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Exporting and small businesses

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LEARNING OBJECTIVES

By the end of this chapter, you should be able to:

- Describe the importance of small, medium and micro enterprises (SMMEs) in the global economy.
- Identify the intrinsic difficulties that SMMEs face in competing with large firms.
- Discuss the key elements which can contribute to an SMME's success or failure to penetrate global markets.
- Undertake simple market research using readily accessible databases and non-proprietary analysis.

OVERVIEW

- 19.1 Introduction
- 19.2 The importance of small business
- 19.3 SMMEs in South Africa
- 19.4 Export readiness
- 19.5 Four steps to successful SMME exporting
- 19.6 Summary

CASE STUDY Elezane Industries – snail exports

It was only through perseverance that snails reached the ark, the saying goes, and Elezane Industries MD Robert Oktober can vouch for its wisdom since he and his business partner decided to start exporting the slimy gastropod.

The Hermanus-based company, the only one in South Africa that is accredited to harvest, process and export terrestrial snails, was founded in 1998 by Iva Puel-Freitag, a French employee of a Belgian snail processor.

After trying without success to identify an appropriate domestic snail species in the Eastern Cape, Puel-Freitag made contact with University of Stellenbosch snail specialist Prof Willem Sirgel, who alerted her to the fact that Western Cape fruit farmers were battling to control an invasive alien snail species.

By happy coincidence, the culprit, which is believed to have been brought into SA decades ago, either intentionally to be eaten or as a stowaway on imported fresh produce, was found to be a species called *Helix Apersa Muller*. Known in French as *Petit Gris* (small grey), this snail is highly prized by gastronomes worldwide for its unique texture. The fruit farmers, who had been paying up to R250/ha for snail control in the form of poisoned bait, were only too happy to be rid of the vermin.

Oktober says Puel-Freitag, by virtue of her relationship to the Belgian snail processing company, had an intimate knowledge of the market requirements and distribution channels needed to successfully export to the EU. Nonetheless, SA only became accredited to export snails to the European Union (EU) in 2001, with the help of the South African Bureau of Standards (SABS) and SA's embassy in Brussels.

According to Oktober, their market research indicated that about 40 000 tons of snails of various species are consumed in the EU each year, with France leading the way and Belgium also prominent. However, over-harvesting had resulted in a shortage, opening the way for Elezane to enter the fray.

Oktober says one of the key competitive advantages for the business is that SA's seasons complement those of Europe, which means harvesting takes place at a different time of year and exports can be timed for periods when European supply is at its lowest and prices are buoyant.

Like all foodstuffs imported into the EU, snails are subjected to stringent quality and disease controls. "There are critical points of cross contamination in any food export process which could compromise food safety regulations, and operational systems have been put in place to reduce the risk," Oktober says. But he compares the processing of paperwork associated with exporting snails to the creature's own pace – about 7cm an hour.

Most local farmers are more than happy to allow Elezane to pay their labourers to do the harvesting. Apart from getting rid of the snails, they benefit by saving the cost of bait and avoiding the risks associated with using chemicals close to an edible product, while the labourers are able to earn extra cash. Elezane also employs contractors to harvest snails in some instances. Either way, Elezane gets its snails at a price that makes everybody happy.

Airfreight shipments use standard containers and are in transit for two days, while seafreight shipments are packed in 6m–12m containers and voyages take up to three weeks. Elezane still sells a variety of snail products locally, including frozen snail meat, bottled snails in sauce and live snails in shells.

Oktober says that South Africans have some way to go before they become as discerning as French consumers, who favour certain subspecies over others. South African restaurants often create the impression that they are serving French snails by using the meat of the *Achatina* snail, which is exported in volume from Asian countries such as Indonesia and Malaysia, and inserting it in reusable shells. The "small greys" that Elezane harvests have a brown shell with stripes.

Oktober believes the European market for snails is so large that there is scope for Elezane to increase its volumes substantially. The company exported about 10 tons in its first year of operation and has since increased this to 30 tons a year. He says there are several other edible species of snail in SA other than the 'small grey', and Elezane will also be exploring their harvesting and export potential.

Source: *Business Day – The SA Exporter*, 3 July 2006, p.14.

QUESTIONS

1. What are the key competitive advantages embodied in snail production in SA?
2. What kinds of institutions can be contacted for advice and support in undertaking exports?
3. How did Elezane ensure that its product matched the consumer preferences of its target market?
4. To what extent did Elezane's prior knowledge of the international snail sector make it easier to enter this market?
5. What basic indicators of demand and supply did Elezane assess before deciding which market to export to?

19.1 INTRODUCTION

Small, medium and micro enterprises (SMMEs) play an increasingly important role in the modern global economy. In the past, SMMEs were often associated with 'artisanal' or 'cottage' industries undertaken more for the lifestyle that went with these industries than any real monetised contribution to the economy. However, in the last two decades the contribution that SMMEs can make to economic growth, technology development, employment creation and international trade has come to be recognised across both industrialised and developing countries.

In this chapter, we are particularly interested in the contribution SMMEs can make to international trade. The chapter therefore begins with a brief description of historical trends in the economic contribution of different size firms before highlighting some of the key factors which influence SMMEs' 'export readiness', before concluding with a detailed 'SMME Exporting for Dummies' four-step programme, and an illustrative case study and exercises.

19.2 THE IMPORTANCE OF SMALL BUSINESS

The economics of industrial development are quite time- and by implication context-specific.

Before the Industrial Revolution (IR) started, 'cottage' industries dominated production, with limited trade taking place between nations. Once under way, some of the most notable features of the IR era, such as *Taylorist* mass production work-organisation models with dedicated, extensive production lines and the high cost of the newly developed technology, meant that it was only through large enterprises that the substantial initial costs of investment could be recouped adequately. This was reinforced by the lack of efficient financial markets which limited access to finance and predisposed financiers towards large, multi-financed enterprises.¹

In the 1940s and 1950s this trend still prevailed, with first Japan and later South Korea embarking on specific policy interventions to encourage the development of large enterprises (the *zaibatsu* in the former and the *chaebols* in the latter). In both cases, the policy rationale was that for enterprises to be able to compete successfully on the global market, *economies of scale* were required, and the most efficient way to achieve this was through large enterprises.²

By the 1970s and 1980s, this phase of industrial development had run its course and the full impact of the *globalisation* phenomenon with its many faces was becoming clearer.