

# [The industry of mechanical sugarcane harvesters marketing essay](https://assignbuster.com/the-industry-of-mechanical-sugarcane-harvesters-marketing-essay/)

This estimation and the mezzo analyses in the thesis show that the sugar and ethanol biofuels industries, which are dependent by sugarcane industry, are prosperous. For BBM, this creates an optimistic business climate for entering the market. Furthermore, the sugar market is enormous and the ethanol market is only slightly smaller. The need for both goods will foster the sugarcane industry directly with improved harvesting. Consequently, the sales of the New Sugarcane Harvester will increase if the other two industries are successful. The industry’s estimation as a whole is expecting to sell 50 % to 55 % of their harvesters during the first three months of 2010. In 2009, 450 machines were sold during the first three months of 2009 and, in 2010, 600 machines were sold. The leaders in the industry, John Deere and Case, both reported sales increases of 30 % to 60 % for the first three months of 2010 compared to 2009. The industry as a whole is expecting sales of 1, 200 machines in 2010, compared to 970 machines sold in 2009 (Sale of Sugarcane Harvesters Up Sharply in Brazil, 2012).

According to the article Sale of Sugarcane Harvesters Up Sharply in Brazil (2012), the experiences are that orders of harvesters from customers would be in September or October, to be delivered in February or March, in order to start harvesting on time. For example, the Case introduced air lifting in engines and spare parts to accelerate the manufacturing process. The Case factory in Brazil can manufacture five harvesters per day with one shift. If they were to add another shift, they would need more spare parts from their suppliers. Another example, the John Deere Company, is operating at 100 % capacity as compared to 80 % in 2009. They expect to sell 30 % more mechanical sugarcane harvesters than during the first three months of 2010 as compared to the same period in 2009 (Sale of Sugarcane Harvesters Up Sharply in Brazil, 2012).

## Entry strategies for the New Sugarcane Harvester to Brazilian market

For the purpose of thorough research and better understanding of BBM’s enter into the sugarcane harvesting market in Brazil, I also conducted an interview with the CEO of BBM, Jochen Braksiek. He has been following this project since its very beginning. In the semi-structured interview, we discussed the entry strategies for BBM and the problems that might occur. We also discussed the two possible entries into the Brazilian sugarcane harvesting market.

The project management and the BBM’s perspective contemplate two plausible options for entering the sugarcane harvesting market in Brazil. One is the mix between joint venture and foreign production and another is ownership. The reasons for these two options are barriers such as tax barriers, production barriers, import barriers, cultural barriers, governmental barriers, etc. For example, the tax barriers are big in Brazil, and the foreign investors are forced to produce or set production in Brazil. Importing is too expensive. A solution for BBM would be producing special spare parts such as steering systems, hydraulics or cutter head in Germany and assembling in the production facility in Capivarí, Brazil. With this strategy, it would be easier to overcome the high tax walls that Brazil has. Another issue is the expensive human capital; when sending people from Germany to Brazil, not everyone is happy to leave his life for another country, especially to a developing country. This is a costly procedure for companies; they need to encourage and motivate with higher salaries or other benefits. One is leaving the home country for work abroad another is to adapt to a new environment. Cultural issues can occur, such as the language barrier, communication barrier. However, the state of São Paulo is not far away from the European standards, which might result in easier adaptation for some.

Mr Braksiek believes there are two possibilities for BBM to enter the market and one is the joint venture with Hibrema and EMME2. The New Sugarcane Harvester will be assembled at the partner’s facilities in Capivarí. The advantages of this entry would be (Appendix C):

Entering with a Brazilian partner;

Maintenance and service;

Administrative and authority issues;

Exit.

To enter the market with partners would help BBM to overcome the cultural, understanding and language barriers. They could help the joint venture with their local knowledge and responding to the market conditions would be faster. The maintenance and service of the New Sugarcane Harvester is an important advantage. The partners were working with the product constantly and they know the product’s settings very well. Their support could solve service issues; for example, they could react fast if the customer is facing problems on the machine. The administrative and governmental issues could be described as advantageous as well. In this point, they already have the local administrative and business knowledge to react to various tax laws, accounting or other business-related issues. Furthermore, if the product face troubles and if evidence shows that operating with this project is no longer viable, then in a joint venture an exit present an easier solution than in, for example, ownership. The last part of the advantages is the joint venture as an entry strategy. Although the project is looking prosperous, it still has disadvantages, which are listed below (see Appendix C):

Low management and leadership influence;

Payments and cash inputs;

Shared profits;

Controlling.

As seen above, disadvantages include middle management and leadership influence. This means that BBM will not have the full control over the project. Every bigger decision has to be discussed and this can create flaws in the production and late responses to the market conditions. The next point is payments and cash inputs. The partners are new to BBM and they have not done business together yet; therefore, a threat always exists of not paying their agreed liabilities, especially with companies from the third world. The third point explains that every joint venture means shared profit. BBM has to invest into the project, which could result in uneven distribution of profit. The last point describes controlling of the project. Somebody has to control the project and the partners, which means that BBM has to send their people to Brazil. Firstly, to send employees to Brazil is expensive; secondly, not every employee is willing to adapt to the environment.

The second option is Ownership, which might come into force. The company has studied the option and this one might be less likely than the first one. Mr Braksiek again explained in the interview the advantages and disadvantages of this possible entry. The advantages for this option are listed below (Appendix C):

High management and leadership influence;

No shared profits;

The company’s employees lead the project.

Management issues of the project are very important for ownership. The power in the decision-making processes would be in BBM’s hands. For example, companies such as Case or John Deere have all set up affiliate companies in a form of ownership. For them, it is reasonable to take this option, because their products were already successful in other countries. The second point indicates that all profit made with the product will stay with BBM. The third point describes the personnel working abroad. Trust in employees plays a major role in entering a new market; therefore, BBM believes in their own engineers rather than in Brazilian ones. Ownership brings disadvantages as well, which might prevail over the advantages (Appendix C):

Entering without partners is difficult;

High costs of human capital;

Governmental and administration issues;

Capital and running costs of ancillary facilities.

Entering without a partner is an important issue in Brazil. It is difficult to enter the market without any partners, especially in an unknown and developing market. Small problems could come across, such as bureaucracy or even setting up a business. The second point describes the high costs of human capital. Two possibilities exist here: hiring locals (Brazilians) or expatriates (German). Most cost effective would be hiring the first group, but regarding knowhow it might be better to hire the second group. The third point describes the governmental and administration issues. A consulting agency should probably be hired to clear these issues. Otherwise, it would be too time consuming for the company, reducing its ability to concentrate on other issues. The last point describes the capital and running costs of ancillary facilities. In Brazil, opening a business is neither difficult nor expensive; however, it is hard to close down a business. The Brazilian government tries to motivate foreign companies to establish their business in Brazil and stay there. Opening an affiliate at that phase would present a higher risk than the first option.

In the conclusion of my conversation with Mr, Braksiek, BBM still had not decided what option to choose. The first option might have lower risk than the others, but companies such as John Deere or Case have chosen the ownership option. Considering the first option might bring more success to BBM in short term period, but in the long-term ownership is the better option for Brazil.

## Strategy Suggestions for BBM for entering the Brazilian market and positioning of the New Sugarcane Harvesters

Germany is one of the world’s leading exporters, right behind China. Their companies enjoy good brand names on international markets in terms of expanding business abroad. Brazil is a market where many German companies have already subsidiaries established, and this is a chance for BBM to use these proven channels. In my opinion, BBM could enlarge their business on emerging markets such as Brazil, because opportunities for future growth exist. The internationalization process of BBM started in 2009, which was also the beginning of increased commitment on emerging markets. In Johanson’s and Vahlne’s (1977) internationalization model, BBM strives to affect commitment decisions in current activities, such as mining or mechanical engineering, which could result in long-term profits and growth (see Figure 1).

BBM shows a desire to move their operations to Brazil in the sugarcane harvesting market, which is one of the goals in the vision of the company. Other new projects are on the way, in Mongolia, China and Australia. My suggestion for the company before taking the last decision to enter a market is to enquire as much as possible regarding data and analyses of the markets. In my opinion, it is also hard to find valuable employees externally, ones to whom you can trust your business operations abroad. Furthermore, it is also important to find the right internal employees, who are ready to move abroad and live as expatriates. Training and preparing BBM’s employees for working abroad would be my suggestion, so that potential problems with personnel could be overcome.

Moving operations to Brazil into the sugarcane harvesting market needs the correct entry strategy, which is related to costs, risks and degree of control. Entering the market in the agricultural sector requires time, effort and financial power. It is difficult to create a brand name in short period of time; therefore, I would suggest entering the market in a joint venture with local partners. BBM could benefit in accessing to local knowledge and network of relationships. However, BBM have to be careful with sharing their knowhow, because these partners are new. Intellectual property rights protection is low, even though the Brazilian government put major efforts into changing this. Also, the management should be sensitive in terms of control, because it can be difficult to recover capital later when the damage is done. BBM’s competitors on the sugarcane harvesting market have entered the industry with an ownership strategy, which was very costly and time ineffective for them. In my opinion, ownership would be an inappropriate entry strategy for the New Sugarcane Harvester. The inflexibility of ownership would be too risky for BBM, because of the high costs of closing a subsidiary and exiting the market. BBM could also manufacture the New Sugarcane Harvester in Germany and export it to Brazil. This method would be the most convenient way to increase sales, but in this case the 35 % import tax makes this entry strategy impossible.

Frequently used criteria for defining emerging markets are poverty, capital markets and growth potential (see Table 1). With its current president, Brazil is politically liberally open for foreign investments. In economic terms, the country is in good condition in comparison with other developed countries. The annual GDP growth in the first quarter of 2012 was at 1. 4 % (see Figure 2), real GDP growth is expected 4. 2 % (see Table 1) in 2013 and forecasts indicate that will rise to 5 %. FDI reached USD 5. 9 billion in March 2012, which indicates the huge amount made by international companies. Brazil has over two hundred million inhabitants and the number is rising, while education is improving, and it is becoming increasing important for Brazilians to get a proper job. The technological and infrastructural environment is being modernized. More spending on R&D activities is being accelerated by the government. According to the PEST analysis, BBM should use these positive benefits that the Brazilian government is offering. Having entered the market, BBM should show respect to Brazilian behaviour, because misunderstandings are likely to occur. I suggest that BBM’s management should be taking in account that the society believes in hierarchy and that inequalities are accepted. The executive has the complete responsibility; if he is older, respect must be shown. Brazilians are naturally competitive, even from a young age; this fact could help BBM to improve their negotiations and managers have to consider the passionate way of showing emotions. Brazilians are future-oriented and they try to find business opportunities everywhere.

The Brazilian agricultural market is still a developing market. Nonetheless, growth in agricultural submarkets in Brazil is a major opportunity for BBM. It is the most promising sector, because Brazil has huge agricultural territories, suitable temperatures, decent rainfalls and an inexpensive labour force. The GDP in agricultural sector in 2011 stood at 5 % and Brazil is the third largest exporter in agricultural goods behind the United States and the European Union. One of the main imports is machinery from Europe. Employment in this sector in 2011 stood at 18 %, while forecasted in 2016 at 16. 1 % (see Table 2). The unemployment rate stood at 5. 8 % in May 2012, tending to decrease in near future (see Figure 3). This sector is decreasing to other sectors, because more machines are being used, accompanied by less manual harvesting. For example, value added per agricultural worker is four times bigger than in the rest of the world (see Figure 7). This is a result of increasing production and imports of agricultural machines in recent years. According to the analysis, BBM can only benefit. The good working and business climate is an additional motivation for setting up a business in Brazil.

The booming international sugar market needs be considered by BBM. The current global market situation is experiencing significant price volatility; the highest price for sugar was at USD 795 per ton in 2011. Projections show that the price will decrease, but will still remain moderately, mainly because of new countries from Middle East and Africa, which are expected to enter the international sugar market. However, Brazil is known as the largest producer and exporter of sugar. The prices in Brazil are fluctuating, mainly because of atypical weather conditions and/or higher consumption. The projection for the production and consumption of sugar is projected to increase by 50 Mt and 38 Mt in global terms until 2020. It depends on the sugarcane production (see Figure 4). High sugar prices would present a positive issue for BBM. They could focus more on companies where a sugarcane harvester is needed, e. g. the Brazilian company Cosan.

The Brazilian ethanol (biofuel) industry is another important market that also depends on sugarcane production. It is one of the main suppliers of ethanol to the world. People tend to switch to alternative fuels rather to use fossil fuels in the near future. Biofuel includes lower carbon dioxide emissions and is thus more environmental friendly than fossil fuels. Furthermore, more people have cars than before. Global and Brazilian demand is projected to increase in the near future. Prices were unstable in the recent years, the highest value stood at R$2. 50 per litre in September 2011; however they fell again to R$1. 10 in January 2012 (see Figure 6). BBM could benefit here; when the oil prices are high biofuel could be used; it is usually cheaper. Production is projected to grow by 50. 39 billion litres annually until 2020 (see Figure 7). In my opinion, this means more sugarcane harvesters could be sold if production increases. According to the mezzo analyses, I suggest that BBM screen the markets and follow the forecasts carefully.

Both sugar and ethanol (biofuel) depend on the sugarcane production. In addition, there is a third by-product, bagasse, which could be used in industrial fibre products. Brazil is the only country that can switch 5 % – 10 % of its milling capacity between sugar and ethanol production. This is the reason Brazil is flexible in exporting sugar or ethanol to the international markets. The prices of sugarcane stood at R$70. 34 per ton in 2011/12 (see Table 3). The state São Paolo is producing the most sugarcane (see Figure 13): 304. 230 Mt in 2011/12 (see Table 7). Forecast sugarcane production will increase; estimations for total production are 509 Mt in 2012/13. According to this analysis, I would suggest that BBM start its business in the São Paolo area, specifically in Capivarí, approximately 150 kilometres from São Paolo. The company Hibrema is situated in Capivarí as well. In my opinion, this would help BBM’s integration on the Brazilian market.

The sugarcane harvesting market is directly affected by the booming markets. Multinationals have already created subsidiaries just to enlarge their business in the recent years. According to Porter’s five forces analysis my suggestion is:

To follow the artificial sweetener and gas/oil industries;

To find buyers from different industries;

Buy essential parts only from Germany;

Protect knowhow;

Lower the high storage costs.

The threats of substitutes are the artificial sweeteners and the gas/oil industries for BBM. They should carefully follow these industries, because they can lower the demand of sugarcane. In my opinion, BBM cannot influence these industries, but at least it can prepare for potential shocks. The sugarcane harvesting industries has a range of buyers, for example small and medium-sized farmers, beverage producers, biomass plants, sugar producers and ethanol (biofuel) producers. BBM should give more attention at the beginning to smaller buyers, in this case beverage producers and farmers. However, when service and maintenance facilities are working without technical problems, then BBM should give more attention to larger buyers, in this case sugar producers and ethanol (biofuel) producers. In terms of threat of supplier power, BBM should buy only essential parts in Germany for assembling in Brazil. However, supplier threats are low, mainly because the product is standardized. I suggest that BBM protect their knowhow from local companies, because it would be useful for potential entrants. The competition in the sugarcane harvesting industry is tough, but the demand is huge. BBM has the advantage among competitors in price, differentiation and creatively using distribution channels. Multinationals like John Deere or Case have the advantage of their financial power and as well-established agricultural manufacturers, but they are relatively new on the sugarcane harvesting market. BBM with its New Sugarcane Harvester has the advantage of a flexible and technology-based product. Also, if BBM could avoid or lower the high storage costs of the product, this could increase their competitive advantage. In my opinion, high storage costs harm competitors more than BBM.

In my opinion, BBM should concentrate firstly on Brazil, which is the biggest sugarcane market in the world. Learning from mistakes on the sugarcane harvesting market could bring valuable experiences for the company. My suggestion is to standardize the product in the Brazilian sugarcane harvesting market and later to enlarge business in other markets. For example, countries such as Thailand, China, Pakistan, India or Australia have huge sugarcane fields, and these are opportunities for BBM. In addition to this, projections show that sugar production will increase until 2020 in countries like Thailand, Australia, India and Mexico (see Figure 5). Also, sugar imports by 2020 will increase in countries like United States, Russia, China, India, Indonesia and Japan.

The New Sugarcane Harvester showed promising data while testing. In comparison with other competitors, the product achieved better results in majority of areas of testing. According to Fuchs’ and Diamanopuoulos’ (2010) positioning strategies, I suggest that BBM position the product with a mix of abstract attributes and direct functional benefits. The reasons for this strategy mix are the frequently comparable products among farmers and the advantages of the New Sugarcane Harvester (see Table 6). I suggest selling the product with its strongest attribute, i. e. that it is the only harvester that crops stalk and leafs separately and leaves the plant alive. In my opinion, it is important to sell it under the “ Made in Germany” brand, because Brazilian customers believe in German machines. Considering the type of harvesting, my suggestion is to position the product between the manual harvesting and the competitors’ mechanical harvesting (see Figure 7). Manual harvesting is going to be a big issue for governmental regulation in the coming years. For example, if manual harvesting will be banned, a large proportion of customers have to mechanize harvesting. According to a simple calculation made in the thesis, 300, 000 New Sugarcane Harvesters can replace the manual workforce (see Equations 1 and 2). This is unlikely to happen, but it is still a positive fact that BBM should consider. Apart from this fact, the competitor’s products are twice or thrice more expensive than the New Sugarcane Harvester. Therefore, to market the product locally, my suggestions to BBM would be, for example, visiting the potential customers on their fields, presenting themselves on fairs or creating open doors of production facilities for small and medium farmers.

## CONCLUSION

This thesis has offered an insight into the international activities of the BBM. Primarily, one of the purposes of the thesis is to discuss is the international commitment and entry strategies that are based on the sen and Vahlne model. Besides the general internationalization process of BBM, a country analysis of one of the BRIC countries on a macro level has been done. This thesis emphasized the sugarcane industry in Brazil and its potential for foreign investors. Brazil and the world need more sugarcane by-products such as sugar or ethanol. Therefore, a need for increased productivity in the sugarcane harvesting industry exists. The New Sugarcane Harvester has significant potential to enter the Brazilian market and to be positioned properly. Every year, new sugarcane harvester manufacturers are entering Brazil and having successful sales. The New Sugarcane Harvester is a prototype product project, which might be launched very soon on the Brazilian sugarcane market. Calculations of how big the industry is and how many harvesters could be sold are also emphasized in the thesis. However, the main idea of the thesis is the positioning of the product in the Brazilian market. It offers huge potential for investing and growth; therefore, I have described various strategies for entering the particular market. Hereafter, I confirm my main idea of the thesis and answer the research questions and accept the hypothesis.

After analysing the proposed conclusions, I realized that some additional facts have to be considered. Information collected by the company (which is stated as the internal source in the thesis) needs to be updated. It might be possible that some collected data is not current. Besides that, more is needed than just positioning for launching the product on the market. A combination of a marketing mix strategy and a business plan might add value to the project. Not only one marketing strategy is enough but also branding, financing, logistics might be needed. The data collected from interviews with the top management in the company have contributed to the thesis, developing a deep insight into a company and its international activities. Therefore, the thesis gives a clear positioning strategy to the company and this answers one of the main goals of the thesis.

BBM has made a major step big towards international markets. Firstly, their international commitment has increased in recent years. This happened mainly because of changing strategies towards international markets, which is now globally focused. The vision has also changed towards international commitment. What is also significant is that new partners are looking to enter together onto new markets. Secondly, time is needed to obtain adequate the experience. The first projects took more effort and time than the projects started in the recent past. It might not be enough merely to study the written environmental analyses. Experience has shown that the environment could be different to that which appears in written analyses. It is therefore important to talk to local partners, learn their habits or even the language.

For investors, BRIC countries have special significance. All these countries that are considered to be BRICs, have experienced relatively high growth rates in the past years. Returns on investments are high but also risky. The PEST analysis is a good indicator to obtain insight to the Brazilian economic and political environment. The Brazilian macroeconomic figures show positive and promising future growth. However, inflation might cause difficulties in the economic environment in the near future. Nevertheless, with a tight labour market and robust credit growth, these difficulties may not harm the economy so badly. Planned investments such as the FIFA World Cup 2014 and the Summer Olympic Games in Rio de Janeiro may boost the national economy as well. Apart from economic factors, the political situation is in good shape since the accession of the most recent presidents. They have brought sovereignty to the country and decreased crime rates through improving security. Brazil is an investor friendly country, encouraging companies to open affiliates in Brazil. Companies still need to consider the high tax walls and the running capital costs.

According to the secondary data I researched in the thesis, the sugar, the ethanol (biofuels) and the sugarcane industries are booming in Brazil. The whole agriculture sector is one of the most essential for economic growth. It accounted for a quarter of Brazil’s GDP in 2008 and the projections are promising. Since the introduction of the ethanol program back in 1975, car fuels have switched to gasohol. This mixture of ethanol and gasoline has revolutionized their economy and benefited their environment. Not only ethanol but also by-products, such as sugar and bagasse, are in demand. Therefore, the sugarcane industry is vital for the state and many businesses. On-going new investments are expected and this is an opportunity for BBM with its new product.

Farmers harvest their sugarcane fields manually or with machines. The New Sugarcane Harvester differs from competitors’ machines. Therefore, it can be positioned between those two groups. It has some key advantages, such as the cost perspective, productivity, replanting, labour costs, and maintenance costs, over other machines.

The New Sugarcane Harvester is a unique invention; there is no similar product on the global market. It is patent secured and prototypes have already been tested. Furthermore, the Brazilian sugarcane market is booming, and new developments of new harvesters may be needed in the future such as the New Harvester. The unique selling proposition of the New Sugarcane Harvester is the exclusive cutter that crops the stalk and leaf separately. After harvesting, the plant is still alive and can be replanted. It is also the strongest attribute of the product. With its branding label “ Made in Germany”, the product has the ability to be well positioned.

## ABSTRACT

I have studied the internationalization process of the BBM Operta GmbH and its international commitment in selected new agricultural markets, in Brazil. I have also made a brief introduction to the company’s history, unique qualifications, operations and a SWOT analysis. The theoretical focus is built on the Johanson and Vahlne’s internationalization model. Entry modes and techniques were adapted to the agricultural industry and their submarkets. The main part of the thesis is the case of sugarcane harvester positioning in Brazil, potentially performed by the firm BBM. It is a company’s developing project, the potential of which I am exploring for the Brazilian sugarcane harvester market. For this purpose, an in depth macro-environmental analysis (PEST analysis) and mezzo analyses (markets depending on sugarcane) of Brazil have been done. The mezzo analyses deal with the sugar industry, the ethanol (biofuels) industry, the sugarcane industry, the sugarcane harvester industry, Porter’s five forces, the market entry barriers and the entrance risk of BBM to Brazil. These analyses form the basis for strategic suggestions of positioning the New Sugarcane Harvester. The market and sales potential for the selected markets has been analysed with the chain ratio method and a perceptual map has been drawn. Beside the mode of entry strategy, I suggest that the firm to keep the country of origin “ Made in Germany”, because it has a positive impact on quality perception globally, especially in machinery. This project represents a potential for international development and successful positioning on international selected markets for the company BBM Operta GmbH.

## POVZETEK

Tema mojega magistrskega dela je internacionalizacija podjetja BBM Operta GmbH, na primeru preuÄevanja pozicioniranja kombajna za sladkorni trs v Braziliji. OsredotoÄil sem se predvsem na pozicioniranje novega prototipa ter na vstopne strategije kombajnov za sladkorni trs na brazilski trg. V nalogi sem poudaril pomembnost hitro rastoÄih trgov skupaj s teorijo mednarodnega poslovanja. Potencialni produkt nemÅ¡kega podjetja BBM bi se trÅ¾il pod blagovno znamko Made in Germany.

Namen naloge je povezati teoretiÄni in empiriÄni del z vstopom na enega izmed hitro rastoÄih trgov v Braziliji. Prav tako so v nalogi opisani procesi internacionalizacije podjetja BBM ter strategije pozicioniranja izdelka New Sugarcane Harvester na Brazilskem trgu. Cilji naloge so na podlagi teorije mednarodnega poslovanja in hitro rastoÄih trgih identificirati trÅ¾ni in prodajni potencial na Brazilskem trgu sladkornega trsa in predlagati strategije za pozicioniranje za izdelek New Sugarcane Harvester. Pridelovanje sladkornega trsa v Braziliji predstavlja velik potencial in moÅ¾nosti podjetju BBM za vstop na brazilski trg in s tem uspeÅ¡no pozicioniranje, kar je tudi glavna ideja naloge. Moje raziskovalno vpraÅ¡anje se implicitno povezuje z hip