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# MASTEROPPGAVE

## Problems of Expansion for Nepalese Noodles Industry

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## **LIST OF ABBREVIATIONS**

CG	-	Chaudhary Group
CGFN	-	CG Foods (Nepal) Private Limited
CSR	-	Corporate Social Responsibility
FDI	-	Foreign Direct Investment
FMCG	-	Fast Moving Consumer Goods
GDP	-	Gross Domestic Product
HACCP	-	Hazard Analysis & Critical Control Points
HSNPL	-	Himalayan Snax & Noodles Private Limited
MSG	-	Monosodium Glutamate
NGO	-	Non-governmental Organization
NRs	-	Nepalese Rupees
NS	-	Nepal Standards (Certification Mark)
Plc	-	Public Company Limited
Pvt. Ltd.	-	Private Limited
SAARC	-	South Asian Association for Regional Cooperation
WTO	-	World Trade Organization

## ABSTRACT

Instant noodles are very popular around the world and the market for instant noodles has been growing every year. Instant noodles are popular in Nepal too and the Nepalese noodles industry has shown the prospect of growth in the international market. Nepalese noodles is some of the domestic industries in Nepal which has shown a positive sign of growth in the international market despite the obstacles it faces in the domestic and international market. Therefore, this study is forwarded with three research questions: (1) are the problems faced by Nepalese noodles industry? (2) How can the Nepalese noodles industry survive in the global market? (3) What are the competitive advantages of the Nepalese noodles industry compared to the other global noodles industries?

The research questions are backed by the necessary theories and data. The main objective of this study is to give information about the noodles industry of Nepal and how they can optimize their potential in the international market. This study addresses the problems of the noodles industries of Nepal and its problems in expansion in the international market.

I have used the primary and secondary data source to collect information about the noodles industry of Nepal and its market. Noodles industry is one of the biggest industries in Nepal with the scope of expansion to the foreign market. It is growing in size every year even in the domestic market. So, I chose this industry to write my thesis. In this research paper, I have given information about the Nepalese noodles industry, its strengths and weaknesses, the scope of Nepalese noodles in the international market and how Nepalese noodles industry can capture its share in the international market. Nepalese noodles industry faces many obstacles and competition in the international market. This study has tried to discuss these obstacles and the ways in which Nepalese noodles industry can tackle these problems.

## **Chapter 1 : INTRODUCTION**

The production side of business activity is referred as industry. It is a business activity, which is related to the raising, producing processing or manufacturing of products (Gaurav Akrani, 2011). Industry is the backbone of every economy. The base of the economy of every country lies in the industry of the country as it is one of the main sectors which help to boost the country's economy. A group of manufacturing companies which produces similar kinds of products form an industry. Many developing and developed countries rely heavily on manufacturing industries for boosting their country's economy. People's Republic of China is on the example of the country that relies significantly on manufacturing industries. The products produced in China are available all over the world as it is significantly lower in price than the products produced elsewhere in the world. It has turned itself into one of the largest economies in the world with the help of the manufacturing industry. So, manufacturing industry is of great importance to any country. The history also shows that many countries rose to power with the rise in their manufacturing industry due to industrial revolution.

The world has turned into a global village today. Now, due to the advancement in technology, the world no longer seems so big. There are many multinational companies operating all over the world these days. The market of a country is not limited within its borders. Trade has expanded beyond any country borders. A new product produced in one country gets available all over the world in few months these days. A product produced in one country is exported to another country. The countries in certain regions which are closer to each other form a pact and let a product of one country pass freely from one country to another within their member nations. WTO (World Trade Organization) has been advocating about free trade around the world without any barriers. Due to the access of markets over the boundary of a single country, the manufacturing industry can grow larger in size.

The world has not only turned small with the advancement of technology, but also it has turned extremely busy. With the help of the new technologies, people do things faster with great efficiency. This has led people to do great amount of things in a little time. The people are getting busy and lazy. They do not like to waste much of their time and energy in the things that they do not value more. People do not even like to waste much of their time in cooking these days. So, most of the time they prefer to eat fast food or junk food as it is easy to prepare and does not waste much of their time. Due to this reason fast food/ junk food are getting increasingly popular all over the world.

Fast foods are the foods that can be prepared quickly and junk foods are the pre-prepared or packaged food. These foods do not take much time to cook and are also tasty, so they are quite popular among the people of every age group. The market of the junk foods is growing every year. There are a number of junk food production companies in the market and they are growing in size with the growing popularity of the junk foods. Noodles are also one of the junk food which is growing in its popularity and market size every year. The noodles companies are



producing noodles in large variety and taste so that the consumer of the noodles never get bored by the same taste every time. This has led to the increase of the noodles market globally.

Nepalese noodles industry started in the 1980's with the establishment of Gandaki Noodles. There are many noodles companies in Nepal today as the noodles have been extremely popular in Nepal. The market of Nepalese noodles companies have not only been limited within the country's boundary but also it has been exporting its products to various countries. It still has the potential and scope to expand more.

## **1.1 Motivation of the Study**

Noodles are a very popular item in Nepal. The market of instant noodles in Nepal is increasing every year. Noodles are found in every part of the country. Noodles can be found even in remote areas in Nepal where there is no availability of transportation. Noodles are fast and easy to cook. Noodles are not only easily available in the market but also it comes in various flavors and has a good taste. Instant noodles can be used as a snack and can be carried with a person while travelling.

The market of Nepalese noodles industry is has grown beyond the country's border. It is one of the few items in Nepal which is exported from Nepal. The market of instant noodles has not only been rising in Nepal, it has been rising all over the world. So, it has not been much of a problem for Nepalese noodles industry to penetrate and survive in the new markets. Nepalese noodles are getting exported all over the world and it still has the potential to grow. Nepalese noodles industry has the potential to turn into a multinational company and operate all over the world like many of the existing multinational companies.

I chose the topic "Problems of expansion for Nepalese Noodles Industry" because even though the market of Nepalese noodles industry is rising and it has great potential to turn into a global company there are certain national and international problems that stands as a barrier in the growth of the Nepalese noodles industry. In this study, I have tried to identify the things that stand as a barrier in the expansion of the Nepalese noodles industry.

## **1.2 Research questions**

This master thesis is the continuation of my previous project paper. This is a study on the Nepalese noodles industry and the problems in their expansion. This study aims to give the information on the current market situation of the different noodle companies of Nepal, the countries the noodles are exported to and the problems that arise for the Nepalese noodles industry in the expansion of the industry beyond the national boundary. To achieve the aim of the study three research questions are formulated and discussed briefly below:

- 1. What are the problems faced by Nepalese noodles industry?**
- 2. How can the Nepalese noodles industry survive in the global market?**

### **3. What are the competitive advantages of the Nepalese noodles industry compared to the other global noodles industries?**

Nepal is a developing country and it faces several problems in the field of manufacturing industry. The aim of this study is to identify those problems which are dragging the Nepalese noodles industry back. These problems are the main obstacles in the expansion of the Nepalese noodles industry in the global market. These problems not only trouble the Nepalese noodles industry but also decrease their competitive power in the international market.

To avoid these obstacles from taking great effect in their competitiveness in the global market, Nepalese noodles industry need to think of several strategies which will help them not only to survive in the international market but also well establish them. The aim of this study is to find answer to these questions using the different theoretical approaches and the collection of data regarding the Nepalese noodles industry from various sources.

### **1.3 Structure of Thesis**

The structure of this master thesis is the framework made up of 6 chapters. The first chapter provides information on the introduction, motivation of the study research questions and structure of thesis. The second chapter is the theoretical framework which provides information about the theories used during this study. The third chapter is the methodology which provides the details of choice of research designs, data collection procedures, data analysis, validity and reliability of the study and finally provides the summary. The fourth chapter provides information about the Nepalese noodles industry and the different companies operating in the industry. The fifth chapter aims to feed all the empirical findings for the study collected through primary and secondary data source. At last, the sixth chapter provides valuable information regarding the findings of the study which is the conclusion of the study.

## **Chapter 2 : FRAME OF REFERENCE**

### **2.1 Export Marketing**

According to Hess and Cateora, “Export marketing is the performance of business activities that direct the flow of company’s goods and services to the consumers or users in more than one nation.” Export marketing is the process of exchanging goods and services between the residents of one country to the residents of another country (Acharya, W.K, S., Jain Khushpat & Ali, Shaukat, 2010). So, export marketing is the marketing activity that is focused on the flow of goods and services from one country to another.

Export marketing is related with international marketing as the goods and services of one country cross the national borders and reach the foreign countries. As, export marketing is concerned with trade activities related with two different nations, there are many difficulties in export marketing. The main functions of Export marketing defined by W.K. Acharya, Shaukat Ali & Jain Khushpat S. in their book “Export Marketing” are as follows:

➤ **Export Marketing Research**

The needs and requirements of the consumers differ from region to region. So, an exporter must make a proper market research about a certain market segment in which it is going to enter. An exporter must know about the preferences of the targeted customer. If the exporter supplies the products which are not wanted much by the targeted consumer segment then it is not going to have any impact on the market. So, the exporter must know about the needs and requirements of the customers of the selected target market.

➤ **Research and Development**

An exporter must invest in the research and development so that it can be updated with the latest technology. Technology is an important factor which is helpful to build the strength of the exporter in the foreign market. Any exporter with the latest technology can dominate the international market. So, an exporter must invest in research and development.

➤ **Export Financing**

Exporters require financing to expand their trade. When the trade expands beyond country borders, obviously the firm requires more finance. Exporters require finance in every phase- from the production of the product until it is delivered to the suppliers in the foreign market.

➤ **Export Production**

Price is an important factor when a product is competing in any market (either national or international). If the price of the product is below the competitor’s price, the product can be a huge success in the market. To lower the price of the product, it should be produced in bulk quantity. Production and transaction of the

products in large quantities and full utilization of resources leads the company to economies of scale which reduces their cost of production. This leads to decrease in the price of the product and the exporter can gain advantage.

➤ **Export Packaging**

Packaging plays an important role in the sales of the product. An attractive and durable packaging not only protects the product but also attracts the customers towards buying that product. Some countries also have a certain set of standards for the packaging of product. An exporter must know about those standards and set the packaging according to the standards before exporting the products.

➤ **Export Pricing**

While charging the price of the product in the foreign market, the exporter must be aware of the market condition. An exporter must be aware about the price of the competitor's product. Then only the exporter has to set the price of its product in such a way that it can compete and capture the foreign market quite easily without much difficulty.

➤ **Export Procedure**

Export procedure is a very lengthy and complicated process. It consists of many procedural formalities like registration formalities, customs formalities and licensing formalities. An exporter should be well aware of all those formalities before exporting the product. Only after completing these formalities, a product can enter the foreign market.

➤ **Export Incentives and Assistance**

Some of the countries give a number of incentives and assistance to its exporters so that they can do well in the foreign market and get established there. The exporters have to be registered in a certain council of the country to get these incentives and assistance.

➤ **Foreign Trade Policy**

The government of every country makes a foreign trade policy in order to control the foreign trade. A certain set of rules and regulations are made to guide the exporters in foreign trade. Sometimes the government promotes its industries to export the product in foreign market, if it feels that the product can make a certain impact on the international market.

## **2.2 Advertising**

“Advertising is the non-personal communication of information usually paid for and usually persuasive in nature about products, services or ideas by identified sponsors through the various media” (Bovee, 1992, p. 7). Advertising is one of the ways in which we get into goods (McCracken 1986a). Advertising is the form of communication marketing where the firms selling the product gives information to the customer about its arrival in the market, about its product and tries to persuade the consumers to buy the product. According to Wheeler,

"Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducing people to buy." Advertising is usually paid for, but sometimes advertising is done for free. If a consumer likes some product and he or she informs his or her friend about the product then it is also a type of mouth to mouth advertising which is not paid for. This type of advertising takes place if the product is really good. This increases the image of the company and helps it to get well established in the market.

Advertising helps the products to get established in the market. The consumers only buy the product when they come to know about the product. No one buys the product which they have never known about. So, advertising is very important in any market if the product wants to survive in the market. Advertising not only helps the product to get well established in the market but also it helps the product to increase its goodwill. A firm should always keep advertising its product consistently because the consumers can forget about the product once it is not advertised. Also, the competitors can gain advantage in this situation by advertising their product more vigorously. A company should always keep its consumer informed about its existence in the market through advertisement.

“Whatever one does, one should do superlatively well” (Confucius). As Confucius said, a company should advertise a product in the best way as it is the medium through which the consumers come to know about the company’s product. So, in order to produce the best possible advertisement many large companies establish a separate department which focuses on producing the advertisement for the products of the company. A company can also pay an advertising agency to produce the best possible advertisement for them. There are several advertising agencies present in any market which focuses on producing the advertisement according to the need of its clients. These advertising agencies reduce the cost of companies by eliminating the need to produce a separate department for advertising. But if the company is a large one with a variety of products, then it can be less expensive for the company to establish its own advertising department.

Advertising is classified on the basis of geographical spread and target group (Chunawalla & Sethia, 2008, p. 84-85).

1. On the basis of geographical spread, advertising is classified into
  - i. **National Advertising**  
When the manufacturers think that their target market is the whole country, then they create the advertisement focusing on the consumers of the whole nation. This type of advertising is called national advertising. Generally large industries indulge in national advertising.
  - ii. **Local Advertising**  
Those advertising activities which are focused only on a certain city or some segments of customers in a certain area are called local advertisement. Small industries create local advertising focusing on a small group of people in a certain area or region. Sometimes

even the large firms indulge in local advertising as a pre test of some promotional campaign before they take on the whole nation.

iii. **Global Advertising**

When the advertising is not limited to a certain country and is focused for the market around the globe, then it is called global advertising. Multinational companies use such advertising to promote their products. They use the international media for their advertisement which has reach on the customers of more than one country.

2. On the basis of target group, advertising is classified into

i. **Consumer Advertising**

Consumer advertising is the advertising directed towards the final consumers of the products who buy the products for themselves or for the household purpose by the producer of the product. This type of advertising is done to promote the sales of the product. The consumers are distributed among a large geographical area, so the producer most inform those consumers about the products by giving advertisement in any form of media as it is not possible for the producer to inform those customers about the products individually.

ii. **Industrial Advertising**

Industrial advertising refers to those advertising which is given by a manufacturer/distributor to the buyer of the industrial product. It includes the advertising given by the manufacturers of the machines or equipments, machine parts and components, to the industries who use those products. The importance and volume of industrial advertising is lower than the consumer advertising because it is focused towards a certain targeted customers.

iii. **Trade Advertising**

Those advertisements which are directed by the manufacturer to the distribution channel members are called trade advertising. The main purpose of this type of advertising is to increase the sales by motivating the distribution channel members to stock more and sell more or to attract the new members in the distribution channel by opening new retail outlets.

iv. **Professional Advertising**

Those advertising which focuses on the professional people are called professional advertising. This type of advertising is focused on the people of certain profession so that they get attracted towards the product and refer the products to their clients. This type of advertising is focused towards professional people like doctors, architects, civil engineers and other professional people who make decision on behalf of their clients on the use of the product. So, this advertising is called professional advertising.

### 2.3 SWOT Analysis

SWOT analysis is a structured planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieve that objective. (Source: [http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis))

A SWOT is a summary listing of internal differential strengths and weaknesses with competitors and key external opportunities and threats (McDonald, 2008, p. 43). SWOT analysis helps a certain company to know about its internal strengths and weaknesses and also about its opportunities and threats in the market. SWOT analysis-an acronym that stands for “strengths, weaknesses, opportunities and threats”- focuses attention on both the external attributes of a firm’s environment (opportunities and threats) and on the internal attributes of a firm (strengths and weaknesses) (Jay B. Barney, 2011, p. 10). By the correct evaluation and analysis of the current position and situation of the company, a company can gain a good market position. SWOT analysis helps a company to use its internal strengths and match it with the market opportunities to exploit the market as much as possible. It helps the company to minimize its weakness and threats from the competitors so that it will not have any unexpected problems from its competitors which it cannot tackle.

SWOT analysis can be explained in figure in the following way:

		External Environment	
		Opportunities	Threats
Internal Environment	Strengths	How do you use your internal strengths to benefit maximum from the opportunities in the market?	How do you use your internal strengths to minimize the impact of threats in the market?
	Weaknesses	How will you ensure that your internal weakness will not stop you from utilizing the opportunities in the market?	How will you ensure to remove your weaknesses and to minimize the impact of external threats in the market?

(Source: <http://www.easy-marketing-strategies.com/swot-analysis.html>)

The figure above shows the internal and external environment of the firm and how firms should react in the certain situations. If the firm has internal strengths and it has the opportunity to expand in the market due to the lack of competitors, then the firm should focus its strategies on maximizing its profits by exploiting the market as much as it can. If the firm has internal

strengths but has competitors in the market, it should use its internal strengths to gain a competitive advantage over its competitors. If the firm has internal weaknesses but there is plenty of opportunities for the firm in the market due to the lack of competitors, then it should use those strategies which will ensure that its weaknesses will not stop it from making the most of the opportunities in the market. If the firm has internal weakness and there is plenty of competition in the market, then the firm should focus on surviving strategies so that the firm does not get extinct due to the lack of competitiveness to compete with its competitors.

## **2.4 Channel of Distribution**

Distribution involves making goods /services available to the consumers. The channel of distribution makes possible the effective flow of a product/service to a consumer. They are like pipelines through which goods and services flow from the manufacturers to the buyers-institutional or consumers (Dhotre, 2010, p. 4).

According to Philip Kotler “ Distribution channel is the set of firms and individuals that take title, or assist in transferring title, to the particular good or service as it moves from the producer to the consumer”.

The channel of distribution includes all the middlemen involved between the manufacturer of the product and the final consumer of the product. It is the channel through which the goods and services pass from manufacturer to final consumers. A manufacturer makes decision about the channel of distribution in any market. A manufacturer must choose the channel of distribution in such a way that the goods and services reach the final targeted consumers in the lowest minimum time possible without any difficulties or any damage.

The types of distribution channels are:

### **➤ Zero Level Channel**

Zero level channel contains only the manufacturer and the final consumer of the product. It does not involve any middlemen between the manufacturer and the final consumer. It is also known as direct channel. Manufacturer sells the goods to the final consumer through manufacturer owned retail stores or through door to door selling. This channel is the shortest and simplest choices available to the manufacturer

### **➤ One Level Channel**

In one level channel there is one middleman involved in selling the goods and services between manufacturer and the final consumer of the goods and services, in the form of retailer. In the case of industrial goods, normally an agent or a broker works in place of a retailer.



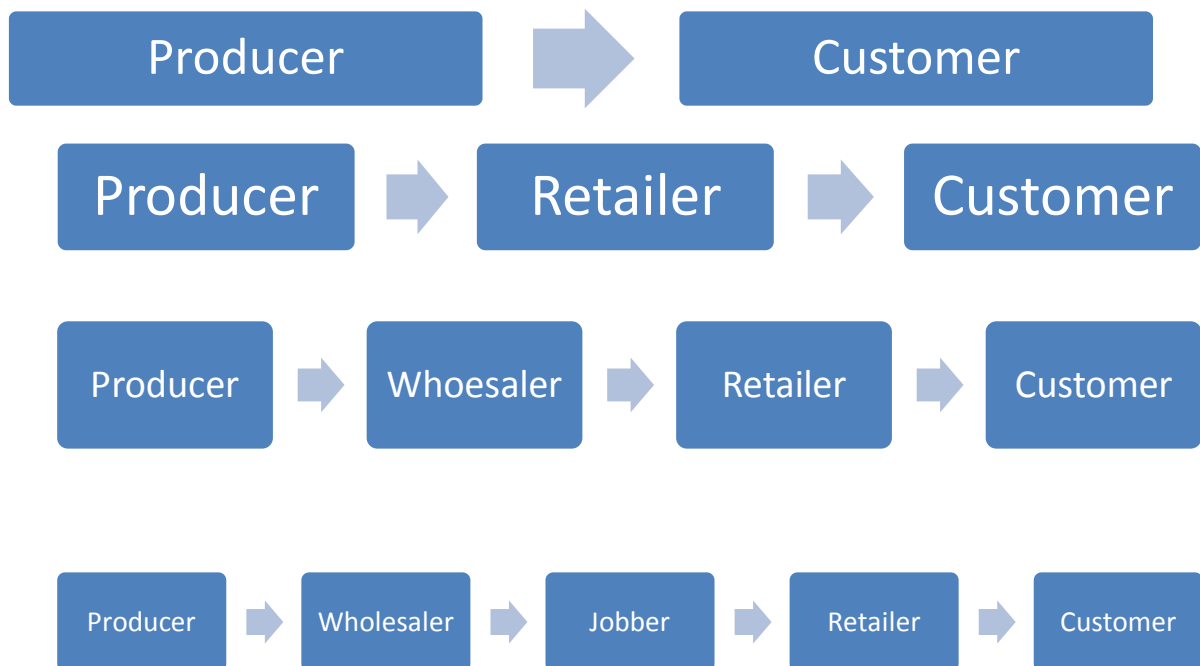
➤ **Two Level Channel**

Two level channel is that channel where a wholesaler and retailer is present in the market between the manufacturer and the final consumer of any goods and services. The manufacturer sells the final product to the wholesaler in different regions and it is the job of the wholesaler to provide the goods and services to the retailers present around that area. The retailers then provide the goods and services to the final consumers. If the consumers have any complain about the product, they inform about it to the retailers, the retailers then inform about it to the wholesalers and then the wholesalers inform about it to the manufacturers.

➤ **Three Level Channel**

Three level channel contains three intermediaries - the wholesaler, the retailer and the jobber. The jobber usually intervenes between the wholesaler and the retailer. The jobber is also known as semi-wholesaler. Sometimes when there is large wholesaler in the market, these wholesalers do not sell goods to the small retailers who buy in less amount. These wholesalers sell the goods in large amount and there must be another semi-wholesaler present between the two wholesalers and retailers to provide the goods to the small retailers who are not serviced by the large wholesalers.

The figure below shows illustration of the different channels of distribution:



Source: Own illustration

### 2.4.1 Functions of Channel of Distribution

Channel of distribution has several functions which it has to perform for the effectiveness of the channel. The important functions of channel of distribution are as follows:

➤ **Facilitation**

It is one of the important functions of the channel of distribution. Channel of distribution brings the buyer and the manufacturer of the goods and services together facilitating both the parties in closing the deal. The channel of distribution is just an intermediary which links the customers with the manufacturers and vice versa. For the Nepalese noodles industry, the channel of distribution acts as a mediator between the consumers not only in the domestic market but also foreign market and the noodles firms.

➤ **Information**

The channel of distribution also provides the facility of informing the consumers about the products for the manufacturers. Nepalese noodles firms cannot itself go into the foreign market and inform the consumer about its product in the market. For this purpose Nepalese noodles industry appoint establish a certain channel of distribution who not only distributes the noodles in the market efficiently but also inform the general consumers about its products and persuade them to buy the product. Advertisement informs about the existence of the product in the market to the final consumers but the channel members informs about the use of the products to the consumers as they are in direct contact with the consumers.

➤ **Promotion**

Channel of distribution also helps the manufacturers to promote their product in the market and help build the brand in the market. When the channel members informs the Nepalese noodles in domestic or foreign market, they inform the consumer about the product and they also inform the consumers about its superiority to other products already available in the market. They promote the brand in such a way that the consumers feel persuaded to buy the product and the consumers begin to feel that the product they have bought is the best. This helps to build the brand among the consumers.

➤ **Negotiation**

Channel of distribution also provides the facility of negotiation to the manufacturers. Channel members negotiate with the consumers on behalf of the manufacturers on prices, terms of delivery and other matters. Manufacturers do not have to deal with the consumers directly. Manufacturers provide the goods and services to the channel members and the channel members provide those goods and services to the consumers. In the process they negotiate with the consumers on terms of price, delivery date, delivery time and other matters related to the product and services. Manufacturers do not have to take any tensions regarding these matters.

➤ **Transfer of the Title and Ownership**

Channel members also help the manufacturers in the transfer of title and ownership from manufacturer to the consumers. Channel members do not transfer the ownership from the manufacturers to them when they buy the goods from the manufacturers. They just take possession of the product and act as an agent between the manufacturer and the consumer in transferring the title and ownership of the product.

➤ **Holding Inventory and Sharing Risk**

Channel members hold the stock of the ready products with them sharing the risk of the manufacturers. They hold the inventory as they need to supply the products to the consumers on time. Doing this they even share the risk and the cost associated with the product for the manufacturers. While the Nepalese noodles manufacturers sell the products in the market different channel members in different countries keep the stock of noodles as they have to supply it to the final consumers. Doing this they increase the sales of the manufacturer and also share the risk with the manufacturer if the stock fails to get sold in the market.

➤ **Finance**

Channel members also help the manufacturers financially as they keep the deposit with the manufacturer, book orders in advance and keep enough stock of the products. This helps to reduce the financial burden of the manufacturer and helps the manufacturer to get financially more secured to expand their market in the near future. In case of the Nepalese noodles industry, this helps the Nepalese noodles industry to get financially more secured and expand their market further more in more new foreign markets.

➤ **Providing pre-sale and post-sale services**

As the channel members are the one who interact with the consumers and sells them the goods and services, they are the one who provide pre-sale and post-sale services to the consumers. Pre-sales services are provided to the consumers by every channel members who sell the goods and services to the consumers but post-sale services is provided only by some of the channel members who sell those goods and services which needs after sales service.

➤ **Change Agents**

Channel members inform the customers about the changes in the product itself or price of the product. They are the one who tell the customers about the additional features involved in the product. They are directly in contact with the consumers so they can bring positive and favorable opinion I the mind of the consumers about the changes in the products. They assure the consumers that the modifications done in the product is done for the good and modifications are always good as some of the consumers may not like the modifications. Thus, they act as a change agent.

➤ **Warehousing and transportation**

Channel members stock the final products for the manufacturers as they have to sell it to the consumers. This helps the manufacturers as the channel members provide additional

warehousing facility to the manufacturers. The channel members also help to provide transportation facility to the manufacturers as they are the ones who sell the goods to the consumers and travel the goods from those warehouses to the end users.

In the case of Nepalese noodles manufacturers, the manufacturers ship the noodles to the channel members in the domestic and foreign market. The goods are then traveled from the warehouse of the channel members to the consumers by the channel members at their own cost. This facilitates the Nepalese noodles manufacturers as they themselves do not have to involve in the transportation of noodles to the final consumers as it is a long process which wastes a lot of time, energy and money of the manufacturer.

➤ **Market Feedback and Intelligence**

Channel members also provide feedback to the manufacturers from the market. Channel members provide the valuable information to the manufacturers about the market condition, changes in consumers' taste, competitors, market trend and so on. This helps the manufacturers to know about the market condition and make necessary adjustments in their product so that they can always make a certain impact on the market. The channel members also maintain the sales record and databases of the consumers which can be useful to the manufacturers in the future decision making process.

In case of the Nepalese noodles manufacturers, the channel members provide them feedback about the taste preference of the consumers in that market which will help the noodles manufacturers to manufacture the noodles in the flavor liked by the consumers in that market. This helps the Nepalese noodles manufacturers to be more competitive in the market and also the brand value of the noodle manufacturer increases in the market.

## **2.5 Porter's Five Force Model**

Michael E. Porter developed a framework through which a company or industry can analyze its competitive environment. This framework is called the Porter's five force model. Porter's five force model determines the competitive status of any firm or industry with the analysis of five competitive forces. The five competitive forces are: Threat of new entrants, Threat of substitute, Bargaining power of buyers, Bargaining power of suppliers and Level of rivalry. All these competitive forces are analyzed by a firm to know its competitive position in the market. This analysis helps the firm to make the correct strategy and make the most of the opportunities it gets in the market. This not only helps the firm to survive in the market but also helps to operate most effectively. Porter's five force model can be seen in the figure below:



(Source: <http://applyingconcepts.blogspot.no/2011/12/porters-five-forces.html>)

### **Threat of New Entrants**

There is always a possibility of new producers entering the market. Threat of new entrants depends on the presence of entry barriers and the reaction which is expected from the existing competitors. If there is entry barriers present in the market, then it will be difficult for the new entrants to make a mark in the market and the existing firms will have fewer threats from new firms entering into the market. But if there is little or no entry barriers in the market and the market has many opportunities for the new firms in the market, then the existing firms can experience threats from the new entrants. There is threat of new entrants in the market even if the new firms do not require huge investment. So, the level of threat of new entrants is one of the forces that determine the competitive status of a existing firm in the market.

### **Threat of Substitutes**

A substitute product is a product that appears to different from a certain product but can satisfy the same needs as the other product. According to Porter, "Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge." For example, tea can be a substitute of coffee. If the price of tea goes up, the demand for coffee goes up and if the price of coffee goes up then the demand for tea goes up. So, a substitute product places a ceiling on the price of other product and does not let the price go high. So, the threat of substitutes is one of the factors that help in determining the competitive status of the firm.

### **Bargaining Power of Buyers**

Bargaining power of buyer is also one of the forces that determine the competitive status of a firm. Buyers can affect a firm through their ability to force down prices or bargaining for higher quality or more services. A buyer can be powerful in the market if there are a lot of firms in the market selling substitute products, a buyer has the potential to produce the product itself, and the buyer is the biggest consumer of a firm and so on. If the buyer becomes powerful, the firms will have less competitive power.

### **Bargaining Power of Suppliers**

Bargaining power of suppliers also determine the competitive status of a firm. Supplier can affect the industry through their ability to raise prices or reduce the quality of goods and services. A supplier can be powerful in the market if there are fewer suppliers in the market, the product or services it supplies is unique, there are not much substitutes in the market and so on. If the supplier becomes powerful, the buyers will have to pay much more price for a product or service.

### **Level of Rivalry**

Rivalry exists among firms when two or more than two firms sell the same product or the products that can substitute each other. Level of rivalry among firms is determined by the competitive power of the firm, the level of market, exit barriers in the market and so on. It also determines the competitive status of a certain firm in the market.

## **Chapter 3 : METHODOLOGY**

This chapter provides the details of choice of research designs, data collection procedures, data analysis, validity and reliability of the study and finally provides the summary.

### **3.1 Research Design**

A research design is a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings (Burns and Grove, 2003). According to Green and Tull, "It is the specification of techniques and processes for obtaining the information required. It is the over-all operational pattern or framework of the project which states what data is to be gathered from which source by what processes." (Polit et al, 2001) define a research design as "the researcher's overall for answering the research question or testing the research hypothesis". The research design can be qualitative research design, quantitative research design or mixed research design. Qualitative research is an umbrella term for an array of attitudes towards and strategies for conducting inquiry that are aimed at discovering how human beings understand, experience, interpret, and produce the social world (Sandelowski, 2004).

This is the case study of the Nepalese noodles industry and the problems faced by them in the expansion process. The case study looks in at the overall noodles industry of Nepal. This study focuses on the Nepalese noodles industry, the processes of the noodles companies to export the noodles and their efforts to become a globalized company. I decided to choose the noodles industry because the market of fast food or junk food is rising globally and noodles is one of the most popular fast food. Its market is rising every year globally and those noodles industry which has the competency has the potential to rise in the international market. This case study is conducted under qualitative research design.

### **3.2 Data Collection**

Data collections method is the process from where we can gather relevant information which will be used for answering the report questions. It is through which we can gather the relevant information for our report using the primary and secondary data sources. I have used both primary and secondary sources of data collection to fulfill the objective of this research. The details regarding primary and secondary data are given below:

#### **3.2.1 Primary Data**

Primary data refers to the data that is directly collected by the researcher for the purpose of the research project at hand (Riley et al.,2002). The sources from where we gather data originally are called primary data. The sources of primary data are observations, experiments, social surveys like questionnaires, and interviews Primary data is also called as raw data as it is the data collected directly from the source which has not been manipulated. Through qualitative interviews you can understand experiences and reconstruct events in which you did not

participate (Rubin & Rubin, 2005). Qualitative interviews are based on the researchers asking questions and listening and the respondents answering.

I have used the questionnaires and interviews as the primary source of my data. I had sent the email and several follow-up emails to the different noodle companies in Nepal. With the help of these follow-up mails I was able to get the telephone appointment. In some cases, I also collected information by providing a set of questionnaires to the respondents and they responded by answering those questionnaires and sending it back to my email. I was also helped by some of my friends to take the face to face interviews as currently I am in Norway and it was not possible for me to go Nepal for the face to face interview. Face to face interview was taken of some of the employees of a few noodle company.

### **3.2.2 Secondary Data**

Secondary data represents data that have been collected from third party, but not collected for the purpose of research at hand (Riley et al., 2002). When already existing data are collected from published or unpublished sources, it is called secondary data. The common sources that we find in secondary data for analyzing data are social science survey data, data collected by the government agencies and so on. Secondary data sources comprise of books, journals, articles, and web-based data about the specific subject (Ghauri & Gronhaug, 2005, p. 91-102). Secondary data can be collected from internal or external or both sources. Internal sources are sources available within the organizations, while external sources are sources located outside the organization (Craig & Douglas, 2000).

I have also collected data from secondary source for this study. The main sources of my secondary data are articles, reports, literatures, magazines and websites. I have collected the data from these sources so that I can get as much accurate data as I can. The employees of the noodle company also helped me to collect the secondary data from various sources.

### **3.3 Data Analysis/Analyzing Data**

Data analysis is a body of methods that help to describe facts, detect patterns, develop explanations, and test hypotheses. It is used in all of the sciences. It is used in business, in administration, and in policy (Joel H. Levine, 1996). Data analysis is defined as the interplay between raw data, the procedures used to interpret and organize the data and the emerging findings (Wholey, Hatry & Newcomer, 2004). Data analysis is the process in which the raw data which are collected from the various primary and secondary sources are organized, interpreted and the final outcome is presented.

When collecting the data, a lot of raw data is collected. These data cannot be recorded directly in the research findings. These data are then carefully organized and only the right and relevant data is extracted from the pool of data. These analyzed data then help us to support our theories and helps us to give the final conclusion.



I also collected a lot of data from various primary and secondary sources. I recorded all the data that I have collected from several sources in a single copy. Then I started editing the recorded data and selected only the right and relevant data for my study. I cross checked it several times to see if the required data are missing or if some of the irrelevant data were still there. After several cross checks, I ensured that my data is correct and ready to use. Then I recorded this data and it became the necessary information for my study.

### **3.4 Validity and Reliability of the Study**

According to Riley validity is about whether a measuring instrument actually measures what a researcher intends it to measure (Riley et al, 2000). The validity of the data refers to whether the data that is collected by the researcher is actually useful to support the desired outcome of the researcher. McMillan & Schumacher (2006) stated that validity refers to the degree of congruence between the explanations of the phenomena and the realities of the world. The data collected and presented by the researcher must be reliable and there should not be drastic differences between the information provided by these data and the actual situation in the real world. The data collected by the researcher should not be exaggerated. It should be based on the facts and should be able to provide the exact knowledge of the real situation to the reader of the study. It should provide the exact picture of the real world. The data should be reliable and any other person who intends to use the data should be able to rely on the given data totally without any hesitation. The result of any other similar study must not have a high degree of difference.

The findings made by me in this study are based on the analysis of the data collected from various sources. These data were carefully shortlisted and analyzed so that the outcome from this data was valid and reliable enough to show the real picture of the noodles market of Nepal. To ensure the validity of this study, all the evidences that support the validity of this research are recorded and kept safe. The questionnaires, the answers from the respondents and all the other data are preserved so this study does not lack validity and reliability.

### **3.5 Ethical issues**

The purpose of the study was clearly stated before conducting the interview for this study. I had assured the respondents that their identity will not be revealed and the information provided by them will only be used for the purpose of this study and not for any other purpose. Even though they have given me the consent to reveal their name, I have decided to refer to them as respondents as a matter of privacy. The respondents are clearly informed that the information provided by them is used only for the academic purpose and this information will not be manipulated or misused.

### **3.6 Summary**

The aim of this study is to give the information about the current situation of Nepalese noodles industry and to know about the problems which exist in expansion of the industry. To fulfill the aim of this study, qualitative research design is constructed. Several questionnaires are developed and sent to the respondents. Voice records of some respondents are also done to collect the data. The data are also collected from several articles, reports, websites etc. These data are then handpicked and only the relevant and important information are chosen and after checking and cross-checking the data, for the validity and reliability of data, the data are used to support the study. Finally regarding ethical purpose, the identity of the respondents are kept secret and the respondents are assured that the information, they provided, will only be used for this purpose and any manipulation or negative interpretation of their information is not be done at any cost and it is kept under the close scrutiny of University library.

## **Chapter 4 : CONTEXT**

### **4.1 History of Instant Noodles**

Noodles are believed to be originated in China as early as 5000 B.C, then they spread to other Asian countries (Guoquan Hou and Mark Kruk, 1998). Instant noodles are dried and precooked noodles which can be consumed straight from the packet after buying it or after being soaked in boiling water. Instant noodles are usually sold in the packets with a seasoning and flavored oil. Instant noodles were invented by Momofuku Ando of Nissin Foods, Japan. Back then, Japanese government used to receive aid in the form of loads of wheat from the United States as Japan had not still recovered from the damages suffered in the World War 2. This added a lot of bread in the diet of the Japanese. It was then realized that if the wheat was made into noodles then people could get a wholesome meal because a bowl of noodles offers a better nutritional balance when other foods are added to it. So, the instant noodles were invented to provide the Japanese with a better nutritional diet. Gradually the technique of preparing noodles and preserving it for a long time developed and the modern day instant noodles were born. (Source: Asian Thai Foods (P) Ltd.) Instant noodles were first marketed in Japan on August 25, 1958, under the brand name Chicken Ramen by Momofuku Ando. Momofuku developed the production technology of instant noodles. He, first flash fried the noodles as soon as the noodles were made and therefore creating the instant noodles. (Source: [http://en.wikipedia.org/wiki/Instant\\_noodle](http://en.wikipedia.org/wiki/Instant_noodle))

When the instant noodles first arrived in the Japanese market, it was costlier than the other regular noodles because it was a completely new product. It was produced in relatively low volume that is why it was costlier than other normal noodles. It was also costlier because it was fried after the noodles were made. It was costlier than other noodles and sold for 35 Yen at that time. So, it was considered as a luxury item in Japan. But instant noodles gained popularity very soon because it was a relatively new idea and it could not only be cooked faster than any other normal noodles, it could also be consumed straight from the pack.

### **4.2 History of Nepalese Noodles Industry**

Instant noodles used to be imported from Thailand, Hong Kong and India in Nepal before the start of noodles industry in Nepal. These imported brands were available in only few of the stores in Kathmandu, the capital city of Nepal. Only few people knew about these brands and they were quite expensive.

Nepal's instant noodles industry started in the 1980s when Gandaki Noodles stepped into the market with its product. This was the first noodles industry of Nepal. This came at the time when there was increasing demand for instant noodles in Nepal but the ones available were expensive imported products. Gandaki Noodles started producing white noodles with the name "Rara" (Mukul Humagain, Dec 2000, Nepali Times). Gandaki Noodles gained popularity pretty soon and several other companies were established after its success. After the success of "Rara"

Chaudhary group entered the Nepalese noodles market in 1984 with the introduction of Wai Wai brand of instant noodles through its subsidiary – Nepal Thai foods (P) Ltd. It was quite different from Rara as it was pre-cooked and could be consumed directly from the packet. On the other hand Rara was a white noodle and it had to be cooked. This made Wai Wai quite popular in Nepalese market and for many years it remained dominant brand in the noodles market in Nepal. Wai Wai became a Nepalese household name and Wai Wai began to be used as synonym to noodles in Nepal.

Many noodles firms entered the market after Wai Wai, but none could survive for a long time as Wai Wai dominated the market. In 2001, HSNPL (Himalayan Snax & Noodles Private Limited) entered the Nepalese noodles market with its product “Mayos”. It was established under technical collaboration with a Thai company “THAI PRESIDENTS FOODS Plc.”. It gave tough competition to Wai Wai and at present these two products are the leading brands of Nepalese noodles industry.

After the entry of Mayos in Nepalese noodles industry, many firms entered the market. They also have been surviving in the market even if they do not have much market share. These days noodles of different flavor and different price are available in the market. Even Chaudhary Group and Himalayan Snax & Noodles Pvt. Ltd. have been producing different flavored noodles in Nepal. The instant noodles in Nepal are made up of wheat and this wheat are produced within Nepal or imported from India.

### **4.3 Nepalese Noodles Industry**

Instant noodles are very popular in Nepal. Noodles industry is one of the biggest sectors in the industrial sector of Nepal. There are many brands of noodles found in the Nepalese market and the competition for consumer loyalty is fierce. Even though there is fierce competition in the market for noodles industry in Nepal, new brands are still entering the market. But still there are many brands still present in the market because noodles are a favorite form of snack in Nepal. Noodles are popular in Nepal because it does not take much time to cook and it can also be consumed straight from the packet. Noodles industries in Nepal produce fried noodles because it is liked by most of the consumers. So, only some industries produce white noodles. Noodles are popular not only in the city areas but also the remote areas of Nepal. Instant noodles can be found in every part of Nepal.

Every Nepalese love noodles. Most of the people eat noodles as lunch. There are many ways to cook the instant noodles and some of the ways are also described in the packet of every brand of noodles found in the Nepalese market. Fried brown noodles are mostly sold in the market. These noodles are pre-cooked so it can be consumed straight from the pack or cooked in soup form by keeping the noodles in the hot water for three minutes. Also, it can be cooked in various other ways as one likes to consume.

Noodles are used as lunch by school going children, office going person and by every age group. The market of noodles is ever growing in Nepal. This is the main reason why all the noodles firms are surviving in the market even when there are so many brands of noodles present in the market. The noodles industry of Nepal has a very large production capacity as the market is ever growing and they have to be prepared for the future.

Information about some of the main noodles brands and the companies currently operating in Nepal are given below. To collect the information on the different noodles companies in Nepal, I have contacted the officials from the company and also gathered data from various sources.

#### **4.3.1 Wai Wai**

It is the first brown noodles brand that was produced in Nepal. Rara was the first noodles brand in Nepal but it was white noodles. Wai Wai is produced by Chaudhary group. It was established in 1984 in Kathmandu in technical collaboration with Thai Preserved Food Factory, Thailand. It is a brown noodles which can be consumed raw without cooking it as it is already baked more and cooked while producing it. It became an instant hit in Nepalese market because the taste was new to most of the consumers in the market. Only a fragment of the customers in the market had tasted brown noodles before. But, Wai Wai soon became a popular brand because its taste was preferred by the consumers in the market. Wai Wai then became dominant in the Nepalese noodles market for a long time. Noodles and Wai Wai became synonym to each other in Nepal until the introduction of another instant noodles brand 'Mayos' in the year 2001. Until the introduction of Mayos in the domestic noodles market, many noodles brand entered and exited unable to compete with Wai Wai. Wai Wai, today, face competition in the domestic market from various competitors, but it still remains one of the dominant noodles brand in Nepal.

Wai Wai is produced and certified under the name CG Foods (Nepal) Pvt. Ltd. (CGFN). It is one of the sectors where Chaudhary Group has invested. Chaudhary Group is a group of companies which invest in various sectors like energy, health, hotels, telecom, etc. Under CGFN, Chaudhary Group produces various products like noodles, wafers, natural spring water, brewery, etc. Wai Wai is taking a strive forward by trying to become a multinational company by establishing its production plants not only in Nepal but also in India. It is in the process to establish its production plants in other countries too. Chaudhary Group also produces some other brands and flavors of noodles. The most famous flavor in Nepal is the chicken flavor noodles.

The vision of Wai Wai is to become a global player in the field of noodles market and its mission is to provide quality food to the consumer. It aims to provide nutritious food to the consumer at a reasonable price as the per capita income in the Asian countries is less and it is not possible for all the people to pay a high price for the nutritious food.

Wai Wai along with Mayos is the leading market shareholder in the Nepalese market with both the brands controlling about 80 percent of the total market. Wai Wai has currently two production plants running in Nepal. One is in the Lalitpur district of Nepal which produces 4000 cartoons of noodles daily and another production plant is in the Nawalparasi district which produces 6000 cartoons daily. One cartoon of noodles contains 30 pieces of noodles which weighs 72 grams each. So, a total of 120,000 packets of noodles is produced in Lalitpur production plant everyday and a total of 180,000 packets of noodles is produced in Nawalparasi production plant every day. It is sold at a retail price of 15 NRs (Nepalese Rupees). Due to the growing demand of the noodles in the market two more production plants are in the process of establishment in Enarwa and Nepalgunj districts in Nepal. In India it has its production plant in Sikkim, Silchour, Gauti and Rudrapur. Another production plant in Delhi, India is also in the process. It is also trying to establish its production plants in Nigeria, Australia and Canada.

Currently Wai Wai has its production plants only in Nepal and India, so the noodles are sent in the rest of the world through these production plants. The countries where Wai Wai is exported to are as follows:

**Asia**

UAE

Qatar

Saudi Arabia

Kuwait

Bahrain

Oman

Malaysia

China

Hong Kong

Singapore

**North America**

Canada

USA

**Europe**

Belgium

UK

**Africa**

Kenya

Nigeria

The raw materials for the product are produced in Nepal and India and are also imported from other countries. For the production plant in Nepal, flour and spices are purchased from inside the country while wrapping paper and palm oil is imported from India, Malaysia and Singapore. 20 percent of the raw materials are available within the country while 80 percent of the raw materials have to be imported. The comparative advantage for Wai Wai among its competitors in

Nepal is its brand name which has been well established in the domestic market. The main competition it faces in India is from Maggi noodles as like Wai Wai in Nepal, Maggi has been established as a brand name in India. Wai Wai has captured more than 60 percent of the market in the north east India and is also growing its market share in rest of the market of India.

Even though Wai Wai has its production plant outside Nepal too, it has been helping Nepalese economy as it bring the profits from those production plants back in Nepal. Wai Wai has provided employment to about 10,000 people in the country. It also helps the Nepalese economy by paying 13 percent tax on its products.

Wai Wai is determined to ensure the quality of its finished products and the quality of the raw materials used to produce its products. Highest quality control standards are taken seriously by the company. Wai Wai has received the certification of Food Safety Management System of ISO2000:2005. It has also received the certification of Quality Management System of ISO 9001:2008. It has also received the NS (Nepal Standards) certification mark in Nepal.

Wai Wai has also been involved in the field of social responsibilities. It had started a scholarship program for the poor kids of Nepal who cannot afford to go to school. Through its mother organization, Chaudhary Group, the company has been involved in many activities related to the social welfare of the people. It has also been supporting education and sports related activities for the overall development of youths. It has also been supporting the health related programs and also other several welfare programs to fulfill its CSR (Corporate Social Responsibility).

#### **4.3.2 Mayos**

It also one of the leading brand of noodles in the market of Nepalese noodles industry. Mayos was established by Khetan Group under HSNPL (Himalayan Snax & Noodles Private Limited) in October 2000 in technical collaboration with THAI PRESIDENTS FOODS Plc. of Thailand-providing manufacturing technology expertise to HSNPL. It established production plant in Banepa, Kavrepalanchowk District and established its head office in Kathmandu. It started its production from the year 2001 and started to compete in the market with a well known local brand Wai Wai. Later on it expanded and installed another production plant in Kamhariya VDC, Rupandehi District in the year 2008. HSNPL also produces some other brand of noodles and in different flavors.

When Mayos entered the domestic Nepalese market, Wai Wai had been dominating the market for a long time. There were some other brand of noodles too in the market but they had comparatively very low market share. Wai Wai was such a popular brand that the company had stopped advertising its product for a long time as people preferred to buy Wai Wai anyway. Mayos enter the domestic market with some aggressive advertising and immediately grabbed the attention of the consumers because of the aggressive marketing strategies it used to counter the

market of Wai Wai. It established its brand name in a short period of time and gave tough competition to Wai Wai as a result of which Wai Wai was forced to advertise its product after a long period of time. Currently, in the domestic market of Nepal, Wai Wai and Mayos hold the majority of market share as they together hold about 80 percent of the total market share.

Mayos comes in the packet of 75 grams and costs as much as Wai Wai i.e. NRs 15. Like Wai Wai, the raw materials for the production of Mayos also come from Nepal, India, Malaysia and Singapore.

The vision of Mayos is to be the best packaged Food Company serving International Standard Products for the utmost satisfaction of its valued consumers and its mission is to deliver the best product quality, safety of foods consumption, as well as having environmental concerns.

There has been a constant debate for years in Nepal on the use of MSG in the noodles. Many people believe that the constant use of MSG is not good for the health and it affects the bones of the human body and also affects the growth of the children. MSG, also known as Aji-No-Moto, is a flavor enhancer used in food and soups. It seems like salt in appearance. Although U.S Food and Drug Administration has classified MSG as safe, many articles have been published in the local media about the harmfulness of MSG. It is still used in the noodles as it has not been proved that MSG is really that harmful. And also, MSG is the necessary ingredient in making the noodles soup. It provides flavor to the noodle soup. So, MSG is still used in the spices that come along with the noodles to make the soup. Mayos has taken a step forward and has been announcing its products to have no added MSG which harms the human body. It has been trying to show its consumers that it cares about the health issues of its consumers.

Mayos has received the certification of Quality Management System of ISO 9001:2008. It has also received the NS (Nepal Standards) certification mark in Nepal.

Mayos has also been exporting its products to various countries like Wai Wai and there has been a constant growth in its domestic markets as well as its international markets over the years. It has not established its production plant outside Nepal but it is in the process to emerge as a multinational company by expanding its production plant outside Nepal. The countries where Mayos is exported to are:

- India
- Bhutan
- South Korea
- Qatar
- UK
- Australia



Mayos has been participating in various programs for the benefit of the society to fulfill its CSR. Every year HSNPL sets aside a certain amount in the budget for the programs which benefit the public health, education and sports.

### **4.3.3 Rum Pum**

It is also one of the instant noodles brands of Nepal. It was established by Asian Thai Foods in technical collaboration with a Thai company. It was in the year 2001. It is also a popular brand of noodles in Nepal. Though it is not as popular as the Mayos and Wai Wai brands, it still has its share of customers in the market as it is relatively cheaper than the other brands of noodles. It is also a brown noodle like the other brands. It has tried to maintain and expand its market share by conducting several promotional campaigns and consumer schemes. Asian Thai Foods also produce some other brands of noodles and with different flavors like the other companies. It has established its production plant in Sonapur in Sunsari district of Nepal and has its head office in Kathmandu. It produces a total of 180,000 packets of noodles every day. It also comes in the packet of 75 grams. It has the annual turnover of 10 million US dollar. It has about 14 percent of the total market share of instant noodles.

The company aims to be best package Food Company in Nepal by serving the product of international quality to the consumers. The company tries to provide nutritious food at an affordable price to the consumers.

Rum Pum is also exported outside Nepal like the other noodles. Though it is not exported as largely as Wai Wai and Mayos, it also pays some minor part in the export of noodles from Nepal. The main areas where Rum Pum is available are:

- 150 cities and towns in Nepal
- All major cities and towns Northern and Northeastern states of India
- 10 cities and towns in Bhutan

The company is working on some of the new flavors currently and is also trying to introduce a new brand called Nawab Halal Noodles targeting the Muslim communities. Asian Thai Foods has been awarded with HACCP ISO 22000:2005 certification.

Asian Thai Foods has also been participating in various programs for the benefit of the society like the other companies. The company does charity with various NGO's and also donate free packets of noodles to orphanages and distribute educational items to those governmental or community schools which cannot afford them. The company also sponsors various sports tournaments.

#### **4.3.4 Rara**

It is also one of the brand of noodles produced in Nepal. Rara was produced by Gandaki Noodles Pvt. Ltd. which later on changed to Everest Noodles and then Himshree Foods Pvt. Ltd. it is the first noodles brand of Nepal and it started the production of noodles for the first time not only in Nepal but the first among the SAARC countries. Its production plant is located in the industrial district in Pokhara. Rara is a white noodles, unlike the other brown noodles, and can be consumed only after cooking it. Unlike the other noodles manufacturers in the country, it uses Japanese technology. Himshree Foods Pvt. Ltd. also produces some other brands of noodles and also the brown noodles under some other brand name but Rara is the most famous product of this company.

It was the first noodles company in the country so it created and exploited the local market as much as it can until the entry of Wai Wai in the market. It was quite popular in Nepal until the domination of Wai Wai in the local market. It is white noodles and is believed to be good to eat for the old and sick people. It is also exported outside the country, but it is mostly sold in the cities of India and China near the borders of Nepal. It also comes in the packet of 75 grams and costs about NRs 14. It has a strong market especially in the mountainous areas that are close to China as people in those areas mostly prefer white noodles and being the first and most famous brand among white noodles, it has its dominance in those regions.

#### **4.4 Production Process of instant noodles used by Nepalese noodles industry**

The noodles companies of Nepal use the product layout system in which the processes are arranged according to the steps by which the product is made. All the noodles companies use the same kind of processes to produce the noodles. Even the white noodles are prepared using the same processes but the white noodles does not go through frying process which turns the color of the noodles to brown. This makes the brown noodles ready to eat without boiling it in water like other white noodles. The different processes in making of instant noodles in Nepal are:

##### **Mixing**

This is the first step in the production of noodles. The amount of the raw materials required for the production of noodles is measured and right quantities of those raw materials are mixed. The raw materials that are used for mixing are wheat flour, soda, salt, egg and water. After the right proportion of these materials is measured, they are mixed together in a mixing machine. Then the dough is prepared and fed to the next production unit.

## **Sheeting/Rolling**

In this step the dough is rolled into a long sheet with a certain amount of thickness as required by the company. After the dough is rolled into the sheet the machine automatically transfers the sheet into the next production unit which is cutting and steaming.

## **Cutting and steaming**

In this unit the long sheet of dough is cut into the shape of noodles and a long web of noodles is prepared. Then this noodles passes through a machine that steams the noodles. These shaped noodles come out of the steaming machine half cooked at around 90 to 95 degree centigrade. Then they are passed to the next production unit.

## **Cutting and folding**

The noodles are cut and folded into the actual size in this unit. The noodles are then weighed so that the noodle that goes in the market is of the right weight. The noodles at this stage are of the shape that is available in the market.

## **Flavoring**

The noodles are given the desired flavors in this section. The most common used flavors in the Nepalese market are chicken and vegetable flavor. So, the desired flavor is given to the noodles depending upon its variety.

## **Frying**

After the noodles are flavored, it is time for the noodles to get fried as Nepalese noodles companies mostly sell brown noodles because of the taste and preferences of the local consumers. The noodles are fried in palm oil at a temperature of about 170<sup>0</sup> to 180<sup>0</sup> centigrade.

## **Drying**

The noodles are then dried and all the oil is removed from the noodles.

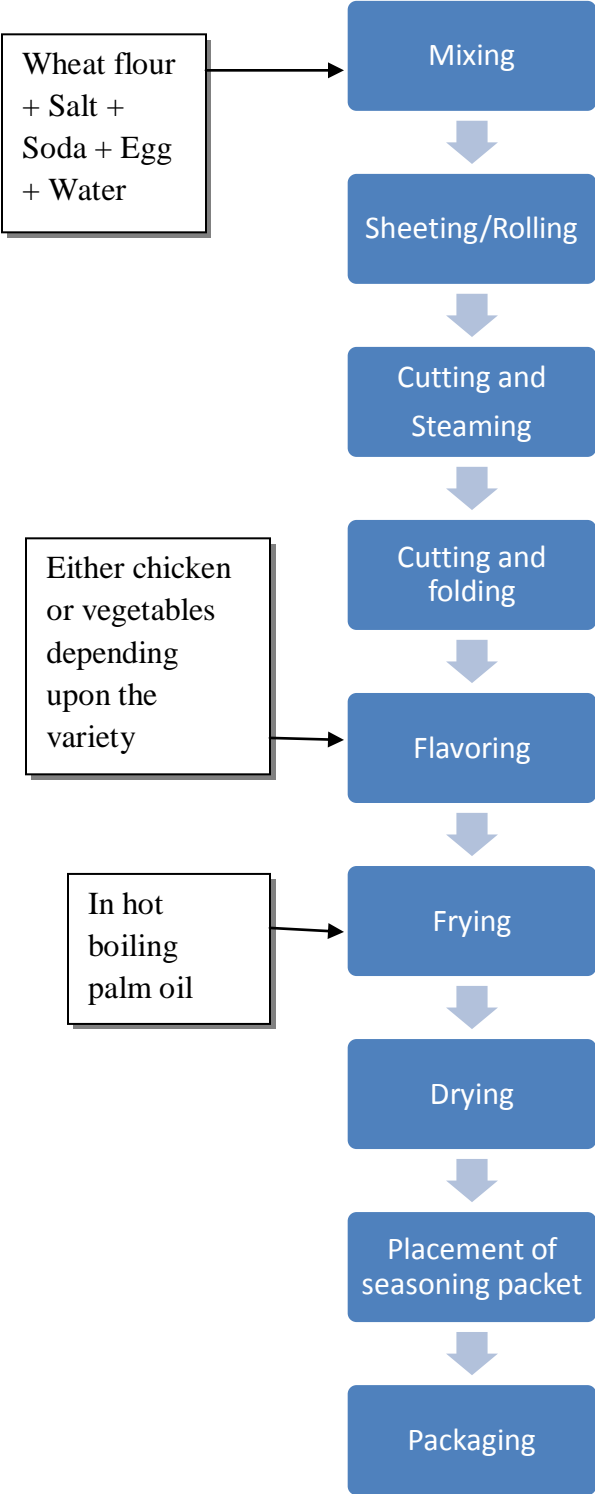
## **Placement of seasoning packet**

In this production unit noodles are checked manually for any defects while they are still on a conveyer and seasoning packets are placed on top of each noodles. These noodles are then passed on to the next production unit.

## **Packaging**

This is the last step in the production of noodles. The noodles are packed using digital technology and are then placed in cartoons and then they become ready to be transferred to the warehouse.

These processes of producing a noodle are shown in a diagram below:



Source: Empirical finding

## Chapter 5 : EMPIRICAL FINDINGS

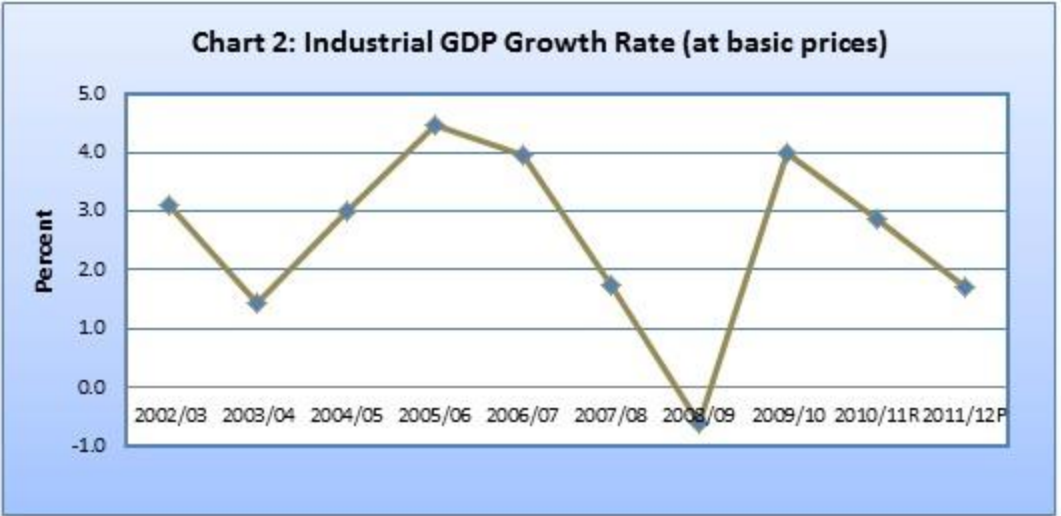
### 5.1 Nepalese Economy

Since the 1950s, Nepal has made progress toward sustainable economic growth, and the country remains committed to a program of economic liberalization. Agriculture is the greatest contributor in the country's economy. Nepal is an agricultural country employing more than 73% of the population. The GDP growth rate in 2011-2012 is estimated to be 3.5% against the target of 4.5%. The decline in GDP is the result of slow economic growth in non-agricultural sectors.

The industrial GDP growth rate is slow mainly because of the political condition of the country, but there are some industries which continues to grow even in these conditions and instant noodles industry is one of those few industries. The following charts show the overall GDP growth rate of Nepal and industrial GDP growth rate:

#### GDP Growth Rate





Note: R = Revised, P = Projected

Source: Based on annual data of Fiscal Year 2011-12, NRB

The above data shows that there is decrease in the overall GDP growth rate and industrial GDP growth rate of Nepal. Even though the overall GDP growth rate of Nepal has decreased the noodles industry of Nepal has not seen decrease in its sales or growth rate. The decrease in the overall industrial GDP is because of the decline in the other industrial sectors of the country. There is positive growth rate in the Nepalese noodles market as it is shown in the table with global demand of instant noodles. The growth rate in the national and international market of the Nepalese noodles is motivating the Nepalese noodles manufacturers to produce more and penetrate the new market segments in the international market. Nepalese instant noodles have been very popular in the Indian market and it has also been slowly growing its market and popularity in other countries where it is exported.

Nepalese noodles industry has benefited a lot to the Nepalese economy. The noodles industry in Nepal pays a tax at the rate of 13 percent in its products. Wai Wai has established its production plant in India and other noodles company of Nepal is also trying to do the same. Even though the Nepalese noodles industry start their production plant outside Nepal, the profits made by these companies come inside Nepal and helps to boost the economy of Nepal. There are a number of noodles companies in Nepal, and these companies provides employment to thousands of people which also acts as a boost in the overall economy of the country. Wai Wai alone provides employment to more than 10,000 people.

## 5.2 Global Consumption of Instant Noodles

The global consumption of instant noodles is ever rising. Instant noodles are not only nutritious and easy to prepare but are also very cheap and can be afforded by people of any income group. People are very busy these days and most of them do not like to spend a lot of their time in cooking food so fast foods are very popular among people anywhere in the world. So, there is great market for instant noodles around the world. According to World Instant Noodles Association (WINA), the consumption of instant noodles in different countries as of April 25, 2013 are as follows:

	Country / Region	2008	2009	2010	2011	2012
1	China / Hong Kong	42,530	40,860	42,300	42,470	44,030
2	Indonesia	13,700	13,930	14,400	14,530	14,100
3	Japan	5,100	5,340	5,290	5,510	5,410
4	Vietnam	4,070	4,300	4,820	4,900	5,060
5	India	1,480	2,280	2,940	3,530	4,360
6	USA	4,150	4,290	4,180	4,270	4,340
7	Republic of Korea	3,340	3,480	3,410	3,590	3,520
8	Thailand	2,170	2,350	2,710	2,880	2,960
9	Philippines	2,500	2,550	2,700	2,840	2,720
10	Brazil	1,690	1,870	2,000	2,140	2,320
11	Russia	2,400	2,140	1,900	2,060	2,090
12	Nigeria	1,400	1,600	1,670	1,790	1,900
13	Malaysia	1,210	1,200	1,220	1,320	1,300
14	Taiwan	1,110	1,070	1,020	1,010	1,010
15	Mexico	860	860	830	850	890
15	Nepal	510	590	730	820	890
17	Saudi Arabia	N/A	N/A	560	590	580
18	Ukraine	500	520	540	540	560
19	Australia	320	330	340	340	350
20	UK	260	260	260	300	340
21	Poland	N/A	300	300	300	300
21	Myanmar	210	210	240	240	300
23	Cambodia	240	240	330	260	260
24	Canada	200	200	210	210	210
25	Germany	180	180	180	180	180
26	Bangladesh	150	60	90	100	160
27	Kazakhstan	110	120	120	120	150
28	Pakistan	110	110	110	120	140
29	Singapore	110	120	120	130	130
30	South Africa	90	90	90	100	120
31	Uzbekistan	90	90	100	110	100
31	Egypt	50	60	70	90	100
33	New Zealand	60	70	70	70	80

34	Czech	N/A	50	50	50	60
35	France	40	40	40	50	50
36	Hungary	N/A	20	20	20	20
36	Finland	N/A	20	20	20	20
36	Sweden	N/A	0	0	20	20
36	Denmark	N/A	10	20	20	20
36	Netherlands	20	20	20	20	20
41	Costa Rica	20	20	20	10	10
41	Belgium	10	10	20	10	10
43	Others	1,120	840	310	220	230
	Total	92,110	92,690	96,370	98,740	101,420

Unit: 1 Million Packets (Bags/Cups)

(Source: <http://instantnoodles.org/noodles/expanding-market.html>)

The above table shows that the global consumption of instant noodles are rising every year and Nepal stands in the 15<sup>th</sup> position along with Mexico in the global consumption of instant noodles in the national market. The consumption of instant noodles in Nepal is ever rising and this is one of the reason why Nepalese noodles industry is trying to expand even when some of the other industrial sectors in the country is going through a rough phase.

This shows that there are plenty of opportunities in the global market for the noodles industries. If Nepalese noodles industry can reach and have enough competitive power in the global market, then there is a great scope for the Nepalese noodles industry to rise and become a great force in the field of global noodles market. For this, Nepalese noodles industry has to focus on being a multinational company by establishing its branches all over the world either investing itself or by finding a local partner to invest in or by franchising.

### 5.3 Export Marketing

Nepalese noodles industry are also focused on export. They are not just concentrated about utilizing the domestic market but are also concentrated on expanding their product to the international market. The noodles companies in Nepal have already been exporting their products to the international market. They have targeted some of the countries and selling their product to those countries. The countries these noodles firms have targeted are those where there are many people from Nepal. The main targeted customers of these noodles firms in those countries are the Nepalese consumers who have settled in those countries or who are there for some years. While exporting the noodles in the foreign markets, the Nepalese noodles industry not only target the Nepalese people there but also target to get established in those markets



slowly. These noodles firms try to attract the customers by using the different mediums of advertisement.

Nepalese noodles industry export noodles by fulfilling all the necessary exporting rules and regulations. Nepalese noodles are sold in different packaging styles in the foreign market than in the domestic market to meet the rules and regulations of the foreign country and to attract the consumers in the foreign market. Chaudhary Group has even established production plant in India to meet the increasing demands in the international market as they knew the only the production plant in Nepal will not be sufficient to meet the increasing demands of the international market. Doing this, they have taken their first step towards turning the Nepalese noodles industry into a multinational company. Wai Wai is mostly exported to gulf countries, Pakistan and Hong Kong from Nepal, while in other countries it is exported from India. In the case of other noodles companies, all the export is done from Nepal as they do not have their production plant outside Nepal yet.

### **5.3.1 Problems of Exporting for the Nepalese noodles**

Export marketing is a very lengthy and complex process as it is a subject to rules and regulations of both exporting and importing countries. There are some problems for Nepalese noodles industry while exporting the noodles to a foreign market:

#### **✓ Long Distance**

Trade is spread all over the world in international marketing, so the goods have to be transported relatively long distance. There are many risks while transporting the noodles in a relative long distance because noodles are a consumable product and if not handled properly while transporting the noodles, it can get damaged. Noodles have to be transported not only by road but also it has to be transported by sea. So, noodles must be insured against any damage during its transport from one place to another. Also noodles have to be taken to the third country through India, so it takes a very long time as Nepalese noodles are also checked while passing through the Indian territory. Nepal is a landlocked country. Nepal is surrounded on three sides by India and one side by China, so the only way for the Nepalese noodles to reach the third world is through India as Nepal can gain access to the sea only through India. It will be a long and difficult route to the sea if the noodles travel through China which is not practical. This is a main problem for Nepalese noodles companies for exporting goods to a foreign country.

#### **✓ High Risk and Uncertainties**

There are high risks and uncertainties while exporting the noodles to a foreign market as international trade is a subject to political as well as commercial risks. Political risks are due to the political action of the governments of the exporting and importing countries. Commercial risks arise due to the failure of buyer's capacity to accept the goods. Nepalese noodles industry face these risks too. Nepalese noodles industry must make

sure that the country where it is exporting its noodles must have good political relation with Nepal. But it can never eliminate all the risks and uncertainties involved in international trade.

✓ **Customs Formalities**

Customs formalities are different in different countries. Also these formalities are very lengthy, time consuming and complicated. Nepalese noodles have to be exported to the international market through India. So, Nepalese noodles have to fulfill the customs formalities of India too. This takes very long time and not only increases complexities in exporting the noodles but also increases the cost of noodles, making it more expensive when it reaches the international market.

✓ **Trade Barriers**

Trade barriers are the artificial restriction on the free flow of goods and services from one county to another. Trade barriers are of two types: tariff and non-tariff barriers. Nepalese noodles industry also face these trade barriers while exporting noodles to a foreign market. The government in the foreign market will try to impose all kinds of tariffs and non- tariffs barriers on Nepalese noodles industry to try to protect their own domestic noodles industry. World Trade Organization (WTO) is making efforts to eliminate these barriers to promote free flow of goods and services throughout the world. Only then there will be fair competition among the products in the international market.

Nepalese noodles industry face these trade barriers especially in India. The Nepalese noodles that travel through India to other foreign countries have to pay export duty in India. Even if the noodles are not intended to be sold in India, they are not allowed to be travelled freely through India. This stands as a main trade barrier. Even when customs duty and other taxes are paid, the goods sometimes face several difficulties before reaching to the sea port for unloading.

One of the noodles companies of Nepal, Wai Wai has established its production plant in India. Even though the production plant was established to meet the demand of the local market of India and taking the increase of global market of noodles in consideration, it faces several difficulties. Even though the noodles are produced and sold in India by the Nepalese company, it has to pay tax as much as the products that goes to India from Nepal. These are the barriers faced by Nepalese noodles company while exporting the noodles.

✓ **Three-faced competition**

International market is highly competitive as products from all over the world compete in a single market with each other. An exporter faces stiff competition from three angles:

- Exporters from his own country
- Exporters from other country

- Local suppliers in importing country

Nepalese noodles industry faces competitors from own country as more than one firm from the noodles industry in Nepal is exporting noodles to different country. They not only compete in the domestic market but also compete for market share in the international market. The different products of the Nepalese noodles industry are a perfect substitute to each other, so the level of competition is very high in the market.

Nepalese noodles also face competition from other Thai companies selling instant noodles in those foreign markets as instant noodles do not only belong to Nepal. After all, instant noodles industries in Nepal were established in collaboration with the technology from Thai companies. There are instant noodles from other countries too which gives a tough competition to the Nepalese instant noodles in the market.

There are also the local suppliers of instant noodles in those foreign markets against whom the Nepalese noodles has to compete. The cost of establishing a small noodles company is very low. Because there is low initial investment in the noodles industry, it is not a surprise for the local noodles companies to compete with the exported noodles. These are the three angles of competition which Nepalese noodles industry has to face while exporting noodles in the foreign market.

✓ **Payment Difficulties**

Different countries have different currencies and different conversion rates. These rates keep on fluctuating every day. An exporter may suffer loss sometimes due to the fluctuation in exchange rates. Nepalese noodles industry also suffers this kind of loss due to the change in exchange rate. While exporting the noodles to a foreign market, the Nepalese noodles industry gets paid only after the supplier in the foreign market receive the noodles consignment. This takes a long time as international trade is a lengthy process with all the barriers and problems involved in it. During this time there can be heavy fluctuation in exchange rates sometimes and the noodles exporter in Nepal can suffer loss sometimes.

✓ **Documentation Formalities**

There are a number of documents to be filed with various authorities while exporting the goods. Nepalese noodles industry also has to produce a number of documents while exporting noodles to a foreign market. It is also a lengthy and complicated process but the documents must be prepared to meet the requirements of the importing and exporting countries.

✓ **Diverse Languages, Customs and Traditions**

Different countries have different language, customs and traditions. These language, customs and traditions must be taken into consideration while exporting the goods and

services to a foreign market. Nepalese noodles industry must consider these factors while entering into the foreign market. These noodles should value their language, customs and traditions. The packaging of the noodles has to be different in different countries. the language used in the packet of the noodles has to be the language of the country where it is sold. This can increase the cost of production of noodles.

Advertisement should be made in such a way in the native language that the local people feel attached to the product. Nepalese noodles industry produce instant noodles in different flavors. Some of the cultures have restriction to some special flavors or meats. Those flavors which cannot be accepted by the tradition of the people of foreign market should not be introduced in those market or the noodles firm exporting those noodles can be totally rejected by the consumers in that market. So, Nepalese noodles industry must study the market fully before entering into the market.

## **5.4 Advertising**

Nepalese noodles industry advertise its product to let the people in the foreign market know about its existence in the foreign market. It uses all the modes of advertisement to let its targeted consumers in international market know about its product. It does not use the same advertisement it has been using in Nepal as the taste of consumers are different in different markets. So, a careful study of the foreign market is done and advertisement is produced getting involved with the local advertising agency because the local advertising agencies best know about the taste and preference of the local customers and also these agencies conduct market survey before producing any advertisements.

Nepalese noodles focuses on global and customer advertising while creating an advertisement because Nepalese noodles industry needs to compete in the international market and the noodles are produced for the final consumers who use the product themselves or for their household. The noodles firms of Nepal use trade advertising to promote their sales by attracting more distributors in their distribution channel or motivating the current distributors to stock more of their products. Nepalese noodles industry advertise their products in the local newspapers and televisions when they enter the local market. When the Nepalese noodles companies first entered the Indian market, they not only advertised their product in the local newspapers, televisions and set up hoarding boards but also they placed their company's stalls by the side of the road in many places. These stalls not only gave information to the local consumers about the products but also they used to show the consumers the various ways to prepare their noodles and used to sell it from those stalls. This strategy helped the Nepalese instant noodles to get established in the local market as the local consumers became well aware about the availability of the product in the market. The consumers even liked the taste of the noodles as it was different from the type of

noodles they were consuming and also the various ways of preparing the noodles enhanced the taste of the noodles. Due to this, Nepalese instant noodles companies were able to establish their brand in Indian market very quickly.

Nepalese noodles companies must rely on various advertising and marketing skills to be established globally as the same marketing strategy may not be useful in different countries. The different types of advertising used by Nepalese noodles industry in the foreign market is as follows:

### **Word of mouth**

Nepalese noodles industry relies on this type of advertising when entering a new market as word of mouth is the most effective form of advertising. First, the consumers of noodles are informed about the noodles through various ways. Nepalese noodles companies even set up some stalls in different areas in the city and let the people passing by taste their product. When the people tasting the noodles get satisfied with the product, they recommend the product to their family, friends and neighbors. This helps in the publicity of the noodles without any further cost and helps the Nepalese noodles industry to let the consumers feel the presence of their product in the market and get them established in the market.

### **Newspapers**

Newspapers are the most common form of advertising. Newspapers are read by almost every person. It is the first thing a person reads every morning and is the most effective medium of informing people. Nepalese noodles companies advertise their products in the local newspapers of the countries they export to because this is the fastest way they can inform about their products to the local consumers. For this purpose they contact the local advertising agencies and prepare suitable newspaper ads.

### **Magazines**

This is also one of the popular forms of print advertising. Nepalese noodles companies also advertise their products in those magazines which are popular in the area they are selling their products. The advertisements used in the magazines are the same ones used in the newspapers. This is done by the Nepalese noodles companies with the hope of informing a larger sector of the population about their products.

### **Hoarding boards**

Nepalese noodles companies also advertise their products on the hoarding boards. Hoarding boards are quite common and popular in the Asian countries and one of the most effective ways of informing people about the products. Nepalese noodles companies use this medium of communication to reach a large sector of the population.

## **TV Commercial**

Nepalese noodles companies also advertise their products on TV by creating a commercial of a certain length and broadcasting it on TV. To create the commercials, these noodles companies take help from the local advertising agencies so that they can create the best commercial which best suits the taste and preferences of the local consumers. These type of TV commercials are costly but they are an effective source for the noodles industry to reach a large sector of audience. These types of advertisement can help the Nepalese noodles companies to create a base in the new market.

## **Radio**

Radios are also effective for advertising a product. Nepalese noodles industries also advertise their products in the various radio stations of the countries where intends to get a strong foothold. Jingles are prepared with the help of the local advertising agencies and are broadcasted on radios. When preparing the jingles, the noodles companies make sure that the jingles are catchy and can immediately capture the attention of the person listening to the radio. The catchiness of the jingles can help the consumers take decision of buying the noodles of the certain company while shopping for noodles. Nepalese noodles companies too, rely heavily on this type of jingles to do their job for them.

## **Internet**

Internet has changed the world. It has turned the world into a global village. It has brought the world closer. Now a days, people can do anything on internet. They can get information about the world from internet. Internet also allows the people to shop for the things they need online without actually going to the market. So, internet has turned as a big source of informing people about things. Every company has their own websites which informs its consumers about the company. Even the noodles companies of Nepal have their own websites which gives general information about their product to its consumers. Any consumers wanting to know about the company can log into their website and can get necessary general information about the noodles companies. They can also learn about the different products sold by the company and all the general information about the company.

## **5.5 SWOT Analysis**

The purpose of SWOT analysis is to determine the strengths, weaknesses, opportunities and threats of a specific industry. Every company has its own strengths and weaknesses. The company must have the knowledge about its strengths and weaknesses. Only then, they can achieve their maximum potential. The SWOT analysis of the overall global noodles industry can be made in the following way:

## **Strengths**

The diversity of noodles is one of the biggest strength of the noodles industry. The noodles can come in various shapes, sizes and taste. There is a wide range of taste in noodles. Noodles dishes also include wide range of meats, vegetables and sauces. The cup noodles are also available in the market. The cup noodles come in a cup and are ready to eat after putting hot water in the cup and waiting for 2 minutes. The diversity of noodles is the greatest strengths of a noodle compared to its substitute products available in the market.

## **Weaknesses**

Even though noodles are available in different taste and its biggest strength is diversity, the biggest strength of the noodles industry is its lack of market penetration. Other fast foods like burgers, pizzas, etc have grown its size in the international market and there are a chain of restaurants selling these products. But noodles industry has not been able to penetrate the market like the other fast foods. Noodles based restaurants are not present like other chain of restaurant and are yet unable to penetrate the global market totally.

## **Opportunities**

Fast foods are ever growing in popularity in the world. The market of fast food is constantly growing every year in the world. This is shown by the popularity of many fast food chains of restaurants all over the world. Like other fast food chains, the noodles industry also has the opportunity to grow in the global market as it is also one of the fast foods. Noodles industry can also grow like the other fast food industry through franchising.

## **Threats**

The major threat for the noodles industry in the global market is the concern of the people over the health impact of the noodle dishes. Many people believe that the spices used in noodles have negative effect on the health of its consumers. The media also has kept raising these issues. Even though, the noodles industry has been trying to convince its consumers that it has no negative health effect on its consumers, this issue remains as a main thereat for the noodles industry to achieve their maximum potential in the global market.

These strengths, weaknesses, opportunities and threats of the global noodles industry can be shown in the table in the following way:

<b><u>Strengths</u></b> ➤ Diversity	<b><u>Weaknesses</u></b> ➤ Lack of market penetration
<b><u>Opportunities</u></b> ➤ Ever growing market	<b><u>Threats</u></b> ➤ Issues over the negative impact on health

Nepalese noodles industry compete in this global market for its share. Nepalese noodles industry should also have knowledge about their strengths, weaknesses, threats and opportunities to achieve their maximum potential in the global market. The SWOT analysis of Nepalese noodles industry is done in the following way:

### **Strengths**

- As there are many noodles companies in Nepal and it provides employment to thousands of people, there is availability of enough skilled manpower for the noodles industry in the country. Nepalese noodles industry faces no problems in getting the skilled manpower when it expands in size to meet the increasing demand in the global noodles market.
- Some of the Nepalese noodles companies have already invested high in the latest technologies thinking about the future market. These latest technologies provide a distinctive edge to the Nepalese noodles companies in the global market and also help them to lower the product's prices. This is a strength of the Nepalese noodles industry.
- Nepalese noodles companies have already installed a large production capacity plants as they have a high demand in the market and also the demand is growing as it has entered the global noodles market. Considering the future demand, the production plants with large capacities are already established so that they can cope up with the demand of noodles in the future in the international market.
- Nepal has well established domestic industries which supplies raw materials and services to the Nepalese noodles industry. The noodles company does not directly contact the producers of raw materials for the production of noodles; instead it contacts a certain company which supplies the noodles companies with all the raw materials it needs to produce noodles. These raw materials are sourced not only from Nepal, but also from India, Singapore and Malaysia. The flour and spices comes from Nepal and India and wrapping paper and palm oil is imported from India, Singapore and Malaysia. These companies providing raw materials to the Nepalese noodles industry are well established and well sourced.

### **Weaknesses**

- The noodles companies of Nepal have only operated in the local market in Nepal and the Indian market and have created a brand there. In other markets, the Nepalese noodles are still new and not a known brand. This is because of the lack of skills required by the noodles industry of Nepal to penetrate the new markets in the international arena as the culture and taste of those markets are relatively new to the Nepalese noodles industry. This stands are a main weakness of the Nepalese noodles industry.
- India requires quality certification for each consignment of noodles exported from Nepal. The quality certification is done at the customs when the consignment crosses the national border. There is not availability of enough manpower for the quality check at the



customs. The noodles companies in Nepal are also not well prepared for this. This creates delay in the movement of the consignment and is one of the main weaknesses of the Nepalese noodles industry while exporting the noodles consignment.

- Nepal faces a huge problem of scarcity of electricity. It has been many years since the country has been facing this problem, but the government in Nepal has not taken any necessary step to solve this problem due to the unstable political situation in Nepal. The power cuts in Nepal goes upto 16 hours a day in some months of the year. Power cuts have been the main cause in the declination of the industrial GDP of Nepal. This is a main problem for the noodles industries in Nepal as using the alternative source of energy increases the cost of production rapidly. According to the noodles companies in Nepal, the noodles companies has to pay NRs 6 per unit of electricity for the production of noodles. But when they have to use diesel plant as alternative source of electricity, the expense on the electricity rises to NRs 80 per unit. So, this is the main weakness of the Nepalese noodles industry while competing in the global noodles market.
- Even though, there are well established domestic industries in Nepal which supplies the raw materials to the noodles industry, the raw materials from Nepal alone are not enough to meet the increasing demand of the noodles industry. As, Nepal is a landlocked country, it is also difficult to source raw materials from other countries except India. Palm oil and wrapping paper for the Nepalese noodles industry are imported from Malaysia and Singapore, but the wheat flour and other spices used in the noodles can only be imported from India. India lays out many difficulties for importing these materials to Nepal from other countries as these materials has to be transported through India to reach Nepal.

### **Opportunities**

- Nepalese noodles industry has the opportunity to expand in the Indian markets as well as the global market. Nepalese noodles industry can compete with the different noodles companies available in the global market. Nepalese instant noodles has a distinctive advantage on other normal instant noodles as Nepalese noodles can be consumed raw straight from the packet whereas other normal noodles has to be cooked first before consuming. This can serve as a basis for the Nepalese noodles industry to expand in the international market.
- The domestic market of Nepal itself is very large itself and is expanding every year. The domestic market of Nepal can act as a cushion buffer against any setbacks in export for the Nepalese noodles industry.

### **Threats**

- There is political instability in Nepal and it has been going around for years now. The government in Nepal does not last for many years due to this instability. Sometimes the government changes only in some months. This is affecting the new investors from entering into the Nepalese market. Even the existing investors are not willing to invest

more in their current projects due to this political instability as it is seriously affecting every sector of the country. This is a great threat for the Nepalese noodles industry if it has to compete in the global noodles market.

- There is also lack of security of investment for the investors due to the political instability. The investment made by a certain investor may not yield profit to the investor due to the obstacles laid by the workers or the local people affiliated to the political parties. This is stopping the noodles companies of Nepal to increase their investment to compete in the global market.
- Strikes and shutdowns are normal in Nepal. Every political party has their own labor union and these unions are present in every industry in Nepal. These unions lay out unnecessary conditions and cause strikes and shutdowns every now and then in the industries in Nepal. This has been the main cause of downfall of the Nepalese noodles industries. Even Nepalese noodles industry face this problem and it has become one of the most dangerous threat for the Nepalese noodles industry.
- There are a number of noodles companies in the domestic market alone. When the Nepalese noodles industry enter the global market they face even more tough competition not only from the other Nepalese noodles companies but also from the noodles companies around the world. So, there is very high competition in the market.

The SWOT analysis of Nepalese noodles industry can be represented in the diagram:

<p><b><u>Strength</u></b></p> <ul style="list-style-type: none"> <li>➤ Skilled manpower</li> <li>➤ High investment in the latest technology</li> <li>➤ Large production capacity already in place</li> <li>➤ Well established domestic industry supplying raw materials and services</li> </ul>	<p><b><u>Weakness</u></b></p> <ul style="list-style-type: none"> <li>➤ Lack of skills in penetrating new markets</li> <li>➤ India requires quality certification for each consignment and producers are not well prepared to meet this requirement</li> <li>➤ Power cuts are a problem</li> <li>➤ Difficulty in sourcing wheat flour and seasonings from countries other than India</li> </ul>
<p><b><u>Opportunity</u></b></p> <ul style="list-style-type: none"> <li>➤ A very good and expanding market in bordering Indian towns and world markets</li> <li>➤ A large and expanding domestic market that can work as a cushion to buffer against possible export setbacks</li> </ul>	<p><b><u>Threat</u></b></p> <ul style="list-style-type: none"> <li>➤ Political instability</li> <li>➤ Insecurity</li> <li>➤ Strikes and shutdowns</li> <li>➤ Very high competition in the market</li> </ul>

Source: <http://nepaltrade.org/archives/ntisproducts/instant-noodles>

The above matrix shows that there is opportunity for the Nepalese noodles industry in the international market. Nepalese noodles industry also has the internal strength as it has the necessary skilled manpower available in the market, it has the well established firms supplying raw materials, it produces noodles using the latest technology and also it has a large production capacity. Nepalese noodles industry can compete in the international market by using its strength to exploit the international market. Nepalese noodles industry does not have the ability to capture a large amount of international market share but it can capture sufficient amount of market share that is necessary for the industry to sustain in the international environment.

Nepalese noodles industry should try to minimize its weakness by trying to reduce its weakness as much as possible and turn its weakness into strength when it penetrates the international market. Nepalese noodles industry cannot control the external threats present in the market but can try to be ready for those threats through the market strategy made by the perfect combination of their internal strength with the external opportunities.

## **5.6 Channel of Distribution**

Nepalese noodles industry is a FMCG (Fast Moving Consumer Goods) so it has to be sold fast. So, Nepalese noodles industry must choose that type of channel of distribution in which noodles can reach the final consumers fast without much difficulty. It should appoint a supplier in the foreign market and that supplier should control all the market by supplying noodles to the local retailers on time on abundant quantity. Nepalese noodles industry also must have total control over the distribution channel and should not let the channel get much powerful as if the channel members get much powerful, they can dominate the manufacturing firm which is not good for the Nepalese noodles industry. Nepalese noodles industry can choose one of the following channels to distribute its goods to the foreign market:

### ➤ **Zero Level Channel**

Noodles industry can sell its noodles directly to the consumers by opening the company's outlet in different places. This type of channel is used by the Nepalese noodles market when they enter any market for the first time to give information to the local consumers about their products. This type of retail outlet is temporary, normally in the form of stalls where the people employed by a company attend the consumers and inform them about the every aspects of the product. In case of noodles, they give information about the brand, the product and in what different ways the product can be consumed.

### ➤ **One Level Channel**

Noodles are not industrial goods, so the retailer is present between the noodles manufacturer and the customers. Manufacturer cannot sell the products directly to the final consumers and has to be dependent on the retailers to sell their products to the final consumers not only in the domestic market but also in the international market. The

noodles manufacturer sells the noodles to the retailers in the foreign market through which the noodles get to the targeted consumers of that market.

➤ **Two Level Channel**

The noodles industry can use this kind of channel of distribution in distributing the noodles not only in the domestic market but also in the foreign market.

In the foreign market Nepalese noodles industry supply the noodles to the wholesalers or suppliers of that country, the wholesalers then supply the noodles to the retailers throughout the country and the noodles reach the final consumer through the retailers.

This channel of distribution is used by the Nepalese noodles industry because it is the most effective and efficient choice of channel of distribution which helps the noodles to reach the final consumers conveniently.

➤ **Three Level Channel**

In this three level channel, there are three channels present between the producer and the final consumer. The noodles industry supplies the noodles to a specific dealer appointed by the company. Each company has its own dealer and the dealer is allowed to sell the products of only one company. Dealers are responsible for the flow of goods to the areas assigned to them. This area can be one or more than one city according to the capacity of the dealer. The dealer then supplies the noodles to the local wholesalers. The wholesalers have contact with different dealers of noodles and sell the products of many noodles companies. These wholesalers then supply the goods to the retailers who buy different varieties of noodles from them and finally the final consumers buy the noodles from these retailers.

From the study I conducted, I found that all the noodles companies in Nepal use the same kind of channel of distribution. The noodles are sent to the dealers from the factory, and then it passes from the dealer to the wholesaler. The wholesaler then sells it to the retailers and finally the consumers get it from the retailers. The company never has direct connection with the final consumers directly. They have to go through this channel to communicate with the consumers and the consumers also have to go through this channel to complain the company about their products, if there are any. The following figure shows the channel of distribution used in the Nepalese noodles market.



Source: Empirical finding

## **5.7 Porter's Five Force model of Competitive Analysis of Nepalese Noodles Industry**

The competitive analysis of the Nepalese noodles industry on the basis of Porter's five force model is given below on the basis of the findings of my research.

### **Threat of New Entrants**

There are not high barriers to entry in the Nepalese noodles market. There is always a threat of new entrants in the market as huge investment is not required to enter into the noodles market. Small companies can also enter the market with small investment targeting the small area of the market. Due to the increasing demand of noodles every year, a lot of small and big noodles companies have been established in Nepal. Currently there are more than dozen small and big noodles companies operating in Nepal. This is mainly due to the low barriers in entry in the noodles market in Nepal. It is the same even in the international market for the noodles industry.

### **Bargaining Power of Buyers**

Bargaining power of the buyers refers to the strength of the buyers' position. There are a lot of noodles companies in the Nepalese noodles market and the buyers have a lot of alternatives which can be accessed easily. This makes the buyers strong and they have a significant influence over the product and the price. Same goes for the market in the international market as the noodles from different countries are available in the international market. So, the bargaining power of the buyers is very high in the noodles industry.

### **Bargaining Power of Suppliers**

The suppliers in the noodles industry are the firms providing the raw materials like eggs, flour, spices, etc to the noodles industry for the production of noodles. There is limited number of suppliers in the Nepalese market, but the number of noodles companies is much more. So, the suppliers are strong in the Nepalese noodles market.

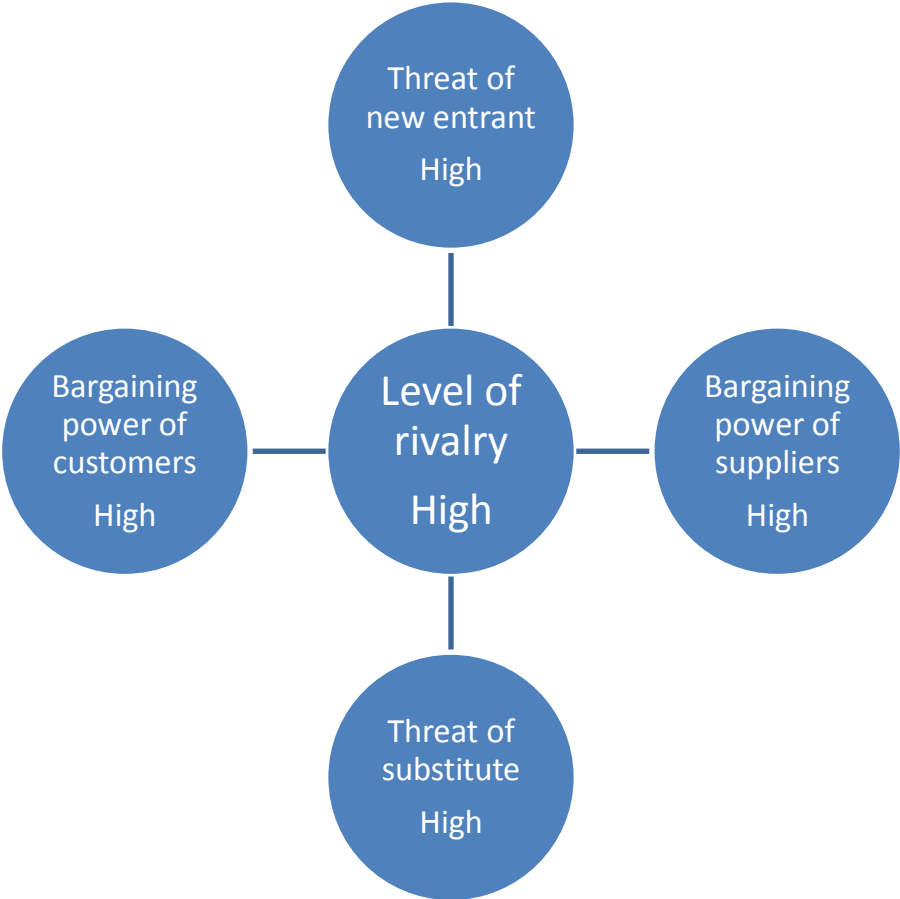
### **Threat of substitutes**

There is a high threat of substitute for the Nepalese noodles industry as there are many noodles companies in the market. There are not only the threat of substitute from other noodles companies but also there are substitutes like biscuits, chips, etc easily available in the market. Due to this the price of the noodles are always in check. Nepalese noodles industry face threat of substitute in the international market too.

### **Level of Rivalry**

The level of rivalry in the Nepalese noodles market is very high. There are a number of firms fighting for their position in market. There are not much imported noodles available in the

market but the number of domestic firms makes the rivalry fierce. The only imported noodles found in Nepal are Maggi which is imported from India. But it is found only in some selected places in the country and the main consumer of this product is the people from India living in the country. But the level of rivalry in the Nepalese noodles market is very high because of the competitiveness of the firms present in the domestic market.



Source: Empirical finding

The figure above shows the competitive status of the Nepalese noodles industry on the basis of Porter's five force model which shows that there is a high competitive status of the Nepalese noodles industry.

### 5.8 Market Expansion

Mayos and Wai Wai control the most share of Nepalese noodles market. Noodles are available in every part of the country, even in the very remote areas where transportation facility is not available. These companies have not only captured Nepalese noodles market but are also

expanding in the foreign markets. They are growing in size and its popularity is now not limited to Nepal. Nepalese noodles industry had a large production capacity and the market was limited so it began to expand beyond country borders. Chaudhary Group and Himalayan Snax & Noodles began exporting its product to India.

After the success of their products in India, these companies began exporting their products to USA, the Middle East, Hong Kong, Australia, Singapore and many other countries.

Wai Wai is the member of World Instant Noodle Association, Japan since 2007 and is also the member of Snack Food. Chaudhary Group, the producers of Wai Wai, has set its manufacturing units in cities in India. Chaudhary Group not only started selling its product in international market but also it started the process to become a multinational company. Chaudhary Group is on the process of establishing its production plant in other countries too. Even other noodles companies in Nepal are looking to set up their production plant outside the country to expand their market because it is not possible for the Nepalese noodles industry to produce noodles in Nepal and export it all around the world. For this purpose, they need a production plant outside the country and they have to get established as a multinational company like Coca cola and Pepsi.

There is scope for the Nepalese noodles firms for expansion in the international market which is known by the consistently growing export of Nepalese noodles in the international market. Noodles are one of the few products that are exported by Nepal.

Noodles are the product which can be consumed day to day by the consumers. So, there is always the demand for the product in the market. If the Nepalese noodles industry uses the right type of promotional strategy, it can be very successful in the international market. Normally, the noodle that has to be cooked is sold in the market. But the Nepalese noodles are already pre-cooked so they can be consumed without cooking. They can even be cooked instantly if wanted using just hot water and the seasonings in the packet. This only takes about 2 to 3 minutes. This can be used as an advantage on other noodles as most of the instant noodles can be only consumed after cooking. This distinct advantage among other noodles can help the Nepalese noodles industry expand its market in the international arena.

There are many Thai brown noodles too in the market which has the same qualities as the Nepalese noodles but this shall not be much problem for the Nepalese noodles industry to expand in the international market as the global demand for noodles is very high and there is a large sector of market available to exploit. Both the Thai and Nepalese noodles can have plenty of market together.

Nepalese noodles industry should just try to produce the noodles according to the taste of the local consumers because the taste and preferences of the consumers vary from one place to another. Like the noodles exported in the Muslim countries must be prepared using halal meat and has to be halal certified as the Muslims only eat halal meats. The areas where people do not

eat much spicy food, the spices used in the noodles must be made less spicy. Only then, Nepalese noodles industry can expand its wing in the wide area of the global noodles market. This can be quite successful strategy as it has been used by other famous international food chain brands before. For example, when the food chain brands McDonalds, KFC, etc entered the market in Asia; they started selling new products as preferred by the local consumers which helped them to gain popularity in the local markets.

All these factors should be considered and focused while preparing the advertisement for the product in the international market. Advertisement plays an important role in capturing a new market as advertisement gives information about the product to the consumers and attracts the consumers towards the products. When entering the new market, the consumers are unaware of the product and the product is new even if it is an established brand in another country's market. Advertising helps the product to connect with the people in the new market. Nepalese noodles companies should indulge in aggressive advertising to make their presence felt in the new market.

### **5.8.1 Problems of expansion for Nepalese Noodles industry**

There are many problems of expansion for the Nepalese noodles industry. Nepalese noodles industry face expansion problems not only in the national market level but also in the international market level. The problems that the Nepalese noodles market face while expanding in the international market are as follows:

#### **I. Political problem**

Franklin J. Agardy (2005) defined politics as “Politics are the tools that govern how a democratic society works out its conflicting interests, can improve the ability of practitioners to successfully solve environmental problems. Politics, to a large degree, created the modern environmental legal and regulatory framework within which most solutions reside.” (p.27)

Political problem is one of the most common problems for any industrial sector in Nepal at present. Nepal has an unstable political state for many years now. There are many political parties in Nepal. The number of political party grows day by day in Nepal. The government of Nepal has been kept on changing because of the struggle for power between these political parties. Over the few years many government of Nepal has not even lasted more than a year. The political parties keep on fighting for power. This has led the country towards uncertainty. The rules and regulations made by one government keep on getting changed by other government according to their suitability. This is not favorable for any industry in Nepal.

Even the noodles industry is suffering because of the political instability. The investors of the noodles industry cannot invest more finance in this sector because of the unstable government of Nepal. This is a great drawback for the noodles industry in the way of their expansion. So, even when they have the capacity and market to grow, they cannot expand their market.



There is even problem of forced charity. The firms are made to give charity to the political parties without any reason at all. If the firms refuse to give the charity, they can face the problem of labor strikes and shutdown of the factory because these political parties have a strong hold on the labor unions. The political parties in the government also raise question about the quality of the noodles that are being produced in the county if they are declined the charity. They create problems in the export of noodles due to this reason. The noodles companies in Nepal take this situation as the biggest obstacle in the expansion of their market. This has led to unwillingness to invest more in the sector. The investors do not want to invest further in the industry and sometimes are also willing to close the industry because of these problems. Only the market does not attract the investors, the environment in which they operate also is the most important factor.

This has also led to the rise in the price of the product as the extra expenses are met by including these expenses in the price of the product. This rise in price may not affect the product in the domestic market, but in the international market it can be a huge drawback. Nepalese noodles will be more expensive in the international market than other Thai noodles of the same kind and the consumers may be attracted to those competitors rather than buying expensive noodles from Nepal. The competitive power of the Nepalese noodles in the international market will be reduced. This is the main problem for Nepalese noodles industry to expand in the international noodles market.

To avoid this problem and be competitive in the market the political parties should be fair and let the industries run alone. They should formulate a certain set of rules and regulations for the industry that is fair and should not be allowed to change according to the need of the political parties unless it is necessary. Such an environment should be created where the industries of the country can grow and the foreign investors get attracted to invest in the country. Only then the noodles industry of Nepal can rise and be competitive than other Thai noodles of the same kind.

The country which is exporting the goods also must have a good political relation with the country which is importing the goods. If the countries do not have a good political relation with each other, it can be harmful for the product competing in the foreign market. For example, India and Pakistan do not have a good political relation. They always had a tension between them from the day these two nations became independent. So, these two countries do not have a good trade relation too. The country importing the goods can charge high tariff on the goods and make it more expensive than the local products. The foreign product then cannot compete in the market. So, in order to have a fair international trade the two countries must have good political relation.

Nepalese noodles industry should export the noodles in those countries where it is expected to be provided a fair market without any extra tariffs. It should choose markets of those countries which has a good political relation with Nepal so that it can compete fairly in the market and negotiate with the government of the foreign country through the government of Nepal if it faces any problem in that market.

## **II. Labor Unions**

This is also one of the common problems for every industrial sector of Nepal. Normally labor unions are a must as they work for the welfare of the laborers but in Nepal labor unions lay unnecessary demand in front of the management of the firm which have given rise to the downfall of all the industrial sector of Nepal. The labor unions are associated with the political parties and they there are a number of trade unions in a single firm, nearly as much as the number of political party in Nepal. These labor unions sometimes struggle against each other and sometimes they lay unnecessary demand and cause trouble in the day to day operation of the firm. Many well established firms have been shut down because of this problem and many are in the verge of getting closed. These labor unions go for strike and closedowns of the day to day operation if their demand is not met. The firm cannot fulfill all the demands made by the labor unions. So, they negotiate with the labor unions and try to convince them to work. But as soon as they come to a settlement point, the labor unions raise other demands.

Even the large industries of Nepal which is giving its employees much more facility than others are not let alone by these strikes of labor unions. This has led to the condition where the investors think twice before investing in any sector in Nepal. The big investors in Nepal who had been investing in industrial sector all these years have been selling their industries and now are attracted towards the service sector where these problems are comparatively much more less than the industrial sector.

The noodles industry of Nepal is also affected by these labor unions. There are labor unions of every party in a single company. These labor unions work in the favor of political parties they are affiliated to. So, the noodles companies have to make all the political parties happy if they are to operate smoothly. Because of these problems, the firms cannot supply their product in market on time. This is one of the reasons why Chaudhary Group has established the production unit in India. This problem too reduces the competitiveness of the Nepalese noodles industry in the international market. Due to this problem, Nepalese noodle firms may not be able to provide the products to its suppliers in the foreign market on time. So, the suppliers and the customers in the foreign market will be attracted towards the other competitors from a foreign country who can supply the goods on time. This problem of strikes and closedowns also increases the price of the product which will make Nepalese noodles weaker in competitiveness than its competitors. This will certainly create many problems for the Nepalese noodles industry to expand in the international market.

The unnecessary demands of labor unions is one of the main problems for the expansion of Nepalese noodles industry as they cannot expand their market even if there is heavy demand in the market and the noodles companies have the capacity to meet those demands if the work force who produce the noodles do not cooperate with the company to meet those demands. This problem can be solved only if the political parties do not control the labor unions and let only

one labor union be in a company which works for the welfare of the company and the people working in the company.

### **III. Transportation problem**

Transportation problem is also a common problem for any of the industrial sector of Nepal. The geographical location of the country makes it difficult for any person or things to be transported from one place to another. Nepal is also a land-locked country. It is surrounded by India in the East, West and South, and China to the North. So, for the international trade to take place in Nepal other than these two neighboring countries, the goods must travel through any of these two countries.

It is easier to transport goods through India to Nepal as Nepal has open borders with India. Also, the geographical location makes it easier to transport goods through India as the borders with India are in the plains while the borders with china are in the hills and mountains of Nepal. The distance to the sea is also less from India than from China.

Nepal is a developing country and the main form of transportation in Nepal is the road transportation. Most of the part in Nepal is the hills. It is expensive to make tunnels and Nepal does not have that much budget to spend it on making those tunnels. So the roads must go through the sides of the hills and so there are many turnings on the roads of Nepal. The roads in Nepal are quite dangerous and the roads are in very big heights as Nepal is in a higher altitude geographically. This makes the transportation system of Nepal very difficult.

Due to the geographical location of Nepal, it is very difficult for other forms of transport to operate in Nepal. Even the airport in some parts of Nepal is considered as the most dangerous airports of the world. This makes it difficult for the products to flow from one place to another even inside the country. There are still many places in Nepal where there is no transportation facility at all. People transport goods there using animals or by carrying it themselves. This transportation problem obviously increases the price of the product.

Also, while transporting noodles to the third country, Nepal has to transport goods through India. This wastes a lot of time to take the goods from the factory to the shipping docks. If the shipment gets stuck in the way due to some reasons then it can be costly to the noodles manufacturers on Nepal as noodles is a Fast Moving Consumer Goods(FMCG) and has a limited lifetime within which it has to be consumed. This can shorten the life period of the product. So, the product has to be consumed quickly or the date of its consumption expires. This is a disadvantage to the noodles industry while exporting the noodles from Nepal to any third country. Nepal also has to pay different duties to India while exporting the noodles even if it is not to be sold in India. Nepalese noodles companies do not have any other option than to pay these duties to India as it is the only way Nepalese noodles can reach the international market. Nepalese noodles companies have to use the Indian territory to transport their noodles even if they don't want it.

This also increases the cost of the product which plays an important role while competing with its international competitors in the third country. The consumers in the third country can choose the products of other competitor noodles companies from other countries if the price of Nepalese noodles gets higher than their noodles. This is one of the problems in expansion for the Nepalese noodles industry.

#### **IV. Trade barriers**

Trade barriers are also one of the problems for the expansion of trade in the foreign market. The trade rules and regulations of two different countries are never same between the two countries. The rules and regulations for trade differ from country to country. So, there are always some problems while doing trade with other countries. A country always tries to protect its domestic industry and will never try to encourage the entry of foreign goods in the domestic market that can destroy the domestic industry of that country. So, in order to protect the domestic market from the invasion of the foreign product, a country imposes certain trade barriers.

Trade barriers are the artificial restrictions imposed by the governments on the free flow of goods and services from one country to another. There are two types of trade barriers – tariff and non-tariff barriers. Tariff barriers are in the form of taxes and duties. Non-tariff barriers are in the form of quotas and licenses (Acharya, W.K, S., Jain Khushpat & Ali, Shaukat, 2010).

Tariff barriers are the customs duties and taxes paid on the goods and services that are traded internationally. The main aim of these tariffs is to increase price of the imported goods and services and to discourage their consumption in the domestic market. These tariff barriers directly increase the price of the imported products and make it difficult to compete with the cheaper local products. India takes many duties from the Nepalese noodles companies for the noodles that are to be sold in India. Even the noodles that are to be sold outside India has to pay all these duties as they have to be transferred to the shipping docks in India using the Indian territory. This increases the cost of production of Nepalese noodles and India hopes to save its domestic noodles market by increasing the cost of Nepalese noodles.

One of the noodles company of Nepal, Wai Wai of Chaudhary Group, has production plants in different parts of India. But I came to know from the officials of Wai Wai in Nepal that even if the noodles of the Nepalese companies are produced in India, they have to pay the tax equal to the products exported to India from Nepal. These are the tariff barriers used by India to protect their domestic noodles industry against the invasion of Nepalese noodles industry.

Non-tariff barriers are the quantitative restriction on the imported goods and services. These barriers are in the form of quotas and licenses which restrict the flow of imported goods and services in the local market and help the domestic industries to dominate the local market. Quota is the physical volume restrictions on the import and export of products. Licensing means the need to take the permit of the government of the country to sell that product in that country. India

has not created these type of barriers till date but they ask for the certification of quality of each consignment exported by the Nepalese noodles companies to India or to any other third country.

These trade barriers are also a problem for the Nepalese noodles industry to expand in the foreign market. The tariff barriers make it difficult for the Nepalese noodles to compete in the foreign market with the domestic products and the non tariff barriers make it difficult for the Nepalese noodles industry to penetrate the foreign market or exploit the foreign market fully. It is also difficult for the Nepalese noodles industry to be sold in the many Muslim countries as there is no provision of halal certification in Nepal currently and the customers in these countries only consume the halal products. This difference in culture also acts as a non-tariff barrier.

## **V. Financial factors**

Finance is the most important thing for any business. It is necessary for any industry not only to expand but also to sustain in any market. Without finance the industry cannot even survive in the domestic market. Only the industry with a good financial position can afford to take risk in business and there is normally not much profit without much risk. An industry with a good financial position can afford to make and implement a risky strategy to exploit the market and control it.

Even though the noodles industry in Nepal is controlled by the biggest investors in Nepal, they are nothing compared to the big investors in the international market. So, this is one of the disadvantages for the Nepalese noodles industry to expand in the international market. Nepalese noodles industry can either only capture a small share of the international noodles market or try to capture as much share as possible in the international market through joint ventures, technical collaborations and through other methods with the local firms. Only a handful of Nepalese noodles companies are able to invest big in the international market.

Lack of finance can also affect in the product promotion of the Nepalese noodles industry in the international market. Other large noodles industry from a foreign market may dominate the international noodles market as they have a lot of fund to spend on advertisement and promotion of their product. And customers only buy those products which they see in the advertisement. The large noodles industry can dominate Nepalese noodles industry due to their advantage in the financial sector. This is a major problem in expansion of Nepalese noodles industry.

## **VI. Power cuts**

Power cuts are the most important factor in Nepal that has led to the decline of any sector in Nepal. The main source of electrical power in Nepal is the flowing waters of Nepal. The water level in the rivers remains high in the rainy season. But, in the winter season the land gets dry and the water level in these rivers get low due to which there is not enough production of

electrical power in Nepal. Even in the rainy season there is a power cut in Nepal as the production of electricity is not sufficient. This is because new hydropower projects have not been built over many years and even the ones in the building process are getting delayed.

Nepal Electricity Board creates a load shedding schedule for power cut and informs about it to the citizens by distributing it in the local newspapers. Nepal Electricity Board has been creating a new schedule every couple of months for many years now. In the winter season, Nepal faces load shedding up to 16 hours a day.

Even the industrial areas suffer the power cuts. The industrial areas in some of the cities have been given the facility of no power cuts but it is not the same throughout the country. Due to this, the industries in Nepal use diesel plants as alternative power source. But these are quite expensive and only large industries can afford to use this alternative source. The price of per unit of electricity is NRs 6 while producing a noodle using the electricity but while using the diesel plant this cost of electricity rises to NRs 80 per unit. This obviously increases the price of the noodles and affects the sales of noodles in the international market.

This is one of the major drawbacks for the Nepalese noodles industry when it competes in the international market. This decreases the competitiveness of Nepalese noodles industry in the international market. Nepalese noodles may not only be expensive in the international market but also the noodles cannot be available on time to the local suppliers of the noodles. This reduces the trust among the local suppliers on the Nepalese noodles. Those suppliers will be attracted towards the competitor firms for supplying noodles in those markets.

In order to eliminate this drawback, Nepalese noodles industry should either be involved in joint ventures with the foreign industries in the foreign market or should establish a production unit in India or any other country with low wage and low trade restrictions. Only then the products of the noodles industry can compete in the foreign market.

## **VII. Taste and Preferences of the Consumers**

Taste and preferences of the consumers in the market determines the demand of any product in the market. If the consumers in the local market like the taste of a certain product, then the demand for that product rises up. But if the consumers in the market do not like the product, then the product can lose its existence in the market. The taste and preferences of different people in different geographical locations are different. So, the product must have the ability to mold itself according to the taste and preference of the consumers of the local market.

Nepalese noodles industry also face the problem of the different taste and preferences of the consumers in different market as the Nepalese noodles industry has entered the global noodles market. I was informed by the employees of Nepalese noodles companies about some of the difficulties that has arisen in the international market for the Nepalese noodles. Like, the

noodles in sold in Nepal are hot and spicy. The noodles sold in the neighboring countries of Nepal are also hot and spicy as the taste and preferences of the people of these regions are same. But Nepalese noodles have entered other foreign markets too and the taste and preferences of the people of those markets differ from one place to another. The people in some markets do not prefer hot and spicy taste. Due to the difference in the taste and preferences of the people the noodles companies in Nepal has to produce noodles according to the taste and preferences of those markets. The noodles are produced in the same production plant but the variety of noodles has to be different according to the areas it has to be sold. This has led to the increase in the cost of production of noodles. Also, Nepalese noodles companies have to perform a market research to find out about the taste and preferences of the local consumers before entering into the market. This also increases the initial cost of production of the noodles and gives a slight disadvantages to the Nepalese noodles.

Also, the noodles produced in Nepal use MSG in the spices while producing the noodles. MSG, also known as Aji-No-Moto, is a flavor enhancer used in Chinese food and soups. According to the Nepalese noodles companies' noodles cannot be made without MSG because it is the main ingredient which gives the flavor to the noodles soup. It is the main ingredient which gives the distinctive taste to the Nepalese noodles as compared to the noodles of other countries. But, European countries do not allow the noodles using MSG to be sold in their country. So, this stands as a major problem in the expansion of Nepalese noodles industry because the distinctive flavor will not remain in the Nepalese noodles once MSG is removed from the noodles. And Nepalese noodles industry are not ready to remove MSG from their noodles as they regard the taste as their identity.

## **5.9 The advantages of Nepalese noodles over the noodles from other countries**

Based on the findings of my study, there are certain advantages of Nepalese noodles companies over the noodles of other countries which are as follows:

### **Competitive advantage**

Nepalese noodles companies have a competitive advantage over its competitors. Nepalese noodles sold in the international market are mostly brown noodles and the competitors for the Nepalese noodles in the international market are low. There are some of the Thai brown noodles which can be a tough competitor to the Nepalese noodles industry. But except those there are not many competitors for the Nepalese noodles industry in the international market as most of the noodles manufacturers operating in the international noodles market, where Nepalese noodles are sold, are white noodles.

Nepalese instant noodles are brown as they are fried and can be consumed without cooking whereas the other white noodles need to be cooked before consuming. This serves as a advantage to the Nepalese noodles because most of the people do not like to waste time in cooking the noodles and want those noodles which they can consume directly when they are hungry. It is due to this advantage, the noodles companies of Nepal have captured about 90 percent of the market in north east states of India. Nepalese noodles are increasing its market share not only in other parts of India but also in other countries. the market of Nepalese noodles industry seem to increase because there are not much competitors for Nepalese noodles industry in the market which sell brown noodles.

### **Better Taste**

I found from my study that the consumers of Nepalese noodles in the market close to Nepal find the taste of Nepalese noodles better than the taste of any other brown noodles found in the market. This can be because of the similar preferences of taste of the consumers in the markets around Nepal as the foods found in the South Asian countries are similar. But the customers of these markets are loyal to the brand of noodles belonging to the Nepalese market and prefer Nepalese brand of noodles compared to any other brand. This is one of the advantages for the Nepalese noodles industry.

Even though there are also noodles from other countries available in the market, the consumers in the South Asian markets do not like the taste of other noodles and always prefer Nepalese noodles. This can also be because of the perception of the people towards the different noodles but it serves as a great advantage to the Nepalese noodles companies.

### **Country of origin advantage**

Nepalese noodles also have a country of origin advantage in the international market. Nepalese noodles enjoy this type of advantage especially in the South Asian market. As the perception of the local consumers in these markets is fixed about the Nepalese noodles and the noodles imported from other countries, the noodles companies of Nepal are preferred by the local consumers. There are many loyal consumers of the Nepalese noodles in these markets. Noodles in these areas can be sold only by mentioning that it has been manufactured in Nepal. Nepalese noodles have gained such trust in these regions that it does not seem possible for other foreign noodles companies to penetrate the market in the near future.

### **Low Labor Cost**

The cost of labor in Nepal is lower as compared to the other countries selling noodles. This helps the cost of production of the Nepalese noodles to be lower than other noodles being sold in the market. This decreases the cost of noodles of the Nepalese noodles companies and helps the Nepalese noodles companies to gain an advantage over the noodles of other countries.



There are a lot of noodles companies operating in Nepal. The noodles companies in Nepal provide employment to thousands of people. Due to this, there are a lot of skilled workers in Nepal. The noodles companies of Nepal do not find it difficult to find a skilled worker for their company. This also leads in the decrease in the cost of the skilled work force due to which the cost of production gets lowered and Nepalese noodles can have price advantage over its competitors in the market.

### **Low Material Cost**

The costs of raw materials needed for the production of noodles are also low in the Nepalese noodles industry. Most of the raw materials needed for the production of instant noodles are found in the local market. There are also a number of well established firms in the market which supplies the raw materials to the noodles industries. These firms can supply the raw materials to more than one industry. Due to this the firms buy the raw materials in a bulk which lower the cost of the raw materials by a little margin. Due to this, the Nepalese noodles industry gets the required raw materials in a low cost which helps to increase the cost of production of the Nepalese noodles companies. This helps to reduce the price of the noodles and helps the Nepalese noodles industry to gain a competitive edge against their rivals in the international market.

### **Low Transportation Cost**

Nepalese noodles companies have another advantage while selling the noodles in South Asia compared to the noodles companies which comes from outside South Asia. Although it has the Nepalese noodles companies have difficulty in transporting the noodles in other parts of the world and because of the limitation of transportation mediums, the close geographic location makes it easier for Nepalese noodles industry to transport goods in South Asian markets near Nepal, in a low cost. The transportation cost of noodles for the Nepalese noodles companies is low compared to the other noodles industries as the market in South Asia is nearer to Nepal because of the geographical location. Nepalese noodles companies have also established their production plants in different parts in India. This helps the noodles of Nepalese companies to reach the local market in South Asia in less transportation cost compared to the competitors of Nepalese noodles industry. The reduction in transportation cost reduces the expenses of Nepalese noodles industry compared to the other noodles industry, like the Thai noodles companies, and helps the Nepalese noodles companies gain an upper hand in the market.

### **Low Production Cost**

Nepalese noodles industry has already installed the production plants with large production capacity keeping in mind the future demand of the noodles in the global market. So, when the market of Nepalese noodles expands, it does not burden the Nepalese noodles industry much as it already has a large production plant. These large production plants also help to decrease the cost of production of the noodles as the mass production decrease production cost of any product.

This helps the Nepalese noodles industry to gain a competitive edge against their rivals from other countries in the international market as the cost of the Nepalese noodles can be a decisive factor in gaining the control of the market.

### **High investment in latest technology**

Nepalese noodles industries have already invested a lot in installment of latest technologies in their production plant. These investment increase the initial investment cost of the Nepalese noodles industry but in the long run it decreases the cost of production of Nepalese noodles companies. This helps the Nepalese noodles companies to gain advantage over the other noodles companies in the global noodles market.

## **5.10 Advantages to Nepal from the Nepalese noodles industry**

Obviously, Nepal will benefit from the expansion of Nepalese industry in the international market. Some of the ways in which Nepal can benefit from the expansion of the Nepalese noodles industry are as follows:

### **Increase in Export**

The increase in the market of Nepalese noodles industry in the global market means the increase in the export of noodles from Nepal. Nepal can benefit from the increase in export of noodles. Currently, Nepal faces trade deficit problems, so, the value and quantity of imports are always higher than the value and quantity of exports. This has laid out a severe problem in the economy of Nepal. With the increase in export of noodles, Nepal cannot lower the trade deficit by a phenomenal margin but it can be helpful in decreasing the trade deficit by a little. Also, increase in export means increase in revenue which will be helpful for the Nepalese economy.

### **Increase in Economy**

The expansion of Nepalese noodles industry in the international market also helps to increase the economy of the country. Increase in export leads to increase in revenue collection. Also, Nepalese noodles companies are establishing their production plants outside Nepal to meet the increasing demand of the noodles in the global market. Even though, Nepalese noodles companies establish their production plant in a foreign country, the profits made by the company in a foreign country are brought back to Nepal. This helps in the economy of Nepal. Foreign remittance is one of the main sources of income for Nepalese economy. The people of Nepal

working in different parts of the world send money to their family in Nepal in the form of remittance which today stands as a base in the economy of Nepal. The expansion of Nepalese noodles industry helps Nepal to increase the inflow of foreign remittance in the country and helps to strengthen the Nepalese economy.

### **Overall Development of Nepal**

The expansion of Nepalese noodles industries increases the financial position of the Nepalese noodles companies. Nepalese noodles companies spend a proportion of their income every year for the development and welfare of the society. The noodles companies have helped in developing the infrastructure in many communities throughout the country. They have even stretched their hand out for many social activities. They have been investing for the development of sports and education throughout the country. The development of the Nepalese noodles industry not only helps the noodles companies of Nepal but also helps the Nepalese society. As the profit margin of the Nepalese noodles companies increase with the increase of their market in the global arena, they will also increase the spending they make for the development of the society. So, the expansion of Nepalese noodles industry benefits a lot in the development of Nepal as a whole.

### **Serves as a base for other industries in Nepal to develop**

The expansion of Nepalese noodles industry in the global market can serve as a base for the other industries in Nepal to develop. The development of Nepalese noodles industry can bring positive change in the overall industrial sector of Nepal. The flow of FDIs in Nepal is low currently as the current political condition of Nepal has made it difficult for the industries in Nepal even to operate smoothly. The success of Nepalese noodles industry can increase the flow of FDIs in Nepal which can be helpful in developing the other industrial sector of Nepal and reviving the Nepalese economy.

## **Chapter 6 : CONCLUSION**

### **6.1 Main Findings of the Study**

In response to my first research question **“What are the problems faced by Nepalese noodles industry?”** the study suggests that the main problems faced by the Nepalese noodles industry are political problem, transportation problem, lack of sufficient electrical power in the country, the large number of labor unions in a single company, tariff barriers imposed by India and the geographical condition of the country (Nepal being a landlocked country does not have access to sea to export the goods to foreign countries). These are main problems for the Nepalese noodles industry that were identified while conducting this study. The noodles industry in Nepal is well known about these problems and is trying their best to immobilize these problems so as to grow in the global noodles market. These problems are not easy to solve and cannot be tackled in a short period of time. The Nepalese noodles industry is patient about these problems and is at their level best to solve these problems.

In response to my second research question **“How can the Nepalese noodles industry survive in the global market?”** the study suggests that Nepalese noodles industry has to give emphasis on many activities. First of all, Nepalese noodles industry has to make a market research about the taste and preferences of the consumers of the market it is trying to capture. Then it has to develop the type of noodles which will be liked by the consumers in the targeted market segment. Then the Nepalese noodles industry has to focus on advertisement through various means and medium of communication. This will help the Nepalese noodles industry to get established and survive in the global market. Nepalese noodles industry also has many strengths like skilled manpower, latest technology, large production capacity, etc which it has to use properly and make the correct strategic decisions so that it can benefit maximum from the opportunities in the market.

In response to my third research question **“What are the competitive advantages of the Nepalese noodles industry compared to the other global noodles industries?”** the study suggests that Nepalese noodles industry has many advantages compared to its competitors from the global noodles market. The market strengths of the Nepalese noodles industry are the main advantages of Nepalese noodles industry over its competitors. Also, Nepalese noodles industry mostly sell brown noodles and there is not much competition in the market for the brown instant noodles as the number of global companies selling brown noodles are less. Also, the consumers prefer the taste of Nepalese noodles than the other noodles. Brand loyalty to Nepalese noodles is high in the market and the share of Nepalese noodles industry in the global noodles market is growing every year.

## **6.2 Contribution and Implications of the Study**

I believe that my research has some contribution in finding out about the market condition of the Nepalese noodles industry. I believe that my study will help the employees of the noodles company to understand better about the condition of their market. Any person trying to know about the Nepalese noodles industry can gain a lot of knowledge about the Nepalese noodles industry and its market from this study. This study also shows the strong and weak points of the Nepalese noodles industry.

## **6.3 Limitations of the Study**

The main limitation of the study is the time constraint. I only managed to interview some of the employees of some of the noodles companies in Nepal. Also, some of the noodles companies of Nepal are not keen on giving the information regarding their products to the people outside the company. So, this is the main problem I faced while collecting the data regarding my study.

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## **APPENDIX**

### **Interview Guide**

The interview questions developed for this study are:

- 1) What is the annual turnover of your company?**
- 2) What is the capacity of your production plant and the quantity-produced every day?**
- 3) What is your company's mission, vision? Where do you see your company in the market, in the future?**
- 4) Can you give me the information regarding your company's market in and outside the country?**
- 5) What is your product's current market share and how was it in the last 5-10 years?**
- 6) Which are the countries your product is exported to and the quantity it is exported?**
- 7) What are the difficulties faced by your products in expansion inside the country and when exporting it outside the country?**
- 8) How does India treat Nepalese export of noodle that transit through India on their way to other markets? And the ones that are sold in India?**
- 9) Is the raw material for the noodles produced in Nepal or imported from India?**
- 10) What is your product's comparative advantage over competitors in and outside the country?**
- 11) Can your product compete in the global market? How do you intend to compete in the global market?**
- 12) How is the distribution channel structure of your company in the local market and market outside the country?**