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International Trade, Consumer Behavior and Trust: Factors Affecting Agribusinesses in Developing Countries

**Executive Interview: Ronald D. Hampton, Chair and
Associate Professor of Marketing University of Nebraska**

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Abstract

With the increasing complexity of global food systems, producers in developing countries are faced with challenges associated with market access to developed and other developing countries. There is clear evidence that the fastest growing developing countries are the ones engaging in trade and participating in the global market. The difficulty for developing countries, especially *Small and Medium Enterprises* (SMEs) in those countries is the logistics and agreements needed to enter international markets and benefit from trade. Global production networks are becoming extremely complex. Arms-length trade is now confined to commodities with low returns, thus access to high-income yielding activities requires participation in global value chains. Over the past decades, the global food system has concentrated in the hands of a few large companies. All these changes raise questions about market structures, market power, and strategies for small-scale agribusinesses in developing countries to insert themselves into the global food system. This paper summarizes the interview conducted with Dr. Ronald D.

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Hampton, Chair and Associate Professor of Marketing and Director of the Agribusiness Program at the University of Nebraska in Lincoln. Dr. Hampton has ample experience in international marketing, marketing management, retail management, leadership, and consumer behavior. The objective of this interview is to gain a better understanding of factors affecting small-scale agribusinesses in a context of international trade. This interview took place during the 17th Annual World Forum and Symposium in Parma, Italy in June, 2007.

Keywords: Marketing, branding, bilateral agreements, spirituality.

Introduction

Without a doubt, globalization has brought many changes that affect small-scale agribusinesses in developing countries. Although international trade has been increasing at a faster rate in the past 30 years, this increase is also associated with increasing inequalities around the world. While some countries have experienced growth and prosperity, many countries, especially in Africa have fallen behind, and as a whole, have less representation in the total world trade. In just 25 years, Africa's share of the world trade has fallen from six to two percent. Yet the question of participating in trade and international markets is not the real problem. There is clear evidence that the fastest growing developing countries are the ones that engage in trade and participate in the global market. The difficulty for developing countries, especially SMEs is how to reach international markets and benefit from trade.

China has experienced an economic growth rate of eight percent for the last 20 years (DFID, 2005). This means that 200 million people have been lifted out of poverty. This accelerated growth rate would not have been possible if China had not opened its door to trade. Over the past 25 years, exports from China grew threefold. Other Asian countries have also experienced growth—South Korea, Singapore, Taiwan are just a few. As a whole, Asian countries have become the fastest growing economies in the world. On the other end of the spectrum, African countries have fallen behind, once sharing six percent of the world trade, now, a quarter of a century later, accounting for only about two percent of the total world trade. Clearly, trade has been beneficial to Asian economies.

Yet for small-scale producers in developing countries there are many obstacles to participation in the global economy. Global production networks are becoming extremely complex. Arms-length trade is now confined to commodities with low returns, thus access to high-income yielding activities requires participation in global value chains. Over the past decades, the global food system has concentrated in the hands of a few large companies. This concentration has taken place in several points along the chain, including not only retailers, but also processors and input suppliers (i.e. chemicals, seeds, and feedstock). As a consequence, private and public

standards have increased in number and complexity becoming more stringent. Humphrey (2005) argues that this concentration has implications for access to agribusiness value chains for small producers, and also the returns producers obtain from participating in these chains. Furthermore, it raises questions about market structures and market power, as well as strategies to offset this power: regional branding, geographical indicators, niche products and alternative marketing channels.

Identifying new markets is one of the great challenges for small-scale agribusinesses in developing countries. Particularly, international markets require certain level of competence for SMEs. As a pre-requisite, most agribusinesses must become familiar and comply with these standards. At the local level, in many developing countries, firms have to deal with a number of legislations and regulations, and the time and cost of these transactions is usually high. Finally, the access to capital is critical. Producers in the agricultural sector usually have to overcome a number of hurdles before they are able to receive credits.

Executive Interview

Is the access to markets the critical factor hindering trade with developing countries?

Access to market is critical, but surviving in an international market is just as important. SMEs not only in developing countries need to have extensive knowledge of what the consumer wants; they need to understand consumer behaviour. If SMEs understand this relationship with the consumer, they will minimize the risk of participating in global markets. Another critical factor is building trust with the consumer. Many SMEs fail because of trust issues. If a firm has to deliver a product within a specified time frame and they don't do it, the trust with the consumer will be affected. SMEs should also be able to communicate what their values are. Consumer loyalty depends on this. Research on American consumers has found that consumers tend to simplify—once they find a product they like, they are loyal to it. Many consumers now decide what to purchase depending on the values of a company. The market for fair trade and organic products is expanding, and this can be explained by the increasing consumer awareness that they have to power to change things or situations. Trust is also needed during transactions. Trust affects the ways in which people and enterprises engage in economic activity. In the exchange goods and services trust is needed. Lack of trust can result in high transaction costs for the firm.

What alternatives do SMEs have, given the concentration of the global food system?

There are several alternatives SMEs in developing countries can explore. As long as there is demand for agricultural products, there will be an opportunity for

producers. Niche markets are worth exploring. It is also very important for producers to understand the importance of strategic marketing. Product branding is another alternative a producer has in order to create product value. Consumers are aware of brands and usually loyal to them.

Can producers in developing countries compete by “branding” their products? Is this a feasible alternative?

Branding is a good alternative and there are some examples of successful initiatives in developing countries and in the United States and Europe as well. In Ecuador, a project was started to incorporate small-scale farmers in the fair trade coffee market, selling their product in the United States. In order to do this, they had to develop their brand. Yet there are two factors that determined the success of this project. First, there was an advocacy group which helped the farmers find business contacts in their target market. They worked to identify opportunities in the United States. Second, a local association helped coffee farmers come together and export their coffee as an association. In this process, they created a brand that is beginning to be recognized in the fair trade coffee market. Coffee from Ecuador is not as widely recognized as coffee from Colombia, but with these grass-roots initiatives to create and develop a brand, consumers will soon be aware of the quality attributes of coffee from Ecuador.

Regional branding is another way for small-scale farmers to successfully compete. This is a geographic-based brand in which high-value agricultural products are promoted based on geographical linkages. Parma is a great example of successful regional or geographic-based branding. Ham and cheese from Parma are recognized world-wide. In the United States, high-quality beef is produced in the mid-west, around Interstate 80. The term I-80 beef was chosen because Japan's beef industry often refers to corn-fed U.S. beef as “I-80 beef”. In this initiative, different boards and interest groups are collaborating to develop the brand.

Geographic-based brands have a great potential for farmers in developing countries. Once a brand is recognized, there are further benefits for the local economy. In South Africa, there is a booming tourism industry where wine enthusiasts visit production areas, local wineries and taste wines. Linkages are created in the service sector, providing employment opportunities for the locals. Hotels, hostels and bed-and-breakfasts start to open, as well as tour operators and agencies, employing local people in the tourism industry.

You have experience in spirituality and marketing. Is spirituality an issue in international trade? How do religious beliefs influence international trade?

Spirituality is a big issue not only in international trade, but in most human interactions. Regional law also plays a role in international trade. It is part of a

wider cultural context and this context includes the language, beliefs and religion, and even the forms in which the culture is expressed through traditions and art. Understanding this cultural context is critical for conducting business. For example, a study on American Evangelicals has shown that spirituality affect the way they behave as consumers. They look at corporate values before making a purchase decision and if these values do not resemble their own values, they will not buy a product. As consumers, they are loyal to brands that they know, once they understand the values of the company, and are satisfied with them, they will remain loyal consumers. This identification with corporate values can be seen in other cultures as well. Japan is also a good example.

Is there any mechanism SMEs can use to capitalize target market spirituality for survival?

SMEs should focus their attention on the way consumers behave, these include culture were customs, language are the determinants of the consumers response. Market access issues addressed from issues of spirituality can benefit the SMEs. Further, is an understanding and compliance with international, domestic and regional laws. An important factor which to some extent plays an important role is the trust between traders in different countries.

In your opinion, who will benefit from the collapse of Doha round?

It should be acknowledged that very few SMEs have built trust in international markets. The use of non-tariffs should not discourage SMEs. Market barriers can be overcome with creativity. The emergence of very creative ways of doing business such as bribery in certain economies where such conduct is legal needs to be fully utilized. Fully understanding the relationship of trust, how to build trust and reduce the risks of doing business are fundamental to the survival of SMEs.

There is what was labelled a “spaghetti bowl problem” with the formation of bilateral negotiation and regional trade. In your opinion what is the way to go?

The World Trade Organisations members are members of different regional, bilateral and unilateral trade blocks. If agreements are legal and profitable for all parties it does not matter to the third party. This gives an indication that there may be a demand for certain countries products in different countries. The corporate values such as donations, brand loyalty and purchasing process may determine the affiliation and lastly the cost of doing business.

How can African SMEs maximize agreements they have with the rest of the world to their benefit?

Acceptance and clear knowledge of the critical factors hindering trade from a developing countries perspective and are one of the market powers that big retailers have. A number of businesses become successful from their uniqueness. This involves using geographic names, regional branding, and language from the original country or ethnic group. The protected destination of origin may be helpful in making full use of the available agreements and deeply understanding the social structures of the target market may also play an important role in the success of the SMEs.

Conclusion

International markets can benefit from clearly understanding the social structures of their target markets. Important, yet often overlooked in international trade literature are issues of religion, language and spirituality which emerged during the course of this interview as vitally important. The market power possessed by big retailers may pose a challenge for SMEs attempting to enter international markets. However, concludes, Professor Ronald D. Hampton, *“success does not necessarily bring joy”*.

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