Launching mango frooti in united arab emirates

\n[toc title="Table of Contents"]\n

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Introduction

Mango Frooti is the leading and largest selling mango drink in India. It is manufactured by Parle Agro Pvt. Ltd. Although Frooti came into the Indian market long after other mango drinks, it quickly grabbed a huge market share due to its attractive packaging and aggressive brand marketing. The tagline " Mango Frooti, fresh and juicy" created an advertising euphoria and Frooti quickly became the preferred drink of its target market – the youth of India.

The biggest competitor for Frooti in India is Maaza. Maaza was launched in 1976 in India. The Union Beverages Factory, based in the United Arab Emirates, began selling Maaza as a franchisee in the Middle East and Africa in 1976. By 1995, it had acquired rights to the Maaza brand in these countries through Maaza International Co LLC Dubai. (official website : www. maaza. com)

Despite the economic turndown, UAE has retained its status as an attractive market for food and drink investors in terms of near-term returns with high potential.(www. businessmonitor. com)

The purpose of this report is to analyse the various aspects, factors and issues that have to be examined and taken in consideration in order to launch the product (Frooti) from a developing country (India) into a developed country (United Arab Emirates).

The factors that will be explored in this report will be the difference in the national business systems of the two countries, their cultural differences, the trade patterns between the two countries, exchange rate risks , investment system deployed and the political risks in launching this entire business setup.

National Business System of United Arab Emirates

The UAE economy is fuelled almost entirely by the production and distribution of petroleum and its derivative products. The need to begin generating an alternative source of income was recognized as early as 1985. (www. nationalencyclopedia. com).

Juice products are the fifth most popular beverage in the GCC (Gulf Countries Council) being twice as popular as drinking water. UAE leads the per capita consumption of bottled juices. The UAE currently represents 18 % of the 7. 2 bn-litre total GCC juice markets (www. just-drinks. com). The growth rate for juices to increase in the UAE is estimated to be around 10% in the next 5 years. Hence there is a huge scope of product expansion and greater capture of market share.

Attractiveness of the market

The UAE industry for retail is a very fast changing and dynamic one. Current sales continued to rise during the economic downturn. The rise in retail prices was mainly because of the global rise in cost of raw materials and non-food items. The UAE Dirham is pegged to the US Dollar. Due to weakness of the Dollar, imported goods saw an increase in price and were more expensive in the UAE.

Competitors

UAE has 4 different franchises working in the bottled juice sector. Maaza is the leading competitor.

Labour

Due to the availability of cheap labour, manual work of handyman and other unskilled labor is carried out almost entirely by immigrants. Private sector employees and mid-level management is also carried out by guest workers. Emirati citizens occupy all the government employment, ownership and high-level management positions. Also, due to the huge gender segregation, no female is employees in high level management.

Procedure to set up a company

To set up a plant for juice production in UAE a lot of legal procedures and rules have to be followed. The National business system of UAE can be classified as a Dormant developmental state (Whitley, 2007). The government encourages the forming of Industry associations or groupings only to serve as their agents and act as a link between the government and individual firms. The government does not encourage the individuality of a company. The degree of competition is entirely controlled by the government and the govermnet does not tolerate the formation of independent associations that can challenge its decisions.

As outlined by the UAE Chamber of Commerce (www. gov. ae) every new establishment requires particular licensing to conduct their business in the country. The license can be one of the three types of licensing available : Commercial license (all kinds of trading), Industrial license (manufacturing or industrial), Professional license. Hence Frooti has to apply for an Industrial icense.

Ownership of the business

The UAE government permits two types of ownership.

Partner Ownership : This format allows 51% of the company to be owned by a UAE national and 49% by the company . (http://guide. theemitatesnetwork. com/living/business. php)

“ In this kid of partnership, the business can be situated anywhere in the UAE. Within partnership ownership there are another seven types of companies that can be formed : general partnership, partnership en-commendam, joint-venture, public shareholding, private share holding and limited liability.”

Public and Private Shareholding : foreign companies can open a branch office only. Large offices can be setup as shareholding companies. Sole ownership for a plant can be opened in the free zones throughout UAE.

Availability of resources

The main ingredients of fruit juices (water, sweetners, acids, flavours, fruitjuices, preservatives and colour) are readily available in UAE at very marginal costs. Also, the raw material for packaging (glass bottles, plastics, PET, PVC , pouches, straws , etc) are readily available. In addition to resources, the transport network of UAE is also highly developed which is a great requirement for the distribution of the fixed distribution.

Difference between business system of UAE and India

The business system of UAE is very different fro the one followed in India. While the UAE follows a Dominant developmental state system, India on the other hand has a business system based on the Regulatory state (Whitley, 2007). According to Whitley, " In regulatory system, government sets clear rules and guidelines within which firms are free to pursue their objectives. The governments keep track that this freedom is not obstructed by firms by setting up cartels, etc.. There are standardized legal norms. "

The ownership of the company is 100% of the investors with no regulations required to have an Indian partner. Only regular taxes have to be paid to the government which includes VAT. This system is not prevalent in UAE. The availability of resources in India is also abundant although at a higher rate due to various labour and trade unions formed within a particular industry.

Cultural conditions and their effect on business

“ Islam lays all foundations for people in the UAE . For the Muslim, God alone controls the future and therefore to lay down what shall happen in the future, such as agreeing a date or time, is presumptuous and for the very religious such an act would be a blasphemy. There is no need for or inclination towards more precise time planning. This is a huge difference from the attitude of work in India where people set a fixed time and auspicious date for every deal.

New ideas have difficulty finding their way in the conservative environment of UAE, with its manifested disbelief in a sequential order of events. However, people are quite pragmatic and they will grasp the opportunity offered by a breakthrough idea, provided lobbying has been done discreetly well in advance on its behalf. People are not comfortable with change, particularly with change that might be perceived as radical departure from the country’s traditions which is a bit irritating to business developers from India.” (www. agronaut. com) .

“ Emirati officials are prohibited by tradition from working more than six hours per day. Mornings are usually best for appointments. Some Emirati people work after dark in an effort to avoid the summer heat. Friday is the Muslim holy day, no business is conducted. Most people do not work on Thursdays either. In India people do not work on Saturday and Sunday. This leaves a window of only 3 days to conduct business in a week. The pace of business is much slower in UAE.

Once a foreign business enters the country, it is beyond the protection of its government and becomes a subject to Emirates Islamic law.

Islamic law are the rules to be followed and these are applied universally if they are universal, and subject to interpretation and uneven application if non-universal. This leads to a high dependence on power, authority, and subjective decision- making based on the situation and relationships between the individuals involved. Ultimately, face-to-face knowledge of the individuals involved in any interaction is the basis upon which final decisions are made.

Writing a cheque against which there are no funds is considered to be a criminal offence, not just a commercial matter.

Most matters are forever negotiable in Emirati eyes. Nothing is really concluded, not even if set out in legal contract, freely negotiated beforehand for a Emirati, friendship and personal trust are more important than legal papers and man made laws (but never God’s law).

The business person is therefore well advised not to make casual remarks or make oral assurances which he /she is not prepared to conform to in the future. Most Saudis, when it is in their interest, would be only too happy to recall what you said, where and when. They tend to have selective memories and could pick and choose from their excellent memories whatever suits better their purposes.” (www. communicaid. com/ UAE) .

Trade Pattern between UAE and India

“ Two-way trade between India and the United Arab Emirates (UAE) is expected to exceed $25 billion from the current level of $19 billion. In 2006-07, India’s exports to the UAE stood at over $10 billion as against its imports of $7. 5 billion.

The areas in which India’s exports to the UAE are well diversified include gems and jewellery, vegetables, fruit, spices, engineering goods, tea, meat and its preparations, rice, textiles and apparel and chemicals, besides RMG cotton including accessories, man-made yarn, manufacture of metals, fabrics and made-ups, marine products, machinery and instrument and plastic products, according to the statement.

India has huge export potential in the GCC. This is mainly due to the fact that both Saudi Arabia and the UAE are India’s largest trading partners in the GCC.

Importantly, there are structural barriers that continue to hamper seamless economic exchange between these two regions. GCC countries face formidable barriers, in terms of higher duties on their exports to India in particular whereas, exports from India face a nominal duty of 1-2% percent.

In addition, India’s inadequate trade infrastructure hampers GCC exports with cost escalation and longer administrative procedures for trade facilitation. Transitory policies, such as export restrictions, also act as a dampener in GCC-India trade.

For example, as of 2010-01-25 (12. 14 . pm), India is reported to have undertaken 12 trade distortionary measures, affecting GCC member states. Although it is premature to gauge the exact impact on the GCC, it is certain that protectionist state measures could act as a major hindrance to augment economic relations between the two regions.

Of late, GCC countries are entering into preferential trading arrangements with major Asian countries. One of the major landmarks is the GCC-Singapore Free Trade Agreement, which was concluded on January 31, 2008. This milestone could serve as a catalyst for other FTAs under discussion with South Asian countries such as India and Pakistan.

Even though bilateral negotiations for an FTA with India started in 2004, the progress is slow due to lack of policy consensus on both sides. Therefore, in the current global trade environment, seething with protectionist tendencies, GCC and South Asia need to re-energize policy strategies in order to enable a level playing field for sustaining their burgeoning trade relations.” (Samir Pradhan, independent Researcher, 2009)