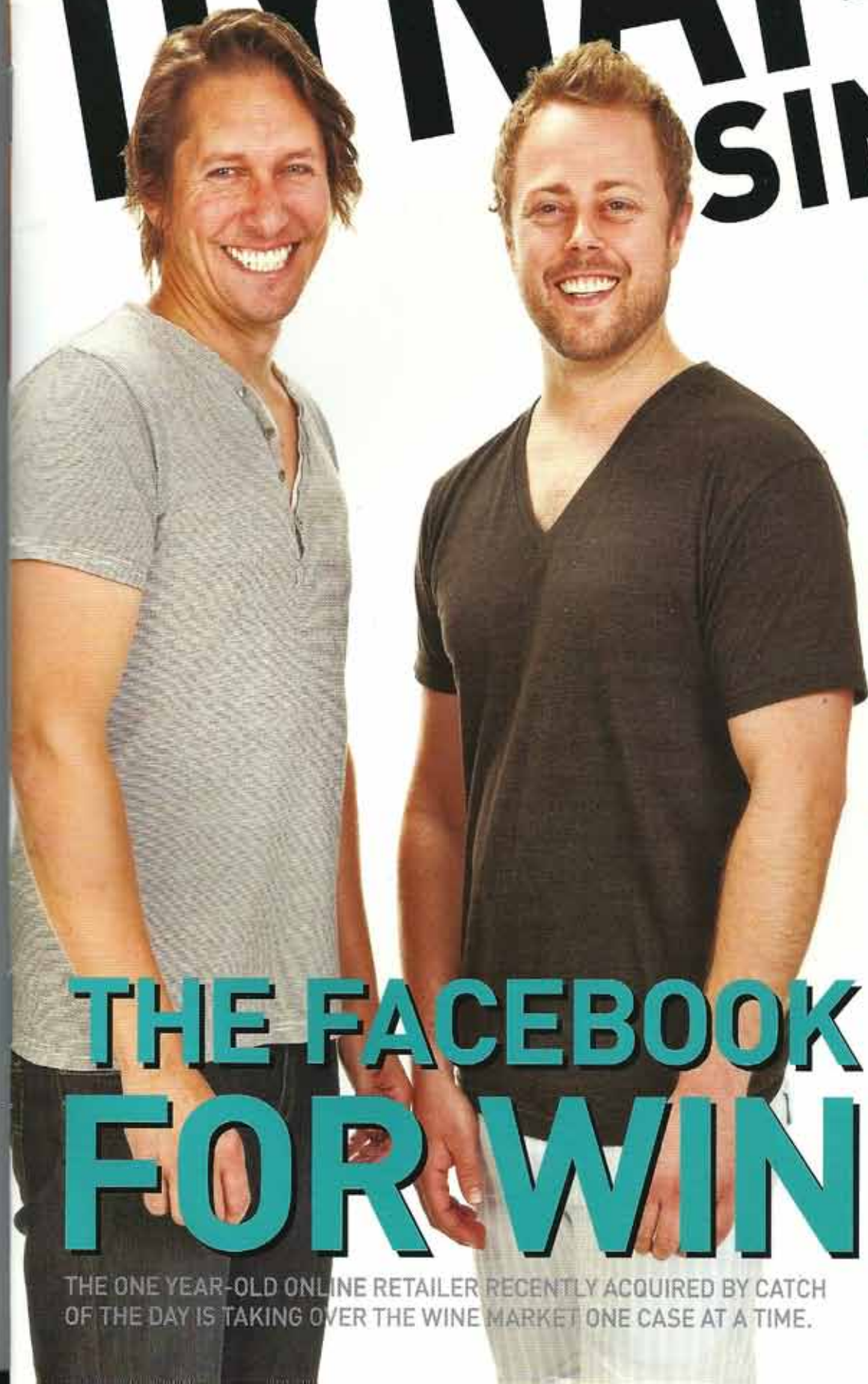


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PRINT POST 231239/6

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ISSN 1322-639001



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COUNTRY OF ORIGIN

Selling the proverbial tea to China sounds like a marketing dream, but what are some of the realities of competing in a product's country of origin? Here's how to avoid a bloodbath when exporting in a red ocean market.

BY ADELINE TEOH

Will Italians buy Australian gelato? Will the French buy our truffles? Will the Arabs buy our sand? The answer is 'yes', and for reasons you may not expect. The concept of entering the most competitive market of all, the market of the product's origin, may seem like a counterintuitive move but as our export successes prove, it can—and has—been done.

Gelatissimo sells into Italy because it makes gelato like the Italians do, but is more open to experimenting with new flavours; Varona Fine Foods supplies Australian truffles to French restaurants in the local off season so connoisseurs can enjoy the delicacy all year round; and GMA Garnet provides heavy mineral sand to the Middle East that is cleaner and more effective for use in sandblasting and waterjet cutting than desert sand.

LESS RISKY BUSINESS

Contrary to most people's initial thoughts, entering a red ocean market—so-called after the blood stains one would expect in shark infested waters—can actually be less risky than pioneering a blue ocean or non-competitive one. For starters, you already know that the market wants what you have to offer because it is buying those products or services from your competitors.

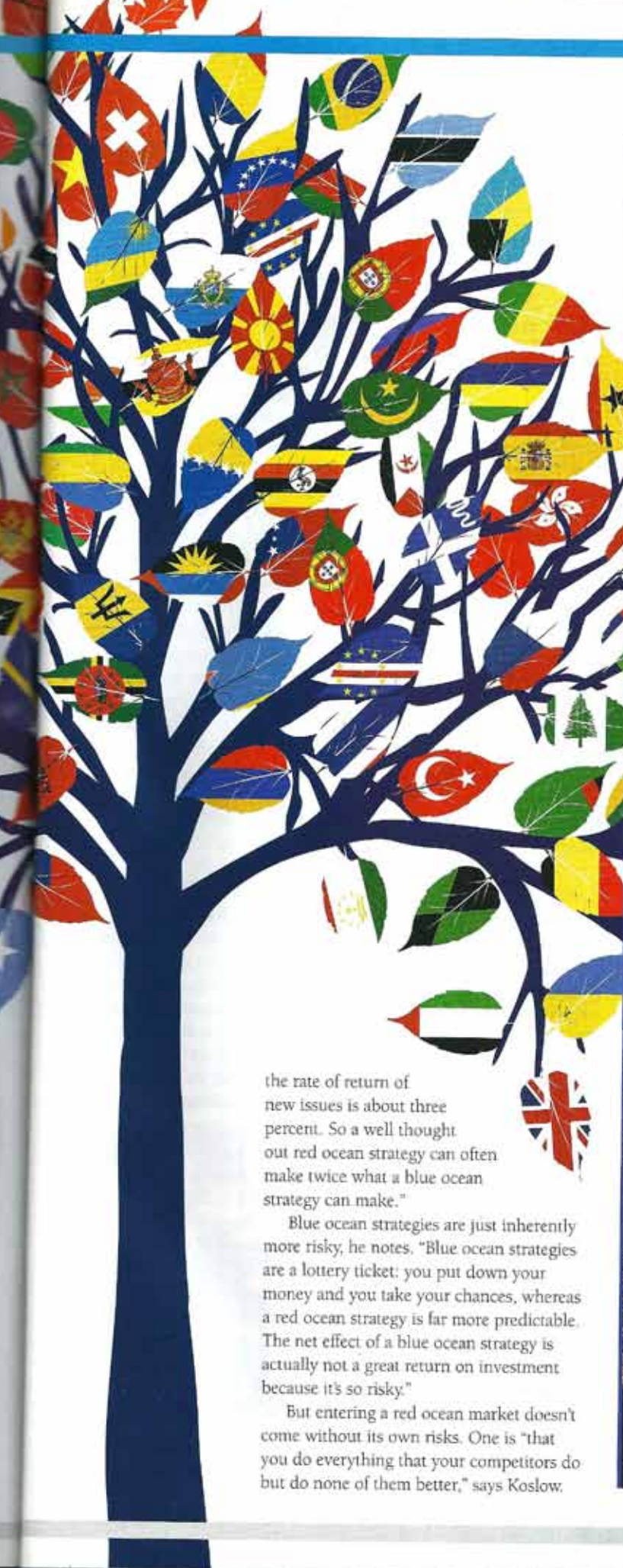
"With blue ocean you need to do a lot more research because you're trying to create new demand in a new market, so there are two variables," says Jill Brennan, director of Harbren Advertising. "When you're going into an existing market, you already know people

are buying those products and that your competition is making money. You're taking away a big variable."

Scott Koslow, Professor of Marketing and Management in the Faculty of Business and

“ YOU HAVE TO OFFER SOMETHING NEW, SOMETHING DIFFERENT, SOMETHING OF VALUE ”

Economics at Macquarie University, points out that US figures clearly favour of red ocean ventures. "If you have a red ocean strategy, the returns work out to be about a seven percent return on investment. If, on the other hand, you try to do a blue ocean strategy,



CASE STUDY

VARONA FINE FOODS

Selling olive oil to Italy and truffles to France

Adam Wilson knows a thing or two about demand. One time, when Italy ran out of olive oil, Varona Fine Foods stepped in to supply its oil to a big UK supermarket chain. The placement was not an accident: Wilson, managing director of Varona, had been dealing with Italy for years gaining trust from Italians for Australian olive oil. "It can be hard, but I speak the language and we supply good quality oil. If you don't have good quality oil you can forget about it," he says. "In the end they liked the novelty of having fresh olive oil in their off season. Being a quality supplier in the alternate season gave us a foot in the door."

This led to their brief partnership with the UK supermarket, which unfortunately couldn't be sustained because Varona didn't have the volume it wanted and the price pressure was too great. "Price is 80 percent of why people buy from you, but at the high end it becomes less about price. You have to know what your selling point is," says Wilson. "For us, because we don't have big volumes or low prices, supplying fresh oil in the counter season was our niche."

The West Australian company also supplies other gourmet ingredients to providores and restaurants worldwide including marron, yabby and abalone from their aquaculture department, Australian bush herbs spices, and truffles. The truffles have made their way to France, supplying restaurants when the local providores cannot.

Asked how he managed to crack that discerning market, Wilson is frank. "I sent some truffles to [famous chefs] Alain Ducasse and Ferran Adrià and the chefs of the top 10 Michelin star restaurants. I figured if I sent them my truffles and they liked them, they would then demand it from their suppliers and their suppliers would source it from me. And if Alain Ducasse was ordering it, then other chefs would too." The gambit paid off and Varona now supplies to a number of French restaurants in the local off-season as well as other markets, such as in Asia, year-round.

According to Wilson, the secret to competing in the market of a product's origin is threefold: understanding the history and culture of the product, having a quality product to offer, and controlling the supply chain. "We can have our product out of the ground and to a customer in 48 hours," he says. "That way it's fresh and they know they can trust us to deliver product to them when they need it."

—www.varonafinefoods.com

the rate of return of new issues is about three percent. So a well thought out red ocean strategy can often make twice what a blue ocean strategy can make."

Blue ocean strategies are just inherently more risky, he notes. "Blue ocean strategies are a lottery ticket: you put down your money and you take your chances, whereas a red ocean strategy is far more predictable. The net effect of a blue ocean strategy is actually not a great return on investment because it's so risky."

But entering a red ocean market doesn't come without its own risks. One is "that you do everything that your competitors do but do none of them better," says Koslow.



Varona Fine Foods' Adam Wilson (center) with (left) partners in Pemberton, WA



"You have to offer something new, something different, something of value to the consumer. You have to do something better than the existing market if there are already strong established competitors and consumers who are loyal to them."

FINDING YOUR RED OCEAN NICHE

The key to success in a red ocean is to find out what your competitors aren't providing in order to serve the gap in the market. Highly competitive markets can be profitable if they're big enough and you can find your niche, says leadership specialist Philip Owens, director of Resourced Leaders.

"If the market size is sustainable there are often positions within a red ocean. There are thousands of cars out there—why would anybody introduce a new car? Because there is the capacity to enter the market and find a position within that space."

Realise first that you won't have the clout to enter as the big player, but know that you can still make money, he says. "Depending on how you frame success and depending on how you build and structure your business planning and business model, there might still be a significant opportunity to take a position knowing that having done your sums you can get a reasonable return."

Exporters should consider going through the 'four Ps' to find where they can leverage the market, Koslow says: offering a genuinely different **product**, placing the product in different distribution channels, attractive **pricing**, conveying its unique selling proposition in **promotion**. Unique selling proposition is of paramount importance if you don't want to grab market share by fighting on price, he believes. "Sometimes you'll go into a country where the players all seem particularly strong but they've all ignored a particular segment of the market and that's an opportunity for you. Find an underserved group and serve them."

If you can't differentiate your product or service, you'll find that competing on price may be your only strategy, he explains. "It's always dangerous to go in with a me too product. If for some reason you're bringing in some kind of expertise or manufacturing skills that allow you to produce something cheaper, you can undercut everybody on price. But, if you're genuinely trying to differentiate yourself, and do a good job of it, and find a particular market that has been underserved, then you don't have to rely on lowering the prices as much."

Owens agrees. "One of the things that happens in a red ocean is that people find the only place to differentiate is on price. It can really impact upon margins, and that can really impact upon your ability to enter a business profitably." And in a climate where the Australian dollar is still comparably high, this is not a sustainable strategy, he notes.

MADE IN AUSTRALIA

One differentiating factor that the product's country of origin does not have is a 'Made in Australia' cachet, which you may

need to develop to assist your promotion and unique selling proposition. "In a way there's no such thing as a true red ocean because there are never two players who are identical," says Owens. "You always come with different experiences, skills and mindsets. You might say, 'we're an Australian company and they're a German company, or they're an Indian company.'"

Koslow agrees that country of origin can be one way to leverage difference. "People have good feelings about Australian products, especially food, so that's a plus," he reports. "And you know the wonderful thing about Australia? We don't have revolutions like third world countries. If you make a long term supply contract with an Australian mining company you're probably not going to be subject to any political risk."

Australian businesses also often forget that we already come from a fairly competitive environment here, says Owens. "If you've been able to establish a business model in Australia you probably had a lot of competition." And, he adds, our upright behaviour will stand us in good stead in the long term. "We have really good levels of ethical practice in businesses in terms of codes of conduct, and compliance and things like that. Even though in some markets it might appear like a disadvantage, where there's a lot of grey money and you might lose a tender because you haven't paid someone off, the fact that Australia is fairly high up the scale in terms of ethics in business is a good thing long term because we're used to doing business in professional ways."

HOW TO RESEARCH THE RED OCEAN

The best part about conducting market research in a red ocean market is that it's likely your

