

Micro-enterprise internationalization without support

The case of Angus exports

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Abstract: *In New Zealand, where it is more common to export lamb, one micro-enterprise – consisting of an entrepreneur and two assistants – is exporting Angus beef. A case study approach was used to gain an understanding of the international entrepreneurship of such a small firm. The methodology adopted was in-depth interviewing. The article provides insights into what an entrepreneur faces when developing a new export venture in the absence of government support.*

Keywords: *internationalization; exporting; micro-enterprise; Angus beef; New Zealand*

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‘The market is the key, without the market, you don’t need any cattle.’ (Richard Kidd)

McElwee and Atherton (2005) list the most common publication areas in the entrepreneurship literature, suggesting that there is a gap with regard to entrepreneurship in the primary sector. McElwee (2006) notes that farm entrepreneurship is an emerging trend. Our article aims to investigate the strategies adopted by a small primary sector firm that has recently initiated an export venture in the absence of government support. It uses a single case study approach, which involves a small New Zealand firm that has recently started to export Angus beef in an unsupported environment. Limited access to business support is important, and this was addressed by McElwee in 2004.

The use of a case study allows for in-depth understanding of the situation. Our case study explores current issues from an entrepreneur’s perspective, sharing insights on an export endeavour of a premium

product that was initiated by a small firm. The significance of this study is that it provides valuable qualitative data and an understanding of exporting issues currently encountered by micro-firms. It also briefly addresses the marketing activities undertaken by this small firm, illustrating how it strives for success internationally.

Our entrepreneur demonstrates how a small firm can endure the pressures of the global market even from a small country, without support from any agency. His firm is distinctive as it provides a unique product – New Zealand Angus – rather than lamb or any other commonly traded item. The study also offers an in-depth analysis of the strategies that the firm adopts in selling this unique product overseas.

The liberalization of trade

New Zealand has a great interest in the Doha Development Round – initiated by the World Trade Organization – which aims to bring together countries to negotiate for

the reduction of trade barriers around the world. This could be achieved by the reductions of tariffs, export subsidies and domestic agricultural subsidies. At the 2005 Hong Kong Ministerial Meeting, the major progress made for New Zealand was the agreement on elimination of export subsidies by 2013 (Meat Industry Association of New Zealand, 2006).

Free trade agreements are also in progress to help eliminate trade barriers between New Zealand and its trading partners. New Zealand has begun discussing such agreements with several countries, and Closer Economic Partnership (CEP) is also being negotiated with some parties.

New Zealand is currently attempting to intensify its economic relationships with Japan and South Korea. Free trade agreements have been signed, or are under negotiation, throughout the Asian region, and both countries have also shown interest in such issues. Korea is New Zealand's seventh largest trading partner. Yet New Zealand exporters have been excluded from important supply tenders.

New Zealand beef

The total land area of New Zealand is 268,680 square kilometres, with South Island contributing most of the land mass; approximately half the land is used as meadows and pastures. The temperate climate of New Zealand allows for meat production throughout the country, allowing stock to live outdoors all year round; geography is a more important issue than climate in terms of meat production in New Zealand (Meat & Wool New Zealand, 2007). Agricultural products (including meat) constitute more than 50% of New Zealand's export earnings (New Zealand Embassy, 2007).

New Zealand farmers contribute approximately 55% of world trade in lamb and mutton (Robinson, 2006), and meat exports provide a significant amount of export earnings to the country. Yet beef supplies are relatively insignificant. To put things in perspective, New Zealand could not supply American beef requirements for more than 12 days; one large US meat company is six times the size of New Zealand's entire production (Robinson, 2006). New Zealand farmers are relatively tiny players.

The USA is the largest buyer of New Zealand beef exports, taking about half of the country's beef exports; according to the Meat Industry Association of New Zealand (2006), other trading partners include Asia (38%), Canada (6%), Oceania (4%) and Europe (2%).

The Meat & Wool New Zealand Promotion Group comprises New Zealand exporters and processors and the Meat Industry Association. Together, these gather and develop marketing strategies and plans to increase demand and awareness of New Zealand lamb and beef

globally. Promotional activities are funded by Meat & Wool New Zealand, and each year, the Meat Industry Association reports on the progress of its promotional activities.

The New Zealand Food Safety Authority has developed a project that helps organizations to prepare for incursions and outbreaks of bovine disease in the New Zealand meat industry; this project outlines the management of incursions and outbreaks, the role clarity of different organizations, plus communications between organizations (Meat Industry Association of New Zealand, 2006).

The Aberdeen Angus breed – a cross between Aberdeenshire and Angus cattle – was developed in Scotland during the early nineteenth century. Aberdeen Angus cattle are black and naturally polled (hornless); they are usually raised for their meat (Thomas, 2005). This breed, formerly very short-legged and small, has become longer, leaner, taller and well muscled. This transformation has taken place especially since the late twentieth century, through careful and selective breeding in response to world demand (Porter, 1991). With this transformation, there is a considerable difference between the 'old' and 'new' versions of Aberdeen Angus: hence the change of name to 'Angus' in Australia and New Zealand (Meadows, 1996).

Angus cattle are known for their small size, ideal for crossing with other cattle that are larger and more heavily muscled. The breed is one of the most economical to rear because of its ability to thrive on low-quality pasture and/or to fatten on low-cost rations. These cattle are suited to temperate and cold climates and will thrive under extensive farming conditions, which makes the Angus breed easy-care animals (Barton, 1980). Furthermore, the Angus breed has a shorter gestation period than is the case with others (Porter, 1991). This means that the Angus calves are lighter at birth, providing the benefit of easier delivery, which minimizes bruising and exhaustion in the calves (Barton, 1980). The cattle are also noted for their early maturity, good mothering (high fertility and provision of lots of milk for their calves), foraging abilities and hardiness, along with being economical to keep (Meadows, 1996). It is rare for an Angus female to experience calving difficulty, and this makes the Angus cow an ideal animal for cross-breeding (Barton, 1980). These characteristics and features explain why Angus cattle are among the most popular breeds in cattle rearing and beef production.

Why is Angus meat so popular among consumers? According to Meadows (1996), the carcasses from the Angus are of superior quality, with a high proportion of lean meat to fat and bone. Moreover, the hindquarters of the Angus bull are well developed, thus providing a high proportion of sirloin and rump meat, which are the most

expensive cuts. The meat from the Angus cattle is lean and well marbled, meaning that the meat contains flecks, or small patches of fat that provide extra flavour, tenderness and juiciness when cooked. Montgomery (2004) claims that Angus beef is so remarkable for quality and so superior to other breeds that it is constantly in demand, outselling its only brand-named breed competitor, Certified Hereford Beef, by 25:1.

The main associations that deal specifically with New Zealand Angus are Meat & Wool New Zealand and the New Zealand Angus Association. The New Zealand Angus Association has focused on breeding high-quality Angus cattle by implementing specific strict programmes throughout the entire life of the breed.

The image that New Zealand wants to portray to the world is that New Zealand's grass-fed beef cattle, including Angus, are healthy, lean and safe. International marketing efforts are executed by establishing New Zealand Angus food stands at international food fairs in Seoul and Busan in South Korea and at the Foodex and Aichi Expo in Japan. Brochures, trade and consumer seminars and distributor education are provided to interested organizations.

The outbreak of bovine spongiform encephalopathy – also known as mad cow disease – in the northern hemisphere has boosted the demand for New Zealand beef. Yet New Zealand has encountered strong competition from Australian products.

The New Zealand model

New Zealand has a small and relatively isolated economy. Small firms often begin their ventures from a tiny home base, which makes the process of exporting predominantly a risky decision to begin with; furthermore, small firms would typically bring very limited resources to internationalize in a short time (Brocklesby *et al*, 2001). Nevertheless, these constraints in the New Zealand context have generated unique opportunities for developing the culture of business ownership (Campbell and Green, 2004). The New Zealand process of internationalization often begins with testing the market by adopting inexpensive methods such as exporting a limited amount of products or partnering with sales agents in order to test the appeal of their products in foreign markets. When these products have been demonstrated as promising, the commitment of exporting becomes more intense; the firm concentrates its limited resources in this new venture on either a particular product line, a market segment or a value chain (Brocklesby *et al*, 2001).

Competing with foreign competitors can be a daunting experience for New Zealand entrepreneurs. Foreign competitors often have more resources, higher budgets

and huge price reductions or stock ranges that appear difficult to compete with (Senior and McBride, 1997). One coping strategy is to differentiate oneself from competitors. Providing unique products and charging a premium price for product or service offerings to foreign customers could attract clients from foreign niche markets.

One approach that successful New Zealand business owners adopt involves embracing the local environment, their own attitude to adversity and their resilience strategies (Campbell and Green, 2004). Resilience strategies engage in quick responses to challenges, re-access what is important in the situation, and persist in looking for solutions until they accomplish them successfully. This approach resembles organizational agility (Brocklesby *et al*, 2001); such an attribute allows a firm to adapt to the changing environment quickly and respond appropriately in order to minimize resource and time wastage. Agility could be achieved by focusing efforts on building multi-skilled teams and incorporating relevant skilled workshops into the firm. Employees would therefore have considerable freedom to enhance their skills and, in turn, to handle the ever-changing environment more effectively. The implication of this is that entrepreneurs and employees must continue learning what brings them to success. Experience may therefore play an important role in learning what brings success to a small firm. The ability to leverage the successful experience or refer to a similar context in the new venture would allow the firm to manage challenges better and overcome problems appropriately. Such strategies have been adopted by New Zealand entrepreneurs in order to overcome obstacles and challenges they often face in their export ventures (Campbell and Green, 2004).

The unique New Zealand culture with regard to approaching the global market also plays an important role in creating success. Campbell and Green (2004) call this 'the kiwi effect'. It is the result of New Zealanders' distinctive mindsets that lead these business people to success. The small economy, coupled with isolation, has helped develop the New Zealand entrepreneur's ability to manage business differently compared with the rest of the world (Campbell and Green, 2004).

Methodology

This research used a case study methodology, as described by Eisenhardt (1989) and Yin (1989, 1993). This method was deemed relevant given the contextual and 'why' nature of the research question. The focus was on a small New Zealand marketing company, namely Richard Kidd Marketing Ltd, based in Auckland. We focused on this particular firm as it was featured on the

AngusPure Website, introducing a new export venture on Angus beef to the South Korean market.

McElwee (2004) defined farmers as those engaged on a part- or full-time basis in a range of activities that are primarily dependent on the farm and agriculture in the practice of cultivating the soil, growing crops and raising livestock as their main source of income. Richard Kidd Marketing Ltd allows farmers to focus on farming, while it does the international business.

Richard Kidd Marketing Ltd differs from small domestic players and is unlike larger exporters. This provides a distinctive prospect for the internationalization of a small firm from a small country. Moreover, Richard Kidd Marketing Ltd differentiates its Angus products by branding them and charging overseas customers a premium for its unique product line. This is quite a contrast to other New Zealand exporters, who tend to integrate all of their beef products without distinguishing the types of beef for export.

In-depth interviews were used as a method of acquiring information from Richard Kidd Marketing Ltd, a firm that specifically focuses its new internationalization efforts on South Korea. The list of questions is divided into three topic areas: the background of the firm, the external environment and the management of international business. The interview sessions were audio-taped and transcribed for future referencing purposes. Additional information was obtained from the AngusPure Website regarding the new export venture initiated by Richard Kidd Marketing.

Findings

Richard Kidd (owner of Richard Kidd Marketing Ltd) is a New Zealand entrepreneur who has been working in the beef industry for 30 years. His meat marketing firm, Richard Kidd Marketing Ltd, has been established for 12 years and is situated in Auckland, New Zealand. The firm specializes in distributing beef to restaurants, caterers, hotels and retailers situated in Auckland and Taupo. The size of the company is relatively small, consisting of only three employees including Richard himself. However, this does not stop the small firm from pursuing its big business plan.

Richard Kidd Marketing Ltd recently began its venture of exporting Angus beef to North Asian countries, specifically to Japan and South Korea. Previously, the company had been exporting all sorts of beef to these countries; it then started focusing on exporting quality Angus beef to South Korea in particular. Richard Kidd Marketing Ltd distributes its products directly to import distributors in South Korea. As the firm is still new to exporting this distinctive product line, the export volume of Angus beef is relatively small. Richard

maintains that Angus beef will soon be a very important product line for the company due to the increasing demand for high-quality lean beef from the overseas market.

With regard to marketing efforts, Richard Kidd Marketing does not take high risks. One of the most effective ways for the company to advertise and promote its Angus products is to participate in trade fairs in South Korea. In fact, according to Richard, the company relies on one client in South Korea to engage in promotional activities for its products. This client in South Korea is also responsible for finding customers to buy Richard Kidd Marketing's Angus products. Richard made it clear that this client was also currently importing beef products from competing countries such as Australia and the USA. Richard Kidd Marketing Ltd will offer assistance whenever needed. In terms of expenses, it does cost more to promote and to distinguish Angus products from other beef products and, therefore, careful planning in the allocation of resources is always crucial, especially as it is a small firm.

According to Richard, he chose to internationalize his products to South Korea because he found that his client in South Korea was enthusiastic and easy to work with. There are constantly high demands for beef in South Korea. Richard Kidd Marketing Ltd is trying to introduce what Richard perceives to be the highest quality of beef to the South Korean market, at the same time trying to get customers to pay a premium for what is portrayed as a better product.

At times, the company has been unable to satisfy the demand for Angus beef. This is partly due to the small size of the firm, which is attempting to meet the demands of a huge market in South Korea. The major problem for Richard Kidd Marketing Ltd lies in obtaining supplies from New Zealand farmers. This is a matter of coordination and, as it is a marketing company, Richard Kidd Marketing Ltd does not own any meat works or farms. Therefore, everything is outsourced. Among the challenges was the difficulty in finding the optimal place to slaughter the animals. Besides cost, it was also difficult to recruit the right people who were willing to do specific tasks. One common problem is that people find it too troublesome and too much work to pack Angus separately from non-branded meat.

Another issue that Richard mentioned was, '...the farmer of Angus cattle, he wants a premium as well so the first thing we have to find out is whether we can obtain that premium from the marketplace...we have to try to work how much premium would the market pay for this brand of product...' It is equally important to make sure that the parties in South Korea have the enthusiasm and a sufficient market for the firm to go ahead with this project.

With regard to Australian meat, Richard stated, ‘...it is a huge country which gets different quality of meat products. They are divided to South Australia and North Australia with significantly different climates such as recent drought which affected their meat quality...unlike New Zealand, we have the same quality throughout the country...’

During the last few years, the USA has been excluded from the South Korean market due to an outbreak of bovine spongiform encephalopathy, and this has contributed to the domination of Australian meat products. However, the USA has recently stabilized the quality of its meat production and is now coming back to the international scene. Besides international competitors, there are also local firms in New Zealand competing with Richard Kidd Marketing Ltd. The response from Richard is that other companies do not specifically export Angus beef as a brand, but just export beef in general. To his knowledge, his company is the only one pursuing the exportation of Angus beef internationally through distinctive branding.

Quality control of Angus products, for Richard Kidd Marketing Ltd, is based on trusting farmers. Frequent communication with farmers and staff at the slaughterhouse helps create a strong relationship, which is vital in maintaining high-quality product standards. With regard to future business growth, Richard Kidd Marketing Ltd is currently working closely with one other company to resolve the supply problems that Richard Kidd Marketing has encountered. Richard also has regular discussions with other companies about the possibility of cooperation in this area. The aim of this cooperation is to achieve a more stable supply of meat products in order to satisfy the large global demands. According to Richard, the most important feature in assisting the company to export Angus beef is to have a trustworthy business partner, who must be enthusiastic. If this is not the case, it will be a waste of time going further. Richard Kidd Marketing Ltd’s agent in South Korea is a distributor, importer, manufacturer and a marketer. As a result, when it comes to internationalization, Richard Kidd Marketing Ltd only focuses on one company that deals with the important necessities of international trade. This helps Richard Kidd Marketing Ltd to minimize various costs, planning and organization, along with time usage.

Keeping up to date with the international beef exporting scene is always a positive thing to do. Richard regularly finds out what Australia and the USA are doing in terms of their export volumes, prices, use of promotional materials and other issues. By doing so, he will assist his company to identify changes, to adapt to the changing market environment and to identify attractive opportunities for future potential growth. The

government does not offer any assistance such as subsidies to Richard Kidd Marketing Ltd, although Richard has tried to persuade NZ Trade & Enterprise to provide export grants.

Conclusions

This case study has provided valuable insights into how a three-person New Zealand firm initiated and grew its new export venture. The challenges faced by the firm are enormous due to a lack of support from the government and a limited amount of supplies, which makes it difficult to satisfy its foreign customers. Richard Kidd Marketing Ltd has demonstrated the distinctive kiwi approach to overcoming business problems and to expanding its business through internationalization. Richard Kidd Marketing Ltd adopted these strategies, which are consistent with the literature on the New Zealand approach:

- (1) starting an export venture with a relatively small commitment;
- (2) differentiating by selling unique products and applying a brand to them; and
- (3) forming strong networks of relationships to ensure supplies and distribution overseas.

The initiation process of the company’s export venture did not involve a high volume of products. The commitment to export is relatively small as most of the efforts are managed by an export agent or distributor in South Korea. This allows the entrepreneur to minimize risk by testing the foreign market in an attempt to find out whether the products appeal to the customers. The firm could also learn about internationalization before increasing its commitment to exporting. This may involve learning how to overcome export barriers and problems that arise during the process.

Morgan and Katsikeas (1997) classified export problems into four categories: external problems, operational problems, internal problems and informational problems. This suggests that export problems may arise from various aspects: for example, Crick and Chaudhry (2000) have identified three issues that are consistently cited as areas that present barriers to exporting: difficulty/slow collection of payments abroad, unfavourable exchange rate/unconverted currency, and the inability to offer competitive prices abroad. A small New Zealand firm such as Richard Kidd Marketing Ltd would require time and experience in order to learn to overcome the numerous obstacles faced in its export venture. Therefore, it is perhaps wise to adopt a strategy that starts off as an internationalization process with small commitments and low product volume, as this will help the small firm to minimize risk

and avoid resource wastage. If we use the stage theory to explain the process of internationalization, it is evident that Richard Kidd Marketing Ltd is currently positioned at an early stage of the process due to its low commitment on the export venture.

Another strategy adopted by the company involves delivering products that are unique and different from those of their competitors by selling New Zealand Angus to Japan and South Korea. Angus beef was branded as AngusPure, creating a distinctive and high-quality image of this new product line in the foreign markets. Such a strategy allows Richard Kidd Marketing Ltd to charge a premium price and differentiate itself, enhancing awareness of its unique, high-quality products. Senior and McBride (1997) suggested this approach as an effective way to compete against large or foreign companies, who may possess large amounts of resources and capital in comparison with small businesses such as Richard Kidd Marketing Ltd. In order to overcome these disadvantages, differentiation of products is the key to small business success.

As mentioned earlier, Richard Kidd Marketing Ltd is a small firm that has just started exporting Angus products specifically to the South Korean market and has recently been trying to form a cooperation with other similar businesses with the aim of having a more stable supply of meat products. Our study suggests that the company and its suppliers have worked together in harmony, sharing the same objectives, and have developed stable relationships for their mutual benefit. The quality of the product is highly dependent on the control of the suppliers. Any incompetence in the management of the beef supply chain can affect product quality. Therefore, the beef attributes that the consumer demands must be communicated clearly to the suppliers (Tronstad and Unterschultz, 2005). Relationships formed with the overseas agent have assisted the initiation and development of the company's new export venture. These interactions with Richard Kidd Marketing Ltd are consistent with network theory, which Ibeh (2000) mentioned as one of the approaches that small firms in particular adopt in order to internationalize. Richard Kidd emphasized that the relationships with his foreign agent and his suppliers were vital for the continuation of this business venture. Without a stable and strong network of relationships, the new business venture would become much more difficult.

Previous studies have focused on the internationalization of small firms by focusing on causal variables such as technology to explain success. However, ours is among the first to focus on the internationalization of a three-person micro-enterprise exporting meat from New Zealand. The New Zealand context consists of a unique and isolated economy, which plays a vital role in

developing the distinctive New Zealand business approach.

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