

WWF-Silva 2006 Training Workshop
6-9 May 2006

Product planning and management for NTFP marketing

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Outline

The market context

The objective: why we need to improve marketing techniques?

An instrument: business plan

1. Pricing methods

2. Product development

3. Promotion

4. Place: logistic

4 Ps

Marketing strategies: mass/specialised/complementary

Final remarks: from total marketing to social marketing

Market context

= NTFPs in Mediterranean area have positive trends in supply and demand and an increasing economic importance in rural development

"International trade increased significantly for natural cork, mosses and lichens for bouquets, truffles, mushrooms, chestnuts, bamboo, palm hearts and maple syrup. Interestingly, these NTFPs originate mainly from, and are traded among developed countries. Also, these commodities are processed locally into semi-finished products with raising unit prices. Of particular interest is the fast increasing value of trade in "specialty" food products (...). Specialty foods are among the fastest growing segment in the food catering business and several edible NTFP are ideally fit for niche marketing, such as pine nuts, bamboo shoots or wild edible mushrooms. The reduction (and/or elimination) of import tariffs, increasingly globally applicable (food) quality standards and changing consumer (food) preferences are creating global markets for products which previously were only locally available" (Vantomme, FAO, 2005)

Commodity description	1992	2002
Mosses and lichens for bouquets, ornamental purposes	9 352	25 476
Truffles, fresh or chilled	4 201	23 656
Mushrooms other than <i>Agaricus</i> , fresh or chilled	n.a.	364 412
Mushrooms (excl. 071331/33) & truffles, dried	n.a.	219 458
Truffles, prepared or preserved, not in vinegar	3 049	11 012
Brazil nuts, fresh or dried	44 344	59 848
Chestnuts, fresh or dried	109 958	184 663
Acorns and horse-chestnuts for animal feed	1 216	7 388
Shea nuts (karite nuts)	5 155	5 136
Liquorice roots	33 455	24 310
Ginseng roots	389 345	221 435
Plants & parts, pharmacy, perfume, insecticide use mes	689 935	777 980
Locust beans, locust seeds	22 395	40 239
Lac	25 286	25 652
Gum Arabic	101 312	105 510
Natural gum, resin, gum-resin, balsam, not gum arabic	92 755	96 525
Balata, gutta-percha, guayule, chicle and similar gums	26 726	13 605
Pyrethrum, roots containing rotenone, extracts	27 865	26 172
Bamboos used primarily for plating	37 562	50 054
Rattan used primarily for plating	118 987	51 327
Kapok	11 920	2 826
Maple sugar and maple syrup	43 632	116 202
Palm hearts, otherwise prepared or preserved	16 082	67 514
Quebracho tanning extract	51 938	45 173
Wattle tanning extract	63 877	34 168
Oak or chestnut extract	8 653	917
Natural cork, raw or simply prepared	7 874	110 702
Abaca fibre, raw (<i>Musa textilis</i>)	15 221	20 374

Mediterranean NTFPs

13,000 endemic plant species, 250 arborescent species (150 endemic)

Global import values of key NTFPs for 1992 and 2002 (in USD 1000)

Source: Comtrade data (www.unsd.org/comtrade)

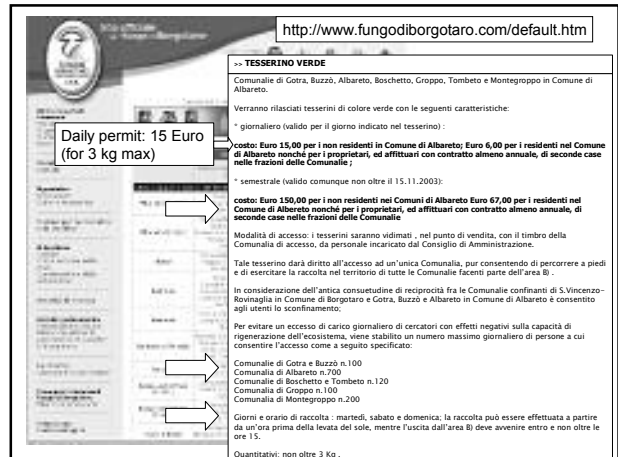
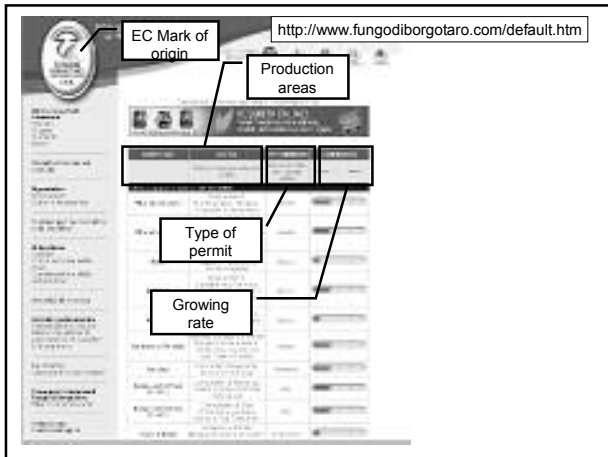
Average values of benefits from Mediterranean forest areas (Euro/ha/year)

	Wood	NWFP	Grazing	Recreation	Hunting	Total	TEV
- Southern	12	4	32	n.a.	-	46	67
- Eastern	22	5	10	1	1	40	48
- Northern	67	16	10	32	3	125	176
Total Mediter.	47	12	13	21	2	95	133
%	↓49.5	↑12.6	↓3.7	↑22.1	2.1	100	-
%	35.3	9.0	9.8	15.8	1.5	71.4	100

Merlo and Croitoru, 2005, p.62

A revealing indicator:
the rising concern of forest owners in protecting their property rights

Nuts, mushrooms and truffles in many Mediterranean countries are not any more public goods, like 15-20 years ago

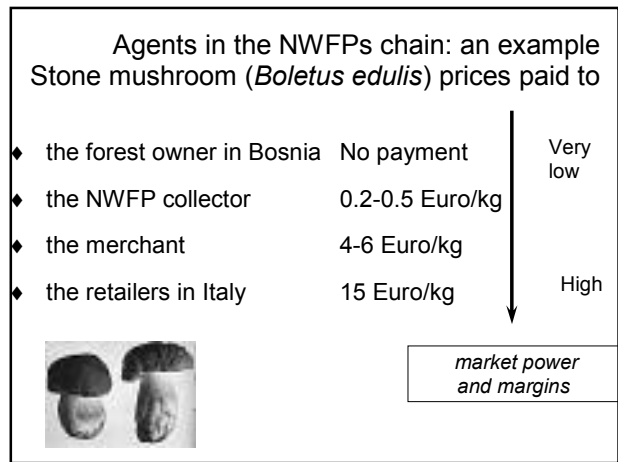


Why do we need to improve marketing techniques?

The objective:

increasing **market power** (=profit) of forest managers and harvesting enterprises:

- fair distribution of profits,
- active management of forests,
- stewardship of the resources: positive externalities on environmental and social conditions



The forest managers needs a marketing approach

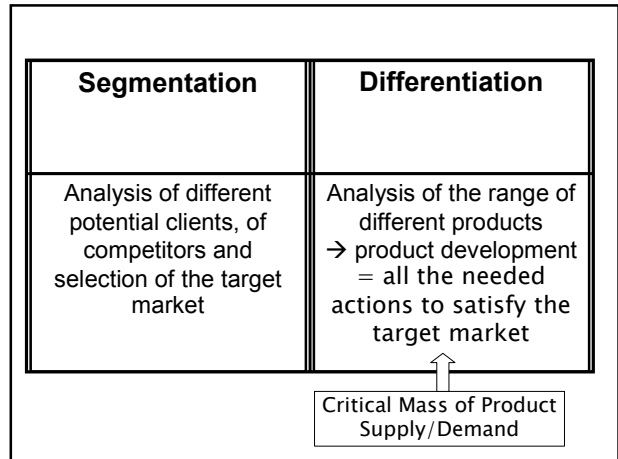
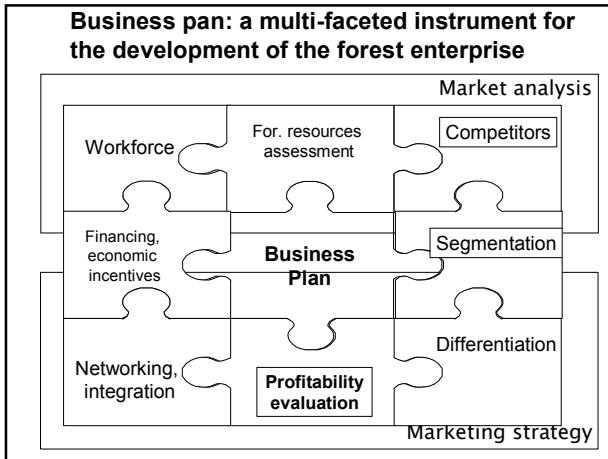
It helps to identify and systematically act on:

- Changing customer behavior and expectations
- Competing products and substitutes
- Rapidly emerging production technologies
- Cyclical nature of the markets
- Foreign and domestic competitiveness
- Legislative and political factors
- ...

Instruments?

Business plan

An instrument to define all the operational factors connected to the practical implementation of an entrepreneurial idea/project



Marketing mix

= the best combination of the following key aspects of a business plan:

- **Pricing methods**
- **Product development**
- **Promotion techniques**
- **Place: logistic**

Total marketing

1. Pricing: five approaches

- A. Cost-plus pricing
- B. Profit-objective
- C. Customary prices
- D. Contract or negotiated pricing
- E. Perceived value

Attention given to producer's problems

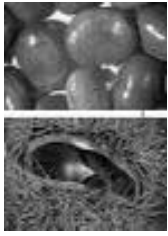
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Attention given to buyers' behavior

A. Cost-plus pricing

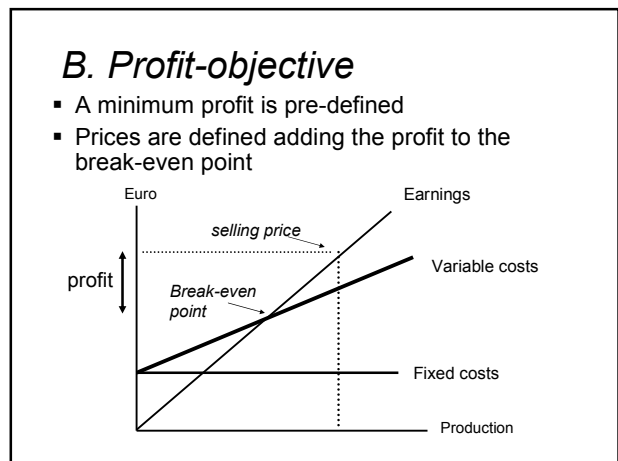
Pre-defined mark-up to be added to production cost:

Cost of collecting 1 ton of chestnut = 100 Euro
 Selling price: 130 Euro (mark-up of 23%)



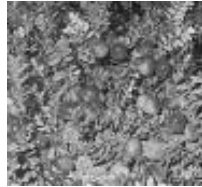
Problems:

- No reference to competitors
- No attention paid to market demand
- Not always easy to evaluate fixed cost in multi-products enterprises



Problems:

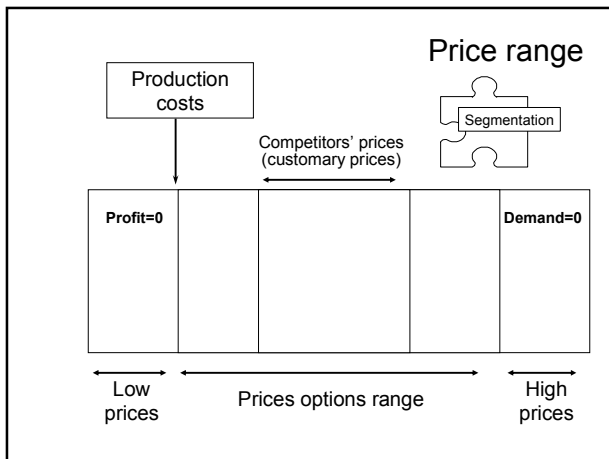
- No reference to competitors
- No attention paid to market demand
- Is profit in the long run covering fixed costs?



C. Customary prices

- When product differentiation is low,
- When there are many competitors,
- When cost evaluation is difficult...

... prices may be defined looking at the competitors' prices to fix a *reasonable* price



D. Contract or negotiated pricing

Prices set by pre-agreement or negotiation **before the collection** of a NWFP

(e.g.: herbs, berries, cork)

Frequent application when buyers are firms, commodity merchants or processors

Sometimes risky: see weather conditions, site productivity, labor availability

A variant: **formula pricing** = set on the basis of systematic use of external values or factors (international prices index, license costs, fuel costs, etc.)

E. Perceived value

(the most popular in advanced markets)

Key factor in pricing is the **willingness to pay** by the buyer



Marketing mix is used to increase the w.t.p. (packaging, grading, delivery time, product quality, labelling, etc.) and to differentiate NWFPs



A common problem:

many forest wood products are not easily differentiable

Cork from Portugal



Cork from Maroc



Cork from Italy



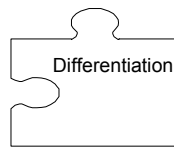
Some special pricing techniques (**price tactics**) can be used to differentiate wood products:

- Direct sales to individual buyers (i.e. processors and exporters, avoiding merchants)
- Group marketing
- Off-season selling
- Quantity discounts, cash discounts and special sale prices

... some other opportunities to increase the trust and the willingness to pay by the buyers are offered by the other 3 Ps

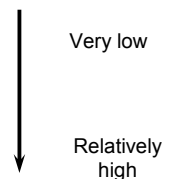
2. Product development: three types of innovations

- A. Absolute new products
- B. Incremental innovations
- C. Subjective differentiation



A. Absolute new products

- Rough material
- Semi-finished products
- Final products



potentials for innovation



Laminated Veneer Lumber

Pellets



<http://www.promessa.se>



<http://www.memorialecosystems.com/>



In Iceland:

- A lady (employed in a Bank) attended a course on wood working techniques organised in a forest area
- Playing with some pieces of hornbeam for testing her competences she invented this object
- Some friends like the object as a Christmas present
- She start to sell it in a small local shop

Now (after 2 years):

- 13 Euro
- 5 minutes for making and painting one
- She is employed *part time* in the bank
- She earns 2500 Euro/month

Which lessons learned?

- Absolute innovation: casual, not easily replicable
- Patentable → high individual profit, no positive impact on the local community
- Non-patentable (very common in the forest sector): no stable sources of income (imitation)

B. Incremental innovations: improved products and services

Products:

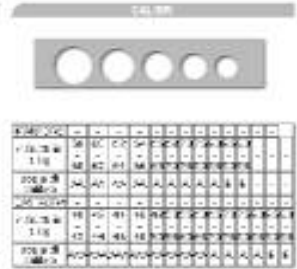
- Charcoal with aromatic herbs
- Chestnut flour with pine seeds and raisins to prepare, following a traditional recipe, the typical cake *castagnaccio* in Italy



B. Incremental innovations: improved products and services

Services:

- Sorting and grading system
- Kiln drying
- Packaging
- Branding
- Certification and (eco)labelling



Example of calibration system and sorting of marrons and chestnuts: calibration through number of fruits in 1 kg of nuts (<http://www.conerpo.com>)



Standardization and packaging of Christmas trees
<http://www.kollnitzer-tannenhof.com>

Adventure parks



Hübner, L.; Lässig, R., 2005: Im Erlebnispark Wald die Vielfalt von Holz und Natur erfahren.
- Wald Holz 86, 10: 45-48



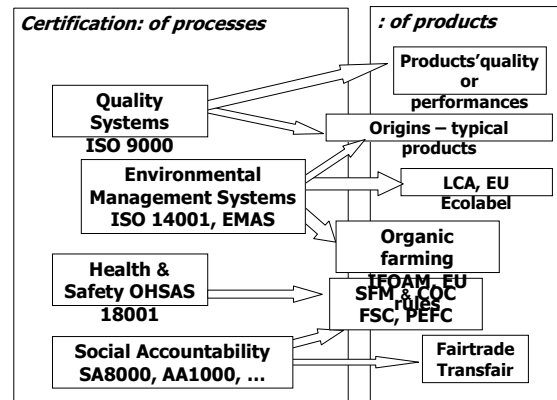
Art in the forest: Arte Sella in Italy (www.artesella.it)



Forest school
Outdoor school



Certification and labelling



FROHER FSC-BAUM



Examples of certified products: Christmas trees certified by FSC in Switzerland (WWF 2005)

C. Subjective differentiation

Not a new product or an improved product or services,
but an old product that is presented and perceived as a new one

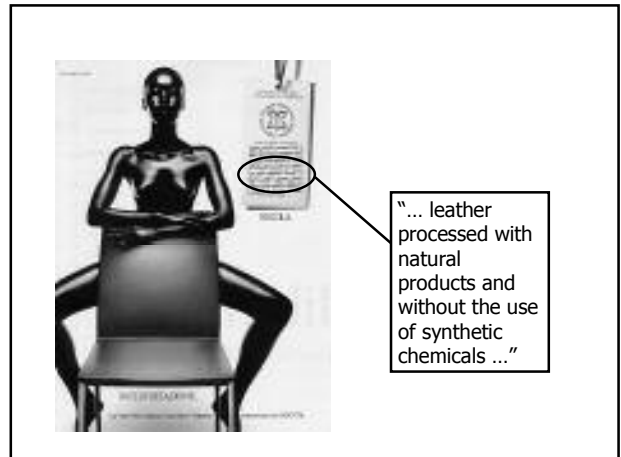
→ Essential role of promotion

Promotion based not on real facts, but on subjective perceptions/believes



“soft like the perfume of the oak” (!?)

Save a tree, drink Puiatti. No oak aged wines.



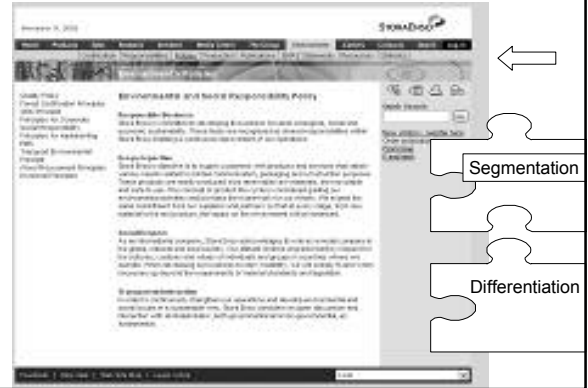
“... leather processed with natural products and without the use of synthetic chemicals ...”

A label without any change in the traditional system of forest management



Pinus mugo aromatic essence by PEFC in Italy (PEFC 2006)

3. Promotion



- SME in the forest sector are very weak in promoting their products,
- but they can take advantage from the use of “umbrella labels”





4. Place: logistics

- Delivery time
- Products handling: containerization and palletization
- Freight forwarding (i.e. several smaller shipments from different plants combined)
- Warehousing
- ...

Networking, integration

NWFP&S handling: heavily influenced by climatic conditions, seasonality and perishable products

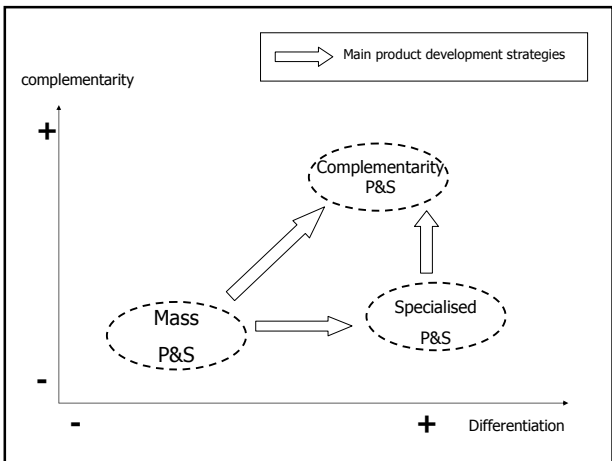
Principle of relative transportability (Duerr)

Delivery time for Christmas trees and greenery from Denmark (<http://www.hedeselskabet.dk/>)

Marketing strategies

Mass market: Danish Christmas trees, Irish foliage, Albanian aromatic herbs, Finnish frozen or Croatian fresh mushrooms:

- = relatively low prices
- in many rural areas this is not a winning strategy



2 alternative strategies

- Specialized products: e.g. high AV niches products
- Complementary products & services: synergies with other products/services (tourism, recreation), i.e. with other economic operators

Specialized niches products a case study: chestnut



Chestnut

- 209 000 ha for chestnut production
- 89 000 agricultural enterprises
- 76 000 ha orchards
- Varieties “Marrone” and “Chestnut”
- Regions: Campania 51%, Calabria 12%, Latium 11%, Piedmont 9%,

Chestnut – Marketing Characteristics

Positive	Negative
<ul style="list-style-type: none"> - good nutrient values - different final uses - high added value products through processing - easy storage (refrigeration) - various by-products (honey, mushrooms) 	<ul style="list-style-type: none"> - Difficulties in obtaining a nut clean and of homogeneous size - Production variability - Fresh nuts quality maintenance problems - Fungal infection and insect attach to fresh fruits, weevil damage during storage and later - high harvesting costs and highly concentrated labour requirements

For. resources assessment

Chestnut – Distribution of consumption of chestnuts (Bellini, 2003)

	Chestnut	Marrons
Peeled, for animal feeding and other uses	5 %	< 5 %
Self consumption	5 %	10 - 15 %
consumption)	40 %	20 - 30 %
Processing industry	10 %	35 - 40 %
Dried	10 %	
Export	30 %	15 - 20 %

Segmentation

Chestnut – Policy & Research

- Large incentives for restoration of chestnut orchards (financial support by Regional authorities)
- Access:
 - Private orchards: public access is forbidden
 - Gathering of wild chestnuts is allowed
- Research:
 - diseases, cultivation, graft and crown care
 - recovering of old chestnut orchards and transformation of chestnut coppice
 - harvest techniques

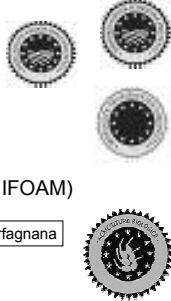


Financing, economic incentives

Chestnut – Marketing

marron from Castel del Rio, marron from Mugello, chestnut from Monte Amiata, chestnut from Montella

- Certification under EU regulations
 - Registration of Protected Designation of Origin (PDO) (Reg. 2081/92)
 - Protected Geographical Indication (PGI)
 - Traditional Speciality Guaranteed (Reg. 2092/91 and IFOAM)



Differentiation

Marron from Mugello-Fano in Garfagnana

Chestnut – Marketing

- **Networking and promotion**, e.g. local associations for chestnut marketing (www.marrone.net): → fairs, exhibitions, museums, ...



Networking, integration



- Network of local municipalities (the Italian *Associazione Nazionale Città del Castagno*)



New selling systems

- Direct sales: **"Pick-up your chestnuts"**: selling directly to the consumers the right to collect chestnut for a fixed rate or in relation to the weight of collected fruits
- **"Adopt your own chestnut tree"**: chestnuts picking and organised picnics under the chestnut tree
- **e-business**:
 - B2B: fresh chestnuts, semi-finished products
 - B2C: jams, dried nuts,...

Differentiation



Product development



Dried soft chestnut

Package for making the traditional *castagnaccio* cake (based on chestnut flour, pine seeds, raisins)

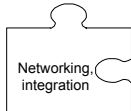


Lessons learned

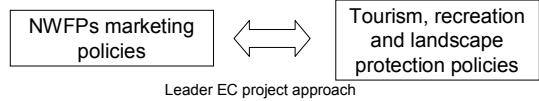
- Vertical integration to sell the high AV products
- Direct sales to increase forest owners profits → investment in orchards amelioration → protection of property rights
- Public authorities: external support in promotion, technical assistance to forest owners

Complementary products and services

= products & services that bring added value to some other products or services, but are **not attractive enough to succeed alone**.



In many Mediterranean countries: a strong link between



Leader EC project approach

Törggelen holidays: few days-one week holidays (normally for aged persons) based on

- roasted fresh chestnut +
- walnut +
- new red wine tasting +
- speck and the meat organized in South Tyrol

<http://www.wanderhoteleuropa.com/it/wandern/angebote/05.html>

Willingness to cooperate among private operators

Private/public partnership in promotion

We sell the product, but also the associated history, monuments, events, farm tourism, ...

http://www.umbriodoc.com/eng/prodottotipico/generale/prodottotipicodoc_tartufo.htm

A common instrument for networking: "la strada" (road – route)

<http://www.stradadelfungo.it>

<http://www.marrone.net/rubriche/strada.htm>

NWFP
= *imago* product

<http://www.appennino.info>

Lessons learned

- Territorial marketing
- In many contexts the real constraint is not the lack of natural capital, but that of entrepreneurship
- Key factors: partnership private/public actors, cooperative attitude = social capital

From total marketing (4 Ps)...
... to social marketing = 2 "new" Ps

- Political power
- Public relations

Civil society, in the Mediterranean region too, is playing an increasing

From total marketing (4 Ps)...
... to social marketing:

Company's decisions are taking into account the **long-term** interests not only of the internal but also of the **external stakeholders** → Corporate Social Responsibility

(Kotler, Armstrong, Saunders, Wong, 2001)

CSR, marketing based on ethical principles:

- safety and health of workers, consumers, local population
- no discrimination, no social inequality
- right to information, transparency
- sustainable use of natural resources
- ...

There is no conflict (no trade-off) between ethics and economics (profit, value of the assets, ...)

Thank you!

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