

**Latin America
Centre of
Asia-Pacific Excellence**



**Livestock Improvement Corporation:
The importance of building
trust in Latin America**

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HIGHLIGHTS

- Export success despite regulatory diversity, logistical challenges and cultural differences in Latin American markets.
- Patience required to build the trust essential to business relationships.
- Flexibility and leveraging NZ Inc contacts part of successful strategy.

THE COMPANY

Livestock Improvement Corporation Limited (LIC) is a farmer-owned co-operative that provides genetics, information and technology to the dairy sector with the aim of improving productivity and profitability of farmers. Established in 1909, the co-operative is headquartered in Hamilton, New Zealand as well as having offices in the United Kingdom, Ireland, Australia, and the USA. LIC employs more than 800 permanent staff, with staff headcounts reaching over 1500 during peak New Zealand dairy mating season.

LIC has been setting the benchmark for dairy farming since its early days when it began to improve the quality of New Zealand's national herd. The first organized routine herd testing service was conducted by, and for, New Zealand dairy farmers, with the support of the New Zealand Department of Agriculture. Since then, LIC has grown to become a major enabler of and contributor to the New Zealand dairy sector. LIC's breeding programme is one of the largest progeny test breeding schemes in the world.

LIC's main scope of products and services include dairy genetics, information technology, herd testing, DNA parentage verification and farm advisory services through FarmWise. It also has a subsidiary business, LIC Automation, which provides integrated automation systems and unique milk testing sensors that present real-time data while a cow is being milked. LIC exports more than 1 million straws of New Zealand genetics every year together with other products and services such as farm automation technology to over 20 countries across the world.

LIC is listed on the New Zealand Stock Exchange with over 10,000 NZ dairy farmer shareholders. Profits are returned to its farmer owners and shareholders in dividends or re-invested in new solutions, research and development. LIC reported a significant increase in profitability in 2019, as well as new records in strength of balance sheet, operating cash flow, and total revenue, with a return of \$15.6 million in dividends delivered to shareholders. LIC is

continuing its significant investment in R&D and digital transformation and is considering new options and opportunities to deliver innovation-led growth in line with its strategy to become a \$1 billion revenue co-operative by 2025.

LIC was awarded the 'Co-operative Business of the Year' at the 2019 Co-operative Business New Zealand Awards. The co-operative has incorporated a new dimension to its work to address the need to reduce the environmental impact associated with dairy farming and is currently working with the Ministry of Primary Industries (MPI), Dairy NZ and the Ministry of Business, Innovation and Employment (MBIE) on programmes to breed cows that can mitigate the effects of dairy farming on the environment.

LIC's initial presence in the Latin American market began 25 years ago with the appointment of a distributor in Ecuador. This was followed by exports of genetics to Brazil in 1999. Today, the co-operative sells New Zealand dairy genetics through distributors in countries such as Mexico, Costa Rica, Colombia, Ecuador, Peru, Chile, Brazil, Uruguay, Argentina and Paraguay. The largest market share for LIC is in Chile while Argentina remains the largest single market for the co-operative.

THE CHALLENGES

The Latin American market presents many opportunities for LIC due to the region's massive scale. Building a sustainable business in the region requires patience, the adaptation of offerings and importantly an understanding of the Latin American market and the ability to address and manage challenges along the way.

Regulation and inconsistency between Latin American countries

Barry Allison, LIC's Marketing Manager for South America, reflected that Latin America can be viewed as a portfolio of countries 'because some countries are going to go really well, and others are going to be a disaster' particularly in terms of the regions' economics and politics. The ability and ease of doing business in Latin America varies between countries, as each has its own respective challenges, country specific rules and regulations. Disease testing requirements and import regulations are not consistent across the region and can often change without prior notice. They can sometimes be 'based on things that made no sense'.

LIC's exports of NZ dairy genetics to Latin America are subjected to the importing country's zoo sanitary regulations. The regulations are agreed upon between the New Zealand government and that of the importing country. LIC can only export to countries that have zoo sanitary regulations in place. Requirements vary between countries and Allison noted that Chile, for example, has stricter requirements than elsewhere in the region. Surrounded by the Andes and the ocean, Chile can be considered 'almost like an island' and hence they have stringent conditions in place.

Cultural differences in business

One of the key challenges in doing business with Latin America is the length of time it can take to build a relationship. Latin Americans are generally described as being 'different than Anglo-Saxons' in terms of their approach

towards building relationships. It takes 'ages and relationships are still developing all the time', says Allison. The establishment of trust with Latin Americans is a key factor, as relationships tend to start off with 'total lack of trust' and one needs to build on the relationship, which can take time. 'You have to visit, you have to talk, and you have to deliver on what you say you are going to deliver, and vice versa'. Actual business gets started when a reasonable level of trust has been established. It was only after three years spent building trust that LIC was able to establish distribution in Colombia and Peru.

Additionally, local business culture in Latin America differs from New Zealand - business agreements often tend to proceed without formal contracts and rely on trust. For LIC, the only exception was in Chile whereby the distributor was a multinational company operating out of Europe and hence, the business model is the similar to New Zealand's preferred practice of contract formalization.

Differences in business expectations and negotiations conducted in English led to subtleties that may not be clearly understood by counterparts for whom English is not their first language. This created complications for an LIC joint venture in Brazil. While the setting up of a new company is difficult and time consuming, it is more difficult to close a company down, taking 'three or four times longer to close' compared to the time taken to open, says Allison.

Constraint of geographic distance on logistics and business development opportunities

Logistics for LIC is a constant challenge. Particularly with distance from New Zealand to the importer and from their location to the end customer. In large countries such as Brazil and Argentina, it can be very challenging as a 'round trip journey is going to be something like 3,200 kms and I haven't gone anywhere

near where the main farming regions are' commented Allison. On top of that, the nature of genetic products (semen) calls for specific transportation in liquid nitrogen and hence, transportation has to be appropriate.

LIC's previous business development approach targeted potential customers by visiting farmers in Latin America on a one farm at a time basis. Due to the long sales cycle taking three to four years before results can be seen, and different farming practices, progress is slow and farmers struggle to see the relevance of LIC's product offering. Allison recounted impressions of disbelief from farmers that 'it can't be what this kiwi is saying - this is mad - it's just not like that' after farm visits, and thereafter, 'they would sort of forget you'. Further, once a farmer decided to use LIC genetics, 'they have to put up with three to four years from the opposition banging on their door. However, once the farmer sees the results 'we never lose that customer because the result is what we say it is'.

STRATEGY

Building trust and the cultivation of local business understanding

In Latin American countries such as Brazil, Argentina and Uruguay, where LIC has been present for over 15 years, they continue to work with distributors who 'came looking for us' initially, says Allison. These distributors were typically established in their own markets with dairy genetics and have identified a niche or where there is a growing opportunity. They were seeking pasture-based genetics for their farmers. New Zealand cows have been selected over many years because of their ability to convert grass into milk solids.

Trust is a very important element within the Latin American business environment. Business tends to be conducted based on

the establishment of trust. A good business relationship requires tremendous investment in time and a need to 'really understand the culture and the way they think', says Allison. Positive distributor relationships have been really important in difficult times, 'due to the relationship we are able to sit down and come up with a solution'.

When the peso recently crashed in Argentina, LIC's clients were struggled to meet payment terms, requiring a 'short term renegotiation of payment terms'. The crash also meant, however, that farmers' production costs increased, leading them to look for more economic alternatives such as grazing cows on grass and hence the need for more grazing genetics. LIC were able to gain more business through their understanding of the local environment and the difficulties that farmers were facing. Hence a long-term view of the Latin America market is essential.

Implementing a strategic approach towards attracting new potential customers and leveraging on NZTE

Complementing the company's previous approach of visiting potential clients at their respective farms in Latin America, LIC has implemented a strategic approach, targeting potential clients by inviting them to come to New Zealand. In country, they are able to gain insight into New Zealand's dairy sector and an understanding of LIC's role in the New Zealand dairy industry. As part of this approach, LIC also targets 'key influencers in the marketplace and people that are basically going to multiply the story' such as vets, editors of key farming publications and farm consultants. It is hoped that the key influencers will share their insights on blogs and websites. LIC organizes approximately three groups of tours yearly, consisting of around 15-20 people per group and, according to Allison, the results 'have been unbelievably productive, it is the best thing we have ever done'. Additionally, it also provides the visitors with the opportunity

to discover New Zealand's and LIC's other product offerings.

NZTE supports LIC's market development activities, including the VIP programme where NZTE may co-fund part of the travel costs to bring potential new customers from Latin American to New Zealand, as well as organizing other in-market events from time to time. NZTE has in the past conducted an in-market survey to identify potential distribution partners, which LIC may then contact to assess for suitability.

Adopting a flexible and suitable business model

Having a flexible approach and adopting a suitable business model with a long-term view to growth in the region is essential. Reflecting on learnings from a complicated joint venture in Brazil, today LIC operates on a distribution model. LIC works closely with their distributors to ensure that they are well trained in order to help achieve sales targets. Allison shared that 'it has been fantastic. Sales have rocketed again'. LIC leaves the remuneration of the individual sales people in market up to the distributors as commission and salary structures can be complex.

Networking and cooperation for identification of new opportunities

To identify new distributors or opportunities, LIC attends networking events, conferences and speaks with other New Zealand exporters that are based in Latin America. Allison explained that 'we cooperate a little bit and it has worked quite well'. Cooperation is important and particularly relevant for New Zealand firms who tend to have a small market share and often lack scale to compete on the global front.

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