CBI
Ministry of Foreign Affairs

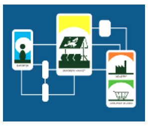
CBI Market Channels and Segments: Spices and herbs

'Your trade route on the European market'

Management summary

Market channels are changing rapidly as a result of developments in the sector. The increased power and development of suppliers, scarcity and the growing popularity of sustainability are the most important drivers of change. This is accompanied by more direct sourcing, cooperation and integration in the trade channel. Small and medium-sized companies (SMEs) in developing countries (DCs) should anticipate these changing market dynamics. There are opportunities for developing your business but players that do not add value can find themselves being cut out of the supply chain.

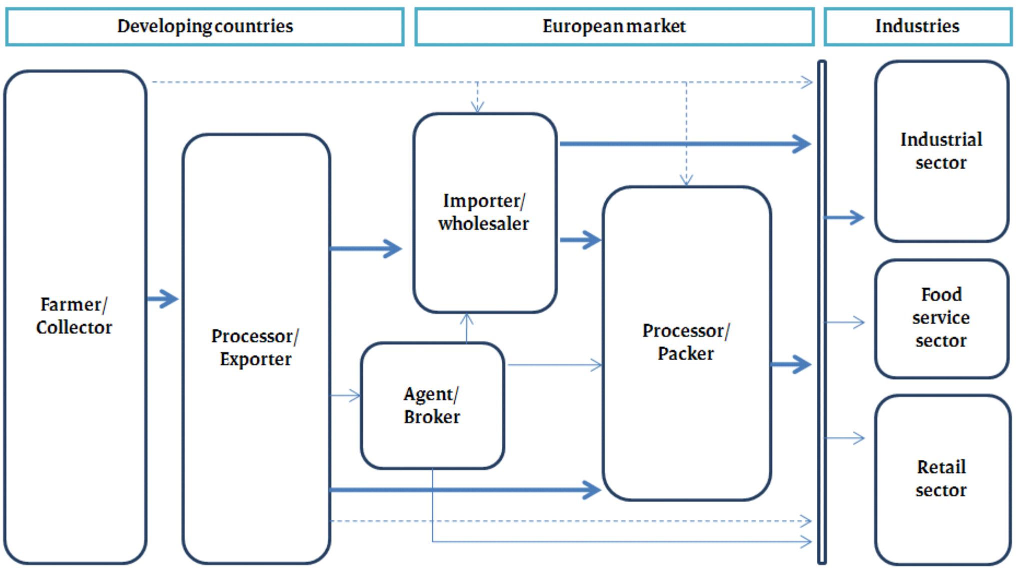
Figure 1: Visual presentation of market channel spices and herbs



Thickness of the arrow indicates the importance of trade flow for exporters from DCs

Low

High



Trend 1: Changing trade dynamics

- ***Direct imports increasing:*** in a market characterised by an increasing sense of scarcity, especially of produce that meets strict quality and safety requirements, EU actors are looking for ways to gain control of their supply chain and secure supply. One strategy that is gradually being applied more frequently is cutting out actors through direct sourcing. The spice trade is too specialised and too small for most food manufacturers to import directly. However processors and blenders that do not import can cut out EU importers or agents/brokers by importing directly from producers or exporters. Roles in the trade channels are therefore integrating even more. One company often performs different roles in the trade channel. EU buyers are in some cases moving directly to the farmers for the same reason. Therefore increased direct sourcing can provide opportunities, but may also threaten your own position.
- ***Cutting channels and crossing continents:*** EU importers, processors and, in some cases, large food processors responsible for high trade volumes that need to secure supply in the spice and herb sector, are increasingly active in countries of origin. They are working closer together with farmers and exporters. In some cases, they are taking over companies or setting up their own facilities in countries of origin. For example, the Dutch actors Olam and Nedspice have recently set up and expanded processing facilities in Vietnam to deliver high quality processed spices and herbs to international markets. There are also examples of exporters in sourcing countries moving more towards target markets. In India there are examples of companies taking over consumer packaging for British retailers such as Tesco from British packagers. Some are also taking over British companies to market their own product lines. However this is a strategy that is often beyond the means of SMEs.
- ***More opportunities for SMEs***: Another result of increased scarcity is that most EU buyers prefer to deal with a select number of larger growers, processors and traders that combine high quality, high volume, and consistency. However the fact that many spice markets have to deal with short-term and/or long-term supply scarcity often forces EU buyers to work with whoever can deliver, including smaller SMEs.
- ***Reduced stocks in the EU***: EU buyers are reducing stocks to cut costs. They are increasingly working on a just-in-time basis (i.e. smaller but more frequent deliveries). As order sizes are reducing it will make it

Considerations for action

- Directly sourcing large EU players can increase opportunities for direct cooperation. By investigating their demand on supply quantity and services required you can increase your chances of working directly for EU processors and blenders. Explore cooperation with other exporters in your region. Areas of collaboration could be: economies of scale, quantities, quality testing, transportation and communication.
- It is important to note that processors and blenders can be more demanding regarding supply volume and continuity than traders, as they depend on continuous supply for the production of their final products.
- In order to deal with larger buyers you are advised to improve communication and your level of professionalism:
    - Adapt modern methods of communication to stay in touch with your buyers (LinkedIn, Skype, Facebook) and develop a professional website and company brochure
    - Visit trade fairs (FIE, HIE, SIAL, Anuga) and study trade fair catalogues for trade leads
    - Reply promptly to enquiries from possible buyers (within 48 hours)
    - Be open and realistic and do not make promises that you might not be able to fulfil
    - Meet requirements set by buyers when asked for samples and ensure that samples represent average product quality and are correctly packaged and labelled.
- If you are not able to supply at least one container within your buyer 's short time frame it is unlikely to be cost-effective for you to supply the EU market. If you come up short you can try and work together with other suppliers interested in supplying the EU market.
- To improve your relationship with your suppliers it is recommended that you work with reliable collectors that have integrated sustainable practices (e.g. fair prices). In recent years many farmers gave up

harder for exporters in DCs to fill up a container within the short time frames that make it cost-effective to export to the EU. A container is considered the minimum order size for shipping to the EU market.

- ***More cooperation in origin***: suppliers in origin have benefitted from high prices in recent years and due to better organisation and access to price information, they are better able to play the market. This is already leading to more cooperation between and the integration of farmers, traders and processors in countries of origin. Cooperation and integration are important long-term survival strategies for traders and processors in origin that might find their own position threatened by direct sourcing and backward integration by buyers in consumer countries.

cultivating spices and herbs due to the low prices paid. Farmers will maintain cultivation as long as prices are higher than those of competing crops (coffee, soy, palm, rubber and cashews). If you are looking to gain more control of your supply chain, it is worth considering setting up your own collection stations.

Trend 2: The growing popularity of sustainability

- ***Addressing sustainability issues is crucial***:
  Sustainability issues partly arise as a result of the increasing pressure on resources, and partly because of increasing awareness of these issues. This has led Northwestern EU companies in particular to take initial action to address these issues. The increasing popularity of sustainability is also changing trade channels. Many operators are now asking suppliers to comply with minimum sustainability criteria as perceived by EU buyers (e.g. no child labour, responsible pesticide use, healthy and safe working conditions and minimal ecosystem degradation). This results in a more open and transparent supply chain. Another important aspect is the growing market for certified sustainable products: organic, Fairtrade and Rainforest Alliance are the most common certification systems in the EU market. Chain of custody is a crucial element in sustainable certification, requiring every actor handling sustainable products to be certified. This ensures that products can be traced back to their origin and that sustainable products are not mixed with conventional ones.
- ***Certified sustainable products will become more mainstream***: due to their growing popularity, sustainable certified products are becoming more mainstream. Many large retail chains sell Fairtrade and organic spices. With the increasing integration of sustainable practices in the mainstream market, buyer requirements for certified sustainable spices can change as well. The size of orders, supply continuity and focus on price are even more important

Considerations for action

- Certification (organic, Fairtrade, Rainforest Alliance) is important in the premium trade channels. However, ensure that you are able to comply with the high EU quality standards.
- Chain of custody certification is developed by certification organisations: organic processor standard (example of German organic certification), Fairtrade's Trade Standard and Rainforest Alliance Chain of Custody standard.
- Be aware that the different types of sustainability certification each serve a different market segment and provide different opportunities. Refer to CBI's factsheet *Sustainable spices and herbs in the EU* to learn more about this market.
- Be aware that the relationship between the demand and supply of certified sustainable spices and herbs is volatile. It is a growing but still relatively small market and the entrance (or exit) of mainstream players can seriously change the marketplace. Given that it can take up to 2-3 years to switch to sustainable production and trade practices, conditions may be different by the time you are ready to enter the market.

in mainstream markets than in niche markets.

- ***Closer cooperation due to sustainability***: Direct sales from SMEs in DCs to purchasing units of retailers, the foodservice sector and food processors are rare. Large EU buyers are however often involved in sustainable initiatives that aim to train farmers and exporters in sustainable practices and establish a chain of custody. Examples are Unilever and Symrise that have set up different initiatives to train current and future vanilla farmers about sustainable practices.

- Cooperation with EU buyers is crucial for entering the sustainably certified product market. You will need partners to ensure sales and co-financing for training and the certification process. The role of exporters is still important for EU buyers. You may need to collect, store, coordinate and ensure compliance with food safety procedures for products from many different smallholders.

Trend 3: Growing share of processed spices from countries of origin

- ***More value adding processing in origin:*** Suppliers in producing countries have been occupied in further processing (e.g. crushing, grinding and mixing) spices and herbs for a long time. Until recently EU buyers were reluctant to source further processed products due to concerns about quality, food safety and adulteration. This is changing as a result of the rapid development of processing facilities, better compliance with food safety procedures and the desire to cut costs. This provides opportunities for suppliers in origin, especially those in which economy of scale can be achieved (e.g. pepper, capsicums). Entering the EU market with further processed spices and herbs is more difficult than with whole spices and herbs. Suppliers should be able to supply constant quality, taste, aroma, colour and guarantee supply. This particularly applies to mixed spices and herbs where knowledge of national taste, custom-made recipes and tough competition with EU suppliers make it even harder to enter the market.

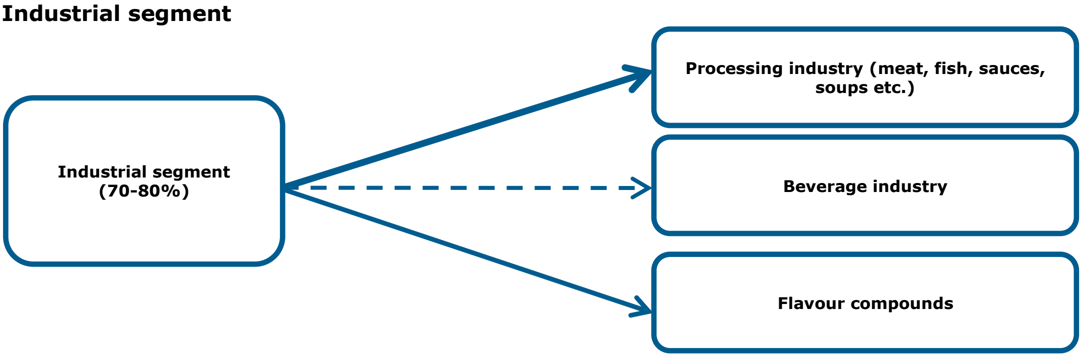
Considerations for action

- The profitable market conditions make it a good time to invest in your business. Invest or look for investments to improve post-harvest processing, quality and extra cleanliness (depending on your current level of professionalism). It can earn you a similar premium as that for further processing (2-5%) and is easier to undertake.
- Refer to the CBI's document EU Buyer requirements: Spices & Herbs to find out more about the requirements for quality, food safety and sustainability.
- CBI's factsheets about the EU market for crushed and ground spices and herbs, spice and herb mixes and consumer packaged spices and herbs provide an insight into the opportunities for SMEs from DCs.
- Being active in the value added market will require more flexibility: different kinds of grinding (from fine to coarse), supplying a large portfolio or different variety, and perhaps sterilisation.
- It is important that transport means comply with food safety procedures. When using steam sterilisation it is important to also use fully ventilated, disinfected containers for transport and that they are not mixed with non-sterilised products.

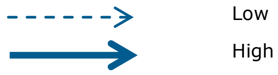
Market segmentation

The main European sales segments are the industrial, retail and food service industry.

Industrial segment



Thickness of the arrow indicates the importance of trade flow for exporters from DCs



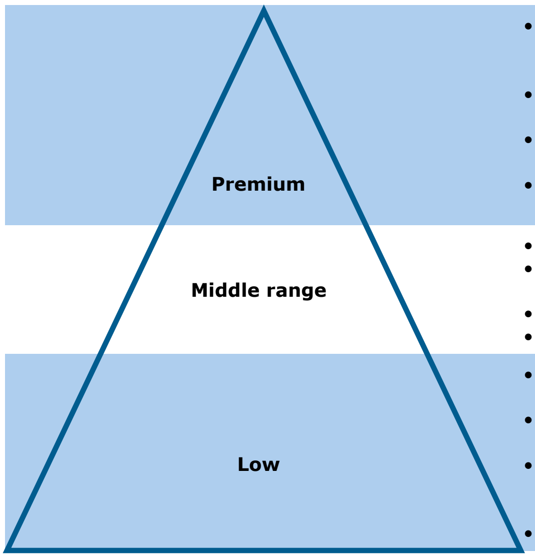
Industrial segment developments, trends and foresights

- The industrial segment is the largest user of spices and herbs. The meat, bakery and confectionery industries are the most important buyers. The share of turnover from SMEs in the European food and drink industry has increased in recent years and is now about 50% (Source: FoodDrinkEurope, 2014). This goes to show that the food sector in the EU is highly diverse and that there is a market for products of different quality and origin.
- ***More prepared food products***: there is a clear trend towards ready-to-eat food and convenience food benefitting the industrial sector. Therefore, although the industrial sector is a mature market, further growth is expected in years to come.
- ***Growing application by food processors in food processing industry:*** the meat industry is by far the largest user of a wide range of spices and herbs. Specialist spice-mixing companies increasingly assist the meat and bakery trade by producing ready-to-use spice mixtures for meat, as well as for sausage factories and confectioners. They also produce consumer sachets of specific spice and herb mixtures, which are distributed by butchers' shops as point-of-sale material and, more frequently, in the supermarkets.
- ***Natural flavouring***: in a large part of the market there is a noticeable shift from artificial flavourings and colourings, whereas essential oils, oil resins and extracts are growing in importance in the industrial seasonings sector, but also in cosmetics, toiletries and pharmaceuticals. These are developments that provide an extra boost in

Considerations for actions

- The SMEs active in food processing are also a good match for SMEs in developing countries. Often they both focus on high-end or niche markets. Refer to the FoodDrinkEurope website to learn more about this segment.
- Target the industrial sector by looking at the ingredients in the most common spice and herbs mixtures. Mixes with ethnic spices and herbs becoming more and more popular. Refer to the website of Dutch processors Verstegen for ideas.
- Other interesting opportunities in the food processing industry are spices and herbs (mixes) for meat substitutes, salt-free spices mixes, feed and herbal teas and other drink products. For more information refer to CBI's document *Trendmapping: Spices and Herbs*.

the European demand for spices and herbs, revealing market opportunities for exporters in DCs.

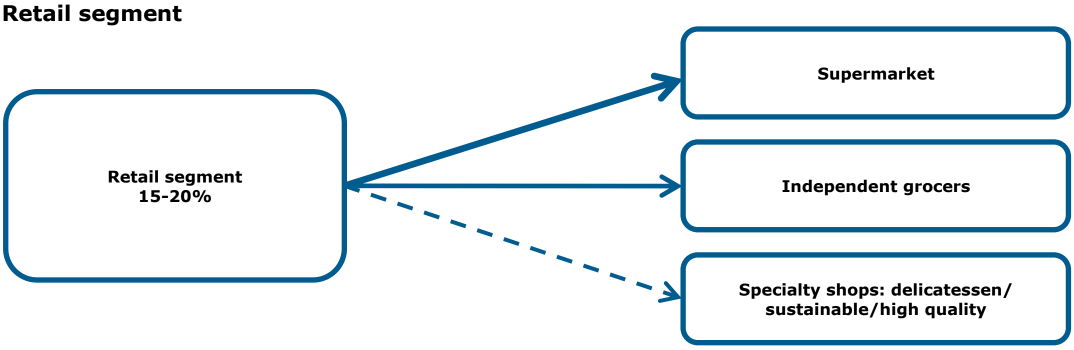


- Product: high quality spices and herbs (organic, fair-trade etc.) and custom made products (for example: degree of pulverization etc.)
- Price: range € 3,50 – 87,00 /100gr. (mainly depending on type of spice or herbs)
- Place: high-end retailers, specialised stores and food service outlets
- Promotion: brand communication, story behind the product

- Product: standard quality spices and herbs
- Price: € 3,00-70,00 / 100gr. (mainly depending on type of spice or herbs)
- Place: middle-end retailers and food service outlets
- Promotion: high brand awareness with focus on health,

- Product: lower quality spices (for example: oil content, colour, taste, weight class etc.)
- Price range: € 2,50-55,00 / 100gr (mainly depending on type of spice or herbs)
- Place: discounters, middle-end retailers (through cheaper private labels), low-end food service operators, oil extraction industry
- Promotion: low brand awareness

Retail segment



Thickness of the arrow indicates the importance of trade flow for exporters from DCs

Low

High

Retail segment developments, trends and foresights

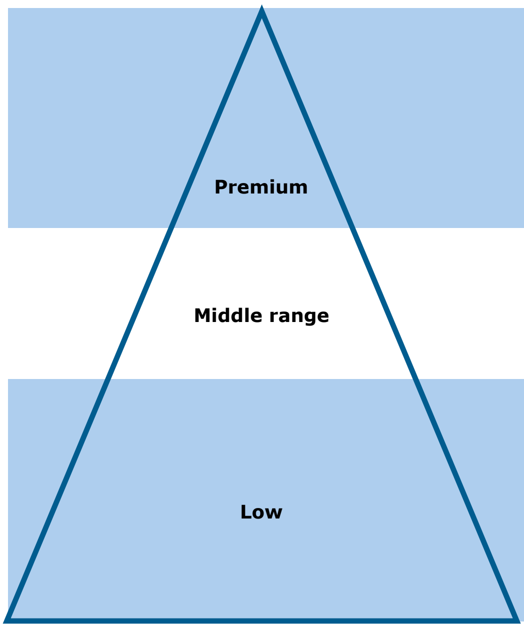
- The food retail sector is highly concentrated in most EU countries: the market share of the top three retailers ranges from 30% to 50% in most EU member states. It is even above 70% in Ireland, Denmark and Sweden (Source: FoodDrinkEurope, 2014). There is a large degree of consolidation. This will continue, especially in countries where the market share of large retail chains is still low (e.g. east and south Europe).It is highly unlikely that you will be able to sell directly to retailers and food processors mainly to order sizes, competition from EU suppliers and the need for just-in-time delivery (JIT).
- Ethnic food is becoming more popular in the EU. This has led to more sales through specialized ethnic retail outlets as well as

Considerations for actions

- Although it is difficult to supply the retail market directly there are some opportunities for supplying consumer packaged spices and herbs to the EU market. The *Consumer packed spices and herbs in the EU* factsheet provides more details about this market.
- There are specific trade fairs for ethnic food in the EU. Ethnic Food Europe is a good example. The exhibitor's list provides good

mainstream outlets. Buyers in these trade channels also import consumer packed spices and herbs. Food safety and quality requirements often do not go further than legal requirements. The growing interest in this market is also picked up by trade fair organizers. Ethnic Food Europe is a new specialised trade fair for this market.

trade leads. The survey conducted during the 2014 edition shows that most visitors (of which many Dutch) were interested in Thai, Chinese and Indonesian food.



Premium

- Product: high quality spices and herbs (organic, fair-trade etc.) and custom-made products (for example: degree of pulverization etc.)
- Price: € 4.20 – 300 / 100gr. (mainly depending on type of spice or herbs)
- Place: high-end retailers and specialised stores
- Promotion: high brand awareness with strong recognizable brands, focus on high quality, sustainability, story behind the product

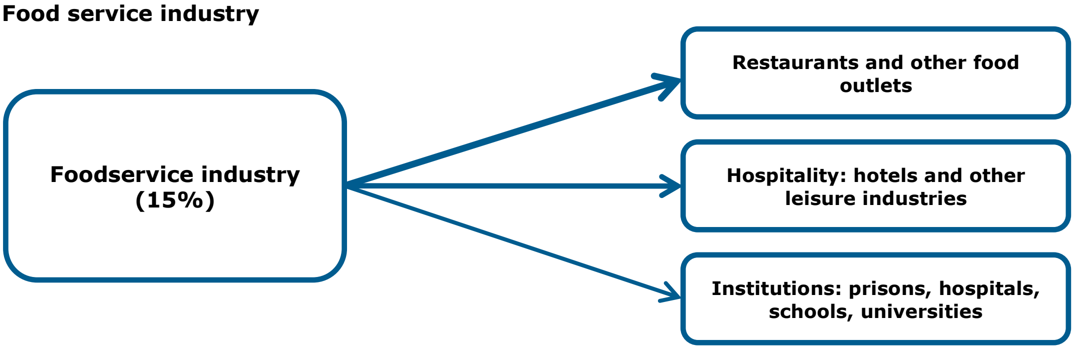
Middle range

- Product: standard quality spices and herbs
- Price: € 3.50 – 250 / 100gr. (mainly depending on type of spice or herbs)
- Place: middle-end retailers
- Promotion: high brand awareness with strong recognizable brands, focus on price/quality ratio

Low

- Product: lower quality spices (for example: oil content, colour, taste, weight class etc.)
- Price range: € 2,50-200 / 100gr (mainly depending on type of spice or herbs)
- Place: discounters, middle-end retailers through cheaper private labels (can be up to 30% cheaper than A-brands).
- Promotion: small focus on brand and related characteristics (e.g. quality, taste), the focus is on low price.

Food service industry



Thickness of the arrow indicates the importance of trade flows for exporters from DCs

Low

High

Retail segment developments, trends and foresights

- Food service providers mainly source locally from EU producers, importers, wholesalers, (food) processors and retailers. The foodservice industry ranges from large (multinational) food chains to small food outlets. They buy whole and processed spices and herbs in addition to mixes, sauces and wet pastes.
- There is a lot of focus on the freshness of products in the food service industry. Fresh

Considerations for actions

products (especially herbs) are an important source of competition. An important trend in the foodservice industry in recent years is the use of local (seasonal) products. This mainly applies to main ingredients and therefore does not threaten the demand for imported dried spices and herbs. • The food service industry is more prone to economic developments than other segments. Consumers save money by eating out less when economic development is slow as it has been in recent years to the benefit of the retail sector. • The food service industry is an important consumer of sustainable spices and herbs. Many consumers believe they offer better quality and taste (especially organic).	• When focusing on different segments in the market, be aware that buyer requirements may differ. As a minimum comply with the ESA Quality Minima Document. Contact buyers and ask them to send their product requirements by e-mail in order to see (up front) which product requirements and quality standards need to be met. • Refer to the CBI factsheet *Sustainable spices and herbs in the EU* for more information about the development of this market.

Premium	• Product: high quality spices and herbs (organic, Fairtrade etc.) and custom-made products (for example: degree of pulverisation etc.) • Price: € 4.20 – 300 / 100g (mainly depending on the type of spices or herbs) • Place: high-end outlets: restaurants, hotels and leisure industries • Promotion: focus on high quality, sustainability, exceptional product characteristics (taste, colour), new varieties and spices and herbs
Mid range	• Product: standard quality spices and herbs • Price: € 3.50 – 250 / 100g (mainly depending on the type of spices or herbs) • Place: mid-end outlets: food and hospitality industries, institutions such as universities, international institutions and prisons • Promotion: focus on price/quality ratio
Low	• Product: lower quality spices (for example: oil content, colour, taste, weight class etc.) • Price range: € 2,50-200 / 100g (mainly depending on the type of spices or herbs) • Place: low-end food outlets and the hospitality sector • Promotion: the focus is on low price

This survey was compiled for CBI by CREM B.V.
in collaboration with CBI sector expert Freek Jan Koekoek

ANNEX

Description of actors in the distribution channels

- ***Farmers***
  Spices and herbs are, for a large part, grown by farmers in the Southern Hemisphere. Many farmers are smallholders with 1-2 hectares but may also be medium-sized or large enterprises with large plots of land and a high level of mechanisation.

- ***Exporters/processors***
  Exporters and processors are the link with the EU market. They are supplied by (other) traders, collectors or farmers that add value by storing, packaging, processing (e.g. cleaning, crushing/grinding) and/or shipping products. They will need to be a certain size in order to be able to provide these services. In addition, they will need to have a certain level of professionalism in order to supply the EU market.

- ***Importers/wholesalers***
  Traders act as the middlemen between exporters and their customers. They buy bulk quantities of ungrounded spices and resell them at an increased price. However an importer/wholesaler may also work with or perform processing and consumer packing activities. In most cases, importers have long-standing contacts with their suppliers and source from different sources to ensure supply year-round.

- ***Agent/broker***
  Brokers and agents are intermediaries who bring buyers and sellers together, for which service they get paid a commission. EU buyers can be trading companies, but are mostly processors. Agents and brokers are interesting in case you have a specialized product (very high quality, sustainable) for which buyers are harder to find. The role of the agent is slowly diminishing due to increased transparency of the market due to the Internet. Nowadays, a freelance consultant is becoming more frequent.

- ***Processors/ packers***
  Processors/packers purchase crude spices and/or herbs and perform the cleaning, grading, grinding, blending and packaging. They distribute the ground or processed products to industrial users after this initial processing. Some of them manufacture end products to supply directly to retail or food service industries. These activities are often integrated into one company. Increasingly, processors/packers import their spices and herbs directly from supplying countries.

- ***Industrial sector***
  Food processors purchase their raw materials from processors or traders. The food-processing industry demands large quantities of spices and herbs for the production of food products. In some cases, spices and/or herbs are purchased directly from DC producers. The food-processing industry is most suited for companies that are able to meet the high standards asked in terms of service level and sales volume (in addition to requirements regarding quality, food safety).

- ***Retail sector***
  The retail sector buys single spices and herbs from traders and processors and further processed food products (e.g. seasonings, wet pastes, meat, bakery products) from the industrial sector. The role of large retail chains is increasing throughout the EU at the expense of smaller outlets. Large retails chains often work with preferred suppliers and have demands in terms of order size and frequency, continuity and service. Therefore it is hard for exporters from DCs to supply these buyers directly. Smaller retailers provide some opportunities for direct selling, especially ethnic retailers.

- ***Foodservice sector***
  The foodservice industry consists of businesses, institutions, and companies responsible for any meal prepared outside the home. This industry includes restaurants, school and hospital cafeterias, catering operations, and many other formats. The size of these organisations ranges from small providers to large multinational enterprises.