INDUSTRY NOTE

International Marketing of Agro-Food Products by Developing Country Firms: Some Conceptual Issues

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International marketing involves many controllable and noncontrollable variables for developing country firms dealing in agro-food products. The inherent advantages and disadvantages belonging to these countries are to be managed by these firms so that the influence of macrofactors does not override the firm level variables crucial for gaining a competitive edge in the market. This article contextualizes the problems of international marketing of agro-food products in the various approaches to marketing, provides insights into many new dimensions of international marketing, and argues that internalizing the external barriers is the key to better international marketing. ©1996 John Wiley & Sons, Inc.

Introduction

The international marketing in agro-food products has acquired new dimensions in the past few years due to the changes in global trade, especially in agro-commodities and the changing dynamics of trade in general. Also, this is an area where the developing countries have a comparative advantage because there is no or very little import content in the raw material and inputs for the manufacture of such products, that is, meat and meat products and fresh and processed fruits and vegetables. However, it is important to point out that in international competitiveness (especially in agro-food products), low cost inputs, and more so cheap labor, is seldom a major competitive advantage. The experience of the firm in marketing, its market share, and technological innovations which are greater determinants of cost leadership than cheap labor (or raw material) matter more. Superior product quality, design innovations, robust delivery performance, customization, and excellent after sales service are distinctive characteristics at the firm level to gain competitive advantage. Macro policy changes may encourage competition, but the ability to compete depends on the dynamism of the individual firms.[1]

However, these firm level determinants hold only to a certain extent, and many other factors emerge at the macro level that do play an important role in export performance of a particular firm. These will be discussed in the context of marketing barriers dealt with in the following section.

In this context, it is imperative to look at the issues in international marketing of these products

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at the firm level. This article highlights some of the already known concerns and some other concerns toward developing a better perspective on export competitiveness, performance, and promotion. It argues that neither the functional approach nor the institutional approach is sufficient to analyze and understand the dynamics of international marketing of agro-food products, especially in the context of firms from developing countries. No doubt, functional approach includes activities concerned with obtaining and servicing demand for a particular product, which is very crucial[2]; but there are also certain aspects of marketing function, especially in international markets that are of the nature of institutional variables. For example, the nature of demand for a firm's product may have institutional origins as well as solutions, although it certainly has influence on the marketing activities of the firm itself that, in the functional approach, originate in obtaining and servicing demand.[3] Besides, institutional approach to marketing involves understanding various institutions and organizations that are part of or facilitate the chain from the producer to the consumer. Therefore, what is required is to draw on the relevant concepts and rationale of various approaches in marketing, especially functional and institutional. In the discussion that follows, it will be clear that international marketing involves understanding various aspects of marketing function with the help of these two approaches.

Problems of Marketing

The problems of an individual firm operating in the international market are at two levels: preshipment and postshipment. The preshipment problems are those of product design, quality, delivery, and costs, that originate to a large extent in the agricultural production and marketing sectors, which are quite inefficient in terms of costs and deliveries. These problems demand solutions that may or may not be under the control of individual firms such as backward integration, contract farming, corporate farming, marketing and procurement arrangements, and so on.

On the other hand, postshipment problems relate to wholesaling, retailing, brand promotion, and advertising. These functions can be performed either by a specialized agent or the producer firm itself. Wholesaling involves import of the product, clearance of shipment, storage, transport, and delivery in appropriate quantities at appropriate time to the final points of sale; retailing looks after the provision of storage and display of products and communication of product information to the consumers to create an image of reliability, quality, and good value for the product and the retailer.

Marketing Barriers

Lall[4] refers to these problems as "marketing barriers" (preshipment and postshipment) and is of the view that internalizing the functions of wholesaling and retailing can yield sufficient advantages to the firm in the long run, although it involves large sunk costs and high risks. Whereas wholesaling is more crucial in the marketing of non-differentiated consumer goods, retailing is more important in branded and differentiated consumer products.

In fact, barriers to entry could be many and they differ from the ones the firms face in the domestic markets. Some of these barriers in international markets are: culture, language, nature and accessibility of distribution channels, government policy, expected global and local competition, political and economic environment, exchange rate changes, and customer switching costs. Alternately, these barriers could be classified into external, internal, and operational barriers. For example, exchange rate fluctuation and tariff/nontariff barriers are external, past experience in international marketing and resources constraints are internal barriers, and problems relating to physical aspects of distribution and locating potential buyers are operational barriers.[5]

However, the following five barriers have been found to be important in international market entry in consumer goods:

1. access to distribution channels;
2. product adaptation;
3. government policy;

4. political uncertainty; and
5. cultural barriers.

A recent study of international marketing firms in the United States found that access to distribution channels was the most crucial barrier, especially in early market entry, followed by foreign government policy, which was most crucial for the late market entrants. Interestingly, cultural barriers did not emerge as important barriers either in early or late market entry.[5] Another study of 694 small and medium sized firms in the United States observed that export performance was positively related to a firm's controllable factors such as commitment to export in terms of the presence of an export department and export market budget, attitude to exports, product adaptation policy, and level of use of external export assistance by the firm.[6] On the other hand, the most significant barriers in international markets for the developing country firms have been found to be information gaps, high transactions costs, scale diseconomies in advertising and distribution, and their relative inexperience in international markets.[4] In fact, some of these barriers originate in the very nature of the structure of the industry sectors in developing countries such as small size, lack of infrastructure, and distance from the final markets.

The international market strategy to tackle barriers to entry discussed above involves the timing and chance of overcoming these entry barriers, methods and time of entry, and the market attractiveness (in terms of financial and psychological rewards). Depending on the timing of entry, barriers can be weak or strong. Therefore, timing of entry and height of barriers determine the chances of success in international markets. Further, market attractiveness has a major role in market entry decisions. If the market is attractive, firms may plunge into the market despite high barriers.[5]

Problems of Developing Country Firms

Most of the agribusiness firms from developing countries deal in simple processed and semi-processed food and food products that do not require design information, large inventories, and brand promotion. Thus, only price competitiveness can help these agribusiness firms to break into the market. Therefore, in the early stage of development, these are good candidates for export promotion, if preshipment problems could be tackled. However, this puts additional responsibility on the firm alone, and little on the importers (agents) in the market. On the other hand, if the developing country firms venture into highly differentiated products like processed foods, the major problems to be tackled lie at the stage of selling the product that means high costs of advertising and brand promotion. That is why, some of the developing country firms tie up with already established manufacturers or export houses for export sales although this is not desirable as a long-run strategy for export marketing.[4] In fact, there is already a trend toward direct exports by the developing country agribusiness firms that stems from the new approach to increasing global competition wherein the gains from investment in brand promotion in terms of established brand image and equity could be quite significant.

Consumer Behavior

The export performance of a firm is not only a function of price and the quality of its products, delivery and channel of distribution, managerial and technological capabilities, commitment to exports, and its own product-mix, which are controllable. But it is also those factors that are external to the firm and uncontrollable, for example, domestic market and policy environment, foreign market environment (consumer behavior, market barriers, etc.) and some of the characteristics of the firm itself that are not controllable in the short run such as size, experience in marketing, competition, etc. Besides, the developing country agribusiness firms may not have any incentives to maintain quality. This happens when there is high rate of seller turnover and relatively low exogenous entry costs.[7]

Even if the firm has all the capacity and capability to export, there are issues of consumer behavior and decision making because marketing is basically the act of anticipating and satisfying the consumer needs in a profitable manner that requires understanding of markets and consumer needs. The decision making involvement of the consumer to purchase will be generally low for simple processed foods wherein he will look for a particular variety, for example in cereals. On the other hand, in highly processed foods like canned fruits and vegetables and other branded products, there is likely to be high involvement of purchase decision as well as high influence of habit of the consumer wherein brand loyalty also plays an important role. Food preferences of consumers are a function of socioeconomic, educational, personal, biological, physiological, psychological, cultural, regional, and religious extrinsic and intrinsic factors that interact and influence each other as well.[8]

Country of Origin Bias

The postshipment problem in export marketing may be further complicated by another external factor called "country of origin bias" for the products coming from developing countries. In this situation, even if the product design and quality of an agribusiness firm's products is internationally comparable, the overall negative image of the country in the international market may create problems for the efficient and competitive firm from the developing country. This can work in two directions: one, a particular firm from a developing country may pay full cost for quality improvement and secure only diluted benefits in turn, while other firms from that country may gain by "free riding." Second, the initial price recovered in the international market will depend on the overall image of the developing country to which the firm belongs. Thus, the individual firm will have very little incentive to invest in brand name and image promotion, in the presence of the overall negative image of the county in the market. This leads to what Choi calls free-riding by individual developing country firms on each other's investments, discouraging such investments in brand name and image building that in turn will reinforce the "negative" image of the country among consumers.[7]

This negative image could be the result of statistical discrimination practiced by the importing country consumers due to information imperfections. This was the case with products from Japan that were seen as shoddy goods in the 1970s. However, due to the constant efforts by the exporters and the government, the Japanese products are now seen as the world's best, and command a premium price in the international market. The environment of negative image will have adverse effects on preshipment quality of the products as well. It is here that certain institutional mechanisms can be brought in to encourage quality and competitiveness among firms. For example, the government of a country can impose certain penalty on the firms that are found to have exported low quality products or whose operations in international markets are not desirable. Of course, this provision, in some cases, can have a dampening effect. But, overall gains in the long run might be worthwhile for the sector, the economy, and even the defaulting firms themselves, as demonstrated by Japan.

New Dimensions

The more recent factors that are likely to play a very crucial role in international marketing by agribusiness firms are biotechnology and informational technology. With the more aware consumers becoming the most important actors in the agribusiness chain, every product by the agribusiness firms has to be tuned to their requirements. This will require the use of information technology, not only at the level of wholesalers and retailers that is necessary, but also backwards at the level of producers and input suppliers to design appropriate products for each market segment that will become smaller and smaller over time. Thus, information technology not only helps better coordinate the various links in the agribusiness chain, but also facilitates discovery of consumer tastes and preferences about product attributes.[9] In fact, in some developed countries, certain agribusiness firms are already using information technology as a strategy to compete in the market. The use of information technology is also becoming increasingly crucial due to the growing role of biotechnology in agribusiness.

Biotechnology has proved to be of immense help in engineering the raw material as well as manufactured products. In accordance with consumer preferences, biotechnology is likely to result in unique commodity characteristics aimed at relatively low volume end-use market segments that would lead to delivery systems characterized by more specialized channels and more diverse commodities and products. Sporleder terms this as the "controlled diversity system" of delivery.[10] These aspects of biotechnology will become much more crucial and determining variables in international markets after the implementation of the recently signed treaty on international trade (GATT) that has special impact (positive as well as negative) for the agribusiness firms, especially from developing countries who may not be very favorably placed so far as genetic engineering techniques and patent regime is concerned.

The new delivery system and other similar developments in the agribusiness sector will require better and better coordination among various actors in the system that will depend on information technology. Doing this will require the latest technology and knowledge (biotechnology) that will depend on the information technology mechanism of agribusiness firms and the sector. Thus, biotechnology and information technology tend to reinforce each other in the agribusiness system.

Conclusions

The basic purpose of this article was to develop a firm level perspective on the export marketing of agro-food products from developing countries in order to understand the dynamics of international marketing by agribusiness firms. It is emphasized that the firm level issues bear greater influence on the export performance because new developments in international food and agribusiness markets are responsible for making defunct the macrogeneralizations about consumer behavior toward food and food products. Biotechnology and information technology emerge as two new factors that will determine the success and failure of agribusiness firms in the international market. This will again depend on the coordinating arrangements at various levels in the agro-food chain that is being increasingly dominated by consumer needs and preferences.

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