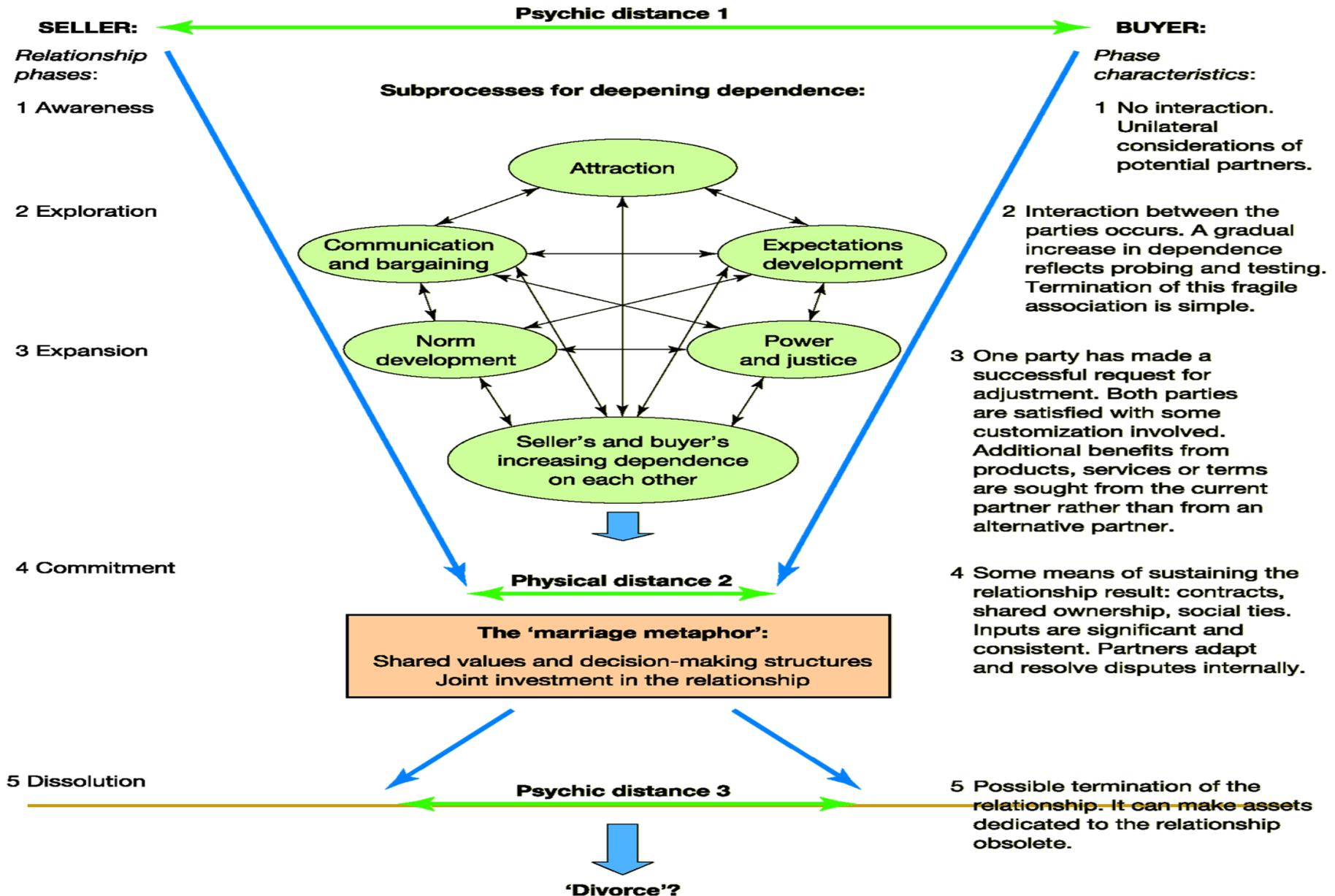




International entry modes in European Nations

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The five-phase relationship model



Types of entry modes

- Exporting (indirect and direct)
 - Intermediate entry modes
 - Hierarchical entry modes
-

EXPORTING

- - number and type of intermediaries, functions performed – full- service high specialization (clearing goods)

PARTNER MINDSHARE (= the measurement of the strength of a relationship between manufacturer and export-partner in terms of trust, commitment, and cooperation ...)

- drivers: (1) commitment and trust; (2) collaboration; (3) mutuality of interest and common purpose + product, brand and profit

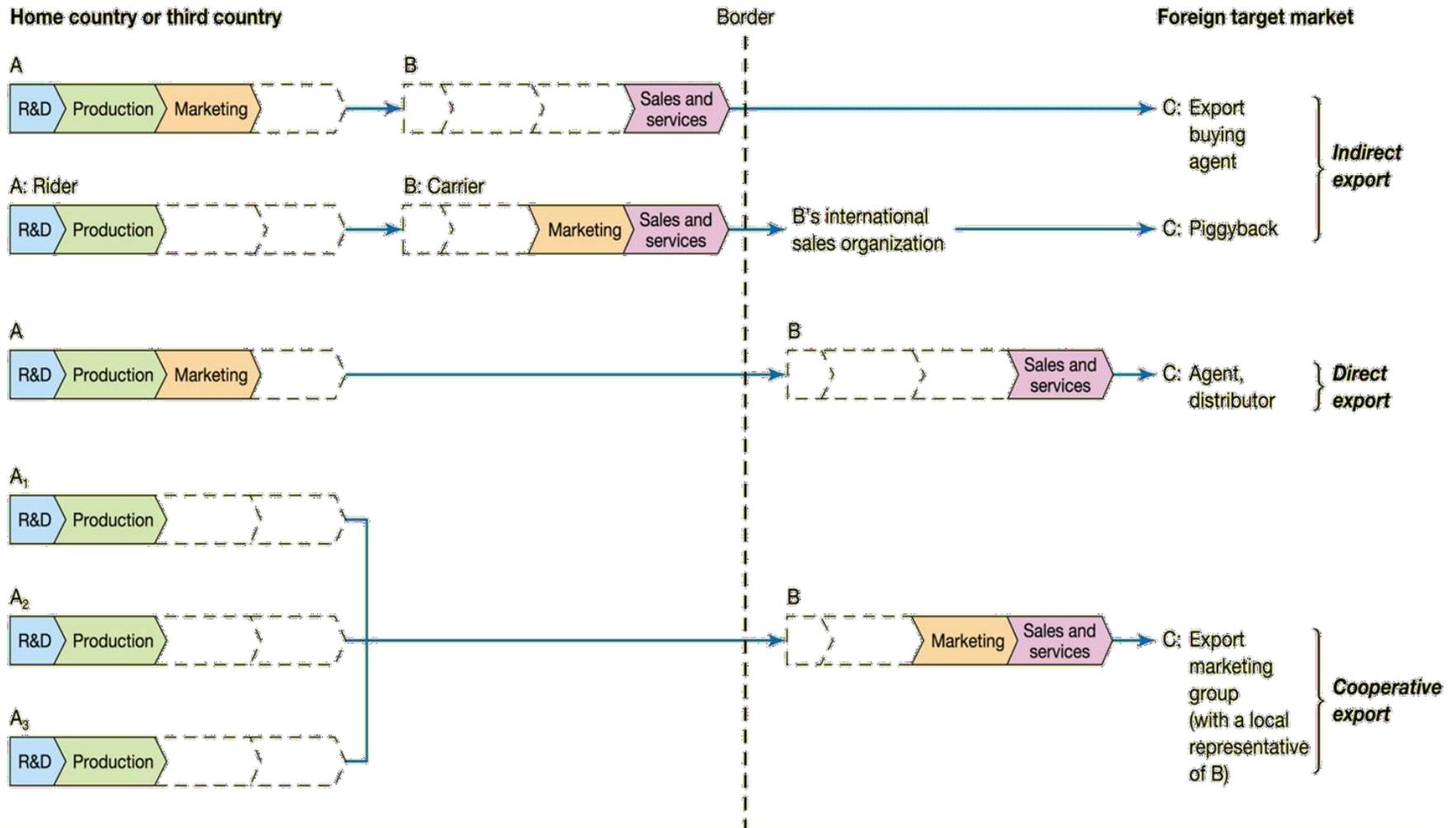
- 3 major types:

- a) **indirect export** – through usually another domestic company – export house, trading company that performs exporting activities

- b) **direct export** – company performs exporting activities (majority of or all) itself

- c) **cooperative export** – collaborative agreements with other organizations – some exp. activities

Export modes



Note: A, A₁, A₂ and A₃ are manufacturers of products/services.
 B is an independent intermediary (agent).
 C is the customer.

Indirect export modes

- Limited international expansion objectives
- Minimal resources
- Gradual market entry
- Test of market

- Little or no control over the way the product is marketed
- No contact
- Little or no information

1. **Export buying agent** (export commission house) – the overseas customer's hired purchasing agent operating on basis of orders received from the customer/buyer – scan domestic market
2. **Broker** – to bring a buyer and seller together; performs a contractual function; does not actually handle the products sold or bought; the broker is paid a commission (cca 5%); commodity specialist
3. **Export management company (export house)** – „export department“ for a range of companies; conduct business in the name of each manufacturer it represents; knowledge of the market!!!; specialization by geographical area, product or customer type; paid a commission;
 - competitive products, interest in high profitable products, lower specialization...
4. **Trading company** – colonial times, Africa and East Asia, in Japan over 50% of whole export; barter – or counter trade, financing
5. **Piggyback** – non-competitive but related and complementary products; SME with a larger exporting company – full utilization of export facilities of a larger company

Direct export modes

Manufacturer sells directly to the importer located in the foreign market

DISTRIBUTOR

- independent company that stocks the manufacturer's product
- It has freedom to choose own customer and price
- Profit from the differences between seller and buyer price
- Exclusive representatives = sole distributors in a country
- Buy on their own accounts
- Usually represents the manufacturer in all aspect of sales and servicing

AGENT

- Independent company that sells on behalf of the manufacturer
- Usually it will not see or stock the product
- Exclusive, semi-exclusive, non-exclusive
- Commission on a pre-agreed basis
- Sells to wholesalers and retailers
- Gathering some market and financial information- but not always – depends on contract

Cooperative export - export marketing groups

- Functions:
 - exporting in the name of the association
 - consolidating freight, negotiating rates and chartering ships
 - performing market research
 - appointing selling agents abroad
 - obtaining credit information and collecting debts
 - setting prices for export
 - allowing uniform contracts and terms of sale
 - allowing cooperative bids and sales negotiation
 - Usually SMEs – more effective
-

What to look for in an intermediary

- Size of firm
 - Physical facilities
 - Willingness to carry inventories
 - Knowledge/use of promotion
 - Reputation with supplier, customers, and banks
 - Sales performance record
 - Cost of operations
 - Overall experience
 - Knowledge of English or other relevant languages
 - Knowledge of business methods in manufacturer's country
-

Through what channels can you get turmeric on the European market?

The commercial production of turmeric takes place in several countries around the world, including India, Peru, Madagascar, Costa Rica, Vietnam and China. On the European market for health products, turmeric can be used in food supplements and herbal medicinal products.

How is the end market segmented?

The end market for turmeric can be segmented into 2 main segments: food supplements and herbal medicinal product. You absolutely need to know in which segment your turmeric ends up, as there are big differences in related legislation.

The difference between herbal medicinal products and food supplements is not always clear. This mainly depends on how a product is marketed. Only herbal medicinal products can make a medicinal claim, meaning that they can be used for treating a specific condition. In addition, the content of active ingredients or compounds differs between the 2 segments. Figure 4 presents the segments for turmeric products on the European market.

End market segments for turmeric in Europe

Herbal medicinal products

- Small, established market, limited growth
- Difficult to enter
- Limited innovation
- Minimum quality requirements defined in Pharmacopoeia monographs
- Higher margins than in food supplements
- Stronger claims possible
- More direct trade to control supply chains

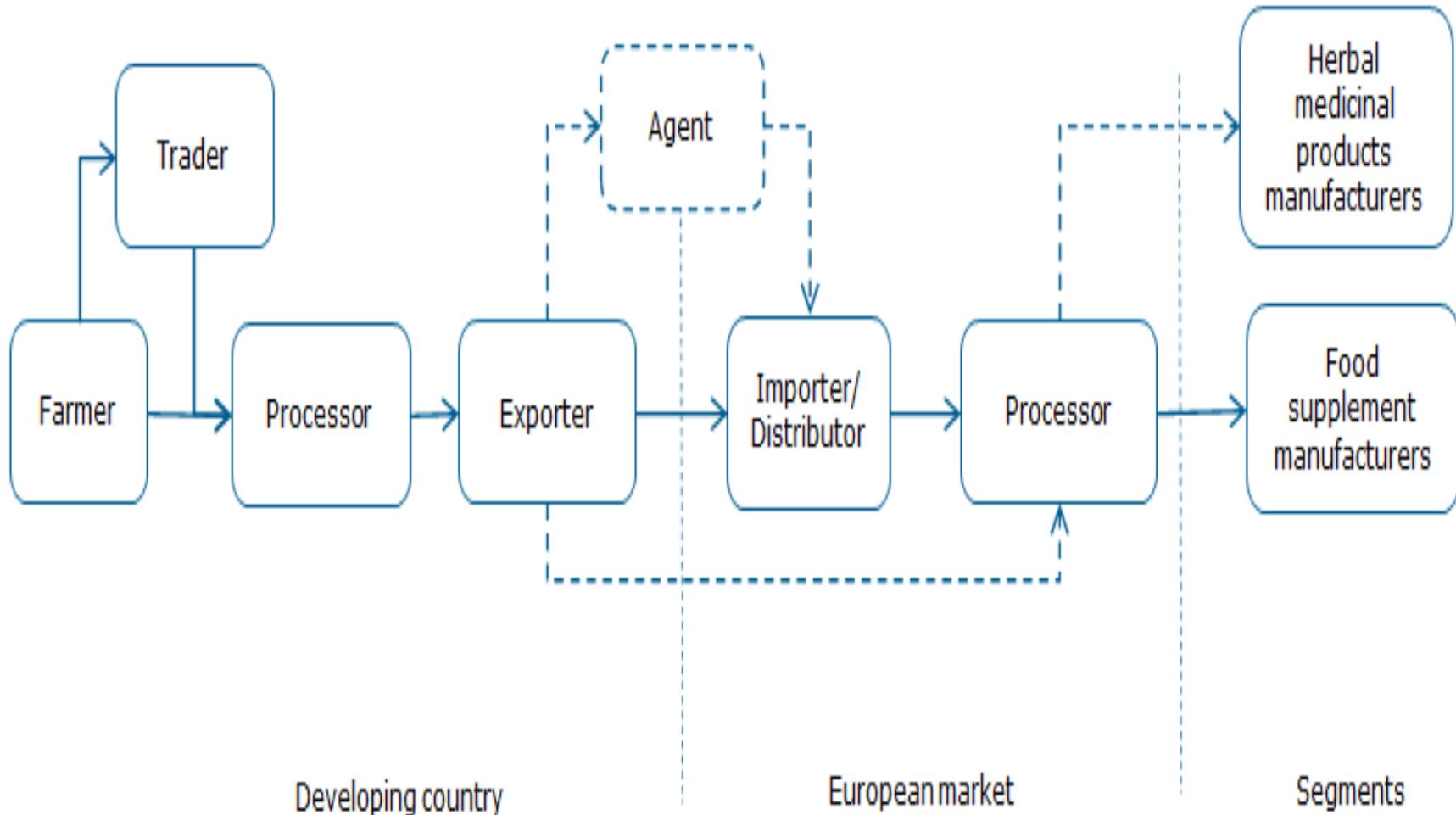
Food supplements

- Fast growing market
- Strong competition / easier for new players to enter the market
- High innovation
- Buyer specifications guiding for quality
- Higher volumes than herbal medicinal products
- More room for marketing stories
- Less stable supplier-buyer relationships

Through what channels does turmeric end up on the end-market?

the export value chain for turmeric on its journey to the European market.

Turmeric can enter the European market in a powdered, liquid and curcumin extract form.



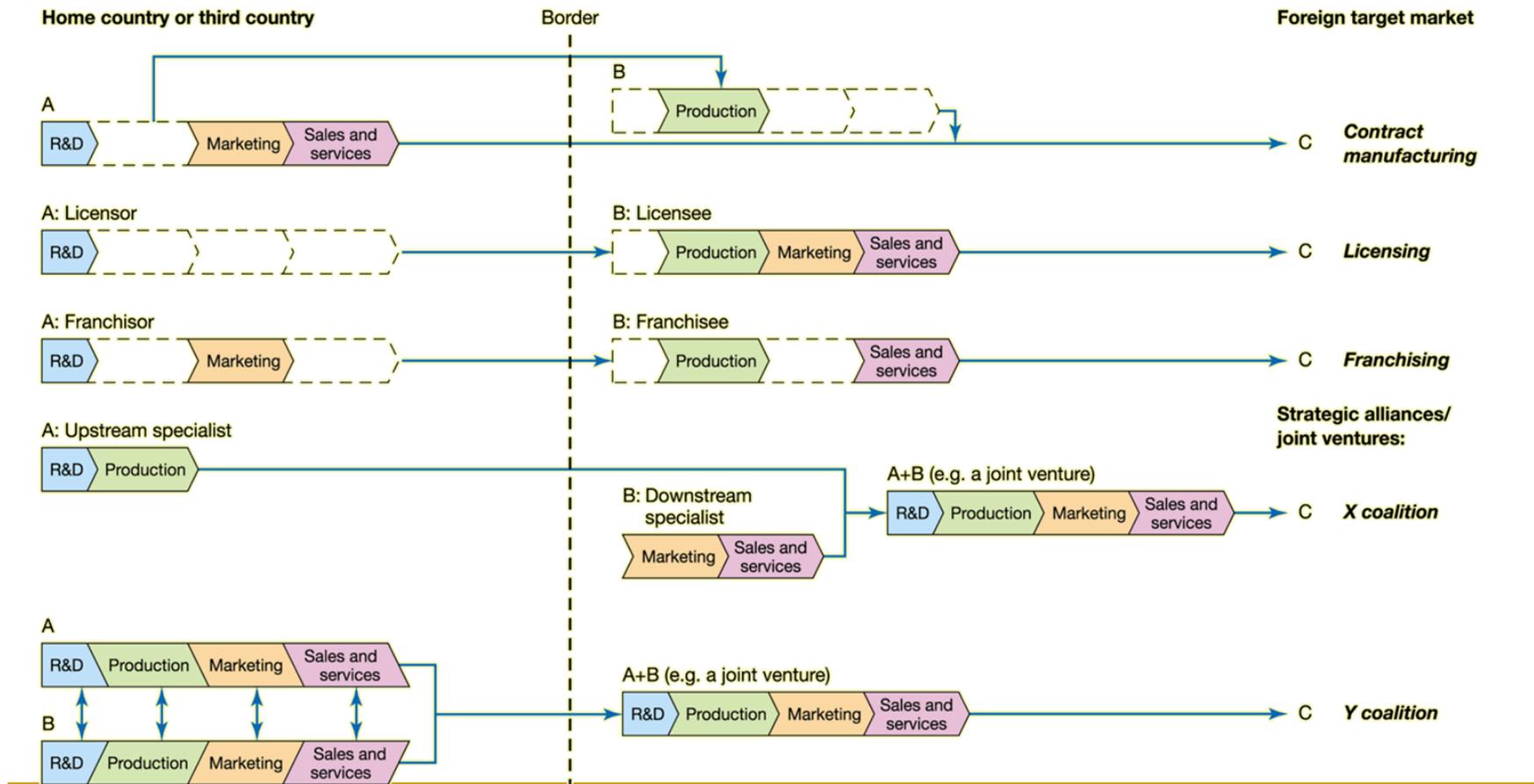
Tips:

Be prepared to send high-quality samples to prospective buyers, who will test your samples to assess whether you are a credible exporter of turmeric. Doing so will give you an advantage when you are seeking to enter the European market.

Consider expanding your turmeric product range, for example by adding organic turmeric. This will probably increase your chances of entering the European market, as some importer/distributors only import organic products.

Be prepared to meet prospective buyers who are interested in purchasing larger volumes if you are in a position to do so.

Intermediary export modes



Note: A is the manufacturer, B is the partner and C is the customer

INTERMEDIATE ENTRY MODES

■ = transfer of skills and knowledge

- (1) **Contract manufacturing** – outsourced to an external partner specialized in production and production technology – lower risk, lower costs, appropriate foreign market demand; better interaction with local market, high level of control; high flexibility; product could be exported
- (2) **Licensing** – patent covering a product or process, know-how, technical/marketing advice and assistance, use of trade mark/name – concentration on core competences - R&D, lower expertise for overseas, the end of the PLC in home country, government regulations restrict foreign direct investment...
- (3) **Franchising** – product and trade name, business format package (trade mark/name, copyright, design, patent, trade secret, business and management know-how, geographic exclusivity, market research for the area...)
- (4) **Strategic alliances/joint ventures** – new opportunities, speed up market entry, lower costs compared to solely business; up-stream collaboration – on R&D and/or production; down-stream – marketing, distribution, sales, service – = **Y coalition**; both streams – **X coalition**

-
- Seeking for resources:
 - Development know-how
 - Sales and service expertise
 - Low-cost production facilities
 - Strategically critical manufacturing capabilities
 - Reputation and brand equity
 - Market access and knowledge
 - Financial resources...
 - ? Who is the leading company?
 - ? Double..management?
 - ?Repatriation of profits?
 - ? Shared equity?
 - Mixing different cultures!
 - Developing trust!
 - Providing and exit strategy!
-

Contract manufacturing

Contract manufacturing

- _____ is the term used to refer to manufacturing which is outsourced to an external partner, one that specializes in production and production technology.

Factors encouraging foreign market production

- Desirability of being close to foreign customers
- Foreign production costs are low
- Transportation costs may render heavy products non-competitive
- Tariffs can prevent entry of an exporter's products
- Government preference for national suppliers

Licensing

- the exchange of rights, such as manufacturing rights, to another in exchange for payment

Rights that may be offered in a licensing agreement

- Patent covering a product or process
- Manufacturing know-how not subject to a patent
- Technical advice and assistance
- Marketing advice and assistance
- Use of a trade mark/trade name



Motives for licensing

IN

- Licensor firm will remain technologically superior in its product development
- Licensor is too small to have financial, managerial or marketing expertise for overseas investment
- Product is at end of product life cycle in advanced countries but stretching product life cycle is possible in less developed countries

OUT

- Opportunity for profit on key components
- Government regulations may restrict foreign direct investment or, if political risks are high, licensing may be only realistic entry mode
- Constraints may be imposed on imports

Franchising

- the exchange of rights between a franchisor and franchisee, such as the right to use a total business concept including use of trade marks, against some agreed royalty

Types:

- Product and trade name franchising
 - Business format 'package' franchising
-

Through what channels can you get dried ginger on the European market?

Of course, dried ginger is used at home as a spice in Asian-style food dishes, and to a lesser extent also to spice self-baked cookies etc. In addition, ginger pieces are used to make tea or extracts for cold treatments. Consumer use at home of ground ginger or ginger pieces accounts for between 10-25% of the total market.

However, the main market segment of ginger is the food-processing industry with 75-90% of the market. The leading segment is bakery products (such as gingerbread and cookies and other sweet pastry products), but also Asian food products, soups and sauces, and various drinks or infusions (e.g. ginger ale, ginger beer, tea).

How is the end market segmented?

The largest buyer of dried ginger in Europe is the food-processing industry, followed by retail, foodservice and food ingredients (additive segments).

End market segments for ginger in Europe

Food processing industry

Spice mixture producers

Meat processing industry

Sauces and condiments industry

Other industries

Retail

Retail chains

Independent grocers

Speciality shops

Street markets

Online retail

Food service

Wholesalers /
Food Service
Distributors

Out of home:
Restaurants,
Hotels, Schools,
Hospitals,
Etc.

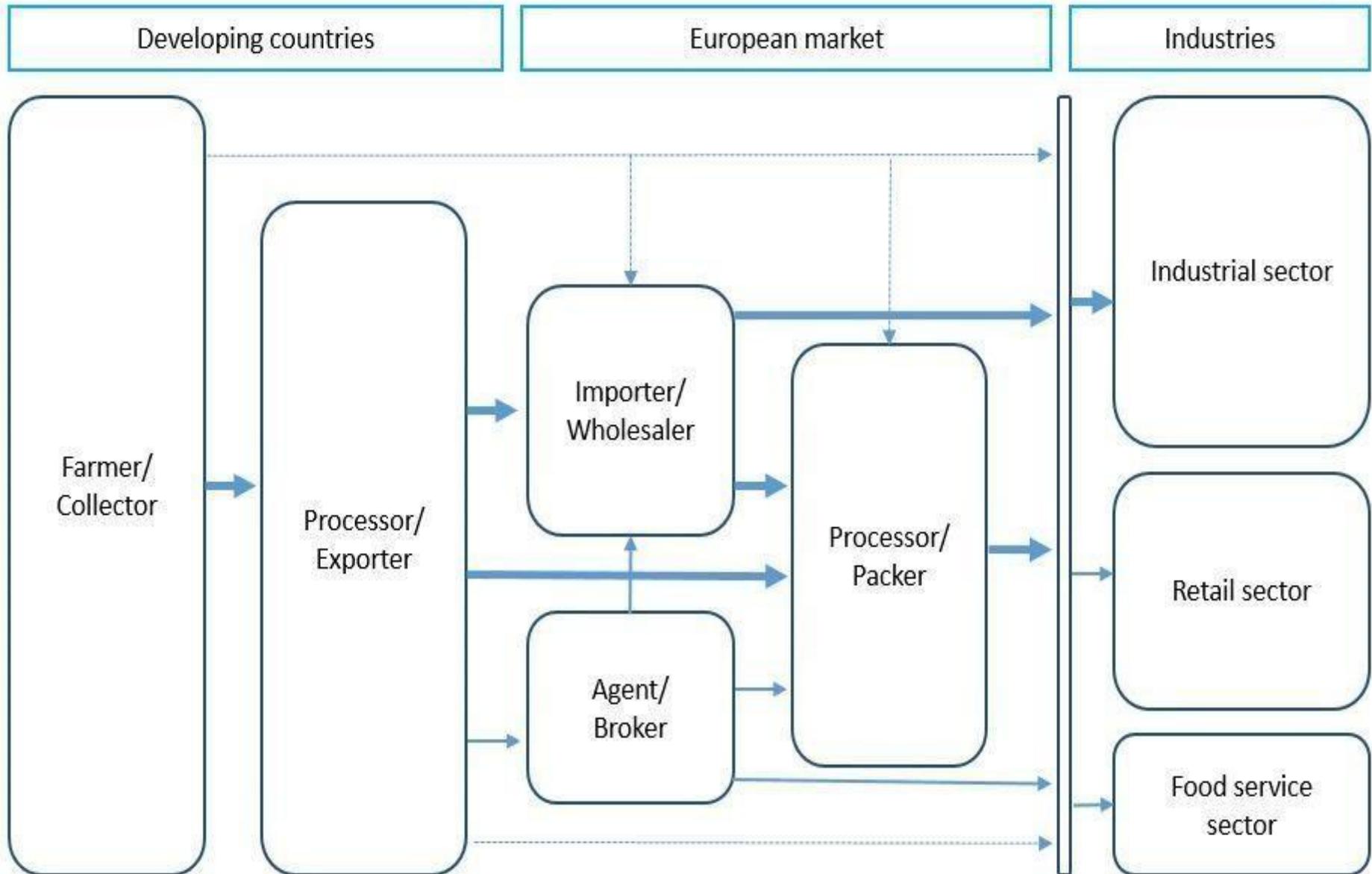
Ingredients industry

Food ingredients
(oleoresins)

Food supplements

Cosmetics and
other
ingredients

Trade channels for dried ginger in Europe



Business format 'packages'

Trade marks/ trade names/ designs

Patents and copyrights

Business know-how/ trade secrets

Geographic exclusivity

Store design

Market research

Location selection

Human resources training

Supply resources

Interdependence between franchisor-franchisee

Franchisor-franchisee

- Fast growth
- Capital infusion
- Income stream
- Community goodwill

Franchisee-franchisor

- Trade mark strength
 - Technical advice
 - Support services
 - Marketing resources
 - Advertising
-

Joint venture and strategic alliances

- an equity partnership between two or more partners?

A + B \longrightarrow C - JOINT VENTURE

A \longleftrightarrow B - STRATEGIC ALLIANCE

Reasons for using joint ventures

- Complementary technology or management skills can lead to new opportunities
- Firms with partners in host countries can increase speed of market entry
- Less developed countries may restrict foreign ownership
- Costs of global operations in R&D and production can be shared
- Entering new markets

Through what channels can you get cumin seeds on the European market?

Cumin seeds are sold through different channels to reach end segments of retail (home consumption), food service (out-of-home consumption), and ingredient segments (such as spice manufacturers and food industry). Whole cumin seeds are used in all segments, while ground cumin seeds are mostly used by spice manufacturers to create specific spice mixes (such as curry) or to create customised spice solutions for the food industry, for example, in the production of sauces, sausages, soups, and ready meals. Most cumin seeds are imported whole and crushed after import. The curry industry in the United Kingdom imports a large share of cumin powder.

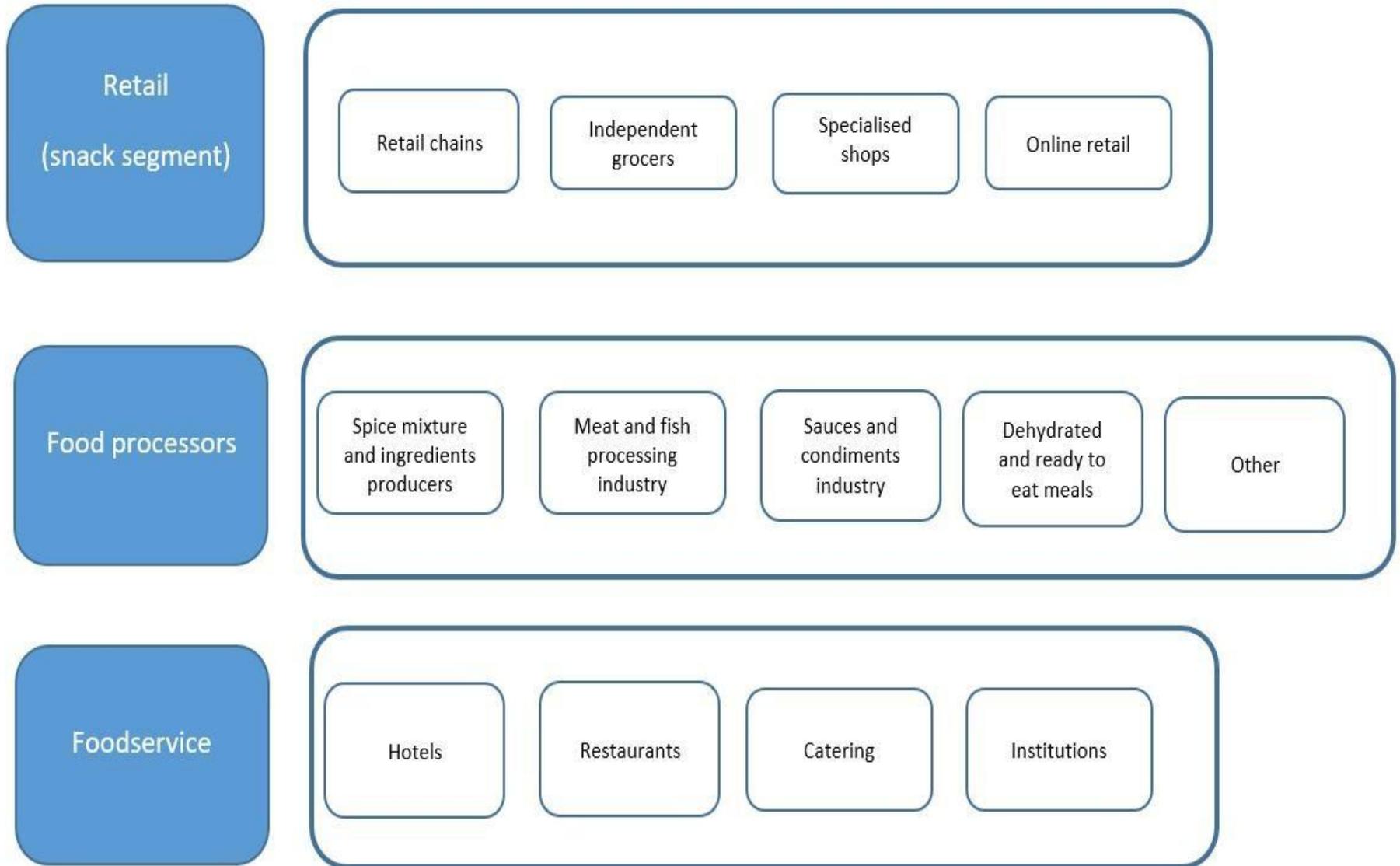
How is the end market segmented?

The end-market segments for cumin seeds include the food processing industry, retail, food service, and ingredients.

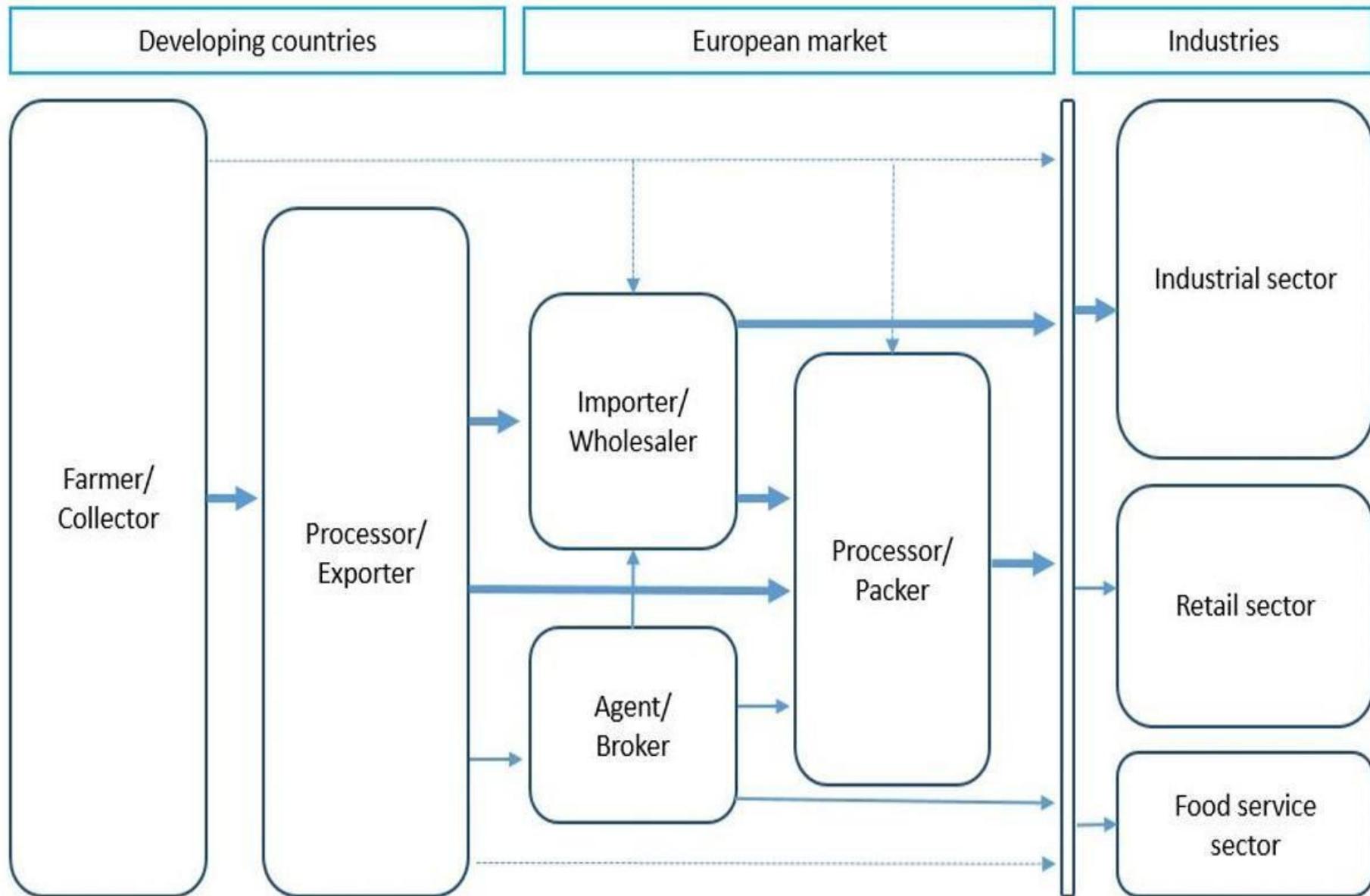
Factors to consider within the cost/benefit analysis when deciding about JV/SA

- Financial commitment
 - Synergy
 - Management commitment
 - Risk reduction
 - Control
 - Long-run market penetration
 - Resources (own and of partner): critical manufacturing capabilities, low-cost production facilities, reputation/brand equity, market access/knowledge, development know-how, sales and service expertise..
-

End-market segments for cumin seeds in Europe



Trade channels for cumin seeds in Europe

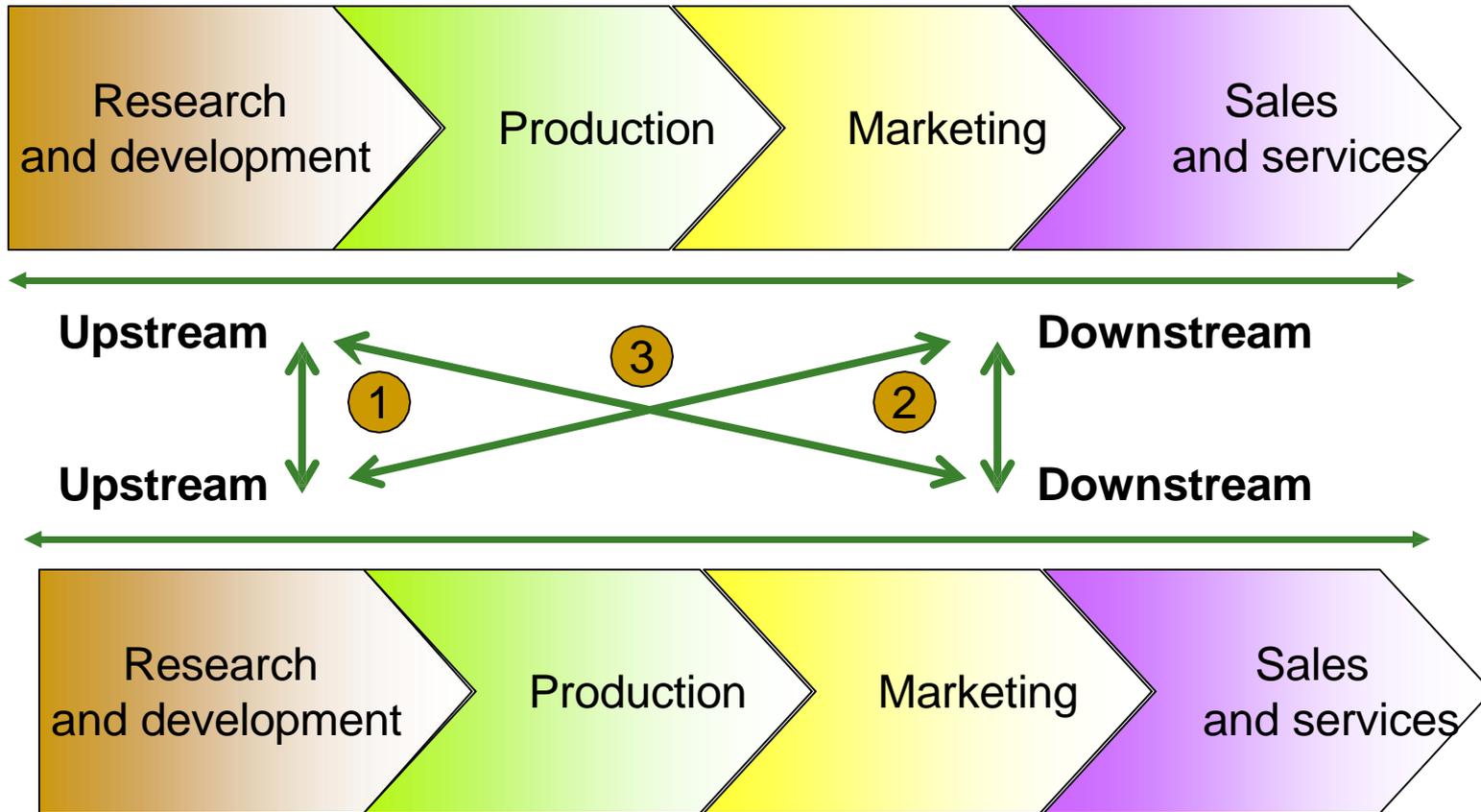


What is the most interesting channel for you?

Specialist spice importers are probably the best contacts for placing cumin seeds on the European market. This is specifically relevant for new suppliers, because supplying the retail segment directly is very demanding and requires a lot of quality and logistical investments. Another important channel is ethnic food importers that can help cut the supply chain and place products directly into ethnic retail and foodservice segments. The challenge is to establish relationships with these types of importers, which normally already buy spices from other suppliers.

However, for well-equipped and price-competitive producers, packing for private labels can be an option. Private label packing is often done through importers that enter into partnerships with retail chains in Europe. As labour costs in Europe are increasing, importers of cumin seeds sometimes search for opportunities to pack brands in developing countries, but only if they can ensure full traceability and quality control.

Collaboration possibilities in the value chain



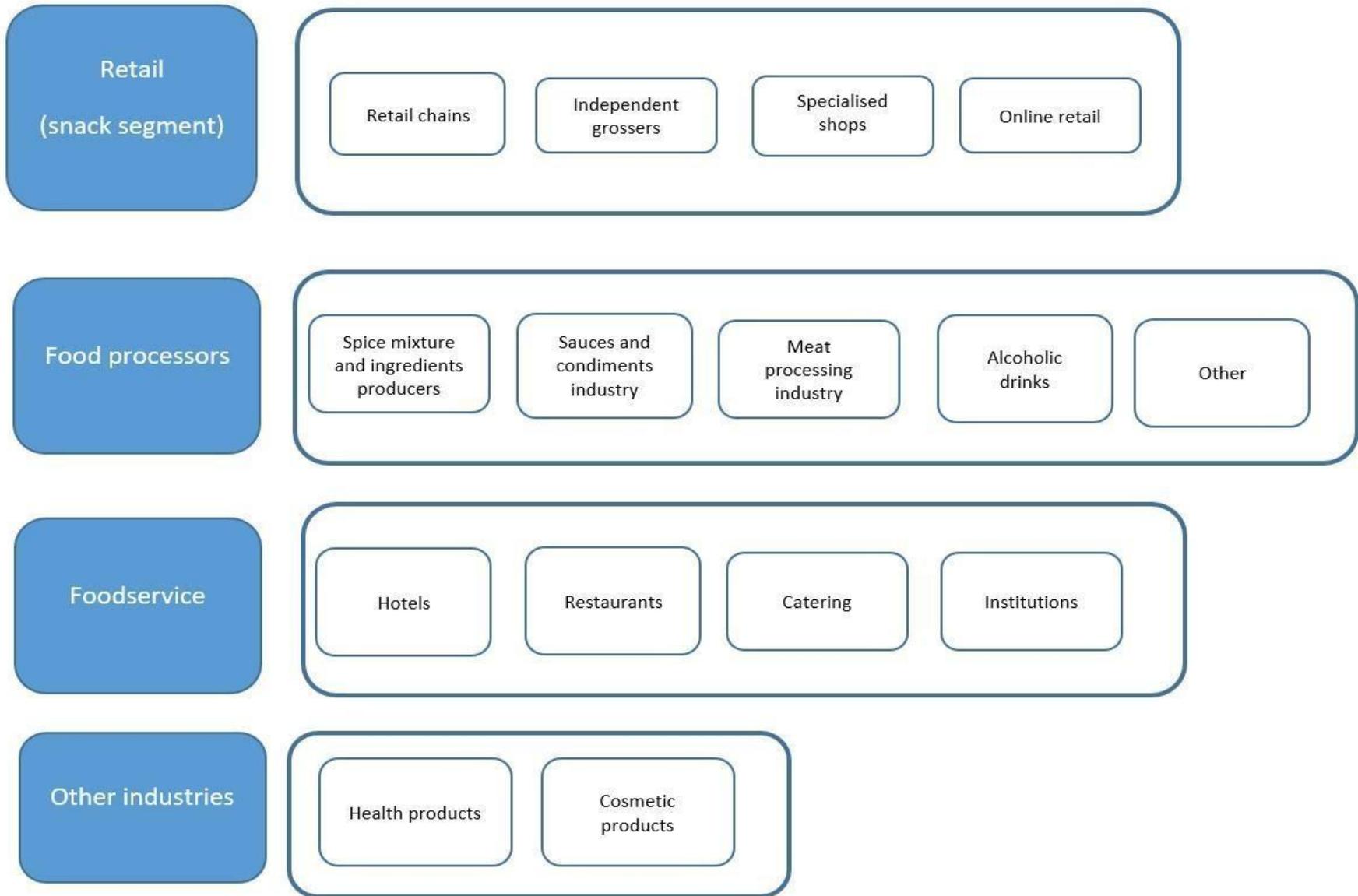
Through what channels can you get coriander seeds on the European market?

Coriander seeds are sold through different channels to reach end segments of retail (home consumption), food service (out-of-home consumption), and ingredient segments (such as spice manufacturers and food industry). Whole coriander seeds are used in all segments, while ground coriander seeds are mostly used by spice manufacturers to create specific spice mixes (such as curry) or to create customised spice solutions for the food industry, for example, in the production of sauces, sausages, soups, and ready meals. Most coriander seeds are imported whole and crushed after import. The curry industry in the United Kingdom imports a large share of coriander powder.

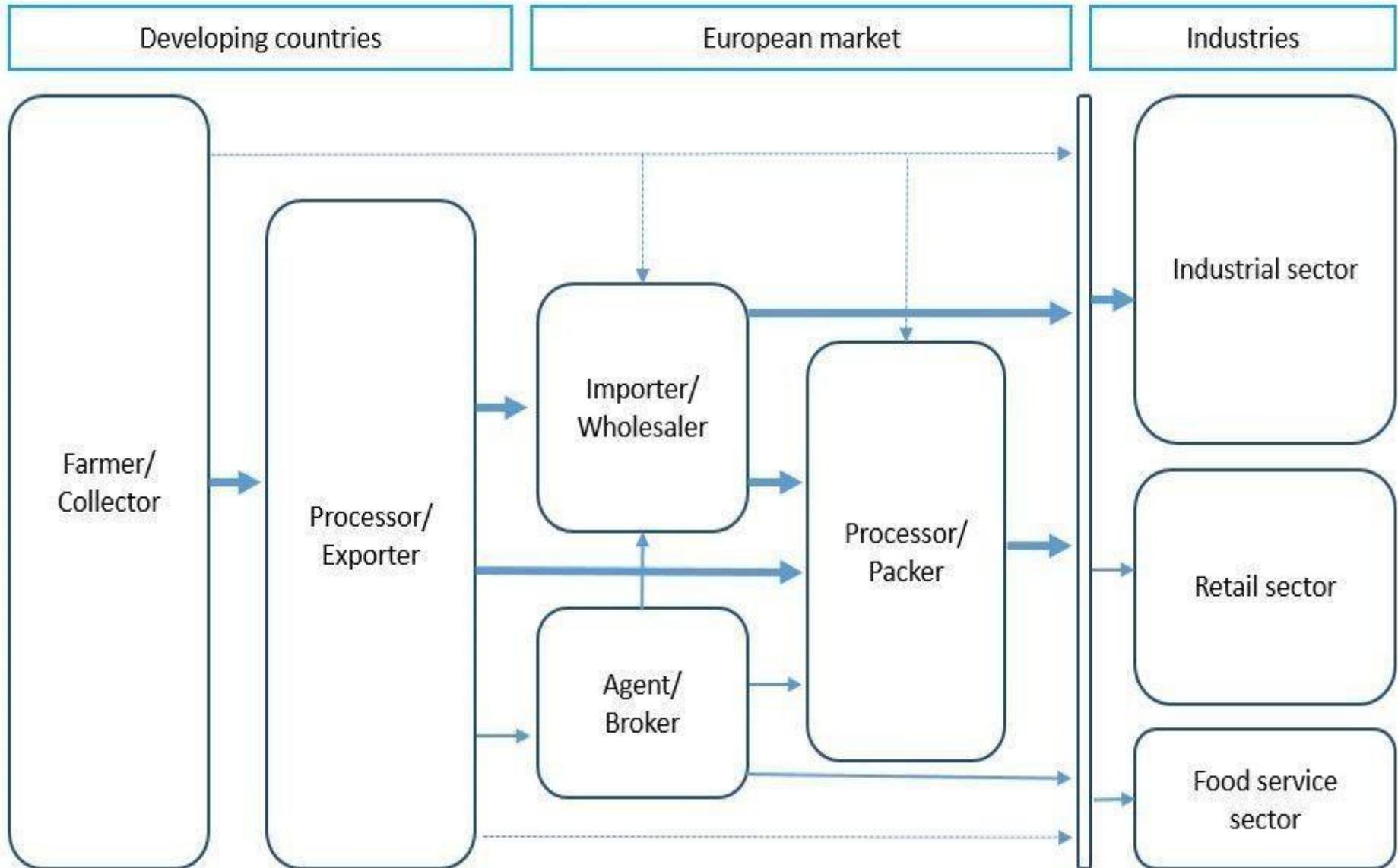
How is the end market segmented?

The end-market segments for coriander seeds include the food processing industry, retail, food service, and ingredients.

End-market segments for coriander seeds in Europe



Trade channels for coriander seeds in Europe



Through what channels can you get mangoes on the European market?

Most mangoes are imported by specialized traders, some of which have their own packing and ripening facilities. Ready-to-eat, ripened and fresh cut mangoes are popular for supermarkets, but you will also find opportunities in the wholesale channel.

How is the end market segmented? Main segment

The main segment for mangoes are Class I mangoes and common varieties such as Kent and Keitt, either conventional or ripened in the destination country. Class II mangoes are not common, but odd sizes or mangoes that fail to meet the usual specifications are sold for any acceptable price. See also the buyer requirements above.

High segment: Tree-ripened, fresh cut and organic

Common mangoes can also be shipped tree ripened by air and placed in a high segment. The best time for airfreighted mangoes is when the market demand for mangoes is strong, which is usually between the end of November and the end of December. Many of the large mango traders also deal in air-flown mangoes for specific client groups.

Fresh cut and organic mangoes are becoming more popular and are also part of a high segment. Fresh cut mango is available throughout the year in European supermarkets sold at high prices due to the processing and airfreight costs. However, it does save on shipping weight (no peel, no pit) and provides the consumer with a practical and quality product. Organic mangoes can be difficult to source and are not always available in standard retail.

Top segment

In the top segment, you can find exotic, tree-ripened varieties for luxury and specific ethnic markets. They are valued for their superior taste and sweetness, but their total volumes are very small compared to the common mango trade. The niche demand and the air-freight costs are what makes these mangoes expensive for consumers. They are generally sold by specialist and ethnic retailers or used in the food service industry.

Market segments for mangoes in Europe

Top segment

exotic mango varieties (air freighted), Class I or Extra Class

High segment

tree ripened mangoes, freshly cut mangoes (air freighted), organic mangoes
common varieties, Class I or Extra Class

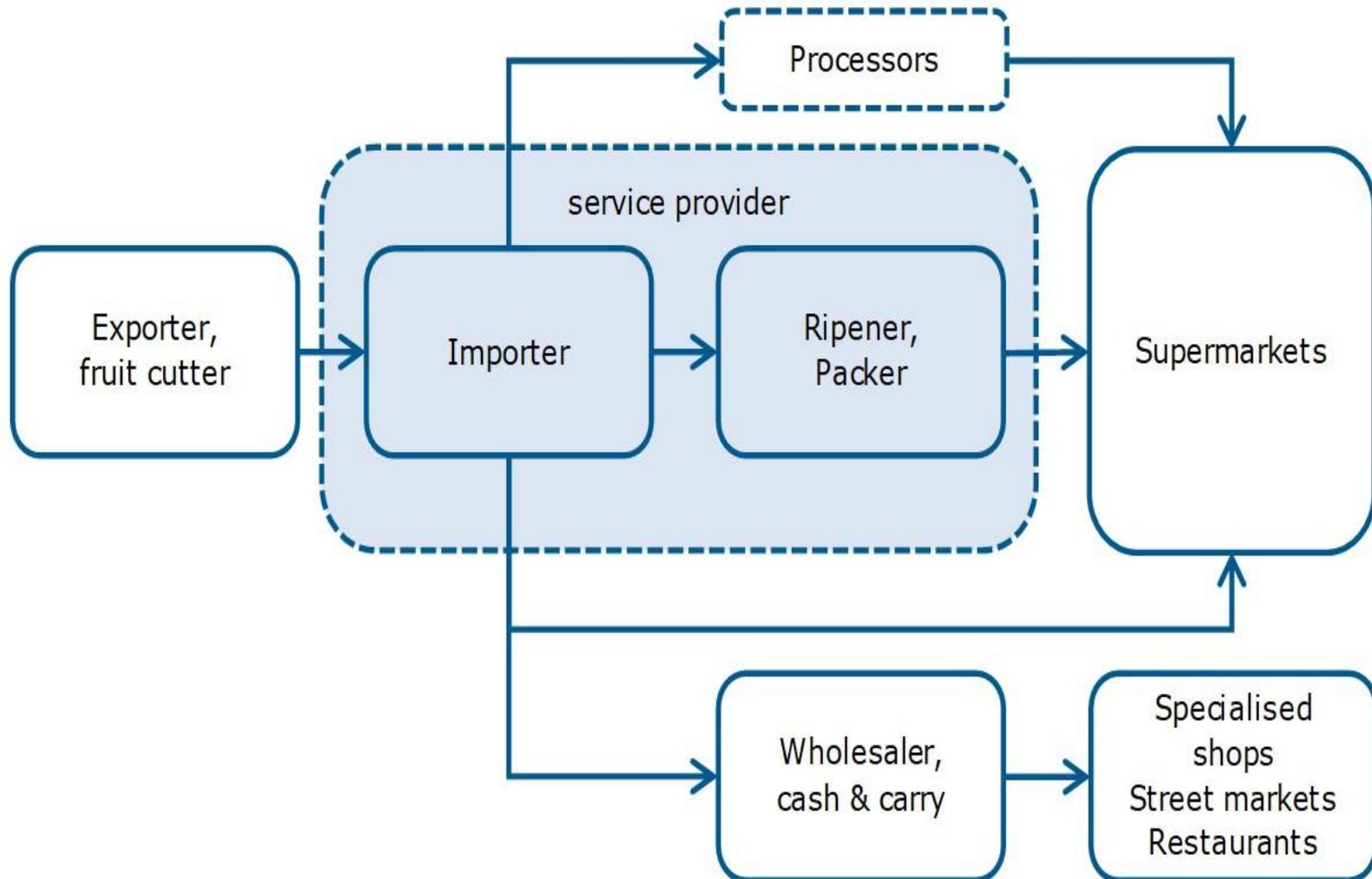
Normal segment

Mangoes, ready-to-eat mangoes (ripened in destination)
common varieties, Class I

Low segment

odd sizes, Class II

Market channels for mangoes



What is the most interesting channel for you?

Being part of a retail supply programme gives you the best security and often more profitable margins on average. However, the requirements are high and the room for negotiation is minimal.

The most likely route to become part of a retail programme is to cooperate with a service provider that has a local infrastructure and supply contracts with retailers. Direct sales to supermarkets are much more difficult and only in reach of companies that have the resources to have a presence in Europe and can arrange a year-round supply.

Because mangoes are a difficult product for sourcing, there are plenty of opportunities outside the direct retail approach. Trading companies that supply the spot market are easiest to connect to. In a good market, they can provide you with a very profitable return, but there are no guarantees. The spot market prices fluctuate more and for exporters, there is more risk involved. For mangoes, it is best to find a mango specialist with experience and a large network in the mango business, for example, the Dutch-German company Hars & Hagebauer, which promotes itself as mango specialist.

HIERARCHICAL ENTRY MODES

- The firm completely owns and control foreign market entry mode
 - Allocation of responsibility and competence between head office and subsidiaries:
 - (1) Domestic-based sales representatives/manufacturer's own sales force
 - (2) Resident sales representatives/sales subsidiary/sales branch
 - (3) Sales and production subsidiary
 - (4) Region centre
 - (5) Transnational organization(globally integrated)
-

Type of modes

Domestic-based sales representative

- type of sales representative resides in the home country of the manufacturer and travels abroad to perform the sales function

Advantages

- Better control of sales
- Close contact with customers

Disadvantages

- High travel expenses
- Too expensive for markets far from home

subsidiary

- a local company owned and operated by a foreign company under the laws and taxation of the host country

REASONS:

- To defend existing business
- To gain new business
- To save costs
- To avoid government restrictions

Methods of establishing a wholly-owned subsidiary and site selection criteria

- Methods: Acquisition and Greenfield investment
 - Criteria:
 - Investment climate
 - Investment incentives
 - Operational costs
 - Workforce considerations
 - Corporate tax advantages
 - Quality of living
 - Infrastructure in place
 - Business services available
 - Sufficient office space
 - Presence of other companies
-

Through what channels can you get chilli peppers on the European market?

Europe has a regular channel for common chilli peppers and a wide variety of exotic chillies that are marketed by a large group of specialised importers and wholesalers. The requirement and characteristics of these chillies are as diverse as the companies that trade them.

How is the end-market segmented?

The European chilli pepper market is diverse with different consumer groups, but it can roughly be divided in conventional segments and specialised or ethnic segments.

The conventional channel, mainly consisting of supermarkets, mainly focuses on the consumption of red cayenne chilli peppers of the *Capsicum Annum* species. In some countries local varieties are added such as the Hungarian wax pepper in Eastern Europe, the Pepperoncino in southern Italy, the Piment d'Espelette in French Basque region, and the Padron and Ñora in Spain. Other varieties such as the Habanero, Jalapeño or Madame Jeanette are niche varieties for retailers that want to offer a wider assortment.

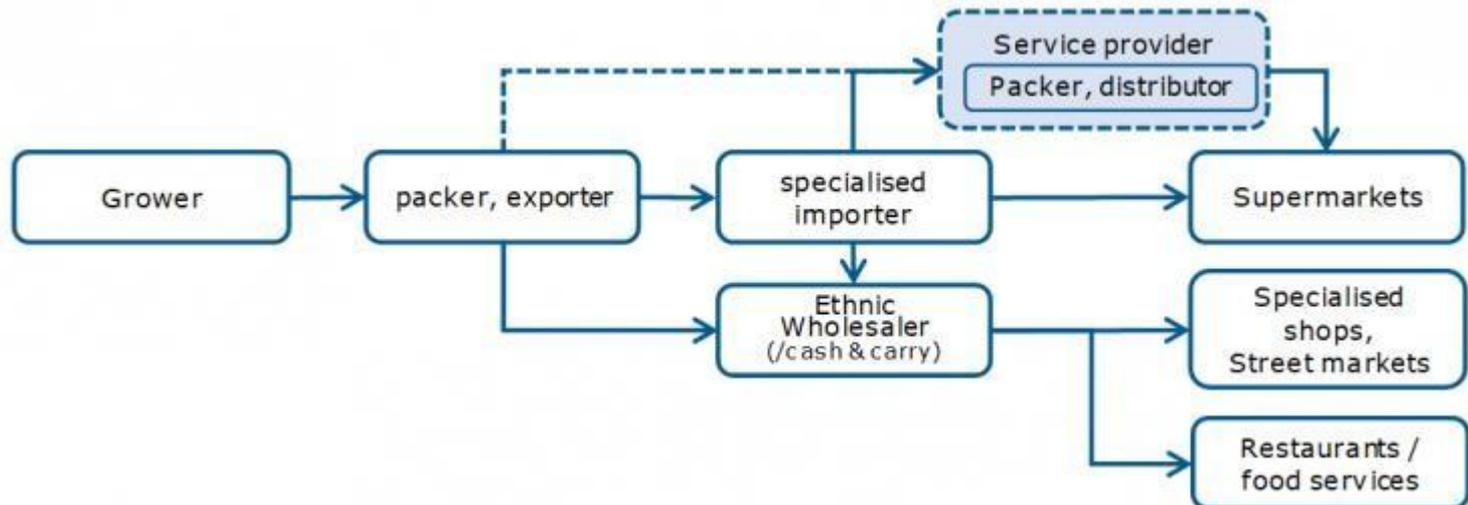
The priority for supermarkets is product appearance, low pesticide residues and sustainable standards.

The specialised or ethnic segment is most diverse. Restaurants, Asian supermarkets, specialised web-shops, ethnic shops or street merchants caters to a wider public of consumers with different backgrounds and food preferences. Exotic chilli peppers are more common in this segment, but over time move to conventional retail when other consumers become familiar with them as well. The quality requirement in the ethnic segment mainly focuses on taste and freshness, while product certifications and physical appearance are less important. Origin may also play a role when it affects the flavour of a specific chilli pepper.

Through what channels does a product end up on the end-market?

A large part of the chilli pepper demand is fulfilled by grower groups and service providers. For the more exotic varieties, the market depends on specialised importers and importing wholesalers.

European market channels for fresh chilli peppers



What is the most interesting channel for you?

There is a wide choice of companies you can approach. It makes sense to look what kind of chilli peppers a company has in its assortment when selecting potential buyers.

When starting up your export of chilli peppers you should start with smaller, specialised importers and importing wholesalers. This way, you can build a track record before reaching out to larger clients. Ethnic buyers and foreign-owned wholesalers may have the advantage of a cultural link with your country, and potentially operate in your language.

Larger exotic importers may provide better access to larger retail channels, but will also be more demanding with formalities and certifications. If you are able to join a larger group of growers in and around Europe, you can become part of a year-round supply programme.

Foreign sales, sales and production subsidiary

Advantages

- Full control of operation
- Market access
- Market knowledge
- Reduced transport costs
- Access to raw materials

Disadvantages

- High initial capital investment
 - Loss of flexibility
 - High risk
 - Taxation problems
-

Region centres

Advantages

- Synergies on regional/global scale
- Scale efficiency
- Ability to leverage learning on cross-national scale

Disadvantages

- Potential for increased bureaucracy
- Limited national level responsiveness
- Missing communication between head office and centre

Acquisition

Advantages

- Quick access to
 - Distribution channels
 - Labour force
 - Management experience
 - Local knowledge
 - Local contacts
 - Established brand names

Disadvantages

- Expensive option
 - High risk
 - Integration concerns
-

Greenfield investment

Advantages

- Optimum format possible
- Optimum technology possible

Disadvantages

- High investment cost
 - Slow entry of new markets
-

Thanks
