EXPORT STRATEGY FOR A ROMANIAN FOOD PRODUCT

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As internationalization increases in nowadays competitive business environment, companies must consider it as a viable option to their growth and development. The paper analyses a wide range of factors to elaborate and finally decide upon the most appropriate export strategy of ROM chocolate from Romania to the Spanish market. It is concluded that indirect export is the most suitable entry mode, the marking and packaging regime is detailed, the quality assurance requirements are listed. The recommended delivery terms are FCA (Free Carrier) and CPT (Carriage Paid To), and the preferred method of payment is the letter of credit. The export strategy which is presented is viable and offers an efficient alternative to domestic operations for the producing company.

Keywords: export strategy, marketing, food, market entry

PRESENTATION OF THE PRODUCT

ROM is the first authentic chocolate bar on the Romanian market, launched in 1964. It has become a national symbol ever since. The brand is part of the KANDIA Dulce SA portfolio, the third player in the Romanian chocolate market (Official Kandia website). With a strong taste and the Romanian National three colored flag on the packaging, Genuine ROM chocolate bar was always preferred by Romanian consumers, resisting the invasion of imported products. The product has remained unchanged over the years: it kept the Romanian flag and symbols. The chocolate bar managed to retain its relevance, both for the audience that was raised tasting it during the communist period, and for the generations following 1990. The only changes were brought to its dimensions (ROM “The Great” or “The Double”), in response to the increased demand from consumers.

At present, Genuine ROM is available in four sizes, all made with the same recipe: ROM 32g, ROM the Great 45g (launched in 2006), the Double ROM 64g (launched in 2006) and ROM tablet 100 g (launched in 2010). The Best sold is the ROM 32 g format range, due to favorable price, but also to a very good distribution. This is also the classic format of the brand, which is present on the market since 1964. Therefore, packaging is the first representative element that makes the brand recognizable and which reproduces the national flag. Demonstrating consistency, ROM packaging has remained essentially unchanged since it emerged on the market in 1964. The only modification made concerned the logo to increase shelf visibility and confer the look of a modern brand. The long history and continuation which resisted social change and Western influences made ROM a real national symbol. Romanians take it with them to offer as a gift when they visit other countries, as an authentic Romanian product.

In terms of advertising, Genuine ROM is characterized by irony, but also boldness, having the courage and daring to evoke the delicate Romanian social phenomena (communism etc.). An important advertising element of the ROM brand identification is represented by its slogan (“Romanian sensations”) which supports both the product specifics (the strong dark chocolate taste combined with rum cream) and the brand's values: self-irony, courage, authenticity.

TARGET MARKET DESCRIPTION

The case study analyses the export strategy of ROM chocolate bar to a European market, namely Spain. At present, Spain holds the most numerous Romanian community in the world. Each country and culture affects in its own way the seller as well as the market. It is foreseen that as long as ROM Chocolate is sending a powerful message regarding the national culture of a country, the product will have a high absorption rate. Demographically speaking, Spain and Romania are similar in terms of culture (speaking languages, Latin values) and customer behavior.

To understand the profile of the buyer's habits, when exporting a product, it is important to study usage habits regarding similar products that are already being sold on that market. Buying habits are also extremely important.

One of the reasons why a company engages in export operations is when the local market is saturated with the company's product. As ROM chocolate is a phenomenon in Romania and is number 1 selling chocolate, the company decided to turn towards a new market with a major Romanian community.

There are several resemblances between the two countries. Another important aspect which is usually taken into consideration for the export strategy is the climate. Hot and wet climate tends to produce sociable and expansive people, while introspective and independent people populate a chilly landscape. In export operations, sellers are usually following the same geographic models when trying to convince a foreign population to adopt their product.

For the present export strategy, it can be used the Inshore Marketing strategy. It consists in introducing the product to one part of the population only, knowing that in time it will spread in the whole country to large segments of buyers. Following this strategy, ROM chocolate export strategy will target the Romanian community from Spain at first, then spreading to the rest of the territory by gaining market share. There could be linguistic problems, cultural challenges, regulation difficulties etc.

ENTRY MODE ON THE SPANISH MARKET

The Spanish market is a long-run economy which encourages manufacturers mostly through Government subventions. It creates good development opportunities for both domestic and foreign companies and it holds a good rank in the economic development of EU countries.

While there are several modes through which a company can enter international markets, they all have both advantages and disadvantages. Root (1994) and Kaffash (2012) conducted a study on “foreign market entry decisions”, analyzing both internal and external factors for different entry modes. According to the resources, market conditions and product characteristics of ROM chocolate, the authors narrowed the number of foreign entry mode options to three: direct export, indirect export and licensing.

For ROM chocolate export strategy, direct export represents an important market entry mode, since the company can take control over the entire exporting activities: it does not involve intermediaries, it provides direct contact with the customers and it generates a better comprehension of the Spanish target market. In the same time, from a financial point of view, it is very expensive and it requires good local relations and knowledge of the domestic target market. Since the company produces and sells only in Romania, it has the disadvantages of low connections and knowledge of the Spanish market, higher costs for internationalization, and also the high risk borne only by the exporting company.

The second global entry mode analyzed involves licensing - transferring the production license for ROM chocolate from Kandia company to a specialized Spanish company, which will be responsible for all production and distribution of the product. Due to the strategic option of Kandia to keep its production in Romania and not externalize it elsewhere, this option is not acceptable.

Indirect export implies distributing the ROM chocolate in retailers' channels (supermarkets) operating on the domestic Spanish market which hold a good public image, have substantial sales, and possess a proven good understanding of local market particularities. This particular option ensures a quick penetration of the Spanish market, it does not require a large investment, and has a low risk attached. Even if the profitability is not as high as it would be if one of the previous two cases was chosen, indirect export entry mode suites best ROM chocolate, considering the elementary stage of its international activity. After the careful analysis of the retailers operating on the Spanish market, the envisaged partners and therefore distributors of ROM chocolate will be Alcampo and Carrefour.

MARKING AND PACKAGING REGIME

According to the European legislation every product which is classified as food must contain the following compulsory information on their label or package, such as name, list of ingredients, quantity of ingredients (percentage), net quantity (expressed in units of mass), date of minimum warranty, special storage conditions or conditions of use, name / business name and address of the manufacturer or packager, or of a seller established within the EU Community, the place of origin or provenance (in this case Romania). The individual package of the product must also contain the nutritional information of the product (Coles *et al*., 2003).

The packaging regime for exporting the product must therefore comply with the requirements mentioned above. More specifically, ROM chocolate bars are packed by the producer into cardboard boxes containing 36 pieces. These boxes are then packed in corrugated fiberboard boxes commonly named regular shipping container (RSC), which are the most widely used type of packaging export products. They hold several main advantages: they are cheap, easy to purchase and (an increasingly important feature), they are recyclable. They are also easy to print with labels containing important information. As a drawback, they lose their strength if they are wet (European Product Labeling Guide, http://eur-lex.europa.eu).

The fiberboard boxes will be stacked up in no more than five layers, because the weight might affect the formation, and put on euro-pallets. In order to protect them for water and also keep them together and protect the stack from falling, they will be shrink-wrapped. This will lead to a stable bundle pack, which will insure the

The fiberboard boxes (each one of them) must have labels imprinted containing the following information: country of origin and manufacture (Made in Romania), the final day of recommended consumption (Expiry date - dd/mm/yyyy), total weight of the contents, identification code of lot or batch (L - followed by the identification code), and special handling instructions, if applicable. For easy identification of the products in the logistic computerized systems, each box and each pallet must have a SJ quick identification code, such as a barcode, QR code or matrix code.

QUALITY CONTROL REGIME

The Spanish and European regulations concerning cocoa products and chocolate are focused on quality issues, to protect the names and prevent fraud in order to protect the prestige of chocolate. Spanish legislation is mostly based on the European Union rules created for food safety. The European Community is the largest importer - exporter of food products, so a solid legislation is needed to secure the safety of the consumers. The standard of the European legislation regarding chocolate is the Council Directive 1973/241/EEC in which chocolate products are categorized according to their ingredients. The fact that Romania is part of the European Union is a solid statement that the exported products fulfill the standards of Spain, and no further legislation barriers will be encountered.

According to the aforementioned standard, the ROM chocolate product can be included in the Milk Chocolate category, because its ingredients satisfy the regulations of this type of chocolate. European legislation specifies regulations for labeling, hygiene and weight of this category. The labeling Directive also specifies the composition, nature, durability, place of origin or method of production and the ingredients, sorted by the percent of the total composition.

Controls and standards are set for all the raw materials, for all the stages of the manufacturing process, the finish product inspection and the control over the storage and transportation (Importing – Exporting Goods, http://europa.eu). The ingredients required for the production of chocolate are mostly of natural origin: cocoa beans and sugar. The usual procedure used to evaluate cocoa beans is to study the appearance of the beans that are cut in half and the flavor of the chocolate made from the beans. Regarding sugar, the norms refer to storage and control of moisture and granulation. The EU law also specifies the additives which are allowed to be added to the cocoa powder. In this particular case, ROM chocolate contains E 322 - lecithin, which is mentioned as accepted additive.

The control of the manufacturing process is subject to clear conditions. From roasting to molding, all the production stages are inspected according to principles of quality and hygiene. The properties of the ingredients must be always checked before entering the process. During the process, physical and chemical characteristics are measured and compared with the accepted standards. These characteristics are checked also in the final product. At this stage, the EU legislation specifies that a microbiological test must be performed. The main health threat of chocolate is *Salmonella* bacteria which may be present in cocoa beans, although roasting the beans often kill it.

Although the Spanish legislation must be aligned with the European Directive, there are some peculiarities of the Spanish market: the main advantage of it is that it does not have a strong tradition regarding chocolate products, as France, Italy, Belgium and Switzerland have. Romania, as the exporting country, also shares most of the rules and regulations regarding chocolate with Spain, fulfilling therefore the Spanish market specifications.

TRANSPORT AND DELIVERY TERMS FOR THE EXPORT

In international trade, to ship a product overseas, exporters have at least four options: international freight forwarder, Shipper's Associations' services, express delivery or mail service and arranging its own shipping.

To establish the rules which define the responsibilities of seller and buyer for the delivery of goods under sales contract, the present case study uses the INCOTERMS (2010 version). Moreover, Incoterms reduce misunderstandings among traders, thus minimizing trade disputes and litigation (http://www.iccwbo.org).

In the case of ROM chocolate, where the export consists in food products with limited warranty, it is best to negotiate the terms of delivery as soon as possible. In addition, the conditions of transport are very important. The interest is for the goods to arrive at the destination in good conditions and without visible damage.

According to the arguments presented, the chosen method to penetrate the Spanish market is indirect export. As the product's size is small compared to other goods that can be sold or exported to the Spanish market, there are three INCOTERMS options that can be suitable for the delivery of ROM chocolate from Romania to Spain. The first appropriate INCOTERMS option is the FCA (Free Carrier) delivery term, which states that the seller delivers the goods to the carrier (transporter) or another person nominated by the buyer, at the seller's premises or another named place, as instructed by the buyer. The seller must deliver the goods already cleared for export at customs (all custom formalities, including export licenses). FCA has many advantages for the exporter. The risk and the cost borne by the Romanian company are low. However, in present conditions, the sea transport will not speed up the delivery process.

Another INCOTERMS option that can be used is CPT (Carriage Paid To). CPT states that the seller delivers the goods to the (first) carrier or another person nominated by the seller at an agreed place. The seller must contract for and pay the costs of carriage necessary to bring the goods to the named place of destination. A third INCOTERMS option that can be used in establishing the terms of delivery is EXW (Ex Works). In the case of EXW, the advantages of the exporter are even higher, as its cost and risks are very low compared to the ones carried by the buyer. As the chosen entry mode is indirect export, the Romanian company will work with retailers. One of them, namely Carrefour, is also present in Romania; therefore, it can be negotiated with it to include the transportation of ROM chocolate to Spain among other products Carrefour Spain is already purchasing and selling.

PAYMENT TERMS FOR THE EXPORT OPERATION

From the various international payment possibilities, for the present case study, the most appropriate method of payment was chosen the letter of credit, as it brings most advantages for both parties (www.escrow.com). The workflow of the letter of credit for the export of ROM chocolate to Spain market can be drafted as follows:

- The agreement - Kandia and the buyer reach an agreement on the transaction, which specifies the quantity and type of good(s) to be purchased, the purchase price, and the date/ place for delivery.

- The buyer initiates the letter of credit - it works with a commercial bank to have a letter of credit issued, having Kandia specified as beneficiary, which must be fully funded by the buyer before issuance. The issuing bank requires an insurance.

- The transmittal of the letter of credit - the buyer's bank issues the letter of credit.

- The receipt of the letter of credit – Kandia receives the letter of credit. The company then presents the letter of credit to the commercial bank. With the guarantees from the issuing bank, the company has a line of credit which it can potentially use for its operations. The final payment will be made once the delivery conditions of the contract are satisfied.

- The shipment is made - with the letter of credit in its possession, Kandia then provides the consignment of goods to the shipping company (regardless of the nature of transport - water, trucking, rail, air).

- The Bill of lading is issued - in exchange for the consignment the seller receives a bill of lading.

- The receipt of goods - after the shipment is made, the buyer actually takes ownership of the goods and confirms that the seller's consignment to them meets the specifications in the contract (quantity, quality conditions etc).

- The payment is made - once all necessary steps are completed and it is assured that the consignment meets the terms of the contract, Kandia can claim from the bank the final payment from the funds that were previously deposited for it.

CONCLUSIONS

The thorough analysis of different aspects concerning the export of ROM chocolate to Spain market, a complex export strategy has been documented and described in this paper. After analyzing possible suitable ways for the Romanian company Kandia to penetrate an international market, the most advantageous internalization method for the ROM chocolate was considered to be indirect export. This entry mode requires a lower investment by eliminating costs of promotion and brand reputation, which will be transferred to the local chosen partner. Terms and delivery of the ROM chocolate are highly dependent on the negotiation with the distributor and the importer. The most favorable INCOTERMS for ROM chocolate are FCA and CPT, and choosing one of them depends on the agreement with the importer. The chosen method of payment is the letter of credit. The analyzed export strategy is a viable option to complement the domestic operations of Kandia.

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