

Summary of the hearing with Worldwide Fruit December 2006

Background

1. Worldwide Fruit told us that it was 50 per cent owned by Turners and Growers, which was a subsidiary of the Guinness Peat Group. Turners and Growers also owned Enza (formerly the regulated New Zealand Apple and Pear Board). The remaining 50 per cent of Worldwide Fruit was owned by the Northcourt Group, which was an amalgamation of producer organizations and growers.
2. The turnover of Worldwide Fruit was approximately £100 million. Its primary product was apples and it also traded in pears, avocados, dates and kiwi fruit. Worldwide Fruit was also involved in a joint venture with Redbridge through which soft fruit products were sold to supermarkets.
3. Worldwide Fruit told us that it sourced 35 per cent of its products from the UK, 18 per cent from New Zealand and the remaining 47 per cent from the rest of the world. Worldwide Fruit said that Tesco, Sainsbury, Asda and Morrisons made up approximately 70 per cent of its market. It noted that the wholesale market had shrunk as the retailers had grown. Generally fruit underperformed against confectionary or tinned goods in the convenience sector and this was one reason for a lower proportion of customers in that sector.
4. Worldwide Fruit commented that the consolidation of Geest Worldwide Fruit, Enza and Fruition and the resulting vertical integration meant that it was probably the largest supplier of apples and pears in the UK. Most of its competitors did not have the same level of vertical integration. Worldwide Fruit was of the view that this integration had allowed it absolute traceability.
5. Worldwide Fruit considered that the number of suppliers had decreased as supermarkets looked for companies which could supply apples continuously for 12 months of the year. It was also of the view that takeovers, mergers and joint ventures had occurred in order to meet these supply requirements. Businesses had amalgamated to ensure they could meet a 12-month demand in specific categories, or, to offer a wider product or country portfolio to customers.
6. Worldwide Fruit said that there had been very little movement in terms of apple pricing over the period of industry consolidation. Apple prices were dependent on crop size. Worldwide Fruit noted that the supply of produce was not UK-centric as it was competing for the same fruit with other countries. At certain times of the year there were only a few countries that supplied a particular product.

Relationships with growers

7. Worldwide Fruit told us that it marketed fruit from all the grower members of the producer organization in the UK on a straight 6 per cent commission deal. The commission for New Zealand growers worked out at about 6.2 per cent. Commission varied in other countries such as France, where there was a fixed price deal, or Chile where there was a minimum price guarantee.
8. Worldwide Fruit explained that the commission of 6 per cent for UK growers was deducted from the selling price to the customer. Transport, packing and marketing costs as well as a producer organization levy were also deducted. The net return to the grower was paid three weeks after the product had been sold.

9. Worldwide Fruit said that the majority of its members were members of producer organizations. Growers outside these organizations were charged 7 per cent commission. Part of the funding for the producer organizations was European matched funding that was spent on technical work such as storage, field monitoring and environmental initiatives.
10. Worldwide Fruit indicated that the two largest-selling apples in the UK were Braeburn and Royal Gala, which were predominantly imported varieties. Worldwide Fruit worked with its growers to ensure that the growers grew larger amounts of the commercial varieties that did not cannibalize English apple sales but primarily affected imported apple sales.

Relationships with supermarket customers

11. Worldwide Fruit commented that its margins had declined by 0.1 per cent a year from 2000 to 2005. Over this period, the margin aspirations of the supermarkets in produce had increased. The typical margin had increased from 33 to 38–40 per cent. Worldwide Fruit believed that the supermarkets expected that the smaller number of remaining suppliers would become more efficient and reduce their input costs.
12. Worldwide Fruit said that there was increased interest in UK produce. Its research indicated that although this was a latent desire by consumers, the retailers had noticed and promoted it more. Worldwide Fruit considered that consumer demand was influenced by factors such as non-Governmental organizations, farmers and the press.
13. Worldwide Fruit told us that it had changed its growing practices in areas such as the use of pesticides through working with retailers and growers. It had also pursued innovation and advocated food miles and issues like the School Fruit and Vegetable scheme. Worldwide Fruit tended to spend more time than money in its innovative work and generally spent less than £75,000 annually on pure variety research. It noted that Enza had strong links with a number of breeding groups in New Zealand and spent substantially more particularly in developing new apple varieties such as Jazz. The Dutch and Belgians also spent a significant amount on new variety research.
14. Worldwide Fruit said that while its margins had fallen slightly, it was increasing its spending, particularly on automation. The company was of the view that this gave it a competitive edge and cited the example of a new automated process in the provision of baby avocados for Tesco. Worldwide Fruit expected payback on their automation investments within 12 to 18 months.
15. Worldwide Fruit said that it traded at different prices with the four major supermarkets. It said that 14 per cent of its sales went to Marks and Spencer, 4 per cent to Morrisons, 14 per cent to Sainsbury, 25 per cent to Tesco, 30 per cent to Waitrose, 2.5 per cent to the Schools Fruit and Vegetable Scheme and the rest to markets.
16. Worldwide Fruit commented that the only customer that it had a written contract with was NHS PASA (Department Of Health) for the Schools Fruit and Vegetable Scheme. It had a history of supply with the other retailers. Worldwide Fruit were given programmes at the start of the season, which indicated the amount that the supplier was supposed to be supplying. The actual supply was dependent on quality and price and was not a guaranteed contract. Worldwide Fruit indicated that while it would prefer a written contract to guarantee investment, these contracts were not provided.

17. Worldwide Fruit said that the terms of sale with its suppliers ranged from 14 to 35 days for payment of the invoice. Prices were different as each retailer had its own specification and pack type. The price per kilo varied according to the quality standard and specification differences were a major factor. For retailers at the higher end of the market, there was a higher price as there was a tighter specification and less of the fruit fell into the specification. Net prices were similar for similar products. Transport and packaging costs were also a factor and Worldwide Fruit pointed out that in some supermarkets the packaging costs were very expensive.
18. Worldwide Fruit also worked with most of the independent markets. The product sold to wholesalers was on average of a lesser quality for a variety of reasons, such as the length of time the product had been held by the supplier, the fact that it had fallen out of condition, the lower quality of the product and product defects. They said that the wholesale market had traditionally been an opportunity to sell excess or poorer-quality fruit which had kept the price low. Worldwide Fruit said that it did not deal with the catering side which needed top-quality produce at all times.
19. Worldwide Fruit reclaimed money from overseas growers, such as Chilean growers, when the fruit did not meet specification. It said that this fruit was then sold on the wholesale market at a reduced price. Worldwide Fruit considered that a major part of its expertise was managing the variable quality of fruit.
20. Worldwide Fruit told us that in terms of negotiating the retailers were tough but fair. There was an expectation that larger volumes would be related to lower sourcing costs and better efficiencies. It added that in terms of efficiency, there was not a lot of organic growth and a focus on investing in taking the actual cost out of the business.
21. Worldwide Fruit said that there were rebates in place with the supermarkets that were generally renegotiated on an annual basis. The percentage of the rebate increased on the basis of volumes. A higher rebate percentage was given for greater volumes of product. Worldwide Fruit had found this arrangement acceptable. It was of the view that if it was getting more business with the supermarkets it would gain efficiency and was prepared to pay a bit more to gain that business.
22. Spending on safety and traceability by Worldwide Fruit had increased over the last five years. There was a different audit scheme for each retailer and each scheme had its own protocols. The wholesalers did not push audit schemes as much as the retailers. Worldwide Fruit considered that the higher standards brought UK growers to the forefront and enabled a premium to be paid on UK versus imported fruit. A lot of the investment with the retailers on promotions related to the point of sale detail that highlighted the country of origin for the UK.
23. Worldwide Fruit explained the equalization system within its UK grower base. Historically growers had pooled prices. Worldwide Fruit offered an invoice price where it took 2.5 per cent off the growers' price to create a fund. These monies were used to top-up prices for growers whose product might originally have been fit for supermarket specifications but ended up on the wholesale market. It had to find a home for all of its UK growers' products. 85 per cent of the produce went to the supermarkets and for the remaining 15 per cent it sought to get the best prices in the wholesale market. The price that the supermarkets paid for the product was more than it could be sold for on the wholesale market.

Promotions

24. Worldwide Fruit told us that the majority of promotions were planned well in advance. It knew the sort of products it wanted to hit sales peaks or the time when there would

be maximum availability for the product. Sometimes the company tried to stimulate volume sales.

25. Worldwide Fruit said that the promotions were based on global crop estimates. At times, Worldwide Fruit would do apple promotions in order to stimulate demand and to ensure that it maintained its share of the overall fruit market. The bill for promotions was picked up by the grower, Worldwide Fruit or the customer. Increasingly a lot of their promotions were linked to purchases which were more percentage-based.

Supermarket Code of Practice

26. Worldwide Fruit said that its growers complained constantly about their returns. Worldwide Fruit did not use the Code of Practice to regulate its relationships with its customers.