

7.0 PROPOSED FUTURE MARKET RESEARCH

(DESK & FIELD) AND DEVELOPMENT PROGRAMMES FOR THE TARGET MARKET

Selling factors and techniques best suited to the local culture

Market Research

Before entering the market, prospective exporters to Australia should evaluate their proposed selling technique thoroughly to ensure that it is appropriate to the market, and that there is sufficient demand for the product/service in Australia. An effective way to evaluate the situation is to do some basic market research and then follow through with a personal visit. There is no substitute for a first-hand look.

2. Common Sales Arrangements

The use of **agents and distributors** is the most common way for companies to sell products in Australia, as discussed above. Because of market size, it is common practice for Australian distributors to ask for exclusive geographic and/or product rights.

Joint ventures, franchising, direct marketing, and licensing, are all good alternative market entry techniques. These methods entail more investment and commitment than simply appointing an agent or distributor, but they may be more appropriate in the long run.

Product pricing and licensing

1. Product Pricing

Australia is a free enterprise economy, and basic market factors of supply and demand apply in product pricing. In order to compete successfully in this small, but highly competitive market, exporters to Australia must be prepared to offer flexible prices with, perhaps, lower than usual profit margins, and smaller minimum quantities. Some factors to consider are:

a) Selling Costs and Price Competitiveness

They will be selling in an active, highly competitive and vibrant market, Australia is a geographical area similar to that of the USA and a population comparable to that of greater Los Angeles. Products from all over the world are represented in this sophisticated market, where sellers and end-users alike are all searching for something new. It is therefore important for companies to adapt their pricing to the local market.

To structure their prices competitively, suppliers must consider all the cost elements that imported products have to bear. **The key factors are freight rates; handling charges; import tariffs; GST; marketing costs, such as advertising and trade promotion; and agent or distributor commissions.** Exporters should note that sea freight rates from the U.S. to Australia are high when compared with those from within Asia, and even from Europe.

b) Volume Buying/Selling and Discount Pricing

Australian wholesalers and retailers traditionally have sought the highest markup the market would absorb, rather than thinking of volume buying or selling. This pattern is changing as open markets and the influx of franchises and other high-volume businesses have alerted the increasingly cost-conscious consumer to competitive discount sales and services. Suppliers need to be able to deliver quality products and/or services at attractive prices. To compete successfully, exporters should consider granting maximum wholesale discounts, keeping in mind that what appears to be a major order to an Australian buyer may still seem like a small transaction to the exporter.

Some Australian importers prefer to deal directly with manufacturers. They believe that it is cheaper to deal with the overseas manufacturer rather than sourcing from overseas distribution houses. This cultural perception is gradually changing but could result in a mass merchandiser being called on by a potential importer to justify its pricing system.

c) Industrial Pricing

Factors of price, quality, reliability and service support are prime considerations when selling industrial products or capital equipment. While price is certainly a major factor, a purchaser may decide to pay more for a piece of equipment known to be of **a better quality and more reliable** than a competing product. However, exporters must be prepared to negotiate on price or other aspects of the purchase.

In general, Australians are conservative when purchasing capital equipment to upgrade their manufacturing processes. They take time to make purchasing decisions, weighing them carefully against their perceived payoff to increase bottom line profits. If the bottom line does not appear to receive much gain from the purchase, they may simply delay their decision.

d) Price Controls

As Australia is a free-market economy, there is little formal price control. The national regulator, the Australian Competition and Consumer Commission (ACCC), has the power under the Prices Surveillance Act of 1983 and the Trade Practices Act of 1974, to investigate, vet or monitor the prices charged by businesses. These statutory pricing powers, which are designed to make particular businesses or industries publicly accountable for the prices they set, can only be employed where the Federal Government has authorized their use. The ACCC generally uses its pricing powers to examine prices charged by private businesses that hold substantial power in a market. The Commission's use of its inquiry and monitoring powers culminate in a public report and, where necessary, recommendations to the Government.

As of July 2002, a committee, set up by the federal government, was in the process of reviewing the competition provisions of the Trade Practices Act and its administration by the ACCC. The committee is considering whether the Act provides sufficient recognition for the ability of Australian companies to compete globally and whether it provides an appropriate balance of power between small and large businesses. Submissions to this inquiry have been made by the ACCC and by industry groups.

The ACCC has also been active in the implementation of the Goods and Services Tax (GST), serving as a "watchdog" to ensure that resulting price increases by the private sector are not excessive. State governments have the power to control prices, but in recent decades have rarely done so.

2. Licensing

Australian industry is known for its ingenuity and practical approach to problem-solving. In this context, the role of licensing is of particular importance for Australian commerce and industry.

License agreements involving Australian companies should contain the usual terms, for example, type of license being granted (i.e., sole, exclusive or non-exclusive), territory covered, license fee or royalty, licensee's duties and obligations, period of grant and field use of the technology involved, maintenance of quality control, ownership rights in improvements and innovations made by licensee, warranties and indemnities, technical assistance and confidentiality, sub-licensing and assignments, and termination.

On the whole, there are few legal and administrative requirements governing the field of licensing in Australia. Exclusive licenses of patents, copyrights and other statutory rights require compliance with certain minor formalities. The Trademark Act of Australia provides for the registration of licensees (or 'users', as they are called in the legislation.)

In the final analysis, there is no alternative to a carefully drafted license agreement, which provides certainty in defining the parties' mutual obligations. This is as true in Australia as it is anywhere else in the world.

Advertising and trade promotion

Companies can promote their products in the major national business publications and newspapers, as well as in state or national trade and industry magazines. The Commercial Service in Australia publicizes trade missions and

seminars by advertising in the Australian Financial Review, the financial sections of the major newspapers, in industry magazines, and in newsletters of trade associations. CS Australia also compiles industry-specific mailing lists sourced from outreach to various organizations and a variety of business directories, both print and electronic, to send material by post, faxstream or email, using automated mailing list products and search techniques.

A brief list of major newspapers, business journals, B2B websites, and local advertising and promotional service agencies is featured below.

Newspapers:

The Australian www.news.com.au

The Australian Financial Review www.afr.com.au

The Sydney Morning Herald www.smh.com.au

The Age www.theage.com.au

The Canberra Times www.canberratimes.com.au

Courier Mail (Brisbane) www.news.com.au

Adelaide Advertiser www.newsclassifieds.com.au

Daily Commercial News www.dcn.com.au

The West Australian www.thewest.com.au

Business Journals:

Business Review Weekly www.brw.com.au

Margaret Gee's Australian Media Guide www.infoaust.com

National Guide to Government www.infoaust.com

B2B:

Dun & Bradstreet Australia www.dnb.com.au

IBIS Industry Reports www.ibisworld.com.au

Federal Government's Business Point www.business.gov.au

Other Useful Websites:

Australian Bureau of Statistics www.abs.gov.au

Dept. of Industry, Tourism and Resources www.industry.gov.au

Official Australian Yellow Pages www.yellowpages.com.au

Australian Trade Commission www.austrade.gov

Sales service and customer support

Generally, doing business in Australia is simple for exporters when Culture, language, and business practices are familiar. However, subtle cultural differences do exist that can either invigorate or undermine a business relationship.

Depending on the product or service to be exported, Australian agents/distributors expect support from their suppliers, including product warranty for a specified time, training, advertising, and promotion.

Timely delivery of goods, including spare parts, is expected and is rarely a problem. Airfreight is used commonly for smaller items. Shipping schedules are reliable. Where necessary, firms should ensure that their representatives can service the imported equipment or that there are service arrangements in place.

Government procurement practices

Australia is not a signatory to the Agreement on Government Procurement, which means that it is not bound by conditions prohibiting specification of locally-made products in tenders. The Australian Federal Government has made recent overtures to individual States, but consensus on signature of this Agreement has not yet been reached.

Although Australia's government procurement process generally is considered to be well documented and fair, with few restrictions on foreign bidders, there exist a number of qualitative decision factors relating to local industrial development. It is important for companies considering bidding for major government business to take these factors into account in their bid structuring. This applies particularly to their consideration of whether to team with Australian industry partners, or to go it alone.

Australia no longer has a system of offsets. However, some form of commitment to local procurement will be necessary for an overseas company to be successful in winning a large government tender. Government business is often won or lost on the amount of local industry participation offered by the bidder, including research and development and investment activities undertaken in Australia as a result of the business.

Federal and State governments actively encourage local industry participation in government procurement, through purchasing policies and clauses contained in tender documents. Bidders and purchasing agencies are often required to submit separate industry impact statements. Most local governments stop short of actually directing their agencies to give preference to local suppliers.