

The international profile and development of fyffes marketing essay



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An assignment submitted to the National University of Ireland, Maynooth in part fulfilment of the requirements for the award of Masters (MSc.) of Science in Business Management

Path to internationalisation and sequence of expansion of Fyffes plc

Fyffe plc is one of the largest and oldest tropical produce importers and exporters in Europe. Due to the nature of the industry Fyffes were an international business from the outset, due to the fact that the UK and Ireland do not have the climate or environmental conditions for mass fresh fruit production. Operations began in the 1880s when a delivery of bananas from the Canary Islands arrived in London. The next step was the acquisition of a ship featuring cooling equipment. This new technology and efficient way of maintaining freshness would serve to increase market share and allow the company to have a distinct competitive advantage over potential new entrants. They began importing cargos of bananas from Jamaica. In Ireland 1902, Charles McCann established a grocery shop in Dundalk and became the first agent for Fyffes in Ireland. Throughout the 1950s and 1960s Fyffes adopted a strategy of acquiring its UK competitors in order to control markets and increase market share. Fruit Importers of Ireland Limited formed in 1968. The group had exclusive rights to distribute certain suppliers produce around the world, such as Jaffa (Israel), Cape and Outspan (both South African). McCann's company merged with Fruit Importers of Ireland Group in 1980 in preparation for a stock market listing on the Irish Stock Exchange. Fyffes became an Irish company FII plc. In 1986 FII plc made its

first major overseas acquisition with the purchase of Fyffes Group Limited from the American United Brands.

During the 1990s Fyffes plc entered a joint venture with Coplaca in the Canaries and shortly afterwards acquired 50% of a Danish company. They continued to invest across Europe and further afield with acquisitions in France, Germany and Jamaica. Their policy was to buy out organisations in full or have majority shareholding to maintain control. The group then entered the Spanish market by acquiring a majority shareholding in Angel Rey, a Madrid based company. The strategy behind this acquisition was significant as it served to complement the group's Spanish marketing and distribution company, Eurobanan Canarias, and established the largest fruit company in Iberia. In 1996 Fyffes purchased a business in Holland which marketed and distributed produce from the Canary Islands, Spain, and Morocco throughout Europe. By 1996 Fyffes had acquired a 50% holding in an Italian distributor which imported fresh produce in Italy, Germany and Switzerland. The group continued to make a number of small, fresh produce acquisitions in various European countries and increased its share of Vellman and Tas in Rotterdam, one of the largest banana distributors, in Europe to 100%. In August 2002 Fyffes moved into the Eastern European market and acquired 70% of a Czech Republic company with interests in Slovakia. In 2004 the firm acquired a Swedish company and in 2005 it entered into a strategic alliance with the main banana company in Colombia and acquired 50/50 ownership of the Florida based Turbana Corporation. This helped Fyffes to become the fifth largest supplier of bananas to the U. S. market. At this point Fyffes plc is one of the largest fresh produce companies in the

world. Fyffes continued to invest globally with the acquisition of 60% of Nolem, Brazil's largest melon producer and exporter and entered the US winter melon business. They also acquired 60% of Sol Group Marketing Company based in Florida which is the second largest importer of winter melons in the global marketplace. Fyffes Distribution Centre in Coventry was expanding rapidly and included purpose-built pineapple and melon facilities. By July 2009 Fyffes was 80 years old and one of the largest tropical produce importers and distributors in the world. In Europe, Fyffes is the second largest distributor of bananas whilst globally it is the fourth largest distributor of bananas.

Why did Fyffes plc choose its present export territories?

Fyffes largest export market is countries on the continent of Europe such as Denmark, France, Germany, Spain, Portugal, Holland, Italy, Belgium, Switzerland, Czech Republic and Slovakia. The EU is a free trade zone. The entry strategy was based on many factors. These countries have a similar culture to Ireland and the UK and they do not indigenously produce the range of products offered due to climatic and environmental conditions. The original EU member state countries have a large middle class demographic and the Eastern European countries have an increasing middle class demographic. This increases demand for the commodities Fyffes offers. The needs of these markets are similar to the needs of the established markets in Ireland and the UK. Market indicators showed high demand and similar taste requirements. These markets had well established distribution channels in areas such as air and sea freight, rail link and road networks which could be seamlessly and easily utilised by Fyffes and they were all

relatively close to each other or on the way to markets being served. All these factors minimised the risk of market changes and supply chain issues and maximised the use of current resources as well as increasing financial returns. This served to enhance Fyffes image as a world class provider. In 2002 Fyffes entered the Swedish market which allowed access to the Scandinavian countries and in 2005 began a supply chain to America. The USA is one of the largest marketplaces on the globe. The acquisition of a Brazilian melon supplier and a Florida based melon importer accommodated ease of entry. Entering a market of this capacity means a larger customer base and hence larger economies of scale. It allows Fyffes to reduce its dependence on its traditional markets.

How did Fyffes plc develop its organisation appropriately?

Fyffes was the first company to have vessels specially built for the transport of bananas. Before this time the transport of perishable goods and their quality on arrival was dependent on sailing conditions. By 1939 at the outset of the Second World War, Fyffes had twenty one specialised banana cargo ships. In 1963 Fyffes realised the need to diversify into the general fresh fruit and vegetable business and lessen the dependence on just bananas, following issues that caused it to lose established banana supplies. This diversification increased competitiveness, reduced the risk of operating in one market and created new global markets decreasing the threat from new entrants. This also served established and mature markets. A number of acquisitions allowed for this diversification. Further to this Fyffes continued to develop as a market leader by acquiring its competitors not only in the UK but across Europe. It's strategic policy of having a majority shareholding in

producers with pre-established mature markets and fully functioning distribution channels allowed to break into new markets with decreased risk. In more recent times Fyffes have implemented this strategy in the US market and is now a major player in the winter melon and banana trade. By controlling its buyers as well as suppliers it has successfully continued to diversify. Fyffes is one of only two banana companies globally to be part of the Ethical Trade Initiative. It has developed a Code of Practice to implement best practice in worker welfare, and it adheres to the ETI Base Code regarding pesticide storage and use and environmental protection. Fyffes regularly audit suppliers against the ETI code. The organisation also has a larger number of GLOBAL G. A. P. suppliers than any other fresh produce company in the world. GLOBAL G. A. P is a private sector body that sets voluntary standards for the certification of production processes of agricultural products around the globe. Fyffes is continuously promoting fresh fruit as a healthy and environmentally friendly product in order to engage with new consumers and retain current consumers. It contributes to organisations like UNICEF and countries that are affected by extreme weather conditions and natural disasters. In-line with its ethical ethos it addresses the issue that most of its supply countries are developing nations, by adhering to regulations set out by non-governmental and labour agencies who monitor the well-being of the employees in these nations.

How did Fyffes plc develop its product offerings appropriately?

When Fyffes brought its “ Blue Label” to the market in 1929, it was the first time in history fresh fruit had a brand name. Consumers began to interpret

this innovation as a sign of quality. Fyffes was able to differentiate its fruit from the competition. In the 1980s they developed interests in the flower, houseplant and dried fruit growing industries. With investments in storage and computer monitoring systems technology, Fyffes began the processing of other tropical fruits such as pineapples and melons adding to the versatility of a large distribution facility in Coventry.

What are Fyffes strategic competitive positions in its export territories?

Expansion in production facilities - The company has increased its production farms in order to become one of the largest suppliers of fruits and avoiding being over-dependent on a single source. In 2009, the company expanded its production activities with the acquisition of a pineapple farm from Agro Industries Golden West SA in Panama comprising 450 hectares. In addition to existing pineapple farms in Costa Rica, the company expects to be the direct producer of approximately 50% of the pineapples it markets in 2010. Further to this, the company bought a 50% share of a banana farm in South America. The new farms will help the company in garnering a major market share and expanding its presence further into the Americas.

Rise in aging population - Aging Americans will make up an unprecedented proportion of the population, as the seventy eight million baby boomers reach the age of fifty. The baby boomers, those born between 1946 and 1964, will first reach age sixty five in 2011, transforming the thirty five million people over age sixty five in 2000 to an estimated sixty nine million by 2030. The United Nations Population Division projects that people aged sixty and above will account for 22% of the total world population by 2050, <https://assignbuster.com/the-international-profile-and-development-of-fyffes-marketing-essay/>

up from 11% in 2007. As they get older, the requirements of minerals, vitamins and proteins increase. The Food Guide Pyramid recommends for those over seventy years, 1, 200 - 1, 600 calories from whole-grain foods, a variety of coloured fruits and vegetables, low-fat dairy products, lean meats, fish and poultry, and eight glasses of fluid daily. With the demand for fruit increasing, the company can gain from this demographic shift.

Growth in organic food markets - The company has a significant opportunity to grow as the demand for organic food is set to rise by an average of 18% in the USA by 2010, according to the Organic Trade Association (OTA). Rising health consciousness in the US has made organic foods one of the fastest growing segments in the food retailing industry. Though the organic food segment represented a mere 2. 8% of the US food and beverage market, it generated USD 21. 2 billion in revenue in 2007. According to a recent report from the OTA, global demand for organic products has been growing at USD 5 billion a year. Thus, the company's strong foothold in the organic food market would enable it to have a competitive edge over its peers. The company can capitalise on its distribution network and organic food offerings to increase its market share and revenues.

What are Fyffes strengths, weaknesses and threat in its export territories?

Strengths

Rich Heritage - Companies that have formed and tested with time have always enjoyed the loyalty of customers. Fyffes is regarded as the oldest fruit brand in the world because of its existence of more than 120 years and is obviously unique as it was born into a marketplace devoid of competition. <https://assignbuster.com/the-international-profile-and-development-of-fyffes-marketing-essay/>

The brand's endurance for over 70 years due to the quality of the fruit to which the Fyffes label is attached and the service levels behind it at the time when it belonged to a parent company that had been in existence for over 111 years is truly remarkable and has substantially contributed to its high profile. Further, the company has been able to connect with its customers through a result of their heavy advertising campaigns and the co-operation with the wholesale trade. A rich heritage builds up the brand equity of a particular product/company making it one of the core competencies.

Healthy liquidity position - For the fiscal year ended 2009, the company reported a current ratio of 1.89 compared to the industry average of 1.28. Further to this, the quick ratio of company stood at 1.61 compared to the industry average of 0.77. In addition, the company reported a healthy growth in its liquidity position compared to the previous year. The current ratio for the present year increased from 1.56 to 1.89. This strong liquidity position for the company indicates their comfortable position meeting short term obligations.

Vertically integrated business - Fyffes Tropical Produce division is a fully integrated distributor of tropical fresh produce, comprising three product categories - bananas, pineapples and winter season melons. The primary activities of this division include the production, procurement, shipping, ripening, distribution and marketing of these products. They are produced in broadly the same geographic areas and distributed to the group's customers in Europe and the US. The company directly farms some of the produce it distributes, particularly in the pineapple and melon categories. The

procurement, shipping, distribution and marketing activities for the three
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product categories are managed centrally on a combined basis. The company intensified the vertical integration in Europe, leading to several takeovers of importers, ripeners and distributors in the last five years, to improve its margins and take an edge over the competition.

Weaknesses

Declining sales growth – The company reported revenues of EUR 726. 8 million during the fiscal year 2009 compared to EUR 758. 2 million the previous year, a decline of 4. 22%. Further, the company has been reporting a negative growth rate. The company reported a 5-year average Compound Annual Growth Rate (CAGR) of 16. 93% whilst that of the industry stood at 19. 11%. The decline in the sales growth indicates that the company has been losing its market share to its competitors who are able to offer better offerings compared to that of Fyffes.

Weak financial position – In addition to the declining sales growth, the company hasn't been able to control its expenses either. In the fiscal year ended 2009, the company incurred total operating expenses of EUR 609. 9 million compared to EUR 608. 1 million a year previous. The company reported a net loss of EUR 10. 45 million compared to a profit of EUR 0. 07 million. In addition, the 5-year average operating margin stood at 2. 87 % compared to the industry average of 8. 66%. This indicates that the company has been spending huge amounts of money on promotions and marketing activities to increase its top line. With the top line declining, the unnecessary expense is a big concern and may indicate management's low focus on profitability.

Over dependency on bananas – For the year 2009, the banana category accounted for 79% of the total revenues compared to 77% the previous year, and 90% of the Adjusted EBITA of the division. The over-dependency of the company on a single product (banana) exposes the company's revenues to various uncertainties.

Threats

Fluctuating foreign exchange rates – Fyffes' earnings are significantly dependent on the selling prices obtained for tropical produce, which competes directly in any given market with other imported fresh produce. Fyffes' primary input costs are fruit, shipping and fuel. These costs are denominated in US Dollars while most sales are made in Euro and Sterling. Worsening economic condition and debt ratings in Europe are making the Euro weak against dollar. The company is exposed to the USD to an amount of 10.13 million. Therefore, any fluctuations in the foreign exchange rate will impact heavily on the margins of the company.

Supply chain bottlenecks – For companies in food processing and distribution, quality is a fundamental competitive advantage. However, the quality of fresh food is dependent upon the strength or weakness of each link in the supply chain. High energy prices, poor harvests, rising demands for growing populations, use of bio-fuels and export bans have pushed up prices. The food supply chains aiming at maximising 'value creation' are heavily reliant on imports and multi-tiered supply chains. Supply chain and depot operations remain crucial to the core of this particular business. Control failure among any part of the chain can ultimately impact delivery and thereby affecting the customer service. The flexibility of network routing and <https://assignbuster.com/the-international-profile-and-development-of-fyffes-marketing-essay/>

operations in the distribution centres and storage are very critical and therefore need to be continuously reviewed. The waste generated can cripple operations and decrease profit. The consumer products and retail industries lose approximately USD 50 billion annually, or 3.5% of sales, due to supply-chain inefficiencies.

Government regulations - The company, being a producer and marketer of food products, is subjected to various regulations by federal governmental agencies, including the Department of Agriculture, Federal Trade Commission, Environmental Protection Agency and Department of Commerce, as well as various state agencies, with respect to production processes, product quality, packaging, labelling, storage and distribution. In addition, advertising of its businesses is subject to regulation by the Federal Trade Commission. The company is also subjected to certain health and safety regulations, including those issued under the Occupational Safety and Health Act. The company should comply with such stringent governmental regulations, failure of which may expose it to new liabilities or may hamper its existing operations, which could result in a decline in its profitability.

Agreement between the EU and Latin America over banana import tariff cuts - Last year, in December 2009, 'a 15-year dispute over EU banana imports' (European Commission Trade, 2009) was solved. The deal between the European Union and the Latin American countries involves gradual import tariff cuts from €176/tonne to €143/tonne this year and finishing with €114/tonne in 2017 at the earliest. 'The deal is likely to reduce prices for consumers, increase competition in the banana market and strengthen the hand of low cost Latin American exporters' (Ennis, 2009). So far, the effects <https://assignbuster.com/the-international-profile-and-development-of-fyffes-marketing-essay/>

of ' excess market supply, higher fuel costs and headwinds from a stronger US dollar' (Laing, 2010) may have been limited by the banana's lower cost thanks to the deal (' which [still] left pre-tax profits down 28% at £11. 1m in the six months to June' {Laing, 2010}). However Fyffes will not be at much of an advantage as a result of this deal due to the increasing competition it is permitting. Also, about '€200 million from the EU budget' (European Commission Trade, 2009) is being mobilised to help the ACP (African, Caribbean and Pacific countries) in their possible loss of banana market due to the deal. This money will keep them very competitive, and even though they took only 17% of the banana market in 2008, compared to 72. 5% from Latin America (see Annex 1), this lump sum might encourage their desire to grow their presence for the years to come and compete with cut prices.

A comparison of performance and prospects between Fyffes export territories

The global financial crisis increases the risks of exportation due to frequent fluctuations in foreign exchange rates and ascending international trade barriers. In order to counteract this risk Fyffes will focus on expanding their base market in Europe and strive to maintain the existing share of their market in the USA. Fyffes have a presence in 90% of the Euro Zone countries, which covers the main countries in Western Europe such as Spain, UK, Netherland, Germany, Italy and Ireland. They have taken a 30% share of fruit sales in these countries. With the growing unemployment rate due to the financial crisis in the USA, it's more difficulty to increase sales at present. Rising import tax on fruit and increasingly higher levels of import inspection makes it easier and more profitable for Fyffes to concentrate on the EU

market. Trade dispute between the European Union and the USA are increasingly more frequent. The potential of the US market in the future is not to be underestimated. Fyffes will strengthen the ability to grow in the American market and expand sales distribution to maintain their share in their largest overseas market.

How Fyffes plc might further develop or alter its organisation in the future?

Use the power of the internet to communicate product data on fair trade, environmental issues, health benefits, advantages of reduced packaging to consumers.

Be aware of trends in consumer habits and social change in order to target the right market. An example would be the introduction of an advertising campaign targeting the rapidly increasing population of male shoppers or the increasing demand for tropical fruit in the USA. These changes might be as a result of current economic conditions. The company could monitor these trends and changes by using the skills of anthropologists, economists, sociologists and psychologists, conducting market research and gauging consumer buying habits regularly.

Promote the sharing of data, inputs and innovation on fresh produce production, export, marketing and consumption with competitors. An initiative to implement such data sharing took place recently at the Davao Trade Expo called “ Building the Future: Innovation Towards Global Agriculture”.

Be aware of weaknesses in the production and supply chains of competitors and take advantage by moving into their supply markets.

Be aware of weaknesses in supplier countries such as political/ economic turmoil.

Take advantage of growth in established and rapidly expanding shipping channels and air freight networks, such as Europe to the Middle East. This would allow access to opening up new export markets. Middle Eastern nations do not grow their own banana supplies due to the arid climate. Fyffes currently imports dates and other fruits from this area and could take advantage of this distribution channel and open up a large market with a large population and a rapidly expanding middle class where demand for commodities is rising.

Use cargo, shipping and air freight companies who are committed to reducing carbon emissions. ' Fyffes has become the first UK Banana Importer and Distributor to have been awarded the Carbon Trust Standard, after taking action on climate change by measuring, managing and reducing its carbon emissions by nearly 8% over the past three years' (freshplaza. com) By continuing with these methods, they will reinforce positive opinions and customers that are generally nowadays paying more and more attention to company ethics will continue preferring them.

Offer initiatives to distributors to conduct research into finding new ways of reaching consumers and entering new markets. An example would be the feasibility for the introduction of fresh fruit vending machines in schools/

public areas, promoting fruit as a healthy alternative to traditional vending machine products.

Source environmentally aware packaging suppliers who are implementing the latest technology in packaging reduction in order to reduce packaging costs. This will also help distributors and supermarkets meet government imposed packaging reduction targets. Fyffes could alter their price structure accordingly taking account of the cost of the investment.

Anticipate the possible introduction of more stringent rules and laws on product labelling and traceability by implementing the latest solutions and technologies in this area. Consumers are increasingly demanding and aware of buying sustainable, eco-friendly, fair trade products. They could use these implementations as a competitive advantage by providing this knowledge to consumers who want to know exactly what it is they are buying.

One of Fyffes competitors, Del Monte, is particularly active in leading the way with sustainable packaging solutions. Fyffes could benefit by having formalised sustainability goals and a target for the reduction of packaging. Employing and investing in highly trained packaging designers or outsourcing this function to the leaders in this field would aid this process.

Ensure the diversification of supply in order to counteract threats to crops from disease and weather damage. This will reduce the risk if a supply chain is weakened or eradicated, and the impact on consumer and production facilities of a supply shortage.

Source produce from reliable suppliers. An example would be Fair Trade banana suppliers. One competitor, Four Seasons Produce, has seen a 40% sale increase for Fair Trade produce. The most reliable supply chain has been recognised in countries such as Costa Rica, Guatemala, Honduras, Colombia and Ecuador. Peru's organic banana trade to the EU is increasing. Belgium, Germany, Ireland, Sweden and Italy have all increased purchases of Peruvian organic bananas.

Diversify by supplying new products; Fyffes currently exports mainly bananas and tropical fruit. They could open up new markets and satisfy growing consumer demand to purchase local and indigenous fruit. They could promote the production and sale of these products in established markets and seek opportunities in new markets. This would counteract threats from initiatives like a programme recently introduced in Mongolia to ensure 100% of all vegetables consumed there are grown there.

Invest in the latest food safety and quality technologies. One competitor, Chiquita, has led the field in this area by developing a technology to keep produce. However this will be available on license to the entire industry.

Be aware of the threat of competitors such as those from the emerging 'BRIC' economies and the decline in economic conditions in its traditional markets. African countries have had a shortfall in banana supplies, and imports have increased accordingly. However some African governments are restricting imports and implementing projects to encourage local farmers to grow fresh produce.

Utilise a technique that is commonly used for identifying or prioritising customer needs for innovation such as, Quality Function Deployment, Repertory Grid Technique, surveys and focus group or ethnography in order to develop new products improve service to customers.