MARKETING APPLES IN A GLOBAL ECONOMY

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Introduction

The issue before us today is not simply about marketing apples in a global economy, rather it is about whether or not it can be done profitably. Some parts of the apple industry will adapt to these global forces, just as they have adapted to changes in the past. The question each of you faces is whether you can afford to make the needed changes, or, if you make the needed changes, whether you can continue to operate at a profit.

Major Global Trends

In the brief time available, I can only focus on four major global trends that are affecting everyone in the fruit industry. These are:

1) The Shrinking of Space and Time
2) The Changing Consumer
3) Increasing Competition, and
4) Power Accumulation by Retailers

None of these trends is new or, on its own, particularly startling. However, it is the combination of changes, and the speed and intensity of change that is making adaptation so difficult for traditional fruit growers.

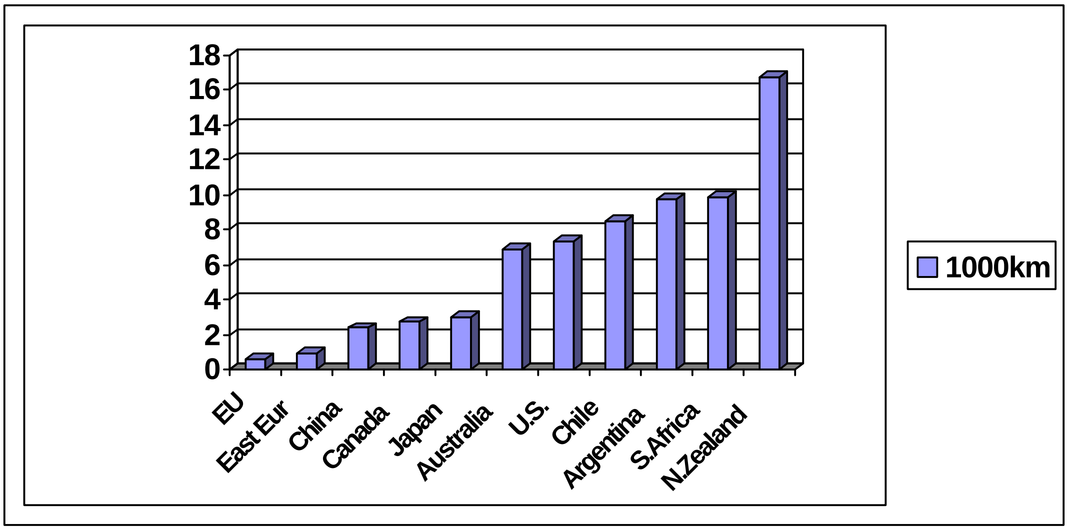
Shrinking Space and Time

The shrinking of space and time has been brought about by technological changes in communication, electronics and transportation. Some of the consequences for the fruit industry are that the traditional advantages of local suppliers over distant suppliers have been eroded. A retailer in Boston can see a load of apples being inspected before loading at Valparaiso, Chile. He can get an immediate print-out of quality parameters. Through global positioning system technology, he can track that load's movement up the Pacific Ocean, through the Panama Canal, along the Atlantic seaboard, being unloaded at Philadelphia and on its way by truck to Boston. The results of any inspections at his dock can be instantaneously transmitted to the shipper in Chile. With proper scheduling and seamless handoffs, Chilean fruit can be at the retail warehouse just in time to replenish retail store shelves in Boston. Information can also flow back to the Chilean exporter about what is happening in Bangkok, Birmingham or Boston so that he can change marketing plans accordingly.

Large investment flows can and do move around the world at the speed of light. In the fruit business, investments can flow into those producing regions that appear to have a temporary advantage in cost or quality. Once committed, those investments contribute to a long-term increase in production and marketing capacity but not, unfortunately, in demand.

Distance has not been totally conquered. For example, New England suppliers are probably on average 200-300 kilometers from most of their customers. In contrast, in the 1999-2000 season, major exporters such as Argentina, Chile and New Zealand were, on average, many thousands of kilometers from their export customers (figure 1). The biggest U.S. exporter, Washington State, is over 2,000 kilometers away from most U.S. markets and, on average, 7,300 kilometers away from its major export markets. New Zealand was, on average, almost 17,000 kilometers away from its major export markets.

Figure 1: Average Distances to Major Export Markets, 1999-2000
(1,000 kilometers)



This does give local suppliers a considerable cushion in competition with imports. For the last 20 years, declining real energy prices have weakened that cushion. However, the recent turnaround in energy prices should help local suppliers.

Changing Consumers

In the developed world, including North America, Western Europe, Japan and Oceania, the population is growing slowly and aging rapidly. The key apple buying households, couples with children, are shrinking as a share of the market. The younger generations have less interest in buying or consuming fresh apples. Income increases no longer lead to higher consumption.

In contrast, in much of the developing world, the population of young people and young households will continue to grow rapidly for several decades. When their incomes rise, they do tend to sharply increase their consumption of apples. In most cases, these apples have to be imported. When times are good, as they were in Asia for much of the 1980s and 1990s, apple imports zoom. However, the Asian economic crisis of 1997 and the related slumps in Russia, Eastern Europe and Latin America, seriously slowed apple imports. Between 1996 and 1999, world import demand for fresh apples fell over 20 percent. The volume of imports fell by only 4.5 percent, but the average price declined by 17.2 percent. For the last three years, we have had the ironic situation that the people in prosperous countries had little interest in buying more apples, while the people in developing countries that would have gladly bought more apples were suffering through recession.

The developing country recessions appear to be easing, and apple imports are starting to recover. However, the apple industry everywhere is recognizing that sluggish demand in the developed world is among its major ongoing challenges.

Increasing Competition

Competition for apples is becoming more intense. Within the apple industry, the World Apple Report (January 2001) forecasts that world apple production will grow a further 38.3 percent in this decade. Meantime, world population will grow by only 12.2 percent (UN, 1998). While the biggest increase in apple production will be in China, the increase in the rest of the world could exceed 7 million metric tons, or about 370 million 42-lb boxes, much bigger than current total U.S. apple production.

Production of major competing fruits and berries also expanded rapidly in the 1990s. While the rate of growth tailed off after 1997 because of adverse weather and declining prices, there is potential in the ground for further increases in supplies of competing fruits. In the developed world, there is rapidly growing demand for the more exotic fruits at the expense of traditional items like apples and pears.

However, the biggest competitive pressure for fresh apples is likely to come from the endless stream of snack items that tempt consumers. These range from candies to cookies to chips to fast food outlets at every corner. Many of these items are backed by huge promotional budgets and powerful marketing organizations. They are innovative and aggressive in ingredients, packaging, consumer appeal, incentive schemes, and niche development. Their motto is "Food is Fun," but they have also invaded the market for healthy snacks.

Power Accumulation by Retailers

Big food wholesalers and retailers have always been a challenge to apple marketers. However, in the second half of the 1990s, a spate of mergers led to fewer and fewer dominant players. The merger mania was one response to the invasion of the food retailing business by the world's largest discount chain, Wal-Mart (Larson, 1997). Wal-Mart saw the value of using food to generate store traffic for the more profitable non-food items that had been its staple. Wal-Mart was able to use its superior logistical systems and huge purchasing power to sell food at prices substantially lower than those of the traditional supermarket chains. To survive, the traditional chains tried to introduce various cost cutting and efficiency measures. When these were not enough, they were willing to give up their independence in hopes that the merged units could imitate Wal-Mart's purchasing power.

The jury is still out as to whether even this will be enough to save the surviving traditional supermarket chains. However, in the meantime, they have been squeezing suppliers to provide the same (or better) goods at a lower price, and to contribute additional slotting fees, promotional allowances, marketing services, etc. that can enhance the retailers' net margins. Many of these larger retailers believe that they can increase profitability by reducing the number of suppliers. This has set off a mad scramble among suppliers to get big enough through internal growth, merger or acquisition to qualify as a preferred supplier. It has created near panic among the smaller suppliers about whether there will be a role for them in the produce distribution system a decade hence. Many growers, in turn, have had to find new homes for their fruit as their marketers or packers have been absorbed or disappeared.

Consolidation at the retail level is not just an American trend. Companies like Wal-Mart, Ahold, Carrefour and Tesco are now expanding in many countries around the world. They are beginning to talk seriously about global sourcing of their needs. This is likely to come first in nonfoods, but could come relatively soon in major, standardized produce items like Fuji apples or D'Anjou pears.

Apple Industry Responses Around the World

In response to the changing global environment, the apple industry in many countries and regions is changing its perspectives. When I first began studying the apple industry in the 1970s, most regions and countries were self-centered in their policies and in their marketing strategies. Each producing area wanted to be known for its flagship variety, Washington Red Delicious, French Golden Delicious, New England McIntosh, South African Granny Smith. As most regions have introduced new varieties and the role of the flagship varieties has diminished, each region has tried to stretch its promotional dollars over more varieties. Many regions now want to be known for producing a portfolio of apples. It has become increasingly difficult for most regions to differentiate themselves.

New Zealand broke ranks first in trying to become known for a series of new varieties. By the time competitors were imitating its successful introductions, it aimed to have moved on to newer, better varieties. It sought to skim the cream off the world market for each new variety before moving on. It became international-market driven. Few other regions were willing to jettison their established varieties as was New Zealand. Progressive nurseries, growers and marketers began to band together to set up multinational alliances or "clubs" to limit the supplies reaching the market and to coordinate promotion and marketing of specific varieties such as Delblush, Pink Lady or Cameo. These clubs would coexist with and be an additional cost to the established generic promotion programs.

While the New Zealand approach or the "marketing club" approach may secure premium prices for a small proportion of the industry, there is general acceptance that something must be done to revitalize demand for apples in the developed world and to tackle the overall problem of excess supplies. The Washington apple industry in 1998 approved a special three-year assessment of 15 cents per box for apple promotion in the U.S. The EU Commission has provided matching funds to member countries for apple promotion. The U.S. Apple Association has sponsored an initiative (so far unsuccessful) for a national generic promotional program for apples. The Southern Hemisphere Association of Fresh Fruit Exporters has been exploring what joint action member countries could take to better match supply with demand (Dall, 1999). In Fall 2000, some Southern Hemisphere countries teamed with a few Northern European countries to form the World Apple and Pear Association. They are trying to bring in the U.S. and China as members.

Crucial First Steps

In any step program to deal with a vice or addiction, the first, and often the hardest step, is to recognize the extent of the problem. For much of the apple industry, getting to that first step has been a prolonged affair. However, it does seem that the global apple industry has at last come to a consensus about what its problems are.

The next step is to agree on what can be done to improve the situation and how remedies can be financed in the present weakened state of the industry. For many firms and districts, time is not on their side. The pressures of continuing technological change, weak demand, strong competition and powerful distributors is not likely to diminish in the near future. Firms and districts that want to remain important players in the global market will have to get on the fast track for change or they will be washed away by outside forces.

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