required to obtain a valid research finding

and conclusion. With the help of processed data, the researcher is able to explain the research finding with arguments. The researcher should know what kind of data is required and how valid data can be gathered.

In this research, the researcher has used primary and secondary data sources. With the help of primary and secondary data, the research is able to explore the research topic in depth, with different points of views about the study area.

### ***Primary Data***

Primary data is recognized as information which has solely been collected for ongoing research.

In this research, primary data has been collected through direct face to face interviews thanks to Prof Lamberti. In this interview, the respondents were given enough flexibility to explain their opinions and views about the partnership with service provider and its role in trade fair management. This technique provides suppleness, and the researcher can have the unpredicted answers as well which can be significant factors for a valid conclusion.

Face-to-face, or personal, interviews are considered as open and practical in the sense of the more personal involvement of the interviewee and interviewer during the interview process.

### ***Secondary Data***

The data which have been collected by others for their own research purpose are called secondary data. This data was gathered to carry out a different research purpose but can be useful for other studies as well. Secondary data can be collected from

external resources such as books, journals and articles, magazines, internet and TV etc.

Yin (1989) stated that, though secondary data is easily gathered in a short time but this data should be valid and trustworthy. Researchers should know how this secondary data can be linked and used in the research.

In this research, secondary data has been collected from course books, articles, and journals, association websites etc. The secondary data for Fiera Milano has been collected from their websites.

#### ***5.4 Model Propose***






##### ***5.4.1 The development of the partnership model***

In order to understand the partnership between organizer and the service provider, the partnership model is developed based on the understanding of literature review on trade fair management and transaction cost theory (Oliver Williamson, 1985).

Here is the definition of the symbol that we use in the study. Triangle of different color stands for different companies. (Organizer or service providers) The relative position of the triangles expresses the relationship of the organizer (in this study, Fiera Milano) and the service providers.

Figure 23: Type of relationships between organizer and service providers

## Type of Relations

SYMBOL	TYPE OF RELATIONSHIP
	Distance relationship like spot contracting, market driven prices (commoditized market)
	Spot market which happens frequently, but prices are market driven (commoditized market)
	Partnering where more than one departments collaborate
	Long term partnering where top management support is present
	Vertical Integration

Trade Fair organizers need to think their partnering relationship not only with respect to transaction cost, but also the impact of service on competitive differential. In developing the partnership model, 2 variables (Impact on competitive differential and transaction cost) are used to define and describe the relationships.

### *Variables*

#### **Impact on competitive differential:**

Impact on competitive differential means how important the service is for Fiera Milano to gain its competitive advantage comparing with other competitors.

*High impact on competitive differential:* These services make a real difference in gaining competitive advantage to attract customers. The key success factor for fair is to attract key customers. Marketing and advertising have high impact because they convey the idea that their trade fair has a different position with its competitors. With wide media coverage, trade fair attracts more customers. The competence,



organizational skill and management ability of organizers are keys to the successful organization of the trade fair.

*Middle impact on competitive differential:* These services can not make a real difference of the trade fair, but they are the backbone services which support the success the trade fair. For example, there are logistic services, reception, on line service providing information, booth stand construction, advertise for exhibitors within Fiera Milano exhibition center, providing meeting center and so on. These services are quite related to customer's satisfaction in trade fair.

*Low impact on competitive differential:* These services are basic ones with little difference in any trade fair. For example, the food supply, flower supply, parking.

In the following table, there is the service list provided by the organizer. It helps to understand and determine the importance scale of service.

Table 9: Trade show service quality

Trade Show Service Quality	
Customer Service	Reliable and consistent service
	Kindness of the hosting staff
	Reasonable number of employees for the trade show operation
	Staff knowledge about the show
	Prompt Service
Physical Facilities	Size of the exhibition hall
	Temperature of the exhibition hall
	Exterior of the exhibition hall
	Interior decoration
	Sound system of the exhibition hall
	Cleanliness of the exhibition hall
	Communication system of the exhibition hall
Guidance & Convenient Facilities	Restrooms
	Resting area and convenient facilities
	Service for the handicapped and the senior
	The booth map
	Guidance facilities and signage

	Availability of pamphlets and brochures
Exhibition programs	Entertainment of the trade show
	Opening, closing and other special events
	Accuracy of the show schedule notice
	Educational functions of the trade show
	The consistency of the schedule and actual running of the show
Reliability	Reliability of the exhibition
	Popularity of the exhibitors
	Reputation of the host
	Reputation of the exhibition
	Reliability and trust toward the host
Security	Safety system for the fire alarm
	Security for theft of the exhibition items
	Safety of the facilities such as booths or other equipment
	Controlling the order at the show room
Host and Public Relations	Trade show PR by the host
	Activities to host exhibitors
	Activities to invite visitors
	Managing website
Attendance Cost	Booth rental cost
	Booth setting cost
	The reasonable price for participation
Access	Availability of accommodations and restaurants
	Location & Easy to find/access
	Convenient public transportation
	Convenient parking
	Easy access to the inside and outside

**Transaction cost:** According to Oliver Williamson, the determinants of transaction costs are frequency, asset specificity, uncertainty, limited rationality, and opportunistic behavior.

Some variables contributing to specific transaction cost are: search and information cost, bargaining cost, policing and enforcement cost.

Search and information costs are costs such as those incurred in determining that the required good is available on the market, who has the lowest price, etc.

Bargaining costs are the costs required to come to an acceptable agreement with the other party to the transaction, drawing up an appropriate contract and so on.

Policing and enforcement costs are the costs of making sure the other party sticks to the terms of the contract, and taking appropriate action (often through the legal system) if this turns out not to be the case.

Collins and Fabozzi (1991) propose a more sophisticated approach. In their scheme,

Transaction costs = fixed costs + variable costs;

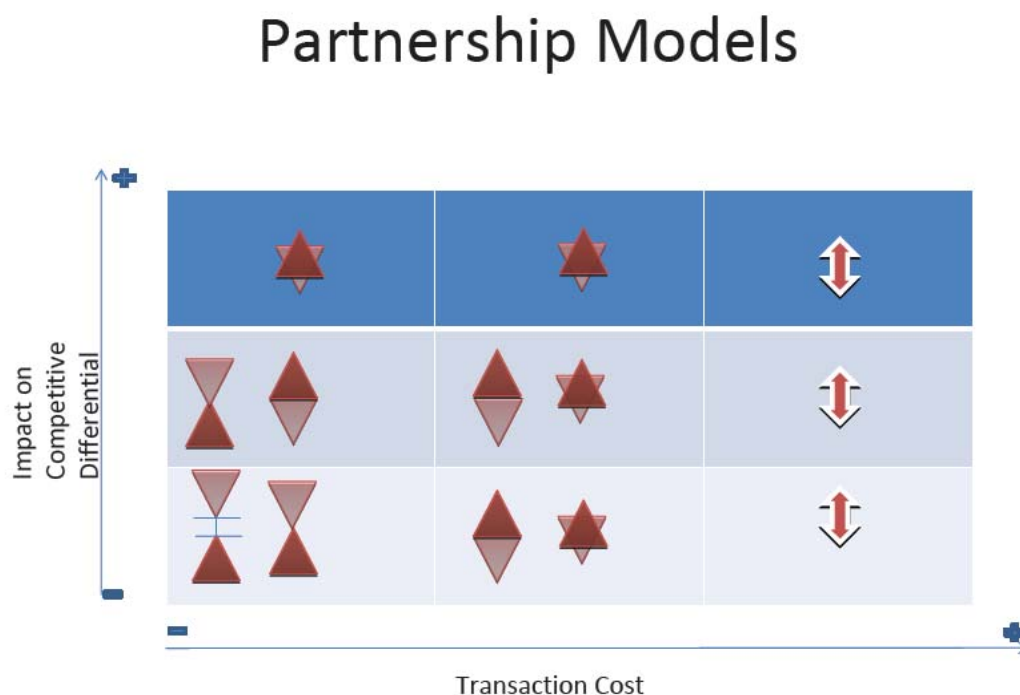
Fixed costs = commissions + transfer fees + taxes;

Variable costs = execution costs + opportunity costs;

Execution costs = price impact + market timing costs;

Opportunity costs = desired results – actual returns – execution costs – fixed costs.

Figure 24: Relationship models between organizer and service providers



The combination of 3 scales transaction cost and 3 scales impact on competitive differential separate the matrix into 9 areas:

Low impact on competitive differential—Low transaction cost: since the service is not critical to competitive differential and it is easy to find the available suppliers, the organizer usually buy the service on the market directly based on the price available—spot market.

Low impact on competitive differential—Medium transaction cost: even though the service is not critical to competitive differential, but as the availability of service is with medium uncertainty, for the organizer, it is better to reach a kind of partnership with the service supplier to make sure the consistent supply of service.

Low impact on competitive differential—High transaction cost: as the transaction cost is high, which means the availability of service is with high uncertainty and it is costly to move the purchase from one supplier to another, because of the cost related with information searching, bargaining and confirmation of consistent service. In this case, the good strategy for organizer is vertical integration (to buy the service supplier through merger and acquisition).

Medium impact on competitive differential—Low transaction cost: As the transaction cost is low, it means the service is highly available on the market, the organizer can go and buy any time. Usually, the spot market is the case. However, take into consideration medium critical to competitive differential, the organizer prefer to assure the consistent good quality service to customers, in this sense, the organizer prefer to establish a kind of partnership through functional department to ensure good quality service supply.

Medium impact on competitive differential—Medium transaction cost: As both item is medium, the organizer prefer to establish partnership with service provider to ensure the good and consistent supply of service. There are 2 choices for organizer, function partnership or long term partnership.

Medium impact on competitive differential—High transaction cost: as the transaction cost is high, which means the availability of service is with high uncertainty and it is costly to move the purchase from one supplier to another, because of the cost is also high related with information searching, bargaining and confirmation of consistent service. In this case, the good strategy for organizer is vertical integration (to buy the service supplier through merger and acquisition).

High impact on competitive differential—Low transaction cost: Considering the service is highly critical for competitive differential, in order to gain a competitive advantage of trade fair, the good strategy for organizer is to find a reliable service provider on the spot market and establish a long term partnership with the service provider in order to supply the customers reliable high quality service in a long term.

High impact on competitive differential—Medium transaction cost: As the service is highly critical for competitive differential and the transaction cost is medium, the good strategy for organizer is to establish a long term partnership with the service provider in order to supply the customers in time reliable high quality service in a long term.

High impact on competitive differential—High transaction cost: as the transaction cost is high, which means the availability of service is with high uncertainty and it is costly to move the purchase from one supplier to another, because of the cost is also high related with information searching, bargaining and confirmation of consistent service. Plus the reason that the service is highly critical to customers, in this case, the

best strategy for organizer is vertical integration (to buy the service supplier through merger and acquisition).

As is observed in the areas of the combination of low/medium critical to competitive differential and low/medium transaction cost, the partnerships are ambiguous. There are two options in each area. It depends on the choice of the view of partnership from top management of the companies and their consideration on the importance of the service. If the top management has a positive and welcome view of partnership, and considers the service is important to competitive differential, the long term partnership is usually reached. If the topic management has an ambiguous view on the role of partnership, usually cooperation from departments of the 2 companies are reached instead of long term partnership.

#### ***5.4.2 Check list to understand the role of partnering in trade fair management***

Through the extensive of literature review, the benefit of partnering is summarized in the following table which can be considered as a check list to understand the partnering role in Fiera Milano case study.

Table 10: Check list to understand the role of partnering in trade fair management—interview use

<b>Outcome</b>	<b>Benefit</b>
Long-term commitment	Effective team building The reinforced mutuality of the parties Increased cohesiveness to confront the rivals Reduced litigation Feelings of comrade among the parties
Trust	More confidence

	Open communication Increased exchange of ideas Sharing of resources
Shared Vision	Development of common goals to achieve Consensus through open expectations Candid environment Increased opportunities for innovation
Problem solving ability	Conflict/disputes resolution A win-win attitude Freedom of speech and openness Timely decisions
Equity	Equal sharing of risk Equal sharing of resources
Creativity	More innovation Open exchange of views and ideas Synergy
Cost effectiveness	Reduced project costs Eliminate costs for litigation More value engineering Meeting schedules
Customer satisfaction	Well-defined customer needs Fewer claims and change orders High technical performance
Continuous improvement	High quality product and services Improved technology and methods Maximised resources utilisation Effectiveness Creating a learning culture (by initiating a learning attitude)







## **Chapter 6 Explorative Research—Case study of Fiera Milano**

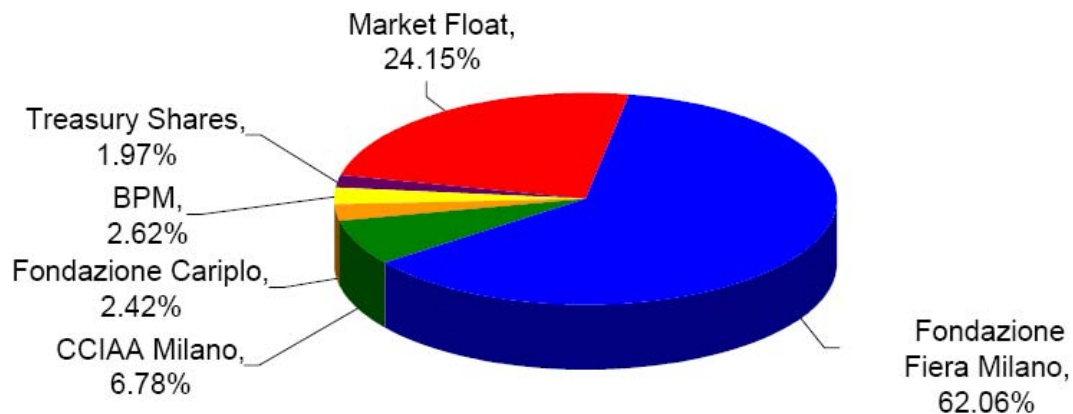
### ***6.1 Introduction of Fiera Milano***

#### ***Brief Introduction of Fiera Milano Group***

The group is the leading operator in Italy and one of the leading operators in the world in the entire value chain of exhibition industry. The group has generated around 300 millions euros in consolidate sales. Approximately 30,000 exhibitors per year are attracted to Fiera Milano. Two venues for a total of 388,000 gross sqm indoor space (+60,000 outdoor), making it the second largest venue worldwide. Average of 1.7—1.8 million net sq meters rented out per year in Italy. Average of 70 exhibitions is hosted per year in Italy. 5 million visitors are attracted to the events, of which 30% are professional visitors. 15 exhibitions are organized in China and India through the joint venture with Deutsche Messe. There are about 770 employees in Fiera Milano. The operating segments: 33% of the revenue is from ECO—exhibition and congress organization (direct organization of exhibition and congresses), 48% of the revenue is from VRS—venues and related services (Fiera Milano acts as a facility manager renting out space and related services to exhibition organizers), the rest 19% is from VAS—value added service (provider of services: stand fittings, food and beverage, ICT services and technical publishing). Fiera Milano is controlled by Fondazione Fiera Milano, a private law foundation, whose corporate mission is the development of the exhibition sector in Italy and abroad.

#### ***Fiera Milano shareholder's structure***

Figure 25: Fiera Milano shareholder's structure



Source: Fiera Milano press release

### ***Mission and Strategy***

Fiera Milano aims to become the leading international exhibition company in the world, providing its customers with an excellent range of services.

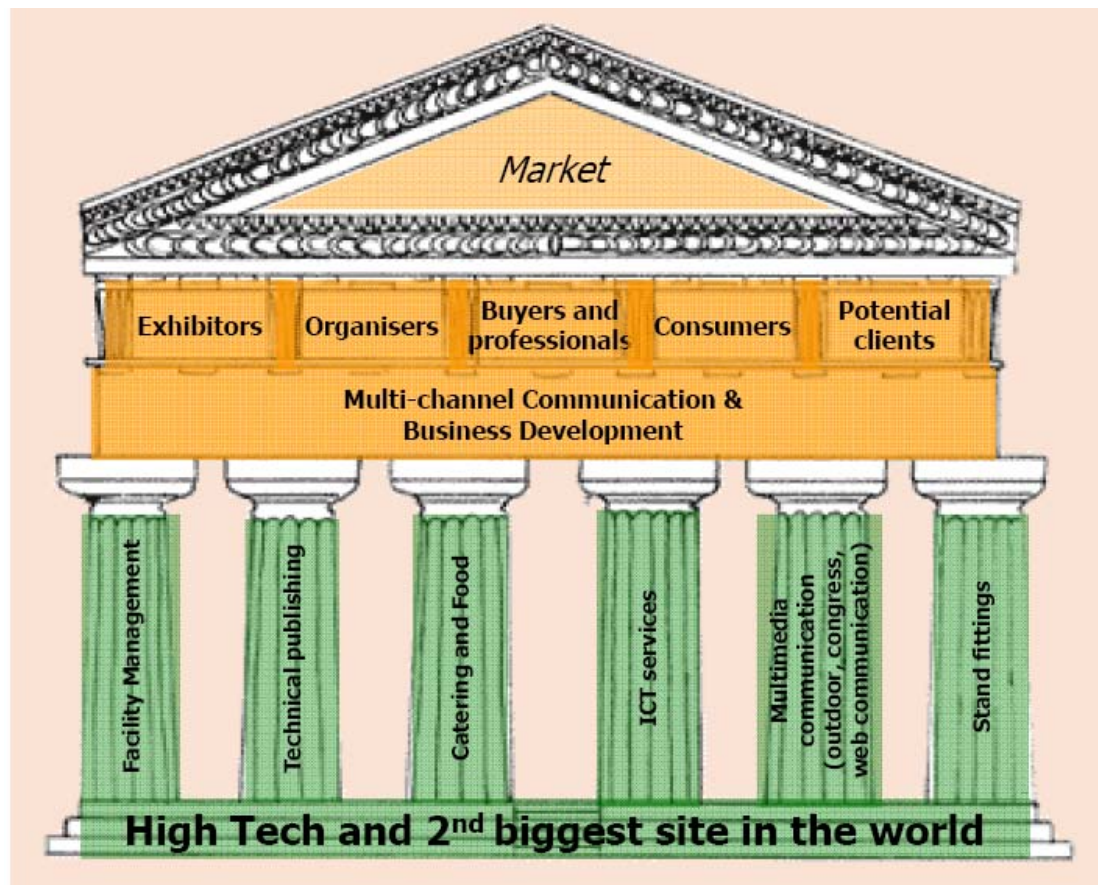
- Focus on core business through a strong customer orientation
- Internationalization
  - increase foreign exhibitors and visitor participation
  - support customers in reaching new foreign markets
  - export top-level exhibitions to fast growing countries
  - the conquer new countries through partnerships and acquisitions in the organization sector

### ***Integrated and Customer Oriented Business Model***

The following figure gives us the idea that there are several levels in trade fair management. The top level is always the market. The key parts in trade fair are exhibitors, organizers, buyers and professionals, consumers and potential clients. As

an organizer, it takes advantage of multi-channel communication and business development strategy to reach the key players in the target market. The support services from an organizer such as Fiera Milano are facility management, technical publishing, catering and food, ICT services, multimedia communication, stand fittings and so on.

Figure 26: Integrated and Customer Oriented Business Model from Fiera Milano



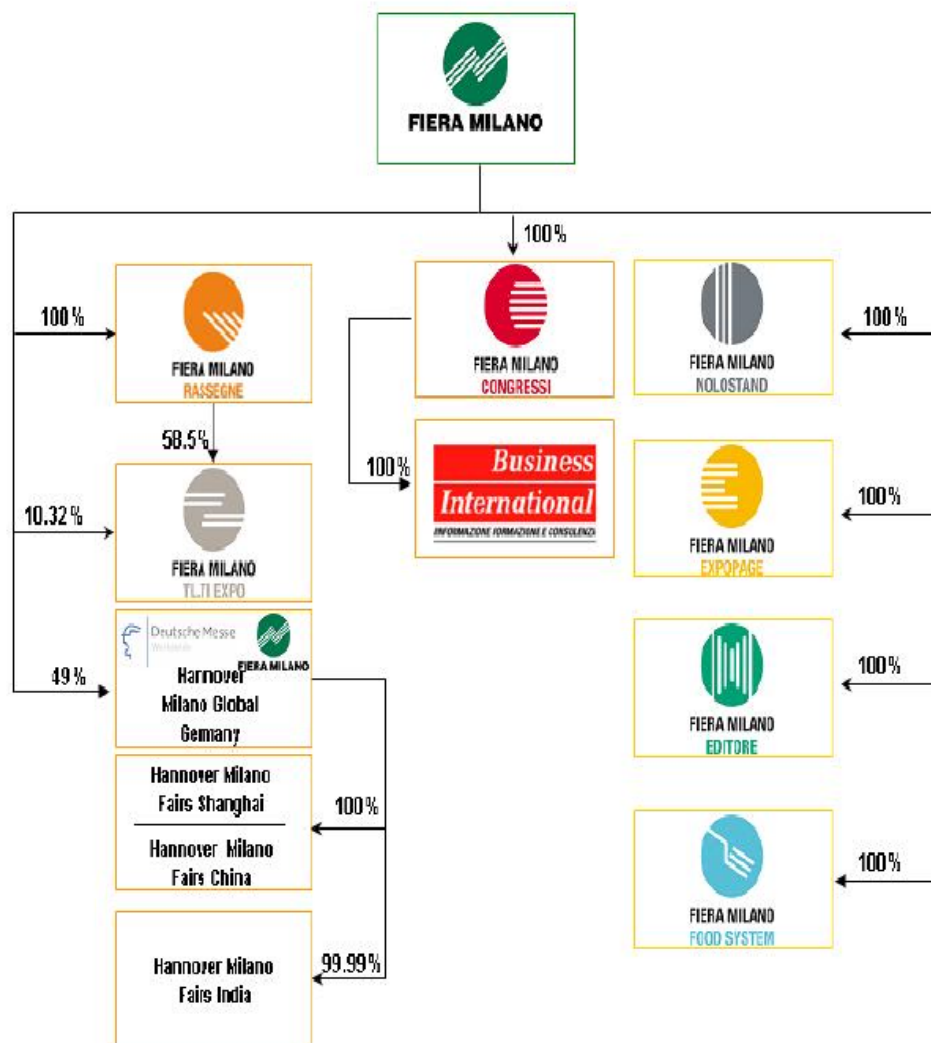
Source: Fiera Milano presentation, 2010

### *Group Structure*

Fiera Milano group has a 100 percent control of its sub-companies such as Fiera

Milano Rassegne, Fiera Milano TLTI EXPO, Fiera Milano Nolostand, Fiera Milano SpA, Fiera Milano Expopage, MIC (Milano International Congress Centre), Fiera Milano Congressi, Fiera Milano Food System Spa, Fiera Milano Editore, Business international. These companies are service providers in different fields for which there is an introduction on the following section—service provided by Fiera Milano. In order to grow in international market, Fiera Milano has a strategic alliance with Deutsche Messe AG, leader in Europe and owner of the Hanover exhibition centre.

Figure 27: Group Structure of Fiera Milano

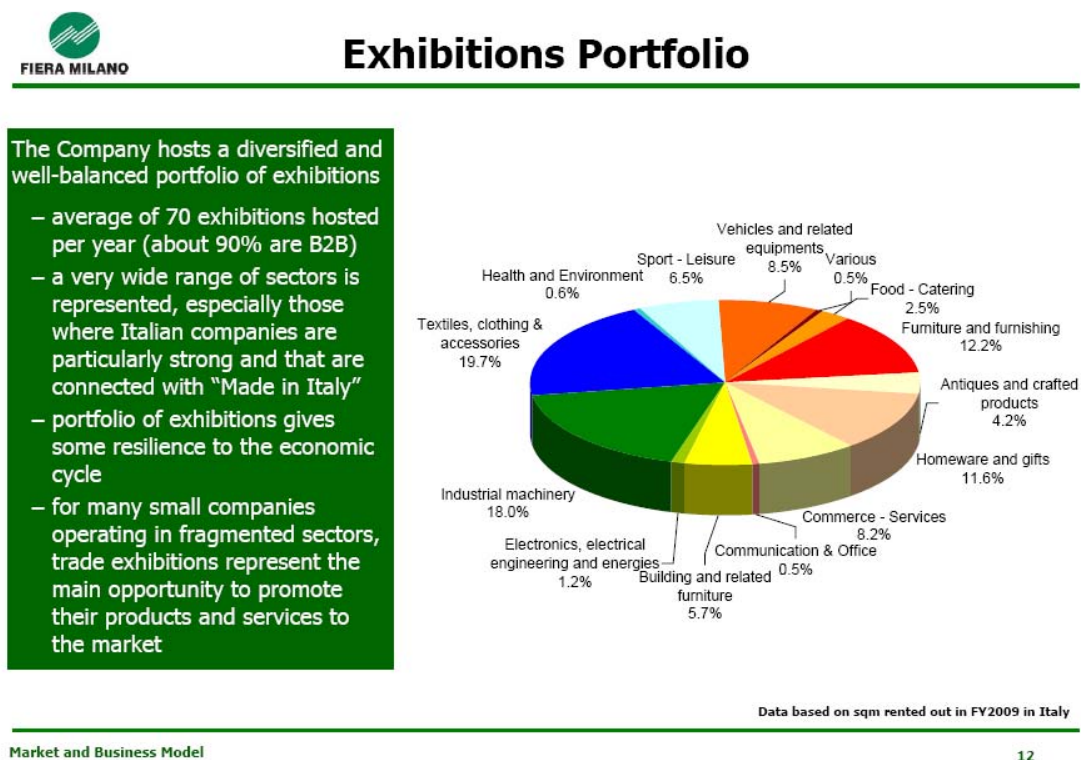


Source: Fiera Milano presentation, May 2010

## Exhibition Portfolio

With the help of this figure, exhibitions portfolio of Fiera Milano are understood by percentage by industry.

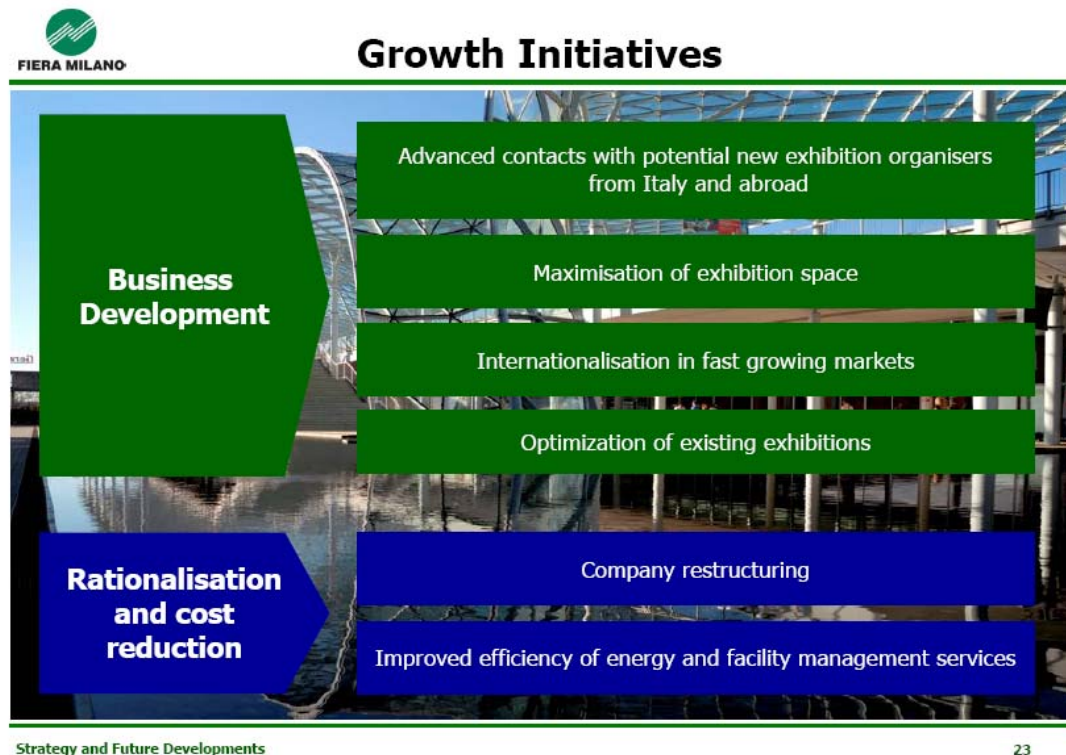
Figure 28: Exhibition Portfolio of Fiera Milano



Source: Fiera Milano presentation, 2010

## Growth Initiatives

Figure 29: Growth Initiatives from Fiera Milano



Source: Fiera Milano presentation, 2010

### 6.2 The Objective, relationship and drivers of relationship in Fiera Milano

By interview and research of Fiera Milano, we summarized the key information in the following table. In the next a few sections, the content of table and related knowledge are interpreted in detail.

Table 11: The objective, relationship and drivers of relationship in Fiera Milano for both operative management and strategic management

	Operational Management	Strategic Management
Objective	1,developing operation for the new events 2, promoting the event	International growth
Relationship Management	Vertical Integration and Partnership	Partnership
Drivers of Choice of Relationship	1,Manage events 2,Facility Management 3,skills	1, cost of vertical integration 2,"buy relationship?" 3,risk 4, uncertainty 5, profitability

### ***6.3 Partnering role in Operative management***

As is shown in the above figure, the operational objective of Fiera Milano is to develop operation for the new events and to promote the events.

By the extensive literature review of trade fair management, it is understood organizing a fair event is really a complex work. The organizer have to coordinate dozens of service providers to provide a successful trade fair in which customer satisfaction is high.

#### ***The service provided by Fiera Milano***

Refer to the Fiera Milano, it offers the exhibitors the following service: advertising, catering and convention, convention and meeting, culture space, digital printing, event creating, exhibition stands, flower, hardware, hologram-3D, hostess, logistic service, marketing & media, nursery service, on line forms, online payment, security, stand accessories, technical assistance, technical service, telecommunications. (Source:



Fiera Milano website)

Fiera Milano offers visitors the following service: business point, car-park, congress and training, convention and meeting, internet service, nursery service, restaurant and bar.

Fiera Milano offers organizers a number of services. The organizers can focus on their core-business, contact with the exhibitors, relying on Fiera Milano for the following service: (Source: Fiera Milano website)

- Communication
- Advertising
- International promotions
- Hospitality and hotel booking facilities
- Organization of events, evening parties and receptions
- Organization of conferences and congresses
- Office facilities available at the exhibition (staff and equipment)
- Arranging and allocating the exhibition layouts
- Joined or special layouts and signs
- Additional transport services
- Check-in and ticket office, Information points available at the exhibition (ISO 9001/2000 Certification)
- Advertising brochures and catalogues available on paper and on the web
- Surveys of operators exhibiting and operators not attending
- Dedicated websites
- Signpost design
- Exhibition fittings and displays
- Exhibition network planning
- Top Customers & Sponsor

***The service suppliers for Fiera Milano***

- Fiera Milano Editore—the service provider for advertising, the publishing and advertising branch of the Fiera Milano Group
- Fiera Milano Food System Spa—offers exhibitors qualified and flexible catering service
- Fiera Milano Congressi—helps to organize convention and meeting, corporate conventions, convention-shows, product launches and social events
- The sales department of Fiera Milano—offers exhibition stands both standard and customized
- Green System S.r.l—exclusive provider of flower arrangement
- Bouffani Fiera – the shop sells hardwares such as range of electrical materials, plumbing equipment, safety devices and cleaning products
- Team 2015 Gruppo Best Union Company S.p.A—exclusivist reception service, hostess, interpretership and support staff at stands
- EXPOTRANS S.r.l –logistic service provider for Fiera Milano
- Italia Logistica S.r.l—logistic service provider for Fiera Milano
- Camera di Commercio Milano—a public body that carries out functions of general interest for the enterprise system, promoting development of the local economy
- MICS Consulting srl—organizer for nursery service in Fiera Milano during the trade fairs
- SATE (Exhibitors Technical Assistance Service)—provide qualified technical support for customers
- Business international—is a leading Fiera Milano Group company in Italy for information, training and consultancy service to companies.
- MIC (Milano International Congress Centre)—it is available in Fiera Milano, it is the largest convention centre in Italy, providing convention and meeting service
- Fiera Milano Expopage—a company belonging to the Fiera Milano Group,

providing internet service

- Fiera Milano SpA—offers a wide range of advertising spaces inside the exhibition complex
- Fiera Milano on line service—provides the customers the necessary information on line, such as their on-line hospitality service 24 hours providing useful information on how to arrive, where to stay and so on.
- Fiera Milano Rassegne—a company wholly owned by Fiera Milano group, managing the organization of exhibitions.
- Fiera Milano TLTI EXPO—in charge of developing technical exhibitions within the group
- Fiera Milano Nolostand—works in integrated and personalized exhibition stand set up and service

In the case of Fiera Milano, it's interesting to understand the relationship between organizer and service suppliers. The following questions are to be answered during this research with the help of our proposed model.

- ***What is the relationship between Fiera Milano and its service supplier?***

To answer this question, the service suppliers are grouped into 2 segments—the service suppliers owned by Fiera Milano group; the exclusive service suppliers.

***The service suppliers owned by Fiera Milano are as follow:*** Fiera Milano Rassegne, Fiera Milano TLTI EXPO, Fiera Milano Nolostand, Fiera Milano SpA, Fiera Milano Expopage, MIC (Milano International Congress Centre), Fiera Milano Congressi, Fiera Milano Food System Spa, Fiera Milano Editore, Business international. The relationship is vertical integration.

***The exclusive service suppliers are:*** Green System S.r.l, Bouffani Fiera, Team 2015

Gruppo Best Union Company S.p.A, EXPOTRANS S.r.l, Italia Logistica S.r.l. The relationship is partnership.

- **Why does this kind of relationship work? Justify its reason.**

### ***Vertical Integration***

The relationship between Fiera Milano and its owned service suppliers is **Vertical Integration**. According to the partnership model, when the transaction cost is high, which means it is really costly to find to the right service supplier, the company tends to use vertical integration to acquire the supplier.

Taking into consideration of partnership model, let us use the horizontal factor—transaction cost to analysis why Fiera Milano group use vertical integration (or we say establish their own sub-company). Remember the 3 factors—frequency, asset specificity and uncertainty (Oliver Williamson, 1985) play the role in determination. Trade fair industry is a special industry which is different from other industries. The key factor of trade fair is to attract the key client (both for the exhibitor and the visitors, exhibitor need the key visitor who has purchase power, visitor needs reputation exhibitor who can provide reliable products). Due to this reason, marketing and advertising is really a must. Fiera Milano averagely organizes 70 trade fairs in a year, in this sense, the frequency of marketing and advertising is high (considering on different marketing channel, contacting different media, different topic for trade fairs related to diverse industries, etc). The department or agency working on advertising and marketing for trade fair should be specialized and familiar in trade fair promotion. This can be seen as asset specificity. The most appropriate marketing and advertising agency for trade fair should be an expert with the profound knowledge special in trade fair promotion. It could has some knowledge in some other fields, but their mainly strength is in trade fair promotion. In this way, the marketing agency for trade fair has very strong asset specificity in trade fair marketing. If the trade fair industry going

down, when there are less business in promotion, it could be a problem for the agency. If the trade fair industry booms fast, the agency works for several clients. The agency may not serve all the clients well due to their limited resource. This could cause uncertainty for both the agency and their client.

Considering all these factors, it is a good strategy for organizer (Fiera Milano) to own their own marketing and advertising agency because the transaction cost is high due to high transaction frequency, high asset specificity and high uncertainty. In the Fiera Milano case, Fiera Milano owns Fiera Milano Editore, Business international for marketing and advertising for the reason we have just interpreted.

The same model can be used to interpret similar cases such as, Fiera Milano Rassegne, Fiera Milano TLTI EXPO, Fiera Milano Nolostand, Fiera Milano SpA, Fiera Milano Expopage, MIC (Milano International Congress Centre), Fiera Milano Congressi.

***The advantage of vertical integration:*** using vertical integration (Fiera Milano owned), the following advantage can be seen: flexibility and response time are improved comparing with the spot market condition. Cost is reduced as transaction cost is reduced by vertical integration. The asset specific service brings differentiation and helps company to gain competitive advantage.

### ***Partnership***

The relationship between Fiera Milano and the exclusive service supplier is partnership. That means Fiera Milano does not owe these companies, but they have a collaborative relationship among each other.

Take the flower supplier Green System S.r.l as an example, the transaction cost to find a flower supplier is low comparing with find an agency which is especially focus on trade fair marketing and advertising. The role of marketing and advertising is to

attract the interesting key client for the exhibition. It has high impact on competitive differential of trade fair to attract key customers. The criticality of flower supply is low compared with marketing and advertising. Due to the lower transaction cost and lower importance, the relationship between Fiera Milano and the service suppliers are positioned on partnership. Why is partnering relationship but not spot market? Good question. That is because trade fair industry is a service industry. In the service industry, the requirement usually comes at the last minutes. The spot market buying or contracts are not suitable in this condition. According to contract, everything is tight and fixed with little flexibility. Partnering provides more flexibility to service and collaboration between suppliers and Fiera Milano. There are also other benefits on partnering which the reader could refer to the literature review “Benefits of partnering”.

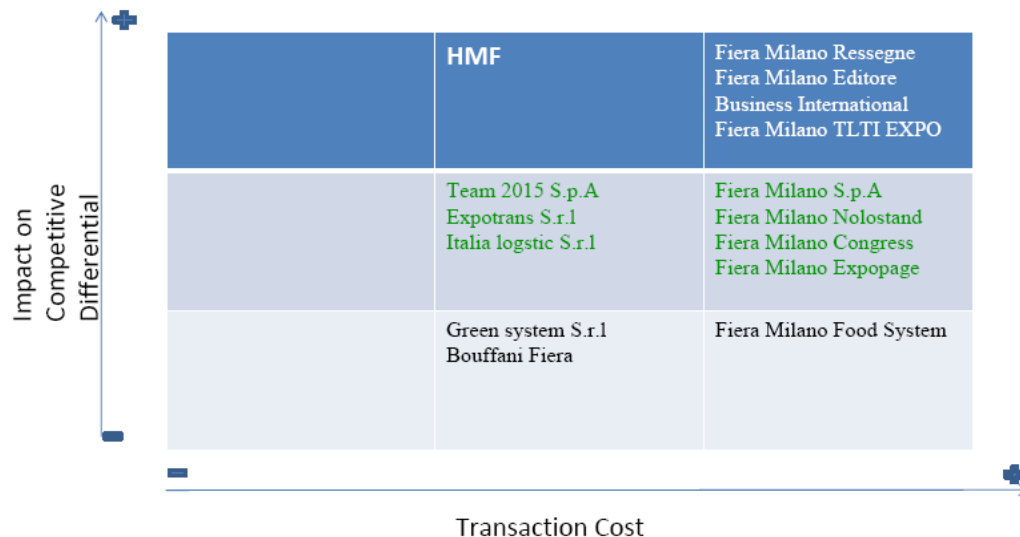
The above interpretation logic could also help the reader to understand the reason –Partnership is the choice between Fiera Milano and suppliers such as Bouffani Fiera, Team 2015 Gruppo Best Union Company S.p.A, EXPOTRANS S.r.l, Italia Logistica S.r.l.

- **The incidents of partnership with Fiera Milano and comparison with partnership model**

With the help of the partnership model, the services from Fiera Milano (including both Fiera Milano owned service and the service from its suppliers) are plotted in the following figure.

Figure 30: Incidents of partnership with Fiera Milano

## Incidents of Partnership with Fiera Milano



As discussed on the above section, the service providers of Fiera Milano are divided into 2 groups: the service suppliers owned by Fiera Milano group and the exclusive service suppliers.

*The service suppliers owned by Fiera Milano are:* Fiera Milano Rassegne, Fiera Milano TLTI EXPO, Fiera Milano Nolostand, Fiera Milano SpA, Fiera Milano Expopage, MIC (Milano International Congress Centre), Fiera Milano Congressi, Fiera Milano Food System Spa, Fiera Milano Editore, Business international. The relationship is vertical integration. They are in the 3<sup>rd</sup> column of the chart (with high transaction cost)

*The exclusive service suppliers are:* Green System S.r.l, Bouffani Fiera, Team 2015 Gruppo Best Union Company S.p.A, EXPOTRANS S.r.l, Italia Logistica S.r.l. The relationship is partnership. They are in the 2<sup>nd</sup> column of the figure (with medium transaction cost)

Now it is interesting to analyze the question whether the Fiera Milano's real case is in line with the partnership model.

Impact on competitive differential means how important the service is for Fiera Milano to gain its competitive advantage comparing with other competitors. The key success factor for fair is to attract key customers. Marketing and advertising are with high importance level because with marketing and medium, the fair even can convey the idea that their fair has a different position with its competitors. With medium penetration, the fair can have a wide medium coverage to attract more customers. Fiera Milano Editore, Business international are the marketing and advertising departments for Fiera Milano group. The role of organizer is core for the fair. The organizer builds a platform to attract diverse stakeholders to fair including exhibitors, visitors, service suppliers and so on. The competence, organizational skill and management ability are keys to the successful organization of the trade fair. Fiera Milano Rassegne, Fiera Milano TLTI EXPO are the event organizers for Fiera Milano group. To organize a successful trade fair, the supports from different service are needed. For example, there are logistic services, reception, on line service providing information, booth stand construction, advertise for exhibitors within Fiera Milano exhibition center, providing meeting center and so on. These services are in the medium level importance on the impact to competitive differential. These services can not make a real difference of the trade fair, but they are the backbone services which support the success the trade fair. These services are quite related to customer's satisfaction in trade fair. For flower supply, food supply and supply of maintain part, these service are basic ones with little difference in any trade fair. These services are in low impact to competitive differential.

Considering the transaction cost discussed in the above section, the transaction cost is high to find a specialized marketing and advertising agency in trade fair industry. The similar interpretation can also help reader to understand why the transaction cost is



also high to find a trade fair organizer, and the service suppliers which are closely related with trade fair organization. However, in the Fiera Milano case, food supply service is for vertical integration which is owned by Fiera Milano. According to the transaction cost theory, the transaction cost to find a food supplier could be medium, but not high. Fiera Milan can ask professional food-supply company for the catering service. Through the partnership cooperation, the service can also meet customer's satisfaction. This is not in consistent with the partnership model. HMF stands for the joint venture company between Fiera Milano and Deutsche Messe AG. According to the partnership model as discussed, vertical integration is suitable for international development. However, as indicated in the next section, considering the cost and risk of vertical integration, partnering is a better choice. (The exactly reason is explicitly interpreted in the next section).

In conclusion, there are 2 out of 15 services in the real case of Fiera Milano which are not in consistent with the proposed partnership model.

- **What are the critical success factors for partnership in the case of Fiera Milano with its service suppliers?**

According to the literature review of previous research on partnering, the critical success factors of partnership are well understood. Based on the interview and research, the following factors are found to be the critical success factors for partnership between Fiera Milano and its service suppliers.

- *Frank discussion of expectation and equity* (P. S. Ring and A. H. Van de Ven, 1994) Fiera Milano confronts the issue of equity and what is a fair profit for the different contributors. This typically includes a frank discussion of expectations and some basic agreement as to what is a reasonable profit margin for the service suppliers. The purpose of this discussion is to develop

a shared concept of “fair dealing” which will govern interactions between Fiera Milano and its service suppliers.

- *Support on partnership from top management, middle level management and operational level of the Fiera Milano and its service suppliers.* Partnership can be set at the top management level or the functional level depending on the impact of the relationship to competitive differential of Fiera Milano and the transaction cost of finding the service supply. The support from top management is initiating and leading the partnering spirit. (Cheng et al. 2000)
- *Mutual trust* (Hellard 1996, Sai-On Cheung, Thomas S.T. Ng, 2003, Cheng et al. 2000; Bayramoglu 2001): Fiera Milano should have the belief that service suppliers are reliable in fulfilling their obligations. It is essential to “open” the boundaries of the relationship because it can relieve stress and enhance adaptability, information exchange, joint problem solving, and promise better outcomes. When trust is present, the service suppliers find it easier to communicate, share information and accept diminished control resulting in enhanced capabilities for the partnering relationship. It can be seen that the trust level is consolidated by the duration of relationship, consistent, appropriate and timely service supply.
- *Effective communication and coordination:* (Larson 1995; Hellard 1996, Dunston and Reed 2000) Timely, direct and open communication is appreciated by Fiera Milano and its service suppliers. Service problems on site are solved immediately at lowest possible level.
- *Continuously collaborative spirit:* The collaborative spirits in Fiera Milano generated by the team-building sessions with its suppliers are sustained during the project through a number of different mechanisms that support partnering principles. For example, Fiera Milano and its suppliers regularly engage in joint evaluation including an assessment of each others’ adherence to the principles of collaboration. Escalation guidelines are implemented so that problems are solved in a timely, efficient manner at the lowest

appropriate level or they are “escalated” to the next management level. Procedures for continuous improvement are implemented so that Fiera Milano responds quickly to proposals and share the risk as well as the savings from such improvements. It is paramount for Fiera Milano to be accepting of service suppliers’ mistakes, as the services suppliers can learn from their mistakes and improve efficiency in future relationships.

- *Mutual objectives and formal Commitment:* (Larson E, 1995, Kadefors 2004, S. Thomas Ng, Timothy M. Rose, 2002) Without the commitment required under the partnering philosophy it is likely that the direction of collaboration will suffer claims, disputation, and litigation. The first step of partnering for Fiera Milano and its service suppliers is to develop a partnering charter addressing mutual objectives. Joint goal formulation provides a deeper understanding of partnering. All stakeholders’ interests are considered in creating mutual goals, and there is a commitment to satisfy each stakeholder’s requirements to ensure partnership success. This is attained by continuously searching for solutions that meet expectations of Fiera Milano and its suppliers.
- *Long term commitment:* in the case of Fiera Milano, the partnering relationship with its service suppliers is aimed to be long term. Long term commitment is to balance joint missions without raising the fear of opportunistic behavior for service suppliers.
- *Continuous joint evaluation:* (Crane TG, Felder JP, 1999, Bennett J, Jayes S, 1998) It is paramount to the success of partnering that in-process reviews are conducted on a regular basis to ensure that goals and objectives are on track, and to measure accomplishments. Fiera Milano and its service suppliers develop a specific evaluation process that suits the nature of service supply. The use of feedback to capture any improvements or lessons learned from service delivery process is used for continuous improvement.
- *Preparation and training:* (S. Thomas Ng, Timothy M. Rose, 2002, R Beach,

2005) Participants from both Fiera Milano and its suppliers must understand what partnership is and truly believe partnership can benefit for both of the parts. The success of this educational and training process plays a significant role in determining employee commitment to the concept and practice of partnering and the development of an organizational culture that freely shares knowledge with external parties.

- **What happens to this relationship in recent years and the reason for this change?**

#### ***Inter-group sales to drive efficiency***

Fiera Milano owned its service suppliers such as Fiera Milano Rassegne, Fiera Milano Expopage, MIC (Milano International Congress Centre), Fiera Milano Congressi, Fiera Milano Food System Spa, Fiera Milano Editore, Business international. However, in the recent years, inter-group sales are used as a way to drive efficiency. Price in inter-group sales is used as a signal to understand the company management efficiency.

#### ***6.4 Partnering role in Strategic management--- International growth is a strategy for further development in Fiera Milano***

##### ***Why does Fiera Milano grow internationally?***

- *To develop events which are complementary to Fiera Milano portfolio.*

There are also 2 conditions under this point. The first, bring Fiera Milano's competitive service to other markets, especially to developing countries (because of the geographic reason). The furniture trade fair of Fiera Milano can attract more clients if it shows in Chinese and Indian market than it happens if it shows in Swiss market. China and India are developing countries with GDP growth rate of more than

8% per year, the customers in their countries have the need to purchasing the furniture with high reputation from Italy. There are people with strong purchasing power in these countries. Due to the geographic distance, the customers in India and China could not all come to Italy to buy the furniture. The trade fair in their own countries provides the customer a good opportunity to understand, to compare and to purchase the Italian furniture. If a similar trade fair shows in Switzerland or Germany, there is not much difference when it shows in Italy. It can be forecasted almost the same customers come to the fair as it shows in Italy because of the geographic distance is so short comparing with the long distance to China and India. The second choice for Fiera Milano is to differentiate its service in its existing market. Just for example, Fiera Milano could expand its service portfolios to nearby countries to enlarge its service portfolio.

- To penetrate into the interesting target market and growing industry

Interesting target market means the ones with growth trend and the people with purchase power. Nowadays, the BRIC countries attract people's attention a lot.

In economics, BRIC (typically rendered as "the BRICs" or "the BRIC countries") is a grouping acronym that refers to the related economies of Brazil, Russia, India, and China. Goldman Sachs argues that the economic potential of Brazil, Russia, India, and China is such that they could become among the four most dominant economies by the year 2050. The thesis was proposed by Jim O'Neill, global economist at Goldman Sachs. These countries encompass over 25% of the world's land coverage and 40% of the world's population and hold a combined GDP (PPP) of 15.435 trillion dollars. On almost every scale, they would be the largest entity on the global stage. These four countries are among the biggest and fastest growing emerging markets.

The Goldman Sachs global economics team released a follow-up report to its initial BRIC study in 2004. The report states that in BRIC nations, the number of people with

an annual income over a threshold of \$3,000, will double in number within three years and reach 800 million people within a decade. This predicts a massive rise in the size of the middle class in these nations. In 2025, it is calculated that the number of people in BRIC nations earning over \$15,000 may reach over 200 million. This indicates that a huge pickup in demand will not be restricted to basic goods but impact higher-priced goods as well. According to the report, first China and then a decade later India will begin to dominate the world economy. (Source: Goldman Sachs report 2004)

From the calendar of Fiera Milano's international trade fair, it is not difficult to find their interest in the BRIC countries and the growing industry in these countries. Let us take the Fiera Milano's exhibition calendar of 2010 in China as an example.

Table 12: Fiera Milano's Exhibition calendar of 2010 in China

Name of Trade Fair	Time	Content
DOMOTEX ASIA/CHINAFLOOR 2010	23 march 2010 to 25 march 2010	The Largest International Trade Fair for the Floor Covering Industry in Asia and China
Guangzhou International Travel Fair	25 march 2010 to 27 march 2010	One of the most important international travel fairs in Asia-Pacific Region
Modern Factory / Process Automation Show	12 may 2010 to 15 may 2010	International Exhibition for Modern Factory / Process Automation Technology Equipment
DMBC - Drive Motion & Control Show 2010	12 may 2010 to 15 may 2010	Drive motion and control equipments
CWMTE - Lijia Chongqing Machine	27 may 2010 to 30 may 2010	Machine tools

Tool		
CDMS - Chengdu Motor Show 2010	18 september 2010 to 24 september 2010	Automobile and Accessories
PTC ASIA 2010	25 october 2010 to 28 october 2010	International Exhibition for Electrical and Mechanical Power Transmission, Fluid Power Transmission, Compressed Air Technology, Machine Parts, Bearings, Internal Combustion Engines, and Gas Turbines
CeMAT ASIA 2010	25 october 2010 to 28 october 2010	International Exhibition for Materials Handling, Automation Technology, Transport Systems, Logistics
MWCS 2010	02 november 2010 to 06 november 2010	International Exhibition for Machine Tools, Sheet Metal, Pipes& Tubes Production, Mould& Die Construction, Tools
ENERGY SHOW 2010	02 november 2010 to 06 november 2010	International Exhibition for Power Generation and Distribution, Electrical Technology, Energy, Infrastructure and Services, Renewable Energy.
IAS - INDUSTRIAL AUTOMATION SHOW CHINA 2010	02 november 2010 to 06 november 2010	International Exhibition for Production and Process Automation, Electrical Systems, Robotics, Industrial Automation, IT& Software and Microsystems Technology
CHINA SIGN FAIR 2010	25 november 2010 to 27 november 2010	International Exhibition for Advertising Manufacturing Equipment and Technology, Advertising Materials, Signs System, Exhibiting & Displaying Systems, Printing

		Equipment & Consumables, Digital Imaging and Photography and Mass Media
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Source: Fiera Milano Webpage.

In 2010, there are 12 exhibitions held in China organized by Fiera Milano (actually by the JV company of Deutsche Messe AG and Fiera Milano, which names HMFS, it has presents in many countries, in china, it is called Hannover Milano Fair--HMF China). As we know China is a country developing fast, the manufacture technology is highly appreciated in its development. Fiera Milano organizes the suitable exhibitions in China in the fields such as, automation technology, machine tools, automotive and accessories, power transmission, power generation, renewable energy and so on. All these industries have enjoyed an attractive growth in China. For example, the news from Xinhua net shows “Though coal still provides the majority of China’s power, there is New official Chinese stats show that the nation’s renewable energy capacity is now growing faster than its coal plants.” The similar result can be found in other booming industry in China. The similar exhibition shows can be found in Brazil, Russian and India organized by Fiera Milano targeting the fast developing industries in the countries.

- Ability to attract key visitor internationally

Attract key visitors is always important for exhibition industry. Attracting more key visitors will induce more reputational exhibitors to join the trade fair. Inducing more reputational exhibitors will also attract more important visitors to visit the trade fair. Fiera Milano is an industry leader in Italian market. It is also on the top level of European exhibition organizers. As Italian and European modern exhibition markets are highly developed with recent 80 years experience. The way for Fiera Milano’s further development is to penetrate into international market (especially the countries



with high potential, such as BRIC) and find growth opportunity there. The aim is to attract key visitors internationally to sustain its long – term growth.

***What should be the support for international growth?***

If an exhibition organizer wants to grow in international market, it needs the support from 2 sources, *local support and resource support (financial resource and talent resource)*. So does Fiera Milano.

- ***Local support***

When the organizer enters into a new foreign market, it may face the challenge from different perspectives, such as the supply of exhibition hall space, government policy and regulations, high competition from competitors, relationship with local authority/association, relationship with exhibitors and so on.

The trade fair organizer has to understand the policy of both central government and local government related to trade fair in the target market. The consistent and clear policy is favorable for the foreign organizer to enter one market. The organizer may face some problems when the policy is person-orientated, bureaucracy. It is very important for an exhibition organizer to understand the latest government policy of target market and find a way out legally or resolve them with good relationship.

Local influence is another major factor. The most important sub-factor in the location influence is proximity to main buyers (visitors) and exhibitors, including hotels, and international and local transport. So it is very important to get the right place at the right time (usually the rush time period during the year, because the competition from other organizers). Most exhibition centers offer protection to the existing exhibition organizers and keep competitors away. In this way, for a new comer, the coming organizer may need the support from local company to book the exhibition especially in the rush period during the year.

The relationship with association has an effect on the future performance of exhibition success for coming organizer. Association provides the company knowledge about the market, the industry and the effective event promotion knowledge. The association could introduce the new comers to key players within the industry. It is possible and effective for the new comers to share the important information and knowledge with existing players. The association is also a platform for a new comer to understand better the local environment, the political issues, the regulations related to the industry, the news, the trend, opportunity, threats and so on. With support from association, it is easier for the new comer to access to the target market.

For new and developing exhibitions, success in recruiting anchor exhibitors is the key to success. (Kay, Li Kuen Andrew, 2007) Anchor exhibitors are the key companies in the trade, whose exhibits could attract visitors to visit the exhibition. Probably the new organizer for target market needs the support from local company to contact and establish good relationship with anchor exhibitors.

Publication and media support is also important for the organizer to inform and attract more exhibitors and visitors joining the exhibition. The organizer of the exhibition can start as a trade magazine publishers. However, this approach needs to be approved by the local government. The organizer can also get in touch with mainstream media in the target market to promote the event. The collaboration work is appreciated when they work together.

All the above factors show market knowledge in the target market is crucial for the success of a new exhibition. Cooperating with a local partner with profound market knowledge may be a good strategy for the organizer to enter a new market. The partner can help the coming organizer to understand better the local market, contact the anchor exhibitors and visitors, establish a good relationship with local government

and associations, select the most effective media to promote the event and so on.

- ***Resource support (Financial and Talent)***

***Financial resource***

Organizing an exhibition does not require a lot of capital. However, multinational exhibition organizers use merger and acquisitions to grow by acquiring other exhibitions.

Let us have a look at some examples to understand the money needed to go global.

One of the most famous mergers and acquisitions (M&A) was when entrepreneur Sheldon Adelson sold COMDEX, a famous personal computer (PC) exhibition in Las Vegas, to SoftBank in Japan for about \$800 million (Wohl, 2004). REED, an Anglo-Dutch publisher and exhibition organizer (Anderson, 2000), grew its business by acquiring other exhibition organizers and became the number one exhibition organizer worldwide in terms of revenue (Reed, 2005). In 1994, REED acquired thirteen exhibitions in Paris (Reed, 1994), and, in 1996, REED offered US\$772 million to purchase Blenheim ("Blenheim", 1996). In 2000, REED acquired Miller Freeman Europe (MFE) for US\$548.8 million in cash, basing the figure on twelve times the profit or roughly three times the revenue (Anderson, 2000) — MFE had a gross revenue of US\$179.1 million and an operating profit of US\$45.57 million in 1999. MFE had a net operating liability of US\$29.5 million in 1999. Anderson (2000) also reported that Miller Freeman, a trade show organizer and business magazine publisher, sold its U.S. exhibitions to VNU NV of Haarlem, Netherlands, in a US\$650 million cash deal. Miller Freeman was ranked as the largest exhibition organizer in terms of revenue worldwide before selling its U.S. and European operations.

***Talent resource***

Talent resource is always a key success factor for most of the industries. Some times

they are called also human resources or professional skills. Let us take some examples from different phase of exhibition management.

At the beginning phase, when an organizer wants to establish some relationships with the associations on the target market, the professional people have to talk on the same knowledge level. Talent people with the knowledge of target market and the industry are highly appreciated. With the help of these talents, the gap of culture difference and knowledge difference can be bridged. The negotiation can be more easily reached by the help of talent.

Sometimes these talents are not in the company. What should be the choice for organizer? The service transaction between organizer and consultant are not frequent in this phase. Asset specificity stands for human resource asset specificity. The consultant could serve in many industries and diverse markets. The specificity could be medium but not high. There is not much uncertainty seen in this process. Vertical integration is not suitable. Vertical integration means to hire the consultant to work for the organizer. Let us take another factor in our model to analysis—critical to customer (organizer), is this service important to organizer? The answer is positive. In this way, the spot market is not suitable, because spot market is only suitable when both transaction cost and criticality is low. The good choice for an organizer is to establish a good partnership with consultant to ensure consistent and quality service.

During the exhibition management phase, talent resource also play key role in this process. These talents need to work in the organizer's company, and help organizer to accomplish the works which is quite related to customers' satisfaction, such as visitor management, facility management, coordination with hotels and restaurants, promotion of the fair event to attract exhibitors and visitors and so on.

***What is the strategy of international growth for Fiera Milano?***

Fiera Milano is developing the exhibition business in China and India through a strategic alliance with Deutsche Messe AG, leader in Europe and owner of the Hanover exhibition centre. The partnership is managed through HM Global, a German company (51% Deutsche Messe AG and 49% Fiera Milano), which organised exhibitions for more than 170,000 net sq meters and had sales of €14.4 million with a gross operating result of €3.8 million in 2009.

The cooperation between Fiera Milano and Deutsche Messe will be extended to other extra-European markets (Russia, Brazil), through an Italian company (51% Fiera Milano and 49% Deutsche Messe AG).

***Why is partnering the right choice to grow internationally?***

Vertical integration and horizontal integration can be choices in international growth. Horizontal integration means one company acquires the local company in the same business by merge and acquisition and develops its strategy based on the acquired company. In the trade fair case, it stands for one organizer (such as Fiera Milano) acquires a local trade fair organizer (such as an Indian or Chinese local trade fair organizer) and develops its business. Vertical integration is the degree to which a firm owns its upstream supplier and its downstream buyers. For example, if Fiera Milano as an exhibition center owner buys organizer in China, it is a vertical integration. As Fiera Milano group is a group with diverse business, when talking about vertical integration or horizontal integration, it is necessary to clarify the role of Fiera Milano first.

Taking into consideration of our model, let us assume Fiera Milano is the giant in Italian trade fair industry, it plans to enter into Chinese market. If Fiera Milano plans to acquire a local organizer, this strategy is called vertical integration. In this case, Fiera Milano is a customer. The local existing organizer is a supplier.

Does local organizer have a high impact on competitive differential? Yes, the service provided by the local organizer is very important for the new comer such as Fiera Milano as they are aimed to establish a good image and reputation in the target market and try to attract more key exhibitors and visitors to their trade fair.

Is the transaction cost high? Yes. It needs time to find the right service supplier with rational price and good service (local trade fair organizer). It needs time and efforts to draw on transaction to acceptable agreement, especially when the bargaining power from the other party is strong. Service is a product for which it is difficult to define the level of satisfaction. It is also an industry with high variations. In this sense, the cost for Fiera Milano to make sure the other party sticks to contract is high. Considering all these factors, vertical integration could be the right choice to enter a new market. That means to buy a local organizer.

However, by this kind of merge and acquisition, there are 2 disadvantages with vertical integration which is crucial to Fiera Milano:

1) *It is so costly to buy another exhibition company*

The examples which we have talked about in the section of financial resource support give us a good understanding on the cost of international expansion. At least it costs hundreds of millions of USD to acquire another exhibition organizer. If the organizer has a good reputation and brand in the target market, it will cost more than that.

Sheldon Adelson sold COMDEX, a famous personal computer (PC) exhibition in Las Vegas, to SoftBank in Japan for about \$800 million (Wohl, 2004). In 1996, REED offered US\$772 million to purchase Blenheim ("Blenheim", 1996). In 2000, REED acquired Miller Freeman Europe (MFE) for US\$548.8 million in cash, basing the figure on twelve times the profit or roughly three times the revenue (Anderson, 2000) Anderson (2000) also reported that Miller Freeman, a trade show organizer and

business magazine publisher, sold its U.S. exhibitions to VNU NV of Haarlem, Netherlands, in a US\$650 million cash deal.

2) *“It is easy to buy the company’s brand, how can you make sure that you have got the core competitiveness of the company”*

In the case of Fiera Milano, according to research and analysis, Fiera Milano do have the financial resource to buy the local organizer. Let us suppose, if Fiera Milano wants to buy a local Chinese trade fair organizer, the following questions have to be considered.

As we talked in the above sections, trade fair organization work is a complex work. The organizer has to deal with relationships with inner company talent people, media within the target to promote the event, the industry associations related to organized trade fair, the local government or some times even the central government, the service supplier and so on.

For Fiera Milano or any coming organizer, it may be easy to acquire the local company provided they have enough financial resource and the agreement from the existing organizer. However, for the coming company, it may be very difficult to keep the talent within the acquired company, to sustain the good relationship with associations, local government, media and service supplier and exhibitors and visitors and so on.

Last but not least, vertical integration does not always work well. In the case that existing organizer has a strong bargaining power in the existing market, the existing organizer prefer to use spot market method (contract for a period, such as one year) instead of being acquired by the coming company. In this case, vertical integration is not possible.

Partnering is a good strategy in this situation. Partnering avoid the high cost of vertical integration and avoid the risk of loss in case the vertical integration is unsuccessful (the coming organizer can not sustain good relationships and keep core competitiveness).

*Partnership can bring the company the following kinds of benefits.*

1) easier access to the target market

Entering a new market for trade fair organizer can be complicated and costly. It may expose the organizer to several obstacles such as entrench competition, hostile government regulations and additional operating complexity as we talked. There are also the risks of opportunity costs and direct financial losses due to improper assessment of the market situations. Choosing a partnering relationship as the entry mode will overcome some of those problems and help reduce the entry cost.

2) Gaining capabilities and market knowledge

The coming organizer such as Fiera Milano may want to acquire certain resources that it lacks in the knowledge, and expertise. It may need to share those capabilities that the other firms have. Thus, partnership is the opportunity for the enterprise to achieve its objectives in this aspect. Further to that, in later time Fiera Milano also could use the newly acquired capabilities by itself and for its own purposes.

3) Sharing of financial risk

Fiera Milano can make use of the partnership to reduce their individual enterprise's financial risk. For example, when two firms jointly invested with equal share on a project, the greatest potential that each of them stand to loose is only half of the total project cost in case the venture failed.

4) Winning the political obstacle



Bringing a product or service into another country might confront the enterprise with political factors and strict regulations imposed by the national government. Some countries are politically restrictive while some are highly concerned about the influence of foreign firms on their economics that they require foreign enterprises to engage in the joint venture with local firms. In this circumstance, strategic alliance will enable enterprises to penetrate the local markets of the targeted country.

#### 5) Achieving synergy and competitive advantage

Synergy and competitive advantage are elements that lead businesses to greater success. An enterprise may not be strong enough to attain these elements by itself, but it might possible by joint efforts with another enterprise. The combination of individual strengths will enable it to compete more effectively and achieve better than if it attempts on its own.

For example, to create a favorable brand image in the consumer's mind is costly and time-consuming. For this reason, an enterprise deciding to introduce its new product or service may need a strategic arrangement with another enterprise that has a ready image in the market.

Partnering can be seen as a good choice here. Partnering can also be seen as statement at the moment. By partnership Fiera Milano and similar company can penetrate on the target market. By the future years of experience, knowledge on the market and the performance of operation, Fiera Milano can understand the situation well. When Fiera Milano is confident on the profitability of their exhibitions and trade fairs, they prefer to use vertical integration to gain better strategy position and more profit. According to interview with Fiera Milano, they have experience in Italian market on vertical integration, but they still do not have this experience internationally. By years, when Fiera Milano find the profit can not meet their expectation, they may change the partnership to “pay the fee for service” and spot market form.

### **What are the critical success factors for partnership between Fiera Milano and Deutsche Messe AG?**

According to research and interview with Fiera Milano, the following factors are found to be critical success factors for partnership between Fiera Milano and Deutsche Messe AG.

- *Clear partner roles:* During the negotiation between Fiera Milano and Deutsche Messe AG, clarity about how closely the two sides intend to work together is critical. The both parts shall be clear on contributing money, brand name, right and technology, skills, knowledge on the market and so on. In Fiera Milano and Deutsche Messe AG case, the companies are expected to make roughly the same effort. The two companies must articulate their assumptions and involve key people (who will continue to play a role in the venture) during the negotiations and to define the contributions they will make and the benefits they expect.
  
- *Equal sharing of risks and benefits:* An important issue to resolve before finalizing any deal is how the value generated by the venture will be distributed between Fiera Milano and Deutsche Messe AG. Ensuring an equitable risk-benefit ration is crucial to longer-term health of the alliance. The ratio is to be clearly visible and agreed by the two companies. Transparent transaction is important. That means when one company has a transaction, the company shall disclose the information to its partner. In this way, trust is built between companies by time. Equity in the relationship should not be mistaken for equivalence of earnings. In an equitable relationship one company may contribute more for a certain period of time, in the expectation that the other will contribute more in future years, yet the exact nature of the benefit may be different. The more the companies

perceive that the right balance of contributions and rewards exists, the better joint-venture performance will be between Fiera Milano and Deutsche Messe AG. The joint venture manager work to ensure that each partner has an accurate understanding of its contribution to the venture. At board meetings, contribution by each side are made explicit, and once a year those efforts are matched up against dividend payouts. The process ensures that both companies are aware of the risk-benefit ratio. In higher-performing joint ventures, each company believes the financial return is fair, considering what each is contributing.

- *Top management support:* Commitment and support from top management are always prerequisites for a successful joint venture partnership. As senior management formulates the strategy and direction of business activities, their full support and commitment are critical in initiating and leading the partnering spirit (Cheng et al. 2000). Advocates repeatedly warn that top management must consistently and visibly endorse the principles of partnering both with word and action from both parts of Fiera Milano and Deutsche Messe AG.
- *Trust of the joint-venture manager:* Once the deal is signed, the board of directors from Fiera Milano and Deutsche Messe AG meet for the first time and has it first contacts with the joint-venture manager and its team. It is important to establish a high level of trust at the outset so that the joint venture manager has the freedom to make decisions that are in the venture's best interests. Distrust between either of the partners can seriously hamper the latter's ability to make decisions and thus can limit the new company's competitiveness.
- *Manage crisis and conflict solving mechanism:* Having two board members,

one from each company, serve as problem solvers is ideal; it is even better if they are the original architects of the venture. Conflict resolution techniques such as coercion and confrontation are counterproductive and fail to reach a win-win situation (Slater 1998; Lazar 2000). In fact, conflicting parties look for a mutually satisfactory solution, and this can be achieved by joint problem solving in order to seek alternatives for problematic issues. Such a high level of participation among parties may help them to secure a commitment to a mutually agreed solution (Cheng et al. 2000).

- *The exist mechanism:* when conflicts escalate beyond a certain threshold, and the parties no longer feel they can work with each other, it is vital to have a formal exit mechanism in place so that costly and time consuming litigation can be avoided. Needless to say, if the venture is ending on a high note in which both companies have achieved what they want, the exit is not difficult to arrange. But if the venture is ending after years of poor performance, with one company no longer able to absorb the losses, the exit negotiations are likely to be acrimonious. In order to avoid this kind of scenario, it is important to include deadlock provisions in the original agreement that make it possible for the various partners to exercise buy-sell options at a predetermined valuation price. Explicitly discussing and formalizing procedures in case of escalating conflicts would be a useful extension of the ideas behind formal deadlock provisions and exit clauses.



## **Chapter 7 Conclusions**

### ***7.1 Final Considerations***

Partnership is a concept and practice which is widely used nowadays. In the trade fair industry, there are few research papers and publications on its role and function. In this paper, the role of partnership is investigated in the case of Fiera Milano and showed in 2 approaches, the role of partnership in operative approach (relationship with service suppliers for Fiera Milano) and the role of partnership in strategic approach (relationship with partner in international business development). With the help of our developed model, the rationality of partnership is justified with the variable of transaction cost (Oliver Williamson, 1985) and impact on competitive differentia. It is found, generally speaking, when impact on competitive differential is high and the transaction cost is high, vertical integration is the approach for relationship; when the impact on competitive differential is low and the transaction cost is low, spot market approach is the choice for relationship; partnership works in other situations. (referring to the partnership model, the reader could understand more on the partnering form and their application circumstance)

Partnering has positive effects in both operative and strategic trade fair management in the case of Fiera Milano. In operative management part, partnership ensures consistent and quality service supply, increases the flexibility of service, establish a long term commitment and trust between partners, increase problem solving ability, creates innovation in some process by open discussion, increase customer's satisfaction by continuous improvement.

In strategic management part, partnering is a good strategy in international growth. Partnering avoids the high cost of vertical integration and the risk of loss in case of unsuccessful (failing to acquire the core competitiveness and relationships, even though

has bought the brand). Partnership also brings the company the following kinds of benefits: easier access to the target market, gaining capabilities and market knowledge, sharing of financial risk, winning the political obstacle, achieving synergy and competitive advantage.

By research and interview, the critical success factors for partnership are found in both operative and strategic approach. For the success of partnership between Fiera Milano and its service suppliers, the following factors are critical: Frank discussion of expectation and equity, Support on partnership from top management and all leverls, Mutual trust, Effective communication and coordination, Continuously collaborative spirit, Mutual objectives and formal Commitment, Long term commitment, Continuous joint evaluation, Preparation and training.

For the partnership of joint venture with Deutsche Messe AG, the critical success factors are: Clear partner roles, Equal sharing of risks and benefits, Top management support, Trust of the joint-venture manager, Manage crisis and conflict solving mechanism, The exist mechanism. For the joint venture partnership, the key is thinking though all the issues during the heady period of negotiations, not after the ink is dry and the day to day work has yet to begin. When misalignment does become obvious, however, the parties need to have considered the circumstances in which exercising their strategic options make sense (whether by divesting their interest in the venture or acquiring the other company's stake). (Bettina Buchel, 2003)

The incidents of partnership with Fiera Milano are plotted in comparison with partnership model. In conclusion, there are 2 out of 15 services in the real case of Fiera Milano which are *not* in consistent with the proposed partnership model. The partnership model shows good quality in interpreting the partnership case in Fiera Milano.

## ***7.2 Management Implication***

Partnering brings benefits both in both operative and strategic of trade fair management. Comparing with spot market transaction, partnership provides consistent support, quality service and flexibility by service supplier. It implies that organizer shall establish a good partnering relationship with service providers to enhance its serve supply efficiency and effectiveness, to increase customer's satisfaction. In the strategic level, partnering is an effective and less risky approach for company to grow internationally. Companies should study and understand partnership's advantages and applications. Companies should understand the key difference between partnering and vertical integration, and their suitable application circumstance. Partnering is a good strategy for international growth which may calls attention to the local giant company which wishes to be international giant and the ones which want to expand international markets.

## ***7.3 Academic Implication***

There are few published papers in the research of partnering in trade fair management. The role of partnering has been well investigated in construction industry, supply chain management and so on. Maybe now it is a good time to do some research on partnering in trade fair management. Trade fair industry is important not only to companies, but also to the local economy. Trade fair has been booming in developing countries with strong growth power, such as BRIC (Brazil, Russian, India and China). In this paper, the partnering model proposed is a static model. We did not consider the changes of transaction cost in years. Actually the transaction cost has been going down due to the prevalent of internet and ICT tools. Further research may provide a dynamic picture of partnering model in different cases studies and in different times.

## ***7.4 Limitation***



Our research is an explorative study of the role of partnership in trade fair management. The case of Fiera Milano is studied by interview and material analysis. The partnership model is proposed through sense making by Vikash Sinha and I during our discussion provided the literature review I have done. The Fiera Milano case is studied because Fiera Milano is in the same city of my university—Politecnico di Milano. What is important, with the great support of my supervisor Lucio Lamberti, we could get in touch with Fiera Milano by direct interview which is really helpful to understand better the company, its strategy and its operation. The further study on the partnership model and more case studies on other trade fairs are appreciated. Our research is an explorative and qualitative study. It is also valuable to study more on the quantitative side of model and understand better how to determine the transaction cost quantitatively in trade fair industry.



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***2, Web sites of association in exhibition industry and exhibition center***

UFI (Union des Foires Internationales):

<http://www.ufinet.org>

Germany - AUMA:

<http://www.auma.de>

AIPC (International Association of Congress Centres), Belgium:

<http://www.aipc.org>

CEFA (Central European Fair Alliance), Hungary:

<http://www.cefa.biz>

CENTREX (International Exhibition Statistics Union):

<http://www.centrexstat.org>

EMECA (European Major Exhibition Centres Association):

<http://www.emeca.com>

FMK (Society for Voluntary Control of Fair and Exhibition Statistics):

<http://www.fkm.de>

IAEM (International Association for Exhibition Management):

<http://www.iaem.org>

IFES (International Federation of Exhibition Services):

<http://www.ifesnet.com>

InterExpo (Association of Organisers of National Group Participations in International Trade Fairs and Exhibitions):

<http://www.inter-expo.com>

ITTFA (The International Tourism Trade Fairs Association):

<http://www.ittfa.org>

OJS (Statistical Audit Bureau for General and Specialized Fairs and Exhibitions):

<http://www.ojs.asso.fr>