



Prospects for niche marketing in South Pacific island nations

Euan Fleming and Brian Hardaker

The prospects for South Pacific island nations establishing niche agricultural export markets are quite good. However, a niche export marketing strategy will require careful research and commodity selection by marketers, and well-targeted support for niche industries by governments. It is unlikely to succeed unless there is a high degree of commodity and market specialization, which is likely to act against efforts to diversify agricultural export production. It would seem that specialization of commodity export marketing will become more essential as the protocols insisted upon by importing nations become more stringent. It is highly unlikely that South Pacific island nations will be able to comply with these protocols successfully if they are trying to break into many different export markets simultaneously.

Euan Fleming is a lecturer in agricultural economics at the University of New England. He has undertaken consultancies and research work in Western Samoa, Tonga, Solomon Islands, Vanuatu and Papua New Guinea.

Brian Hardaker is head of the Department of Economics at the University of New England. His main research interests are in the problems of agriculture in developing countries, smallholder systems, and the role of improved technology.

One feature of development planning in South Pacific island nations over the past two decades has been the emphasis on diversification of the export base in formulating development strategies. In his study of development issues and challenges in the South Pacific, Tsusaka considered export diversification an essential part of agricultural development (Tsusaka 1984). The main justification given for this strategy is that it enables the expansion of export market earnings through the introduction of high value export production industries, or of value-adding processes in the case of existing agricultural export industries. It also reduces export market risk, and

provides a broader portfolio of cash income-earning activities for farmers.

Exports of South Pacific island nations have been historically concentrated on a small number of agricultural products, one of which is copra. This concentration has been a result principally of the narrow resource base, which has limited the alternatives for export industries, and the preoccupation of colonial governments with the development of a small number of plantation crops for export as inputs into their own industries.

Much of the effort put into export diversification has been to reduce this reliance on one or

two agricultural export industries. Some diversification has been into non-agricultural exports, while considerable effort has also gone into the diversification of agricultural exports themselves. The former efforts have been more successful, particularly in terms of developing exports from extractive industries such as mining, fisheries and forestry (Antony and Fleming 1992). The efforts to diversify agricultural exports have recently been focused on niche products.

Niche export marketing

The search for niche export markets as part of agricultural export diversification efforts is becoming increasingly evident. It is timely to consider whether this strategy is worthwhile for South Pacific island nations. A niche export market is defined as a segment of a world agricultural market, where the segment is defined by either space, time or product attributes, in which an island economy can develop a position of competitive advantage. A characteristic of niche export markets is that they are too small to attract large exporters which, through their size advantages, could otherwise achieve market domination.

Three types of niche agricultural export growth strategies can be identified.

- Focus marketing strategies are applied where exporters in a particular nation are able to target a specific group of consumers in importing countries. The best example of this type of strategy is where an ethnic group, such as the Polynesian population in New Zealand, Australia and the United States, is the target of export efforts for crops such as taro.
- Commodity differentiation enables exporters to establish and maintain export market share on the basis (real or not) that their commodity differs from those of competing export nations. Quality control is perhaps the most common way of doing this, by being able to meet the expectations of importers in respect of the uses to which the exported commodity can be put, its dependability and appearance. Other ways in which exporters can ensure commodity differentiation include the creation of brand image, promotion and service back-up.
- A seasonal/locational differentiation strategy can be applied when feasible

production conditions limit the supplies of the commodity in question from rival exporting countries. The most common instance is where seasonality in production makes an exporting nation the only supplier of those commodities at a certain time of the year. Some horticultural exports are good examples.

Export diversification through niche marketing

South Pacific island governments appear to accept export diversification through niche marketing as a good thing, assume that entry into new agricultural export markets is a fairly straightforward undertaking, and do little to review the success of their diversification campaigns. In reality, breaking into new niche export markets, or establishing downstream value-adding niche processes for existing export industries, and sustaining a profitable market share, are very difficult assignments. They require painstaking research, and usually a lot of perseverance and effort. Available evidence on the success of diversification efforts through niche marketing in the South Pacific to date attests to this.

Evidence on attempts at niche marketing in two South Pacific island nations—Tonga and Western Samoa—has been summarized by Fleming and Hardaker (1992). Fleming (1992) has also reviewed similar evidence for five island nations. McGregor (1990) reviewed opportunities and constraints for marketing niche agricultural commodities from Pacific island nations in general. Five general points follow from these reviews.

'Boom-bust' syndrome

A feature of the evidence is a fairly long history of initial success in exporting an agricultural niche product followed by failure, and the virtual disappearance of the export industry. Too often, this 'boom-bust' syndrome is attributed to the naivety and 'hot-cold' attitudes of producers. More realistically, it occurs because governments have failed to perceive, and deal with, some of the difficulties encountered in export activities that they themselves have initiated or, at least, actively encouraged. More government inquiry into why niche export ventures fail (especially in spectacular 'boom-bust' fashion)

would be invaluable in improving niche agricultural export performance.

Lack of impact on commodity diversification

Niche exports have had little effect in diversifying exports (Antony and Fleming 1992). Taro in Western Samoa, vanilla and, for a short period so far at least, pumpkins in Tonga are exceptions. In any case, it is not obvious from the evidence available that agricultural export diversification is necessarily a good thing. Again, more government inquiry is needed to establish what gains from diversification are expected, and what gains have been realized over the past three decades.

Market versus country diversity

There is some evidence that commodity diversification efforts by Pacific island nations might be achieved at the expense of market diversity. This has occurred primarily because the markets for new exports have been more geographically concentrated than for traditional export commodities. Such an outcome could conceivably mean that one form of concentration risk is replaced by another. At the same time, some of the benefits of economies of size in marketing from commodity specialization could be lost and might not be fully offset by economies from country specialization.

Commodity specialization appears inevitable for South Pacific island nations, although not necessarily in traditional exports. It is likely that new export industries will realize higher returns to producers and gradually replace traditional industries. The most appealing new industries at this stage appear to be those that will not be constrained by onerous quarantine restrictions imposed by importing nations. In this respect, the tendency of some importing countries to change quarantine conditions frequently and sometimes seemingly capriciously creates severe risks for would-be niche exporters. For such reasons, some fresh produce export markets that are being pursued at present may not have such good long-term prospects as island governments apparently believe at present.

Integrating niche agricultural production and marketing

Successful niche agricultural export relies heavily on the integration of production and

marketing activities. The maintenance of attributes that enable a niche export market to be defended requires consistent effort from everybody in the marketing channel from the agricultural producer to the overseas distributor. Difficulties encountered in agricultural niche exporting in South Pacific island nations come from both the production and marketing side, with the latter usually the most neglected. Some of the more important attributes of agricultural export marketing disregarded in South Pacific island nations have been management related. These include the failure to establish an efficient market information and dealer network (with adequate feedback of the needs and responses of users elsewhere in the marketing channel), the lack of attention to the enforcement of quarantine regulations, and the failure to format and implement appropriate product grading, quality control and packaging.

Production can be a stumbling block where feasible export industries are simply unprofitable to producers (usually smallholders in the South Pacific) given their circumstances, knowledge and skills. Integration of production and marketing activities can also be deficient. As an example, the Commodities Export Marketing Authority in Solomon Islands is at present planning to extend advice to growers of a potentially new niche export crop, Nepalese chillies (Solomon Ilala, General Manager, Commodities Export Marketing Authority, personal communication, 1992). This initiative, to be undertaken through the recently established rural development centres, has been necessary because of the inability of the extension division of the Ministry of Agriculture and Lands to provide the necessary support to potential growers.

Product suitability for niche exporting

Finally, the suitability of export crops for smallholder production varies. It has been shown that some relatively new export crops, such as taro in Western Samoa and vanilla in Tonga, are well suited to smallholder production. Grave doubts exist for other crops, especially those where requirements for product and market characteristics are very stringent. It is mystifying, for example, why the Tongan government perseveres with

efforts to turn smallholder banana production into a profitable export industry.¹ For such crops, alternative export structures should be pursued. Small numbers of medium and large-scale growers operating under formal contractual arrangements or in a nuclear estate system are preferable alternatives to large numbers of smallholders.

Satisfying the requirements of agricultural niche exports

South Pacific island nations have particular characteristics that might satisfy the requirements of niche export markets. In light of the above review of the various attempts at export diversification, how do the island nations measure up as suppliers to the three different types of niche export markets outlined above?

First, focus marketing strategies appear the most viable, but may be limited in extent. South Pacific island nations have been successful, for example, in securing strong export markets for expatriate Polynesian populations where they have expert knowledge of the tastes of the consumers, a strong in-country distribution network, and a comparative advantage in production of the commodities concerned.

Commodity differentiation is potentially a useful niche export marketing strategy. However, major improvements on current performance are essential, as indicated in the commodity reviews undertaken by Fleming and Hardaker (1992). Quality advantages apparent in growing crops can be dissipated in post-harvest and marketing processes. Favourable crop attributes can be cancelled out even by production practices. Also, some quality advantages may be insignificant in influencing user preferences for most uses of the commodity. For example, coconut cream exports to Australia from Western Samoa are perceived to be of higher quality than Thai exports yet, for Asian cooking, quality is not an important factor. Hence, the lower price of the Thai cream makes it a more attractive proposition to importers (ACIAR 1988). Other forms of commodity differentiation by island

exporters have not been very apparent. Brand image and promotion, and the provision of service support have generally not been strong features of export marketing activities. Furthermore, success in these areas is likely to be severely limited by the small scale of operations of exporting firms in South Pacific island nations.

Even where a niche market is established by exporters through commodity differentiation, there is no guarantee it will not be eroded over time by new entrants. This has occurred to some extent with New Zealand exports of Kiwi fruit. Initial export market success by New Zealand exporters, who distinguished their product effectively from that of other producers of Chinese gooseberry, encouraged other potential exporting countries. Now, US exports are taking away a significant part of the New Zealand market share.

Some scope exists for supplying horticultural crops at specific times of the year to export markets such as Japan, illustrated by McGregor in his review of the Tongan pumpkin export industry (McGregor 1990:4-5). However, three paradoxes exist here. First, these exports are usually very demanding in terms of quality, reliability and timeliness, and their establishment and maintenance require large amounts of effort, resources and expertise. Hence, as Islam pointed out, horticultural exporting requires specialization in order to succeed (Islam 1990). For small developing nations such as South Pacific island nations, without a long history of exporting horticultural crops, it is likely that only a very small number of such commodities can be successfully exported. Yet, ironically this requires a strategy of export concentration that is the opposite of diversification based on these sorts of commodities.

There is a second paradox concerning recent enthusiastic support for niche marketing given by some South Pacific governments. Niche marketing by its nature requires flexibility, especially the capacity to withdraw from a market quickly if competitive

1 Dr Robert Fullerton, a plant protection scientist at the Department of Scientific and Industrial Research, New Zealand, commenting on the banana export industry in South Pacific countries, was recently reported as saying that 'The prospects are not very good at all...the Pacific hasn't got a show'. He considered the costs to smallholders of controlling disease to be too high (*Pacific Islands Monthly*, October, 1991:58). I.M.N. Felemi (1990) estimated large net economic costs to the Tongan banana export scheme.

advantage is suddenly eroded (Ries and Trout 1986). The sudden loss of competitive advantage is a real possibility for niche agricultural exporters from South Pacific island nations. Factors such as technological change, market entry by new competitors, changing demands by importers and institutional actions in importing countries can make it difficult or impossible for the niche exporters to defend their market share. Yet flexibility and ease of market withdrawal are unlikely attributes of niche agricultural export industries. Considerable resources are often invested in the niche industry by farmers, marketing firms and the government, and expectations of secure long-term market prospects are often unrealistically built up by public bodies.

A third paradox is that multiple niche products are preferable to single niche products, in order to reduce the risks associated with losing that single niche (Kotler 1988). This idea is consistent with the plans of South Pacific governments to diversify their agricultural export base. Yet the nature of many of the export niches so far exploited (e.g., taro to expatriate Polynesian societies, pumpkins to Japan) does not make this easy. Small countries such as the South Pacific island nations can ill afford to be penetrating many niche markets at the same time.

Policy implications

South Pacific governments need to question carefully their role, if any, in facilitating the diversification of agricultural exports through niche products. It is by no means certain that government has to be an active participant in the agricultural export sector, through direct involvement in marketing or investment in development projects based on export crops. Producers and private marketers, acting autonomously of government, are able and willing to develop export industries if the long-term economic prospects are good.

Governments should do what they must do, and no more. They should, for example, enforce fair trading rules, such as weights and measures regulations, and enforce proper quarantine control. In respect of the latter, the recent case of fruit fly in watermelons exported from Tonga to New Zealand was not detected on export and had disastrous

implications for the watermelon and banana export industries in 1989. McGregor (1990:4) highlighted the advantage of isolation from major pests and diseases that the Pacific islands have had to date. He foreshadowed immense costs to agricultural exports from these countries if quarantine regulations were not properly enforced.

Potentially, governments can also make valuable contributions to people and firms involved in agricultural exporting by facilitating the integration of production and marketing activities in new export industries. Even here, however, it is doubtful whether governments can help simply by providing particular services. Few if any South Pacific island governments currently have a sufficiently well-trained and experienced staff and the financial resources to provide useful services to producers and marketers endeavouring to establish a niche agricultural export industry. Government's role should perhaps be that of an 'aid broker', arranging for aid funds to employ private marketing specialists to provide export marketing assistance, or to set up joint ventures with transnational agricultural production and marketing firms with knowledge of the export markets that have been targeted.

Governments might also have a role in export quality control and grading and licensing to ensure export quality maintenance. The risk here, however, is that the government agency responsible for this role can easily get out of touch with market realities. A preferable role is for government to provide technical assistance, if necessary through aid, to strengthen industry self-regulation of quality control and capacity to undertake efficient grading processes. This might need to be associated with government facilitation of the establishment and operation of industry organizations. Governments also need to enact legislation where appropriate.

The need to be able to defend an export market niche is paramount. Therefore, a sustained period of sound marketing research is vital for long-term success in defending a niche. Temporary success in niche export markets with little research is possible, but long-term success is more elusive. Governments may be doing an agricultural industry a

disservice by encouraging it into a niche market for a few years, if the industry is unable to defend it the long run.

Finally, as Hiemenz (1992:11) has recently pointed out, the key to government's role in economic matters, such as niche export marketing, is in getting the 'institutional framework conditions' right. In particular, public institutions need to learn from their mistakes, and niche export marketing is an area where participants need to learn quickly from errors made if the niche is to be adequately defended. In the case of the banana export industry in Tonga, it is clear that learning from past mistakes is not yet part of the organizational culture of the government bodies involved in promoting that industry. There is a danger that the pumpkin export industry in Tonga may suffer from the same failure to learn from its recent mistakes.

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