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New global and local marketing strategies: Creation of added value through differentiation and high quality products

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Abstract. Market orientation is the greatest challenge confronting olive oil companies who want to open new markets and increase sales in existing markets. To do this, first companies must determine the relevant markets in which they wish to act, based on analysis of consumer behaviour and their own strengths. Once these markets are identified companies must segment the market, select target markets and positioning. In this sense, an olive oil differentiation strategy is the mainstay of positioning management in order to create a product that is perceived as unique in a chosen market segment. Sources of differentiation must be identified prior to determining a market segment. Aspects of differentiation include internal attributes of oil; or other external elements increasingly valued by consumers, such as environmental issues, the search for local products or those linked to a specific territory, or after sales services. In this sense, extra virgin olive oils have a number of attributes that are highly valued by consumers (quality, health, naturalness, territoriality, environmental respect, brand, origin, method of production, etc.) allowing various differentiation strategies.

Keywords. Marketing – Market orientation – Olive oil – Differentiation.

I – Introduction

In recent years, a series of events and changes has profoundly altered the operating environment in the oil sector, amplifying the changing and expanding market place in which improved market orientation, especially from the production sector, is necessary.
In our view, the "factors or drivers of change" in the olive oil sector are as follows. First, there has been increased worldwide production of olive oil as a result of: (i) an increase in the amount of land used for olive cultivation, principally on intensive or super-intensive plantations; and (ii) the improvement in productivity due to irrigation extension and improved technology, in both the growth and olive-to-oil processing phases. Second, the remarkable worldwide increase in the demand for olive oil has been driven primarily based on scientifically established and increasingly widespread knowledge of the positive health benefits of its consumption, as consumers search for healthy, safe and quality products. Third, there has been increased demand for extra virgin olive oil. Fourth, the reduction, elimination and/or reorientation of public subsidies and further liberalization of markets is causing intense, increased competitiveness. Globalization plays a role in explaining and defining the market situation. Olive oil market protection will be reduced due to pressure from developing countries and the strategic interests of multinational companies. The future will bring more open markets, either through bilateral agreements or under the general system of the World Trade Organization (WTO). Fifth, there are new business opportunities arising from diversification strategies, such as using olive oil as an ingredient in other foods, cosmetics or in pharmaceuticals; the development of "agro-energy olives"; other ways of using by-products and olive waste; and the process of obtaining olive oils. Finally, increased corporate concentration in commercial distribution and the growth of private label market share are related events which have increased the difficulty for manufacturers distributing their own brands, while giving rise to the emergence of specialized industries in manufacturing labels, called "hidden giants".

In the last twenty years, the global demand for olive oil has increased by more than a million tons. However, the oil sector is suffering a decline in profitability due to lower prices in recent years resulting from oversupply and a strong imbalance of power in the sector, information reflected in the European Union Olive Oil Sector Action Plan. Since the olive oil production sector dominates production orientation, producers of virgin olive oils have modernized their farms incorporating the latest technological improvements provided by research. The same thing has happened in the primary processing industries. However, producers are too far away from consumers for the market to reward their efforts. Therefore, it is necessary to adopt a philosophy of market orientation and marketing; that is, producers need to be aware that they "can only produce what they can sell".

Thus, this paper has two objectives: (i) to describe the strategies that the olive oil production sector can use to achieve greater market orientation; and (ii) to identify sources of differentiation of olive oils in order to design and implement a differentiation strategy that makes consumers perceive oils as unique.

Following this introduction, the second section outlines the current challenges confronting the olive sector. Next, a procedure for implementing a philosophy of market orientation for olive oil companies is discussed, as well as new marketing strategies that should be used. Then, sources of olive oil differentiation that add value to the product are described. Finally, the final chapter contains concluding comments.

Our hypothesis is that the behaviour of the olive oil production sector is critical to the development of the global demand for olive oils and their own profitability. It is necessary to transition from the currently dominant production orientation to a market orientation.

II – The challenges confronting the olive sector

In the scenario described above the challenges confronting the olive sector, in our opinion, are:

(i) Constant improvement in the quality and safety of food, an integrated process that includes respect for the environment. It is not enough that olive oils are safe and healthy; the production process must also be safe and healthy.
(ii) Management improvement on farms and in related industries (cost reduction, increased productivity and professional management).

(iii) Making a sectorial approach compatible with a territorial approach. The olive sector is a major driver in the economy of its production areas. It is essential to emphasize the multi-functionality of olive cultivation: it has the ability to unite a territory, create jobs, protect the environment, maintain local populations and production systems, preserve traditional agricultural landscapes, avoid or reduce erosion, fight climate change and maintain biodiversity. In short, it is necessary to assert the fundamental importance of the olive sector in its social, cultural, and environmental dimensions.

(iv) Highlight greater diversification, as mentioned above, by: using olive oil as an ingredient in other foods (sausages, preserves, pastries, etc.), and introducing it in other products (cosmetics, and pharmaceuticals), creating links with the energy market and discovering other forms of using olive waste and its by-products, such as composting, for example.

(v) Create well integrated and adequately sized marketing structures through cooperation agreements, strategic alliances, and mergers within the production sector.

(vi) Improve the functioning of the olive and olive oil production chain, promoting stable and sustainable relationships between different players, based on trust and commitment and the development of vertical collaborative strategies.

(vii) Investing in R & D and training. Increase the transfer of knowledge and consulting within the production sector: stimulate more cooperation between farmers and researchers to accelerate innovation, especially in processed products that bring benefits both in terms of time (convenience products), and in terms of health (functional and nutritional products).

(viii) Use information and communication technology (ICT) in management.

(ix) Conduct efficient marketing based on market orientation. Olive companies, especially, the producers have to be convinced that it is essential to establish an on-going dialogue with consumers to enable them to identify consumer needs and desires. Satisfaction of consumer demands must become one of the main objectives of the organization.

III – Market orientation in the olive sector

Meeting consumer needs should be the primary goal of every business. This is the ideology that underpins marketing management and it is apparent that the term marketing, as Leon and Olabarria point out (1991, p. 9), brings an innate understanding of the consumer, since the goal of marketing is the perpetual dialectic between the product and/or service provider and the consumer-the end user. Therefore, the marketing approach advocated in business management implies the need for every organization to identify their markets, know their customers, understand their needs and know how to satisfy them. This is the only way an organization can design an offer that will satisfy the needs of current and potential customers better than the competition and therefore make a profit. As noted by O `Shaughnessy (1988, p. 102): "All marketing plans are based on a broader set of assumptions about consumers or buyers. Whether it is to keep current customers, attract buyers from the competition, attract new users or just plain raise levels of sales among existing customers, the marketing strategies you design to achieve this will be trying to influence consumers or buyers. The better you know why people want a product, how a specific brand is selected and what causes them to buy or not, the better you are able to design an effective marketing strategy".

In sum, to operate successfully, market-oriented companies, with a marketing orientation must have a full understanding of what makes consumers buy things. They need to know why they buy, what real needs they try to satisfy and what influences affect their product choice, in order to be in a position to design marketing strategies that favourably influence consumer decisions.
A market-oriented company promotes a company culture of organization, based on the fundamental principle that the members of an organization at every level should be aware of the importance of the consumer to their existence, progress and profitability, because while marketing is a business function, above all it is an attitude, and management philosophy.

Market orientation and marketing are two of the great challenges confronting the olive business in order to open new markets and increase sales in existing markets. To achieve these objectives, companies have to first, define their business portfolio, the relevant markets in which to act, and the Three-Dimensional Business Definition (Abell, 1980), which is an intersection of a base function, and technology and a group of consumers. Following this analysis, olive oil companies can identify different relevant markets in which to operate: the bulk market; the packaging market; indoor markets; outdoor markets; homes; hotels, restaurants and catering companies (HORECA), etc. The choice of one or more markets is the result of consumer behaviour analysis and, of course, of the strengths and weaknesses of the company.

Once the products-markets in which a company wishes to act are identified, market oriented companies need to carry out the following tasks in each market: market segmentation, target market selection and positioning. Market segmentation identifies various groups of consumers with similar behaviours within the total market, profiling each of the segments identified. Once the market segmentation is done, the best segment or segments need to be selected. To do this, the potential profit from each of them, a function of their size and growth, and the structural attractiveness, objectives and resources of the organization need to be assessed. Subsequently, the organization must persuade selected target markets that their product will meet a consumer’s needs better than competing products. To do this, companies must develop a special image of their product in the consumers’ minds relative to competing products. These market segments must feel that the company has a unique way to meet consumer needs.

A market-oriented olive company seeking to operate in any market must analyse consumer behaviour toward oils and fats in that market: including the oils and fats consumed, uses, associations of oils / fats to use, purchase motivations, places of purchase, knowledge about different oils / fats and their differential attributes, consumer perceptions, beliefs and images that consumers have about oils / fats, etc.

For example, Parras and Torres (1996) segmented the Spanish home edible vegetable oil market, using the number and types of oil consumed as criteria. Their results were as follows: exclusive buyers of olive oil (31.8%), exclusive buyers of sunflower oil (4.3%), exclusive buyers of virgin olive oils fit for consumption (4.6%), buyers of both olive oil and sunflower oil (31.8%), buyers of olive oils (virgin and olive oil) (7.5%), buyers of virgin olive oil and sunflower oil (5.3%), buyers of two other types of oils (4.1%) and buyers of more than two types of oils (10.8%). Market-oriented olive companies can use this information to decide whether to focus on one or more of these segments on the basis that the company possesses a competitive advantage over the competition and, in turn, can generate a potential profit.

Outside the Spanish market, the French market has experienced significant growth in recent years and could be representative of emerging foreign markets, in which, as seen in Fig. 1, extra virgin olive oil is considered the healthiest product, yet its use is associated with uncooked dishes or those with a short cooking time (Parras et al., 2005). Olive oil use in France is practically limited to salad or raw uses. In this type of market the institutional and business strategy should be to position extra virgin olive oil as a versatile oil, in order to extend its use based on knowledge about the behaviour of olive oils in French gastronomy.

Using the Spanish home market as an example of a large olive oil consumer market, it is clear that the consumption of extra virgin olive oils is still small compared with the overall consumption of olive oil, as in other production markets. A business and institutional development strategy in these markets would be to increase consumption of extra virgin oil in households that are exclusive consumers of olive oil and in those that consume small amounts
of extra virgin oil. To do this, oil usages, purchase motives and the image that consumers have of various products needs to be taken into account.

![Fig. 1. Positioning of extra virgin olive oil in the French oils and fats market (Source: Parras et al., 2005).](image)

Market orientation also involves designing and implementing new marketing strategies, such as consumer sensory education and the dissemination of an olive oil consumption culture, in order to close the gap between a sector that puts forth great effort to obtain quality olive oils and a consumer who generally does not appreciate this quality (Sanz et al., 2012). These measures are necessary in order for the effort in producing extra virgin oils to be rewarded in the market, especially in those markets where consumers have little knowledge about the different types of olive oils and its distinctive features are poorly understood. In the same vein, it is necessary to change the generic names of olive oils that are unclear and which prevent consumers from differentiating between oil qualities, and are not useful to facilitate the buyer's purchase decision (Parras, 2000). The confusion in some markets does little to sell virgin olive oil from the producers because when there is confusion the consumer takes refuge in known brands, even if those oils are not the best available. A strategic marketing principle is necessary to provide consumers with accurate, sufficient and understandable information on the characteristics of olive oils.

It is also interesting to incorporate varietal information, historical and cultural features related to products, and tasting descriptors on olive oil labels intended for minority, but emerging consumer segments. Moreover, there is a need for an urgent ban on re-usable olive oil containers that allow immediate and virtually unlimited reuse in markets where it is not prohibited, for example in Spain. This widespread practice in foodservice establishments presents a host of risks for end consumers and generates distrust in among quality oil producers who run the risk that one of their bottles can be filled with another inferior oil.
It is necessary for olive oil to be packaged in non-refillable containers in order to ensure product authenticity. Finally, the use of ICTs is key in new marketing strategies, not only for technological support, marketing designs and implementation strategies, but also for e-commerce use in business settings related to olive oil.

IV – The strategy of differentiation and added value. Factors or attributes of differentiation in olive oils

As Lambin noted (1994, p. 336-337), the first step in preparing a development strategy is to specify the nature of a defensible competitive advantage, which will support strategic and tactical actions later.

Different basic strategies can be adopted depending upon whether or not they are based on productivity gains, and therefore cost is affected, or based on a differentiation element and, consequently, price is affected. Porter (1980, p. 56-57) identifies three broad generic strategies, which are internally consistent (able to be used individually or in a combination) to create a long-term defensible position and beat competitors in the industrial sector. These three strategies are general leadership, differentiation and a high segmentation approach (Fig. 2).

Fig. 2. Porter’s generic strategies (Porter, 1980).

The strategy of product or service differentiation is to create something that a market segment perceives as unique. This idea is the mainstay of position management in market segments. All segmentation is based on the concept of differentiation. The distinction, if achieved, is a viable strategy to earn higher than average returns in an industry, as it creates a defensible position against the competition. Differentiation provides security against competitive rivalry due to brand or product loyalty and lower sensitivity to resulting prices. It also increases profits, which avoids the need for a low cost position. Differentiation strengthens the position of a firm relative to its competitors and substitutes and increases the dependence of consumers or buyers. On the other hand, some risks associated with differentiation include emulation of the distinguishing feature by other companies and, secondly, a price advantage by a competitor which could
induce a significant sector of the market to prefer it, reducing interest in the business differentiator. How can differentiation from the competition be achieved? It is useful to draw on the Lancaster’s Theory of Demand Characteristics (1966) which is based on the assumption that consumers maximize the utility of features of objects rather than the objects themselves. From this perspective, a product as seen from the buyer’s point of view, can be defined as a specific set of attributes that benefit the buyer. These include more than just the basic service typical of the type of product, extending to necessary or ancillary services, which are distinctive product elements, and which might influence the preferences of buyers. Consequently, an attribute is the advantage sought by the buyer, or the attribute that generates service, and satisfaction and, as such, is used as a selection criterion (Lambin, 1995, p. 114-117).

The literature distinguishes between intrinsic and extrinsic attributes. Intrinsic attributes are those that cannot be changed or experimentally manipulated without modifying the physical characteristics of the product itself (Olson and Jacoby, 1972). Extrinsic attributes are by definition external to the product, and are related to it, but are not part of the physical product. For food generally and olive oils, in particular, intrinsic attributes include taste, colour, odour, range, nutrient capacity, health effects, and freshness, etc. Some extrinsic attributes are price, packaging (material and design), the brand, the logo, the perception of quality, labelling, the form of production or crop, and origin, etc.

On the other hand, food in general and olive oils in particular, are increasingly differentiated through social, emotional and epistemological aspects, including: attention to biodiversity in the production process, the fight against climate change, contributions to the improvement of rural landscapes, environmental care, innovation, the desire for knowledge, and other social and cultural aspects, etc., Additionally, both food and olive oil are differentiated through services valued in market segments, for example, after sales service, fast delivery, and advice on the use and gastronomy of olive oil.

Figure 3 shows a diagram in which, using olive oil as a base for food, features have been added showing "necessary services" which are useful to differentiate olive oils in the market. Along with these, "added services" are shown. These services are increasingly appropriate to add value to companies’ products through differentiation.

![Figure 3. Extra virgin olive oil, shown as a package of benefits.](image)

Virgin olive oils have attributes that make them different from other oils and fats and which are valued by consumers, such as their positive effects on health, their characteristics in fried food,
and their quality and naturalness. Health has emerged as the sales pitch which has provoked increased consumption of olive oil in general, and of virgin oils in particular, especially in markets located far from the Mediterranean. The position that consuming extra virgin olive oil is an investment in health seems to have been achieved for virgin olive oil. This position has been reinforced by the inclusion of olive oil polyphenols on the European Food Safety Authority list of authorized health claims. Along with these attributes, the quality of extra virgin oil is a valued attribute that consumers need to be more informed about, as mentioned above. According to the Special Eurobarometer report on food and agriculture in the European Union, published in July 2012, food quality is the most important determinant of purchase for 96% of Europeans, over price (91%). However, the low prices of extra virgin oil at major retailers have not helped generate an impression of a high quality product for consumers, therefore quality oil producers are trying to establish another category of oil. Meanwhile, use of the term "Premium" to differentiate their oils or the words "extra payment virgin olive oil", "home-grown extra virgin olive oil", "first day harvest extra virgin olive oil", etc. These initiatives are interesting since they associate olive oil with wines, a product that is better known among consumers. One risk of this strategy is that consumers may not be able to distinguish between products. Another differentiation strategy for quality virgin olive oil is obviously to invest heavily in positioning a brand in the minds of consumers.

On the other hand, extra virgin olive oils with Designation of Origin (PDO) are beginning to be recognized, although a significant portion of consumers do not associate them with a specific territory, an issue worthy of discussion since food origin is important for 71% of respondents in the Eurobarometer. The return to consumption of local products should be a catalyst for development of these oils. Finally extra virgin olive oils from integrated and organic production methods are positioned based on their environmental attributes and are increasingly valued (particularly organic oils) by the market segment with a strong environmental commitment, which chooses these foods to reward agriculture that does not pollute. However, in some countries, like Spain, consumption of organic oils is severely restricted by the distribution channels used to reach the end consumers and the high regard for conventional extra virgin oils, limiting the willingness to pay a lot more for organic oil.

V – Conclusions

The remarkable increase in the demand for olive oil in the last twenty years is the most characteristic feature of the evolution of the world olive oil market. However, this development has not translated into increased profitability for producers, who in recent years have seen prices drop to levels below the cost of cultivation and processing, as a result of an oversupply and a strong imbalance of power relations within the olive sector. This problem stems from the production-oriented culture prevalent among producers. In this context, in order for the efforts of the producers to be rewarded by the market, they need to adopt the philosophy of market orientation, a strategy that could generate great returns, considering the enormous possibilities that different types of virgin olive oils have in different markets.

References


