Critical success factors when going global: New Zealand dairy companies

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Abstract
New Zealand dairy companies are being encouraged to expand in offshore markets, and capitalise on the increasing demand for high quality dairy products in emerging nations. To succeed internationally dairy companies need to invest in capturing their value chain and securing suppliers effectively, as well as developing intangible assets, like customer relationships, international partnerships, strong brands and reputations. This paper examines seven critical success factors, identified from comparing academic literature on international success and the preceding background paper, to three case studies on the New Zealand dairy companies, Tatua Dairy Co-operative, Synlait Ltd, and Fonterra Ltd.
Keywords: critical success factors, international business strategy, New Zealand dairy industry, exportation.

Introduction
New Zealand dairy companies are being pushed to go global, tackle international markets, and capitalise on the growing need for high quality dairy products in developing nations (Port Jackson Partners 2012). Three New Zealand dairy companies, Tatua Dairy Co-operative (Tatua), Synlait Milk Ltd (Synlait), and Fonterra Ltd (Fonterra), have already taken on this challenge and expanded into multiple overseas markets.

Tatua has a strong history of producing innovative value-added products for niche international markets. The company focuses on a low volume, high value product strategy, and has built its reputation for quality and technical excellence by achieving one of the highest international food standard qualifications available, the FSSC 22000 quality assurance standard (Tatua 2011). Since its establishment in 1914 Tatua has increased exports to 94% of total supply and now has products in over 60 countries.

Synlait is the youngest of the three dairy companies and was established in 2000. Significant financial challenges have been experienced during internationalisation, including a failed New Zealand public share offering in 2009 (Parker 2009). To overcome financial issues of funding constraints, Synlait formed a joint partnership with Chinese company, Bright Dairy Ltd. This involved selling 51% of shares to Bright Dairy (Adams 2010). Partnering allowed Synlait to establish the largest infant powder manufacturing plant in the Southern Hemisphere and provided distribution infrastructure to help Synlait enter international markets.

Fonterra is the world's largest global milk processor and accounts for one third of all international dairy trade (Fonterra 2013). It is a truly global company exporting products to over 140 countries and holding market leadership positions across Asia, Australia, New Zealand, and South America (Fonterra 2012). Fonterra is known for its leading brands and high quality food standards, making it a trusted company around the world (Fonterra 2012).

This paper explores seven tangible and intangible critical success factors (CSF) selected from New Zealand Trade and Enterprise (NZTE) publications, academic journals, the preceding background paper, and a case study topic template (Lewis *et al*. 1991; Ng & Kee 2012; NZTE 2009; Rowarth *et al*. 2013). These CSF are value chains, customer relationships, partnerships, research and innovation, securing suppliers, managing critical incidents, and core competencies, which need to be leveraged in order to gain international success (Ng & Kee 2012; NZTE 2009).

Approach
Three case studies were prepared on Tatua, Synlait, and Fonterra to gain an understanding of the histories, capabilities and international strategies of each New Zealand dairy company. These companies were chosen for their unique histories, organisational structure, and size, with Fonterra New Zealand's largest dairy co-operative, Tatua a small co-operative with a history of innovation, and Synlait a privately owned company with foreign investment. Information was sourced from company websites, annual reports, press releases, and newspaper articles, as well as through in-depth interviews with key industry personnel and compared against a case study template (Lewis *et al*. 1991). Key findings in the case studies were analysed to identify CFS for each company, before being compared to relevant academic literature. Additionally, Appendix 1 shows how case study information can be sorted into CSF to allow for competitive analysis.

Critical success factors

"Critical Success Factors (CSFs) are those characteristics, conditions, or variables that when properly sustained, maintained, or managed can have a significant impact on the success of a firm competing in a particular industry" (Leidecker & Bruno 1984, p.24). Although many businesses emphasise enhancing their tangible success factors (i.e. producing quality products and improving manufacturing productivity), it is important in international markets to develop and exploit intangible CSF (i.e. brand value, customer relationships, and core competencies) (Ng & Kee 2012; NZTE 2009). The dairy company case studies identified seven CSF needed for strong international performance.

Managing international customer relationships

Building and managing international customer relationships helps the companies reach target markets and capture profit margins, making it a CFS (NZTE 2009). All of the companies in this study built direct relationships with major customers to ensure international success; however, the companies employed different market segmentation approaches to enable easier customer management.

Tatua segments its international customers based on product category. Tatua's product portfolio managers then develop direct customer relationships with all international clients using their products. This segmentation approach helps a company develop superior understanding of its international customers' product needs and helps adapt product features (Canever *et al*. 2007).

In contrast, Fonterra divides its international markets into large macro segments, based on geographic location. This segmentation method is simple and uses demographic data; however, it assumes all customers within these markets are similar, which can create problems when cultural differences within markets create differing customer needs (Canever *et al*. 2007). Fonterra combats this issue by also creating customer product categories within its macro segments.

Media articles make it unclear which segmentation

Table 1 Critical Success Factors Framework

Critical Success Factor	Fonterra	Tatua	Synlait
Managing international customer relationships	+ Direct & indirect relationships + Geographic segmentation + Product segmentation	+ Direct relationships + Product segmentation	+ Direct relationships - Unclear market segmentation
Using core competencies for international advantage	+ Fully integrated supply chain	+ Technical processing & specialised food technology knowledge	- Still developing core competency
Capturing more of the value chain	+ Large number suppliers + Strong branding & marketing - Issues with some distribution channels	+ Secure suppliers + Direct relationship with end consumer + Controls marketing	+ Secure suppliers - Limited branding & marketing control - Limited relationships with end consumers
International research & innovation co-operation	+ Local innovation	+ Co-value creation	Limited information available
Developing international partnerships	+ Manufacturing partnerships + Distribution partnerships + Joint ventures	+ Manufacturing partnerships	+ Joint Venture with Bright Dairy
Management of critical international incidents	- Slow response time - Avoidance of responsibility - Slow customer communication	+ Quick response time + Accepted responsibly + Communicated quickly & honestly	Need to develop critical international incident plan.
Securing Suppliers	- Low comparative payout - Suppliers concerned with investments - High capital requirements - Insufficient communication	+ High comparative payout + Strong communication + Sense of pride and camaraderie + Good farmer support	+ Good comparative payout + No capital outlay needed + Good communication + Good farmer support

method Synlait uses to build international relationships. According to media reports, Chief Executive Officer, John Penno, appears to manage the majority of Synlait's international relationships, which means Synlait is at risk of losing vital relationships if something unexpected happens to this pivotal person. Additionally, Synlait could develop deeper cultural and customer understanding if it segments markets and develops international relationship managers (NZTE 2009).

Using core competencies for international advantage

International success through creating competitive advantages often relies on leveraging the company's core competency, which is a bundle of resources stemming from a collective knowledge base that can be applied to multiple industries and markets (Grant *et al*. 2011). Tatua leverages core competencies in technical processing and specialised food technology knowledge, which allows it to build competitive advantages in producing quality high viscous products and in hydrolysing milk proteins (P. McGilvary pers. comm. 25 January 2013). These technical skills are highly sought after in international markets and help attract international customers (P. McGilvary, pers. comm. 25 January 2013).

Fonterra's competitive advantages lie in its scale and scope of milk processing, ability to manufacture high quality milk products, and its distribution and marketing networks. These competitive advantages stem from Fonterra's large scale, and years of dairy experience (Fonterra 2012). Fonterra has developed a core competency of a fully integrated supply chain system, which has been replicated and leveraged in overseas markets, such as in Chile through Soprole.

It takes years to accumulate a collective knowledge base (Grant *et al*. 2011), which means Synlait is still developing its core competency. Industry experts believe Synlait is attempting to build a core competency in the manufacturing of nutritional powders, based on its state-of-the-art manufacturing facilities and product range (B. Brook, pers. comm. 23 January 2013). This core competency may not provide a competitive advantage, as many other dairy companies, including Fonterra (Fonterra 2012), Tatua (Tatua 2012), and new industry entrants, are competing in the growing Asian markets with high quality nutritional powders and products.

Capturing more of the value chain

Capturing more of the value chain is a CSF that helps firms capture more profit through controlling distribution systems, customer relationships and branding (NZTE 2009). Companies are encouraged to remove intermediaries and to control supply chains from the suppliers right through to the end consumers, allowing value creation to be monitored and enhanced (Budd *et al*. 2012; NZTE 2009).

Tatua has captured its value chain by securing loyal suppliers through to developing direct relationships with its end consumers (P. McGilvary, pers. comm. 25 January 2013). Tatua controls branding to ensure it reflects the co-operative's technical excellence and quality assurance, which adds value by building credibility and confidence with customers. Direct customer relationships increase the flow of market information and feedback (NZTE 2009). Having these relationships allows Tatua to create better value added products. Furthermore, controlling the value chain Tatua can maintain price integrity, and sell products at higher value-added prices, which is reflected in its higher farmer payouts (Forsyth Barr 2013).

Fonterra has integrated through its supply chain via its "Grass to Glass" strategy, which allows it to capture large portions of value. Strong international Fonterra branding through Anlene and Anmum has positioned the products as market leaders, allowing the brands to be sold for premium prices, which creates higher profit margins. Fonterra still uses distributors to reach end customers, which is creating issues in Australia where supermarkets are refusing to stock New Zealand brands (Rowarth 2013). Similar issues could occur in Asian markets, indicating that Fonterra may need to re-evaluate its distribution systems. Fonterra should also be wary of diversifying into business areas that are not its core competency, such as developing farms in China; unless Fonterra can control the value chain right to the end customers, diversification might not add value. Furthermore, Fonterra has attempted to capture more of the value chain by establishing a new distribution channel, the online Global Dairy Trade Platform, where Fonterra sells 25% of its products. However, an auction system means the customer sets the price and Fonterra shareholders are concerned that this platform means products are sold at lower prices and therefore less value is captured (Anonymous shareholders, pers. comm. 2013).

Synlait is still developing its supply chain and quality reputation to capture value. To gain access to international distribution systems and funding, Synlait entered a joint partnership with Chinese company Bright Dairy in 2010. However this partnership reduced Synlait's ownership to the minority share of 49% and Synlait relinquished control over branding and marketing, which may make it difficult for Synlait to maintain its brand stories. Additionally, Bright Dairy's marketing for Synlait products rests on New Zealand's 100% pure image, leaving the brand vulnerable to international media attacks on New Zealand's environmental and quality images. Synlait is also losing value by selling products in plain bulk packaging to international nutritional formula manufacturers, which then alter and repackage the product. It is possible Synlait could capture additional value by selling products direct to customers to gain higher profit margins (Budd *et al*. 2012).

Developing international partnerships

Mutually beneficial partnerships are often a CSF for international strategies, and help establish access to international markets (Klijn *et al*. 2010). International partnerships provide knowledge sharing, risk and cost reduction, sharing of distribution and manufacturing systems, and the ability to exploit the partner's core competencies (Klijn *et al*. 2010).

Fonterra uses multiple international joint partnerships successfully to access international markets and create efficient distribution networks. For example, Fonterra's partnership with Nestlé to form Dairy Partners Americas, provided Fonterra with an established distribution infrastructure into the Latin American markets. In contrast, Tatua establishes international manufacturing partnerships, such as its past relationship with Australian company, Tatura Milk. In these mutually beneficial partnerships Tatua licenses its manufacturing intellectual property and in turn receives manufactured product, milk supply, or product royalties, which creates value by providing additional revenue streams.

Synlait's major partnership is with Bright Dairy. Synlait received significant financial support of $81 million (Adams 2010), and in return relinquished significant managerial control, branding and distribution to Bright Dairy. However, is this a mutually beneficial partnership if Bright Dairy captures more value than Synlait by selling the end product? Additionally, there are concerns that in the future the Chinese company might establish its own manufacturing once it has significant industry knowledge, which would leave Synlait vulnerable and financially strained.

International research and innovation co-operation

Fonterra and Tatua have two unique approaches to developing international research and innovation: co-value creation and local innovation. Co-value creation is when customer resources, ideas, or other inputs are used in the firm's value-creating processes (Saarijärvi *et al*. 2013). Tatua integrates consumer research (intellectual property) with its technical competencies to develop new value added products. This innovative method reduces Tatua's research costs and lowers risk through involving and securing customers for new products. In contrast, Fonterra uses Innovation Centres to foster local innovation where new uses, solutions, and products are developed by local people to suit local market needs (Soman *et al*. 2012). At the Singapore Innovation Centre local chefs used Fonterra's UHT cream to develop a new bakery product, Hokkaide Cakes, which are now sold nationwide to local Singapore bakeries. Both research and innovation techniques are CSFs that allow the companies to add value to products by tailoring them to suit customer needs.

Management of critical international incidents

Management of critical international incidents is a CSF: poor management can lead to insurmountable reputational damage (Coombs & Holladay 2002). Fonterra has been severely criticised for its management of the Chinese Sanlu melamine incident in 2008. Fonterra appeared to ignore crisis management recommendations of Coombs & Holladay (2002) of fast response times, acceptance of responsibility, and fast information communication with customers. As a result Fonterra suffered from significant international reputational damage with international customers, and the Sanlu brand was written off, creating substantial value losses of $220 million (Smellie 2013).

In contrast Tatua successfully handled a critical international incident involving melamine contamination in the Korean market. Tatua responded quickly, was openly honest about the situation and explained to customers exactly how the incident occurred (P. McGilvary, pers. comm. 25 January 2013). The company also openly discussed the new controls that had been implemented to prevent future incidents (P. McGilvary, pers. comm. 25 January 2013). Although Tatua lost customers in the Korean market, this crisis management significantly reduced reputational damage, preserved and strengthened many of its other international relationships through maintaining customer trust (P. McGilvary, pers. comm. 25 January 2013).

From the above it is clear that Synlait needs to prepare crisis management plans for future incidents. This includes reconsidering whether of not it is responsible if Synlait's products become contaminated further down the supply chain, as international customers are likely to seek accountability from all parties involved. Fonterra's and Zespri's experiences in China are case in point. This means Synlait should prepare a plan for managing critical international incidents to reduce the impact of reputational damage.

Securing suppliers

It is critical for dairy companies to secure a quality supply of milk to help maintain quality control in international markets. Keeping suppliers happy normally requires paying them good prices for their milk. However, payout prices are complicated within dairy co-operatives (Fonterra and Tatua) as suppliers are also shareholders. These shareholders then expect to be able to influence the company's strategic plans, collect a good return on investment, and receive clear communication about the co-operative's operations.

Tatua has successfully secured its supply base by creating pride and camaraderie with suppliers (P. McGilvary, pers. comm. 25 January 2013). Strong two-way communication empowers suppliers by making them feel in control of Tatua's future. These attributes, when combined with Tatua's superior farmer payouts arising from its value added strategy (Forsyth Barr 2013), means Tatua has a secure supply of future milk.

In contrast, Fonterra is struggling to keep its large number of supplier shareholders happy, due to high investment requirements and low comparative milk payouts, which are 4% lower on average than competitors (Forsyth Barr 2013). Additionally, suppliers feel as though Fonterra is mostly communicating positive stories and hiding the international challenges the company is facing (Anonymous shareholder, pers. comm. 2013). Suppliers also have concerns about how Fonterra is investing money, especially regarding activities not within its core competency, such as establishing overseas farms. This unease could create future supply issues as Fonterra suppliers switch to new independent dairy companies entering the market (Forsyth Barr 2013).

Synlait has secured suppliers by offering high farm gate milk prices without requiring capital investment, allowing farmers to invest their capital on their own farms or elsewhere. This makes it harder for the farmer to re-enter a co-operative due to the associated capital expenditure. Additionally, Synlait will have to devise new ways to lock in suppliers as other independent dairy companies enter the Canterbury market and compete for supply.

Discussion

The seven international critical success factors discussed are important for all New Zealand companies going global, as the factors apply across industries and offer a strategic framework for entering international markets. Segmenting customers and creating strong direct relationships is the best way to gain loyalty, gather market feedback and locate opportunities. Additionally, co-value creation and local innovation help engage customers and ensure products are tailored to meet local market needs. Companies should also leverage their core competencies when entering international markets, as often supply chain infrastructure and resources that have been effective in New Zealand can be adapted for overseas markets. Managing the supply chain from the supplier to the end consumer is the best way to capture value: international companies should consider their distribution channels carefully. International partnerships are a successful strategy for accessing funding, distribution infrastructure, manufacturing and marketing support. However, companies need to ensure that partnerships are mutually beneficial and create value for both parties. Securing suppliers helps maintain product quality making it important for international success. Finally, preparing critical incident recovery strategies in advance can help companies effectively manage international incidents, minimise reputational damage, and maintain important customer relationships. In conclusion, the road to internationalisation is not easy and in order to succeed, companies need to focus on developing critical success factors and adapting to local market factors, as illustrated by Tatua, Synlait and Fonterra.

ACKNOWLEDGEMENTS

Barry Brook, Board Member for Synlait Limited's Board of Directors; Paul McGilvary, Chief Executive Officer of Tatua Co-operative Dairy Company; Richard Cookson, Cookson Farms, Te Aroha and Fonterra and Tatua Shareholder; Ian Scott, Scott Holdings Limited, Tirau and Fonterra Shareholder; Frank Scrimgeour, Economics Professor at the University of Waikato.

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