Future trends in Asian fruit marketing for pomefruit

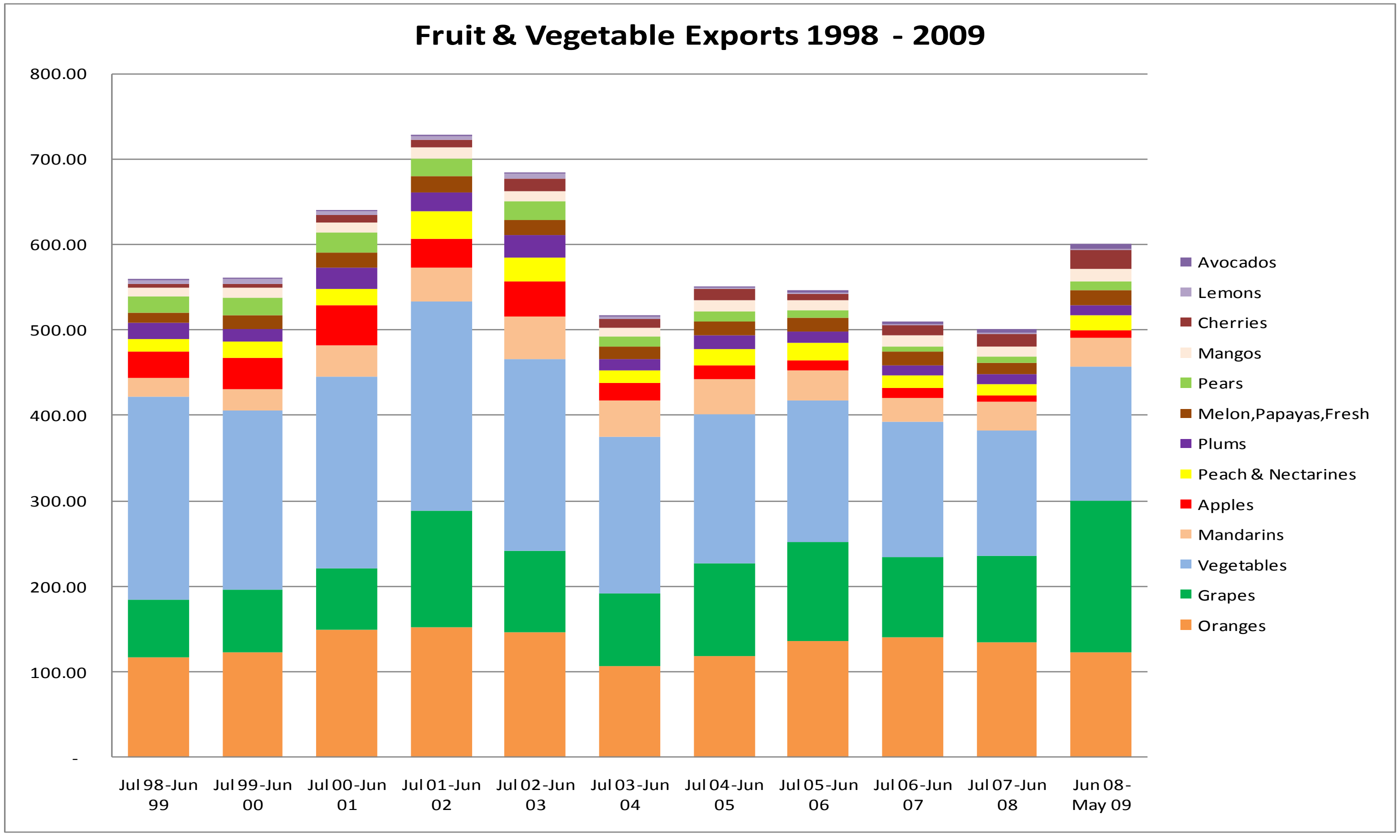
John Hey - Asiafruit Magazine

National Pomefruit Conference

6 August 2009

Source: HAL

Australian fruit and vegetable exports 1998-2009



Competition

Dollar and domestic economy

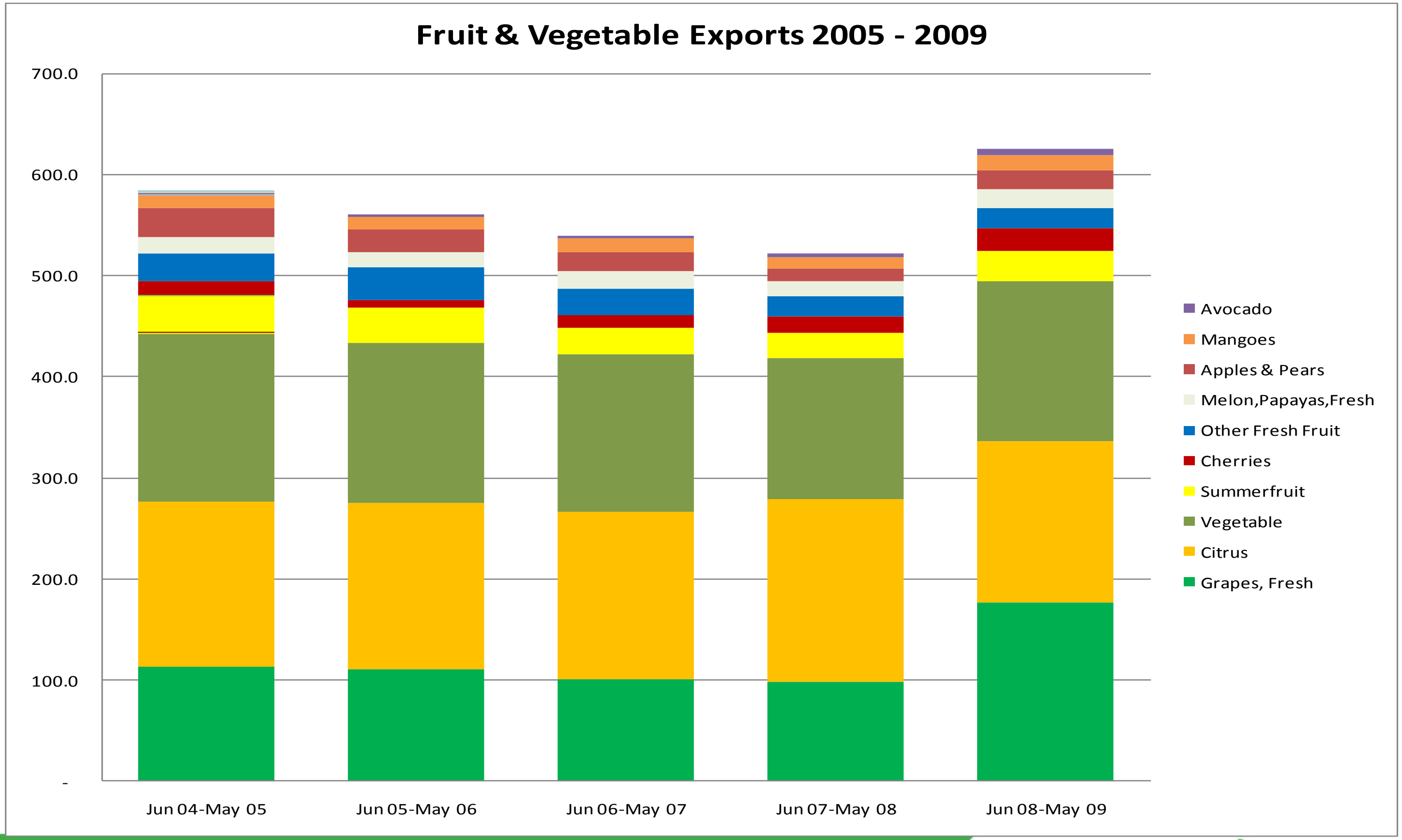
Labour/production costs

Market access

Drought: is there any future?

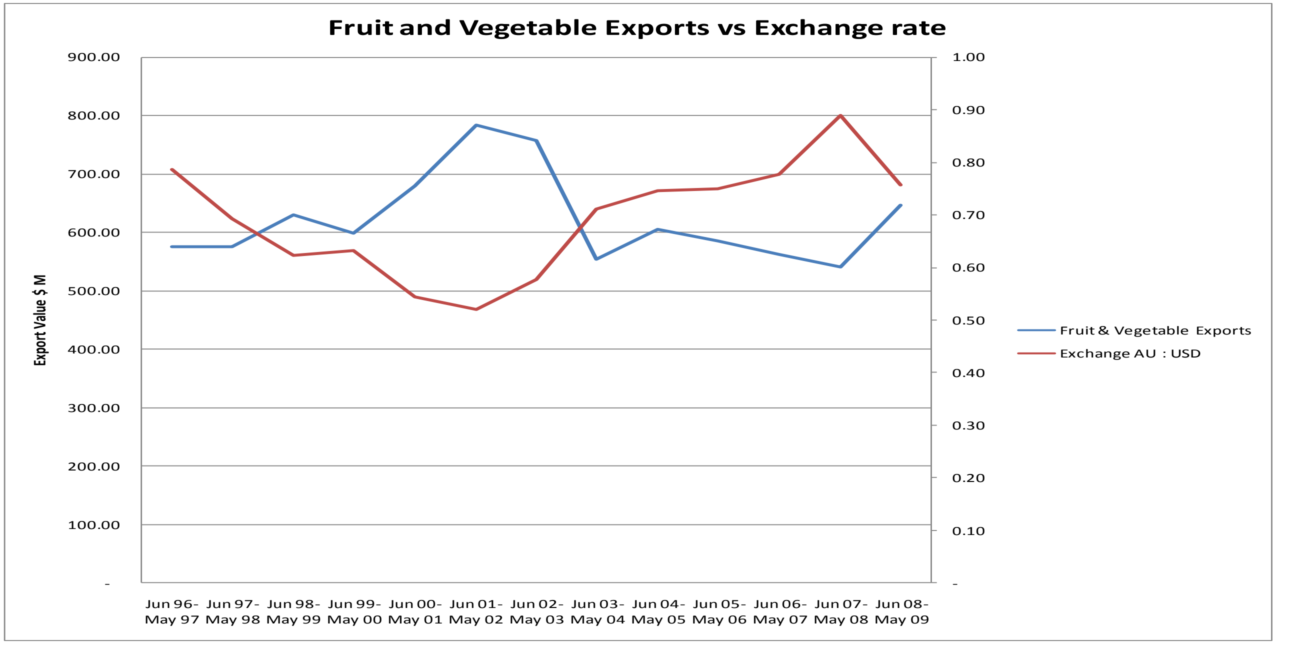
Source: Horticulture Australia Ltd

2008/09: some recovery!

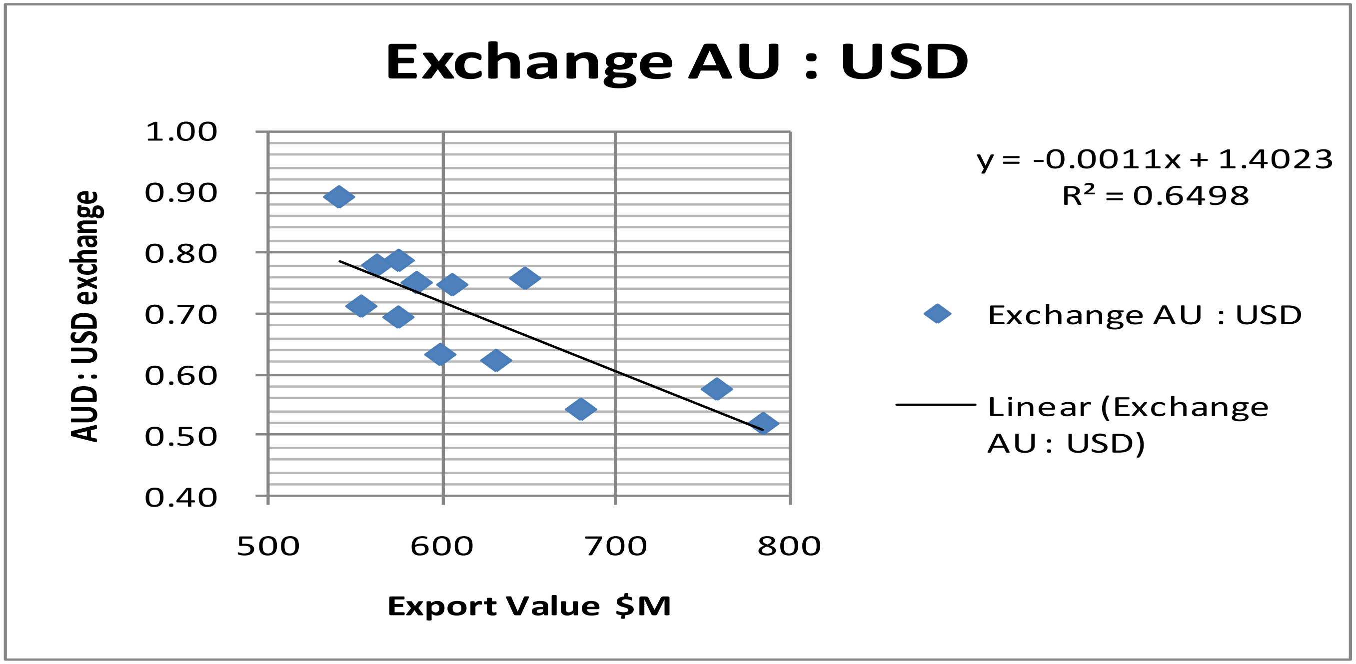


Source: HAL

Dollar the overriding factor in export performance

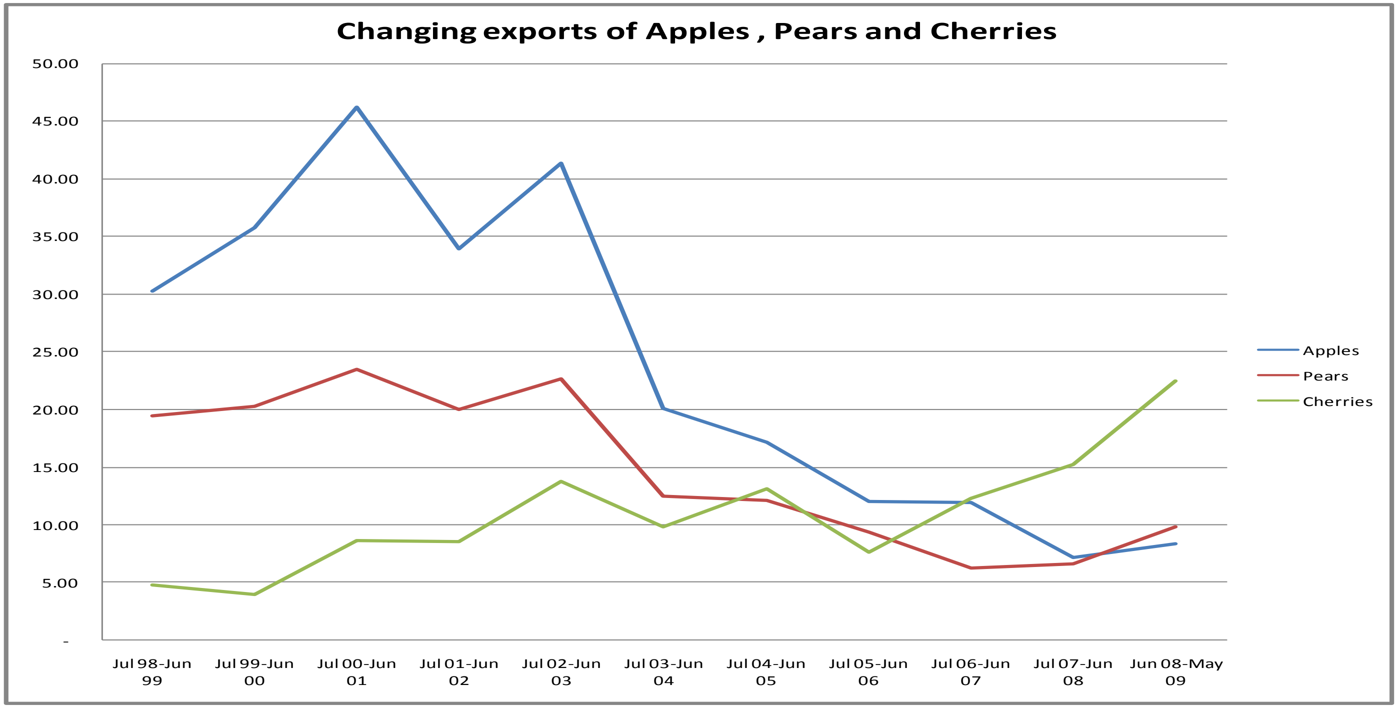


Regression graph shows a 64% correlation between exchange rate and export value



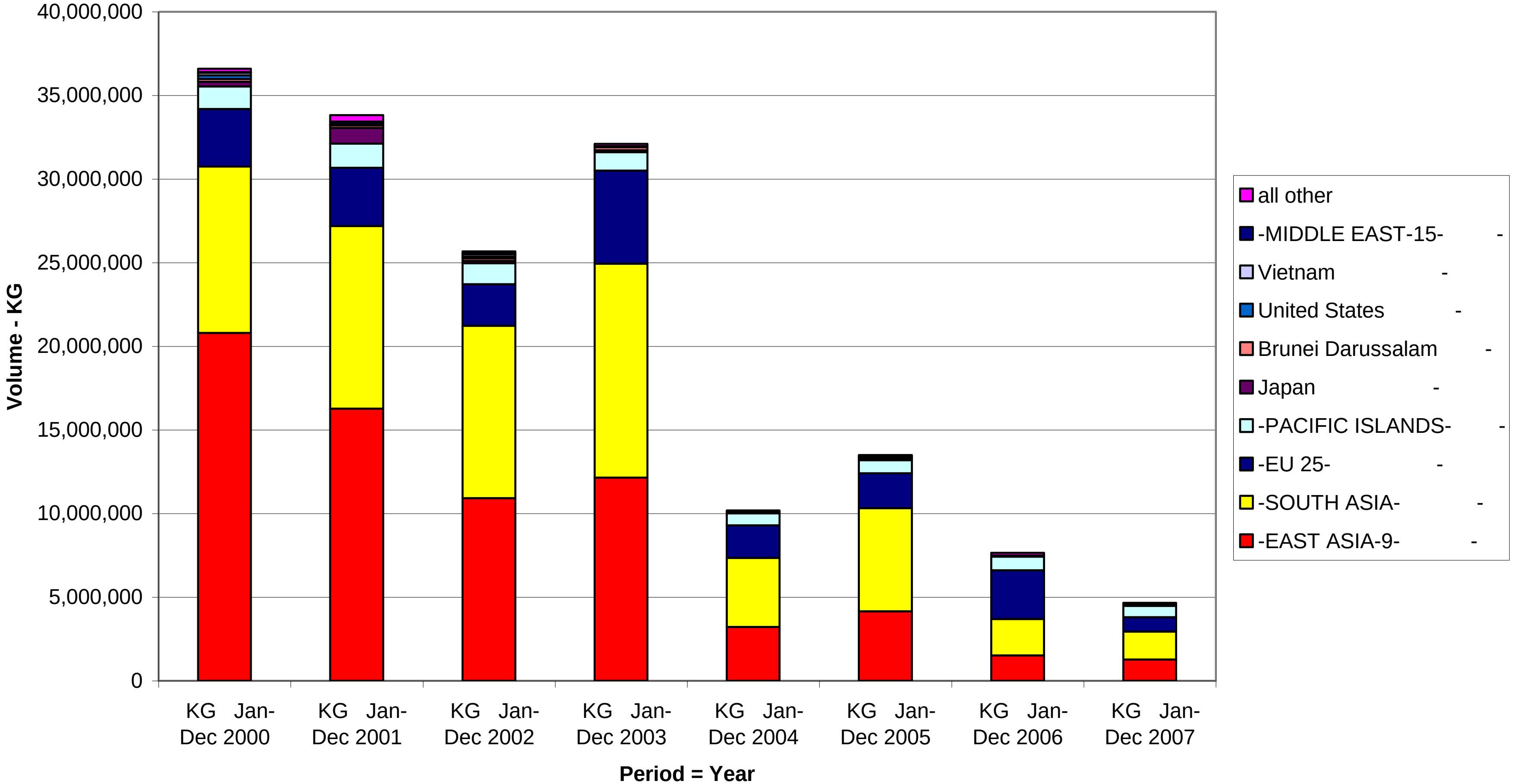
Source: HAL

Apples, pears and cherries over past 10 years – diverging paths…



Source: HAL

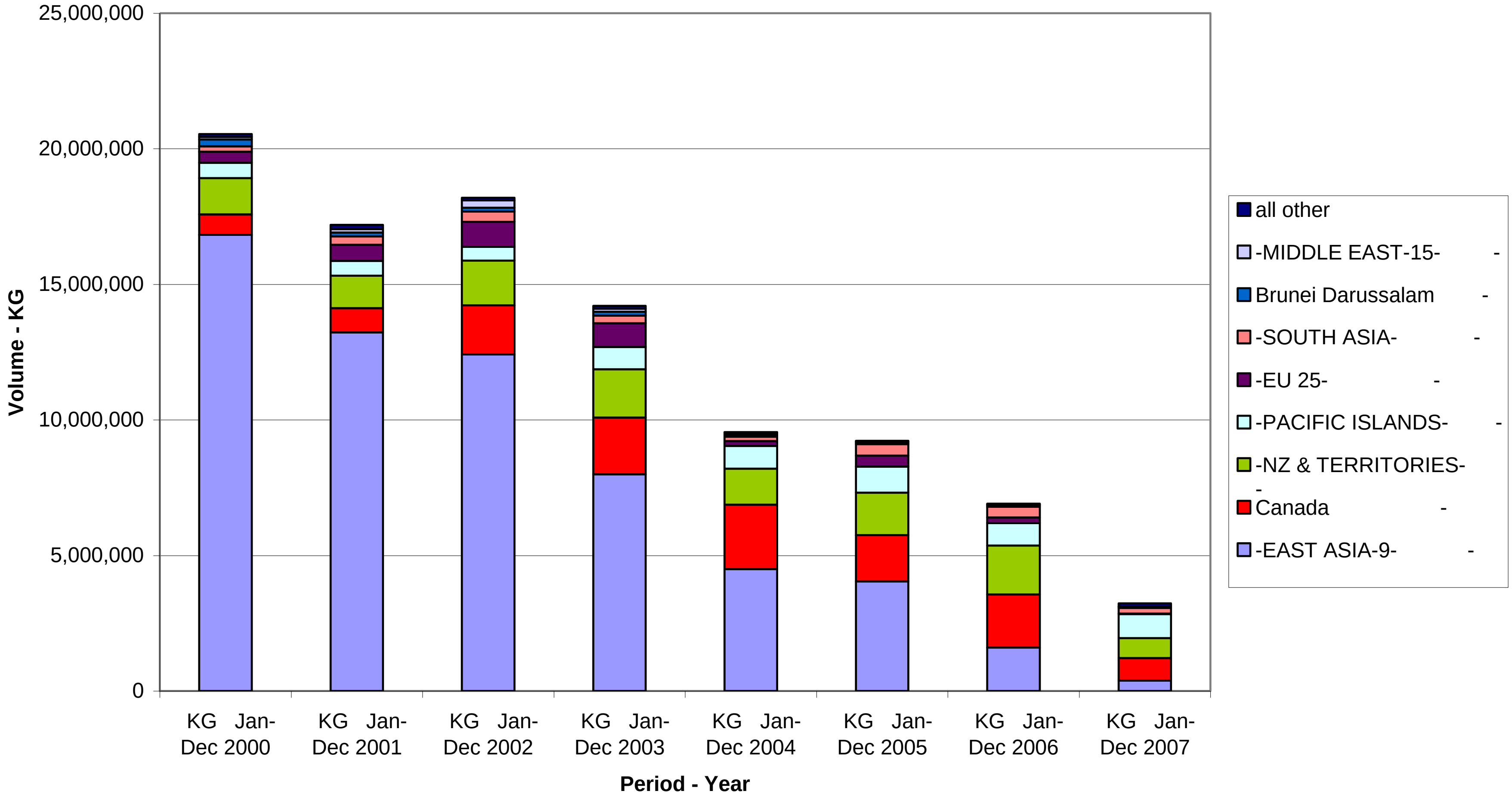
Apples export trend by destination



source; ABS data, HAL analysis

Source: HAL

Pear export trends by destination



source : ABS data, hAL analysis

Pomefruit exports: **despondency** and **resignation**

"People think a fall in our dollar will fix the export situation but we face much deeper, more serious problems than the exchange rate."

"The current export situation is hopeless!"

"We're not competitive even with other higher cost producers in the international marketplace like New Zealand."

Asian market drivers: **China**

- 3m tonnes to **30m tonnes** in 30 years
- Consistent quality improvements
- **World's largest exporter** - 800,000 tonnes
- Changed face of South East Asian markets
- **Thailand** - now 70pc+ of US$76m apple market (US only 15 per cent)
- **Indonesia** - imported 145,301 tonnes of apples in 2007 with 75pc+ from China

Asian market drivers:
SH & USA competition

- **Chile** - dominant in Taiwan, strong in HK/China, gains in India
- **NZ** - stepped up presence in Asia and offering premium varieties
- **South Africa** - major supplier to South East Asia with smaller sizes
- **Brazil** - now emerging with smaller fruit
- Stored **Washington** fruit a major factor

But…China has its challenges with **dependence on Fuji**

- **Fuji** – some 80-90 per cent of exports
- Trying to diversify, but..
  difficulties with climate, logistics etc.
- Lot of plantings still to enter production, but..
  issues with water and sustainability for future expansion

China has its challenges… **feeding its own consumers**

- Domestic market more attractive
- 200m more consumers over next 10 years
- Export less attractive or economically viable
- Will China be importing more apples in future?

China has its challenges: **cannabilising own markets**

- Enormous variation in standards bugbear for international buyers
- Low prices been the key to China's incursion into export markets
- Created perception that Chinese fruit is cheap by definition
- High-quality suppliers frustrated

China has its challenges…

conveying hidden packing and quality factors

“Chinese exporters can pack the same carton of apples for anywhere between US$8 and US$14 FOB and yet the person packing the US$8 carton of apples makes more money than the one packing the US$14 carton.”

(Steven Leung: Alfa Fruit Packers, China)

China has its challenges…

conveying hidden packing and quality factors

- First layer usually packed beautifully but **look under the lid** at the finer details!!
- **Grading**: for colour percentage and defects
- **Storage**: from trench storage to old-style storage systems with fluctuating temperatures to a few modern CA facilities with Smartfresh = big difference on pressures
- **Packaging materials**: carton and protective socks
- **Labelling**: paper instead of plastic?
- **Packing**: roadside or in packhouse?

And China is creating opportunities…

- Kafi Kurnia, Washington Apple Commission, Indonesia

"We have to thank China - it's educating the market on quality difference; people have begun eating more cheap fruit - and now people are prepared to pay US$40 per carton for Washington apples because they recognise the quality difference."

Is it all about the dollar?

China is creating opportunities

- For **new / non-Fuji varieties**
- For **high-quality, high-priced imports**
- Some importers pulling out of Chinese apple business to focus on other global suppliers
- Temperate fruits, like apples, a luxury in tropical South East Asian markets
- Created a **larger consumer base** for apples

US is finding opportunities **beyond Red Delicious**

- Red Delicious still the iconic Washington variety in Asia but other varieties being added
- Capitalising on changing consumer demands
- **Granny Smith** (popular in China/weight loss perceptions in Thailand)
- **Gala** and **Fuji**
- **Honeycrisp** and **club varieties** (Cameo)

China is creating opportunities …for **organic apples**

- Melamine episode and food scares
- Heightened consumer concerns
- Fledgling but steadily growing demand for organic alternative
- Washington well placed to capitalise
- HK, Taiwan, Thailand, Singapore

France: new varieties

- Gala and Granny still the mainstays, but now pushing varieties like:
- Ariane
- Juliet (organic)

New Zealand: new varieties

- Jazz
- Envy - good for Asia
- Kiku - high-colour Fuji
- Tentation (Delblush)
- Eve
- Galaxy

Australia: where the hell are you?

- What about Pink Lady?
- Tart, but tasty and can be sweet
- Consumer demands shifting
- Needs to be well planned
- Otherwise category death!

Pears: similar story to apples

- Tide of Chinese pears into South East Asia to achieve near monopoly
- But, limited demand beyond SE Asia
- Take shelter in domestic market
- Western pear markets dominated by low-priced South African/South American product

Pears: challenge of changing Asian consumer perceptions

- China has defined what a pear is: hard, round and crisp
- Western pears - need to ripen for optimum eating experience, which is opposite: soft, oval and juicy
- Market development work needed
- High-end opportunities

Retail: the promotional platform

- The place to capture the aspirational consumer
- Willing to take new varieties
- But, need scale to provide consistent product

Australia:
imports / exports link

- Retreat into domestic market
- Lags behind on efficiency, productivity etc
- Good internal market with high prices
- **Choice**: **lower production / higher prices**
- Now this bubble under threat of bursting
- **Is this choice sustainable in the long-term?**
- Future Orchards start of a long-term bid to regain competitiveness

Short-term…focus on high-value niches beyond the reach of competitors

- Prioritise **difficult markets to access like Japan** and Korea
- Phytosanitary barriers in these markets but Tasmania well positioned to overcome
- Grow varieties or product for specific niches
- **Hang in there** on existing markets so can reap benefits longer term

Tasmanian apples to Japan

- Australian Fair
- Aeon and Max Valu
- Aeon interest in Tasmania sourcing
- Changing apple consumption habits
- Targeting better access

Gradual shifts in consumer habits: **India**

- Red Del still king - bulk of Indian crop
- Price is key (high duty)
- Rising incomes/ awareness to spur uptake of other varieties
- Royal Gala, NZ Rose/ Beauty, Granny Smith catching on slowly

India: apple imports

- Apples: 60pc of total fresh fruit imports
- Fruit imports: 10,000 tonnes in 2000/01 to almost 80,000 tonnes in 2007/08
- Apple suppliers - US and China around 24k tonnes each in 2007/08
- Chile become key SH supplier, followed by NZ and Australia
- Favours big export countries due to consistent quality, competitive pricing

Lot more consumption growth to come from **India**

- **Indian corporates invest in CA facilities in apple growing areas**
- More competition for imports now, but
- Longer-term to extend reach of apples and grow consumption levels
- Apple consumption: only 1.5kg per head
- Apple imports 3pc of market currently!
- Hang in there…

The longer term

- Efficiency & productivity
- Invest now!
- Future Orchards / PIPS
- Innovation and latest technologies - look at Italy!
- Prevar and premium varieties
- Success of International Pink Lady alliance

The future:
export must be part of it

- But not as we knew it….
- **Premium varieties** for **high-end niche markets**
- Be **competitive** and be **consistent**
- Not sporadic efforts but **dedicated approach**
- Leverage young marketing talent
- **All about commitment!**

THANK YOU FOR LISTENING!

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