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MARKETING STRATEGIES TO UTILISE CENTRAL OTAGO'S RESOURCES

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Abstract

This paper provides an overview of trends in marketing at the national level and in regions such as Central Otago.

The movement away from centrally co-ordinated marketing strategies and the increased sophistication of marketing and processing are highlighted. Such developments have implications for the structure of the agricultural and horticultural marketing systems. It is suggested that there is a requirement for improved strategy development and planning by individual firms. This can best be aided at the national level, by considering ways in which the planning by individual firms can be improved. Several specific areas in which improvements could be made are discussed.

Keywords: trends in marketing, marketing environment.

INTRODUCTION

From a marketing perspective this is a valuable time to look towards the year 2000. The current low prices in many of the international markets for agricultural products, combined with the restructuring of the New Zealand economy, provides an opportunity to reassess the situation which lies ahead. Had this task been assigned only a few years ago, the recommendations, and the nature of proposed marketing strategies, might have looked very different than they would today. At that time there was considerable confidence that agricultural and horticultural markets would continue to develop, and that with carefully planned, and controlled marketing strategies, there were extensive opportunities in the future for regions such as Central Otago.

The cyclical weakening of international prices, particularly for meat and grain products has led to some loss of confidence, even though longer term prospects are reasonable (Woods *et al.* 1984). There has also been a weakening of confidence in our ability to develop carefully co-ordinated marketing strategies which will ensure continued growth for the primary industries. This is evident in the short-lived attempt of the Meat Producers' Board to control meat marketing, and the continued slow progress of the Horticultural Export Authority Bill through Parliament. The movement towards a deregulated economy in both the financial and product markets has led to an increased emphasis on the need for better planning by individual firms, rather than a dependence on government or statutory organisations for centralised co-ordination. For these reasons there is unlikely to be any single marketing strategy which might allow for the controlled development of Central Otago's resources. Rather, there should be concern with the factors which are likely to influence the strategies of the many individual firms and organisations which utilise resources from the region. Attempts should be made to ensure that the most suitable planning environment is provided. Central Otago has a diversified resource base in the pastoral, horticultural and tourism sectors, but it is important to note that these are all export based sectors and that this planning environment extends to the international market as well as internal economic conditions. In this paper a very broad overview of trends and developments in the marketing environment is presented. It is obvious that the structure of the marketing system and the opportunities that it provides is itself a resource that is important for regional or national development.

TRENDS IN MARKETING

At the national level there has been considerable change in both the mix of exports, and the approach to export marketing from New Zealand in the past decade. In response to the loss of traditional markets in Europe, the initial reaction was to enter new markets with traditional products. This has now matured into the development of more specialised markets and 'further process' products. At the same time, producers themselves have identified many alternative products which have added to the export mix.

The nature of these changes can be seen in Table 1, which highlights the changing export mix from the sheep industry alone. Although this sector is probably considered to be one of the less progressive, there has been considerable change, even in the period between 1982 and 1985. The major points to note are that the exports which flow from this sector involve more than simply meat and wool; the same sector produces a wide range of further processed and by-products which are playing an increasing role in export marketing. Also, it can be seen that the producers' share of the FOB values of these products has declined from 64% to 55% over this period. This change reflects the increased value which is being added to these products and the increased costs of marketing. It is somewhat paradoxical that increased sophistication of marketing efforts can lead to a diminished role for the agricultural and horticultural producers.

Sargent (1985) makes an emotive case that such developments in Australia have been detrimental to the agricultural producer. Other studies which look at the returns to promotional effort in agricultural and horticultural industries have also shown that returns may be limited by the responsiveness of producers, and the ease with which producers can enter or leave an industry (Martin *et al.* 1986). This evidence suggests that increased product sophistication and marketing effort is not necessarily associated with increased producer or regional returns. It also highlights the importance of individual firm strategies because rather than expecting industry developments to maintain profitability, each firm or organisation must ensure that they have sufficient skills and knowledge of the marketing environment to take advantage of opportunities that exist or can be created. This is true for both farm firms and other firms involved in the marketing system. Because these individual strategies cannot be defined in any detail, we can only discuss the nature of the planning environment and how it may change towards the year 2000.

If current trends continue, it is likely that New Zealand will increasingly become an exporter of 'further processed' food and fibre products, the mix of products will continue to widen, they will become more sophisticated and they will involve greater promotional effort. The increased marketing component in the consumer product, however, will mean that the producers' share of the consumers' dollar will decline, even though the absolute returns to the producer may increase.

It is likely that two general types of marketing structure would emerge in such a situation. First, where the final product quality is not influenced by the quality of the agricultural input, or, where the agricultural product can be produced in substantial volumes by a wide range of producers, farmers will become less involved in the final marketing of that product. As the products become more diversified and further processed there is less dependence on the primary product, and in marketing terms, the channel leadership will move towards the processing and marketing sectors. The processor would not be concerned about the source of supplies, only the cost.

An obvious example of this situation exists in the wool industry, but it is also likely that such developments will occur in the meat industry for a wide range of products which involve a high level of processing. In this scenario, the end result is that consumers may be better served, the products more sophisticated, more value is

Table 1

Exports of meat products			
	\$ mill. (FOB)		
	1982	1985	% Change
Lamb Carcase	539	725	35
Lamb Cuts: Bone in	152	725	35
Mutton Carcase	114	50	-56
Sausage Casings	48	78	62
Lamb Offals	34	44	29
Tallow	27	118	337
Meat Meals	27	40	48
Mutton Cuts Boneless	26	76	192
Lamb Cuts Boneless	18	32	78
Mutton Offal	8	9	12
Other Animal Products	77	67	-15
Mutton Cuts: Bone in	6	5	-16
Other Edible Meat Products	4	7	75
Pet Food	1	2	100
	<u>1012</u>	<u>1454</u>	<u>44</u>
Exports of Wool Products			
	\$ mill. (FOB)		
	1982	1985	% Change
Scoured Wool	504	837	66
Greasy Wool	364	552	52
Slip Wool	51	85	66
Wool Yarn	41	85	107
carpet	39	86	120
Clothing	7	8	12
Fabrics	1	6	500
Other Wool (Corded) Waste	1	3	200
Rugs	.7	9	1100
Wool Grease	.5	3	500
	<u>1009.2</u>	<u>1675</u>	<u>65</u>
Exports of skin products			
	1982	1985	% Change
Pelts	83	267	220
Leather	23	39	70
Sheepskins (raw)	15	9	-40
Leather and Sheepskin Coats	5	9	80
Sheep Skins	4	7	75
Other Sheepskin Products	4	10	150
Footwear	4	9	125
	<u>138</u>	<u>350</u>	<u>153</u>
Total			
Total value of sheep industry exports	2152	3473	61
Farm value of sheep industry output	1388	1943	40
	(64%)	(55%)	

Source: New Zealand Department of Statistics

added, but producers themselves are still selling the raw product in a highly competitive market. Such developments are not necessarily harmful or inefficient. The agricultural or horticultural producer still has the important task of producing products as efficiently as possible, in the form that the processing sector requires, and at appropriate times of the year.

Although it is possible that producer owned organisations such as co-operatives or producer boards may already exist or expand to take over the processing and marketing activities, it is arguable whether such organisations can identify opportunities any more efficiently than a private processing sector. For private firms

it is important that the processing and marketing sector be given the correct incentive structure. For example it can be shown that with a pool system of selling where the marketing firms merely act as agents of the producers, the producers will bear almost all of the marketing risks and there may be little incentive for marketing firms to invest in marketing activity. It is possible that such a situation had existed in the meat industry until recently (Zwart 1984). This is an area which producers can control through their choice of selling system, and one which they must pay considerable attention to.

An alternative structure will develop for products where the quality, or nature of the final product is determined by the producer of the raw product. In this situation the marketing and processing sector **may** feel that in order to meet consumer requirements it is more efficient to take over the production activities. Thus, there would be an increase in the number of vertically integrated firms which link up production, marketing and processing.

Examples already exist within the poultry industry, and where individual horticultural producers brand and market their own products. A key feature of such an outcome is the ability to differentiate the product between producers, and possibly the high capital costs of entry to the industry. While there may appear to be more opportunities for the producer to control his or her own destiny through a closer involvement in marketing, the efficiency of such a strategy will depend on the nature of the final consumer product and its use of rural based inputs.

Either of the marketing structures described could be efficient in particular circumstances, but for the most efficient structures to evolve it is important that the most appropriate planning environment is provided. It is in this area that there may be a requirement for government or industry level involvement.

CHANGING THE MARKETING ENVIRONMENT

There are several major factors which may have a major impact on the ability of firms and industries to identify opportunities and develop strategies to capture the benefits which might result.

Research

New Zealand has a very high profile in production based research in the agricultural and horticultural industries and in recent years there has been increased emphasis on off-farm product development. This has proven to be useful, but a true commitment to market orientation would require a much higher emphasis on greater consumer research. This research must precede any product development, or processing technology research. Unfortunately international consumer research requires a considerably different resource base than currently exists in the research industry.

Market Information

It is important that the consumer information described above, and also the more accessible market intelligence be provided to the producers of the new product. A major source of instability and inefficiency is the inability of individual producers to make appropriate long-term investment decisions. The blackcurrant and wine industries provide obvious examples of such problems. In some sectors in New Zealand there is a lack of good debate and information about the future outlook for major products. In a deregulated economic environment the importance of investment decisions, and the vulnerability of individual producers has become even more evident.

Infrastructure Development

Many new industries develop in diverse regions; frequently because they rely on the initiative of individual producers. With the likelihood of increased processing there are many opportunities for a more careful development of the infrastructure for processing and transport. In Central Otago the horticultural developments have clustered around the irrigation areas, but this is not true in all parts of the country. Transportation facilities will also become increasingly important. As such activities frequently have economies of scale, co-ordination of their development can improve the efficiency of distribution and marketing activity.

Penetration of Overseas Markets

If the trend in market development is to continue, it will become increasingly important that New Zealand industries have an increased presence in overseas markets. Typically, central marketing organisations and firms have attempted to market individual products in a wide range of countries, but if the marketing is to be consumer led it is more appropriate to have firms which are capable of operating with a wider range of products in single countries. Although such firms are currently very small, they have potential **specialised** knowledge of both consumers and distribution systems in the country concerned, but they must have access to supplies, and to be able to have products developed to their specifications in New Zealand. Such a development may require considerable changes in our existing system of contractual arrangements and incentive systems, but they are not impossible to develop.

Co-ordination of Activities

In order to capture the benefits of New Zealand's reputation and image as an exporter of food products, there may be some need for co-ordination of promotional activities between firms or organisations. Rather than demanding resources for such activities from the government, it is important that the individual firms evaluate the benefits themselves and act in their own mutual interest. If the Market Development Board continues as proposed, it may provide the basis for such co-operation, although similar activities are to be encouraged amongst much smaller groupings of firms. The flexibility must exist for firms to **recognise** when co-operation in overseas markets will lead to benefits, and then to move quickly to capture these benefits.

The ideas outlined above are only a few suggestions of ways in which New Zealand's agricultural and horticultural marketing environment could be improved to benefit Central Otago. No attempt has been made to identify specific opportunities, nor to suggest institutional structures. In the current economic and market environment there is considerable confidence that the ability of individual firms to identify personal strategies will allow existing trends in market development to continue towards the year 2000.

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