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Tru-Cape Fruit Marketing, South Africa: Managing the Export Market Diversification Challenge

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Abstract

Tru-Cape Fruit Marketing (Tru-Cape), South Africa's leading apple and pear distributor, has an impressive track record since its inception in 2001, growing its turnover from \$50 million USD in its first year to \$135 million today. While it focuses on both domestic and international markets, Tru-Cape knew from the onset that the real growth potential lay in exports. Tru-Cape was formed through a merger of two companies already exporting to 20 countries. By 2013, exports had risen to 67 countries, demonstrating the company's on-going commitment to market diversification. It also reflects the tenacity of management to tackle the many challenges along the way. Tru-Cape has devised a set of strategies to enable it to hold its own, but a fast-changing global environment is forcing management to take a fresh look at the company's internationalization agenda.

Keywords: exports; diversification; internationalization; markets

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Company Background

Tru-Cape was established to market and distribute the fresh produce of leading growers of deciduous fruit, and today is the largest apple and pear supplier in South Africa's \$ 890 million fruit industry. Most of Tru-Cape's fruit is grown in the Western Cape (around Elgin, Grabouw and Ceres) and in the Southern Cape (in the Langkloof region). With its head office in Somerset West (about 40 km from Cape Town), Tru-Cape uses its extensive network to supply major food retailers in South Africa (such as Spar and Shoprite/Checkers) and its export markets (such as Tesco in the UK). In this regard, Tru-Cape owns or maintains strong partnerships with different participants in the value chain, including growers, packers and transporters. Growers are contractually bound to supply only to Tru-Cape, which enhances the reliability of supply.

Tru-Cape employs 33 people, and the farms and the two packhouses that Tru-Cape owns, provide employment to more than 7,000 people. Tru-Cape also supports its growers by providing scientific, technical and marketing advice. In the financial year November 2012 - October 2013, Tru-Cape sold 13.5 million cartons of fruit, equating to 1.5 billion apples and pears. In the same period the company delivered a 22% year-on-year value increase to growers. In 2013, Tru-Cape exported about 67% of its total volume, with the remaining 33% being consumed locally. Within the next five to ten years, the company envisages growing its production by at least 50%.

Tru-Cape exports to Africa, the Middle East, the Far East, Europe and North America. Yet, the extent of involvement in each of these regions varies. For example, 19% of the company's exports (in volume terms) go to other African countries, whereas the United States absorbs only 1% of the company's exports.

Current Management Structure

Charles J. Hughes, the Managing Director of Tru-Cape Fruit Marketing since the company was first established in 2001, retired at the end of 2013. Under Hughes' leadership, Tru-Cape achieved phenomenal growth and will undoubtedly continue to be influenced by his vision for the company. The new Managing Director is Roelf Pienaar (38), an outside appointee, who is a Chartered Accountant by profession and holds an MBA. He brings a great deal of supply chain management experience gained in the supermarket sector (including the Pick n Pay group) in both South Africa and abroad. Strategic decision-making rests with Tru-Cape's top management, which is supported by a Board of Directors.



Key Success Factors

As a key player in South Africa's agricultural sector, Tru-Cape faces various obstacles. Over the years, Tru-Cape has implemented a number of strategies that specifically address the GLIMPSE™¹ challenges that often confronts exporting companies.

¹GLIMPSE stands for Government, Losses, Infrastructure, Markets, Policies, Science/Innovation, Environment and Talent (Connolly, A.J. & Phillips-Connolly, K. 2012. Can Agribusiness Feed 3 Billion New People...and Save the Planet? A GLIMPSE™ into the Future. *International Food and Agribusiness Management Review* 15(B):139 – 152).

Tru-Cape is quality-focused and operates in strict compliance with international health and environment protocols, such as Global GAP. However, one of the key challenges facing the company is the limited assistance it receives from the South African government in its bid to access high-potential markets like China and Thailand. Despite strong demand for fruit in China, the Chinese authorities are still waiting for the South African government to supply information on pesticides that are being used in local apple orchards. A satisfactory response is a prerequisite for China giving the green light to apple exports from South Africa. Similarly, South Africa's apple exporters have been denied access to Thailand since 2008 because the South African government has failed to update the phyto-sanitary rules applicable to the sector, thus hindering the certification process. Notwithstanding these constraints, Tru-Cape has been proactive in researching the Chinese and Thai markets, and forming relationships with potential buyers and distributors.

Supply chain dynamics are another concern. For example, in the wake of the violent protests over wages and working conditions that were perpetrated by many Western Cape farm workers in 2013, local and export clients have expressed concern about security of supply. Some of Tru-Cape's overseas buyers have even begun investigating Chile, Argentina, Brazil and New Zealand as possible alternative sources of supply. Energy supply, including the high cost thereof, is a major challenge for producers in South Africa. However, Tru-Cape has embraced a green energy approach, as evidenced in its widespread use of solar power. The company also follows environmental best practices in its orchard management.

Tru-Cape has never recorded a loss. The company attributes this to its understanding of the deciduous fruit industry, and the fact that it pays close attention to the needs of its customers and business partners. Forming alliances with local companies has helped mitigate risk when entering a new market, but such a process can be protracted. For example, Tru-Cape took ten years to find a suitable importer/partner in India, after many rounds of market intelligence gathering, networking and due diligence. Tru-Cape is currently looking to strengthen its traditional partnership model to achieve more cost effective access into high-potential markets. The vision is to control as much of the value chain as possible and reduce the company's reliance on independent operators. This will involve greater investment in packaging specialists, and packing and logistics companies, and the implementation of a more seamless supply strategy. Tru-Cape has also invested nearly \$20 million in its packhouse and cold store facilities, thereby boosting the quality and efficiency of its operation, and is mechanizing some of its processes like fruit handling.

Tru-Cape is continuously exploring opportunities to diversify its export markets, especially when problems present themselves in some regions. For example, the EU market for its fruit exports (mainly pears) is shrinking in the protracted aftermath of the global economic crisis, while the emergence of Poland as a competitive supplier of fruit is eroding opportunities for Tru-Cape in Russia. From an export diversification perspective, Tru-Cape is setting its sights on Africa, the Middle East and the Far East, regions that have displayed resilient demand patterns despite difficult global conditions. Drawing cards in Africa are its fast-expanding markets, buoyed up by the rise of the African middle class, and China's ongoing investment in new road, port and other transport facilities in countries such as Nigeria, Angola, Kenya, Zambia and Tanzania, which is easing infrastructural hurdles. Against this background, Tru-Cape expects African demand to surge by 15% to 30% per year from 2013 to 2018-2020.

Tru-Cape regularly introduces innovative offerings in response to evolving consumer preferences. Like other industry players, Tru-Cape has brought out new, more disease-resilient fruit varieties that have a better color and a higher export-quality yield. For example, it has overseen the planting of new apple varieties like Fuji and Royal Gala, which are more suited to Asian markets. These new varieties also make farming more profitable,

offsetting the rising costs of labor, electricity and imported inputs (which are especially acute given the sustained weakness of the South African rand). Furthermore, Tru-Cape sets out to ensure that its equipment and business processes remain cutting edge, and that its brand is highly visible. It exhibits regularly at international trade fairs, stages in-store promotions, sponsors numerous events that promote healthy lifestyle, and uses social media such as Facebook and Twitter to communicate with its buying public.

Key talent at Tru-Cape is to a large extent retained through effective training and development programs. Such programs are aimed at building proficiency in technical, functional areas (e.g. financial control, and marketing and quality management), and developing leadership skills. In addition, the company's flat management structure, and clear job descriptions and communication, create accountability while also encouraging innovative problem-solving and a sense of community. Developing and retaining skills on the farms and in the packhouses, however, is more challenging because the average laborer is comparatively poorly paid and the skills required are basic. High staff turnover at this level is not uncommon in the industry.

Tru-Cape has long realized that everyone at the company has a specific role to play and needs clear guidelines on how they can deliver value to customers and shareholders alike. It also recognizes that staff members require the right work-life balance if they are to thrive. In view of this, an accommodative and respectful environment has been created in contrast to the stilted corporate culture found in many other companies.

Strategic Issues for Tru-Cape

The main strategic decision that Tru-Cape faces at present is how to plot the optimal course for its export market diversification drive. With growth in the industrialized markets likely to be subdued for the foreseeable future, the way forward for Tru-Cape is to expand its presence in high-growth regions with strong demand for fresh fruit.

Tru-Cape realizes that it needs to be as focused as possible in its market diversification efforts, which includes determining whether to sell more to its existing markets, or to new markets, or both. A very useful tool that addresses this issue is the Decision Support Model (DSM). Developed for South Africa by the TRADE research niche area at the North-West University in Potchefstroom, South Africa, the DSM identifies realistic export opportunities by screening potential markets on the basis of market size, short- and long-term market growth, market concentration (competition) and market accessibility (such as transport and clearance time and cost, ease of arranging shipments, and tariff and non-tariff barriers).²

The DSM results point to the fact that Tru-Cape could expand its market share for apples to India, Indonesia, Saudi Arabia and Bangladesh, while promising new markets include Rwanda, Egypt and Algeria. The DSM results also show that Malaysia remains a lucrative export opportunity for Tru-Cape's pear exports and new markets like Kazakhstan, Ethiopia, Bangladesh and Egypt could be tapped. According to the DSM, both China and Thailand feature as high potential markets for apples, but only China for pears.³

²For more information on the DSM: Cuyvers, L. and W. Viviers (eds) 2012. Export Promotion: A Decision Support Model Approach. Stellenbosch: Sun Media Metro. The authors can also be contacted at: wilma.viviers@nwu.ac.za.

³Owing to the declining importance of the EU market for fruit exports, the DSM results for the EU have not been reported here. South and North America have also not been considered as South America exports large quantities of deciduous fruit to the North American market.

Looking Ahead

Looking to the future, Tru-Cape needs to grow its business, both by entering into new partnership agreements and extending its international footprint. Several African, Far Eastern and Middle Eastern markets are appealing prospects for further expansion. However, competition is rising as these markets' appeal grows. China and Thailand are foregone conclusions as promising new opportunity areas but it is difficult to predict when the current market access hurdles will be cleared.

Despite the company's enviable track record, it still needs to be prudent in how it spends its time and money. Using the DSM results as a compass, Tru-Cape's management will need to decide what its short-, medium- and long-term business priorities are, and how its diversification objectives will affect its local supply capacity and domestic business operation.

