Integrated Approach Required to Manage New Variety Commercialization

Pat Murray

General Manager, Strategic Marketing, ENZA
Wellington, New Zealand

Presented at the 43rd Annual IDFTA Conference, February 6-9, 2000, Napier, New Zealand.

. . . marketers are now the key player in the success of a new variety. To protect their unique product, marketers are interested in maintaining a "controlled scarcity" of the fruit by licensing only certain people to grow it.

The future to new variety management involves nurserymen as well as scientists, growers and marketers adapting to changes in the global market and taking a collective approach to international variety protection and commercialization.

New varieties are often considered a panacea for getting into new markets, but this is often not such a simple or straightforward matter. Markets are constantly changing and there are different expectations and requirements for all parties in the value chain. The challenges facing scientists, nurseries, growers and marketers revolve around adapting to the changes and managing the conflicts that occur.

what environmental and physiological conditions they will accept fruit.

Marketers, as suppliers, are required to develop different relationships with retailers, with increased emphasis on supply management and exclusivity. Added to this is a change in consumer tastes with a trend toward different and exotic fruit and an increase in the purchase of lightly processed fruit and vegetables.

Consumers are becoming more demanding. Convenience is a key factor driving purchasing decisions and market research indicates that consumers are bored with apples. New varieties are required to sustain retailer and consumer support.

GLOBAL PERSPECTIVE

The global fruit market has changed significantly in recent years, with the ongoing increase in fruit production a key trend and issue (Fig. 1). Asian production, mainly from China, is projected to increase by 35% between 1998 and 2005. At the same time, southern hemisphere production is expected to rise by 19%.

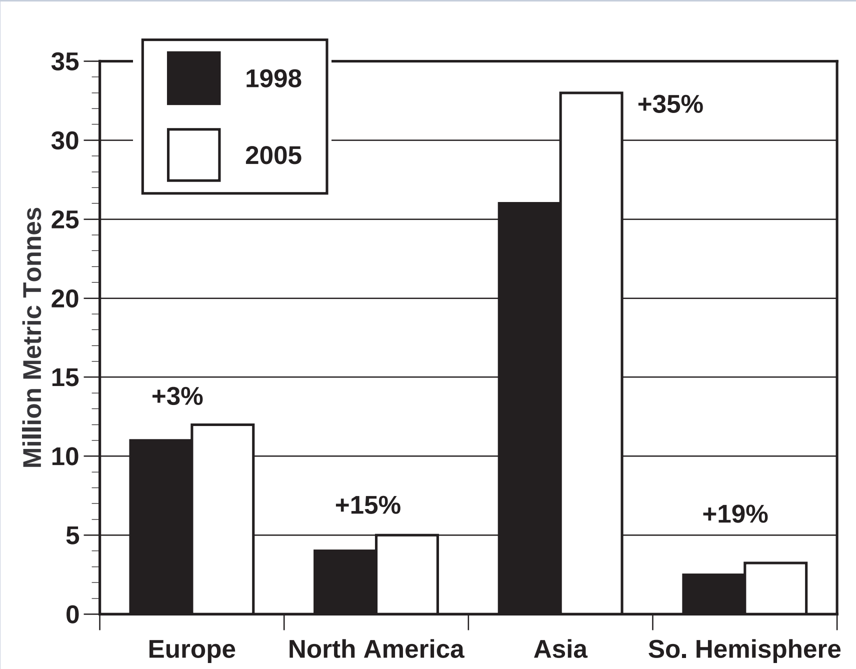
Against the background of increasing production, market dynamics are expected to remain aggressive at a time when demand for apples is increasing at only half the rate of production.

International retailers are becoming more powerful with global mergers taking place, including consolidation among major players. Some retailers are forming alliances with other outlets, such as service stations, to extend their market coverage.

Increased competition has seen supermarkets taking more of a "consumer watch-dog" role, dictating what is displayed in their stores, where it is grown and under

FIGURE 1

Global production is increasing steadily.



However, the economics for both growers and nurseries is changing as price pressures continue downward, and the investment costs of changing their product mix in an oversupplied market make the choices about new varieties high risk and high investment. What to grow, how much to grow and who should grow it are all factors that have become more important than ever before.

ECONOMIC VALUE CONFLICTS

Sections of the chain involved in delivering a new variety to the ultimate consumer also have different interests and values and, as a result, there is strong potential for conflict. Growers and nurseries are subject to pressures from intellectual property (IP) owners and both face challenges from marketers.

Growers seek to plant varieties that provide good orchard economics. Growers want varieties with proven commercial potential and prefer that the development and trial work on new introductions are available before commercial plantings take place.

Growers take significant risks as they make investments to plant economic quantities of a new variety, but they must wait 3 to 5 years before markets evaluate the fruit and, hopefully, income starts to flow. The risks are more evident today as global overproduction continues and consumption falls.

For IP owners, gaining a return on research and development investment is the key driver. Traditionally there is a long period between the inception and commercial release of new varieties, often 20 years or more (Fig. 2). Because there is limited time frame for protection through Plant Variety Rights (PVR), variety owners have a relatively short period in which to capture returns (see Intellectual Property Protection below). As a result, there is a tendency to want to drive planting to maximize the opportunity to make a return.

Nurserymen also have an interest in seeing as many trees of as many new varieties planted as quickly as possible. Quick acceptance and uptake by growers is key to getting a quick return on their investment.

From the marketers' perspective, they require a unique product mix with sufficient volume to justify a sustained presence with retailers who are becoming more demanding. They need to maximize the price/profit curve by controlling volume and sale rates and to remain competitive with the appropriate products and services. Unless new varieties support this, they will be reluctant to invest too heavily in trying to develop new markets.

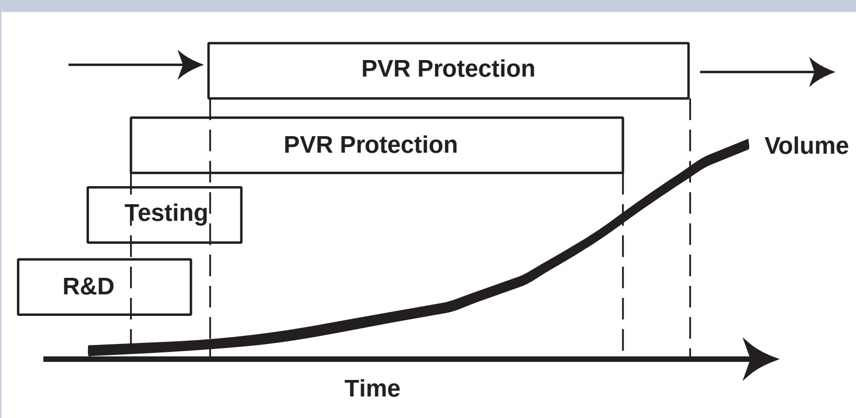
There are changes in all segments of the production/marketing supply chain, with competitive economic forces generating conflicts between participants. Nurserymen in particular need to be aware of the influence changing market forces are having on their role in new variety production. This change has seen a shift in the balance of power from nurserymen to marketers, with marketers emerging as the new "kingpin" in new variety management.

CHANGING MARKET DYNAMICS

Traditionally nurserymen used to be the key player in the chain. The more new varieties they had access to and the more trees that were sold, the more money they made. They were not worried about the variety becoming a commodity product, as this would just increase their revenue.

FIGURE 2

The key is to try to extend the PVR protection period for as long as possible.



Recent changes, particularly the global oversupply of apples, have meant that marketers are now the key player in the success of a new variety. To protect their unique product, marketers are interested in maintaining a "controlled scarcity" of the fruit by licensing only certain people to grow it.

This means that the marketer could potentially source all of the trees required from a limited number of nurseries. In addition, there has been a move from nurseries collecting a tree-based royalty on behalf of the IP owner, i.e., $x per tree regardless of the life or productivity of the tree, to a situation where marketers collect the royalties, i.e., a production-based royalty ($x per box for every box produced). This again changes their roles.

In future, nurseries could be cut out of the equation if they do not work closely with the new variety management schemes developed by marketers and IP owners. These schemes aim to keep control over the production and marketing of new varieties.

Maintaining this control is vital for maintaining the value they represent. Uncontrolled activities destroy value and must be contained to limit the potential impact they can have. Overproduction has been encouraged by the planting of unprotected varieties such as Gala and Braeburn. However, PVR alone is not enough. A worldwide focus on commercial variety management is required.

INTELLECTUAL PROPERTY PROTECTION

The International Union for the Protection of New Varieties of Plants (UPOV) provides an international framework to support the rights of new variety owners. While UPOV policies and legislation provide some protection, there are limitations to these rights.

Some countries provide protection only if the variety is grown there, taking a "use it or lose it" approach. PVR only provides a legal right for the owner to collect a royalty for his intellectual property; it does not provide control over other aspects of the variety's use.

The PVR timeframe also needs to be managed because the legislation is time related. The timeframe for protection starts when the first sale is made and the time period for royalty collection is only 15 to 25 years. Given the length of time required to develop a market for the variety, half the PVR time period could elapse before the variety begins to make an impact.

The key for variety owners and marketers is to introduce measures, like trademarks, to extend the commercial protection of their business as their value extends beyond the PVR life.

Therefore the value of the PVR legislation is enhanced by building sustainable commercial solutions that give all players in this high investment game a better level of protection and business security.

NEW VARIETY PROTECTION SCHEMES

Two approaches are being developed to commercialize new varieties. These are the "club" concept, i.e., Pink Lady, or the more integrated franchise concept that is being developed by ENZA.

With clubs, several marketers coordinate the marketing with volume and quality being controlled by agreement. This concept is relatively easy to set up and has low initial costs. The IP owner is likely to receive his desired return as the volume agreed to by growers makes this a good arrangement for them.

The club concept does, however, have limitations, working effectively when volumes are low but becoming difficult to manage as volumes increase and cross border conflicts can emerge. Clear leadership and careful management are required, and export/import selling windows can be complicated to manage. Money is needed to protect the IP, especially if legal challenges need to be mounted.

The ENZA franchise concept is an integrated approach that takes a global focus and is based on the principle that everyone involved must make money as the investment risks for all players are substantial.

The franchise concept is based on controlled scarcity. There must be controlled country production and "price/volume" optimization while, at the same time, building critical mass in the marketplace.

Global quality management is key to this approach and ENZA's philosophy in the franchise, "fit for market." This means that decisions are based on market acceptance and return, and hard decisions about support for a new variety often need to be made, taking into account local market conditions and who has access to the variety.

Marketing in a franchise approach is managed and coordinated by ENZA with strategic alliances being arranged with the IP owner, which is often HortResearch. The marketing is centrally control by ENZA.

Risks and returns are shared in the franchise model, but capital is needed to protect the business. There are higher set-up and management costs than with the club concept, and partners need to be selected carefully.

ENZA's preferred approach is to work with nurseries, growers, IP owners and customers to maximize the returns to each player in the value chain and to create a win-win situation for everyone. This approach advocates total value chain management rather than each player protecting his patch.

CONCLUSIONS

Overproduction, retailer consolidations, changing consumer tastes and grower and nursery economics mean a call for new solutions with new variety management. New varieties are essential, but they must be protected. Even so, new varieties are not a panacea unless sustainable business solutions can be created. Consequently, businesses must have a global perspective.

Protection of new varieties is necessary but alone is not enough. Controlled commercialization is what enables the creation of sustainable businesses.

Success comes only if conflicts are reconciled. An outstanding new variety has to be the starting point for success, but there must be a balance between the conflicting motivations of all parties.

A holistic view must be taken of the value chain and, providing all aspects are managed carefully, there should then be room for all players to share the wealth and gains.