

# WORLD MARKET AND MARKETING OF SPICES

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## Introduction

The annual quantity of spices traded in the World Market is well over 35,000 MT., representing at 1982 CIF prices the order of US\$ 600 million to US\$ 700 million. Pepper is the most important and constitutes 35% of the volume of world trade in spices. Dried Chillies, Ginger and Turmeric are the other spices whereover 10,000 MT are traded annually.

Sri Lanka's contribution of spices to the World Market is around 10,000 MT., amounting to about US\$ 25 million in value. Sri Lanka does not trade in dried chillies, turmeric and ginger due to insufficient supply of the correct type and variety, a high local demand and price.

## Consumption Pattern

Singapore is the largest market of spices, although this is mainly for re-export purposes. The largest single consumer market is USA, although collectively the ten European Community countries may import more.

Spices are consumed mainly in whole or ground form. In both developing and industrialized countries, spice consumption is influenced by the size of the population, income, the state of the economy and culinary and social habits. In developing countries spices are consumed mainly in the household sector. In the industrialized countries, consumption is high in the industrial sector; mainly in the food processing industries such as in the manufacture of meat, fish, vegetable products, bakery goods and other prepared and convenience goods such as ground spices in consumer packs. Small quantities of spices are also used in the institutional sector (restaurants, canteens, hospitals and schools).

The industrial sector also consists of the non-food processing sector, involved mainly in the manufacture of

fragrances, flavours and pharmaceuticals. The raw materials normally used in these industries are the essential oils which include spice oils and also spice oleoresins in the flavour industry. Spice oils/ oleoresins are either directly imported from source or are distilled/extracted by the respective non-food processing industries. Spice and non-spice oils such as citronella, lemon grass, mint, orange and lemon oils constitute essential oils of commerce which have an annual world demand of around 40,000 MT. Orange, Mint, Lemon, Eucalyptus, Citronella, Lime and Lemon grass oils constitute almost 75% of the total demand. The annual world demand for spice oleoresins is around 1,350 MT and Black Pepper and Paprika oleoresins constitute almost 65% of the world demand.

## Trade Pattern

The basic trade pattern is for international brokers, dealers or agents to sell to spice processors or else the processors buy direct from the source (producer countries - refer table). New York, London, Hamburg, Rotterdam and Singapore are important entrepot centres, although the role of entrepot trade is fast diminishing. Even the role of wholesalers who sell processed spices to retailers is diminishing as spice processors and packers now deal direct with retailers.

In developing countries where spices are produced, the exporter is not normally the producer. The producers are small-holders and the exporters receive required quantities of spices from a chain of middlemen (in Sri Lanka, around 3-4 middlemen). The middlemen perform the functions of collecting, bulking, primary processing (drying and cleaning), grading and packing before spices are delivered to exporters, and even attend to the social obligations of the producers.

The middlemen perform an important role in the local marketing channel, nevertheless there are disadvantages too.

Trading in spices is not a new business and reputed exporters and importers have developed a sound rapport and understanding over the years. The same bond exists between exporters and middlemen. As a result the new exporters' cost of entry to the spice market is considerably high.

A new development in producer countries has been to establish promoting agencies such as the Spices Export Promotion Council of India, the Pepper Marketing Board of Malaysia, Nutmeg Co-operative Association of Grenada and our own Sri Lanka Export Development Board. The main objective of these institutions/organisations is to expand exports by matching international demand on quality, quantity and price. They attempt to do so by developing the local marketing system which also means the provision of a realistic farm gate price to the producer.

It is now necessary to consider the basic international marketing environment in the spice trade vis-a-vis the local situation.

## Supply and Demand

In the world market spices have an elastic supply because they can be grown in varying conditions and many of the major spices such as chillies, ginger and turmeric are short term crops. The typical cyclical fluctuation of supply due to changes in weather and prices is prominent in spices too.

The demand for spices is, however, stable and is price inelastic in the short term. In addition, high prices could even lead to use of alternatives, especially in the industrial sector for example, dill seed for fennel, cassia for cinnamon and use of synthetics (used of vanillin for vanilla):

In Sri Lanka, all the major spices (cinnamon, pepper, nutmeg, mace, cardamom and cloves) are long gestation crops and the supply is inelastic and as a result will continue to have a fixed minimal world market share (refer table). Another important feature in Sri Lanka's spices is the presence of superior inherent qualities of

market acceptability such as high oil content and pungency.

Given the above characteristics, Sri Lanka finds no difficulty in marketing spices in bulk form in the world market (except cinnamon and cloves), even though Sri Lanka's export prices sometimes, may be higher than the world market prices.

It is suggested that Sri Lanka should develop long term strategies to increase supply (except in cinnamon and cloves) through commercially cultivated plantations. Commercial cultivations have better opportunities to produce spices on a market oriented concept to match quality and price and assurance of supply to the world market.

### Marketing of Value Added Spices

The importance of value adding is that it increases returns to the source. Value adding at source has inherent advantages such as availability of adequate quality raw material and less transport and labour costs. Distillation, grinding, consumer packing, branding are some of the common techniques of value adding.

However, marketing of value added produce face many problems such as:

1. Tariff barriers in consumer countries.
2. Non-tariff barriers (phytosanitary regulations) in consumer countries.
3. Long established links between retail outlets and spice processors and packers in consumer countries.
4. Inadequate market information to spice processors at source.
5. High capital outlay on machinery.
6. Non-availability of a range of spices and packaging material at source.
7. High cost of advertising and publicity in consumer markets.

Essential oils of spices remain the main value added form of export from Sri Lanka. Recently, however, export of spices in primary processed forms such as cinnamon in cut pieces and in ground form, nutmeg without shell and cardamom seed have shown good progress. For retailing, primary processed spices must be further processed mainly in the form of grinding, mixing and standardizing, consumer packing and branding. Sri Lanka has already exported cardamom, cut pieces and

ground cinnamon and spice mixtures and curry powder in branded consumer packs, but in limited quantities. The Sri Lanka Export Development Board provides higher incentives to those who export value added spices.

The aforesaid constraints make it difficult for new-comers to enter the world market for processed spices. However, to overcome this situation, the strategy for Sri Lanka should be to identify market niches, new markets and buyers. A country with a heavy emigrant population, some Asian and Socialist countries with comparative advantages and identification of foreign investors/agents/dealers catering especially to middle income segments of developed markets, pose the best opportunities for Sri Lanka to market primary processed/retail packed and branded spices. While identifying these aspects, market researchers should also be aware of resource capabilities and extent of product adaptability within the scope of spice manufactures and exporters of Sri Lanka. Another important aspect in market research will be to identify processed spice products which have a demand and could be produced in Sri Lanka, such as eucalyptus oil, medicinal health preparations from spices and essences of spices.

Findings in market research must be implemented by well organised market development programmes. Apart from the buyer/seller contact in market development programmes, consumer awareness in the identified market segments is essential. It is suggested that retail outlets such as super markets and grocery stores should be identified in the correct locations to carry out promotional campaigns. Distribution of leaflets on generic advertising to differentiate Sri Lanka spices, promotion of a few brand names of Sri Lanka origin and distribution of gift spice samples and spice recipes are some of the promotional techniques that could be effectively used in market development programmes, in addition to advertising in mass media. These are the functions of export promotion institutions/organisations. Provision of preferential treatment to exporters of processed spice products and identification of foreign collaborators (with buy-back

arrangements) are the other equally important functions.

### Product and Service Differentiation

Here the spice product is manufactured to differ from similar products from other sources. Emphasis is mainly given to quality, cleanliness and appearance in product differentiation of spice products. For instance Indian turmeric is considered superior to turmeric from other sources. A situation of monopolistic competition is created for a differentiated product by effective promotional campaigns. In like manner, the service could also be differentiated by better terms of payment, reliable deliveries and by execution of orders to buyer's requirements.

Sri Lankan spices are inherently superior in quality i.e. high oil and oleoresin content. One must try to exploit these advantages of distinguishing Sri Lanka spices against spices from other sources. An important aspect in product differentiation may be to develop a brand or logo of quality for spices from Sri Lanka. Cost of publicity and advertising will be high, still, cost could be reduced by advertising in identified market segments and by selecting cost-effective media for advertising. This is again the task of export promotion institutions/organisations.

Service differentiation also plays an important role to attract buyers. Quality assurance, prompt shipment, easy payment terms, compliance with agreed prices and quantities and exchange of market information are some of the services that can differentiate a seller from another.

### Infrastructural and Service Facilities

Importance of infrastructural and service facilities is primarily to reduce per unit cost. Though spices have an inelastic demand, high prices will induce buyers to move from one source to another, will promote close substitutes and will open the way for synthetics. Keeping the prices at or lower than world market prices can shift the demand from one to another. The full advantage is received when price is backed by quality and efficient service.

**ANNUAL DEMAND IN WORLD MARKET AND SRI LANKA'S AVERAGE EXPORTS (MT)  
SPICES AND ESSENTIAL OILS**

	Cinnamon	Pepper	Cardamom	Nutmeg Mace	Cloves	Dried Chilli (and Paprika)	Dried Ginger	Dried Turmeric
1. World Demand-Spices	8,000	130,000	5,500	10,000	4,750	44,000	13,750	10,500
Average local exports-Spices	7,500	1,200	225	325	1,000	50	-	-
2. World Production-Spice oils	1.75	25.00	10.00	125	2,000	-	30.00	-
-Leaf oils	120	-	-	-	-	-	-	-
Average local export								
-Spice oils	1.75	0.20	0.40	9.00 (Nutmeg)	-	-	0.20	-
-Leaf oils	120	-	-	-	-	-	-	-
3. Average local export								
-Fresh ginger	-	-	-	-	-	-	175	-
4. Major buying countries of spices	Mexico USA LAC**	USA FRG USSR*	S. Arabia Kuwait Sweden	USA FRG France	Indonesia* USA* France*	FRG* USA* Singapore*	USA* UK* Japan*	Japan* UK* USA*
5. Major Producing/Exporting countries of spices	Sri Lanka	Indonesia Brazil India Malaysia	India Gautamala Tanzania	Granada Indonesia	Indonesia Tanzania Madagascar	China India Pakistan	China India	India China Pakistan

\* Not exported from Sri Lanka

\*\* Latin American countries

Source: *Market Study-Essential Oils and Oleoresins*  
(ITC Publication - 1986)  
*Spices-A Survey of the World Market*  
(ITC Publication - 1982)  
*Sri Lanka Customs*

Concessionary credit to buy raw material, realistic exchange rates, concessionary freight rates, efficient quality control and development of an environment to improve and maintain quality, improvement in freight frequency and facilities (especially for perishable commodities) are some of the important infrastructural and service improvements that could make spices more competitive in the world market. Efficient infrastructural and service facilities means that producers too will obtain a better farm gate price.

Identification and procedures of vesting of land in the west zone for commercial cultivations and use of media and extension methods to educate small farmers on production and processing techniques, provision of price information and emphasis on the importance of formation of producer organizations are some of the impor-

tant infrastructural and service facilities which could have a positive impact on supply.

#### Conclusion

Sri Lanka essentially has a supply problem in the export of bulk spices (however, cinnamon and cloves have marketing problems, even for export in bulk form). The demand for spices is inelastic. Still, as Sri Lanka's share of the world market is minimal and quality has inherent superior features, Sri Lanka should not face any problems to export, even if the local production is doubled. For cinnamon and cloves, supply should be restricted and the emphasis should be to introduce competitive products.

Export of value added spices has a marketing problem for which the price, products, place and promotional techniques (market mix) must be properly manipulated by market research:

and market promotional techniques to identify and develop new products and countries and new market niches.

Policy procedures in vesting land for commercial spice plantations and formation of self-sustaining and self-reliant producer organisations are some of the infrastructural necessities for supply development. The concept of a logo on quality of Sri Lanka spices and exporters' own efforts to effectively and efficiently function differently in the world market in the wake of competition, are also some of the recognised product and service differentiation techniques required. Realistic exchange rates, concessionary interest rates, competitive freight rates, adequate freight frequencies and space and quality control and improvement are some of the cost-reducing infrastructural facilities that can play a supportive role in market development efforts.