



Universidad de Almería

Department: English and German Philology

Master Project

Master Project Director: José Carlos Redondo Olmedilla

Academic year: 2012/ 13

# Australia:

Context Analysis and a Market Opportunity Approach  
from the Spanish Side.

The Agricultural Machinery Sector

Francisco Javier Plaza Ibarra

Gestión Internacional de la Empresa e Idiomas

Date: September 2013

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## List of Abbreviations

MK	Marketing
UK	United Kingdom
Pty Ltd	Proprietary limited
ASIC	Australian Securities and Investment Commission
FIRB	Foreign Investment Review Board
GST	Good and Services Tax
RBA	Reserve Bank of Australia
GDP	Gross Domestic Product
GNP	Gross National Product
CPI	Consumer Price Index
ICEX	Instituto Español de Comercio Exterior
USA	United States of America
AUSFTA	Australian-USA Free Trade Agreement
FDI	Foreign Direct Investment
EU	European Union
CAP	Common Agricultural Policy
CIF	Cost-Insurance-Freight
WTO	World Trade Organization
DAFF	Department of Agriculture, Fishery and Forestry
SWOT	Strengths-Weaknesses-Opportunities-Threats
IFE	Internal Factor Evaluation
AGRAGEX	Asociación de Fabricantes Exportadores de Maquinaria Agrícola
S1-2-3-4	Strategy 1-2-3-4
ROI	Return on Investment
ASBA	Australia Spain Business Association

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## **1. Abstract**

The attempt of this research paper is to offer a closer look and a deep analysis of a market and country in continuous development, as Australia is and at the same time it intends to explore the export opportunities that this country can provide for the Spanish companies, taking into account the potentialities and characteristics of the different products. In particular, its objective is that aside from offering a more realistic approach and vision on Australia, especially the business sector and within it the niche of the agricultural machinery sector companies, which can find an interesting proposal address its exports to this market after the development of an International Sector Marketing Plan.

## **Resumen**

El presente trabajo pretende ofrecer una visión y análisis en profundidad de un mercado y un país en continuo crecimiento, como es Australia y conocer las oportunidades que ofrece para las empresas españolas a la hora de exportar, teniendo en cuenta las potencialidades y características de los productos. En particular, su objetivo es que a través de esta lectura, se obtenga además de un conocimiento de todo lo relativo a Australia, que las empresas, especialmente las del sector de la maquinaria agrícola consideren una propuesta interesante dirigir sus exportaciones hacia este mercado tras el desarrollo de un Plan Sectorial Internacional de Marketing.

## **2. Introduction**

The current crisis situation in Spain is affecting hardly all the economic activities which have been the engine of the country, and obviously the activities related with the primary sector, with a day by day more focused tertiary country have not been an exception. The sales growths in the national market are stagnant and the situation compared with the period before the crisis is significant. That is why, the companies whose activities have possibilities in the international market have decided to focus their MK and sales force efforts on maximizing the exports to several countries. Looking at this situation was the reason that brings us to start the investigation about a new development and in a continuous progress market, as the Australian one, which has been one of the less affected countries by the world crisis and which is really interested in the foreign exports of some products to improve their industry because they are not able to produce them.

Throughout this document, several objectives are pretended to be fulfilled as the further research and knowledge about Australia regarding the most important and relevant topics to understand how the structure of a country in different levels is. Once, this country research has been done and enough knowledge and information have been provided, the second aim of this project is to look at the Spanish companies possibilities in Australia, focusing on the interesting market opportunity that we have found, and especially upon the agricultural machinery, in order to furnish this field with a new possible market where to expand their activities, being this one a market with good future expectations. Finally, after analysing the possibilities, an International Sector Marketing Plan will be developed to serve as a possible theoretical guide for interested Spanish companies of the field. The economic data for the development of this Plan have not been included due to the difficult access in the estimations and because of the absence of official information about them.

### 3. Australian Context

#### 3.1. Geography

Australia is located in the Southern Hemisphere between the Indian Ocean and the South Pacific Ocean and is encompassed into Oceania, which was the last continent; apart from Antarctica to be discovered and explored by Europeans (cf. British Encyclopaedia; 2003) and it is the sixth biggest country in the world according to its extension. In the following map, we can see Australia's geography and afterwards the main characteristics of the country will be explained:



Figure 1: 'Australian Geographic Map' *The World Atlas*. Web, 25<sup>th</sup> April 2013.

-The vast territory→7.692 km<sup>2</sup>, but just 1.000 km<sup>2</sup> of them are habitable due to the huge percentage (about 2/3 of the territory) of the country that are deserts (Great Victoria and Gibson Desert are the most famous). During last years, new habitable territories have been discovered, so probably it will decrease the percentage of non-habitable territories.



-The global isolation → The country is completely isolated and brings them to have their own plants, animal life and several different features from other continents. The coast length is about 50.000 km and it is integrated by thousands of islands, wonderful beaches, reef ledges, natural parks and a lot of places to be explored. The most famous coasts and landforms are the Gold Coast, located in Queensland and it is known as the 'surfers' paradise' and Whitsundays, located also in Queensland and they are composed by 74 islands surrounded by the Great Barrier Reef, considered World Heritage.

-Low relief → Australia is considered a land of vast plains where only about 6 % of the territory is above 600 meters in elevation and its average altitude is 340 meters. Along Australia we can find out different landforms which can be divided into:

\*The Western Tablelands. Most part of the Centre and West of the country is characterized by big deserts, such as Gibson Desert, or Victoria. The average altitude is 500 meters which rises gradually from the central Australian Depression. To the west of the geologically very ancient granite shield of the Western Australian tableland with its characteristic rounded hills and crags and its mostly infertile soil, are belts of dunes and narrow coastal plains, in which lie Perth and other towns.

\*The Central plains. From the Carpentaria gulf to the south of Adelaide comprises all the centre of the country coast to coast with an average altitude of 160 meters. Its main characteristics are that the soils of the plain of erosion with reddish or greyish sand arranged in long crest and troughs and it is also abounded by animal and plants life adapted to its environment, completely different and particular compared with other parts of the country.

\*The Australian Oriental Range. This Australian Oriental Range is a set of hills and tablelands, whose extension is along 3000 kilometres, from the north to the south in the East of the country. It contains the highest peak of Australia, which is the Kosciusko (2228 m.). This part is also the richest of natural materials, such as, bauxite, iron ore, copper or coal. Australia is the world's largest exporter of this last mentioned material accounting for 29 % of the total amount.

### 3.2. Demography

The Australian population is 22.785.573 (September 2012 data). Most people live along the coast, approximately 96 %, because it is the place where the climate and natural conditions are more favourable to live in.

Australia is divided into 8 regions (New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania, Northern Territory and Australia Capital Territory). The most populated region is New South Wales with 7.290.000 inhabitants, followed by Victoria (5.649.100) and Queensland (4.584.600).

<b>Population at end Sep qtr 2012</b>	<b>Change over previous year</b>	<b>Change over previous year</b>	
<b>PRELIMINARY DATA</b>	'000	'000	%
New South Wales	7 314.1	86.0	1.2
Victoria	5 649.1	94.8	1.7
Queensland	4 584.6	91.4	2.0
South Australia	1 658.1	16.4	1.0
Western Australia	2 451.4	81.7	3.4
Tasmania	512.2	0.5	0.1
Northern Territory	236.3	4.2	1.8
Australian Capital Territory	376.5	7.4	2.0
<b>Australia(a)</b>	<b>22 785.5</b>	<b>382.5</b>	<b>1.7</b>

(a) Includes Other Territories comprising Jervis Bay Territory, Christmas Island and the Cocos (Keeling) Islands.

Table 1: 'Australian Population by Region', *Australian Bureau of Statistics*, September 2012, Web, 26<sup>th</sup> April 2013 <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/3101.0>>

Australia's capital is Canberra (300.000 habitants). Canberra is located in Australian Capital Territory and it is the 8<sup>th</sup> most populated city of the country and the coldest one. It is the capital of the country because it is in the middle between Sidney and Melbourne (previous capital of Australia) which are the economic centres of Australia, and there were some conflicts between both to be the capital of the country, so Australians institutions decided to establish Canberra as capital, to avoid political problems.

In the following figure, we will see an Australian population pyramid, which we will explain further in detail:

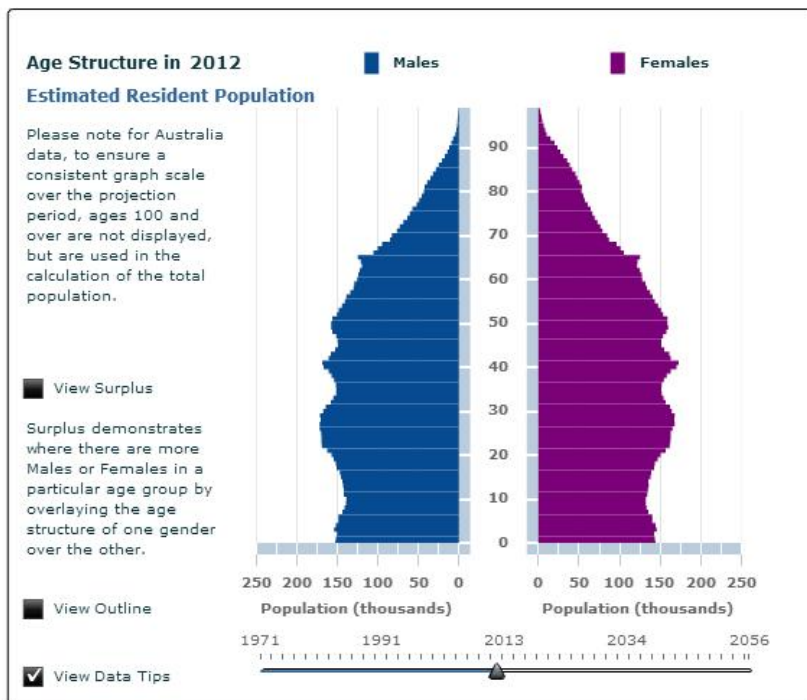


Figure 2: 'Australian Population Pyramid', *Australian Bureau of Statistics*, December 2012, Web, 26<sup>th</sup> April 2013

<<http://www.abs.gov.au/websitedbs/d3310114.nsf/home/population%20pyramid%20preview>>

Looking at the type of pyramid it is, we can consider Australian Population pyramid as a 'Regressive Pyramid' as most of the Western and developed countries. The features of these types of pyramid are that they have a low natality index and also

a low mortality index, being compressed most of the population in between 20 and 50 years. Australia has some particularities. During the last 10 years, the birth rate has grown and nowadays it is one of the highest of the developed countries (12.2 per 1000 habitants).

Australian government has approved some economic incentives for the families with more than 1.7 child (Australian average) so that can be the reason of the upturn we can see in the lowest levels of the pyramid. Other particularity can be that 94 % of Australian has an overseas-born parent. That means that most of people have ancient family from Europe or other parts of the world. It is really significant the Mediterranean population in Australia, particularly from Italy and Greece, existing even Radio frequencies and TV programs in their languages.

The life expectancy is 79.4 years for male and 84.45 for female (cf. Indexmundi) being on the top of the developed countries. Mortality index is 6.94 per 1000 habitants, the 135<sup>th</sup> in the world. Comparing natality/mortality indexes, natural growth in Australia is 5.26 per 1000 habitants. The meaning of this index is that in the following years, Australian population will increase in an important rate, compared as always, with the Western and developed countries.

### **3.3. The Culture in Australia**

Australia's history is impossible to describe without explaining the influence and the importance of Great Britain. Australia is a colony of Great Britain from 1788 when the first settlers arrived to Botany Bay, in the oriental coast of Australia.

Australia's culture is a mixture between the aborigenes traditions and the European ones. The Australians celebrate Christmas, New year eve, Halloween, etc., as the Europeans but with the particularity for them is that Christmas is on the beginning of the summer, because they are in the Southern Hemisphere, where the months of the seasons are just opposite with the Northern Hemisphere ones, being summer season from 21th December to 21th March instead of from June to September. The most special celebration for Australian is the 26<sup>th</sup> of January when they celebrate their national day, as known as 'Australia day'.

The official language of the country is English and it is spoken by most of Australians but, as we mentioned before, there is a big influence of overseas population that combine speaking English with their mother tongue. In the following figure we can see the number of overseas population of Australian according to their country of origin:

Overseas Population of Australia (2011)

Language	Number of people	% born in Australia	% of Population
Italian	316,900	42.1%	1.6%
Greek	252,200	52.8%	1.3%
Arabic	243,700	42.9%	1.2%
Cantonese	244,600	21.4%	1.2%
Mandarin	220,600	12.6%	1.1%
Vietnamese	194,900	30.3%	1.1%
Spanish	98,000	24.4%	0.5%
Philippine	92,300	15.0%	0.5%
German	75,600	19.9%	0.4%
Hindi	70,000	13.7%	0.4%

Table 2: 'Overseas Population of Australia' *Australian Bureau of Statistics*, 2011, Web. 27<sup>th</sup> April 2013.

<<http://www.abs.gov.au/ausstats/abs@.nsf/mf/2075.0>>

For understanding better Australian's culture and interests, we are going to analyse the field of education of current studies depending the age of each segment of population.

#### Main field of education in Australia (2012)

PERSONS ('000)						
Main field of education of current study	15-19	20-24	25-34	35-44	45-64	Total
Agriculture, environmental and related studies	10.0	9.5	14.6	5.7	5.0	44.8
Architecture and building	33.4	39.5	14.1	5.2	4.9	97.0
Creative arts	36.9	51.6	20.5	10.6	9.5	129.1
Education	23.3	45.9	32.4	23.1	19.9	144.6
Engineering and related technologies	59.5	75.5	50.6	13.1	6.5	205.2
Food, hospitality and personal services	20.1	21.8	13.9	6.7	2.7	65.1
Health	44.0	76.2	64.1	32.5	32.7	249.5
Information technology	13.3	18.2	15.5	5.7	1.3	54.0
Management and commerce	71.8	155.4	135.8	86.1	65.8	514.9
Natural and physical sciences	21.2	41.1	19.4	6.3	2.7	90.8
Society and culture	53.3	115.8	98.2	65.3	60.7	393.3
Total	399.4	663.4	490.3	266.7	220.6	2,040.4

Table 3: 'Main field of education of current study in Australia', *Australian Bureau of Statistics*, 2012. Web. 28<sup>th</sup> April 2013.

<<http://www.abs.gov.au/websitedbs/CaSHome.nsf/Home/Society+&+Community+Datasets>>

In general, the biggest percentage of population independently of their age segment is focused in Management and Commerce, exactly the same situation as the Western countries. That means that Australians philosophy is to encourage and to have a powerful tertiary sector to boost and sustain the economy.

An interesting data to take into account is that 20-24 age segment is particularly interested in the fields of Society and culture (due to the importance of overseas population in Australia), Engineering and related technologies (Australia wants to develop their own industries) and Health.

The young age segment is nowadays also really interested in the agriculture and the environment because, recently, Australia has discovered thousands of unexploited kilometres of natural resources and new grounds where to work in and that can help definitively to boost Australian economy as one of the most powerful in the world. This is an important data to take into account for our following marketing

approach, because the Spanish companies and society can be attracted by these opportunities.

### **3.4. The law**

The Australian legal system is based on a fundamental belief in the rule of law, justice and the independence of the judiciary. All people, Australians and non-Australians alike, are treated equally against the law and safeguards exist to ensure that people are not treated arbitrarily or unfairly by governments or officials. Principles such as procedural fairness, judicial precedent and the separation of powers are fundamental to Australia's legal system.

The common law system, as developed in the United Kingdom (UK), forms the basis of Australian jurisprudence. It is distinct from the civil law systems that operate in Europe, South America and East-Asia, which are derived from Roman law. Other countries that employ variations of the common law system are the United States, Canada, New Zealand, Malaysia and India. The chief feature of the common law system is that judges' decisions in pending cases are informed by the decisions of previously settled cases.

The Australian Constitution of 1901 established a federal system of government, under which powers are distributed between the federal government and the states. It defined exclusive powers (investing the federal government with the exclusive power to make laws on matters such as trade and commerce, taxation, defense, external affairs, and immigration and citizenship) and concurrent powers (where both tiers of government are able to enact laws). The states and territories have independent legislative power in all matters not specifically assigned to the federal government. Where there is any inconsistency between federal and state or territory laws, federal laws prevail. Federal laws apply to the whole of Australia.

In effect, Australia has nine legal systems; the eight state and territory systems and one federal system. However, it is the state and territory criminal laws that mainly affect the day-to-day lives of most Australians.

Each of the federal and state systems incorporates three separate branches of government; legislative, executive and judicial. Parliaments make the laws, the executive government administers the laws, and the judiciary independently interprets and applies them.

### **3.4.1. The Foreign Trade Regime. Imports and Exports**

Australian Duties follows an ad-valorem system, calculated by a percentage of the value of the import (included transports, insurance, etc.). A major condition for using this transaction system is that there are not a relationship between the buyer and the seller which may influence the price. The valuation of imported goods can be complex and importers should contact a custom broker or a Custom Information Centre. The Custom Tariff Act of 1995<sup>1</sup> is the document which mainly regulates the foreign trade regime. We can consider two different types of tariffs according to their provenance:

-General, to be applied for countries that are not members of the British Commonwealth.

-Preferential, to be applied for countries that are members of the British Commonwealth.

There are also two different types into this preferential tariffs system:

\*Special tariffs for products from New Zealand, Papua New Guinea, Canada and Singapore, due to the commercial bilateral deals.

\*Privileged tariffs for some imports exempts of tariff because there is not enough local production.

The payment of the imports/exports can be in Australian Dollars or other convertible currency.

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<sup>1</sup> The complete document can be found here (last update, July 2013):  
<http://www.customs.gov.au/webdata/resources/files/Httpitlhww2.pdf>



### 3.4.2. Legislation for foreign investment

The Australian Government is really concerned about the importance of foreign investment because it helps to the development of the country and to their foreign image, but they just support these investments if they are not opposite to the local interests. Australia's foreign investment legislation applies to investment proposals by foreign interests, that means an individual who is not ordinarily resident in Australia and any corporation or trust in which there are a substantial (15 % or more) foreign interest, even if it is not actually foreign controlled, or where several foreigners have a 40 % or more interest in aggregate (cf. Doing business in Australia, 2003).

There are different laws for controlling these investments and we will provide an overview about these laws main ideas:

-The Foreign Acquisitions and Takeovers Act (1975). This act empowers the treasurer to examine proposals by foreign people relating to acquire or increase a substantial shareholding in the assets of an Australian corporation or acquire an interest in Australian Urban land. The act does not provide the Treasurer with a power to approve investment proposals but it empowers the Treasurer to prohibit a proposal that can be against national interests or to raise some objections against the foreign investments<sup>2</sup>. In 1989 was also published the Foreign Acquisitions and Takeovers regulation which explains deeply each definition and possible misunderstandings in the Foreign Acquisition Acts and it is updated approximately each year with new definitions.

-The Corporations Act (2001) permits a limited liability corporation to take one of two main forms: a private company (proprietary limited or Pty Ltd) or a public company (limited or Ltd). Other corporate forms are available but they are insignificant in the normal business practice. To be considered public, a company should meet two main requirements, as they can be that their shared should be quoted on the official stock

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<sup>2</sup>For further information, visit the next website link:

<http://www.firb.gov.au/content/publications/annualreports/2005-2006/Chapter3.asp>

market or that the 75% of the dividends should be paid, owned, or have the right to acquire 75% of the equity capital or voting power.

Regarding a foreign corporation, the company may operate incorporating an Australian subsidiary or registering as a foreign company and operating a branch office. To operate as a branch office, a company within a month must be registered as a foreign company with the Australian Securities and Investment Commission (ASIC) and the company's representative must submit: copies of the document of incorporation of the head office, its memorandum and articles of association; a list of directors; and the name of the secretary or appointed agent. The corporation must also submit all the official documents, such as, balance sheets and the rest of compulsory reports to the ASIC.

-The Competition and Consumer Act (2010) covers most areas of the market: the relationship between suppliers, wholesalers, retailers and consumers. Its goal is to enhance the welfare of Australian by promoting fair trading and completion and through the provision of consumer protection. There is a commission called the Australian Competition and Consumer Commission which regulate the Australian anti-trust laws (government policies to regulate or break up the monopolies in order to promote free competition and attain the benefits that the competition can provide the economy and the society).<sup>3</sup>

There is an organism called Foreign Investment Review Board ([www.firb.gov.au](http://www.firb.gov.au)), hence force FIRB, which controls some investments and allow them to be effective, but the final decision about the approval rests in the Treasurer. Some investments are not necessary to be informed to this organism, such as, low amounts of investment, some sectors investments, etc. However, there are others considered as 'more sensible' like press media, airlines and airports, because they are part of most of the foreign investment<sup>4</sup>.

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<sup>3</sup> Extended information can be read in the following link:  
[http://www.claytonutz.com/docs/DBIA\\_English.pdf](http://www.claytonutz.com/docs/DBIA_English.pdf) page 35 to 37

<sup>4</sup> The list of the investments which requires or not to be informed to the FIRB, can be found here:  
[http://www.claytonutz.com/docs/DBIA\\_English.pdf](http://www.claytonutz.com/docs/DBIA_English.pdf) page 9-10

Another organism whose main goal is the foreign investment in Australia is 'Invest Australia' ([www.investaustralia.gov.au](http://www.investaustralia.gov.au)) which promotes the investment and offers other different types of incentives to encourage them. We are going to explain briefly some of their encouragement programs:

-The Regional Headquarters Program whose goal is to encourage the establishment of foreign companies headquarters in Australia. This program offers immigration facilities and fiscal incentives.

-The Major Project Facilitation whose aim is to facilitate the government processes just in the case that the amount of the investment is over A\$ 50 million (39.570.000€). The program provides suitable applicants a single contact point within the Australian Government and a range of services to assist with a streamlined and coordinated investment process. An investor can apply for the program if the project is strategic significance for Australia, if it needs Australian government approval or other involvement or if it is commercially ready to follow through Government approval processes<sup>5</sup>.

-The Feasibility Study Fund. The government helps to finance to possible investors to carry out a viability plan for their investment. The total amount of the investment have to be over A\$100000 (79.140€).

These government programs are offered just in limited circumstances, which include that the investment would probably not occur in Australia without the incentive and that the investment provides significant net economic benefits for Australia.

Nevertheless, grants and concessions are normally available to companies that are conducting business in Australia and liable for Australian company taxes.

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<sup>5</sup> Further information is available in: <http://www.majorprojectfacilitation.gov.au/>

### 3.4.3. Fiscal Legislation

The personal taxes system in Australia is similar to the Western taxes system. We will explain briefly the most important and relevant that the federal government have lay down:

-The Income tax is a progressive tax, so if the citizens incomes are higher the citizen will pay more until the maximum of 47 % for natural person if his/her incomes are over A\$62500(49.460€) a year.

-The Fringe Benefits Tax is applied with a 48.5 % to a worker for the incomes he/she receives apart from their salaries. These fringe benefits can be provided by the employer, an associate of an employer or a third part under an arrangement with the employer. The Fringe Benefits tax year ends on 31<sup>st</sup> March.

-Superannuation is a contribution which people make in Australia to have funds available for them in retirement. The superannuation contribution rate has been increased to 9.25 % of gross salary in July 2013 and it is expected to continue growing during the upcoming years because the Australia government is worried about the economic viability of the program for the future.

Regarding business taxation, companies doing business in Australia are subject to various numbers of taxes including corporate income tax, good and services taxes, or payroll taxes.

-Corporate income tax is a flat-rate tax levied at 30 % on the taxable income of a company. It is a unique tax percentage without differences if a company has excess profits or an alternative percentage in the case a company does not reach an amount of turnover. Taxable income is generally referred to a year of income, typically from 1<sup>st</sup> July to 30<sup>th</sup> June.

-Good and Services Tax (GST) is the equivalent to IVA in Europe. GST is charged at each step in the supply chain and the standard rate is 10 % for all types of products. There are types of supplies where GST is not included in the price; these include 'input taxed' supplies, such as, financial supplies, leasing of residential premises, etc.

-Payroll tax is a tax paid by every employer to the Australian State Governments depending on the wages paid to their employees. In each State is a different percentage and it is used to fund Social Security or services for the citizens.

#### **3.4.4. The Establishment Costs: Labor Cost, renting, supplies.**

The average labour cost for each worker is A\$70000 (55.400€). The Fair Work Commission is the institution responsible for the review of the minimum wages in Australia and it is done once a year<sup>6</sup>. This year review is effective from 1<sup>st</sup> July and the minimum weekly wage has increased by 2.6 % to A\$622.20 (425.59 €) up from the previous of A\$606.40 (414.71 €). The employers should also regard to the statutory superannuation contribution rate which have risen to 9.25 % (up from 9 %) of the ordinary time earnings. After the Federal Government's Fair Work reform in July 2009 the working conditions has suffered several changes as it can be that a maximum of 38 hours can be worked per week, four weeks paid annual leave per year, 10 days' paid personal leave (sickness, familiar problems, etc.) with a possible extra 2 days unpaid or the 52 weeks of unpaid parental leave for both parents at the time of birth or adoption with the possibility of extra 52 weeks just for one of the parents.

According to the information we can read in the mentioned website 'Invest Australia', the average cost of each m2 for establishing the offices or headquarters in Australia is A\$400 (316€). This cost is a 77 % lower than the cost of each m2, for example, in London.

Other important information published by Invest Australia is the cost of each KWh that is around A\$ 0.048 (0.037€). Electricity cost is the fifth cheaper among develop countries. Also we should take into account the price of each m3 of natural gas which is A\$ 0.134 (0.106€) and finally the average cost of a telephone calling is A\$ 0.135/min (0.107€/min).

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<sup>6</sup>Last one has been done in July 2013. More information in the following link:  
<http://www.fwc.gov.au/index.cfm?pagename=wagereview2014&page=introduction>

## **3.5. Transport**

### **3.5.1. Airway Communication**

Owing to the distances of Australia with the rest of the continents, the international passengers' traffic is mainly by air. The amount of passengers that Australia receives each year is around 20 million of passengers.

Each capital of State has an international airport or at least they have one near. The most important airports in Australia are Sidney and Melbourne (economic centres). Nowadays there is no company who flies directly from Spain to Australia, so we need to flight from Spain to Paris or London, for example, and then to the main airports of Australia.

### **3.5.2. Road Communication**

The highway network of Australia has 811.611 kilometers, with approximately 50% asphalted. All of the important cities are well communicated by road, being un-asphalted just the roads of difficult access or the places where a low percentage of the population is living.

The regulations in each state are different, but there are some common rules, as the speed limit of 110 km/h and in most highways is 100 km/h. As we have mentioned before, Australia is a Commonwealth country, so we have to drive along left lane.

Other important aspect to take into account is the price of petrol, which is lower in Australia being 1.10 € per liter instead of 1.45 € which by the moment is the petrol price in Spain.<sup>7</sup>

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<sup>7</sup>Prices on 30th July 2013.

### **3.5.3. Railroad Communication**

The railroad network of Australia has 54.650 km with different types of rail lines according to the usage each railroad has. About 50000 km is normal railroad, as we know in Spain, to transport people, but the rest are special railroad a little bit wider to transport materials, trucks, etc.

As it happens with highway network, the communication between big and most populated cities is really good, being the rest of the country worse communicated. Anyway, railroad communication is not the most common in Australia due to the far away distances and the population use mostly highway network and airway communication.

### **3.5.4. Maritime Communication**

Australia has 15000 km of coast and 97 ports regulated by the Australian customs acts. The isolated condition of the country obliges them to be so dependent to transport materials with East-Asian countries by this way, leaving airway communication just for special products, perishables and brittles.

The most important port in the country is Sidney followed by Perth and Melbourne. The importance of maritime communication for the population is every day lower being substituted for highway and airway communication.

### **3.6. Economy**

The Australian economy remains one of the strongest developed economies in the world. While most of economies are struggling during Global Financial crisis, Australia's economy has grown by a 10 % during these years. The experts try to justify this different behaviour of the economy taking into account some strategies and measures followed by the government that will be explained briefly:

-The government's responsible fiscal management, with a commitment to deliver a budget surplus for each financial year.

-The sturdy economic institutions, with a strong and independent financial sector and effective regulatory system-four of the world's nine most highly rated banks are Australian.

-An open and flexible trade and investment environment.

-Strong trade and economic links with the emerging economies of Asia, which helps to continue Australian growth and employment rate increase.

In this paragraph we will analyze some of the most important macroeconomics indexes to measure how the economic level and the development of an economy are. The industries and product analysis will be developed in other part of the project.

### **3.6.1. Types of Interest**

Regarding another important topic involving the time of investing in Australia, we are going to explain that there are different types of interest used according to the type of loan or the amount of money lent. We will analyze the most used ones:

#### **Variable Rate**

The most common interest rate type in Australia is the variable rate. Under this form of interest rate, the initial and on-going rate is set by the lender. The lender has the right to change the interest rate during the loan's life.

Because of intense competition between lenders in the variable rate market, most lenders will only change variable rates for existing loans in response to movements in the official cash rates, as announced by the Reserve Bank of Australia (hence force RBA). Therefore, the loan's rate will only change in response to movements in the RBA's official cash rate.

Advantages: Variable rate loans generally have no restrictions or penalties for making additional repayments on the loan; accordingly the company may be able to pay off the loan sooner. Additionally variable rates will obviously advantage the company if interest rates fall, as the monthly minimum repayment will fall.



Disadvantages: Variable rate loans will be a disadvantage if rates rise, because the repayments will increase.

### **Fixed Rates**

Most lenders offer fixed rate loans, generally for 1 to 5 year terms. At the end of the term, the interest rate usually converts to variable. On a fixed rate loan, the interest rate remains the same during the entire fixed rate term, even if variable market rates change. The fixed rates offered by lenders can be either higher or lower than the variable rate at any given time; therefore the company needs to make a comparison when considering this option.

Advantages: With fixed rate loans the company is not impacted if variable rates increase, because the fixed rate will not change. This means that fixed rate interest can work out cheaper compared to variable rate interest.

Disadvantages: However, if variable rates decrease, the company will not receive any benefit, as the fixed rate will remain the same. If market variable rates fall over time, it is possible that the fixed rate could be higher than the current variable rate, so a fixed rate loan could cost more. Furthermore, the company generally cannot make additional repayments on the loan without incurring penalties.

### **Introductory/low start/honeymoon rates**

The main characteristics of this type of interest is that offers a low interest rate during the first 6 to 24 months and once this period is ended the interest rate will revert to a variable interest rate offering the company a possibility of get the money which needs with a low interest rate during the beginning period.

Advantages: Many lenders offer reduced interest rates for a limited time at the beginning of the loan, generally for periods between the first 6 to 24 months. This can provide a useful benefit for the company, by freeing up some cash to help get the new offices or home established.

Disadvantages: However, the company should be aware that there is generally a catch with introductory rates. Usually after the end of the introductory period, when the

rate returns to a variable rate, that rate will be higher than the normal variable rate offered by the lender. Therefore, the company needs to weigh up the pros and cons, to work out whether the benefit of a reduced rate at the beginning, is worth the additional cost of a higher rate later.

### **Split Loans**

Most lenders will allow taking out a split loan, which is a combination where part of the loan balance is treated as variable rate and part is fixed rate. This can offer the advantage of having an 'each way bet' if the company is not sure about which option is suitable.

Advantages: Having part of the loan fixed protects the company against interest rate rises and also leaving part of it variable, leaves the company less vulnerable if rate reduces. Additional payments are allowed on the variable portion of the loan.

Disadvantages: If the interest rate decreases the company will not be benefited and also may be penalised if the pay off the loan before the due date on the fixed portion.

### **3.6.2. Gross Domestic Product**

The Gross Domestic Product (hence force, GDP) means: The total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

It is important to differentiate the Gross Domestic Product from the Gross National Product (GNP). GDP includes only goods and services produced within the geographic boundaries of Australia regardless of the producer's nationality. GNP does not include goods and services produced by foreign producers, but it includes goods and services produced by Australia firms operating in foreign countries. (Cf. Investorwords)

### Australia: Gross domestic product (GDP) in current prices from 2003 to 2013 (in billion U.S. dollars)



Figure 3: 'Australian GDP evolution 2003-2013' *International Monetary Fund*. Web. 30<sup>th</sup> April 2013. <<http://www.imf.org/external/data.htm>>

As we can see in the bar chart, the Australian economy is quite different and particular compared with the rest of Western and developed countries affected by this important world crisis. Instead of being down turning the GDP, it is still growing being its peak the forecast for this year 2013. It can be possible due to the country particular conditions (different currency, not completely involved in European Market, new discoveries of raw materials and unexplored parts of the country, etc.). Australian GDP (1.542.060 USD millions) is the 12<sup>th</sup> in the world classification at the level of Canada or India and just a little bit higher from Spanish one.

The structure of GDP by sector is mainly tertiary (69.4 %) the same as Western and European Countries. Secondary sector is increasing its importance (26.6 %) due to the named discoveries and the idea of Australian government of create their own industries for being less dependent of trades with other countries. Primary sector is the less important for Australian GDP (4 %) but this tendency can change with the possibility of develop their own olive and farmers production because in some parts of the country, there are interesting resources in this sense.

### 3.6.3. Consumer Price Index

The Consumer Price Index (CPI) means: the official measure of the general level of inflation as reflected in the retail price of a basket of goods and services such as energy, food, gasoline (petrol), housing, household goods, travelling fare, etc. CPI is commonly computed on monthly basis, but an annual rate is also published which serves as yardstick for adjusting inflation indexes about salaries and wages, tax allowances, etc. (Cf. Businessdictionary)

First of all, we are going to see the evolution of the CPI of Australian goods and services along last decade analysing the trends it has followed:

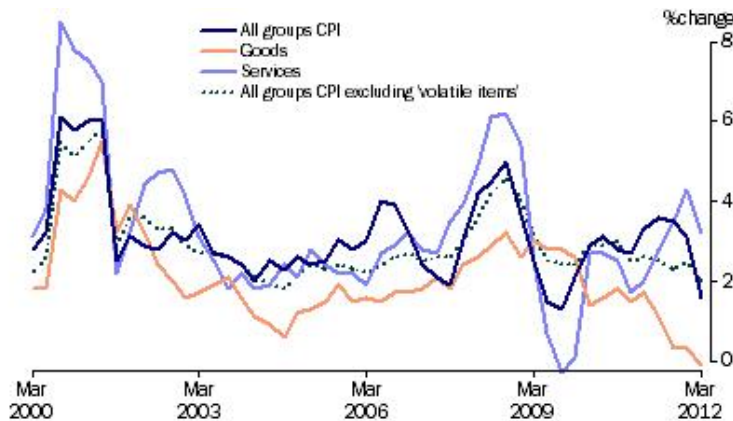


Figure 4: 'Australian CPI Evolution' *Australian Customs and Borders Protection Service*, 2000-2012. Web. 4<sup>th</sup> May 2013.

<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

As we can see in the line chart below, the CPI change peak was during the period 2000-2001 when the World Economy situation was powering ahead in all the developed countries. Afterwards it rallied to normal growth values during four-five years being set between 3-4 % of CPI change from one period to the following one. In 2007 until 2009 there was a spike in the CPI change to a 6.5 % to rapidly drop to a 0 % change due to the beginning of the World Economic Crisis that, as it is mentioned has affected less Australia than the rest of Western countries, but it has had its influence. After that moment the CPI annually change has recover its normal values with slightly upturns to be places nearby 4%.

After that analysis of the internal Australian CPI, we can compare Australian and Euro zone CPI along the last decade:

Australian and European CPI comparison (2003-2013)

Year	mar	jun	sep	dec	ann	Year	mar	jun	dec	ann
2012	99.9	100.4	101.8	102	101	2013	117.48			
2011	98.3	99.2	99.8	99.8	99.3	2012	115.47	115.76	116.89	115.65
2010	95.2	95.8	96.5	96.9	96.1	2011	112.46	113.09	114.35	112.83
2009	92.5	92.9	93.8	94.3	93.4	2010	109.53	110.1	111.29	109.84
2008	90.3	91.6	92.7	92.4	91.8	2009	107.82	108.48	108.88	108.09
2007	86.6	87.7	88.3	89.1	87.9	2008	107.21	108.64	107.88	107.78
2006	84.5	85.9	86.7	86.6	85.9	2007	103.5	104.5	106.2	104.36
2005	82.1	82.6	83.4	83.8	83	2006	101.53	102.56	103.04	102.18
2004	80.2	80.6	80.9	81.5	80.8	2005	99.32	100.08	101.1	100
2003	78.6	78.6	79.1	79.5	79	2004	97.29	98.05	98.9	97.86
						2003	95.69	95.77	96.62	95.81

Table 4: 'Australian and European CPI comparison' *Rate Inflation.com*, April 2013. Web. 6<sup>th</sup> May 2013. <<http://www.rateinflation.com/consumer-price-index/euro-area-historical-cpi>>

Analysing these two tables, we can see the difference between both two, being Australian cost of life increasing as usual in every single country but in a progressive way with the natural increase of salaries, pensions, etc., as we have mentioned in other paragraph of this project regarding the evolution of salaries, wages or pensions.

Looking at the Euro zone chart we can conclude that cost of life is booming really fast compared to the salaries, wages upturns, etc. Taking as example the year 2005, which is the reference year, in 2010 buying the same products as in 2005 (remember the explanation about CPI meaning) costs by 10 % more, being the purchasing power of the consumer similar than in 2005.

Finally, comparing both charts we can see that cost of life in Australia is much cheaper than in Euro zone, approximately 14 % taking into consideration the same 'basket of goods' in the year 2012.

### 3.6.4. Balance of Payment

To conclude this economic analysis of Australia, we want to speak about other important macroeconomic index, as it can be the Balance of payment, which means, the accounting record of all transactions made by a country over a certain period of time, comparing the amount of foreign currency taken in to the amount of domestic currency paid out. (Cf. Investorwords).

Historical Spanish-Australian balance of payment (2003-Jan/Feb 2013)

	Exportación		Importación		Saldo	
	Valor	% Año anterior	Valor	% Año anterior	Valor	% Año anterior
2003	579.844,43	7,56%	469.032,02	-3,56%	110.812,41	110,15%
2004	758.918,26	30,88%	494.017,75	5,33%	264.900,51	139,05%
2005	742.300,12	-2,19%	660.867,64	33,77%	81.432,47	-69,26%
2006	749.784,51	1,01%	857.428,55	29,74%	-107.644,04	-232,19%
2007	1.028.709,38	37,20%	810.311,64	-5,50%	218.397,74	-302,89%
2008	1.036.747,88	0,78%	781.125,12	-3,60%	255.622,76	17,04%
2009	834.140,83	-19,54%	423.155,97	-45,83%	410.984,86	60,78%
2010	1.110.022,87	33,07%	648.672,28	53,29%	461.350,59	12,25%
2011	1.544.414,43	39,13%	847.206,46	30,61%	697.207,97	51,12%
2012	2.217.116,37	43,64%	596.981,55	-29,51%	1.620.134,82	132,56%
2013 (Ene-Feb)	261.024,98	3,13%	67.479,02	-1,87%	193.545,96	4,99%

Table 5: 'Australian-Spanish foreign trade analysis, ICEX Pdf sent by e-mail, February 2013. Pdf. 26<sup>th</sup> April 2013.

Analysing this figure we can conclude that the foreign trade relationship among Spain and Australia has been changing along the years. At the beginning of the decade, for Spain, Australia was not an important country referring to our balance of payment; even the balance was negative by the Spanish side because in 2006 the imports were higher than the exports to Australia (749.784 exports -857.428 imports). After 2010 this tendency has changed and the relationship began completely the opposite, being Spain an important import country for Australia, increasing by a 30-40 % per year the amount of imports from Spain (2.217.116 in 2012). Which can be the reasons for this change? As we have mentioned before, some powerful sectors and industries from Spain, such as olive oil, agricultural machinery or construction materials, are improving their importance in Australian economy, and Spain is one of the best producers of both.

Australian balance of payment with the world (2010-2012)

Country	2010	2011	2012
Australian balance of payment in €(Exports-Imports)			
China	30.958.028.675	45.505.289.278	29.223.809.073
Japan	28.979.337.334	38.644.388.782	25.889.205.685
South Korea	13.815.615.000	18.154.737.000	9.111.691.000
USA	-20.795.741.736	-16.984.777.563	-14.318.424.128
Taiwan	5.913.990.007	7.290.225.905	4.025.249.372
Malaysia	-4.286.006.639	-4.019.108.912	-3.029.834.258
Germany	-10.101.389.078	-10.929.577.612	-8.106.186.972
Spain	-461.350	-697.207	-1.620.134
Others	-103.678.489	-11.410.106.495	-8.825.668.118
Total	44.379.693.724	66.250.373.176	33.968.221.520

Table 6: 'Australian balance of Payment with the world in €' *Own source*, 2010-2012.  
2<sup>nd</sup> May 2013.

Looking at the previous chart, we can say that the Australia's balance of payment tendency is to every year a little bit more importer than exporter with the Asian countries, which have been their most important exporting zone during the years and in the opposite way with the rest of countries non Asiatic, because if we take a look at European Countries (apart from Spain) and USA, we can see that their balance negative differentiation has been being lower year by year.

This tendency answers one of the most frequent topics around Australia's foreign trade history. Along the years Australia has been connected and really dependent from Commonwealth and European countries for their trades, but some

years ago it has been created the opinion of beginning to negotiate and strengthen Asiatic foreign trade and this can be the reason for this data change.

#### **4. Foreign trade.**

Australian two-way trade reached a record of A\$608.2 billion<sup>8</sup> (415.83 billion of €) in 2012.

The mineral fuels and especially iron ore and coal played a vital role in Australia's economy success, being approximately half of the country's exports (A\$313 billion/214 billion of €).The education, tourism, agricultural produce and manufactured goods (cars and pharmaceuticals) are also really important if we have to speak about Australian exports.

The annual growth of Australian exports is set by a 10.2 % compared to the previous year. The reason for this upturn was driven by a strong demand and high prices for Australian metal ores and minerals.

Along the last years, the government has developed a vision for the future of Australia, as a prosperous, innovative and sustainable country. With these objectives, in April 2011, the Minister of Trade and Competitiveness released a trade policy statement, 'Trading our way to more jobs and prosperity'. The guiding principles of this trade policy are:

-Unilateralism, a commitment to the pursuit of on-going, trade-related economic reform without waiting for other countries.

-Non-discrimination to any countries' companies to enter in Australian markets.

-Transparency. The public will be kept well informed about the progress of trade negotiations.

-The indivisibility of trade policy and wider economic reform-domestic economic reform, improving international competitiveness and increased market access work.

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<sup>8</sup>All the currency conversions done in this epigraph 4.Foreign Trade are done with A\$-€ currency conversion on 8<sup>th</sup> August 2013.



#### **4.1. Australia's foreign trade with East-Asia**

Australia's interactions with nations in Asia have shaped the strategic focus and the structure of the economy and society.

Previously, the Australian foreign trade and economy have been focused with Common Wealth and European Countries but over the past four decades, Australia has transformed its economy, society and institutions as it has become closer to Asia. Asia's commitment to modernization and internationally oriented development opened unprecedented new opportunities for Australia to become a highly productive and reliable supplier of resources and related goods and services to the region and the world.

People-to-people connections with Asia have transformed the society through migration, business, travel, study and popular culture. As we have mentioned before and we can see in table 2, there is a high percentage of overseas Australians, and particularly with this trade increase, a lot of Asiatic people and qualified technicians and workers have moved to Australia (over 2.000.000), such as doctors, teachers or engineers. Australia has also become one of the most famous places for Asiatic tourists.

##### **4.1.1. In the past**

Australia's economic integration with Asia gathered pace as the economic settings were liberalized. The opening up of the economy was begun by incremental, typically unilateral, decisions to liberalize restrictions on trade. Australia's sequence of reductions in tariff assistance began with a 25 per cent cut in the tariff rate at the beginning of the Tokyo Round of the General Agreement on Tariffs and Trade in 1973.

After a decade's hiatus, during which policy makers vacillated, liberalization accelerated with the abolition of quantitative restrictions on imports from the mid-

1980s. Controls were lifted from a range of consumer goods that Australian households wanted and needed, including clothing, textiles and, particularly, cars.

As the tariff barriers fell, and a succession of Asian economies emerged to become major players in global markets, the trade ties with Asia boosted, supported by the geographical proximity and complementarities with industrializing Asian economies.

#### **4.1.2. Nowadays**

Australia's balance of trade in goods and services with East Asia recorded a surplus of A\$73.0 billion (50 billion of €) in 2012, an increase of 47.5 per cent (or A\$23.5 billion-16.09 billion of €) on the surplus recorded in 2011.

By comparison, Australia's trade balance with the world recorded a surplus of A\$18.3 billion (12.52 billion of €), an increase of A\$3.1 billion (2.12 billion of €) on the surplus of A\$15.2 billion (10.40 billion of €) recorded in 2011.

Australia's total trade in goods and services with East Asia increased 11.3 per cent in 2012, the third consecutive increase since the fall recorded in 2009. Since 2006, total trade with East Asia has grown at an annual average rate of 9.3 per cent. Exports to East Asia rose 16.4 per cent, due mainly to increases in Minerals (up 26.9 per cent; or A\$15.9 billion-10.88 billion of €; to A\$74.8 billion-51.19 billion of €); Fuels (up 11.5 per cent; or A\$4.6 billion-3.15 billion of € to A\$44.4 billion-30.38 billion of €); Other goods – mainly confidential items and gold (up 14.6 per cent; or A\$3.0 billion-2.05 billion of € to A\$23.4 billion-16.1 billion of €) and Other primary products (up 36.8 per cent; or A\$1.8 billion-1.23 billion of € to A\$6.7 billion-4.6 billion of €).

Imports from East Asia increased 4.2 per cent in 2012. This was largely due to increases in Fuels (up 19.1 per cent; or A\$3.6 billion-2.46 billion of € to A\$22.5 billion-15.4 billion of €) and Services (up 9.8 per cent; or A\$1.6 billion-1.1 billion of € to A\$18.0 billion-12.32 billion of €).

#### **4.2. Australia's foreign trade with America.**

In 2012, Australia's balance of trade on goods and services with the Americas recorded a deficit of A\$25.5 billion (17.45 billion of €), an increase of A\$3.7 billion (2.53 billion of €) on the deficit recorded in 2011. By comparison, Australia's trade balance with the world recorded a surplus of A\$18.3 billion (12.52 billion of €), an increase of A\$3.1 billion (2.12 billion of €) on the surplus of A\$15.2 billion (10.40 billion of €) recorded in 2011.

Australia's total trade in goods and services with the Americas increased 9.5 per cent in 2012, the third consecutive increase since the fall recorded in 2009. The overall increase in total trade was brought about by rises of 5.6 per cent and 11.4 per cent respectively in exports and imports. By way of comparison, a small increase in total trade in 2010 was the result of an increase in imports outweighing a decrease in exports. Since 2006, exports to the Americas have grown at an annual average rate of 0.2 per cent.

Exports to North America rose 5.5 per cent to A\$17.2 billion (11.77 billion of €) in 2012, while imports from North America increased by 10.8 per cent to A\$41.9 billion (28.68 billion of €). Exports to the United States (which accounted for 67.0 per cent of total exports to the Americas) rose by 4.2 per cent. Imports from the United States (hence force, USA) rose by 11.5 per cent.

In terms of total trade, the second largest grouping within the Americas is South America, accounting for 9.4 per cent (A\$6.6 billion-4.51 billion of €) of Australia's trade with the region in 2012. With an annual average growth rate of 12.4 per cent, exports to South America, valued at A\$3.6 billion (2.46 billion of €) in 2012, have exhibited the strongest performance within the Americas over the past five years.

We are going to analyse mainly USA trades, because as it is said before it is around the 70 % of Australian's trades with America.

#### **4.2.1. In the Past**

To analyse Australian-USA trades, we have to differentiate 2 stages: before the introduction of the Australia-USA free trade agreement (AUSFTA) in 2005 and after that crucial deal.

In 1992 in an Australia-USA meeting in Sidney, the idea of creating a free trade agreement between both countries occurred due to the increasing importance of the relationship, but they did not reach a final agreement. The most important moment for the trade between them was the downturn of Australian currency value from 1999 to 2001, when it reached its lowest value. For example, a product selling for US\$ 100 would be the equivalent of A\$ 153 in 1999, assuming all other factors to be equal. But with the drop in the value of the Australian dollar, the same US\$100 product would be the equivalent of A\$ 192 in 2001.

After these years of devalued currency, the Australian dollar value upturned a little bit and recovered its previous value in 2003. The government started to think about propose again an agreement to US government to protect them of investment barriers, exports/imports taxes, etc., because USA has become the most important trading country for them. Finally, in 2005 the international trade agreement known as AUSFTA went into effect and the custom duties between both countries were eliminated. It also ensured better access to US market for Australian products, including services and business mobility.

#### **4.2.2. Nowadays**

The USA goods trade surplus with Australia was A\$17.3 billion (11.84 billion of €) in 2012, up A\$4.1 billion (2.80 billion of €) from 2011. U.S. goods exports in 2012 were A\$27.5 billion (18.83 billion of €), up 26.2 percentage from 2011. Corresponding USA imports from Australia were A\$10.2 billion (6.98 billion of €), up 19.3 percentage. Australia is currently the 14th largest export market for USA goods.

USA exports of private commercial services (i.e., excluding military and government) to Australia were A\$13.2 billion-9.04 billion of € in 2011 (latest data available), and USA imports were A\$5.6 billion (3.83 billion of €). Sales of services in Australia by majority USA owned affiliates were A\$38.3 billion-26.22 billion of € in

2011 (latest data available), while sales of services in the United States by majority Australia-owned firms were A\$12.6 billion (8.63 billion of €).

The stock of United States foreign direct investment (hence force, FDI) in Australia was A\$134.0 billion-91.77 billion of € in 2011 (latest data available), up from A\$109.8 billion (75.20 billion of €) in 2010 USA FDI in Australia is led by the finance and insurance, nonbank holding companies and mining sectors.

Balance of Payment Australia-USA (2006-2011)

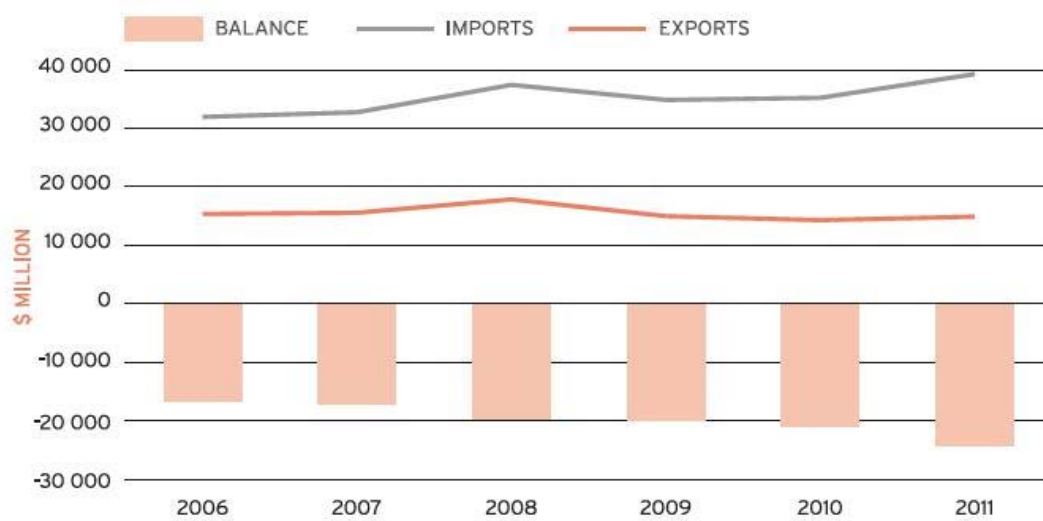


Figure 5: ‘Balance of Payment Australia-USA’ *Australian Department of Foreign Affairs and Trade* , 2006-2011. Web. 2<sup>nd</sup> May 2013

<[http://www.dfat.gov.au/dept/annual\\_reports/11-12/section\\_2/part\\_2\\_3\\_americas.html](http://www.dfat.gov.au/dept/annual_reports/11-12/section_2/part_2_3_americas.html)>

**4.3. Australia’s foreign trade with Europe**

**4.3.1. In the Past**

The trade relationship of Australia and Europe is impossible to understand without the existence of United Kingdom. Before the entrance of UK in the nowadays organization known as the European Union (EU) in 1973, trade with the rest of the countries of Europe was lower. From that moment onwards Australia’s trade with Europe focused primarily on the UK, as both a member of the EU and a country of the Commonwealth.

Furthermore, this trade relationship had plenty of misunderstandings about different views on several topics, such as the Common Agricultural Policy (CAP), the conflict of interests, etc. Along the years, these differences became smaller, due to the bilateral interest of both superpowers to increase and facilitate trade between the EU and Australia. Particularly from 2000, as it happened with the USA (by the Australian side), sector agreements took place. Nowadays these deals are, with some revisions to update them, valid, for example: the Nuclear Material Agreements, Science and Technology fields, wine agreement, etc.

### 4.3.2. Nowadays

To speak about the current relationship between Europe and Australia we must go back to 2008, when a crucial deal which have drastically changed this relationship took place. This deal was called EU-Australia partnership framework (October 2008) and it has facilitated trade in industrial products, services and investment issues reducing barriers and obstacles.

EU-Australia imports/exports in Billion (2010-2012)



Figure 6: 'EU-Australian imports/exports' *European Commission*, 2010-2012. Web. 10<sup>th</sup> May 2013. <<http://ec.europa.eu/trade/policy/countries-and-regions/countries/australia/>>

In 2012, Australia's balance of trade on goods and services with Europe recorded a deficit of A\$27.72 billion (19.3 billion of €), an increase of A\$0.43 billion (0.3 billion of €) on the deficit recorded in 2011. Australia's total trade in goods and services with Europe increased 1.5 per cent in 2012, following a rise of 5.6 per cent recorded in 2011. Rises in both exports (up 9.7 per cent) and imports (22 per cent) contributed to the overall increase in total trade. Exports to the UK, which accounted for 36.0 per cent of total exports to Europe, fell 7.5 per cent (or A\$932 million-637.76 million of €) to A\$11.5 billion (7.87 billion of €) in 2012. The fall was offset by growth in exports to other major trading partners in Europe. In particular, exports to the Netherlands rose 27.8 per cent (A\$859 million-587.8 million of €) to A\$3.9 billion (2.66 billion of €) and exports to Switzerland rose 27.2 per cent (A\$307 million-210.1 million of €) to A\$1.4 billion (0.95 billion of €).

The rise of 6.2 per cent in European imports was partly due to increases from the UK – up 9.0 per cent (or A\$957 million-654.89 million of €) to A\$11.5 billion (7.87 billion of €) and from the Russian Federation – up 141.3 per cent (or A\$636 million-435.9 million of €) to A\$1.1 billion 0.75 billion of €).

Traditionally, Australia's exports to the EU were dominated by mineral commodities (fuels and mining products) and agricultural products (respectively accounting for 41.2% and 13.4% of EU's imports in 2012) while EU's exports to Australia were much more focused on manufactured goods (87.6%).

#### **4.4. Australia's foreign trade with Spain**

##### **4.4.1. In the Past**

As it has happened with other European countries, the trade between Spain and Australia was not so large due to the important and crucial role played in the relationships with Australia of United Kingdom, which was about 80 % of the total amount of trade. Also the importance of other factors, such as large geographic distance and the cultural and linguistic differences have difficult the partnership.

In this link-up of Spain and Australia we can distinguish two stages: before the introduction of Euro currency in 2002 and after that event. Until 1990 it has no sense to analyse the relationship between both because during Franco and Transition era there were not trade, dealings or programs which connected both countries and the trade were reduced to some European programs after 1986, when Spain joined European Union.

The Aznar government was crucial for the relationship of both countries because they started to develop different programs to enlarge the international image and to maximize Spanish exports and investment in a wide range of countries. Some of those programs were: the published in 2000 'Asia-Pacific Plan' to increase the links with this region, or the Agreement on Social Security (2003) and also the exchange of information through visits and platforms between both countries to enhance all the relationships.

From 1992 to 2002 the trade relationship increased in an average rate of 13.7 per year, nearly the twice of the increase of Australia's with the rest of European Union. In 2002, Spain reached the top 5 of Australia's trades with Europe, after United Kingdom, Germany, Italy and France with A\$1.6 billion (1.09 billion of €).

#### **4.4.2. Nowadays**

In 2012, Australia's trade balance on goods and services with Spain recorded a deficit of A\$2.33 billion (1.62 billion of €), which supposes an upturn of A\$1.58 billion (1.1 billion of €) respect to the previous year. The total amount of exports is A\$3.17 billion (2.21 billion of €) and A\$0.86 billion (0.6 billion of €) of imports. In percentage, the exports have increased by 43.64 % from the year 2011 and the imports have decreased 29.51 %, clearly showing, that apart from the partnership between both countries, the different sector agreements are increasing, that is to say, that Spain is boosting its exports to Australia. Subsequently, it is predicted that in this year 2013, a new increase will take place. The evolution of the balance of payment between Spain and Australia from 2003 to 2012 is shown in the paragraph 3.6.4. Balance of Payment.



Looking at the Spanish regions, the region which has the highest amount of exports and trade with Australia is Catalonia with a 34.5 % of the total amount followed by Galicia (24.6 %) and Madrid (16.9 %). Andalucía is placed on the 7<sup>th</sup> position with a 3.2 % of the exports, mainly focused on the primary sector activities and it is the region with more evolution in the last three years, just behind Asturias, with a 40 % of exports growth.

Spanish exports to Australia are dominated by the raw materials, industrial products and machinery which encompassed 85 % of the total exports, followed by the agro alimentary products with a 6.3 %.

## **5. Industrial panorama analysis**

First of all we are going to describe briefly the global characteristics of Australian industries and after that we will be focused one by one, explaining data, importance in the economy and also the most important products of each one, and where a Spanish company can find an opportunity or niche of market.

The Australian Department of Industry, Services and Tourism is the organism which regulates the different activities of the Australian industries and it is the one which develop different programs to increase the competitiveness and efficiency among their industries between each other and with the world.

Some of the major Australians industries are manufacturing, ship building, agricultural, mining or telecommunications industry. Nowadays, the Australian industry has become one of the leading and developed industrial sectors in the world.

### **5.1. The Primary sector**

The primary sector of the economy extracts or harvest products from the earth. It includes the production of raw materials and basic foods. The activities associated with this sector can be, as example, agriculture, mining, forestry, fishing, etc. Also there are included parts of the production, such as, packaging or processing of raw materials like part of this sector.

Australia is a country which is largely dependent on its agricultural industries. It was one of the primary sources of income for the Australian population and earlier, agro products accounted to about 80 % of the exports good but nowadays it has decrease to 3% of the total export. Although the agricultural industry has witnessed a fall from its position in the 1970s, some of their products are still one of largest exporters of beef and wool in the whole world and the third largest in wine in the recent years.

Mining industry has been one of the chief industries which have led to the growth of population and economy in the past for Australia, particularly from the moment when gold was discovered there. Its importance has decreased, but it was necessary to remark their magnitude before.

Looking at the Spanish side, the opportunities in this sector are really clear. Spain is one of the most exporters of olive oil to Australia (nearly by 80 %). Other options can be ecological alimentary products, as known as "gourmet" because the consumers are really aware about health (as it happens in Asian countries, as Japan or China). These products should have a high level of quality and a differentiated image. After 2006 the regulations have been lower than before, when it was really difficult to export some products because of the importation laws for alimentary products in Australia. Nowadays, it is possible to export all types of product but you should fulfil the legislation requirements and the rigorous sanitary controls.

Our last proposal or idea for this sector is that, we have to take into account other important and interesting 'niche of market' for Spanish companies as it can be machinery exportation, specially agricultural machinery which have a potential and wide market in Australia, particularly because nowadays they are importing most of the olive oil they required from our country (the relationship and image about Spain-Olive oil exists) and they are developing and finding new areas and lands where to plant olives and other agricultural productions and to make profit and useful that research investment they will need these machinery that the Spanish companies can provide and surely, it can be interesting for the field companies.

## **5.2. The Secondary sector**

The secondary sector of the economy manufactures finished goods. As it happens with the primary sector, manufacturing, packaging, etc., are included into the sector. The most important activities linked with the sector are metal working, textile production, automobile production, construction or shipbuilding.

Into this sector, we have to remark the importance of Australian manufacturing industry which is well-developed with all modern amenities being used in the manufacturing processes. The major manufacturing units include machinery and equipment, metals, wood, papers and others. The ship building industry is one of the most important industries in Australian economy. Australia is considered to be one of the leaders in terms of high-speed and light-weight shipbuilding. As example, Australia accounts to about the 30 % of the international market share for aluminium shipbuilding. The Australian aviation industry is also an important sector that is growing rapidly due to the dependence of the country on their internal airports.

Focusing on the Spanish interests related to this sector and in Australia, we can find different and various opportunities and some of them can be really interesting as the exportation of products and services related to the renewable energies, environmental technology and biotechnology. This is a sector in continuous growth especially after 2011 when Australian Federal Government published that they will punish the emission of dioxide of carbon. The most popular renewable energy is the solar one. It is the one of the most favoured by the government through subsidies and political support. Spain has a really good reputation in everything to do with renewable energies due to our success and also thanks to the previous activities, as it is the example of Acciona in Australia.

### **5.3. The Tertiary sector**

The tertiary sector of an economy is the service industry. This sector provides services to the general population and to businesses. Activities associated with this sector are retail and wholesale sales, transportation, entertainment, tourism, banking, etc.

Into this sector we have to remark related with Australian economy, their banking industry. Australia ranks 12<sup>th</sup> in the world in terms of bank assets according to the ranking published in December 2011 by the important financial website, The banker. Australia has a well-recognized and capitalized banking system. Its banks are large by global standards with a strong retail based and they are full service commercial. Australian banking sector offers good opportunities for new entrants providing innovative products and distribution system. There are 52 banks operating in Australia and all of them except 12, are foreign banks from all over the world. The most important banks in Australia are Australian and New Zealand Banking group, Commonwealth Bank of Australia, National Australian Bank Ltd and Westpac Banking Corporation.

For Australia in this sector is also crucial tourism. In the year 2012 it accounts 2.5 % of the total GDP of the country. In the following years it is predicted that the tourism sector will continue growing and not particularly with domestic tourism, as it has happened until now, it will happen with the non-domestic one due to the upturn value of the Australian dollar compared with other currencies, growing up the tourism of Australians to other countries and decreasing the number of tourist going to Australia. It can be interesting the idea of encouraged tourism promotions over this country and improving the communication between both for the Spanish tourism companies.

#### **5.4. Quaternary sector**

It is nowadays a current topic the issue considering the existence or not of a quaternary sector depending on who is explaining this. In our opinion, the concept of the sectors were becoming so large, including some activities or procedures so different among each other, so we consider the existence of this meant quaternary sector to include some of those activities. This sector includes intellectual activities, as it can be, culture, libraries, scientific research or information technology. It is also said that this quaternary sector includes the investments of the companies to ensure its future expansion with the research which is a way to reduce costs, generate higher margins, etc.

#### **6. Agricultural machinery sector analysis**

In the following epigraph we will develop an exhaustive analysis about the agricultural machinery sector including several important topics referred to this market sector, as it can be the sector definition, a general overview, the average prices and its composition, main types of distribution channels and the market access conditions.

##### **6.1. General overview**

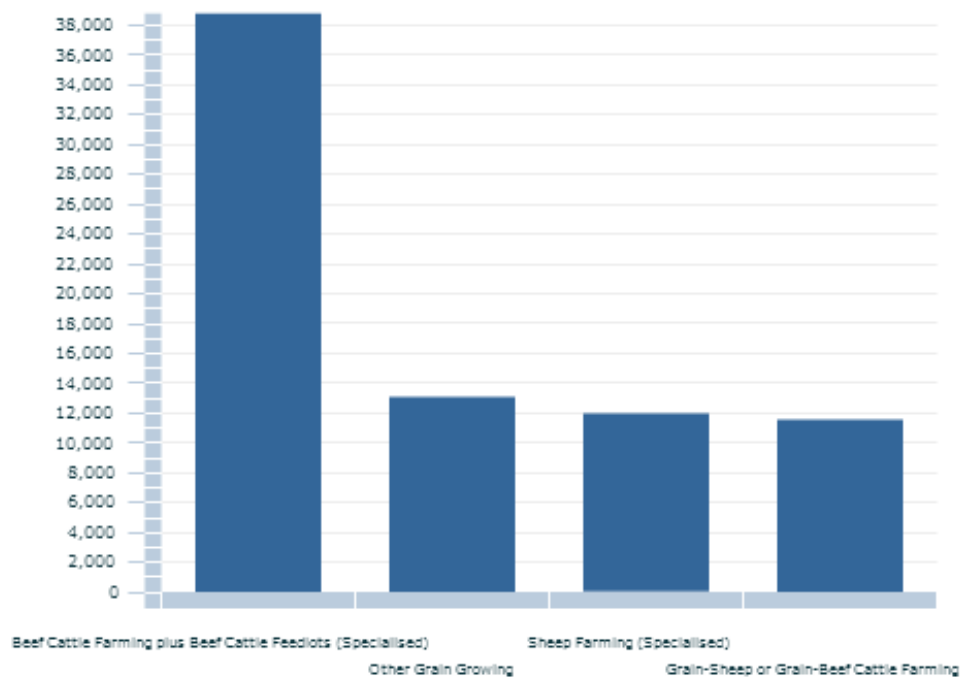
In this sector all types of machinery and products designed to increase the production and reduce the labour cost of the agricultural sector are included. To be considered agricultural machinery, the machine must have working autonomy and fulfil the numerous security controls.

The agricultural machinery sector is really close and linked with the agricultural production in every country and particularly in Australia, it is also related with the hard meteorological conditions that the country suffers with long periods of drought. From 2005 to 2011 the droughts suffered in Australia were so long that they have hardly affected the amount of harvests and consequently the agricultural machinery demand. Adding this factor to the world economic crisis, which has affected Australian farmers a lot, because of their high debt level, we must say that it also brought the incomes to be set to a 5 % during the period 2010-2011.

However, the expectations for the upcoming years are really hopeful due to the incentives and programs the Australian government is developing and operating to promote and increase the sales rates in some agricultural machinery, such as, tractors and harvesters. All of these programs and measures of the government in this topic and others completely different have helped the Australian economy to reduce the impact of the world economic crisis, as it was mentioned in previous epigraphs.

Another factor to bear in mind is that an increase on the alimentary products with the population growth and the climate change is expected together with a reduction of the periods of droughts. For the period 2011-2016, the sector incomes are expected to grow by a 3.1 % per year. Nevertheless, an important drawback for the sector can be the progressive concentration of the industry, reducing the number of companies in the market to create some big companies for a better control of the market that probably will reduce the demand in the future. Summarizing all these information, there is an important market opportunity for the Spanish companies of the field in Australia, also because the Spanish technology image is really good, particularly in the agricultural machinery production and in Australia there is a lack of production of this machinery due to the reduction of support from the government during the previous years. To better understand the subsectors of the agricultural sector where a market opportunity takes place, we shall have a look at the following figure with the four most important agricultural industries in Australia and its businesses data.

#### Top 4 Agricultural Industries in Australia



As at 30 June 2012

Save Chart Image

Australian Bureau of Statistics

© Commonwealth of Australia 2013.

Figure 7: 'Top 4 Agricultural Industries in Australia' *Australian Bureau of Statistics*, 30<sup>th</sup> June 2013. Web. 30<sup>th</sup> July 2013. <<http://www.abs.gov.au/AUSSTATS>>

Having a look to the chart above, we conclude that the Beef Cattle Farming is the most important agricultural industry in Australia, with 38.752 businesses approximately a third of the total amount followed by Other Grain Growing with 13.060 businesses and close to the Sheep farming accounting to 11.944 businesses. In general data, a total of 121.100 businesses have reported agriculture as its main activity in the period 2011-2012, increasing their importance by a 2 % from the previous period.

## 6.2. The average prices and prices formation

The average prices of the agricultural machinery in Australia are not easy to extract according to the market conditions because it is a market with a competition on prices causing a reduction on producers and distributors margins. The wholesalers and retailers margins are also included in the final price and it is established around an 8-10 % of the total price of the machinery.

After a research on different online sales websites of agricultural machinery, the prices range is really wide, depending on the characteristics of the machine, its independence, its security systems, etc. In the figure below, we can see an average on different types of products:

Average prices of Agricultural machinery (2013)

Product	Prices range
Tractors	11.500 €-150.000 €
Harvesters	2.200 €-60.000 €
Balers	1.330 €-120.000 €

Table 7: 'Average prices of Agricultural machinery', *ICEX*, 2013. Web. 5<sup>th</sup> August 2013. <<http://www.icex.es/icex/cma/contentTypes/common/records/mostrarDocumento/?doc=4480563>>



To analyze the price formation of the agricultural machinery importation we are going to use the following figure, which includes all the taxes and factors taken into account in the final price:

### Importation cost in Australia

	Value of goods
+	Freight and insurance cost
-----	
=	CIF (cost-insurance-freight) value
+	Tariffs <sup>9</sup>
+	GST (10 %)
-----	
=	Final value of the goods
+	Producer/distributor margin (%)
+	Wholesaler/retailer margin (%)
-----	
=	Total sale price

Figure 8: 'Importation cost in Australia', *Own Source*. 30<sup>th</sup> June 2013

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<sup>9</sup>Depend on the product. To find more information about the tariffs applied to each product, read part IV in this website:

<http://www.icex.es/icex/cma/contentTypes/common/records/mostrarDocumento/?doc=4480563>

### 6.3. Types of distribution channels

To understand better this concept before analyze it on detail, we are going to explain its meaning and the different types of distribution channels an agricultural machinery producer can carry out for selling their products.

A channel of distribution or trade channel is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users. In other words, it is a distribution network through which producer puts his products in the market and passes it to the actual users. This channel consists of: producers, consumers or users and the various middlemen like wholesalers, selling agents and retailers (dealers) who intervene between the producers and consumers. Therefore, the channel serves to bridge the gap between the point of production and the point of consumption thereby creating time, place and possession utilities.

According to the type of product the producer is selling (consumer products, industrial products or services) we can identify different recommended and common distribution channels. In the case we are studying further on detail, the agricultural machinery, we can consider it as an industrial product because it is not used by the final consumer; it is used by the farmers or agriculture workers for the production of consumer goods or the conditioning of the areas/lands they are working on. We can bear in mind the following types of distribution channels for industrial products:

\*Direct channel. This type of channel is the most used for industrial products because it is the shortest and the simplest. For example, in this type of distribution when the farmers want to buy an amount of specific machinery with some required specification for it use, they prefer to purchase it directly to the producer of that machinery. The producers use their own sales force to offer and sell the products.

Advantages: Direct contact with the farmer or consumer which can provide you the opportunity of observing trends evolution and possible change for your products and as well you reduce and eliminate the cost of incorporating middlemen.

Disadvantages: Normally the producers' lack on retailing. Probably they have a good product to offer but they may not be good at marketing it.

\*Industrial Distributor. In this distribution it just exist one level of middleman (known as 'retailer') who is the owner of the products for selling them afterwards and sometimes they are the sales force of the producer. It is usually used for standardized products, low-medium value products or by producers without the capacity to contract their own sales force.

Advantages: The products will be sold by a specialist in selling and marketing techniques and if we choose an appropriate middleman, he/she is used to sell this type of product.

Disadvantages: The producer loose part of the control of its products and the introduction of this intermediary person will suppose the increase of the price with the commission that the producer must pay the distributor.

\*Agent/Middleman channel. In this type of distribution, the selling agent and middleman (known as 'retailer and wholesaler') encourage sales looking for customers and trying to establish commercial deals with them.

Advantages: The selling agent and middleman are paid by commission, they are not employees of the company so if they sell, they get money, so their main motivation is sales.

Disadvantages: The ownership of the product is never for the selling agent or the middleman so some marketing and selling techniques cannot be used as testing or expositions.

\*Producer-Agent-Wholesaler-Retailer-Consumer (known as 'long channel'). This is the longest distribution channel in which different middlemen are involved. It is used when the producer wants to be fully relieved of the problem of distribution and hands the entire output to the selling agents. The agents distribute the product among a few wholesalers and each one distribute to a number of retailers who finally sell it to ultimate customers.

Advantages: As it mentioned before, the problem of distribution relieved from the producer who probably does not have knowledge about marketing and the producer can be focused on the production and updating of the products.

Disadvantages: Complete lack of control of your product which is controlled by several agents who sometimes have not a deep knowledge on the product they are selling.

After this brief explanation about the main types of distribution that a producer can choose, we will speak about the difficult decision of choosing a channel of distribution for a producer, because it depends on a lot of factors that should be considered. The upcoming factors are in our opinion the most important ones:

\*Market characteristics. If the market is concentrated or there are a few buyers, it will be better a direct channel but if the market is scattered or there are plenty of buyers, the longer channels will be more interesting.

\*Product characteristics. The main product factors that are involved in this decision are the price, the seasonality, the product line, the product complexity or the after sales service. For example, if the price and the product line are high, the direct distribution can be a good choice or if the product complexity and after sales service are important, the producer should consider to choose an exclusive distributor (this will be explained afterwards on detail).

\*Middlemen characteristics. It depends on the availability of the distributors, the efficiency of them and the compatibility of their goals with the producers' goals.

\*Rivalry. If the main competence follows a type of distribution, usually the new competitor follows the same type of distribution although it has been some examples of successful new types of distribution in the same market. In our opinion, taking into account the characteristics of Australian market (high loyalty on the brands and manners) it is recommended to follow the same as competitors.

\*Goals of the commercial strategy. The producer can follow the strategy of trust just in its distribution channel for carry out the sales, as known as 'push strategy', encouraging the distributors with better prices, discounts and promotions, or an strategy known as

'pull strategy' whose finality is to attract the consumer to the distribution channel by a promotion done by the producer, generating demand and stimulating the distributor to have stock of the product.

\*Resources availability and costs. Direct distribution has high fixed costs and to compensate them, the sales volume or margins should be enough offset costs. Indirect distribution (the rest apart from direct distribution) does not have fix costs, but it has variable costs. The decision of using a direct distribution should be taken when the difference between variable cost of indirect distribution and the direct distribution offset the fixed costs of this last one.

If the decision of the producer is to choose an indirect distribution system, the manufacturer should heed that there are different types of indirect distribution according to the conditions and characteristics of the product, such as:

\*Exclusive distribution means the concession to an intermediary the selling exclusivity of a determinate product in a country market or area market. The intermediary cannot sell products from the rivals. It is typical from products which need a high sales effort.

\*Selective distribution means a reduced number of distributors and it implies some requirements as purchasing volume from the distributors but they can sell also products from the competitors.

\*Intensive distribution takes place when the manufacturer wants to be present in the higher number of sales points with a high visibility in the market.

In the case of the market of small agricultural machinery, the market is led by three main distribution companies who account for approximately, the 80 % of the country; those companies are Landmark ([www.landmark.com.au](http://www.landmark.com.au)), Elders Limited ([www.elders.com.au](http://www.elders.com.au)) and Ruralco Holding Pty Ltd ([www.ruralco.com.au](http://www.ruralco.com.au)). The advantage of these distributors is their big size, the possibility to offer low prices and the facility for the distribution due to their number of establishments all over the country. The rest 20 % is composed by smaller companies who play the role of wholesaler and the big companies purchase them products. All these products are stored in small shops close to the final consumer.

Looking at the heavy agricultural machinery, and the one in which we are interested the most, according to Spanish market opportunities in Australia, the market is led mainly by four companies with their subsidiaries. These companies are Emmetts ([www.emmetts.com.au](http://www.emmetts.com.au)), O'Connors ([www.oconnors.industrysales.com.au](http://www.oconnors.industrysales.com.au)), Vin Rowe Pty Ltd ([www.vinrower.com.au](http://www.vinrower.com.au)), and Goodwin Kenny Pty Ltd ([www.goodwinkenny.com.au](http://www.goodwinkenny.com.au)). On the contrary of the small agricultural machinery, even though there is some establishment with a limited stock close to the farmers or final consumers, as a rule the machinery is stored in specialized shops far away from the target. These shops normally order a machine through catalogues they distribute among their regular consumers.

#### **6.4. Market access conditions**

Australia does not have duties for the agricultural machinery importation apart from the tariffs mentioned before relevant for some machinery. Unluckily, there is no specific agreement between Spain and Australia in Agricultural terms to reduce or eliminate these tariffs (as it happened with USA or New Zealand) and it is applied the bilateral agreement of the EU and Australia. Also the membership of Australia to the World Trade Organization (WTO) created in 1995 has helped to the reduction of the tariff from the exemption in some machinery to the maximum of the 15 % in others.

As we have mentioned in some chapters before, Australian security system legislation for product imports is quite different and stricter than the Western Europe one and sometimes it difficult the importation process of agricultural machinery. The biggest difference between both, we can consider that it is the adaptation to Australian standards which require a complete definition of the technique characteristics and the operating instruction to avoid or limit the possible mishaps of the workers or the problems they may cause with a wrong utilization.

Regarding if the machinery is new or it is already used, different import requirements are demanded by the Australian institutions. First of all, we are going to explain the most important formalities an importer should take into account in the case of new machinery<sup>10</sup>:

1. No Import permit or Quarantine Entry are required.
2. Each consignment must be free of soil, mud, insects, plant and animal debris and other bio security risks before the arrival in Australia.
3. Any packaging used with the consignment must be clean and new.
4. Consignments may be referred to the Department of Agriculture, Fishery and Forestry (DAFF) for further information or for random verification.
5. Containers, timber packing or pallets associated with the consignment will be subject to inspection and treatment on arrival, unless certified as having been treated by a DAFF approval method before.

Once we have taken a look to the requirements for new machinery, we are going to have a look to the requirements for used machinery, that are similar but with some extra formalities to fulfil<sup>11</sup>:

1. For machinery used in agriculture, fruit handling, grain milling, timber felling, earth-moving, construction, mining, oil-field drilling and commercial food processing machinery used with plant products; including parts, an Import permit<sup>12</sup> is required and must be applied for prior to importation. For all the other machinery, included the

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<sup>10</sup>The full requirements regarding new machinery can be found here:

[http://apps.daff.gov.au/icon32/asp/ex\\_casecontent.asp?intNodeId=9020020&intCommodityId=28576&Types=none&WhichQuery=Go+to+full+text&intSearch=1&LogSessionID=0](http://apps.daff.gov.au/icon32/asp/ex_casecontent.asp?intNodeId=9020020&intCommodityId=28576&Types=none&WhichQuery=Go+to+full+text&intSearch=1&LogSessionID=0)

<sup>11</sup>Extra information about requirements for used machinery can be found here:

[http://apps.daff.gov.au/icon32/asp/ex\\_casecontent.asp?intNodeId=9020110&intCommodityId=28579&Types=none&WhichQuery=Go+to+full+text&intSearch=1&LogSessionID=0](http://apps.daff.gov.au/icon32/asp/ex_casecontent.asp?intNodeId=9020110&intCommodityId=28579&Types=none&WhichQuery=Go+to+full+text&intSearch=1&LogSessionID=0)

<sup>12</sup> The import permit can be fulfilled in the following link:

<http://www.daff.gov.au/biosecurity/import/application/forms/agricultural-products>

machinery not used in a rural context or not in contact with soil or material with plant origin an Import permit is not required.

2. A Quarantine entry must be lodged for each consignment. The Quarantine entry document assures that the machinery which is arriving to Australia is protected from the risk of exotic pests and diseases. It is fulfilled is to protect Australian agriculture industries and environment.

3. Each consignment must be free of soil, mud, insects, plants and animal debris and other bio security risks materials before arrival in Australia, checking some important parts of the machine, especially between dual wheels, spare tyres, toolbox, interior of the cab, etc.

4. All water reservoirs in the machinery must be emptied before the arrival in Australia, excluding engine radiators, overflows tanks and water used as ballast in tyres.

## **7. International Sector Marketing Plan: Agricultural Machinery**

In this final part of the Master project, we would like to carry out an International Sector Marketing Plan in order to provide some extra information and a guide for the field exporters according to the material and data mentioned and explained in the chapters before along this document.

An International Marketing Plan is the basic administration tool for every company focused on the market where the company wants to be competitive. During its implementation, the different marketing actions the company has to do will be defined to achieve the goals proposed. These goals have to be coordinated and congruent with the Strategic Plan of the company, for not to find some conflicts in the start-up (cf. Marketing en el s.XXI, Rafael Muñiz; 2010).

The Marketing Plan provides a clear overview of the final objective and the goals proposed in that route until achieve the mentioned final objective at the same time that it informs about the situation and the position or stage the company is, in each moment.



## 7.1. SWOT analysis and Porter 5 forces

The SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis or matrix is a strategic tool used by the organizations for analyse their structure in different levels, it is really well known and we can say that it is the strategic tool par excellence. It can be carry out for a product, place or industry, as it will be our case with the Agricultural Machinery. The main goal of this analysis is to find out the key strategic factors (internal and external) of a company for once the company have found them, try to accomplish different measures to firm up their strengths and opportunities and to minimize and soften their weaknesses and threats.

As it is mentioned in the paragraph above, the SWOT analysis can be divided in two different parts; the internal analysis, including Strengths and Weaknesses; and the external one, including Opportunities and Threats.

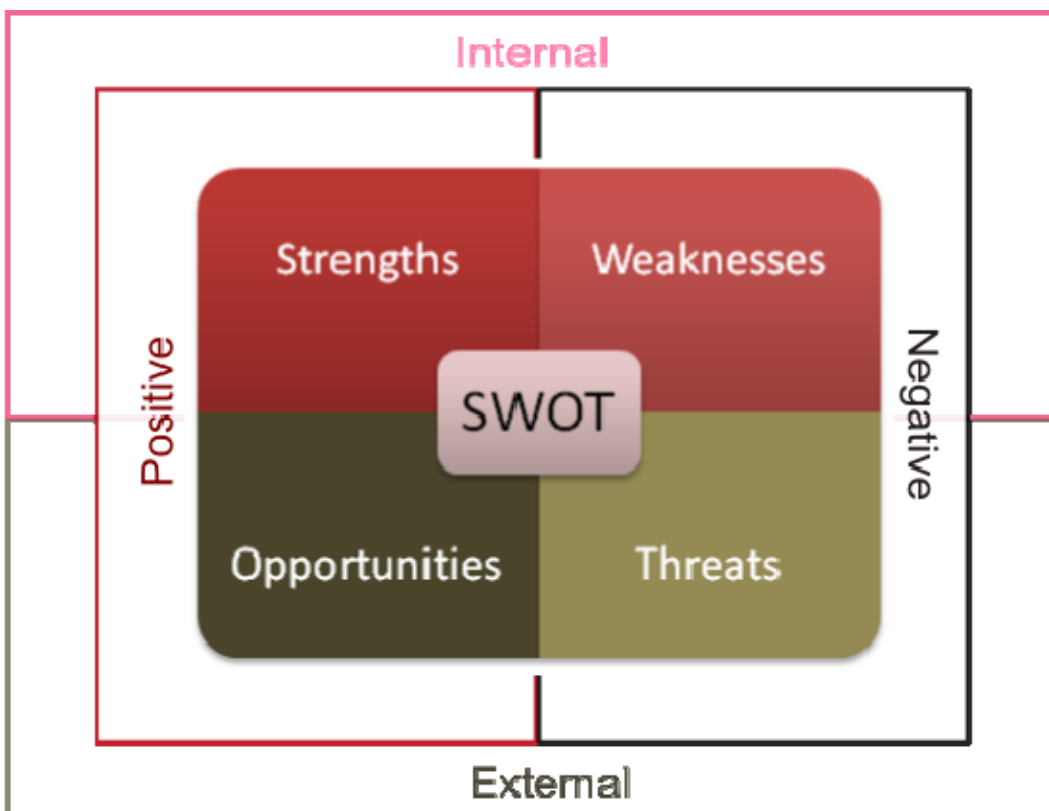


Figure 9: 'SWOT analysis' *NorthWoods*, November 2008. Web. 12<sup>th</sup> August 2013

<<http://www.northwoods.org.uk/projects/completed-projects/ben/regional-swot-analysis/>>

Looking at this figure, we would like to explain what means Strengths and Weaknesses in the Internal Analysis and Opportunities and Threats in the External analysis for a company:

\*Strengths. It describes the resources and skills developed by the company. For understanding better this concept the company may ask itself; in which are we different from the competitors? What are the things we do the best or really good?

\*Weaknesses. It describes all the elements, resources or processes that the company is not doing them properly and that means a disadvantage in order to compete in the market. They can be eliminated or reduced applying different measures and strategies.

\*Opportunities. It can be considered an opportunity, everything that can suppose a competitive advantage for the company or a possibility for increasing company's turnovers or profitability.

\*Threats. It is defined as every external factor (stakeholders, legislative or politic aspects, etc.) that can difficult or avoid a strategy implementation, reduces its effectiveness or even makes it riskier.

After this brief explanation about the important concepts meaning of a SWOT analysis, we are going to be focused in this aspects taking into account the industry we have chosen for this International Marketing Plan.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>-The Spanish brand value in agricultural machinery.</li> <li>-Exportation experience to other countries.</li> <li>-Competitive prices comparing with other exporters.</li> <li>-Sector know-how.</li> <li>-Machinery with quality and security.</li> </ul>	<ul style="list-style-type: none"> <li>-Large geographic distance.</li> <li>-High exportation costs.</li> <li>-After-sales and maintenance costs.</li> <li>-Lack of MK orientation in this sector.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>-Wide unexploited market.</li> <li>-Australian government incentives for foreign investments.</li> <li>-Spanish associations such as AGRAGEX<sup>13</sup> (Asociación de Fabricantes Exportadores de Maquinaria Agrícola) with its exportation programs and incentives for new companies.</li> <li>-CAP recent reform that will suppose extra economic incentives for producers.</li> <li>-Australian agriculture farms increase on technology and upgrade.</li> </ul>	<ul style="list-style-type: none"> <li>-USA and other countries rivalry.</li> <li>-Exhaustive security and sanitary controls to accomplish.</li> <li>-Reduced number of Spanish companies in this market.</li> <li>-Manufacturing costs increase, with price stagnation.</li> </ul>

Table 8: 'Agricultural machinery SWOT analysis' *Own source*. 12<sup>th</sup> August 2013.

<sup>13</sup> More information about this association will be found in this website:  
<http://www.agragex.es/es/home/home.asp>

The following method of market analysis we would like to speak about is the Porter's 5 forces. The five forces model of Michael Porter is a very elaborate concept for evaluating sector's or company's competitive position and consists on consider a business influenced by five different forces which will be explain further in detail. It is probably one of the most commonly used business strategy tool, it has been proved it usefulness in several situations and it complement perfectly the SWOT analysis tool we have used before. The company can also use other tools for complement both two, as it can be the Balance Scorecard or the Internal Factor Evaluation (IFE) matrix<sup>14</sup>.



Figure 10: 'Porter's five forces model' *Maxipedia*. Web. 12<sup>th</sup> August 2013.  
 <<http://www.maxi-pedia.com/Five+Forces+model+by+Michael+Porter>>

<sup>14</sup>Further information about Balance Scorecard and IFE can be found here:  
<https://www.balancedscorecard.org/BSCRResources/AbouttheBalancedScorecard/tabid/55/Default.aspx>  
 and <http://www.maxi-pedia.com/IFE+EFE+matrix+internal+factor+evaluation>

After this summarizing figure 9 with all the forces and its main factors included in Porter's 5 forces model, we are going to analyse each of that forces which influence a business one by one, focusing in the market and sector we are studying:

#### 1. Rivalry among competitors

The rivalry among competitors varies depending on the industry the company is analysing and there are different economic measures to value how concentrated or not is the industry. The most famous one is the Concentration Ratio (CR) which indicates the percentage of market share held by the four largest firms. A high concentration rate means that the market is really concentrated. If the rivalry among participants is low, the industry is considered to be disciplined. Also the rivalry increases when a competitor acts in an illicit way with aggressive strategies to approach the customers.

Focusing on other of the main factors included for analysing the rivalry in the Australian market, the number of competitors is high, particularly foreign competitors (USA and India) interested in this market with big possibilities for the agricultural machinery. Looking at the exit barriers, it is interesting to remark that there are no exit barriers for Australian Agricultural Machinery Market as well as there were not too much requirements to entry on it. There are other factors to take into account by the time of clarify if the rivalry is high or not, such as, the market growth (expected high in Australia), low levels of differentiation (as it happens), etc.

#### 2. Threat of substitutes.

From an economic point of view, the threat of substitutes exists when a product's demand is affected by the price change of a substitute product (price elasticity). In the case concerned us, the agricultural machinery substitute can be the manual agriculture, but in my opinion, regarding the potentialities of machinery and nowadays, it has no sense to consider it as a potential substitute. The substitutes of a determinate machine can be an advanced technologically machine, but at the moment, the technology of the machinery is similar with slightly differences so in this case we have to bear in mind the willingness of the buyer to purchase a new machine

with small differences from others. Also it is important, the aspect mentioned in other chapters like the brand loyalty for Australian consumer that it is really high, so a brand change will be difficult when the relationships between consumer and manufacturer have a long duration.

### 3. Suppliers power.

A manufacturing industry requires raw materials, different components and supplies. This requirement makes the buyer and the supplier to have a close relationship in order to have assured the required raw materials. If the supplier power is high, they can exert an influence on the manufacturing industry, selling raw materials at a higher price to increase their margin and reduce the manufacturer one. That's why it is really important for a manufacturer, and even it is more important in an internationalization case, having all the conditions and insurance of receiving the raw materials at a pre-set price without fluctuations and by the time the producer needs them.

In the case of Agricultural machinery, we have to consider several factors (number of suppliers, switching cost, or product differentiation) to know the suppliers power. The number of suppliers for machinery manufacturers is elevated so their bargaining power is low. The switching cost of changing suppliers can be higher than expected because it can change the raw materials quality, the usage of the machine, etc., so once a company has chosen a supplier they will try to continue during a period of time with the same, particularly for the same machine. That means that in this case, the supplier power is considered high. Finally, the last factor we will take into account is the product differentiation among suppliers is quite small, so the supplier bargaining power in this case can be considered low. Summarizing all these factors, the suppliers power is medium due to the final product of the manufacturer depends on the quality and conditions of the raw materials.

#### 4. Buyers bargaining power

The buyers bargaining power refers to the pressure the consumers can exert on businesses to get them to provide higher quality product, better customer service or lower prices. This power affects the competitive environment for the seller and influences the manufacturer's ability to achieve profitability. When the bargaining power of buyers is low, the market is more interesting for a company than other with a high power because the low power increases the potential profit, allowing the manufacturer to increase the prices, offer less customer services, etc.

Considering some of the mentioned factors in Australian market, we can conclude that the buyers bargaining power is medium, because there are some factors in which the consumer can be thoughtful with a high power, like the reduced number of potential buyers (just those related to agriculture field) or they are concentrated-compared with the number of sellers; that there are competitors with substitutive and similar products (the buyer can choose) so the switching cost is low or that the buyer use to be price sensitive in a similar range of product and quality. On the other hand, there are some factors whereby the buyer power is not so high, such as the volume of the production the buyer purchase (a buyer should buy 2-3 machines, a residual amount compared with the production) and usually the buyer is uneducated regarding the product or the possibility of backward integration (a buyer developing the manufacturing actions and producing by itself) is low.

#### 5. Threat of new entrants and Entry Barriers

This fifth force in the Porter's five forces model measure how easy or difficult it is for new entrants to enter in the industry, i.e., how high are the entry barriers in the market and industry the company is. An industry with high entry barriers will have less risk from new competitors than other with low barriers. The threat of new entrants is a function of both barriers to entry and the reaction from existing competitors. There are several types of barriers of entry, and we are going to analyse the most important ones referring to Australian market:

\*Capital requirements. The more start-up capital that is required the less likely additional competitors will enter in the market and it can discourage the companies unless the largest ones. In the case of Australian market, as we have analysed before in the SWOT analysis, one of the weaknesses for Spanish agricultural machinery companies by the time of exporting to Australia is the high exportation cost due to geographic distance and transport, so obviously this will be a drawback.

\*Access to distribution channels can be an entry barrier because of new entrants' need to obtain distribution for its product. A new entrant may have to persuade the distribution channels to accept its product providing them extra benefits, even reducing its marks-up. Looking at the Australian market, there is no difficulties referring this barrier, because the Australian government is really concerned about free competition and anti-trust, so it is not going to be difficult for the exporters to find a distribution channel for its product except with the distributor which have an exclusive distribution with one corporation.

\*Governmental and legal barriers can limit or even bar entry by requiring permits and licenses. Some national governments commonly use tariffs and trade restrictions to raise entry barriers for foreign firms but neither it will be a problem in the Australian market because as we can see in the chapter 3.4.2, the Australian government is really flexible with foreign investments unless it is opposite to national interests and in the agricultural machinery market, they are used and interested on foreign machinery due to the lack of developed industry in this sense in the country.

\*Expected retaliation from competitors. This barrier can be the harder and the most difficult to solve for a new competitor in a market and it is not morally accepted but in some markets it can happen as the response of the existing competitors may take against the emergence of a new competitor. Their reactions can include dropping prices, offering increased incentives to buy or offering additional service for the same price to difficult the introduction and access for a new and dangerous competitor. In the Australian market, this possible reaction is very controlled because the government is really concerned about the free competition and avoiding the not morally accepted practices.



## 7.2. Market Segmentation

To segment is to differentiate the whole market of a product or service into a certain number of homogeneous subsets referring habits, necessities and likes of their components, known as segments. The main goal of identifying these segments is to adapt the marketing strategies for all or some of the segments with similar characteristics. The market segmentation examine deeply the demand and their product usage, as well as, the users characteristics- socioeconomics, socio-cultural and behavioural with the aim of finding better ways and more efficient to satisfy the demand and attract new and potential demand. The benefits of this segmentation is that the company knows better the customer, with its preferences, its purchasing style, to which incentives the customer is more attracted, etc.

At the time of doing the segmentation, the company have to choose among different types of segmentation depending on several factors, such as, the company's resources, the product characteristics, the product life cycle (introduction, growth, maturity and decline), the homogeneity of the product or the competitors strategies (if they are following one strategy, rarely is recommended for the company to use another different). There are three types of segmentation:

\*Undifferentiated strategy. The same MK strategy for all the consumers, that suppose less costs but also less market adjustment. The major pro of this type of strategy is presenting one message to whole audience and the major inconvenient is the lack of differentiation strategy may limit your abilities to diversify and grow the business.

\*Differentiated strategy consists on differentiate strategies and products for a segment and it approaches better the offer to the segments and probably the sales will be higher. Also it supposes higher costs that can be compensated with higher benefits and higher amount of sales.

\*Concentration strategy consists on being focused in a particular sector or niche of market. A company will acquire better consumer knowledge and awareness, higher loyalty and also a closer relationship but the main drawback is that the market the company will be focused is more reduced.

When a company is going to segment a market, apart from the chosen strategy, the company have to bear in mind that a business market has different variables and criteria which segment it. There are some variables which will do a customer to buy our product, the competence one, the loyalty of the consumer or even the amount of product it will purchase.

\*Generals Criteria or 'by the book' that are independent from the product and from the behaviour of the customer respect to the product, where we can include:

-Geographic segmentation. The market is divided following variables like country, region, density of population, climatology, etc., assuming that the necessities and preferences of the consumers vary depending on the place they are living.

-Demographic segmentation. This segmentation follows variables, such as, age, gender, nationality, religion, height, etc.

-Psychographic segmentation, segment people according to their lifestyles and values and how it is translated in consumption or purchases of products. The MK responsible are nowadays really interested on the interest factors of a customer, its opinions and the activities they like the most because it can provide them useful information for developing MK strategies.

-Behavioural Segmentation is based on actual consumer buying behaviours for particular products. Customers are segmented on the basis of their attitude towards brand loyalty, or user status indicating the first time buyers, potential buyers, benefits sought, etc. (cf. International Marketing, David Castillo, 2013).

\*Segmentation by needs that is very linked to this previous behavioural segmentation and that is the most practical segmentation and consists on try to know the people who contact or have a relationship with the company and also their wants and needs. In this segmentation by needs we can find different levels of people that the company should concern about them, as it can be the purchaser or user, the influencer (people who is going to provide information to the new customer that normally can be previous purchasers) and the information gatherer (all the information the new consumer can receive from different sources).

After the information provided in the paragraphs before, we are going to explain which strategy and criteria of segmentation in our opinion will be the most appropriated and advisable for the agricultural machinery exporters to Australian market. According to the market and the product we are referring, the type of MK strategy recommended is the Concentration strategy because agricultural machines are specialized products and also the Spanish image in this type of product is good quality and security. Carrying out this type of strategy, the company can be viewed as a specialist or expert in the given industry because all the resources are aimed at creating and marketing the best possible products in this field and also the concentration strategy makes possible to build a strong reputation and significant name value among customers. The main drawback of this type of strategy is that if the product is not considered as a necessity, just as a luxury one, is vulnerable to economic slowdowns, the current crisis, etc., but in the case we are studying, for the farmers and possible purchasers of the machinery, the machines are a necessity for their production, so this does not affect our MK view or strategy.

Finally, the criteria or variable that in our opinion a Spanish company should take into account in order to segment, is a segmentation by needs, considering also the behaviour segmentation, because obviously, the company decides to segment when they have found a determinate need or niche of market, and in this case, this need is the machinery that the Australian farmers need to make their production profitable. As this niche or market is reduced, considering the opinions, interests and everything related to our potential customers can be really important in order to remark and potentiate the skills we considered the most important of our products and which are the most important for them too.

### 7.3. Pricing in Australia

Pricing is one of the most important elements of the marketing-mix (product, place, price and promotion-the 4p's), and it is the only mix, which generates a turnover for the company, remaining the rest as a variable cost for the organization. Pricing strategy also refers to the method companies use to price their products or services in a market. Almost all companies base the price of their products on production, labour cost and advertising expenses, adding then a certain percentage or mark-up to make profit. For pricing a product or service a company should take into account different factors, such as, fixed and variable costs, competition, company objectives, positioning strategies (explained further on detail) or the target group and its willingness to pay. There are several types of pricing strategies that we will explain briefly to decide afterward which strategy can be the most suitable to apply in the Australian Market for the Spanish companies.

\*Penetration pricing. To apply this pricing strategy sets a low price for its product or services in hopes of building market share, which is the percentage of sales a company has in the market versus total sales. The primary objective of penetration pricing is to garner lots of consumers with low prices and then use various marketing strategies to retain them even with a price increase. It is typically used when a company is opening new stores or launching new products into a market.

\*Price skimming. In this strategy, a company sets its prices high to quickly recover expenditures from product production and advertising. The main objective is to achieve a profit quickly. It is used with high technologically products, in which the willingness of some consumers to pay is high when the products is just released.

\*Product life cycle pricing. During its life, a product should go through different stages (introduction, growth, maturity and decline). Typically during introduction sales are booming and the company can set or higher prices, particularly if the product is unique or special (not our case) for recover development costs or low price to increase the market share. During the growth stage the price set before should be maintained to secure our demand and afterwards during maturity stage is recommended to lowered the price a little bit, because the demand is more susceptible or sensitive to new and

more modern products than before and finally during the decline stage, the company should offer discounts and promotions to get some extra sales which will help the company to reduce costs of the production and development of the new and updated product.

\*Competitive –based pricing. There are times when the company should adapt its prices to meet with the prices of competitors. It is used when the products within the industry are really similar with small differences. The company can set the prices lower, at the same price or higher for trying to transmit higher quality.

Being focused on the agricultural machinery sector in the Australian market, in our opinion the most accurate pricing strategy to followed can be the mentioned before, the penetration strategy, establishing a low price at the beginning to introduce our machines in the Australian market, characterized by a high competence and with some specific customer characteristics, as the loyalty to the products they are used to purchase. At the beginning, obviously the profits will not be high, just for covering the production and promotion costs, but it can be really interesting by the point of getting some market share which can appreciate the Spanish machinery quality with an attractive price. Once we get a considerable market share to be competitive in the market, we can increase the price a little bit offering extra services or promotions to the customers (really appreciated by them in this sector, as after sales service, showing the way of using, etc.) and carrying out MK strategies that we will propose later on, maximizing the characteristics and potentialities of our machinery respect to the rest of competitors to retain and increase the demand and market share.

#### **7.4. Positioning strategy and objectives**

Positioning is a marketing concept that outlines what a business should do to market its products or services to its customers and also helps the position that the product has in the consumer mind. For the positioning of a product, the MK department creates an image for the product based on its intended target through the marketing-mix. The more intense a positioning strategy, normally the more effective the MK strategy is and also a good position strategy elevates the MK efforts and helps a buyer move from knowledge to its purchase (cf. What is positioning?, Lynn Lauren).

By the time of choosing a positioning strategy, there is a current discussion about if global positioning works for every product or if it is more effective than a specific positioning. In our opinion and also according to the expert's opinion, the global positioning is only recommended for products categories that approach a high-tech/high-touch field. The main characteristic of this global position is that is characterized by a high level of customer involvement who shares even a 'specific language' among them. Some products which can be included in these categories are computers, tablets, mobile phones in the case of high-tech and music, cosmetics or clothing in high-touch where the image is even as important as the product.

Positioning strategies can be conceived and developed in a variety of ways which represents a different approach in developing positioning strategies, even though all of them have the same aim of projecting a favourable image of the products in consumer's mind. Here, we are going to explain briefly the most important ones, and which positioning approach we consider the best for the agricultural machinery:

\*Using product characteristics or by attribute as a positioning strategy than basically focused on the product characteristics or the consumer benefits. According to the product or market we are in, the companies positioned its products associating it with one single characteristic, for example in automobiles market, Hyundai placed their products with a low price attribute, but in others like the toothpaste or supermarkets, the companies usually positioned a product along two or more attributes.

\*Positioning by use or application means associating the product with a specific use or application like for example, Nescafé, which have positioned its products as a winter product to bear the cold with a hot beverage and it was advertised mainly in winter. Nowadays, this company has developed new products to expand their market being focused in cold drinks for summer.

\*Positioning by product user, associating the product with a particular target or group of customers, as it can be a shampoo for women or products for babies which use it frequently.

\*Positioning by product class associating the products with others similar, that not being the same, provide similar benefits, for example the airlines in their competition with other 'low-cost' airlines and trains or buses.

\*Positioning by competitors whose purpose is to convince consumers that company's products are better from the products of the competitor taking usually as reference, the market leader or our closer competitor in market share. The strategy can be developed using the competitor strategy as a base or highlighting some competitor's weakness that for us is strength.

After explaining all the possibilities a company mainly has for positioning its products, in our opinion the most accurate one for the Spanish agricultural machinery is the positioning by attributes or using product characteristics, because the Spanish machinery has several attributes than can be used for positioning the products, as it can be, the recognized Spanish quality, the machinery safety (really important for Australian institutions for imports) and proving these attributes using also the Spanish image in agriculture, where we are one of the best producers in the world and we export our machinery and production systems to all over the world. Maximizing and highlighting these two attributes will be one of the objectives of the International MK plan for Australian market. An important aspect that a company should take into account by the time of communicate their positioning image is the communication consistency, that consist of showing the same image by different ways of communication.

To conclude this positioning analysis, we would like to offer an interesting possibility for a company to investigate how to position a product in a market, just in case, the company does not have clearly defined it strategy. This possibility is called positioning map or perceptual mapping and consists on obtaining a visual depiction of the perception by consumers of the products or brands of a company and allows comparing them according to two variables that usually can be price and quality or comfort and quality. There are several informatics programs that help the company to

construct these maps, as it can be the statistic program, SPSS or also on Excel<sup>15</sup>.

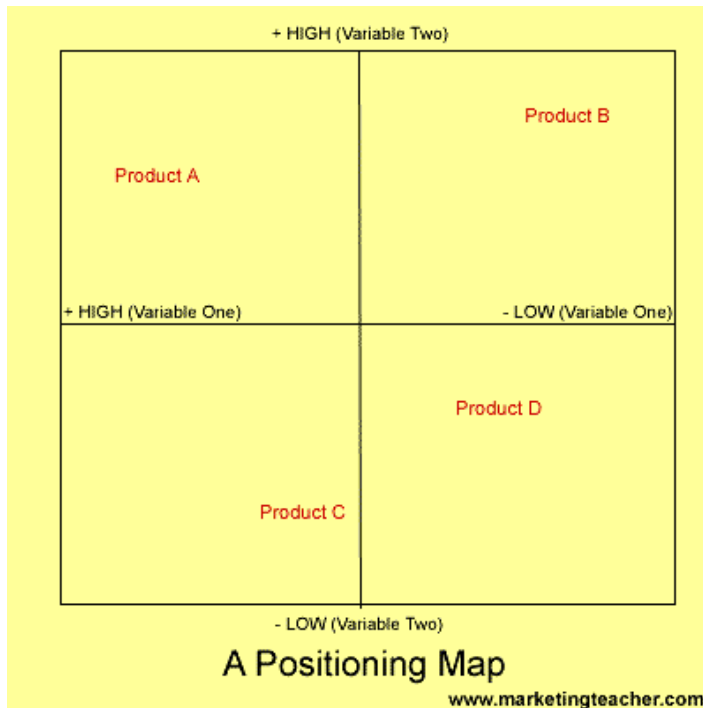


Figure 11: 'Positioning map' *Marketing Teacher*. Web. 24<sup>th</sup> August  
<<http://www.marketingteacher.com/lesson-store/lesson-positioning.html>>

## 7.5. Promotion strategies

The promotion strategies are the techniques that include the International Marketing Plan to accomplish certain objectives through different encouragement and actions along a determinate time and space for the target and consumers. The advertisement and the sales staff encourage purchasing a product or service and the sales promotion encourage to buy as soon as possible. In the past, the promotions were considered an instrument just to increase the sales and nowadays is included also their role on the improvement of the brand image.

The promotion strategies can be focused for the different elements that influence a product sale; the distribution channels, sales staff and the final consumer;

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<sup>15</sup> To obtain further information about how to construct this positioning maps, visit the following website with Skander Essegaier presentation:  
<http://www.managementparadise.com/knt.nallasamygounder/documents/5580/perceptual-mapping-using-spss/>



these strategies are not exclusive, i.e., they can be the same strategy at the same time for the different elements or different strategies. There are three main characteristics that distinguish the promotion strategies:

\*Selectivity. The promotion strategies should have limits and well-defined goals, as it can be, increase the demand of a product, increase the presence of the product in different sales points or obtain results in a specific period of time.

\*Intensity and length. The effectiveness of the promotion is determined when it is carried out in an intensive way and during a short certain of time for not being repetitive.

\*Short-term results. The sales promotion usually tries to improve the sales of a product quickly providing different incentives to the addressee of the promotion through coupons, bonuses or special discounts. Normally, they are used to throw back unexpected sales decrease, to introduce a new product easily, as a response to a competitor action or for trying to get some competitors sales.

As we have mentioned in the previous chapter, the two main objectives of the promotion strategies we will develop with some actions are introducing the Spanish machinery in Australian Market and trying to increase the market share until placed the machinery as one of the leaders in the market in the long-term. The objective in the short-term will be to get known, covering costs of production, promotion and increase/improve the image of our machinery for in the long-term accomplish the objective of being one of the leaders. Along this promotion, we will develop some activities and measures we will explain in order to highlighted and maximize the attributes we have considered the most accurate for positioning the machinery in Australia, the Spanish recognized machinery quality and the safety of our machinery proving that with the experience/success of Spain in agriculture and the improvement of the agriculture in the countries we have exported.

The sales promotion includes different activities like advertising campaigns, products demonstrations, trade shows, fairs, seminars, telemarketing, direct-mail campaigns, etc. The width of the sales promotion is limited only by the creativity of the

MK responsible, because every activity that can promote and increase the sales is considered valid. Obviously, for the success of a promotional campaign, a company should consider the customer psychology and their buying patterns. Taking into consideration those factors of the potential purchaser, there are two different styles of strategies:

\*Push-Strategy is demand-driven. A push strategy is design to market the product to the wholesalers and retailers for convincing them to shelf space to our machinery and for encouraging them to advertise it, offering discounts, extra margins, quality guarantees, etc. To accomplish some of our strategies, we are going to apply this push-strategies because for operating in the Australian market we will see in the next chapter it will be crucial the collaboration with wholesalers and retailers to reduce costs and to facilitate the introduction in the market.

\*Pull-strategy is demand-driver because it targets the end user. It is used normally when the retailers are reluctant to market the machinery for some reasons- expensive, for example- and the pull-strategies include free samples, public promotional events, door-to-door sales, and point-of-sale displays that in our opinion are not appropriate and possible for the product we are promoting.

Following, we are going to present some Promotion strategies related with the objectives of the promotion campaign that we consider they can be useful and successful in Australia market and to propose the different measures and activities which will help to accomplish the goal of each strategy:

\*To get the image of having one of the most quality machinery (Strategy 1/S1). To run this strategy, the company should obtain a certificate of the Europeans institutions to prove that the components and parts of the machine are high-quality or one from the ISO quality system certification.

It will be also important, the participation of the company in the Agricultural machinery fairs or the Agriculture fairs<sup>16</sup> in general held in Australia where the farmers

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<sup>16</sup> Following Agricultural machinery fairs in this website: <http://www.expodatabase.com/international-trade-shows/agriculture-forestry-fishery-horticulture/agriculture/australia/2013/>

will be present to show them how the machines are, the quality of them and get known. The cost of that participation will be high, but a possible collaboration with other Spanish companies to share costs will be a good option because it is useful for the following strategy too. A publication on agriculture magazines referring the entrance on the market of a Spanish company can be also a good idea.

\*To improve the machinery perception of security (S2). This second strategy can be developed with different and several measures because the perception of security is subjective, so the company should try to prove that the security levels are high, for example, ordering a security study to a specialized company on machines security, demonstrations in the sector fairs, providing enough information about the usage of the machine before using it, protecting the dangerous parts of the machine to avoid accidents, etc. Before the entrance in the market the machinery should fulfil the security controls from Australian institutions and the Spanish ones before, when it was produced, and those controls are really exhaustive in both countries as we mentioned before, so it can be a guarantee for the potential consumer too.

\*To offer extra-services for the buyers (S3). This strategy can be the most important among all and also the most difficult to carry out because it can make our promotion and product different from the competence according the information of different surveys about farmer's patterns and Australia market because they really appreciate the extra-services a company can offer for a product, as post-sale service, guide of usage, testing the machinery before purchasing, guarantee of the product, etc. So, the Spanish company should make a deal with the distributor of the products in Australia (we will see in the following chapter) to make possible to provide these extra-services (with our formation about the product) that will make our product different and that will strengthen the quality and security image the company also wants to transmit.

## **7.6. Distribution**

Finally, we are going to analyse one of the last steps of this International Sector MK Plan for the Spanish agricultural machinery and also the last 'p' of the marketing-mix, the distribution. To remember the concept of distribution, the types of channels or the distribution options, have a look to the chapter 6.4., because in this chapter we

will be focused exclusively in a recommended proposal and tips for the Spanish companies in order to make easier the distribution of its products.

The agricultural machinery can be considered according to the type of product it is, an industrial product, because it is not used by the final consumer, it is used by the farmers or the owner of a land for conditioning the working area or to extract/work the final product which the final consumer will buy. The most frequent distribution channel used in Australia for this machinery is the mentioned in the chapter 6.4, the industrial distributor, when the producer sends some stock of the product to the distributor for accelerate sales, and the ownership of the product is for the industrial distributor who sells the machines using MK techniques, different strategies, etc., earning as it is said, a commission or a mark-up of the price. In our opinion, due to the lack of experience of the Spanish companies on marketing products in the foreign countries for this sector, and the cost increase it would suppose, delegating this function of distribution for a specialized company in Australia, which also knows perfectly the consumer patterns and psychology, could be the most accurate option. Other reasons that can motivate this decision are the different characteristics of the market, for example, the market is really scattered along different places in Australia, far away ones from the others, so the direct distribution would suppose even higher costs and the indirect distribution will limit those costs.

Looking at the type of agreement with an Australian distributor (exclusive, selective or intensive), according to the product characteristics the most recommended type of distribution system would be the exclusive distribution, because the distribution would be focused on selling and marketing as better as possible our product, but after analysing the distribution companies in Australia and the strategies followed by other exporters/competitors, their experience suggest that it is a better option to choose a selective distribution channel bear in mind the scattered market and the reject from the main distributors of the country which lead the market to being focused just in one line of product or exporter. As we have said, the Spanish agricultural machines have high quality and security, so it is not going to be really difficult to find a distributor (read the information about the distributors in the chapter 6.4) interested in marketing and distributing our products along the market.

## 7.7. Evaluation of the International MK Plan

The final step of an International MK Plan, something that sometimes is forgotten by the companies and something that is in our opinion really important and crucial, is the evaluation of the figures and effectiveness of the whole plan. Analysing these data will help the company to understand better the performance and also help to control and measure if a determined strategy is working or not, making possible to modify some aspects of the plan, to approach better the initial objectives. The evaluation of the plan is recommended to be done periodically (quarterly, biannual or annual) There are different indexes and data to evaluate this, for example:

\*Sales figure is a really important data to take into account and to compare if the prevision a company should do before the beginning of the plan (with short-term and long-term estimations) are in order to be fulfil or not. The previsions usually are not exact, so it is better to estimate scales of sales, not an exact amount, to prevent possible mistakes.

\*Customers feedback is sometimes really important to measure the effectiveness of the MK plan because they are the people who will speak well or not to other field partners about your machinery, your extra-services, the personal treatment or partnership, etc.

\*Return on Investment (ROI) is one of the most important terms a company should control to know if the whole plan or a single strategy is working or not, but in our opinion is better to calculate the ROI of each single strategy instead of the whole one, for identifying where or which to modify. The company can calculate it using the next formula:

$$\text{ROI} = [(\text{Payback} - \text{Investment}) / \text{Investment}] * 100$$

## **8. Conclusions**

At the beginning of this Master Project when I had my first academic appointment with my tutor, plenty of questions and doubts arose, especially those involving this amazing and unexploited topic. However, throughout all this working period many issues have been put forward. I hope to have solved most of them and equally to have gone further into this subject. For me it has been a daring task and a very interesting and motivating part of my day by day. This research has made us compare the situation between Australia and Spain, basically on marketing and economic grounds, analysing at the same time the reaction of both governments to face this current economic crisis. It has also made me draw different conclusions and suggestions that we would like to mention in this part.

Nowadays, as it has published in different media in Spain, the foreign investment in our country is stagnant due to the fact that our main market and investors come from the EU, where the crisis is being suffered in harsher ways than in other parts of the world, for example in Asian countries or in Australia. Probably, as it has happened in Australia, where the federal institutions have developed several programs and incentives for foreign investors and also have opened their market for other countries apart from the Commonwealth, USA and Asia, concurring with the fast development and progress of the country can be a solution and a possible option for the Spanish government in order to boost or to recover the foreign investment of previous periods. Those measures can trigger relationships with those countries in both ways in order to facilitate and to reduce tariffs for our companies, which are interested in the foreign investment.

Another conclusion that we have obtained after analysing the Australian economic situation is that the government's concern about avoiding the trust activities or those that can make the free competition among competitors from all over the world difficult, is making it possible to provide the population of this country with better services and with more competitive prices. It is just the opposite of what happens currently in Spain, where some fields are led by monopolies or oligopolies.

Therefore we state that those non-constrictive measures help the economic development of a country.

Focusing on the major conclusions about the mentioned objectives of this Master project we can put forward:

\*Regarding the objective of understanding and knowing better Australian market, we have found different aspects that have drawn our attention, as the diversity of the country along its extension and with the characteristics which influence the market or the programs and incentives of the government mentioned before. After this analysis of the different levels of the country, we realized that Australia is an interesting country where to invest and with high business possibilities.

\*Linked with the previous goal, we find that before the research for market opportunities for the Spanish companies, we did not realize that there were so many opportunities for several Spanish products from different sectors in an apparently different and far country but after the research we realize that for each sector there were market opportunities to exploit, particularly in the primary sector with everything related with agriculture, as the machinery. We were particularly surprised with the potentialities of the agricultural sector and just we want to mention other opportunity, as the olive oil, which Australia imports approximately 80 % of the total amount from Spain and Italy.

\*Finally, the third objective of the Master project was to develop a Sector International Marketing Plan for Australia and at first we thought it was difficult because we had not experience in living in Australia or have a deep knowledge on the market, consumers and so on. At the end, after preparing and classifying the different materials, we had plenty of information. Consequently, after reading newspapers, magazines or articles and with the information provided by the different institutions, we think we have been able to develop an exhaustive analysis of the sector and that it allowed to carry out a further International Marketing Plan which can be useful for the interested companies of the field.

In terms of future research it might be interesting and certainly attractive that the number of people researching and interested in everything related with Australia increase, because in our opinion there are several topics that may be interesting to research about, and until the moment there were not many research documents focusing in the Australian country or market. Nowadays, looking at the current crisis situation it would be an appropriate moment for the researchers to look for new market and innovative opportunities for the companies, that are running their business in a high competitive society with companies from all over the world competing for the same customers and in the same market, and just a few of them which are really creative/innovative and which are able to take advantage of the unexploited 'niches of market' are being successful. If those researches will be carried out, it can also help to get a closer relationship and to enhance the ties between both countries, not just referring to the economic or business field, also to the societies and cultural links, once that we have state that the Australian culture and society is not as different as at first we thought.



## **9. Acknowledgments**

First of all, I would like to be grateful for all the people and institutions which have collaborated with me during this the development of this project, providing me with all type of information that I have needed or asked, especially to Dr. José Carlos Redondo Olmedilla, my Master Project Director, for his time dedication and advices for improving my Master Project in its different aspects. Also, I would like to mention the aid provided by the federal institutions of Australia, the ICEX and the Australian Spain Business Association (ASBA), which have kindly answered to me and have made me proposals for the development.

It was really important and I want to thank the support of all my friends and relatives through all these months. Their words of encouragement have made me work with support and have made it possible that I have developed this Master project with illusion and positive expectations. I hope to have accomplished the study goals.

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