

## **FOOD MARKET DIVERSIFICATION APPROACH – LITHUANIAN CASE**

### **Introduction**

Globalisation processes in foreign trade are one of the most important factors affecting the country's economic development, as they not only enable the development of trade relations between countries, but also promote the country's competitiveness on the global arena, lead to new technologies and innovations, create new jobs. Therefore, maintaining the competitiveness of exporters becomes a real challenge. All decisions in the development of international trade must be taken quickly and decisively, with adequate risk assessment. One of the most important ways to reduce the risks in exports is market diversification, when risks are splitting out.

The goal of this paper is to investigate the market diversification approach in Lithuanian agricultural and food sector. Main tasks are as follows:

- to analyse the transformation of Lithuanian international trade conditions before and after the EU accession;
- to investigate the dynamics of international trade flows in agricultural and food products;
- to compare export geography of Lithuanian agricultural and food products before and after the EU accession;
- to explore the level of agricultural and food products exporters' orientation on international markets.

Analysis is based on generic market diversification strategy. This approach leads to discover main opportunities and threats coming from dynamic changes in international trade development for the agricultural and food sector in Lithuania.

Analysis based on the country's case covers periods before and after the accession to the EU, when all legal regulating systems for international trade became centralized. The 1999-2013 period was chosen for the comparison of trade volume dynamics and common structure of agri-food exports.

In order to the importer countries of Lithuanian origin agricultural products into the main groups, the statistical data sequence of imported products to these countries was sorted from the smallest to the largest importer in selected years (2003, 2008 and 2013). The major importer groups were formed according to the data distribution uniformity by the value shares of exported products from Lithuania (Huge importer; Strong importer; Big importer; Significant importer; Small importer; Very small importer; No exports). According to the same principle, the levels of breakthrough of Lithuanian agricultural products into the new countries or changes in export values by countries were formed in 8 groups (New countries; Huge Breakthrough, Strong Breakthrough; Big breakthrough; Significant Breakthrough; Low Breakthrough; Contraction; No exports).

Statistical quantitative analysis was supplemented with qualitative analysis – expert evaluation. For the expert assessment sector-specific organisations were selected, e.g. business associations, leading exporting companies, leading food producers. A total of 16 experts were under the survey. In order to get multifaceted evaluation, both the public and private sector representatives were selected. The questionnaire for experts was composed of several sets of questions, investigating the current situation of the company, export share, future plans and orientation on the foreign markets, product development perspectives and market diversification strategies.

### Theoretic background

There are several different ways of analysing the various marketing strategies. The Ansoff matrix was chosen for the examination of strategies in terms of the products offered to the markets. The Ansoff matrix consists of four different strategies: marketing penetration, market development, product development and diversification (Figure 1).

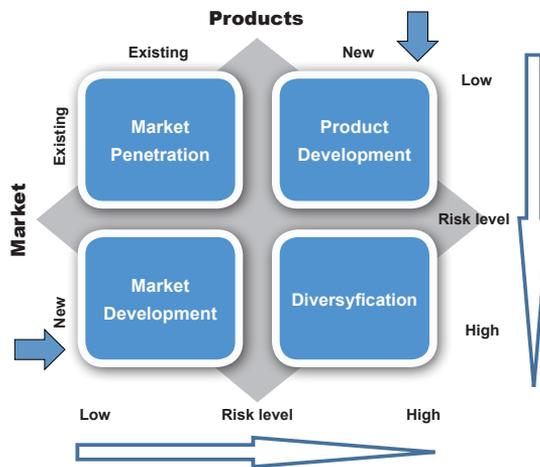


Fig. 1. Marketing strategies in connection with risk level

Source: Ansoff Matrix modified by the authors 2014.

Diversification strategy is where the business introduces new products into new markets. This is an inherently more risky strategy because the strategy involves moving into markets in which the business has little or no experience in. For a business to adopt a diversification strategy, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

M. Turner and D. Winter (2003) assert that the main factors influencing the decision to diversify or not main business activities are as follows (Gargasas and Mugiene 2012):

- external factors: policy, market opportunities, demand for agricultural services growth and spatial factors (favourable geographic location);
- internal factors: managerial and executive personnel and experience expertise, material-technical base of the corporate infrastructure development options.

First group of factors is more related to the geographic diversification connected with the situation in the global markets, and the second group of factors comes from the internal firm capacities and leads to the product diversification.

Some researches found that exporting firms simultaneously seek to balance their growth across both the geographic and product diversification domains. To achieve this balance, businesses commonly adopt a strategy of expanding an under-diversified direction at the expense of an over-diversified one (Hashai and Delios 2012).

The development of new products and markets is a critical component of a successful business strategy, as Pöyry (2013) research indicates that innovative businesses deliver above average sales growth and profitability.

### **Transformation of Lithuanian international trade conditions**

Changes in international trade conditions in Lithuania refer to several important dates. First important date was the 11<sup>th</sup> of March 1990, when the independence of Lithuania was restored. Active trade liberalisation processes started in 1993, significant changes in national legislation appeared. Later on, Lithuania, as an independent country, sought to be established on the international arena and to become a member of the most important international organisations, like World Trade Organization (WTO) and later the European Union (EU).

Restoration of Lithuanian independence in 1990 led to radical political, economic and social changes. Changes in foreign trade were partially conditioned by change of economic policy and new agreements. Specifically, foreign trade was liberalised due to a number of unilateral decisions and treaties, which created the current Lithuanian foreign trade regime and trade policy structure.

A bilateral and regional free trade agreement, particularly with the EU and the two other Baltic countries (Latvia and Estonia), was another important step in the development of Lithuania's foreign trade policy (Bagdanavicius 1999).

Changes in customs tariffs on export/import of Lithuanian goods to/from the EU took place even before the accession to the EU, whereas, following the Europe Agreement establishing an association between the European Commu-

nities and its Member States, on the one hand, and the Republic of Lithuania, on the other, a one-sided reduction of the EU customs tariffs on goods of Lithuanian origin was started as of 1995, and by the year 2001 all duties on the non-agricultural products were eliminated by the Lithuanian side.

On the 31<sup>st</sup> of May 2001, Lithuania acceded to the WTO and became its 141<sup>st</sup> member. The status of a member in this organisation not only led to international recognition but also brought real benefits such as larger foreign investment flows, new markets for national exporters and their increased reliability in markets of the WTO member states. Upon accession to the WTO, Lithuania also obtained the right to defend its commercial interests both through involvement in the process of further liberalisation of global trade and negotiations regarding more favourable trade conditions with countries acceding to the WTO (European Commission 2013).

It is noteworthy that membership in the WTO has contributed to successful accession to the EU in view of the fact that WTO membership is one of the most important aspects of the EU *acquis* in the area of external relations.

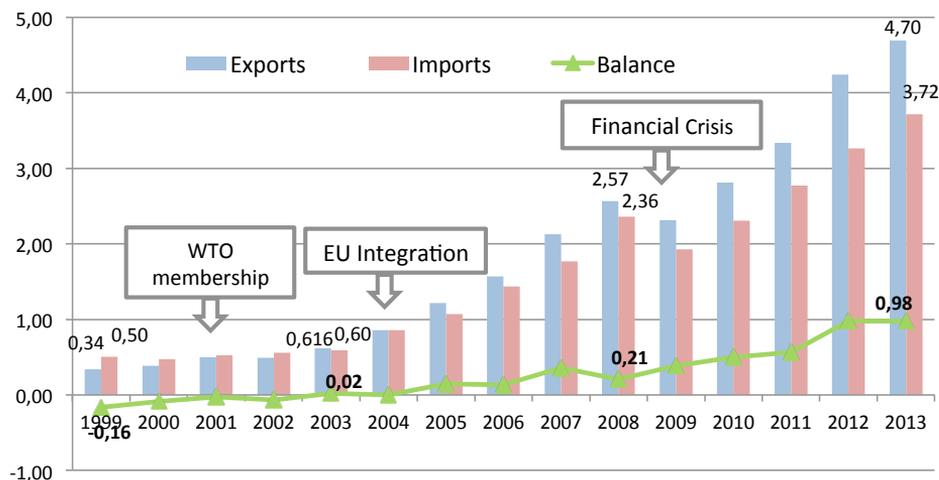
From the 1<sup>st</sup> of May 2004, Lithuania applied the EU contractual relations with third countries and international organisations. Thus, the foreign trade policy making was delegated to the Council and the European Commission as Republic of Lithuania joined the EU common trade policy area. Enlargement of the EU has opened additional opportunities for business in Lithuania as it joined the common market, with more than 450 million consumers.

For the new EU Member State it was important to cope with increased competition, and, on the other hand, to penetrate larger markets in order to increase its own economic growth. Lithuania, like all of the EU countries, applied relatively low conventional duties, despite suffering itself from certain free trade distortions, especially in the area of trade with the EU in “sensitive” agricultural products and textile goods (Travkina et al. 2009).

### **International trade flows in agri-food products in Lithuania**

Total exports of agri-food products increase year by year and reach EUR 4.7 billion in 2013. In 2013, compared with the state of crisis in 2009, Lithuanian agri-food product export value increased by more than 2 times. Exports of agri-food product grew more than 5 times during the EU accession period (from 2004 until 2013) (Figure 2).

Imports of agri-food products from the world to Lithuania rose more than 4 times during the 2004-2013 period and reached EUR 3.7 billion. In 2013, the agricultural and food exports and import growth rates were the slowest since 2010, respectively 10.8 and 13.8 per cent. More rapid import growth rate than the growth rate of exports was influenced by the growing domestic demand, the need for raw materials in food production industry and the possibility of re-export.



**Fig. 2.** Exports, imports and foreign trade balance of Lithuanian agri-food products, EUR billion. Source: Statistics Lithuania 2014.

Trade balance was improved already before the accession to the EU. In 2003–2004, the volumes of agri-food exports and imports were at the same level and later on foreign trade balance started to grow rapidly and had determined almost EUR 1 billion surplus in 2013, i.e. approx. 20 per cent of the total agri-food exports.

Foreign trade is very important for a small and open economy such as Lithuania. This is confirmed by the fact that the foreign trade volume growth was a key factor in the rapid economic recovery in Lithuania after the world financial and economic crisis of 2008–2009.

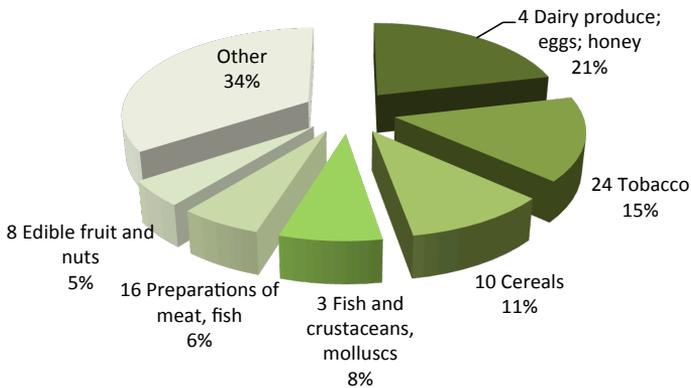
Animal products were dominant in agri-food exports before the accession to the EU. From 2004 the tendency has changed for the benefit of vegetable products. One of the main reasons for that was the larger EU and national financial support for crop sector. According to the data of 2013, the export proportions between crop and animal products are as follows: live animals and animal products comprise 24 per cent in the whole agri-food exports, vegetable products comprise 40 per cent in the whole agri-food exports, prepared foodstuffs, beverages, and spirits, vinegar and tobacco comprise 35 per cent in the whole agri-food exports (Figure 3).

Agri-food exports structure by products has changed from the year 2003. After the accession to the EU re-exports appeared, because of the favourite geographic conditions of Lithuanian country, export subsidies allocated from the EU, etc. The share of Lithuanian origin products in total exported agri-food products decreased from 89.2 per cent in 2003 to 64.3 per cent in 2013. Main exported agri-food products from Lithuania to the world before the accession to the EU were dairy products, tobacco and cereals. These three groups accounted for almost a half of total Lithuanian agri-food exports (Figure 4).



**Fig. 3.** Structure of agri-food exports by CN sections, per cent

Source: Statistics Lithuania 2014.

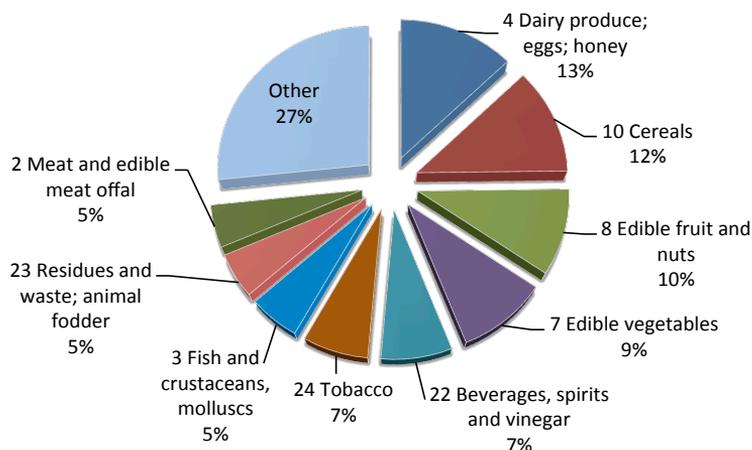


**Fig. 4.** Lithuanian agri-food exports by products in the year 2003, per cent

Source: Statistics Lithuania 2014.

Diversification of Lithuanian agri-food exports appeared after the accession to the EU. Broader product range was offered to the market both inside and outside the EU. Importance of the agri-food product re-exports grew. Already in 2008, one fifth of the total Lithuanian agri-food exports formed re-exports of fruit and vegetables. Lithuanian agri-food exports structure became even more diversified in 2013 (Figure 5).

The value of the products of Lithuanian origin exported in 2013 amounted to EUR 3.0 billion. 61 per cent of the value of the agri-food products of Lithuanian origin included milk and dairy products, eggs and honey, cereals, tobacco products, residues and waste from the food industries and prepared animal fodder, fish and crustaceans.



**Fig. 5.** Lithuanian agri-food exports by products in 2013, per cent

Source: Statistics Lithuania 2014.

In 2013 over 50 per cent of export share consisted of the products of Lithuanian origin under fifteen chapters of products under twenty-four CN chapters, mostly – over 90 per cent – tobacco products, cereals, products of the milling industry, milk and dairy products, live animals, and oil seeds. Various beverages manufactured in Lithuania accounted for 32 per cent, vegetables 12 per cent, fruit – 5 per cent, coffee, tea and spices – 5 per cent of exports of the respective products (Agricultural 2014).

Lithuanian origin dairy products mostly go to Russia (26 per cent of the total export of dairy products), Poland, Italy (15 per cent each), Germany (9.6 per cent), and Latvia (7.8 per cent). Shipment to these countries in 2013 accounted for 73 per cent of the dairy products.

The key export partners for cereals were the Islamic Republic of Iran (39 per cent of the total exports of cereals), Saudi Arabia (23 per cent), Latvia (6.8 per cent), and Sweden (5.5 per cent).

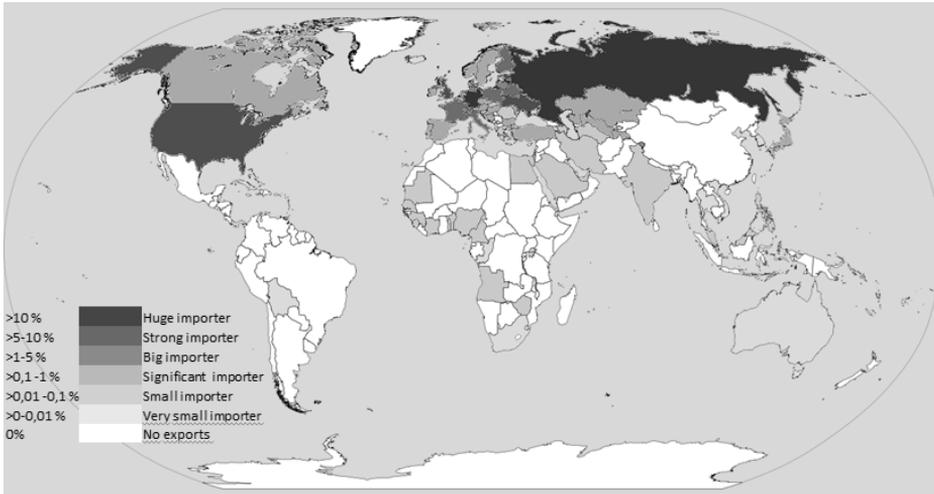
In terms of export value, fruit is ranked third with exports amounting to EUR 0.46 billion. Fruit of Lithuanian origin accounted just for 5.1 per cent (in 2012 – 6.1 per cent). 68 per cent of the total exported fruit and nuts were shipped to Russia, 13 per cent to Belarus, and 5 per cent to Latvia. 26 per cent of fruit and berries of Lithuanian origin was exported to Germany, 13 per cent to China, and 12 per cent to Poland.

### **Export geography and market diversification trends**

The largest portion of agricultural and food products were exported to the market of the EU countries. Analysis of export of agricultural and food products into different countries over the period of 2009-2013 showed that, in spite of the annual increase of the value of export into the EU countries, this market covers still more decreasing share of export, which has dropped from 64 per cent in

2009 to 52 per cent in 2013. The key partners of export to the EU countries were Latvia, Germany, Poland, Estonia, the Netherlands, Italy, and Sweden. Export to these countries covered 75% of the total export to the EU (Agricultural 2014).

Agri-food exports geography is much spread than it was even before the accession to the EU (Figure 6).

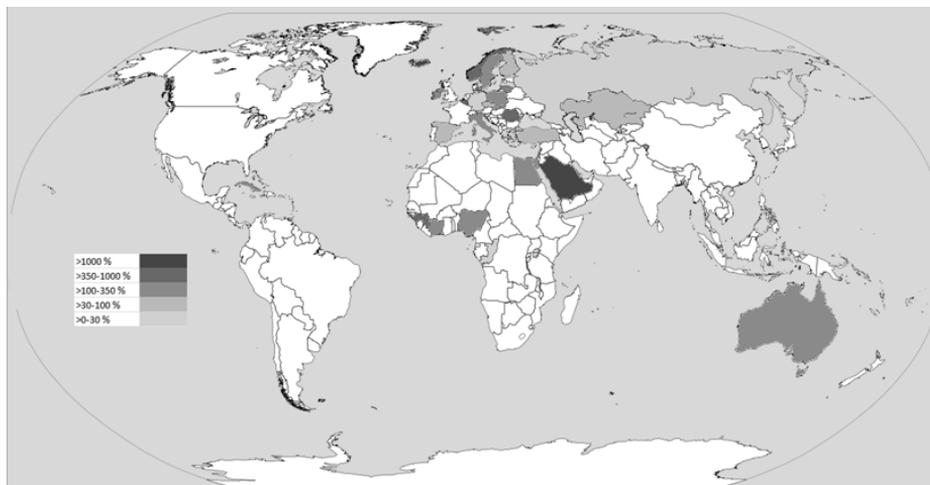


**Fig. 6.** Exports structure of Lithuanian origin agri-food products by countries in 2003, per cent  
Source: own elaboration.

Agri-food exporters' orientation on international markets was calculated as an agri-food exports growth rate change. According to these changes the countries were grouped. While the export structure remained essentially unchanged since 2003, some export diversification trend intensified. Export volumes rose from Lithuania to Iceland and Saudi Arabia in 2008 compared to 2003. Agri-food export volumes increased also to Lebanon, Guinea Bissau, Romania, Belgium and Norway (Figure 7).

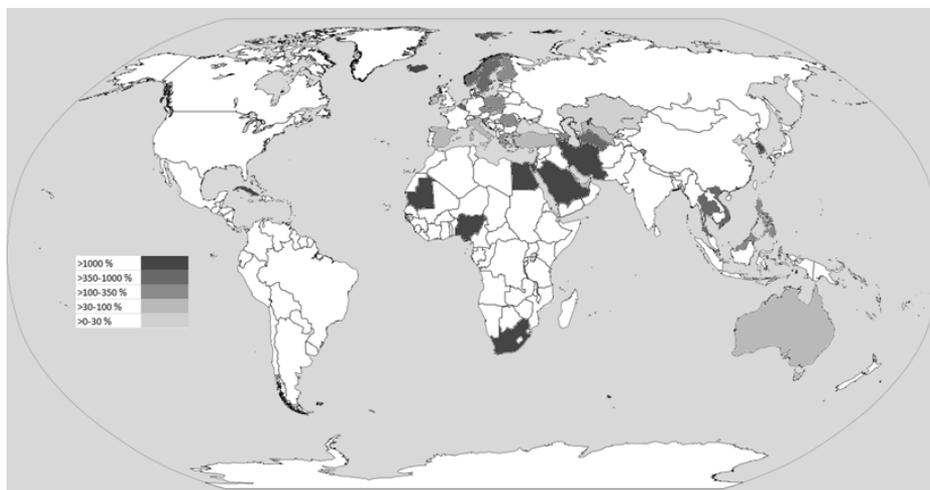
In the past years, the market of third countries has become still more important for the exports of Lithuanian agricultural and food products. The share of exports to third countries went up from 36 per cent in 2009 to 48 per cent in 2013. 70 per cent of the products shipped to third countries belonged to the Customs Union countries (Russia, Belarus, and Kazakhstan). The main partners of export to third countries are Russia, the Islamic Republic of Iran, Belarus, Saudi Arabia, Norway, Turkey, and Egypt. Export to the above countries accounted for 89 per cent of the total export to third countries (Agricultural 2014).

Expert evaluation showed that export is quite important for the Lithuanian agricultural and food producers. Lithuanian agri-food exporters already have strong positions on the EU internal market. A wide range of products is exported to many countries all over the world.



**Fig. 7.** Exports growth rate of Lithuanian origin agri-food products by countries, 2008 in comparison to 2003, per cent

Source: own elaboration.



**Fig. 8.** Exports growth rate of Lithuanian origin agri-food products by countries, 2013 in comparison to 2003, per cent

Source: own elaboration.

Meat producers foresee big breakthrough to the US market, more than 50 per cent of export growth is expected. The second very important market is in Russia, where in recent years travelled the large scale of production. Meat and meat products exporters actively work with Kazakhstan, Azerbaijan and other countries in Southeast Asia markets. It is also planned to export meat and meat

products to Saudi Arabia, Philippines, Japan, South Korea, China and some African countries.

Milk and milk products exporters have chosen a different sales strategy. They do not plan to compete with standardised mass production of milk, and invest in a new and unique product development (e.g. sugar lactose). Such new markets are planned in the USA, Japan and China.

Expert evaluation showed dual approach to fish and fish products export development opportunities. On the one hand, fish re-export volumes do not increase and trade volumes are stable year by year. But on the other hand, it is expected to raise exports by 20 per cent on specific fish products (e.g. crab sticks, surimi, etc.). Focus is made on distant markets such as the US and Brazil.

The demand for grains, as raw materials, is sufficient in relatively short-distance markets such as the EU, Iran, Saudi Arabia, Egypt. The demand for grains, as processed products, is stable and constantly growing, so a further growth in this sector is expected in the long term.

### **Conclusions**

Despite many efforts of liberalising foreign trade in agri-food products in early nineties and the membership in WTO in 2001, the real benefit for enlarged trade volumes was obtained after Lithuania entered the EU. Agri-food exports and imports volumes rose intensively, on average 23 per cent for exports and 21 per cent for imports during the 2004-2013 period.

Analysis showed that exporting firms simultaneously seek to balance their growth across both the geographic and product diversification domains. Lithuanian agricultural products, which get higher EU support (e.g. direct payments), prevail on foreign markets (e.g. milk products, grains, wheat gluten, etc.). After the EU accession, Lithuania became a gateway for other European exporters for reaching Eastern countries. The volumes of Lithuanian origin products in total agri-food exports fell down from 89.2 per cent in 2003 to 64.3 per cent in 2013.

Analysis of the export geography of Lithuanian origin agri-food products showed that Lithuania has three stable markets (Russia, Germany and Latvia) and is strongly dependent on them. Nevertheless, market diversification appears from 2008. In 2013, this tendency has strengthen. Breakthrough in agri-food exports is expected to the African, Asian, Scandinavian countries and Australia.

Expert evaluation showed that there strong breakthrough in wheat gluten, meat and meat products and bakery products exports is expected from Lithuania. Smaller, but no less important export growth is projected in dairy sector.

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**Key words:** market diversification, agri-food products, foreign trade, exports, imports, export geography, product diversification, Ansoff matrix, Lithuanian agri-food exports, international trade

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