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

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The fallout from last September's financial crisis and the subsequent seismic shift in global 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, question marks 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 mean the start of a new era.

BACK TO BASICS

A number of leading fresh produce companies who spoke to Eurofruit Magazine over the past few months suggested that some supermarket buyers in a major market like the UK have called on suppliers to dispense with certain specifications on things like sizing and external quality in order to provide product that can be marketed at a lower price. "The retailers are abandoning many of their premium lines and putting huge emphasis on discounted ranges," said one major topfruit supplier.

Marketing to consumers is also being threatened, with some retail buyers demanding that all but the most essential promotional activities be abandoned so that suppliers can offer more competitive prices. The longer Europe's recession continues, the greater the demands on suppliers to cut their prices will be.

Indeed, in the UK, the situation has been complicated further by the rapid decline of sterling since last autumn and the resultant loss of buying power among British retailers. The currency's decline against the dollar and indeed the euro has been severe, tumbling from US$2.00 at the start of last year to around US$1.49 in mid-December, and from €1.36 to €1.12 over the same period. Those companies that secured their foreign currencies earlier in the year may escape relatively unscathed, but for those retailers who haven't stockpiled dollars and euros in anticipation of the pound's devaluation, such a swing could prove highly toxic.

Worryingly, the signs are that despite volumes remaining more or less stable, consumers are spending less on fresh fruit and vegetables, prompted to do so by fears of a recession and also the increasingly competitive discounting being seen on several markets.

Speaking at the recent Eurofruit Southern Hemisphere Congress in the Chilean capital Santiago, Ed Garner of leading market analyst TNS Worldpanel confirmed the trend towards lower-priced produce in several European markets including the UK, Spain, France and Germany. "People are trading down to cheaper products, from private and premium label down to standard and value brands," he noted. "The recession is hitting shoppers in a big way. So the question is, what's on the agenda when they make their purchases? Are they going to carry on with Fairtrade, organics and so on, or are they just going to buy what's cheap? This will be the big question for retailers and suppliers as we head into 2009."

Exporters outside the EU have also noticed the downturn in spending. "I don't have a crystal ball, but what is clear is that consumers cannot afford to pay for high-value products in the current financial crisis," says Carlos Pastorino, a major Peruvian fruit and vegetable exporter. "However, demand is there, so if we offer the right price then we will still be able to sell produce. At the moment, markets aren't buying less, they're just buying it at cheaper prices."

One major consequence could be more direct sourcing, as retailers look to strip costs out of the supply chain. "We expect the retailers to start looking more and more for direct supplies in order to remain competitive," suggests Mr Pastorino.

STRONG CURRENTS

The US dollar, meanwhile, having steadily depreciated against the euro since the latter fell into the pockets of eurozone consumers in 2002, has shown a marked increase against the majority of internationally traded currencies over the past year, moving from US$1.47 to the euro on 1 January 2008 to US$1.28 at the time of going to press. The impact on dollar-based suppliers to Europe has been marked, especially for those whose peak export windows are beginning to open.

The situation has improved in similar fashion for other major Southern Hemisphere exporters. By the middle of December 2008, the euro had strengthened by 35 per cent against the South African rand, by 22 per cent against the Australian dollar and by 22 per cent against Chilean peso compared with the respective rates at the start of the year.

The recent rise in the value

Sale of the century

up opportunities for Chilean fresh fruit exporters, according to the country's Minister of Agriculture Marigen Hornkohl. "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 Hornkohl 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."

For a number of major European exporters, particularly in the south, the rallying 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 Ermini 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 his 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 China, so this recent change will allow us to reduce our price without reducing our returns in Europe," says Mr Peyres. "This is very important this year as the 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 at under 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 currency has increased the potential buying power of importers in Europe, even prompting some companies to switch their focus from a purely export-driven business model to one which incorporates more import trade. Luca Antonietti, director of Genoa-based trader Novafruit, says his company is expanding into imports following changes in the value of the currency. "We want to invest in this area to take advantage of the potential of the euro, which has facilitated imports during this period," he says. ■

1 January 2008 — €1.00 = US$1.47

1 January 2008 — £1.00 = US$2.00

9 December 2008 — €1.00 = US$1.28

9 December 2008 — £1.00 = US$1.48