



Embracing Innovative Marketing and Promotional Methods

April 2011

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Promoting Australian Produce was developed to assist agricultural and seafood industry bodies and not-for-profit entities responsible for agricultural marketing to develop their capacity to better promote and market Australian produce to their traditional domestic markets and to new or established export markets.

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Table of Contents

Executive Summary.....	1
Program Objectives.....	4
Detailed Findings.....	5
1. The strategic and competitive context of produce marketing.	5
2. Power of the Supermarket Retailer.	8
3. Business Model	11
4. Marketing: The Consumer or the Customer	18
5. Use of Data.....	25
6. The consumer	28
7. Prognosis.....	30
Research Details.....	31
Case Studies	33

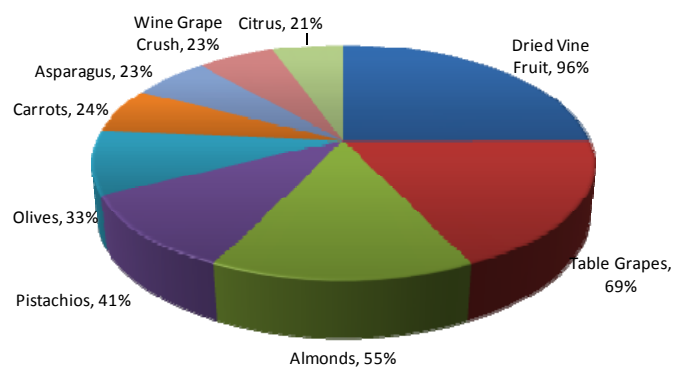
Executive Summary

Mildura is a region renowned for its big skies, rich earth and breathtaking natural bush lands. It's Mediterranean climate produces Australia's finest orchards, vineyards and market gardens. Mildura is a major food bowl. Its irrigated agricultural land produces most of Australia's dried fruit, as well as table grapes and citrus. The area also grows most of the country's almonds, pistachios, olives, carrots, asparagus and 23 per cent of the annual wine grape crush.

The Mildura region has a climate that favours viticulture with a long history of growing grapes and citrus fruits. It has flourished into an exciting region renowned both domestically and internationally for affordable quality wines.

By any measure, the Mildura Region is one of Australia's most important areas for agribusiness, and in particular, horticultural production. For example, it:

- ◆ is in the centre of Australia's largest wine grape production region, with 23% of Australia's national crush
- ◆ is Australia's largest wine manufacturing and packaging centre
- ◆ produces 95% of Australia's dried vine fruit
- ◆ produces 69% of Australia's table grapes
- ◆ produces 55% of Australia's almonds
- ◆ produces 41% of Australia's pistachios
- ◆ produces 33% of Australia's olives
- ◆ produces 24% of Australia's carrots
- ◆ produces 23% of Australia's asparagus
- ◆ produces 21% of Australia's citrus
- ◆ produces more than 60 types of fruit, vegetables and nut products



Mildura's Total Production as a Percentage of Australia's Production

Promoting Australian produce from the grower base is proving to be more difficult and less effective. It is reality that supermarkets now dominate the food industry landscape. The power of the supermarkets is such that being an average supplier is insufficient. Even the very biggest of suppliers have limited power and are not in a position to dictate terms. To survive, you must be a “best of class” supplier, offering something not easily obtained, or obtainable cheaper to the retailer elsewhere. Without some sort of defined advantage, the growers end up as price takers, driven by the least cost supplier, and that is unsustainable. Grower’s are becoming more reliant on their industry bodies to promote their produce to the end consumer.

The strategic focus of suppliers to Australian supermarkets over time has been on supplying branded product, being able to market to consumers who will drive distribution by weight of demand. The power of the supermarkets, and determination to capture the proprietary margin has all but eliminated the opportunity to brand build in produce categories unless the product is a real niche, and probably outside the supermarket distribution system.

The power is not with the individual farmer, as having the weakest negotiating position in any situation, they will be the loser in the negotiation on most occasions. For a supplier to make the necessary investment in brand building activity in produce categories knowing the major supermarkets will not stock the product is a brave and expensive decision.

Last but not least, the whole value chain is directed at extracting dollars from the consumers purse. Obviously, the better you know them, their motivations, behaviours, and underlying reasons for purchase, the better you can meet their needs, despite the blockage created by retailers in direct communication.

Researching commodities that are achieving good results during these difficult economic times have identified strategies that could be incorporated into our own local industries in order to make our local produce more attractive to the domestic markets, as well as exports, thus increasing sales. Some such strategies are:

- ◆ Product differentiation and innovation.
- ◆ Be agile and sufficiently prepared to realign marketing activities to change according to changing consumer trends.
- ◆ Social media. At an early stage of development, but there is an opportunity waiting for those who experiment and in time master the social media techniques as they emerge. The opening up of digital communication channels has created opportunities to communicate with consumers without the costs of mass media.
- ◆ Have a promotional objective every time you go into a program, even if you have little control over it, so that the outcomes can be measured against an expectation.
- ◆ To maintain a “seat at the table” as one of the 2 or perhaps 3 major suppliers in a category to a supermarket chain, a supplier must be prepared to invest in the relationship, with no guarantee of return.
- ◆ Appealing to the target market, ie using comic characters in an effort to appeal to kids.
- ◆ Investment in green power and waste management will endear retailers seeking to push their green credentials.
- ◆ Being “green” is not a matter of “doing the right thing” and accepting the cost, but a commercial challenge to look at things through a different lens, see ways to reduce costs whilst contributing to the “greening” of their products and services, then being prepared to

invest in the new ways. In effect, environmental sustainability and commercial sustainability are inextricably woven together.

- Retailers value new product development, and expect their major suppliers to undertake projects, at their risk, as a part of the service offering.

Generally, marketers are focused on building their own proprietary brands, and delivering the resulting increase in the value of their enterprises to shareholders. Within horticulture, that option has largely been removed from supermarket shelves, leaving generic promotion as an option.

The responsibility of promoting Australian produce effectively and efficiently is becoming more reliant upon the respective Industry bodies and their ability to actively promote their industry's produce. Generic promotion can work, and work very effectively as a builder of demand, as evidenced by the success of both the Mushroom and Avocado industries, both over a period of time being able to substantially increase demand for their products by use of generic, demand building communication and promotion.

Digital and social marketing is a new phenomena and even then most sophisticated marketers in packaged goods are just getting their heads around the opportunities, nobody in produce in this country appears to be doing much more than being aware that something is happening, and that it may have an impact on the way they approach their consumers.

Program Objectives

The objective of the program was to identify how other domestic and international agricultural industries promote fresh and dried produce so as to identify best practice and the types of marketing that gets the best results.

In some cases, like industries have been compared. However, in most cases the intent was to look at a range of industries, both locally and overseas, to identify effective marketing strategies regardless of the type of produce.

The program was conducted in three stages, being:

1. Initial Research

Identifying a wide range of industry and private sector organisations located within Australia and in various overseas markets that promote horticultural produce.

2. Core Research

Conduct detailed interviews/discussions, both face to face and over the phone, to gather data for interpretation and analysis. Domestic interviewees were provided a questionnaire which gathered some quantitative data, but mainly served as a conversation guide. Some interviews were conducted face to face and were entirely open-ended to ensure that any preconceptions in the questionnaire did not inhibit the conversation ranging where it may.

Private sector and industry-based organisations were invited to visit Mildura to discuss their operations and to present supply chain collaboration opportunities to industry representatives.

3. Findings and Dissemination

Detailed findings from all interviews, activities and meetings undertaken throughout the program have been recorded and documented. Dissemination of detailed findings has been on a continuous basis through presentations at business and horticultural industry meetings, and less formally, through discussions with industry/grower representatives. These discussions are still ongoing.

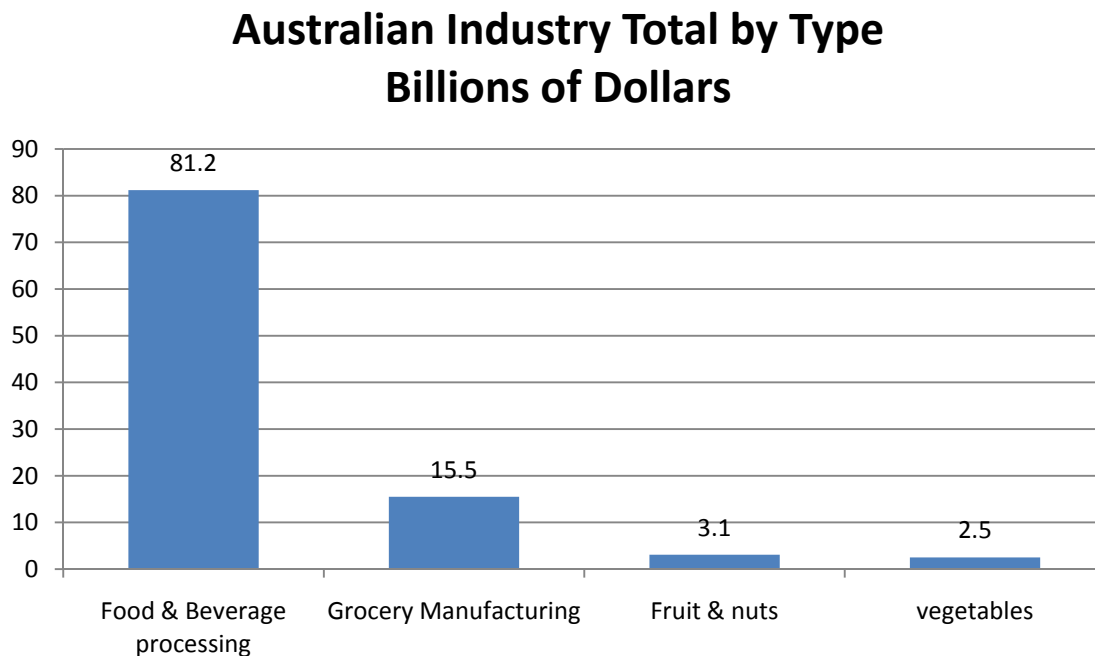
Detailed Findings

1. The strategic and competitive context of produce marketing.

Any discussion about Best Practice must be held in the context of the market in which the businesses concerned compete.

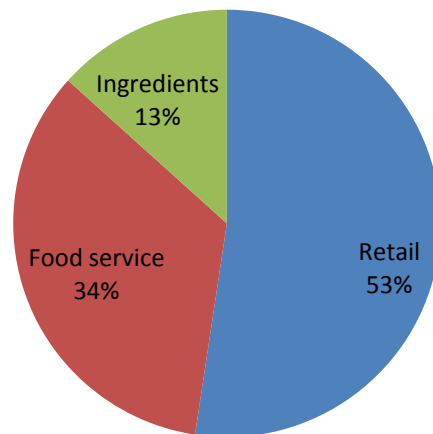
1.1. Industry size and structure

According to the Australian Food and Grocery Council "[State of the Industry](#)" report the total Australian industry is worth \$102 billion dollars made up as below:



These numbers confirm the food industry is a very substantial industry in the Australian economy, and fruit and vegetables together, contributing 5.6 Billion is a significant contributor, obviously with emphasis on regional areas.

Australian Industry Total Sales by Channel

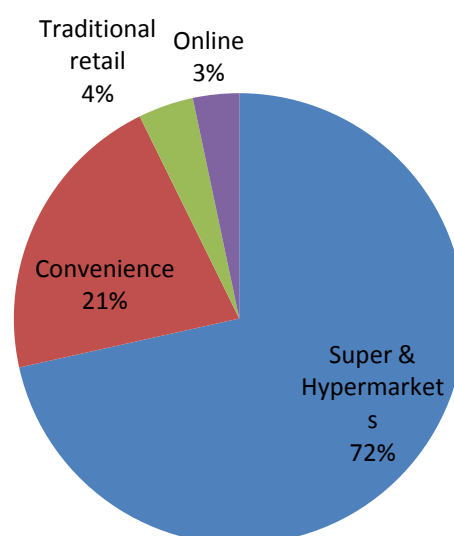


This report focuses on the retail part of the market, rather than the food service, although food service offers a substantial opportunity for many producers to diversify their customer base, and should not be ignored, indeed, as a priority it should be investigated to offer a balance to the customer base of produce businesses.

The UK market is similar to Australia, just bigger, more complex, more centralised, with far more store formats, and despite the pre-occupation with the big 5 retailers, which have a combined share of retail sales of 71%, many more chain retailer options for suppliers, particularly small ones, than Australia.

The UK market is worth £151 Billion, roughly \$A256 Billion, and is more fragmented than Australia, with the convenience market being larger, although the recent takeover of Mobil petrol outlets by 7/11 indicates a strong push into convenience in Australia, and there are 6 large chains, with Tesco absolutely dominating. It is also the case that each of the UK supermarket retailers has a very distinctive positioning to consumers, something that has not been the case in Australia, as Coles and Woolworths tended to be clones, with one being a better version than the other, but that is likely to change over time.

UK market £151 Billion



It is quite normal for UK trends to be “imported” into the Australian environment over time, expect an increase in Australian convenience and on line numbers.

1.2. Channels

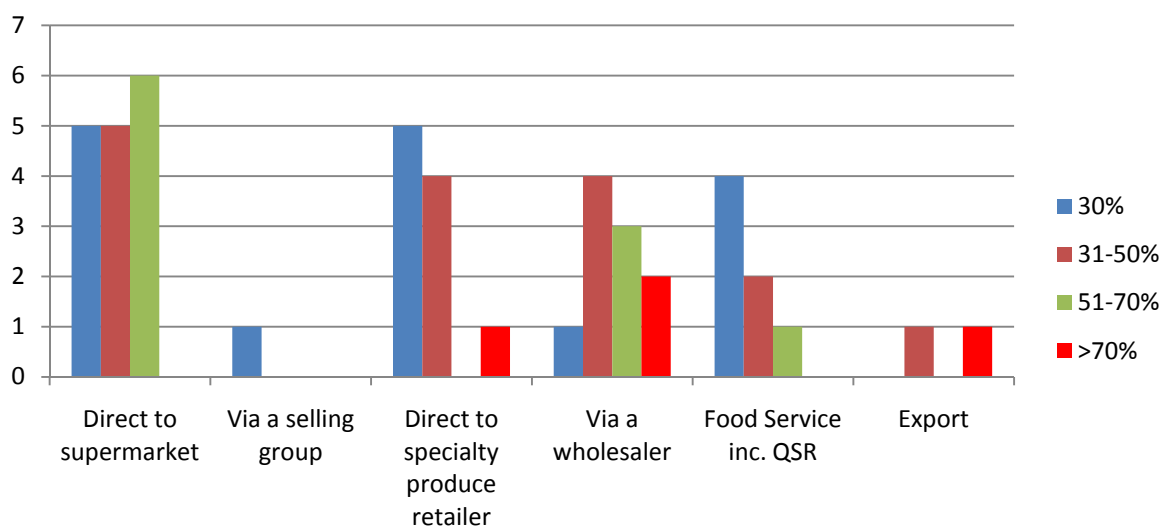
Supermarkets dominate in Australia, as they do in the UK. However, Australia's convenience channel is less developed than the UK, where the sector is dominated by chain stores, both specialists like 7/11, and the convenience formats of Tesco, M&S and Sainsbury.

In the UK, the online value, whilst currently it is £5 billion is growing very rapidly, after stuttering for a while, as it has here. This number puts on line shopping at around 3 times the rate of Australia. The advances in Data transfer and management technology are driving this growth, which is being mirrored in Australia by businesses such as [Aussie Farmers Direct](#), and it is reasonable to expect the continued growth of on line shopping in Australia, which is not to say that all attempts will be successful.

A major difference between the UK and Australia is the lack of specialist fruit and vegetable stores in the UK, whereas they are still in good evidence in Australia, and appear to be having something of a resurgence with chains like [Harris Farm](#) stemming the flow of produce sales to the major retailers. Estimates vary, but in excess of 90% of produce in the UK is sold through supermarkets, whereas the percentage in Australia is far less, on average 55%, more in robust commodity categories, less in sensitive and seasonal categories.

The chart below shows that suppliers spread their sales across channels, with the biggest number being the number who sell 51-70% of their product direct to supermarkets, with the most surprising the number of sales direct to specialty retailers.

Channel to the consumer



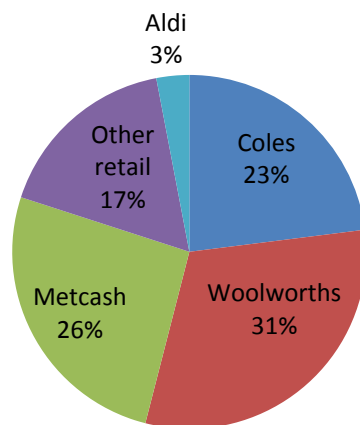
2. Power of the Supermarket Retailer.

Australian supermarkets have made produce a core part of their offer, the two major supermarkets have made substantial investments in the display and merchandising for produce, and selectively back through the value chain to secure supply.

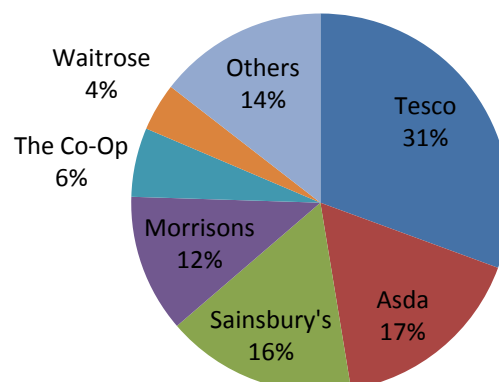
A strategic decision they have taken is to exclude all but house-brands in produce, following the practices elsewhere in the world, in an attempt to capture the proprietary margin. The downside is that they reduce substantially the incentive of suppliers to innovate as they will have great difficulty generating a return.

Below are Australian market shares, with UK shares following for comparison. The coincidence of Woolworths and Tesco shares being the same is notable.

Australian Retail Distribution Channel %'s



UK Retail market shares



Source: Kantar Worldpanel From UK IGD retail analysis May 2010

2.1. House brands.

According to Nielsen, the share of grocery sales made up by house brands in 2010 was 24%, a 1.3% increase on the previous year. The 2011 Global Private label report puts the UK figure at 43%, so conceivably, the trend towards house brands in Australia has a long way to go yet, and the trend does not appear to be slowing.

For a supplier to make the necessary investment in brand building activity in produce categories knowing the major supermarkets will not stock the product is a brave decision indeed. In Australia, where the two majors control in excess of 50% of sales, such an investment is risky, and seems unlikely to make a reasonable return in anything other than the very long term. However, that will not stop some taking positive steps.

Perfection Fresh in Australia have the plant breeders' rights to a number of varieties of product, and have been actively marketing "[Broccolini](#)" a small headed broccoli to the food service trade with some sales success, and they have a number of other products, "Royal Pom" pomegranates, and others that are a "closed loop" marketing initiative based on PVR's.

Similarly, Montagues have apple varieties, such as "Jazz" apples being tested in Woolworths, but they are branded "Jazz", not "Montagues Jazz", One Harvest has the "Calypso" mango, and there are a few others.

In the UK, a concerted consumer marketing effort was put behind "[Rooster potatoes](#)" an Irish potato supplier in an effort to break the hold of the major supermarkets. Small retailers, and the independent trade stock rooster branded potatoes, but the "big 5" Tesco, Sainsbury, Morrisons, Waitrose, and Asda, collectively around 80% of sales do not stock them. As you can see from the material in the link above, "Rooster" was not a half hearted attempt.

Ironically, the king of QSR restaurants, McDonalds are slowly moving along a road where proprietary branding has been selectively accepted in their restaurants. A number of proprietary brands have appeared in low volume service lines over the last couple of years, followed by the hugely successful "Angus" branding of value added hamburgers in 2010.

2.2. New product development

House brands as noted logically act as a natural disincentive to innovation. However, in a situation as in the UK where far more of their produce reaches the consumer via supermarkets, reportedly over 90%, there needs to be an alternative strategy to encourage innovation. Supermarkets have used their market power to progressively encourage consolidation of suppliers, and now in most categories they have only two suppliers, at most three, and the business is shared.

One of the parameters to get an increased share of businesses is the new product activity of the competing suppliers. [MMG Citrus](#), formerly the Mac Multiples citrus company, now strengthened by a joint venture with a major Grower/packer in Spain, Martinavarro PLC, supplies primarily Tesco with Citrus. Until 2 years ago they had a 35% share of Tesco's business, but for 2011, that share has been increased to a guaranteed 50% on the back of innovations they brought exclusively to Tesco using Satsuma easy peel, over the 2009 and 2010 seasons. The impact that successful NPD has had on their business is substantial

Carrots have been the source of several very interesting product development initiatives in several places around the world. The best known is Bolthouse Farms in the US has excelled themselves, this article in of all places, technology magazine "[Fast Company](#)" outlines the genesis of their carrots as "[Eat them like Junk food](#)" marketing, which has junk food type advertising, backed by different branding, pack types, and product forms.

2.3. Innovation that reduces costs and attracts consumers

Supermarkets are driving down the prices they pay, at the same time the costs of doing business are going up. In addition, they are pushing suppliers to be innovative not just in the products they supply, but the manner in which they are produced. Success at these activities is a part of the cost, along with new product development activities.

Of acute concern is the drive to be "green" or sustainable, coming from consumers. The emerging experience is that often "green" solutions to operational challenges can also sometimes save money.

[Barfoots of Botley](#) is a major supplier of sweet corn, and several other vegetable products operating out of several sites in the South of the UK, and importing from Spain and Morocco. Their commitment to sustainable farming is more than words, and easy stuff, they are in the final stages of commissioning an anaerobic waste management plant that takes all the waste of the corn, and other vegetable waste, ferments it in tanks, which produces methane, which is captured, fires the boilers, which delivers the power to run the plant. More detail is included in the case study section at the end of the report.

3. Business Model

3.1. In response to the power of the retailer

Suppliers wanting to supply supermarkets need to play by their rules, they are the only ones that count. Whilst in the detail, each chain has slightly different requirements, they are pretty similar, so being in a position to supply one, generally with modest changes to the paperwork, particularly the quality systems paperwork, a grower would be in a position to supply the others.

Retailers are looking for a number of common elements in the offer from suppliers:

- **Consistency of supply, year round**

The exception here is seasonal product, stone fruit, mangoes, grapes, and a few vegetables, where the benchmark is that they have product first, at the beginning of the season, and last. Therefore the push is to find varieties that stretch the season.

- **Consistent quality, and compliance to QA systems**

Quality to a chain retailer is more about compliance to specification than eating quality. The assumption is that a product that looks good, and is the “right” size will eat well, and whilst that is nonsense in many situations, it makes the job of appraising product quantitative, rather than qualitative, which suits their systems. These specifications are evolving, sometimes well in advance of producers ability to meet them, given lead times on most fruit, and can be subject to what appears to be the whim of a new buyer. Management of this challenge is down to the relationship with the retailer, difficult when you are one of many suppliers.

- **Margin**

This is made up of a combination of price and promotional support.

- **Exclusivity**

All retailers want something their opposition do not have, but that consumers value. In the Australian context this is extremely difficult, given there are two major retailers, but it will increasingly become a driver.

3.2. Alignment to individual strategy

Every business requires a clear, well articulated strategy to be successful, and a part of the development process is understanding what you will and won't do. Strategy is really the end result of a number of choices that have been made, which customers, which products, what price point, how much service to provide, how to get it to the consumer, and many others. The task then is to align the processes in the business to best deliver the strategy.

Much of this report is about supermarkets, but they are not the only channel to the consumer, and increasingly the alternative channels are being used. Internet shopping is now a whopping 5 billion pounds in the UK, and growing strongly. The participants in this market come from several areas, Tesco is a leader, using their supermarket sites as a facility to assemble orders taken over the net, to be delivered to the local area.

Donald Russell is a meat supplier in Scotland, who had trouble gaining supermarket distribution, and when they did, they could not make money on the margins allowed, so they changed direction, and went on line at Donaldrussell.com. Donald Russel continued to innovate in the way they serviced their customers, ensured that all their internal processes were aimed at offering the best meat, and the best experience to consumers. Price is declared up front, but Donald Russell's product is never going to compete on price, it competes on range, quality, service, and great ideas.

This is an example of a business that had a long term vision, that was unable to be delivered by the strategy originally formulated, but they were agile enough, and sufficiently prepared to realign their activities to change course effectively.

Tesco has been a leader in internet shopping, basing their model on filling customer orders from the closest Tesco retail outlet to the consumer, then delivering. Waitrose has followed a different path, setting up an independent business, [Ocado](http://Ocado.com), in JV with John Lewis. [Ocado](http://Ocado.com) is independent of both partners, and is growing strongly with a supply arrangement with Waitrose, which delivers 20% of its lines to them. Several respondents noted that they had the best demand planning software, and all the other on line retailers are chasing their capacity to serve customers whilst keeping inventory turns up and minimizing out of stocks.

Similarly, in Australia, Aussie Farmers Direct is making an impact on consumers, offering convenience and service, not necessarily price. AFD is an all on line business, its model is directed only at that channel. Embedded in this article about [AFD is a video interview](#) with Braeden Lord, CEO of AFD. Also included after you click the interview with Braeden Lord are two pieces of commentary of value here, the first on the Coles/Woolworths milk price war, and the second on the Australian engagement with on line shopping, currently calculated to be a third of the UK number/head.

A trap many businesses fall into is that they accept that the status quo will continue, and they build their business models on this assumption. The production end of the milk industry was savagely rationalized post de-regulation for this reason, farmers believed the regulatory status quo would continue to effectively subsidise their businesses, the apple industry faces the dilemma currently as NZ and Chinese apples gain entry to Australian markets.

For Mildura farmers, “stress-testing” their business models for major increases in water and power prices, reduced off-take by wineries of wine grapes due to reduced exports, and other situations that will put pressure on their businesses would be a worthwhile exercise.

3.3. Location of R&D expenditure

R&D currently takes place in a couple of places, some is publicly funded, delivered via HAL, some takes place inside the few large businesses, and in some industries the seed companies which are multinationals bring the results of their R&D to growers. In the case of stone and Pomme fruits, there is a long gestation before commercial crops are available, but in melons and berries, annual crops, there is quite a lot of activity and options being presented to growers.

3.4. Processes

The processes that get things done in a business need to support outcomes the business model is designed to deliver. When close customer service is required, processes supporting customer service must be able to accommodate detailed interaction.

Similarly, in an environment of least cost wins, waste in processes needs to be eliminated, and the proceeds invested in activities that make a supplier distinctive, and attractive to their customers. The days of cost plus pricing are well and truly over, replaced with a target pricing mentality, acknowledging that the target is moving, downwards.

This means all processes need to be:

- ◆ **Robust**
Able to withstand pressure from short term events without breaking down.
- ◆ **Repeatable**
The process happens the same way every time.
- ◆ **Scalable**
The processes are able to be ramped up, or duplicated to meet longer term changes in demand. It is equally valid to view this in the context of less volume.
- ◆ **Aligned**
Processes need to be aligned, or the outcomes will just be wasted, non alignment will result in the processes not adding the value they could if they were aligned.

3.5. Scale

The response to the overwhelming power of the retailers, generated by their size, really offers only two options:

1. **Get bigger**, sufficiently big to warrant their attention to the point where they recognize that there is a mutual interest in dealing with you, and/or
2. **Get focused on a niche** where you can offer something really different the consumer values, in all probability, this is outside the supermarket distribution system.

In relation to supermarket supply, it really is a case of get big or get out.

In Australia, the major supermarkets for most categories have a number of suppliers, the bigger commodity categories often have many. However, the increasing trend is to have fewer suppliers, each being bigger. This reduces the retailers transaction costs, and offers the benefit of more consistent supply.

In the UK, this process has gone much further than is the case here currently, and possibly shows the way for other supermarkets. Suppliers like Costa's, Montagues and Moraitas are in a prime position to extend their influence even further, increasing the spread of product offered. These large suppliers become in effect the extension service of the retailers, organizing supply, ensuring quality, and managing the response to fluctuations in demand.

Supermarket buyers performance measures are necessarily internal:

- Category turnover and turnover/shelf space
- Margin delivered, and margin/shelf space
- Basket inclusion
- Gains/loss to opposition
- Supplier compliance and DIFOT
- Successful new product introductions

Whist these will vary between retailers, as will the relative importance, none pay much attention to the welfare of the supplier, and given the average buyer is relatively young, knows little about the produce categories, and will probably move on about the time they get to know a bit, they nevertheless make the decisions that determine the volumes their suppliers will deliver, and therefore often their profitability.

The management of scale is more complicated than the hands on management of smaller family enterprises, and requires a substantial step into employing professional functional management to undertake tasks formerly left alone, or unrecognised in a smaller organisation. Whilst family ownership can remain in place, subject to the requirements of raising capital, much of the management needs to be handed over to employees.

The evolution of scale as a tool for cost reduction has been occurring for some time, quietly, in Australia. Coles have [Costa's](#) as a major supplier across a range of product categories, acting as the supply and distribution agent for Coles. They have developed a supply chain back to farmers across geographies, some contracted, some who are just regarded as preferred suppliers with a reliable supply relationship, and have invested heavily in storage and distribution facilities to service Coles.

The [Costas tomato](#) investment in Guyra in glasshouse production and packaging of tomatoes is a sign of things to come, a major investment that will deliver year round consistent specification product.

A similar situation is in place with Moraitas and Woolworths in hard vegetable categories, and Montagues as a supplier of pomme and stone fruit. Coles use [Rugby Farms](#) based in the Lockyer Valley as an example of the way supply relationships can develop and work over time.

These businesses all have a management and distribution infrastructure that responds to Coles and Woolworths needs while leaving Coles and Woolworths with a single major supplier to deal with. Supply in these categories to Coles and Woolworths is via the appropriate “supply chain manager” and growers wishing to gain customers should direct their efforts towards them, rather than the retailers.

3.6. Capital

To build scale requires capital to handle the increased throughput. Access to capital is always an issue, both borrowed and equity, and both require a corporate entity as a vehicle, usually beyond the simple partnership arrangements that inhabit agriculture. Consistent with the point above, management of an increased capital base usually requires substantially more than the local accountant doing a bi-annual balance sheet and Profit and Loss statements.

The facilities required to meet the supermarkets cost and consistency demands will get bigger and bigger over time, raising fixed costs substantially, by automating much of the variable cost that currently exists. Such a model requires volumes to make it pay, again, driving the move towards fewer larger suppliers to supermarkets.

In the UK, 90% of produce is packaged, and whilst currently little of the Australian crop is packaged, it is likely that the percentage will increase based on supermarket demand, further increasing the demand for capital to automate the process, rather than relying on hand packaging. Inevitably, capital will continue to replace labour in agriculture, its follow on activities of grading and packaging.

In the UK, the “packing shed” of [Tangmere Airfield Nurseries](#) at the end of a highly automated series of glasshouses producing capsicum in all its forms, looks like a robotic car factory, clean enough to eat your lunch off the floor. This is an expression of the use of capital to reduce costs, and automate as much as possible from the seed to the packaged end product. From 6 base products, they produce 78 sku’s for different supermarket chains, all automated.



Also on the Tangmere website above is a terrific video, representative of the sorts of investments made in the UK to service supermarkets. Similarly, the MMG packing shed at their headquarters takes in bins of bulk product from Spain, and elsewhere, and packs to order in a very modern, capital intensive facility.

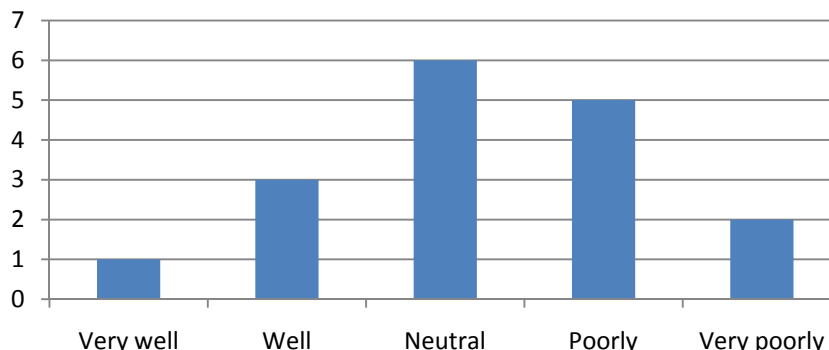
3.7. R&D and New Product Development

Both R&D, and the commercialisation of R&D in new products is vital to the future of horticulture. The dilemma is where R&D finishes, and NPD takes over, as R&D is, or should be, pre-commercial, and NPD is highly commercial. As noted previously in the MMG Citrus example, this distinction will become increasingly important as the expected scale of individual businesses in horticulture grows to match the power of retailers, and a NPD capacity will become increasingly important to be one of the few to just gain a place at the retail negotiating table.

The weight of opinion about the value of the levies is weighted to the “poor” end, but perhaps this is just the natural cynicism of growers, and a PR challenge for HAL, particularly where they are involved in spending levy money on promotion. However, the conversations around levy use largely were of the view that the R&D levies were well used, and the marketing expenditure delivered very poor value.

A stark exception is the watermelon part of the melon industry which is setting out to gain a marketing levy to be spent on demand building, but no R&D, as the seed companies have over time delivered a good service to growers. The other obvious exceptions are the mushroom and Avocado industries where intelligent use of marketing levies by the industry bodies has resulted in large increases in demand and consumption.

How effectively are your levies used



In the UK, the conversations were pretty similar, with the notable exception that there are no levy funds spent on marketing at all, and 70% of the R&D levy was currently being spent on Biological control of pests.

This focus is driven by the supermarkets demand for zero chemical residues, but has had the benefit to growers of reducing their costs as efficient bio controls and management regimes have been developed. This has also created a strategic challenge to the chemical companies, who previously just had to turn up to make a good profit, but are now under huge profitability pressure to deliver biological solutions to pest and fungus type problems.

3.8. Rationalisation of supply chains

The requirement to deliver product economically and reliably to fewer, but larger customers is driving supply chain consolidation, and the access to information technology is the enabling factor.

Flemington markets reports that the volumes moving through the markets are up 20% on 10 years ago, but that the number of transactions is down considerably. This is a surprising result after both Coles and Woolworths have closed their warehouses in the markets, although they both still buy from the floor to top up direct deliveries.

Elsewhere, the notion that supply chains become a part of the competitive offer of major retailers is discussed, and this trend is evident in the drive to consolidate chains.

Food service chains are also consolidating. Bidvest, one of the biggest food service distributors has purchased a number of other distributors over the past 12 months, and has moved into produce via the acquisition of LaHood, a substantial produce distributor and agent 18 months ago.

Rationalization of supply chains in the UK is evolving to a point where previously competitive companies are finding ways to collaborate and reduce costs, whilst maintaining their own identity. The development of the [Thanet Earth](#) site in Kent by a joint venture between Fresca (Mac Multiples parent company) and three specialist green-house growers is the first of what may be several, and certainly shows the way to sharing of investment across a larger base to make it affordable for all parties.

4. Marketing: The Consumer or the Customer

4.1. Generic Vs Proprietary branding

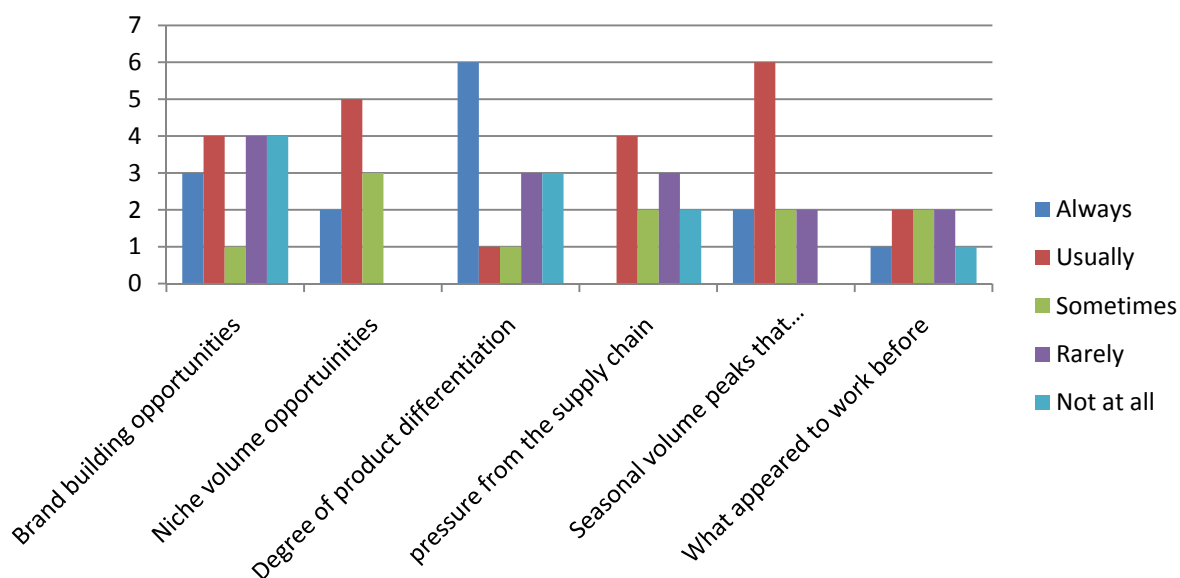
Generally, marketers are focused on building their own proprietary brands, and delivering the resulting increase in the value of their enterprises to shareholders. Within horticulture, that option has largely been removed from supermarket shelves, leaving generic promotion as an option.

Generic promotion can work, and work very effectively as a builder of demand, as evidenced by the success of both the Mushroom and Avocado industries, both over a period of time being able to substantially increase demand for their products by use of generic, demand building communication and promotion.

Retailers like this activity, as it builds their sales, without the proprietary brands taking a slice of the benefit. The catch 22 for the industries however, is that an increase in demand is usually matched over time by an increase in supply, and where the supply comes from new growers, rather than an increase in supply from current growers, the benefit does not accrue to those who funded the promotion. It is only where there are barriers to entry into the supply chain that the current industry participants benefit from the increased demand.

Proprietary branding is by far the better option, but limited in its application in the Australian market as noted, due to the chain supermarkets rejection of them.

Drivers of marketing & promotional decisions



The above demonstrates that industry participants believe promotional decisions are based on perceptions of the degree of product differentiation, followed by seasonal peaks to be moved, and niche volume opportunities. Lagging behind is pressure from the retailers, which would increase dramatically over time to become the major driver.

It is reasonable to expect a similar debate in Australia, as Driscoll's have come to Australia, securing a JV with Costa's, after an initial attempt with another supplier, and branded blueberries in Coles,

packed in the now familiar clamshell pack in which most berry products on supermarket shelves appear to be packed.

4.2. “Trade” marketing and Category Management

“Trade” marketing is the term used in the 80’s as the recognition of retailers as customers rather than just a link in the supply chain to consumers emerged. The term has morphed into “category management” a data intensive process of building the size and profitability of categories of supermarket lines.

In theory, category management is driven by consumer behaviour, with retailers responding to behaviour with offers and stocking policies that maximize their profitability by maximizing the experience for the consumer. In reality, in this country it has been a half hearted attempt at best because of the lack of consumer behavioural data. Only the most sophisticated and cashed up multinational FMCG suppliers have had the resources to develop the detailed understanding of consumer behaviour necessary to drive real category management.

However, this is changing with the advent of electronic data capture and mining technology, real demand driven category management will slowly emerge as a discipline required by chains as a part of the “entry price” to the supply table. This is however, some time away, even in the UK, where the use of data is far more advanced than in Australia, it is really only Tesco that have a good handle around the use of the data. Both major chains in Australia have been collecting data for some time via their rewards cards, but not using it, although expect Coles with the new formerly Tesco management to start the process of leveraging the data they now have into useable forms.

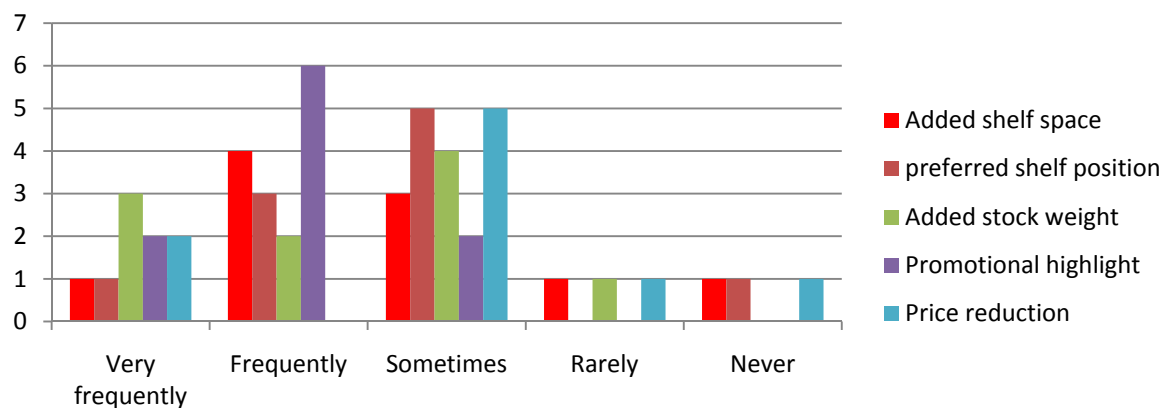


Source: Strategy Audit

Meanwhile, Australian suppliers remain biased towards building brands, despite the recognition that proprietary branding is not on retailer agenda's.

It is also recognized that the amount of support received from retailers, whilst OK, is generally less than most would like. The following graph describes the levels of support given across several typical promotional strategies.

Level of retailer support for promotional activity



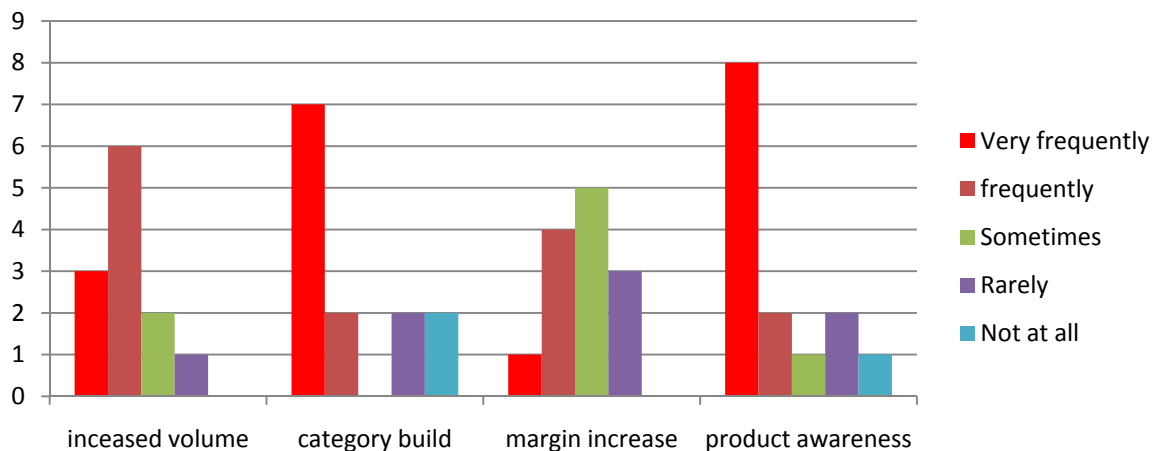
4.3. Promotional effectiveness

Assessment of the effectiveness of promotional expenditure is a challenge for all who deal with supermarkets, even the most sophisticated, as it is a source of profitability for retailers, and is therefore protected fiercely, and given the retailers size, they have all the cards. Promotional expenditure becomes just another cost of being in the game.

The advent of scan data, and the techniques for analysing masses of data scanners generate has given effective tools to assess promotional effectiveness, and it should be a key function of the category management/trade marketing function.

However, it is also useful to have a promotional objective every time you go into a program, even if you have little control over it, so that the outcomes can be measured against an expectation.

Promotional objectives



In the conversations about promotional effectiveness, a useful list of parameters emerged by which to measure effectiveness:

- ◆ KPI's of the individual promotion are met
- ◆ Volume and cost
- ◆ Price/value for money attracts consumers
- ◆ Consumer measures: awareness, preference, purchase frequency.
- ◆ Consistency over time
- ◆ Removing price and seasonality from numbers, volumes increase over time.
- ◆ Attract new consumers
- ◆ Long term demand generation

4.4. Consumer marketing

At the core of marketing programs is the need to understand the consumer, how they behave, what they may want or need that is currently not being delivered. There are many examples of businesses understanding their consumers, and setting out to address them in innovative ways.

- ◆ [Berry Gardens](#) in the UK have experienced 13% compound turnover increases over the last 15 years, and are now the largest berry supplier in the UK with a share above 30%. They aggressively promote their products with retailers, including the Jubilee Strawberry mentioned elsewhere, but rely on the [British Summer Fruits](#) organization to assemble the PR, and general material aimed at increasing overall consumption of berries. British Summer Fruits is funded by a levy of 0.65% of net turnover. The summer fruits activity builds demand, Berry Gardens addresses the demand with great products presented at retail.
- ◆ Australian Mushroom consumption has doubled over the decade to 2010, on the back of a concerted and long lasting PR program highlighting the [health benefits](#), [great taste](#) and ease of use of mushrooms. Health benefits, great taste, and ease of use have been the consistent theme, executed in different ways for 10 years, and it has worked well. The focus of the long term program has been assisted by the discipline of the industry, which is small in

numbers, (around 200) with just three producers delivering over 50% of the total crop. The use of differing web addresses to highlight different aspects of the industry is an interesting strategy that has clearly paid off.

- Similarly, the Avocado Growers association has successfully [increased consumption](#) several times over of avocados by providing reasons for new consumers to try, and continue to consume by use of recipes, PR, articles about the healthy great tasting avocado.

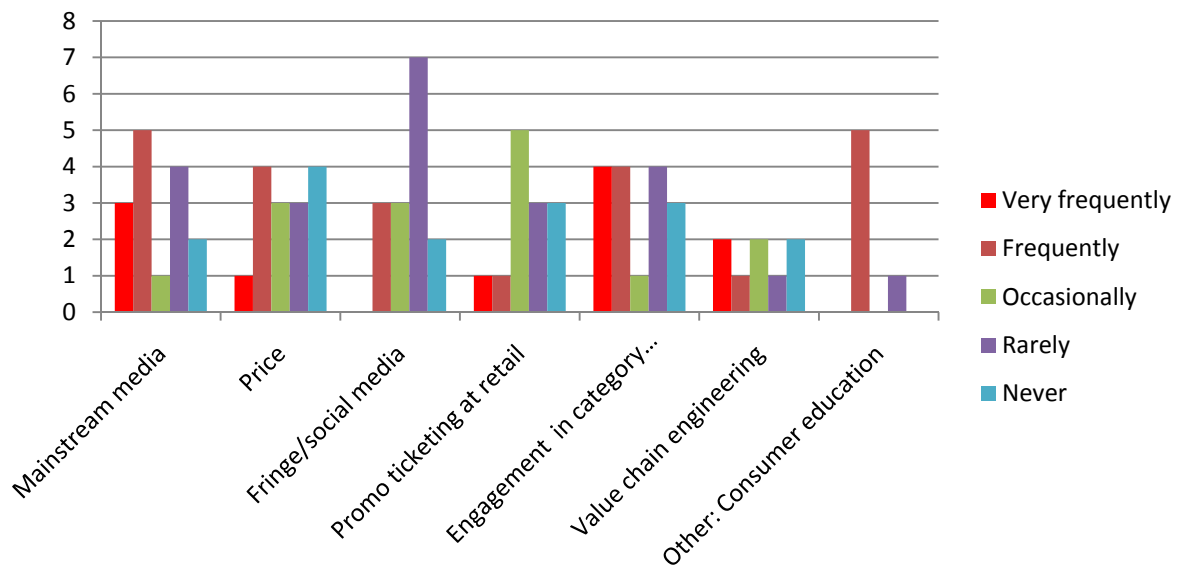
The avocado industry shares with the Mushroom industry the discipline and single minded focus that comes from having a firm, clearly articulated strategy that is implemented to the plan with performance measures, for activities and individuals clearly articulated, and they are prepared to experiment, and try things that have not been done before. It is interesting that both are experimenting with social media, whilst most of the horticulture industry is wondering about where it may go. The same can be said about Berry Gardens in the UK.

- ◆ McDonalds are not a usual model for horticultural lessons, but as they are a major buyer of produce, have quality and procurement processes that are standard setters, and have had great success on several fronts of produce, they are a model. They are also at the [leading edge](#) of major corporations that engage with their consumers, and their critics via social media, which gives them an extremely “granular” view of their consumers. McDonalds introduction of salads to their Australian menu a number of years ago was a major change for them from the burger based menu that preceded it. Research told them that there was a demand for salads, not huge, but offering salads achieved 2 objectives:
 - It enhanced their positioning as offering quick, tasty, and responsible food.
 - There is a significant part of the lunch time trade based on groups of workers combining lunch with ‘social” and often a group would go elsewhere because 1 member would not eat burgers and chips. By offering salads to the single consumers, they allowed the group to come to lunch at McDonalds.
- ◆ [Gaypak Citrus](#), a co-op based in Gayndah in QLD with 50 grower members have had an aggressive QA system for all product that leaves their packing shed under the “Gaypak” brand. Whilst the consumer may never see the brand, all their product reaches retailers via wholesalers, and to wholesalers, “Gaypak” is a mark of consistent quality, so they compete to sell it. Gaypak have also successfully run campaigns in specific supply windows with MMG Citrus in the UK, based on their great tasting, “easy-peel” mandarins.

Traditional mass consumer marketing, as noted, has little role in fresh produce, but still a role in packaged, shelf stable produce such as dried fruit. However, the opening up of digital communication channels has created opportunities to communicate with consumers without the costs of mass media.

Digital and social marketing is a new phenomena and even then most sophisticated marketers in packaged goods are just getting their heads around the opportunities, nobody in produce in this country appears to be doing much more than being aware that something is happening, and that it may have an impact on the way they approach their consumers.

Use of differing marketing & promotional tools



The outstanding response to this question was the “rarely” in relation to social media use as a promotional strategy. This is understandable at this early stage of development, but there is an opportunity waiting for those who experiment and in time master the social media techniques as they emerge.

Depending on who you listen to, the numbers thrown about counting social network connections vary substantially, but irrespective of the detail, they are huge. Facebook had its 5th birthday in March, and currently has around 700 million accounts, and counting, Linked-in a social network for professionals, has 100 million accounts, and there are a billion “tweets” every day. Penetration is just as impressive, 75% of the US population is using social networks (no idea what the number is in Australia, but it is unlikely to be much different), and 25% of the time spent on the net is with social networks.

Most of us know an opportunity when we see one! Setting out to measure this social activity is a real challenge, and getting to grips with it is in its very early stages, perhaps “Model T” stage, but the good thing is that there are free services that can be used to get a lot of information, it just can’t tell you how to use it. Sites such as [Radian6](#), offer a great free service, but will always be trying to sign you up for a paid service that offers just a bit more functionality. Free is good to start to learn.

As noted, consumer marketing in produce is limited to promotional and generic category building activities. In the UK, this move is far more mature than Australia, and an industry has been spawned as an offshoot of the mass marketing advertising industry that specializes in consumer promotion activity at the point of sale.

5. Use of Data

The generation, dissemination and leveraging of data by increasingly varied electronic means has become an integral part of every business. Failure to develop strong competencies in this area will strangle any attempt to be more than a hobby business.

5.1. Value chain data

The capability to assemble and manage data from end to end of the value chain for use in traceability, inventory management and flow, process control, quality management, and elimination of waste is rapidly becoming essential. Increasingly retailers are aligning themselves with specific value chains, so the competition is not just between retailers for the consumers dollar, but between competing value chains.

Whilst this has not been the case in Australia, as there are really only two retailers, it has been the case elsewhere for a while. For many years, in Hong Kong, if you supplied Cold Storage, that virtually eliminated the possibility of also supplying Park 'n Shop, and whilst this was essentially an emotional position, it set the tone.

In the UK, being a major supplier to Tesco makes you ineligible to be also a major supplier to Sainsbury, and vice versa. It is a little less aggressive about the other retailers, as they are less face to face competitive, and have different positioning, but it is nevertheless, still aggressive. The trend is emerging in Australia, large value chains emerging, like those already mentioned, that supply primarily one or the other of the major retailers, but not both. Supply of both implies a lesser strategic relationship.

In this environment, control of the value chain via data can be built into a competitive advantage. The system developed in Australia by GF Associates is just one example. This system has quietly worked its way into many corners of horticulture in Australia, providing a great deal of highly tailored and useable of information.

5.2. Quality systems data

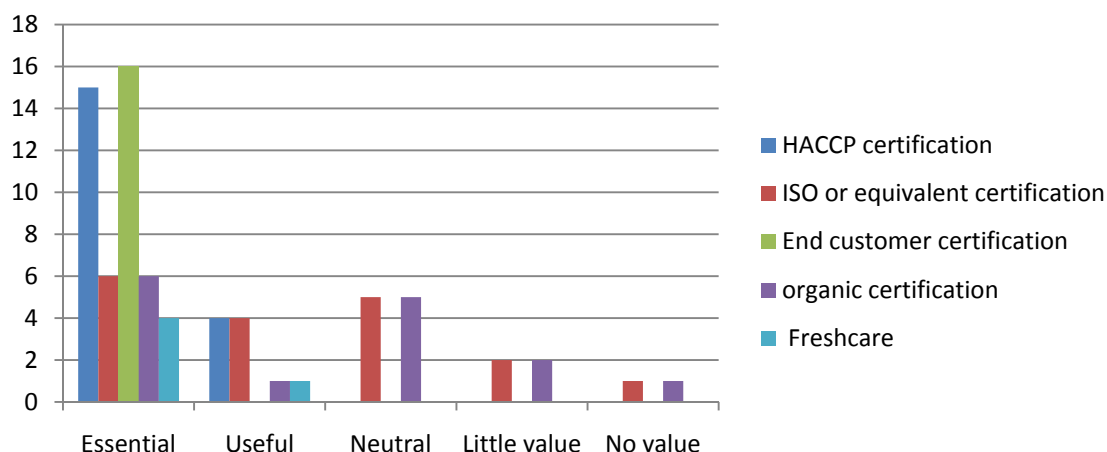
Quality systems are now an integral part of any supply arrangement with retailers beyond a farmers market. Both retailers in Australia have systems that whilst very similar, are proprietary, and a barrier to entry. This is also the situation overseas, where there is even more emphasis put on the management of quality.

In the UK, most fruit, and much of the vegetables consumed are imported, so the quality management regimes of the retailers are extended to the farmers elsewhere in the world. As the retailers put their own brand on produce, no tolerance and little flexibility is extended, and as in Australia, each retailer has its own system.

However, there is emerging a revised version of the EurepGAP quality system introduced a decade ago with limited take-up, [GlobalGAP](#). This system, of which only one Australian participant in this work was aware, is intended to be a framework from farm to consumer that “ticks all the boxes” required by all the European and US retailers, and whilst GlobalGAP accreditation needs to be supplemented by, for example Tesco accreditation, it would make the process easier.

Participants are under no illusion about the importance of quality management systems to their businesses.

Importance of quality certification



Clearly, it is understood that retailer systems are not negotiable if you choose to work with them, and HACCP certification is seen as an essential tool. ISO has pretty much fallen out of favour, and Freshcare is the fallback for all businesses.

Interestingly, whilst organic certification is seen as necessary only if you wish to sell certified organic produce, there is a recognition that organic certification, or movement towards certification has a role to play in the management of farms using biological controls. Bio control, as noted is a big issue in the UK, and it seems the attitude is filtering through to Australia.

There was a further question put to domestic respondents about the pressure to implement and manage quality systems and the response was totally unanimous, the pressure is increasing.

5.3. Retailer data

Retailer data in Australia has progressed from warehouse withdrawal, to scan data, but has the disadvantage of being a profit centre for the retailers, and therefore expensive. However, the limitation of this data has been the lack of consumer behavioural and demographic data, as noted previously.

Coming available to a smartphone near you is a range of “Apps” that feed into an astonishing array of data that has the potential to be used by retailers and their suppliers to target offers that will be attractive to specific consumers based on their purchase history and demographics. Both Coles and Woolworths have the potential to access and leverage this data across all their retail formats, but have yet to make the investments necessary.

In the UK, the use of this data was pioneered by a research company, [Dunnhumby](#), (named after its two founders Edwina Dunn and Clive Humby) on behalf of Tesco. It has proven so valuable, that Tesco recently purchased Dunnhumby which now operates as an in-house research facility, which does contract to suppliers, but not to Tesco retail competitors. Tesco’s competitors all use a competitive service, “Nectar” which has not evolved as far as the Dunnhumby system.

The data all suppliers appear to use is “TNS” data, which provides a consumer panel service. Consumers scan their purchases as they return home, and the data is transmitted to be analysed and reports assembled. A similar service is provided in Australia by AC Nielsen, called “[Homescan](#)” and it is widely used by the large FMCG companies to target their marketing efforts at the right consumers, as the data is segmented by demographics, lifestyle, behaviour, and past purchases.

The essential difference being in the UK, all retail buyers use panel data as a source of competitive “gains/loss” analysis in their categories, and as such question suppliers who are therefore compelled to buy it, and it is not widely used in this manner in Australia, at least not in produce categories.

The following link <http://www.kent.ac.uk/kbs/applied-research/vcr/defra/resources.html> is to the resources centre of the University of Kent, on which there is 16 case studies of the use that has been made of Tesco data by Dunnhumby to address a range of questions relating to consumer behaviour raised by Tesco suppliers as they set about building capability in their businesses.

Worldwide AC Nielsen have completed and just released a survey of [retailer housebrand](#) sales penetration. Like all macro data, it is hard to draw conclusions, apart from the obvious, that the growth of Housebrands in Australia will continue. There is also a specific “state of the nation” report on Australia, published in the [Foodweek annual report](#) issue in December.

The collection of data from POS scanners and customer cards is enhanced by having packaged product. In Australia, very few produce categories are packaged, and when they are, consumers suspect the quality of the product, whereas in the UK, almost all products are packaged.

Packaging enables better organisation of categories, with differing price-points, product volumes, and promotional offers, which facilitates category management. A trend towards packaging in Australia, which will drive capital investment and scale building by suppliers, can be reasonably expected. The downside of this trend is the added used product packaging entering the waste stream.

6. The consumer

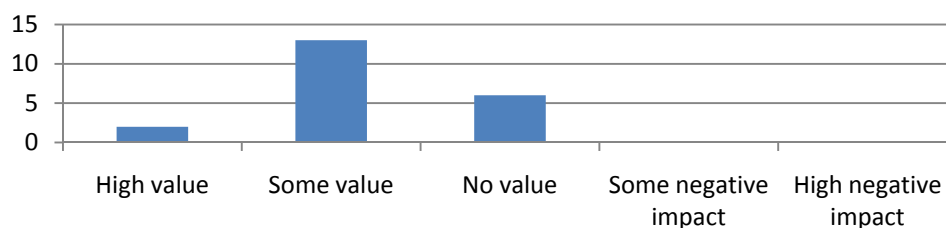
6.1. Product Origin.

The views of respondents to the use of “Product of Australia” a widely used description that most consider to be useful are mixed. Most respondents think that it does no harm, and all other things being equal it is useful, but does nothing to change consumer behaviour.

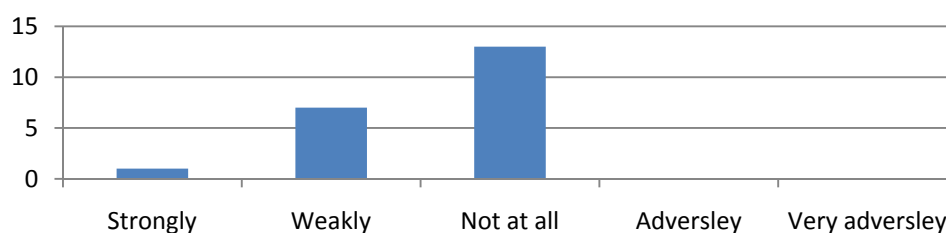
However, the first shipment of Chinese apples which arrived in January this year was not accepted by either Coles or Woolworths, and many independent retailers. The product was slowly “leaked” onto the market by an agent in Flemington. This may just be the reaction to the first shipment, and will not last, but it will discourage further imports in the short term.

Those who were engaged with export of horticulture believed that product of Australia did have value in international markets, but was not a significant factor.

How much value does Product of Aust have



Does Product of Australia change consumers behaviour



6.2. Social media usage

For a discussion of the [impact of social media](#), and the new marketing imperatives, there are many resources on the net; this is one that offers good statistics and useful insight. “40% of US Smartphone owners compare prices on their Smartphone whilst in-store shopping for an item”. Even if you dismiss this as biased research, and say it is 10%, or even 5%, it is still an astonishing number using a technology barely invented just a year ago, and not really easily available in Australia yet. Smartphone penetration in Australia was [tagged at 48%](#) in early 2010, and is probably well over that now.

The [Tesco Club card](#) is being used as a tool to support apps that do all of this, hooking into location software that compares prices, offers discounts at participating outlets, makes tailored offers, networks an individual comments others have made about a product they are considering purchasing, the list goes on.

Also of interest to UK consumers, and accessible by both computer and mobile devices is a site called [mysupermarket](#) which has a comprehensive list of products and prices so the consumer can locate their nearest stores, and compare prices, for a full shop, or just a few items.

Consumers are looking for alternatives, [Farmers Markets](#) have grown substantially over the past few years as consumers seek fresh and sometimes organic produce where they can talk to the producer. This trend is also evident in the UK, where sustainable practices have emerged as strong drivers of behaviour in the UK, much more so than appears evident currently in Australia.

The extent to which this is being taken seriously overseas is evidenced by the Wal-Mart push to “green” all its activities by moving to having all products it stocks have a carbon footprint calculation on packaging, the success of Marks & Spencer in the fast Company top 50 innovative companies noted previously, and the apparent success of membership organizations [LEAF](#), (Linking Environment And Farming) that seeks to encourage sustainable farming.

7. Prognosis

- ◆ Small suppliers of generally available products will usually go out of business, they will be unable to compete in the mass market. A few will survive based on location, or some other distinctive characteristic, by selling in farmers markets.
- ◆ Retailers will get better in the supply chain as they partner with fewer, larger suppliers, this will put pressure on the currently evolving independent trade. They will need to continue to evolve their business model, and the value they deliver to consumers to compete.
- ◆ Investment will become a huge stumbling block. Bankers will be reluctant to lend large amount of money without supply contracts, locked in volumes and prices. Retailers will be reluctant to offer contracts of sufficient length to satisfy lenders.
- ◆ There will be fewer, larger farming operations, run like factories. The Costas tomato operation in Guyra is an early example of the sorts of investment that will become the norm.
- ◆ Environmental sustainability will increasingly become a mainstream concern for consumers, and the supply chains will need to respond, but for good commercial reasons, not for the emotional reason of “being green”.
- ◆ Imports will grow as the “bio barriers” are reduced in the interests of bi-lateral trade.

Research Details

In collecting the data for this report, 21 interviews were conducted in Australia, 5 over the phone, the balance face to face. In the UK 16 interviews were conducted, all of them face to face.

Note: Caution should be exercised in reading the graphs recording the outcomes of the interviews, as the numbers involved are not statistically significant. All care has been taken to ensure the interviewees were accurately represented, but statistically it is a small sample. The important part of the interviews was what was said in conversation, rather than the recording of the quantitative answers to questions.

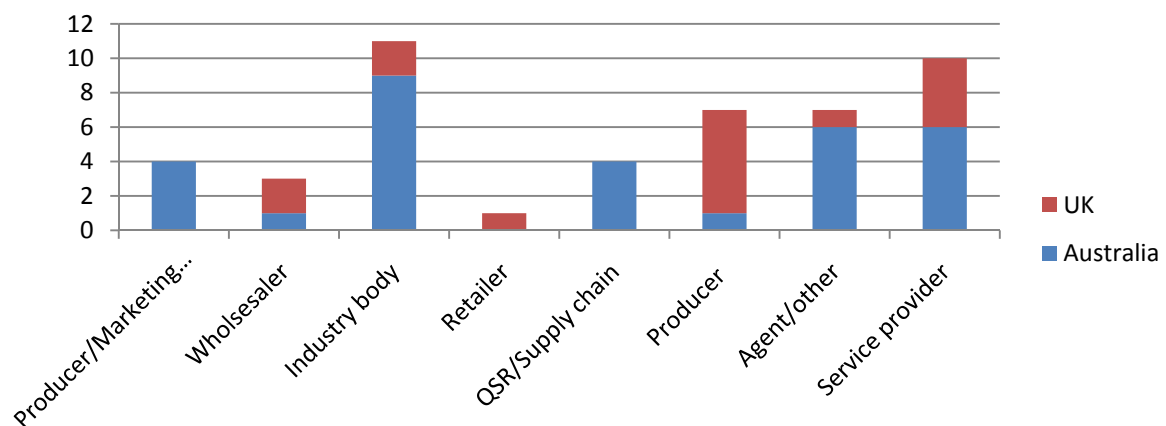
The table below depicts the spread of role in the industry played by interviewees, a number of the Australian interviewees fall into two categories, all the UK interviews fall into one category only. The distinction between “producer”, and “producer/marketing group member” is simply that the latter are producers who act with others to market at least some of their crop, but “producer” acted entirely alone.

Interviewees

Name	Organisation	Role
Tony Cassone	Voita West	ANZ manager
Mano Bablioakis	Global produce	CEO
Gerard McEvilly	Horticulture Supply chain services	CEO
Peter Hislop-Spears	Transparent Marketing	CEO
Graeme Forsythe	GFA Associates	CEO
David Gibbs	McDonalds	Director Purchasing
Bernard hall	Caenavon Farms	Joint CEO
Antony Allen	Avocado Growers Assn.	CEO
Terry Rudge	Rudge Produce	CEO
Tim Kelf	MLA	Projects
David Chenu	HAL	GM Marketing
Brad Latham	Sydney Market Authority	CEO
Gerome Raco	Holman Fresh	CMO
Michael O'Keefe	Premier Fruits	Director
Peter Haydon	Australian Pork Ltd	Marketing Manager
Dianne Fullelove	Australian melon Association	Exec Director
Chris Papas	Australian Macadamia Soociety	Communications Mgr
Jim Howson	Bennelong Holdings	CEO
Greg Seymour	Aust Mushroom Growers	CEO
Jonathan Eccles	Aust banana Growers Association	CEO
Russell Vardanega	Woodside Road Investments	CEO
Paul Haynes	MMG Citrus	Commercial Manager Citrus
Andrew Boxall	Norman Collett Ltd	Supply and Logistics Manager
Andrew Tinsley	HDC	Technical manager

Scott Raffle	HDC	Communications Mgr
Richard Harnden	Berry Gardens	Technical manager
Ben Bishop	Bishops grocer	CEO
John Giles	Promar International	Director
John Hall	John hall Consulting	Director
Tom Spragg	Barfoots of Botley	Operations manager
Steve Yardley	VBH herbs	Operations manager
Peter Hill	Hill Brothers	CEO
Peter Zwinkels	Madestein Ltd	CEO/owner
Bob Horn	Tangmere Airfield Nurseries	Operations manager
Liam Gilbert	IGD	Account Manager
Andrew Fearne (Professor)	University of Kent Business School	Professor of food marketing

Role of interviewees



Case Studies

Jubilee Strawberries.

Background

- ◆ [Jubilee](#) is a “branded” strawberry variety that came out of the development work done by [Driscolls](#) of the USA in JV with [Berry Gardens](#) in the UK. What started as a selective breeding program in 1997 based on existing Driscolls varieties has evolved into the leading premium strawberry variety, from 30 plus varieties available, in the UK. Driscolls over a long period have focused on developing varieties of berry that delivers taste to the consumer, sometimes at the expense of the logistic resilience of the berry.
- ◆ Berry Gardens hold a share of around 35% of the UK berry market, making them one of the two largest suppliers to the market, who together hold around 65% of the UK market.
- ◆ Berries in the UK are a relatively larger market than in Australia, mostly grown in green houses, so they are on sale year round, whilst carrying seasonal bias to spring and summer. Additionally, there are a number of seasonal events that generate high sales peaks, Christmas, Easter, Mothers day, where promotional activity can add substantially to volumes.
- ◆ Retailers love berries because they carry a high value/retail area, and are very “promotion friendly” both on their own and in cross promotions with other products. All products are packaged, branded in some manner in clam-shell PET packs.
- ◆ The berry industry pays a 0.65% levy on revenue net of trading costs and cost of production to The [British Summerfruits Association](#). The association through its main website and its sub site [Seasonal berries](#), uses the funds to build generic demand for berries using activity, such as recipes, health information, celebrity interviews and usage ideas.
- ◆ Individual members have their own competitive and trading arrangements with their customer base, the association is not a commercial operation.

Current situation

- ◆ “Driscolls” Jubilee strawberries were launched progressively into the retail trade as a premium strawberry, and has been very successful, creating a new “premium” strawberry segment in the market and by default, leading to other premium berry products being of interest to retailers.
- ◆ As the success has built, Berry Gardens have come under increasing pressure to replace the “Driscolls” Jubilee brand with the “relevant “Housebrand” Jubilee, which they resisted until a very recent decision to concur in the face of restricting retail distribution, margin squeeze, and increasing competition from other premium varieties that have been introduced by competitive producers.

Lessons

- ◆ The retailers value NPD, and expect their major suppliers to undertake projects, at their risk, as a part of the service offering.
 - NPD is a long term and risky proposition, with no guarantee of a return, even from successful innovations,

- However, for a supplier not to innovate is to accept a minor place in the retailers repertoire of suppliers, which is limited to only a few in each category. This is a core strategic challenge for suppliers, one that will increasingly face Australian producers.
- Retailers want exclusivity on innovations that work with consumers, and this is a key item in negotiations. Had “Driscolls Jubilee” been sold through one of the major retailers only, rather than all of them, Berry Garden may have had a better chance to retain the branded identity, but would have removed themselves from 70-80% of the market potential.
- The power of the retailers is such that even the most successful and determined suppliers have problems maintaining a branded presence in the retailer after an initial period of establishment of a category extension, or successful new product introduction. The pressure comes from the followers who will match the branded offering at a cheaper price in order to gain volume. In Australia, the branded version will not even get a run in the major supermarkets, so a branded product is restricted to the minor retailers and alternative channels.
- In an environment of limited branded opportunity, generic marketing when well done has a real role to play.

The Australian Avocado Association.

Background

- ◆ 15 years ago the avocado industry in Australia was a far smaller, more fragmented, and internally competitive industry than it is today. Consumers were few and far between and “Avos” were not a product that had a wide household penetration.
- ◆ The original industry organization, the Avocado Growers Association was a federated organization that suffered from being geographically and philosophically fragmented and was failing to deliver benefits to the growers. In 2003, the organization structure was altered to a more representative, and centralized structure, deemed as necessary to generate industry growth. After wide consultation an industry strategic plan, signed off in 2005, was produced that supplied the framework for growth since that time.
- ◆ Out of the plan emerged a priority to provide the industry with information that would assist the industry to successfully market their products.
- ◆ A system, known as “Infocado” has been progressively developed and introduced over the last 5 years in modules, aiming to capture the flow and quality of product through the supply chain. It now has very wide acceptance and use by the industry participants. The “price” for participation by supply chain participants is that they supply information to the system, which aggregates it, and reports. The modules in order of implementation have been:
 - Pack house stocks, recording variety by size pack and number.
 - Short term supply estimates, a rolling 4 week estimate of supply expectations. This data is fundamental to managing the promotional programs and smoothing out supply fluctuations.
 - Long term forecast. A rolling 15 month forecast of supply expectations, enabling long term planning with some degree of certainty.
 - Wholesale module. Recording deliveries, sales, waste, and closing stock in the wholesale system.
 - Plantings database, which is still evolving to capture the plantings by block, grower, type, and productivity.
 - This data together gives a very clear picture of the state of play throughout the supply chain. Still missing are demand metrics more robust than simple extrapolations of the past, the current forecasts are a good first step, but are a way from capturing demand.
- ◆ New Zealand production is fully integrated into the system, being treated as just another pack house.
- ◆ As a foundation, the necessity for transparent control of the supply chain along with the development of systems that enabled supply, quality, and planning data to be assembled and distributed. This has been the factor that drove alignment of the chain towards meeting the customers orders, although the various marketers of avocados remain intensely competitive.
- ◆ Export activity was minimal and erratic characterized by ad hoc market floor purchases on an opportunistic basis by exporters with an order, primarily into the small markets in major Asian cities.
- ◆ The association has used the levy funds to pay for the infrastructure that has generated this alignment of industry members, and to building demand amongst consumers. Their

[promotional efforts](#) have ranged across PR, recipes, promotional events and material, and more recently into [social media](#), and as a result the demand has grown substantially, as has the supply to meet the demand in an orderly manner that keeps consumers coming back and customers prepared to allocate increasing shelf space and promotional opportunities to the industry participants. The core lesson in the marketing activity is not the detail of each activity, but the longevity of the co-ordinated effort to build demand, supported by the certainty that the product delivered will be of a consistent quality, and that it will be delivered on time, in full. However, of note is one of their initiatives to engage mothers of young children by providing pre-school institutions with material pointing out the health benefits of avocados to young children, the result being that many mothers now include avocado in the early diet of their kids as they move onto solid foods. This sets up a lifetime of “avo” consumption as the kids grow up.

Current Situation

- ◆ Reporting out of the system is comprehensive and automatic, and at any time offers a view of the flow, quality and packaging of all product in the system, about to enter it, where it was sold, and into which channel it was sold. The weekly reports cover:
 - Sales and stocks by location, variety, and pack type.
 - Forecast availability short term, next 4 weeks, and long term, monthly for 15 months.
 - Comparisons of forecast to actual, sales, pick volumes, pack sizes,
 - Price averages by location, pack, and variety.
 - There are additional reports monthly, and longer term generated to assist planning.
- ◆ Export is managed by a separate company, whose shareholders are a number of the major pack houses. 3 years ago it became obvious that there was an emerging excess of small fruit in Australia, that could not be sold, but the Asian markets prefer the small fruit, so the separate company was set up, and is treated as a separate customer. The net impact has been to be able to reliably manage supply into export that would otherwise have gone to pig food, enhancing grower returns.
- ◆ Robust growth appears to be continuing in all growing areas, and returns to growers in the industry are attractive.

Lessons

- ◆ Collaboration on “pre-competitive” items like product availability enables the marketers to better service their customers, by ensuring the growing consumer demand will be met consistently with quality product that brings the consumers back to the store for more.
- ◆ Demand building consumer directed activity can be very effective. The association is spending the money does not sell product, that is up to the marketers, and to do this, the information from Infocardo is an essential tool of trade.
- ◆ In the “which is the chicken and which is the egg” question about information, and marketing, it is clear that the information is a vital tool to effective marketing and promotion, and without the information, the marketing efforts is substantially compromised.

- ◆ It is now clear that the vital ingredient in effective marketing is information about the demand, matched with information on supply. There is still much work to be done on the demand end, but information on supply is now readily available on the basis of collaboration, and joint IT development, the output of which is available to those who contribute to the information flow.

Note

The IT underpinning “Infocardo” is supplied by GF Associates, a Sydney company that has developed this expertise locally. It also supplies similar services to the Persimmon industry, which was the first to undertake this sort of value chain innovation, the macadamia industry, “Macdata” which is just starting up, “InfoCitrus” which has been running in the citrus industry in QLD for three years, and is now rolling into other states for the coming season, and major parts of the wine industry. All these systems are conceptually similar, but tailored to the needs of the industry participants.

Barfoots of Botley

Background

- ◆ [Barfoots](#) are a major supplier of corn, squash, asparagus and other vegetables to the UK supermarkets from 3 locations in the UK, and 1 in Spain, which co-ordinates procurement from Spain and Northern Africa. Their foundation product is sweet corn, but it now is just a part of the wide range of vegetables. They have grown into a major supplier by combining quality, service, innovative products, cost management, and more lately, environmental integrity in its offer to consumers and customers.
- ◆ They have all the major supermarkets as customers to varying degrees, but the emphasis is on supplying and responding to the needs of Tesco and Marks & Spencer. In both cases they are a major supplier across a number of categories of produce.
- ◆ Tesco and M&S both expect that in return for their business, suppliers will offer:
 - Predictable and consistent flow of product meeting tight specifications that includes a wide range of physical characteristics, as well as zero chemical residues. The source of the product is irrelevant.
 - Environmental programs to reduce generation of carbon and waste, and usage of power, water, and other inputs.
 - Product development initiatives to increase the retailers share of a category.
 - Consistently lowering prices
 - Participation in promotional programs.
- ◆ In M&S's case, their corporate values and source of competitive differentiation is about being green, and as noted elsewhere, they have been recognised as highly innovative in this effort. However, much of the burden falls on suppliers to bring to M&S initiatives that can be held up as being consistent with this effort.

Current Situation

- ◆ Barfoots have installed, and are about to complete commissioning of an anaerobic fermentation process that consumes not only their vegetable waste, but potentially that of others in the local area. This initiative will eliminate the vegetable waste stream, and produce methane gas which is being used to generate power to run the plant, and sell the excess into the grid. Sludge from the tanks is a highly useful compost for reuse in their greenhouses, and all the water is recycled. This has been a multi million pound investment.
- ◆ Barfoots spent considerable time developing a way to insert a bamboo stick through a top and tailed corn cob to assist eating the cob, and BBQing it. The concept was tested in a food service environment using products that had the stick inserted by hand, before presentation to Tesco. Prior to a launch by Tesco, they spent even more money to automate the insertion of the stick, then packaging the product, all with no undertakings from Tesco about ranging or volumes. Fortunately, the product has been a success, giving Tesco something consumers want, but that is not available from their competitors, at least in the short term.
- ◆ The other side of the coin, under pressure from the Tesco buyer, Barfoots spent 3 years developing the protocols to grow aubergines (eggplant to us) in a glasshouse as a means to reduce the supply chain cycle time from Africa, and increase the consistency of the product. Considerable resources were devoted to the project, which was just about to go commercial, involving capital expenditure on a glasshouse when the Tesco buyer changed. The new

buyer was unprepared to accept the nominal price increase associated with the local glasshouse product as a trade-off for fresher, and more consistent product, so the project was canned, to Barfoots dismay. However, the IP developed has considerable value, and will be leveraged at some point in the near future.

Lessons

- To maintain a “seat at the table” as one of the 2 or perhaps 3 major suppliers in a category to a supermarket chain, a supplier must be prepared to invest in the relationship, with no guarantee of return.
- Being “green” is not a matter of “doing the right thing” and accepting the cost, but a commercial challenge to look at things through a different lens, see ways to reduce costs whilst contributing to the “greening” of their products and services, then being prepared to invest in the new ways. In effect, environmental sustainability and commercial sustainability are inextricably woven together.
- New product ideas can be tested in low volume channels, test marketed in ways that do not incur large costs before gearing up for the volumes a successful consumer launch through mass channels will generate. This “prototyping” will become increasingly important as the costs and risks of a funding an untested initiative increase.
- The scale of operations should be considerable in order to be able to fund the investments necessary to maintain the level of service required at the low margins on offer. This scale can be horizontal, vertical, or both, as is the case with Barfoots, and need not be an exchange of equity. Modern electronic collaboration tools and the psychology of collaboration using them are rapidly changing the nature of collaborative efforts to enable non equity collaboration for mutual best interest.

University of Kent, Value Chain Research Centre.

The University of Kent Value Chain Research Center is collaborating with IGD and Dunnhumby on a project basis. Elsewhere in this report there are links to both IGD, and Dunnhumby, but following are presentation outlining the outcome of analysis of the Tesco/Dunnhumby data by Kent University personnel.

Case 1. “Overview of supermarket sales of carrots”

This project set out to identify the dynamics of the carrot industry in the UK, its growth, household penetration, and frequency of purchase, analysed by the shopper segments: location, lifestyle, and lifestyle and behavior.



Fearne Carrots.PPT

This presentation contains an extraordinary level of detail that relates to purchase and consumption patterns of carrots, and can be used to target promotional offers and activity towards segments that will deliver the best value, both for the immediate activity, and to the longer term category growth. This level of detail is the missing link in the development of robust models of demand, which is the holy grail of category management.

Case 2. Identification of the consumer profile of “Grove” brand organic juice.

The owners of the “Grove” organic juice business were seeking to build a profile of the users of products in the organic juice and related categories, as a means to target their promotional activities.

Again, the source data is Tesco Club card data, massaged by Dunnhumby and analysed by Kent University researchers. It offers an extremely detailed view of the consumers of organic juice, which will allow Grove management to make informed promotional investment decisions.



Grove - Juices - April
2011.ppt

Lessons

- Consumer behaviour data can be used to target brand and category building activity and category management initiatives that will generate the best return to both suppliers and supermarkets.
- This data whilst extraordinarily useful, involves a high degree of data capture and mining capability, not usually found in single organizations other than the multinational FMCG suppliers. For produce suppliers to gather this consumer data will require collaboration both with each other, and the retailer who has control of the data generation process at the checkout using the retailer cards.

MMG Citrus

Background

- ◆ MMG citrus is part of the larger Fresca group of companies, all of which supply produce to supermarkets, but who operate independently. It was formed 2 years ago with the formal integration of Mac Multiples Citrus, and their long term Spanish supply partner Martinavarro.
- ◆ Supply is sourced from around the world, including some from Australia, MMG having a clear charter, to *“supply the best product at the best time, at the best price, to their customer all the time”*. In effect they follow the seasonality of citrus from one location to the next, with major supplies from Spain and South Africa.
- ◆ MMG supplies a number of chains, but their biggest customer is Tesco. The supply to Tesco was shared between MMG and one other, MMG until this year having a share of 35%, their competitor having the balance.
- ◆ Considerable effort has been put into NPD as the means to build their business with Tesco.

Current Situation

- ◆ Over the last 2 years, MMG have tested a number of products and marketing concepts, including easy peel from Australia, as well as presenting two initiatives for 2011. They now have a guaranteed 50% share for this coming year on the back of this effort. The initiatives are:
 - A pack of easy peel citrus, which is best described as a 6 pack!
 - Satsuma mandarins tied up with a promotional program using licensed characters based on the Marvel comic characters, in an effort to appeal to kids. The photo below shows the shipper full, but as it empties, the inside of the carton is fully printed with the one of the Marvel characters, and the tags on the bags carry a promotional offer tied to the character.
- ◆ These initiatives are entirely MMG's, and all at their cost. Such is the price of gaining market share with their major customer, but the volumes involved, a guaranteed 50% of Tesco's business are very large.



Lessons

- ◆ The potential to increase the share Tesco's business makes the returns from a risky NPD effort worth the risk, but it is a risk that only a large organization could undertake.
- ◆ The scale of the operations as MMG citrus, vertically integrated to the largest orchards in Spain, supply arrangements in South Africa and elsewhere, and access in to the continental European markets via the former Martinavarro sales force offers the opportunity to balance their operations across a much wider field of customers. This wider customer base enables a better balancing of the total crop of suppliers, as the requirements in each market vary slightly, but sufficiently to take a larger share of the total crop.
- ◆ Investments in NPD pay off, had they not made them, their share would have been a maximum of 35%, and Tesco may have been looking for someone else who had the ideas to increase Tesco's share of the consumers citrus purchases.

