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ORGANIC FOOD EXPANSION INTO THE ASIAN MARKET – PERSPECTIVE OF POLISH DISTRIBUTORS

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The aim of this article is to identify the conditions of the expansion into the organic sector of the Asian market. The subjects of the study are companies from the organic food distribution sector operating in Poland. The following scientific methods were used: computer-assisted telephone interview, individual in-depth interview and literature analysis. Moreover, a case study analysis from the mature, Italian organic market is presented which was based on an interview conducted with organic professionals from Bioagricoop in 2017. In the research, the following areas are taken into consideration: the organic market situation in different countries in Asia, motives and barriers to the expansion into Asian markets, problems with certification on a few Asian organic markets and recommendations for the European distributors who want to export to Asia. The author hopes that the findings will be useful to managers in the rapidly developing and highly competitive organic business.

Keywords: organic sector, expansion into Asia, cooperation, Asian market, organic distribution

1. INTRODUCTION

The notion of international expansion of companies has many different definitions in academic literature. J. Rymarczyk (1996) understands international expansion as every type of a company's economic activity abroad. A similar concept is presented by M. Gorynia. He believes that international expansion occurs when at least one of a company's products (services) is connected with the foreign market (the term "international expansion of companies" is used interchangeably with such terms as "internationalisation of companies" and "internationalisation of business activity" (Rymarczyk, 1996; Sporek, 2000; Fonfara, Gorynia, 2000). However,

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some economists equate international expansion with the recognition of a given company as international and narrow the definition of international expansion down to quantitative criteria (e.g. number of markets the company should enter) or qualitative (e.g. the object of expansion) and determine the date from which the company can be considered as international (Sporek, 2000). The present study assumes the notion of international expansion as any activity undertaken beyond national borders, without taking into consideration its intensity (e.g. the number of foreign markets) and the nature of the object of expansion; however, it should be of lasting nature, determined by the expansion horizon.

The changes that the global economy is undergoing are characterized by a wider and more intensive international expansion of companies. The notion is conditioned by not only external factors, such as: liberalisation of worldwide trade, development of new IT techniques and new means of transport, and deregulation of international movement of capital, but also by a company's potential (Gorczyńska, 2009).

Considerations concerning the portfolio of conditions need to begin with the precursor of international trade research – S. Hollander. In the 1970s he identified the following motives for foreign expansion: the political and legal situation with special consideration of antitrust and tax law, the need for the development and extension of the scale of operation, the diversification of a foreign market's attractiveness, the possibility of acquiring knowledge about the new market, and the social and ethical motives for expansion (Hollander, 1970). A variety of environmental conditions encompasses both the company's prospects (e.g. capacious market, access to unique raw materials, well qualified and/or cheap workforce) and threats (that include, for example, high duties or an unstable economic situation) (Pierścioneck, 2003). The intensity of opportunities and threats characterizes the proper environment, prejudging its potential. The macro environment can be also analysed in view of economic, social, legal, political, demographic or technological conditions (Romanowska, 2002). For a company to decide on international expansion, the international environment needs to have more opportunities than the national environment. Then, the "crowding out" of the company to international markets occurs, that according to O. Omar (2009) includes adverse conditions of functioning of the national economy, legal restrictions, low chance for growth prospects on the domestic market. A similar approach is represented by Hollensen (2011), who divides motives into proactive and reactive. As proactive motives for beginning export activity he lists: the possibility of achieving profit and growth of the company, pressure from management personnel, the possession of unique technological advantages and market knowledge, seeking economies of scale and tax reliefs. Reactive motives for internationalisation include: competitive pressure, limited size of markets or its high saturation, overproduction or entry of request of proposal, but also seasonality of supply of offered products, geographical closeness of foreign recipients and small physical distance.

The topic of the study is an analysis of conditions of international expansion of companies into Asian markets in the organic food sector, focusing on motives and barriers connected with the expansion.

1.1. Conditions of international expansion into the organic food sector – motives

Meeting the demand for organic food in Western European countries based on those countries' own production is not possible and must be supported by import, e.g. from Poland. Therefore, organic production in Poland is quickly expanding, which is also a great opportunity for development for many farms, especially the smaller ones, and for the utilisation of the labour surplus that exists in Polish agriculture (Komorowska, 2014). Great attention to sustainability means improved export performance on the organic market. According to the Fondazione Symbola data, 37.4% of green businesses have a market presence abroad, against 22.2% of other companies (Mercati, 2016). In the future Polish organic food could also be exported not only to Western Europe, but also to the Asian market. The results of the authors' study indicate this need and present the motives and barriers for Polish organic distributors.

After an analysis of academic literature, it is possible to conclude that the most common motives for the foreign expansion of companies are high costs of business activity, connected to the prices of raw materials, and low transport and workforce costs (Witkowska, Wysokińska 2006). J. Rymarczyk (1996) divides motives into four categories:

- commercial (the possibility of opening new markets, increasing their market share),
- cost (connected with the possibility of lowering production costs),
- supply (connected to lowering the costs and increasing the availability of raw materials),
- political (connected with the politics of a given country in terms of its attractiveness for conducting business activity).

B. Glinkowska and B. Kaczmarek (2016) also draw attention to factors resulting from the attitudes and practices of managers, that include snobbism, fashion and trends.

This article is focused on foreign expansion motives from the perspective of an organic food products exporter. The subjects of the study are 121 companies from the organic food distribution sector operating in Poland. The study was performed using the computer-assisted telephone interviewing method. The interviews were conducted with organic supply chain managers and sales managers in November 2017. The majority of this research group (49%) are small companies employing

10 to 49 workers. The remaining companies have from 50 to 249 (34%) or more than 250 workers (17%).

During the analysis of the motives for expansion into the organic food sector of the Asian market, distributors most often provide the following: increased revenue from a company's sale, willingness to develop through diversification of products, increased competition on the domestic market and the existence of export opportunities; while foreign market knowledge (e.g. through establishing contacts with the chamber of commerce, etc.) is less important (Fig. 1).

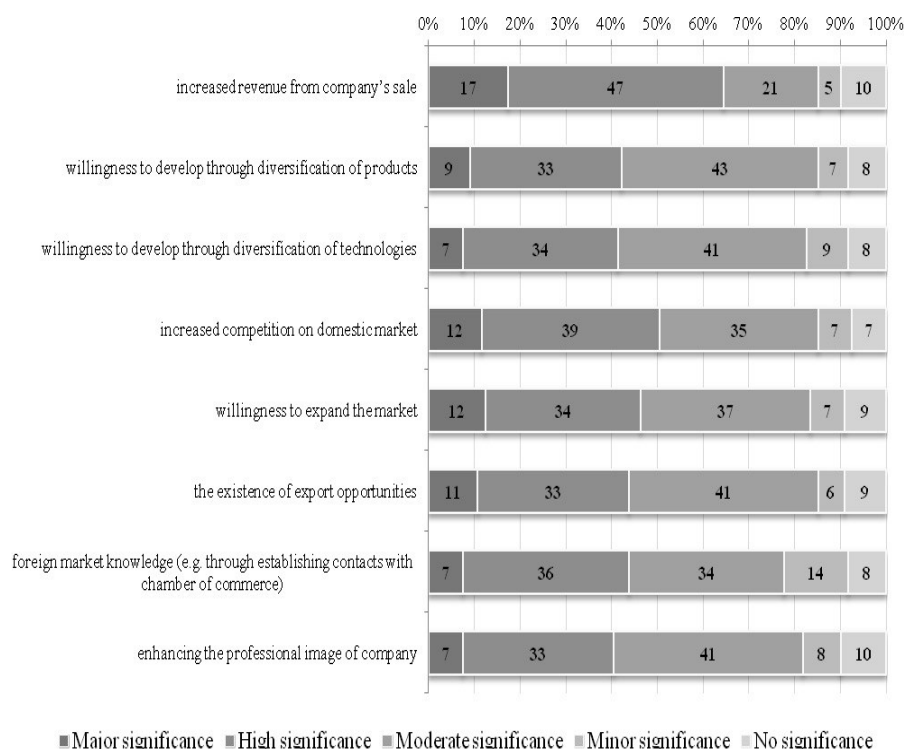


Fig. 1. Motives for international expansion into the Asian market for organic distributors
Source: own elaboration, N = 121

Cooperation with Asian clients is mentioned by only 12% of respondents (mostly with China 5%, Singapore 4%, but also with Japan and Malaysia). According to the results, potential destinations for Asian expansion include: China, Japan, Singapore, Indonesia and Malaysia. This could be interpreted by the fact that newly exported goods are transported to destinations geographically and culturally closer than traditionally exported goods (Regolo, 2017).

1.2. Conditions of international expansion into the organic food sector – barriers

According to the division by S.T. Cavusgil (1984), barriers to the internationalisation of companies are as follows:

- internal – domestic (which are those connected with, among others, internal weaknesses of organisations that include the belief that no foreign expansion is necessary),
- external – domestic (mainly the unfamiliarity with procedures, too complicated export documentation and language barriers),
- internal – foreign (connected with market limitations, e.g. high costs of expansion, problems with providing a high operating level, warranty terms or timely deliveries),
- external – foreign (connected with factors of international economics: exchange rates, economic crises and additional restrictions).

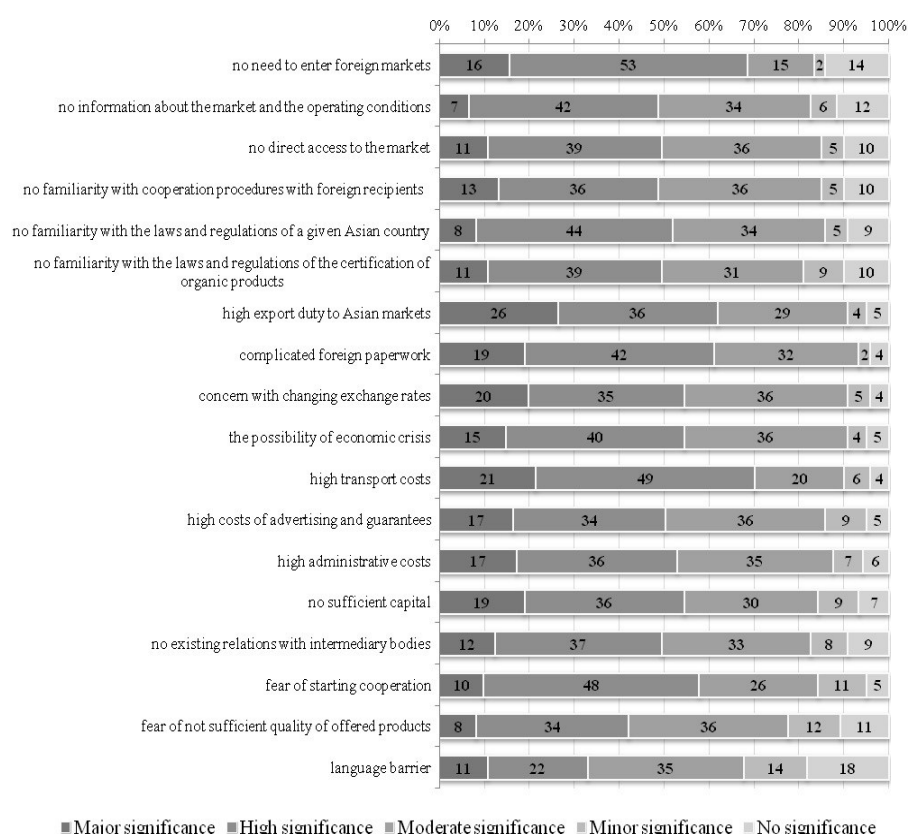


Fig. 2. Barriers to international expansion into the Asian market for organic distributors

Source: own elaboration, N = 121

The sanitary and phytosanitary (SPS) measures have the potential to act as important non-tariff barriers, because different countries adopt distinct standards and regulations for a particular product. Moreover, the standards management capacities that exist between countries could become important trade deterrents (Neeliah, 2013). Analysing the barriers, the increased interest in locally produced food takes importance. In the last decades consumers started perceiving local food as more sustainable, more ecological and healthier (Adams, 2010; Thilmany 2008). However, distance is not the most critical factor in improving the sustainability of food products. The other criteria of localness, such as identity, governance or size, play a more critical role (Schmitt, 2017).

In the research the barriers to expansion were evaluated. Based on the results, complicated foreign paperwork (93% of all surveyed companies), changing exchange rates and the possibility of economic crisis (both 91%), and high transport costs (90%) constitute the main obstacles to expansion. Relatively less important are: fear of starting cooperation, insufficient quality of offered products, and language barriers (Fig. 2).

1.3. Organic sector specificity on the selected Asian market

In light of the potential possibilities connected with the intensive efforts to recreate the Silk Road, it is worth considering the potential of the Asian market. The analysis was performed on the basis of conclusions from an interview conducted in the autumn of 2017 with the representatives of Bioagricoop, Ms. E. Petrini and Mrs. C. Gambini. The main activities carried out by Bioagricoop have the objective of developing organic and sustainable agriculture. This aim is achieved by:

- training operators, technicians and inspectors, particularly in Third Countries on national and international organic standards and regulations;
- research activity;
- cooperation with different teams of experts;
- development and application of new standards in the agro-food sector but also in the non-food sectors such as cosmetic, textile, green energy, green economy;
- promotion activities;
- taking part in fairs and events;
- participation as a leader or partner in national (Italian) and international projects, usually co-financed by the European Union and/or the Italian State. Bioagricoop concentrates its efforts mostly on projects related to the promotion of European organic and typical products in non-EU countries (i.e. China, South East Asia, India, Latin America, etc.) or on the promotion of organic farming practices and sustainable development in Third Countries.

The project ORGANICITY of Bioagricoop started in July 2014 and ended in July 2017 in South East Asian countries (Malaysia, Thailand, Indonesia), India and

Brazil. Consumers, buyers, HoReCa operators, importers, journalists and mass media were main target groups of the project.

The aims of the project were:

- to inform consumers and promote the inherent characteristics of organic products, in terms of:
 - a) basic principles of organic farming and production methods;
 - b) quality, in particular exploring the meaning of the term and the elements that contribute to the definition of its complexity;
 - c) food safety as a prerequisite for quality;
 - d) nutritional aspects viewed as a part mainly linked to eating habits;
 - e) methods of production and labelling, dissemination among consumers and business operators the community rules governing methods of organic production as well as controls and the use of the EU logo;
 - f) values of organic products such as: respect for the environment, the natural, information and transparency, the value of collateral, the genuineness for new generations, ethical values, and welfare of animals.
- to improve awareness of the labelling rules, including the Community logo for organic products, among consumers.
- to encourage the consumption of organic food.
- to motivate importers, distributors and restaurateurs to introduce references to EU organic products' quality in major retail outlets and restaurants.

During the project, Bioagricoop implemented the following actions:

- 4 press conferences in Singapore, Malaysia, Thailand, Indonesia;
- 12 fairs in Brazil, Singapore, Thailand, India;
- 10 workshops in Singapore, Malaysia, Thailand, Indonesia, India and Brazil;
- 28 networking dinners in restaurants and hotels in Singapore, Malaysia, Thailand, Indonesia, India and Brazil,
- 19 promotional organic weeks in supermarkets in Singapore, Malaysia, Thailand, Indonesia, India, Brazil,
- 3 incoming from India, South East Asian countries.

In three years, the project reached over 30,000 direct contacts, with about 55% of operators (17,000 operators). The articles, website, promotional banners, word of mouth, exposure to promotional materials, etc., reached about 430,000 people.

According to the answers of the assessment questionnaires filled out by the participants of the events, more than 99% of the participants stated that they improved their knowledge on European organic products and on the EU organic certification scheme.

Moreover, in all the target countries of the project European organic certification is admitted and accepted. On the other hand, in some countries, especially Indonesia and Thailand, there is a poor awareness of the EU certification scheme and consumers are not always able to recognize the EU organic logo. Counterfeiting is a relevant issue in the less-developed markets, such as Indonesia and Thailand. During the project, many events were aimed at increasing the consumers'

knowledge about the EU certification scheme and their capability to recognize the EU logo (the green leaf).

Based on the interview results¹, the selected South East Asian countries are presented:

- Singapore is the easier market of the four target countries. It is the hub of the South East Asian countries, has an advanced economy with a big, educated and aware middle class. Singapore does not have any customs barriers, with the exception of a high excise duty on alcohol, applied on the wines. In Singapore, the project reached very important HoReCa operators, such as Isetan Singapore, Wildbarley, Yong Hup Hup, Zenxin Organic, which placed some important orders of Italian organic products.
- Malaysia does not have high or expensive customs barriers on imported products. The Malaysian market is bigger than the Singaporean one, and it is growing. During the three years of the project, some commercial relationships were established with important Malaysian operators, like Isetan Malaysia, Ranch Market and Jaya Grocer, which are big supermarket chains with a lot of points-of-sales.
- Thailand is the second largest market of South East Asia and has a GDP of 406 billion dollars. The upper class has increased over the past years along with the consumption of secure and safe food. The food and beverage sector is one of the most interesting for European operators, as a result of its vitality. On the other hand, Thailand has high importing costs: each imported product has to be registered and approved by the FDA (Food and Drugs Administration), and there are high excise duties on all the imported agricultural products. Nevertheless, the Thai importers are very interested in European organic foods and are willing to register them at the FDA and pay the customs taxes. For example, during the project, Bioagricoop received orders from two big importing companies: Food Gallery (an importing and retail company) and Monique and Charlie (a distributor).
- Indonesia is the first largest market of all the ASEAN countries and is expected to become the fifth economy of the world by 2050. Indonesia has a very big market with about 260 million people. The organic market is interesting, with more and more people paying attention to the quality of the food and with an increasing purchase power. Unfortunately, the customs barriers represent an obstacle for importations. Each imported product needs to be registered at the National Agency BPOM. The registration procedures are highly expensive and take a very long time, representing quite a big issue for the exporting companies. During the project, a very interesting relationship was established with the big supermarket chain Ranch Market. The company hosted some project events in their supermarket, mainly in Jakarta. A discussion about the creation of new

¹ The interviews with Elena Petrini and Carla Gambini were conducted in September–November 2017.

opportunities for EU organic food in Indonesia has been started with the owner of the company and other Indonesian importers and is still ongoing.

Based on literature, the growth of the organic market in China seems to follow a different path. Chinese consumers perceive organic food as healthy, safe and expensive. However, organic is not necessarily synonymous with natural produce in China, due to a translation of the term that conveys the idea of a “technologically advanced” product. Organic overlaps with the green food label in terms of image and positioning on the market, since they are easily associated with each other. Confused marketers of organic products in China should invest in communication to emphasize the differences between Green Food and organic products and they should consider the possibility of segmenting organic consumers; Chinese policy makers should consider implementing information campaigns aimed at achieving a better understanding of the features of these quality labels among consumers (Hasimu, 2017). The study of N. Loebnitz N. and J. Aschemann-Witzel indicate (2016) indicates that further efforts are necessary to strengthen the communication of organic food quality in China. Besides, focus should be given to the target group with strong environmental values.

Moreover, based on the mentioned interview results, recommendations for the EU distributors, who want to export to Asia, are as follows:

- band together: the combination of more companies increases their attractiveness to Asian clients and offers them a wider range of products as a result of the cooperation;
- reduce shipping costs, which depend on the number of the customs clearance practices;
- pay attention to the shelf-life of the products, extending it when possible, because the Asian markets are far from here and some countries have specific restrictions about the shelf-life of the products;
- assure that products are labelled in the native languages of the Asian clients.

2. CONCLUSION

The article describes the conditions, the most important motives and barriers, for international expansion into the Asian market for Polish organic distributors. The most important motives are: increased revenue from a company’s sale, willingness to develop through diversification of products, increased competition on the domestic market and the existence of export opportunities. When considering the barriers, organic distributors most often indicate complicated foreign paperwork, changing exchange rates and the possibility of economic crisis and high transport costs. Relatively less important are internal factors such as: fear of starting cooperation, insufficient quality of offered products and language barriers.

Moreover, based on the interview with Western European organic specialists, their experience cooperating with South-East Asian countries (Thailand, Malaysia, Indonesia and Singapore) has been given. According to the research, the easiest market for organic products is Singapore, the hub of the described region.

In the article the need for cooperation between companies is identified. Partnerships could be a good way to overcome barriers, more precisely, to reduce shipping costs and to offer a wider range of products. Relationship building in organic supply chains will constitute a future research area for the author.

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EKSPANSJA EKOLOGICZNEJ ŻYWNOŚCI NA RYNKI AZJI – PERSPEKTYWA POLSKICH DYSTRYBUTORÓW

Streszczenie

Celem artykułu jest określenie uwarunkowań ekspansji żywności ekologicznej na wybrane rynki azjatyckie. Wnioski opracowano na podstawie wyników badania empirycznego, przeprowadzonego na dystrybutorach w formie wywiadów CATI. Ponadto na bazie wywiadu pogłębionego (z Bioagricoop) przedstawiono uwarunkowania wybranych rynków azjatyckich. W artykule zaprezentowano rekomendacje dla dystrybutorów, którzy chcieliby eksportować swoje produkty na rynki azjatyckie. Autorka pokłada nadzieję, że artykuł okaże się pomocny dla podmiotów gospodarczych działających w prężnie rozwijającym się sektorze żywności ekologicznej.

Słowa kluczowe: sektor ekologicznej żywności, ekspansja na rynki azjatyckie, kooperacja, rynek azjatycki, dystrybucja żywności ekologicznej

