Commercial Arrangements

There are a number of different types of buying agreement in use, the most frequent being:

- firm purchase
- consignment free
- programmed sales

Firm purchase is the most common system used in the Nordic countries. A fixed price, either FOB (free on board) or CIF (carriage, insurance, freight), is agreed between the buyer and the producer/supplier prior to despatch. The central buying organisations usually purchase on an FOB basis, so that they can arrange their own transport from producer through to final destination. Consignments by sea freight are often quoted FOB-quayside (at the European port of entry) where the exporter uses a reefer container for a number of different customers. CIF arrangements are common with air freighted produce.

With **consignment free** sales, the exporter bears the whole risk and will only receive the net proceeds after the consignment has been sold and commission and costs deducted. Commission charges average 8%, but when costs of storage, transport and handling are included the percentage deductions typically range from 25% to 35%. This is the normal method of purchase used by independent importer/wholesalers, especially for small volume orders, although this category of consignment constitutes a small proportion of the total volume of exotic imports. Commission selling is a high risk option for the exporter since the importer can make deductions for poor quality and wastage from overripe or rotten produce. The exporter is strongly advised to obtain references as to the reliability and credit worthiness of the intended trading partner before entering into commission sales.

Programmed sales account for a significant proportion of supermarket purchases from established suppliers in which deliveries of pre-arranged quantities to meet the needs of special promotions and peak sales periods are made. While purchase quantities are confirmed in advance, prices are not fixed until the time of sale and then follow prevailing market prices. This is a cross between firm purchase and commission arrangement. Both parties have clearly understood obligations and arrangements on delivery schedules, volumes and price determination, which may include guaranteed minimum price levels. However, the actual price is not agreed in advance.

Packaging

The most common packaging box sizes are 20 cm x 30 cm, 30 cm x 40 cm, 30 cm x 60 cm, and 40 cm x 60 cm, designed to fit the standard Euro-pallet size of 80 cm x 120 cm. The Euro-pallet system is widely used by the distribution and transport industries that serve retail trades throughout Europe. Most air freighted produce is carried on airline pallets but transferred on arrival onto Euro-pallets for distribution. Sea freighted produce in refrigerated containers generally uses the reefer pallet, 100 cm x 120 cm, with which the most convenient box size is 40 cm x 50 cm. Boxes that conform to both the Euro-pallet and the reefer pallet are compatible with road transport systems. Exporters are strongly advised to check with importers the size and type of packaging preferred and to take account of these requirements in planning purchases of packaging materials. Packaging used should be strong, preferably white, attractive and clean.

The extent of pre-packaging used varies considerably in Nordic countries. Importers will normally inform exporters of requirements but exporters should always check if in doubt. In Norway and Sweden, sale by count is the most common; consumers prefer and expect pyramids of loose produce ready for self-selection. Pre-packing is therefore limited to about 10% of fruit and vegetables, being confined to items such as soft fruit, baby corn and small gift packs. In Denmark pre-packaging has declined from about 80% of fresh produce to 50%-60% because of consumer resistance to over-packaging. Consumers are offered a choice of loose or pre-packed in most lines and pre-packing is expected to stabilize at current levels. In Finland the extent of prepacking is low, at 10%, but is expected to increase because most sales are by weight and there is a growing concern over poor hygiene associated with loose displays. Staffing costs are also higher with loose display sales systems. All Nordic importers prefer pre-packing to be done at source to avoid the high domestic labour costs.

Where EC, UN/ECE or OECD regulations have been issued for a product there are requirements about labelling on packages. Some are mandatory as part of minimum requirements, others are advisory. Labelling requirements are almost the same for all products, variations being minor.

Mandatory labelling on each box must be clearly legible and should state:

- identification, name, address (or code) of packer or dispatcher,
- nature of produce (eg avocados) and variety name,
- country of origin,
- commercial specifications, class, net weight in kg and/or count, size code (where sized).

Additional **voluntary information** included as common commercial practice:

- identity or logo of grower,
- tare weight in kg with maximum deviation in %,
- 'this side up' and 'fragile' symbols,
- storage temperature instructions,
- date of packing, often in code.

Getting Established in Nordic Markets

A potential exporter of mainstream exotic produce will seek to establish a direct trading relationship with a suitable partner in a Nordic country or one of the Nordic buying organisations. A short-list of potential partners can be prepared from the addresses in Appendix 4. Assistance in selecting a short-list and in organising visits can be obtained from trade associations such as the Swedish Association of Fruit and Vegetable Importers (SFG), or from the government organisations set up to promote imports from developing countries.

The exporter should then arrange a marketing tour, taking with him either produce samples and any sales literature or samples of packaging plus photographs of the produce he proposes to export. The exporter must be able to give full details about the proposed produce, including methods of cultivation, post-harvest treatment, packaging facilities, seasonal availability, and costs at different stages in the supply chain. He should also be familiar with different transport options and have a clear idea about the business terms that would be acceptable to him.

Because competition for the available demand is strong, the exporter must be able to offer something 'extra' to tempt importers to take on a new supplier. This can take the form of high quality produce, superior taste, convincing assurances about volumes available and reliability of supply, evidence of other satisfied customers and so forth. Despite the competition, major buyers and small specialist importers are keen to identify reliable new suppliers, particularly to cover seasonal gaps in demand.

At the end of the market tour the exporter should be able to establish both the landed price and the market price his produce can be expected to fetch, the preferred trading partners and their terms for transacting business that would be mutually acceptable. If possible during the tour, an agreement in principle should be negotiated with one or two partners and the next steps, including a test marketing programme, worked out.

Most secondary and marginal exotics are indirectly sourced through Holland or Germany into all Nordic countries. Dutch and German importers are able to offer high standards of quality, regular supplies, an extensive product range and generally stable prices. Use of specialist exotic importers in Holland and Germany can be the most effective way for an emergent exporter to enter the Nordic market, especially where there are no direct air or sea freight services to any of the Nordic countries. The type of trading partner appropriate for an exporter should depend on both the type and volume of produce being offered.

Small exporters of exotic produce should select a suitable importer or agent that specialises in the exotic sector for supply to high quality greengrocers, department stores for their fresh product sections and supermarket chains with second generation or marginal exotics.

Medium scale exporters should target the central buying organisations of import/wholesale/retail groups or the Nordic purchasing organisations as a means of gaining access into the supermarket/hypermarket trade.

Large export companies and marketing boards should also direct their marketing activities towards central buying organisations and Nordic purchasing organisations, offering programmed sales and direct delivery to minimise transport costs.

Trends in Produce Sales

For the mainstream, large volume products in all Nordic countries, price has become the most important consideration, followed by appearance, size and taste. During the recession discount stores have gained market share by offering a narrow range of produce at very competitive prices. Second generation and marginal exotics have been largely excluded from these stores. The supermarket and hypermarket chains have responded to the price pressure on exotics in a number of ways: smaller sized fruit is offered to reduce unit costs and prices; buying policies have favoured transport by sea because of significant cost savings over air freight (30% - 40% of cif); and provision of off-season vegetables has been accorded low priority, with sourcing mainly confined to European producers at low prices.

Central buying organisations have traditionally preferred under-ripe fruit to minimise wastage but this has meant that first time buyers of exotics.have frequently experienced poor eating quality. In some sectors of the Norwegian and Danish market, customers are being offered higher priced, better eating quality fruit packed nearer the point of ripeness. Examples of this ‘taste the difference’ approach have been the successful marketing of semi-organic German apples and of Malaysian carambola and Ghanaian pineapples, both transported by air rather than by sea. NAF is actively investigating the use of direct air charter flights to develop this market. This trend is expected to spread to Sweden and Finland.

As the countries pull out of recession, the healthy eating trend should result in a gradual increase in consumption of fruit and vegetables. This should provide opportunities for expansion of sales of selected tropical fruits and off-season fruit and vegetables.

Promotion and Branding

If a consumer is to develop loyalty towards a product he must find that it consistently meets his requirements and expectations. Provided the exporter does have good, competitively priced produce, one of the best ways of building loyalty and securing future orders is through the use of a brand name and a company logo. Large distributive chains often have their own brands and, for a small or medium sized exporter, it is likely to be more cost-effective to meet the standards necessary to secure the buyer's branding rather than use an 'own brand'.

Promotional campaigns are an effective way of boosting sales of exotic produce. The initiative for such campaigns is usually taken by specialist importers, the central buying organisations of large groups or the retailing arms of such groups. Exporters will want to encourage and participate in such promotions.