

## SMES in Organic Sector in the Asia Pacific Market: Internationalization Strategies

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### Abstract

The aim of this work is to propose the internationalization strategies that will have the greatest impact on Mexican SMEs in the organic food industry that want to reach the Asia Pacific market. The study method is based on theoretical review of the internationalization theories: neoclassical and modern, tripod strategy that analyzes the vision based on industry, resources and institutions, as well as the types of foreign participation the companies can have. The results of the analysis shows that the tripod of the strategy, can be the best way for Mexican SMEs in the organic market, to start analyzing the entry to foreign markets, and do it the best way possible.

**Keywords:** *Organic food, internationalization strategies, SMEs internationalization, tripod of strategy*

### 1. Introduction

Mexican products have surprised the countries, categorizing Mexico as one of the richest cuisines in the world. There are geographic conditions that positively affect the production of inputs that cannot be produced anywhere else in the world (Cruz, Rindermann, Rufino, & Tovar, 2010). These conditions benefit producers and marketers of Mexican food. With the growing worldwide demand for organic products, it is seen that there is an important opportunity for SMEs focused on the marketing of organic food. In Mexico only 5,000 small and medium companies maintain foreign trade operations, less than 1 percent of total 3 million 960 thousand SMEs registered by INEGI (Mexicoport, 2012, s. P.).

Due to the low percentage of SMEs that send their products abroad, opportunities for organic food that can be offered, it is intended to analyze the strategies they can use to reach the Asia Pacific region. Below it will found records that show the beginning of the organic market and the trend of this consumption worldwide. The delimitation of the problem with the research question, and the justification show the concerns for growth of the sector and opportunities in the Mexican countryside in food innovation products. The aim of this literature review and study is to obtain some opportunities. A review of literature will give a good base for analysis of these businesses and provide recommendations and conclusions.

### 2. Background of the problem

Since the 80's the trend towards buying organic products has been growing. Arriving by concerns on issues such as health care, new eating habits and environmental care, a demand was created in developed countries. This demand could not be supplied by the same countries; therefore developing countries

started producing under guidelines that would achieve quality by the required market (Gómez Cruz, et al. 2010).

Organic production in Mexico dates back to the 60s, where a group of foreign investors seeking land that had not been used with chemical assets found in rural areas of Chiapas and Oaxaca (Rindermann & Cruz, 2010). Since then these states are the head of organic agriculture in Mexico, taking Mexico to be within the top 5 countries producing organic coffee in the world.

The World of Organic Agriculture Summary 2012, written showing the productive performance of countries worldwide, claims that Mexico has an area of 501.364 hectares are destined for organic agriculture, placing it at number 17. This section is headed by Australia, Argentina and the United States, with 17.2, 3.1 and 2.2 million hectares respectively (Willer, Yussefi-Menzler, & Sorensen, 2011).

Agriculture is one of the main economic activities in Mexico, contributing to be the 3rd country with more producers in the world. It is believed that this density producer is because agricultural production in Mexico is based on partnerships between small producers. Partnerships between small producers are known as agricultural cooperatives, which is in charge of collecting, promoting and selling inputs of small farmers. For 2007/08, the participation of small producers corresponded to 99.9% and concentrating 93.9% of the surface with an average of 2.9 ha per farmer (Cruz, et al. 2010, 28).

### **3. Delimitation of the problem**

The marketing of organic food has an impact abroad three economic levels. Sales of organic food and beverages in Asia Pacific reached the amount of 4.403 billion dollars (USD) in 2014 (MarketLine, 2014). Therefore, this research is aimed to improve and ensure the internationalization of companies engaged in the sector. The low participation of SMEs in the overseas market and demand for organic consumption has defined the following question:

What kind of strategies can implement the SMEs to be able to reach Asia Pacific market?

The importance of research focus on identifying factors utilization, which will be proposed based on the causes identified by several authors in the literature.

### **4. Justification**

Mexico is privileged by the geographical area in which it is located. It has access to trade and oceans bordering the leader of the world economy: United States of America. The new treaties of international economic cooperation show that Asia Pacific countries are a prominent target for Mexican companies, which must have solid internationalization processes to achieve established or doing business overseas bases. The target market was defined by a growth of over 13.8% annually in selling organic products, the highest compared to other regions of the world (Datamonitor, 2011). Asia Pacific includes areas of Australia, China, India, Indonesia, Japan, New Zealand, Singapore, South Korea, Taiwan, and Thailand. The growth of exports to Asia-Pacific has grown amounting to 17,262.9 million (INEGI, 2015).

### **5. Theoretical assumption**

The tripod of the strategy is the most influential strategy framework for SMEs to achieve positioning organic products in the Asia Pacific region.

### **6. Theoretical assumption**

The organic food market worldwide achieved sales of 84, 281 million in 2014 (MarketLine, 2014), featuring a 9.4% growth between 2010 and 2014.

## 7. Conceptual and theoretical framework

### 7.1 Organic market

Since the 90's it has spread concern for the environment, followed by health care and preferences for natural products. The creation of organic products arises from the demand for products produced without the use of fertilizers, without genetic modification and without chemical use (Rindermann, et al. 2010). This demand has created that the entire world's countries start producing under organic guidelines, and generate a commitment of countries to impose regulatory agencies.

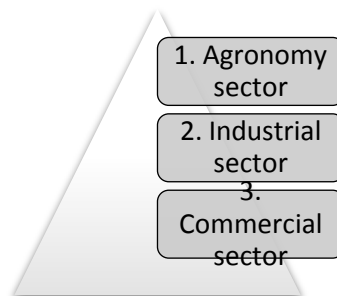
Europe is the geographical area that reported more sales in organic food, being the first continent to adopt this trend. The European market is considered a mature market, where consumer preferences are very rigid, and innovation of organic products are not surprise. It is anticipated that global growth tends to decline, however the Asia-Pacific reported an increase of more than 10% annually (DataMonitor, 2011).

In a study published reported in 2013 predicted that by 2014 sales of organic food in the Asia Pacific area would be worth 4417.6 million (KenResearch, 2013). Although the shape and parameters that were used to determine the estimated sales is unknown, it can be made a comparison with actual data. The Asia-Pacific market reported 8338.9 billion by 2014, an increase of 13.8% (DataMonitor, 2011). The growth of exports to Asia-Pacific has grown by more than 149% since 2006, reaching 17,262.9 million (INEGI, 2015).

The organic consumer's preferences are flexible; there is an audience that is accustomed to organic products. A report says that consumers by the lack of differentiation in products choose the similar products by their price (MarketLine, 2014).

The Transpacific Partnership Treaty aims to streamline marketing processes and reduce costs and terms of negotiations. The government of Mexico mentions that the Treaty of Transpacific Partnership, for short TPP, has 4 main features: the elimination or reduction of tariff barriers in 6 new countries and improvements in 5 with which already had treated. Promotes innovation and productivity, it supports small economies to benefit and integration of economies in productivity. The marketing of organic food has an impact abroad 3 economic levels:

Figure 1. Economic levels



Source: INEGI (2014).

The agronomy sector it belongs to the first economic level, the primary sector. This sector involves producers in the field, which incurred on purchase of machinery, seeds and plants, water, natural fertilizers and inputs and technical assistance and certified organic plantations. The industrial sector belongs to the second economic level, the secondary sector. The industrial sector is responsible for transforming the proceeds of the primary sector in a product ready for sale. This sector impacts the entire packaging industry and packaging machinery purchase by specialized people responsible for production and quality. This sector may also involve certification costs if the company does not perform the agronomic sector.

*Table 1. Internationalization theories*

Theory	Concept	Most important authors
Classic theory	Absolute advantage	Adam Smith (1776)
	Comparative advantage	Ricardo (1817)
Neoclassic theory	Uppsala Model – Nordic School	Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977)
Modern theory	Porter´s paradigm	Porter (1990)
	Networking theory	Johanson y Mattson (1998)

Source: Prepared based on Cardozo, P., Chavarro, A. Ramirez, C. (2007) and Aranda, Y., Montoya, I., (2006)

### **7.2 Uppsala**

The Nordic model school, better known as Uppsala model, was developed by Johanson and Wiedersheim-Paul (1975) and talks about internationalization in stages. These stages are gradual and move as the company gains experience abroad. These stages or as they call chain, are based on 4 links. The first link puts it in no regular or sporadic exports. The second stage in exports is through representatives. The third is the establishment of a branch in the target country. The fourth and last link is the establishment of production units in the foreign country (Cardozo et al. 2007).

### **7.3 Network theory**

The entry to foreign markets is defined by network theory. It discusses the approach that the company will be successful abroad because contacts and network individuals. These interactions achieve an accepted internationalization as networks to be found in the target countries that will have a profound knowledge of the market (Cardozo et al. 2007). Johanson and Mattson quoted by Cardozo, et al. (2007) analyzed internal networks also, saying that relationships that the company has with its suppliers, customers and competitors positively affect the company way.

### **7.4 Tripod strategy**

The tripod strategy, talks about the 3 most used and successful prospects of the strategy: Vision industry-based, resource-based view-based institutions (Peng, 2012) vision.

#### **7.4.1 Vision-based industry**

This vision was proposed by Porter, and has been used and improved in many strategic internationalization areas and the breadth of what is proposed. Porter speaks of 5 forces affecting competitiveness and how they can manage in the industry. Each force explains important determinants so the company can continue weak or strong in that industry (Peng, 2012: 35). Forces are listed below (Peng, 2012):

##### **7.4.1.1 The rivalry of competitors**

It analyzes the number of competitors that are on the market, the similarity between the products, which have capacity and the allocation of costs to the company. It is said that there are high degrees of rivalry can come into existence with price wars (Peng, 2012).

**7.4.1.2 The threat of potential inputs**

Meanwhile, it analyzes the barriers to entry to the industry that generate low product diversification, affecting the market by lowering product prices. Consumers are confused about which brand to choose and not generate brand loyalty. This threat affects the industry as a time exceeding the supply of products or services (Peng, 2012) arrives.

**7.4.1.3 The bargaining power with suppliers**

It focuses on the internal processes of enterprises, and is understood as the relationship they have with suppliers. If providers are unique and what is the reason that it can be changed and the impact that have suppliers with differentiated products in the company (Peng, 2012) products.

**7.4.1.4 The bargaining power of buyers**

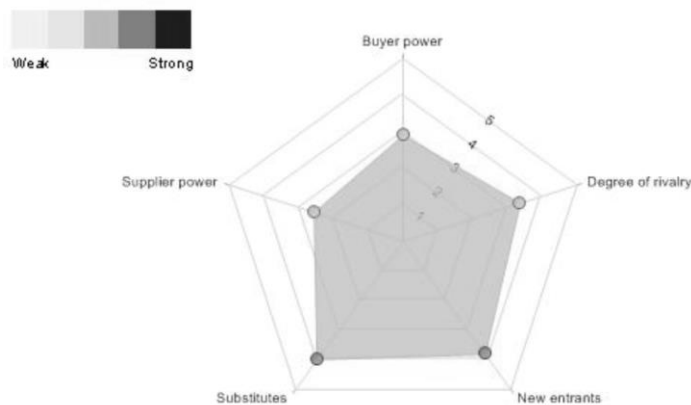
Meanwhile it is assessed the importance of the product or service the companies are giving to consumers, if consumers want products differentiated or not, and whether or not they trust the brand (Peng, 2012).

**7.4.1.5 The threat of substitute entry**

It focuses on the products which can be exchanged and have on the market. These products are characterized by meeting the same needs of products (Peng, 2012).

Porter's 5 forces will give the answers to the first column to the tripod strategy. Analyzing that Mexican SMEs in the organic sector wishing to export their products to Asia Pacific, it must be analyzed the entry and competition of SMEs in the organic sector:

Figure 2. Diagram of the 5 forces of Porter on competition for the organic market in Asia-Pacific



Source: MarketLine (2014)

The following table contains the data that were analyzed on 5 forces of Porter in the organic market in Asia-Pacific.

Table 2. Porter's 5 Forces Organic Market in Asia-Pacific.

Competitors rivalry	The rivalry score for the competitors is between 3 and 4, giving us an approach that is difficult to compete in Asia Pacific. It is believed that this rivalry is caused by Australia, the world's No. 1
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	producer of organic.
Threat of potential entries	The threat of potential entries is high, at 4 points. This means that there is no product differentiation, most of the products sold are fruits and vegetables, and therefore we cannot say the same of the products with organic innovation.
Bargaining power of suppliers	Bargaining power of suppliers in low, it is assumed that those who are in the market are small farms that support organic consumption.
Bargaining power of buyers	Buyers can only find products in retail stores and specialized organic markets, thus buying becomes somewhat difficult.
Threat of substitutes	In this case the threat of substitutes is high because there are many non-organic products, in turn can be replaced and cover the same needs as other products.

Source: DataMonitor (2010).

**7.4.2 Resource-based view**

The resource-based view analyzes four important aspects that companies need to contemplate. VRIO frame shows the competitive advantage of the company (Peng, 2014.71):

- a) Value. The first point of the frame VRIO analyzes that it must be kept in the company, only the resources that create value. There are capabilities within companies that do not create value, which may take it not be competitive (Peng, 2014).
- b) Rareness. Rarity value is different, because we can have a company with valuable skills, but if these are similar to those of the competition, we will have an advantage if not a competitive comparison (Peng, 2014).
- c) Imitation. Imitation is important when competitors cannot imitate. Find something that cannot be easily imitated within the organization, ensure some sort of advantage. Although it is the most difficult issues of VRIO frame, it must be considered and evaluated to have it in the company (Peng, 2014).
- d) Organization. Business organization must be well done. Although have value, rarity and imitation, organization must be part of the company so that the frame works and generate a real competitive advantage (Peng, 2014).

*Table 3. VRIO framework*

¿Valuable?	¿Rare?	¿Can imitate (\$)?	I it	¿It is made by an organization?	Competition	Performance
No	--	--		No	Competitive disadvantages	Below the average
Yes	No	--		Yes	Competitive parity	Average
Yes	Yes	No		Yes	Temporal competitive advantage	Superior to the average
Yes	Yes	Yes		Yes	Constant competitive advantage	Consistency superior to the average

Source: Peng (2010:72).

Mexican SMEs are found with valuable products because the organic market has not been 100% satisfied with rare products they may make product innovations making unique products. Although these products are not costly to imitate, they can be difficult to imitate for the products used to perform. Leaving Mexican SMEs engaged in making food products with innovation and meet the organic requirements into a competitive advantage temporary or constant competitive advantage. Mexican SMEs who offer organic food products innovation would be at a competitive parity.

**7.4.3 Vision-based on institutions**

To start and understand the vision-based on the institutions, it is known that the institutional framework is based on formal and informal institutions (Peng, 2010). Formal institutions are represented by laws, regulations and rules (Vargas-Hernandez, Guerra-García, Bojórquez-Gutiérrez, Bojórquez-Gutierrez, 2014: 133)

Asia Pacific is an area with a very large cultural and institutional distance difference with Mexico. These distances indicate the difference between cultures and the degree of similarity between the rules of the countries (Peng, 2010: 113). This distance can affect the way of doing business, generating high transaction costs and high entry barriers for Mexican SMEs. Two proposals as business strategies within the vision based theory of the institutions are (Peng 2010: 100):

- 1) Proposal 1: Companies rationally pursue their interests and make decisions within the constraints of institutional framework.
- 2) Proposal 2: Formal and informal institutions combine to control the behavior of businesses when formal institutions fail. Informal institutions become more important, reducing uncertainty for businesses.

**8. Types of international participation**

Eight ways to internationalize the companies, which are divided into two and differ in moving the tangible and intangible assets of the company to another country, or just send their products to foreign markets, are recommended for Mexican SMEs to venture into foreign markets (Peng 2010). Mexican SMEs have internationalized high costs of entering foreign markets. To remain 100% Mexican and to have some kind of internationalization, should consider the four internationalization strategies in the country of origin.

*Table 4. Internationalization strategies for companies*

Internationalize entering to foreign markets	Internationalize keeping assets in the country of origin
Direct exports	Direct exports
Franchises / Licenses	Supplier of foreign firms
Direct foreign investment (IDE)	Franchises/ Licenses of foreign origin
	Alliances with foreign shareholders
	Harvest and exit.

Source: Peng (2010:138)

Indirect export relates to send products through an intermediary. Being supplier of foreign firms can be very beneficial. This case goes hand in hand with franchises and licenses, and differs in the sense that the

company does not obtain the foreign franchise, but it can provide such a franchise of the country of origin entering in a foreign market.

The internationalization by licensing and franchising, benefits the company to have a world class business, learn from it and replicate it in the future, but involves issues of ethics and morality. This action is very common in the globalized world. Partnerships with foreign shareholders may be an option although not recommended, as they can use and exploit the resources of small businesses and not benefit them at all. Harvest and exit talk about entering foreign markets to be successful and sell. Actually this point is to win market and exit.

## **9. Analysis of results**

The literature review gives an overview on the situation of the SMEs to the Asia Pacific region. The picture shows although strategies or where to put care for successful internationalization. The process of the SMEs to any country must be escalated as proposed by the Uppsala model, for the company to constantly go reaching the desired market without high transaction costs.

Networks can benefit the company as long as they are internationally. If the company meets a recognized importer in Europe, it will not do anything for the Asia Pacific region. However, the importer can meet one goal in the region and help expand the network of the company. Tripod strategy gives us the best scenario for a SME may be involved abroad, for their ability to internal and external analysis: Porter's 5 forces give an overview of difficult environment to enter the organic market in Asia Pacific. Although this study shows mostly for agricultural products, it is considered that the companies that have organic food innovation will not have much competition or sales problems, but must be attentive to their suppliers.

The VRIO framework is interesting because it shows that the SMEs can have a constant competitive advantage, depending on the cost to imitate their products. It is noteworthy that the organization is a key to this frame work, having put much effort into the organization of the company factor.

The vision based on institutions although touches on issues of cultural and institutional distance which can seriously affect company costs, the country is carrying out actions that could reduce these costs. With the signing of the Trans-Pacific Partnership, tariffs will be reduced and will support SMEs in the process of internationalization. Internationalization strategies for SMEs must be through the country of origin. There is not some sort of strategy that is best for all businesses, but all depends on its scope and economic stability in order to determine the level of internationalization that suits the company.

## **10. Conclusion and recommendations**

SMEs certainly have an opportunity to enter the Asia Pacific market. It is known that being small businesses, often its actions do not go hand in hand with clear strategies. They act according to the motion. To achieve a successful export and not only make sporadic exports, if not entering the foreign market and maintained, it is important to have clear strategies, which the company knows that it can hold and attend day by day.

Broadly speaking, it is easy to say that this can be easily achieved, but it is the responsibility of the company analyzed internally and sincerely to choose the strategy it wants. Leverage its networks and maximize its capabilities, of course, without leaving aside the market that is already on. The following recommendations may be helpful and should be the first thing that must be evaluated after performing internal analysis:

- 1) Approaching the governing bodies of each state to support export, where they can attend fairs and business that may help us to begin this process.



- 2) Analyze the costs of the company; be clear on where the higher costs as well as costs incurred by being exporting company.
- 3) Be familiar with all government permits for the production of organic products, as well as very important organic certifications that may affect entry to these countries.

It can be concluded that these 4 mentioned schemes may give an overview Mexican SMEs to achieve successful position abroad. Yet, there will be much work to do, and as stated previously discussed with sincerity can be one of the biggest battles before going to see strategies for internationalization.

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