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Beyond survival: Capespan's MD Dique on how to turn disruptions into opportunities

by The Perishable Pundit

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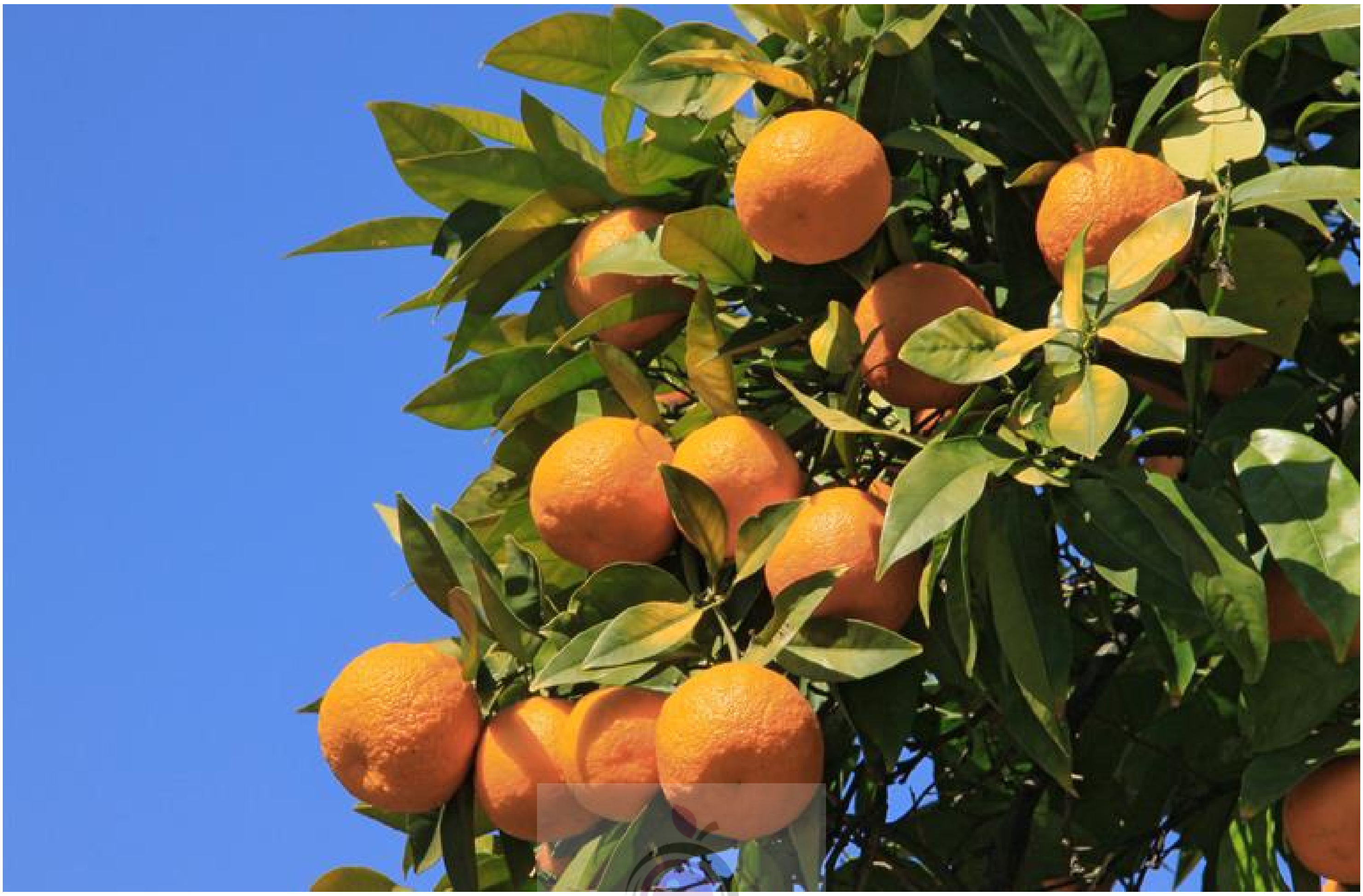
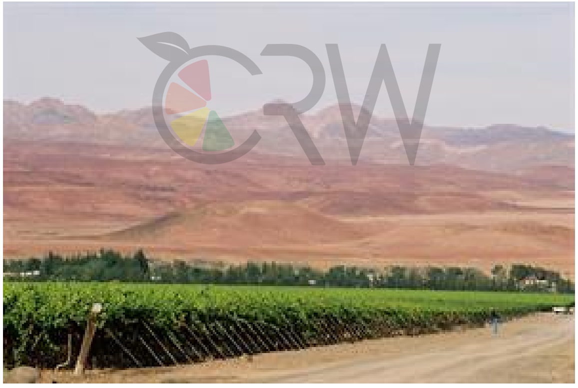


Citrus remains a major line for Capespan, which the firm supplies on a 12-month basis to UK retailers



Capespan has formed alliances with California partners to complement its South African table grape and citrus production

SOURCING SPOTLIGHT SOUTH AFRICA

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JIM PREVOR'S PERISHABLE PUNDIT

Each year **The New York Produce Show and Conference** invites a special guest from outside of the USA to inform and inspire the attendees. The very first year of the show, we profiled this special guest in this piece:

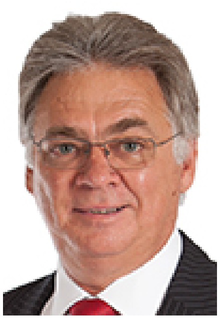
Dr. Johan Van Deventer Travels From South Africa To Join Thought Leaders Panel at The New York Produce Show And Conference

Seeking an individual who could speak to the subject of how a company and industry can survive and thrive in the face of extraordinary change and disruption, we once again returned to South Africa for the 2015 edition of the event.

We asked Tommy Leighton, Managing Director of the Pundit's sister operation in the UK, to reach out and speak to a leader whose organisation has not merely endured, but prospered in the face of extraordinary change:

Having served as a CEO in the agri-business environment for the past 21 years and earned his reputation through the successful implementation of turnaround strategies, growth strategies and leadership development that created sustainable value for stockholders, Johan Dique has been Group Managing Director of the South Africa-based Capespan Group since January 2011.

Capespan procures fruit from within 40 countries globally and services markets in 34 or more countries all year-round. The nature of the global markets and the decentralised and autonomous nature of the group structure call for strong leadership across different cultures around the globe, and Johan addressed the **Global Trade Symposium 2015**, during **The New York Produce Show and Conference 2015** on Capespan's response to the various disruptive challenges it has faced since the South African fruit export business was deregulated in the late 1990s.



Johan Dique
Group Managing Director
Capespan Group
South Africa

Q: For any Pundit readers whose experience in the fruit industry is pre-dated by deregulation in South Africa, can you explain the process and how it created Capespan?

A: For many years, South Africa's fruit industry operated through a single desk export system, with two organisations, Unifruco, for deciduous fruit, and Outspan, for citrus, owning the exclusive right to export fruit around the world. So while the growers played on the local market, the control boards exported their fruit for them.

Following deregulation, in 1999 Unifruco and Outspan merged to form Capespan, with growers and co-operatives as shareholders, and became one of a number of companies that could export South African fruit. The market at both ends of the scale began to act differently towards Capespan as a result, and the company was faced with the need to adapt its strategy to maintain market share, by changing from a powerful and exclusive intermediary to an independent supplier to the big retailers in the marketplace.

Q: Did Capespan respond to deregulation in the right way strategically?

A: Having lost ownership of the fruit, the first strategic approach was to try to own the logistics channel, and Capespan tied up harbour facilities in different countries in the belief that this would secure it guaranteed volumes of fruit in certain European ports. That strategy failed; mainly because the directors had believed that they would be able to maintain an 80% share of the fruit exported from South Africa, and it dropped way below that in a short space of time. Ultimately, today, we have a 14% share of the South African fruit export volume and that is, of course, a substantial change.

Secondly, it was expected that Capespan's major competition in the international marketplace would come from other multinational companies – the likes of Total Produce in Ireland, Univeg and Dole. Again though, that was not how things turned out. The growers in South Africa moved away from Capespan and set themselves up as grower/exporters, and they became the main competitors.

The third mistake was to believe that the way to maintain or attract the major retail customer accounts was to broaden the basket of fruit Capespan was able to deliver. The retailers didn't like that. They said 'if we want to talk about bananas, we want to talk to the people who are strong in bananas' and that was the same in other categories too. They didn't want to talk to one supplier about all commodities.

Q: After the first few chastening years as an independent exporter then, what were the major challenges still facing the global group?

A: The biggest ongoing challenge by far to a supplier like Capespan was and is the strategy of disintermediation being followed by major retailers. This was driven to a large extent by the UK retailers, and their counterparts in other countries have followed. Tesco, for instance, began first looking to go direct to the source country, and then direct to the growers in that country.

The group took way too long to react to that, preferring instead to resist what the retailers were trying to do rather then explore ways they could facilitate their customers' requirements and add value to their programmes. Capespan in the UK lost its Tesco account overnight, having invested a substantial amount in facilities at the **Port of Sheerness**.

Having repositioned itself during the first decade post-deregulation, Capespan found itself becoming irrelevant overnight and having to reposition itself again if it was going to survive.

Q: And what is the prevailing strategy that is going to allow you to deal with the disruptive forces in your marketplace over the next several years?

A: The retailer strategy affected all of our marketing subsidiaries around the world in different ways.

Our fruit division comprises a number of subsidiaries strategically placed both in the markets with a global footprint, as well as in procurement countries in servicing the fresh fruit needs of retailers, wholesalers and foodservice companies across the northern hemisphere. As well as the UK, we have operations across continental Europe, in North America, Hong Kong and Japan.

The Fruit Division has invested backwards into primary agriculture in South Africa and Namibia in table grapes, **pome fruit** and citrus; as well as forwards into service provision and in market value-added services.

Capespan is also invested in harbour and inland logistical infrastructure in South Africa and Mozambique. The Logistics Division has transformed itself from a dedicated fruit logistics business into also handling bulk- and break-bulk general cargo all year round.

Further from home, since 2008-9, all of our marketing subsidiaries are now following a strategy of global procurement, to gain strength in counter-seasonal product and allow us to be a 12-month supplier into retailer programmes. South African fruit still accounts for 48% of the fruit that is sold by the group, but we decided we could make better progress if we were no longer known predominantly as a South African exporter.

We are increasingly providing our customers with value-added services such as logistics, branding and packaging and selling them fruit that is merchandising-ready. In 15 short years since deregulation, a lot has changed, but we recognise that you have to add value as an intermediary.

We believe that our new strategy will take us to the next level around the world.

At the height of the cycle of disintermediation in the UK, for instance, we found our UK operation had lost a number of retail programmes and went into a loss-making position. At the time when I joined the business, in 2011, we had to make a decision – should we reshape or should we exit the market?

It was decided the way forward was to reshape. We had an overhead structure at the time that we simply could not afford to maintain, so we moved out of Sheerness to much smaller offices in **Maidstone (also in Kent)** and began to use third-party cooling facilities and warehousing, where we set up packing lines and infrastructure that meant we really could offer a retail account an effective 12-month supply programme.

It worked; we stabilised the business and it now makes a profit again. Capespan UK supplies citrus, for instance, on a 12-month basis to retail customers, with no great fluctuation month by month.

In Europe, we have performed pretty well, despite losing some retail programmes. We have become more of a service provider to retail suppliers, rather than to the retailers themselves and managed to make new inroads as that reputation has built up. It has been a similar process in Hong Kong, while in Japan, we've moved away from supplying the wholesale sector and been very successful building relationships with retailers.

There are obviously some areas where we see particular growth potential – Asia being the most obvious. We have invested in **Golden Wing Mau** in China, which is the biggest fruit distributor in China and growing at a rate of 30% per annum. Most of its business is still Chinese fruit, but we have the responsibility of developing its import business and at this point, that makes up about 15% of its basket.

Golden Wing Mau has just signed an agreement as the value chain manager for South China for **Vanguard**, the country's largest retail group. There is a desire once that has settled down to turn that into a deal that covers the Vanguard account for the whole of China.

We also see growth in other Asian countries in smaller ways. And we have begun talking to possible partners in India, which runs a different model to China, but has very big growth potential.

Q: That leaves us with North America. How has the business progressed on this continent and how do you expect to see the business go forward?

A: In North America, we are based in Montreal, but 60% of our business is done out of Philadelphia. We basically started there as an importer of South African citrus, but over the past decade we have brought a lot of product in from Chile and Peru, particularly table grapes. We were still pretty small, though, and we got to the point where we decided that, in North America, we needed to go big or go home. The managers of that business are shareholders in the company and they took that to heart. In a short space of time, they have doubled the business in size.

We formed alliances with California partners, in both citrus and table grapes, and we have managed to become exclusive 12-month providers into some Wal-Mart distribution centres as a result. We think we can grow that relationship and we also see similar opportunities for us in both the US and Canada. As a business, though, we haven't really grown into a 12-month supplier in North America yet. We have quieter times, but we have fruit at all times of the year, as we have not quite built up that consistent counter-seasonal supply.

From a small base, our growth rate is good, and as much as it is measurable, our market share is growing. In North American terms, however, it is still tiny.

Q: Do you control your international operations centrally from Cape Town?

A: We do make some central decisions in Cape Town, be they strategic, acquisition or budgeting decision, but in fact, we do follow an autonomous structure in each market, as different sets of circumstances will create certain needs. When we are involved in the decision-making processes, we move quickly, and we recognise that as we are spread all over the world, our subsidiaries have to have that autonomy.

Q: The early deregulation days were pretty brutal at times, and Capespan took a few body blows from its local industry. Now that the dust has well and truly settled, how is Capespan viewed in South Africa?

A: In South Africa, the press still spontaneously refer to us as 'the biggest exporter of fruit from South Africa' and we are still exactly that. There are companies that are bigger players than us in certain commodities, but in terms of overall exports of fruit, even with 14%, we're the biggest. South African fruit, as I said before, represents 48% of our sales portfolio, even though we can also claim, for instance, to be the largest exporter of Chilean fruit to Europe. So we are still embedded in the South African export business.

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The Perishable Pundit:

Change takes many forms. We tend to think of change as something imposed on the industry, as when Dr Roberta Cook of the University of California at Davis speaks about the impact of **Free Trade Agreements**, or something we do within our own organisations, as when Richard Thompson of UK wholesaler Gilbert Thompson speaks of opening a business in a different city. Johan Dique, though, focuses on industry dynamics, such as when he explains the greatest challenge facing many companies in the industry:

> *"The biggest ongoing challenge by far to a supplier like Capespan was and is the strategy of disintermediation being followed by major retailers."*

This issue is crucial. Indeed, we have dealt with it many times in the **Global Trade Symposium**, including via this incisive presentation:

Former Sobeys And Wal-Mart Executive Wayne McKnight Will Speak About The promises And Pitfalls Of Global Procurement Operations

Yet this is a very big industry, and even the large players are relatively small. So there are many opportunities.

With that in mind, Johan addressed the **Global Trade Symposium**, during **The New York Produce Show and Conference 2015** on 1-3 December to explain how Capespan discovered some opportunities and, point the way to how all of us can discover the opportunities that exist for us to do better work and help our businesses to prosper.

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