



Bromic Heating Co business exposure project to the Chile market

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Article history:

Received: December 5,
2017

1st Revision: January 16,
2018

Accepted: March 5, 2018

JEL classification:

D4
F16
L1

DOI:

[10.14254/jems.2018.3-1.8](https://doi.org/10.14254/jems.2018.3-1.8)

Abstract: The purpose of this article is to provide Bromic Heating (the leading Australian EGC Group company) with the necessary information in order to expand their operations into the South American market, and make recommendations on how this would be best practice achieved. The part of the South American market that EGC Group has recommended Bromic first expand to be Chile. This article contains a regional economic analysis, which showed South America's services sector accounted for 64% of its GDP, and of that 64%, tourism was responsible for 9%. Tourism is an industry that provides a lot of demand for products such as Bromic's, and this large percentage of GDP, as well as expected growth in this sector, makes South America a great region for Bromic's expansion. When deciding what country to expand to first, Chile was identified as the primary target, mainly due to the free trade agreement between Chile and Australia as well as its associate membership of MERCOSUR, the South American trading bloc.

Keywords: South America's regional economics, market size and PESTLE analysis, SWOT analysis, Hofstede's Cultural Dimensions, Power Distance, Individualism, Masculinity.

1. Introduction

South America's regional economics

In the past decade, the South American region has experienced strong economic growth fueled by high commodity prices and increased exports due to strong demand from other emerging countries. The region has saw a continuous decline in poverty and an increasing rise in wealth and equality throughout the years (International Renewable Energy Agency, 2016). The vast majority of the region's economic output is compromised by the countries Argentina, Brazil, Chile, and

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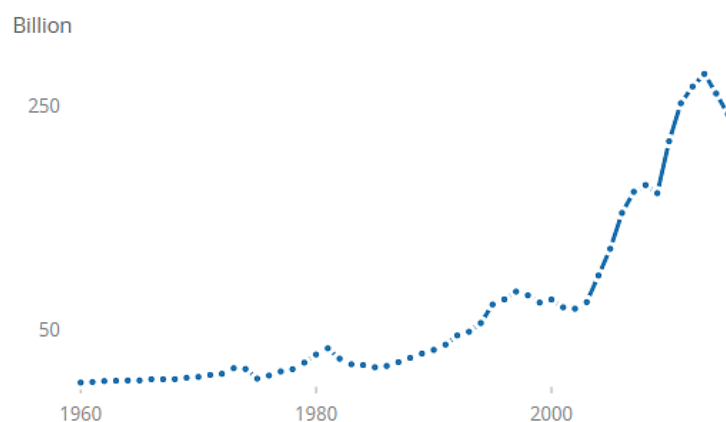
Colombia. In the recent years, few notable countries like Argentina and Venezuela are suffering from negative growth due to recessionary pressures and economic mismanagement though the whole region is still expected to trend upwards in growth in the coming years (International Renewable Energy Agency, 2016). The growth in the past decades has been mostly fuelled by the expanding industries and the services sector. The services sector accounted for 64% of South America's regional GDP. In 2015, 9% of the region's GDP growth was attributed to tourism this figure is only expected to grow in the recent years. Within the South American region, tourism revenues have managed to grow 50% in the last decade (International Renewable Energy Agency, 2016).

Seeing the growth in tourism, ECG groups recommends focusing on tourism-related industries such as Hotels, resorts, restaurants and bars in the vicinity of tourist hotspots. Though a few Latin American countries have faced economic downturns in recent years, tourism revenue is still maintaining growth. Specifically, the recommended main target market are medium-large hotel chains that operate within the Latin American Region. The main target, and focus of this article, will be Chile. Chile is an obvious choice because of the free trade agreement signed between Australia and Chile. Argentina and Chile are both natural choices as they are both are members of MERCOSUR regional trade block of which Argentina is a full member and Chile and Associate members. Having access to this trade block means relatively easier access to all other member countries which are Argentina, Brazil, Paraguay and Uruguay with Bolivia who is currently in the process of ascension to full membership.

2. Industry analysis

As mentioned the South American country EGC Group has recommended for investment is Chile. The history of the heater industry in Chile has been steady from 1994–2006 but as an increase in tourism and the growth of the hospitality industry continues, the growth of the heater industry follows. Global warming is a pressing issue with the mean temperature of Chile continuing to increase, this results with greater fluctuations in temperature creating warmer summers and cooler winters providing a greater demand for heaters (Berkeley Earth, 2017). The necessity of heaters in Chile are now an increasingly popular purchase made by individuals and businesses. With the growth of the tourism industry many businesses in the Hospitality industry have now decided that Heating is crucial to the survival of the business through the winter months. Despite the Brazilian recession, the discontent in government through the labor/tax reforms and the drop in copper prices a major export in Chile the GDP grew 1.7% in 2016 which shows the economic strength of the country (The World Bank, 2017). Prospects of the Chilean GDP in 2017 is forecast to further grow with China, US and Brazil all in demand for a reduced supply of copper. Chile in 2016 has suffered a slowdown in business investment due to the uncertainty of the current presidential elections in November 2017, but there has already been signs of a slight growth acceleration (HVS, 2017).

Figure 1: GDP (current US\$)



Source: <https://data.worldbank.org/country/chile>

In 2016, Chile experienced a strong increase in tourist arrival, increasing 26% (Index Mundi, n.d.). With foreign visiting rates forecasted to grow faster than the economy. The 26% growth was mainly from neighboring visitor countries such as Argentina. However, even though

Chile's tourism increased, the hotel occupancy rates decreased due to an oversupply of hotels. This oversupply may be beneficial to the heater industry with hotels looking for ways to stand out from the rest, looking at the unique designs by Bromic Heating.

A few of the main competitors include "Bond Outdoor Heating" and "Firesense" they are featured in a few of the online "Electrodomesticos" websites focused on selling electrical appliances in Chile, including "Bestbuy" (Chile), Linio.CL and Falabella.com (Best Buy, 2017). Looking at both these competitors you can see they both cover specific segments of the market with "FireSense" prices ranging from \$156 AUD for a 10,000 BTU heater to \$617 AUD for a 46,000 BTU heater. Bond Outdoor Heating are priced at \$629AUD for a 42,000 BTU heater to \$974AUD for a 46,000 BTU heater. Bromic Heating prices range from \$639AUD for a 7,000 BTU heater to \$2730AUD for a 39800 BTU heaters (Best Buy, 2017) The uniqueness of the induction heating may help businesses in Chile especially Hotels differentiate themselves from their existing competition. To further analyze the industry the use of Porter's five forces will help give an idea of the factors influencing the heater industry in Chile and the repercussions of these factors. The five forces include the threat of new entrants, threat of substitutes, bargaining power of customers, bargaining power of suppliers and industry rivalry. Firstly, in regards to the threat of new entrants, with not many globally known brands in this market, the threat of new entry is low. The market, being majorly untouched, does not have a dominant brand which controls the industry. However, the government regulation and foreign investment policies make it difficult for investment into the country thus limiting the number of competitors entering the industry.

- Secondly, in regards to the threat of substitutes, the demand for heaters in Chile is expected to grow but with this, smart induction heating is easily substitutable by gas heating, which uses simpler and cheaper technology to provide heating. The demand for Bromic will be based on the desire for a business/hotel to use stylish heaters to differentiate themselves from their competitors.
- Thirdly, concerning the bargaining power of customers, the bargaining power of online websites or shops willing to wholesale the heaters will be high. This is due to the fact that they will have the option of many other brands who will provide competitive prices for their brand to be featured in their shops. Individuals and business owners will have lower bargaining power since if they decide to purchase the unique design of Bromic to differentiate their business, they will be more inclined to purchase the heater.
- Fourthly, the bargaining power of suppliers, with Bromic having the option to manufacture their goods in another country with a large variety of suppliers needed to produce the heaters the bargaining power of the suppliers is low.
- Finally, the industry rivalry, with high barriers to entry into the heater industry in Chile, the few competitors selling heaters in Chile will provide intense competition with Bromic holding patents on the Smart Induction Heater they are able to reduce the competition within the market and reduce the industry rivalry making it easier for Bromic's success in the Chilean heater market.

Therefore, in the long-term with the growing economy and the growing demand for heater in Chile it would seem lucrative for Bromic Heating to expand into Chile. With little well-established competitors and a patented technology, it would be easy for Bromic Heaters to stand out from the competition (Bromic Heating, 2017a). In the short run however, the initial market penetration would be difficult with the government changing taxation laws it may initially increase the cost of investment as well as this the barriers of entry into Chile including language, culture, laws and regulations (HVS, 2017). These factors will all make Chile a difficult country to invest into in the short run.

Because of the analysis it is possible to see that there is a gap in the Heater industry in Chile and with the growth of complementary industry's such as the Hospitality and Tourism industry, demand for heaters will also increase. Even though government policies may slightly restrict foreign investment into the country, once established in Chile the economy proves to be strong and well established making it an ideal place to invest.

3. Market Size and PESTLE Analysis

Situated in a unique geographical position, Chile aims to promote not just tourism about its culture but special-interest tourism that showcases Chile's unique environment. Chile's tourism strategy included the construction of high-quality ecotourism facilities as well as supporting infrastructure. Santiago & Valparaiso, the two main central regions of Chile accounted for 65% of all tourists visiting the country and as such, has the highest concentration of hotels and other tourist facilities. Major hotel chains globally are found in this region. For example, Accor that operates

around 30 hotels in Chile which accounts for 50% of their portfolio in the region. Hilton as well as Hyatt also operate numerous Hotels in Chile. Other than foreign players, national chains such as Atton, Diego de Almagro also operates and are in the process of expanding (KPMG, 2014). In line with the Government's policies to develop eco-tourism, investments also being made in Chile's more remote and less developed regions such as Aysen and Tarapaca (KPMG, 2014).

Political. Relatively speaking, Chile is considered a politically stable country within the region with a stable democratic system in addition to strong rule of law and a demonstrably independent judicial system. Currently, elections are in process with Conservative Presidential candidate Sebastian Pinera having a wide lead over the other candidates. Pinera previously served as the Chilean president between 2010 and 2014. Due to his emphasis on commerce and economic growth, he is favored by the business community (Reuters, 2017). Presidents serve on a 4-year basis with no consecutive terms allowed.

Economic. Chile being the fifth largest economy in the South American region also has the highest GDP per capita within the region at \$14,000. With the stable political environment, the country has long enjoyed steady growth throughout the years with well executed macroeconomic policies. For 2016, growth was at 1.5% though this is expected to rise to 2.0% for 2017. Regionally, Chile ranks first place in terms of economic freedom as well as first for competitiveness due to efficient governance, low levels of corruption and strong institutions (Schwab, 2015). Ease of doing business is also favorable being only second to Mexico within the region. In terms of the tourism industry, Chile ranks 5th in the region according to the World Economic Forum's Travel & Tourism Competitiveness Report in 2017. In 2015, 4.48 million international tourists arrived into Chile and this trend is upwards through to 2020. In terms of GDP, the Tourism sector accounts for 3.5%-4% of Chile's Economy with it being forecasted to increase 5.3% annually through to 2020. (Rios, 2017). Chile has signed a comprehensive free Trade Agreement with Australia that entered into force in 2009. The FTA deal removes all tariffs on nearly all goods/services and investment which also includes Bromic goods. This is in comparison to the average tariff rates of 8.92% in the region across all products in 2016

Social. There are some issues with the indigenous population of Chile which accounts for around 8% of the population pertaining to issues of traditional lands and natural resource extraction. Protests regarding this issue sometimes turn into violent riots (Radwin, 2017). Lands rights issues and policy conflicts most are often centered around the Mapuche community which is by far the largest indigenous group in Chile (Radwin, 2017). Chile looks to improve and expand its mining as well as power projects which are often located in indigenous lands with often leads to tensions between the government and the various indigenous communities. Steps are being taken to address this tension including the proposal for increased participation in Government by indigenous communities as well as the systematic consultation process which gives a way for indigenous communities to have their grievances addressed and resolved. Aside from indigenous issues, other areas of concern include inequality in the country which is highest in the South American region (Deen, 2016). There are remaining issues with minority exclusion when it comes to workplace and education opportunities. Discrimination against women and pay imbalance is also an issue.

Technological. Chile being located in a relatively isolated region requires good telecommunications infrastructure to be able to connect with the global market effectively. As a result, Chile has invested and built one of the most advanced telecommunication infrastructure in the region with Nokia's Connectivity Scorecard ranking Chile second worldwide (KPMG, 2014). In terms of energy infrastructure, 99.6% of residents and commercial users have access to electricity though electricity prices for are the highest in the region with affordability especially being a problem in remote regions. There are some lingering issues with transmission due to congestion which also contributes to the high electricity price in the city (Roy, 2016). In general, electricity generation and transmission has not been in keeping up with the rising demand by industrial and commercial users leading to the expensive importation of foreign energy. In response, the Government has encouraged industry and commercial users to adopt more energy efficient measures and protocol. In addition, the Government intends to implement a large net-metering system in support of their Smart-Grid system (Dettoni, 2012).

Legal. Chile has a strong legal system based civil Law. According to the International Corruption Perception Index (CPI), Chile was ranked 24 out of 175 countries which puts in second in the region. When entering into any country, legal protection for IPs become one of the major determinants for attracting business and investment. Chile in the recent years has improved remarkably, in part to meet international standards that allow them to enter in numerous Free Trade Agreements including Australia (Department for International Trade).

Environmental. Chile like many countries in the region has a vested interest in having a robust renewable energy program. Chile even more so in order shift power consumption away

from expensive imported energy. Traditionally, government often looked towards the construction of more hydroelectric power plants to boost their share of renewable energy. However, these plants often translates to a large transformation geographically and ecologically as well as displacing the local population leading to mounting opposition towards the construction of more hydroelectric plants so the Government is increasingly looking towards solar and wind as being the next major source of renewable energy (International Renewable Energy Agency, 2016). To expand its renewable energy capacity, Chile seeks to triple its current share of non- hydroelectric renewable energy from 9.15% to 25%. Outline in their "National Energy Strategy: 2012-2030" the government also plans to reduce carbon emissions by 20% in total by 2020. Many government initiatives have been deployed in the energy sector to encourage investment to meet these goals such as financial incentives for innovative technologies in the sector as well as the wide scale deployment of smart-meters in household and business enterprises. In the long term, Chile also aims to have 60% generation from renewable sources by 2030 (International Renewable Energy Agency, 2016). A major concern for the energy infrastructure in Chile is that Chile is often exposed to severe weather conditions with high incidences of storms, floods, earthquakes, droughts as well as the ever-increasing risk of rising sea levels. These factors are also fueling the trend of residents as well as business to install their own energy production such as solar panels (Roy, 2016).

4. SWOT Analysis

The SWOT Analysis helps to identify internal strengths and weaknesses of the business and external opportunities and threats. After identifying internal and external factors, the business can assess whether they can use their strengths to take advantage of the opportunities and introduce their product, or whether they need to address the weaknesses and threats beforehand.

| | |
|---|---|
| <p style="text-align: center;">Strengths:</p> <ul style="list-style-type: none"> - Innovative, high value product <ul style="list-style-type: none"> - Well-known customers (ex. Hilton) - Rapid growth and expansion - Experience in international markets - Global standard product, doesn't need local modification | <p style="text-align: center;">Weaknesses:</p> <ul style="list-style-type: none"> - Little market knowledge of South American markets - No code of ethics - No local partner, business contacts or distribution networks in Chile |
| <p style="text-align: center;">Opportunities:</p> <ul style="list-style-type: none"> - Rising tourism & hospitality industries - Economic growth of Chile - Trade grants from Australian government | <p style="text-align: center;">Threats:</p> <ul style="list-style-type: none"> - High electricity prices - Environmental disasters (storms, floods, earthquakes) |

Srengths. Bromic's internal strengths are its innovative and high value products that promise quality, compliance, engineering, aesthetics, innovation and flexibility. Customers of Bromic are well known international Hotel Chains such as Hilton and Sheraton; and other businesses such as Westfield Group and Starbucks. Furthermore, Bromic has had significant projects such as Caesar's Palace and Disneyland. This gives Bromic a high reputation that it could leverage to gain more customers. Having already established an international presence in countries such as Germany and the United States, Bromic has already experience in entering new markets. The proximity of the US to the South American market is furthermore an advantage that can facilitate the entry into South America. Bromic has furthermore experienced rapid growth and expansion, that shows it's success and ability to further expand. Bromic's heating products are globally standardized products, which do not need many local modifications, and can therefore leverage global production efficiencies.

Weaknesses. One of Bromic's weaknesses is its lack of knowledge of the South American Market, that can create a few challenges for the business in regards to ethics, culture, sustainability and its strategy to enter the market. Without strong business relationships to local suppliers, distributors and customers, doing business might present a challenge to Bromic. By finding the right local partner/agent, Bromic could leverage business relationships/contacts, distribution networks and market knowledge (Export.gov, 2017). It is also important that Bromic learns more about the South American culture, as culture can also present many challenges especially when

establishing business relationships. Furthermore, a strong corporate culture and code of ethics will allow Bromic to avoid ethical dilemmas when conducting business in new markets. These weaknesses can be solved by culture and ethics training and management initiatives that aim to build a strong culture and code of ethics (see Cultural Challenges Section).

Opportunities. The opportunities that Bromic can find by entering the South American market is the economic growth and rise in the tourism industry. Especially Chile is a market that is not only growing, but has also high political stability and reliable legal systems that minimize the risk of conducting business there (see PESTLE Analysis). Furthermore, export grants are offered by the Australian government for companies that decide to export to Chile (Austrade, 2017a).

Threats. The main perceived threats to Bromic's products are the high electricity prices in Chile. Furthermore, environmental disasters such as storms, floods and earthquake can further disrupt business activities and distribution (see PESTLE Analysis).

Power Distance ↑. Characteristics:

1. Organisational arrangements show taller pyramids and low degrees of delegation.
2. Status symbols are used to underline power differences.
3. A hierarchical social structure and rather rigid social classes are present; common cafeterias are rare, privileges for the power holder's is common.

Tips: Acknowledge a leader's status. As an outsider, you may try to circumvent their power, but don't push back explicitly. Be aware that you may need to go to the top for answers.

Individualism ↓. Characteristics:

1. Blue and white-collar workers alike tend to look for more autonomy and variety in their positions, are far more assertive than in the past and do not hesitate to change employers. These changes can be expected given the increase of Chile's GDP and that economic development fosters individualism.
2. However, some paternalistic practices still remain in place, particularly outside Santiago.
3. Tips: Wisdom is important. Suppress feelings and emotions that may endanger harmony. Avoid giving negative feedback in public. Saying "No" can cause loss of face, unless it's intended to be polite. For example, declining an invitation several times is expected.

Masculinity ↓. Characteristics:

1. Both Chilean men and women show a modest behaviour or attitude.
2. Focus is on "working in order to live".
3. People need to feel a sense of "belonging" within a social group; they place value on warm interpersonal links and tacitly search for the approval of their group. Consequently, they tend to be supportive team members and managers strive for consensus.
4. People value equality, solidarity and quality in their working lives.
5. Conflicts are resolved by compromise and negotiation.
6. Incentives such as free time and flexibility are favoured.
7. Focus is on well-being and status is not shown or emphasised.

Tips: Success is more likely to be achieved through negotiation, collaboration and input from all levels. Avoid an "old boys' club" mentality, although this may still exist. Workplace flexibility and work-life balance may be important, both in terms of job design, organisational environment and culture, and the way that performance management can be best realised.

Uncertainty Avoidance ↑. Characteristics:

1. Strong need for rules and elaborate legal systems in order to structure life.
2. Contrary to general practice in other Latin American countries, Chile shows rather low corruption indices.
3. In line with its high Uncertainty Avoidance score and to some extent also fostered by its authoritarian past, there is great dependence on experts, the authorities, particularly among non-managerial employees.

Tips: Be clear and concise about expectations and goals, and set clearly defined parameters. But encourage creative thinking and dialogue where you can. Recognise that there may be unspoken "rules" or cultural expectations you need to learn. Recognise that emotion, anger and vigorous hand gestures may simply be part of the conversation.

Long Term Orientation ↓. Characteristics:

1. With a low score of 31, Chile is said to have a normative culture.
2. People in such societies have a strong concern with establishing the absolute Truth; they are normative in their thinking.
3. They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results.

4. Focus on the importance of short-term gains and quick results.

Tips: People are less willing to compromise as this would be seen as weakness. Flattery empowers.

Indulgence ↑. Characteristics:

1. Generally, exhibit a willingness to realise their impulses and desires with regard to enjoying life and having fun.
2. Possess a positive attitude and have a tendency towards optimism.
3. Higher degree of importance on leisure time, act as they please and spend money as they wish.

Tips: Don't take life too seriously. Encourage debate and dialogue in meetings or decision making. Priorities feedback, coaching and mentoring. Emphasise flexible working and work- life balance.

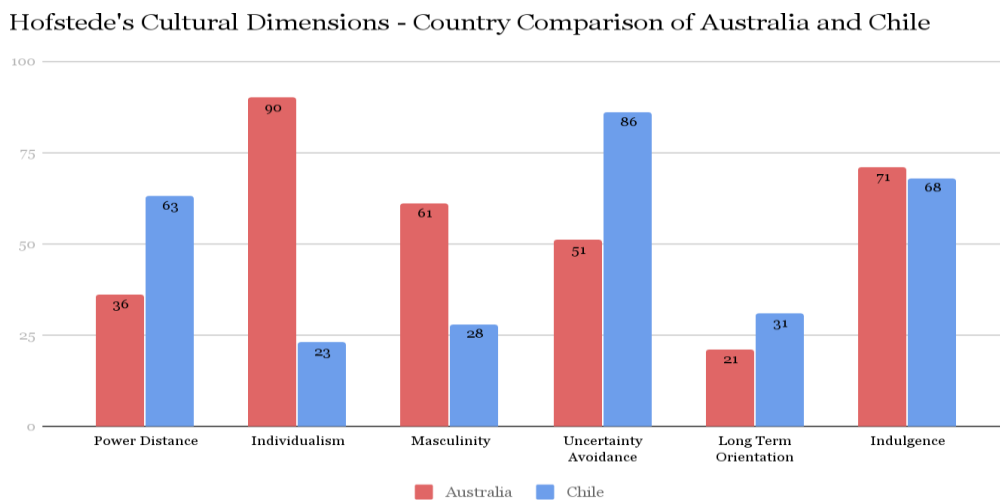
Cultural Challenges. "Culture is a complex cognitive system that comprises people's belief, knowledge, know-how, rules and value" (Husted, 2002). Culture is the lens that people use to understand the world they live in and the surroundings with which they interact. Understanding the culture of the country a company wants to enter is essential for business success. Values and attitudes impact business relationships and business conduct. Doing Business in another country especially where cultural differences are present is therefore a challenge for all companies (López-Duarte & Vidal-Suárez, 2010). To overcome those challenges, Bromic needs to understand the cultural differences of those markets it intends to enter and how to address those appropriately. Managers need to be aware of all cultural factors and know how they affect the transaction of business, in order to reduce the possibility of error in business activities. Understanding how people in their target markets think and what they value is necessary to establish and build relationships with clients and partners that are based on mutual trust and long-term views (López-Duarte & Vidal-Suárez, 2010). Studies for example show that honesty and responsibility were considered most important values under business executives in South America, while independence, intellect and open mindedness were given less importance (Osland et al. 1999).

Cultural Dimensions. Cultural dimensions identified by Hofstede (1997) such as Power distance, Individualism vs. Collectivism and Masculinity vs. femininity have huge impacts on business activities and processes, and managers need to be mindful of the differences between their cultures. According to Hofstede's dimensions South American culture is characterized by high levels of power distance, uncertainty avoidance and collectivism, thus making well- established business relationship essential for doing business. While the high levels of power distance indicate that for South Americans leaders deserve special privileges and benefits; the high levels of collectivism is reflected in the major role that family and close friends play in the life of individuals. In collectivistic countries such as in South American countries, people show preferences toward members of the in-group. Members of the group place the goals of the ingroup over the goals of the rest of the society (Husted, 2002). When conducting business, this means that personal, family and company background are important. Finding the right local agent is key to competing in Chile. Through a local agent Bromic can leverage the agent's business and social connections to open doors and overcome regulatory as cultural and language barriers (Export.gov, 2017). South Americans like social structures that are established on friendship and prefer good interpersonal relationships, which are considered more important than expertise and competence (Export.gov, 2017). Being relationship focused, South American business people put high importance on relationship building meetings such as dinner, entertainment and social gatherings. Thus, it is critical for Bromic to invest time to build and develop relationships that will be essential for business success (Austrade, 2017a). Culture training and etiquette for business meetings are important to be familiar with for Bromic, in order to facilitate the partnerships and negotiations. In Chilean context face-to-face meetings are preferred over the telephone or email correspondence. Negotiations are normally straightforward, but a written confirmation of an agreement is always important.

For business dinners, it is important to know that it is considered rude to leave directly after the meal, and topics such as politics and human rights are not seen as appropriate for a light conversation (Kwintessential UK, 2017). On the other side, since family plays an important role in Chileans lives, showing interest for the business partner's family is polite (Osland et al., 1999). Initial business meetings should be used to build relationships and establish trust, as Chile is a relationship driven culture. It is important to devote time to non-business discussions and wait for the other partner to start the change in topic. Other business etiquettes, that are important to know, is not to openly criticize or confront anyone in order not to jeopardize the other's honour (Commisceo.global.com, 2017). These are just a few examples of that Bromic has to learn through culture training programs and shows the importance of this knowledge.

Therefore, knowing the culture of the country the business wants to enter is essential for analysing the environment, planning approaches for negotiations, marketing and building relationships with partners and clients, and its business success in that country. Although there are many cultural similarities across South American countries, it is important to notice that there are also profound cultural differences that one should not ignore and be aware of when targeting different countries in this area. Cultural differences can be found in the same country between rural and urban areas for example. International managers need to recognize these differences and the impact they have on business activities, and address intercultural challenges appropriately. Although senior leaders in South America often speak English, Australian companies that have Spanish speaking staff or partners benefit and have an advantage especially when conducting negotiations at middle management levels (Austrade, 2017a). As effective communication is a significant factor in order to achieve good cooperation between partners, proficiency in the Spanish language is highly recommended (Austrade, 2017a). With EGC Group Bromic would benefit from a global expert team that has knowledge about the South American market and Spanish speaking staff, facilitating the entry into these markets and the establishment of critical business relationships. Furthermore, Bromic's staff would need culture training in order to understand the South American culture and their values. These will be essential when establishing important relationships with partners and clients that are key to business success in South America.

Figure 2: Hofstede's Cultural Dimensions – Country comparison between Australia and Chile



By understanding the culture of another country, it can help a business grow and overcome the barriers to cross-cultural communication. Hofstede's cultural dimensions, a model by Geert Hofstede, can be used to understand cultural differences based on the six dimensions: Power Distance Index (high versus low), Individualism Versus Collectivism, Masculinity Versus Femininity, Uncertainty Avoidance Index (high versus low), Pragmatic Versus Normative, Indulgence Versus Restraint – all of which are scored on a scale of 0 to 100.

Below is an explanation of the scores from the Hofstede Insights website, as well as general tips according to the scores given.

Ethical considerations. The Latin American region holds lower ethical standards compared to more developed countries due to the impact left on individuals, organisations and the economic systems from the political situations of the past. There is a mixture of excessive expenditure due to materialism and greed among those who are of higher positions in their organisation, in contrast with the poverty of some of the developing countries within this region. Chile has a socially conservative and largely Catholic culture, however, the lack of educational instruction has led to religious faith and business practices to be regarded as separate matters (Arruda, 1997). Even with over 10 years of political stability, the culture reflects the legacy of having a military dictatorship – Chilean people are passive in nature with low levels of participation in civil society. However, this is slowly changing as some Chileans are beginning to show a commitment to social and economic development (Beckman et al. 2009). The major ethical challenges in this region are (Arruda, 1997):

1. **Materialism and selfishness** – ethical behaviour is disregarded, leading to corruption. It is important that the organisation emphasises the importance that ethical behaviour will benefit them, creating profit in both the immediate and long term.
2. **Employee pay** – there are issues with companies not paying their employees well, as well as the lack of seriousness employees have towards their work. Adopting the workplace

standards and codes of conduct used in Australia, they can have a positive impact and raise the standards of the employees in Chile.

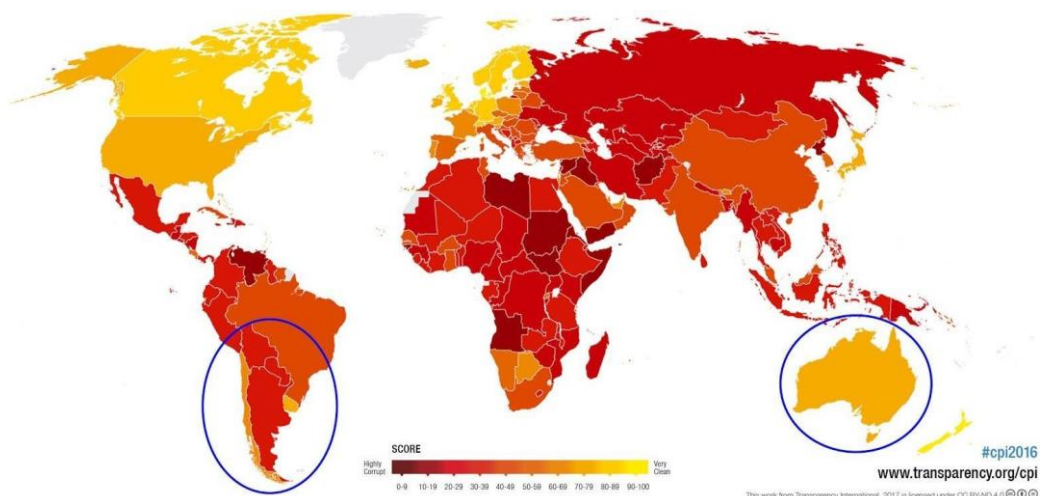
3. **Social values and religion** – these influence the ethical behaviour in this region. There are some organisations that use religious principles to support their ethical behaviour using the penalties and punishment as a motivation resource, while on the other hand, not all practice their religion and ignorance is shown to be a major problem.
4. **Foreign influences** – it can impact both positively and negatively on their conduct. Developed nations in particular play a large role in being able to enhance their ethical behaviour and commitment.

Corporate Social Responsibility (CSR) plays a major part in business ethics, although in some regions of the world, they hold separate meanings. In the Latin American region of South America, business ethics is regarded as focusing on internal organisational ethics, while CSR is on the external organisational responsibilities. From the research of Beckman et al. (2009), of the five dimensions of CSR – environmental, social, economic, stakeholder and voluntariness dimensions – a 2005 survey suggested that CSR in Chile focused encompassed two dimensions: raising workers' quality of life, as well as good labour practices and making a commitment to the community. Their focus is mainly on social problems such as poverty, education and health care. There is a growing awareness of CSR in Chile as it is seen to be important to the corporate agenda. Beckman et al. (2009) note that from their research, participants say that CSR should be an integral part of a company and is part of an organisation's decision-making criteria. CSR is viewed to be beyond legal obligations and philanthropy, and are conscious-driven, morally correct actions as well as a factor that gives legitimacy to a company.

We can recommend using a triple bottom line approach – the economic, social and environmental factors that are part of an organisation's CSR – and therefore, taking into account of not only profits, return on investment and shareholder value but also social and environmental impacts of decisions and actions they are involved in (ASEAN CSR Network 2017). CEOs and top managers need to demonstrate consistent ethical conduct and advocate their company's mission clearly, giving an example to their employees on the proper behaviour until an ethical climate has been established within the company. Such an environment will also benefit the consumers, clients, suppliers and stakeholders.

Corruption Perceptions Index. Corruption is an issue that is very present in Chile and should be regarded as a business risk. The Corruption Perceptions Index (CPI) gives a good indicator of the perceived levels of public sector corruption in 176 countries/territories and provides transparency by highlighting information on “shady deals, weak enforcement of rules and other illicit practices that undermine good governments, ethical businesses and society at large” (Transparency International 2017). Chile is ranked fairly high in the CPI at number 24, falling in the middle of the scale with a score of 66, compared to the rest of the Americas region of which they have an average score of 44 out of 100 in the CPI 2016. However, Chile's score of 66 has been affected by cases of corruption, such as the Chilean President's daughter-in-law being charged in a corruption case for tax fraud.

Figure 3: Corruption Perceptions Index (CPI)



Source: Transparency International, 2016

Table 1: Corruption Perceptions Index 2016

| Rank in 2016 | Country | 2016 score | 2015 score | 2014 score | 2013 score | 2012 score | Region |
|--------------|-----------|---------------|---------------|---------------|---------------|---------------|--------------|
| 13 | Australia | 79 | 79 | 80 | 81 | 85 | Asia Pacific |
| 24 | Chile | 66 | 70 | 73 | 71 | 72 | Americas |

As an Australian firm, Bromic will need to be aware of the Australian laws and the Chilean laws when operating in Chile. Austrade suggests that Australian firms wishing to operate in Chile should commit to the highest level of corporate behaviour and familiarise themselves with Australia's laws and penalties. Austrade (2017) states that "Bribery of foreign public officials is a serious crime under Australian law, punishable by fines and imprisonment. Australian individuals and companies can be prosecuted in Australia for bribing foreign officials when overseas. In addition, most foreign countries have laws that prohibit offering or giving a benefit to government officials to improperly influence their actions."

Recommendations from Austrade for Australian businesses operating overseas:

1. Implement an anti-foreign bribery and corruption compliance program.
2. Understand that making facilitation payments (i.e. unofficial payments to secure or speed up a routine governmental action) are illegal in most foreign countries.
3. Conduct appropriate due diligence before engaging and using third parties, such as agents and business partners, in foreign countries.
4. Take care to spend time investigating the market.
5. Obtain professional advice where appropriate.
6. Investigate the issues in entering the market and before establishing business relationships.

Be aware that the Australian Government is currently considering strengthening its anti-foreign bribery laws. This includes the potential introduction of a new corporate offence of failing to prevent foreign bribery. By taking care and being aware of the country's situation and the presence of corruption, it improves employee views of the workplace and raises the standards of behaviour – particularly in Chile where corruption is seen as commonplace.

Labour & Workers' Rights. In line with the ethical considerations, employee pay is another concern. There is legislation in place to regulate labour in Chile and protect the rights of employees, while providing employers necessary flexibility to do business. Chile's Labour Code (Codigo del Trabajo) entered into force in 2003, and was last consolidated in 2011. 'This is Chile' – the Chilean government's website used for promoting their country, highlights several points in their labour legislation:

1. There is full freedom to hire – to the extent that the minimum benefits of employees protected by law are observed (workday, minimum wage, and vacation and holidays).
2. The law specifies a maximum of 45 working hours during the week and no more than two hours of overtime per working day. The law also covers part-time work.
3. Employers are obligated to provide a minimum of one day of rest per week, in addition to any national holidays.
4. Each employed person has a right to 15 working days of vacation per year, which corresponds to 21 consecutive days, or three weeks, during which the employer must continue paying the employee's regular salary. Women in Chile have the right to take time off from work before and after giving birth.
5. Currently, the minimum wage rate is CLP\$265,000 per month (USD\$408) for workers aged 18–65; CLP\$186,631 for workers younger than 18 and older than 65 (USD\$276); and CP\$161,265 for 'non remunerative' purposes (USD\$238). Chile's minimum wage was last changed 1st January 2017.
6. Contractual modifications requires consent of the employee.
7. Employers are legally required to offer a bonus in the event that the firm earns profits. In certain cases, a percentage of profits earned must be distributed to all workers.
8. There is freedom to terminate working relationships with employees. However, employers must justify the dismissal. It is also the obligation of a company to provide severance pay as stipulated by law.

Energy Pricing Considerations: Chile and the Region. Energy pricing diverges considerably in the Latin America region depending on the energy mix of each country. For natural gas and gasoline, prices are lowest for Venezuela as a result of high government subsidization.

Other countries in the region like Brazil and Uruguay which are net natural gas importing countries have much higher gas prices. Chile and Uruguay also have high gas prices when compared to Venezuela. Across the region, commercial users of gas have access to lower gas prices than their residential counterparts. In terms of electricity pricing, Venezuela and Argentina tend to have strong electricity subsidization resulting in lower prices in the region. On the other hand, Chile has the highest electricity prices of the region. Chile on the whole as high gas as well as electricity prices which is a potential impediment to the spread of Bromic products as these products are on the more energy intensive side of electrical appliances especially when deployed on a commercial scale. With Chilean electricity prices being one of the highest in the region, operating costs through the product lifespan will be a major factor for potential customers looking to deploy Bromic products on their premises.

Sustainability & Infrastructure Considerations. Overall, Latin America contributes relatively little to global greenhouse emissions, government have been enacting policies to promoting and maintaining a low-carbon energy mix. This is in part shaped by the region's increasingly unusual weather conditions and the government's pursuit of energy security. As such, many South American countries has prioritized the development of renewable energies with government initiatives such as promoting the installation of solar panels in residential and commercial buildings (International Renewable Energy Agency, 2016). As many of Bromic's products have certain energy usage requirements, where this energy comes from and at what cost become an important factor for consumers. Many countries in the South American region including Chile are well suited for renewable energy sources such as solar and wind energy due to their location. In line with government initiatives to promote renewable energy use, Bromic can consider modifications on their products to be compatible with solar panels or other renewable energy sources. Having the heating appliances run partly or completely on solar panels for example would translate to lower operational costs of the product through its life cycle. Solar energy is of particular interest as Chile is current record holder for the lowest price of solar power at %29.10 USD per MWH from the Spanish developer Solarpack Corp (Anon., 2016). Solar powers also offer an alternative to connecting to the power grid and can deliver power when the power grid is unstable or suffering from transmission issues. As even the LPG version of Bromic's heaters need electricity for ignition, modifying these heaters to be compatible with an external powers source aside from the grid would make sense from a cost and redundancy perspective. Lower operational costs of the heating appliances would be more attractive to business owners and potential clients. In addition, expertise and experience in Research and Development for this particular region in environmentally-friendly products can be transferred to other regions that Bromic is operating in. With the world-wide trend towards greener products and process, the benefits of developing such a product would not be constrained to the South American Market but can also be used for other markets. In the long- term, Bromic's commitment to greener products can become a competitive advantage.

Channel to Market. There are 3 potential options that present themselves as a channel to market strategy for Bromic:

1. Direct sales
2. Agent
3. Distributor

Direct sales: FDI option. The first strategy of direct sales has various positive and negative aspects. It provides Bromic's management and sales team with direct access to the customers, as well as direct negotiation in terms of pricing, and allows Bromic to retain the whole profit margin (B2B International, 2017). However, due to the high barriers of entry into the Chilean market for Bromic mentioned earlier in the report such as language, culture and regulations, as well as the financial commitment (FDI) makes this a risky proposition. Although it is quite risky, if the following recommended method of expansion results in a successful market penetration, Chile is one of the easiest places to set up and incorporate a company, with the process only taking one or two days, with several options in terms of operating structure available to Bromic (Austrade, 2017a). It also has one of the lowest corporate tax rates in the Americas (24%) and in the South American region only Ecuador (22%) is lower (Trading Economics, 2017). The combination of these favorable conditions make Chile an attractive location for a possible future South American office/subsidiary for Bromic, even though it currently is not viable.

Agent and Distributor: Export Options. The next two strategies are both export options, which will take advantage of Australia's free trade agreement with Chile (ACI-FTA). The first is a distributor, who buys goods for resale, and an agent, who acts as a representative for Bromic in the Chilean market. The strategy that we recommend Bromic to adopt of the two is an agent approach, however find an agent that has some characteristics of a distributor. There are several reasons for the recommendation. Firstly, an agent, compared to a distributor, allows Bromic to maintain

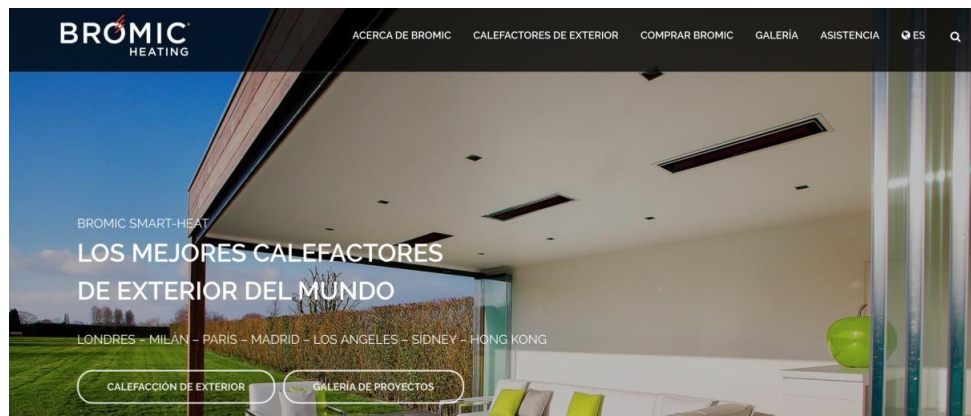
control over the marketing, branding and pricing (Austrade, 2017b), which will help to keep the direction and image consistent with Bromic's global strategy. However, because the agent has superior cultural, linguistic and market experience compared to that of Bromic, a degree of autonomy can be applied to enhance the marketing of Bromic's products. The agent will also preferably take on some responsibilities similar to those of a distributor: such as warehousing, backup services and payment processing. Whilst this will prove more costly financially for Bromic, the agent's expertise in this area will allow expansion to save time, be more efficient, and ultimately, more successful. Requirements of the agent:

- Experience in marketing and sales of similar heating, gas or electrical products
- Financial stability and reliability
- Geographical coverage of areas such as Santiago, Valparaiso, Aysen and Tarapaca
- Warehouse size and location
- Expertise and experience in promotional campaigns and working with marketing budgets

Promotional Campaign. In terms of a promotional campaign, we recommend that Bromic outlines the requirements for the agency which would align with their global branding and positioning as a high value, innovative product. They would be in control of the focus and direction of the campaign, however as mentioned previously, due to the agency firms' local expertise and knowledge, they be required to tweak and adapt Bromic's vision to be effective in the Chilean market.

Application of Existing Promotional Material. An advantage for Bromic expanding into the South American market, and specifically Chile, is that they already have experience in a Spanish speaking market (specifically Spain). This means that there is a range of promotional material that already has been applied in this market that is either directly applicable to Chile, or that requires only a slight change due to regional variance in grammar, vocabulary etc. For example, Bromic already possesses an extensive Spanish language version of their website.

Figure 3: Bromic's Spanish language website, readily accessible to potential Chilean customers



Resource: Bromic Heating, 2017b

Trade Shows and Fairs. There are various trade shows and fairs in Chile where Bromic, either in collaboration with the agency or the agency on behalf of Bromic, would benefit greatly from attending in relation to the promotion of their products. Two examples are ELECGAS, in Santiago, which is an expo dedicated to the domestic energy development and its challenges (EventsEye, 2017), and VYVA Fair, a travel and tourism fair (10 Times, 2017). Trade shows such as these would allow Bromic to gain brand exposure and allow them to talk to potential customers, as well as gain a better idea of potential competitors.

Appendix A. Supplementary material

Supplementary data associated with this article can be found, in the online version, at <https://dx.doi.org/10.14254/jems.2018.3-1.8>.

Funding

The authors received no direct funding for this research.

Citation information

Serbin, S., & Serbin, A. (2018). Bromic Heating Co business exposure project to the Chile market. *Economics, Management and Sustainability*, 3(1), 79-93. doi:10.14254/jems.2018.3-1.8

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