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Olive Oil Marketing in Non-Traditional Markets: Prospects and Strategies

Abstract: This paper explores current and expected trends for olive oil marketing in non-traditional markets. Quantitative indicators and qualitative interpretations are presented in order to assess olive oil demand enhancement possibilities in these markets. The research argument is developed around two analytical axes: 1) the rationales behind the need to foster olive oil international expansion outside producing markets, 2) modes of market access and marketing strategies to gain new markets and to achieve sustained competitive advantages.

Keywords: International marketing, Non-traditional markets, Olive oil.

Marketing oléicole sur les marchés non traditionnels : Perspectives et stratégies

Résumé : Cet article explore les tendances actuelles et attendues du marketing de l'huile d'olive sur les marchés non traditionnels. Des indicateurs quantitatifs et des interprétations qualitatives sont présentés en vue d'évaluer les possibilités d'expansion dans ces marchés. L'argument de recherche est développé selon deux axes analytiques : 1) les raisons sous-tendant la nécessité d'expansion du produit en dehors des marchés producteurs, 2) les modes et vecteurs de cette expansion internationale permettant de s'introduire et obtenir des avantages concurrentiels durables sur les nouveaux marchés.

Mots clés: Marketing international, marchés non traditionnels, huile d'olive.

AUTHOR: Samir MILI

Senior Researcher, Department of Economics

ADDRESS:

Instituto de Economía y Geografía
Consejo Superior de Investigaciones Científicas
C/ Pinar, 25
28006 Madrid, Spain
Tel. : +34-914111098 - Fax : +34-915625567
e-mail : smili@ieg.csic.es

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1. Introduction

Over the past decade, the world's food and agribusiness system has experienced rapid internationalisation, and the olive oil industry has been no exception. The gradual increase in worldwide production and relative stability of consumption in major traditional markets have prompted olive oil operators to look abroad for growth opportunities. Factors such as expanding income in both developed and emergent countries, changing food habits toward healthier products, and increasing prestige of the Mediterranean diet outside the Mediterranean region, have all encouraged export businesses to enter foreign, non-traditional (non-producer) markets. However, the creation of new market opportunities faces important difficulties such as low product awareness in new markets, changing agricultural and trade policies, and increasing horizontal and vertical competition in the food chain.

The purpose of this paper is to explore these key market issues and assess their impacts from the perspective of olive oil marketing on non-traditional (NT) markets. Special emphasis is placed on the challenges faced by the olive oil sector for expanding its market share and enhancing its competitiveness on these markets. The underlying hypothesis are: H1: The relatively low presence of olive oil in NT markets is primarily the result of lack of knowledge about the product, and H2: This lack of knowledge is the direct result of weak international product marketing. In fact, international olive oil marketing traditionally followed supply criteria rather than promoting demand and searching for new markets (Mili, 1999).

The analysis reported here draws upon the author's own knowledge as well as recent literature and market information, which has been completed and validated by consulting key experts from the sector in Spain (export business leaders, representatives of government and public agencies involved in international marketing of olive oil). The paper has five sections. After this introduction, section 2 highlights the reasons for boosting the international expansion of olive oil, revealing why this will be crucial for the economic welfare of this sector. Section 3 explores consumption and consumer conditions that might lead to internationalisation and define expansion opportunities. These two issues together form the basis for discussion of market access, modes of entry, and marketing strategies in new markets (section 4). Finally, some conclusions and implications are drawn in section 5.

2. The need to enhance international expansion for olive oil

A glance at the structure of the world market for edible oils and fats reveals the relatively low presence of olive oil on markets other than producer markets. Even though olive oil comes from one of the world's most ancient crops, it accounts for only 2% of total fat consumed in the world today (Oil World, 2005). Within vegetable oils, olive oil accounts for barely 3% of world consumption, compared with 31% for soybean oil, 28% for palm oil, 13% for rapeseed oil and 9% for sunflower oil (United States Department of Agriculture, 2004). In addition, the countries of the Mediterranean Basin, which account for 95% of world production, still concentrate 85% of world consumption (International Olive Oil Council "IOOC", 2005). The remaining small share traded internationally has mostly been exchanged amongst the producer countries themselves.

Up to the early 1990s, the world olive oil market showed a structural equilibrium between use and available supplies, basically because consumption levels were maintained in the producer countries and rose in NT markets such as United States, Canada, Australia, Japan and some northern

European, Arab and Latin American countries, which absorbed the increases in production. However, since the mid 1990s, available data indicates a trend towards a world production in excess of global demand (Table 1). Moreover, this trend is likely to continue in the foreseeable future: both quantitative and qualitative predictions (IOOC, 2001; Mili and Rodríguez Zúñiga, 2001) point to a future scenario with increases in world supply above those in potential demand. This situation is the consequence of a series of developments in global supply and demand functions.

On the supply side, production is gradually rising in numerous traditional producer countries such as Spain, Italy, Greece, Syria, Turkey and Morocco (Figure 1) but also, and more recently, in non-traditional producer countries such as Argentina, Australia, New Zealand, Chile, Brazil, Mexico, South Africa, USA and China.¹ The last two decades have witnessed huge economic and technical efforts in many olive-growing regions to restructure and modernise existing olive plantations. This has led to significant gains in productivity resulting from a substantial improvement in cultivation and harvesting practices, the use of irrigation (currently 16% of world olive acreage is irrigated and 84% is dry farming), and the elimination of marginal orchards. The result is that, worldwide, intensive olive farming today represents 30% of acreage and 50% of total production, traditional farming 50% of acreage and 40% of production, and marginal olive farming 20% of acreage and 10% of production.

The rise in production also stems from the creation of new orchards that are now coming into commercial production and will reach full production in the next few years, encouraging a future upward trend in production. Although complete, reliable, per-country statistical information is not

¹ In the latter group of countries, although production levels are fairly low in comparison with traditional, Mediterranean producer countries, olive cultivation and olive oil production are expanding rapidly, prompted by increasing domestic and international demand, comparative advantages in production costs, and public incentives for agricultural investment. It could be argued that this is a case of “New World oils”, by analogy to the New World wines, since these countries are the same as those of the New World wines, and their olive expansion model also presents several similarities to that experienced by the wine sector. Although it is too early to know the outcome of this process, similar consequences (mainly growing participation in foreign markets in detriment of Mediterranean producers) might occur once these countries attain significant levels of production.

available for new, worldwide olive acreage, an IOOC aggregate estimation predicts a rise in world olive acreage from 9.1 million hectares in 2000 to 10 million hectares in 2010. Another factor that, especially in the EU, has had a crucial influence on the increase in supply is the large amount of Common Agricultural Policy (CAP) aid for production: a rate of 1.32 euros per kilo (40% of producers' gross income, according to the Spanish Ministry of Agriculture "MAFF", 2003). This has transformed olive cultivation into one of the agricultural speculations that affords the highest profits.²

In addition, structural change and technological improvement at the olive oil processing stage have had a positive impact on production. In nearly all producer countries (albeit with different intensities), the oil extraction industry has become much more concentrated and has introduced product and process innovations. An example is the replacement of traditional extraction processes by three and two-phase continuous systems which, besides lowering production costs and raising yields and quality, help to reduce the environmental contamination resulting from oil milling.

On the demand side, world olive oil consumption stands at around 0.4 kg per capita and year. In addition, in the major producer countries consumption has not varied very significantly either aggregately (Figure 1) or individually (an annual per capita average of 12 kilos in Spain, 13 kilos in Italy and 20 kilos in Greece, according to Eurostat), although there are certain annual oscillations due to factors related more to supply than to demand.

Moreover, market circumstances such as those that prevailed during 1993-1996 in the Mediterranean region showed that demand in the producer countries is not altogether guaranteed, even though there is a favourable, deep-rooted tradition of consuming olive oil. The drop in

² This productivist orientation of sectoral policy, firmly encouraged by governments, is based on arguments that go beyond strict economic performance in terms of financial profitability. Besides the purely economic aspect, olive farming has a high social and environmental content (Loumou and Giourga, 2003), which is taken very much into consideration when drawing up any regional or territorial development policy.

production in various countries brought about by a long drought and the ensuing rise in prices caused quite a significant fall in domestic consumption. Systematically, the fall in consumption occurs almost proportionally to first price increases, and sharply when the price reaches a determinant level. This pattern has been observed (obviously with different absolute price rates) in all producer countries when significant production shortages occur. In Spain, for instance, which is the world's leading producer and second consumer after Italy, the drastic drop in olive oil production during the above-mentioned period caused successive price jumps, and subsequently significant consumption reductions. Consumption fell sharply when prices reached levels of 4-5 euros per litre although it started to recover when prices returned to levels similar to those prior to the shortage.

This market behaviour indicates that, although fairly high prices can be charged for olive oil compared with other vegetable oils, there is a limit to the price many consumers are willing to pay.³ This price will be what consumers consider as fair, what they would like to pay or are used to paying, or might be an average price based on their perception of local market prices. When it is overstepped, they are no longer loyal to this product and switch partially or totally to substitute oils. In other words, although there is wide acceptance of the hypothesis that the price elasticity of olive oil demand is quite rigid (albeit higher than for the majority of oilseeds: see elasticity estimates for olive oil and main substitute oils, for instance, in Mili and Briz, 1990; Pierani and Rizzi, 1991; Mili, 1996; Laajimi and Albisu, 1997), this may change when prices climb sharply. In such cases, demand can be expected to become more elastic and less stable.

Conceptually, it could be hypothesised that in traditional markets there are reference prices which mark a turning-point in the demand curve, dividing it into two (or more) segments with different slopes, i.e. elasticities. Such reference prices do not exist or are very weak in NT markets in which

there is less product familiarity and consumer expertise in olive oil consumption. Figure 2 suggests a simple representation of the demand curves for olive oil in traditional (D_T) and NT (D_{NT}) markets, taking into account the presence of a reference price (P_r). Curves D_T and D_{NT} are independent, and E_{T1} and E_{T2} represent elasticity zones with and without reference price, respectively. The notion of reference price affords a more complex picture than the typical relationship between objective price and willingness to pay on which conventional demand models are focused. It suggests that the consumer's willingness to pay is influenced by the link between stated (real) price and a reference price point so that, as the stated price rises, a cut-off point is reached at which the negative reference price effect offsets the positive perceived product value. This might be of great importance for olive oil marketing since it provides an opportunity to increase sales if the reference point is shifted (in traditional markets) or pushed up (in NT markets) by, for example, advertising and promotional actions.

The supply and demand factors discussed above, apart from indicating the importance of maintaining or even increasing consumption on traditional markets which absorb the bulk of production, indicate the need for a more active export policy for the future to expand the product and to diversify exports outside the traditional markets. This is the only way of avoiding market imbalance and of capitalising on the growing productive potential of olive farming.

3. Olive oil consumption in NT markets

3.1. Consumption trends

As mentioned earlier, growth in consumption on NT markets has significantly helped to maintain the relative equilibrium between world olive oil supply and demand. Consumption in NT markets has increased almost exponentially during the last decade. Trends in acquisitions in these markets since 1990 point to an appreciable, sustained growth in imports, although the situation varies across

³ This limit, relatively speaking, is not very high, partly because consumers in producer countries generally perceive olive oil to be a basic, intrinsically high-quality product for which they are not willing to pay a price premium without

countries (Table 2). The United States became the largest NT purchaser, with imports increasing from 90,000 tonnes in the 1990/91 crop year to 200,000 tonnes (provisional figure) in 2003/04 (IOOC, 2005), which amounts to an average annual rate of growth over this period of 6.3% (compared to an equivalent rate of 3.7% for world imports). The United States is now the world's fourth largest consumer of olive oil (with an average of 6.5% of world consumption over the period mentioned). In other relevant markets, although imports were lower in terms of volume than those of the United States, the average annual growth rates were even higher.

These markets also are fairly relevant in qualitative terms since they mostly focus on top-quality, high-priced olive oils so they present considerable potential for consumption which should be gradually turned into real demand through effective marketing actions. An important indicator is the penetration rate of olive oil in households, i.e. the percentage of households consuming olive oil. In the United States, data from Market Segment Research and AC Nielsen show that the penetration rate almost quintupled between 1986 and 2001, rising from 6.7% in 1986 to 32.1% in 2001. In Canada, the penetration rate rose from 33.4% in 1997 to 38.5% in 2000 (AC Nielsen). In France, the index almost doubled in a decade, with the percentage of households consuming olive oil increasing from 33.5% in 1991 to 64.5% in 2001 (Argenson, 2004). In the United Kingdom, in 20 years olive oil went from being virtually unknown to being present in 40% of British households in 2000 (Spanish Office for Economic and Commercial Affairs in London, 2002); the same rate was also reached in Germany in 2000 (Spanish Office for Economic and Commercial Affairs in Düsseldorf, 2003).

Growing acceptance of olive oil on new markets is due to its nutritional, health-giving properties, as well as because it is a basic ingredient of the traditional Mediterranean diet, which has been proven as a model for balanced and healthy nutrition (Wahrburg *et al.*, 2002) and is increasingly being appreciated outside the Mediterranean region. Medical research into the dietary properties of olive

oil and the dissemination of the findings have helped decisively to form an excellent image of this product. There are significant opportunities for expanding demand in new parts of the world such as South-east Asia, China and some countries of Latin America and Central and Eastern Europe.

Moreover, market indicators show that consumption can be increased only if policies focus on quality and information more than on pricing. The relatively high production costs make olive oil competitiveness rely more on quality than on price. A low-cost scenario to enhance competitiveness seems implausible, at least in the short and medium term. Difficulties in mechanising olive harvesting prevent the reduction of labour costs, which account for the bulk of total costs (40% to 70% of total production costs, depending on the producer region and the production regime).

Any strategy to expand demand should therefore be based on a policy in which quality is the chief competitive advantage although without undervaluing efforts to push prices downwards by lowering harvesting, processing and marketing costs. We refer not only to organoleptic quality but also to quality at the processing stage with innovations in extraction and packing and in distribution. Significant progress has been made on quality, especially in the European Union (European Commission, 2000). The EU quality policy rewards producers for improving their oil and establishes norms to protect consumers from fraud. The main tools for defining the grades of olive oil are the panel test method for the sensory assessment of virgin oils, the rules on protected designations of origin and geographical indications, and specific quality or organic certifications.

3.2. Changing consumer preferences

As stated above, new olive oil markets are mostly found in developed, high- income, industrialised countries and it is in them that future growth in olive oil demand is largely expected to take place. Behind these developments underlie fundamental changes in consumer attitudes and preferences. There is widespread agreement in the specialised literature that recent decades have brought

dramatic changes in the economic, demographic and socio-cultural conditions of developed societies, as well as in growing segments of many developing societies (higher incomes, smaller households, less time to spend on food preparation, more appreciation of leisure activities). These changes have brought a gradual decrease in the share of food expenditure as a percentage of total expenditure by individuals (Engel's Law) and significant changes in the structure of food expenditure per product category.⁴

There also have been fundamental changes in food buying habits and consumption patterns in general. Broad segments of consumers, particularly in post-industrial societies, buy foods that are highly differentiated both intrinsically and extrinsically. Purchase decisions are increasingly motivated by values, perceptions, attitudes, preferences and other subjective, extra-economic factors rather than by strictly economic variables, such as income and prices. Demand for the attributes of healthiness, safety, naturalness, variety, convenience and image is more sensitive to variations in income than the demand for generic attributes and primary features, such as calory content, for which the income elasticity of demand is almost nil or even negative (Senauer, 2001). Viewed from this perspective, olive oil responds very well to modern consumer expectations, with its good image and proven gastronomic properties and health benefits.

Most consumer purchasing decisions are routine and are the end result of buying and consumption habits. However, at certain points in time, consumers take new decisions and try out new products. Unlike in the producer countries, where the majority of consumers are accustomed to using olive oil in a large number of recipes (so much so that it is the most widely-consumed oil), in the non-producer countries there is no habit of consuming olive oil, although some people may buy it after

⁴ As disposable income increases, consumers tend to switch their demand from staples to more expensive products, whose income-elasticity is higher. This explains why consumer demand in the developed world is higher for healthy, natural products but is lower for the remaining products. Because olive oil is in the first group, countries that have large segments of consumers with sufficiently high income levels constitute important targets for campaigns to inform consumers about olive oil and to boost consumption.

coming across it when on holiday in producer countries, when dining out at Mediterranean-style restaurants or after reading about its health benefits. The rapid expansion of communications and of foreign travel is encouraging people to discover other cuisines and try out new tastes from abroad, with the ensuing impact on distributors' shelves and marketing strategies (Siani, 1998).

Another salient development is the increase in food consumption home. In most developed and emerging countries, food consumption in hotels, restaurants and catering (HRC) has risen sharply in recent years, prompted by factors such as heightened job and leisure mobility and the increase in the number of meals eaten on or near work premises. Many HRC establishments use olive oils for frying (often lower-range oils) or raw in a number of dishes (frequently higher-range oils), with the emphasis on the taste factor (classic haute-cuisine restaurants, restaurants specialising in Mediterranean cuisines) or the health factor (old peoples' homes, hospitals).

These profound changes in consumption patterns in general and in the hierarchy of consumer preferences in particular have prompted an exhaustive review of the conventional approaches to analysis in search of coherent models with sufficient explanatory and predictive power. Present indications are that consumer behaviour can only be appropriately explained if the psychological and social conditions that influence and determine it are properly identified and measured, in addition to the strictly economic variables (price and income). The underlying premise is that consumer utility derives from the acquisition of "characteristics" (K. Lancaster) and "convenience" (G. Becker) within asymmetric information settings (G. Akerlof).

Conceptual models, such as that proposed by Engel *et al.* (1990) and discussed by Brassington and Pettitt (1997) and Steenkamp (1997), seem particularly suitable for work on consumer behaviour. They draw a distinction between the consumer decision-making process and the determinants of that process. The decision-making process is structured at four levels: identification of needs, search

for information, evaluation of alternatives and final choice. Five clusters of factors influence the decision-making process: product characteristics, and economic, personal, socio-cultural and commercial factors (environmental factors could explicitly be added as a sixth cluster).

Such interdisciplinary models can be very useful when exploring the demand for products with characteristics like those of olive oil. They combine the conventional (neoclassical) approach to consumption analysis with the tenets of the behavioural sciences (anthropology, sociology, psychology), which deal with individuals' decision-making processes from a more multidimensional and qualitative viewpoint so that premises can be established which compare the behaviour of people as individuals with their behaviour as consumers. These are considerations that should be borne in mind when opening up new markets and/or attracting new consumers.

4. International expansion in NT markets

4.1. International marketing macro and regulatory environment

Besides consumption patterns and expected developments in world supply and demand, olive oil marketing on new markets is also influenced by numerous other factors. Amongst these are increased market globalisation and changing international trade and agricultural policies.

For international marketing purposes, globalisation implies above all deregulation, lowering of protectionist barriers, business flexibility, and a certain standardisation in world demand. Global marketing policies were the strategic basis for the recent development of many products and companies. However, globalisation is progressing more slowly in food products than in other goods and services, as can be clearly seen in data from international organisations such as the World Trade Organisation (WTO), the World Bank or the EU. This differential evolution is mainly because food demand is heavily influenced by the socio-cultural context in which consumption functions take

place. Thus, not only do export businesses have to make the necessary adaptations to organise marketing more flexibly in a more globalised economy, but they also have to consider the special characteristics of introducing a high-quality food like olive oil into new geographical areas. Globalisation could be an important vector for expanding the product, provided its distinctive features and those of the destination market are properly taken into consideration, that is, when an effective international expansion and segmentation strategy combining country/region-based features with buyer-based variables is implemented (Hassan *et al.*, 2003).

Meanwhile, recent developments in international trade and agricultural policies have been having a more concrete impact on the sector. Specifically, the international liberalisation in agricultural trade resulting from the WTO Agriculture Agreement (WTOAA) has had a significant impact on the olive oil sector, in which general stipulations concerning market access, domestic support and export competition have been applied almost linearly. For this sector, the effects of the WTOAA are particularly relevant in producer countries that are members of the EU, where olive oil has traditionally enjoyed high levels of protection from the CAP.

Thus, on the export side, from 1995-96 to 2000-01, EU subsidies for olive oil exports (which, until the 1994-95 marketing year, amounted to the difference between Community and world prices) were adapted to the limitations agreed in the WTOAA, which stipulated that during this period the EU had to reduce the volume of subsidised exports by 21% and the corresponding budget allocation by 36%, with the period 1986-90 serving as an average base. This resulted in a reduction for the entire period of 31,000 tonnes in subsidised exports and 30.9 million euros in related expenditure, although it should be mentioned that export subsidies were actually eliminated altogether. On the import side, since the 1995-96 marketing year, the so-called “fixed –customs –duties” have substituted the former “variable import –levies”. These duties vary according to the category of oil imported, and their amounts, which are fixed by the Commission, have decreased each year to a

total reduction of 20% over the six-year-period covered by the WTOAA. In addition to fixed tariffs, the WTOAA allows the EU to apply additional customs duties to imports when the CIF import prices are below the activation prices (prices fixed by the Commission that trigger the application of an additional duty), or when the quantities imported exceed a threshold that could create alterations in the EU domestic market.

Beyond changes in the Community regulatory system derived from the WTOAA, a new reform of the Common Market Organisation (CMO) for olive oil was recently carried out (April 2004) within the framework of the CAP reform for Mediterranean products. The new regime that will enter into force in 2006 introduces fundamental changes in the formal protection system of the sector. At the heart of the new scheme is the departure from product support to producer support by means of a decoupled single farm payment, and the prevalence of sustainability (quality, safety, environmental protection) criteria over productivity achievements (yields) (European Commission, 2003). Roughly, olive farms with more than 0.3 hectare will receive a minimum of 60% of the average production-linked subsidy received during the reference period 2000-02 as a single decoupled payment (payments to smaller farms will be 100% decoupled).⁵ The remaining 40% will be national envelopes to reward producers based on sustainable farming and rural development criteria. Additionally, as for the whole EU agriculture budget, the budget for the CMO for olive oil will remain unchanged until 2013.

It is worth noting that the regulation system in force until now (EEC Regulation 136/66, reformed for the last time with EC Regulation 1638/98) established a classic scheme of domestic price-production subsidies/import duties-export refunds, amended in 1998 by the introduction of a system of national quotas for the distribution of subsidies, and a system of production control based on Geographical Information Systems. Support for olive oil through this conventional CAP scheme

(with aid being awarded according to the quantity produced) is much greater than that for other Mediterranean products such as fruit, vegetables or wine. The Producer Support Estimate (an indicator to measure total monetary transfers from consumers and taxpayers to agricultural producers) for EU olive oil shows that such transfers amount to 50% of producers' gross receipts (Garcia Alvarez-Coque, 2001), placing this product at the levels of support for EU continental products, i.e. maximum levels (OECD, 2003).

Moreover, this subsidy is mostly classified as *Amber box support* and is therefore subject to reduction commitments due to the fact that it is highly distortional for trade. According to the WTO (2004), amber box subsidies for EU olive oil, quantified by the Aggregate Measurement of Support (AMS) and expressed as a percentage of production value, has dropped from 40% in 1986-88 to 26% in 2000-01. The impact on world trade is still quite significant, taking into account the EU's large share of world olive oil production (80%) and trade (50%, without including intra-EU trade).

The fact that support for EU olive oil is high and is distributed primarily through instruments linked to production incentives (prices and aid per quantity produced), placed it in the front line for reduction in prospective multilateral WTO commitments on agricultural trade. Since the launch of the Doha trade negotiating round in 2001, members have agreed to negotiate to achieve *inter alia* substantial reductions in all forms of domestic and export subsidies and a substantial improvement in market access with special treatment for developing countries (see November 2001 Doha Ministerial Declaration, reaffirmed in July 2004 Geneva mid-point Agreement). Against this background, the above-mentioned CMO reform largely avoids the effective reduction of domestic aid because, under the new system, most aid is not tied to production so can be transferred to WTO's *green box*

⁵ For the computation of the amount for each olive farmer, the reference period will be the four marketing years 1999/00-2002/03. Moreover, access to the single payment regime will be limited to olive plantations existing prior to 1 May 1998, and to new plantings under the programmes approved by the European Commission.

which is not considered to distort competition.⁶ In fact, in many cases it will be possible to continue producing even if production costs are higher than sale prices, as such aid will compensate for the difference. With regard to export refunds, as mentioned above, these have already been eliminated by the EU for olive oil.

The new CMO reform has been shaped by this international scenario, as well as by a series of other external factors such as the enlargement of the EU to Central and Eastern European countries, and the partnership agreements with the southern Mediterranean countries to establish a Euro-Mediterranean free trade area by 2010 (Barcelona process). The overall picture is that the sector is at the beginning of a new era of regulatory change tending towards greater trade liberalisation and reduction of subsidies worldwide, which will favour producer countries and the most competitive firms. In the EU, the sector can expect new regulations to alter profitability for olive growing in many regions. The subsidy system that until now has induced expansion in production will continue being important over the next few years but has finished in its present form.

4.2. Market access and the international marketing mix

One fundamental question facing any olive oil exporting company is what marketing strategies to adopt to enter or to expand foreign markets and to obtain sustained competitive advantages, in view of dramatic changes in consumption patterns and in the international scenario. When tackling foreign markets, companies are confronted by a series of internal barriers (financial strength, experience in international markets), external barriers (tariff and non-tariff barriers, exchange rates, interest rates) and operational barriers (physical distribution, identification of potential buyers, transaction modes). Of all these, the most crucial for olive oil probably are, on the one hand, adaptation of the product to consumer tastes and to trade and safety specifications at destination

⁶ Explorations with dynamic simulation models led to similar conclusions for other EU agricultural sectors under processes of reform (cereals, oilseeds, milk, meat and meat products) (Binfield et al., 2004).

and, on the other hand, access to distribution chains or use of companies' own distribution networks.

Regarding the former, recent experience has shown that effective marketing decisions should be based on comprehensive, consumer-driven studies based on analytical models like that shown in Figure 3. With respect to distribution, olive oil is sold on new markets through three main kinds of outlet: large-scale distribution, HRC and outlets such as delicatessens (gourmet stores). Each channel has its own distinctive characteristics. The gourmet and HRC markets do not occupy a significant share and grow at a relatively slow rate, since the gourmet market caters for a very select clientele and charges quite high prices, whereas sales in HRC face the difficulties implicit in establishing Mediterranean-style restaurants in countries far removed from this tradition. Therefore, the most important channel in nearly all developed and emergent markets are large-scale distribution chains which provide immediate market access due to their direct contact with consumers and also because olive oil as a product adapts well to numerous aspects of modern commercial logistics (non-perishable, easy to store and suited to different types of container).⁷

It is well known that in all developed regions of the world, food retailers are becoming more and more concentrated, with the creation of very large retail groups with very strong contractual power, e.g. Wal-Mart (USA), Carrefour (France), Tesco (UK), Ahold (Netherlands). Many of these groups operate on the world market through their central purchasing networks. Because of their big size and the volume of their orders, they are able to lower the unit costs of supply and to cut retail sales prices, creating growing virtuous circles. In this context, the restructuring of logistical processes is becoming particularly relevant in business strategies that aim to reduce costs and improve competitiveness. Large distributors are continuously imposing logistics demands. This means that

⁷ In Spain, for instance, according to MAFF estimates (2004), super and hypermarkets accounted for 88% of olive oil sales for household consumption in 2002; in Germany, hard-discount stores alone currently account for 60% of olive oil sales (Spanish Office for Economic and Commercial Affairs in Düsseldorf, 2003); in Japan, supermarkets accounted for

distributors' and suppliers' information systems must be compatible and that their logistics and organisational patterns must be tightly coordinated. However, as with most food producers, such innovations are not systematically disseminated among olive oil suppliers. Few olive oil companies possess the financial, technological and organisational capabilities necessary to develop relations with large distribution operators on the basis of modern logistics, especially where export markets are concerned.

Meanwhile, normative models for decision-making in international marketing (e.g. Solberg, 1990) suggest that companies should assess their international potential according to a series of endogenous and exogenous factors which could be summarised under two generic variables: companies' preparedness for internationalisation and the degree of globalisation of the market where it operates. Cross-section of the two variables provides the matrix shown in Figure 4. Based on this scheme, the possible strategic options for olive oil would basically be those stated in the first two columns of Figure 4. The options in the last column would be less plausible since the olive oil sector has not yet developed truly global segments.

The next step would be to select a mode of foreign market entry or expansion. This is one of the most crucial strategic decisions that an export company has to make. A well-chosen mode can enable the company to gain a competitive advantage, whereas inappropriate modal choices are difficult to change with long-term contracts or when large resources are engaged (Osland *et al.*, 2001). For olive oil, results from a Delphi survey carried out in Spain (Mili and Rodríguez Zúñiga, 2001) indicate that the most suitable formulae for penetration in new markets are, correlatively, partnerships with import companies and/or distributors at the destination (joint ventures, strategic alliances, networks), the purchase of a company with a market share at the destination, the creation of commercial subsidiaries at the destination, the possession of a trade representative at the

69% of olive oil sales for household consumption in 1999 (Spanish Office for Economic and Commercial Affairs in Tokyo, 2004).

destination, and marketing through export consortia. Less relevance has been given to other options such as the installation of packaging and marketing centers in non-EU producer countries, direct sales (international catalogues, Internet), the creation of facilities for packaging and marketing at the destination, or sales through local trading companies.

Once consumer preferences and market trends have been noted, target markets selected and the method for entering or expansion in them decided, export companies need to draw up and set in operation an international marketing plan. Table 3 shows relevant dimensions of the international marketing mix for the next few years in order of relative importance. Obviously, decisions about these variables are not taken separately but in such a way as to jointly achieve the aims of the company. Overall, decisions on product characteristics, pricing strategies, relationships with distribution chains and communication policies will be increasingly crucial factors for success in foreign markets. Note that the importance of pricing aspects is relatively lower than that of the other three variables. This means that, as stated in section 3, although price is very important, it will rarely be the chief variable for competing in emerging markets.⁸

Having entered the market, the export firm will need to consolidate its position and gain a competitive edge in order to survive and prosper. To do so, it has various strategic options. According to Porter's normative model for analysing competitiveness (Porter, 1990), these options can be summed up in three alternatives: cost leadership, product differentiation, specialisation in a particular market segment.

In an imperfectly competitive market where the opportunities to compete on cost grounds are limited, as occurs in the olive oil market, competitive edge has to be acquired through proactive

⁸ Another fact that corroborates this statement is that, despite the significant drop (temporary fluctuations aside) recorded in recent years in the prices of the main oilseeds on international markets (United States Department of Agriculture, 2004), the resulting unfavourable effect on the olive oil price ratio has not noticeably affected its

differentiation and segmentation policies. It is a question of offering unique, superior products to specific consumers who perceive them as such. This presupposes that price is not the only decision-making variable for consumers and that, by differentiating its products, the company can raise its prices above marginal cost, gaining monopolistic profit without losing market share (Mili, 1996).

Branding, promotion and advertising play an essential role in this mode of expansion achieved through differentiation and segmentation. Owing to increased competition and pressure from distributors, olive oil firms are forced to increase their branding efforts, especially when operating in the international market. Similarly, the increasing market share of private labels is forcing companies to focus more on branding to keep or gain market shares and profit margins.⁹ The world's leading olive oil brand by consumer awareness and market value today is Unilever's Bertolli brand. The high profile of Bertolli is attained by the simultaneous use of various marketing strategies (TV advertising, product ranges under the Bertolli label such as Bertolli food or Bertolli Cafés), supported by heavy financial investments.

It is well-known that when advertising is used as a tool to differentiate brands and to segment the market, it helps to raise profit margins, creating a good product image and customer loyalty. It can thus subtract part of the consumer surplus by offering more expensive products in exchange for guaranteed high quality. However, the volume of advertising investment needed to obtain positive marginal yields is usually so high that it is possible only for firms of some size. In fact, advertising-based brand differentiation only reaches significant levels in the case of the large olive oil companies (see data on advertising investment the main olive oil companies in Antelo, 2002;

positioning on most of the emerging markets. This is probably because olive oil competes on these markets more by its non-price attributes (nutritional quality, health and gastronomic properties) than its price attributes.

⁹ One consequence of the heightened concentration and negotiating power of distributors is the steady growth of private brands, both in traditional and NT markets: for instance, distributor's brand participation in olive oil amounts to 39% in Spain (Oleo Semanal, 2004), 11% in Italy (D'Aurea and Facendola, 2003), and 60% both in the United Kingdom (Spanish Office for Economic and Commercial Affairs in London, 2002) and Germany (Spanish Office for Economic and Commercial Affairs in Düsseldorf, 2003).

D'Aurea and Facendola, 2003). These firms tend to be diversified hence, when their reputation is good, promotion of one of their brands tends to cause spill-over effects which benefit the rest of their brand portfolio. In any case, a comprehensive, effective promotional programme should include not only brand advertising by companies, but also institutional and collective generic promotional activities aiming to increase global demand for the product. It is essential to continue consolidating the prestigious, top-quality image of olive oil, which constitutes one of its best assets for internationalisation.

5. Conclusions and implications

Throughout the above analysis, an attempt has been made to explore current and expected international olive oil marketing issues, and to accordingly assess the product's expansion opportunities in NT markets. Up to the early 1990s, the world olive oil market was characterised by structural equilibrium between usage and supply. However, since the mid-1990s, developments in global supply and demand have resulted in a trend towards world production in excess of global demand, and this is likely to continue in coming years. This makes it necessary to strengthen export policy to expand and diversify exports outside the traditional markets in order to avoid potential market imbalances.

The ongoing processes of globalisation and trade liberalisation will probably contribute to a gradual increase in international trade in olive oil, as well as growing diversification of both the consumer and production markets. The foreseeable intensification of these processes will favour more competitive, less subsidy-dependent exports while promoting greater market and price transparency. In such a scenario, the chief objective of market operators in the sector should be to add value to the product in markets with a potential for expansion. This requires constant improvements in quality

(at product, process and logistics levels) all along the value chain, as well as close attention to communication and promotion.

Olive oil responds quite well to modern consumer expectations, with its good image and proven gastronomic properties and health benefits. However, despite the educational campaigns run on several NT markets, the majority of consumers on such markets still do not know the differences between the various commercial categories of olive oil, nor are they familiar with the designation and properties of each one. Consequently, information campaigns should be stepped up, targeting existing and potential consumers to supply them with information on the characteristics, designations and uses of the different olive oils. Product certification is a crucial aspect for promotion. Many distributors insist that oil quality and the oil production process are certified by an accredited certification body. When quality certifications are displayed (usually generic cues), the companies concerned can benefit from joint promotional activities on the international market.

Various NT markets have seen growing interest amongst distribution companies for including olive oil in their product portfolio, as a result of the growing demand for this product. Retail distribution, especially large-scale distribution, is the first stage in the commercial chain to receive signals from consumers which it then transmits to suppliers and producers. Food sales have become more and more concentrated in large distribution channels in developed countries. In the olive oil sector, this concentration has led to increased negotiating power for these chains, which impose severe conditions on suppliers in terms of price discounts, deferred payments, contributions to promotions, just in time deliveries, high referencing costs, production for own-label sales.

To meet these demands and to reduce negotiating power imbalance, the export business is obliged to raise its efficiency and flexibility. Companies sometimes have to set up horizontal partnerships or merge to become bigger in size and so take advantage of economies of scale and scope (as in the

ongoing concentration process amongst the Spanish olive oil cooperatives). In other cases, and sometimes simultaneously, exporters and distributors have to cooperate closely in long-run vertical arrangements to make the supply chain more efficient and to maximise customer service. This is done by integrating business functions and introducing new information technologies at the different stages of the value chain, enabling the implementation of total quality and traceability systems, as well as of initiatives like EDI (Electronic Data Interchange) and ECR (Efficient Consumer Response).

There is also a segment of the distribution sector that is differentiated on the basis of the sale of attractively presented, top-range products (protected designation of origin olive oils, varietal oils, organic oils, flavoured oils). Oils packed by small or medium-sized speciality firms may have a place on the market at mid-range or high prices for this segment, and their oils are differentiated by their characteristics from more price-competitive products. For this strategy to be successful it is very important *inter alia* to ensure that the product attributes, pack design and labelling closely meet the specific needs of the end customer, who is often sophisticated and very demanding.

Several large olive oil export companies have their own product distribution channels abroad. Small and medium-sized exporting firms depend, however, on middlemen and/or distributors. Depending on their objective, in either case the firms may implement a selective strategy focused on targeted market areas or segments, or they may opt for a less differentiated strategy in order to achieve a wider geographical scope. In this context, for the small and medium-sized firms the use of new technologies, particularly e-commerce, could open up new horizons by helping them to enter new markets at much lower operating costs, besides contacting consumer markets directly and minimising or doing away altogether with middlemen.

Regarding e-commerce, almost all the large distribution chains are placing heavy stakes on it, taking advantage of the Internet as an additional sales channel that allows them to expand their business to new buyers, as well as a tool for customisation. Some producer-distributor partnerships are now selling quality products via the Internet, including specific olive oils. In a few years time, these developments may bring about fundamental changes in olive oil exporting and distribution. New information technologies make it possible to create new distribution channels that facilitate direct sales by mills or packers to intermediary buyers or to the end consumer worldwide.

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Table 1
World olive oil market macro figures,
1990/91– 2003/04

	Average/ campaign (1000 t)	Coefficient of variation (%)	Min (1000 t)	Max (1000 t)	% Variation Av. 97/98-03/04// Av. 90/91-96/97	Av. annual % growth ⁽²⁾
Production	2271.1	21	1453.0	3162.0	36.0	6.2
Consumption	2244.9	16	1666.5	2763.0	32.2	4.0
Exports⁽¹⁾	409.8	24	256.5	625.0	41.1	4.9
Imports⁽¹⁾	422.6	19	288.5	551.0	34.8	3.7

(1) Only extra-EU.

(2) Average compound rate.

Source: Based on IOOC data.

Table 2
Principal non-traditional (non producer) purchasers of olive oil,
1990/91– 2003/04

Country	Average/ campaign (1000 t)	Coefficient of variation (%)	Min (1000 t)	Max (1000 t)	% Variation Av. 97/98-03/04// Av. 90/91-96/97	Av. annual % growth ⁽²⁾
USA	144.5	29	87.5	226.0	65.6	7.9
Germany⁽¹⁾	24.0	50	9.8	40.8	159.2	11.2
U. Kingdom⁽¹⁾	24.9	52	6.8	47.0	141.0	15.7
Australia	21.2	29	12.5	31.5	56.7	5.5
Brazil	20.7	25	11.0	29.0	35.8	3.5
Japan	19.2	59	4.0	34.0	197.2	16.9
Canada	18.0	32	10.0	25.5	70.4	7.3
Switzerland	5.8	47	3.0	10.0	130.6	9.7
Netherlands⁽¹⁾	4.6	62	1.0	9.4	172.4	18.8
Mexico	3.8	79	1.0	10.0	207.7	15.7

(1) Includes intra + extra EU imports.

(2) Average compound rate.

Source: Based on IOOC, Eurostat and National Accounts data.

Table 3
International marketing-mix

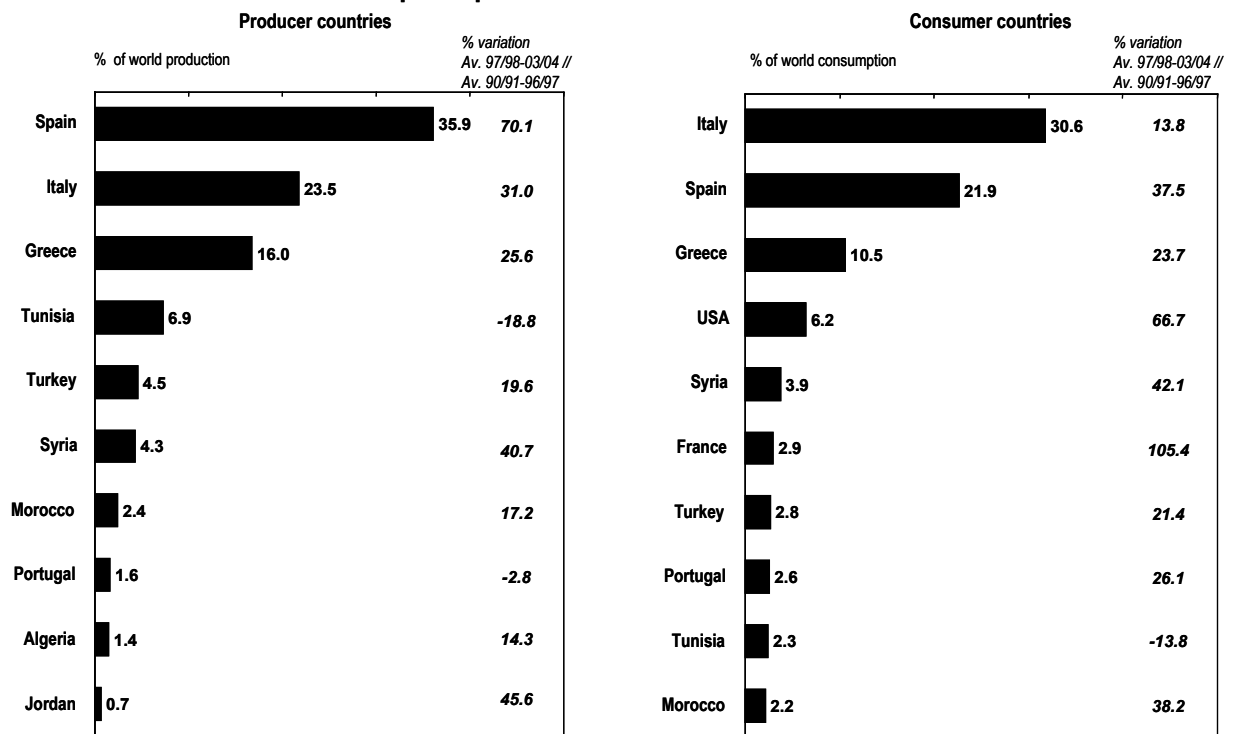
International marketing-mix dimension	Average importance rating	Coefficient of variation (%)
PRODUCT		
1. Quality assurance	4.64	11.64
2. Oil type	4.43	16.93
3. Packaging	4.20	16.90
4. Labeling	4.15	14.70
5. Branding	4.05	21.97
6. After-sale warranty	3.82	25.39
PRICE		
1. Price discrimination within the range of olive oils	3.87	20.67
2. Price discrimination with respect to substitute oils	3.62	22.93
3. Price discrimination with respect to domestic market	3.23	31.58
DISTRIBUTION		
1. Regularity of supply	4.61	10.63
2. Permanence on the shelf	4.49	11.14
3. Delivery terms	4.30	14.65
4. Price stability	4.21	16.39
5. Terms of payment	3.59	22.28
COMMUNICATION		
Media		
1. Information at points of sale	4.42	13.80
2. Information in mass media	3.98	16.58
3. Presence at trade fairs and shows	3.95	18.23
Contents		
1. Information on dietary and nutritional benefits	4.66	11.80
2. Information on differences from other oils	4.42	16.97
3. Information on culinary uses	4.36	13.99
4. Information on the natural and environmental value of oil	4.31	18.10
5. Information on the geographic origin of the oil	3.79	24.54

Scale response options: 1) unimportant, 2) somewhat important, 3) important, 4) very important, 5) extremely important. Panel size: 42 experts.

Source : Delphi survey, 2001.

Figure 1a

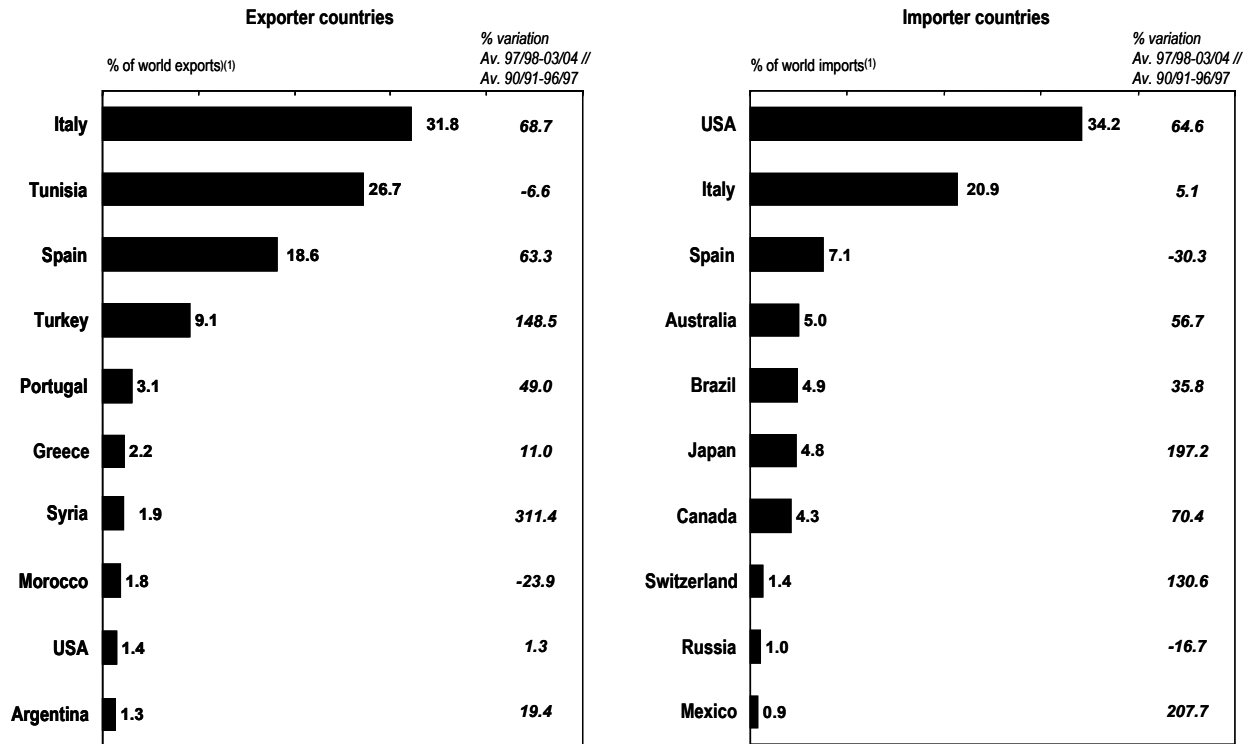
Main participants in the world olive oil market



Source: Own elaboration based on IOOC data.

Figure 1b

Main participants in the world olive oil market



(1) Without intra-EU trade

Source: Own elaboration based on IOOC data.

Figure 2
A suggested demand model for olive oil in traditional and non-traditional markets

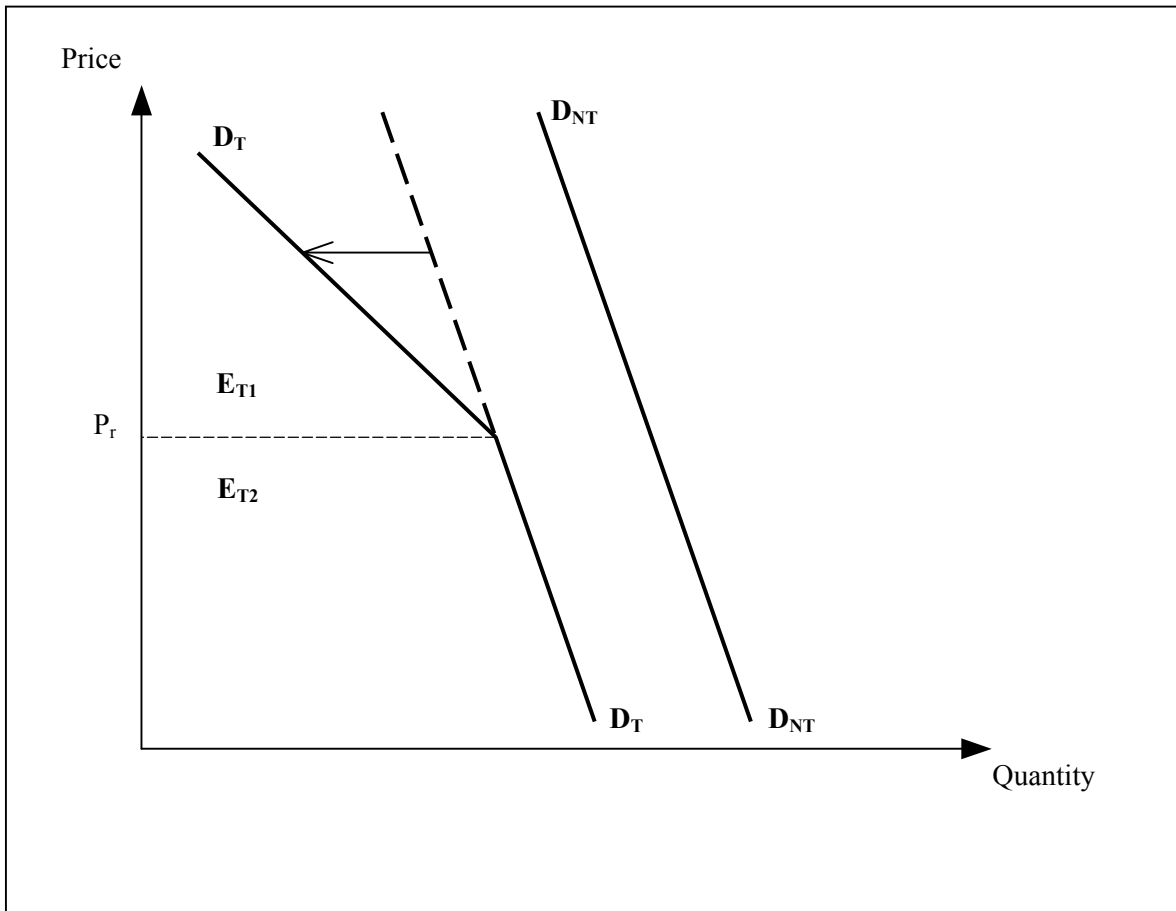


Figure 3

A framework for product development and strategy in new markets

(Adapted from Siskos et al, 2001)

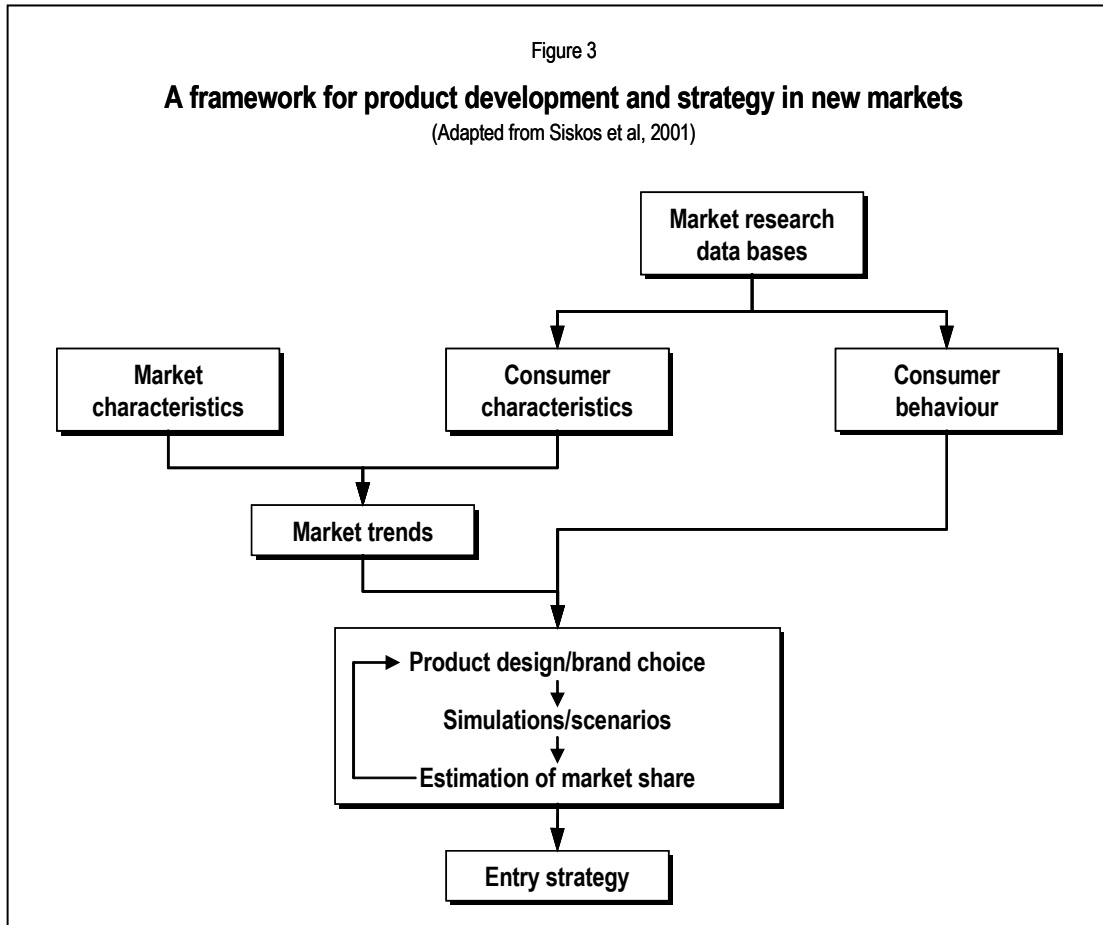


Figure 4
Nine strategies available to firms
(Adapted from Solberg, 1990)

Preparedness for internationalisation	HIGH	To enter new markets	To prepare for globalisation	To strengthen global position
	MODERATE	To consolidate export markets	To expand into international markets	To search for global niches and alliances
	LOW	To stay at home	To develop international niches	To prepare to be purchased
		LOCAL	POTENTIALLY GLOBAL	GLOBAL
		Degree of sector globalisation		