

CLOSING CASE

Barrett Farm Foods: A Small Firm's International Launch

Philip Austin, general manager of Barrett Farm Foods, was thrilled after returning from the food industry trade fair in Cologne, Germany—the largest food and beverage fair in the world. Barrett Farm Foods, based in Melbourne, Victoria, is Australia's sixth-largest food company. It distributes both bulk agricultural commodities and processed food products. Among others, it sells macadamia nuts, cereal bars, garlic, ginger, dried fruits, and honey throughout Australia. Barrett has had a healthy rate of growth over the past decade, and its sales reached USD \$215 million last year. While Barrett is well known in the domestic market, its international experience has been limited to responding to occasional, unsolicited orders from foreign customers. In completing these export orders, Barrett has relied on intermediaries in Australia that provided assistance for international logistics and payments. Yet Austin is enthusiastic about substantially expanding the export business over the next few years.

Recognizing an Opportunity

What prompted Austin to attend the Cologne fair was a report from Austrade, the Australian government's trade promotion agency, which highlighted the potential of Australian foodstuffs exports. According to Austrade, Australian food exports exceeded AU \$30 billion last year. Austrade believes processed foodstuffs are the coming trend and wants to boost exports.

But this raises a dilemma: Much of current exports are primarily raw foods, not processed foods. If just 10 percent of processed food value-adding were done in Australia, the country's balance of trade would improve. For example, instead of exporting raw grains to Europe, Austrade wants Australian producers to process the grains into bread and other bakery products, thereby creating jobs for Australians. Austrade believes meat, cereal, sugar, dairy commodities, and marine products have the most potential for food processing.

Meeting with Potential Export Customers at the Cologne Fair

At the Cologne fair, Barrett's nut-and-honey cereal bars and butter-like spread were a hit. Luigi Cairati, a senior executive with the Italian supermarket chain Standa, was keen on doing business with Barrett. He pointed out that, over the past decade, there has been an explosion of interest among European supermarkets for exotic foods and vegetables, with each group competing to display produce from around the world. Standa was seeking new products from other countries, partly to meet off-season demand for fruit and vegetables. Gabrielle Martin, purchasing manager for French food group Fauchon, also confirmed her interest in showcasing exotic and high-quality food in Fauchon stores. She added that Europeans view Australia as exotic and pollution-free and as a producer of quality products. In addition, the market for canned fruit is opening up as the fruit crop from trees in Europe declines over time.

Austin also met Peter Telford, an agent from the United Kingdom who showed interest in representing Barrett in the European Union

(EU). Telford emphasized his knowledge of the market, extensive contacts, and prior business experience. He noted that other Australian firms, such as Burns Philip, Elders-IXL, and Southern Farmers, are already doing business in Europe. He pointed to several success stories, including Sydney-based pastry manufacturer, C & M Antoniou, which established a small plant in Britain to avoid the wall of agricultural duties in the EU market. The company now supplies several British supermarket chains, including Marks & Spencer, Tesco, and Sainsbury's. Another Australian group, Buderim Ginger, expanded its operations from Britain into continental Europe by opening an office in Germany.

Creating a Task Force

After the fair, Austin created a three-person task force among his senior managers and charged them with implementing an export drive. He felt an export volume of USD \$30 million for the first year was reasonable. To identify the most promising exports, Barrett would examine its current product offerings. It would appoint an agent, such as Peter Telford, to facilitate EU sales. The people Austin met at the Cologne fair were potential customers to contact for immediate sales. Barrett could also forward some product and company literature to European importers, identify and appoint one or more distributors in Europe that have access to supermarkets and other large-scale buyers, and revamp its Web site to attract export business.

While Barrett senior managers shared Austin's enthusiasm about exporting to Europe, they did not share his optimism. Barrett had little internal expertise to deal with the complexities of international shipping, export documentation, and receiving payments from export customers. In addition, they knew export transactions take time to complete, and the firm would have to arrange for financing of export sales. Most importantly, senior managers felt they would have to invest in creating a small export team and hire or train employees in export operations.

Food is a complex business, in part because it is perishable, often requiring special equipment for distribution. Europe also has many differences in national tastes, regulations, and market structures. While Australians love Vegemite—a brown, salty breakfast spread made from yeast—the product enjoys little popularity outside Australia. With no name recognition in Europe, Barrett may have to resort to store branding, which will generate lower profit margins.

Barrett would have to rely on foreign intermediaries with access to well-known supermarket chains to distribute its products. Is Peter Telford the right choice? What is the appropriate commission structure for compensating intermediaries? With many larger, more experienced competitors in the EU, Barrett must keep its pricing competitive, although the complexity of pricing can overwhelm inexperienced managers. Barrett's senior managers also realize that prices strongly affect sales and profits. The euro, Europe's common currency, simplified pricing strategy, but numerous challenges remain. Prices are affected by transportation costs, buyer demand, exchange rates, tariffs, competitors' pricing, regulatory compliance, and the costs of marketing and physical distribution.

AACSB: Reflective Thinking Skills, Analytic Skills

Case Questions

1. Do you see any problems with Philip Austin's plan for European expansion? Do you support his entrepreneurial approach to exporting? What should be the features of a more systematic approach to exporting?
2. Why did Barrett choose exporting as its entry strategy for Europe, as opposed to foreign direct investment or licensing? What advantages does exporting provide to Barrett? What are the potential drawbacks of exporting for Barrett?