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Export Promotion

Sales Promotion for Latin American Products

by Dr Christian Wilhelms, Hamburg *

After the United States Western Europe is Latin America's biggest export market — a market full of opportunities and yet fraught with many difficulties. Sales chances here for Latin America are determined partly by the kind of products it can offer and partly by its marketing operations. It is proposed in the following to begin with an outline of the present sales situation and future prospects on the German market — by far the most important for Latin American products in Europe.

The Federal Republic of Germany presents to Latin American exporters greater opportunities than any other of the West European countries. With roughly 62 mn consumers (1973) the Federal Republic represents nearly one fifth of Western Europe's total consumer potential (roughly 330 mn), or nearly a quarter of the enlarged community of the Nine (roughly 257 mn)¹. Moreover, the above average purchasing power of the German consumer makes the German market even more interesting than would appear from the above figures. In 1973 the value of Germany's imports from Latin America amounted to US \$ 2.3 bn (a 33 p.c. increase compared to 1972). On the other hand Latin America's percentage share in Germany's total imports — 4.1 p.c. in 1973 — was relatively small and even decreasing²: in 1963 it had been 7.2 p.c.

This unsatisfactory trend is due to causes which are partly of Latin American and partly European origin. Quite apart from the obstacles put in the way of Latin American imports by the EC — and these may be manifold — the following factors would seem to be of importance:

□ Increasing diversification in the sphere of non-traditional semi-finished and finished goods and the relative decrease in the exports of primary products notwithstanding, traditional food, beverages and raw materials still predominate in *Latin America's export structure*³. Admittedly, non-traditional primary products as well as semi-finished and finished goods are increasingly found among

Germany's present-day imports from Latin America — such as: instant coffee, turkish towels, shoes, shirts, blouses, fruit juices and other beverages, motorcar engines and gear transmissions, sweets, furniture, articles of native handicraft, flowers, cutlery, tools, exotic fruit, leather goods, ready-made clothing, electrical equipment (motors).

□ Not rarely, the *preparedness of potential trading partners to accept Latin American goods* leaves much to be desired. This is due to insufficient contacts, inadequate information about the potential supply, low attractiveness of Latin American goods from the point of view of quality and price. Fear of difficulties in the conduct of business (suspected unreliability and insufficient experience on the part of suppliers; inflexibility of Latin American foreign exchange regulations, complicated import procedures), are some of the factors. Besides there are easier ways of importing goods and making profits, but incorrect assessment of the consumer preferences and of the marketability of Latin American products may also be responsible for the declining trend.

□ *The sales promotion methods adopted for Latin American products* appear to be frequently of dubious efficiency. True, there exists at least on paper a fairly impressive array of governmental export promotion instruments and a fair number of remarkable private initiatives. Generally speaking, however, there is considerable scope for developing Latin American marketing techniques abroad still further.

* The Hamburg Institute for International Economics.

¹ Calculations based on UN, Monthly Bulletin of Statistics, Vol. XXVIII, No. 8, August 1974, pp. 1-4.

² Foreign Trade figures published by the Federal Statistical Office: Foreign Trade, Series 1: Summary Review, December 1973, and Series 3: Trade according to Countries and Product Groups, 4th quarter and year 1973.

³ In 1973, 52 p.c. of German imports from Latin America consisted of agricultural produce, of which nearly two thirds were food. Of the remaining 48 p.c. industrial imports, 45 p.c. consisted of raw materials, 38 p.c. of semi-finished goods and 17 p.c. of finished goods. The finished products were to 55 p.c. end products, but the share of these end products in the total export was no more than 4.4 p.c.

In principle sales prospects for Latin American products do not seem to be unfavourable. For one thing Latin America's relatively small share in the German market offers chances of expansion — even in the face of the fact that Germany as a test market with a relatively very liberal import policy is already overcrowded, on the one hand, and the demanding attitude of its consumers, on the other. No spectacular impulses may be expected from the projected increase in the EC's consumer potential (estimated EC-population for 1980: approx. 268 mn). However there are some sales promoting factors:

Sales-promoting Factors

- ☐ a further diversification and modernisation of Latin America's product structure;
- ☐ tendencies towards an improvement and harmonisation of the general purchasing power, consumer habits and the fastidiousness on the part of the European consumer;
- ☐ changes in production structures and the present international division of labour with reference to labour, raw materials and environmental problems (transfer of labour and raw material intensive manufacturing processes from the Federal Republic to Latin America);
- ☐ a more liberal attitude and a greater willingness on the part of European trading partners to accept Latin American goods.

There are favourable perspectives for supplies corresponding to development trends in production structures, technology and consumer habits. Provided the goods on offer are "right" from the point of view of quality, that the quality is permanently maintained, that the prices are competitive, that the packaging is appropriate and delivery terms are strictly adhered to, there is no reason why Latin American products should not be successful. But even so, success presupposes constant alertness on the part of the exporters of Latin American products and to keep in mind the dynamic changes in competition and in preferences. Sales Promotion in the Federal Republic of Latin American products is of course primarily a matter for the Latin American exporters themselves, but their efforts have in recent years been receiving substantial German assistance, both from private and governmental sources and motivated by the German interest in international sources of supply. Thus, marketing activities in Germany are the result partly of the push effect of Latin America's own initiatives and partly of the pull effect produced by the German efforts for import promotion.

Sales promotion by Latin American firms is an essential without which the effects of any governmental efforts would be minimised. Activities in this field are manifold; they range from an initial probing of the market and the establishment of contacts, the conclusion of the first delivery contracts to the arrangement of a lasting cooperation with German importers or even the establishment of independent sales organisations. According to the product and the individual marketing concept one may aim at the role of a contractual supplier of large customers or operate through one's own marketing organisation.

All that matters is that, once having assessed the sales and having made the first contacts, the marketing policy one has decided upon is pursued consistently. Indispensable for such an endeavour are: market research (including travel); adjustment of the product (quality, design, packaging); sales organisation (specifically designed for exports) and sales promotion (advertising). It takes money to make money and businessmen who are not prepared to adequately "invest into the market" had better abandon any export ambitions. It is finally necessary to meet the requirements of the market and currently to support the German business partners in their efforts to promote the line of goods intended to export — and it would be a fatal error to underestimate the organisational work involved. Increased activity and initiative on the part of Latin American firms — either individually or jointly — may well be decisive in mounting a successful marketing operation. For, it would be vain always to expect the main work to be done by government agencies or the European trading partner.

The Role of Latin American Government Organisations

Public authorities in Latin America charged with the task of promoting exports can act as pioneers and smooth the paths of private enterprise. Their proper activities include market research, the gathering of information, acquainting German customers with the products on offer, establishment of contacts, public relations, looking after Latin American exporters during their visit to Europe, organisations of exhibitions. Not infrequently, however, they are burdened with the task of not only initiating business but also of carrying it through.

In addition to the national export promotion boards and the supra-national Centro Interamericano de Promocion de Exportaciones (CIPE), operating in Bogotá, there are the trade departments of the Latin American missions in Germany itself as well as governmental foreign trade of-

fices of some countries which play their part in promoting sales in the Federal Republic⁴.

It would also be possible for several smaller countries which do not find it profitable to mount an export office of their own to establish a common sales office in Germany. Another way of sales promotion would be for CIPE to establish a branch in the Federal Republic. Such offices could explore possible markets, establish contacts and supply potential German customers with information about Latin American products. Regional differences between parts of the Federal Republic may also make it worthwhile – at least for some of the larger Latin American states – to consider opening several smaller strategically placed branch offices. Suitable sites for them would be – apart from Hamburg and Bremen with their numerous facilities such as information centres, freeports and import firms – regional metropolitan centres like Düsseldorf, Frankfurt, Munich and Stuttgart.

Good results may also be expected from visits of trade delegations of Latin American firms to study market conditions, to start negotiations with possible trading partners and to visit trade fairs, etc.

Another proposition: the dispatch of small teams of observers to continually detect any sales opportunities that may currently arise and to establish first contacts between suppliers and their customers.

Import Promotion in the Federal Republic

German help can come from two sides: there are the activities of business quarters which are interested in strengthening the trade links with Latin America as well as the efforts made by the Federal Government to increase imports from developing countries. The most important private agents operating in this field are the German importers (import trade firms and directly importing retailers and industrial undertakings)⁵.

⁴ Particularly successful in this field is the OFFICINA COMERCIAL DE COLOMBIA in Hamburg. Within only a few years this office has been instrumental in bringing about a marked increase in Colombia's exports to Western Germany and other countries in which it is operating. By contrast it would seem that not too much may be expected of the trade departments of the foreign missions: they are often handicapped by frequent changes of personnel; in addition, they are charged with wider problems of a trade-political nature and diplomatic representation.

⁵ Mention must be made of trips for the purposes of information or buying undertaken by individual firms or trade associations, the taking-over of sales agencies of Latin American producers and the setting up by German importers, department stores and mail order houses of buying offices of their own in Latin America.

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

Mention must also be made of the banks, particularly those that specialise in trade with Latin America and also of German Chambers of Industry and Commerce, their umbrella organisation DIHT (Deutscher Industrie und Handelstag) in Bonn and the German Chamber of Commerce in Latin America. The Federal Association of German Wholesalers and Foreign Traders (Bundesverband des Deutschen Groß- und Außenhandels – BGA) in Bonn has been running since the beginning of 1971 a Contact Office for Promoting Imports from Developing Countries. This office also acts as an intermediary between Latin American exporters and German firms, helping both sides with expert advice. Of particular value to export promotion are the trade fairs and exhibitions held in the Federal Republic; e.g. the Berlin Trade Fair known as “Partner des Fortschritts” (Partners for Progress). Last but not least mention must be made of the Ibero American Association in Hamburg which helps greatly with the initiation of contacts by providing relevant information and advice.

Among the Federal Ministries concerned with the promotion of imports, including Latin American products, the most important are the Federal Ministry of Economics and that for Economic Cooperation. Special mention must be made of Bundesstelle für Außenhandelsinformation (BfA – Federal Agency for Foreign Trade Information) in Cologne, which currently provides interested parties with information about what foreign goods are on offer and what business opportunities are existing.

The Marketing Problem

There is a multiplicity of marketing tools available to launch a sales campaign for Latin American goods in the Federal Republic. But the method employed need not necessarily be very costly nor sophisticated. The Latin American exporter, to be successful, will have to select for his marketing campaign the means which correspond most closely to the needs of the sales organisation which he has decided to set up. The exporter acting as contractual supplier to a large buyer and endeavouring solely to meet his requirements, may not even have initiated the contact between exporter and buyer; his attitude towards marketing activities is likely to be different from that of the aggressive entrepreneur intent upon developing the market via his own sales organisation on the spot. Once a product has gained a foothold on the German market, however, and the problem now is how to extend that foothold, a sales drive to be successful will have to employ many more of the marketing instruments available, for now the firm enters into direct competi-

tion with its German and foreign rivals. The choice of the most suitable instruments depends on the type of products: consumption or investment goods, finished or semi-finished products or raw materials. Here we confine ourselves to some of the aspects which are of interest to firms which desire to gain an entry into the German market.

Product Identification

Chances of success are confined to products which meet the requirements and tastes of consumers and which are competitive from the points of view of material used, quality of finish and price. Great care and imagination must be exercised in identifying exportable products – and it is possible to get hitherto unknown products accepted by the consumer and turn them into important export articles, as the example of avocados shows⁶. Much thought must, however, be devoted to the problem of whether sufficient raw material is available to ensure output at an even flow and whether transport can be arranged so as to guarantee a steady supply reaching the market. To win a permanent share in the German market it would seem advisable to concentrate on a few highly competitive products of outstanding quality and become particularly efficient in this circumscribed area. Such a voluntary restriction is likely to produce much better results than to export any available product such as for instance shoddily produced mass products masquerading as native handicraft. Indiscriminate exports of this kind only ruin the image of the country of origin as a serious exporter. It must never be forgotten that the German consumer is very quality conscious. Even products which sell well in other countries – and that includes the USA – may find themselves rejected by the German market on the grounds of unsatisfactory quality.

Initiating Contacts

The ways of getting into contact with prospective trading partners are innumerable, both in the Federal Republic and in Latin America; many different private and governmental organisations exist on both sides of the ocean capable of introducing importers to exporters. To the Latin American entrepreneur contemplating to break into the German market we would say: make use of as many contact possibilities as you can. Begin, if

⁶ In present conditions imports with the following features should have an advantage: simple labour and material intensive products; products for whose manufacture well-known technologies suffice, but having a high wage content; improved variations of traditional products (food and beverages, technologically refined instruments); new products (new technologies, materials, tastes, designs and uses); labour-saving articles (preserved foods and beverages, technical devices); exotic articles which differ from the usual; products specifically designed for the use of foreign labour in Germany; products whose only difference from comparable German goods is that they are cheaper.

you like, with your own nation's export promotion offices, follow these up with German official and private representatives in your own country such as Chambers of Commerce, banks, shipping and air lines, and all the information gathered from these sources will produce a multiplier effect, as it were; you will by now have sufficient information and valuable suggestions to weigh up seriously your own export chances, to start making contacts with interested German firms and to plan a business trip to the Federal Republic. On German soil in particular you will have little difficulty in calling on industrial and commercial organisations, authorities and individual firms which will be willing and able to put you in touch with firms most likely to be of use to you.

The many trade fairs and exhibitions held in Germany provide excellent opportunities for making contacts. Mention must also be made of the many trade directories. Some of these you may consult even before travelling to Germany at the offices of the German diplomatic missions (Embassies, Consulates) and Chambers of Commerce in your own country.

Market Research

An accurate assessment of the chances of success of a particular product is only possible by means of a thorough market research. The initial *market analysis* will reveal what, if any, sales may reasonably be expected. It must be followed by a *continuous observation of the market* long after exports have begun, for this necessary control will enable the exporters to make adjustments in his marketing policy in the light of the latest situation. Naturally, a thorough research into German market conditions is not of equal importance to all Latin American exporters: a thorough-going research into market conditions is essential to a firm which intends to devote an appreciable part of its operation to exports to Germany (they may want to extend their capacity in anticipation of exports to Germany; establish a sales organisation in the Federal Republic and decide on the most efficient selling system). Market research is of less importance, if not superfluous, to the exporter

☐ who deals exclusively with large and highly efficient German import trading firms which are intimately acquainted with market conditions and do their marketing in an expert manner, so that the exporter need do no more than deliver his products according to instructions;

☐ who supplies one of the big and efficient chainstores or mail-order houses operating on the entire German market and whose orders absorb practically the whole of the suppliers capacity;

☐ who is less aggressive in his marketing methods being content with executing orders from German buying offices in Latin America thus leaving the marketing entirely in the hands of the German firm concerned.

But apart from this, there are broadly speaking three major ways of sounding the German market. They are:

☐ market research by the would-be exporting firm itself. In this case the firm will base its assessment on statistics and other data culled from the press and governmental and private sources;

☐ evaluation of already existing surveys on market conditions for certain products or lines — obtainable, partly free of charge, from national or international organisations for the promotion of exports, market research institutes or German institutions like BfA, market research sections of large newspaper publishing firms or appropriate archives such as those kept by the Hamburg Institute for International Economics;

☐ the commissioning of the professional services of a market researcher or of one of the numerous reputable German or international institutes⁷.

Choosing a Sales Outlet

Germany's highly developed distributive system offers the Latin American exporter a multiplicity of channels for his products. In the interest of enduring success what matters is not so much bringing of one big spectacular deal but finding a sales outlet which ensures the widest possible distribution. Choosing the wrong sales outlet has been fatal to many sales chances. It pays therefore carefully to assess the value of each stage of the trading process and the characteristic features of each type of firm entering into it. As far as the Latin American exporter is concerned he is faced with the choice between the following propositions: Cooperation with firms acting as representatives (with storage facilities of their own or where goods can be held on consignment; commission agents); the appointment of an importing firm and/or of several regional German wholesalers to act as the exporter's sole agent; direct sales to large retail enterprises and/or centralised buying organisations of the retail trade (stores, mail order business, multiple stores, voluntary retail chains, buying cooperatives); the establishment in Germany of a sales organisation of his own, but possibly also in association with other Latin American firms.

⁷ Compared with Latin American standards these services are more often than not rather expensive: this applies, generally speaking, to all services in Germany; even if the exporter undertakes to study the German market himself he will find that he needs expert knowledge, time and money. Finally it must be borne in mind that market research is an investment which forms the basis of exports and therefore profits.

Each one of these possibilities has its advantages and disadvantages. But whatever way is chosen it takes time to develop the business. It is therefore inadvisable to change one's German business partner abruptly if he fails to come up to one's — perhaps too optimistic — expectations. It would perhaps be more appropriate to look into the reasons why the response of the market has been disappointing; perhaps the product is not quite in line with market requirements, then again the publicity may have been insufficient, or the co-operation with the German representative not close enough.

Pricing

On a "buyer's" market like the German Federal Republic prices are the function of supply (competition) and demand (requirements; buyer's preferences). The only exceptions are the prices of a few goods and services fixed by the Government. The supplies are multifarious and so is the demand: there are chances to sell goods of high and low quality, for cheap and expensive articles, and the sales chances do not solely depend on the price. This is not to say that the price should stand in the way of a sale. Factors entering into the exporter's final price which he must charge to his German trading partner are:

☐ his *production costs* (allowing for their reduction owing to greater quantity) and export distributing costs. As against these must be set cost-effective governmental aids.

☐ *the prices the goods will fetch* on the export market (the prices charged by the competition for comparable goods). In this connection the increasing intensity of competition tending to depress the price level, on the one hand, and the price increasing purchasing power of the German consumers, on the other, must be given their full weight. To arrive at a reasonable assessment it is necessary to study the market, to compare the prices charged by department and specialist stores, supermarket and other retail outlets. Excellent surveys of the entire range of consumption goods are contained in the bi-annually appearing catalogues of the big German mail order concerns (the most popular range offered, quantities and sizes, packaging, prices).

☐ *The level at which the German trading partner is operating* determines the percentage which must be deducted from the final price. Importers and wholesale traders receive larger discounts than retailers buying their goods directly, bulk purchases cost less than small orders.

The price charged on the Latin American home market is no guide at all. Generally speaking it

is not advisable to alter prices frequently and without good reason, to indulge in exaggerated ideas about profits to be derived or to increase prices for repeat orders. Reliability is essential also in the exporter's pricing policy and price levels should be maintained for as long as possible. The need for keeping prices stable necessitates on the other hand a certain margin in the cost calculations which should be sufficient to absorb minor cost fluctuations.

No Pat Solution

It would be to optimistic to expect in the short run appreciable increases in the Latin American sales on the German market. In the longer run, however, the range of Latin American traditional exports is likely to extend by the addition of modern industrial products such as those of the electronic industry. Such a structural change in the Latin American export goods should lead to an improvement in their sales chances⁸. In view of the demanding attitude of the German public and German importers and the fierce competition from German and foreign firms, the Federal Republic with its great buying potential is no easy market to satisfy. There is no pat solution, providing the Latin American exporter with an answer to his problems. As the experiences of some of his competitors have plainly demonstrated, the obstacles he will find barring his way into the German market can be overcome, however⁹.

In common with his competitors the Latin American exporter must go in search of some hidden demand. His next step must be to direct the public's attention to his own products by making them particularly attractive. If he is to exploit his chances to the full he must regard and develop his exports to the Federal Republic as a permanent and integral part of his selling programme. This demands of him a well thought out marketing strategy and the application of its most important instruments — market analysis and observation, the adaptation of his product to the specific requirements of the German market, choice of the appropriate sales channels, price policy and terms of delivery, publicity and after-sales service. The marketing chances will increase as the Latin American product structure becomes more modern.

⁸ As Petersen points out, these chances will be determined by Latin America's industrial competitiveness. This competitiveness will be measured by the ability to supply standardised qualities at a sufficiently high level with fixed delivery dates, and by the absorptive capacity of the markets. Hans J. Petersen: *Die Stellung Lateinamerikas auf den Märkten der Europäischen Gemeinschaft* (The Position of Latin America on the Markets of the European Community). In: *Wochenbericht* (weekly report) 25/74, German Institute for Economic Research, Berlin, 41st year, June 20, 1974, p. 228.

⁹ cf. Klaus Boeck: *Exporting to the Federal Republic of Germany*. In: *INTERECONOMICS*, No. 6, 1974, pp. 192-196.