



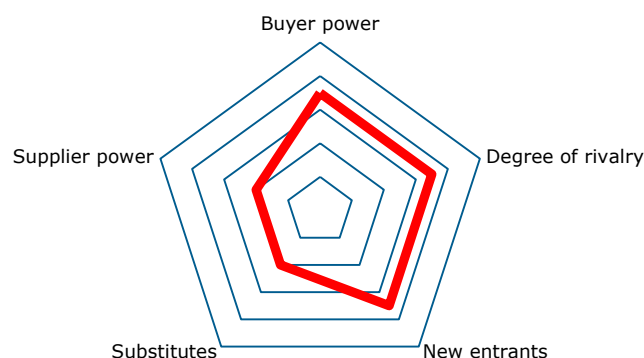
# CBI Field of Competition: Spices and herbs

*'The fields of competition in your market'*

## Management summary

The power of buyers in the EU has traditionally been strong but with increasing scarcity and high prices power is slowly being transferred to suppliers in origin. The good market conditions will attract new entrants in the coming years. Although this will change the competitive environment, the fact that global consumption is growing faster than production provides good opportunities for all suppliers that are able to meet the high quality and food safety buyer requirements. Opportunities for small and medium-sized enterprises (SMEs) in developing countries are found particularly at the high end of the market.

**Figure 1: Competitive forces in the spice and herb mixtures sector affecting exporters in DCs**



Source: based on Porter's Five Forces model, analysis by CREM

## 1. Market entry

### **New entrants: hard to enter but increasingly easy to sell**

The strict buyer requirements suppliers have to comply with (e.g. quality, food safety and traceability) form a serious barrier to entry to the market. Market entry requirements are increasingly becoming stricter as a result of technological advances and food safety scandals.

#### **Consideration for action**

Stay abreast of market access requirements. Refer to CBI's document [Buyer Requirements for Spices and Herbs](#) or ITC's [Market Access Map](#) for more information.

To a large extent the spices and herbs sector is a traditional sector. In many cases suppliers and buyers have been doing business for many generations and have developed reliable long-term relationships. However a growing sense of scarcity, increasing global demand and rising prices are changing the marketplace. Some buyers will focus more on their existing suppliers investing in increasing yields and improving quality. However, buyers will also be forced to look for other sources to secure and supplement supply. They will have to be less picky regarding price and

order size allowing new entrants to enter the market. This also provides opportunities for smaller suppliers.

#### **Consideration for action**

Compile a transparent export strategy. Be clear about your preferences e.g. longer lasting relationships or selling for the highest price on spot markets. Such a strategy offers the important advantage of stability allowing you to build your business. This can be done by focusing on your most important buyers. One way of identifying them is by determining the 20% that is responsible for 80% of your turnover (i.e. the 80/20 rule).

New suppliers will be attracted by the favourable conditions in the global market. These suppliers could originate from existing supplier countries or from new production areas under development. There is still reluctance to source from many Sub-Saharan African countries (with the exception of some countries like South Africa) due to concerns about the political and economic environment and level of professionalism. However the extensive availability of land and low wages will make Africa a more important supplier in coming years.

#### **Considerations for action**

- If you are new to the EU market it is recommended that you visit trade fairs and conferences to make business contacts. [Food Ingredients Europe](#), [SIAL](#) and [Biofach](#) (organic) are important trade fairs. For other trade fairs visit the website of [EventsEye](#)
- 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.

## **2. Product competition**

### **Substitutes: preference for a natural product reduces risk**

There are several main sources of substitution for spices and herbs: synthetic, fresh, conserved and extracts of spices and herbs. The threat of other spices and herbs (e.g. ginger for pepper) is small.

#### *Synthetic spices and herbs*

Many food products in the EU, especially at the low end of the market, are produced with synthetic flavours and colours. Important advantages are that they are cheaper than spices and herbs, there is no scarcity and synthetic products are uniform and have stable product properties in contrast to natural products. In some markets (e.g. vanilla) buyers might switch to synthetic products, some permanently and others temporarily, due to high prices and low availability of the natural product. A large and growing share of the market however prefers the real thing as it is considered healthier and tastes better. Many brands have committed to using non-artificial additives in their products. Changing to synthetic spices and herbs would mean changing their recipes, packaging and marketing.

#### **Consideration for action**

- The high end of the market is an interesting target for small and medium-sized enterprises (SMEs) trading relatively small volumes. This segment has a strong preference for natural products and will only consider substitution when the supply of natural spices and herbs dries up.
- Manage expectations: be honest about your supply capability and inform your buyers in a timely manner in the event of possible problems related to logistics and supply.

#### *Fresh products*

The threat of substitution for fresh products is mainly relevant for dried herbs (e.g. basil, thyme and parsley) but can also be relevant for certain spices such as chillies and ginger. Although the use of dried food ingredients often differs from fresh ones, a

large market segment is moving towards fresh products. In Southern EU countries fresh products are often preferred to dried ones.

#### *Conserved products*

There are various ways to conserve fresh products. The growing market for [individually quick frozen \(IQF\) herbs](#) and spices is an important development. IQF products combine freshness with convenience and improved shelf life. This is an important source of substitution for products that can be used fresh. The same applies to products conserved in other ways (e.g. different ways of freezing, spices and herbs in brine).

#### *Extracts*

Spice and herb extracts can be an important source of substitution for suppliers to the food processing industry. They can be used to add flavour or colour to products. Producers of extracts can therefore be competitors as well as buyers of spices and herbs.

#### **Considerations for action**

- Check whether you can supply fresh, frozen or conserved spices and herbs. Be aware that this may require significant investments and a different approach. For example, fresh products will have different market access requirements (e.g. [GlobalGAP](#)), logistics (such as controlled temperature transport and storage) and trade channels.
- Take into consideration the threat of substitution when deciding on which country you would like to target. Southern EU markets prefer fresh products and therefore have smaller per capita consumption of dried products.

Spices and herbs that are important in EU diets (e.g. pepper, sweet peppers) are less prone to substitution. New and exotic spices and herbs are increasingly used in the EU. They are however more sensitive to changing consumer trends than those used in traditional dishes. Therefore the risk of substitution is higher.

#### **Consideration for action**

Food trends in the EU are developing rapidly so it is important to keep up-to-date. For more information refer to the CBI's document [Trendmapping: Spices and Herbs](#).

### **3. Company competition**

#### **Position in the market**

*Degree of rivalry: many changes in the competitive environment*

The degree of rivalry depends for a large part on the product, country and level of processing. Many commodity spices (pepper, chillies, sweet pepper) are uniform, whole products with low added value and can be grown in many countries. The degree of rivalry is high and the market is generally dominated by large suppliers able to deliver large quantities and compete on price. It will be harder for SMEs in developing countries to compete in these markets. For some products, such as vanilla and nutmeg, traded volumes are lower and the countries in which the products are grown are limited. The degree of rivalry here is lower.

At the high end of the market there is more room for product differentiation. The focus is less on price and more on quality, taste, colour and/or sustainability. This segment generally provides good opportunities for SMEs that are able to meet the strict demands in this market. For processed products (e.g. crushed, ground, blended and packaged) there is a lot of competition from EU processors and large processors from large supplier countries (e.g. Vietnam).

#### **Considerations for action**

- Consider going sustainable. It can provide good market opportunities as well as higher quality products and yields and closer relationships between buyer and supplier. In addition, sustainable practices are vital for protecting natural resources, biodiversity and communities you also depend on for the continuation of your business.

- Try and differentiate your product to add value. You can do so by improving quality (improved cleanliness, other varieties or presentation). Another option is to customise your product (e.g. specific type of grinding).
- It is highly advisable to first be successful in supplying your domestic market with value added products before considering the EU market.

The degree of rivalry can differ per EU region or market. Large EU buyers, such as the Netherlands, Germany and the UK, import a large share of imports directly from origin countries. A large part will be re-exported within the EU. Other EU countries will largely rely on these EU traders for supply. This applies mainly to Northern and Eastern EU countries. Another thing to take into account is the level of processing. Some countries such as Germany prefer to do their own processing while the UK imports a large share of crushed/ground spices and herbs from developing countries.

The degree of rivalry can change annually depending on the quality of global harvests. Growing global demand will decrease the degree of rivalry in the long-term and increase prices even more.

#### **Considerations for action**

- Perform your own statistical analysis in order to monitor your country's trade with the EU or a specific member state. Create an account for public databases such as [Eurostat](#) and [ITC](#) to find out what is happening. It is also a good way of obtaining an overview of what is happening with competing companies.
- To a certain extent your competitive position can be predicted. Look for crop reports online or visit events where these will be shared by sector exports. Refer to the crop reports by [McCormick](#), [Jayanti](#) and [Nedspice](#) to learn about the expectations regarding harvests worldwide and stock levels in consuming and producing countries.

In January 2014, significant changes were made in the EU's [Generalised System of Preferences \(GSP\)](#). One relevant aspect for the spices and herbs market is that spices from China and Brazil will no longer benefit from preferential import tariffs. For many whole spices and herbs the import tariff for all countries remains at 0%. For whole sweet peppers, vanilla, cloves and bay leaves import tariffs are now higher for China and Brazil than for developing countries. This also applies to crushed/ground pepper, capsicums, vanilla, cloves, saffron, curry and thyme. Whether this will provide suppliers from developing countries with a better competitive position depends on the product. For example, in 2013, China (1% of total volume of EU imports) and Brazil (0.02%) only accounted for a small share of EU imports of crushed/ground pepper. China is however a large supplier of crushed and ground capsicums (56% of direct imports of crushed/ground in 2013) and it is therefore expected to have a large impact on this trade.

#### **Consideration for action**

Refer to the [TARIC consultation database](#) to check the import tariffs for your own or competitive countries.

### **Position in the supply chain**

#### **Buyer power: still significant but slowly decreasing**

Most spices and herbs imported into the EU are bought by EU importers and wholesalers. The size of these buyers varies but many are medium-sized businesses. Most of their sales are generated by large food processors and retailers. The size of their operations allows them to dictate prices and quality and food safety requirements that go beyond legislation. Importers and wholesalers will pass on these requirements and conditions to their suppliers (i.e. you). Buyer power is stronger in commodity markets (e.g. pepper, paprika) than in specialty markets (e.g. sustainable and high quality products). There is less focus on price in specialty markets but also the type of outlet can differ. Products are often sold by smaller and less consolidated buyers.

### **Consideration for action**

Keep up-to-date with regard to prices. [Commodity Online](#), [Spices Board India](#) and [Public Ledger](#) (paid service) publish up-to-date price information. The [International Pepper Community](#) and the [Vietnamese Pepper Association](#) provide prices specifically for pepper. An analysis of prices is often provided by market and crop reports such as those published by [McCormick](#), [Jayanti](#) and [Nedspice](#) or public sources such as [Business Standard](#).

An important development is that buyer power is decreasing. This is mainly due to the increased organisation of suppliers (see more below under *Supplier power*), stricter buyer requirements and growing scarcity on the world market. Emerging markets (e.g. China, India, and Brazil) that have less stringent buyer requirements and are often located closer to producing countries are becoming more attractive. EU legislation is not likely to become less stringent so they will continue paying high prices to keep suppliers interested in the EU.

### **Considerations for action**

- The EU market remains interesting due to its size and the prices paid. However, local emerging markets can also provide excellent market opportunities. Refer to the CBI's factsheet [Pepper from Southeast Asia in the EU](#) to learn more about local export opportunities.
- If you do not meet the strict quality requirements imposed in Northern and Western EU markets, consider supplying Eastern EU markets. The same legal requirements apply but they will often accept lower quality spices and herbs (lower oil percentage, dull colour or slightly damaged) and may not always ask for additional guarantees such as food safety management systems.

Direct sourcing by EU buyers is increasing to gain more control of their supply chain and to secure supply. This also involves new buyers and manufacturing industries that previously bought from importers. EU buyers that have the resources are working more closely with suppliers and are even setting up their own facilities in countries of origin. Direct sourcing will become more common as global scarcity continues. For SMEs in developing countries involved in trading and processing, this can either represent an opportunity to work together or a threat of being cut out of the supply chain.

### **Supplier power: low but improving**

Spices and herbs are largely grown by smallholders with limited resources, storage capacity and adequate processing facilities. In addition, as a processor and/or trader, you will mostly deal with suppliers of a uniform product making it easy to switch. However supplier power is increasing and will continue to grow. An important reason is the above-mentioned scarcity, the high prices in recent years and access to real-time price information. Such price information may now be available on mobile devices, whereas before it was not or was at best available through radio or newspapers. This has led to investments in facilities providing a better holding capacity and a better organisation. This is most noticeable among Vietnamese pepper farmers who currently control the market. The reasons for their strong position are the size of their operations, holding capacity, strong cooperation with the local sector and competitive prices.

### **Considerations for action**

- With supplier power increasing, it is important to improve relationships with your farmers, collectors and other suppliers. Meet them in the field, order and pay on time, look out for interesting opportunities for them and update them about your strategy and plans so they are able to anticipate them.
- Refer to CBI's factsheet [Pepper from Southeast Asia in the EU](#) to find out more about the success of Vietnamese pepper suppliers. It shows what is necessary to increase the power of suppliers (including in countries of origin).

Increasing supplier power will lead to more extensive 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 consuming countries. Under the right conditions, these vertical integration strategies could also provide farmers with advantages such as increased security related to prices and the market, as well as present opportunities for added value. On the other hand there are examples of suppliers in origin that are strong enough to compete with these foreign companies. Some are even engaging in forward integration and taking over EU companies to enter the market with their own products. However this is a strategy that is often beyond the means of SMEs.

**Considerations for action**

- Educate growers in terms of efficiency and agronomics. Training, particularly in the proper use of pesticides and fertilisers and sustainable agricultural practices, is important to improve yields and long-term profitability. Refer to the guidelines on [Good Agricultural Practices for spices](#) (IOSTA) and [Good Manufacturing Practices for spices](#) (IPC) for more information.
- 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 cultivating spices and herbs due to the low prices paid. Farmers will maintain cultivation as long as prices are higher than those for competing crops (coffee, soy, palm, rubber and cashews). If you are looking to gain more control over your supply chain it is worth considering setting up your own collection stations.

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

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