Business strategies in the olive oil sector and their impact on the value chain

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Impact of the economic crisis on the food system (I)

• Coexisting increase in globalisation and activation of protection mechanisms
• Increase in ongoing concentration of the leading firms in the food system
• Changes in consumption featuring a more pronounced drop in the products of greatest value
• Credit crunch and strategy of cost reduction at all levels
• Coinciding changes in the policies of the area with the biggest production (European Union)
Impact of the economic crisis on the food system (II)

• Growing volatility on all markets
• Greater strategic worth of vertical coordination mechanisms
• Heightened power of distributors and heavy influence of distributor strategies in the value chain:
  – Process of concentration forces competition between distributors and affects their relations with the rest of the value chain;
  – Increase in the share of lowest-priced ensigns;
  – Increase in the share of distributor brands;
  – Limitation of references and suppliers;
  – Larger consumption drop in other business areas triggers sharper competition between distributors in the food sector.
Impact of the economic crisis on the food system (III)

• Greater pressure on markups across the value chain
• Growing importance of competitive logistic organisation
• Growing importance of joint action by value chain players
• Growing influence of fair trading authorities in the food sector
• Growing concern of authorities over the balance in the food production chain and the growing power of distributors
  – This readjustment is being considered as a future line of action in agricultural policy-making
Chief features of the production chain in the olive sector (I)

• Consolidated integration of production systems in the Mediterranean countries:
  – Increase in already high trade flows;
  – Heightened processing and business presence of the leading firms in the sector in several producer countries.

• Worldwide concentration of the leading group (more intense in scope in the Mediterranean region)

• Changes in the position of Spanish and Italian companies

• Virtual exit from the sector of the major world multi-sector brand companies
Chief features of the production chain in the olive sector (II)

• Increased significance of olive oil in sector companies also working with other oils
• Only moderate verticalisation between olive milling and other processing stages:
  – Uncertain outcome of verticalisation undertaken in the back-end stages;
  – Verticalisation processes are being undertaken by front-end companies specialised in crushing and linked to agricultural production.
• Exit of public capital from the sector in the EU producer countries
• Very large share of household purchases of oil are made at large-scale distributors
Distinguishing features of the production chain in each country (I)

• First stage, olive milling:
  – Differing significance of cooperatives in the milling stage: 70% Spain, 50% Greece, 15% Italy;
  – Varying degrees of verticalisation between agricultural production and milling;
  – Role of second-tier cooperatives in Spain;
  – Special situation in Turkey where there is a leading cooperative;
  – Differing size of mill companies:
    • Biggest firms have penetrated other stages of the production chain and operate directly on international markets

• Differing structure of storage capacity
Distinguishing features of the production chain in each country (II)

• Differences in market share and action of large-scale distributors:
  – Very small share in non-EU Mediterranean countries;
  – Big differences between the EU producer countries: 60% Spain and 20% Italy and Greece;
  – Very large share in central and northern EU countries;
  – Very large share in the United States;
  – Very pronounced differences in country strategies, with ensuing impacts on the approach to the product and markups.

• Differing significance of food service and gourmet distribution channels

• Differences in the percentage of virgin product consumed
Distinguishing features of the production chain in each country (III)

• Differing position in international olive oil trade flows:
  – Very important position of Italy (oil);
  – Growing position of Spain;
  – Stable position of Turkey as an exporter to the USA;
  – Stable position of Syria as supplier to the Middle East;
  – Significance of flows from North Africa to the EU.

• Continuing leadership of Spain on the international table olive market

• Differing organisational structure of the sector: only Spain has an inter-branch organisation
Impact of the crisis on the olive oil and table olive value chain (I)

• Consumption:
  – Increase in consumption of lower-value oils (seed oils);
  – Choice of the lowest priced products in each range;
  – Decrease in consumption of oils with greater differential value and narrowing of market niches;
  – Changes in food service channel:
    • Lower and cheaper consumption (effect on table olives and olives)
    • Better performance of lower priced types of food service (Italian, with high consumption of olives and olive oil)
Impact of the crisis on the olive oil and table olive value chain (II)

• Large-scale distribution:
  – Increase of distributor brands (10 points in Spain) and shrinking of manufacturing brands;
  – Limitation of oil and olive brands and types on shelves;
  – Increase in shares of distributor firms with the lowest prices (discount stores);
  – Narrower markups: large differences between countries depending on the specific dynamics of sector concentration and the role of oil in sales (case Spain/France);
  – Pressure on markups along the rest of the chain, eventually impacting on agricultural production.
Impact of the crisis on the olive oil and table olive value chain (II)

• Leading group of businesses:
  – Faced with value loss in the market for their brands;
  – Repercussions of the financial and economic crisis on companies most exposed to high-risk sectors (real estate, specific financial investments);
  – Heightened processes of concentration and growth of some firms with accompanying adjustments in some cases;
  – Increased relocation in search of locations where front-end stages of production are more competitive;
  – Reconsideration of entry into the front-end stages of the production chain: agricultural production and olive milling;
  – Entry of some major cooperatives into the leading group;
  – Foreseeable reshaping of the leading group entailing potential changes in business strategies.
Impact of the crisis on the olive oil and table olive value chain (IV)

• Companies involved in the first stage of the production chain (olive milling and table olive processing):
  – Pressure on prices is forcing them to adjust costs:
    • Decrease in the prices paid to farmers
  – Processing and business concentration;
  – Gradual increased penetration into packing by the largest companies;
  – Deals with large-scale distributors to supply virgin oil (for distributor brands or under manufacturing brands);
  – Significant entry of these companies into oil packing but not refining.
Impact of the crisis on the olive oil and table olive value chain (V)

• Companies involved in the first stage of the production chain (olive milling and table olive processing) (contd):
  – Firms reach deals with other processors to supply the full range of oils;
  – Cooperatives have greater difficulties in relocating their activity;
  – In many cases the lack of management skills hinders adaptation.
Impact of the crisis on the olive oil and table olive value chain (VI)

• On farms:
  – There have been generalised losses in recent years, especially in the EU producer countries;
  – Farms have very serious structural problems (fragmentation, ageing, lack of training), which make it hard for them to cope with the crisis, especially in traditional countries;
  – There is the threat of relocation to emerging countries;
  – The dichotomy has increased between larger, modern, high yielding farms which account for a growing volume of product and the rest of the farms;
  – There is uncertainty in EU countries about the future of the CAP.
Strategies in the face of the current situation

- The players in the production chain are developing specific strategies to cope with the crisis.
- Although the companies in each stage develop strategies suited to their own interests, these have an impact on the entire production chain.
- Neither individual countries nor the production system as a whole have joint strategies.
Business strategies and their impact on the value chain (I)

• Strategies implemented by large-scale distributors:
  – The strategies they develop for olive oil chime with their overall general strategy;
  – The former twin-faceted strategy is now changing:
    • The use of oil as a loss leader and a product with a low-price image is becoming important; as a result growing pressure is exerted on markups
    • The availability of a wide range of oils and olives on shop shelves, including differential value products, as the quality image of the ensign is becoming less important
    • Inter-country differences exist in the importance attached to olive oil and olives
  – The low-price strategy is becoming generalised even in the case of top-value ensigns;
  – Some of the major distribution firms are displaying an erratic strategy characterised by important about-turns.
Business strategies and their impact on the value chain (II)

• The reshaping of the leading world group may change the strategy of the chief players:
  – The value- and market loss of manufacturing brands is very serious for this group and no strategy is in place to combat it;
  – The increase in distributor brands largely invalidates the impact of advertising to maintain their brands;
  – Some of the firms in the lead group are destined to get bigger, to operate on all the markets and to get their supplies from more areas;
  – Public capital is not likely to re-enter the sector nor are the large multinational multi-sector brand groups likely to invest in it.
Business strategies and their impact on the value chain (III)

• Olive oil mills and companies in the front-end stages are faced with very different situations:
  – There are very different models, which will essentially be maintained;
  – Companies specialising in quality-differentiated oils are likely to encounter serious problems caused by the drop in consumption of the most expensive products;
  – Small firms will find it harder to stay afloat;
  – The leading group in this stage is likely to become bigger and it will work directly with large-scale distributors increasingly more.
Business strategies and their impact on the value chain (IV)

• Olive oil mills and companies in the front-end stages are faced with very different situations (contd):
  – The biggest companies will reach more direct agreements with large-scale distributors for the supply of virgin product;
  – Cooperatives will lobby harder for legislative changes to allow them to take better advantage of capitalisation and market opportunities;
  – More agreements are likely to be reached between companies to allow them to offer the full range of oils.
The need for an overall strategy for the olive oil and table olive production system as a whole (I)

• An overall strategy is needed to cope with:
  – The growing pressure and power of large-scale distributors;
  – The growing banalisation of olive oil and table olives;
  – The impact of the drop in consumption of the products with the greatest value;
  – The need to defend the image of a healthy, natural product versus the strategies of other oils and fats.
The need for an overall strategy for the olive oil and table olive production system as a whole (II)

• How to achieve an overall strategy to support the entire sector?
  – By strengthening the IOC;
  – By creating or strengthening joint sectorial bodies (inter-branch organisations or similar) in the producer and EU countries
Chief objectives of a joint strategy

• Increase global consumption

• Curb product banalisation:
  – Boost manufacturing brands;
  – Boost quality-differentiated oils.

• Re-launch the image of oil and table olives

• Rebalance the production chain:
  – Concentration at the front-end stages of production;
  – Concentration of processing companies;
  – Support for food service marketing channels and alternative and gourmet channels

• Search for mechanisms and structures compatible with fair trading rules to facilitate joint action by the sector
Thank you.
The floor is now open for discussion of this presentation and the other presentations given by my colleagues.