10 Key Questions on Club Marketing

In their dissatisfaction with the profitability of open access varieties, many breeders, nurseries, growers, packers and marketers are putting their faith in new varieties that will be managed by marketing clubs. The core concept of these clubs is that the number of trees planted, the volume marketed and the quality sold fresh will be restricted. However, before committing a lot of resources to a club, individual growers, commercial firms and public organizations, such as universities and research institutes, need to find answers to 10 key questions;

1. What market niche is being targeted by the new variety?
There already are many varieties of apples available to distributors and consumers, and more are being added every day. They vary in color, size, shape, sweetness, juiciness, storability, susceptibility to postharvest defects, etc. What special characteristics does the new variety have that will enable it to stand out among the crowd?

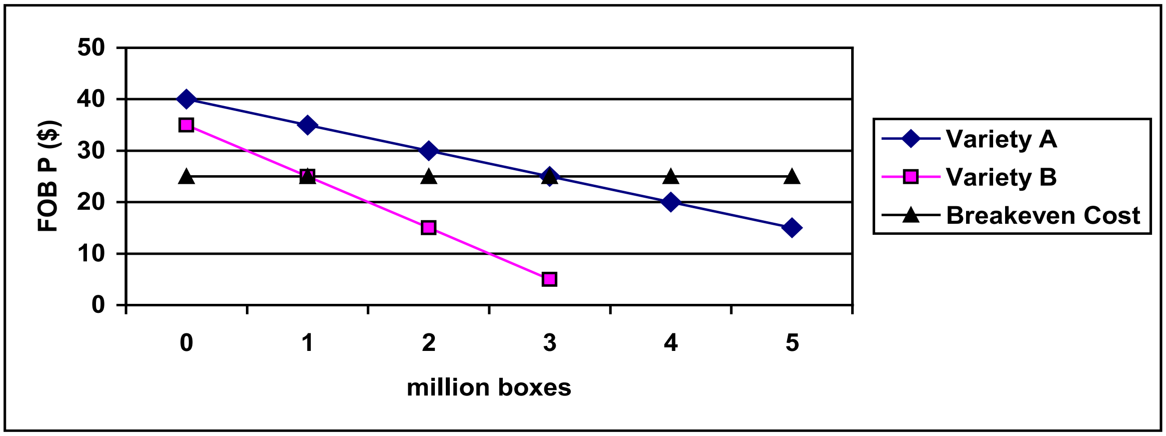
The market niche also needs to be specified by country and by region. Tastes and preferences in many regions have been nurtured by the types of apples that traditionally were available in the region. Some regions are more willing to accept tart apples, while others prefer sweeter apples. These tastes and preferences have been modified over time as regions have been penetrated by off-season imports or by other distant suppliers. Population migrations have also swayed tastes. Thus, it is highly likely that a new variety will face widely different levels of demand in different regions.

2. What is the present and future competition?
It will be a rare new variety that is so unique that it can create its own market niche. New varieties can expect to have to compete for shelf space with many established varieties. With which established varieties will the newcomer be compared, and with which established varieties will it have to compete for shelf space? Analyses by Belrose, Inc. for Washington State have shown that the prices of many new varieties are highly correlated with the prices of existing varieties. That means, their demand is intertwined.

The level of competition will also vary by region, depending on the mix of varieties that are currently popular in each region. A variety is likely to do best in a demographic niche that is currently underserved by the competition. For example, Pink Lady® has been successfully targeted to females in the 25-40 age group. That demographic niche has been targeted by numerous new varieties. Thus, it may be more difficult for another newcomer to gain a foothold in that niche.

3. How big is the market niche?
A market niche will have to be big enough to justify the administration, promotion, legal and marketing costs of setting up a club. However, each variety will have inherent limitations in each market on how many regular consumers it can woo from competing varieties.

Hypothetical Demand for Two New Varieties



In the illustration above, FOB demand for Variety A reaches the breakeven cost of $25 at 3 million boxes. Variety B reaches breakeven at 1 million boxes. Even wider variations in breakeven levels have been experienced with new varieties in the past. Unless a new variety can sell at least 1 million boxes in a major market such as Europe or North America, it is unlikely that it can afford the infrastructure needed to support a marketing club.

4. What Buzz Can the Variety Create?

Is there something about the variety that can be used as a hook around which to build unique consumer appeal? It is unlikely that a new apple variety can achieve the notoriety or the appeal of a new drug such as Viagra and the resultant booming sales. However, without some sort of hook, a new variety will have a difficult time getting noticed at all in a crowded marketplace. For example, another round red apple will find it difficult to generate much excitement simply based on its appearance. It will need many other superior attributes.

While the intrinsic qualities (like skin color and taste) are very important, the perceived attributes that a new variety can convey will be equally important. With so many food products clamoring for the attention of distributors and consumers, a “me too” variety will not succeed. Does the new variety have what it takes to convince retailers and consumers that it is special?

5. How will the Club be Financed?

Launching a club for a new variety is similar to launching a new business. Many expenses will have to be incurred before the club’s revenue stream begins to flow. One of the keys to success is adequate financing. Someone must bear the cost of setting up an organization, establishing a sales force, appointing field supervisors and promoting the club’s advantages.

Any potential member needs to know how the club will be financed. Will the sponsors provide capital from their existing businesses or resources? Will they be able to borrow from commercial lenders or from private sources? Or, will they be relying on grower members to provide much of the early capital? Potential members will need to add capital risk to the other risks they will be undertaking in joining a club.

6. What Price Target does the Club Have?
As the graph above shows, market demand for a club variety at any time will be downward-sloping just like every other demand curve. The theoretical advantage of growing a club variety is that supply can be controlled so as to ensure that price stays above some minimum level ($25.00 per box in our example_. In practice, the club sponsors should be able to provide evidence of what the expected demand for their new variety will be and be able to demonstrate that they can accurately select the volume of production that will deliver the target price.

It is also critical for growers that they translate that target price into what will actually be returned to the orchard operation. Packing costs, membership fees and marketing costs can easily exceed $13 per box in 2019. Thus, an FOB shipping point price of $25 per packed box would translate into a $12 per box return to the grower. The grower needs to be sure that the net price received will be profitable after taking account of orchard establishment costs, and growing costs and harvesting costs.

7. How Will the Club Deal with Variations in Supply and Demand?
The supply of any variety can miss the targeted level by a wide margin because of weather and other seasonal factors. If the supply is substantially above the target, the sponsors need to have contingency plans for dealing with the surplus production. They may divert a larger proportion of the crop to processing, or attempt to sell the surplus in new markets so the price will not be depressed in their established markets. If the supply is substantially below target, it can upset plans for gradual expansion of consumption. Disappointed distributors and consumers may substitute other varieties and may be difficult to win back when supplies are more normal.

An even bigger challenge will be fluctuations in demand. The demand for most individual varieties will be heavily influenced by the total availability of all fresh fruit in any season, but especially by the availability of all fresh apples. Fluctuations in supplies of competing fruits and competing apple varieties can move the expected price for any individual variety up or down by $3 to $5 per box from one year to the next. Can the club handle such variations?

Finally, as supplies of the club variety inevitably increase, the club sponsors need a plan for moving the demand curve to the right rapidly enough to ensure that the target price is met at ever higher and higher volumes. Growers need to ask how their club expects to achieve this gravity-defying feat. How will the club generate the resources needed to increase advertising, trade promotions, in-store demonstrations, contests, and social media to influence retailers and consumers?

8. How Big a Learning Curve will the Variety Require?
Many of the varieties now being promoted as candidates for clubs were developed in different growing conditions, often on the other side of the world. A grower needs to know what sort of learning curve will be required in the orchard, in harvesting, in storage and in distribution to successfully grow and harvest the new variety.

“Learning curve” is a rather fancy name for the hassles that develop with many new varieties as standard practices fail and new practices have to be developed to accommodate the new variety and for the added costs that these hassles involve. Experts have to be consulted, workers retrained, equipment adapted, etc. A long learning curve can add substantially to the investment that a grower must make in a new club variety.

9. What Are the Distribution Strategies?
Increasingly, one key to successful expansion of a new variety will be winning a steadily growing area of shelf space for that variety. Since the total shelf space retailers devote to the apple category is finite, the sponsors need to have a strategy for securing that additional shelf space, often at the expense of established varieties.

They will have to provide retailers with convincing arguments about why the new variety will please more consumers, generate more store traffic, or provide more gross profits than existing varieties. More and more, these arguments will have to be based on solid market and consumer research. The sponsors may be required to back their claims with slotting fees, promotional allowances or other tangible incentives. The caliber of the marketing firms or agencies associated with the new variety will be pivotal to success.

10. What Promotion is Planned to Woo Consumers?
If demand for a new variety is to grow in step with rapidly increasing supplies, an increasing number of consumers will have to be persuaded to try the new variety, and (assuming they like it) to make repeat purchases. As many new varieties scramble for consumers' attention, the effectiveness of supporting promotion will be crucial in separating the winners from the losers. One of the key ingredients in a successful promotional program is money. In general, bigger budgets buy bigger clout. However, the more money a club spends on promotion, the higher marketing fees it will have to charge members. In turn, the higher the club fees, the higher the price members will need to receive in order to break even.

Potential club members will need to ask club sponsors how successful higher marketing and promotional expenditures have been in increasing net returns to grower members.

Summary

The existence of a marketing club for a new variety does not guarantee that the new variety will be any more successful than some of the older varieties it is intended to displace. A lot of forces need to converge for a club to be successful.

Before growers, packers or marketers make a commitment to a club they need to ask the sponsors some tough questions. Both operators and sponsors need to be realistic about the inherent difficulty of making the club concept work in today's marketplace. And sponsors need to have credible answers to the 10 questions that are critical to club success.