Agricultural firm export strategies in Fiji

Michael J. Luzius
American Intercontinental University

Fiji, like many small economies, is dependent on export earnings to pay for its imports of goods that would otherwise be unavailable. There is some concern about declines in export earnings due to an expected decline in revenue from sugar and other exports. As farmers, entrepreneurs and policymakers search for alternatives, they are faced with some stark realities in the global competitive environment.

Other papers have focused on trade agreements and their effects on the terms of trade that Fiji’s industries experience. These are, of course, important determinants of the success of Fiji’s exporting firms. However there are also strategic steps that firms in small developing countries may take to ensure their survival in global markets. This paper discusses the export strategies of two agricultural firms located in Fiji: Spices of Fiji and Nature’s Way Cooperative.

Commodity agriculture and the global competitive environment

Commodity agriculture has a few characteristics that make it unsuitable for small competitors: large volumes are traded, products are uniform and undifferentiated, transactions are often anonymous, efficiencies are the result of production or processing and there are asymmetries in information. In addition, commodity markets are characterised by increased mechanisation, increased farm size and the concentration of market power from the broker/wholesale level upward (Kraenzel 2001). Examples of such commodities produced in tropical countries include bananas, sugar cane, coffee and tea.

More importantly, prices are known to fluctuate widely, with a long-term downward trend often driving prices below farmers’ production costs (Kraenzel 2001; Riddle 2005). The Food and Agriculture Organization of the United Nations estimates that in the second half of the 1990s, prices of several commodities exported by developing economies fell to their lowest levels since the Depression (Riddle 2005).

World commodity markets are interdependent and sensitive to a variety of conditions. Its well known that large-scale entry into a competitive market will drive prices down. This is illustrated most graphically by the entry of Vietnam into coffee production between 1985 and 2001 when it
increased its coffee exports from under 10,000 tonnes to over 900,000 tonnes, becoming the world’s second largest exporter. Vietnam continued to expand production even when prices plunged (Food and Agriculture Organization 2005).

This is even more true as countries such as China with great production potential enter the global trade in agricultural products. These conditions have profound implications for agriculture exports in developing countries throughout the world as well as Pacific island countries. The lesson is obvious, small players ought to devise strategies that mitigate the effects of commodity markets. The choice of crops, growing methods, processing, and approaches to marketing must be made in such a way as to mitigate the negative trends in world agricultural markets.

Strategic response

The United Nations’ International Trade Centre (ITC) lists the following recommendations for developing economies to increase their exports: diversify export markets; diversify product range; improve consistency in quality and timeliness of delivery; and take advantage of niche markets. While the ITC was recommending these actions to countries as a whole, they are applicable to exporting firms as well. The managers of two agricultural firms in Fiji—Spices of Fiji and Nature’s Way Cooperative—have independently identified and adopted the actions recommended by the ITC, and extended them further.

Both firms have identified specific niche markets, have diversified or are in the process of diversifying their export markets; and have diversified their product range.

To differentiate their products, Spices of Fiji has adopted the following actions: branding, and taking advantage of target markets’ perceptions of Fiji, Pacific islanders and island life. Nature’s Way coordinates harvesting, processing and shipping activities to provide consistent and timely delivery effectively. In addition, both firms have targeted niche markets: Spices of Fiji, the organic market and Nature’s Way, the Japanese market. Buyers in both of these markets have specific product requirements that are difficult to meet.

Firm strategies

A firm’s strategy is the set of actions it will take in every conceivable contingency it may face. Strategies are developed and implemented with specific goals in mind. For example, a firm may develop a strategy to produce and sell goods to one income group with unique tastes and preferences. Strategies then can include such actions as choice of technology, choice of quality, choice of skill levels of workers, advertising, product differentiation, and so on.

Product differentiation

By adopting product differentiation as part of their overall strategy, firms can enter a market and be profitable even when facing other firms with distinct cost advantages. Simply put, product differentiation refers to the decisions of firms to make their own firm and its products noticeably different from their competitors’ products. The differences can be real differences such as physical location, design, quality, or use of materials. Alternatively, the differences can be in consumers’ existing perceptions of the product, or perceptions created by advertising and packaging. In short, firms can create a niche market for their products through product differentiation.

Branding

Branding is a variant of product differentiation. Ostensibly, a brand is a name that consumers associate with a line of products
made by one company. It is a bundle of product characteristics, perceived characteristics and consumer expectations. The company’s aim is to habituate customers to buying only their products by developing brand loyalty; that is, the mental and emotional allegiance to the specific set of characteristics that consumers have to a branded product (Pearce 1994).

Product differentiation, branding and making use of the island mystique

In Fiji, firms such as Fiji Water and Pure Fiji have been able to exploit existing perceptions held by overseas customers that Fiji is a pristine tropical environment with friendly, happy citizens (‘Fiji in limelight of world stars’, *Fiji Times*, 14 November 2002:14; McMaster and Nowak 2002). To an extent this product differentiation can be seen as a positive externality stemming from the advertising copy of Fiji’s tourism industry. The following copy was taken from the Fiji Visitors’ Bureau website.

Sunny, unique and unspoilt, the Fiji Islands are one thousand miles of pristine white sand beaches, fabulous coral gardens and azure lagoons... Fijians are known as the friendliest people in the world (Fiji Visitors Bureau 2003).

Spices of Fiji

Spices of Fiji, a sole proprietorship founded and operated by Ronald Gatty, is located in Wainandoi, on Viti Levu, in Fiji. This firm grows, processes and markets spices from its farm. Its products include vanilla, vanilla extract, cloves, cinnamon, nutmeg, turmeric and pepper. Approximately 97 per cent of its products are exported, being sold to wholesalers and other firms. The remaining 3 per cent is sold in Fiji. Of the exports, approximately 45 per cent of the products go to New Zealand, approximately 45 per cent to Australia and 10 per cent to other countries (Ronald Gatty 2005, personal communication).

Spices of Fiji operates in a competitive environment in which it has both advantages and disadvantages. The farm offers advantages that include a climate and soils that are well suited for growing, and the high value/weight ratio that in part offsets any erosion of margin by shipping costs. Also, the global market for imported spices is large and growing and has niche potential. It is estimated to be US$2.3 billion, and growing at a rate of 8.5 per cent a year. The disadvantages include a high degree of competitiveness at the producer level, and concentration at the top of the marketing channel (International Trade Centre 2001).

Other countries exporting spices (including Barbados, India, Indonesia, Tanzania, Tahiti, Comoros, Madagascar, Indonesia and Mexico) earn a significant proportion of their foreign exchange from these exports. Among their products are black pepper, paprika, coriander, cumin, cinnamon, ginger, turmeric, vanilla, cloves, chilies, cardamoms, nutmeg and mace. According to the ITC, developing economies have provided over half of the world’s imports of vanilla and over one-fifth of the world’s demand for cloves (International Trade Centre 2001).

Fiji Spices’ competitors include the industry leader McCormick. For the year ended 30 November 2003, sales amounted to US$2.5 billion, with facilities in North America, Europe, Latin America, Australia, China, Singapore and South Africa. Product offerings include spices, herbs, condiments and seasonings (McCormick & Co. 2005). This is particularly impressive considering that the global market for imported spices is estimated to be US$2.3 billion. Global sales of spices are estimated to be from US$2.3 to US$4 billion (International Trade Centre 2001).
In order to charge a premium price, Spices of Fiji has chosen a strategy of product differentiation and diversification, including growing its products organically, and marketing them as organic. To that end, it has obtained organic certification and developed a pre-packaged line of retail spices (Gatty’s) aimed at high-end consumers. It grows a variety of products as a hedge against price variation. Moreover, it makes use of the positive image held in its target export markets that Pacific island nations are environmentally pure with a happy and friendly population (Ronald Gatty 2005, personal communication).

The ITC specifically mentions the market for organic spices. It currently has 1 per cent of total demand for spices, however, the organic sector of the market is growing, reinforced by the first world consumers’ desire to consume natural, wholesome products (International Trade Centre 2001).

Nature’s Way Cooperative

Nature’s Way Cooperative is, as the name implies, a grower-owned firm that provides quarantine processing services to its members. It processes mangoes, papayas, eggplant and breadfruit for export. It uses the ultra-heated air treatment method to kill pest larvae and eggs that might be present in the fruit and vegetables. Because fruits are highly perishable, rapid handling and transportation are essential. Nature’s Way is located close to the Nadi airport, where its fruits are shipped by airfreight to New Zealand and Australia.

Nature’s Way’s initial capital expenditures were funded by grants from USAID and the government of Fiji. The USAID funds were used to purchase the treatment chambers and the government’s contributions paid for the buildings. Its operating expenses are funded by a F$0.40 per kilo processing fee. The cooperative’s financial position is good, and it has been consistently profitable. In 2004, the cooperative’s seven employees processed over 500 thousand kilos of fruit, earning gross revenues of F$222,778 and an operating profit of F$29,030 (Nature’s Way 2005).

**Risk, diversification and expansion**

Nature’s Way has, in the past, compensated members for losses due to equipment failure. This policy contributed significantly to a reduction in operating profits for 2004. In response, Nature’s Way has installed a back-up generator, water-storage tanks and keeps an inventory of spare parts. However, its consultants are urging the cooperative to change their policy of compensating members for losses due to equipment failure (Nature’s Way 2005).

Diversification is a response to risk. One of the main sources of risk for this firm is the arrival of a new fruit fly. In that case, the exporting process would be stopped while new quarantine protocols are developed. The cooperative would experience significant losses as it waited for the new procedures to be approved. In response, Nature’s Way is working to develop a line of fruit preserves to make use of fruit unable to be exported fresh (Nature’s Way 2005).

It is also planning to expand into the North American and Japanese markets for exported vegetables, however the import protocols and political resistance in these countries may prove to be a significant obstacle for Fiji’s producers. Nature’s Way has spent over eight years in securing approval for entry into the Australian market for fresh mangoes, and views expansion into other markets as a long-term objective (Sant Kumar 2004, personal communication; Nature’s Way 2005).
Niche markets within global agricultural markets

Both Nature’s Way and Spices of Fiji have identified the Japanese market for imported foods and the market for organically grown foods as markets that have potential for their exports. Both these markets are considered niche markets within global markets for imported foods and both markets are growing.

The organic market

Concern for the environment and individual health has increased demand for organically grown and processed foods in Europe, North America, Japan, Australia and New Zealand. Organic foods are foods that are grown and processed using no pesticides or herbicides. Consumers of organic foods are willing to pay a premium for foods over conventionally grown food. Entry into this market is time-consuming and costly. Typically for a farm, packing, or processing facility to be certified, the land, growing, packing, and processing procedures used need to have been pesticide and herbicide free for a few years (Ferguson 2002; Food and Agriculture Organization 2002).

The global market for organic foods is large and growing. Total market sales were estimated to be US$26 billion in 2001. Of that, Europe accounted for 46 per cent of the total, or US$12 billion in sales, and North America, 37 per cent or US$10 billion in sales (Organic Monitor 2001). Estimates of annual growth in sales of organic foods vary from 10 per cent to 30 per cent per annum (Ferguson 2002; Food and Agriculture Organization 2002).

Japanese market

The Japanese are well known for their preferences for well-shaped, blemish free, beautifully coloured fruits and vegetables. They are willing to pay a premium for foods with those characteristics (Dyck and Ito 2005). In addition, there is an increasing concern for food safety in Japan reflected in consumers’ increased substitution of organic and non-genetically modified foods for conventionally grown foods. The Japanese market for non-GMO (non-genetically modified organisms) and organically grown food is large and growing. The market for organics in 1995 was estimated to be US$1.5 billion and between US$3.7 and US$4.5 billion in 2000 (Market Research Centre and the Canadian Trade Commissioner Service 2001; Midwest Shippers Association 2005). Better news for agricultural exporting countries is that Japan’s domestic agricultural production is decreasing and food imports are increasing five times as quickly as GDP (Midwest Shipper’s Association 2005).

Agricultural market researchers have reported that the reasons for growth in imports include increased domestic production costs due to labour shortages and land use policies. These sources also report that Japan is investing in growing and processing facilities in China and Southeast Asia in an effort to compensate for their domestic shortfalls. As one would expect, such operations are making their production decisions specific to the preferences of Japanese consumers (Midwest Shipper’s Association 2005).

Pacific islander population in the United States

Another potential market for Fiji’s producers is the population of Pacific islander immigrants in the United States. While tropical fruits and vegetables are available from Hawai‘i, the Philippines, Central America and South America, there is still potential for the importation of breadfruit, jackfruit, taro and other island foods (Sant Kumar 2005, personal communication). According to the US Census Bureau and the California Department of Finance, the
Population of Pacific islanders in the United States amounted to approximately 290,000 people in 2004. Outside of Hawai‘i, the highest concentration was on the West Coast, with approximately 145,000 people who are either from Pacific island countries or Pacific island ancestry. Of these, by far the highest concentration is in California at about 114,000 (US Census Bureau 2004; California, Department of Finance 2004).

Summary and recommendations

It is important that any individual firm or agricultural policymaker pay attention to the lessons provided by the commodity markets. In the case of the markets discussed in this paper, new entrants can to some extent protect themselves from the aforementioned trends by following the recommendations of the United Nations’ International Trade Centre. In addition to those, this article recommends that the entrants consider

- niche markets that are growing
- differentiation of products within those niche markets, and
- segmentation of markets according to consumer willingness to pay.

Spices of Fiji and Nature’s Way are two firms that have responded to the uncertainty of agricultural commodity markets by differentiating their products and targeting niche markets. They have independently identified the strategic elements mentioned by the ITC, have extended them somewhat and have achieved success in doing so. Broadening this to an agricultural export strategy at the country level, the appropriate policy would seek to further reduce risk by identifying and cultivating specific niches within global markets. Finally, it would seek to encourage firms to provide consistent quality and deliver their products in a timely manner.

References

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Acknowledgments

The author would like to thank Dr Ronald Gatty, Mr Sant Kumar for their generosity in providing interviews and Pranesh Nair for research work.