

# **Market Development in the United States: Challenges to New Zealand Exporters**

*Denise Cefalu and Md. Ismail Ahmad*

The purpose of this exploratory study was to identify those challenges which small to medium-sized New Zealand exporters face when developing markets in the United States. Information was collected from the marketing or export managers of 13 New Zealand businesses which exported at least some of their goods to America. In-depth interviews with exporters of manufactured goods as well as food products revealed that the United States is recognised as an important and growing international market for New Zealand exporters. However, it is seen to be a highly competitive market and one that involves relatively higher establishment and operational costs compared to other overseas markets. While various other factors are viewed as important constraints to the development of the export business to this market, none are considered to be serious impediments for the development of the American market. Nevertheless, new entrants can expect to find these factors to be significant handicaps when establishing their export businesses in the United States.

Keywords: New Zealand, exporting, USA, markets, developing, international, trade restrictions

## **Introduction**

Among the individual countries New Zealand trades with, the United States is the third most important nation after Australia and Japan (Department of Statistics 1991). Given its population of some 250 million, America is a huge market, with a purchasing power in excess of NZ\$ 6.4 trillion (International Marketing Data and Statistics 1992). As a consequence, the United States offers vast potential for both domestic and international marketers. However, the immense size and certain other market characteristics also pose serious challenges for exporters from smaller countries, such as New Zealand. The purpose of this exploratory study was to identify those challenges which small to medium-sized New Zealand exporters face when developing markets in the United States.

## **Method**

Information was collected from the marketing or export managers of 13 New Zealand businesses which exported at least some of their goods to America. These firms, which are located in Auckland, Wellington and Christchurch, were selected at random from a list compiled from the New Zealand Exporters' Year Book (1990).

The 13 organisations selected for the study consisted of one garment producer in Wellington; one garment producer, three manufacturers, and three food producers in Auckland; and four food producers and one garment producer in Christchurch.

The turnover and employment figures of firms that participated in this research indicate that there was a good representation of small and medium-sized firms (see Table 1).

Thirty percent of the firms had been exporting from one to 10 years, another 45% had between 11 and 30 years experience, and the remaining 25% had been exporting for more than 30 years. Thus the firms in this study were experienced in international marketing.

**Table 1. Characteristics of firms**

Annual Sales Turnover		Employment <sup>1</sup>	
\$ Turnover	No. of Firms	No. of Employees	No. of firms
< \$700,000	4	50 or less	7
>\$700,000 - \$2m	0	51 - 100	3
> \$2m - \$10m	2	101 - 200	1
> \$10m - \$100m	6	201 - 300	1
> \$100m	1	301 - 600	0
		> 600	1
<b>Total</b>	<b>13</b>		<b>13</b>

Note.

1. The average number of employees for all firms was 121.

Interviews were carried out at the respective company premises, during May to August 1991. A semi-structured questionnaire, with showcards where appropriate, was used during the interview. Respondents were asked questions about a series of possible impediments which had been identified in a review of relevant literature (Posses 1971; New Zealand Trade Commission 1986; Akoorie & Enderwick 1990). The following areas were covered: competition, establishment costs and profitability, market information and research, product and packaging modifications, logistics, distribution networks, cultural/religious factors, trade restrictions, and the New Zealand economic and political environment.

## Results and Discussion

### Level of Competition

Most firms reported that competition in the United States, due to domestic as well as other international operators, was generally high. Only 15% of the companies stated they could cope with the competition. The remaining 85% were affected adversely by the keen rivalry. Of the latter, 60% reported that the competition made future market development difficult. The other 40% believed that, besides this difficulty faced by existing exporters, the level of competition will also impede new New Zealand entrants attempting to develop markets in America. However, although the exporters interviewed generally felt that the competition in the United States is higher than in other international markets, they stated that they were willing to accept this as an inevitable consequence of being involved in international business, since they rationalise that international markets are always competitive.

### **Establishment Costs and Profitability**

Fifty percent of the exporters found establishment costs in the United States to be higher than in other markets. Twenty-five percent reported comparable costs with those of other markets, and the remaining 25% reported lower costs. Some of the reasons cited for the higher costs included greater legal costs, the complexity of the market, high transportation and market visit costs, the high cost of agents, the greater length of time required to establish the business, and the product modifications required for the American market.

While no respondent considered the United States market to be unprofitable, a range of profitability levels were reported. A third of the respondents considered it their most profitable market. They attributed this to high volumes, strong marketing structures, competitive agents, high prices, and the requirement for highly specialised products.

Fifty-five percent of the exporters said that the United States was a profitable market, but not their most profitable. They attributed this to the high level of competition, high agent markups, and the scale of the economy. Forty-five percent of the firms interviewed felt that the level of profits in America was on par with, or lower, than their other markets. However, it was not possible to discern any relationships between profitability and company size or exporting experience.

Overall, the majority of exporters felt that the United States is a profitable market. However, considerable cost and energy had to be spent in establishing and operating in this market. Nevertheless, none considered the costs and profitability to be an impediment with respect to developing an export business to America.

### **Market Information and Research**

The majority of firms considered market visits, their own experience, and the Trade Development Board to be the most important sources of information about markets in the United States. Industry contacts were used to a lesser extent.

Nearly 85% of the firms experienced some problems in collecting information or with the actual information collected. Among the views expressed were dissatisfaction with the quality of market information, problems with the collection of detailed information, and problems with some information that was too detailed and sophisticated.

Although the available information did not satisfy some exporters, market information was generally not considered a serious constraint to developing markets in America.

Nearly 50% of all firms reported that they had conducted formal market research.

Fifteen percent used the Trade Development Board to carry out the research and the rest had used private services. In most cases the research was reported as adequate and satisfactory. Firms that had not conducted formal research felt that it was not necessary at their stage of market development.

## **Product and Packaging Modifications**

Most firms (85%) reported they had to modify their product for the American market. Several of the food exporters had to modify their products to meet the USDA (United States Department of Agriculture) regulations regarding size grading and meat grades. Also, metric measurements had to be converted to the imperial system. Clothing manufacturers had to alter their products to fit the American image and to offer different styles. Size modifications were also required. A heating element producer had to modify its product to comply with standards in the United States. Only 15% of the exporters interviewed reported they did not modify their product for the American market. The rest carried out various degrees of modifications to their products.

Thus considerable additional costs were involved with respect to product and packaging modifications, although none of the exporters interviewed cited them as impediments. However, these additional costs could act as disincentives for developing markets in the United States, particularly for new entrants.

## **Logistics**

Most of the exporters surveyed used sea freight to transport their products. These exporters found the service to America to be good and on a par with the service to their other markets. Some cited certain difficulties, but these were not considered serious. These difficulties included the lengthy sea journey of three to four weeks, the fact that goods could not always be sent to the desired port and therefore required further transportation, and in certain cases difficulties in the handling of chilled products.

A few firms used air transportation. While costs were high, they claimed that the frequency and reliability of air transport could not be matched. Overall, no firms reported logistics to be a major problem in the development of markets in the United States.

## **Distribution Networks**

There was quite a variation in distribution methods used. Fifty percent of respondents used agents and most of these reported that they were satisfied with this method of distribution. The remaining respondents used several other distribution methods including distribution through an overseas office of the company, and sales directly to a buyer-distributor upon arrival in the United States.

The majority of firms reported that distribution costs in the United States were higher than in other markets. This was due mainly to higher legal costs, and the greater complexity of the American market. However, none of the firms reported distribution costs to be a deterrent to developing markets in the United States.

## **Cultural or Religious Factors**

Nearly 80% of respondents did not find any cultural or religious factors that impeded the development of export business in the United States. Nevertheless, these exporters were concerned about specific cultural factors such as the general resistance to lamb among

American consumers, and pride in American-made products which translates into a preference for them over imported ones.

Twenty-three percent of exporters reported they had experienced cultural barriers. These were in the form of non-metric measurements, supermarket fees to shelve a product, and misconceptions regarding farm-raised venison vis-a-vis wild venison (which is a different product). The lamb and venison exporters considered the cultural barriers to be the most serious impediment to the development of their businesses in the United States market.

### **Trade Restrictions**

Trade restrictions were product specific. About 50% of the firms exported manufactured goods and reported that they did not face any tariffs. However patent fees, duties of between 2% and 7%, and sales tax did exist. Most respondents found them to be reasonable, especially in comparison with other countries, where duties in particular, were higher.

The remainder of the businesses were exporters of food products. All of these firms reported a variety of trade restrictions. Some found tariffs and duties to be very volatile. Among the specific restrictions experienced were restrictions from selling venison to 13 states because of hunting restrictions, as well as difficulties and high costs arising out of State and Federal requirements for meat inspection. Also, the imposition in April 1992, of a 98% margin on all kiwifruit entering the United States, is likely to adversely affect the future development of New Zealand exports of that fruit to America.

None of the companies exporting manufactured goods to the United States considered trade restrictions to be a serious problem, but exporters of agricultural products found trade restrictions to be important constraints in their efforts to develop markets in America.

### **New Zealand Economic and Political Environment**

The high cost of capital in New Zealand was seen as having serious repercussions on the ability of firms to diversify their export activities and to allocate funds to research and development. This finding is consistent with the conclusion of Burra and Ahmad (1991) who reported that the high interest rates in New Zealand reduced the abilities of export companies to make investments.

Another problem considered to be serious was the lack of government incentives or assistance for exporters. Some companies indicated that without export incentives they could not get their business off to a strong enough start to compete globally. Furthermore, in a number of cases, firms had to compete with other exporters who did receive aid from their own governments, creating 'an uneven playing field'

A common suggestion made by nearly all the exporters interviewed, was that there should be tax concessions of some kind for export companies, such as a tax holiday during the first three years of operation.

Another area of concern had to do with past protectionism in New Zealand. Akoorie and Enderwick (1990) reported that the biggest impediment faced by New Zealand exporters was the handicap of inherited aspects of past government policies. This research did not confirm

that finding; whilst exporters did encounter problems due to past policies, they did not identify them as their most serious constraint. This could be due to the fact that companies have had time to adjust their strategies since Akoorie & Enderwick's research, which was carried out three years ago.

## Conclusion

In-depth interviews with exporters of manufactured goods as well as food products revealed that the United States is recognised as an important and growing international market for New Zealand exporters. However, it is seen to be a highly competitive market and one that involves relatively higher establishment and operational costs compared to other overseas markets. Various other factors, particularly the high agency costs, specific trade and cultural restrictions relating to food exports, and the high cost of capital in New Zealand, are viewed as important factors constraining the development of the export business to this market. However, none of the constraints examined here are considered to be serious impediments for the development of the American market. Nevertheless, new entrants can expect to find these factors to be significant handicaps when establishing their export businesses in the United States.

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- Denise Cefalu was a third year student, and Md. Ismail Ahmad is a Senior Lecturer, in the Department of Marketing, Massey University.**