

## Decision Making Factors for Country-of-origin Agriculture Branding in International Markets: The Case of Orchids in Taiwan

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### Abstract

The orchid is Taiwan's top flower export product. However, increasing competition from the Netherlands and China had a great impact on Taiwan's export. This research examines the question of what are the major considerations for using the Taiwanese Phalaenopsis orchid label for promotion in international markets. The results indicate lack of specialized chilled storage techniques and lack of quality standards are two important factors. In particular, product quality is a key consideration. The paper provides valuable insights in developing a country brand label for governments who are looking for differentiation of agriculture and food products in international markets.

**Keywords:** Country of origin; Branding; Agriculture; Orchid; Taiwan

### Introduction

With the increase in global economic activities, country brand is one of the strategies used to differentiate products and sustain competitive advantages. A strong country brand could stimulate exports and attract tourists, investments, and immigration [1,2]. A successful country branding strategy would assist in establishing a product's position, insulating the brand from competition, while enhancing the product line's market performance [1].

Country brand is defined as by Papadopoulos and Lee and Schaninger as "the country in which the product is manufactured or assembled." Martin et al. expanded this into "the country where the brand was originated and from which it takes its personality, regardless of where it is manufactured or the corporate headquarters of the brand's parent firm is located." We follow the later definition. A country brand belongs to the public domain. It entails collective involvement to attract consumers and appeal to their related stakeholders [3]. It concerns a country's whole image, covering political, economic, social, environmental, historical, and cultural aspects [4]. A product's country image may affect how consumers perceive products sourced in that particular country. A negative country image is likely to greatly limit the success of products and services in the global marketplace [5].

Research supports the idea that consumers are more willing to buy products from industrialized nations as a result of country equity [3]. In some instances a country may deliberately use its name to promote its products, for example Colombian coffee as a top-quality coffee [6]. However, country branding is complex because it encompasses multiple dimensions and disciplines beyond conventional branding [2,7]. Compared to manufacturing products, little is known about country branding of agrifood products [8-10].

The Phalaenopsis orchid is Taiwan's top flower export with more than 50% share of the total floral export value. The main export countries include Japan, America, Hong Kong, Vietnam, and the Netherlands. In recent years, Taiwanese Phalaenopsis exports on the international market have shown rapid growth, especially in 2006 and 2007 when there was 30% to 40% growth. However, increasing competition from the Netherlands and China, and the outbreak of the global financial crisis in 2008 has had a great impact on exports for Taiwan. In addition, although Taiwanese Phalaenopsis growers have advantages in breeding technology, they are mostly small scaled and thus cannot sustain their position in the light of the competition from international players. To increase exports and maintain competitive advantage, the Taiwanese government proposes to develop the nation brand for Phalaenopsis orchid product exported from Taiwan. This study seeks to advance understanding of the decision-making factors associated with developing a country brand in the international market. We sought answers to the following question:

What are the major considerations for using the Taiwanese Phalaenopsis orchid label for promotion in international markets?

To achieve our research objective, we review current literature related to branding decisions and examine the considerations of orchid producers. Our article is organized as follows: Section 2 presents a succinct background to the Phalaenopsis orchid industry in Taiwan. Section 3 reviews articles related to current branding decisions. Section 4 presents the research design and provides details on data collection. The results of our investigation are presented in Section 5. In conclusion, Section 6 discusses our findings, sketches in the research limitations and makes suggestions for future research.

### Phalaenopsis orchid industry in Taiwan

Orchid cultivation began in 1860 in Taiwan. The country has since been described as the "Orchid Kingdom", especially for the cultivation of Phalaenopsis orchid seedlings. The Phalaenopsis orchid is Taiwan's top flower export with more than 50% share of the total floral export

value. Japan and the United States are Taiwan's two main markets in the export of orchids, with the United States the bigger import country. In terms of the type of orchid products exported, potted seedlings constitute 80% of the total *Phalaenopsis* flowers exported, small tissue cultures make up close to 20%, and flash-cut orchids only about 1% [11].

The total number of *Phalaenopsis* orchid growers in 2005 was 371, 264 small-scale producers (under 10,000 square feet), 89 mid-sized producers (between 10,000-20,000 square feet), and 18 large-scale producers (20,000 square feet) [12]. The operation of orchid farms in Taiwan is tending to become larger in scale. In terms of the structure, a vertical chain of specialization among the various orchid farms is commonly seen.

Production of the forced-flowering *Phalaenopsis* orchid can be categorized into three types: seedlings from 1.5 to 2.5 inches, seedlings from 2.5 to 3.5 inches, and forced-flowering. According to a survey conducted in 2003, 37% of growers can cultivate these three types of products. They function as chain integrators by outsourcing contracts to smaller farms. Of the growers, 27% cultivate 1.5 to 2.5 inch seedlings, 21% cultivate 2.5 to 3.5 inch seedlings, and 12% are forced-flower growers [13].

The *Phalaenopsis* orchid is a special type of industry with production taking around two years. Breeding needs ten months, cultivation needs 10-15 months, and forced-flowering needs three months. A wrong prediction on consumer demand will cost dramatic amounts of money. The increasing competition from the Netherlands and China, and also the outbreak of the global financial crisis in 2008 had a great impact on Taiwanese *Phalaenopsis* orchid exports and international competition remains a continuous challenge for the growers.

## Literature review

This section reviews country-of-origin (COO) effects, and the decision-making factors involved in taking a brand onto markets. The decisions behind placing a country brand label have, until recently, remained relatively unexplored in the setting of industrial and agricultural marketing. Bell [14] cites external and internal factors that influence a firm taking a brand onto international markets. In our study, we use the same concept framework and extend it to the perspective to the orchid.

## COO effects

Brands are important, powerful, and effective because they integrate a consumer's rational evaluation of a product's functional performance with the emotional value of a brand [15,16]. A consumer's willingness to pay is positively affected by preference for a brand name [17]. When considering country brands, research related to COO effects falls into two opposing opinions.

## Positive effect

The literature suggests a positive COO effect on consumer purchase intention [18-20]. For example, Ahmed et al. [19] found that COO effects were stronger than brand effects for quality and attitude ratings, while brand was more significantly correlated with purchase intentions. A positive COO image compensated for a weak brand, suggesting that, where applicable, marketing efforts should emphasize an association with a positive COO perception.

## Weak or no effect

Other researchers hold different opinions [5,8,21]. Yeh et al. [21] state that each country has specific known products; even a country with a positive image cannot extend this advantage to all its products. This implies that country image varies across different products for every country. Manrai et al. [5] investigated the effect of COO on purchasing decision among different product categories (consumer packaged/convenience goods, shopping goods, and luxury/expensive goods) and concluded that evaluations of products and services rate highest for products sourced in countries perceived as highly-developed, followed by newly-industrialized countries, newly-developed countries and developing countries (in that order). Research supports the idea that consumers are more willing to buy products from industrialized nations because of country equity. In other words, the COO effects did not hold across different product categories.

## External decision-making factors of branding in international markets

**Possibility of internationalizing brands:** Internationalizing brands involves protectionism by foreign governments [14]. This includes setting political and juridical regulations, technological product requirements as well as the possibility to protect brands in the respective countries.

**Role of domestic government:** This includes export promotion, economic policy, and industrial policy in terms of subsidies and tax benefits [14].

**Brand image of competitive products:** A successful marketing strategy is related to a comprehensive understanding of the structure of product markets and patterns of competition in markets. Brand images of competitive products play an important role for the firm's own potential brand success in a foreign market [14]. Market competition involves pricing and advertising in conjunction with brand names and product features.

**Image of the country of origin:** The industry's country of origin is another decision-influencing factor when taking brands into foreign markets [14]. As mentioned in the previous section, country of origin could increase sales because it influences the consumer-purchasing decision. Many authors contend that country of origin has a significant effect with regard to perceptions of product quality. The strength of country brand image can be measured by a number of indicators, such as exports, attracting tourism, FDIs, immigration [3].

**Sales partners and their degree of globalization:** Bell [14] suggests that sales partners and their globalization degree could influence a firm's brand strategy. Large retail chains such as IKEA and Wal-Mart running sales outlets worldwide likely require standardized brands in each shop at a competitive price point. Thus, having globalized sales partners would encourage taking the brand in international markets. Srivastava and Shocker explain that customer actions or relationship would help to build brand equity.

## Internal decision-making factors of branding in international markets

**Product category:** Industrial and durable consumer goods are likely to have a higher potential of brand standardization than FMCG (fast-moving consumer goods, such as perishable goods) and they are more easily transported into international markets [14]. This is because

perishable goods require more speed, flexibility and reliability than non-perishable goods [22].

**Production factors:** When going international, the production-related resources required include technological expertise, management capacity, and financial assets. In general, the larger its size, the more likely a firm is to build a global brand [14].

**International experience:** This refers to international experience of the home country. Once a firm has a brand in a market, it accumulates knowledge of this market, which can then be employed to enter another market. It could be expected that companies with a presence in multiple countries and continents will be more aggressive in launching their products and brands globally. Companies are also more likely to introduce new brands and products in markets where they already have a presence in global place.

**Core competence:** Core competencies, or the collective learning and coordination skills behind the firm's product lines, are a source of competitive advantage and enable the firm to introduce an array of new products and services. A core competence can be the basis for a brand's unique selling proposition and brand positioning [14].

**Marketing experience:** Marketing experience or global market experience means experience or knowledge that provides input for market selection and economic rent in internationalization efforts [14]. A firm with considerable global market launch experience is more likely to enter a new market because it possess the necessary resources and capabilities to overcome the uncertainties associated with psychic distance and to pursue the profit opportunities.

**Culture and leadership:** Leadership could influence firm's performance or innovation, because leaders can directly introduce new ideas into an organization, set specific goals, and encourage innovation initiatives from subordinates. Bell [14] states that leaders of organizations with international marketing focus, the CEO or top management team, are expected to be able to articulate values, policies and geographic scope of a firm's activities, and know how to actively leverage human resources and their ideas and complaints. Leaders rely on globally experienced managers, demand exposure to different languages and cultures, and continuously rethink their company's goals from a global perspective. The go or not-go decision to enter an international market depends on the culture and leadership of a firm.

**Market attractiveness:** Market attractiveness is defined as the market related factors that provide motivation for launching a brand in a specific country. Market attractiveness may positively influence the propensity of a brand to be launched into a new market as potential demand is an important managerial consideration when entering a new market. Before introducing a product to a market, management has to make sure that the potential demand conditions are satisfactory for meeting profitability goals.

## Research Method

To achieve our research objective, we carried out an exploratory case study. The unit of analysis of our research is the Phalaenopsis industry in Taiwan. We used a single-case study because it can be more effective in providing theoretical insights than multiple cases. It can describe real-life contexts in which interventions have occurred and explore situations in which the intervention being evaluated has no clear outcomes [23].

Our interview protocol was based on a review of the literature for consistency and analysis (see Appendix). The investigation period was June to August 2009. We held face-to-face interviews ranging in duration from 60-120 min. With the interviewee's permission, we recorded all the interviews to facilitate coding and the interpretation of direct quotes, as well as to increase the accuracy of the findings.

In total, we interviewed 13 Phalaenopsis orchid producers in Taiwan (Table 1 for respondent profiles) whose major export countries are Europe and USA. Eight firms were medium-sized.

Respondent characteristics	Number
Total production area (square feet)	
<10,000	3
10,000-20,000	8
>20,000	2
<b>Export markets</b>	
Europe	13
USA	11
Japan	8
Korea	3
Australia	2
Canada	1
Middle East	1

Table 1: Respondent's profile.

## Results

We asked the 13 orchid producers in Taiwan for their opinions on adopting a COO brand in international markets. Table 2 presents their major considerations.

Producers	A	B	C	D*	E	F	G	H	I	J	K*	L	M	No.
Lack of chilled storage and shipping techniques	•	•								•	•		•	5
Lack of quality standards for orchids		•	•			•	•							4
Lack of global market information	•						•							2
Lack of a proper financial policy for orchid producers		•						•						2
Lack of sufficient loans for flower producers		•												1
Collaboration is not easy between producers	•													1

Table 2: Producers' problems in developing a COO brand for Phalaenopsis orchids.

### Factors influencing development of country brand

**Lack of chilled storage and shipping techniques:** Five producers pointed out that quality is the top problem in international business. For example, Taiwan’s airport has no specialized chilled facility for flowers and due to its different temperature requirements in nature, orchid quality would seriously deteriorate with cargo consolidation. How to upgrade the cold-chain cargo handling facility and techniques in international shipping to solve this problem is important.

**Lack of quality standards for orchids:** The second problem in developing a COO brand for the orchid is the lack of a common standard for quality. Four producers pointed out that it is not easy to have a COO brand for orchids in Taiwan because there are too many new varieties and cultivation techniques available. Technically it is very difficult to establish a common quality standard for all varieties. In addition, having a unique cultivation method is sometimes a marketing strategy for some producers.

**Lack of global market information:** Some producers said lack of global market information is a problem for promoting the country brand. The major markets of orchid flowers are developed countries in Europe, and the United States. Language is a significant barrier for entering these markets for the small growers in Taiwan. Due to a long cultivation procedure for the Phalaenopsis flower, market information is very important for production planning and network scheduling.

**Lack of a proper financing policy for orchid producers:** The government provides financial support to orchid growers, for example low interest loans. Small growers often obtain a larger share from the government and survive well for a short period. However, these subsidized growers eventually fail due to lack of competitiveness. Therefore, the government should consider other measures to ensure a fair market.

**Lack of sufficient loans to enable international competition:** In terms of amount of money Taiwanese orchid farmers are unable to apply for bank loans the way industrial manufacturers can. To date, bank policy limits loans to flower producers to no more than eighty million new Taiwan dollars, a sum that is far lower than required to build greenhouse facilities or cultivate flower seeds. This makes it hard to compete with international orchid producers.

**Cooperation is not easy between flower producers:** Our results show a lack of cooperation between orchid producers in Taiwan. The difficulties in building cooperation come from differences in size between producers, differences in flower products, and differences in reputation between producers.

### Suggestions for government

Regarding suggestions for the government (Table 3), producers recommend the following: provide global market information, establish an overseas office for patent application consultations, enhance R&D into cold-chain facilities and virus detection/prevention techniques, and offer seed testing services for best market selection.

To conclude, we compared our results with a review of the literature. Our findings suggest that product category, production factor, marketing experience, and culture and leadership are the most important decision-making factors involved when the industry decides whether to build COO branding for orchids (Table 4). We discuss these findings in the next section.

Producer	A	B	C*	D	E	F	G	H	I	J	K	L	M	No.
Offer special loan services for flower producers	•	•		•				•	•		•			6
Develop a quality assurance systems for flowers					•		•	•		•				4
Provide global market information	•	•						•					•	4
Establish an overseas office for pattern application services						•	•		•	•				4
Improve storage facilities										•			•	2
Offer seed testing services for best market selection										•				1

**Table 3:** Producers’ suggestions for government.

Lack of (specialized) chilled storage and shipping techniques (product category)
Lack of quality standards for orchids (production factor)
Lack of global market information (marketing experience)
Lack of a proper financial policy for orchids producers (role of domestic government)
Lack of sufficient loans for flower producers (role of domestic government)
Collaboration is not easy between producers (culture and leadership)

**Table 4:** Findings resulting from a comparative literature review.

### Discussion and Conclusion

The most often cited problem of using the COO Phalaenopsis orchid label comes with quality-related issues: lack of specialized chilled storage and shipping techniques and lack of quality standards. Unsurprisingly, the quality is set as the priority, because this factor is vital and customer satisfaction is built on the foundation of quality. Evidently, the Phalaenopsis orchid industry desperately needs a quality management program. However, according to the interview respondents, designing a producer quality management program is difficult because the Phalaenopsis orchid has too many varieties. This makes any standardization of both product and process quality and the development of specialized knowledge hard in the short term. This might account for low degree of willingness to collaborate between producers.

The literature provided explanations for the implementation difficulties of quality management program. The reasons include, for example, management commitment [24], differing attitudes between producers and their supply chain partners [25], perception that the cost an assurance system outweighs its benefits [25], and that program standards are controlled by producers [26].

We suggest that the management of Phalaenopsis orchid companies in Taiwan should commit themselves to the quest for quality and promote a quality culture.

This research provided a detailed look at the factors involved in deciding whether to use a country brand label for Taiwanese Phalaenopsis orchid promotion. Our study was limited in several ways that future research might address. First, although our results show that quality is the main reason for COO branding of Phalaenopsis orchids, we know little about other agrifood products, for example fruit and vegetables. Saffu and Scott [27] investigated Malaysian consumer attitudes toward high-involvement (such as computer) and low-involvement products (such as shoes or foods) and found that COO effects influence consumers' preferences differently in the case of high- and low-involvement products. Therefore, we assume that different types of industry players would have different factors and obstacles. Further research is recommended to test this notion in different types of agrifood products.

Another direction for future research is to investigate consumer knowledge of the Taiwanese Phalaenopsis orchid. The literature reveals that brand familiarity, objective product knowledge, or amount of exposure to news concerning a country are related to the extent to which consumers rely on country of origin in product evaluation [20,28]. We encourage future studies to include this aspect in further investigation.

A country's effort to build and manage its brand is framed by the behavior of its domestic stakeholders and factors such as trade promotion, industry associations, and national policies as well as the behavior of indigenous stakeholders when dealing with the outside world [3]. In our research we investigated the producers' point of view. We conclude that in the case of orchids, product quality is considered a top priority by all growers. Therefore, our research seems to be in line with the literature indicating a perceived association between quality and country of origin [21,29].

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