Under pressure

Huge shifts in consumer spending and retail pricing, as well as exchange rate fluctuations, are placing huge pressure on suppliers to change the way they approach major markets.

Mike Knowles

The fallout from last September's financial crisis in the subsequent stark shift in currency markets is bound to have a significant impact on a number of trades within the fresh produce industry, according to several leading players in the European market.

As currency rates realign, new opportunities are emerging in the US, Europe and Asia, but as the leading consumer markets head into recession, questions mark remain over the potential downturn that may result in consumer spending and, crucially, retail pricing.

For many suppliers to Europe, the downward pressure on prices seen over the past few months is unlikely to ease as the industry heads into 2009. Consumers are reportedly cutting back on premium private labels in favour of cheaper alternatives, with retailers across Europe reacting by pushing prices down in order to sustain a discount drive on a scale not seen for years. As price wars flare up in northern Europe and discount chains continue to gain market share in a number of markets, suppliers could certainly be in for a rough ride in 2009. For many, the sale of the century will make the start of a new era.

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A number of leading fresh produce companies who spoke to Eurofruit Magazine over the past few months suggested that some supermarkets will not have been able to pass on any of the price reductions seen in the autumn and that they will continue to keep prices down.

In the UK, the situation has been complicated further by the rapid decline in sterling since last autumn and the consequent rise in price of British retailers. The currency's decline against the dollar and the euro has brought severe challenges to fresh produce companies. The exchange rate against the dollar and the euro has been severe, tumbling from US$1.00 at the start of last year to around US$0.89 at mid-December, and from €1.36 to €1.12 over the same period. These companies that secured their currencies earlier in the year may escape relatively unscathed, but for those retailers who haven't hedged their dollar or euro exposures against the pound, such a swing could prove highly toxic.

Worryingly, the signs are that despite volumes remaining more or less stable, suppliers are competing on price to the extent that they may price away the profit margins they worked so hard to build up.

For a number of major European exporters, particularly in the south, the ruling dollar has offered some welcome respite. "This has assisted our exports from the Mediterranean, giving our products back some of the competitiveness they lost last year," says Silvio Errimi of Vanguard International.

Marc Peyres of Blue Whale, a major exporter of apples and kiwifruit from France, says the adjustment in the dollar-euro rate gives him and other companies like it some welcome breathing space. "Our competitors on apples outside Europe, for example in the Middle East and south-east Asia, are Washington and Chinese crops are up. However, the exchange rate remains far from ideal, Mr Peyres adds: "It could be worse for us, and we appreciate the change, but we would like to see the dollar stabilise at around US$1.10 against the euro," he explains. "This would enable us to work under normal conditions."

In general terms, despite the recent strengthening of the US dollar, the euro's recent rise in status to become the second most

of the century

up opportunities for Chilean fresh fruit exporters, according to the country's Minister of Agriculture, Marigen Hornikohl. "Fruit suppliers know perfectly well the significance of the rise in the dollar's value and its impact on the industry's outlook and expectations," Ms Hornikohl said recently. "In the current climate, it's good news, especially in terms of Chile's potential to develop its position as a major food supplier."

At the moment, markets aren't buying less, they're just buying at cheaper prices. One major consequence could be more direct sourcing, as retailers start to look for direct suppliers to cut their prices. The result is that retailers and suppliers are under pressure to cut their prices as well.

"However, demand is there, so we offer the right price to the market,"Cropwellbyrd's Mr Knowles says. "It's just a question of the right price to the market, and the quality is there as well."