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The Food Market in Turmoil - strategies for survival and growth.

The annual conference of the Chartered Institute of Marketing – Food, Drink and Agriculture (FDA) Group was held in London in April. The conference addressed several of the global and national issues that are affecting food supply and marketing as a result of the volatility of raw material prices, and changes in consumer purchasing patterns.

Iain Ferguson, Group Chief Executive, Tate & Lyle plc, in a wide ranging presentation, opened by quoting an observation made by the eighteenth century economist, Adam Smith: “The least mobile capital makes least profit”. This explains why the farmer makes least profit in the food chain and the supermarkets make most.

He also explained how it is water availability that is the key limiting factor in farm profitability in many regions. This is reflected by land prices in California. Land without water extraction rights can sell for 50 cents an acre. With water extraction it can sell at $1500–2000.

Iain Ferguson also touched on the reasons for the failure of GM technology in Europe. He put much of the lack of acceptance down to misuse of language. The use of terms such as “somaclonal” “agrobacterium” associated with food have been a major deterrent.

In summary his observation for success in food marketing is (a) to offer customers what they want and in the long term (b) to spread the benefits between the capital, labour and the customer.

Patrick Tomlinson, Head of Agriculture, HSBC Bank plc painted a somewhat negative picture of the UK and European farming sector. He explained how the consumer market value of food in the UK in 2008 was £112 billion compared with £50 billion in 1988. However at primary producer level the value was unchanged at £14 billion. In 2008, UK farm profits had risen by around 36% over that for 2007, to £3.5 billion. However, of this, £3.2 billion was from subsidies and around £0.75 billion from non agricultural activities. The industry was therefore in effect in a loss situation, and half the £7.0 billion profit earned in 1997.

On the positive side, against an asset of £180 billion the debt level of the farming industry at £12 billion is relatively low. Longer term, with increased global demand for food the industry should benefit. However Patrick Tomlinson warned against the European farming industry making the assumption that it would automatically benefit. The combination of high production costs and political factors may get in the way.

Dr Julian Little, Chair Agricultural Biotechnology Council, reviewed the status of GM crops and food. In an admission that the biotech industry had got things wrong over the last ten years, he recognised that more thought should have been put into responding to the wide variety of issues that the failed attempts to introduce GM food had brought to the surface: anti americanism, anti capitalism, anti globalisation, pro–organics, environmental issues etc. The criticism that GM crops are mainly grown by large scale farming enterprises, was countered by the fact that globally the 120 million hectare of GM crops are grown by 13 million farmers, an average of less than 10 hectares each.

Furthermore China has demonstrated that it is not only commercial companies that have brought the crops to the market. Based on public sector R & D a wide range of crops are now grown in China and in 2009 or 210 wheat and rice will be added to the list. China is no longer waiting for pre-registration in the EU before introducing new GM crops.

Consumer attitude to GM is still relatively negative in the UK. An Institute of Grocery Distribution survey carried out in October 2008 showed that 49% of consumers are concerned about GM food, but an increasing proportion, 40% are not concerned. There is a recognition of the value of GM crops, however, with 51% agreeing that they can contribute to meeting global food needs and only 11% disagreeing.

Julian Little referred to the pending arrival of soya crops with high omega 3 content in the USA. Submission for registration will be made later in 2009 or early 2010. However he could not see this health promoting crop gaining acceptance in the EU unless there are radical changes in the regulatory system.

Richard Beldam, Chairman, Openfield put a strong case for closer collaboration along the food chain. Openfield is a farmer co-operative and one of the country's largest grain traders. He quoted case study examples of how close links between farmers, processors and bread companies (Warburtons) or brewers (Coors) can lead to a more secure and equitable sharing of the profits and risk.

John Giles, Promar and Chairman of CIM FDA, recognised that the increasing influence of the BRIC countries (Brazil, Russia, India and China), means that the UK and EU have to think outside of the box and come forward with innovative marketing concepts. Underlying the overall move to lower food prices, in John Giles' view, the trend towards local branding, fair-trade or organics may slow up but it will not go away.

Ed Garner, TNS World Panel, described the gains being made by the discount stores, Aldi and Lidl, in the UK, the effect of more stores opening. Tesco's position was slowing but only marginally with a market share of 30.8 % down to 30.4% in the last quarter. Market research showed that consumers were in favour of locally produced produce although Ed Garner questioned whether consumers in reality would pay the £1.00 premium that they say they would.

Prof David Hughes, Imperial College, in rounding off the conference, saw a greater potential in the use of the new social networking links, face book etc, as a communication mechanism between customers and retailers.

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