The Italian olive oil industry in the global competitive scenario

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Abstract: The current paper analyzes the reasons behind the difficulties of the Italian olive oil industry to compete in the world markets. The analysis highlights that these complexities can be related with two core factors: stagnant demand in the main producer/consumer countries and strong competition arising from the Spanish olive oil industry increasingly involved also in processing and trade. In addition, these weakness factors are boosted by the market power exerted by large retail chains that are now the main channel in which olive oil is retailed in the domestic market.

Key words: competitiveness, consumption, Italy, retail, Spain

The olive oil industry is still going through a period of serious difficulty, squeezed on one side by a negative trend in product prices that has continued for many months and on the other by increasing costs, especially of farm inputs. Paradoxically, the olive oil industry is among the few in the food industry that did not benefit from the agricultural and food price bubble which lasted until the beginning of 2008, but it did suffer from the flip side of the price bubble – the increase in the prices of many farm inputs (International Olive Oil Council 2011).

Yet the 2004 reform of the EU Common Market Organization of olive oil, by shifting the support to producers with the single farm payment, should have led to a different price pattern. The removal of the support linked to the quantity of olive oil produced, transformed to a decoupled payment, should have led to at least a non-decrease or an increase in prices. This has not happened. Nevertheless, the decoupled income support has helped and continues to help many farms to survive in a difficult market situation. The Italian olive oil industry has been particularly susceptible of this crisis showing a lower competitiveness compared to other countries (Ben Kaabia and Gil 2007). Such decrease in competitiveness has occurred after a strengthening of the Italian position in the preceding years (Tasdogan et al. 2005). Most Italian olive-producing farms and processing plants are small and situated in disadvantaged hilly areas, where the introduction of innovations in farming systems is particularly difficult. Other weaknesses are related both to the poor integration of the industry activities and to the ability to develop market niches for higher quality products that could better handle the external competition. Conversely, certain peculiarities of the Italian olive oil industry have helped in managing the price crisis (i.e. the high number of olive producers being engaged also with other crops; the power and concentration of processors).

This paper is aimed at highlighting the causes which have led the Italian national olive oil industry to such a critical situation and illustrating some possible strategies that both policy-makers and economic agents could adopt to find a way out of the crisis.

The remainder of the paper is structured as follows: first by the means of descriptive analytical tools, the relevant data on production, consumption, trade and retail together with the basic features of the global competitive scenario of the olive oil industry are outlined. Subsequently, the core findings are critically discussed to highlight the main causes of the Italian olive oil industry crisis, tracing their evolution and the possible future developments. Finally, we propose and suggest some practical solutions to at least softening the effects of the crisis for the national olive oil industry.

TRENDS IN PRODUCTION, TRADE AND RETAILING OF OLIVE OIL

Production

In the last twenty years, the world production of olive oil has grown considerably: from 1453 million

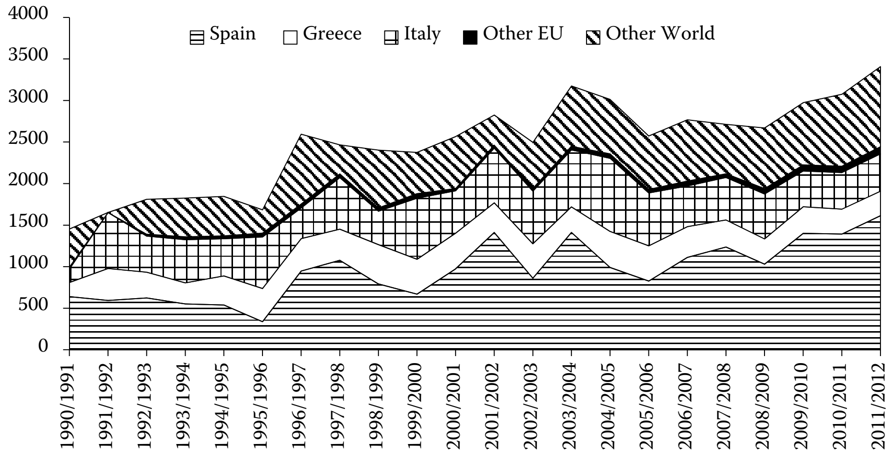

Figure 1. World production of olive oil (thousands of tons)

Source: International Olive Council (2013)

tons in 1990/91 it peaked at 3.174 million tons in 2003/04, and stabilized in the following years at around 2.8 million (Figure 1). The EU is the largest world producer with a share of roughly 4/5 of the total supply, with a growth rate slightly lower than in the rest of the world, mainly as an effect of the rise of new producing countries (International Olive Oil Council 2013). However, production in these countries is still a small share of the world supply, while in this period Spain has become the leading producing country replacing Italy (Anania and Pupo D'Andrea 2007). Spanish production grew from 0.64 million tons in 1990/91 until 2003/04, when it reached the level of 1.4 million tons, stabilizing in the following years at around 1.2 million tons. Production growth rates were very high from the second half of the 90s to 2003, when the huge investments made by Spanish producers after the country joined the EU began to show their effects. Meanwhile, both Italian and Greek olive oil productions appeared stable for a long time at a level of around 600 000 and 350 000 tons respectively (Figure 1).

The growth of the Spanish olive oil production has been due to the combined effect of investments in new geographical areas and the introduction of radical innovations in the cropping systems. These innovations allowed for the reduction of the time span between planting and production start; and introduced mechanical pruning and harvesting, cutting substantially the farm costs. Furthermore, thanks partly to the support of the Rural Banks, the role of cooperatives has become increasingly important, integrating both the agricultural production phase and also the industrial transformation.

The increase of production in the 90s made Spanish olive oil producers, as well as the producers in other agricultural industries, eligible for the relevant quotas of the CAP income support that have crystallized into the single farm payment (de Graaff and Eppink 1999; Mili and Rodríguez Zúñiga 2001). The change in the production capacity in different production areas in the recent years has been sided by a marked instability in the entrepreneurial structure of the olive oil industry (Lucchetti 2002). As other consumer products, olive oil has in the past attracted the interest of the multinational food companies. In 2004, the Unilever entered the market by acquiring many well known Italian olive oil brands – even if these brands have been sold again in 2008[1] (De Gennaro et al. 2009).

Consumption

On the consumption side, relevant changes have taken place both in the qualitative composition of the demand and in the consumers' purchasing behaviour. The growth of the olive oil consumption was quite high during the 90s when the world demand rose by 50%. This trend continued until 2004/05, when the world consumption was at its maximum peak of 2.9 million tons, while in the following years it decreased slightly reaching 2.8 million tons in 2007/08 (Figure 2).

It is worth pointing out that the spatial dynamics of the olive oil consumption is not uniform, as it is understandable for a product that for a long time had mainly a local market, and it has only recently been introduced into the diet of consumers who live in the non-traditional production areas. If we disaggregate

[1]Some of these brands changed several times the ownership in a short time as they were purchased before by a Spanish food company and then transferred again to Italy. This shows that is difficult to manage a profitable olive oil business applying the standard framework of consumer products and that such business requires now new approaches.

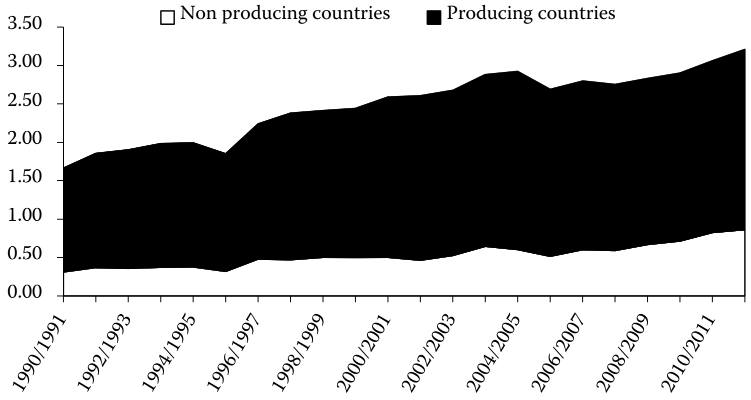

Figure 2. World consumption of olive oil (thousands of tons)

Source: International Olive Council (2013)

the world consumption distinguishing between the consumption in the producing and non-producing countries, it can be seen that in the latter group, there has been a faster growth of demand even in the most recent years, while in the producing countries, the olive oil consumption has grown much more slowly or has decreased (International Olive Oil Council 2011, 2013), following an evolutionary pattern typical of the products that have reached the mature phase of their lifecycle (Agarwal and Gort 2002).

As for consumption of olive oil in the main EU producing countries, which represents the largest share of the world demand, we can note a considerable growth in the 90s (+49.1% in Spain, +32.7% in Greece and +25.1% in Italy). A quite clear drop is recorded in Spain (–10.9% between the two biennial averages 2000/02 and 2006/08), whereas in Italy and Greece the demand remained nearly stationary between 2002 and 2008, with a strong decrease in the following biennium (Table 1).

As shown in Table 1, other non-producing countries have experienced very powerful increases (especially during the period 1992–2002) in the olive oil consumption, continued also in the following years, although with lower rates (+29% comparing 2006/2008 with 2000/2002, and +9% comparing 2008/2010 with 2006/2008). Taking into account other producing countries, we can also notice a strong growth of the total consumption (+53% between 2006/2008 and 2000/2002), with a slight decrease in the last phase. Nevertheless, among these countries there are the US[2], which represent a promising market for the Italian olive oils, since the domestic production accounts only for 1% of the total consumption (Rabobank International 2012) and the consumption rates have reported a steady increase in the last two decades (Figure 3). Allegedly we can expect that the olive oil consumption growth in the US could follow the patterns of wine, which due to the domestic production increase (and subsequent marketing efforts) has

Table 1. Consumption of olive oil in the selected countries (two year average, thousands of tons)

	1990/92 (a)	2000/02 (b)	2006/08 (c)	2008/10 (d)	(b/a)	(c/b)	(d/c)
Spain	406.4	606.0	540.0	536.5	49.1%	–10.9%	–0.8%
France	31.4	96.1	102.5	114.15	205.9%	6.7%	11.3%
Greece	203.5	270.0	266.1	228.75	32.7%	–1.4%	–14.1%
Italy	585.0	732.0	735.0	692.85	25.1%	0.4%	–5.6%
Portugal	36.0	61.0	75.0	87.65	69.4%	22.9%	16.9%
Other EU non producing country	23.4	102.2	170.8	184.65	337.7%	67.1%	8.1%
Other producing country.	254.7	319.2	489.5	478	25.3%	53.4%	–2.3%
Other non producing country.	188.2	382.5	493.5	537.7	103.2%	29%	8.9%

Source: International Olive Council (2013)

[2]However, it is important to remark that recently the US International Trade Commission has opened an investigation on the Italian olive oil imports, for the suspected below cost sales and illegal export subsidies (see Agrisole November 30, 2012). This can probably be related to a new need to protect and foster domestic production (almost entirely located in California).

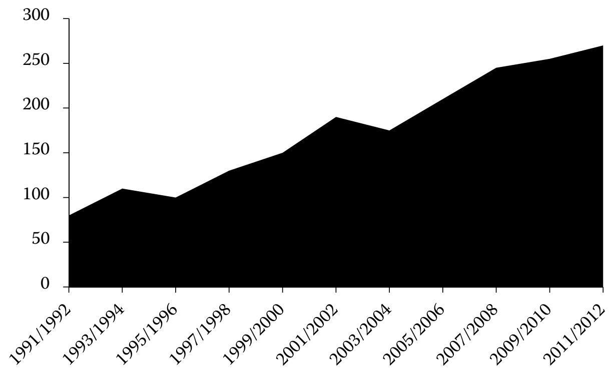

Figure 3. US consumption of olive oil (thousands of tons)

Source: International Olive Council, 2013

rapidly expanded, offering great opportunities for foreign countries (Mariani et al. 2012).

Trade

The increasing supply of olive oil in Spain, which has been unable to find adequate outlets in the internal market, characterized by a non-increasing if not decreasing consumption, has boosted the competitive pressure of this country's industry in the world markets (International Olive Oil Council 2013). The phenomenon has been reflected in the world trade flows of olive oil in the recent years. The main features are:

- the increase in Spanish imports of *lampante* olive[3] oil from the extra-EU countries;
- the decrease in Italian imports of *lampante* olive oil both from EU countries and also at a slower pace from the non-EU countries;
- the increase in Italian imports of extra-virgin olive oil both from the EU countries and from the non-EU countries;
- the great increase in Italian imports of refined olive oils, which hardly existed in the past. These have come mainly from the EU countries, while imports of refined oils from the non-EU countries have remained constant or decreased in the recent years.

As far as the exports of olive oil are concerned, the main features are:

- the decrease in exports of Spanish *lampante* olive oil both to the EU and the non-EU countries;
- the increase in exports of Spanish extra-virgin olive oils to the EU countries (although in the recent years these have remained roughly stable) and to the non-EU countries;
- the growth of Italian exports toward the non-EU countries. These have grown at a slower pace than Spanish exports, while the exports to the EU countries increased in the 90s and in the early years of this decade, but have decreased in the recent years;
- the great increase in Spanish exports of refined olive oils toward the EU countries, while Italian exports to the non-EU countries have been decreasing since 2002.

Changes in the export flows described before show that the Spanish olive oil industry has enhanced its position both in the EU and the non-EU markets, taking away the market share from the Italian industry (International Olive Oil Council 2013). Moreover, the Spanish industry has acquired new activities (such as refinement) while increasing the existing ones. In this way, the Spanish industry has become stronger not only in the production and early transformation stages but also in other segments of the transformation activities, as well as in the trading activities (Mili and Rodríguez Zúñiga 2001). It is in this framework that the increase in Spanish imports of *lampante* olive oil from the non-EU countries with the corresponding decrease of Italian imports must be placed. Therefore, the refining activities, which used to be an important business carried out mainly by Italian firms, are now increasingly being transferred to other countries, while Italy is becoming an importer of the transformed refined olive oil and no longer of the raw material necessary for its production[4].

Retailing

Although the olive oil consumption is not increasing, there are some significant changes in its structure and in the way in which families buy olive oil, at least in Italy, which have a considerable effect on the na-

[3]In the EU, *lampante* olive oil is an oil with the acidity content higher than 2%. To sell this oil, it is necessary to reduce the acidity with a refinement process. The IOC defines this oil as: "Virgin olive oil not fit for consumption as it is, due to its free acidity, expressed as oleic acid, of more than 3.3 grams per 100 grams and/or the organoleptic characteristics and other characteristics of which correspond to those fixed for this category in this standard. It is intended for refining or for technical use."

[4]The leading role of the Spanish industry has also been found analyzing the price determination in the olive oil market (Fousekis and Klonaris 2002).

tional industry. These changes can be synthetically grouped in:

– Italian families mainly purchase olive oil through the large retail chain stores which in 2008 sold 360 million kilos of olive oil for the total value of € 1118 millions (Unaprol 2009); nevertheless, mainly in Southern and Central Italy, direct sales are still an important way of procurement (Aguglia 2009);
– within retail purchases of olive oils, there is a growing share of extra-virgin oils, while the share of lower grade olive oil mixtures and olive "sansa" oils is decreasing (Unaprol 2009);
– the market share of the high-grade Protected Designation of Origins (PDO), the Protected Geographical Indications (PGI) and organic olive oils, mainly sold through the organized retailing chains, is still very low (Aprile et al. 2012). In the case of organic olive oil, the contrast between the sales and production is quite evident, since more than 7% of the Italian olive oil production is made from organic products (ISMEA 2008);
– Italian consumers tend to prefer the product certified as Italian by the retailing chain brands (ISMEA 2008).

Several factors explain the changes described above. A primary role has been played by the thorough restructuring processes of the Italian retailing industry. Italy has experienced this transformation much later than in the Northern and Central EU countries, where large retailing chains have acquired a majority share of the total retail sales and also a more and more important role in determining equilibriums in food markets. It is also important to take into account the changes in the life and consumption styles of large sectors of the population, who are attaching an increasing importance to the consumption of foods which they consider healthy. At the same time, these changes are complemented by the fact that consumers are spending less and less time for the preparation of meals at home (see among others Bes-Rastrollo et al. 2009).

The Italian olive oil industry attached a great importance to the opportunities represented by the PDO/PGI market segment and hoped to create market niches for a high-cost product that could shelter producers from the price competition from lower-cost products. At the moment, the quantity of oil actually sold with the PDO/PGI credentials is minimal compared to the total (ISMEA 2008). This failure was due mainly to the difficulties related to establishing a market for a product like this (Meloni 2001) and the general failure of the national market awareness of the PDO/PGI products (Vecchio and Annunziata 2011).

The changes outlined above are generating significant effects on the national olive oil industry. The first and most important effect regards the distribution of market power within the olive oil chain which is shifting from the firms (who generally own the most famous brands) to the large retail chains.

Another major implication of these changes for the industry is that olive oil is becoming part of the portfolio of products sold under supermarket brands (private labels), which follow their own organizational and commercial rules (Hingley 2005). The resulting effect on the way in which olive oil is sold by the organized retailing chains is:

– Greater importance of the olive oil sold as "store brands" or private labels, which offer a guarantee to consumers on the qualitative characteristics of the product, not only those in the "first price" product segment but also the PDO/PGI and organic products within the higher-price market segments;
– Olive oils of the traditional national brands are often sold by the organized retailing chains with special offers with high discount rates.

The need for retailing chains to manage a limited number of brands displayed on the shelves of their stores has another important effect for the olive oil industry, since it makes it very difficult to provide space for the products with a higher grade of differentiation. All this, together with the monopsony power of retailing chains, has the effect of eroding the operating margin of firms within the olive oil industry. This margin is transferred to the retailing chain firms and only to a limited extent to the consumers (as they can benefit from the special discounted prices).

The growing demand for meals consumed away from home is also affecting the olive oil industry even though there are no studies that clearly show the scope of these effects. Indeed, the range of food available outside home is so widely differentiated that it is also creating a demand for very different types of olive oils. In one sector of this market, the interest towards low-price olive oil products prevails, while the more structured needs may be expressed by other subjects as the top restaurants that could also become an important communication channel for the high quality products, as it already happens for wines (Mora 2006).

PROSPECTS FOR THE ITALIAN OLIVE OIL INDUSTRY

Drawing the lines along which the national olive oil industry could develop in the coming years is a difficult exercise. Nevertheless, it may help to identify actions that businesses and policymakers may carry out to foster and support its growth. In the future, the main critical point for the olive oil industry is related to the market power exerted by large organized retailers. In addition, the presumed continuous growth of the food-away-from home outlet may have a considerable effect on the industry, since a large part of it requires low-cost products (Angulo et al. 2007).

The consumption of olive oil in the main producing countries, which represents the majority of the world demand, appears to have limited chances of growth (International Olive Oil Council 2013). On the other hand, in the non-producing countries the consumption of olive oil has greater opportunities for growth, notwithstanding the current negative economic cycle. It is quite evident that a global economic recovery could drive the consumption in these countries. In this respect, the worldwide diffusion of large retailing chains becomes an opportunity (Dobson et al. 2003; Hingley 2005), as it can be a vehicle for the establishment of the global food consumption models in which olive oil has its own place.

Furthermore, another relevant feature is the fact that the consumption in producing countries is shifting more and more toward extra-virgin oils (International Olive Oil Council 2013). This trend, which also depends on the changes on the supply side (as an effect of innovations introduced into the farming production processes, particularly in the harvesting stage), may also be seen as a sign of the increasing attention of the olive oil consumers toward quality characteristics.

In Italy, the olive oil industry is made up mainly of small farms producing a very limited quantity of olives, often for their own personal consumption (ISMEA 2008). First processing firms are also small and spread over the producing area; in addition the whole industry is poorly integrated. Therefore, the nearly 200 companies with a medium-large scale of operation at the level of secondary transformation and bottling are struggling to deal satisfactorily with the market (ISMEA 2008). For many small producers, direct sales still remains an opportunity to stay in the market despite the growing competition, thanks to the established trust relationships with consumers who pay a premium price at the farm gate compared to the market prices (Aguglia 2009). However, for the farmers who must sell their product through the normal channels, operating margins are continuously decreasing (Unaprol 2009). In this framework, the Italian industry is seriously threatened by the Spanish olive oil industry, which has responded faster to the challenges of the evolved global market with remarkable investments and innovative behaviours. Indeed the launch of a joint venture between the main Spanish cooperative group and the multinational Cargill, operating in the trade of grains and seed oils, is highly significant. The joint venture has a totally automated olive oil bottling plant that handles more than 100 million litres yearly, roughly equal to 10% of the Spanish olive oil production. The bottled product is sold with the labels of large retailing industry firms (Spanish and foreign) and is distributed by the Cargill integrated logistic network (Lonati 2009). This example shows the ability of the Spanish olive oil industry to become a global player, integrating its production and transformation activities on a scale able to meet the requirements of the procurement strategies of large/international retailers.

A second example of the dynamism of the Spanish oil industry is the Spanish group SOS. This is currently the largest company operating in the olive oil market, with roughly € 1.3 millions of net turnover (despite the non-totally generated by olive oil). This achievement is the result of over fifteen years of development guided by a strategy focused on the continuous search for growth and profitability based on the strength and quality of brands with a clear international vocation, in which the geographical coverage is dealt under a global perspective.

The vitality of the Spanish olive oil industry has resulted in the recent past in a reduction of the Italian market shares, but currently some interesting cases of reactions in the Italian olive oil industry could be the announcement of a new balance of the competitiveness between Spain and Italy (International Olive Oil Council 2013).

In 2009 the Italian company Mataluni, already the leader in the private label supply, bought from the SOS the famous brand Dante and other Italian traditional olive oil brands and now it is the second olive oil company in the world with a net turnover of € 300 millions (official data provided by the company). The company is likely willing to develop its cooperation with supermarket chains offering the branded olive oil beside the private label oils.

A second interesting case is the Olio Carli. The company was the first to bottle olive oil in 1911 and has been historically focused in direct sales to public by mail. Recently the company is shifting part of the business on the Internet; moreover, it has recently expanded the activity in the USA, where it established a packaging plant and an e-commerce structure. In 2009, the net turnover reached € 140 millions, with an increase of 10% compared to 2008 (official data provided by the company).

Certainly, the Italian olive oil industry can enjoy the advantage of a high reputed image in the international

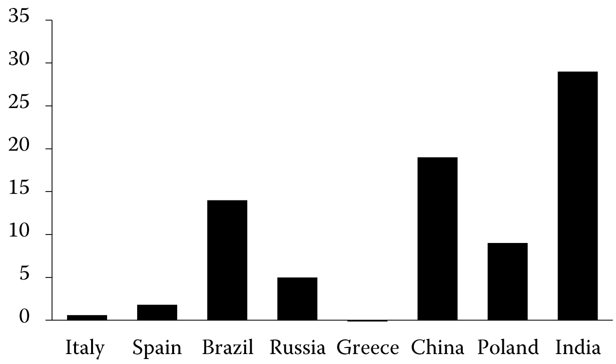

Figure 4. Estimated retail market value evolution between 2012 and 2017 (changes in %)

Source: Euromonitor Rabobank estimates 2012

markets. Indeed, it is the strength of such reputation that explains why the Spanish industry included Italian brands in its brand portfolio strategies.

The current competition level in the market requires that the individual competition elements are embedded in the coherent market oriented marketing strategies and the Italian olive oil industry must carry out a series of coordinated actions to continue to compete in a rapidly evolving market. It would be useful to undertake these coordinated actions according to a national strategy able to tackle the lengthening crisis of the industry by the means of measures acting both on the supply and the demand sides.

FUTURE DIRECTIONS OF THE ITALIAN OLIVE OIL INDUSTRY

As outlined in the previous sections, the causes of the current crisis of the Italian olive oil industry can be identified in specific core factors, such as:
– the increase of supply and the innovation pattern in the Spanish olive oil industry that is now crucial in shaping the world market equilibrium;
– the poor performance of consumer demand, that is still concentrated in countries where olive oil can be considered a mature consumer good, and the changes taking place in the structure of consumption of the product;
– the changes in the organization of the distributive channels, where the growing share of the large retailing firms has affected the distribution of market power in the whole chain;
– the Italian olive oil industry is also affected by the shifting of the industry decision making process toward Spain which is now the main producing country;
– changes in the market-support policies following the WTO agreements and the subsequent adjustment in the Common Agricultural Policy (CAP), with the decoupling of support and the scaling down of market stabilization measures.

Therefore, diverse and key achievements have to be reached on several grounds. On the demand side, actions must be implemented to promote the olive oil consumption in the non-producing countries, where there is a larger potential for growth, and in the domestic market, where the potential for increase is small but there is room for the upgrading of the olive oil consumption.

The potential for growth in non-traditional olive oil consuming countries has been already demonstrated in literature; this potential looks to be related with the consistency of olive oil characteristics with the new trends in consumption habits in developed countries (Mili 2006). Indeed, broad segments of consumers turn their purchase habits towards foods that are highly differentiated both intrinsically and extrinsically and demand for the attributes of healthiness, safety, naturalness, variety, convenience and image characterize the behaviour of these consumers. Olive oil may respond very well to these modern consumers' expectations, due to its nutritional, health-giving properties[5] (as it is a basic constituent of the traditional Mediterranean diet, which has been proven as a model for the balanced and healthy nutrition, see Wahrburg et al. 2002). Benefits of olive oil can be very useful in promoting the consumption in the non-traditional markets, but it can also work in the traditional markets where public awareness is far from complete. Indeed, the recent researches reveal that emerging markets (such as India, Brazil, China and Poland) will record high growth rates in the following years compared to the flat rates of the traditional consumer countries (Figure 4).

The strengths of the national olive oil are therefore remarkable but this does not mean that a viable solution to develop the demand in the non- traditional markets, and in the domestic market itself, is at hand. Producers of substitute goods of olive oil are very active in the market and the modification of habits related with food is very slow. The development of the olive oil market should be therefore targeted with strategies defined on a medium/long run perspective and implemented in the frame of cooperation of all

[5]An extensive documentation on the scientific literature on olive oil and health in available on the IOC website (http://www.internationaloliveoil.org/web/aa-ingles/corp/AreasActivitie/economics/AreasActivitie.html).

olive oil producing countries. Only with adequate financial resources it can be possible to set up an international communication strategy capable to involve the most appropriate targets. Communication efforts should be focused not only on the dietary virtues of olive oil, but also on its versatility in the culinary uses. An effective communication strategy should also aim to make consumers aware of the sensory differences of oils with different characteristics. A global promotional strategy should encompass all types of olive oils finding the way to avoid conflicts among different product categories.

Implementing the communication campaign, it is also necessary to understand the information needs of different segments of the target audience; to effectively deliver to each group of the targeted consumers only the required information and to avoid the risk of information overload which may result in the consumer indifference and the loss of confidence (Verbeke 2005).

In the general framework of olive oil promotion, it is also necessary to carry out effective promotional actions on the PDO/PGI olive oils since their launch has not yet given the hoped results of driving the high-quality production. This is despite the interest of consumers inr the origin of oil as an element to discriminate buying behaviour and some evidences about the willingness to pay higher prices for oils with a recognized origin (Ward et al. 2003; Menapace et al. 2011; Aprile et al. 2012). Also on this specific issue, cooperation at least among the three largest olive oil producing countries, Italy, Spain and Greece would be very helpful.

An essential point in the promotion of high-quality production is the enlargement of appreciation of this kind of oil among customers. Sensory characteristics of high quality olive oil are not always perceived in a favourable way as they are very different from the standard oil; particularly, the spicy notes may be unpleasant at first. Some experience demonstrates that with a proper information action, it is possible to induce a modification of sensory preferences toward the typical sensory profile of the high value olive oil (Ambrosino et al. 2004).

Measures on the supply side must focus on the innovation, industry organization, integration with the distribution channels and marketing capabilities of producing firms. The Italian olive oil industry requires an intense innovation processes to reduce costs and improve quality both in the agricultural phase of the production chain and in the transformation. A strong effort has to be applied in sharing in the producers community the principles and practices of high quality olive oil.

In the meantime, the industry should be reorganized in such a way as to increase the role of cooperatives and producer associations with the same approach followed in other food industries, like that of fruit and vegetables (Ménard and Valceschini 2005; Rama 2010). Considering the urgency of strengthening relationships inside the industry, at the policy-making level it is important to increase cooperation among the many actors at the local and national levels and to improve communication among the different interest groups working in the industry. The aggregation and organization of producers looks a crucial element in supporting the innovation process within the national industry. Moreover, it is becoming more and more necessary to deal effectively with the evolution of the retailing system, either the supermarket chains or the small scale retailer and restaurants involved in the business of high value olive oils.

Standard olive oil can be efficiently sold by large supermarket chains but their market power has become a challenge for suppliers. Indeed, large supermarket chains can impose severe conditions on suppliers in the terms of price discounts, deferred payments, contributions to promotions, just –in- time deliveries, high referencing costs (Mili 2006). To meet these demands and to reduce the negotiating power imbalance, the Italian olive oil suppliers are obliged to raise their efficiency and flexibility and possibly to set up horizontal partnerships (or merge to become bigger and thus to take advantage of the economies of scale and scope). In other cases, and sometimes simultaneously, exporters and distributors have to cooperate closely in the long-run vertical arrangements to make the supply chain more efficient and to maximize the customer service. This could be done by integrating the business functions and introducing new information technologies at different stages of the value chain, enabling the implementation of the total quality and traceability systems, as well as the initiatives like the Electronic Data Interchange (EDI) and the Efficient Consumer Response (ECR) (Mili 2006).

One option could be to establish a direct connection with the final customer, based on the mail or Internet order – how is extensively done by the Carli company.

Standard olive oil distribution is therefore a difficult task but the terms of the problem are rather clear. On the contrary, the distribution channels of high quality olive oil are a still open issue. High price olive oils have some similarities with the premium wines but the premium wine distribution system (specialized wine shops and restaurants) is not ready to manage also oil. Therefore, a specific effort has to be applied to understand how high quality olive oil could be extensively traded in the domestic market and abroad, eventually establishing synergies with the wine system.

An important option for the sales in the domestic market are direct sales; as they are still today an important outlet for the Italian olive oil production and should be enhanced for retailing the high quality olive oil. In order to achieve this, it would be useful to support such market outlets with adequate measures and to integrate them into the wider framework of rural development policies.

A fairly developed global demand for olive oil would be the best precondition for the enlargement of the business of the Italian olive oil producing companies. The olive oil market itself is nevertheless very competitive and to take advantage from better market conditions, all Italian companies have to individually improve their marketing attitude to meet the standards that the leading firms are establishing (Mili 2006; Blery and Sfetsiou 2008).

The segmentation of demand and the multiplicity of distribution channels, on one hand, and the diversity in the individual tradition and endowments of skills and experience of Italian olive oil producing companies on the other hand, make it impossible to draft general guidelines for the optimal company market strategies. Nevertheless, in the dramatically dynamic food market environment, it is quite clear which are the general attitudes that companies have to develop to be able to design effective strategies and subsequently to project and realize effective marketing mixes.

The general attitude is market orientation, defined by Kohli and Jaworski as "the organization-wide generation of *market intelligence* pertaining to current and future customer needs, *dissemination* of the intelligence across the departments, and organization-wide *responsiveness* to it" (Kohli and Jaworski 1990, p. 6). Moreover, in sound with more recent indications coming from scholars who refer to relational marketing, the customers which should be understood are not simply the direct or indirect clients but a larger range of subjects including competitors as the potential allies, suppliers, financial institutions, political parties, the media world, consumer and environmental organizations, etc. (Gummesson 2002). Finally, in changing competition conditions, strategic issues are becoming fundamental, as the skill acquisition and the management of knowledge and know-how. Hence, in the accumulation of organizational and intangible or 'invisible' assets lies the greatest potential for the contributions to strategy (Teece et al. 1997).

Moving from the general to the operative issues of marketing strategies design and application, some important topics have to be considered.

The first one is that, as outlined in the literature, in the decision to use olive oil the price has a reduced importance. Indeed, consumers are mainly influenced by the product characteristics and information when making the decision to use olive oil instead of other oils (Ward et al. 2003).

The second one is that in defining the "non price" strategies, the suppliers have to consider that the sensitivity to the "non price" elements varies among consumers. Many surveys have shown that consumers' choices are very different in relation to sensory preferences (Stefani et al. 2006), extrinsic quality signals (Scarpa and Del Giudice 2004), experience, purchase motives and the supply elements perception (Nielsen et al. 1998; Siskos et al. 2001; Gázquez-Abad and Sánchez-Pérez 2009; Kalogerasa et al. 2009), socioeconomics characteristics (Tsakiridou et al. 2006). Therefore, the effective supply strategies have to be carefully tailored to meet the expectations of the selected target segments; in so doing the selection of the information medium results is very important (Ward et al. 2003).

Italian olive oil companies are rather small and this makes the implementation of effective branding activities difficult. Nevertheless, the multiplication of communication channels both traditional and Internet-related is expanding the options available for small and medium companies. Indeed, with an accurate selection of the communication mix, it is nowadays possible to realize the effective *pull strategies* targeted directly to consumers with relatively small budgets (Bonnemaizon et al. 2007; Winer 2009). Particularly powerful could be the appropriate use of the non-conventional marketing approaches able to exploit the potential of the word-of-mouth (WOM) communication, as viral marketing (De Bruyn and Lilien 2008; Ho and Dempsey 2010), or tribal marketing (Cova and Cova 2002).

In the perspective of fostering direct sales as an outlet for olive oil, and high quality olive oil in particular, the presence of customers at the production plants can be the occasion to explain deeply the production technologies and sensory elements of olive oil. This can be effectively done applying the principle of experiential marketing, to make memorable the visit of the olive oil company (Schmitt 2003; Shaw and Ivens 2005). Such principles of experiential marketing should be applied in planning and realizing all promotional events based on the direct involvement of consumers and potential clients.

CONCLUSION

The current paper analyzed the reasons behind the difficulties of the Italian olive oil industry to compete in the world markets. The analysis highlighted that these difficulties can be found in two orders of factors. The first one is the weak world demand of olive oil that is stagnant in the main producer/consumer countries, while the increases in the new consumer countries are not strong enough to hinder the downward trend in prices. The second factor is the strong competition arising from the Spanish industry that is increasingly involved not only in the agricultural production phase but also in processing and trade. These weakness factors are boosted by the market power exerted by the large retail chains that are now the main channel in which olive oil is retailed in Italy.

The loss in competitiveness of the Italian olive oil industry has been rather marked. It arose from several factors, the most important of which was the small size of companies both at the agricultural level and at the processing one. Although there is a large number of Italian PGIs and PDOs for olive oils, the attempts to create market niches through product differentiation have been largely ineffective. However, many small firms are capable to stay in the market through direct sales that is a traditional way of procurement for Italian consumers. In addition, medium and large farms operating in hilly areas have difficulties to cover the increasing production cost. The loss in competitiveness threatens the survival of an activity that is very relevant in rural economies of the Central and Southern Italy and that is also a core element of the landscape in many of such areas. Therefore, attempts to improve industry competitiveness may create relevant benefits for the entire community. The current analysis highlighted some possible actions that could be undertaken to this aim. One proposal is the strengthening of the producers collective actions through the Producer Organizations with the same approach that the EU used in other agricultural and food industries (as fresh fruit and vegetable). The Producers Organizations could play a relevant role not only in increasing the producers bargaining power in order to better deal with large retailers but also on other grounds. Such institutions could realize marketing strategies that cannot be undertaken by individual firms, as supporting the consumption growth in new consumer countries. Other possible actions could go into the direction of a stronger integration of the industry actions within the EU rural development programs that are now the main form of intervention of the CAP. This means the exploitation of multifunctional characters of the olive oil production system on one side and of the direct intervention to improve competitiveness at the farm level on the other side.

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