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Investing in Olive Oil

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Abstract[1]

Olive oil represents merely a 3% of the total oil consumption in the world. Its main consumers are also the major producers, the Mediterranean countries. Other increasingly important consumers are the U.S.A., France, U.K., Japan and Germany. Italy, with a consumption of over 705,000 tons equivalent to 25% of the total consumption in the world, was the principal consumer in 2010. Spain was in second position, accounting for around 20% of the total consumption with 560,000 tons. Interestingly enough, rather than another Mediterranean country, the U.S., became third in total consumption of olive oil during the year 2009-2010. They consumed a total of 255,000 tons, corresponding to a 10% of total consumption. It is important to mention that even though most of the Mediterranean countries have such a high demand for olive oil, they consume almost exclusively what is produced in their own countries. Contrary to that, U.S.'s intake of this specific oil relies almost entirely on imports, allowing for a great investment opportunity. Other important consumers such as China, Germany, Japan and the U.K. also rely heavily on imports, yet their consumption levels are significantly lower than the ones found in the United States of America.

A Market Study

Due to contemporary global health issues such as obesity, other overweight-related diseases and in general an incline to a more sedentary lifestyle, the average citizen is increasingly becoming more aware of the necessity of following a healthier diet. This expansion of knowledge is being achieved through the aid of governmental commercials and other important health-conscious corporations that display many of the benefits such as the contribution to a lower incidence of disease and the increase of life expectancy. It is mainly due to this reason that on average, the people over thirty years are inserting these specific healthier products into their lives. One of them, and by many, recognized as the most important contributor to a healthier lifestyle, is olive oil (Proargex, 2010).

Many studies and researches have proven the qualities of olive oil. It reduces the risk of cardiovascular diseases, helps reduce blood pressure, eases and even prevents diabetes and colon cancer, and slows the aging process (Editor, 2012). Understanding this, it becomes obvious that a future high consumption habit of olive oil in the medium/long run can help assure health.

To quickly review and evaluate a potential immersion into this market as a Spanish producer and exporter of olive oil, this market study will focus on answering the question of what nation ensures the best option to begin exporting this product to. Four specific nations that are nowadays recognized as some of the top non-producing olive oil consumers will be examined (Proargex, 2010). These will be evaluated not just by their levels of consumption, which may not be as relevant in quantitative terms as in qualitative terms, but also by future market growth expectations (Mili p.2, 2001):

1. Germany

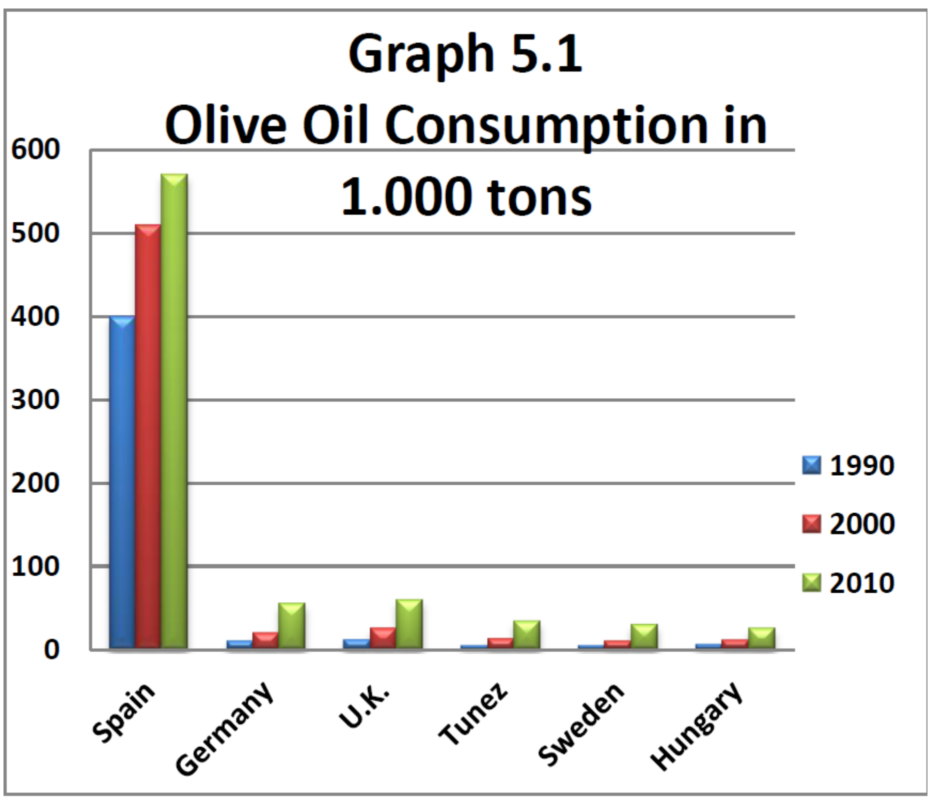
[1] *Note.* All percentages and figures have been directly obtained from the Spanish Institute of Foreign Trade official website: http://www.icex.es

2. Japan
3. United Kingdom
4. United States of America

It is important to mention that even though there are several other nations that display a significantly higher level of consumption such as Greece, Portugal, France, etc., these latter nations produce their own olive oil. On top of this, it has been proven that producing countries tend to reject foreign olive oil. Italy is the only exception to this rule given that although they are the top exporters, they are also the largest importer, "with 40 per cent of world imports" (Anania 9, 2012). The reasoning behind this fact is that Italy purchases directly from Spanish producers to re-sell it worldwide at a much higher price, minimizing Spain's competitive advantage of being the main producer. Consequently, the option of exporting to any of these nations has been excluded from this paper. Through an effective trading partner search, and solely taking in consideration factors such as consumption levels, purchasing power and demand, the U.S. seems to be the best and safest option for a Spanish olive oil company to start exporting their products.

Germany

From past studies made for this class, it has already been concluded that the German market offers a potentially safe investment for a Spanish corporation, yet is it the best option amongst the four possibilities? The Italians have a very high competitive advantage and the market is expected to only grow at a very low pace (Mahlau, 2002). According to the Spanish Institute of Foreign Trade (ICEX), Germany consumed on average 42,000 tons per year during the period 2005-2009. As shown in Graph 5.1, Germany's levels of consumption are amongst the highest of the EU's non-producing countries. Spain produces almost 80% of all the olive oil that is being traded around the world, however, it is true that although Germany seems to be a good market for this kind of product, it does not necessarily mean that it is a good business for a Spanish exporting corporation. In fact, in 2010, Spain only exported olive oil to Germany equivalent to



Source: International Olive Oil Council (July 2010) approximately 40 million Euros, whereas Italy's exports reached 396 million Euros. This is mainly due to the reason that since the early 80's, after Spain's dictator's death completely lifted up the trade barriers, Italy has been buying most of the Spanish olive oil directly from the producers and sold it around the world as Italian olive oil (Cabello de los Cobos, 2005). Germans associate not only pasta to Italy, but also olive oil, and it would take a very strong and effecting marketing campaign along with several other radical processes to reach exporting figures similar to Italy's (Mahlau, 2002).

It can be concluded that even though Germany is an attractive market for a Spanish olive oil exporting company in Europe, it might not be the best country to start exporting to. It is a relatively safe investment given that it is a market that is forecasted to keep on increasing in the future, yet as a whole, due to factors such as the relatively low current low consumption per capita, it leaves little room for high profits. The German market is a good and almost essential option to expand exports, yet regarding the topic question, it should not be the first choice to commence exporting.

Japan

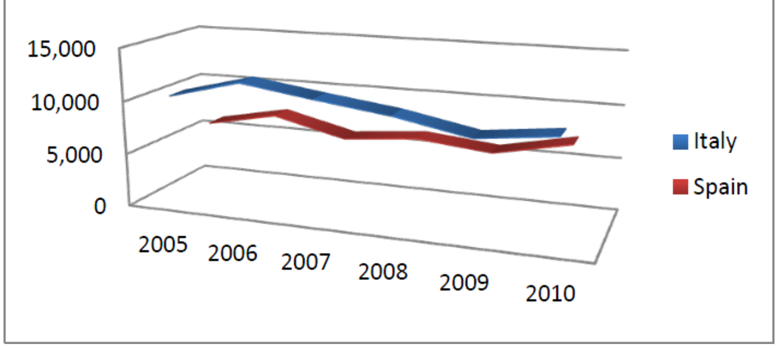
The Japanese olive oil market taken as a whole is a very interesting choice for Spanish corporations of the same sector. The level of dependency towards imports is practically 100 per cent. Italy is the principal supplier of the Japanese market very closely followed by Spain. The exact data is exhibited in Table 5.1:

Table 5.1 Japan's Olive Oil Imports in tons												
	2005		2006		2007		2008		2009		2010	
	Quant.	%	Quant.	%	Quant.	%	Quant.	%	Quant.	%	Quant.	%
Total	17.926	100.00	16.807	100.00	16.705	100.00	18.335	100.00	21.440	100.00	22.467	100.00
Italy	9.337	52.09	8.345	49.65	8.632	51.67	8.548	46.62	9.971	46.51	13.224	48.15
Spain	7.635	42.59	7.351	43.74	6.317	37.81	7.729	42.15	9.327	43.50	11.679	42.52
Source: Japan Tariff Association (december 2010, provisionary data for 2010)												

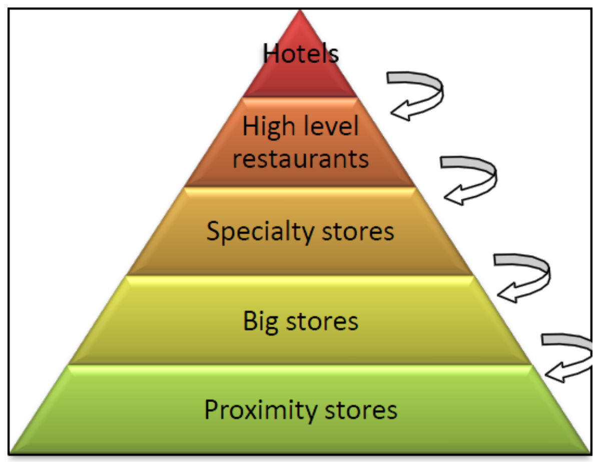
As seen in the above mentioned table, Spain's olive oil image is vastly superior to the one found in Germany. Taking into consideration the characteristics of this sector, it seems possible to even further improve the position of Spanish national products in Japan and become the main supplier in the short-medium run (Mañueco, 2011). The olive oil market in Japan is currently in expansion at a very continuous rate. Graph 6.1 displays the amount of Yen spent on imports by Japanese consumers during the period 2005-2010.

Forecasts regarding the situation of Spanish olive oil, are very optimistic mainly due to two facts: on the one hand, the increase in consumption over recent years in a country of 125 million high income inhabitants, and secondly, due to the increase in participation of food trade with non-Asian countries (Rodríguez p.9, 2003). However, there are also few drawbacks to be considered. Attributable to the difference in cuisine customs, per capita consumption is still quite low in Japan: 0.24 kg. Another problem Spanish exporting companies are encountering is that their products are too frequently sold to small retailers exclusively, which is creating a great dispersion of demand within the country and is costing a lot of money to the distributors (El Exportador, 2004). The office of economics and commerce of the Spanish Embassy in Tokyo finds it necessary that in order to resolve this issue, importing companies should follow the steps of the pyramid displayed in Graph 7.1[2]. It is a very successful strategy that was first used by Italian distributors in the early 1980s. It consists in giving a very privileged image at first, only distributing to high-class hotels, but little by little offering the product to the more ordinary customers (Mañueco, 2011).

Graph 6.1[1] Imports Comparative between Spain and Italy (in million Yens)



According to Samir Mili, Senior Researcher of the Spanish Council for Scientific Research, "the international olive oil market has traditionally respond more to supply criteria than to policies to promote demand and capture markets" (Rodríguez p.3, 2003). In order to address this issue, Spanish corporations have to unite and work on an initiative to obtain a larger niche of potential customers.



Graph 7.1[1]

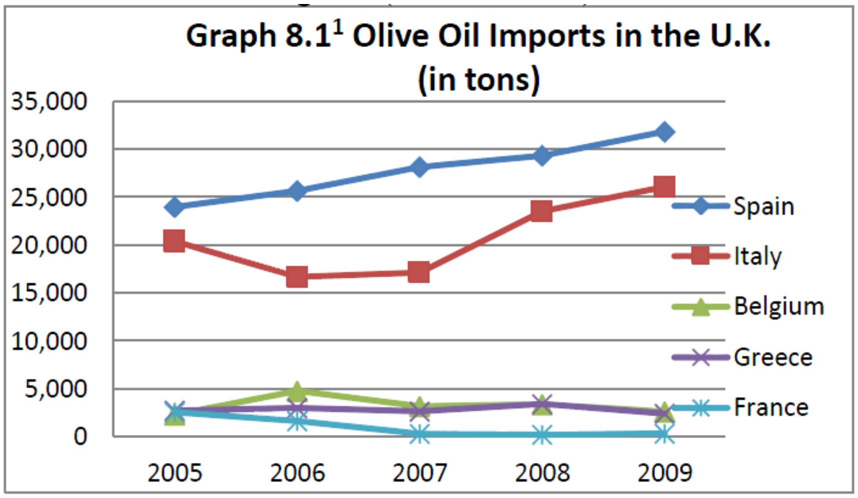
To conclude, although per capita consumption is quite low and the distribution issue is something that inevitably has to be fixed, due to the increasing market share and the overall growing demand, it can be concluded that the Japan market is a very attractive country to begin exporting Spanish olive oil to.

United Kingdom

At present time, Spain is considered to be one of the favorite vacation destinations for U.K. citizens. The arrival of millions of British citizens to the Spanish coasts has played a key role in

[2] *Source: Japan Tariff Association (December 2010, provisional data for 2010)*

the expansion of this product. According to the newspaper "The Guardian," even though tourism has suffered greatly from the economic recession, "some 17 million British tourists land at Spanish airports or drive across the border every year" (Tremlett, 2008). Many of these have learned to appreciate national customs of the Iberian Peninsula such as the Mediterranean cuisine, and through it, olive oil has become a basic product and almost necessity in their households. The British interest towards a healthier diet, along with the latest nutritional tendencies, anticipates an excellent future for the olive oil market in the United Kingdom (Dalmau, 2010).



A shown in Graph 8.1[3], Spain is the top importing country, yet it must be stated that due to higher prices entailed by its image, it is Italy that obtains the most profit out of this market. The introduction of olive oil has so far been a great success, yet most British citizens only make use of it to dress their salads. As a result, the Spanish Institute of Foreign Commerce in London finds it necessary to further promote the use of olive oil not just as a dressing, but as a cooking supply.

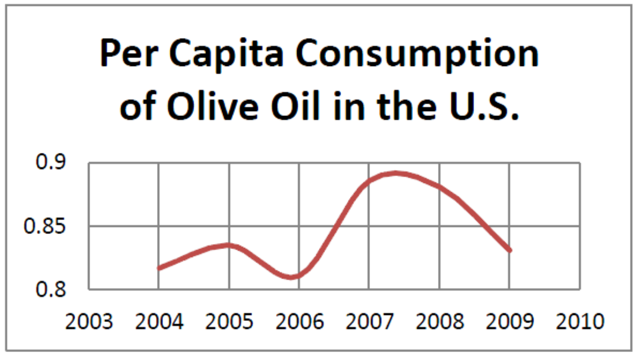
British consumption per capita is around 0.94 kg. Evidently it is not comparable to Spanish and Italian levels that have been quite stable for the last 10 years: Spain at 10.5 kg, Italy at 11kg and Greece at 19.5kg (Mili p.398, 2001), yet in spite of that, it has the highest consumption levels out of all non-producing nations. It is important to point out as well that the current crisis has had a great impact on the high quality food sector in Britain (Dalmau, 2010). Italy in particular has been greatly damaged by it. However, as can be appreciated in Graph 8.1, Spanish olive oils have been almost unaffected by it. The olive oil market in the U.K. is safe and will keep on growing at a continuous rate, Spanish imports are regarded as higher quality than it other discussed nations such as Germany or Japan and its per capita consumption is the highest among all non-producing nations. All of these statistics provide evidence to the safety of a potential investment of this kind in the U.K. and confirm that it would be a wise choice to begin exporting here rather than to the previously discussed countries.

United States of America

Firstly, it is important to mention that the U.S. does undeniably have its own production of olive oil, located in the state of California, yet its production levels are so exceptionally low compared to the amount imported, that in this paper it is regarded as a non-producing nation.

[3] ***Source: World Trade Atlas***

With a consumption of little over 250,000 tons in 2010, the U.S. stands as the nation with the third highest consumption level of the world, only behind Italy and Spain. Its per capita consumption is not too high though, being displayed in Graph 9.1[4] closing at around 0.83 per capita in 2009. However, considering there are over 100 million mature consumers with a high purchasing power and accustomed to quality products, this market exhibits an excellent environment for an initial investment (Proargex,2010).



Graph 9.1[1]

Regarding the image of Spanish olive oil in the U.S., it must be said that citizens of this country assume it to be of lesser quality compared to the Italian. Once again, this is due to the reason that the greater part of imports comes from Italy, even though most of the Italian olive oil is actually originated in Spain. In the year 2009, Italy imported a total of 91,914.1 tons, Spain only 19,996.6 (Proargex, 2010). The true issue about this market arises when looked at the distribution of olive oil. Spanish oil is still only available in smaller retailers and specialty stores whereas the Italian one is found in all restaurants and stores. The Spanish Institute of Foreign Commerce has already put their hands on the task and established several deeper integration strategies. They agree that in order to continue increasing the amount of olive oil imported, Spanish companies have to focus on Food Service chains that have grown considerable in the last decade. It is more than common that citizens of the U.S. prefer to go to a "Fast Food" restaurant rather than cooking at home. This lifestyle has brought with it many overweight-related diseases from which 35.7% of the total population are currently suffering from (U.S. Obesity Trends, 2012). Table 10.1 offers a look at the main "Fast Food" chain restaurants in the U.S. as listed on "Nation's Restaurant News". Introducing the Spanish national oil to any of these restaurant chains is key to further enhance Spain's image as the main producer of olive oil in the world.

Chain	Type	Sales (US$ Billion)	Stores
McDonald's	Sandwich	28,6	13.862
Burger King	Sandwich	8,9	7.210
Subway	Sandwich	8,2	21.195
Wendy's	Sandwich	7,9	5.936
Starbusck's	Coffee	7,2	10.183
Taco Bell	Sandwich	6,1	5.580
Aramark Food & Suppor Services	Catering	6,1	3.486
Pizza Hut	Pizza	5,4	7.515
KFC	Chicken	5,3	5.358
Dunkin' Donuts	Beverages & Snacks	4,75	5.670

Table 10.1

Overall, although Germany and Japan are among the safest options to start importing Spanish olive oil, the British and American market offer many more benefits and guarantees for a safe start. Regarding these latter nations, it is clear that Spanish olive oil corporations have a greater

[4] *Source: Foreign Trade Division U.S. Census Bureau*

advantage and are currently able to import a higher amount of their products to the U.K., derived from their competitive advantage in this market gained through the recent British fashion of spending their vacations on Spanish coasts. However, the U.S. market offers many more possibilities for a greater and better distribution, which in the long run could lead to a greater benefit. Both markets seem equally safe for an initial investment and guarantee the purchase of the national product. Spanish olive oil is regarded in the U.K. at a much greater value than in the rest of countries and even stands ahead of Italy. Nevertheless, due to limitations of per capita consumption and population, this country does not offer too much room for further expansion. Consumption in this country will continuously keep on rising, yet ICEX expects it to increase at a slow rate. On the other hand, the amount of consumption in the U.S. due to its elevated population is incredibly high. If Spanish companies start to regain market share in ways such as the one described previously via “Fast Food” restaurants, the imports demanded could experience a dramatic increase to levels as high as 50,000 tons annually(Proargex, 2010) resulting in a better image and acknowledgment for Spanish products. Taking in consideration the U.S. is the window of the world and consumers are increasingly demanding olive oils differentiated on the basis of the image displayed by the producing country, Spanish olive oil would benefit not just in the American market, but most likely all over the world as well (Anania p.16, 2012). The U.K. offers current high benefits but very limited possibilities for future increase in demand whereas the U.S. offers lower current benefits but potential outstandingly high benefits in the future. In the end, it is a matter of choice.

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