

**Study tour to position
Australian Avocados into
New Export Destinations,
Europe, July/August 2008**

Brian Prosser
Sunfresh Marketing Co-op

Project Number: AV08032

AV08032

This report is published by Horticulture Australia Ltd to pass on information concerning horticultural research and development undertaken for the avocado industry.

The research contained in this report was funded by Horticulture Australia Ltd with the financial support of Sunfresh Marketing Co-op.

All expressions of opinion are not to be regarded as expressing the opinion of Horticulture Australia Ltd or any authority of the Australian Government.

The Company and the Australian Government accept no responsibility for any of the opinions or the accuracy of the information contained in this report and readers should rely upon their own enquiries in making decisions concerning their own interests.

ISBN 0 7341 1857 0

Published and distributed by:

Horticulture Australia Ltd

Level 7

179 Elizabeth Street

Sydney NSW 2000

Telephone: (02) 8295 2300

Fax: (02) 8295 2399

E-Mail: horticulture@horticulture.com.au

© Copyright 2008



Know-how for Horticulture™

AVOCADO EXPORT MARKET DEVELOPMENT MARKET STUDY TOUR UNITED KINGDOM AND EUROPE

PROJECT NO: AVO8032

This publication has been amended as per confidentiality granted to Sunfresh Marketing Cooperative Limited as the lead financial applicant and primary participant in this study tour.
The full report may be released after 12 months (October 2009)..

TABLE OF CONTENTS

TABLE OF CONTENTS	2
MEDIA SUMMARY	3
EXECUTIVE SUMMARY	6
Key Findings.....	6
INTRODUCTION	8
DETAILED ITINERARY AND PROGRAM VISIT	9
South Africa.....	9
United Kingdom.....	9
Spain	9
The Netherlands.....	10
France	10
Thailand.....	10
OUTCOMES	11
CONCLUSIONS AND RECOMMENDATIONS.....	13
APPENDICIES.....	15
Related Publications.....	15
Media Releases.....	16

MEDIA SUMMARY

Sunfresh Avocado Market Study Tour Group Welcomed by British and European Importers

A market study tour group from the Sunshine Coast's own Sunfresh Marketing Cooperative Limited visited key avocado and other tropical fruit import and distribution companies in UK and Europe in recent weeks.

Led by Sunfresh Chairman, Brian Prosser, the group investigated the commercial reality of Australian avocados being freighted by sea to UK/Europe during Australia's peak production period from May to September annually. "This export of our surplus fruit would lessen the pressure that high production volumes place on the Australian markets which reduces grower returns during that period to uncommercial levels" Mr Prosser said.

"Australia has the potential to deliver up to 1 million trays of Avocados to UK/Europe in 2009 and the importers have indicated that the UK/European market would welcome Australian clean and green fruit"

Mr Prosser reiterated that in June and July this year, Sunfresh led a trial to establish the ability of fresh green avocados to withstand the sea voyage of some 40 days duration to that part of the world and then be able to remain fresh and sound during the distribution and retailing period. "Sunfresh has just received the final technical and scientific quality reports from the Queensland Department of Primary Industries staff who monitored the trial" Mr Prosser said. "The results were outstanding, leaving no doubt that Sunfresh has the knowledge and the capability to deliver Australian fruit to UK/Europe market place in prime condition". The cost of conducting the trial was partially funded through a grant from Horticulture Australia Ltd in support of the industry.

The future viability of the Australian avocado industry may rest with the success of the Sunfresh Marketing Group initiative, both in their trial shipment and their establishment of supply relationships with major importers currently dominant in the UK/Europe market places. An initial shipment of avocados is being scheduled at the earliest possible times, with main stream supply commencing in the new 2009 season.

All inquiries to:

Tom French

Secretary, Sunfresh Marketing Cooperative Limited

0419787526



Sunfresh Group member, Pru French, inspecting displayed Avocados at Paris's upmarket La Fayette Galleries store - \$AUD 2.32 ea



Sunfresh Group members and major United Kingdom importer representatives after meeting in London's Hampton Court



Sunfresh Group members with France's major importer at the company distribution centre on the southern outskirts of Paris

EXECUTIVE SUMMARY

Market entry is often considered to be the least technically complex innovation challenge for Australian food companies; consequently it is often receives the least attention. However, when doing business in a foreign country, it is important to estimate the value of the future flow of profits – these have to be larger than the entry costs. Proper research and planning can prevent the frustration and wasted resources that accompany a market entry failure. For this reason, Sunfresh Co-op (in conjunction with Avocados Australia Ltd) was successful in securing support from Horticulture Australia to conduct a study tour of South Africa, the UK, France, Spain and The Netherlands.

The main objectives of the market study were to:

- Identify the major importers and distributors of avocados to the U.K. and EU
- Secure information on the current supply chains, including the product and information flows and relationships
- Identify the key providers in the existing supply chains and the potential to partner with them.
- Identify any market entry barriers.

Key Findings

From the market study tour research Sunfresh Marketing Co-op was able to identify:

- The price variation between the U.K, the EU and Australia; and that the economics of supply were generally favourable within Australia's supply time frame (May to September).
- That Australia's supply window was indeed during the peak supply period of other major producing countries around the world e.g. South Africa, Peru, Chile and Mexico;
- Requests were received by potential collaborators to purchase Australian fruit because of its quality of supply, and because there is also changing market supply (eg. it is expected that Peru will supply the US market in mid-2009 and there will be a significant deficit in supply to the EU). The avocado pricing generally for the periods (received at EU or UK destinations) June, July, August, September and October would return a profit to Australian growers.
- Product specifications including the size ranges and pack sizes that are attracting the highest returns.
- Ripe-and-ready programs are well established and growing
- EU quality accreditation requirements (such as Global Gap).
- Current consumer behaviour (at retail) and requirements for avocados
- Logistics and handling infrastructure that will be required to coordinate Australian supply from multiple growers.

It is imperative that a 'real time' container shipment trial is progressed as soon as possible. Collaboration with existing international partners is critical because on a global scale

Australia is a very small player in the world avocado market. A 'real time' shipment is important to demonstrate the robustness of the international market, including understanding supply chain issues to optimize product quality, freight logistics (road and sea transport), and strengthen alliances with the importing countries identified in the study tour.

The information gathered will enable Australian avocados, for the first time, to be exported in volume into the U.K. and EU market profitably during the months of May through to September annually. This is likely to be 4,000 tonnes of avocado in 2009. In addition, the movement of surplus product offshore will help maintain a more stable and profitable domestic market price. This will have a direct effect on holding up domestic avocado prices and thus the economic viability of the industry.

INTRODUCTION

Sunfresh is a grower cooperative based at Palmwoods on the Sunshine Coast. For over ten years the company has demonstrated its commitment to develop and grow exports by establishing strong international partnerships in Singapore, Thailand, Malaysia and Hong Kong exporting to these countries. This has led to market growth, in-store promotions and in some markets the opportunity to have input into managing the avocado category at the retail level. Sunfresh has recently developed new market opportunities in the Middle East through participation in DPI&F facilitated Gulf Foods initiative, and in Asian based trade fairs. As a result, several direct inquiries from European and international distributors have been received, suggesting market potential in these markets also.

Sunfresh has only 5% market share of the total Australian avocado production but they are the largest exporter. The company has taken the initiative to establish new export markets (for the benefit of all Australian growers), as Sunfresh on their own, would not be able to meet demand and would be seeking a collaboration of avocado growers to continue to build capacity.

The recent desk-top study report compiled by the Queensland Department of Primary Industries and Fisheries (Avocado export market development to the European Union, 2008) compliments this EU Study tour. The desk-top study identified that the EU is the second largest avocado market after the USA. The primary information that still needed to be collected for the EU included supply, pricing, product specifications, and each export markets structure. In addition, collaboration with existing suppliers to the EU is imperative to gain a better understating of the market, product shipments, freight options and transit routes, share of resources and maximise returns.

The countries that have the same seasonal avocado supply as Australia are South Africa, Kenya, Peru, Chile and Argentina. Mexico supplies all year round but volumes are low during May to October (Australia's supply season). It is believed that Peru will have access to the previously inaccessible USA and Japanese markets by mid-2009. For this reason, there is likely to be a shortfall in product to the EU as it is diverted to the USA market.

The overall objective of the study tour was to gain a firm understanding of European supply chain for avocados, in order to develop an integrated and co-ordinated market entry strategy, trade development and promotion for Australian avocados.

DETAILED ITINERARY AND PROGRAM VISIT

The participants of the study tour included key personnel from Sunfresh Co-op that are critical to the export transactions. The Sunfresh participants were:

1. Brian Prosser, Chairman Sunfresh
2. Judy Prosser, General Manager Sunfresh
3. Tom French, Director/Secretary Sunfresh
4. Prudence French, Sunfresh member grower

A member of Avocados Australia Ltd (as a representative for the Australian Avocado industry) intended to accompany the group, but was unable to participate once the itinerary was finalised. However, AAL have indicated that they will support the industry in establishing an export company (single desk marketing); similar to the Riversun citrus marketing model. Riversun Export Pty Ltd was formed in 1992 by a group of citrus exporters and packers based in the Riverland of South Australia and the Mildura Fruit Company in Victoria as an umbrella organisation under which citrus fruit would be exported to the US. Riversun has coordinated the distribution of growers' citrus fruits into more than 40 US states for the past 14 years.

The Study Tour

Please Note: Details of the study tour have been removed to preserve confidentiality for Sunfresh Marketing Co-op Ltd as the lead contributing financial partner. The study tour contains details of potential collaborating international partners, key personnel and company infrastructure. This information will be released after 12 month confidentiality has expired (September 2009).

South Africa

- *Wed 6 August 2008 – Air travel – Brisbane/Sydney/Johannesburg*
- *Thur 7 August 2008 – Road travel to Tzaneen*
- *Sun 10 August 2008 – Road travel to Nelspruit*
- *Mon 11 August 2008 – Road travel to Johannesburg*
- *Mon 11 August 2008 – Air travel from Johannesburg to Cape Town*

United Kingdom

- *Tue 12 August 2008 – Air travel, Capetown/London (Heathrow)*

Spain

- *Sat 16 August 2008 – Air travel, London (Gatwick) to Malaga, Spain*
- *Sun 17 August 2008 – Air travel, Malaga/London (Gatwick)*

The Netherlands

- *Mon 18 August 2008 – Air travel, London (Gatwick) to Amsterdam*

France

- *Wed 20 August 2008 Amsterdam/London Heathrow*
- *Wed 20 August 2008 London Heathrow/Paris*

Thailand

- *Sat 23 August 2008 – Air travel, Paris/London Heathrow*
- *Sat 23 August 2008 – Air travel, London Heathrow/Bangkok*
- *Wed 27 August 2008 – Air travel, Bangkok/Sydney/Brisbane*

OUTCOMES

In the Avocado Industry Strategic Plan 2005, this project specifically targets Strategy R2.1: Development of remunerative niche markets overseas - to spread risk and broaden the industry's market base through diversification. In addition, this Study Tour builds on HAL project AVO7031 (a static trial of a 40ft shipping container to European destinations), as it is developing the market access and value chain for quality outturn of Australian avocados to these destinations. The outcomes of this project will be beneficial to the industry at large and not just for Sunfresh. Success will initially allow export of the surplus avocado crop and allow future profitable growth of a potential major export industry. It is expected that growth of export market value by 10%, and an increase in the number of export destinations by 15%, by 2012.

Participation in this study tour was invaluable for the amount of knowledge gained, including market potential, logistics understanding and economic value of the products in the supply chain. It has created an opportunity for Sunfresh to apply the tour learning's to Australian operations, for export to EU and UK ports and the ultimate benefit of Australian avocado growers.

The major findings were:

- The markets with the best export potential are ports in the UK, Netherlands and France. Spain has potential but is not a high priority at this time, but could be a lucrative export destination in the future.
- The market opportunity in the UK and Europe is projected to be \$6 million euro (\$AU 10.5 million). The Australian capacity required to supply this demand is 200 40' containers in the 5-month supply season, in 2008/2009.
- EU retail food markets are a highly sophisticated alliance of large retail conglomerates, with a small number of preferred distributors that have strong relationships with their international consolidators.
- Collaboration with existing suppliers to the EU is imperative to gain a better understanding of the market, product shipments and transit routes, share resources and maximize market returns.
- EU returns indicate periods of profitability during the Australian avocado production season as global supplies fluctuate. That is, Australia will be able to supply product to export markets either when domestic prices decrease as more product comes on to the market, or when climatic conditions effect supply from international growing regions that are similar to Australia (ie. South Africa and South America).
- Exact costs imposed on new shipments to Europe are currently untested but a commercial trial would identify unknown logistical costs and finalise total costs.
- Further development of commercial partnerships with companies from other current supplying countries may provide new logistical solutions for Australian exporters.

In summary, the participants were asked (as a group) to rate the success of the study tour, considering the level of knowledge they had gained and to assess how "Export Ready" they now felt that Sunfresh Co-op is, to take on this opportunity.

The 'confidence scale' goes from 1 to 5 with: 1 = not at all confident, 2 = not very confident, 3 = unsure, 4 = somewhat confident, 5 = very confident

Are we confident that...	1	2	3	4	5
We have a strong business in Australia.					X
We are committed to growing our business internationally.					X
We have learned what consumers value in the markets we want to enter.				X	
We have learned about the business culture in those markets.					X
We know how to build relationships in the market.					X
Our products are definably Australian.				X	
Our products will be price competitive in the segment we are targeting.			X		
Our service/supply chain is reliable.				X	
We have capable staff who will manage our export growth.			X		
We have the financial resources to invest in new markets.		X			
We will be able to consistently fill orders from new markets.			X		
We are prepared to invest for a medium to long-term return.					X

Sunfresh Co-op would like to establish an umbrella organisation under which avocado fruit would be exported to the EU. The primary aim of such an initiative is to ensure that produce destined for the EU market is distributed through systems that provide consistent and reliable product to EU buyers and consumers. By achieving these goals, returns to the Australian industry can be maximised.

It is anticipated that the proposed Export Company would:

- need to have dedicated staff to manage the export growth and handle the financial transactions;
- manage grower membership in Australia;
- have the responsibility of coordinating supply to each export market (to accommodate global shortages that occur due to climatic problems and trade issues);

- seek financial investment and support from growers, from industry bodies (eg. Horticulture Australia Ltd, Avocados Australia Ltd), and from collaborating international partners;
- conduct on-going research into optimising transport efficiency, maintaining fruit quality during transit and in-market research.

CONCLUSIONS AND RECOMMENDATIONS

The study tour must be viewed as the initial step in the process that has the potential to stabilize the Australian avocado industry. The movement of surplus product offshore, will help maintain a more stable and profitable domestic market price.

The willingness of all representatives that the party met with to accommodate both the prospect of receiving Australian avocados and specifically, dealing with Sunfresh as the Australian exporter was notable.

Price indications are average in general and will be no match for the higher end of the Australian domestic market prices early and late in the season. However, historically, Australian domestic prices suffer a major depression when the major producers commence supply in May or June each year. This depression is expected to be even greater in the coming years due to the huge increase in supply forecast as a result of year 2000+ plantings (Hass). The export price for Australian avocados at this time of year is expected to give a far greater return to the growers than the return from the depressed domestic market.

A most important additional benefit which will accrue from exporting fruit at this oversupply time is the likelihood of keeping the Australian domestic market price at a profitable level through removal of the oversupply quantities. There were a number of significant actions that came out of the study tour including:

1. Requests were made by international companies for real-time 40' or 20' trial container shipments of avocados as soon as possible and ideally a "real-time" trial shipment in 2008 (this season). The conducting of a "real time" trial will confirm the economics of the opportunity when the transaction costs of participants in the supply chain are considered.
2. In order to give some certainty to our industry, Sunfresh Co-op should participate in the world suppliers meeting convened in Berlin in February each year and present expected annual supply forecasts for the Australian Avocado industry.
3. The formation of an umbrella organisation under which avocado fruit would be exported to the EU (similar to the Riversun citrus marketing model). This company will need to formalise financial backing, key personnel, and the support of Australian growers.

Though Sunfresh Marketing Co-op has initiated this study tour, they do not have the financial capacity to conduct a 'real time' sea freight trial on their own. In addition, no single Australian grower can supply the EU and UK markets; and thus a cooperative, regional effort will be required; thus Sunfresh are proposing the development of an umbrella organisation as indicated above.

Sunfresh Marketing Co-op will continue to lead the industry in this opportunity and would seek the support of Avocados Australia and Horticulture Australia to set-up a logistics and handling infrastructure to export Australian avocados.

APPENDICIES

Related Publications

Hofman, P., Marques, R., Stubbings, B., Taylor, L., Ledger, S., Campbell, J., Barker, L. (2008) Long term storage of Hass avocados – the potential for seafreight to Europe. Asian Queensland Government DPI&F: Markets for Horticulture Initiative – A Queensland export program.

McGrath, C., Macleod, N., Wanigesekera, D., Tucker, B., Stewart, L., Tatt, P., Smith, P. (2008) Avocado export market development to the European Union. Queensland Government DPI&F: Asian Markets for Horticulture Initiative – A Queensland export program.

Media Releases

Tuesday, September 16, 2008

Sunshine Coast Daily

PAGE 40

Growers set to reap fruit

French connection looking good for millions of Coast avocados

COMPLETING a successful shipping trial next month was all that remained to ensure as many as one

million trays of avocados grown in the wider Sunshine Coast region were exported to Europe in 2009.

That was the positive assessment of Sunfresh Marketing Co-operative secretary and local avocado grower Tom French after returning from a market study tour group to South Africa and Europe last month.

Mr French said he was "very confident" the trial shipment would be the final piece of the puzzle.

He also said the tour, which took in markets such as England, Spain, the Netherlands and France, had confirmed local growers could expect to receive better prices for their products than they would in the over-supplied Australian market.

"They were selling avocados in Paris for the equivalent of \$2.32. We found if we could get ours there and sell them at price, we'd make a profit," Mr French said.

"At the moment they're selling in Australia for between \$1.25 and \$1.99 each, depending on size and quality. But in our peak production period (May to September) they slump to as little as 50 cents."

He also said even those prices could be under pressure next year if a forecast major oversupply materialised.

In July this year, Sunfresh completed a trial at Palmwoods to confirm Sunshine Coast-grown avocados could be shipped to Europe on specially-designed trays and still be in peak condition on arrival after a voyage of between 35 and 40 days.

Sunfresh chairman Brian Prosser said the market study tour had confirmed importers operating in the UK and European markets would "welcome Australian clean and green fruit".

Mr Prosser also said Sunfresh had just received final technical and scientific quality reports from Queensland Department of Primary Industries staff who had monitored the trial.

"The results were outstanding. They left no doubt Sunfresh has the knowledge and capability to deliver Australian fruit to the UK/Europe market place in prime condition," he said.

Mr Prosser also said the future viability of the Australian avocado industry could rest with the success of the Sunfresh Marketing Group initiative which has been supported by all levels of government and the industry itself.



CHECKING THE MARKET: Sunfresh tour group member Pru French checks out avocados for sale in the upmarket Lafayette Galleries store in Paris during the tour. The purchase price was a healthy \$42.32 equivalent.