Honeyland Manuka Honey from New Zealand: An International New Venture

NEW ZEALAND'S ECONOMIC ENVIRONMENT

New Zealand is a small island nation in the South Pacific, southeast of Australia. Its landmass of 268 million square kilometers compares with the size of Oregon. With a slightly higher population than Oregon—just over 4 million (4.36 million in 2010)—New Zealand's domestic market is small. GDP per capita is about US$30,045 per year (2010), slightly more than half that of the United States, with an annual economic growth rate of 3 percent in 2010. Virtually free access of overseas competitors to New Zealand's home market forces its numerous small and medium enterprises (SMEs[1]) to seek and develop international markets. Australia is its most important trading partner, accounting for 22 percent of New Zealand's exports, followed by the United States (11.5 percent) and Japan (9.2 percent). New Zealand relies for its economic viability mainly on the success of its SMEs, since these constitute up to 90.7 percent of all firms and provide about 50 percent of New Zealanders with work and income (Ministry of Economic Development, 2004). A 2002 report initiated by the New Zealand Treasury identified the two major constraints for economic growth in New Zealand: the distant geographic location from international markets and the difficulty of raising sufficient capital.

THE MAKING OF HONEYLAND AND ITS PRODUCTS

Honeyland is an export business specializing in native New Zealand honeys. It was established in Palmerston North, a small town in the New Zealand Manawatu region in July 1986. The business started exporting right from its beginnings and has, in effect, never operated in the domestic New Zealand market, focusing on one international market only. The company supplies exclusively to the lucrative Japanese market. The company is, even by New Zealand's standards, very small. It is literally a one (wo)man enterprise. That does not limit the success, though. From modest beginnings the enterprise has grown into a reasonable business that turns over more than NZ$500,000 (about US$275,000) operating from a small office in the family home.

New Zealand honey is positioned as a health-promoting product, using New Zealand's clean and green image. The company strategically targets quality-conscious customers, especially those who have been to New Zealand for a holiday and know its spectacular landscape. New Zealand has a reputation for its beautiful and rather unspoilt natural environment, including its exotic plants. The majority of New Zealand's plants are indigenous, found growing naturally only in that part of the world. In particular, New Zealand has many flowering trees, such as the pohutukawa, kamahi, manuka, tawari, and rewarewa. Native bush and forest honey, which is produced in this environment, has a reputation for being healthy and beneficial to human well-being. The honey that bees collect from the flowers of the New Zealand tea or manuka tree is said to have a great taste and very beneficial healing properties.

The owner of Honeyland, Sue, a trained school teacher, became aware of the good reputation and health benefits of New Zealand honey early on. In the 1970s, she raised a young family while keeping bees in a few beehives in the back of her garden around the family home. Sue has always kept a friendly open home and entertained the many international friends of her teenage children and business partners of her husband. "When I look back, our home was always an open home, long before other people actually were in the international world." Many of these visitors were Japanese because Palmerston North has strong links to Japan through its Japanese-based International Pacific College and Massey University. Many young Japanese students complete their high school and university education there. Attracted to the cultivated, polite Japanese people, Sue chose her preferred market destination long before she started the company. Her interest in Japan and Japanese culture grew during visits when she accompanied her husband, a successful wool merchant, on his business trips. Soon Sue started looking for a business idea that would enable her to visit Japan on a regular basis without having to depend on her husband. The hobby of producing honey grew into a business idea.

SOURCE: This case was contributed by Sabina Jaeger, lecturer in international business, AUT University, New Zealand.

EXPORT MARKET JAPAN

The contacts with Japanese friends exposed her to their culture, way of life, and work. While on her trips in Japan she gradually built up an extensive network of friends and business partners. "We had a real network of friends and acquaintances in Japan. I think that probably has been one of the great advantages, because some of them are students, some of them are old, they range from 15 years old to 90 years old. They are all around Japan and they enjoy different sorts of lifestyles. So that is a wonderful way of getting a feel for what a country is like." Additionally, Sue undertook further preparation before starting up the enterprise. She began to learn the Japanese language because she understood the importance of language skills when doing business in Japan. It did not take long before she became convinced that New Zealand specialty honeys would be a suitable export product. Sue applied great care to understanding the specifics of the Japanese market. One major hurdle she had to overcome was gaining access to Japanese distributors and retail businesses. She said that in the 1980s this was not easy for a businesswoman. Speaking the language, and with some support from her friends, she eventually overcame this difficulty. Sue modifies and markets her products to the special Japanese requirements.

MARKETING STRATEGY

Honeyland's market can be categorized into three different segments. One third of the business comes from sales through a supermarket chain that operates a "fixed price" strategy. Quality branded products are sold at a discount: "It is a discount type store. Unbelievable, their whole layout is similar to the one of the 'two dollar' shop.[2] Like 1 dollar, 2 dollar, 3 dollar shop! It is primarily liquor … So they use good brands to bring people in and sell them cheaply." Another third of her business involves supplying a Japanese honey company with New Zealand comb honey. This company brands the product under its own name. The third and most important segment of Honeyland's business derives from sales to a firm that is associated with Japan Travel Business (JTB). It targets the top range of the gift product industry with high returns selling gifts of various honeys in small gift packaging to returning travelers. Sue says: "The third part of my market is very much a niche market, a very top shelf specialty honey … The niche market is going through my representative in Japan." Japanese tourists spend their short holidays in New Zealand's surroundings. They experience the great outdoors enjoying the scenery doing bush walks and encountering many exotic plants among New Zealand's wild flora. It is part of Japanese culture that travellers take home a small gift to friends and family. Others like to have a piece of New Zealand as a memory for themselves. Honeyland provides a solution for those tourists who do not want to worry about purchasing presents when holidaying. Honeyland products are available in Japanese airport stores for tourists to pick up upon arrival back in Japan. Packaged in small, beautifully labeled containers, the distinctive New Zealand honeys have become a much appreciated gift in Japan.

EXPORT BARRIERS

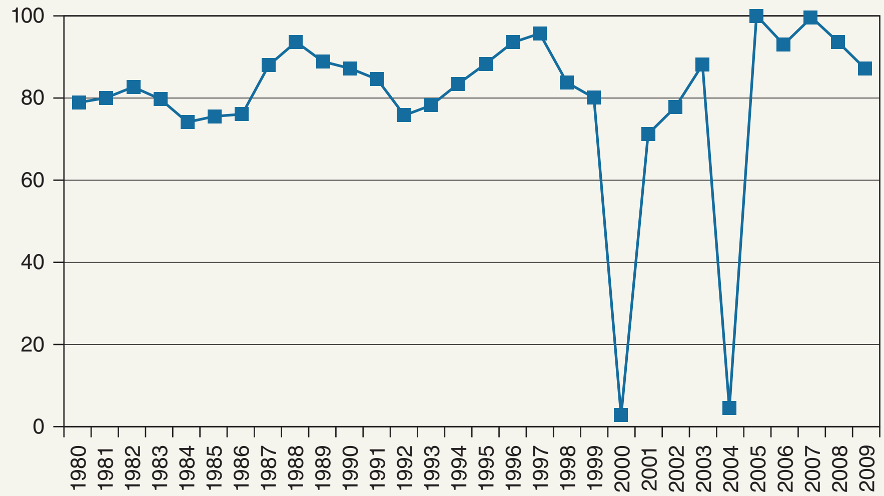
One of the biggest obstacles to Honeyland's growth is sourcing and securing the supply of quality honey. Thus, the New Zealand supply determines the extent of the company's involvement in the international market and limits business expansion. Annual variations in quality and quantity are natural occurrences of the product. Sue solved the supply difficulties by developing and maintaining a very good relationship with her domestic supplier. Its loyal commitment guarantees preferential supply even when overall stocks are low and it cannot deliver to other clients. Another problem is the management of organic export products. New Zealand has entered into an international treaty to protect plants and natural vegetation that requires strict export controls. New Zealand's Ministry of Agriculture and Fisheries (MAF) is the official body that looks after the treaty's enforcement. Export operations are difficult because MAF requires strict compliance with its phytosanitary and bio-security regulations, including the inspection of all exported organic products and detailed documentation. Careful planning and organization on the part of Honeyland is necessary to be able to meet the export deadlines. These problems have been solved through close attention to MAF regulations at the planning and strategy stages. Thus, Honeyland now organizes international trade around these requirements and uses the MAF certificates for quality differentiation.

EXHIBIT 1 Approximate Exchange Rates for the New Zealand Dollar

1 NZ$ buys	Mar-10	Nov-08	Jan-08	Jul-07	Jan-07	Jan-06	Jan-05
US$	0.71	0.55	0.78	0.74	0.70	0.68	0.72
Japanese yen	64	52	85	95	82	80	74

SOURCE: New Zealand Reserve Bank.

EXHIBIT 2 **New Zealand's Real Effective Exchange Rate, 1980–2009**



(Index 2000 = 100)

SOURCE: International Monetary Fund, *International Financial Statistics*, 2010.

LOGISTICS

Access to reliable and cost-effective transportation is another issue with which Honeyland has to deal. New Zealand is far off the main shipping routes, and transport costs are high compared to countries that are in the center of the world trade network. The large geographical distance between New Zealand and Japan is a big obstacle in itself. The normal shipping time to Japan is ten days on average. However, in reality it takes much longer for a shipment to arrive safely to the customer. Why is this? Honeyland usually ships out of Napier, a small rural town with international harbor facilities. Napier has turned out to be a convenient location since most of the honey is sourced and packaged regionally. The supplier loads the honey into sea containers onsite so transport costs and time inside New Zealand are minimized. However, using a small regional port also has disadvantages. Most of the drawbacks are related to capacity and frequency of transportation services, particularly during times when the general harvest season is underway. Around harvest time a variety of produce exporters usually compete for limited container space and shipping facilities.

There are other problems concerning logistics. The size of Honeyland's export unit is on average just one container load. The shipping of a 20-foot standard container to Japan costs about NZ$4,000 (US$2,200). This price includes the basic paperwork such as customs declaration. There may be times when customers require a more frequent delivery mode, and then the size of the shipment can be less than one container. If containers are shared, the projected arrival time is less predictable than normal because a suitable load going to the same destination to fill up the remainder of the container has to be found. When shipping smaller quantities of high-priced niche products, Honeyland employs the services of a reliable international freight forwarder. Although utilizing the services of freight forwarders is more costly than organizing the shipping with the shipping company directly, it has the advantage that professional logistics services take care of all the formalities, including the customs declaration and the documentation of the bio-security requirement. It also ensures the necessary import license that is only valid for one year and has to be renewed in a timely fashion. If need be, it organizes the clearing of customs at port in Japan swiftly, which reduces the order cycle time considerably.

EXPORT PRICING

For the setting of export prices it is important to remember that Honeyland has no domestic sales and that only one export market is involved. Therefore, the price decision is straightforward since the export prices are based on the costs of sourcing the honeys as well as logistics. The prices for the Japanese customers are quoted and paid for in NZ$. Sue acknowledges that sufficiently large profit margins are critical to manage foreign exchange risk. Frequent currency fluctuations of the NZ$ affect profits and in the long term the business itself.

Risk Management

Sue believes in the benefits of maintaining long-term relationships with her clients. One factor that will most certainly upset Japanese clients is the renegotiating of prices. Sue knows this sensitivity. Therefore, she attempts to keep her prices fairly constant in spite of the New Zealand currency volatility. She does so even if that means that sometimes losses occur. Another important aspect of good business relationships is that it minimizes general risks, lowers transaction costs, and helps to avoid lengthy negotiations. For example, Honeyland experiences reliable payments on time and payment to the full amount. The company's excellent networks and culturally appropriate business practices practically guarantee that default situations hardly arise.

For Honeyland, the existing three Japanese business segments are a sufficiently large market because they account for Honeyland's entire export volume. A prerequisite for sustained good business relations with Japanese companies is that size and quality of the export ventures have to match expectations in order to create a good business fit and sustainability. Sue explains: "Just from the beginning I realized three main factors in dealing with Japan: one is quality and guarantee of quality; two is supply ability—you must be able to guarantee supply and that was very important with maintaining this relationship with this catalogue company ... And the third one was stability in price—so you have to take losses sometimes."

INTERNATIONAL COMMUNICATIONS

Over the years, Honeyland has maintained mutually beneficial and trusting relationships with the same networks. Information technology, Internet access, and e-mail have allowed Sue to keep in regular contact with her network partners in between her regular visits to Japan. Often she is also busy with answering customers' queries and requests directly. She explains: "There are daily emails from business partners; they have a habit of sending vast numbers of emails with queries, such as potential benefits of treating race horses with NZ Manuka honey to prevent stomach ulcers." These kinds of queries have given Sue food for thought if she ever wanted to expand her business and develop other products. It is not astonishing that Honeyland has its own website for general information and marketing.

CONCLUSION

Sue says that she is very content with her business. She operates a lean and efficient enterprise with only minimal expenses and overheads. She does so single-handedly (no employees) from a small office room in her own home, and she has no immediate plans to change it. Honeyland is now one of the long-time successful "international new venture" businesses in New Zealand.

QUESTIONS FOR DISCUSSION

1. Imagine that you are in charge of logistics for a small exporting business such as Honeyland. What are the difficulties you need to think about?
2. What are the specific contextual requirements when exporting from New Zealand?
3. Considering that Sue is under a significant time constraint, do you think that outsourcing the entire logistics would be a good move for Honeyland?
4. What would have been an alternative entry strategy for the Japanese market?
5. Do you think the company should expand or diversify?

ADDITIONAL RESOURCES FOR RESEARCH

For further information, please see the following websites:

General information about New Zealand, including socioeconomic details, supplied by the New Zealand Trade & Enterprise website, which is government sponsored:

www.marketnewzealand.com/MNZ/aboutNZ/sectors/14436.aspx?Buyer=true

Economic overview, including some detailed economic data on the New Zealand economy:

www.treasury.govt.nz/economy/overview

Report about New Zealand's export barriers, New Zealand Treasury Working Paper 02/10, *Growing Pains: New Zealand, Qualitative Evidence on Hurdles to Exporting Growth,* by Simmons, G.:

www.treasury.govt.nz/publications/research-policy/wp/2002/02-10/twp02-10.pdf

Information about bio-security regulations for New Zealand's exporters exporting products of organic origin:

www.biosecurity.govt.nz/going

Information about New Zealand specialty food and beverages designed for export:

www.marketnewzealand.com/MNZ/aboutNZ/sectors/14413.aspx

Information about New Zealand's quality assurance program for bee products, including its certification:

www.asurequality.co.nz

Information about Japanese customs requirements concerning import into Japan:

www.customs.go.jp/english/summary/import.htm

Information about the port facilities of Napier and useful details concerning transport and shipping vessels:

www.portofnapier.co.nz

ENDNOTES

1. In New Zealand, small- and medium-sized enterprises (SMEs) are firms with between 0 and 20 employees. This makes the New Zealand SME much smaller than its counterpart in the USA.
2. A "two dollar shop" is a retail outlet where all sales items are offered at the same ($2) price. These types of shops appeared in New Zealand in the late 1990s and have become very popular. They attract a lot of customers, especially bargain hunters or those with little disposable income. Most sales items are perceived as worth more than the purchase price.