

# **Commercial Analysis of the World-wide Market for Kiwifruit**

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# **Economist's Contribution**

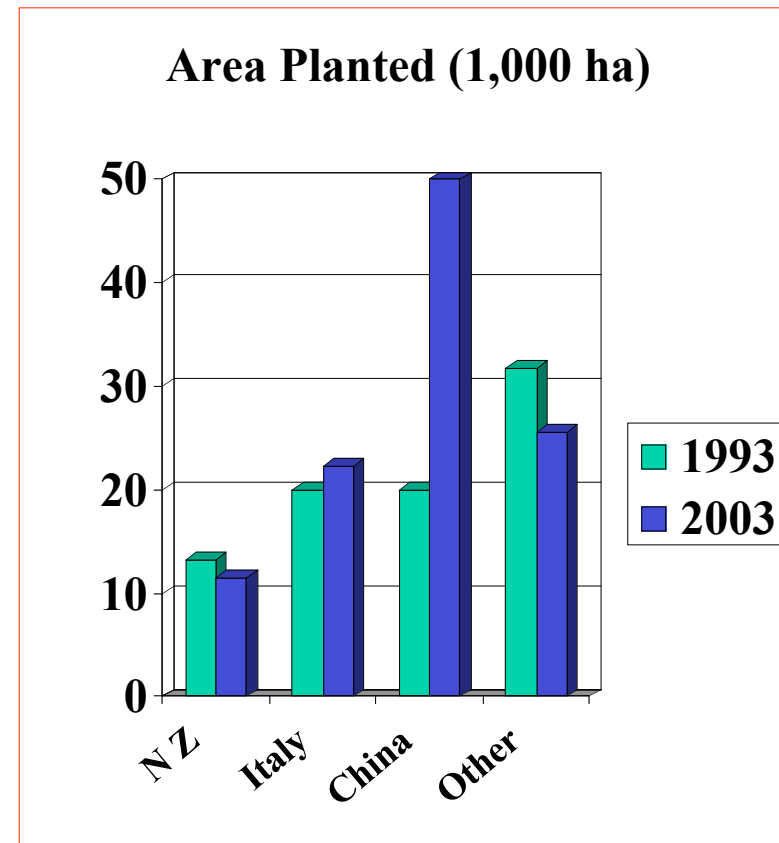
- **Measure the forces that drive production, distribution and consumption of perennial crops.**
- **Forecast what is likely to happen.**
- **Help industry make long-term plans to meet possible future scenarios.**

# **Key Issues Affecting Your Profitability**

- **Future Supplies of Kiwifruit. China???**
- **Future Consumer Demand.**
- **New Retailer Requirements. Your options?**
- **Influence of new cultivars.**
- **Drive to be 12-month Suppliers.**
- **Choices for the Chilean Kiwifruit Industry.**
- **Strategies for Survival.**

# Factors Affecting Future Supplies

- Many operators have forgotten 1990s crash.
- World area planted expanding again.
- Increased plantings in stronger countries.
- Yields still rising.
- China expanding.



# **Production by 2010**

## **PRODUCTION, EXCLUDING CHINA:**

- A. Without added plantings or increased yields could reach 1.2 mmt (up 20 %)**
- B. With added plantings and increased yields could reach 1.3 mmt (up 30 %)**

**CHINA'S PRODUCTION** could double from present 230,000 mt.

# Can Demand Match Supplies?

## KEY FACTORS:

**Population:** World has added one billion people since 1992.

**Incomes:** Rising incomes usually boost demand. [Need to test that hypothesis]

**Price:** Lower prices boost demand.

**Marketing margins:** Grower gets what is left of retail price.

## **U.S. Demand Studies**

- **Peterson and Willett: FOB price fell 7.9%, grower price over 10% for each 10% increase in fresh shipments.**
- **O'Rourke: Grower price fell 11% for each 10% increase in supplies**
- **Both studies: Increasing incomes did not significantly boost grower prices.**

# European Demand Studies

- **Fournier et al: Increased supplies of kiwifruit increased revenue for retailers and shippers but reduced revenue to growers.**
- **O'Rourke: Income increases in U.K., France, Germany, Italy and Spain helped increase kiwifruit prices at the retail level. But increased supplies led to lower revenue for growers.**
- **Demand trap for an expanding industry.**



# Puzzling Variations In Demand

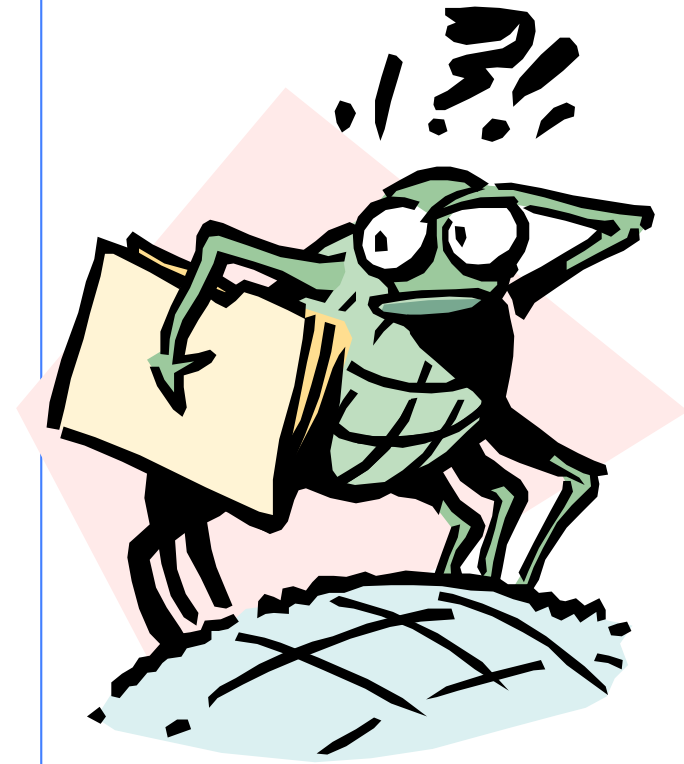
**Per Capita Consumption:**

**Spain's twice that of  
Germany and France,  
4 times that of U.K.**

**Poland as high as Finland  
which has 6 times higher  
income.**

**Very low in affluent Asia.**

**Equally wide variations in Price  
Sensitivity.**



# **Export Demand for Kiwifruit**

## **World Export Demand:**

**Is not positively affected by rising incomes.**

**Price is most affected by N Hemi supplies.**

## **Chilean Export Demand:**

**Is not positively affected by rising incomes.**

**Competing supplies affect price most.**

# Consumer Demand Changing

**ATTRIBUTES of concern  
to Consumers changing:**

**Activism (issues)**

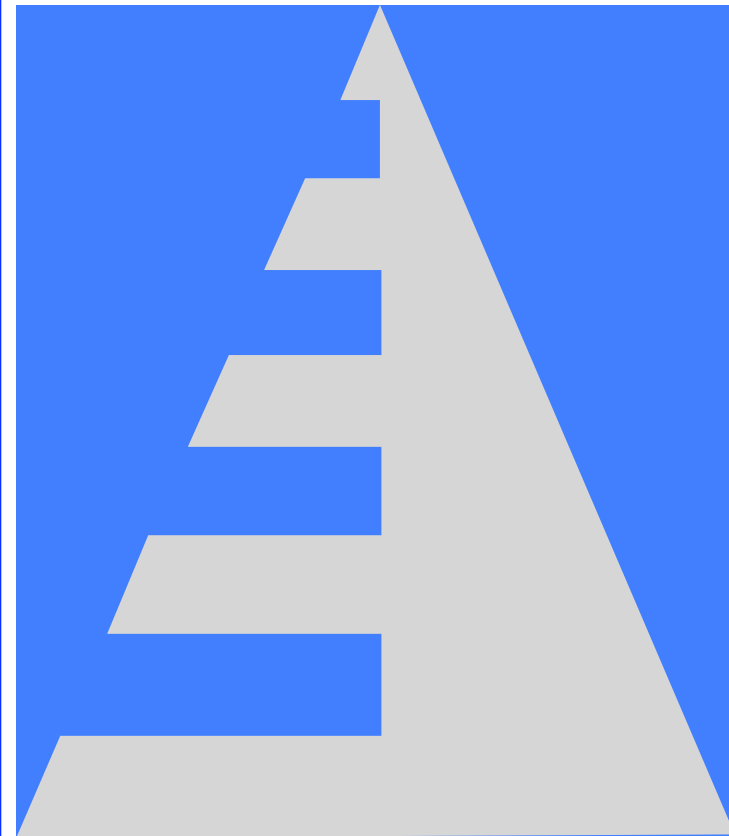
**Social (status)**

**Emotional (novelty)**

**Sensual (sweet/sour)**

**Cerebral (nutrition)**

**Physical (hunger)**

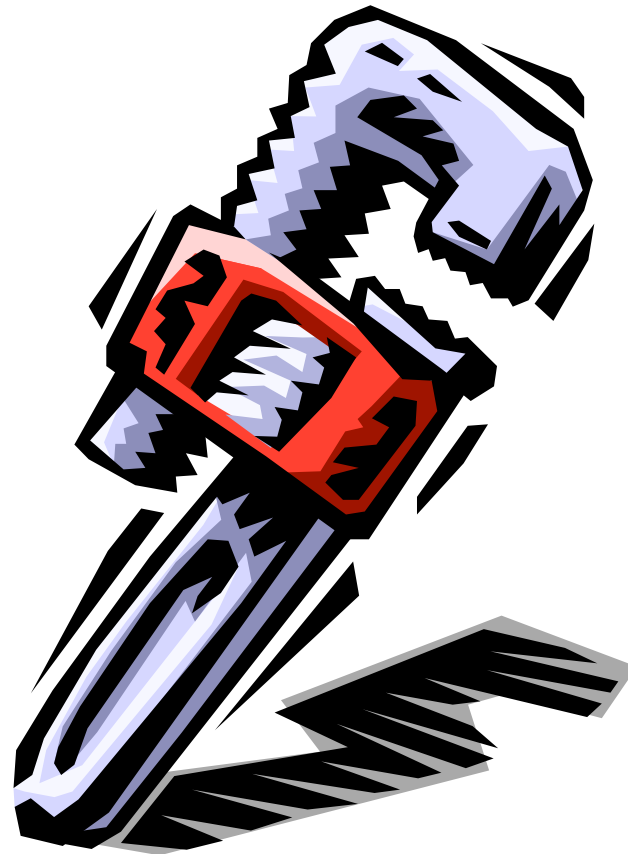


# **Retailers' New Requirements**

- **Quality assurances e.g. Eurepgap**
- **“Issue of the Month” requirements.**
- **Many issues prompted by pressure groups hostile to Agriculture.**
- **Retailers believe it is better to placate domestic activists at the expense of foreign suppliers.**

# Squeezing Costs out of the Distribution System

- Fewer, larger suppliers.
- 12-month suppliers.
- Category managers.
- Third-party buyers.
- ASDA's single import agent for produce.
- More leverage on suppliers.



# **Options for Chilean Exporters of Kiwifruit**

- **Seek smaller niche outlets. Avoid the retail giants.**
- **Become a Preferred Supplier to one or more retail giants.**
- **Become 12-month supplier of range of fruits.**
- **Become 12-month supplier of Kiwifruit only.**

# **Zespri's 12-month Experiment**

- **Have encountered problems:**
  - **with coordinating the timing of delivery of supplies from many sources.**
  - **assuring consistent quality.**
  - **enforcing terms of agreements.**
- **Will be even more difficult with new varieties like Zespri™ Gold.**
- **More difficult in voluntary alliances.**

# Introducing New Cultivars

## **PROS:**

**Reduces dependence on one cultivar.**

**Broadens consumer appeal of kiwifruit.**

**Extends marketing period.**

**Complements existing product.**

## **CONS:**

**Increases marketing complications**

**New quality challenges**

**Price premium has sunk rapidly.**

**New product may cannibalize old.**



# **Observations on Zespri™ Gold Price**

- **Zespri™ Gold price is strongly influenced by total NZ supplies.**
- **Gold price is affected equally by an extra 1 million trays of Green or of Gold.**
- **Gold price premium would disappear when Gold reached 20% of supplies.**
- **Will cumulative premiums pay for the cost of investing in Gold development?**

# New Variety Treadmill



- New cultivars are needed to add novelty, excitement at retail.
- But premium falls as volume increases.
- Industry may not recover full costs of cultivar development.

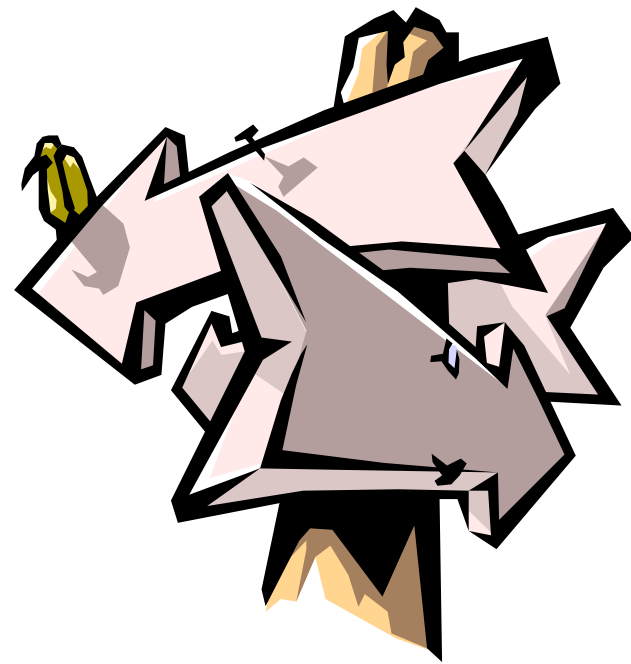
# Choices for the Chilean Kiwifruit Industry

**For each firm:**

1. Expand or Contract?
2. Becoming a 12-month player.

**For the industry:**

3. Increasing Demand.
4. Enabling Innovation.



# 1. Expanding or Contracting?

- The individual grower, packer, shipper or exporting firm needs to ask whether or not it has **a clear comparative advantage in cost, efficiency or quality**. There is no long-term future for marginal operators.
- Is there a niche for your product(s)?
- It is important to invest your capital where you can get the best return.

## **2. Becoming a 12-month Player?**

- **Big retailers are likely to get bigger. There are many suitors to be their 12-month suppliers, including Chilean multinationals, foreign exporters and major importers.**
- **Can your firm qualify with many products or kiwifruit alone?**
- **If not, how do you find capable partners?**

### **3. Increasing Demand**

- **Demand in Major Markets is Sluggish.**
- **Prices in Chile are dictated by demand conditions in those markets.**
- **Multinational promotion programs are needed to expand existing markets and penetrate new ones.**
- **This will require innovation in products and in marketing efforts.**

## 4. Enabling Innovation

- **Industry needs a major commitment to innovation.**
- **Finding /commercializing new cultivars will require international cooperation in research, management, marketing, etc.**
- **Doesn't have to be invented in Chile.**



# **Future of Chilean Firms and Kiwifruit Industry Intertwined**

- **The future success of individual firms and of the whole Chilean kiwifruit industry are clearly intertwined.**
- **Some firms may be able to prosper if the total industry does not.**
- **But, the industry will not prosper without a clear strategy that is supported by a majority of prosperous firms.**