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Relationships that can bear **fruit**

The time is ripe for reforming the supply chain relationship between deciduous fruit producers and exporters in South Africa – to benefit both parties.

by Annelie Smuts and Stephanus Loubser

Can a new model of supplying fruit to the export market nourish competitiveness and help ensure the long-term survival of South Africa's deciduous fruit industry?

Research conducted at the University of Stellenbosch Business School (USB) revealed

that the present linear supply chain model of producer to marketer to retail may have become outdated. Instead, the study suggests that South African fruit exporters cultivate a new approach towards producers that can strengthen the position of both parties in world markets. The revised model proposes a

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customer relationship between exporter and producer that embraces the principles of relationship marketing.

To ensure long-term success with its retail customers, the fruit exporter should view the production sector as another group of customers in its business model. This implies that exporters should become more aware of producers' needs so that they can design appropriate service offerings. Their deals with producers should be governed by the principles of a marketing strategy rather than those of a sourcing strategy, as is the case at present.

Fruit producers are at a disadvantage in the present scenario. They carry the financial risk of their production throughout the supply chain, but are not part of the transactions and decision-making at the retail marketing end of the chain. Hence, they have little control over decisions that affect their returns. They also feel isolated from fruit-retailing trends. This limits their ability to become more proactive and strategic in managing their production programmes.

In a very competitive world market, the longer-term sustainability of the industry may be jeopardised if this situation continues. The exporters may be in a relatively comfortable position now and enjoy less risk than the producers do. In the long run, however, they may slowly allow their supplier base to fall behind global competitors and, in doing so, erode their own competitiveness.

South Africa's deciduous fruit industry

- The **agricultural sector** is an important component of the economy. Although contributing less than 4% of the Gross Domestic Product, it provides nearly 10% of formal sector employment opportunities. Agriculture is also a major earner of foreign currency, accounting for more than 20% of non-gold exports in 2002.
- The **deciduous fruit industry** comprises three sectors: pome fruit (apples and pears), table grapes, and stone fruit (peaches, plums, nectarines and apricots). Deciduous fruit farming is the main agricultural activity in the Western Cape Province, which supplies approximately 57% of the country's output. Although a

substantial portion of production is sold in the domestic market, the industry is primarily export driven.

- Before being deregulated in 1997, the **fruit export industry** was controlled by only a few parties. By 2005 the number of registered exporters had grown to more than 375, ranging from small individual operators to sophisticated multinational companies. Based on 2004/2005 season figures, Capespan was the market leader with 24% of total fruit exports, followed by Dole South Africa (7%) and Colors Fruit South Africa (5,5%).

Competing for space in an overgrown garden

Export fruit marketers compete in the extremely competitive overseas markets with their South African counterparts as well as with other southern hemisphere countries. A global

years, if solutions cannot be found to sustain their prosperity.

This evolving scenario poses crucial questions to fruit exporters:

- How should they approach fruit producers as their key suppliers?
- How should they design their service offerings in order to secure stability of supply and a long-term commitment from their producers?

Past research could shed little light on how to cope with such uncertainties. Researchers in the fresh produce industry have tended to focus more on the downstream activities of the value chain, particularly the relationships between fruit marketers and retailers. The upstream relationship between fruit producers and the marketing intermediaries is an under-researched area, which underlined the need to undertake this study.

The objective was to provide fruit marketers with guidelines for preparing a service offering to deciduous fruit producers in the Western

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overproduction of fruit has given foreign retail buyers strong bargaining power. Not only has this made them increasingly demanding in their requirements, but they have also kept the retail price of fruit stable over the last few years. With input costs on the production side steadily increasing, there is growing pressure on the profitability of fruit exporters as well as producers. The situation is exacerbated by the strong rand of recent years.

It is now up to fruit exporters to find innovative ways of securing a competitive advantage. They are increasingly aware that a stable and reliable supply of the desired quality and volumes of fruit is essential for satisfying the needs of their retail customers and surviving the fierce competition in the industry. This makes them highly dependent on a progressive farming sector. But this sector is gradually becoming less viable. Expert sources estimate that 30 per cent of South Africa's fruit producers may be insolvent within the next five

Cape, thereby taking a long-term view of the sustainability of the total supply chain. As primary data, producers' views of their needs and concerns were obtained by means of focus group techniques to serve as a basis for the guidelines.

Who participated in the study?

- Eleven group sessions were held in various production areas of the Western Cape, with three to five deciduous fruit producers per group.
- Sessions were conducted by means of structured questions which sought to obtain a better understanding of the participants' production environment and, in particular, to encourage producers to express their problems and service delivery needs.

Weeds that could choke growth

It was of particular interest that producers across the different fruit types shared similar views regarding the present models of fruit production and marketing.

The main concerns voiced by producers highlighted aspects of the present exporter-producer relationship that impede the full bloom of the industry.

• **Lack of trust and openness**

Without exception, producers expressed the need for a relationship with their exporters that is built on trust, honesty and transparency. In the present situation, producers are often distrustful of fruit marketers. There are perceptions that exporters do not act in the interest of producers, focus primarily on maximising their own income, and withhold information regarding their marketing decisions and business procedures.

• **Downstream involvement**

Producers want to be more involved in the dealings and decisions further down the value chain so as to feel more in control of the marketing risks that they as producers carry.

• **Technical progress**

Producers' requirements for technical assistance from exporters range from specific production support such as assistance to producers in preparing products according to retail customers' specifications, to longer-term support of urgently needed research.

• **Lack of information**

Producers need information from their marketers about the circumstances in the industry and the marketplace, especially the competitive actions of other southern hemisphere countries.

• **Exporters don't share the risk**

The fruit industry is characterised by risk. The production phase is exposed to the inconsistencies of climate conditions and pests, while the fruit, as a perishable product, remains vulnerable down the value chain. Where fruit exporters operate as commission agents and producers remain the owners until the fruit is sold to the retail customer, they have to carry

the risk without having control over either the destiny or the handling and cold storage of their fruit. Understandably, producers desperately long for a better relationship and a fairer spread of the risk.

• **Labour supply**

The farming sector is highly dependent on the availability and retention of skilled labour. Although producers do not expect exporters to get directly involved in training, they should attempt to support producers in developing skills-upgrading plans for people involved in fruit production and packaging.

• **Rising input costs**

Rising production costs in the light of stable retail prices is a major concern for producers, who would like to see concerted assistance from marketers in curbing costs.

• **Exporters lack marketing skills**

Producers are not happy with some exporters delivering merely a logistical service; they should be more active and ingenious in the marketing side of their service. Marketing by fruit-type specialists instead of generalists is preferred, and marketers should be skilled in finding outlets for fruit of lesser quality and in gaining access to new markets.

A fresh approach: relationships rooted in trust

The study found that the deciduous fruit industry is plagued by several concerns, and that the exporter-producer relationship is not sufficiently constructive to serve as a seedbed for the renewed competitiveness and sustainability of the industry.

This has prompted the development of a new model that can be put forward as a concept to revitalise the industry. It has been formed around the needs and concerns expressed by producers, and is aimed at strengthening the position of the South African exporter and farming sector alike in world markets.

Guidelines to exporters for reinvigorating growth

• **Customer orientation**

Using the principles of a marketing strategy, exporters should view producers as customers. A customer orientation requires the marketer to consider the needs of the target market, in this case the producers, and to develop a product offering that will be attractive to prospective customers. The overall purpose of offering a service that considers the needs of producers is to ensure long-term profitability for both producer and exporter.

• **Relationship marketing**

Exporters should adopt the principle of relationship marketing to attract and retain producers as customers. This approach is characterised by effective relationships that

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share mutual goals in order to develop trust. The attraction and retention of sought-after producers will improve exporters' ability to attract and retain retail customers overseas.

• **Market segmentation**

Producers' needs differ according to, for instance, their fruit type, production region, and quality and mix of cultivars. Exporters would do well to segment their market, decide which mix of segments they want to target, and tailor their service offerings accordingly. A one-service-for-all approach is likely to be the wrong strategy.

• **Emphasis on trust**

Exporters need to demonstrate their trustworthiness to producers. They should refrain from transactions that may be perceived as opportunistic, or from making marketing decisions without first informing the producer of their intentions. Incorporating a better deal of sharing the risk between exporter and producer would go a long way towards building trust.

- **Provision of information**

Producers need regular, quality information to make informed business decisions. Exporters that include this component in their service offerings would be very attractive to producers that want to take a proactive business approach. The effectiveness of information flow lies in a two-way process that also allows for communication about the product from the producer to the exporter. The relationship that the exporter establishes should create a climate for dialogue and rapport.

- **Cost reduction**

Exporters should exhibit their commitment to cost reduction across the value chain. This will greatly assist in building trust as it shows the exporter's intention to maximise its producer client's income. Exporters are in a stronger position to negotiate price reductions on cost components such as packaging material, cold storage and ship freight.

- **Technical services**

Without technical advancement, the chances of the deciduous fruit industry being competitive in the global arena are remote. Exporters should be on top of new developments and offer support to their producer clients to keep their production environments up to date. They can also play a proactive role in stimulating research that can benefit the fruit industry as a whole.

- **Training services**

Exporters should attempt to assist producers in providing education and skills training to worker communities. In the long run, they will benefit from the improvements in productivity and efficiency that flow from a skilled workforce.

It is hoped that exporters will take heed of findings like these and take up the challenge to regenerate South Africa's competitiveness in the global fruit markets. Some exporters have already adopted aspects of relationship marketing in their transactions with producers. If others follow, it could herald the start of a new blossoming period for the Western Cape deciduous fruit industry.



This study was conducted by Annelie Smuts (pictured) (annelieinuk@gmail.com) as her MBA research project at the USB, supervised by Prof Stephanus Loubser.

The research report, *Create a competitive advantage in the South African deciduous fruit industry through a value chain approach*, was presented in 2006 and attained a distinction.

Rector's Award

Prof Nicholas Biekpe of the University of Stellenbosch Business School (USB) received the Rector's Award for Excellent Research for 2007 at a ceremony at the University of Stellenbosch in November 2007.

This is the second time in five years that Prof Biekpe has received this award. Prof Biekpe also received the USB's Research Award for his outstanding contribution to research for the year 2007. He has received this award five times over the past seven years. The presentation was made at the School's awards ceremony in November 2007.

Prof Biekpe lectures and conducts research in the areas of Development Finance, Econometrics and Statistics at the USB. He also supervises research dissertations of master's and doctoral students. (See article on page 10)



Prof Nicholas Biekpe (left) accepts the Rector's Award for Excellent Research from Prof Russel Botman, the rector and vice-chancellor of the University of Stellenbosch.

Best publication

Dr Kosie de Villiers, PhD graduate of the University of Stellenbosch Business School, received the USB award for the best publication from a research report or PhD thesis in 2007. The award, sponsored by *Die Burger*, was presented to him at the School's awards ceremony in November 2007.

USB research centres

Centre for Leadership Studies: This USB Centre conducts research in leadership and promotes leadership excellence in all areas of business. It is responsible for the Personal Leadership Development Journey on the MBA programme.
Centre head: Prof Laetitia van Dyk (lavd@usb.ac.za)

Centre for Development Policy and Partnership: This USB Centre is concerned with human development; unlocking of the intellectual capital of Africa; anti-poverty and poverty-reduction strategies; regional economic integration; partnerships between the corporate sector and micro-enterprises at the base of the income pyramid; local economic development and the 'second economy'; foreign direct investment; and Africa's development through trade, debt relief and aid.
Centre head: Prof Wolfgang Thomas (wthomas@usb.ac.za)

Unit for Corporate Governance in Africa: This USB Unit conducts multi-disciplinary research, and educational and development activities with the aim of improving the effectiveness of corporate governance in African organisations.
Unit chairman: Prof Bob Garratt; Unit head: Daniel Malan (dpm@usb.ac.za)

Africa Centre for Dispute Settlement: The aim of this USB Centre is the development of advanced conflict management and negotiation learning practice in the organisational context in Africa, through programmes at master's and doctoral level, research, staff development and curriculum development.
Centre head: Prof Barney Jordaan (disputesettlement@usb.ac.za)

Institute for Futures Research: This Institute of Stellenbosch University, situated on the Bellville Park Campus, specialises in futures studies as a support service for strategic corporate management. It identifies emerging trends and organisational methods. Organisations join as associates. The Institute offers the MPhil in Futures Studies.
Institute director: Prof André Roux (andre@ifr.ac.za)

For more information visit www.usb.ac.za/usb/discover/CentreUnits.asp