

# **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.**