Understanding small-firm reactions to free trade agreements: qualitative evidence from New Zealand

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Abstract

Purpose:

Despite the proliferation of free-trade agreements (FTAs) internationally, the limited research available on the subject indicates that few SMEs consider the existence of these agreements as a reason to engage in international markets or expand their existing international engagement. The objectives of this paper are to identify and augment SME international marketing models building on Merrilees and Tiessen's (1999) work; and to explain how these marketing models condition the reaction of small firm exporters to free-trade agreements.

Design:

This study comprised in-depth interviews with 51 SME exporters in New Zealand. Participants were selected purposefully and were interviewed in a face-to-face, semi-structured format.

Findings:

Five international marketing strategies were identified drawing on prior models of international marketing: sales-driven, relationship-driven, international boutique, arbitrager and market seeder. These models are characterised by different relationships to markets and to buyers served, and by the extent of customisation in the export offering. By using these models we analyse why SMEs have yet to significantly capitalise on the opportunities provided by New Zealand's recent wave of trade agreements.

Implications:

This study acknowledges the diversity of international marketing strategies between seemingly similar firms by recognising that approaches generally viewed as unlikely to bring success in international markets can work when applied in a particular way and in a particular context. As such the results may offer a useful starting point for the customisation of policy advice on exporting in terms of the context in which SMEs operate.

Originality/Value:

As well as advancing theoretical perspectives on SME international marketing strategies, the findings are presented as a contribution to the as yet limited evaluation of how SMEs in New Zealand have responded to the emerging opportunities created by FTAs. The interest in filling this gap is part of a growing recognition that factors related to the firm's trading environment have been largely neglected in policy considerations.

Key words: Small and medium sized enterprises – exporting – international marketing models – free-trade agreements – New Zealand

1. INTRODUCTION

The negotiation of regional and bilateral free trade agreements (FTAs) among increasing groups of nations contrasts with the slow progress in agreeing another round of multilateral trade negotiations through the WTO (the "Doha Round") (Faiola and Laksmi, 2008). Since 2000, New Zealand has concluded FTAs with individual countries (China, Hong Kong, Malaysia, Singapore and Thailand) and as part of larger groupings (the ‘P4’ with Singapore, Brunei and Chile and the AANZFTA with ASEAN and Australia). Ongoing negotiations are also expected to secure agreements with the Republic of Korea, India, the Gulf Cooperation Council and Russia.

Trade negotiators, in New Zealand and elsewhere, argue that FTAs have the potential to improve significantly a firm’s trading environment by opening or easing access to markets, not least through the removal of tariff and non-tariff barriers (Ministry of Foreign Affairs and Trade, 2008). For this potential to be realised SMEs need to be willing, and able, to take up these new trading opportunities. Previous studies, however, have suggested that few SMEs become exporters or expand their existing export activity as a result of FTAs (Battisti and Perry, 2008; Julien, *et al.,* 1994; Campbell, 1996).

In this paper we argue that existing theoretical perspectives on SME internationalisation tend to focus on factors that determine success in international markets. There is, however, a growing recognition that factors related to the firm’s trading environment have been largely neglected (Zahara and George 2002; Zahara 2005; Rialp *et al.*, 2005; Aspelund, *et al.,* 2007). More specifically, calls have been made for research into “how” firms compete in international markets in order to identify how individual decisions combine into an overall marketing strategy, and to explain how these strategies develop and are made to work. In this regard it is perhaps not surprising that few SME international marketing models have been identified. Indeed, one study identifying a ‘sales driven’ and a ‘relationship driven’ approach to international marketing remains the sole study to pursue this line of research (Merrilees and Tiessen, 1999). The underlying assumptions are that international marketing is a complex process best understood as an integrated package of strategies aligned to the characteristics of the market served.

The objectives of this paper are to identify and augment SME international marketing models building on Merrilees and Tiessen's (1999) work, and to explain how these marketing models condition the reaction of small firm exporters to FTAs. As well as advancing theoretical perspectives on SME international marketing, the findings are presented as a contribution to the as yet limited evaluation of how SMEs respond to the opportunities created by FTAs. Using semi-structured interviews with 51 SME exporters based in New Zealand, we examined the origins of their current international marketing strategies, the important elements of these strategies and whether they are capable of adapting to changes in market access opportunities resulting from a FTA.

The following section of this paper outlines theoretical perspectives on the internationalisation of SMEs and discusses the limitations of SME international marketing research. The methodological approach is then outlined and findings are presented and discussed. Finally, the implications of this research for practitioners and policy makers are explored.

2. THEORETICAL PERSPECTIVES ON SME APPROACHES TO INTERNATIONALISATION

Approaches to SME internationalisation have developed from a simple resource-based interpretation to a more complex relational one, and increasingly towards a form of contingency perspective (Morgan *et al.*, 2004; Sousa and Bradley, 2007). The resource-based perspective emphasizes the role of firm-specific capabilities and other types of resources. This leads to interest in identifying how firm-level attributes including the characteristics and experience of enterprise managers affect participation and success in international markets (Teece *et al.,* 1997; Zou and Stan, 1998; Makadok, 2001). The main argument is that firms sustain a high level of export performance as long as they exploit a particular mix of resources and capabilities that rivals are unable to imitate or improve upon (Buckley and Casson, 1985; Dunning, 1988; Dicken, 2000).

The relational perspective emphasizes how internationalisation depends on the development of a network of business relationships (Johanson and Valhne, 1990). Sousa and Bradley (2009) suggest that this perspective is focused on analyzing and predicting relationship processes and outcomes rather than on explaining marketing performance. Among other outcomes this perspective has encouraged the development of a stages theory of SME internationalisation in which an escalating commitment is expected to be made to overseas markets as firms accumulate experience and increase sales (Styles and Ambler, 1994; Gankema *et al.,* 1997). 'Born globals', i.e. enterprises that begin their existence dependent on exports rather than domestic markets, are the main exception to the expectation that SMEs incrementally develop their internationalisation strategy through a sequential stage process (Knight and Cavusgil, 1996; Madsen and Servais, 1997).

The contingency perspective is developed from the structure-conduct-performance framework for understanding business behaviour as applied to international marketing by Cavusgil and Zou (1994). The structure-conduct-performance framework makes two main assumptions: (i) the competitive intensity faced by an enterprise is a product of structural characteristics of the firm's market such as the ability of rivals to replicate each other's actions; (ii) firm's choice and execution of strategy can alleviate the competitive intensity by enabling the enterprise to consolidate a position that rivals cannot match (Sousa and Bradley, 2007). Export venture competitive strategies are thus viewed as planned patterns of resource and capability deployments designed to address specific competitive contexts (Morgan *et al.,* 2004). The contingency perspective builds on this framework and examines international activity more broadly as a firm's strategic response to the interplay of internal as well as external factors (Robertson and Chetty, 2000). Rather than universal prescriptions of the sources of international success, this type of analysis aims to demonstrate the effectiveness of particular strategies when used in their appropriate context. So, for example, it is argued that a high degree of product adaptation should be sought when a firm has substantial international competence or little experience with the product, the offering is culture-specific or unique, the industry is technology intensive and the market is competitive (Cavusgil and Zou, 1994). Other research has suggested circumstances where offerings can be standardized and when they need to be adapted to individual markets (Lages and Montgomery, 2004).

3. LIMITATIONS OF SME INTERNATIONAL MARKETING RESEARCH

All three approaches described above seek to identify the precursors to success in international markets. It is recognized that various measures of success need to be employed to take into account that gaining market entry, building first-mover advantages or reducing domestic market pressure, may be of more immediate concern than sales or profits (Cavusgil and Zou, 1994). Nevertheless, in general these investigations remain focussed on trying to demonstrate how the various attributes of an international venture affect the level of success achieved, with the outcome being portrayed as what enterprises should do to match high performers. For example, one recent study based on the experience of Portuguese export ventures recommends that enterprise managers concerned to expand or otherwise increase their returns from exporting should understand the importance of supporting their overseas distributor (Sousa and Bradley, 2009). This study also endorses the recommendations of Cullen *et al.* (2000) that SMEs are well advised to recruit people with skills in relationship management, cross-cultural sensitivity and language proficiency. What is more, a study of USA-based exporters ranging in size from 50 to 1,000 employees recommended that to enhance performance in international markets managers should prioritise scrutiny of the strategy of their competitors and rivals' responses to their own strategies (Morgan *et al*., 2004). For aspiring exporters, the advice is to invest in relationship building, information gathering and avoid competing on the basis of cost-based advantages.

Such insights, while potentially of great value for SME advisors and managers, need to be treated with caution. Notwithstanding the theoretical perspective adopted, the common assumption tends to be that it is possible to identify factors that explain levels of performance in overseas markets. The limitation is that performance is not simply a dependent variable, as has been shown in studies that seek to explain enterprise performance more broadly (Child, 1974). Instead, performance is considered part of the continuing cycle of organisational development, a point that is especially relevant when studying the characteristics of enterprises engaged in international marketing. Internationally successful SMEs may follow distinctive strategies but the process through which the strategy was developed and implemented cannot be reduced to a single strategic decision. Internationalisation frequently involves relationships with individual buyers in overseas markets. Questions then arise as to the relative contributions of buyers and suppliers in sustaining international ventures. Once a relationship with an overseas market is established it becomes easier to customise the offering and the associated marketing strategies. This is the case partly because experience assists the identification of opportunities to adapt the product or service. From this perspective, an observation that a successful international venture is distinguished by the extent to which they customise their offerings to individual markets does not mean that a decision to customise was the sole cause of success.

An explanation of performance needs to consider the sequence of investments and market reactions that ultimately produced the successful strategy. One outcome, therefore, is that it can be simplistic to recommend replication of the actions of internationally successful SMEs without appraisal of the resource, and other, constraints on decision making. For example, Cavusgil and Zou (1994) identify prior international experience, competence and sustained commitment as contributors to international success. This leads to recommendations that suggest companies should recruit appropriately qualified export managers, accumulate international experience systematically and allocate sufficient resources to capitalise on the opportunities that exist. Such recommendations simplify the challenge facing SME managers both in terms of the ability to commit resources and in terms of the generalised nature of guidance. Similarly, acting on advice to give support to overseas distributors still leaves an exporter with uncertainty over the amount of support, the form in which it is given, the timing of support and the basis on which different markets and customers are prioritised.

The tendency to focus on individual strategy components (for example, the extent of customisation, distribution channel investment and pricing decisions) rather than studying integrated marketing strategies has also been a limitation in studies on the antecedents to export success (Merrilees and Tiessen, 1999; Aspelund *et al.*, 2007; Zahara, 2005). Such reductionism overlooks how individual components can take on a particular significance when put in the context of the overall strategy responses to marketing challenges (Aspelund *et al*., 2007; Katsikeas and Morgan, 1994). For example, a broad distinction is frequently made between indirect international marketing based around the use of intermediaries in the home country and direct marketing strategies that may include sales directly to the end user or to distributors in overseas markets, investment in joint ventures, overseas offices and licensing arrangements (Cavusgil 1984). The indirect approach has been thought of as a relatively uncommitted internationalisation strategy.

In contrast, Merrilees and Tiessen (1999) argue that in the context of marketing relationships dominated by foreign buyers, these may endure for considerable time and be consistent with a high commitment to internationalisation. They label this approach ‘sales driven’ and distinguish it from a ‘relationship driven’ approach. These two models are built around four aspects of a marketing relationship - market power, control over market agends, relationship investment, market adaptation - that have tended to be studied in isolation from each other. They are briefly described in Table 1. These two models aim to capture the total marketing strategy pursued and to explain its fit with two characteristics of the firm, product offering and the market environment.

---- Insert Table 1 about here ----

The approach taken by Merrilees and Tiessen (1999), and followed here, differs from studies on successful internationalisation in two ways. First, it recognises that approaches generally viewed as unlikely to bring success in overseas markets can work when applied in a particular way and in a particular context. Second, it studies decisions surrounding the choice of an international marketing strategy, which are usually the subject of studies of standalone practices, and includes a measure of the market context in which international ventures operate.

4. METHODOLOGY

Aim of research

The research reported here draws on a government-commissioned study that sought insight into the reaction of SMEs to FTAs that were concluded between New Zealand and various Asian countries in the period 2001 to 2009.[1] The aim of the research was to help explain individual firm reactions in the context of their international marketing strategy. This context conforms to a situation where the aim is to explore "information-rich cases" and to "learn a great deal about issues of central importance to the purpose of the research" (Patton, 1990, p. 169). To this end, a qualitative study

[1] These agreements were: the New Zealand-China Free Trade Agreement (NZ-China FTA) in 2008, the Trans-Pacific Strategic Economic Partnership (P4) in 2005, the New Zealand-Thailand Closer Economic Partnership (NZTCEP) in 2005 and the New Zealand-Singapore Closer Economic Partnership (NZSCEP) in 2001

was designed based on in-depth interviews with SME managers responsible for export marketing decisions in their enterprise. In most cases this was the owner/manager. This approach was directed at understanding the strategies and reactions of individual New Zealand SMEs to changes in their international trading environment brought about by FTAs.

Sampling and data collection

The sample for this study was selected purposefully (as defined by Patton, 1990) from a publicly available export directory. SMEs were defined as independent enterprises employing no more than 100 full time equivalent staff. The sample was selected to include enterprises with different degrees of international experience i.e. timing, scope and scale of internationalisation, and different approaches to internationalisation. Guided by the research question, the sample is skewed toward enterprises with experience in the markets covered by the New Zealand FTAs. Initially ffirms were contacted by phone to identify whether the owner/manager or a specific export manager was the most appropriate contact and to seek their participation in the research. The interviews, which took place on the business premises and averaged one hour's duration, were recorded and the interview was transcribed. The transcript was shared with the interviewee to give him or her the opportunity to amend and augment the initial responses. The interviews followed a semi-structured interview schedule that covered the following themes:

- A demographic profile of the enterprise and the interviewee.
- The firm's current export activity in terms of the product or service offerings, the markets exported to, the distribution channels utilised, relationships to buyers and explanations for the current organisation of their export practices.

- The process through which the enterprises had commenced and developed its export activity.
- Awareness and experience of FTAs, their impact on actual and planned export activity and explanation of these responses.

Data analysis

The first step of the data analysis was to write up a descriptive case summary for each interview to “allow for the unique pattern of each case to emerge” (Eisenhardt, 2002) and to capture the diversity of SME experiences and approaches to internationalisation. The next step involved searching for patterns across the interviews. An inductive approach was followed as proposed by Strauss and Corbin (1990), but Merrilees and Tiessen’s (1999) four aspects of a marketing relationship were used as sensitising concepts (Patton, 1990). These concepts provided an analytical frame to analyse the international marketing patterns of SMEs in our sample.

Participants

A total of 51 enterprises were included in the study. Seventeen of these firms can be described as micro firms with five or fewer employees; 22 as small firms employing six to 49 staff; and 12 as medium-sized firms employing 50 to 99 staff. About three quarters of the firms (36) exported goods, while the remaining 15 were service exporters. The average age of all firms was 18 years and the average annual turnover was NZ$8.2million (US$5,5million). Although on average the firms had 11 years of experience in overseas markets 11 firms were in the early stages of internationalisation with less than one year’s experience. The total exports of these enterprises ranged in value from NZ$5.7 million (US$3.9million) to NZ$238 million (US$161million) per firm placing them as a whole among the country's more important SME exporters.

5. FINDINGS

Five marketing strategies were identified based on practices that have sustained international activity and that were the basis of an ongoing involvement in overseas markets that met the company's goals. The five identified strategies include the two strategies identified by Merrilees and Tiessen (1999) – sales driven and relationship driven international marketing strategy - as well as three that are original to the study – international boutique, arbitrager and market seeder international marketing strategy. Findings for the five international marketing strategies are structured along three main themes: the description of the strategies using a case exemplar, the contingencies relevant to each of the strategies and how these strategies explain the reaction to the FTAs.

SME international marketing strategies, their contingencies and reactions to FTAs

All respondents with an ongoing involvement in overseas markets could be allocated one of these strategies based on their current approach. Classification was not possible in ten cases where the enterprise did not have a settled export strategy or had abandoned an initial approach without determining their next course of export-focused action. For an overview and summary of the five international marketing strategies, see Table 2.

1 Sales-driven international marketing

This marketing strategy is adopted by enterprises that lack market power and that can operate on the basis of sales initiated by the buyer who is also typically the end-user. In this model sales do require some marketing effort but this is not directed at individual buyers and may not even target any particular country. Sales involve one-off transactions that are not dependent on personal familiarity although repeat sales may occur and be encouraged by the suppliers' proven reliability. Given that the enterprise has made no or minimal prior judgement over where buyers are located there is little product or promotional customisation. This approach to international marketing was encountered among a number of the surveyed micro-enterprises which reached overseas markets predominantly through web based marketing and sales.

An example of the sales driven strategy amongst firms in this study was a distributor of health-related products that can be in restricted supply overseas because of regulatory controls. These controls restrict the ability to sell products locally but typically do not regulate importation for individual consumption. The availability of web-based purchasing facilitates this connection and is important in allowing direct purchasing by end users. By its nature the sales driven marketing strategy is largely an opportunistic approach to exporting that is unconcerned with attracting customers in any particular market being largely. As a result, limited effort is undertaken to target marketing to a particular geographical region. Further, the sales driven marketing strategy relies on consumers in overseas markets having a motivation to search out overseas suppliers and to be willing to order from unfamiliar sources.

Any impact from a FTA would, therefore, depend on buyers perceiving that the FTA provided an additional reason to contact a New Zealand supplier. The mostly web-based marketing and sales approach can simply mean mailing to an overseas address rather than a domestic one with the 'exporter' having little or no familiarity with the destinations to which their goods are dispatched and this compounds the potential that an FTA has limited, if any, effect on SME activity. Distribution through for example courier delivery systems can mean that exports generally slip under the radar screen of overseas customs and other regulatory authorities.

2 Relationship-driven international marketing

Relationship strategies are built around the development of close ties to key market intermediaries or customers in the markets being exported to. These relationships have typically formed over many years but start from the firm's possession of a niche product or service that is built upon firm-specific expertise. Investment in the relationship is an ongoing requirement as it represents the basis for continued sales and may result in significant customisation of the offerings through individual relationships. As sales are relationship-based, there is scope to compete through differentiation, quality and service performance.

An example of the relationship-driven strategy amongst the firms of this study is a company that designs, manufactures and installs meat processing equipment. It exports almost exclusively to one South American country and relies on close links to a small number of large clients with whom it has worked for over a decade. The business deliberately targeted this market based on the size of its meat processing industry and perception that potential customers in this market recognised New

Zealand as having particular expertise in the design of meat processing facilities. Commitment to the market includes investment in a manufacturing business offshore. While design facilities have remained in New Zealand, the home market now generates a minor share of annual revenue.

The relationship strategy has one broad contingency: namely buyer willingness to commit to a relationship with a supplier in preference to maximising their ability to purchase at ‘arm’s length’ from suppliers selected on a case-by-case basis. This suggests applicability to complex goods or services that are hard to specify completely in advance, and to situations where the buyer perceives advantage in the supplier having insight into the nature of their business. Given the buyer’s preference for a relationship, the supplier must offer advantages over local suppliers. These advantages may relate to firm specific capabilities and the willingness to recognise and accommodate individual customer requests.

The relationship-driven strategy is built around particular customers supported by dedicated investments that are justified partly from the perceived long term future of the relationship. Trade agreements may facilitate the discovery of opportunities in alternative locations but the incentive to do this is reduced by their investment in existing relationships. Relationship-based marketing is generally not affected by the changes that they have brought with the relatively modest benefits of an FTA offering negligible inducement to change the existing approach. By its nature, these exporters are committed to specific markets and have limited inclination to adjust investment to the needs and opportunities arising in a new or enhanced market opportunity. Moreover, even where the relationship exporter is active in a country affected by a

FTA changes in market access may have little impact on their strategies or performance. Relationship-based exporting is partly based on having found a method for effectively dealing with their market of interest including working within tariff and other market access constraints.

---- Insert Table 2 about here ----

3 International boutique

This marketing strategy relies on market dispersion as there is limited scope to expand sales in any market given the market niche occupied. The ability to supply multiple markets is facilitated by the limited need to customise the product beyond some market-specific requirements as for example labelling. The nature of the product is such that buyers are motivated by the 'country-of-origin' content so that generic ('New Zealand made') rather than product specific advertising is relied upon. Buyers do not require customisation to local needs or other market characteristics. With limited returns to be obtained from any single market the approach to marketing is comparatively untargeted with respect to locating the first buyers in the market but once a relationship is established the supplier seeks to maintain the buyer's loyalty to their offering.

Wine exporters are an example of companies which pursued this strategy in our sample. The wine exporters encountered in the study are small scale producers that market their product internationally more on the basis of New Zealand as country-of-origin, region of production and grape variety, rather than an individual vineyard's reputation. Low or even no customisation to individual markets is a main distinguishing feature from relationship strategies. Large scale producers with an own-label reputation have capacity for direct marketing to overseas buyers. Small vineyards supply a relatively high-priced product that has limited sales potential in any individual overseas market. A small ‘elite’ group of buyers are the main sales opportunity for boutique wines taking advantage of overseas interest in wine’s of different country- and region-of-origin. Firms rely on distributors in individual markets to promote the product to relatively price insensitive market niches. Distributors generally have a surplus of potential New Zealand suppliers. This makes distributors reluctant to offer exclusive distribution agreements and puts pressure on New Zealand suppliers to give particular reasons for their wine to be promoted (such as price discounts). As a consequence firms are continuously searching for market openings rather than relying on established relationships with distributors committed to their product.

The international boutique strategy operates in the context of overseas markets recognising a country-of-origin reputation and wishing to maintain a diversity of choice. An association of the product with travel and tourism experiences can assist.

International boutique strategists have not reacted to the trade agreements as they target non price sensitive markets niches and perceive little opportunity for extending sales in individual markets. Simplified trade regulations and harmonisation of labelling and product quality regulations may assist but exporters tend to be insulated from market compliance issues by their use of local market distributors. Responsibility and associated costs for clearing goods in the overseas market is with the distributor, so exporters can operate with little awareness of market access issues and thus the existence (or otherwise) of an FTA has limited impact.

4 Arbitrager

This marketing strategy is built around establishing market relations to multiple markets only a proportion of which will be utilised over each export period. Operating with surplus market connections gives flexibility to shift sales to where returns can currently be maximised, and minimises disruption from unexpected changes in markets with export potential. This flexibility relies on having good contacts in markets that can be called upon, even after a period of relative inactivity, and on suppliers not experiencing an adverse reaction when switching between buyers. The importance of a supplier's reliability based on past transaction performance and on the survival of their reputation is critical for the supplier to minimise its level of investment in these relationships.

Exporters of high value, quality and often time-sensitive seasonal fresh produce, such as for example cherries, exemplify the arbitrager strategy. Specific growing requirements that constrain supply volumes combined with relatively price elastic demand reduce some of the market instability otherwise associated with fresh food produce. This is accentuated by the quality-related sensitivities arising from the risks of crop damage during growth (a factor which reduces advance supply contracts), harvesting, packaging and shipment and a short shelf life once delivered to the end market. Profitable markets exist for New Zealand exporters but the returns from individual markets can alter at short notice requiring agility in shifting supply to current best sales opportunities. Allocation among the selected buyers is determined close to the time of sale according to their competition with exporters from other countries occupying the same seasonal niche as well as harvest volumes and sequencing by competing New Zealand growers. Often this can be price-related, and, in theory at least, an FTA that reduces a tariff on a traded item may offer a way to enhance the relevant firm's competitive advantage. In addition, FTAs may offer facilitated customs clearance over its rivals which, given the time sensitive nature of some products, can give a significant competitive edge to New Zealand suppliers. Against this background, individual exporters seek to develop a network of potential buyers in separate markets who can be called upon to accept product at short notice. An exporter of fresh cherries indicated that they had a network of around 50 potential buyers of which typically no more than 10 are called upon in any export season. Acquiring this flexibility can involve some reciprocation in that suppliers may be contacted by buyers to assist in filling market gaps.

The export of fresh produce through the arbitrager strategy relies on the product being accepted in a wide variety of markets at the prices needed by exporters. Market demand is based on the immediate product quality and is relatively disinterested in the country-of-origin. Consequently suppliers must compete with suppliers from other countries and are unable to exploit any national reputation advantage. With the produce being in comparatively constrained supply, marketing openings can generally be found provided the supplier has the flexibility to respond quickly to current conditions in individual markets. Challenges in maintaining product quality and practical considerations (labelling the fruit is not feasible) restrict the development of branded produce and this retains the opening for small exporters.

The arbitrager that sells to markets that differ from one year to the next has less scope to learn about and adapt to market impediments. The arbitrager has the possibility of shifting their exporting to encompass markets affected by a trade agreement and generally seek to increase their marketing opportunities. This arbitrager-type of exporter, depending on the markets of interest and type of product or service sold, has more chance of being concerned about market barriers and FTAs than the relationship-based exporter. In this way trade agreements that open up or improve access to markets may be utilised but in the end this will be determined as sales opportunities open and close across their network of potential buyers.

5 Market seeder

This marketing strategy is focused on market building, as much as it is (if not more) about securing immediate sales. It is associated with an innovative offering that is believed to have potential for application in a wide range of markets. Initially the exporter is also a producer of the product but the ultimate goal is have the innovation accepted as a generic technology that can be incorporated in many products. Should this objective be realised, the marketing strategy would become focussed around licensing offshore manufacturers and distributors. Immediately, and for the foreseeable future, there is a need to develop awareness of the product and uncertainty as to which markets might ultimately grow strongest. In this context, the strategy is to ‘seed’ a large number of markets with initial sales while minimising investment in individual relationships as the priority is to diversify market connections over different types of customers in different countries.

The exemplar of this strategy is a designer and builder of an innovative form of amphibious boat. The innovation is thought to have capacity to be sold as an add-on to a wide range of conventional boats so that boat manufacturers are targeted to become the main market rather than the company itself directly serving individual buyers. At present, the company is required to ‘prove the concept’ and gain acceptance of the amphibious technology. The system has been taken up initially by military, civil defence, recreational and functional users in a range of countries. These markets have been discovered through initial efforts focussed on boat shows and publicity events (such as demonstrating the boat’s performance by setting sea crossing records). The diverse uptake adds to the initial marketing challenge but supports the long term vision of licensing the amphibious technology to boat builders rather than the company itself being an exporter of amphibious boats.

A second case involved a software supplier to the music entertainment industry. This company has ‘seeded’ a number of overseas markets where it now has relationships with organisations that license the software and are the entities primarily responsible for achieving overseas sales. The company is selectively seeking to establish similar relationships in new markets as well as engaging in marketing initiatives designed to assist their established licensed distributors.

The market seeding strategy operates in the context of a technology that can add novel functionality to a broad class of product. The challenge is to demonstrate that there is demand for such product enhancement. This context can be contrasted with technology affecting production methods or that affects or may become a standard product component. Where the technology offers production efficiencies or has potential to become a standard feature of an existing product, the marketing focus can be concentrated on existing producers. In the case of the market seeding strategy, the innovator needs to demonstrate user interest in the technology so as to persuade suppliers of ‘standard’ product that their technology has merit.

The market seeding strategy is directed to the ultimate goal of replacing exports by the licensing of local producers. Should the target be reached, trade agreements would be of minor or low significance in changing the opportunity to conclude licensing arrangements except in so far as bilateral intellectual property protection is strengthened or the FTA includes specific provisions that assist licensing procedures. In the interim, trade agreements may assist access to some markets, although the significance of this is reduced where options have existed to 'seed' markets outside of trade controls such as military and civil defence buyers.

6. DISCUSSION

The five international marketing models were developed to help explain the reaction of SMEs to the changing trade environment that New Zealand's FTAs offer. As such their wider importance is to inform discussions of how enterprises manage their international activity. At one level, the results presented in this paper are no more than a reformulation of the long known tendency of SMEs to rely on niche marketing strategies (Katz, 1970; Porter, 1985; O'Gorman, 2000). This places a heavy emphasis on individually tailored services and products and marketing that stresses uniqueness and differentiation from standard business offerings. SMEs must seek out specialised opportunities and gaps in the market either because they lack the volume or cost advantages of large scale producers or both. As soon as it is recognised that mass markets are out of reach, all SME that are operating overseas can be seen to rely on some form of niche strategy: either a particular market or market segment is focussed upon or the offering is targeted to specific demands (Hutchinson *et al.,* 2005). Consequently, the description of SMEs as niche exporters does not provide much insight. It is necessary to go further and identify the specific ways that SMEs seek to differentiate their business from each other as well as from large firms. The international marketing strategies identified in the study provides one approach to going beyond the niche generalisation, building on the sales and relationship driven strategies first identified by Merrilles and Tiessen (1999).

In this paper we argue that existing theoretical perspectives on SME internationalisation tend to focus on factors that determine success in international markets. In doing so, studies have predominantly focused on single strategic elements such as the timing of the internationalisation process (e.g. Coviello and Munro, 1997; Moen, 2002; Moen and Servais, 2002); the market focus (e.g. McNaughton, 2003); the degree of customisation (e.g. Fletcher 2004; Bloodgood, *et al.*, 1996; Fontes and Coombs, 1997); the market selection (e.g. Preece *et al.*, 1999); and entry modes (e.g. Coviello and Munro 1997; Shrader *et al.*, 2000; Burgel and Murray 2000). Other studies have focused on firm-related characteristics such as sector (e.g. Crick and Jones 2000; Autio *et al.*, 2000) or firm age (e.g. Aspelund and Moen 2001). A further implication is to discourage the reduction of international marketing strategies to single strategic elements. The international marketing strategies developed from our sample of SME exporters show how international marketing is based on combinations of attributes partly related to the firm and partly related to the market context the firm operated in. This makes it hard to categorise any individual component as being more or less effective than another. Relationship-based international marketing is based on the delivery of a customised offering but the model acknowledges that customisation is effective only in combination with the ability to form close ties in the overseas market. Without this ability the value of customisation is unclear. Firms maintaining weak ties to a larger number of overseas buyers may respond to an advantage in being able to shift between markets at short notice or may act in this way through buyer reluctance to develop close ties. Similarly, a strategy of continuously seeking overseas markets for potential distributors can appear haphazard and an unlikely basis for sustaining an overseas presence. In practice, reliance on a continuously changing mix of overseas distributors approximates better how firms using the international boutique marketing strategy survive.

The approach can be viewed as offering an ‘ecology’ of international marketing in which different scales and methods of serving overseas markets are matched to enterprise and market characteristics. Contingency approaches to the study of success in international markets go some way to recognising this but still tend to reduce international success to a mechanistic process in which broad categories of firms are recommended to follow a particular strategy. This study has identified the diversity and variation of international marketing strategies between seemingly similar firms. It also recognises that approaches generally viewed as unlikely to bring success in international markets can work when applied in a particular way and in a particular context. The implication of our approach is that the opportunities open to enterprises are a product of the interplay of their size, specialisation and market environment. Within our sample, therefore, the strategies do not divide neatly between firm sizes or sectors: software firms appear in two categories according to the application served; similarly an exporter of fresh horticultural produce (e.g. cherries) has a different strategy to the exporter of a processed horticultural product (e.g. wine). In contrast, interpretations of success in international markets tend to be based on broad categories of enterprises. Our research, therefore, points to the need to judge performance among categories of enterprise that are more differentiated than those just derived from combinations of size and sector.

7. CONCLUSION

To explain the reaction of SMEs to the recently concluded FTAs this study has drawn on one previous attempt to outline theoretical models of SME international marketing (Merrilees and Tiessen, 1999). As well as the existing sales driven and relationship driven models of international marketing, three new models have been proposed (international boutique, arbitrager and market seeder) as a way of explaining SME responses to FTAs.

The five international marketing strategies identified in this study explain how international engagement is organised in different ways. The strategies emphasise the different types of buyer relationships and the extent to which efforts are made to customise export offerings and associated marketing activities. This diversity arises as an adaptation to specific product and market characteristics, to which was alluded to in illustrative exemplars. Further, contingencies that make these individual strategies viable have been identified. They are not necessarily the only or main context in which the international marketing strategy may be applied but they do show how strategies respond to particular influences. These contingencies provide the link to understanding the reaction to FTAs as they indicate rigidities in the way exporting is organised and in the ability to respond to changes brought about by trade agreements.

As well as advancing theoretical perspectives on SME international marketing, the findings contribute to the as yet limited evaluation of how SMEs respond to the opportunities created by FTAs. The interest in filling this gap is part of a growing recognition that factors related to the firm's trading environment have been largely neglected in policy considerations. Internationalisation is important to the success of small economies as indicated by their high levels of openness to (and dependency on) international trade. The emphasis on exporting is particularly significant in New Zealand, where the small size of the domestic market makes exporting a critical requirement for growth. Government trade policy has responded in part through the negotiation of FTAs giving priority to the economically fast growing Asian economies as well as by continuing its support for trade liberalisation through the World Trade Organisation.

8. LIMITATIONS

These five international marketing strategies characterise the sample of exporters in this study. Further studies of larger populations of SME exporters are necessary in order to determine the universality of the identified marketing strategies. Further research is also necessary to understand how trade agreements could be more effective in assisting SME international marketing strategies. The present study does not give insight into the relative frequency of alternative strategies, their financial importance or enduring sustainability. In this regard trade negotiators could benefit from the extension of the present study to a larger sample within particular sectors, focusing on firms that use an arbitrager and market seeder strategy, as our results indicate that those firms are the most likely to benefit from liberalising trade agreements.

9. IMPLICATIONS FOR RESEARCH AND PRACTICE

The current research has identified a need to explore why and how firms change their international marketing strategy to account for the dynamic nature that characterises the international business environment.

The five international marketing strategies identified in this study offer a starting point for customising export advice to the context in which exporters operate. Trade negotiators may need to consider how best to address the needs of SMEs in their negotiations. This may include a greater focus on behind-the-border barriers to trade (e.g. licensing arrangements), as well as measures that facilitate trade and entry opportunities (e.g. customs clearance). Similarly, Government agencies responsible for facilitating and promoting international trade need to customise their export support to the different marketing strategies that SMEs have developed to suit their resources and market opportunities. This can mean accepting that most SMEs will continue to serve comparatively modest overseas markets based on strategies that are at odds with the recommendations from studies seeking to explain the origins of export success (e.g. Sousa and Bradley, 2009; Morgan *et al.*, 2004).

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Market power	The more the supplier offering is unique to the supplier and the more that the supplier encourages buyer loyalty that constrains the ability of buyers to change suppliers, the greater is the market power.
Control over market agents	Where sales are made to specific buyers or through market intermediaries identified by the supplier in advance of the sale being made, control over market agents is high. This position of control is contrasted with situations where sales are more or less random to the extent that the country (of the buyer) selects the exporter, not the other way around.
Relationship investment	Where exporters seek to maintain an ongoing relationship with an individual buyer, particular investments are required above those that are required to ensure the satisfactory completion of an individual sale. These investments may include stationing personnel in the overseas market, providing after sales support and increasing the number of home-based staff with direct, personal contacts with the overseas buyer.
Market adaptation	Customisation of marketing and export offerings to meet foreign customer needs may include modifications to contract terms, packaging, order volumes and changes to the offering itself such as the technical specifications or materials used.

Table 1: Four aspects of a marketing relationship as suggested by Merrilees and Tiessen (1999)

Marketing model	Market power	Control over market agents	Buyer relationship	Market adaptation	Exemplar export offering	Strategy contingencies	Impact of trade agreement
Sales driven	Low	Low	Low	Low	Internet based sales of nutritional supplements	Buyers are motivated to seek out overseas-based suppliers. Overseas controls on local distribution and promotion can encourage this motivation.	None – low
Relationship driven	Medium - high	High	High	High	Design, build & install meat processing equipment	Overseas buyers recognise New Zealand expertise and favour customised solutions.	Low
International boutique	Low	Medium	High	Low	Wine	Country and region of origin is part of the purchase decision leaving scope for small scale, high cost producers.	Low
Arbitrager	Low - medium	High	Medium	Low	Fresh cherries	Short marketing windows for fresh produce; risks to quality.	Medium
Market seeder	High	High	Low	Medium	Amphibious boat	Innovative technology offering additional functionality to an existing product.	Medium

Table 2: SME international marketing strategies