Rabobank Focus on industrial vegetables in the Netherlands

Each year around half a million tonnes of vegetables are processed in the Netherlands; it gives consumers the convenience of being able to eat healthy vegetables all year round. Besides production, the Netherlands serves as transit point and trader for processed vegetables from both inside and outside the EU. In view of the international developments taking place, a review of the links in the chain from grower to consumer, along with the developments and impact, is worth making.

The Netherlands within a European perspective

Sales of deep-frozen and preserved vegetables are higher in Western Europe (20 per cent of all vegetable sales) than in Eastern Europe (13 per cent). The Food For Thought market research agency estimates that EU consumers spend around EUR 13 billion on processed vegetables via retail and foodservice. The past five years have witnessed a limited growth in terms of both value and volume of processed vegetable consumption. Germany, France, Italy, the UK and Spain are the major processed vegetable consuming countries in Europe

With a quarter market share of European deep-frozen vegetable production, Belgium, with its centre concentrated around Roeselare, dominates this part of the European market. Poland, Spain and France are other major producers while the Netherlands is a relatively minor player in this segment. In terms of preserved vegetables, France leads the way with a third of the market, with the Netherlands (18%) next. Competition from ex-EU imports and the deep-frozen and fresh segments have caused European production of preserved vegetables (two million litres in 2006) to contract.
The vegetable processing industry in Europe is characterised by significant differences. The players range from specialists and brand leaders to house label and small local players. Over the past few years the Netherlands has witnessed contraction among the number of processors with approximately 20 companies remaining. Neerlands Glorie (owned by investor NPM Capital) is trying to revitalise established Dutch brands in processed vegetables. The Dutch vegetable processing industry is concentrated in the south of the country with sourcing of produce mainly domestic and linked to short transport times, essential to the quality of the fresh produce. Imports are therefore limited to the neighbouring countries of Belgium and Germany (largely gherkins, garden peas, spinach and green beans).

Grower associations protect the interests of the industrial growers in a Dutch vegetable processing industry that is strongly driven by costs and efficiency, particularly in respect of the production of bulk products, and committed to quality products. Key customers for the processors are the retail (supermarkets) and foodservice (hotels, restaurants and catering) segments, which have enormous purchasing – or bargaining – power, as well as the food industry itself. The long shelf-life of processed vegetables means that physical transport is less of an issue, though it can be cheaper for the more labour-intensive vegetables to be grown and processed in another country, such as China or Poland, and then imported, despite transport costs and import duties.

Changes in lifestyle over the past few decades, with convenience, health and experience having become purchasing priorities, have seen many consumers opt for fresh vegetables that are tasty and easy to prepare.
The response from fresh vegetable producers to this trend has been so fast and fundamental that the range and diversity have become enormous. Technology – improved quality and packaging – has helped sales of pre-packed fresh vegetable reach unprecedented heights. Canned and deep-frozen vegetable sales have struggled in contrast. Supported by the processing industry a 3 year campaign has started in the Netherlands, Belgium and France to induce consumers to eat more processed vegetables, pointing out the convenience and health aspect.

The advent of a new era

The extreme summer of 2006 (hot July and wet August) saw productivity fall, not only in the Netherlands but in many parts of Europe. Both the quality and quantity were adversely affected. This year, too, the weather has brought its toll. Demand for biofuels will lay a growing claim on the agricultural acreage. This trend, along with rising prosperity in countries like China and thus demand for meat, which requires grain input, is pushing up world grain prices. Farmers will need to reconsider their crop production plans; nevertheless we do not expect major shifts from industrial vegetables to grains or other crops as higher grain prices will push up prices for industrial vegetables.

The Netherlands has an excellent basis for a healthy industrial vegetable sector, with its strengths being an innovative seed sector, a suitable climate with a long growing season, professional growers and the availability of top research facilities. The infrastructure for transport and processing is good and geographically the Netherlands is in the middle of a major consumer market with great purchasing power. While there is good cooperation between growers and processors in the Netherlands, Belgium and Germany, there is a need for change, with a focus on innovation and high quality production necessary for the future.

The food industry, retail and foodservice are very demanding customers; they are cost-driven but also constantly in search of more revenue. The latter comes in the shape of added value rather than volume in the Dutch market. This creates opportunities for vegetable processors. An universal one-size-fits-all approach will not do; customisation is the key. A supermarket needs new products to boost the revenue per square metre of shelf space; a restaurant is more interested in the specific ingredients for its kitchen.

Cost control is and will remain crucial. Buyers are always critical in this respect and cost price continues to be a key to supply. However, cooperation between grower and processor is essential to good cost control, with availability of sufficient quantity and quality (foreign supply is not always easy and is often expensive). Only then can the industry operate optimally and growers gain security, especially now in times of shortage caused by adverse weather conditions (incidental) and the increasing demand for consumption and biofuels (structural).

The need for innovation and cooperation

In the past, processors have not been attentive enough to sales, despite new packaging (tetrapak), new vegetable combinations and the introduction of deep-frozen steamed meals. It is a question of greater innovation, to which growers can contribute in a closer form of collaboration. There is profit to be made from growing more specifically in terms of certain aspects such as nutrient content or use of fertiliser. The response of the fresh vegetable and dairy sectors to health, convenience and experience should serve as an example.

Growers are partners in respect of both cost and innovation. Processors benefit from a constant supply of vegetables of a consistently high quality. Growing schedules adjusted to processing capacity and supply close to the processing plant guarantee quality and keep transport costs low. Processors can secure supply through better contract conditions for growers; in terms of better prices and flexibility in order to be able to individually reward high consistent quality. Other parties, like seed companies and cultivation specialists, have a role too. By involving them in the chain, harmonisation and cost control of supply can be improved and innovation and quality stimulated.

But to respond to and take advantage of all these developments, commitment by growers ánd industry is vital. For the growers this means a dedicated place for industrial vegetables in the crop plan instead of being an optional crop or filling in gaps. It also means growing at larger scale and with greater professionalism, and make sure the better soils are used for this. Growing industrial vegetables comes with an above-average risk, so the return on that has to be realistic and reflect this risk.

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