CBI / LCC
Fruit and Vegetable Processing

Part 2 - Entering the European Market

Objective 2:
Knowledge of long-term consumer trends in the EU
Knowledge of the main market channels for F&V
Knowledge of sales process; pyramid analysis
Knowledge of CSI calculation and benchmarking

1. Introduction

In general terms the European market for processed foods can be described as mature, fully developed. As opposed to emerging markets, there are no apparent inefficiencies, which means that the market has full competition (no oligopolies) and that market information is floating freely (no obstructions in communication about prices, or volumes). Shortages or oversupply situations are noted immediately and traders react accordingly.

The European market does not ‘welcome’ new suppliers with open arms. Europe is saturated, it is a ‘push-out’ market, and newcomers have to literally push out existing suppliers to gain market share.

This means that global suppliers compete on an even footing and they must ensure that their market strategies are well-defined for the segments they target. A good marketing plan, however, is by far not enough to push out existing suppliers and conquer market share. Chapter 4 of this document describes the importance of ‘selling techniques’ to support market entry. Subsequently, chapter 5 describes the importance of developing customer satisfaction to achieve a level of ‘very satisfied customers’. Only then, a supplier can be sure of return orders and steady profits. It does not mean that s/he can lay back, because keeping customers very satisfied takes requires continuous attention of all people in the company.

This describes the general situation; Europe is not a static market though….

2. Trends and opportunities in Europe

In processed fruits and vegetables, there is a distinction between the trends in Western and Eastern Europe although these differences are getting smaller year by year.

2.1 Market trends in Western Europe

Eight trends can be discerned in the market for processed fruits & vegetables:

At consumer level:

1. Convenience. Households become smaller and women are more integrated in the production process. This trend calls for food stuff which is convenient: washed, sliced, pre-cooked and in small portions: ready to prepare; ready to eat.
2. Eco-awareness. More and more consumers want organic, pesticide free, ecologically responsible, fair trade products, some segments are wary of ‘fruit miles’ and they ask themselves if year-round availability of strawberries is really a must for a person’s happiness? The market for organic foods grows between 3%-5% per year.
3. Ethnic foods. Due to the increasing number of immigrants from all over the world the market for ‘non-traditional food items’ is growing by about 8% per year.

At retail level:

4. Concentration. Large food chains increasingly dominate the retail of food products. The scale of their procurement systems change accordingly: they require large volumes and

long term-commitments. The procurement managers of the chains work more and more with specialized high level agents who must guarantee them steady supply at the lowest possible prices. This strongly reduces the possibility to make shortcuts in the channel. Selling directly to supermarket chains is a privilege for very large suppliers only.

5. ‘Soft’ transaction costs. In addition to traditional ‘hard’ transaction costs such as transport costs and tariffs (VC4), procurement managers of large retailers/importers need to factor in such elements as cultural and legal differences, government regulation, social preferences, environmental issues, political stability and risks involved in non-ethical business behavior. These factors are more and more recognized as ‘soft’ transaction costs. Procurement managers look for trade relationships where these soft transactions costs are minimized (this is one of the reasons for increased certification!).
6. Certification. Retailers require standardization and safeguards against food safety risks, soft transaction costs and for environmental sustainability. Through their certification process, supermarkets select suppliers. The most common ones are BRC, GLOBALGAP, HACCPS, ISO 9001, ISO 22000. Certification is no longer a ‘plus’ for which suppliers obtain a premium price, it has become a selection criterion and the cost of certification has to be absorbed by the producers.
7. Private labels. Consumers in the West believe that all products come from the same factory and are of good quality, regardless of the brand name. People are no longer willing to pay 30% more for an A-Brand. Supermarket chains use the opportunity to put their own name as brands for the middle market segments.
8. Late payment. Even before the credit crises, supermarkets exerted their bargaining power by paying late. Payment after 120 days and even 180 days is now common.

2.2 Market trends in Eastern Europe

Two trends can be discerned in the market for processed fruits and vegetables.

At consumer level:

1. Quality consciousness. Households in formers socialist countries are fed up with bad looking, foul smelling, poorly packed and tasteless food products. The import of food products from developed countries has set an irreversible trend. Since more households have better incomes, they are willing (and able) to pay more for better quality.
2. Brand awareness. Households have become used to advertisements by the global food players of the world. A strong brand is first of all believed to reduce risks of poor quality. Secondly, especially among youngsters, a fresh looking, modern brand helps the buyers to identify themselves with progress, a feeling of living in an advanced society, being part of a modern world.

At retail level:

Since the opening up of the Eastern European market, the large retail chains have dominated the food and vegetable scene. While in Western Europe specialized grocery shops still hold 25% of the market, in urban areas in Eastern Europe this is less than 15% and shrinking. Hence, the same trends in concentration, certification, and late payment. Only private labels are lagging behind in view of the earlier mentioned brand awareness.

2.3 Opportunities for Export to Europe

The need of supermarkets and other retail shops to keep their shelves filled with a very wide range of homogeneous products the whole year round, leads to worldwide sourcing of food stuff. This opens up production possibilities for everybody, also for Peruvian producers.

In other words, anybody can sell anything at any time, provided your product is competitive and that you are able to push out your competitors with good selling techniques.

Exporting mangos and melons from Peru into the EU is one thing; selling three types of fruit, conveniently sliced and packed in one tray of 350 gram and sent through a cold chain to TESCO within 24 hours, is quite another business. As a South African entrepreneur puts it: *"To replace dear white hands in European kitchens by cheap black ones in my factory, requires a bit more than just those cheap hands*".

This statement illustrates the challenges to agro-exporters in emerging markets. They have to keep up with quality standards, supermarket delivery schedules (especially for the fresh food products), freight and aircraft logistics, and then wait 180 days for their money.

There is a small but growing market for ethnic and organic products. Consumer prices for ethnic and organic products are typically 20-25% higher than their conventional counterparts. Because of the high costs of inspection, certification and labeling, only 50% of the premium is paid to the producers. It takes three years before agricultural land and orchards can be declared 'fit for organic'. In this transition period products are sold as conventional.

2.4 Market channels for processed fruits & vegetables

2.4.1 Structure

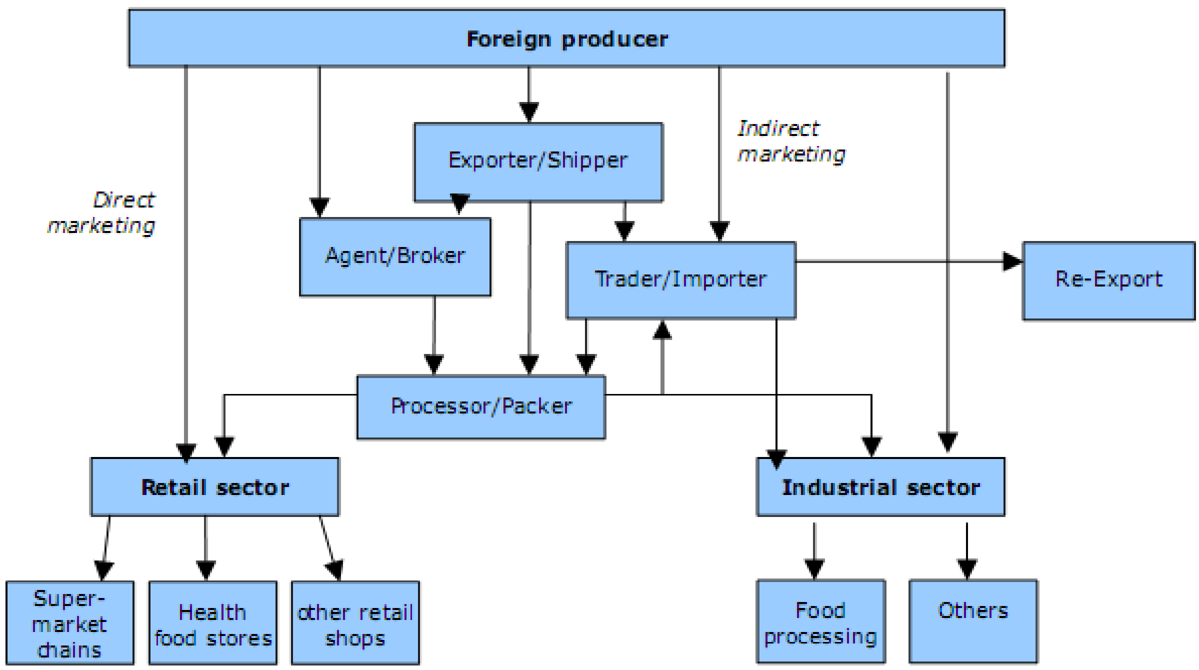
The general structure of the market is given in the graph below. The choice of marketing channel depends on three main factors:

1. Type of product B2C or B2B
2. Delivery volume
3. Assortment

Direct marketing is only suitable for consumer products, B2C, and is limited to health food stores and other specialty retail shops. Direct sale to large chains is virtually impossible for individual exporters. The channel is not relevant for Peruvian starters.

The indirect channel has different 'routes'.

In view of the need to lower transactions costs as much as possible, full truck loads (FTL) and full container loads (FCL) are the preferred options. If suppliers deliver less than a full load (LCL), they will use an exporter/shipper to complete the cargo. The transaction costs through this channel are higher: 10-15% margin for the exporter/shipper and 30% higher transportation costs for an LCL. Producers who are able to sell per FCL will be able to skip exporters and send directly to importers saving the costs above.



Another determinant in selecting the channel is defined by the width of the required category. Many retailers think in terms of assortment and not of the individual products composing it. In other words if a producers want to supply dried ginger powder, it is likely that the buyers will also deal with other spices, and s/he will sell the dried ginger powder as part of an assortment to the final client. Again, to lower transaction costs, the final client will seek to buy the entire assortment from one supplier, rather than buying individual spices from many different parts of the world. Hence, most processed fruit and vegetables items are sold through specialized traders/importers.

To assess the trade volume and the likely trade routes followed, the next table shows a rough estimate is shown of the number of containers shipped to the EU in 2010.

Product	Price in USD per ton	Price per FCL in USD	Export in 2010 in Mio USD	Nbr of FCL 2010
2005 Prepared or preserved vegetables (mostly asparagus)	1,750	35,000	156,224	4,464
2009 Fruit & vegetable juices, B2B 80%	1,200	24,000	21,728	905
B2C 20%	2,400	48,000	5,432	113
2001 Cucumbers, gherkins and onions preserved by vinegar	1,300	26,000	9,164	352
2008 Preserved fruits nes	1,800	36,000	6,087	169
2007 Jams, fruit jellies & marmalades	2,200	44,000	643	15
Total			**199,728**	**6,018**

An overview of the dominant channels and trade margins is given in the schedule below.

Dominant Trade from Peru to Europe	B2C or B2B	Estimated volume per producer	Dominant channel	Trade margin until retail
2005 Prepared or preserved vegetables nes (excl. frozen) Size of trade in 2010: USD 156,000,000 FOB	B2B	>10 containers/yr	Importer/ broker Repacker/ Processor Retailer	25% 5% 20% 20% 30%
2009 Fruit & vegetable juices, unfermented Size of trade in 2010: USD 27,000,000 FOB (80% concentrates B2B ; 20% juices B2C)	B2B	If <10 containers/yr	Importer, Processor, Retailer	25% 20% 30%
	B2B	If >10 containers/yr	Broker Processor, Retailer	5-10% 20% 30%
	B2C	<10 containers/yr	Importer, Retailer	20% 30-60%
2001 Cucumbers, gherkins and onions preserved by vinegar Size of trade in 2010: USD 9,000,000 FOB	B2C	LCL, <10 deliveries/yr	Importer, Repacker, Retailer	20% 20% 20% 30-60%
2008 Preserved fruits nes Size of trade in 2010: USD 6,000,000 FOB	B2B	<10 containers/yr	Importer, Processor, Retailer	25% 20% 30%
2007 Jams, fruit jellies & marmalades Size of trade in 2010: USD 600,000 FOB	B2C	LCL, <10 deliveries/yr	Exporter, Importer, Retailer	15% + 30% LCL 20% 30-60%

2.4.2 Margins

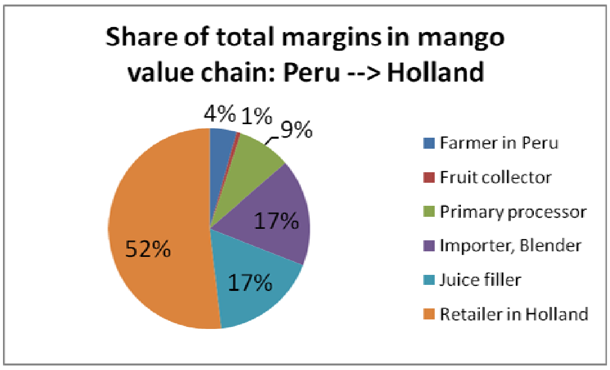
The table above just provides a general overview. For specific products, detailed margin calculations can be performed using a method called Cigar Box 5 (CB5). This is not explained in detail here. The results are displayed in the table and graphs below.

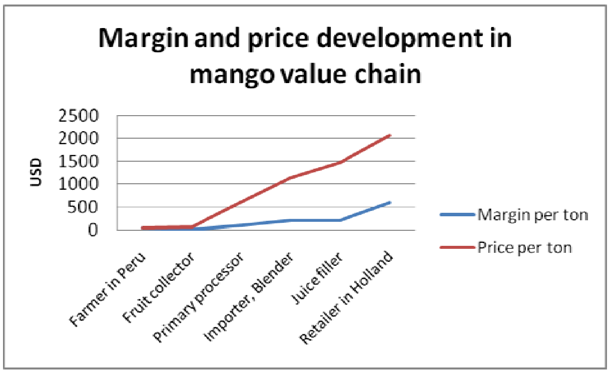
CB5 Value Chain Cost Price Calculation Sheet USD

Note 1: only blue figures may be altered; all black figures and % are calculated at Finished product: **Mango juice** Name exporter: **Proexi**

Note 2: use one single currency throughout the chain. Raw material: **Mango** Place **Hyancho, Peru**

	Cigar Box Analysis CB1	1		2		3		4		5		6		
	Component	**Farmer in Peru**	**%**	**Fruit collector**	**%**	**Primary processor**	**%**	**Importer, blender**	**%**	**Juice filler**	**%**	**Retailer in Holland**	**%**	**Share of retail price**
	Place / origin	Sayan		Sayam		Huacho		Rotterdam		Oosterhout		Dongen		
	Unit of measurement	**ton**		**ton**		**ton**		**ton**		**ton**		**ton**		
1	Purchase price of Mango	0.0												
6	Variable cost Farmer in Peru	0	*0%*											
7	Margin	50	*100%*											
8	**Sales price Farmer in Peru**	**50**	*100%*											**2.4%**
1	Purchase price from Farmer in Peru			50										
7	Variable cost Fruit collector			62	88%									
8	Margin			8	12%									
12	**Sales price Fruit collector**			**70**	100%									**3.4%**
1	Purchase price from Fruit collector					70								
7	Variable cost Primary processor					506	83%							
8	Margin					100	17%							
9	**Sales price Primary processor**					**606**	100%							**29.3%**
1	Purchase price from Primary processor							606						
7	Variable cost Importer, blender							941	82%					
8	Margin							200	18%					
9	**Sales price Importer, blender**							**1141**	100%					**55.2%**
1	Purchase price from Importer, blender									1141				
8	Variable cost Juice filler									1265	86%			
9	Margin									200	14%			
10	**Sales price Juice filler**									**1465**	100%			**70.9%**
1	Purchase price from Juice filler											1465		
8	Variable cost Retailer in Holland											1465	71%	
9	Margin											600	29%	
10	**Sales price Retailer in Holland**											**2065**	100%	**100.0%**


Share of total margins in mango value chain: Peru --> Holland
4%
1%
9%
17%
17%
52%
Farmer in Peru
Fruit collector
Primary processor
Importer, Blender
Juice filler
Retailer in Holland


Margin and price development in mango value chain
USD
2500
2000
1500
1000
500
0
Farmer in Peru
Fruit collector
Primary processor
Importer, Blender
Juice filler
Retailer in Holland
Margin per ton
Price per ton

3. Selection of potential Peruvian Exporters

The challenges to Peruvian exporters can best be summarized as follows:

"A successful exporter will have sufficient volumes of cheap raw material to produce standardized quality products, with sophisticated processing technology, and a minimum margin of 25%; s/he will be certified, have solid working capital, good logistics, and trained, but cheap labor!"

Thus, to compete with producers from other large exporters the following has to be achieved.

A successful exporter will have:	Factor is internal/ external to company	Type of action required
1. Sufficient volumes of cheap raw material	<u>external</u>	training farmers
2. for standardized quality products	internal	training staff
3. with sophisticated processing technology	internal	investments
4. and a minimum margin of 25%;	internal	cost control
5. s/he will be certified;	internal	management
6. have solid working capital;	<u>external</u>	bank credit
7. good logistics,	internal/ <u>external</u>	management access + FTL
8. and trained,	internal	management
9. but cheap labor.	<u>external</u>	

This list can be used as a quick checklist during an export audit. All points can be verified on a scale, where 0 = absent, 1= insufficient, 2 = sufficient, 3 = good, 4 = very good. All scores must at least 2. The sum score must be at least 25 points.

As can be seen, some of these factors are external to the company, others require internal actions. The external ones are difficult to control by a single company and require collective action by the sector and government. The external factors determine to a large extend whether the country has a competitive advantage, an environment conducive to export, or not. The internal factors determine if a company has a competitive edge to export, or not.

	Criteria	Medrasa	Proexi	VVS	Mariposa
1	Sufficient volumes of cheap raw material	4	2	1	2
2	Standardized quality products	3	3	1	3
3	Sophisticated processing technology	2	2	2	1
4	Minimum margin of 25%;	4	3	3	4
5	Certified;	3	2	0	2
6	Solid working capital;	2	4	3	4
7	Good logistics,	3	3	3	3
8	Trained staff	2	3	3	2
9	Cheap labor	4	3	3	2
	Sum score >= 25	**27**	**25**	**19**	**23**
	Score %	*75%*	*69%*	*53%*	*64%*

0 = absent, 1= insufficient, 2 = sufficient, 3 = good, 4 = very good

4. Making New Clients in the European Market

4.1 Customer Pyramid

Every sales manager tries to reach **two goals**:

1. He wants to make **new customers**.
2. He wants to turn existing customers into **loyal customers**.

A good tool for analysis is the customer pyramid. With the customer pyramid you can graphically analyze the behavior of customers. You can make a customer pyramid by making a list of your customers and your sales to them. Classify the customers from biggest to smallest.

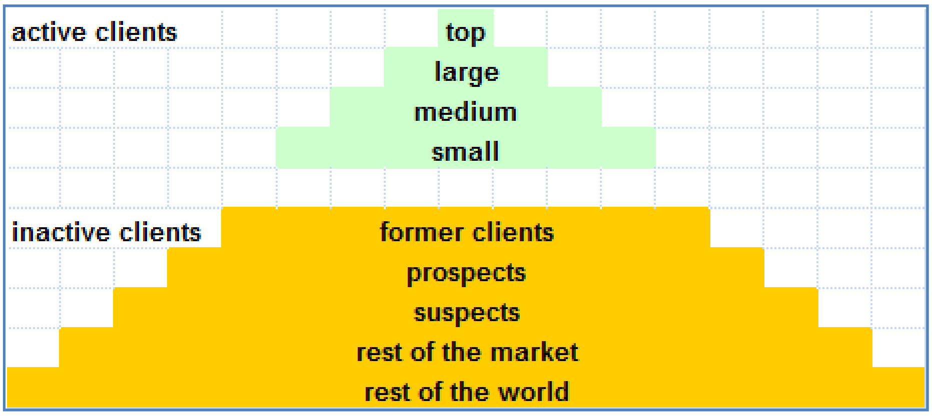


Figure 1 - The customer pyramid.

Basic elements of the customer pyramid are the **active clients** who bought your products in the past twelve months, and the **inactive clients** who did not buy in the past twelve months.

4.1.1 New clients

New clients come from the inactive ones. You can further subdivide them into:

- **Former clients**. Persons or companies who bought in the past, but not in the past 12 months. Former clients are the most important source of potential income. You must find out what prevents former customers to become active ones again.
- **Prospects**. Persons or companies with whom you have a relationship but who still have not bought. You can e.g. think of people who reacted to a mailing or request product information. Prospects are persons or companies of which you expect that they become active customers in the near future. Selling starts from choosing the right prospects.
- **Suspects**. Persons or companies to whom you could provide your products or services but with whom you still have no relationship. Normally, you will try to activate a relationship and thereafter treat them like prospects. To find suspects that may become prospects is probably the most difficult and time consuming task in new markets.
- **Rest of the market**. Persons or companies who absolutely do not need your products. Although you will never earn money from this group, is it important that you form yourself a picture of them, because then only you can avoid spending marketing time and money on people and companies with whom you will never do business.
- **The rest of the world**. People and companies outside your market areas.

4.1.2 Existing clients

You can classify **active customers** into four categories: top, large, medium and small. The higher in the ranking, the more loyal your customers are. A general listing is:

- **Top customers**. The top 1% of your active customers brings 25% of sales. If you lose one of them, your company suffers heavily. You must avoid this at (almost) all costs.
- **Large customers**. The following 4% of your active customers may also generate about 25% of sales. Efforts to increase their loyalty pays off the most.
- **Medium customers**. The following 15% of your active customers also bring 25% of sales. These customers require deeper analysis: those with potential to grow must be approached actively.
- **Small customers**. The remaining 80% of your active customers may be responsible for the remaining 20-30% of sales. It should not surprise you if some customers in this group contribute little or nothing to the result of the company. If you would attribute 25% of the company's fixed costs to these clients, they may even be loss making. Only those with high potential to grow must be approached.

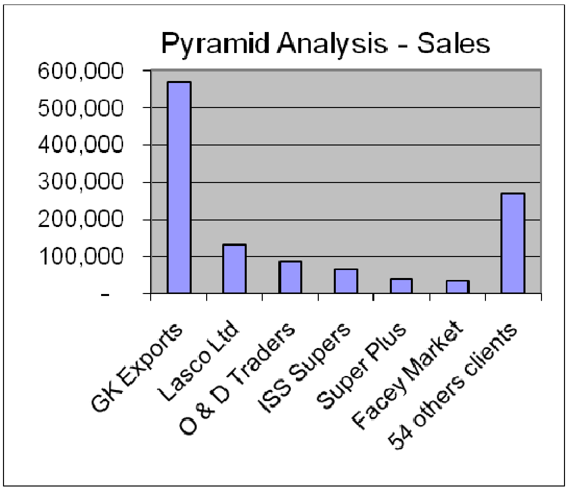


Figure 2 – Pyramid of a Caribbean Manufacturer

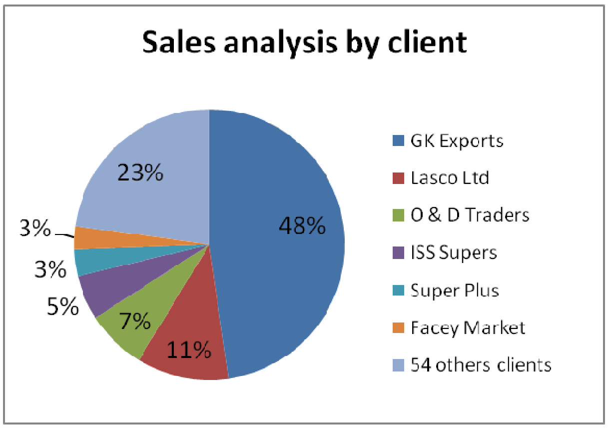


Figure 3 – Pie chart of the Caribbean Sauce Manufacturer

4.1.3 Statements

On the basis of a research carried out in 2003 among procurement managers of companies in 10 European countries, we can derive eight statements from the customer pyramids[1].

Statement 1. The top 20% of customers is responsible for 80% of the turnover.
Almost every customer pyramid proves the validity of the rule of 80-20, the Pareto principle. There are exceptions. Some business-to-business (B2B) companies obtain a large part of their turnover from an even smaller number of customers. Some customer pyramids show that if only the top one customer walks away, the company will be bankrupt.

Statement 2. The top 20% of the customers provides more than 100% of the profit.
In other words: you generally suffer loss on the 80%, the smaller customers. When you correctly distribute your costs of production, marketing/sales and other overheads, over all

[1] Esomar 1999, ECSI 1998 and 2003, and CCSL of Trullinger Associates, 2011.

customer segments in the pyramid, it will probably appear that this statement applies also to your company. But calculate for yourself!

Statement 3. Loyal customers are good for 90% of the turnover.
This is probably the most important lesson of the customer pyramid. It makes clear that companies can only survive if they have a fixed group of customers. Because of the importance of loyal (large) customers, almost all companies set up loyalty programs. For example, the frequently flyer program of airline companies.

Statement 4. The largest share of the marketing budget is spent on non-clients.
Although companies acquire approximately 90% of its turnover from loyal customers, no less than 60-80% of their marketing money, is spent on communication with non-customers. The question is if this is clever?

Statement 5. 20% up to 30% of all customers has to the potential to move up in the customer pyramid.
Although most of the companies lose money to their small customers, this does not have to lead to a large-scale clean-up. It might chase them directly into the arms of the competition. First, the small customers are good for 20% of sales. With that, they make a contribution to the fixed costs and therefore to economy of scale advantages. Secondly, small customers can have the potential to rapidly move up to the top of your customer pyramid. This does not happen because of a sudden and dramatic growth in their demand, but because they are big and walk away from a competitor. In other words, a small customer in your pyramid can be a top customer in the pyramid of your competitor. If he changes over to you, their turnover with your company can improve just like that.

Statement 6. Upward customer migration of 2% can result into a sale increase of 10% (and in case the fixed costs remain the same, the profit can increase by 50 to 100%).
Every year, some of your active customers will leave. Some prospect and suspects become new customers. Some customers fall down in the pyramid, whereas others go up. The customer pyramid shows how important it is to realize a net upward migration of your customer portfolio at the end of the financial year. That leads to income increase.

Statement 7. Satisfaction of customers is of critical importance for upward migration in the pyramid.
From all researches it becomes clear what enormous impact satisfaction of customers has on the profit. Customers in the category 'very satisfied' (CSI score 9) place a new order six times more often than customers who were only 'satisfied' (CSI score 7). In the competitive environment of today, with high demands for product and service quality, buyers and consumers do not expect less than a CSI score of 7. Therefore, if your customers tell you that they are 'satisfied' you must watch out.

Statement 8. Marketing & Sales is responsible for customer satisfaction.
If you ask marketing and sales people what they do for a living, they will probably say: "we identify and satisfy needs of customers". Or: "we sell products and services". Or: "we develop and maintain client relations". But ultimately marketing and sale people are responsible to influence both existing and potential customers' satisfaction. They are responsible to:

- identify (suitable) prospects from a pool of suspects, whereby the rest of the market remains, as much as possible, outside consideration;
- acquire new customers;
- reactivate inactive customers;
- upgrade existing customers whose share in the company can be improved;

- keep customers who have reached the top of their expenditure level.

As stated elsewhere in this document, marketing and sales are not the only departments to influence customers. Other departments in the company and even outsiders influence customer behavior in a favorable or unfavorable manner. And it is possible that their influence on customers is larger than that of marketing and sales.

4.2 Selling styles

There are four styles of selling:

1. **Hard selling**. The salesman tries to sell in a manipulative way and force the sales.
2. **Soft selling**. The salesman tries to honor the interests of the customer and forgets his own (short-term) interests ;
3. **Smart selling**. The salesman combines the interests of buyer and seller ('win-win');
4. **Consultative selling**. The salesman positions himself as a consultant or problem solver; as a result of which he develops loyalty with the customer.

4.3 Selling in a B2B market

In the business to business (B2B) market two forms of sale exist.

1. The first one is **aimed at procurement officers** of the buying organization. The usual method is one-on-one conversations between the seller and the buyer. The emphasis is on motives, assessing buying signals and on handling counter arguments. The sales person's aim is to 'get the order'. Frequently, it ends up being a price negotiation.
2. The second form of sale is **aimed at management and owners**. Here, the usual method is to create a strong relationship. The seller provides confidential information, helps to think strategically. The seller is not a salesman, but a strategist, an organization consultant, a man of confidence. High up in the organization it makes no sense to spend much time on prices, sales conditions and so on. High up in the organization, sales are usually much easier and the sales order is generally larger. Also there is more loyalty.

4.4 Transaction Costs by Stage of Procurement

Transaction costs can be grouped into three phases that are aligned with potential trade transactions: costs associated with contact; costs associated with contract; the costs associated with control.

Contact. In the contact phase, the buyer seeks information about his preferred product (price and quality), potential suppliers, or, when the product does not yet exist, which producer might be able to develop and/or produce it. The seller, for his part, devotes marketing effort into looking for a buyer. At this stage, the transaction costs are mainly for search and information. However, they are sunk costs; they occur even if a trade relationship (purchase) is not established.

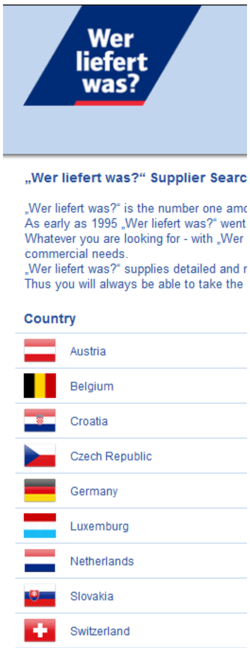
Contract. The contract phase starts immediately after the potential trading partners have found each other and begin working toward a deal. The costs in this period revolve around negotiating the terms of the contract. Parties have to decide how to divide expected costs of the transaction and how to protect their respective interests.

Control. The control phase involves monitoring and enforcing the contract. Both monitoring and enforcement involve high transaction costs, especially when large distances separate the trading partners and suppliers from each other. Despite the fact that physical distances have become less important through reduced transportation costs and fast communication, cultural and institutional distance can still be large. Business partners need to monitor the terms of their agreements to verify whether the other party is doing what it promised to do. If there are problems, the next step is enforcement of the contract. The most common response is to start a legal procedure. Especially in international trading relationships, legal actions take both time and money. Moreover, foreigners often have a disadvantage in national courts when they file claims against a local company.

4.5 The Sales Process in 6 Steps

Step:	***Advice:***
1. List List your <u>suspects</u> in order of priority.	First list the countries in order of your affinity; then search in the paid online B2B-guides using accurate keywords, preferably in English.
2. Choose List your <u>prospects</u> in order of priority.	If possible, segment your market.
3. Know Collect as much as information as possible about your <u>prospects</u>.	Get the right names and (email-) addresses Build up a network of relationships around your prospects.
4. Click To click means: to make a first relationship.	Make a correct judgment of the character of your prospect (e.g. use the four temperaments of Hippocrates[2]). During the first appointment: listen, listen, listen!
5. Sell Selling means offering relevant client values. Make the company's client values very concrete for each single new client.	Use the Seven Rules for a Successful Sales Talk (see paragraph 4.6 below)
6. Tie and satisfy Selling does not automatically mean 'repeat selling'. Tie and satisfy creates a very satisfied and returning client.	

[2] See http://en.wikipedia.org/wiki/Four_Temperaments



4.5.1 List

List suspects. The needed information is available online, on the internet; however, it does not present itself easily. Use accurate keywords preferably according to the SIC or HS-nomenclature. Most free online databases are of limited use. The paid services are highly recommended. Most B2B search engines offer two types of paid services:

- **Ad hoc services**. You carry out a search and pay for downloading the results of your search.
- **Subscriptions**. For less than €1,000 per year, extensive search options are offered, including production of mailing lists, etc.

Kompass B2B offers company information from over 100 countries in North America, Europe, and Asia. See e.g. http://www.kompass.com/. For more detailed information for specific European countries, see http://www.abcdirect.nl/company/abc/NL/en/ueberuns2.html or http://www.wlw.de/start/wlw_dach/DE/en/.

4.5.2 Choose

Choose real prospects. Many sales persons obtain new clients by coincidence, by luck, by recommendation. This is called ‘cold prospecting’. The time spent on cold prospects is usually a waste of time. Visits to these cold prospects may even lead to adverse effects, if the ‘new client’ already has a strong relationship with one of your serious competitors. One positive result from such a cold visit maybe to get information about your real prospects. It is known that inexperienced sales people often acquire on the wrong addresses, with the wrong people. This will result in limited success and frustration. Therefore, choose your prospects in an accurate manner; choose the ones with good perspectives, those where you can beat the competition.

You have to obtain it through people in a reliable network, from people with eyes and ears in the region, such as distributors. Also your existing clients (even if they are from another country!) can be a reliable source of information. An active network is critical for an active sales person. You must invest about 20-40% of your time in developing and maintaining it.

4.5.3 Know

As said above, prior to acquisition, we must have sufficient information about: a) the company details of the prospect; b) the entrepreneur as a person; c) who are his current suppliers (and their +/- points); d) future perspectives of that company.

In some cases you will conclude that it is better to drop the prospect. This preparatory ‘research’ is very important but relatively easy when we have a strong network. Despite many warnings to prepare oneself, it still happens often that we ‘pop in’ unprepared. (‘Let me just give it a try’). In 8 out of 10 cases, you come in the wrong moment, people are too busy. Even if they might be interested, you loose the moment. Choosing the right time and the right day is critical. Make a solidly planned appointment and you will feel yourself more self confident. Remember: every new client has the potential to bring XX turnover for YY years…

Acquisition is like fishing. You try to raise first attention and wait before arranging a meeting. Don't rush at once, maybe the client is just sniffing and evaluating whether or not it is of interest. Make an appointment for a first discussion. Listen, listen, listen and be patient to find out if a prospect is 'warm'. In other words, if s/he is sufficiently interested to say 'goodbye' to his previous supplier; if there is real interest in what you have to offer. A good sales person feels exactly when a prospect is warm!

4.5.4 Click

Clicking a client is like hooking the fish and keeping the line straight; keep the tension and don't let the deal escape. Build a relationship of confidence. Usually, your client has had a long-term relationship with another, competitive supplier. Maybe both in business and private life, they were close. In such cases it is not easy to switch. It may feel like a divorce. Changing is then not easy (which, on the other hand, is good for the clients YOU have).

You must present yourself in such a way that the client gets the feeling that you have something of interest to offer, both in business terms (you are a professional) and privately (you are a nice person to go out with). You must understand the degree of closeness that a client desires: in fishing terms: sometime, especially with large fish, you must let the fish swim about for a while (but keep the line tight) before pulling it in. In other times, with small and agile fish: you must hook at once, otherwise the fish is gone.

Again, especially for large prospects: be patient: your time will come. Create a good feeling, confidence, make sure you have a 'click'. Remember, you are building a new, long-term relationship, for mutual benefit. This is the basis for a successful sale.

If a prospect likes you as a person, you have gone half way. Top sellers are capable of creating a click in a matter of minutes. They do this not just by words, but mostly by body language. Their non verbal communication is a very powerful tool.

In this phase of acquisition it is important to discover the true bottlenecks; e.g. in the quality or cost price of the product that a client wishes to manufacture. Ask questions, think and try to formulate general solutions, without promoting your product too openly. What is the desired situation? How can we reach that point by cooperating together? Remember that YOU determine which client values are important for the customer. And YOU determine the process, the path along which the prospect will say goodbye to his old suppliers. Of course you keep track of all appointments and you write visit reports; discuss progress with management and together determine the right sales strategy.

4.5.5 Selling

Your prospect has gained confidence in you and your company. There is common ground and a basis for cooperation and a successful sale. You may sometimes reach this stage after the first meeting but that is rare. Usually it takes a few weeks or months and serious work and preparation of cost price calculation, offers, counter offers. We have reached the phase where we are about to pull the rod out of the water and land the fish. In this phase we call the prospect to be 'hot'. It is now or never.

The prospect has decided to say goodbye to his old supplier. It is time to change. The question is: will he choose you or an alternative supplier, one of your other competitors? Quite regularly, sales people who first created the change behavior in the client, don't get the order: a competitor gets it. See also the Seven Rules for a Successful Sales Talk in 6.1 below.

When a prospect is hot, you must increase the frequency of meetings/contacts and not let the pressure go: don't let the fish escape. Don't let your competitors benefit from your preparatory work.

4.5.6 Tie and satisfy

The sales pyramid above explained the importance of loyal and very satisfied customers. And that you, the sales manager, together with the other staff in your company must always be busy to tie your clients by satisfying their needs. With new customers your relationship will be characterized as 'give-and-take'. It is still a weak one and the competition knows that. From research it has become evident that in 6 out of 10 cases, a client who changed to a new supplier, does change again with a short period. Hence, the importance to build customer satisfaction.

This is the subject of the next chapter.

5. Building Customer Satisfaction

5.1 Lessons learned

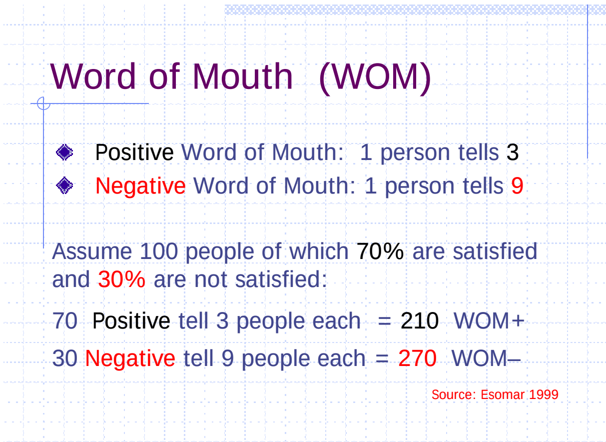
Why building customer satisfaction? From the earlier mentioned research among European procurement managers, it is clear that:

- only 17% of clients run away because of the price (even if this is the argument the old client gives you, usually price is <u>not</u> the real reason)
- 92% gets too little attention from the sales person.
- 88% gets no new initiatives from the sales person.
- 77% of planned meetings and agreements are postponed or cancelled.
- 25% of errors / mistakes are not being corrected satisfactorily.
- 59% believes they are not treated fairly.

Out of 100 unsatisfied customers, 70 will react passively: first they reduce their repeat orders and gradually buy less and less and then stop completely. Only 30 clients will actively come to you with a complaint and say: “what you are doing is wrong”.

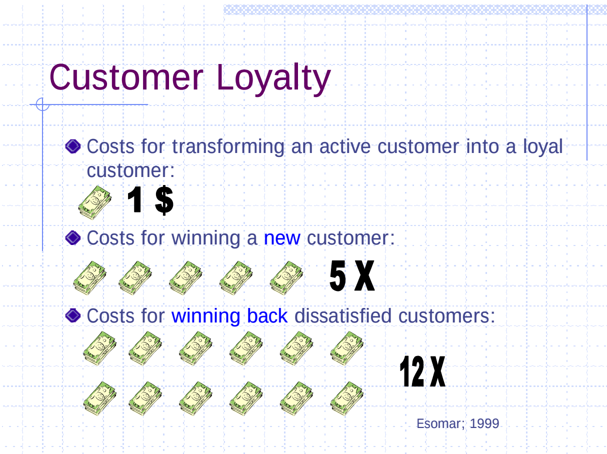
From other research[3] it is known that:

- Bad experience is passed on 3x more frequently than a good experience (A Dutch wisdom states: *‘Trust comes on foot, but leaves on horseback’*)



- The cost of winning a new client is 5x more than keeping one, winning back a lost client is 12x more expensive.

[3] In Customer Satisfaction Research, by Song Lin Liu and Joe Glines, 2001



- Very satisfied customers buy more and ensure positive word-of-mouth communication. But it also leads to more work pleasure for yourself and for your employees.

Attention from the sales person is not enough. The whole organization must be focused towards attaining very satisfied clients. In annex 6.2 below a description is given of the core competences of a customer-oriented-company. It can be summarized as 'relationship management'

5.2 Relationship management

Relationship management helps to:

- Create durable customer relationships.
- Acquire a positive company reputation.
- Obtain very satisfied customers.

Every organization faces the continuing challenge to win customers and to keep them. Companies which do not systematically do this, run into problems. Most companies start acquisition from their marketing mix. Understanding customer preferences, the **4 P's of Marketing** (product, place, price and promotion) have been defined in a marketing policy.

In economic sectors with little, or negative growth (a push-out market), the four P's of Marketing form no decisive advantage any more, with which a company can win. They can only lose: if one of the four P's has not been filled in strongly, the company scores minuses in the eyes of the customer. On the other hand, a strong filling of the four P's does not provide extra advantages. The customers simply do not expect differently from their suppliers!

To build strong relationships, a company must also commit to **four P's of Selling**.

- **Presentation**. How do you present yourself to the customer?
- **Personal sale**. By which strategy do you approach your customer?
- **Positive word-of-mouth**. How do your clients and your environment talk about your products and company? How do you stimulate positive word-of-mouth?
- **Personal attention**. To what extent do you show sincere interest in your customer? How are customer-orientated are you?

Many new and inexperienced salesmen think firstly from their marketing P's. What they usually forget is the large role which they play themselves. And the importance of the other employees in making and keeping customers.

In football terms: you play with your employees to score in the market. Your salesman is the attacker. He must score the goals. Make new customers. But the entire team must cooperate. Consider the other departments as your team members. Together you gain a good result. But sometimes, the salesman has to defend too. Sometimes, a defender may help you to score a goal. Read: someone from the back office has information about a new customer, or the driver solves a customer complaint. In fact, you play football: like the *'naranja mechanica'.*

A company that plays football in such a manner is called a customer-oriented organization. Defense, midfield and attack work well with each other. There is good communication. Everyone is busy with the process of continuous improvement. With just one main goal: obtaining **very satisfied** and returning customers.

The model below is the customer satisfaction cycle. It starts from understanding customers' preferences, laid down in a **marketing policy**. It is sold to the customer by team work, friendliness, solving problems and innovative, attentive behavior. The continuous process of making the customer happy is laid down in a **sales policy**. Continuous feedback and measurement of satisfaction form the basis for making very satisfied, returning clients.

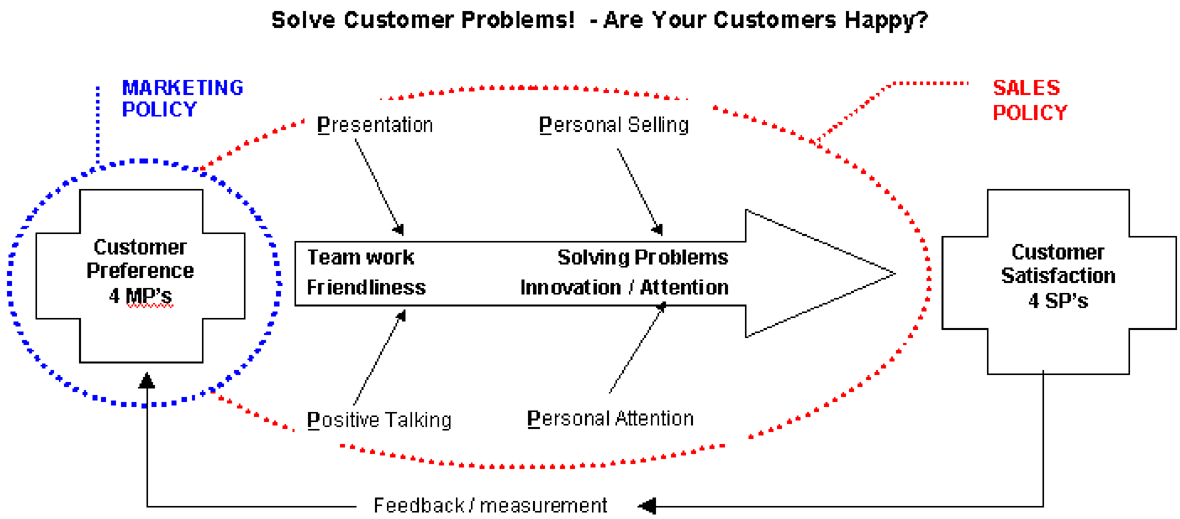


Figure 4 - Customer Satisfaction Cycle

5.3 Customer satisfaction

The aim of relationship management is thus improving customer satisfaction.

Satisfaction is what the customer experiences. The satisfaction of the customer does not only depend on the quality and the price of the product delivered. It depends on **the company's total performance**. Therefore, also an invoice, a payment reminder, or an interesting article about the business, may contribute to the customer's experience.

Your performance is measured using satisfaction research. Regular measurement provides reliable information concerning complaints and achievements, about plusses and minuses. Complaints and minuses form the input for further improvement and renewal. Keeping existing customers by means of strong customer relationships is a condition to survive in the market. Giving personal attention is and knowing customers' expectations are crucial.

5.3.1 How do discover customer expectations?

Simply by asking!

- Was everything according to your wishes?
- Filing in a complaint form.
- 0800-number for free complaints.
- Actively search for potential trouble.
- Form a client team composed of employees from several departments. And let the team brainstorm about the customer.
- Compose a customer panel and periodically ask their opinion.
- Analyze customers who leave.
- Listen well within your network. External people frequently hear about your mistakes earlier than yourself.

5.3.2 How to measure customer satisfaction?

With systematical measurement, a customer satisfaction index (CSI) can be calculated. One methodology is the Cigar Box 6 method (CB6). In CB6 four satisfaction components are defined:

1. Quality
2. Price
3. Service
4. Relationship

The scores on quality, price, service and relationship are weighted according to importance and summed up. The maximum score is 10. The interpretation of the benchmark is:

=< 5.5	very unsatisfied customer
5.6 – 6.5	unsatisfied customer
6.6 – 7.5	indifferent customer
7.6 – 8.5	satisfied customer
>= 8.6	very satisfied customer

In the example below, the CSI score is 7.5 which means 'indifferent client'. The lowest score is CSI(Service) = 5.0 (very unsatisfied). In view of its importance (weight =20%) better service will bear significant impact on the overall satisfaction.

[redacted]

The weighted sum score on the sub-components determine the component scores:

SAMPLE COMPANY								
CB6 Customer Satisfaction Index for Processed Food								Nov-11
Nivel 1	**wt-sc**	**weight**	**score**	**Nivel 2**	**wt-sc**	**weight**	**score**	**aggr. wt**
1. Calidad (Q)	1.5	20%	**7.7**	1.1 Calidad del producto	3.6	40%	9	8%
(Nivel cliente)				1.2 Embalaje	0.3	5%	5	1%
				1.3 Surtido / variedad de productos	3.9	55%	7	11%
				1.4 Marca (imagen)	0.0	0%	5	0%
					7.7	**100%**		**20%**
2. Precio (P)	3.4	40%	**8.4**	2.1 Margen p/ comprador	6.3	70%	9	28%
(Nivel cliente)				2.2 Negociacion	2.1	30%	7	12%
				2.3 Comisiones informales	0.0	0%	0	0%
					8.4	**100%**		**40%**
3. Servicio (S)	1.0	20%	**5.0**	3.1 Terminos de pago	3.5	70%	5	14%
(Nivel cliente)				3.2 Terminos de entrega	1.5	30%	5	6%
				3.3 Material de promocion	0.0	0%	0	0%
					5.0	**100%**		**20%**
4. Relacion (R)	1.6	20%	**7.8**	4.1 Puntualidad	0.6	10%	6	2%
(Nivel cliente)				4.2 Idioma/cultura	2.4	30%	8	6%
				4.3 Confianza/amistad	4.8	60%	8	12%
					7.8	**100%**		**20%**
TOTAL	**7.5**	**100%**						**100%**

5.4 Steps in improving customer satisfaction

Step 1. Start **satisfaction measurement** among customers. Measure their expectations using CB6 methodology. Determine the sub-components which have the highest impact on the overall score (marked green in the table above).

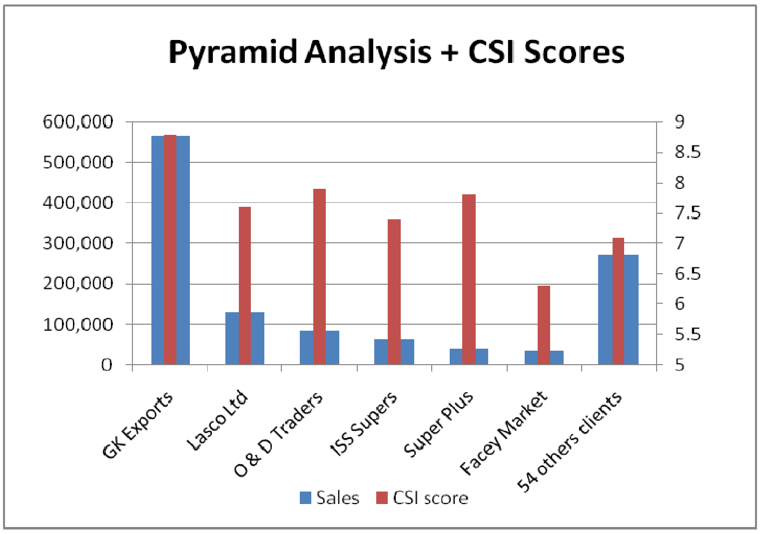
Step 2. Formulate **specific satisfaction guarantees** with respect to the sub-components with the highest impact on quality CSI(Q), price CSI(P), service CSI(S) and relationship CSI(R). In a later stage, these guarantees can be expanded to include the sub-components of lesser importance.

Step 3. Translate satisfaction guarantees in **operational terms** which are appropriate in the daily work routine of the employees. Formulate measures for improvement. For example: improve color of the tomato paste to bright red, increase strength of the aroma of apricot juice, increase distribution rate in supermarkets, a faster delivery period, increase the brand reputation, decrease quality deviation, etc. It is important to measure improvement measures periodically.

Step 4. **Continuous improvement**. Watch your competition consistently. Make sure that guarantees are realized. Tighten up the satisfaction guarantees. Customer orientation leads to customer loyalty and this is the way to create very satisfied customers. Customers for life!

5.5 Customer classification using CSI scores

If the CSI scores are combined with the customer pyramid a strong correlation will appear: your largest clients are also the most satisfied ones.



However, a closer look at the graph shows that also the opposite can be true. Facey Market is the 6th largest client, despite being unsatisfied. Liu & Glines differentiate between four groups of customers:

1. Loyalist - very satisfied client, company offers what client wants, positive WOM.
2. Defector - (very) unsatisfied client, ready to switch supplier, negative WOM.
3. Mercenary - defies the loyalty rule, may be very satisfied, but ready to switch, usually a price buyer.
4. Hostage - (very) unsatisfied client, cannot switch due to virtual monopoly, complain frequently, undermines morale of sales staff.

GK Exports would be a loyalist, Facey Market a Hostage. The cost of keeping customers is related to this typology:

Type	Satisfaction	Behavior	Cost of keeping
Loyalist	High	Staying and Supportive	Low
Defector	Low to Medium	Leaving or Left Unhappy	High
Mercenary	High	Coming and Going	Medium
Hostage	Low to Medium	Unable to Switch	Low

In other words, watch out for Mercenaries and Defectors! You can waste precious company funds on them.

6. Annexes

6.1 Increase supply of cheap raw material

Raw material scarcity is the single largest problem for agro-processing companies throughout the region. Five problems are common and must be overcome in as short period as possible.

1. Irrigation. Without proper irrigation systems managed by well-organized water user associations (WUA) responsible for adequate pricing of water, production is not reliable and sustainable. These organizations serve to collect water fees from farmers to pay for maintenance & operation of pump houses and canals and to equally distribute water to the fields. Many WUA's do not function because of farmers mistrust. As a result, pumps are not maintained, electricity bills not paid and water arrives late: the result is low yields and even less preparedness to pay water bills in the next season. Strengthening WUA's is a must. Another challenge is reduction of water spillage. Drip irrigation is a good alternative and it has been calculated that the investment in field pipes has a payback period of less than two years. In short, without solving the water problem, agriculture in the region will never prosper.
2. Fragmentation. Most farmers own 0.3 - 0.8 hectare of irrigated land: too small for mechanized agriculture. Land Reform toward larger scale agriculture should take place.
3. Collection/contract farming. Most small farmers drive 100 km to the nearest market with a car fully packed with onions, lúcuma or watermelons. Processors need to organize collection with their own or hired trucks well in advance of the harvesting season. Contract farming maybe a solution, but there is always the risk that farmers 'divert their produce' for a few soles more.
4. Farmer mentality. To be a modern farmer means to be an entrepreneur, not a *'campesino'.* Education of farmers on how to increase yields, battle diseases, access to fertilizers and crop chemicals, and to invest in equipment is very important to achieve a steady supply of high quality, competitively priced raw material.

6.2 Modernizing agro-processing industries

To increase the output of processing factories, they need to:

1. Invest in better equipment. Not necessarily new equipment. Due to the crises in the west and many bankruptcies, there is plenty A-quality second-hand equipment available. Despite their old fashioned 'looks' most of this equipment will serve well. Stainless steel pipes and vessels form the heart of any fruit and vegetable factory and stainless steel almost lasts forever. Existing boilers, autoclaves and evaporators are energy inefficient, but they still function. Energy efficiency helps to reduce the cost of processing and must be pursued. However, it is not the most important problem to be addressed. CIP, cleaning in place is often missing and hygiene levels are lower than needed for certification. CIP is a system with return pipes so that hot water, mixed with caustic soda can be pumped around again and again to keep the pipes and barrels properly cleaned.
2. Invest in better technology. A technologist can be compared with a cook: s/he determines the recipe and the cooking methods. Technologists do quality control and new product development in the laboratory and supervise the processing in the factory. In Peru,

technologists are hard to come by and those willing to live outside the big cities, in production areas, are even scarcer.

3. Packaging material is important for consumer markets. One producer of pisco imports fancy glass bottles all the way from Italy. Availability of competitively priced twist-off jars, bottles and carton boxes is indispensable. The quality of locally manufactured jars and cap fluctuates. Aseptic packing material for juices (Tetrapak, SIG) and concentrates (aseptic plastic bags) must invariably be imported.
4. Operational Monitoring is key to operational improvement. A proper bookkeeping system cannot replace an operational monitoring system as the former calculates cost per period aggregated over all products. These ‘averages’ conceal possible loss makers: products with negative margins because the real variable costs higher are than the sales price. An operational monitoring system records all costs on a daily basis per type of product and per unit produced. With this in place, production problems and losses are systematically recorded and can be corrected. Improvement cycles: ‘learning by doing’, ‘learning from mistakes’ will take place and management and profits will be improving.
5. Cash shortage. Without adequate working capital (usually 6-9 months advance money) most owners run their factories only if they have an order with secure payment in hand, preferably with some advance payment to enable them to procure raw material, recruit seasonal staff and start processing. This makes it very difficult to make a long-term market strategy, a customized product portfolio, and building a strong brand name.
6. Small production batches. To get orders from Europe significant volumes must be offered. In many cases one single manufacturer does not have the working capital to produce so much and sourcing from different producers is difficult because the finished products are not uniform. Forming an association, like the initiative of Vinicola Vicoria Sanchez, offers a solution, but its organization takes time an charismatic leadership. And it must hold a promise for increased profits…

6.3 Seven rules for Successful Acquisition

In the scheme below I have listed the seven rules for holding a successful sales talk.

Rule 1: **Knowledge**. Prior to a sales presentation, ensure that you are very well prepared. Have thorough knowledge of the situation in the client company and adapt to their style of communication; watch the dress code: They formal; I formal. If you have only limited knowledge of the client: ask questions and listen, listen, listen. Make notes.

Rule 2: **Timing**. Do not offer solutions in the beginning. Do not waste your time on clients with problems but who are not interested in a solution. Or who are interested, but have no money to pay. Take time to identify the real problem and to specify the cost/budget that a client has in mind for its solution. Only after this has been concretely determined and after the client has shown an interest in a solution, only then can the real sales talk begin.

Rule 3: **Positive language**. Use clear wording, don’t show off with unnecessary technical terms to impress your client. It will have a counter productive effect: it will create distance. Use examples from the region where you have been able to solve a similar problem. Let the client check references. **Use positive**

words, not negative ones. Avoid 'less losses, but say 'more yield'; not 'less cost' but say 'more yield'.

Rule 4: **Quantify advantages**. Try to sell product advantages instead of product properties. Show advantages in a graphic manner: use paper and pencil; write clearly; do not scribble. If you use a power point presentation, make sure you leave a printout. Try to leave a 'dirty' printout a 'dirty' brochure. Dirty in the sense that it contains notes, additional drawings, a calculation or a thought. A clean folder will be thrown away 5 times easier, than a 'dirty' folder! Make sure the key advantages have been clearly specified.

Rule 5: **Interim summary**. Immediately after you have given a price, or a price indication, summarize the advantages. The last thing to say must **never be the price**. If your price is higher than the competition, try and reduce the absolute value by giving a price per kg (which may be lower!) or per day, per hectare, per worker. Create a sense of value in the client's mind.

Rule 6: **Objections are buying arguments**. The real hard sales, starts from the moment that the client presents his objections: this is not good, that is too complicated. Every sales person knows: these objections are buying arguments. If you can overcome these objections, nothing will stand in the way of the client buying. An objection, is a point for clarification, for discussion, for convincing the client that you understand him and that you have the right solution. A client who does not have objections, is usually not interested. Or he did not understand you and you have to try the sales talk from another angle.

Resistance to buy, is a logical consequence of your own sales arguments; listen very carefully to the client and be attentive to non verbal messages: watching out of the window, his watch or mobile phone (negative); raising eyebrows when you say something new (interest, positive). Never answer too quickly, think first, ask for more information and reveal the reasons of buying resistance. Only after all objections have been cleared, you can strike a deal.

Rule 7: **Action plan**. Every sales talk must be closed properly. Even if you're granted a little bit of time ('an elevator pitch') make sure you briefly summarize and agree on WHAT'S NEXT? Who will do what by when? Every client type ha sits own style of communication, close in the same style. A proper closure activates a <u>sales process</u> and helps to <u>start your next meeting</u>.

Finally, a few last hints:

- Acquisition costs time and money.
- Don't overdo it; don't try too many at the same time.
- For each prospect maintain a graph (hang it on the wall) and indicate in which phase you are.
- Use colors to indicate if the prospect is 'cold', 'warm' or 'hot'.
- Adapt your contact frequency and sales talk to changed situations; be flexible and creative.
- Know when to press on and when to say goodbye.

6.4 Competences of a customer-oriented company

Four important core competences distinguish customer-oriented organizations from not-customer-oriented companies.

- Customer orientation
- Customer loyalty
- Constant improvement
- Teamwork

6.4.1 Customer orientation

A customer-oriented organization is a company with superior capacity to understand and to satisfy customers. K. Albrecht determined a list with main sins against good customer treatment.

- **Apathy** is to serve customers with 'sorry-behavior'. Helping customers is a necessary evil.
- **Denial of responsibility** pointing to another person. 'Please do not come to me, that is not my department'. Another example: 'Waiter can help you me?' Answer: 'My colleague will be with you in a minute'.
- **Coldness** is impersonal, little enthusiastic treatment of the customer.
- **Arrogance** is when the customer is treated as a child. The customer is stupid and understands nothing.
- **Robotism** arises when employees act like machines and do not think. Good intentions are lost in bad implementation.

Customer orientation is more than friendliness. Customer friendliness is service with a smile. It is generally no more than a thin layer of cosmetics. It can embellish good customer treatment. But it cannot improve a bad treatment. Customer orientation is solving problems of customers; and to do this with real pleasure. It requires a specific mentality, an attitude which can be only learned to a limited extent.

Customer orientation means that you take the initiative towards (potential) customers. You do not wait until they knock your door with their problems. Frequently it is already too late by then. You initiate appointments. You carry new ideas. You swiftly formulate solutions for the problems before they occur.

6.4.2 Customer loyalty

Customer orientation leads to customer loyalty and to a system of account management. In chapter 3 we will further discuss the subject of account management.

6.4.3 Continuous improvement

Customer-oriented organizations have a well-defined procedure to collect customer information, to interpret and use it. Information on customers is spread within the company and it is being used. All employees cooperate to achieve a very satisfied and returning customer. Continuous improvement is a process, which is continuously in movement. It means ongoing improvement and renewal from a view point of the wishes of the customer. That means:

- Avoid minuses.
- Care for better results.
- Always be first.

- Do product innovation.
- Do what wants the customer.
- Care for perfect accessibility.

6.4.4 Teamwork

Customer-oriented organizations provide quality. Quality is to provide what the customer wishes and expects. Or better still, a little bit more. The customer assesses quality by the weakest link in your supply process. This is very important to know. Is your invoicing not correct? Is the driver not pleasant? Does the customer have to wait on the telephone a long tome before being connected? These are essential matters and influence the quality judgement of the customer. With our employees we work that quality picture. For this reason teamwork is a core competence of customer-oriented organization. Teamwork means that your internal marketing functions well. Everyone cooperates.

Your company can do its external marketing completely well. But when internal marketing is poorly organized, you will not be able to deliver. We must provide what we promise to the customer. But also promise the customer what we can provide.