

Prospects for Olive Oil Marketing in Non-Traditional Markets

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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 principal 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.

***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 principaux : 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.*

1. Introduction

Over the past decade, the world's food and agribusiness system has experienced accelerated levels of internationalisation, and the olive oil industry has been no exception. Gradual increase of 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 both in developed and emergent countries, changing food habits toward healthier products, and increasing prestige of the Mediterranean nutrition outside the Mediterranean region, have all encouraged export businesses to enter foreign, non-traditional (non-producer) markets. However, these circumstances while creating new market opportunities, also entail important difficulties brought on by low product awareness in new markets, changing agricultural and trade policies, and increasing food chain horizontal and vertical competition.

The purpose of this paper is to explore these key market issues and to provide an assessment of their impacts from the perspective of the product's marketing on non-traditional (NT) markets. Special emphasis is placed on the challenges the olive oil sector will have to face to augment its market share and competitiveness in these markets. The underlying hypothesis are: H1: The relatively low presence of olive oil in NT markets is primarily the result of a lack of knowledge about the product, and H2: This lack of Knowledge is directly derived from the weak international product marketing. In fact, the international olive oil marketing had traditionally responded more to supply criteria than to demand promotion and new markets capture policies (Mili, 1999).

The analysis reported here draws upon the author's own knowledge about the subject, and recent literature and market information, which has been completed and validated by means of consultations to key industry experts in Spain (export business leaders, representatives of government and public agencies involved into olive oil international marketing). The paper has five sections. After this introduction, section 2 highlights the reasons to boost the international expansion of olive oil, revealing why this will be crucial for the economic welfare of this sector. Section 3 explores the consumption and consumer conditions that could effectively lead to such internationalisation and define expansion opportunities. The cross-section of both issues opens the avenue for inquiring market access conditioning factors, modes of entry, and marketing strategies in new markets (section 4). Finally, some conclusions and implications are drawn in section 5.

2. Rationales underlying the need to enhance olive oil international expansion

A rapid inquiry into the structure of the world market for edible oils and fats reveals the relatively low level of presence of olive oil on markets different to producer markets. Even though it comes from one of the world's most ancient crops, only 2% of total fat consumed in the world today correspond to olive oil (Oil World, 2004). Within vegetable oils, olive oil accounts for barely 3% of world consumption, compared with shares of 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", 2004). The remaining small share involved in international trade also has been mostly exchanged between the producer countries themselves.

Up to the early 1990s the world olive oil market was featured by a structural equilibrium between uses 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 superior to 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) converge in projecting 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 producing countries such as Spain, Greece, Turkey, Morocco and Syria (Figure 1), but also and more recently in non-traditional producing countries such as Argentina, Australia, New Zealand, Chile, Brazil, Mexico, South Africa, USA and China.¹ The last two decades have witnessed huge economic

¹ In the latter group of countries, although production levels are fairly low in comparison with traditional, Mediterranean producing 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 we are in presence of emerging "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 with that experienced by the wine sector. Although it is too early to conclude about 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.

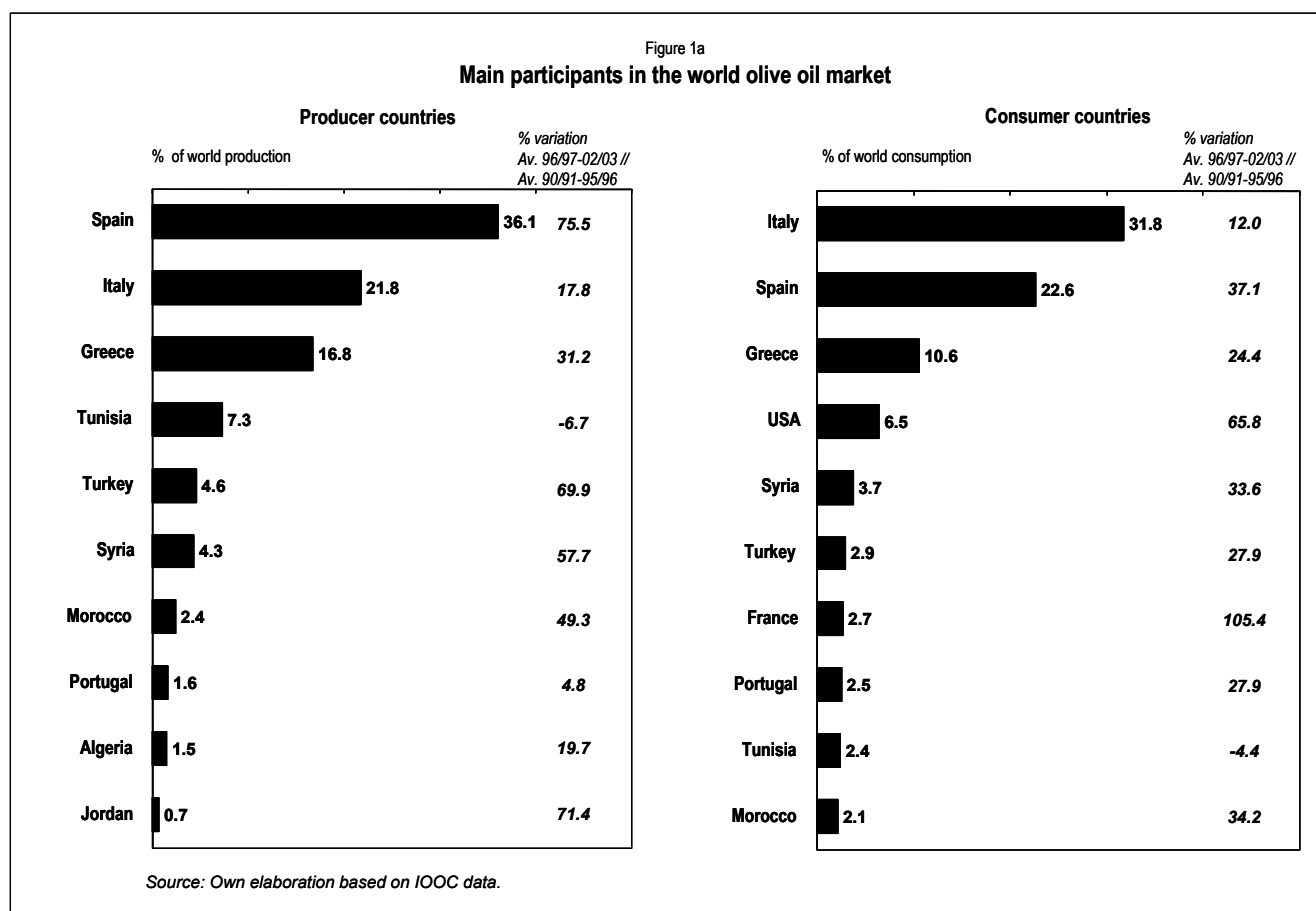
and technical efforts in many olive-growing regions to restructure and modernise existing olive plantations. This has led to significant gains in productivity resulting from a substantial improvement in cultivation and harvesting practices, the use of irrigation (currently 16% of world olive acreage is conducted under irrigated regime and 84% is dry farming), and the elimination of marginal orchards. The result is that, worldwide, the intensive olive farming system represents today 30% of acreage and 50% of total production, the traditional system 50% of acreage and 40% of production, and the marginal olive 20% of acreage and 10% of production.

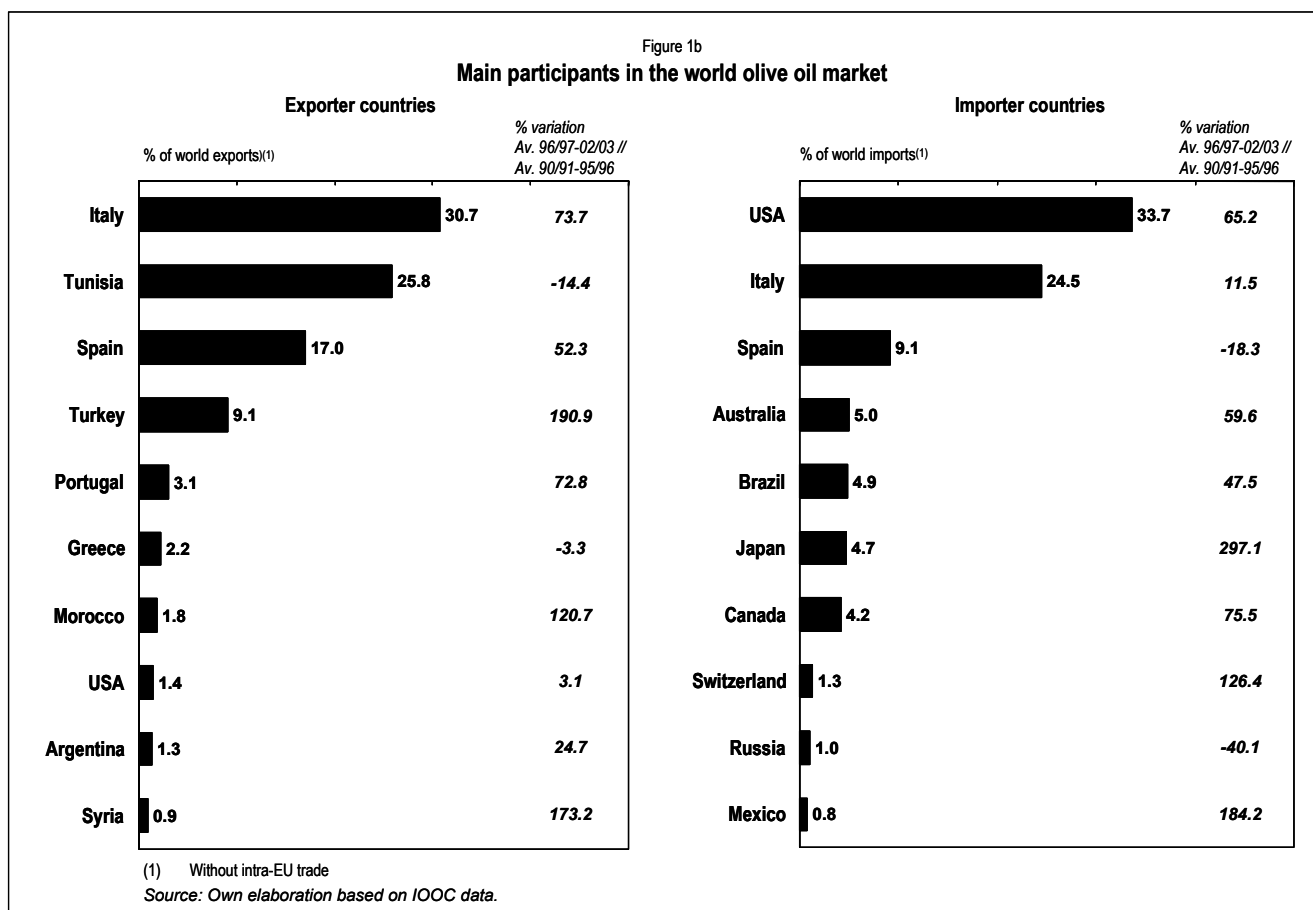
Table 1
Overall figures of the world olive oil market
1990/91– 2002/03 campaigns

	Average/ campaign (1000 t)	Coefficient of variation (%)	Min (1000 t)	Max (1000 t)	% Variation Av. 96/97-02/03// Av. 90/91-95/96	Average annual % growth ⁽²⁾
World production	2201.54	19.06	1453.00	2825.50	39.83	4.68
World consumption	2200.85	15.10	1666.50	2640.50	31.40	3.91
World exports⁽¹⁾	393.58	20.46	256.50	506.00	40.17	3.10
World imports⁽¹⁾	416.35	19.73	288.50	551.00	37.07	3.81

(1) Only extra-EU. (2) Average compound rate.

Source: Own calculations based on IOOC data.





The rise in production also derives from the creation of new orchards that are now coming into commercial production and that will reach full production in the coming years, so encouraging a future upward trend in production. Although complete, reliable per country statistical information is not available for new, worldwide olive acreage, an IOOC aggregate estimation predicts a rise in the 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 of supply is the large amount of Common Agricultural Policy (CAP) aid for production: a rate of 1.32 euros per kilo (40% of unitary producer's gross income, according to Spanish Ministry of Agriculture "MAFF", 2003). The latter has transformed olive cultivation in one of the agricultural speculations that affords the most highest profits.²

In addition, the processes of structural change and technological improvement at the olive oil processing stage have had a positive impact on production. In nearly all producer countries

² It should be pointed out that this productivist orientation of sectoral policy, firmly encouraged by governments, is based on arguments going beyond the 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.

(albeit with different intensities) the oil mill industry has undergone notable concentration and has experienced the introduction of product and process innovations. Examples are the replacement of traditional extraction processes by three and two-phase continuous systems which, besides lowering production costs and raising yields and quality, contribute to reduce the environmental contamination caused by 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 did not vary very significantly neither aggregately (Figure 1) nor individually (an annual per capita average of 12 kilos in Spain, 13 kilos in Italy and 20 kilos in Greece, according to Eurostat), although with certain annual oscillations due to factors related to supply more than to demand.

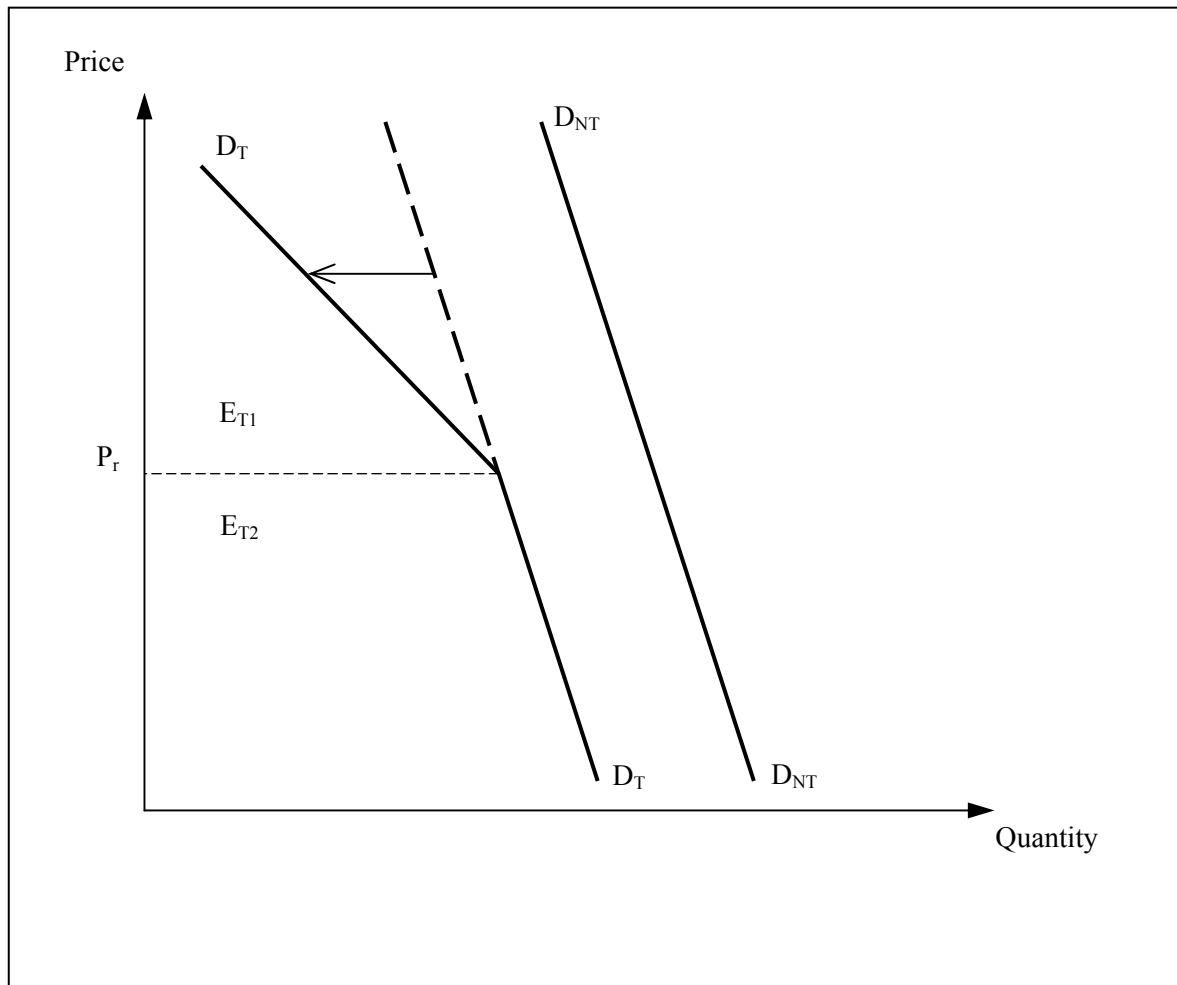
Moreover, market circumstances such as those prevailed during the period of 1993-1996 in the Mediterranean region, showed that demand in the producing countries is not altogether guaranteed, even though there is a favourable deep-rooted tradition of consuming olive oil. The drop in production in various 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 happen. 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 has sharply fallen when price reached levels of 4-5 euros per litre. Admittedly, consumption started to recover when prices returned to levels similar to those prior to the shortage.

This market behaviour indicates that although fairly higher prices can be charged for olive oil compared with other vegetable oils, there is a limit price many consumers are willing to pay.³ This price may be what consumers consider as fair, what they would like to pay or has used to pay, or an average price based on a perception of local market prices. When it is overstepped, they are no longer loyal to the this product and switch partially or totally to substitute oils. Put differently, although the hypothesis that the price elasticity of olive oil demand is quite rigid

³ It is worth noting that this limit is not relatively quite high, partly as a consequence of the fact that producing-countries consumers generally perceive olive oil to be a basic, intrinsically high-quality product for which they are not willing to pay a price premium without justification.

(albeit higher than in the case of the majority of oilseeds : see own and cross-price elasticity estimations for olive oil and main substitute oils, for instance, in Mili and Briz, 1990; Pierani and Rizzi, 1991; Mili, 1996; Laajimi and Albisu, 1997) is widely accepted, this may not occur when prices climb sharply. In this last case, demand is expected to become more elastic and less stable when faced with price fluctuations.

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



Conceptually, it could be hypothesised that in traditional markets there exist reference prices which mark a turning point in the demand curve dividing it into two (or further) segments with different slopes, i.e. elasticities. Such reference prices does not exist or exist very weakly in NT markets since in these markets there is less product familiarity and consumer expertise in olive oil consumption. Figure 2 provides a suggested simple representation of the demand curves for olive oil in traditional (D_T) and NT (D_{NT}) markets, taking into account the presence of 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 that is the focus of conventional demand models. It suggests the consumer's willingness to pay is influenced by the link between actual price and a reference price point, in such a way that as the actual price rises a certain 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 the product's marketing since it provides the opportunity to increase sales if the reference point can be changed (case of traditional markets) or crated at high levels (case of NT markets), e.g. by advertising and promotional actions.

This set of supply and demand factors discussed above, apart from indicating the importance of maintaining or even increasing consumption on the traditional markets which absorb the bulk of production, it makes a more active export policy necessary for the future to expand the product and to diversify exports outside the traditional markets. This is the sole way it will be possible to avoid market imbalances and to capitalise on the growing productive potential of olive farming.

3. Olive oil consumption in NT markets

3.1. Consumption trends

As mentioned earlier, consumption growth on the 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 of acquisitions in these markets since 1990 point to an appreciable, sustained growth in imports, although the situation varies across countries (Table 2). The United States became the largest NT purchaser, with imports increasing from 90,000 tons in 1990/91 campaign to 195,000 tons in 2002/03 campaign (IOOC, 2004), which amounts to an average annual rate of growth in this period of 6.7% (compared to an equivalent rate of 3.8% for world imports). The United States is now the world's fourth largest consumer of olive oil (6.5% of world consumption as average on the mentioned period). In other relevant markets, although in terms of volume imports were lower than those of the United States, the average annual growth were even higher.

These markets also are quite relevant in qualitative terms since they mostly focus on top-quality, high priced olive oils. They present a considerable consuming potential which should gradually be turned into real demand through effective marketing actions. An indicator of qualitative importance is the penetration rate of the product into the 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 has 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 period olive oil has gone 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 is reached in Germany in the same year (Spanish Office for Economic and Commercial Affairs in Düsseldorf, 2003).

Table 2
Principal non-traditional (non producer) purchasers of olive oil.
1990/91– 2002/03 campaigns

Country	Average/ campaign (1000 t)	Coefficient of variation (%)	Min (1000 t)	Max (1000 t)	% Variation Av. 96/97-02/03// Av. 90/91-95/96	Average annual % growth ⁽²⁾
USA	140.50	28.71	87.50	200.00	65.18	6.66
Germany⁽¹⁾	22.58	49.95	9.80	38.90	139.84	11.71
U. Kingdom⁽¹⁾	22.40	46.29	6.80	40.00	137.18	14.35
Australia	20.69	29.37	12.50	31.00	59.57	7.17
Brazil	20.62	25.84	11.00	29.00	47.50	3.33
Japan	19.50	62.24	4.00	34.00	297.14	19.07
Canada	17.35	31.72	10.00	25.00	75.48	7.57
Switzerland	5.46	46.30	3.00	10.00	126.37	10.55
Netherlands⁽¹⁾	4.26	61.75	1.00	9.00	155.91	20.42
Mexico	3.15	66.44	1.00	8.00	184.21	14.97

(1) Includes intra + extra EU imports. (2) Average compound rate.

Source: Own calculations based on IOOC, Eurostat and National Accounts data.

The growing acceptance the olive oil meets on the new markets is due to its nutritional, health properties, as well as because it is a basic ingredient of the traditional Mediterranean nutrition, which has been proven as a model for balanced and healthy nutrition (Wahrburg *et al.*, 2002), and which is increasingly appreciated outside the Mediterranean region. Medical research into the dietary properties of this product and the dissemination of the ensuing findings helped decisively to form an excellent image of this product. There are significant opportunities of expanding demand in many countries that could be interested in the product. Illustrative examples are the emerging markets of South-east Asia, China and some countries of Latin America and Central and Eastern Europe, where there is growing solvent demand.

Moreover, market indicators show that consumption can be increased only if a quality-driven and information policy is enhanced more than a strictly pricing policy. The relatively high thresholds of production costs makes olive oil competitiveness relaying more on quality than

on price. A low-cost scenario to make it more competitive 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 producing region and regime).

This implies that any strategy to expand demand should revolve around a policy in which quality is the chief competitive advantage, though without undervaluing efforts to push prices downwards by lowering harvesting, processing and marketing costs. We are not referring only to the organoleptic quality, but also to quality at the processing (innovation in extraction and packing) and the distribution (logistics) stages. 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. Tools for defining the grades of olive oil include mainly 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 basically belong to developed, high income industrialised countries. These countries also are where the bulk of the future growth of olive oil demand is expected to take place. Behind these developments underlie fundamental changes in consumers attitudes and preferences. There is a widespread agreement amongst 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 the population of many developing societies (higher income, 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 the total expenditures of individuals (Engel's Law) and, within food expenditure, of a significant variation in its structure per product category.⁴

⁴ As disposable income increases consumers tend to switch their demand from staples to more expensive products, whose income-elasticity is higher. This explains the fact that consumer demand in the developed world is higher for healthy, natural products while it is lower for the remaining products. Because olive oil is in the first group, countries that have wide segments of consumers whose income levels are sufficiently high constitute important targets to undertake or to intensify the campaigns to inform consumers about olive oil and to boost its introduction and presence.

There also have been paramount 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, and relatively less so by strictly economic variables, i.e. as income and prices. For these consumers, the 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 calories 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 producing countries, where the majority of consumers are accustomed to using olive oil in a large number of recipes (so much so that it is normally the oil that is consumed the most), in the non-producing countries most consumers are not in the habit of eating olive oil, although they may buy it after coming across it when on holiday in the 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, making consumption turn to new tastes from abroad, with the ensuing impact on the distributors' shelves and marketing strategies (Siani, 1998).

Another salient development is the increase of food consumption away from 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 meals eaten on or near work premises. Many HRC establishments use olive oils for frying (often lower-range oils) or for use 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).

Analytically, it should be pointed out that these deep 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 their analysis in order to search for coherent models with sufficient explanatory and predictive power. Present indications are that consumer behaviour can only be appropriately explained if the set of 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).

In this sense, 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 the prospect work on consumer behaviour. The model draws a distinction between the consumer decision-making process and the determinants of that process. The decision-making process is structured upon 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).

The use of this sort of interdisciplinary models would be very advisable when exploring the demand for products with characteristics like those of olive oil. They integrate the conventional (neoclassical) approach to consumption analysis with the tenets of the behavioural sciences (anthropology, sociology, psychology), which deal with the decision-making processes of individuals from a more multidimensional and qualitative viewpoint, and allow to establish premises comparing the behaviour of people as individuals with their behaviour as consumers. These are considerations that should be borne very much 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, the olive oil marketing on new markets is 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 homogenisation of world demand.

Global marketing policies were the strategic basis of the recent development of many products and companies. However, the movements towards globalisation are progressing more slowly in food products than in the rest of goods and services, as clearly emerges from the 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. They should also 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 the distinctive features of the product and of the destination market are properly taken into consideration; i.e. 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 years developments in international trade and agricultural policies are having more concrete impact on the sector. Specifically, the international agricultural trade liberalisation emerging 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 lineally. For this sector, the repercussions 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 due to the CAP.

Thus, on the export side, from 1995-96 to 2000-01 marketing years EU subsidies for olive oil exports (conceded until 1994-95 marketing year in the amount of the difference between Community and world prices) have been modulated in accordance with the limitations agreed in the WTOAA, which stipulated that in this period the EU must 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 results in a reduction for the entire period of 31,000 tons in quantity exported with subsidy and 30.9 million euros in corresponding expense. 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 amount, fixed by the Commission, decreases each year to a total reduction of 20% over the six-year-period covering 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 overstep 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 in force in 2006 introduces for the first time fundamental changes in the sector's formal protection system. At the heart of the new scheme is the moving away from product to producer support by means of the implementation of a decoupled single farm payment, and the prevalence of sustainability (quality, safety, environmental protection) criteria over productivity achievements (European Commission, 2003). Roughly, olive growers will receive a minimum of 60% of the average current production-linked subsidy during the reference period 2000-02 as a single decoupled payment.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 be maintained constant 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 classical domestic price-production subsidies/import duties-export refunds scheme, amended in 1998 by the instauration of a system of national quotas for the distribution of subsidies, and a system of control of the production through Geographical Information Systems. The levels of support for olive oil through this CAP conventional scheme (aid is awarded according to the amount produced) are significantly superior to those awarded to 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 these transfers amount to 50% of producer's gross receipts (Garcia Alvarez-Coque, 2001), placing this product at the levels of support awarded to the EU continental products, i.e. maximum levels (OECD, 2003).

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.

Moreover, this subsidy is mostly classified as *Amber box support*, and therefore subject to reduction commitments due to its nature as highly-distortional of trade. According to the WTO (2004), amber box subsidies for EU olive oil, quantified by the Aggregate Measurement of Support and expressed as a percentage of production value, has moved from 40% in 1986-88 to 26% in 2000-01. The impact on world trade still is quite significant, taking into account the EU large share of worldwide olive oil production (77%) and trade (50%, without including intra-EU trade).

The fact that levels of support for EU olive oil are high and distributed primarily through instruments linked to production incentives (prices and aids per quantity produced), placed that support in the front line regarding its almost certain reduction in prospective multilateral (WTO) commitments on agricultural trade. In effect, since the launching of the Doha trade negotiating round in 2001, members 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).

The design of 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 towards 2010 (Barcelona process). The overall picture is that the sector is at the beginning of a new era of regulatory change tending toward intensification of trade liberalisation and reduction of subsidies worldwide, which will favour those producer countries and firms who are most competitive. In the EU the sector faces a new regulation that likely will alter profitability expectations regarding olive growing in many regions.

4.2. Market access and international marketing-mix

One fundamental question facing any olive oil exporting company is what marketing strategies to adopt to enter or to expand into foreign markets and to obtain sustained competitive advantages, taking into account a context of dramatic changes in consumption patterns and in the international scenario parameters. When tackling foreign markets, the company is confronted with a series of internal barriers (financial strength, experience in international markets), external barriers (tariff and non-tariff barriers, exchange rates, interest rates) and

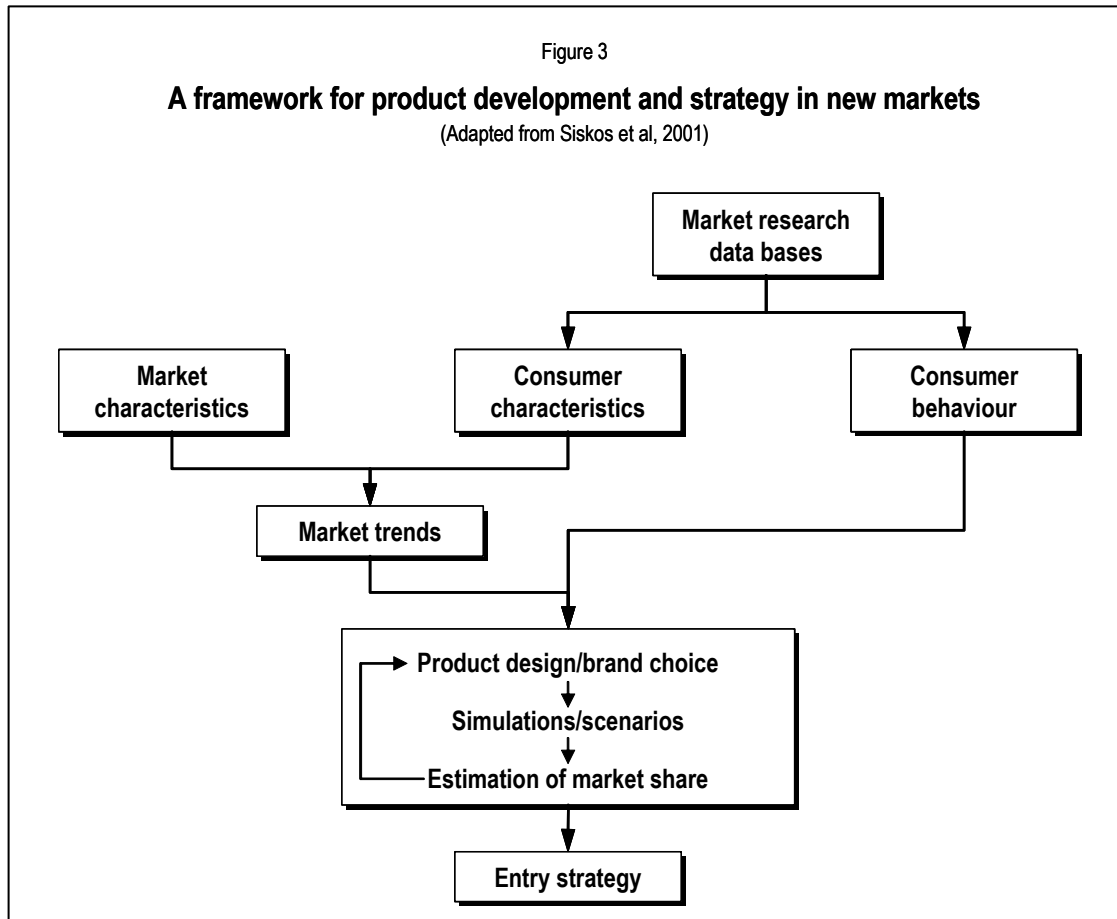
operational barriers (aspects related to physical distribution and the identification of potential buyers, transaction modes). Of all these barriers, the most crucial for olive oil probably are, on the one hand, the product adaptation to consumer tastes and to trade and safety specifications at destination, and, on the other hand, access to distribution chains or the capacity to possess own distribution networks.

Regarding the first aspect, recent experience demonstrated that effective marketing decisions should be based on comprehensive consumer-driven studies carried out by means of analytical models like that shown in Figure 3. With respect to distribution, olive oil is sold on the new markets through three main kinds of outlets: large-scale distribution, HCR and outlets such as delicatessens (gourmets). Each channel has its own distinctive characteristics. The gourmet and HCR 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, and sales in HCR face the difficulties implicit to establishing Mediterranean-style restaurants in countries far removed from this tradition. Therefore, because of a “door key” to the marketplace position due to its direct contact with consumers, but also because of the very characteristics of olive oil as a product that adapts well to numerous aspects of modern commercial logistics (non-perishable, easy to store and suited to different types of container), the most important channel in nearly all developed and emergent markets is the various types of large-scale distribution chains.⁶

It is well known that in all developed regions of the world, food retailers are becoming more and more concentrated, leading to 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, so creating growth virtuous circles. In this context, the restructuring of logistical processes is becoming particularly relevant in business strategies aiming to reduce costs and improve competitiveness. Large distributors are continuously imposing logistical demands. This requires that the information systems of distributors and suppliers be compatible, and that their logistical and organisational patterns be

⁶ For instance, in Spain, according to MAFF estimates (2004), super and hypermarkets accounted for 88% of olive oil sales for household consumption in 2002; in Germany, hard-discounts alone currently capture 60% of olive oil sales (Spanish Office for Economic and Commercial Affairs in Düsseldorf, 2003); in Japan, supermarkets accounted for 69% of olive oil sales for household consumption in 1999 (Spanish Office for Economic and Commercial Affairs in Tokyo, 2004).

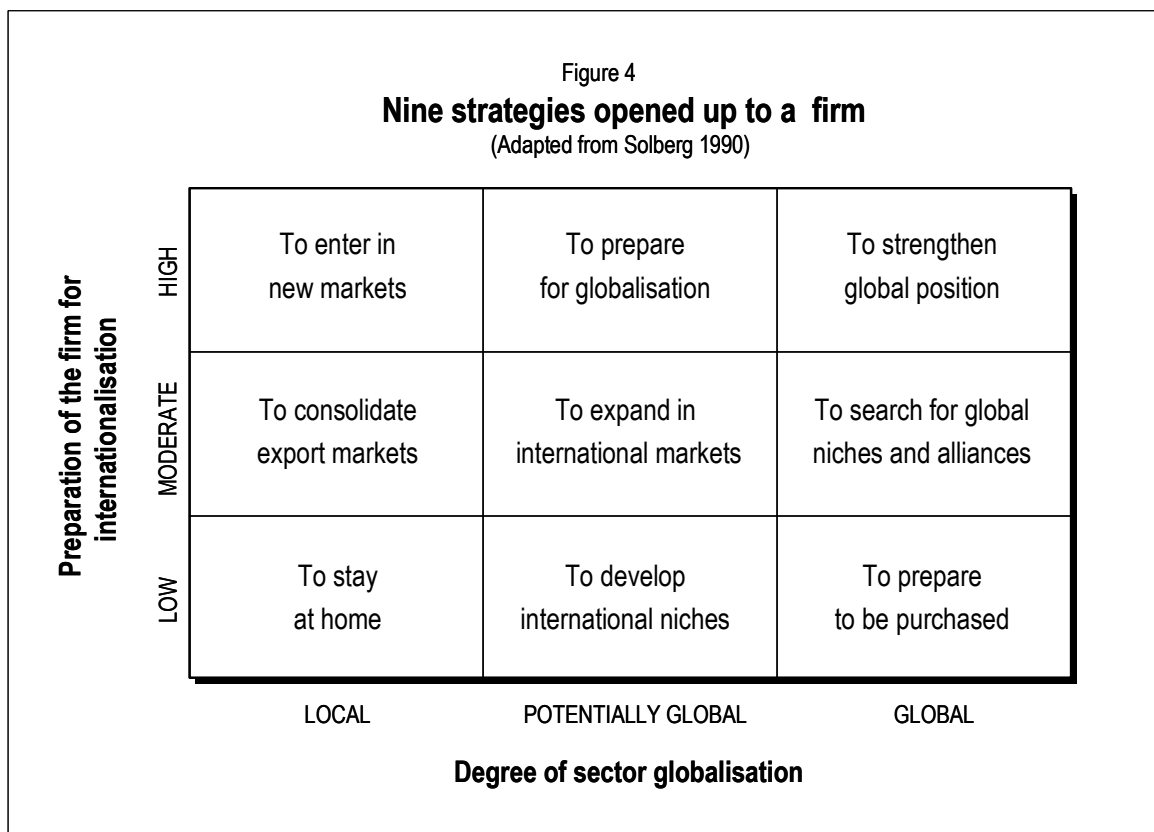
tightly coordinated. However, as for the most of food products producers, the systematic diffusion of such innovations among olive oil suppliers continues to be generally low. Few olive oil companies possess the financial, technological and organisational capabilities necessary to develop relations with large distribution operators on the basis of modern logistics, especially when 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 in two generic variables: the degree of preparation of the company for internationalisation and the degree of the globalisation of the market where it operates. The cross-section of both variables provides the matrix shown in Figure 4. Taking this scheme as a reference, the possible strategic options for the olive oil basically would be those stated in the two first columns of Figure 4. The options corresponding to the last column would be less plausible since the olive oil sector still has not developed truly global segments.

The next step would be selecting 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 competitive advantage, whereas inappropriate modal choices are difficult to change when long-term contracts or 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 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 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 international marketing mix for the coming years ranked according to the degree of their relative importance. Obviously, the 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. It is worth emphasising that the importance assigned to pricing aspects was relatively lower than that allocated to those related to the other three variables. This means that, in line with what has been noted in section 3, the price albeit is very important, it will rarely be the chief variable for competing in emerging markets.⁷

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. Sample size: 42 experts.

Source : Delphi survey, Mili and Rodríguez Zúñiga (2001).

⁷ 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 resultant unfavourable effect on price ratio for olive oil has not perceptively affected its positioning on most of the emerging markets. The reason likely is that olive oil is a product that competes on these markets more by its non-price (nutritional quality, health and gastronomic properties) than price attributes.

Having entered into the market, the export firm will need to consolidate its position and gain a competitive edge to be able to survive and prosper. To do so, the company 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 earned through proactive 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 profits margins.⁸ The world's leading olive oil brand by notoriety and market value today is Unilever's Bertolli brand. The high profile of Bertolli is attained by using simultaneously 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 used as a tool to differentiate brands and to segment the market, advertising helps to raise profit margins, so creating good product image and loyalty. It thus tries to subtract part of consumer surplus by offering more expensive products in exchange for guaranteed high quality. One point that should be underscored is that the volume of advertising investment needed to obtain positive marginal yields tends to have relatively high thresholds which, generally speaking, only firms of some size can have. In fact, advertising-based brand differentiation only reaches significant levels in the case of the large olive oil

⁸ 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).

companies (see data on advertising investment by main olive oil companies in Antelo, 2002; 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 to the advantage of 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. In this context, 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 preceding 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 featured by a structural equilibrium between uses and supplies. However, since the mid 1990s developments in global supply and demand have resulted in a trend towards a world production superior to global demand, that is likely to continue in the coming years. This makes a more strengthened export policy necessary to expand the product and to diversify exports outside the traditional markets, and hence to avoid potential market imbalances.

The ongoing processes of globalisation and trade liberalisation likely will contribute to a gradual increase in the product's international exchange, as well as growing diversification of both consumption and production markets. The foreseeable intensification of these processes will favour more competitive, less subsidy-dependent exporters, in addition to promoting greater market and price transparency. In such a scenario, the chief objective of market operators in the sector should be to add more value to the product in potentially expandable markets. This requires constant improvements of quality (at product, process and logistical extents) all the way 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 those 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, it would appear necessary to intensify information campaigns targeted at existing and potential consumers in order to supply them with clarifying information on the characteristics, designations and uses of the different olive oils. Product certification is a crucial aspect for promotion processes. A large number of distributors require suppliers to have oil quality and the oil production process certified by an accredited certification body. The promotional advantage lies in displaying quality certifications (usually generic cues) enabling the companies concerned to benefit from joint promotional activities at the international market.

Various NT markets have seen growing interest from the distribution companies in 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 stage in the commercial chain that first receives the signals coming from consumers and transmits them to suppliers and producers. Food sales has become more and more concentrated in the large distribution channels in developed, target countries. In the olive oil sector, this concentration has led to increased negotiating power of these chains, which impose to suppliers severe conditions in terms of price discounts, delayed 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 imbalances, the export business is obliged to raise its efficiency and flexibility. On some occasions companies have to make horizontal partnerships or to merge to become bigger in size and so take advantage of economies of scale and scope (as for example the case for the ongoing concentration process in 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, so 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 middling or high prices in 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 exporting 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 to provide personalisation and customisation. Some producer-distributor partnerships are making an entrance for the sale of quality products through 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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