BZ230

International Business.

Establishing an International Outlet

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Overview of Situation.

Fletcher International Exports is a sheep meat processing company. Founded by Roger Fletcher in the mid-1970s, they are now the largest exporter of sheep and lamb products in Australia. They operate two abattoirs in Dubbo, New South Wales and Narrikup, Western Australia that process 9,000 lamb and sheep each day. In October 2012 they decided to expand their business into India, becoming the first Australian company to enter the Indian market (Commonwealth of Australia 2014, p. 1). This report will discuss in detail

- current and possible trade agreements between Australia and India,
- the consumer culture and product suitability for Fletcher Exports in India,
- current and alternate strategies for success in exporting to India,
- the strengths and weaknesses of using a Distributor Evaluator,
- and recommendations for success in the Indian marketplace moving forward.

Economic Integration.

The amount of economic integration between Australia and India encompasses any withstanding trade agreements between the two countries. Trade agreements allow for efficient and low-cost export methods, while the lack thereof could be difficult and costly.

<u>Trade Agreements and Government Intervention.</u>

Before 2012 there were no official trade agreements between Australia and India. However, exports from Australia to India still grew at an annual average rate of 25 percent from 2002-2008 (see Figure 1) as India steadily reduced their customs duties from 40 percent in 1999 to 10 percent in 2008 (see Table 1) (Commonwealth of Australia 2010, p. 16, 30). But without an FTA, tariff and non-tariff barriers would continue to raise the costs of Australian imports into India, with extra taxes on both businesses and customers (Commonwealth of Australia 2010, p. 107).

Additionally, the Indian government intervened with trade restrictions which made it difficult for Australia to export their sheep meet into India, despite the reduction in customs duties (ACIL Tasman 2009, p. 59). In 2009, the non-tariff trade barriers in India precluded Australian lamb imports, which, if removed, could have led to exports of 20,000 tonnes from Australia to India (ACIL Tasman 2009, p. 59). But by the end of 2012, the Indian government began to allow small amounts of frozen and chilled lamb into India after a finalised agreement on food safety requirements (Wilkinson 2013). The negotiation of this agreement occurred when Indian authorities made the decision to recognise Australia's system of licensing abattoirs in place of India's expensive and time-consuming process of sending their own inspectors (Wilkinson 2013).

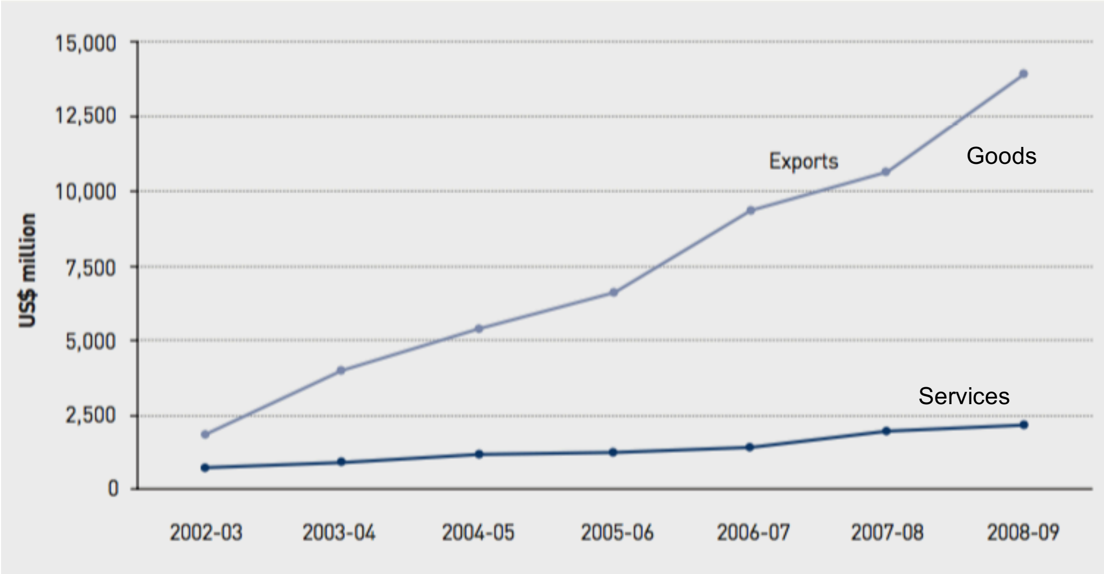


Figure 1: Australia's Trade with India in Goods & Services (Commonwealth of Australia 2010, p. 15)

YEAR	PEAK DUTIES (PER CENT)	CUSTOMS DUTY AS A PERCENTAGE OF IMPORTS
1999-00	40	21.88
2000-01	38.5	21.25
2001-02	35	17.23
2002-03	30	15
2003-04	25	13.6
2004-05	20	11.08
2005–06	15	9.64
2006–07	12	9.64
2008–09	10	9.65
2008–09	10	7.4

Table 1: India's Peak Customs Duty Reductions (Commonwealth of Australia 2010, p. 30)

Trans-Pacific Partnership Agreement.

The Trans-Pacific Partnership Agreement (TPP) is a potential free trade agreement (FTA) (Fergusson, Cooper, Jurenas & Williams 2013, p. 212). Originally known as the Trans-Pacific Strategic Economic Partnership, the TPP began in 2003 as "a path to trade liberalization in the Asia-Pacific region" between Singapore, New Zealand, and Chile who are now accompanied by the US, Australia, Brunei, Canada, Malaysia, Mexico, Peru, and Vietnam (Fergusson, et. al. 2013, p. 213). Recently, a negotiation separate from the TPP began: the Regional Comprehensive Economic Partnership (RCEP) (Ayers 2015). This agreement would combine the Association of Southeast Asian Nations (ASEAN) with Australia, China, India, Japan, New Zealand, and South Korea, all into one FTA (Fergusson, et. al. 2013, p. 218). As seen in Figure 2, Australia participates in both the TPP and RCEP, while India only participates in the RCEP.

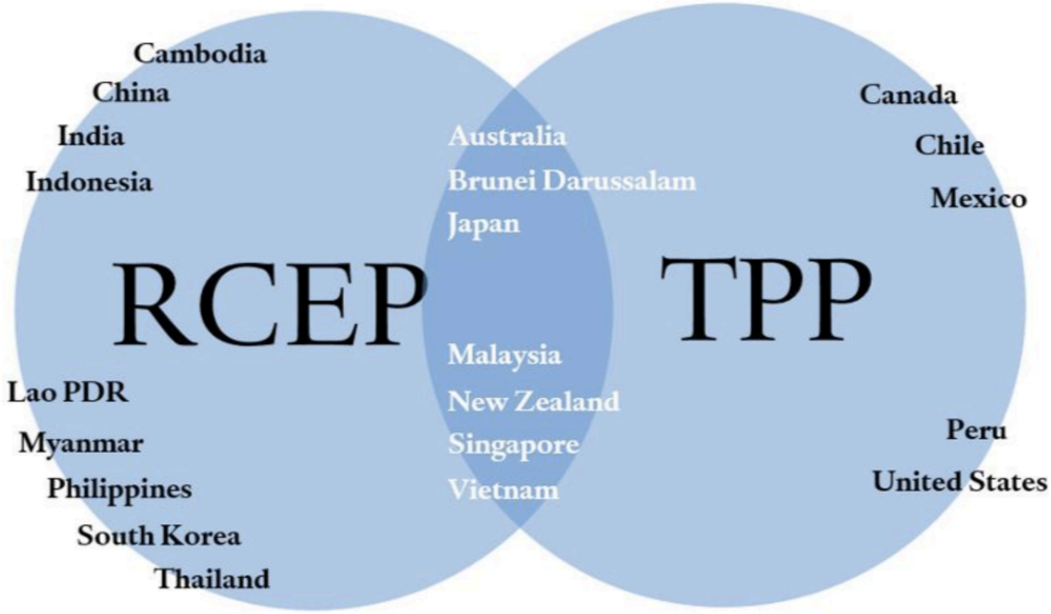


Figure 2: Overlap of Countries in Negotiations for RCEP and TPP (Ayers 2015)

India's lack of interest in joining the TPP impacts Fletcher Exports because until a definite FTA is negotiated between Australia and India, tariff and non-tariff trade barriers will keep the exporting of sheep meat into India expensive. This will keep exports into India much lower than they potentially could be. For example, when the US and Australia negotiated the US-Australia FTA (AUSFTA), US agricultural exports to Australia more than doubled in six years (Fergusson, et. al. 2013, p. 225). Now, the top US import from Australia is meat, allowing both countries to expand their exports (Fergusson, et. al. 2013, p. 225). Therefore, Fletcher's sheep meat exports into India will remain costly until they can be exchanged free of trade barriers.

India's Culture and Consumer Economy.

In order to understand how suitable a product will be in a foreign market, it is essential to assess the consumer culture of the receiving country. An effective way to better understand this difference and determine the product suitability of sheep and lamb exports into India is an assessment of India's customer segmentation, demographics, and psychographics.

<u>Customer Segmentation.</u>

Customer segmentation involves observing the spending habits and interests of consumers in relation to a specific product. The same products may provide different usages and experiences for consumers based on the cultural norms and practices of their country (Venkatesh 1994). On average, Indians spend about half of their income on food, and as disposable income rises, higher-value products like meat, milk and eggs are purchased more often (Business Monitor 2012, p. 57). This is beneficial for Fletcher Exports because their meat is highly valued in India.

Interest in products can also be boosted by celebrity endorsements. “Brands make very successful use of endorsement by celebrities, particularly Bollywood stars…the right kind of endorsement helps create trust in products” (Oxford Analytica Ltd 2011, p. 3). Indian consumerism is dependent on these celebrities (Venkatesh 1994).

<u>Demographics.</u>

As seen in Figure 3, India has a massive youthful demographic, making it an exciting country for consumer growth (Business Monitor 2012, p. 26). With 303 million people aged 20-34, wine has become the preferred alcohol beverage for those who wish to pursue social prestige, and Australian lamb is in high demand for India’s growing middle-class which desires premium quality, higher priced lamb (Business Monitor 2012, p. 45; Wilkinson 2013). This is beneficial for Fletcher Exports because as the Indian middle class becomes more sophisticated, they will seek out Australia’s premium quality red meat to complement their red wine, especially since beef and pork are generally not eaten for religious reasons (Wilkinson 2013).

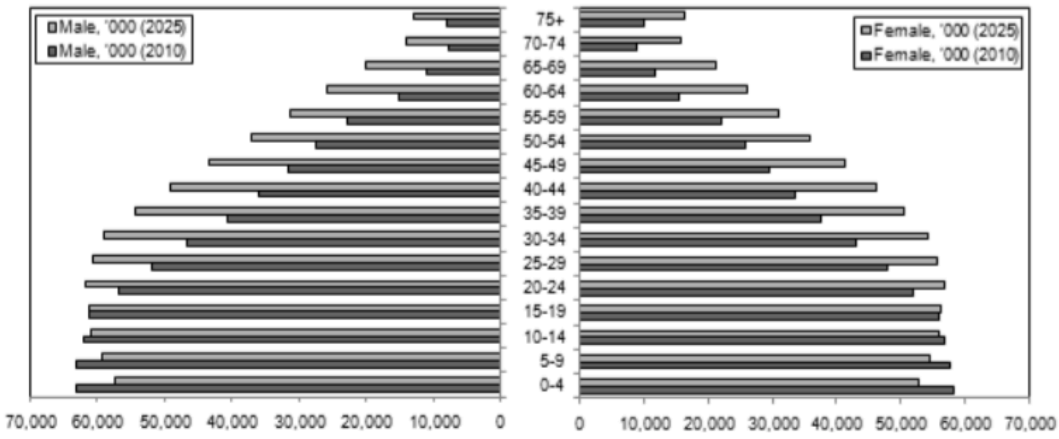


Figure 3: India Demographic Breakdown by Age Group (Business Monitor 2012, p. 33)

<u>Psychographics.</u>

Hinduism is the way of life for the majority of Indians, and although Indians have adopted modern consumer technologies, their food consumption still has a historical role (Venkatesh 1994). Additionally, Indians tend to prefer local brands that have a long history in the country because campaigns against foreign imports have made the Indian consumer sensitive to the reputation of a good’s quality and purity (Oxford Analytica Ltd 2011, p. 1). However, with Halal certified markets, globally recognised breeding conditions and the highest food safety standards in the world, Fletcher Exports is well equipped to compete in Indian markets (Commonwealth of Australia, p. 2).

Strategies for Success.

The success of Fletcher Exports in India is likely linked to the high demand and product suitability of sheep and lamb meat in India, as well as the strategies used to compete in the Indian marketplace and adhere to Indian consumer culture.

Current Strategies.

These strategies can be split into three categories (see further analysis on these categories in Appendix 1):

Food Production.	Infrastructure.	Cross-Cultural Management
- high food safety standards - strict food safety regulations - globally recognised breeding conditions - stringent animal welfare protocols	- advanced farm management - two abattoir plants which provide increased capabilities to meet customer orders - shipping from east and west coast of Australia	- Halal certification - supplying the highest quality meat to Indian hotels, retail, and high-end catering markets

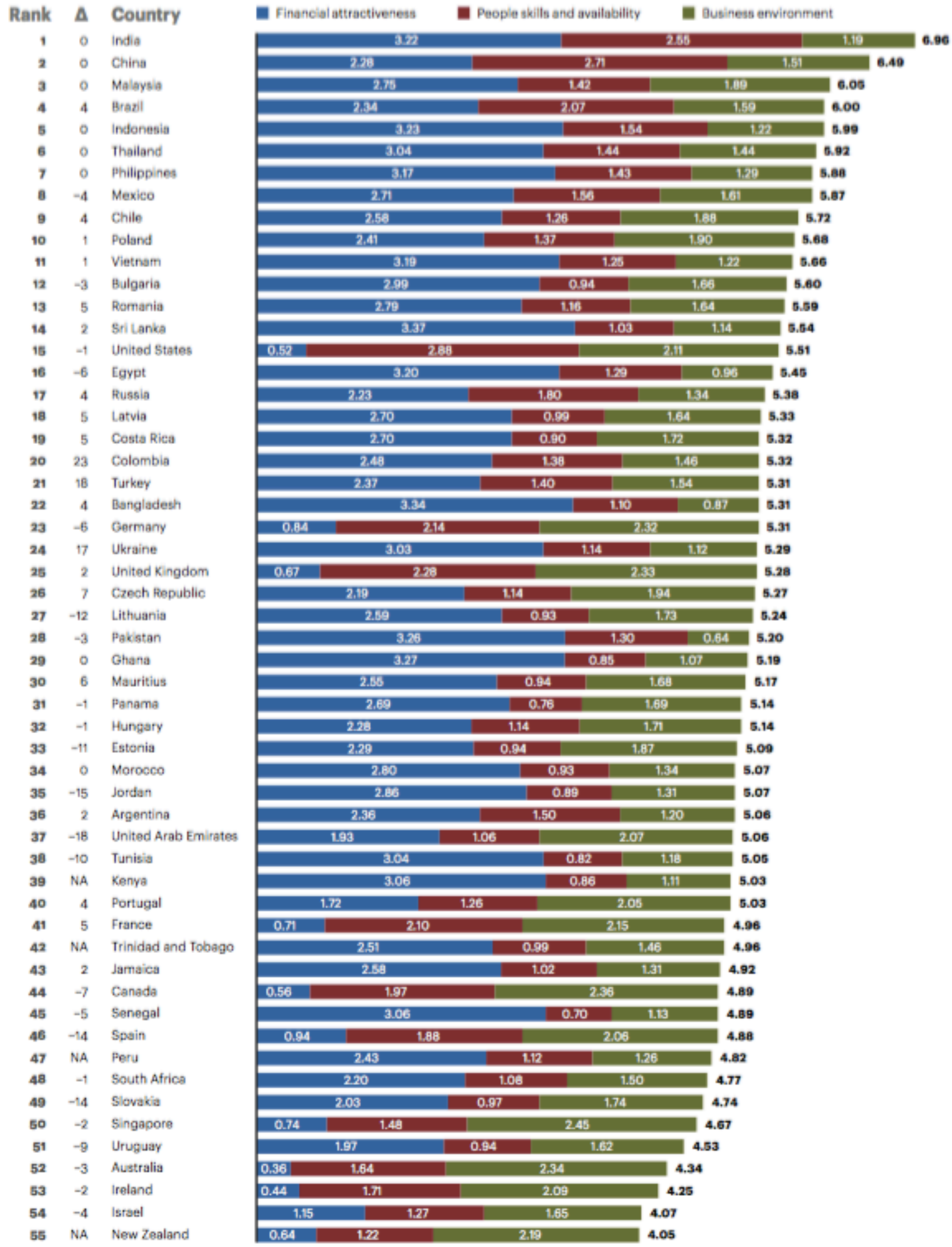
Alternate Strategies.

In addition to the above strategies, it would be in the company's best interest to add these alternate strategies to each category:

Food Production.	Infrastructure.	Cross-Cultural Management.
- promotion with prestigious Indian wine labels	- offshoring	- Bollywood celebrity endorsement

As mentioned above, the young demographic and rising middle class in India has created a consumer desire for social prestige. This has been partly met by purchasing higher-valued wine and meat. While Fletcher's lamb range has already been promoted with various Australian wine labels, it might appeal to more consumers if paired with the more prestigious Indian wine labels, such as Sula Vineyards (Commonwealth of Australia 2014, p. 2).

Also, as seen in Figure 4, India is highly ranked in part for its people skills and availability. Another way to improve Fletcher's operations in this area would be to offshore some of the labelling, certification and distribution processes to Indian workers who know the system more intimately, both saving money for the company and appealing more to local Indian consumers. Lastly, as mentioned above, Indian consumers value products that are celebrity endorsed. In a country where market receptivity is extremely low (see Figure 5), it might benefit Fletcher to pursue celebrity endorsements of their products to boost their chances in being more widely received in Indian markets.



Notes: Δ represents the change in rank since the 2014 index. For France, Germany, the United Kingdom, and the United States, tier 2 locations are assessed. Scores lower than 0.4 are not displayed.

Source: 2016 A.T. Kearney Global Services Location Index™

Figure 4: A.T. Kearny Global Services Location Index (A.T. Kearney 2016, p. 4)

Rank	Country	Market Size	Market Growth Rate	Market Intensity	Market Consumption Capacity	Commercial Infrastructure	Market Receptivity	Economic Freedom	Country Risk	Overall Score
1	China	100	95	1	93	63	7	23	79	100
2	Hong Kong	2	59	100	44	100	100	100	100	57
3	Singapore	2	76	76	44	84	89	71	93	50
4	India	37	79	32	67	28	8	45	67	49

Figure 5: Market Potential Index (GlobalEDGE 2016)

Distributor Evaluator.

When it comes to offshoring distribution processes, it is important to choose the right distributor. In a 1995 article by an Industrial Marketing Management team, a detailed process for evaluating foreign distributors was developed at Michigan State University to help companies employ the right distributors for their products (Cavusgil, Yeoh & Mitri 1995, p. 299). The distributors would be evaluated under a number of criteria (see Figure 6), allowing the company to come to a decision on the effectiveness of the potential distributor.

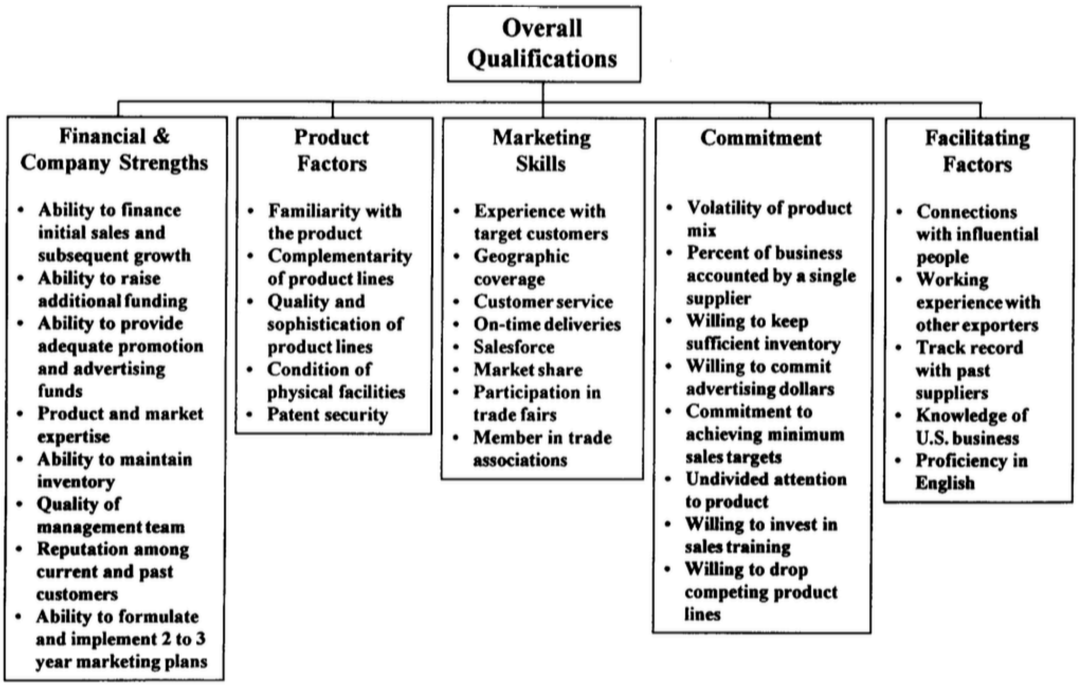


Figure 6: Criteria for evaluating foreign distributors (Cavusgil, et. al. 1995, p. 300)

<u>Strengths and Weaknesses.</u>

The Distributor Evaluator has a number of strengths and weaknesses. After an analysis of both (see Appendix 2), it can be concluded that the program serves a useful purpose in effectively choosing a distributor.

<u>Strengths.</u>	<u>Weaknesses.</u>
1 weighs the above five dimensions (see Figure 6) on a scale of 0 to 100, then maps the scores into verbal ratings	1 requires an on-site visit
2 narrows down the pool of distribution candidates	2 does not account for false or inaccurate reports
3 allows the company to interact with the system's findings	3 difficult application to smaller businesses
4 combines both quantitative and qualitative data	4 does not account for distributor's corporate and personal goals
5 eliminates the duplication of scarce expertise	
6 sensitises decision-makers to commonly over-looked factors	

Recommendation.

Based on the above information, it is in the best interest of Fletcher Exports' future to delve deeper into understanding Indian consumer culture while applying the above-mentioned alternate strategies.

Rationale and Justification.

Having a deeper understanding of Indian consumer culture will allow Fletcher Exports to develop more advanced, specific strategies which will fuel the company's growth across Indian marketplaces and possible expansion into its neighbouring countries. Additionally, an application of the above-mentioned alternate strategies (see page 7) will allow the company to better tailor to its Indian consumers by making their products more acclaimed through celebrity endorsements and wine promotions, and simultaneously allowing more cost efficiency by offshoring processes like distribution using the system DISTEVAL.

However, in light of India's low market receptivity, it is important to consider how different Indian culture is from Western culture and how their cultural patterns will never fully reflect those of Western cultures. It is also important to consider that the lack of official trade agreements between Australia and India can make profiting in Indian marketplaces difficult and costly. Therefore, it is recommended that the company applies the above alternate strategies while also learning more about India's complex consumer culture to navigate the markets *effectively* in hopes of surpassing their low receptivity and *at the lowest cost* in expectation that no foreseeable trade agreements will alleviate the expenses of tariff and non-tariff trade barriers.

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Appendix 1

Analysis of Fletcher International Exports' Strategies for Success.

Food Production.	Infrastructure.	Cross-Cultural Management
- high food safety standards - strict food safety regulations - globally recognised breeding conditions - stringent animal welfare protocols	- advanced farm management - two abattoir plants which provide increased capabilities to meet customer orders - shipping from east and west coast of Australia	- Halal certification - supplying the highest quality meat to Indian hotels, retail, and high-end catering markets

It is clear Fletcher International Exports has thoroughly thought out its strategies for success in the Indian marketplace. The company's Indian Marketing Representative, Niklas Moore, is quoted saying, "India is not a market to go to and expect to succeed immediately. It requires a detailed strategy, meeting laws around labelling, certification and distribution too" (Commonwealth of Australia 2014, p. 2). The company's food production allows them to operate under a trusted and recognised reputation which is important in a country where food quality and purity is taken seriously. Their infrastructure allows for efficient processing and delivering of the product, and their cross-cultural management meets the religious requirements of the major Indian religions and ensures the production of high-quality lamb to meet the Indian consumer's demand for higher-valued meat.

Appendix 2

Analysis of DISTEVAL's Strengths and Weaknesses.

Strengths.		Weaknesses.	
1	weighs the above five dimensions (see Figure 6) on a scale of 0 to 100, then maps the scores into verbal ratings	1	requires an on-site visit
2	narrows down the pool of distribution candidates	2	does not account for false or inaccurate reports
3	allows the company to interact with the system's findings	3	difficult application to smaller businesses
4	combines both quantitative and qualitative data	4	does not account for distributor's corporate and personal goals
5	eliminates the duplication of scarce expertise		
6	sensitises decision-makers to commonly over-looked factors		

A) Strengths.

1. Using a scale to measure the five dimensions showcases the system's ability to evaluate qualitative data.
2. This leaves the company with a manageable number of promising distribution candidates to choose from, weeding out the unnecessary dead-ends that may damage the company with a bad reputation or poor finances.
3. By interacting with the system's findings, companies are provided with a deeper understanding of the system's conclusions, allowing them to better grasp the process that goes into choosing a distributor and which dimensions best reflect a promising candidate.
4. The combination of both quantitative and qualitative data provides a detailed methodology for evaluating distributors. The five dimensions—financial strength and company strengths, product factors, marketing skills, commitment, and facilitating factors—give the company a broad understanding of specific measures which are important in assessing a distributor.
5. By offering permanent and documented expert knowledge, the ineffective process of duplicating undocumented knowledge is eliminated, saving time and therefore money.
6. Many of the factors included in DISTEVAL's 35 criteria are not often considered by companies when seeking a foreign distributor. The ignorance of these criteria could lead a company to hire an inadequate foreign distributor who can ruin the company's prospects abroad through poor financial planning, lack of motivation, or any incompetence in the areas of DISTEVAL's 35 criteria.

B) Weaknesses.

1. In the end, all DISTEVAL can do is give recommendations for which distributors look the most promising. There will always be data that can only be accounted for on-site, such as verification that the distributor is who they say they are, that their markets are as promising as published, their track record among locals, etc.
2. Published figures about financial standings can be inaccurate, and this is something that DISTEVAL cannot account for because it requires a deeper evaluation of what goes on behind the published figures—information that is usually classified.
3. Smaller businesses require a wider network for recommendations of possible foreign distributors. This is difficult to obtain for a business that may lack the funds and staff to network as much as large businesses can.
4. In every marketplace there are scammers. In this case, scammers could be distributors who might have some shady and immoral values that aren't published or seen in their business practices until it's too late. DISTEVAL cannot account for these outliers.