



UNIVERSITY OF  
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BODØ GRADUATE SCHOOL OF BUSINESS

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# MASTER THESIS

## COPING STRATEGIES AND CHALLENGES OF COFFEE EXPORTING COMPANIES IN TIMOR-LESTE

FE 306E Sustainable Management

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## **Abstract**

### **English**

Global coffee market is growing and developing countries want to be a part of it. Export of coffee brings money to the country, employs local workforce and contributes with taxes. Overall, it is a favourable source of building wealth in developing countries. Coffee plantations have traditionally been a source of income in several regions of the Democratic Republic of Timor-Leste (DRTL). Coffee producers and exporters in DRTL are represented by small and medium-sized enterprises (SMEs). Recently the production rates decrease which leads to lower incomes for government, companies and farmers. Coffee market is competitive and to be able to participate in this competition the problems need to be solved. Therefore, the goal of this research is to explore the conditions of coffee export in the Democratic Republic of Timor-Leste (DRTL), identify barriers and the possible solutions to overcome them. We have conducted seven (7) semi-structured interviews in February-March 2015 and accessed the current strategies and barriers of local producers and exporters in DRTL. The findings show that several reasons are common for all producers as they come from the local culture and traditional way of living. Additionally, there is a lack of collaboration between farmers, coffee companies and government. Other reasons include an increase in number of unproductive, old trees, lack of proper maintenance, climate abnormalities as well as diseases, such as rust coffee leaves, coffee fruit borer. Surprisingly, demand for Timorese coffee is rising. It makes this thesis highly relevant for the purpose of defining and highlighting the current difficulties that lead to lower production of coffee and lack of export supply. Relevant theoretical approaches are utilized to answer the research question. Implications for farmers, companies and national government are further proposed as our contribution to the development of coffee sector in DRTL.

**Key words: SMEs, lack of coffee production, government, and coffee farmers**

## Portuguese

*Globalização de mercado de café está crescendo e os países em desenvolvimento querem ser uma parte dela. Exportação de café traz dinheiro para o país, criar oportunidade para a emprega de local trabalhadores e contribui com os impostos. No geral, ele é uma fonte favorável de criação de riqueza nos países em desenvolvimento. As plantações de café têm sido tradicionalmente uma fonte de renda em várias regiões da República Democrática de Timor-Leste (RDTL). Os produtores e exportadores de café da RDTL são representados por pequenas e médias empresas (PME). Recentemente, o decréscimo que as taxas de produção leva a uma menor renda para o governo, empresas e agricultores. Café mercado é competitivo e para ser capaz de participar nesta competição os problemas precisam ser resolvidos. Portanto, o objetivo desta pesquisa é explorar as condições de exportação de café na República Democrática de Timor-Leste (RDTL), identificar os obstáculos e as possíveis soluções para superá-los. Realizamos sete entrevistas (7) semi-estruturadas em fevereiro-março de 2015 e acessou as estratégias e as barreiras dos produtores locais e exportadores da RDTL atuais. Os resultados mostram que várias razões são comuns para todos os produtores como eles vêm a partir da cultura local e modo de vida tradicional. Além disso, há uma falta de colaboração entre agricultores, empresas de café e do governo. Outras razões incluem um aumento no número de improdutivos, árvores antigas, falta de manutenção adequada, anomalias climáticas, bem como doenças, tais como folhas de café ferrugem, café frutas broca. Surpreendentemente, a demanda por café timorense está a aumentar. Faz esta tese altamente relevante para efeitos da definição e realçando as dificuldades actuais que levam à menor produção de café e falta de oferta de exportação. Abordagens teóricas relevantes são utilizados para responder à questão de pesquisa. Implicações para os agricultores, empresas e governo nacional são ainda propostas como a nossa contribuição para o desenvolvimento do setor cafeeiro na RDTL.*

## Norsk

*Globale kaffemarkedet er i vekst og utviklingsland ønsker å være en del av det. Eksport av kaffe bringer penger til landet, benytter lokal arbeidskraft og bidrar med skatter. Samlet sett er det en gunstig kilde til å bygge rikdom i utviklingsland. Kaffeplantasjene har tradisjonelt vært en inntektskilde i flere regioner i Den demokratiske republikken Timor-Leste (DRTL). Kaffeprodusenter og eksportører i DRTL er representert ved små og mellomstore bedrifter (SMB). Nylig produksjonsrater nedgang som fører til lavere inntekter for offentlige, bedrifter og bønder. Kaffemarkedet er konkurransedyktig og å være i stand til å delta i denne konkurransen problemene må løses. Derfor er målet med denne forskningen for å utforske forholdene kaffe eksport i Den demokratiske republikken Timor-Leste (DRTL), identifisere barrierer og mulige løsninger for å overvinne dem. Vi har gjennomført syv (7) semi-strukturerte intervjuer i februar-mars 2015 og åpnet dagens strategier og barrierer av lokale produsenter og eksportører i DRTL. Funnene viser at flere grunner er felles for alle produsenter som de kommer fra den lokale kulturen og tradisjonelle leveste. I tillegg er det en mangel på samarbeid mellom bønder, kaffeselskaper og myndigheter. Andre årsaker kan være en økning i antall uproduktive, gamle trær, manglende vedlikehold, klima abnormiteter samt sykdommer, som for eksempel rust kaffe blader, kaffe frukt borer. Overraskende er etterspørselen etter timoresere kaffe stigende. Det gjør denne oppgaven svært relevant for å definere og fremhever de nåværende problemene som fører til lavere produksjon av kaffe og manglende eksport forsyning. Relevante teoretiske tilnærminger brukes til å besvare problemstillingen. Konsekvenser for bønder, bedrifter og nasjonale myndigheter er videre foreslått som vårt bidrag til utviklingen av kaffe sektor i DRTL.*

## **Tetum**

*Kafe sa'e iha merkadu global, I nune'e nasaun desevolvidu sira hakarak hola parte iha merkadu refer. Exportasaun kafe fo benefisiu ba nasaun liu hosi rendementu taxa no fo oportunidade servisu ba empregada local. Enjeralmente ne hanesan fontes ida ne'ebe diak hodi funda nasaun desevolvido sira nia rikusoin. Agrikula kafe hanesan tradisaun rendementu ba distritu balun iha nasaun Republika demokratika Timor-Leste (RDTL). Produtor no eksportadores kafe hanesan representante negosiante kiik no media iha nasaun RDTL. Produsaun kafe dadauk nee komesa tu'un no afeita ba nasaun, kompanha no agrikultor sira nia rendementu. Kompetisaun merkadu kafe kompetitivo tebes, atu hola parte iha kompetisaun ne'e percisa resolve uluk problema menus produsaun. Tamba nee, objetivu hosi peskiza ne'e atu eksplora kondisaun eksportasaun kafe iha nasaun RDTL, identifika obstaklu no bareira no possibilidade solusaun atu atua problema hirak nee. Relasiona nee, ami halao ona peskiza durante fulan Febreiro-Marsu 2015 no hanesan semi estrutura ami entrevista fontes nain hitu (7) kona ba estrategia no asesmentu ba merkadu actual, obstaklu no bareira ba produsaun no eksportasaun kafe iha nasaun RDTL. Resultado iha peskiza ne'e hatudu katak iha rasaun balun neebe maka komum ba produtor sira neebe mai hosi kultural local no tradisaun moris. Parte seluk hatudu mos falta koordenasaun servisu diak hosi parte agrikultor, kompanha no governo. Rasaun seluk tamba kafe barak maka la produtivu no tuan, ladu'un iha control no manutensaun diak, mudansa klimatika no pestisida kafe neebe afeita ba kafe nia kualidade aat. Mesmu nune'e maibe demanda kafe Timor iha merkadu kontinua sa'e. Ida ne'e maka hanesan rasaun forti no relevante ba teze ida ne'e hodi buka no defini problema neebe prejudika ba redusaun produsaun kafe ba eksportasaun. Enfelismente theoria relevante sai sasukat hodi responde perguntas iha peskiza. Implikasi ba agrikultor, kompanha no governo hanesan ami nia kontribuisaun, sujere para bele hadi'a no hasa'e agronomia kafe iha RDTL.*

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Bodø-Norway 18<sup>th</sup>, May, 2015

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## **Abbreviations**

AIE	= Foreign Investment Agency
BAS	= Business Activity Survey
BCTL	= Central Bank of Timor-Leste
BNCTL	= National Bank of Commerce of Timor-Leste
CCT	= Cooperative Café Timor
DNPIAK	= National Directorate of Plantation Industry Agronomy and Coffee
DNTT	= National Directorate of Land and Transportation
DNSTL	= National Directorate of Statistic of Timor-Leste
DNPME	= National Directorate of Macro-Economy and Policy
ETADEP	= East Timor Administration of Development Program
FAO	= Food Agriculture Organization
FM	= Mahein Foundation
GDP	= Gross Domestic Product
ICO	= International Coffee Organic
IOB-ET	= Institute of Business of East Timor
NCBA	= National Cooperative of Business Association of America
DRTL	= Democratic Republic of Timor-Leste
UNAMET	= United Nation Administration Mission of East Timor
UNTAET	=United Nation Transition Administration of East Timor
UNTL	= National University of Timor-Leste

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# CHAPTER I

## INTRODUCTION

### 1.1 Background of Study

Democratic Republic of Timor-Leste is one of the newest developing countries in the world, which got independence on the 20<sup>th</sup> May, 2002. DRTL has a big potential in exporting natural resources such as oil and gas and in agriculture industry: coffee, cacao, coconut and others. Further economic development of the country depends on these sources. Today, it is economically dependent on oil and gas revenues, though the majority of the population is involved in agriculture sector (Weinthal and Luong, 2006).

There are various types of agriculture products that are produced by farmers in this country. Among them rice, corn, yams, cassava, coffee, nuts and more. However, the production volume remains small, covers only the household needs, and cannot be exported. Coffee is important to the economy of Timor-Leste. For the future sustainable development, government should continue to invest in agriculture sector, otherwise the results can be very unfortunate (Ahluwalia et al., 1979). Economically the development of RDTL may be difficult if the only source for development will come from petroleum revenues, which is not sustainable in the long term.

In the last decades, many researchers argued that nearly 75% of the economy in developing countries can be encouraged by the agriculture production like coffee farms (ICARD, 2002). In some developing countries, coffee is the powerful source for their economic development. Among them are Brazil, Rwanda, Uganda, also Southeast Asia countries such as Indonesia and Vietnam (Tesfom and Lutz, 2006). These countries produce coffee in large quantities and trade in international markets, increasing their foreign exchange and involvement in international markets. While for producing countries coffee constitutes an economic importance, it makes a considerable social importance in the consuming countries (Chapagain and Hoekstra, 2007).

In Democratic Republic of Timor-Leste, coffee is the largest product for export in the agriculture sector and overall after oil-related products (Old and Cristóvão, 2003). Timorese coffee is 100 percent organic and has a great market value. It has been shipped abroad since RDTL was colonized by Portuguese (Amaral, 2003). Furthermore, coffee production is very important for the household's economy of local farmers. Overall, the country bears high

hopes to increase the production and continue the international trade with high quality product and service.

The current economics of Timor-Leste is increasing slowly, mainly due to the activities of national and international companies, which made a contribution in developing of business activities in various ways. For example; Cooperative Café Timor (CCT) with National Cooperative of Business Association of America (NCBA) were focusing on the coffee production. Moreover, CCT have increased the awareness of international buyers about Timorese coffee. Coffee industry has got some international help through various programs of following organizations: United Nations (UN) mission such as the World Bank, Food and Agriculture Organization (FAO), the International Monetary Fund (IMF). Their help addressed the need to rebuild the economy of RDTL and today more national and international companies consider investing in this sector of economy. .

International trade is very important for country's development due to foreign trade can provide and increase the country's foreign exchange (Leonidou, 2004). Thus, many local and international companies have been enthusiastic in investing in the coffee industry. They competed with each other to provide the best service for farmers to be able to obtain large amounts of coffee. In addition, they collaborate with international companies which aim to export coffee, become competitive in overseas markets. In agricultural sector of RDTL, coffee is the largest source of export (Amaral, 2003). It has traditionally been profitable, providing households with income (Akshoy and Beghin, 2004).

## **1.2 Timor-Leste in International Marketing Strategy**

The marketing strategy in all countries depends on how the companies develop and expand their business activities and differs from firm to firm due to different previous experiences from entering various markets (Kirsch, Laird, and Evans, 2000; Hollensen, 2014). RDTL exports coffee to different countries in America, Europe and Asia. It is not easy to get the market share and exporting companies experience challenges. Each company utilizes their own strategy which aims to overcome these barriers.

Export is the process of legal transportation goods and commodities to a foreign country. Generally the process of international trade is supported by government rules and regulations for trade (Kotler, 2011). The existence of export activities proves that countries need to engage in international trade in order to meet their needs and desires. During this process the

involved parts need to accept the mutual differences in culture, natural resources, climate, geography, human resources and labour skills and level of socio-economic structure of both developing and developed countries (Hollensen; 2014).

International market is dependent on the progress, information and technologies that help to transfer the product to the customer. CCT Company is required to think critically and implement strategies and good management practices to compete with both national and international levels. The economic development of the DRTL is dependent on government and business activities and overcoming the current challenges.

Simultaneously, many local companies in RDTL have been exploring overseas market actively and started to export coffee as well. With improved quality and services they promote their product. ICO certification has become a standard to set the coffee prices and increase the competitiveness of the product. Increasing international requirements make the local companies to decide how to maintain the export quality and prices and develop within this sector, search for more overseas markets for the future benefits.

### **1.3 Problem Statement**

Coffee from DRTL is an export product today and plays an important role in the nation's economy. However there are barriers that affect the export process and expectations. Among them product quality considerations, decreasing supply and increasing demand, lack of price negotiations and product branding. Hollensen, (2014); Brodrechtova, (2008); Kotler and Keller, (2006) argue that international trade is very competitive nowadays and is difficult to come in. Therefore, based on the introduction, the following research question is addressed: What are the conditions for exporting coffee from Timor-Leste?

## **CHAPTER II**

### **THEORETICAL FRAMEWORK**

In chapter two will present the theoretical framework which conduct to establishing theories base on the problem research. These theories will direct to empirical findings and analysis part. Further, some issues for the international marketing, marketing strategy, barriers and export strategy will more expressed professionally.

#### **2.1 Marketing Strategy**

Marketing strategy is the planning of the company's manager, how to deliver and distribute goods with quality and service (Buckley and Casson, 1998). In terms of export, the company can accomplish it directly or indirectly (Hollensen, 2014). There are a plenty of empirical researchers indicate that in a foreign market a manager's decision as an ad hoc, and rational reasons to not ignore those decisions has been made(Easterby, Thorpe and Jackson, 2008).

On the other hand, Best, (2014) defines marketing as a process of exchanging relationships between producers and consumers. It means that a value of product for consumer would change if the product is provided through agreements with producer. In addition, marketing is the execution of a series of business and advertising activities applied directly to consumers in the form of products or commodities through national or international trade.

Furthermore, the purpose of the marketing has been prominent in each firm to have a great economic profit for the companies. Marketing is affected by the sensitiveness of manager. Whilst, it has due to manager expand of a market, even though it's manager sensitiveness as the factor that affected on marketing. Then as the manager responsible keeps all that to responds the element of marketing strategy (Fizebakhsh, 2002). On the other hand, marketing is a producer of which companies react to what situation had been in the competitive market by react through market force by the environment and internal forces to companies achieve their goals (Lee and Griffith, 2004; Slater, Hult, and Olson, 2010).

However, in traditional marketing strategy is the manager plan to push the company objective, to manage how the company is going to gain the marketing goals within a specification of market segmentation (Kotler 2010, Leonidou et al., 2002, Theodosiou and Leonidou, 2003; Walker, 2011). In addition, Brodrechtova (2008) argues that, marketing strategy is a roadmap of how a firm able to assigns its resource that relates to its environment



to achieve a corporate objective in order to generate economic value and keep an industry ahead of its competitors.

The marketing strategies have a major impact on the efficiency of the cost structure of an enterprise. Therefore, in the international business has applied to various dimensions to indicate to which marketing strategy such as export marketing strategy, export strategy which mostly known by marketing mix strategy Adis (2010), Mavrogiannis et al; (2008). In generally Kotler (2004), Leonidou et.al. (2002) and Lages and Montgomery, (2004) the concept of marketing strategy extensively embraces by elements of marketing mix which consist of price, product, promotion, and distribution.

### **2.1.1 Market Entry Strategy**

Market entry strategy by some companies most focused on the characteristic of the company how to enter into an international market. Barney, (1991); Anand and Delios, (2002) in addition, particularly more focused on capabilities of the company, in terms of capability of management, quality control, risk averse and decision-making. While, Buckley and Casson, (1998); Hill Hwang and Kim, (1990) argued the capabilities and its need to minimize transaction cost are related to company's activities. Resources and capabilities are certainly important, therefore, Tsui, (2004); Peng, Wang and Jiang, (2008); Meyer, (2007) suggested that when the companies strategies are moderated through of the characteristics of the particular context in which manager of company operates.

Furthermore, in literature review Meyer, Estrin, Bhaumik, and Mike, (2009) management strategy to determine which market should be entry has divided into two parts are; firstly, directly influence by such entry strategy itself. Secondly, that this is effect is moderated by the entrant's need for the different types of the local resources. In their argumentation more correlated characteristics of the market forgiven transaction in particular for foreign entry into a new foreign market.

As a firm to be internationally should be research which market would be enter because there is might different ways to deal with the countries, therefore many international marketing decisions are concerned with priorities and allocation of the countries. The prime function of the global market is to make and sell what international buyers want rather than simply selling whatever can be most easily made.

On the other hand, international market has advantage which possible to realized strategies are determined such as product of company widely known by international customers, risk taking it depends on market circumstances, flexibility communication between managers and customers, economics of scale, Economics of scope and information sources (Hollelsen, 2014).

In addition Kotler and Keller, (2006), determined any an advantage and disadvantage of global marketing strategy such as:

(1). Advantage; Economics of scale in production and distribution, power and scope, consistency in brand image, lower marketing costs, ability to leverage good ideas quickly and uniformity of marketing practices.

(2). Disadvantage are including differences in customer response to marketing mix elements, differences in the legal environment, difference in consumer needs and wants, differences in administration procedures, differences in government law and rules and differences in brand and product development and the competitive environment.

According to those theories, most export countries of goods and services wish to have an absolute advantage and vice versa by importer countries of goods and services also has an absolute advantage. At the real international business most the developed and developing countries don't need to think what importantly absolute advantage is because it may just a theory then it come comparative advantage ever.

### **2.1.2 Internal Barriers**

Leonidou (1995); Ortega (2003) two man who believe that differences in the export barriers of different industries and different commodities are not insignificant. Many barriers to export have been identified by many researchers, export barriers influenced by several factors: firm size, resources, and capability, international experiences and export involvement. Hollensen (2014) claim that firm size is an indicator of the firm's resource availability.

Organization size is a key determinant of the propensity to export. The larger the firm, the greater the size advantage over the smaller firms; and this will usually have a positive impact on the export activity. Further Kaynak and Kuan (1993) is firm size and export volume increase there is a change export marketing attitude gradually. Furthermore Zou and Stan

(1998) human resources, functional capabilities, technology and financial resources. And some internal barriers associated with insufficient organizational to export. Jain (1989) argued that technology intensiveness and intensity of price competition in the industry are important determinant of the marketing strategy.

### **2.1.3 External Barriers**

The major of export problem of a firm is competition in foreign market, lack of knowledge of exporting, inadequate understanding to export payment procedures, and difficulties in locating foreign market (Alexandrides 1971). Therefore, Yaprak (1985) slow payment system in exporting is most affected to life cycle of the firm. It is because of lack of export procedure information in developing firm (Haidari 1999).

On other studies, Julian, and Ahmed, (2005) export barriers also included; poor technology, high banking charges, High transportation cost, difficult to collecting in foreign customers, these issues had the major affected in business. It is commercial risks by exchange rate fluctuations, failure of export customers to pay due to contract disputes, refusal to accept product or fraud, delays and damage in the export shipment and distribution process, bankruptcy, difficulties in obtaining export financing. Hollensen (2007). In addition, market distance, different languages, different culture, distribution information in foreign market, competition and product branding is also barriers of export marketing (Suarez-Ortega, 2003). There are many firms only have trade to a few countries relatively close to the home market and the entry cost to markets with great physic distance, is simply too high for entry.

The company has to increase the price of the product in order to absorb the extra cost associated with transportation, which can make the product less attractive in the foreign market. Furthermore Naidu *et al.* (1997) firms as exporters often suffer because of the inadequacy or lack of government export promotion policies. This includes lack of gathering and provision of information on available export opportunities and ineffective promotion of the country's exports overseas.

Reported that in a survey in Lebanon, Ahmed *et al.*; (2004) they found that in Lebanon manufacturing lack of government assistance in overcoming export barriers, competition from firms in foreign market, the need to modify pricing and promotion policies, high foreign tariffs in export market, and lack of capital to finance expansion into foreign markets. The government take or play important role in success of the companies of the country.

Altintas, et al (2007) and Rundh (2007) they find that the external barriers that firm facing in the export or foreign market are instability of international market. They emphasized or related to powerful competitors in target market, because some firms have lack of understanding of economic, political, legal, and socio cultural environment in foreign country. Based on Keegan (1984) foreign government policy has become most important barriers and also the foreign government will establish some policy such as quota, tariff, monetary barriers and non-tariff barriers with intension to develop and protection domestic industry. Further Eren et al. (2010); Yalcin, (2009); William, (2009) they emphasized that factors are powerful in affecting firm to export are foreign government related to their policy and the condition of supply and demand.

In addition, Choi (1992) classifies barriers of export into two (2) categories: first, Pre-shipment barriers (product design, product quality, shipping and delivery). Secondly, Post-shipment barriers (wholesaling, retailing, after sales service and brand name promotion).

Based on Okpara, Nicholas and Koumbiadis (2009) in their study in Nigeria, they found some barriers that affected firm to export in developing countries. These barriers are poor infrastructure, cultural barriers and the interesting thing is corruption. There are some barriers those categories by Arteaga, Ortiz and Fernandez-Ortiz (2010) as exogenous barriers. This barriers is unpredictable and very difficult to control, this barriers occur rapidly. This barriers include government involvement export activities in terms of regulation is very high and difficulties of the firms, inadequate export assistance (tax) and customs regulation. More over new agreements, are addressing non-tariff issues (services, investment measures, competition policy, intellectual property rights, government procurement, standards, customs procedures, and trade facilitation) (Mattson and Taylor 2004).

Yang, Leona and Alden (1992) divided these external export barriers into eight categories such as:

1. Inadequate market information provided by government
2. Presence of profitable domestic market
3. Competition in international markets
4. Lack of knowledge of available government incentives
5. Foreign Government Policy
6. Bureaucracy
7. Inadequate demand in international markets

8. Access to distribution channels.

## **2.2 The Marketing Mix Strategy**

The goal of marketing mix is to ensure the right product for the right consumers in the right place and at the right price (Best, 2014; Kotler and Keller, 2006). A marketing mix strategy is built to achieve the companies' goals as desired which involves four basic component of strategy that often called 4p's strategy. For clearly, each component we described as bellow;

### **2.2.1 Pricing Strategy**

Recently, in the international market has increased pricing strategy, significantly in research practice (Lages and Montgomery, 2005). However price is the another side of the marketing strategy otherwise many companies follow the porter's business strategy especial in export market and compare to their competitors but then Lee and Griffith, (2004), and Aulakh, Rotate, and Teegen, (2000) argue that, at this moment competitive market, the firms more focusing on the how to decrease the cost and no more can as a cause of company's success in export to driven economies.

Pricing strategy is a way to determine the price level on the basis of the internal condition of the company and the actual market situation. Therefore, sales can be managed; so the company can achieve a profit as expected. Price is one of the critical success factors in sales abroad or exports trading business. Factors that affect strategies for determining prices of export goods is; Production costs and market prices, market trends, payment systems, product quality, packaging, market segment dominance, capital, program or competition planning, exchange rate, monetary and political issues (Hollensen, 2014). Moreover, Best, (2014) argue that the product price is should be based on the customer needs and value, rather than the product cost. Means that the customer do not matter the price of the product since it gives greater satisfaction and good quality of product provided to a long term used.

On the other hand, Eusebio et al. (2007) the price is mostly not dominant strategy for the company's in the market, therefore, Lee and Griffith, (2004) pricing method depended on the pricing strategy that whereby the company set the export prices according with the demand of consumer and competitor condition. The pricing method has a positive relation to what the sales proportion and profit level. Moreover, pricing strategy concentrated to penetrate the market by given low price to obtain a large number market.

To determine the price of products in export activities is dependent on the quality of the product and the distance travelled. The determination of the international market price can be influenced anyway by politics and Government policy in the area where the market is located. Thus, there are three methods of approach to determine the export price (Hollensen, 2014) as first, the Vending market price (cost plus market up). This method shows that if the export sales price setting is based on the total cost (Total cost) cost of goods sold in plus interest. Second, the method of current market price is viewed in contrast to the cost plus mark-up that when fixing the export prices should be adjusted to a sale price in the international market at the time or the price specified by the buyer. Income will be from excess sell price and the total cost of production. Third, the method then subsidized price based on the total costs such as cost plus mark-up and reduce certain cost components. The goal, reducing the cost of production is to strengthen the competitiveness of the international market. Lastly, dumping selling the product price is set lower than the domestic price for the same product or commodity. It is possible to do when a monopoly, so the domestic price may be higher than international market prices.

### **2.2.2 Promotion Strategy**

The promotion objective is to introduce product and services to influence the customers to buy the products and services are provided. In this sense, an effectiveness of the promotion requires to understanding the process of business activities and how this process is a work affected by environmental factors (Kotler, 2011; Hollensen, 2014). There are various sales promotion can implement, depends on the marketer what kind of promotion tools they want to use. Indirectly promotion also can occur for example through the consumer after having the products, intermediaries used, an industry, advertising, sales promotions, publicity, social media and some companies used sponsorship as promotion tools to promoting their products.

Promotion is one of marketing mix strategy. Promotion could be increasing the volume of sales and profit; however promotion is relatively effective for the campaign to rivals, (Thirkell and Dau, 1998). In the export market is more importance of advertising with greatest commitment into a market target, (Lee and Griffith, 2004). While investigate of marketing strategy in export is also important when used the branch in promotion strategy (Eusebio et.al., 2007). Therefore, promotion strategy related to advertising, sale promotion, individual selling, trade fairs, individual visit and promotion adaptation. (Leonidou et.al., 2002).

Furthermore, Moghaddam and Foroughi, (2012) promotion is including to attending a trade fair, practicing of direct marketing, hiring experience and educated sale of staff enhance of the market. Advertising and promotion are would increase the cost. Promotion is the how the company to communicate to introduce the product directly and indirectly to the market. Therefore, Hollensen, (2014) important of communication to global marketing will influence the customer to reach the product. Through the communication directly the customer can test how the product taste is.

In addition, promotion is a strategy of the people and it is essential to delivering the value proposition and in communicating with potential market or customer. It could be by many ways to promote the product, for example, could be ad copy and media social are selected for advertising communication will affect the market or customers (Best, 2014; Koed, 1989). Buyer or customers communication are crafted around the positioning strategy and it is aligned too geographically and the people lifestyle. In marketing, communication is a range of traditional advertising campaigns to integrate to each another (Kotler, 2010). It is aimed to how to remains last longer and resonate in the hearts and minds of the customer as targeted.

### **2.2.3 Product Strategy**

A product dimension is an important part of the marketing strategy (Leonidou et.al., 2002). The product dimensions including product design, brand, quality of product and product differentiation was determinants (Lages et. al., 2004).

Understanding the product is somethings are produce to meet the customers to achieve the organization goals. Other than that the product is most important element of the company because it can apply to meet what customer requires or the buyers who have a relationship with the selected market target (Eusebio et.al., 2007).

To international competition product should be have a value of sale (Hollensen, 2014). To produce good quality of product should take the stage process such input and output processes. Production of product may more or less than expected. The product would be export to several countries and there has to be an advantage of export.

Thus the export product strategy namely how to determine the type, specification, size of the product and how to packing the product in the right way that will bring into the international market. The right to determining of the product strategy can be done with several stages such

as Hollensen, (2014), (1), market research to determine the situation and characteristics of the market to know what the specification demand by the consumer, how was the purchasing level/power, the consumers behaviour, market opportunities, economics of scale, the competition situation, market trends and so on. (2), learn and to understanding well how far the ability of internal company react to the product has wants by the customer. (3), should design the product specific as required by the customers based on the ability of Export Company.

Product is the main source of communication among the businessman, product should design in such a way, performance of the product and features are built around the customer needs, as they wants to use as their behaviour and it would be desired user experience. It is including branding the product provides and additional opportunity to communicate it positioning (Best, 2014).

#### **2.2.4 Channels of Distributions Strategy**

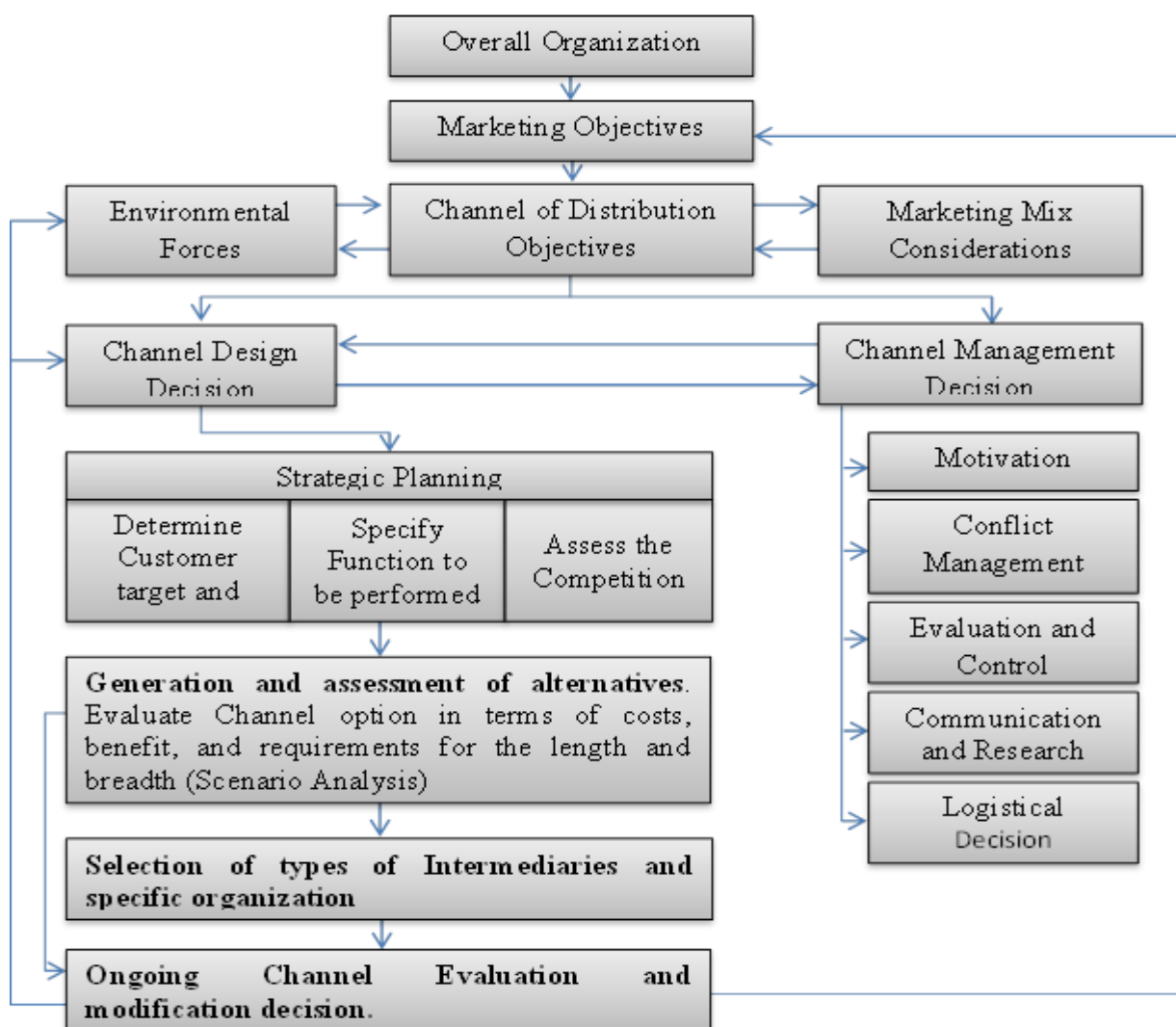
Distributions channels have been recognized by many managers of the firms and it take long time in practice to measure the manager's performance. It is the importance of managing relationship between the people and the firms to perform the distribution channels and create value for making products and services available to customers in an appropriate form at the right place and time. However, it seems growing the interest in relationship marketing in nature as of general marketplace. Therefore, place is the most importance in marketing mix Best, (2014), place in order to marketing exchange to occur as well as the product and services must be available in market or customers however it will direct or indirect such through an internet or dealer as well as retailer. It is based on the customer preference which could be created to an exchange history and plans for the future interactions (Weitz and Jap, 1995).

As mention by Macneil, (1980) indicates that in the international markets the pure transactions are rare in business exchanges. Almost firms' management need channel transactions that have relational element to be used to coordinate the channel activities between businessmen. The relationship marketing is not the new concept for those businessmen in the practice. Otherwise it is too connected to approaches of stimulating cooperative efforts between independent channels members.



On the other hand, Bagozzi, (1986) said that a channels of distribution is the strategy of a manager to set of people and organizations concerned with the flow of product directly or indirectly from producer to the consumers. Otherwise the producers will sell their products to the consumer through some own salespeople, industry representatives, or any other agent outside the country as an intermediary between producers and the consumers. Means that an industry could be establish a warehouse and retail to cooperating with an independent distributors and retailers. This depends on the company manager decisions and options to be better in future management.

Figure 2.1 Overview of the Channels of distribution management process.



Overview of the channels of Distribution Management process, (Bagozzi, 1986. p.581).

According to upon Hauser and Griffin, (2006) suggest that an organization to determine which distribution channel is suit to the company's market operation must be seen as an

important issues. Figure 2.1 shows that channel of distribution is depend on the how decision is make and need to evaluate after every decision is made for achieving organization goals.

Furthermore, distribution channel is also place utility, which is closed to the gap between the firms or an industry and the customers by making a good and services available anywhere when they needed under appropriate terms of trade. Therefore, there are many function of the channel of distribution provided as the benefit of the producer and the consumer. There have two intermediaries, such retailers, and wholesalers. Thus, retailers, is an organization may selling goods and services to final consumers, however, a wholesaler is selling goods and services to the consumer through retailers or used another organization as their intermediate.

On the other hand, channel of distribution is related to sale process; and it is the challenges for the international marketing managers to find the optimal decision to match the company's competitive strength and weaknesses with the requirement of each local market it serves. Commonly, most international companies choose a short channel to distribution the product and services with flexible distribution strategy. Thus, automatically will reducing the cost and effective time delivering (Hauser and Griffin, 2006).

Furthermore, channel designed should be close attention the length of distribution and width of market distance and employment, because it might be factors impacting the channel design such as customer, competitors, company objectives, and management control, culture, and continuity communication in business relationship. Czinkota et.al., (2004) mention that in channel design based on the what the customer need, why they need it, when should receive and how they reach the product, while competitors focus to effectiveness and efficiently of the market structure has exist and companies objective is about management strategy to achieve the company goals. Moreover, company's capability in terms of character, capital, costs, coverage market occupancy and the quality of products presented. In Management control, intermediary may influence some decision to control the marketing of the company's products.

#### **2.2.4.1 Export Modes**

In spite of the theories suggests that foreign entry and expansion behaviour may be the product of complex interactions between company and decision maker variables. The managers attempt to export expansion behaviour as an individual character of experience as the determinants which typify the exporting company.

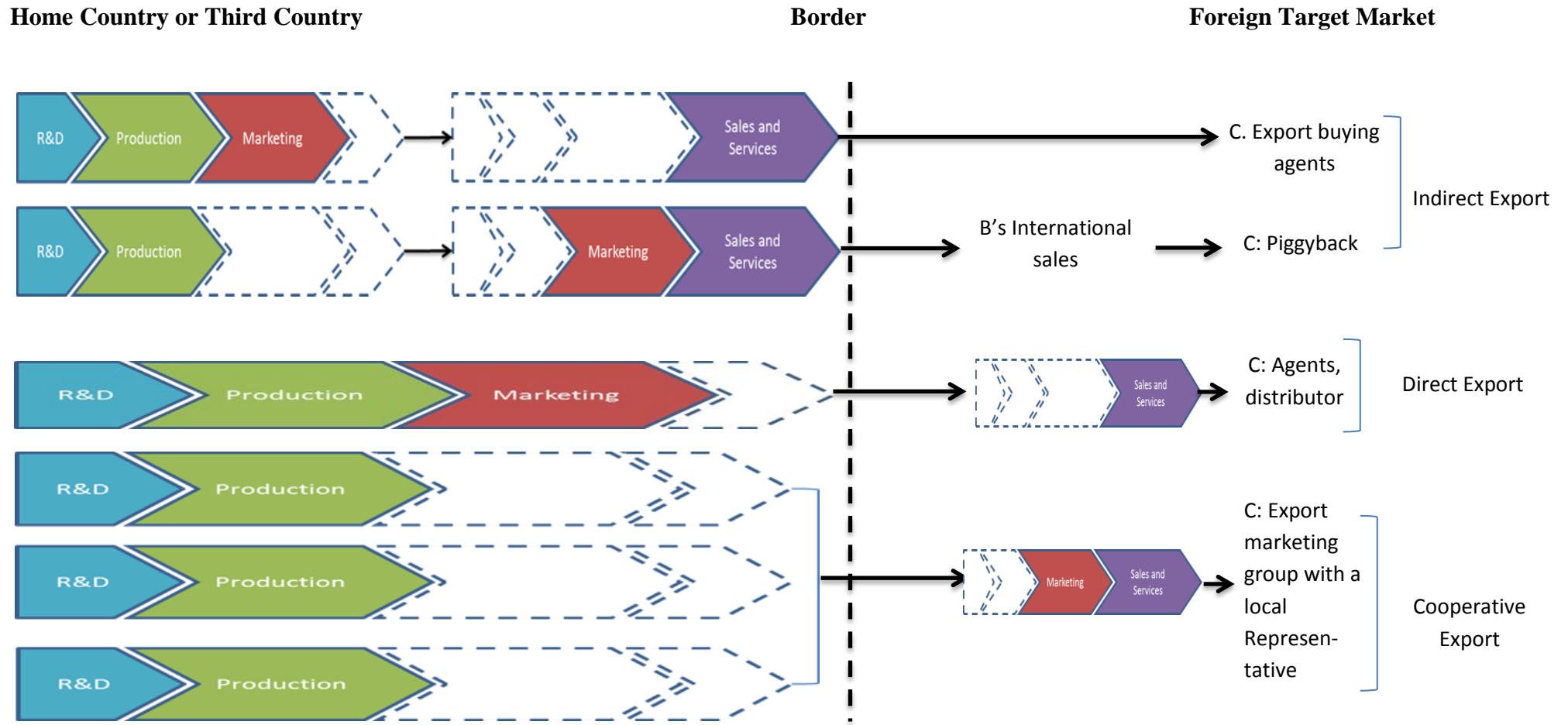
Through export entry modes, a home country product could be transfer to host country either directly and indirectly. Therefore, Hollensen, (2014) establishing export channels of its company has decided what function and responsibility to external agents and how to handle control of the home domestic company. As figure 2.1 shows there are many export modes that an exporting company can chose such as;

- (a) Indirect export, means the company does not take care of exporting activities, instead another domestic company or export house would be performs in this export activities often without any involvement of the foreign sales of its product.
- (b) Direct export is mean the producing company always takes care of exporting activities and directly contact with intermediary company in the foreign market. For example involved in handling documentation, physically delivery and pricing policies with the product being it have been sold to agents and distributors.
- (c) A Cooperative export mode which is involved collaborations agreement with some both domestics and host company with order (exporting marketing groups) concerning the performance of exporting function.

In recent years, active and advanced exporters have more control on distribution activities as well as the time of delivery the product and distribution channel (Eusebio et.al, 2007). Today, delivery is most important on time and the companies should be better with distribution method are required to successful in an international market. However in environmental competition seems market is the same in services, thus the place strategy is good for a differentiation (Lee and Griffith, 2004). Distribution channels was the imagined as the degree to which company instead direct or indirect channel for sale its company product.

Furthermore, Lages; (2004), Leonidou et.al, (2002) and Ogunmokun, (2004) reveals that distribution channel had positive relationship affect to market strategy which more impressive factors on marketing mix strategy such on-time delivery, sufficient seaport, having safety stock in export market, transportation cost in seaport, seaway and road for delivery of product were effective factors for export activities.

Figure 2.2; Export modes (Hollensen, 2014)



From the figure 2.2 above show that, there are three export modes which could help the manager of the company to make a decision based on what strategy has been done and entry in an international market. Therefore Hollensen, (2014) purpose some advantage and disadvantage of the three differences export modes:

Table 2.1 Advantage and disadvantage of the different export modes for the firms

<b>Export Modes</b>	<b>Advantage</b>	<b>Disadvantage</b>
Indirect exporting (e.g. export agent, broker or buying agent, management company)	Limited commitment and investment required. High degree of market diversification is possible as the firm utilizes the internationalization of an experienced exporter. Minimal risk (market and political). No export experience required.	No control over marketing mix elements other than the product. An additional domestic member in the distribution chain may add costs, leaving smaller profit to the producer. Lack of contact with the market (no market knowledge acquired). Limited product experience (based on commercial selling).
Direct exporting (e.g. distributor or agent)	Access to local market experience and contacts with potential customers. Shorter distribution chain (compared with indirect exporting). Market knowledge acquired. More control over marketing mix (especially with agents). Local selling support and services available.	Little control over market price because of tariffs and lack of distribution control (especially with the distributors). Some investment in sales organization required (contact from home base with distributors or agents). Culture differences, providing communication problems and information filtering (transaction costs occur). Possible trade restrictions.
Exporting marketing groups	Shared costs and risks of internationalization. Provide a complete product line or system sales to the customer.	Risk of unbalanced relationships (different objectives). Participating firms are reluctant to give up their complete independence.

Source: Table 10,2 Global Marketing, Hollensen, 2014, page 362

In marketing strategy, export is a way how the exporter offering the product and services to import as requested and the importer will provide to the customer as what they need and they want. Even though, exporting hasn't always easy but there are a variety of barriers are affecting such as both internal and external during the export activity is running.

### **2.2.5 Summary of Theories**

Marketing strategy is the planning of a manager how to deliver goods and service both directly and indirectly to reach the customers well. In a marketing process there has a relationship between the producer and the customers that have economics value; however, it could match in the international trade throughout. On the other hand, the managers expand of a market largely and it is the responsibility of the manager to keep the factors that may affected by the elements of marketing mix strategy. There also have competitiveness advantage in terms of market force by internal environment force to achieve the company's goals. Furthermore, marketing strategy is the major impact of the cost, therefore the management has to apply to a dimension of export market strategy which well known by marketing mix strategy.

In marketing export strategy, mostly in developing firms have two barriers that affected to their activities such as internal barriers and external barriers. Internal barriers including, firms size, management decision, quality of product, market knowledge, information and technology are used, design and branding of product, and human resources and other resources are support the firm. Otherwise, external barriers has defined by many scholars including, market distance,, differences culture, languages, government politic, infrastructure, foreign market structure, and so on.

Price is an important marketing strategy. Marketing strategy in the international market is very competitive; many companies are more focused on how to reduce costs in order to provide economic value to the company in the business, such as export and import. In addition, pricing strategy should be based on market conditions and the company, where the company can achieve exactly what was planned.

Price is also one of the factors of company successful. So the factors of pricing are a quality of production, size, shape, design and so forth. Pricing is valuable if the customer is satisfied with goods provided. Further pricing also determined as well as by distance how long is shipping as well plus the administrative costs and other direct costs. In addition, price method

at marketing mix strategy, competitive advantage dependent on the company's strategy, the exchange rate in a host country, monetary and government political issue. Therefore, pricing strategy based on the total costs, market price currently, and price subsidiary, set a price at the international market should lower than domestic prices. It is possible when it is a monopoly.

One most important element of the marketing mix is the product. Understanding that the product is something are produced to meet customers with specification design, type of the product, quality, branding and labelling, by stage of input, process and output to meet as well as customer satisfaction. Nowadays, international trade is competitiveness therefore; companies mostly use the product to communication such to design, size of product as what the customer wanted. Product is could match the customers experience after having and it is also as a business feature onward.

The objective of the promotion is to introduce product and services to influence the customers to buy the products and services are provided. Promotion could be directly and in directly deliver good and service to the customers. With promotion will increase volume of sales through communication among the producer (seller), buyer and goods itself. Promotion also does by individual or group and advertising it through media such TV, newspaper, and internet, blogs and so on.

However, there four element of marketing mix and the place is an important one because place in order to marketing exchange to occur as well as the product and services must be available in market or customers however it will direct or indirect such through an internet or dealer as well as retailer. Product placement is the purposeful incorporation of commercial content into non-commercial settings, such as, a product plugs which generally via the fusion of advertising and entertainment. Therefore, a management of the company have to choose how and which to placing a product to get the customer easily and make them keep longer in heart and their mind of the product. To placing the product in the right place the manager of company determines how the company will compete in these target markets, otherwise marketing managers may have to choose between markets or market segments. In addition the manager has clever to advertising media selection referring to the prediction of the media to be used is another decision area within the marketing function. Moreover, marketing mix as well as placing strategy is forecasting practice, by which marketing management attempts

to predict the best available options for a given mix or estimates that a specific set of assumptions will hold for a set of alternative mixes. It is all to achieve the company goals.



## **CHAPTER III**

### **METHODOLOGY**

In this part, we present the research design, how theoretical framework relates to our research question, level of analysis, methods that we have chosen for data collection and further analysis.

#### **3.1 Research Design**

Easterby-Smith et.al (2012) argues that the main purpose of research design is to avoid collecting irrelevant data, not addressing the research question and ensuring that the used theory answers the research question.

There are two philosophy debates among social scientists: positivist and social constructionism. Two epistemologies represent different approaches. Positivism relates to quantitative methods, and social constructivism relates to qualitative methods.

Positivism argues that social world exists externally and our knowledge of it should come from objective methods (not intuition, reflection, etc.) and not from our senses, in other words, based on observed facts.

Social constructivism argues that reality is not objective and external; rather reality is socially constructed and given meaning by people. People agree upon the reality,. Social constructivists are interested in what people are thinking and feeling, takes into consideration how people communicate with each other and make sense of the world. Our research is based on social constructivism, because we asked about respondents' opinions, feelings and thinking, which cannot be measured in numbers.

#### **3.2 Data Collection**

There are several types of collecting data: quantitative, qualitative and mixture of both. We have utilized the qualitative approach. The reason for that is to provide a holistic view of the problem stated. According to Creswell (2003) the approach where researchers acquirement produces new knowledge is usually based on constructivist perspectives (i.e., the multiple meanings of individual experiences, meanings are socially and historically constructed. with an intent of developing a theory or pattern) or advocacy/participatory perspectives (i.e., political, issue-oriented, collaborative. or change oriented) or a combination of them.

Qualitative approach has 3 tools with which a researcher can collect the data, these are called modalities.

1. Modalities through the language (e.g., interviews)
2. Modalities observation (e.g., ethnography), and
3. Modalities interaction (e.g., action research) (Easterby-Smith et al., 2012).

In our research, we were using the modalities through the language, more precisely interviews. There are two types or forms for interview: individual and group interviews. Individual face to face interviews can be run in people's homes, offices, in the street and other places on condition that the interviewee agrees to provide the interviewer with information.

Group interviews are usually more settled. Six to ten people are invited to a certain place and the interview can last for some time, ran by a trained moderator that is preparing questions beforehand (about product, organization or service). In this condition moderator needs objectivity, knowledge of the subject and understanding of group behaviour (Hollensen, 2014).

In this paper we used individual interviews (face-to-face). This approach aims to gain insight into social and organizational realities, by discovering the views, experiences, perceptions, and opinion of individual (CEO).

Interviews have given us the source of primary data; however, secondary data can supplement, and give more insights as well. Primary data is a new data collected by the researchers themselves. Secondary data is already existing data sources such as publications and electronic media (Easterby-Smith et al., 2012).

To collect the primary we interviewed CEO of the firm on one side, and interviewed people from government side who work within export, import and coffee sector (Ministry of Agriculture). We wanted to get an insight in their experiences, opinions, perceptions based on our research topic. There are three types of interviews: highly structured, semi-structured, unstructured (Easterby-smith et.al.2012). In our research we used semi-structured. These types' of interviews are more open, than highly structured and give a higher value and confidence for the research as the replies of the interviewees tend to be more personal in nature. The interview guide is enclosed in appendix 1. During our interviews some other

aspects have appeared and having the opportunity to speak the interviewees have provided us with rich data.

Secondary data that we collected mainly represents the documentation from companies, news, articles, and reports related to our paper. This task was hard to accomplish as there is a lack of information on DRTL coffee sector.

We have interviewed seven (7) respondents from both private and public sector. Please refer to table 3.1.

Table 3.1 List over the Informants.

Informant	Company
1 & 2.	CCT (Manager and Deputy Manager )
3.	Timor Global (Manager)
4.	Peace Winds Japan (Manager of Quality Control and Export)
5.	Always Café ( Manager)
Informant	Government
6.	Ministry of Commerce : Chief Department of Export and Import
7.	Ministry of Agriculture: Director of NDPIAC (National Directorate of Plantation Industry Agronomy and Coffee)

The choices have fallen on these people due to their competence and knowledge about the environment conditions (context), marketing process and export in these organizations.

According to Yin (2013) case studies can be used to explain, describe, or explore event or phenomena in every day context in which they occur. He argued that all case studies should have clear designs produced before any data is collected, all design should cover the main question or propositions, the unit of analysis, link data and propositions, and finally procedures for interpretation data. Further Crowe (2011) argues that case study findings can have implication both for the further theoretical development as well as theory testing. Our research utilizes case study research in order to get a deeper understanding of marketing strategy of the company. We try to analyse the findings from chosen theoretical perspectives. The unit of analysis is the entity that forms the basis of any sample. In this case, a unit of analysis is an organization with its marketing strategy.

### **3.3 Validity and Reliability**

Validity is the extent to which measures and research findings provide accurate representation of the reality (Easterby-Smith et al.2012). Further Golden and Locke, (1993) validity of constructionist designs has three key criteria:

1. Authenticity
2. Plausibility
3. Criticality.

Authenticity involves convincing the reader that the researcher has a deep understanding of what was taking place in the organization, plausibility requires the researcher to link into some ongoing concern/ interest among other researchers; criticality encourages reader to question their taken-for-granted assumptions, and thus offer something genuinely novel.

To ensure validity of the research we generally determine validity by asking a series of questions and transcribe all answers provided in interviews. Asking the relevant people from both private and public sectors and comparing their answers increases the validity of this work.

Good research should have a good quality and reliability. It means that this research can be translated into other research and achieve the same result and help the reader to connect it to their experiences. To ensure the quality of this research we had to translate the interview guide into a local language – Tetum. The interviews were made in Tetum. Then we hired a professional translator to transcribe the interviews to Tetum and translate it further to the English language. After that, both of us independently checked the interviews in Tetum with the text in Tetum as well as the translation. We made the necessary corrections in the texts.

### **3.4 Strengths and Limitations**

Being Timorese, we have knowledge of cultural and traditional characteristics that may influence the coffee production and export in DRTL. Having the relevant education gives us an opportunity to evaluate the answers of the interviews and compare them to the recent research in this field. Our motivation arises from the importance of the topic and the fact that no one has done a similar research before in our country.

One of the limitations that we recognize is a lack of experience and insights when it comes to performing an interview, analysing it and deriving conclusions. The secondary data has also been insufficient.

### **3.5 Summary of Methodology**

We tried to provide the meaning and the chronology of the steps that were undertaken during this research. This work is written in social constructivism paradigm. The primary qualitative data have been collected in the form of semi-structured interviews. Face to face interviews with relevant respondents have been completed and analysed. Secondary data have been utilized to enrich the understanding of the phenomena.

## **CHAPTER IV**

### **LOCAL CONTEXT**

#### **4.1 History of Timor-Leste's Coffee.**

Timor-Leste's coffee was planted by farmers since the Portuguese time, and been shipped to foreign countries. Timor-Leste has two types of coffee: Arabica and Robusta coffee. Arabica's coffee has been the leading coffee variant in Timor-Leste.

Arabica coffee has less caffeine than Robusta coffee. It has stated by international coffee organic (ICO) that this is more susceptible to diseases and weather changes and has been producing more than 60% of coffee production in the world. The highest Arabica's coffee production countries are Brazil, and Ethiopia (Lewin et.al, 2004).

While Robusta coffee is the more bitter and strong when it comes to the caffeine content according to ICO. This variety is commonly used for espresso type of coffee. It is more resistant to weather and diseases. Robusta coffee was popular in south Europe; however it today most produced in Asian countries such as Vietnam (Toan Thu Nha, 2012). Brazil has a big producer of Robusta coffee among the coffee producers in Latin America and has a high production rate every year, (Lewin et.al., 2004).

#### **4.2 Timor-Leste Coffee Production and Export**

Republic Democratic of Timor-Leste is a new developing country in the world with total areal of 14,874 km<sup>2</sup> and total population of 1,066,582 people in 2010, (NDS Report, 2011). It is economically dependent on petroleum revenues with GDP per capita growth between 8% - 12% or about US\$ 6,794.20 million in 2014 (NDPE Report, 2015). Although agriculture is the main source of economic sustainable of Timor-Leste, it contributes with more than 25% to gross domestic product (GDP) by exporting and trading internationally. Coffee represents a large sector of agriculture and mainly has a strong domestic market orientation for export. Timor-Leste adopted international trade for decades in order to improve its economic performance by exploring agriculture resources and trading it to overseas market.

Coffee production in Timor-Leste is done by organic system approach, which uses only organic fertilizers and also do not use synthetic pesticides or chemicals in pest and disease control. Farm management system of organic coffee has been developing from 1994. The

National Cooperative of Business Association of America (NCBA) in collaboration with the Centre Village Unit Cooperatives (*Puskud*) East Timor.

NCBA is a non-profit agency of the United States who obtained a grant from the American economic development, to help in the establishing of sustainable development of the organic coffee in East Timor. Timor-Leste coffee has obtained international organic certification as a prerequisite in order to be recognized by the international organic coffee market in the major consuming countries such as the United States, Canada and some European countries such as Great Britain, Germany, Portugal, Italy and also in Asia countries. On the other hand, NCBA become one of the major buyers of organic coffee to date in collaboration with cooperatives such as the Centre Village Unit Cooperatives (*Puskud*) and the Cooperative Café Timor (CCT). CCT is the transformation of (*Puskud*) in 2000. In purchasing organic coffee, CCT / NCBA only buy raw coffee by involving employees and local traders as intermediaries in the villages. Coffee is first purchased from farmers, and then processed before export. Coffee plantation and productivity in last ten years (2004-2013) has the following development (table 4.1):

Table 4.1. The coffee plantations, productions, and productivity in last 10 years. (2004–2013).

Year	Coffee Plantation (Hectares)	Production (Tons)	Productivity (Tons/ha)
<b>2004</b>	54,341	8,320	0,153
<b>2005</b>	54,025	12,800	0,237
<b>2006</b>	53,616	10,221	0,191
<b>2007</b>	52,002	14,000	0,269
<b>2008</b>	51,998	10,500	0,202
<b>2009</b>	51,989	10,122	0,195
<b>2010</b>	51,348	10,069	0,196
<b>2011</b>	50,784	1,005	0,198
<b>2012</b>	49,873	9,895	0,198
<b>2013</b>	54878	9384	0,171

Source; National Directorate of Plantation and Coffee Industry (NDPIAC) -Ministry of Agriculture of Timor-Leste.

Table above shows that productivity of coffee in Timor-Leste is still far from the expectations. The highest production achieved in the last ten years was in 2007 amounted to 14,000 tons with an average productivity of 269 kg (green beans) or half of production that a better technology can provide. Export constitutes 90 percent of the total production, while the rest of the production is traded in the country. In general, the system of coffee marketing in Timor-Leste involves multiple parties or institutions, such as various middlemen in the sub-district and district levels, cooperatives and governmental organizations in addition to farmers and large traders or exporters.

Coffee is the main source of non-oil foreign exchange and main source of income for approximately 45 000 households (families). There are several districts that grow and produce coffee such as the district of Ermera, Liquica, Ainaro, Manufahi, Aileu and Bobonaro (World Bank, 2002) and additional three districts in east part of Timor-Leste have potential for coffee production (see figure 4.1).

Figure 4.1 Timor-Leste Map. (Coffee Plantations with pillars)



Every year coffee is harvested between March and August/September. Harvest is not happening continuously but consists of three stages such as initial stage, middle stage and the final stage (Amaral, 2003). The first stage involves collection of dry and damaged beans, and



the middle is when the majority of the beans is harvested. The last stage is devoted to picking the few remaining green berries and fallen beans to break pest and disease cycles.

Coffee is the main source of export and it has been shipped to overseas market for long time. Export coffee is dry beans. After removal of berry skin, the process is then called OIB and WIB. OIB is dry processing (*Oost Indische Bereiding*) and WIB is the wet processing (*West Indische Bereiding*). However, some farmers just dry the coffee after they have picked it for 10-15 days under the sun. The main buyer and further exporter of recent development of the country has encouraged more companies to engage in this business, thus CCT is not the main buyers of coffee in Timor-Leste but there are already have several other companies that also purchasing either raw coffee and coffee that has been drayed by farmers such as East Corp., East Global, ELSAA Café, PWJ and there are many other small cooperatives.

## **CHAPTER V**

### **EMPIRICAL FINDING AND ANALYSIS**

In this chapter, we present general information of our study. We divide it into two sections. First section we present the results of interviews; and in the second section we compare empirical findings with the chosen theories.

#### **5.1 Empirical Findings**

Marketing strategy is the planning process, which includes finding the right customers for the company's product. It is the managers' responsibility to manage the firms in order to succeed in their business. They set a strategy to obtain a competitive advantage in the chosen market. Therefore we have interviewed the managers of companies that export coffee. We asked about current coffee export strategy, government strategy and support. Further, we present the obtained information in more detail;

##### **5.1.1 Government Strategy to Support SMEs**

###### **5.1.1.1 Agriculture sector in Coffee Industry**

The structure of Timor-Leste's government has been built since its independence, which found place on the 20<sup>th</sup> of May 2002. Its ministries have own agenda and responsibility for their programs to obtain a national development goal. The private sector is the main government stakeholder to push the development through taxation contribution and employment of citizens. Therefore, government promotes entrepreneurs to advertise and participate in international events such as exhibitions. In this event, all business sectors are invited to participate, and coffee is traditionally represented well in these exhibitions. In addition, the government launched a national exhibition and invites local entrepreneur as well as international entrepreneurs to exhibit their products. It is the government actions in promotion strategy. Government support for international trade is important. Here is a quote from one of the interviews with government representative;

*"We focused on the market. Identify and negotiate with a foreign market and provide help to the national entrepreneur to establish cooperation in the international trade. We also do annually exhibits both nationally and internationally and invite them to participate in these events. This is our responsibility to promote our local product, for example coffee, to*

*international market. To be qualified in the market, we facilitate an entrepreneur with training; organize workshops to build their capacity in business”.*

To be able to participate in the international market the quality of organic coffee should be high. To guarantee the quality of coffee and increase the coffee production, government provides farmers with new coffee seeds and technical assistance direct to help directly at their plantations. Besides that, government through ministry of agriculture organized a training centre in the district that has its own coffee plants for the terms of education and capacity building. A government representative informs:

*“We knew that our coffee is different from any other coffee in the world by taste and aroma. However, our coffee production is much smaller if we compare to other countries such as Brazil or Indonesia. To increase the coffee production we provide farmers with new coffee seeds to plant in their land. I think it is also done by companies”.*

Another strategy that government offers is provision of production machine as a motivation to attract the coffee farmers to increase the production. International companies such as ICO, GTZ, USAID, FAO, and OXFAM help to provide the important message to the households about the importance of coffee to the household economy. These companies are also trying to negotiate with the farmer and try to convince them to plant new coffee plantations on their lands in order to increase coffee production in future.

*“Ministry of Agriculture has a lot of strategies to increase the coffee production and quality of coffee, therefore we provide farmers with production machines to process the coffee with better quality after harvesting. We collaborate with some international organizations and build farmers capacity through workshops and training about the importance of coffee for their future life. We also provide farmer training centre facilitation. In this place the farmers able to have information from the trainers from government, companies or an international organization that have beneficiary to them. The focus lies not only in increasing the coffee production, but we also talk about other opportunities and products that are marketable”.*

Other ways to convince the farmer, the government organizes some student to implement the ministries program to expand coffee plantation and another commodity has market value in the international trade. Do seminar or workshop about the overseas markets. This is aim to improve the quality of coffee and increase the coffee production because coffee is main source of non-oil resources.

*“We organize finalist student from several university in Timor-Leste to convince the community able to plant coffee in their free land, because we still have problem with the land and property. If we do not do this way we cannot increase our coffee production”.*

#### **5.1.1.2 Development of the Infrastructure Sector**

Infrastructure is important and is essential for people in order to deliver their product from the rural area to the town as well as in the international relationships it could facilitate the businesses to deliver the product to foreign market. Therefore, a development of infrastructure is important and this is what one of the informants says::

*“In recent years, the government has rehabilitated roads that are linking to district and sub-districts in Timor-Leste. Even though the rehabilitation was not covering all roads, it is still better than nothing. What the government thinks is that rehabilitation eases the transportation of local product from remote areas to the town or city”.*

This is beneficial for the agriculture’s economy and entrepreneurs. Government can broaden their agriculture programs and reach the remote regions which in turn boost the economy.

On the other hand, the government tries to solve other problems. One of them is to build up the local market centre in every sub-district to be used by the local community. In this place, people could meet to trade with each other, as well as the coffee buyers (companies) and the coffee sellers (farmers). They can use it as the centre to meet up and negotiate their offers. The centres are planned to be free of charge and reduce the transportation time. This is still in negotiation phase. Government still negotiates with international organizations to provide help and investments in infrastructure especial in building a new port.

*“Government focuses not only on roads, but like what ministry of Commerce do, they provide market centre in each sub-district, so that the farmer can bring their product to meet the consumers. It is useful for them I think. Government has been planning to build up the port, but it is still in negotiation process, because it needs huge investments”.*

#### **5.1.2 Company’s Strategy in coffee production**

Many companies have an opportunity to do business in the coffee industry. Some of them have been founded since Indonesian occupation (1970s), and have a lot of experience in the international trade especially in export and marketing. More have been partners with some international companies and learned a lot. Today this knowledge could help to promote the

company to foreign markets. Otherwise, some companies have been recently founded, after the independence, and do not possess much experience in doing business due to lack of knowledge:

*“CCT was established in 1995. It was a cooperative of Indonesia named PUSKUD. The cooperative was destroyed in 1999, when we became independent but then it was rebuild in 2000 with a new name Cooperative Café Timor (CCT). We are partners with an American Company - NCBA, which have been in Timor-Leste since Indonesian period, from 1995. We have a lot of experience in international trade and export, and we are currently exporting coffee from Timor-Leste. CCT learned marketing from NCBA therefore we do have experience in overseas marketing”.*

On the other hand, some companies were just found after Timor-Leste independence, even though they do not have much experience but they do business in coffee industry. This is what they say about their experience in marketing:

*“Our company was founded just after Timor-Leste independence. We knew we do not have much experience but we learned from participation in workshops and training, provided by government and international organizations. We always attend every event about trade both inside the country and in foreign countries. For example, we participate in exhibition event and we learn from there”.*

In marketing strategy, most of the companies use to export directly to the country of destination, without any agent to support in their distribution management. Nevertheless, the companies still have a link to other international companies that guide them to reach the markets. Promotion and advertising of the coffee product is happening through own websites and they also use partner's website in their strategy. There is a good relationship with the government in supporting an administration process as well as setting the program to attend both national and international events and exhibitions to present their product. Moreover, a coffee shop is now opened in town, which promotes the product and is ready to sign a shipping contract with interested visitors. The company just exports the coffee beans; however, they produce roasted coffee for the domestic consumption, and gifts for the foreigner visitors.

*“We export directly our coffee to Starbucks in America and Royal in Canada. We do not use any agent to distribute our coffee even we cooperated with NCBA, but they did not do it.*

*About promotion, we do it. Although we have our own company's website but it is still unknown for the foreigner, therefore we use NCBA website to promote our product and include our company to worldwide coffee producers. CCT also cooperates with the government to attend every event both at home and foreign such as exhibition events to promote our product and to find more markets overseas. In marketing competition, we just export coffee beans, we do not export roasted coffee, however we do produce roasted coffee but we sell it in the home market.” Both, manager and deputy manager of CCT Company's say”.*

*“We also participate in every event provided by government, it is not only about marketing but something else, like knowledge we get. We have own website to promote our coffee product, but we also do promotion of coffee through coffee shop. We have coffee shop in town we sell coffee there and we introduce our business to every foreign visitor, which may be interested to be a partner in coffee business”.*

Organic coffee is the main companies' product for export. To keep the good quality of organic coffee the companies do annual evaluation to ensure it is clean from fertilizers. Therefore, the company managers together with international organization of organic coffee (ICO) check directly the coffee farmers' houses to ensure there is no fertilizer they save, as well as checking that since coffee was planted it stays clean from fertilizers until export.

*“Quality of organic coffee is important and it is mostly required in the international market, therefore we do an annual evaluation about using fertilizer. We come together with ICO organization members to the field, to check farmers' houses to make sure there is no any fertilizer they keep. Even more we go to the coffee field to check there is also no fertilizers they have used when coffee was planted.” And:*

*“To increase coffee production we asked a coffee plantation from church to serve as an example to show to the farmers how coffee production has increased after we cut old coffee trees”. CCT Manager Says. Another manager company such Global Timor says that, “we buy land from farmer and we plant a new coffee. Thus, we can have own coffee production in some years that we can supply to our buyers, to meet the requests. However we still have problems with land and property. I have been asking the government about providing a law of land and property, but they say that it is still in negotiation. Their main concern is that farmers need money to survive”.*

Another way to have a good quality of organic coffee is achieved by companies that employ their staff into community to monitor and socialize with farmers; regularly inspect and look after the process of cutting of old trees and planting of new coffee seeds. International buyers request quality. Therefore, there is a long process of preparing the good quality of coffee at home before it is ready for export. Fresh green coffee beans should soak for 48 to 72 hours and dry under the sun or in a dryer machine (in the rainy days). Furthermore, a selector machine is used to select the coffee on the basis of size and weight before it is packed and shipped.

*“Companies have technician members and we send them to do monitoring of the progress of coffee growth. Our technician educates the farmer how to keep the high quality of the coffee. We teach them to cut old coffee trees and plant a new tree that we provide. We also teach them how to pick coffee beans in a good way when harvest season comes. We soak it for 48 until 72 hours and after that we dry it under the sun or we have a machine dryer in the rainy day. Before we export, our employees’ select and separate coffee, which is good and less good, and we also use the coffee selection machine”.*

On the other hand, companies’ administration provides capacity building to their staff in form of education and knowledge needed in coffee plantations. Besides that, a foreign professional technical is hired to assist the local technicians and disseminate the knowledge on how to improve the quality, as well to increase the production. Overall, it aims to help a company to be more successful in coffee industry.

*“Before we send our staff to the field to assist the farmer in coffee production, we give them capacity building such as training, workshop. The qualified ones we send to a formal education in marketing and coffee planting. We also hired international specialist in coffee technology to train our staff and to share his experience and knowledge to further teach the farmers too”.*

Companies in Timor-Leste compete between each other for the ability to collect coffee from the farmers. One of the companies provides a membership card so that the farmers coffee harvest belongs to the company. For that, they include the whole family in the list and provide them with free health services and loans with low interest rates. The aim of employing the companies’ staff into the community is to supervise and monitor the coffee plantations as well as take immediate actions if members of farmers’ families get sick.

Furthermore, they come to the field to buy or collect coffee in harvest period. Other companies just buy coffee in the local market. Coffee price varies, as some managers provide a coffee price based on the international price (ICO Standard) and some of them offer just a little bit higher than ICO pricing. As it has been mentioned there is a competition in pricing in order to obtain a needed quantity and market price influences the pricing.

*“We have already 21,500 members. We provide them with membership card and they sell their coffee to CCT. They can use this card to have health treatment and it is applied for all family members. To keep those people, we provide them with loans with low-interest rate and they could repay them after harvesting period is over and they got money. Otherwise it depends on how long time they want to use to pay back the loan. Furthermore, we do have the coffee buyers centre in some districts such as Ermera, and Maubisse to collect coffee from farmers. About the coffee price, we buy farmers coffee based on the international organic coffee price in ICO; we use church and local administrative offices to announce the coffee price. It is what we do to beat the competitors”.*

A Japanese company has different strategy to overcome the competitors. *“We do not have membership and we do not provide any card or whatever other companies do. To have more coffee we recruit locals that have coffee and we know that they can influence the farmers to sell their coffee to us. We give a better price as well. For example if the CCT or global Timor pays them \$2.00 per kilo we will pay higher than that, for example \$3.00 per kilo.”* While, Elsa coffee is not much interested in competition, the company’s manager says: *“we just buy coffee when we have demand. We will not buy coffee if there is no demand. We buy all coffee that is produced at a low price, because, you know, the farmer needs money, and the coffee that they sell in the local market may not reach any other buyer, therefore they sell it and we buy it at low price”.*

## **5.2 Analysis**

In this part, we will give some discussion based on empirical findings and answer the research questions respectively. According to the actual experience of companies in export marketing in the foreign market, we want to discuss some export barriers and their influence on the exporting strategy. Further, we discuss the revealed barriers one by one and how the companies and government try to overcome them.



### 5.2.1 Management experience and knowledge in marketing strategy

From the interviews, we revealed that the knowledge and experience of a manager is a major factor of success of a company. The manager decision affects the company's performance. The experience, knowledge and commitment of a manager contribute to support the internal management style. The managerial experience is a driving force behind the success of any company in the international market. The experience is gained from capacity building, a high level of interactions with foreign companies as well as professional training. However, many researchers note that manager strategy is one of the important factors affecting marketing strategy. It is a managers responsibility to decide how, when, why and what should be done to obtain the company's goals.

*"I am a manager of the company and I have been working in this company for about 20 years and I have a lot of experience. I have learned both good and bad things. Among the mistakes that I have faced was ignoring the export, due to my fault, I do not schedule well the delivering of the coffee to the host country, but now I improved that because of gained experience. I also attended an international workshop on capacity building, training, and communication. You can see, CCT was small but know it is getting bigger and bigger, it is because of contribution from all of us and we try to learn more from the experience. I have been leading this company for more than 10 years".*

Most companies agree with this statement and note that they are limited in providing the learning experience for their staff, so they most often rely solely on internal experience. Studied company also noted the importance of the level of international experience. The companies noted that if they were able to buy this experience they can serve their foreign markets as a manager will be able to evaluate the contingency and complexity of this market to implement the right strategy to meet this challenge. The same dynamic marketplace requires personnel professional-oriented can easily follow the trade transaction. This explanation as noted by the respondent company which adequately explain the experience of management.

*"We do not provide our staff well training, but we provide the all about what we have experiencing. We tell them to learn from what you see and thinking to improve yourselves. But from these we always find strategy how to capacity them with various course, mostly in business and marketing".*

### 5.2.2 Marketing Strategy

After we interviewed with those firm we found that they have their own strategy in coffee export. Let's discuss of those:

In our interviewed we found that every, the exporter coffee recognized that quality of the coffee from Timor-Leste is very good comparing to other countries mentioned one informant;

*“Because the organic coffee is a unique one, only Timor has 100% organic coffee in the world, therefore people from outside love our coffee”*

It's the product advantage of coffee in Timor-Leste, but not all of them sell organic coffee except CCT and most of the coffee exporter export to the American and European countries around 75% the rest to Asian Countries and Australia. The exporter doesn't have difficulties to sell their product, because some of them sell to the buyers that they already know and some of them sell to the auction market. However the exporter coffee in Timor-Leste recognized that quantity of the coffee is very low compare to the Brazil, Indonesia, Papua New-Guinea etc. therefore they have their own strategy to keep the market, such as some of them only buy the coffee from those as a member or belong to the companies and some of them offer high price to farmer compare to another exporter aim to not lose the market. We considered marketing strategy is fundamental to increasing the sales in sustainable way, but what we found in exporter coffee Timor-Leste facing is the quantity of the coffee is not guarantee the companies to increasing more their export. They have to diversification their product and increasing the coffee plantation and investing more in coffee sector.

In other hand exporter coffee in Timor-Leste using the sea transportation to deliver their product to the market they have been selected, some of them have a permanent contract as they buyers, and some of them selecting the market through the connection.

Exporter coffee in Timor-Leste recognized the distance to their coffee market is too far; therefore they need to really carefully protect the quality of coffee as informant saying:

*“As we notice about the coffee's quality, we really carefully on the every process to keep the quality such as; drying and packing for exportation even one seed drop out we cannot recollect it for packing so we just omit it, because we afraid of the damage that can be caused by this coffee”*

Export mode a home country product could be transfer to host country either directly and indirectly. As we mentioned before exporter coffee in Timor-Leste only sell to those they already know. Most of the company said they sell directly to the buyer in foreign market based on the demand of the buyers in the foreign countries without any cooperation or agent, in our research we considered that export mode in this study is indirect export because the exporter coffee in Timor-Leste considering the wholesaler abroad as their final customer.

*“I have mentioned above, that we do directly export our coffee to the foreign. We do not have any retailer, wholesaler or agent as intermediary in our coffee distribution”.*

### **5.2.2.1 Pricing**

Pricing strategy is a way to determine the price level on the basis of the internal condition of company and the actual market condition. Based on our interviewed the entire firm set different price to the different market, and based on the distance, some company they set the price overseas also see the type of coffee (quality of coffee). In our case coffee exporter in Timor-Leste price is suggesting by the buyer and it's the price lower than their cost they will keep it until a better price is offered later. As mentioned deputy manager of CCT

*“Starbucks send us a fax and we take a look on that, then we decide it together with the general manager to find good fix price of the coffee or not? If the profit is less than the money that has spent then we will not export it till we find the further decision. For those other markets or countries also same as Starbucks”*

So coffee exporter in Timor-Leste is depending on the buyers in overseas even they have contract with permanent buyers, but it is not guaranty their market and price itself, however it seems that oversea buyer have a change to looking forward another coffee production in other countries such as Brazil, Indonesia etc. In other hand government cannot intervene the price when companies sell it to the oversea market, government only take control the prices from coffee farmer when they sell it to companies, aim to protect the farmer from those companies when they manipulated coffee price. However In terms of relationship since now government has good relationship with those companies, but they considered government needs more investing in coffee sector to increasing the quantity of coffee.

### **5.2.2.2 Promotion**

Promotion is to introduce the product and service to influence the customer. In our case most of company exporter coffee in Timor-Leste has been participate in export trade to promote their coffee in foreign countries such as Singapore, China, Thailand and etc. and most of trade they has been invited by the government part to promote their coffee, also government recognized they have been gave some browser to commercial ambassadors from different countries as a manner to promote coffee from Timor-Leste , some of those companies using technology or their own website to promote their product. Based on interview we considering still have lack of initiative of the companies to promote their coffee in overseas market and to influence the customer, the reason is because they have permanent buyers in abroad. Further some companies recognized they used different way to promote their coffee like they give coffee to the government officials who visit to the foreign countries. Saying Informant

*“Some our government’s members when they go to overseas they always present our coffee as the souvenir for the host leaders, through this process people get to know our coffee and eager to buy it”*

In this approach how through the government officials we do not see a strong link between foreign government official and associated coffee importers in the country. The reason is this approach not to give to the right person, people that received the coffee souvenirs will keep it from them self.

### **5.2.2.3 Product**

Based on our interview all the exporter coffee doesn’t have differentiation of product, they only sell coffee beans to the overseas market or permanent buyer and with their own labels. As informant saying;

*”we only sell in 60 kg packs to international overseas, and they sell in powder coffee only for domestic market”.*

Highly dependent of the buyer in overseas is make coffee exporter in Timor-Leste only want to buy as much as they can from the farmer and ignoring the differentiation particular product from others competitors. However it’s difficulties to exporter coffee in Timor-Leste to enter to the new market. One very important issue in the question of branding some reasons that

they don't want to have branding is firstly quantity of coffee is decreasing every year, secondly its take time. Mention informants.

*"to make a branding is taking time and make sure you will continue with the same standard for every year"*

Exporter wondering the quantity of coffee, decrease every year, they want to have branding if the quantity of coffee production is increase. Based on the argument above we considered exporter coffee in Timor firstly, still have lack knowledge of the differentiation of product to attract the customers in overseas secondly, low quantity of the coffee the main difficulties to exporter coffee to enter to the new market, thirdly they cannot compete in the international market.

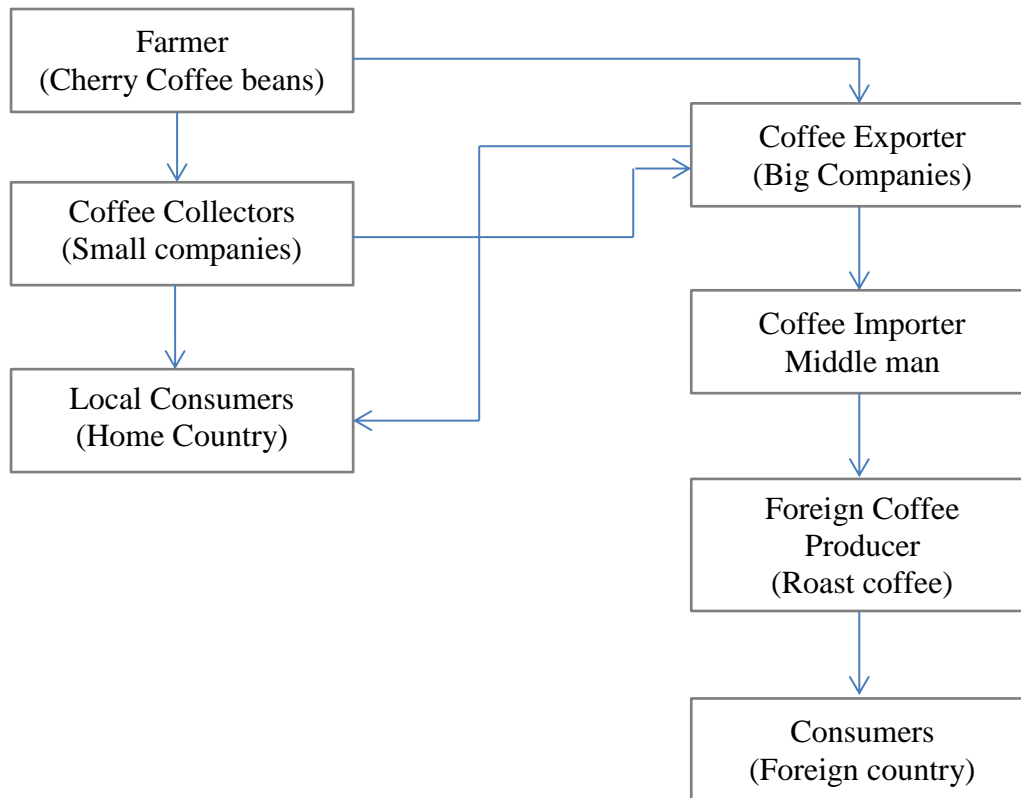
#### **5.2.2.4 Channel of distributions**

This refers to how an organization distributes product or services to the end user. Distribute the product or services to the user at right place at the right time, efficient and effective. In our research we found that most of the companies' exporter has distributed their product only to those buyers they already knows or have a contract and coffees that they export not finish product or raw materials. As informant saying;

*"We always exported green beans or seeds. We never export coffees powder to the international markets". "Most of our coffee exported to America, at least 75%. The organic coffee that we export to America to Starbucks is Royal coffee"*

We considered the exporter delivered coffee based on the demand wholesaler and the auction markets as their customer. Based on the our finding above we conclude that companies coffee exporter in Timor-Leste they are shipping directly to the wholesaler in overseas and wholesaler is selling to the retailer and retailer selling coffee in finished product to the final consumer. In this channel distribution we considering as below:

Figure 5.1: Distribution system of Timor-Leste's Coffee to foreign market



Self-Made based on the Interview result.

### 5.2.3 The problem confronted by Timor-Leste coffee's exporters.

#### 5.2.3.1 Internal Barriers

##### Lack of coffee quality

We recognize that, almost coffee entrepreneurs in Timor-Leste is about 75% are SMEs and proportion of large enterprises is less than 5%, therefore we can easily say that all coffee industry close to all firms in Timor-Leste is SMEs. Obviously SMEs have many disadvantages for example low of production management, low productivity as well as ability of resisting the crisis etc. but the most important thing is that a great number of foreign market are required to import the coffee product as a good quality, but then there is no guarantees the quality and it is lacking.

*“Our coffee is well known widely now, because we do effort to export coffee to many countries in Europe and Asia as well. We have many overseas buyers, they ask more coffee but we do not have much coffee production”.*

Simply speaking of good quality products, there is more problem affecting to prepare coffee quality well, although those companies as well as the government who wants to develop the quality of coffee product but then minimum of understanding of farmer about coffee production, rural area and small coffee plantation. On the other hand, the production process is still manually and also there is no laboratory with good technology to have good production of coffee. Moreover, there also low cost production, low price and there will no chance for an international trade.

*“As a businessmen won’t to be fail. We already do our best to improve the quality and coffee production as well as the government too, but our farmers are illiterate, they don’t have knowledge. However they cannot good cooperation with us as well as the government to plants coffee in their free land. They also don’t want cut their old coffee trees. It is our challenges how to increase the production. We just heard from other side say that our coffee is quality but we do not have a good laboratory to test to ensure that our coffee is good quality or not”.*

### **Lack of own brands**

In present, a coffee product is the main export source of Timor-Leste but with low volume consumable, so original company product is not so common in international cooperation in Timor-Leste coffee industry, means that many companies have doing business in coffee production but there is no brands are made to foreign market competition, although there has some picture or name as made on the surface product, but it is not brands to be marketing in the international trade.

One of the internal barriers had indicated in coffee exporting of Timor-Leste was brand, it was difficult to coffee exporter to compete in the foreign market because, in business people not real interesting to the product but the brand of product. The brand will competitiveness among the competitors and the consumers and brand will stay longer with them not the product. Furthermore, world could not recognise a product without a brand and it also will affect the quality and price of the product itself as well as difficult to be trade worldwide.

However, the entrepreneurs should have encouraged to have a brand innovation; means that coffee entrepreneurs should awareness of intellectual property as well as research and development to advance of product to meet market demand globally.

*“We just export coffee beans. We packed 60 kilos in a sack, we labelling with our company’s name is NCBA- CCT, Global Timor or Timor Coffees. We do not have an especial brand, we just write on the sack Timor-Leste’s coffee. We do not research is that a brand affecting to our business future because we just export coffee beans”.*

### **Product Diversification**

Product diversification is very important in a business, where the consumers will be affected psychologically because sometimes the consumers want something instant without take long time to prepare for consumption. Product diversification was fundamental of the market development by increasing business strategy through brands design and product innovation in various forms. This is will increase sales volume which would expand the market for export. However, the quality of products must still be considered, in order to give a satisfaction to the product users. Therefore, diversification is required.

Departed from upon issues of product diversification most coffee producer in Timor-Leste does not have a strategy and good management in product design elicits, they only produce coffee beans as well as exporting. They do not produce a roast or any other kind of productions. It is difficult to compete in the foreign market and it also affects the future business. Although the company also produce roast coffee but it is only for domestic consumptions, not to be in foreign markets because the quality is not good for competition.

*“I have noted, we do not export roast coffee, we just export coffee beans, however even we produce roast coffee but it is only to sell in home market as well as just a gift to overseas visitor”.*

### **Lack of Infrastructure and Transportation**

In order to drive of coffee from field to another place transportation and good infrastructure such as road is required, but then still as a barrier for coffee producer in Timor-Leste and of course it greatly affects in their business certainly.

The roads conditions are unfavourable not only affects the distribution but will also affect the increase in operational costs due to the long time-consuming as well as affect the quality of the products that eventually the coffee price will be low.



On the other hand, in international market relation transportation process in delivering coffee is often late. It is because there is no regularly freight is coming and as well as affected by lack of management in scheduling or time table to ship the product. Furthermore the port is too small to more than two ships can lean back even they have been anchor for more than one week. It is also affect to the quality of coffee production and coffee price because of long distance to transport to country destination.

*“Sometimes we delay to delivering our coffee because the port is too small and the freight is not so often. We just give them back information when they send us fax to send them coffee, but we cannot do it if there is no freight. We have to discount about 10 to 20% of the price if we are late, for example, market distance is too long, take time to our coffee reach them, or maybe because of external regulation may be affecting, it is the risk, and we have to consider it”.*

### **5.2.3.2 External Barriers**

After we interviewed we found some external barriers that affected exporter coffee in Timor-Leste lets discuss further:

#### **Government law of land and property**

Government recognized coffee is one commodity which contribute of GDP, however quantity of export still very low to compensate high demand of wholesaler in abroad. Government has tried to expand the coffee plantation in those areas productive, but when government facing some problem firstly, about the land ownership, as mentioned informant.

*”to enlarge the plantation we need support such as law”*

He argued government has identified some area productive, but still negotiate with the farmer and coffee farmer not allowed them to plant the coffee in their land. Secondly, lack of knowledge of the coffee farmer. When government wants to plant the coffee tress in the empty area, but coffee farmer doesn't want to, as informant saying:

*“we had an experienced after we prepared coffee seeds and plan to plant on the abandoned land but then people come and say, this is our land and we still not ready to keep this seeds to plant in our area, even though been explained we just plant it and you can keep them until harvest, but they insist to reject”.*

Firstly, we consider production of coffee in Timor-Leste it will be not increase because of the difficulties of government to expand the coffee plantation, and without the regeneration of coffee tress even they have it, but with small scale and the most of the farmer coffee still depend on the old tress. Secondly, the knowledge of the coffee farmer still in less they only focus how they coffee tress sell to the exporter companies without how the sustainable coffee production in the future.

### **Financial**

Government considered to expand the coffee plantation not only prepare the coffee seeds, but needs more money to invest to increase the coffee production, since now government only focus on infrastructure in agriculture sector to produce rice, not spent much money in coffee sector. Said National Director of Plantation Coffee Industry.

*“Based on the Strategy of the National Development Plan should focused on the Agriculture sector but then they still focused on the infrastructure in practice, therefore we cannot produce more coffee as what we expected”*

He argued to expand the coffee trees and regeneration of coffee need money to success the program further he said:

*“Another problem is fund, the government not serious about our program, they did not put enough budget in our planning, for example, we have plan to expand until 100 hectares but because difficult of the financial we expand coffee plant just 50 hectare”.*

Its sounds like ministry of agriculture doesn't have good relationship with department of plantation of coffee industry to invest and support expand the coffee plantation.

### **Technical support**

During the research we collected some information related to the government support in coffee sector. We found some issue from government that the technical support to coffee sector still low in term of knowledge of the extension, even though they have better skill, but still have integrate to the society, and really want to do their work.

*“Well, we have technical assistance but we need to review back because they are not much enough knowledge, skill to handle their roles. In the other hand, they always not stay with the farmer in the field to control the farmer every time but they didn't”*

We considering Timor-Leste as a developing country still facing lack of human resource not only in the agriculture sector, but every sector even to develop Timor-Leste

### **Competitors**

In this barrier we focusing on the how the each manager competes with the other to sustainable their productivity of coffee. During the interviewed production of coffee in Timor-Leste is very low compare to others countries. Based on this manager have strategies to get the coffee from the coffee farmer. As mentioned some informant.

*"For example, other companies buy white coffee with the price \$2.50 per kilo so PWJ offers big price, like \$3.00 per kilo for, in order to get more coffee or we will get nothing"*

It seems like exporter coffee in Timor-Leste struggling to keep their market exist. And we considering is very low Timor-Leste coffee market to compete in international market.

### **Market Distance**

Most of the exporter coffee in Timor-Leste sells their coffee to wholesaler market in USA, and European countries. Some of them export to neighbour countries such as Indonesia and Australia. They recognized market distance is very affected to their coffee price, before they deliver to wholesaler they needs to deals with the price if the price is good from them they will sell it if not they will keep it and looking for another buyers.

Some factor really affected their delivering is transportation. Sometimes they delayed to deliver their coffee to wholesaler.

*"Based on our experience last year, because we were too late in loading caused we got problem at the port"*

Related to market distance exporter coffee in Timor-Leste have wholesaler in international market, but it we see that the wholesaler still have a chance to find new market if the exporter doesn't on time in delivering their product.

## **CHAPTER VI**

### **CONCLUSION AND IMPLICATONS**

#### **6.1 Conclusions**

According to the research question of this work: “What are the conditions for exporting coffee from Timor-Leste?” we conclude that international marketing in the developing country RDTL is an important issue that can provide useful insights for the further development and growth of the nation’s economy. However, our research shows that the coffee exporters of Timor-Leste are confronted with several export barriers and the exporters are under the when the exporter attempt to compete in the foreign market with coffee production.

We have categorised the revealed difficulties into internal and external barriers. These barriers have affected the competitive advantage of coffee exporters in the foreign markets.

##### **6.1.1 Marketing Strategy**

When it comes to marketing strategy, most of the companies have been learning from the experience. Some of them have got a good experience in international trade and marketing, however almost all respondents answered that they need more knowledge to gain a competitive advantage in future.

Managers provide capacity building to themselves and to the staff. For example, by giving a formal education to qualified employees, sending them abroad to increase their qualifications. They also participate in local and international workshops, overall investing in human resources in order to obtain a competitive advantage.

The company also hires professional technicians in the agriculture sector to assist and educate the local technicians before they implement their knowledge in the field. The company does more investment in human resource development.

In international competition, all responded companies use coffee beans as their main product in the international marketing strategy. However, some of them also roast coffee but only sell it in a domestic market. In local competition, some companies such as Cooperative Café Timor (CCT) use a member card system to the coffee farmer which means farmer should sell their coffee only to CCT. The member card system has an advantage to the farmer because

they can get a free health treatment in NCBA-CCT clinic. Beside that farmer can easily search for a loan with low-interest rates and pay back after coffee is harvested and sold. Other companies buy the land from the farmers and start their own coffee plantation.

Furthermore, companies widely employ their technical staff to the community to assist the farmer in the coffee plantation as well as look over them and provide the first if any accident occurs. Providing capacity such as training and workshops to the farmers gives them knowledge about how to keep good quality of coffee and how to increase coffee production. Moreover, CCT has an American partner company to provide and supervise them in export activities and international marketing. They always attend national and international events to improve companies' performance.

Human resource is the main key of success for a company. The management strategy should be in manager's consideration. It appears from the interviews, that companies do not have much staff which is qualified to assist the farmer to produce coffee of a good quality. At the same time there is a shortage of staff that understands the international trading and marketing as well. Thus, the deputy manager manages these tasks. Due to the lack of human resources in trading activity, the company has sent some staff to training and attending seminars outside the country as well as they provide some students with formal education in marketing. Furthermore, they hired an international consultant to guide the staff in main areas which are related to achieving the company's objective.

### **6.1.2 Market Entry Strategy**

It is crucial to choose the right market for entrance to sell and deliver the product the company possesses and meet the right consumer. Therefore, in our interview results we conclude that most companies use organic coffee as the main product to enter the market. To find the new markets, companies attend international exhibitions, from where, they sign up contracts with visitors, interested in their coffee. Besides, other products from Timor-Leste are promoted along with coffee.

Companies target most European countries. The export is done directly to the host country without agents and intermediaries. Some companies are concerned about the high transportation costs, tough market characteristics and large distances and therefore, they sell coffee just to Asian countries, but also have plan to spread widely in future. Furthermore, moderate system is used for all market entrants.

### **6.1.3 Internal Barriers**

Human resource capability is the main key of success for a company. According to this theory, in our research we found that there are a lot of internal barriers such as: lack of human resource knowledge and capabilities in terms of management capability. Lack of quality, lack of production, lack of branding, no product diversification, and lack of organization structure are all presented in this sector.

Those internal barriers will affect the continuity and existence of the company in a market. Managers should search for a better way to convince the farmers to increase the coffee production; otherwise the challenging current situation can only become more challenging. Current organization is not optimal in terms of human resource management. Lack of creativity and innovation in branding of coffee does not make a strong presentation of coffee from Timor-Leste to international markets.

Management responsibility is weakened due to lack of structure in the organization. For example CCT has no marketing and export department and all the issues are handled directly by deputy manager. It affects the company as the decisions rely solely on the knowledge and capability of the deputy manager.

Demand for Timor-Leste's coffee is higher than current supply rate, and increase in production is the main issue for these companies. Even if the coffee is hundred percent organic, there is no local laboratory to test the originality and confirm that. So, the coffee lacks a serious certifying actor to be able to ask for higher prices.

### **6.1.4 External Barriers**

Lack of infrastructure and transport are main external barriers. It hinders the farmers to meet with potential buyers and deliver the product to the market. A lot of roads still remain in poor condition thus leaving the rural area disconnected from towns and cities. It certainly affects the transportation costs. When it comes to export, the only working port in the capital of the country is too small and does not freight enough. It affects the speed of transportation.

When it comes to international trade, the port is too small and freight is not often, which prolongs the transportation time to destination country. Long distance sending decreases the price and in some cases the quality of coffee. The majority of coffee in Timor-Leste is grown in the hills and in rural area.

Government laws and regulations are not sufficient. The laws of land and property rights are weak and do not allow the companies to effectively communicate with farmers. Moreover, the government political system and budget allocation are not effective in this sector. Currently the interest in agriculture sector development, especially in coffee industry is weak. Companies have troubles in communicating the message of increasing the coffee production due to illiteracy of farmers.

#### **6.1.5 Product**

The coffee produced in Timor-Leste is organic and of good quality. Therefore, the companies have no problem in selling it overseas even with the current barriers. The companies struggle to increase the quantity by various methods described earlier. It is estimated, that 60 percent of trees are too old and thus less productive. Besides, coffee is growing in difficult areas and is not taken a proper care of. Few farmers have agricultural education and do not understand the company's efforts in increasing the coffee production. Among them providing new coffee seeds, cutting old trees and increasing the coffee plantations. Companies hire and educate locals as well as try to include local church into disseminating the knowledge on how to produce more coffee of better quality. The low price for coffee comes from lower quality of it. Nevertheless, the coffee produced here is organic and without fertilizers. To keep it organic, the companies evaluate regularly the fields and farmers houses. They hope that in the long term all these measures will provide the farmers and companies with more coffee of better quality. Traditional production process takes some time. As coffee beans are soaked between 48 and 72 hours and further dried under the sun or in drying machine.

#### **6.1.6 Promotion**

When it comes to promotion, we defined three ways utilized by the companies. First, is through promoting the product online through own and collaborates websites. Secondly, through introducing coffee on exhibitions and to international guests, visiting the country. Thirdly, by opening a coffee shop in the city. There is however, no active promotion and active search for new markets. It can be partly explained by the lack of quantity and the current situation, when the supply is lower than current demand.

### **6.1.7 Pricing**

Pricing is the management decision according to costs, distance and quality of the product. However, our analysis shows that management decision on these factors is not important. The buyers dictate the price and as long as manager sees that, there is some profit it is accepted. Furthermore, managers think that coffee pricing should be based on the international prices and in a situation where the coffee price has changed during the delivery, the manager will not comment on the changed price, but accept one mentioned in the contract.

### **6.1.8 Channel of Distribution**

Export system is direct and is depending on the wholesale requirements and market demand. It means that the exporter is going to ship the coffee when the buyer comes with a requirement. Seaport is the channel of distribution of coffee to overseas market. However based on the results of research we noted that companies do not directly export to the Starbucks as they say, but go through an intermediary as a retailer. The Starbucks buy Timor-Leste's coffee from the retailers. Companies have been meeting the intermediaries at the exhibitions and these in their turn connect the producer and the buyer. Thus we conclude that the distribution channel is indirect export. Furthermore, the manager does not evaluate the distribution because the manager thinks that this is the only way and it does not need to be better.

## **6.2 Implications**

### **6.2.1 Implications for companies**

The major challenge revealed is a lack of coffee due to different reasons discussed above. This lack of supply threatens the stable position of coffee exporters in Timor-Leste in international markets. Therefore, a series of actions should be implemented in order to increase the production and achieve the next level of development:

1. One of the possibilities, in the struggle for a higher production, is diversification. As we have learned, managers have been thinking of exporting such products as peanuts, cacao, soya beans etc., because Timor-Leste has several potential areas to produce these products in agriculture sector.



2. Companies need to differentiate their product and improve the quality of coffee. All the coffee exported comes in form of green beans to the wholesaler and further comes to the buyer without the traces and recognition of the coffee from Timor-Leste. Therefore the wholesaler takes advantage of the pricing. Being different from other exporters and having some organic coffee of highest quality, companies should involve in negotiating the prices, not merely accept the offer from the buyer.
3. Companies should keep trying to buy the land and build new plantations of coffee to avoid the lack of supply coffee in the nearest future, due to the lack of understanding from the local farmers and difficulties in their education and training. Otherwise there can be a huge shortage of coffee in the nearest five to ten years as the production is decreasing from year to year.
4. Companies need a better cooperation with the central government, local authorities, and farmers. The sharing of information, exchange and training should continue.
5. Exporter needs to find the new markets and aim to sell their product by themselves, which can help to set the price by themselves and become independent from current wholesaler.
6. Companies have to take initiative to promote their product in international market, and start with branding or image of their own coffee in order to make it recognizable overseas. Today, it is difficult for overseas customers to recognise the coffee from Timor.

In order to come to the next level the coffee export in Timor-Leste needs to be enhanced. The challenges with human resources, transport and infrastructure need to be solved in collaboration of the companies with government, local authorities, NGOs and of course farmers. Considering the reality of Timor-Leste, the companies have been working hard to keep the export stable and improving the quality of life of farmers. Future expansion of coffee plantations, continuous production of coffee (not only in harvest season) and addressing the challenges with Certificate Pita Sanitation (CPS) should provide the companies with better quality and quantity of organic coffee and help with pricing politics.

### **6.2.2 Implications for government**

There are seven important contributions that the government should implement in order to enhance this sector of economy.

1. Providing the financial support or loan or subsidy to coffee farmer and companies. This is benefiting both coffee farmers and companies to increase their coffee production. From farmers side to help them in economic way, and achieve sustainability in their production from company to help them in overcome lack of coffee supply, because for Timor-Leste coffee is the largest export in non-oil GDP.
2. Capacity building in national and rural areas, especially in coffee sector. It is very important to help the coffee farmers in rural area, because the most productive area for coffee is situated here. Also the professional training is needed to ensure the production of the coffee and increase the knowledge of farmers on how to cultivate the coffee trees.
3. Enlarge the seaport, to decrease the delivery time and increase the confidence in buyers.
4. Repair the roads in order to easy the access to coffee production in rural areas, to establish a transportation system and help the farmers to access the market or companies who buy their product, also easy the companies' access to the coffee farmer.
5. Central government should have good cooperation with the local government, NGO, farmers, and companies; the reason is to share information from basic to the central and to avoid miscommunications between them.
6. Introduce the law of land and property. As we mentioned Timor-Leste needs some regulations about the land and property in order to help the government and companies to expand the coffee plantations in some abandoned areas and convince the farmer to sell their land to plant coffee.
7. Government should take initiative to help to promote coffee from Timor-Leste through other channels than companies can promote. By today this seems to be ineffective.

We recommend the government to increase the investments in this sector in order to be able to establish sustainable incomes from non-oil sector and guarantee productivity for the next generations.

### **6.2.3 Farmers Implications**

Farmers are the main suppliers of coffee for the exporting companies. There is a strong demand to increase their awareness of the role they play in the economic development of the country. These are few aspects where farmers can make contribution in Timor-Leste.

Firstly, a good cooperation with local leaders and companies as well as government is needed. Lack of skills and knowledge should be eliminated by participating in workshops, and training how to harvest and collect their coffee in a best way and keep the trees healthy.

Secondly, coffee farmers need to realise the potential of the contracts and leasing of their land to government and other companies or expand their coffee plantations for making more money. As it came from the interviews some of the farmers do not allow the government or the companies to plant trees in their abandoned areas. Farmers do not possess the knowledge that it is done in order to help them and that the land is not taken from them.

Thirdly, we recognize that farmers lack the strategic long term thinking, when refusing to cut the old trees and only think for one following year. It take 5 years for a coffee tree to start producing the coffee and thus farmers resist cutting the old trees as they still give some coffee. Unfortunately the idea of sustainability is spreading very slowly and it will take some time for farmers to start implementing the propositions that companies and government are teaching them to implement.

We recommend to farmers to organize in small cooperatives that will possess more knowledge together and can protect their members and facilitate communication between farmers and potential buyers.

### **6.2.4 Implications for future research**

This research have focused only on small export companies in Timor-Leste, however we believe that the knowledge gained is of value to other coffee exporters in developing countries. As we found from interview, the quality of the coffee from Timor is high, however further research is needed to address this finding. Further studies should try to include the wholesalers and their perceptions of the export companies from Timor-Leste to reveal new angles in the coffee trading.

Secondly, while this study was aiming to reveal the marketing strategies of the exporting companies, it was not addressing the farmers. However, findings from interviews revealed that there is a growing problem of coffee production in terms of quality and quantity, as well as inherited traditions, customs and illiteracy which make it difficult for companies to obtain the quantity needed. Thus, we propose to address the farmers in further studies in order to get insights in their understanding of the current processes and, perhaps, come to better solutions within this context.

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## **Appendix 1. Research Question (Guide questions)**

1. What type of coffee products do you have/produce in your company for foreign country?
2. How do you select your foreign countries? How do you establish contact? How do you attract them?
3. What kind of market characters do you want for coffee export? And which modes do you prefer for export? Do you have other countries where you want to export coffee?
4. What is your ability to collect overseas market information? How important market information is?
5. How do you price your coffee product in foreign market? Is there other countries sell same product such coffee and is it very tight competition?
6. Is overseas market familiar with your product such Coffee? How they know that? How do you adaptation with the foreign market? How long? How many years do they used your coffee product? Who was the main promoter?
7. How do you design (branding, packing, labelling) your coffee production for overseas market?
8. How do you distribute your coffee product in foreign market? Do you direct distribute or indirect- with partner or help from government? How they do help?
9. How do you promotion your coffee production to overseas market? How transport it? How is the product? How do you get the customers? Did you try to sell you coffee to them?
10. What is your expectation or plan in 5 years?

Appendix 2 Coffee of Timor-Leste

