THE MARKET FOR TROPICAL JUICES IN EUROPE

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0. INTRODUCTION / HIGHLIGHTS

This paper has been presented at the Foodnews® Juice Latin America conference in Sao Paulo (15.-17.6.2004), aiming to familiarize Latin American exporters of tropical purées, juices and concentrates with

(1) Characteristics
(2) Prospects / Trends
(3) Distribution channels

of the European juice market, focussing on innovations and trends, which will accompany us in the next few years. Furthermore, I would like to highlight (4) the Guava market as an example for an interesting evolving sub-market with its multifold applications in the fruit juice industry. As Krämer / van Eck are emphasizing: "Tropical fruits such as guava, are just as promising as functional fruits like acerola, offering an added benefit of high natural vitamin content."

0.1 HISTORICAL BACKGROUND

The trade in tropical juices developed in the early seventies was considered as a suitable alternative to orange juice in response to successive orange crop shortfalls. Production facilities were developed in Latin America by European interests through joint ventures. Gradually , the taste for exotic fruits and new flavours developed in the major industrialized markets. The range of tropical fruit also increased, namely mango, banana, guava and passion fruit.

0.2 TODAY´S STATUS QUO

Citrus and pineapple juices are well-accepted worldwide, however the demand for tropical flavours (other than pineapple) remains relatively low. But, tropical fruit beverages are getting more and more popular, favoured by the rising demand for healthy products.

The European tropical juice market is very heterogeneous and fragmented. It consists of many complex individual markets (sub-markets) and each of them in turn depends upon various factors:

- size / volume
- availability and continuity of supply during on-crop and off-crop times
- pricing
- consumers´ disposable income
- quality
- capability of adding value to existing and/or new products

Unfortunately, according to FAO, a database on tropical fruit is currently "unavailable for many countries, and coverage of the reporting countries suffer from lack of uniformity."

With exception of Pineapple, which accounts for approx. 60 % of the world trade in tropical juices, there are no reliable statistics on world trade in tropical fruit juices, purées and concentrates. But, in spite of insufficient data, the market for tropical juices is, in my view, the most interesting and innovative juice market, moving constantly in a state of flux, changing its shape all the time and continuously re-inventing itself.

1. CHARACTERISTICS OF THE EUROPEAN TROPICAL JUICE MARKET

The market´s main features are

(1) Internationalisation
(2) Competition and Consolidation
(3) Polarisation of consumer needs
(4) Innovation

To a great extent, these characteristics are interdependent. For instance, a high degree of competition forces the companies to be constantly innovative. Innovations are

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triggering the process of "creative destruction". New products are emerging, others lose importance or vanish completely.

1.1. INTERNATIONALISATION (consumer = demand side)

As the world is increasingly converting into a global village, more and more European tourists enjoy the "tropical lifestyle" - at least during their holidays – and take home their pleasant memories of the tropical cuisine, particularly the tasty and refreshing fruit and freshly squeezed juices. Because of that, the modern European consumer is very open toward new ethnic & tropical fruits and juices.

Having analyzed this consumer behaviour thoroughly, the retailers introduced eyecatching fresh fruit into the European market, attracting the interest of the European consumer and "providing the exotics in easy recognisable packages, containing small amounts and with practical information" about use, nutritional values, etc.

The market is also stimulated by a steady population growth of ethnic minority groups (e.g. Latin Americans in Spain, Indonesian in the Benelux, Indian and Pakistanis in the UK, etc.) which have significantly augmented their income and purchasing power over the recent years.

1.2. COMPETITION AND CONSOLIDATION (industry = supply side)

Traditionally, the European fruit juice industry had been classified as a nationally oriented industry. However, the supply side is increasingly becoming international, too,and many global players have emerged. Companies like PepsiCo (Tropicana), Coca Cola (Minute Maid), Del Monte, Procter & Gamble and Chiquita have entered the market, slowly gaining market share in Europe.

Notwithstanding, the largest suppliers in Europe are the ones having the potential to become Pan-European market players:

- Eckes Granini (brand)
- Gerber and Refresco (private label)

The wave of cross-border consolidations started in 2000, when Refresco, a former subsidiary of the Dutch dairy Campina, merged with the German market player Krings. In 2001, Eckes Granini took over two French companies, Joker and Réa. Earlier that year, Gerber, the UK largest juice manufacturer acquired Emig, Holsten´s juice subsidiary. In 2002, Eckes once more appeared on the scene and became a majority shareholder of Marli, Finland´s leading supplier. The very same year, Refresco purchased French specialist Délifruits and German bottler Hardthof.

Yet, in spite of recent mergers and take-overs in Europe, the European fruit juice market is still very fragmented and Europe still lacks a cohesive Pan-European fruit juice industry. None of the players has a dominant supply base in the majority of the six largest European consumer markets – Germany, France, UK, Italy, Spain and the Netherlands.

All over Europe you will find a number of companies who, deliberately, have not joined the consolidation battlefield and who definitely have the potential to grow. I would like to mention two types: the niche player and the local hero. The sophisticated consumer´s needs created opportunities for a niche category. Within this segment you will find highly innovative companies, like Hero who are successfully defending their international position against much larger companies.

By using the attribute "local hero", I would like to refer to national or local players, like Riedel in Holland and becker´s bester in Germany who offer a wide range of high-quality branded products, which are being distributed via catering, juice wholesalers and retailers.

1.3. POLARISATION OF CONSUMER NEEDS

Consumer demand is increasingly becoming polarised between fulfilling basic needs on one hand and special needs on the other. Basic needs are mainly covered by private labels of different retail formats which are predominant in the "budget end" of the market, as for instance:

(1) the added-value retailer Marks & Spencer (UK)
(2) the French megamarkets ("hypermarchés") Casino and Carrefour and
(3) the discounters Aldi and Lidl (Germany).

In this segment, basic demand is mostly fulfilled by standard ambient products and the key selling point is attractive pricing. Usually, customers are not loyal. On the contrary, the bargain-hunters are "grazing" the market, always looking for cheap offers.

However, these strong retailers have already entered the A-segment (premium), making their private label range more attractive for consumers, such as Marks & Spencer´s functional food line and Aldi´s range of NFC juices.

Thanks to this strategy, which I call "crowding out", they are able to

(1)improve margins and
(2)build up consumer confidence.

In this environment, characterized by a fierce competition for shelf space, the premium resp. A-brands are forced to create innovative formulae in order to defend their position in the retail market.

Or they look at other possibilities to allocate their products in the market, as for example petrol stations, airport stores and wholesalers. I noticed that the successful premium brands seldom confine to one single distribution channel.

Most of them are using a "multi-channel" approach to distribute their goods to various markets (retail, wholesale and catering). However, irrespective of their strategy, the essential selling points for the premium brands segment are: Convenience, image, health & wellness, enjoyment and a distinct flavour.

Provided that packaging and quality are appealing, the consumer will be loyal to his brand. Of course, price is still important but not decisive.

1.4. INNOVATION

Since the brands have to look at new ways to distinguish their products, avoiding the what I call "Multivitamin effect" – i.e. many companies have an multivitamin juice or nectar in their portfolio but the customers are unable to tell the difference between product A and B -, new tropical flavours have been developed and succesfully introduced.

The following examples illustrate the great opportunities for innovation within the sector of tropical juices:

- combining fruit juices with fruit pieces (like Hero´s Fruit2day Mango with Peach pieces). Drinking and eating => a completely new sensation
- creating a new range of interesting dual flavours (Emig´s Guava/Strawberry). Dual flavours are more distinct, not as stereotype as multivitamin nectars. Consumers want to taste "their" fruit. Motto: Keep it simple and recognizable !
- multifruit juice NFC (Burkhardt Fruchtsäfte), a blend of different European and tropical juices and purées, all NFC. Just natural, no addition of water, aromas nor any other kind of additives (particularly no betacarotene).
- fruit & tea preparations (e.g. Lipton´s Ice tea with mango flavour, which contains mango juice and aroma)
- using functional fruit with a high natural content of e.g. - vitamin C (Acerola, as in Eckes Granini´s Apple-Acerola) - vitamin E (Physalis, as in Döhler´s Marula-Physalis compound)
- enrichment with functional ingredients, e.g. fibres, calcium, vitamins and minerals (Pfanner´s Mango-Passionfruit B+C+E)
- tropical fruit combinations with soy milk or soy-based products (e.g. Döhler´s concept "Drinks of the World" Mango-Soy fruit drink)
- use in smoothies. Most popular tastes in the UK: Banana 18 %, strawberry 13 % Raspberry 9 %, Mango 7 % and Pineapple 6 %
- mixing tropical juices with floral / blossom extracts (rose, orange, lime) and/or herbal extracts (Bertram´s Lime drink with mint aroma)
- mixing tropical juices with vegetable purées / juices (Wild´s Tomato-Guava-Lemon plus vitamin B, Wild´s wellness drink Pineapple-Coconut-Aloe Vera, Voelkel´s wellness drink Guava-Aloe Vera)
- using tropical juices as an ingredient for trendy alcohol-based drinks, as shooters, breezers, etc.

2. PROSPECTS / TRENDS

The main general consumption trends for 2005-2010 are

(1) Greater demand for convenience
(2) More diversity of choice and increasing health consciousness
(3) Growing demand for tropical juices with added benefits
(4) High growth in private labels
(5) Increasing importance of Quality Management issues

2.1. GREATER DEMAND FOR CONVENIENCE

The demand for convenience, i.e. getting high-quality beverages in a consumer-friendly packing with little effort, will surely increase in the next years to come.

"Modern" people in Western Europe live fast-paced lives, skipping breakfast and/or coming home late after a long day of work and a long commute. They are mostly conscious that serious health problems can at least in part be attributed to lifestyle and eating habits.

These unstructured eating /drinking habits ("eating and refreshment on the go") will open up new market possibilities for products. Due to time pressure, the active and highly mobile consumer in Europe will increasingly find himself restricted to "impulse purchases" in petrol stations, fitness clubs, etc.

2.2. MORE DIVERSITY OF CHOICE AND INCREASING HEALTH CONSCIOUSNESS

The wide range and the diverse use of tropical juices are already impressive, but the market needs to remain innovative in terms of "new fruits, fruit combinations, ingredients or added benefit,...new colours (blue, green, red), exciting packaging (PET, Sportscap, Multipacks, Single Serve) or...current themes, such as obesity."

The use of functional fruit and/or ingredients is also being regarded as a promising concept. Existing products will be re-designed and formulae will be adapted to fit the mega-trend of health & wellness.

In the field of functional drinks, an enormous growth potential is predicted due to the multitude of varieties and trend-setting innovations.

There is a clear potential for considerable growth in the nutraceutical drinks market with different ingredients targeted at specific (health) conditions, such as stress, heart health, digestion, etc. or at specific sectors of the population, such as women, children and elderly.

Taking Europe´s demographic structure (particularly in Germany) into consideration, I personally see a bright future for new "gerontology products" developed for a natural, holistic medication of elder people.

The growing age of our society has created a higher health consciousness. Here, tropical fruit juices with their natural functions can certainly make an important contribution to the state of health and act as "preventive agents".

Beside medical applications, the consumer is looking more and more for health-oriented products for his family. Vitamins, minerals and dietary fibres are still consumer´s favourite.

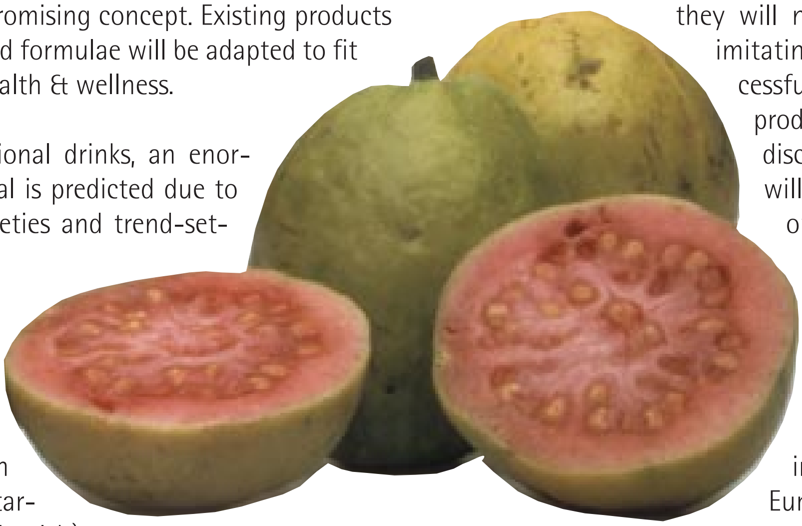
2.3. GROWING DEMAND FOR TROPICAL JUICES WITH ADDED BENEFITS

Innovative fruit combinations with tropical fruit juices, purées and/or concentrate, especially in the segment of dual flavours and still fruit juice drinks will come to the fore.

Specific added benefits such as high content in vitamin B (Lúcuma, lat.: Pouteria lucuma), phosphorous (Borojó, lat.: Borojoa patinoi) and Omega 3 acids (Sacha Inchi from Peru), will be the best opportunity to meet the critical consumer needs.

2.4. HIGH GROWTH IN PRIVATE LABELS

Strong retailers, especially the discounters will continue to penetrate in the premium segment of the market. Contrary to what happened years ago, they will not be simple copycats, imitating and following successful concepts of branded products. The contemporary discounter is pro-active and will be able to design his own products. Private labels will generate their own dynamics, altering existing market structures. Premium brands will have to find their niche in the highly competitive European juice market.

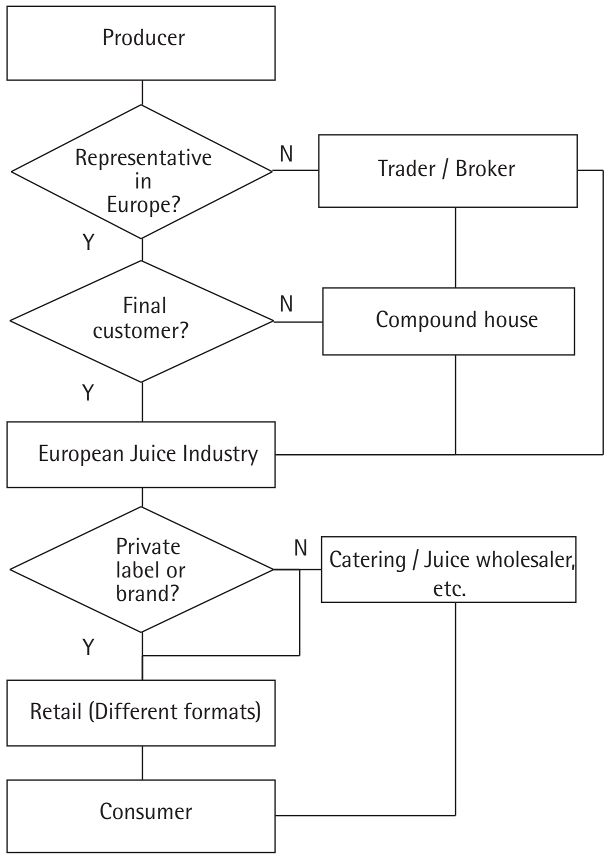


2.5. INCREASING IMPORTANCE OF QUALITY MANAGEMENT (QM) ISSUES

The market players will place great importance on internal and external audits, traceability from field to customer and extensive product information. The sceptical consumer demands a full traceability from field to customer as well as a thorough ingredient labelling. On the one hand, processors and their agents will be increasingly confronted with questionnaires and quality assurance issues. On the other hand, they will use a good QM system as a marketing tool towards their customers.

3. DISTRIBUTION CHANNELS

Market For Tropical Juices in Europe
Distribution Channels



4. GUAVA MARKET – AN EXAMPLE FOR AN EVOLVING SUB-MARKET

4.1. APPLICATION / USES IN THE FRUIT JUICE INDUSTRY

- Preparation of a "single flavour" guava nectar, acidified with lime/lemon
- Natural functional ingredient for a "dual flavour"- nectar (Guava/Strawberry), offering an added benefit of high natural vitamin C content
- In Aqua Plus drinks – a touch of Guava and Lime with vitamin B, calcium and magnesium
- In wellness drinks (Guava /Aloe Vera)
- Minor ingredient for multivitamin nectars and nectars using a basis of apple/grape/pear juice concentrate
- Very small ingredient for fruit drinks, squashes and ice teas

4.2. MAIN SOURCES FOR PINK GUAVA

South Africa (60 % Western Cape, 40 % Northern provinces) supplies frozen and aseptically packed purée and concentrate. Duty disadvantage of 7,5 % vs. Ecuador and Colombia, both countries having duty-free access to EU. Brazil reddish variety "Paluma" is getting more and more popular in the EU. Processors work with different screen sizes. They produce both frozen and aseptic, purée and concentrate. Unfortunately, for both purée and concentrate, a heavy duty of 11 % has been imposed by the EU. In spite of several protests from Brazilian processors, the EU is still holding to this tariff system. Ecuador is mainly producing aseptically packed purées and concentrates. The freight disadvantage vs. South Africa can normally be offset with duty advantage.

In Colombia the guava fruit is very popular. Approx. 4.000 mt of aseptic and frozen guava purée are being exported to the Caribbean, US and European market. No production of concentrate, as far as I know. Malaysia delivers an aseptic quality with a standard sieve of 0,5 mm and a so-called super-smooth quality (0,25mm sieve). With a duty of 7,5 % it is usually more expensive than Ecuador. Thailand is a rather small market player but the frozen product has its merits, especially the colour. Duty is 11 %, same as for Brazil.

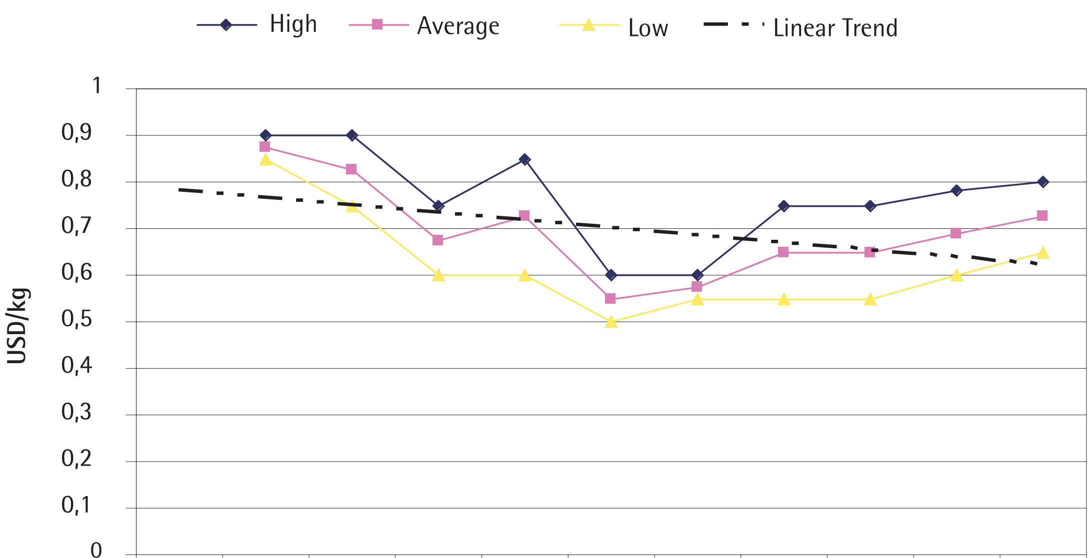
4.3. PRICING

The following graph based on data obtained by courtesy of FLÜSSIGES OBST shows the historical prices CIF Rotterdam, duty paid for pink Guava Purée 8/10° Brix. High/low and average refer to price indications from min. 5 traders and 5 purchasers.

The market experienced its lows in Nov/Dec 2002, when South African suppliers had extremely competitive prices thanks to the weak Rand. Fruit prices were mainly fixed at the beginning of the season in April/May 2002 and at that time the average exchange rate USD/ZAR = 10,63 helped the processors to exported purées below USD 470.-/mt CIF, transit. Since then, the USD has lost more than 30 % vs. ZAR. However, it increased more than 15 % vs. Brazilian Real (BRL) and Colombian Peso (COP) and it remained unchanged vs. the USD-linked Ecuadorian Sucre (ECS) and the Malaysian Ringgit (MYR).

TODAY'S SITUATION:

In order to compensate currency and possible yield losses, South African suppliers had to increase their current prices to a level between USD 550 – 650.-/mt CIF Rotterdam, which equates USD 630 – 740.-/mt on basis FCA Holland, duty paid (incl. USD 40.-/mt for terminal handling charges, in/out and one month of storage). The other producers are closely keeping track of the South Africans. Although the linear trend is still moving downwards and prices seem to stabilize within the range I mentioned above, we should not forget, that prices had been as high as USD 1.000.-/mt CIF in 1997.



	Jan 02	Mar 02	Jun 02	Sep 02	Dec 02	Mar 03	Jun 03	Sep 03	Dec 03	Mar 04
High	0,9	0,9	0,75	0,85	0,6	0,6	0,75	0,75	0,78	0,8
Average	0,875	0,825	0,675	0,725	0,55	0,575	0,65	0,65	0,69	0,725
Low	0,85	0,75	0,6	0,6	0,5	0,55	0,55	0,55	0,6	0,65

(Source: FRUIT PROCESSING)

5. ACKNOWLEDGEMENTS

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In the September/October issue of FRUIT PROCESSING another versatile and complex tropical submarket will be highlighted: Mango Purée and Concentrate.

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