



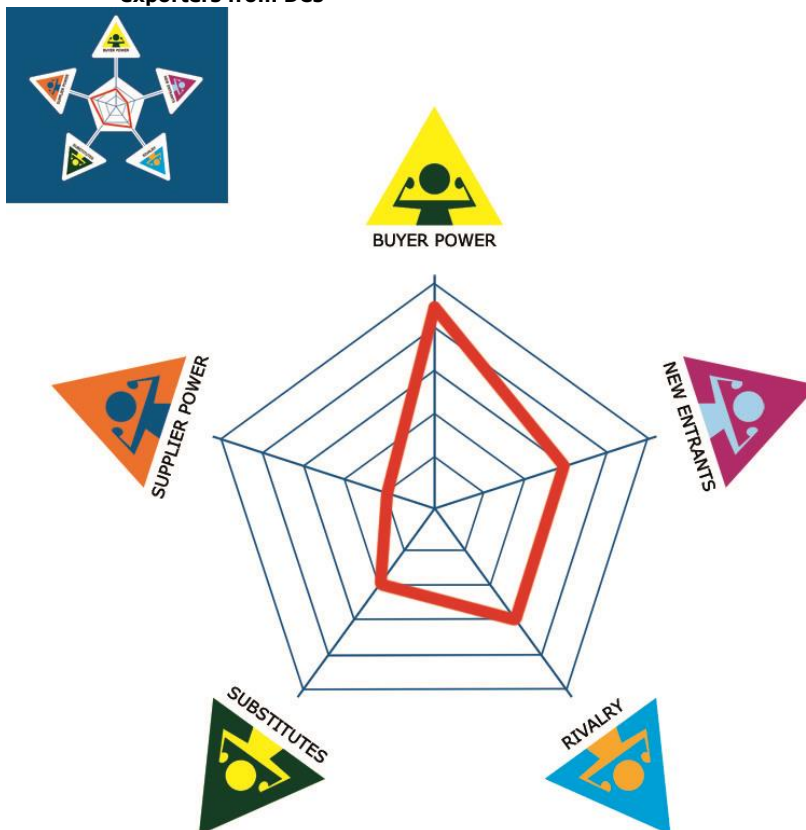
CBI Market Competitiveness: Spices and herbs

'The competitive forces that shape your market'

Management summary

The EU spice and herb market is an interesting market for suppliers from producing countries. Reasons are that it is getting harder for EU buyers to ensure their supply of spices and herbs and demand is growing despite the economic crisis as well as that demand is growing in other continents, where production is not growing in the same pace. On the other hand legal and non-legal buyer requirements are strict and are getting stricter over time. In addition, there is a strong focus on price and buyer prefer to work with the suppliers they already know. Nonetheless, the EU market remains full of opportunities and rewards for exporters who can meet these demands.

Figure 1: Competitive forces for the EU spice and herb sector (perspective of the exporters from DCs)



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

Buyer power: high but slowly reducing

- **Large processors, brands and retailers** dominate the spice and herb market in the EU and have a long-list of demands (e.g. low price, compliance with strict buyer requirements, consistency in quality, reliability).
- **Commodity market vs specialty markets:** Buyer power is stronger in commodity markets (e.g. pepper, paprika) than in specialty markets. (e.g. smaller traded products like sustainable and high quality products).
- **Emerging markets** (e.g. China, India, and Brazil) that are able to pay similar or higher prices that have less strict buyer requirements and are often located closer to producing countries are becoming more attractive.
- Despite supply scarcity **market access requirements** in the EU will only become stricter. EU buyers will therefore have a harder time to find suppliers. They are therefore looking to establish long-term business relationships with their suppliers.
- The **importance of traders** (e.g. importers, agents and brokers) that do not add value is slowly getting smaller as direct sourcing in producing countries by EU processors and retailers is increasing. Due to supply scarcity direct sourcing is increasing.
- The **buyer power of the EU** is still strong for most spices and herbs. However, as a result of increasing supply scarcity and with buyer requirements continuously getting stricter the buying power of the EU is slowly reducing.

Considerations for action

- Keep updated on prices. [Spices Board India](#) publishes weekly and monthly price of pepper (Indian as well as international prices) for free. [Public Ledger](#) publishes monthly price analyses but this is a paid service.
- The EU market remains interesting due to its size and opportunities. However, emerging markets can also provide excellent market opportunities.
- If you do not meet the strict quality demands asked for in Northern and Western EU markets, think of supplying Eastern-EU markets. The same legal requirements apply but they will accept lower quality spices and herbs (lower oil percentage, dull colour or slightly damaged) and the Eastern EU market is growing.
- Increase your margins explore opportunities to cut out the middle man. Explore the possibilities of direct selling to processors and consumer packers. This can mean upscaling sales volume, professionalism, and service level and in some cases broader product portfolio.
- This is a good time to establish a long-term relationship with EU buyers. Focus on your most important buyers. Identify them by determining the 20% that is responsible for 80% of your turnover (i.e. the 80/20 rule).

Degree of rivalry: many changes in competitive environment

- **Scarcity forces long-term cooperation:** most suppliers of single spices and herbs provide uniform low value added raw products that can be grown in many countries. Although this makes it easy to switch, many EU buyers have long-lasting business relations with their suppliers. An important reason is that the EU market is hard to enter due to strict buyer requirements (reducing the amount of suitable suppliers significantly). In addition, with the increasing supply scarcity it is harder for EU buyers to find suppliers that conform to their quality, food safety, order size, continuity demands.
- **Changing supply:** like for all agricultural

Considerations for action

- Improve your performance. Not complying with basic buyer requirements (i.e. incorrect packaging, unclear labelling, and unrepresentative sampling) is a major frustration of EU buyers. Ask them their specific wishes and deliver in time.
- Manage expectations: be honest about your supply capability and inform your buyer about possible problems in logistics and supply.
- Realise that the longer term supply scarcity

products, the degree of rivalry can change annually depending on whether the harvest was good or not. This kind of short-term supply scarcity has pushed prices up in recent years. Long-term supply scarcity will have a similar effect.

- **The rivalry for specialties** is less (e.g. sustainable, high quality and/or other exceptional qualities) and products with more added value (i.e. better processed).
- The degree of **rivalry for processed products** is however high in the market for processed spices and herbs (e.g. crushed, ground, blended and packed). EU processors are dominant in this market.
- **Changes in supplying countries** have changed the degree of rivalry in the past decade. China and Vietnam (pepper, capsicums) are now more dominant in commodity markets. South-American and African countries in specialty markets (i.e. vanilla, cardamom).
- **The large availability of African land** will make this region become a more important supplier. There is still reluctance to source from this region due to concerns about the political and economic environment and level of professionalism.

trend will lead to new types of supply chains and power structures. Follow the market to see where you fit as an exporter.

- Go sustainable. It can not only provide good market opportunities but also a higher quality product and yields, and closer relationships between buyer and supplier.
- Although difficult, try to differentiate your product by adding value. You can do so by improving quality (better processing, other varieties, better taste, colour or presentation). Another option is to custom make your product (e.g. type of grinding).
- To monitor the trade of your country with the EU or a specific member states keep an eye on developments. Create an account for databases such as [Eurostat](#) and [ITC](#) to find out what is happening in the EU market. It is also a good way to get an overview what is happening with competing companies.

New entrants: hard to enter but easy to sell

- **The strict buyer requirements** suppliers have to comply with (e.g. quality, food safety, and traceability) form a serious barrier to enter the market. Market entry requirements will become stricter in coming years making it even harder to enter the market.
- **EU commodity markets** (e.g. pepper, chillies and paprika) are generally dominated by large suppliers due to the scale of operation. New entrants are especially able to enter the specialty markets as they attract other small and medium size companies.
- **Value added products:** It is harder to enter the market of value-added products (e.g. grinded or grounded) than that of raw spices and herbs. Reasons are that processed spices and herbs have higher and stricter quality requirements and possibly higher import tariffs (e.g. pepper, saffron and are to a large extent dominated by EU processors).
- When **the supply scarcity** will materialize further it will be easier to find buyers. They might have to be less picky regarding price and order size. It is also expected to lead to price increases that will in turn attract new entrants. For the EU, the challenge for

Considerations for action

- Keep updated about market access requirements. You can follow training provided by CBI or other knowledge institutions with export promotion goals.
- Be pro-active. Ask your buyers to inform you in case requirements are changing.
- If you are interested in supplying ground products check import tariffs and regulations on the [EU Export Helpdesk for Developing Countries](#).
- It is highly advisable to first be successful in supplying your domestic market with value added products before thinking of the EU market.
- Be aware of your increasing power due to the expected increasing scarcity. Consider your export opportunities with care. Analyze your costs and benefits and business strategy. Be clear about your preferences e.g. longer lasting relations or sell for the

exporters from DCs will be going from incidental suppliers to long-term suppliers.

highest price.

Substitutes: preference for real product reduces risk

- **The threat of substitution** depends on whether your product can be replaced by an artificial flavouring, the fresh product (for example fresh ginger or chillies), extracts (e.g. oil resin) or other spices and herbs (those with similar characteristics or as a result of changing consumer trends for new and exotic taste).
- The **seasoning of food and beverages** has increased significantly over time. This has benefitted the entire seasoning market. Therefore, despite the threat of substitution by artificial flavourings and in some cases fresh spices and herbs the demand for dried spices and herbs is still growing. This growth will continue in the future and reduces the threat of substitution.
- **Competitive advantage dried spices and herbs:** they have the advantage that they have a fast preparation time (in contrast to fresh products) and are healthy (not considered as healthy as fresh spices and herbs but much healthier and acceptable than artificial flavours). This combination makes them popular and reduces the threat of substitution as the trend is towards convenience and health. In Southern EU countries fresh products are preferred. The threat of substitution for products that are also sold fresh (e.g. chillies, basil) is higher in this region.
- **EU diets:** spices and herbs that are important in EU diets (e.g. pepper, paprika) are less prone to substitution. Despite the fact that new and exotic spices and herbs are increasingly used in EU they have a higher risk to be substituted as consumer taste develops further.
- Problems regarding **the long-term supply** of spices or herbs can lead to a growing demand for artificial flavourings as the quality is stable, they are generally cheaper and supply is secured. There will however always be a market for the real product.

Considerations for action

- Check whether you can supply fresh spices and herbs. This is only relevant for products that are eaten fresh. Be aware that market access requirements for fresh products are different, that the logistic channel is completely different and you have to deal with other buyers.
- Take into consideration the threat of substitution when deciding on which country you would like to export to. South EU markets prefer fresh products and therefore are smaller per capita consumers of dried products.
- Get a good picture of the trade flows for spice and herb mixtures. It can be crucial for your country strategy. It can be more effective to focus on a region than a specific country.

Supplier power: low but improving

- The **supplier power** is generally low. The power is generally with the processor and trader.
- **Reasons for the limited power** are that the (negotiating) power of suppliers is generally limited due to the absence of adequate storage capacity and treatment and direct access to processing companies.

Considerations for action

- Work together with organised growers in order to supply a wider range of spice and herbs (interesting for buyers) and larger volumes.

In addition as a processor and/or trader you will often deal with a large number of suppliers/producers. It is therefore easy to switch.

- **Increased power:** supply scarcity has the potential to improve the position of suppliers, especially those who are able to organize themselves. The supplier power is expected to become stronger in coming years. In addition, in some spice and herb market (e.g. pepper) farmers have more insight into their target markets and know real-time prices. This strengthens their position and therefore improved cooperation is advised.
 - **Cooperation is increasing:** Throughout the world there are many initiatives for small-scale farmers aimed at improving their economic position and exchange knowledge. They are often working together in small holder collectives. They will be able to improve their negotiating power and fetch higher prices.
 - **Direct sourcing:** In addition, to secure supply EU buyers will increasingly source from producers directly. This provides a threat to your position in the supply chain.
- With supplier power increasing it is important to improve relationships with your outgrowers and suppliers. Meet them in person, order and pay in time, look out for interesting opportunities for them and update them on your strategy so they are able to anticipate.
 - To improve your relation with your suppliers work with reliable collectors that preferably integrate sustainable practices (e.g. fair prices).
 - Educate growers in term of efficiency and agronomics to improve your supply continuity. This is also a hot sustainability issue in the food sector and appreciated by EU buyers. Refer to the guidelines on [Good Agricultural Practices for spices](#) (IOSTA) and [Good Manufacturing Practices for spices](#) (IPC) for more information.

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

Disclaimer CBI market information tools: <http://www.cbi.eu/disclaimer>