EXPORT PROMOTION

A Decision Support Model Approach

Editors

**LUDO CUYVERS
WILMA VIVIERS**

Chapter 9

Developing strategies for export promotion using a decision support model: South African case studies

Ludo Cuyvers, Wilma Viviers, Noleen Sithole-Pisa & Marié-Luce Kühn

9.1 Introduction

It can be assumed that export promotion organisations (EPOs) are increasingly facing diminishing returns in the use of export promotion instruments, particularly the more traditional and most widely used instruments, such as the participation in trade missions, the participation in trade fairs and exhibitions, etc. Empirical support for this assumption can be found in studies such as Alvarez (2004), De Wulf (2001), and others, including for the existence of diminishing returns to scale of the export promotion budgets (see e.g. Lederman, Olarreaga & Payton, 2006). On the other hand, with the success of the export strategies of a number of Newly Industrialising Countries and emerging exporting countries, export promotion organisations in both the developed and the developing countries are facing an urgent need of enhancing the efficiency of their export promotion activities, the more so as many of these EPOs are confronted with constraints in the available financial and other resources. From this it follows that EPOs are in need of criteria to prioritise their activities to the markets and products that are offering the most promising export results for the countries which they represent, and to develop the most appropriate export promotion strategies for the products and the markets which they prioritised. The present chapter deals with the latter issue.

In previous studies, we have developed and applied a decision support model (DSM) for the planning and implementation of export promotion activities towards realistic export opportunities (REOs) of countries as diverse as Belgium, Thailand and South Africa (Cuyvers

et al., 1995; Cuyvers, 1996; Cuyvers, 2004; Pearson *et al.*, 2010; see also Chapters 5-7). In this chapter we endeavour to define concrete export promotion strategies for public export promotion organisations based on the characteristics of individual REOs as derived from this decision support model (DSM). These export promotion strategies will be illustrated in their application by investigating a limited number of case studies of South African REOs.

It should be stressed from the outset that we are using the concept “export promotion strategy” in a restrictive way. Strategy evidently refers to a plan of action designed to achieve a particular goal. Contrary to a country’s export strategy, in which current and future export targets for the country at large are defined at a macro-level, an export promotion strategy of an EPO relates to achieving the goal of tapping an individual REO in a specific country, such as e.g. the South African Department of Trade and Industry (DTI) aiming at increasing market penetration for South African macadamia nuts in the German market or in the European Union at large. These export promotion strategies are designed by the EPO such that the most appropriate export promotion instruments are used and coordinated with the other relevant private or public “players” of the country in the field of export promotion, fully taking the concrete market characteristics for the individual REO considered and the competitive situation of the exporters in the given market into account.

In the next section we briefly review the results of the decision support model (DSM), which are used for defining export promotion strategies. Section 3 discusses such export promotion strategies according to market share of the exporting country and major market characteristics of the importing country. Section 4 provides details on three South African REOs as case studies in applying DSM results and supplementary market research results in the design of suitable export promotion strategies for the EPO.

9.2 The identification and categorisation of realistic export opportunities using a decision support model (DSM)

Numerous studies have been conducted in order to prioritise or segment export markets, or to investigate companies entering export markets (For a literature review on export segmentation studies, see Chapter 3). The DSM, which was presented in Cuyvers *et al.* (1995), the methodology of which is outlined in Chapter 4, introduced four filters that sequentially eliminate less interesting markets. The filtering process leads to a list of product-country combinations, which we call realistic export opportunities (REOs). These REOs are further categorised, as explained in Chapter 4 and illustrated in Chapter 5, according to the market characteristics and the exporting country’s market share (Filter 4).

The results of the application of the DSM for South Africa using data up to 2007 are summarised in Table 9.1, which shows the number of REOs based on this categorisation according to the import market characteristics and South Africa's respective market shares.

Table 9.1. Categorisation of the 2007 REOs of South Africa according to South Africa's market share and import market characteristics (number of REOs).

	Market share of South Africa relatively small	Market share of South Africa intermediately small	Market share of South Africa intermediately large	Market share of South Africa relatively large	Total
Large product market	9,279 (Cell 1)	1,272 (Cell 6)	1,104 (Cell 11)	569 (Cell 16)	12,224
Growing (long- and short-term) product market	44,037 (Cell 2)	531 (Cell 7)	442 (Cell 12)	1,771 (Cell 17)	46,781
Large product market, short-term growth	4,558 (Cell 3)	516 (Cell 8)	455 (Cell 13)	241 (Cell 18)	5,770
Large product market, long-term growth	3,066 (Cell 4)	275 (Cell 9)	262 (Cell 14)	177 (Cell 19)	3,780
Large product/market short- and long-term growth	7,717 (Cell 5)	723 (Cell 10)	707 (Cell 15)	396 (Cell 20)	9,543
Total	68,657	3,317	2,970	3,154	78,098

To illustrate the use that can be made of Table 9.1, we list an example of a REO for each cell, as taken randomly from the list of REOs:

- (i) Cell 1: HS 310530 – Diammonium phosphate, in packs > 10 kg to Argentina;
- (ii) Cell 2: HS 200990 – Mixtures of juices not fermented or spirited to Qatar;
- (iii) Cell 3: HS 847920 – Machines to process animal or fixed vegetable fats or oils to Tunisia;
- (iv) Cell 4: HS 720250 – Ferro-silico-chromium to the United Kingdom;
- (v) Cell 5: HS 030372 – Haddock, frozen, whole to China;
- (vi) Cell 6: HS 290219 – Cyclanes, cyclenes and cycloterpenes nes to Belgium;
- (vii) Cell 7: HS 060290 – Plants live, mushroom sp. to Czech Republic;
- (viii) Cell 8: HS 950720 – Fish-hooks, whether or not snelled to Thailand;
- (ix) Cell 9: HS 710231 – Diamonds (jewellery) unworked or simply sawn, cleaved to Hong Kong;

- (x) Cell 10: HS 200520 – Potatoes, prepared or preserved, not frozen/vinegar to Germany;
- (xi) Cell 11: HS 711319 – Jewellery and parts of precious metal except silver to the United Kingdom;
- (xii) Cell 12: HS 090940 – Caraway seeds to China;
- (xiii) Cell 13: HS 411330 – Leather further prepared after tanning/crusting, incl. parchment-dressed leather, etc. to Italy;
- (xiv) Cell 14: HS 381230 – Anti-oxidisers and stabilisers for rubber or plastics to India;
- (xv) Cell 15: HS 780420 – Lead powders and flakes to France;
- (xvi) Cell 16: HS 590390 – Fabric impregnated, coated, covered with plastic nes to the United States;
- (xvii) Cell 17: HS 902290 – Parts and accessories for radiation apparatus to Thailand;
- (xviii) Cell 18: HS 790200 – Zinc waste or scrap to India;
- (xix) Cell 19: HS 680421 – Grindstones, etc. of synthetic or natural diamond to Ireland; and
- (xx) Cell 20: HS 281119 – Inorganic acids n.e.s. to Brazil.

9.3 Defining export promotion strategies (EPS) according to the DSM results

The characteristics of the REOs in Table 9.1, which are the result of the data filtering process described in Chapter 4, can now be used in order to design appropriate, though still, broadly defined export promotion strategies (EPS).

In a previous study (Cuyvers *et al.*, 1995), it was suggested to distinguish the export promotion strategies for the REOs according to the market share of the exporting country, i.e. based on the columns of Table 9.1, as follows:

- (i) the realistic opportunities in Cell [1] to [10] show a low market share for various reasons, and an offensive market exploration EPS is appropriate for products where a comparative advantage exists or can be developed;
- (ii) the realistic opportunities in Cell [11] to [15] show relatively medium large market share and are situated in large and/or growing market segments; therefore an offensive EPS of market expansion can be advocated; and
- (iii) the realistic opportunities in Cell [16] to [20] are situated in market segments where the exporting country has already gained an important market share and a defensive EPS of market maintenance seems appropriate.

Application of these broad strategies implies the utilisation of a specific 'policy instruments mix' and a specific mode of cooperation between the EPO and the private sector. An offensive

market exploration EPS entails the active exploration of each detected export opportunity, in co-ordination with the EPO's offices abroad. As the relative market share is small, but the country is already exporting the products to other markets, the EPO should seek to develop export promotion activities in these markets such as general trade missions, financial support of local media campaigns, communication of market potentials to the exporters, the general follow-up of detected realistic opportunities by the diplomatic missions or foreign economic representatives (FERs) in the target countries, etc. A different mix of export promotion instruments is needed to conduct an offensive EPS of market expansion, together with a larger involvement of the private sector (export councils, sectoral/industry associations, exporter's clubs, Chambers of Commerce, etc.) Other examples of instruments are incentives for participants in sectoral trade fairs and exhibitions, and targeted press campaigns in the local press. Finally, an EPS of market maintenance (Cells 16-20) will imply minimal involvement of the EPO. Rather, it should be largely left to the exporters how to further tap these REOs, as they know best how to keep their market share up. The role of the EPO will be restricted to follow-up concrete market conditions in these market segments and support exporters whenever sudden severe or unfair competition is encountered, by e.g. supplying competitive export credits or high-level diplomatic support during negotiations.

In addition to the above export promotion strategies for the REOs according to the market share of the exporting country, a further EPS categorisation can be made according to the characteristics of the import market, i.e. based on the rows of Table 9.1. Neglecting the REOs in the last column of Table 9.1, for which we advocate minimal EPO involvement, this tentatively might lead to the following broadly defined types of EPS:

- (i) Tapping the realistic export opportunities in Cell [1], [6] and [11] imply an EPS of "breaking in" into a large market, especially when the market share of the exporting country is still small. Also in large markets where the market share of the exporting country is relatively large, the EPS type can be labelled "breaking in", but the instruments used to achieve this goal will be different.
- (ii) An EPS of "taking advantage of a growing market" relates to the REOs in Cell [2], [7] and [12], i.e. opportunities in import markets that are growing in the long and the short period. The EPS type will also involve the use of other instruments when the market share of the exporting country is already relatively large.
- (iii) An EPS of "growing and consolidating" applies to the REOs in Cell [3], [8] and [13], as they are about the imports of large volumes which have experienced important growth in the recent past. The EPO hopes to contribute to the rise of the country's exports of the given product to the target country by benefiting from the expected rise of the already high demand.

- (iv) In large import markets that show important growth in the long run, but not in the recent past, i.e. the import markets relating to [4], [9] and [14], the EPO should rather follow an EPS of “leapfrogging”. This might be a continuation of the “growing and consolidating” EPS, but there is no immediate reason to expect further growth of the market, which evidently creates some uncertainty about the future.
- (v) An EPS of “jumping on the bandwagon” applies to Cell [5], [10] and [15]. The target country is importing large volumes of the product and these imports show important growth, both in the long and short run.

We can now combine the EPS categories of both rows and columns of Table 9.1, as is illustrated in Table 9.2.

Table 9.2. Export promotion strategies categorisation based on REOs.

	Small market share: offensive market exploration EPS	Medium large market share: offensive market expansion EPS
Large market	Breaking in into a large market: Niche market approach based EPS Supportive media campaign...	Breaking in into a large market: Invest in future growth Improve presence (e.g. support representation office)...
Growing market	Taking advantage of a growing market: Better exploit competitive advantage (price, service, delivery) Supportive media campaign...	Taking advantage of a growing market: Better exploit existing presence Go to the customer...
Large and growing market	Combined EPS of growing and consolidating, leapfrogging or jumping on the bandwagon	Combined EPS of growing and consolidating, leapfrogging or jumping on the bandwagon

This will lead to the following examples of EPSs in which the following instruments are used:

- (i) An offensive market exploration EPS of breaking in into a large market: as the imports are large and the exporting country’s market share small, it is appropriate for the EPO to help exporters in finding a market niche in the target country. The potential exporters are receiving market information which intends to make them aware of the market potentials. The potential exports are incited to join high-profile trade missions which are also supported by media campaigns in the target country.
- (ii) An offensive market expansion EPS taking advantage of a growing market: the exporting country has already achieved a medium large market share. The existing exporters have experience in the target country. The EPO should help the exporters to better exploit their presence and their image, by e.g. giving financial support for developing or improving publicity material, improving product design and quality, to conduct detailed market research, etc.

- (iii) An offensive market exploration EPS of jumping on the bandwagon: the import market is large and growing, but the exporters' presence is small, if at all. Here the EPS should combine elements that will allow the potential exporters to enter the market or increase their market presence. The dissemination of market information and participation of the potential exporters in high-profile trade missions, supported by media campaigns, has to be combined with more aggressive instruments, among which financial, which will allow the potential exporters to improve their competitive advantage further (e.g. official loans to the target country, improved credit insurance conditions, but also matchmaking with exporters of complementary products and giving incentives for piggy-back export systems). Also inviting key-decision makers in the target country (major importers or distributors) or facilitating outgoing foreign direct investment to the target economy can be an effective instrument.
- (iv) An offensive EPS of market expansion of leapfrogging: the EPO should design an EPS which will allow the exporters to increase their sales to the target country (by improving financial conditions by e.g. official loans and development aid to the target country, improved credit insurance conditions, etc. but also by giving incentives for participation in specialised trade fairs and exhibitions which attract importers of the target country) and/or to improve their presence by finding synergy with other exporters (setting up or supporting a joint representation office in the target country, matchmaking with other producers/exporters for piggy-back exporting).

It will be clear, however, that not every possible combination makes much sense and can be defined. For instance, consider in Table 9.1 Cell [11] and [14]. It is far from evident how different the instrument mix will be for an "offensive market expansion EPS of breaking in into a large market" from the mix for an "offensive market expansion EPS of leapfrogging", as the exporting country has already a relatively important market share and thus will probably benefit from both the large size and the growth of the import market of the given product in the target country. However, one can easily see that an offensive market exploration EPS of jumping on the bandwagon, applicable to a REO in Cell [5], is different from an offensive market expansion EPS of jumping on the bandwagon, applicable to a REO in Cell [15], as in the latter situation the EPO can rely much more on e.g., the experience and co-operation of its exporters than in the former situation.

Our categorisation of export promotion strategies according to the cell in Table 9.1 where a given REO is located, seems a useful tool for defining such strategies in broad terms, but evidently needs to be supplemented with a list of concrete and detailed steps and instruments, which also take into account other information and data that can be derived from the output of the filtering process, such as quantitative data on market concentration and market accessibility/trade barriers. Figure 9.1 below lists tentatively supplementary export promotion instruments according to the combination of market concentration and

market accessibility. However, much more concrete and detailed information is required for designing an appropriate export promotion strategy, than the statistics which are used in detecting REOs by a decision support model, such as the one described in section 9.2. Such detailed information should rather come from market research, both desk and field research, and from further competitive intelligence (CI) on the REOs (for more detail, see Chapter 11). Although there exists an abundant literature on export management strategies, the topic of defining export promotion strategies based on market performance and import market characteristics, has remained uncharted territory.

Figure 9.1. Export promotion instruments according to concentration and accessibility of the import market.

		Trade barriers	
		Low	High
Concentration	Low	Inform exporters on market potentials	Inform exporters on trade barriers
		Create awareness	Organise product-country focused seminars
		Create exposure for exporters	Create exposure for exporters
	High	Create awareness	Facing scarce resources, should the EPO bother about these REOs?
		Convince the market	
		Develop EPOs with sufficient scale and synergy	

In the following sections we will, therefore, rather rely on a thorough discussion of appropriate EPSs, using the above categorisation, but applying these to well-identified and concrete case studies of some selected realistic export opportunities of South Africa, as follows:

- (i) Macadamia nuts to Germany (Cell 2).
- (ii) Extruders for rubber and plastic to Tunisia (Cell 2).
- (iii) Jewellery of precious metals (except silver) to the United Kingdom (Cell 11).

9.4 South African case studies

9.4.1 Macadamia nuts to Germany

According to the results of the DSM to identify REOs for SA, the German import market of macadamia nuts is a large and growing market, both in the short and long term, with South Africa having only a relatively small market share (Cell 2). Based on our previous categorisation, an offensive EPS of market exploration is appropriate, and will allow South African macadamia nut growers and exporters to “jump on the bandwagon” of that sizable and growing market, which also would establish South Africa’s presence.

The main players in the South African macadamia nuts industry with regards to export promotion are the Department of Trade and Industry (DTI) and the Southern African Sub-Tropical Growers Association (SA-SubTrop). The DTI's Sector Specific Assistance Scheme (SSAS) and Export Marketing and Investment Assistance (EMIA) individual support schemes provide support for individual participants as well as industry organisation's participation at trade shows. However, exporters and the industry association are not well informed of the existence of the DTI's export support programs. In order for the South African macadamia nut industry to realise its full export potential in the German market, which is essentially a new market, it is vital for the DTI, to provide extensive export support to individual exporters. This can be in the form of general support, which includes availing publications such as market guides or market profiles to specific geographic locations, market opportunity studies, "how-to" booklets about trips, market surveys, reference sources, setting up an export business, and domestic and international sources of export financing (Seringhaus & Mayer, 1988). Additionally, the DTI needs to raise awareness of its assistance toward participation in trade fairs. It is important to note that the impact of trade missions on export performance can be most appropriately measured by "soft" management dimensions rather than "hard" performance measures as noted by Seringhaus and Botschen (1991:3).¹

The DTI's existing foreign offices can also be used to provide exporters with real time intelligence from the German market and assistance about exporting. Foreign offices can provide market reports, maintain close contact with government and regulatory bodies and increasingly offer export seminars to assist exporters (Seringhaus & Botschen, 1991:3). The foreign offices can be a source of overall industry intelligence. In particular the use of voluntary and non voluntary standards is increasingly becoming more significant in international trade. Although these standards are not always mandatory they now serve as barriers to market accessibility and without conformance to the standard's requirements, exporters may find it difficult to do business in those markets. In the German market the Global GAP standard applies to imports of macadamia nuts. It is a business-to-business (B2B) standard making it a voluntary standard. However, some of the largest retailers in Europe only purchase goods that are Global GAP certified (Standards Map, 2011). The foreign offices in the German market can provide South African exporters of macadamia nuts with such real time intelligence and improve market accessibility as well as enhance the profitability of exporters.

Furthermore, the DTI can provide an export information telephone service or web-based information provision portals. This portal or telephone service would provide South African

1 Soft management dimensions refer to the intangible benefits that accrue to the firm's foreign market development such as increased knowledge and competence. On the contrary, hard management measurement dimensions would include tangible factors such as sales (Seringhaus & Mayer, 1988).

macadamia nut exporters (and other exporters alike), with information relating to the markets with the highest possible export potential, for their products. This is particularly important as firms often lack the time and resources to do in-depth market studies on export opportunities. Alternatively, following the Californian Almond Board website, the export help desk can create a web link to the South African Macadamias Growers' Association (SAMAC) website, which would be strongly consumer focused and offer consumers more detailed information about the macadamia nuts, the associated health benefits from consumption as well as recipes and ingredient measures to suit each culture.

Consumption of edible nuts in Germany amounted to 319,000 tons and accounted for 16% of total EU consumption in 2006, making it the leading edible nut consumer (FAO, 2008). The consumption of edible nuts increased by 4% in Germany in 2008 (FAO, 2008). Most edible nuts are consumed as part of confectionary products. Groundnuts were the most consumed edible nut in Germany accounting for 31% of the volume of Germany's total edible nut consumption, whilst almonds are also widely consumed in Germany (20% of total volume) (CBI, 2007). Macadamia nut consumption was still relatively low and it constituted only 0.7% of the total German consumption of edible nuts. In this case promoting macadamia nut exports in Germany can be achieved by jumping on the bandwagon since the import market is large and growing, but the South African exporters' presence is small. Hence an increase in consumer awareness of the product can be achieved through brand and generic advertising, in-store promotions and public relations (Kinnucan, Xiao & Yu, 2000:560).

The consumption of luxury nuts has gained popularity in the EU market and in Germany in particular. This is mainly as a result of the consumers becoming more health conscious and the ability of nut packers to successfully market newly-developed nut mixtures. Consumption of edible nuts is rising and is increasingly becoming an alternative source of protein due to the prevalence of diseases such as foot-and-mouth disease in cattle. Due to the change in lifestyles, more German consumers spend less time preparing meals and this has led to the rise in consumption of healthy snacks that contain protein, for example, edible nuts. Consumer awareness on the associated health benefits from consuming macadamia nuts can be raised in the German market through in-store promotions and tasting of the product. Furthermore, information dissemination through the distribution of leaflets and booklets to consumers can also enhance consumer awareness and shift attitudes towards the product. Alternatively, South African macadamias can be branded with other high quality products and promoted through joint marketing groups. This will entail generating complementary synergies with other industries. This can be through branding with South African wines or dried fruit and targeted to the high quality conscious consumer. These products can be branded together and promoted through booklets, paper and media advertisements and displayed at national pavilions and trade fairs.

The distribution channel for food and beverages in Germany is mainly characterised by retailers importing from a central buyer or an importer. Importers act as intermediaries between suppliers abroad and customers in Germany (BGA, 2008). Retailers seldom import directly from suppliers, especially those that are not in the EU. Central buyers or traders or importers handle large orders that consist of a variety of products in large volumes and are responsible for distribution to the various retailers. Retailers import directly only if the products possess special qualities, price or promotional support (FAS, 2008). The Southern African Macadamia Growers Association (SAMAC) offers its members assistance on trade statistics, documentation and market specific research. This role, however, can further enhanced by increasing cooperation with the DTI to support the SAMAC to be better equipped to provide exporters with up to date and relevant information. This is mainly because interviews with members of the industry association revealed that there is little or no co-operation between the industry association and the DTI (Sithole & Viviers, 2010).

Furthermore, export promotion can be targeted to magazines, where the product can be featured as a high end, healthy gourmet product. Such a feature would assist to justify the high prices for which the product fetches (McKinna *et al.*, 2007:48). Consumer awareness can also be raised by television advertisements. Television is the most effective media to raise awareness. However, this will require a high investment and as a result, the television advertisements can initially be limited to one city and then be increased as consumer awareness and market share increases (McKinna *et al.*, 2007:48).

The export promotion strategy can take advantage of economies of scale or scope in export promotion by linking macadamia nut-related products or potentially-related products for which South Africa has already acquired a reasonable degree of comparative advantage, as well as their promotion. These products can be promoted as South African health foods with proven health benefits. Mention can be made here of:

- (i) 080440 – Avocados, fresh or dried (Cell 6)
- (ii) 200811 – Groundnuts, otherwise prepared or preserved (Cell 16)
- (iii) 080810 – Apples, fresh (Cell 11)
- (iv) 081350 – Mixtures of edible nuts, dried and preserved fruits (Cell 20)

Furthermore, there are also South African REOs for products in the German market that can be related or complimentary to macadamia nuts, especially fresh or dried fruit, but for which South Africa has not sufficient comparative advantage, but which might be followed up as well in developing an export promotion strategy for macadamia nuts and related products, such as e.g.:

- (i) 220421 – Grape wines n.e.s., fortified wine or must, pack < 2l (Cell 15)
- (ii) 080610 – Grapes, fresh (Cell 10)

- (iii) 080620 – Grapes, dried (Cell 15)
- (iv) 200190 – Vegetables, fruit, nuts n.e.s. prepared or preserved by vinegar (Cell 14)
- (v) 200850 – Apricots, otherwise prepared or preserved (Cell 16)
- (vi) 080290 – Nuts edible, fresh or dried, n.e.s. (Cell 10)
- (vii) 200892 – Fruit mixtures, otherwise prepared or preserved (Cell 6)
- (viii) 080430 – Pineapples, fresh or dried (Cell 15)
- (ix) 220410 – Grape wines, sparkling (Cell 11)
- (x) 081320 – Prunes, dried (Cell 3)

The next section will describe the possible instruments for an EPS for extruders for rubber and plastics to Tunisia.

9.4.2 Extruders for rubber and plastic to Tunisia

Similar to the performance of macadamia exports to Germany, the results of the DSM, indicate that the export opportunity for extruders to Tunisia fall in Cell 2, which represents a short- and long-term growth market for extruders and indicates that South African-exported extruders have a negligibly small or no market share in Tunisia. Based on the previous categorisation, an offensive EPS of market exploration would be appropriate, allowing South African manufacturers to extruders to exploit the opportunities that are present by taking a combined EPS of growing and jumping on the bandwagon.

There are mainly two EPOs relevant to manufacturers of capital equipment, and specifically extruders, in South Africa, namely the South African Capital Equipment Export Council (SACEEC) and the Department of Trade and Industry (DTI). The SACEEC represents companies in the business of manufacturing equipment of a fixed capital nature. The SACEEC organises, amongst others, inward-buying missions and its mandate is to promote mining and capital equipment buying internationally (SACEEC, 2009). The promotion of local products in the international marketplace forms the driving force behind the activities of the SACEEC. Specifically, the role of the SACEEC is to identify foreign markets for South African capital equipment exporters and to market South Africa to capital equipment dealers, manufacturers and investors globally directed at attracting investment into the South African capital equipment industry.

The DTI has an Export Promotion Directorate responsible for developing and promoting South African manufactured goods and services. The SACEEC is one of twenty industry export councils to which DTI provides financial support. Previous research has determined that there is no specific trade-promotion strategy followed by either the DTI or the SACEEC

with regard to promoting export of extruders or other products in the capital equipment industry to Tunisia.

In order to capitalise on the said export opportunity, the DTI and the SACEEC need to adopt certain offensive actions in their export-promotion strategy to enable exporters to take advantage of the growing market both in the short and long term, and to gain successful entry into this significant market. Previous research determined that a degree of market concentration and certain trade barriers (that also include NTBs) exist (Kühn, 2010). Therefore, it is recommended that an offensive export-promotion strategy be selected that actively pursues the opportunities available.

Part of the offensive export promotion strategy could be to piggy-back onto other products in the capital equipment industry that can be targeted for export-promotion activities. Other elements of an offensive export-promotion strategy could include closer co-operation and establishment of partner relationship between EPOs and potential extruder exporters in order to assess the information needs of such exporters and to inform them of the export potential and on the market characteristics: Such a partnership between the EPOs and the potential exporters will enhance the export opportunity and will ensure that the correct export-promotion activities are arranged or provided by the EPOs for extruders exporting to Tunisia using the most appropriate and available export-promotion instruments.

Detail on issues related to the market in Tunisia can be gathered, analysed and made available to extruder manufacturers. Such market information is typically required by exporters (whether new or more experienced) and could include information on institutions that could be involved in the export promotion of extruders both in South Africa and Tunisia, e.g. export-promotion organisations in Tunisia, banks and relevant government bodies. This information offering should be tailored to the needs of the exporters and the stage of export of the exporter.

Focused communication is another element of an EPS that can be considered by EPOs. Exporters could be communicated with regarding the status of the export opportunity and Tunisia as an export destination and the DTI commercial attaché based in Tunis could be communicated with regarding the status of the REO and Tunisia as an export destination. Furthermore, extruder manufacturers and perhaps also exporters of extruder components could be invited to participate in general trade missions, and local and regional trade fairs, in addition to the traditional fairs organised by the DTI and the SACEEC. An example is the METEF-FOUNDEQ 2010 trade show held in Italy which focuses on the Middle Eastern and North African market, which will give greater prominence to the aluminium extrusion production chain (METEF-FOUNDEQ, 2010). Present at this event are typically the main extruders users and leading global manufacturers of extruder machinery, plants and

components. In addition, foreign Tunisian industry decision-makers and major importers could be invited to networking events organised by the DTI commercial attaché based in Tunisia.

EPOs can also consider developing and presenting tailored advanced export training and technical assistance with a particular focus on trade in North Africa and specifically Tunisia. Financial support for in-market marketing campaigns targeting the food-processing, plastics, and mechanical and metal works (especially aluminium) industries can be considered while an assessment of the trade barriers can be made and presented to inform local extruder manufacturers of these trade barriers and the way to manage them. Workshops and seminars on results of market research and recommendations on possible steps of action: E.g. a workshop for extruder manufacturers and in particular new exporters, focusing specifically on the export of extruders to Tunisia and by extension the Middle East and North Africa, could be organised. Such a workshop could be expanded to also include the wider capital equipment industry and the users of extruders in South Africa and Tunisia. One of the main purposes should be to determine the information needs of exporters and specifically new exporters and to assess whether the EPO could assist in providing such information (and also communicate the areas in which the EPO cannot assist). Previous research indicates that there are gaps between what exporters' needs are in terms of information and what EPOs provide in terms of advice, services, publications, and other trade promotion initiatives. It was found that EPOs provide a general and wide range of export-promotion services, including information that could be useful to exporters, yet the latter were unaware of these products and services. Making available all this relevant information to exporters in the identified product sectors would enhance the potential success of export ventures to identified markets, as it would enable exporters to develop detailed marketing and export plans based on the provided analysed information. It would also support the assessment of strategies, enhance competitor perceptions and efficacy of export operations, provide insights into competitor capabilities, and enhance long-term market prospects.

EPOs could offer a networking opportunity for companies that export to Tunisia inviting delegates from the DTI, the SACEEC and the Department of Foreign Affairs (DFA), and perhaps banks and logistics companies to provide relevant information. Tunisian commercial attachés should also attend such networking events. EPOs could provide information to extruder manufacturers on exhibits, trade shows and pavilions. The DTI identified Tunisia and Egypt as key destinations for South African exports for growth in the Middle East and North-Africa. EPOs could contact their Tunisian counterparts in order to assess the level of support available to South African exporters of extruders. These EPOs can also be valuable sources of Tunisian trade and industry information.

EPOs could investigate the advantages of promoting other products that fall under HS Chapter 84, together with extruders in Tunisia. Such products include rubber or plastic vacuum moulders, thermo-formers (HS 847740); parts of machines for working rubber or plastic (HS 847790); moulds, injection and compression, for rubber or plastic (HS 848071); and metal treating machines, electric wire coil-winders (HS 847981). Currently, South Africa does not export to or has limited exports of any of these products to Tunisia.

EPOs could start market development activities in Tunisia in the form of introductions of the product. This could include the gathering of local market information by the South African embassy staff based in Tunis. This competitive intelligence input from either the EPO and/or external organisations of information that has been synthesised, analysed, evaluated and contextualised must be used by the EPO in its export-promotion strategy formulation, and disseminated to the exporters. This would assist EPOs in achieving the export-promotion differentiation required for this particular market type (growing short and long term, and relatively small or no market share) and differentiation according to trade barriers and market concentration.

Enhancing the capacity of the SACEEC can be a further recommendation. This can be done by providing for additional information and analysis specialists for the capital equipment industry. At present, the SACEEC has no analysis capability and, therefore, no capacity to determine the key intelligence needs for its industry. Finally, an EPS could include market profiles of the markets that show the most potential for specific products produced and manufactured in South Africa be compiled under the auspices of the DTI, using the structure of the case study presented in this chapter, and that these profiles be regularly updated and made available to exporters.

The next section will describe the possible instruments for an EPS for jewellery of precious metals (except silver) to the United Kingdom.

9.4.3 Articles of jewellery to the United Kingdom

The realistic export opportunity (REO) for “Articles of jewellery in the United Kingdom” is found in Cell 11 of the categorisation matrix (Table 9.1) and thus relates to a large import market with a market share of South Africa which is relatively large. Moreover, according to the information from filter 3 of the DSM, the UK market for these articles does not seem to be very concentrated with a Hirschman-Herfindahl index of 0.132 and relatively high market accessibility.

Based on interviews, it was discovered that the South African jewellery exporters to the UK market are not sufficiently taking care of the market trends and the consumer preferences.

Therefore, as the UK market of jewellery is large, there is scope for more South African exports by both actual and new exporters.

Small scale jewellers in South Africa do not always have access to private loans to buy equipment needed for overseas orders. It is thus important for the DTI to assist these small and medium enterprises in providing financial assistance to get their export initiative off the ground. The DTI has financial programmes that assist first time exporters such as the EMIA scheme. This scheme provides the necessary financial assistance that South African jewellery exports need to enhance their presence in the UK. Other export promotion programmes include trade lead facilitation, In-market support, facilitating exports by matching potential exporters with foreign buyers and the EMIA financial assistance scheme.

Due to the financial crisis, there was a declining production in metal jewellery, especially gold. On the contrary, the production and consumption of jewellery made from platinum increased. The DTI can, through their foreign offices and foreign desks, assist new exports of jewellery by providing real time intelligence to exporters to keep them informed of new trends in target markets. The DTI can, therefore, advise South African jewellery manufacturers to focus on platinum jewellery even if it is only for a short time period until gold prices are stabilised.

The Jewellery Council of South Africa (JCSA) is the industry association for jewellery in South Africa. The vision of the JCSA is to create an environment for the South African Jewellery industry to become a successful trading hub for the continent Africa (Chikane, 2006). Communication between the DTI and the JCSA is very limited. The problem extends to the absence of communication between Gauteng and Cape Town jewellery manufacturers thus constraining the awareness of export opportunities. It is essential that governments develop effective communication programmes. Jewel City is an industry cluster in Johannesburg and is providing training schools; serves as an empowerment incubator and supports manufacturers. The main advantage of this industry is their focus on exports; they raise awareness of the jewellery industry and their financing arrangements. Although they are more focused on diamonds, there is an opportunity for other precious metals to collaborate with and this increasing the export potential (Kaiser Associates, 2001).

It is important that the jewellery industry must strengthen and widen their cooperation to enter in export markets. Exports of South African jewellery can be effectively promoted through joint marketing. There are limited efforts between players and small manufacturers as they have limited marketing resources. Joint marketing could be considered with the fashion industries to collaborate with a variety of successfully exported fashion products for instance clothing, shoes, watches and arts and craft. This will increase the awareness of articles of jewellery as a complementary product even though jewellery can be substituted

with the other fashion items. Such joint marketing ventures can be targeted at prestigious fashion events such as London fashion week. This event is hosted twice yearly and it is one of the world's biggest fashion shows (UK Trade & Investment, 2009). Exhibiting South African jewellery at such an event will increase consumer awareness of the product and also target high-end consumers. The JCSA and the DTI can collaborate to assist exporters by providing financial assistance as well as providing information on possible clothing designers with which South African jewellery producers can collaborate.

The consumption preferences of jewellery in the UK according to Kaiser Associates (2001) were characterised of earrings (31%), rings (25%), neckwear (21%) and wrist wear (14%). The UK is a traditionally 9-carat market and thus important for South Africa to emphasise their on 9-carat precious metal jewellery. The UK is one of the largest import markets of jewellery in Europe and for the past years. Bilateral trade in gold jewellery between the UK and South Africa has been stable in the past. It is essential to continuously promote these exports and this can be done through trade fairs in South Africa in the UK, to ensure future development in gold jewellery (Kaiser Associates, 2001).

Platinum jewellery imports are also a prominent component of the UK's trade inflows, mainly the bridal sector. Industry experts recommend that South Africa must focus on platinum manufacturing and exporting as great opportunities exist in this sub-sector for South Africa. This also creates an opportunity to jointly promote platinum jewellery bridal wear at bridal expos for instance. Platinum jewellery is a more innovative and dynamic market than gold jewellery in the UK.

Unfortunately there are negative perceptions of South African jewellery. South African jewellery is regarded as too exotic and "chunky" (Kaiser Associates, 2001). A major retail chain in the UK has the opinion that the UK needs more conservative and small designs of jewellery. SA exporters can benefit from the DTI's trade lead facilitation, which offer market information from foreign economic representatives in the various target export markets. These trade leads should provide exporters with insight into the consumer preferences and consumption trends. The DTI can also assist jewellery exporters through their scheme to match buyers and sellers. This will facilitate easier market access for South African exporters and enable exporters to communicate and adapt their product to meet the buyer's needs. Lastly, the DTI and the JCSA can provide technical support as well as in market support to assist exporters to adapt their product to meet the UK consumer's preferences and to sell their product successfully.

In addition, it is perceived that the price and quality ratio of South African jewellery is too high. It is thus essential that exporters receive financial information from the DTI in order to price the traded jewellery competitively. To conclude in this regard it important for South

Africa to approach the UK jewellery market in a unique, but conservative style of jewellery. Although the market share of South African exports of jewellery is growing it is important to attend trade shows. Kaiser Associates (2001) enlighten the importance of South Africa attending trade shows, in order to get the jewellery in front of a lot of buyers and these trade shows are the most effective way. There are six major trade shows which South Africa can attend to namely in Basel, Vicenza, Hong Kong, Las Vegas, Birmingham Spring Fair and the International Jewellery London show. The DTI should promote specifically participation of South African exporters these trade shows, both for existing and new exporters to the UK market.

There is also potential to have economies of scale or scope in export promotion by linking jewellery to related or potentially related products for which South Africa has already acquired a reasonable degree of comparative advantage, as well as their promotion. Mention can be made here of:

- (i) 330430 – Manicure or pedicure preparations (Cell 16)
- (ii) 330590 – Hair preparations, n.e.s. (Cell 11)
- (iii) 710239 – Diamonds (jewellery) worked, but not mounted or set (Cell 6)

However, there are also South African REOs for women or fashion products in the UK market that can be related to jewellery, for which South Africa has not sufficient comparative advantage, but which might be followed up as well in developing an export promotion strategy for jewellery and related products, such as e.g.:

- (iv) 330300 – Perfumes and toilet waters (Cell 11)
- (v) 330410 – Lip make-up preparations (Cell 11)
- (vi) 330420 – Eye make-up preparations (Cell 16)
- (vii) 610413 – Women's, girls' suits, synthetic fibres, knit (Cell 5)
- (viii) 610419 – Women's, girls' suits, of material n.e.s. knit (Cell 5)
- (ix) 610433 – Women's, girls' jackets, blazers, synthetic fibres, knit (Cell 20)
- (x) 610439 – Women's, girls' jackets and blazers, material n.e.s. knit (Cell 3)
- (xi) 610442 – Women's, girls' dresses, of cotton, knit (Cell 6)
- (xii) 610452 – Women's, girls' skirts, of cotton, knit (Cell 8)
- (xiii) 610453 – Women's, girls' skirts, synthetic fibres, knit (Cell 6)
- (xiv) 610459 – Women's, girls' skirts, of material n.e.s. knit (Cell 1)
- (xv) 610462 – Women's, girls' trousers and shorts, of cotton, knit (Cell 6)
- (xvi) 610469 – Women's, girls' trousers and shorts, material n.e.s. knit (Cell 4)

Among the above REOs those in Cells 16 and 20, but also those in Cell 11, should catch our special attention, as in spite of a low degree of comparative advantage South African producers are exporting these products to the UK market.

The list of related products above shows some of the potentials for economies of scale and scope in export promotion. However, with due regard of South Africa's present share in the UK market for jewellery, the promotion of jewellery products per se should not be diluted unnecessarily. In contrast, the present market share would warrant a market expansion EPS of "breaking in" into a large market, with instruments that are somewhat different from these used in order to tap into REOs of other large markets such as cells 1 and 6. This can be done by investment in future growth, e.g. by setting up a marketing and design advisory division in London. This division could then also be involved in market information and dissemination, the organisation of workshops and seminars, own exhibitions, etc. which are instruments that should be used in case of low barriers to trade and low market concentration.

9.5 Conclusions

Apart from being an instrument to identify export opportunities, export promotion organisations can also use the DSM results in the preparation and assessment of export promotion activities. In filter 4 of the DSM, the export opportunities detected are grouped according to the respective market shares of the exporting country in the various target markets and according to some general import market characteristics at the level of the respective products. Obviously, export promotion strategies will differ, and hence the export promotion activities required, between e.g. a yet to tap relatively small export opportunity which shows long-term growth in the past, and a large and relatively stable export opportunity in a country where the exporting country has already achieved a relatively strong market position. Appropriate export promotion strategies at product level can thus be designed, by taking this into account. In this chapter, we have explored this in some detail and attempted to make the strategic considerations based on DSM results as concrete as possible by illustrating the choices made in three detailed case studies of South African export opportunities. If one lesson can be drawn from this exercise it is that the DSM results provide input in this process of concrete strategy formulation, but that much more concrete and detailed information is required for designing an appropriate export promotion strategy. This important input should come from market research, both desk and field research, and from further competitive intelligence on given export opportunities.

References

- Alvarez, R. 2004. Sources of export success in small- and medium-sized enterprises: the impact of public programs. *International Business Review*, 13: 383-400.
- Chikane, A. 2006. Jewellery Council of South Africa Strategic Plan. [Online.] Available from: http://www.jewellerysa.com/index2.php?option=com_docman&task=doc_view&gid=27&Itemid=99999999. Accessed 23 August 2010.
- Cuyvers, L., De Pelsmacker, P., Rayp, G. & Roozen, I.T.M. 1995. A decision support model for the planning and assessment of export promotion activities by government promotion institutions: the Belgian case. *International Journal of Research in Marketing*, 12(2): 173-186.
- Cuyvers, L. 1996. Export opportunities of Thailand: A decision support model approach. *Journal of Euro-Asian Management*, 2(2): 71-97.
- Cuyvers, L. 2004. Identifying export opportunities: the case of Thailand. *International Marketing Review*, 21(3): 255-278.
- De Wulf, L. 2001. Why have trade organizations failed, and how they can be revitalized? *PREM Notes*, 56, World Bank.
- Foreign Agricultural Services (FAS). 2008. A guide to exporting food and beverage products to Germany. Report prepared by FAS staff in Germany. United States Department of Agriculture. [Online.] Available from: <http://www.fas.usda.gov/info/agexporter/1997/January&201997/germany>. Accessed 29 March 2008.
- Kaiser Associates. 2001. Programme, development, management and evaluation. [Online.] Available from: http://www.kaiseredp.com/new/proj_programme.htm. Accessed 24 August 2010.
- Kinnucun, H.W., Xiao, H. & Yu, S. 2000. Relative effectiveness of USDA's non-price export promotion instruments. *Journal of Agricultural and Resource Economics*, 2592: 559-577.
- Kühn, M-L. 2010. Exporters' information requirements: The role of Competitive Intelligence in the export promotion of extruders. Unpublished doctoral thesis. North-West University, Potchefstroom.
- Lederman, D., Olarreaga, M. & Payton, L. 2006. Export promotion agencies: what works and what doesn't. *Policy Research Working Paper Series: 4044*. The World Bank.
- McKinna et al. 2007. Strategic insights: horticulture Australia Ltd – Macadamia review HAL 0291. [Online.] Available from: <http://www.mckinna.com.au/case.html>. Accessed 14 May 2010.
- Metef-Foundeq. 2010. Expectations for METEF-FOUNDEQ 2010 exhibition. [Online.] Available from: <http://www.metef.com/ENG/home.asp>. Accessed 14 May 2010.
- Pearson, J., Viviers, W., Cuyvers, L. & Naudé, W. 2010. Spotting opportunities for international entrepreneurship in the southern engines: a DSM approach. *International Business Review*, 19(4): 345-359.
- Seringhaus, F.H.R. & Botschen, G. 1991. Cross-national comparison of export promotion services: the views of Canadian and Austrian companies. *Journal of International Business Studies*, 22(1).
- Seringhaus, F.H.R. & Mayer, S.F. 1988. Different approaches to foreign market entry between users and non-users of trade missions. *European Journal of Marketing*, 22(10): 7-18.
- Sithole, N.M. & Viviers, W. 2010. The export potential of South African edible nuts with special reference to the export of macadamia nuts to Germany. *Agrekon*, 49(4): 484-504.

South African Capital Equipment Export Council (SACEEC). 2009. General information on website. [Online.] Available from: <http://www.saceec.org.za>. Accessed 14 February 2010.

Standards Map. 2011. Global GAP. [Online.] Available from: http://www.standardsmap.org/assets/media/Fairtrade/Final_FLO.pdf. Accessed 13 June 2011.