

SUPPLY CHAIN EFFICIENCIES AND THE GROWTH OF CATEGORY MANAGEMENT IN THE HORTICULTURAL INDUSTRY

A report for

NUFFIELD
AUSTRALIA
FARMING SCHOLARS



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FOREWORD

The fresh produce industry has been for two decades one of the most dynamic and rapidly growing sectors in the global food system. A major focus for horticulture has been farm productivity, but in the last 10 years we have seen an increased focus on improved technologies not only in farm productivity, but throughout the whole supply chain. More efficient and effective systems and relationships have established horticulture as a very sophisticated industry. A major contributor to the progressiveness of the supply chain has been consumers, whose consumption of fresh fruits and vegetables has continued to increase over the last 10 years. The ultimate success of fresh fruit and vegetable production and marketing systems will be determined by how well we respond to consumer demand and their continual changing preferences.

Despite the battle of 'fast foods' versus fresh food, and the ever expanding chains of fast food outlets globally over the last 20 years, there has been a resurgence of fresh food linked to increased consumer education about the benefits associated with fresh fruit and vegetable consumption.

In the face of growing Australian consumer sophistication, retailers and suppliers have increased pressure to deliver products that will ensure consumer satisfaction. Compelling global forces are changing the international food industry, directly affecting the competitiveness and behaviour of domestic retail market participants from food production, food trade and food retail. The manifestation of these domestic and global forces has to make way for a new shift in understanding the drivers of change, and how they impact the overall supply chain system to deliver new scope for the fresh produce industry – understanding the beginning and the end of the value chain.

The Nuffield Farming Scholarship has allowed me to explore the massive changes occurring in the fresh produce industry on a global scale and has given me the opportunity to capitalise on best practice models. It has proven to be a true learning experience, allowing me to look outside of my own backyard and to network and learn from likeminded, passionate and motivated people worldwide.

ACKNOWLEDGEMENTS

A full report would be required to thank all the individual people and organisations involved in my Nuffield journey over the last 18 months. It has been a privilege and honour to complete a Nuffield Scholarship and I will be ever thankful to the many people who have made this a truly wonderful experience.

To Nuffield Australia, thank you for giving me this opportunity to study an area so significant to our industry that will hopefully not only take our business into the future, but provide some scope and direction for all facets of the horticulture value chain. In particular, I thank Jim Geltch for his excellent organisational planning and support, and Janette Lees and Chontell Giannini for helping to make my travel plans come to fruition.

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Finally, a special thanks to the people who helped make my Nuffield Scholarship a reality. To my husband Andrew and my children Madison, Anabeth, Savannah and Hugh: without your love and support I could not have even applied for a Nuffield Scholarship, let alone successfully completed it. You all extended your roles in family activities and the work environment, and I will be forever grateful.

ABBREVIATIONS

CM – category management

POS – point of sale material

SKU – stock keeping unit

AYR – all year round

IOTF – International Obesity Task Force

GM – genetically modified

POG - plan-o-gram

RFID - radio frequency identification data

EXECUTIVE SUMMARY

With retailing becoming more sophisticated around the globe, and with an international trend towards global expansion of retail chains, it is compelling that all participants engaged in the fresh fruit and vegetables supply chain, and the Australian retail market, have an understanding of the global forces affecting competition and consumer behaviour.

With increasing complexity of consumer wants and desires, global economics, advancing technologies, changing demographics, and global marketing trends, suppliers and retail chains involved in the horticulture supply chain must be prepared to adapt and drive the required changes.

Global trends and forces will impact directly on current market dynamics, calling for: rationalisation of suppliers; more specialists within the whole-of-supply-chain; private label expansion; cost reductions across the whole-of-supply-chain; and expansion of independent and international retailing. It will be critical that the growth opportunities presented by these changes do not impede the exposure of the cost pressures evident across the supply chain.

This report focuses on fresh fruit and vegetable suppliers involved in the whole-of-supply chain including retail chains in Australia. The report draws a direct relative comparison with international retailing and suppliers, looking at how they have invested and focused on understanding the forces associated with trading in a fiercely competitive retail environment.

Today's highly educated and discerning consumers demand not only quality and value in fresh products, but are more importantly concerned about production sustainability and retail traders' corporate responsibility and integrity. In some instances, consumers have reached an information level on a par with retailers.

To remain viable and sustainable in this increasingly dynamic market, Australian producers must focus on innovation and knowledge development. In today's turbulent business economy, we must acquire an understanding of the changes driving both our own businesses and the business goals and strategies of the retail sector.

REPORT OBJECTIVES

The primary focus of my study was to look at supply chain efficiencies, particularly the growth of category management in the horticultural industry.

I aimed to develop a clearer understanding of the theory behind category management and the benefits that could be derived from this theory by the horticultural industry and retailing sector.

A secondary focus was to investigate the areas critical for improved industry success:

- drivers of retail change
- sustainable competitive advantage
- demands from retailing sector
- influence of discerning consumers
- lifestyle influences
- global trends in fresh produce
- supplier models
- understanding the effects of global forces on the retail environment

INTRODUCTION

Along with my husband Andrew, and his brothers Michael and Kevin, our family owns and operates SP Exports, a horticultural enterprise based in Childers, Queensland. Our efforts to provide the best and most innovative field-produced tomatoes has seen us evolve as the largest supplier of fresh tomatoes in the Australian wholesale and retail markets.

The Bundaberg region has traditionally had only two growing seasons each year, leaving a production gap from February to April and August to October.

Customer demand for a continual and consistent product supply from one source created the need for a year-round production program.

Over the past four years, we have developed and continue to enhance our approved external supply base. By working closely with a number of producers in Bowen, Bundaberg, Southern Queensland and Victoria, we are able to deliver a consistent supply of premium products year-round to major supermarkets in Australia.

The introduction of external suppliers has given us strength and greater influence, however this power has also presented challenges including the need for expertise to employ category management within Australia's fresh produce retailing sector.

Over the past 15 years, I have witnessed the company's dramatic growth from a business with a major production focus to one that recognises the value of marketing. I have had hands-on experience in all facets of the business, but in recent years I have concentrated predominantly on marketing - the area where our industry is experiencing major changes. We are no longer simply 'price takers'; we are becoming 'price setters' and a clear understanding of the marketing principals within the fresh produce arena is now essential if we want to retain and develop our company as an industry leader.

While category management is a natural progression for our company, this is a relatively new concept for the fresh produce industry in Australia and there are many requirements that we must satisfy if we are to achieve category champion status within the Australian tomato industry.

WHAT IS CATEGORY MANAGEMENT?

A brief overview of the theory behind category management (CM) must be defined to provide a thorough understanding of the principles of category management.

“A STRUCTURED AND DEFINED PROCESS FOR MANAGING PRODUCT CATEGORIES AS STRATEGIC BUSINESS UNITS PRODUCING ENHANCED BUSINESS RESULTS BY FOCUSING ON DELIVERING CONSUMER VALUE”

(Source FMI)

As a major supplier into the retail chains, there is an added advantage to both our business and the retailer if the principles of category management are used to maximise sales and profit by satisfying the customer's every need.

With this structure in mind, the relationship between the supplier and the retailer becomes more collaborative, with shared information creating a more transparent association. Importantly, suppliers are expected to propose actions within the category, developing and implementing point of sale material (POS), merchandising, advertisements and promotions, new product ranges, and packaging enhancements. These actions add to the consumer experience and boost total category sales.

For both suppliers and the retailers, important steps of the CM process must be understood:

(Source – Partnering Group)



The principals of this cycle can be quite complex, however most of the suppliers I visited adapted the cycle to create a shorter, more streamlined approach that was suited to their business.

The term 'Category Captain' was commonplace throughout the United Kingdom (UK) and the United States (US). Retailers nominate Category Captains in particular categories and there are certain expectations attached to the role. Retailers demand and expect that suppliers develop a close relationship with them, investing time, effort, strategic development and statistical analysis, and providing a point of contact for information regarding industry trends, production volumes and quality. This represents a huge financial outlay for suppliers, however in return it should ensure greater influence over retailers in decision-making affecting the overall category.

In Australia, CM in the fresh produce category is relatively new compared to the UK and US, where retailers have been using the CM model in fresh produce for many years. More larger suppliers/marketers in different categories are gradually partaking in the CM process.

What makes CM so different in the horticultural industry compared to other category managed products?

The horticultural industry faces many challenges to ensure successful category management, regardless of whether suppliers are from Australia, the UK, the EU or the US. These include:

- seasonality – most growing regions have particular supply windows that are best suited to product growth;
- linking seasons to achieve all-year-round (ALY) product supply;
- changing category products on a seasonal basis – particular products may only be available at certain times of the year; and
- In Australian retailing fruit and vegetable category's have an inability to buy shelf space.

Benefits of CM for the retailer and supplier:

The main benefit of category management, acknowledged globally, is its capacity to improve sales within the category. Achieving improved sales is where critical strategic planning is required:

- product innovation
- process innovation
- annual promotional planning
- retail price opportunities
- understanding competitors

- less suppliers – less competition
- measuring average sales by unit
- consumer focused – understanding consumer behaviour and the dynamics that drive demand
- merchandise and market to individual customer segments

Achieving sales is important, however we must also focus on growing profit by:

- selling more profitable SKUs
- strategic shelf placement of more profitable SKUs
- recognising and acting on retail pricing opportunities
- finding small opportunities for profit due to acquired category knowledge

How do we achieve CM?

Relationship building

Relationships and communication are essential to the operation of a successful category. This requires:

- a defined and disciplined approach to business management of the account;
- clear lines of communication and responsibility; and
- financial responsibility

Each strategy has components that different people in the business relationship will be accountable for.

The commitment and 'buy in' of both the supplier and the retailer are necessary for overall business account management. There must be a high level of understanding of the category, industry, financial position, retail position and goals for future direction. A dedicated marketer/supplier and retailer relationship must have an appreciation of the goals that all parties need to achieve, and a disciplined and realistic approach to how the business can be undertaken. Without this 'higher' level arrangement, the opportunity to have any major influence within the category will be limited.

Development of a key account management program

A key account management program allows the supplier account manager to engage strategies to deliver benefits both to the customer and also within their own business.

Regardless of whether the business is a large retailer or small independent operation, analysing the customer will contribute to the development of a strategic plan and will help to facilitate the supplier's transition from supplier to advisor.

Marketing companies throughout the world use this program for all key customers. Moving forward, this will be a critical tool to deliver outcomes for both retailers and suppliers in the Australian horticultural industry.

CM strategic planning

Decision making within a category is often price driven and disjointed, therefore there is a need for a value chain that is transparent and collaborative between three parties – the retailer, supplier and consumer.

The development of this strategic alignment and strong inter organisational relationship is one of the key elements of category planning. Without acknowledgment of consumer demand, strategic planning between the retailer and supplier will not deliver the correct outputs.

Recent changes have witnessed a shift from a Supply-Push position to a Demand-Pull position. Well educated, informed consumers are demanding that retailers deliver an end product that will satisfy each of their demands.

Customer focused

Acquiring knowledge on consumer buying habits is critical to the successful development of a category business plan for all retailers –global, independent or local.

Ignorance of who our customers and competitors are means that the industry often asks the highest prices when quality or demand is at its lowest and vice versa. Frequent inconsistency of quality and availability means that we disappoint our customer as often as we delight.

To overcome this situation, the major focus should be on suppliers and retailers, however these are rarely areas of focus.

To develop leadership and become more consumer-focused within a category, the following key questions must be asked:

- how can we add value to our customer?
- who is our customer's customer?
- who is the final consumer?
- how can we add value for the final consumer?

Both retailers' and suppliers' understanding of measuring the point of satisfaction is limited. A major mistake is that retailers and suppliers try to measure consumer satisfaction before the point-of-sale in the business/category planning stages, varietal selection stages, packaging or branding. The industry must understand that any measure of consumer or shopper satisfaction must be conducted post consumption.

“THE BIG TEMPTATION THAT GETS BETWEEN US AND OUR CUSTOMER IS TO THINK WE KNOW OUR CUSTOMER VERY WELL.

WE DON'T AND NEVER WILL!

THE BEST WE CAN HOPE TO DO IS INCREASE OUR KNOWLEDGE OF THE CUSTOMER ALL THE TIME.”

Feargal Quinn

Drivers of retail trends

Buyer behaviour changes

More food outside the home

New ranging

Increased technology

Packaging

Increase in private labels

Supply chain focus

Suppliers and retailers in Australia and across the globe are focused on product development with an emphasis on supply chain benefits i.e: agronomics; variety selection to increase taste and shelf life; packaging; GM; and reducing units within a category to lower costs. However the consumer and how they benefit is not considered seriously.

In the face of major environmental, sustainability, lifestyle and demographic trends, and global economy considerations, we have often put our marketing effort into what will benefit the supplier and retailer before the consumer. However we must realise that any marketing effort stops at the point-of-sale – the checkout.

Obesity

Australia is now ranked as one of the most overweight developed nations in the world. The rates of fatness and obesity among adults have doubled over the past two decades and about 20 to 25 per cent of Australian children aged between 7 and 15 years are considered to be overweight or obese. Statistics recorded in 1995 and 2004-05 using the same measure showed a significant increase in the percentage of males and females in both the overweight and obese groups across all age brackets.

(Source: Australian Bureau of Statistics, 2004/05 Summary of Results)

The new term for worldwide obesity – ‘globesity’ – is a reflection of the escalation of global obesity which is apparent not only in developed nations but also in developing nations. In China the number of overweight people rose from less than 10 per cent to 15 per cent in just three years. Southern American countries such as Brazil and Columbia have also experienced an increase, with 40 per cent of their overall population declared overweight. Twenty-five per cent of all Americans are affected

and this percentage is increasing. In all regions internationally, obesity or overweight conditions escalate as income increases.

(Source: International Obesity Task Force (IOJF))

Fast food versus fresh food is a topic that was raised many times in discussions with organisations during my global Nuffield Tour. Both the United States and Canada were focused on the value of fast food compared to fresh food and frequently referred to the 'Dollar Menu' –cheap but unhealthy food.

Fast food chains have been very successful in marketing their messages to consumers, but the question that remains is why fresh produce is overlooked as an alternative to fast food?

Australia has become a very 'time poor' nation and convenience is increasingly important to customers. However, convenience foods can and should still offer freshness. This is an area that should be better defined and focused on if the horticultural industry is to compete successfully against the fast food sector.

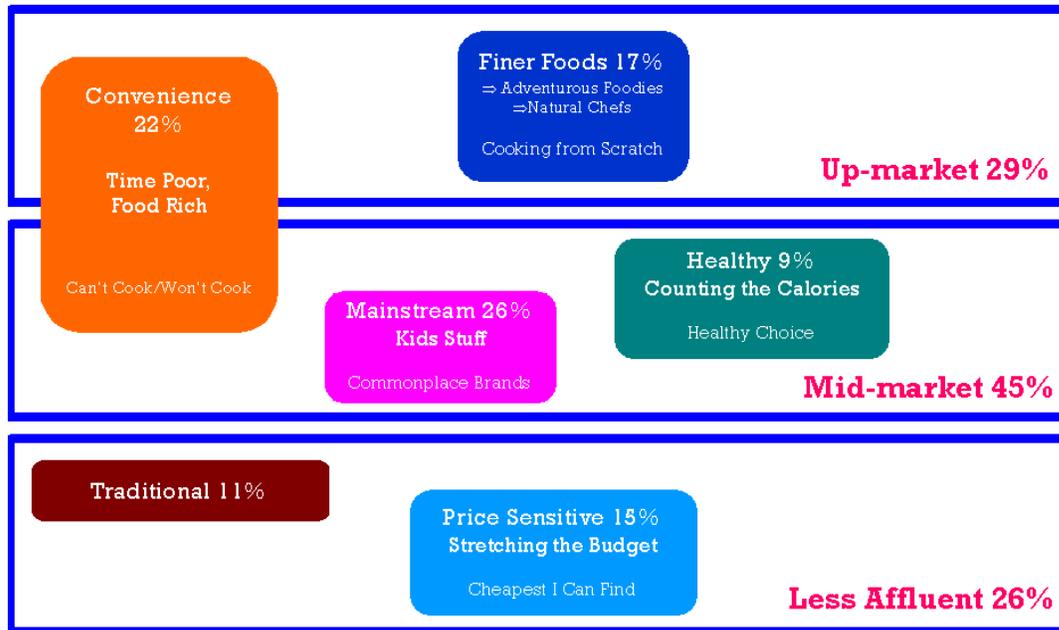
Consumer global trends in fresh produce

It is becoming obvious that customers are paying increased attention to the importance of social, ethical and environmental issues. In response, many retailers worldwide are becoming aware of their corporate responsibility and are committed to addressing these concerns by supporting programs and initiatives such as Fair Trade, organic, organic box selection, food miles, regional and local sourcing, heritage grown, waste reduction, ethical packaging, recycling, and energy efficiency to name a few.

In Europe and northern America, integrated businesses have enjoyed the advantage of working directly with retailers to ensure these programs' success.

It is critical for retailers and suppliers to understand consumer lifestyle hierarchies when launching new programs or developing new concepts. A Tesco's in the United Kingdom represents a sound example of a lifestyle structure (see graphic below). This structure recognises the importance of retailers having a clear appreciation of who their consumers are so that branded products can be accurately placed within the hierarchy structure.

TESCO UK LIFESTYLES HIERARCHY 2007/2008



Courtesy: Tesco UK 2007

There are many trends rising within the retail industry, all connected to changing consumer lifestyles. These have largely been triggered by the greater awareness of environmental sustainability synonymous with the 'green' consumer - a movement that materialised in the 1980s (Harper, 2002).

Influential factors that have shaped consumer demand include the need for convenience and product versatility; increased concern about price and value; a greater emphasis on healthier, fresher food; environmental and health benefits linked to local produce; and growing concern for the environment. These, in turn, have witnessed growth in value-added products, organic products, localised product programs, ethical and fair trading, and food miles. The 'green' movement has unleashed a positive influence on the fresh produce market, driving increased sales.

Many retailers have embraced the term 'green consumer', and this was particularly evident during my travels at UK retail chains Tesco's and Sainsbury's. Research shows these chains have increased their product lines in the fresh produce department in line with a 30 per cent increase in the number of British people buying organics each month.

Creating products for consumers that are convenient, yet healthy, has precipitated an increase in fresh cut foods (convenience foods) within the fresh produce market. This trend is obvious in the UK market and represents a fast growing category globally, especially in developing countries. In the US, convenience food is up

against a saturated fast food market, however convenience continues to be a driving factor, with the volume of convenient food sales increasing by 50 per cent over the past 10 years while preparation time has decreased.

The trend towards convenience foods is also being influenced by the growing number of smaller households and an ageing population. Research shows that at present, only 25 per cent of consumers undertake a weekly shopping visit, with the remainder making multiple trips for smaller portions of products in a more convenient format (Axtman, 2007).

It is therefore evident that mixed fresh cut vegetables present the greatest opportunity for the fresh cut vegetable category in Australia due to this area's growth potential.

The shift towards 'greener' products has also seen more options available in the organics sector, which has evolved as a niche market. With products becoming more affordable due to increased demand, organics is becoming another commodity option for consumers.

With the rising consumer interest in green products, part of my Nuffield Tour was dedicated to investigating how major international retailers have reacted to these trends. Both Tesco's and Sainsbury (UK) have introduced initiatives to capture this audience. Both major retailers are working with the Carbon Trust to establish a universal measure of the product's carbon footprint, with certification detailed on product labels. This will enable consumers to compare products based on their carbon footprint in the same way that they currently compare nutritional information and price.

With access to this information, consumers' attitudes and behaviour are likely to gradually change, placing greater pressure on businesses to lessen their carbon footprint as this evolves as a key purchasing driver. It is therefore anticipated that businesses who are among the first to record a low carbon footprint and provide this information could benefit from a competitive advantage.

Growing interest in food miles and carbon footprints has prompted some retailers internationally to support local produce, sourcing products based on values including integrity; fair-trade; ethical trading; sustainability; and reduced energy, water, transport, waste, and packaging. It is predicted that local products will therefore become more prominent as consumers become more concerned about product origins.

Organics

Interest in organic and environmentally 'green' foods has increased despite a rise in food prices. Organics has overtaken 'natural' as a buzzword for mainstream consumers interested in higher quality food experiences from the dual perspective of health and gourmet eating.

The change in consumer buying behaviour may be a result of increased media attention on environmental issues, with records showing that consumers are buying higher volumes of 'green' foods and expecting to pay approximately 20 per cent more for these items.

While traditionally the main barrier to organic produce for consumers has been product availability and affordability, increasing demand has attracted a higher number of certified suppliers, slightly reducing barriers and allowing organics to become a more mainstream, and less niche, product.

The increased presence of organic products in the global fresh produce market has increased the value of the organic fruit and vegetable category, which enjoys the highest frequency purchasing by organic consumers of all organic categories.

However, all of the retailers, farmers' markets and suppliers that I visited during my Nuffield study reiterated that the organic market was still unstable and unpredictable in relation to product supply and consumer demand, with most conventional suppliers failing to see organics as a threat to their category.

What are the key purchase drivers of the organic market?

Health concerns are the primary motivator, with environmental concerns relating to additives, pesticides, herbicides and antibiotics also contributing to ethical-based consumer decisions to purchase organics.

The 'Health Conscious' organic consumer has been buying organics for over two years based on the belief that organic products are fresher than conventional products. This group buys products from specialist stores, paying a 20-30 per cent premium. A common notion among all groups was their willingness to accept the price difference compared to conventional products, demonstrating that the organic market can grow using the right methods of promotional marketing (Chinnici et al, 2002).

Promotional marketing can create a point of difference for organic products, using brand recognition to increase organic sales. Many of the suppliers and educators I visited believed that individual brand power provided a major competitive advantage.

A notable trend in the UK retail market is the 'Organic Selection Boxes' concept that allows suppliers to select their grown product range on a weekly basis and to supply retailers with ready-for-sale boxes of organic produce. Another widespread initiative

in the UK market is the growing availability of POS material such as recipe cards and information leaflets detailing product origin, sustainable farming techniques, food miles and carbon footprint programs.

The costs of these marketing initiatives will be reflected in retail prices, but will provide consumers who are willing to pay for added health benefits with greater choice.

Ethical and fair trading

Ethical trade is a 'trade that attempts to be socially and environmentally responsible; a trade in which companies take responsibility for the wider impact of their business' (Natural Resources Institute, n.d.). Ethical trading considers labour conditions along the whole supply chain in an attempt to remonstrate and abolish failings of the global trading system such as child labour exploitation, racial and gender discrimination, and employment policies related to wages and chemical use among other issues.

Ethical consumerism was conceived in 1998 by a group in Manchester, UK; to encourage people to look at a wider set of concerns surrounding the whole supply chain and to buy products that were not harmful to the environment and society. Such products include organic produce, fair trade goods, energy efficient products such as light bulbs, renewable energy, and recycled paper and wood products with Forest Stewardship Council approval. Ethical consumerism also dictates that consumers keep track of product food miles, which motivates consumers to 'buy locally' (Harper, 2002).

Consumer demand for ethical products has been accelerated through increased awareness and media coverage. This has impacted on company operations as businesses feel the pressure to create more ethical products. However, guidelines are essential to assess the ethical factors of a business/product before businesses can legitimately claim to be proponents of ethical practices on product labelling. Consumer willingness to pay a premium for such products has prompted some retailers to venture down the 'ethical' path to benefit from premium prices and a competitive market advantage. UK retailer Sainsbury's has capitalised on the 'first mover' advantage by introducing a code of conduct that must be met by suppliers. With other retailers introducing similar practises, a new quality and authenticity benchmark is being established that requires a commitment from both sides of the supply chain.

Sainsbury's is not the only business that has spotted the opportunity to capture a new and increasing market segment; many organisations are attempting to lure the ethical shopper by introducing measures to include more eco-friendly products. Marks & Spencer has introduced sustainable packaging and is cutting down on imported foods to reduce food miles, instead supporting locally produced goods.

Similarly, major US retailer Wal-Mart has invested in programs to reduce waste by switching to renewable power sources and stocking eco-friendly products. Each of these measures responds to the ethical issues that are increasingly influencing consumer purchasing and brand selection.

Food miles and carbon footprints

Food miles is a term used to calculate how far food travels, from paddock to plate. Motivated by the 'greening' of consumerism and greater focus on environmental sustainability, the 'food miles' model encourages consumers to think more about the food they are purchasing with an emphasis on local products. Businesses worldwide are also increasingly using the food miles concept to analyse their food supply chains and identify any inefficiencies. By ensuring an efficient food supply chain, businesses can adopt more sustainable practices.

As transportation only accounts for approximately 20 per cent of the total energy used in food production, the food miles model is unable to offer a full indication of the environmental effects. Therefore carbon foot-printing, which includes all factors associated with the production, transportation and distribution of food products, is being used to provide supplementary information. A carbon footprint is 'a measure of the impact human activities have on the environment in terms of greenhouse gases produced, measured in units of carbon dioxide'. In relation to food production, carbon foot printing measures the carbon dioxide emissions created through the industrial agricultural system in terms of energy consumption.

Incorporating country of origin on food labelling is one method being used to inform consumers of a product's food miles or carbon foot printing, and to encourage the purchase of local products. The Carbon Trust scheme, which is still in its early stages, is also attempting to calculate how much carbon dioxide is released to produce a particular product. The scheme requires a commitment from businesses to reduce carbon emissions in order to promote their achievements on labelling. At present, there is little focus on Australian products and their impact on carbon emissions.

To understand the inefficiencies in the food supply chain business, leaders and most large retail chains internationally have adopted a food miles model.

A large US retailer that I visited was one of the first to adopt the model as a profit maximising strategy and has subsequently recognised the reputation/brand-associated benefits flowing from this environmental commitment in addition to the financial benefits.

However, many global scale retailers that appear to be earth-friendly actually have little positive environmental impact as they continue to import products resulting in exorbitant greenhouse gas increases.

Supermarkets worldwide are conscious of the growing consumer awareness of food miles and many are trying to increase their 'locally produced' food programs, but how far this actually extends into their overall supplies remains to be seen.

That said, food miles are not the only way to measure the environmental impact of the food we eat. My discussions with a major UK supplier revealed that it is less environmentally friendly to grow British tomatoes than it is to import from Spain due to the energy required to heat glasshouses in Britain.

This is a concerning factor for suppliers who are adopting a holistic approach and trying to reduce carbon dioxide emissions, usually at a higher, non-reclaimable cost to their business.

Locally Produced Programs

Interest in food miles, carbon footprints and the 'green' movement have prompted retailers to introduce 'locally produced' programs. UK chain Tesco's is in the process of implementing a program to ensure local products at affordable prices dominate its mainstream supermarket lines. The retail giant's aim is to "stock more local lines than any other retailer" and it expects to sell 400 million pounds worth of local product this year, rising to one billion pounds annually by 2011 (Neville, 2008).

Tesco's isn't the only retailer 'going local'. A "buy fresh buy local" program in the US mirrors consumer demand for local products, which is overtaking demand for organic produce based on the perception that local products are greener, of a higher quality, have travelled shorter distances and have been exposed to fewer pesticides. The local connection that enables consumers to identify the grower and product origin is also powerful. Another program in the US, 'Hand grown in California', is also being actively promoted through grocers, retailers and independent stores via advertisements and in-store promotions featuring the farmers behind the products.

The US federal government is a major supporter of these programs and is considering introducing an 'eco-label' for all produce that details the amount of greenhouse gases emitted during production and transportation (Cooper, 2007).

The 'locally produced' programs have also increased the popularity of farmers markets around the globe, especially in North America. Again, consumers are motivated by the perception that buying food direct from the farm makes it fresher, safer and more natural.

The downside to 'locally produced' programs in the fresh produce industry is influenced by seasonality impacting on availability, which ultimately affects consumers' buying behaviour. Products' quality assurance and food safety can also be affected if small-scale growers do not undergo third party audits, or have insufficient storage or transportation. In recent years the media has reported

numerous product recalls which can be crippling to any industry. Therefore stringent guidelines must be adhered to.

'Locally produced' programs could also jeopardise consumers' choice within the supermarket, if ethnic and exotic foods are eliminated, particularly as many processed goods contain ingredients sourced internationally.

Reinforcing the 'locally produced' philosophy also represents a backwards step in globalisation in relation to free trade and threatens to diminish the current structures and policies in place. Import and export relationships in the supply chain may also be affected. Both outcomes could jeopardise these resources in the event of economic and environmental issues that impact on local food supplies.

A recent article published in *Food Week* reported the concerns of Western Australian fruit and vegetable growers who claim that rising production costs will limit their capacity to produce enough food for the state by 2020 (Food Week Online, 2008). Other research again suggests that local production does not necessarily guarantee fewer carbon emissions than imported products (Neville, 2008).



Locally Produced Product Farm Shop in Cornwall, UK.

Heritage programs

One of the major UK retailers has undertaken a commitment to work with certain suppliers on a regional basis to establish a program whereby products are produced in a 'heritage format' based on how it was grown many years before. One supplier I was introduced to during my travels was producing celery using wide-row and wide-plant spacings, planting, cultivating and picking by hand, and packaging with the mud intact. The labour component and the underutilisation of land associated with

this age-old practice would normally be perceived as uneconomical, but retailers have seen the potential to market such products to consumers as “backyard grown”, yielding higher prices at the checkout.



Celery produced ‘Heritage Style’ at G’s Marketing in the UK

E-branding

Branding is the ‘process of creating value through the provision of a compelling and consistent offer and customer experience that will satisfy customers and keep them coming back’ (Ibeh et al, 2005). Advancements in technology have sorted a new avenue for branding - e-branding (Nobre et al, 2004).

With most businesses, e-branding begins with their website. Several of the marketing companies I visited had, during their website’s infancy, investigated e-branding opportunities. However, while this concept, which involved many parts of the supply chain, provided opportunities for increased technological advancement, the technological complexity often imposed additional pressures on suppliers or marketing companies and increased their costs.

The success of this form of branding predominantly depends on the type of product proffered by a supplier along with the consumer segments the business is targeting. During my overseas tour I came across smaller providers and food service industries that had taken advantage of e-branding with faster turn-around times for product deliveries, a faster penetration rate and lower economical barriers.

The same principles that apply to building a traditional brand apply to building an e-brand; it must establish a reputation for loyalty and trustworthiness to build a consumer relationship. Strengthening a brand on the internet can be achieved

through 'strategic alliances, distribution partnerships and joint ventures' – similar to the relationship management process pursued with traditional key customers. Businesses must appreciate that traditional branding and e-branding require common frameworks and marketing strategies to be effective, but must be targeted to specific customer segments.

Plan-o-grams

It is essential for any supermarket, large or small, to understand how they can effectively merchandise their fresh produce department.

Plan-o-grams or schematics is a diagram that illustrates how and where retail products should be displayed for optimal visual and commercial product placement. The primary target is to increase turnover and profit.

Visual product placement can take on many different formats ranging from horizontal to vertical or block depending on the type of product, the preferred customer distance from the product, the concentration of customers for a certain product or products with a common theme etc.

The commercial placement of the product is critical and the decision process must consider market share placement and margin placement. Retailers need to understand what product attracts the highest or lowest turnover so that they can identify which products in a category have particular market share for selection in specific locations. Margin placement is influenced by a product's profit margin; a higher margin should guarantee a better placement location.

Of the large, medium and small retailers I visited, most took their target consumer into consideration and contemplated how they could either change their buying behaviour or provide the consumer with a pleasant, satisfactory buying experience through product merchandising.

Underachieving plan-o-grams can result in consumers losing faith in their shopping destination and going elsewhere for an experience that complements their buying behaviour.

Supermarkets are changing their shelf display choices to reflect consumer lifestyle changes. The need to alter supermarket layout has also been influenced by the need to accommodate these new choices. Retailers in the UK and the US have made significant changes to store layouts based on consumer lifestyle and buying behaviour patterns. I detected a significant difference between the store layout and fresh produce presentation at Marks and Spencer stores (higher income consumer/convenience shopper) and Waitrose outlets (family shopper).

In Australia, one of our major supermarkets has changed its store layout to take on a more modern look in line with consumer lifestyle changes. Some 220 stores are being refurbished, with improvements focused on the fruit and vegetable department,

bakery and other areas devoted to perishable foods. The supermarket has also increased its product range to match the consumer purchasing behaviour at its stores based on an understanding of the demographics in each store location. Expansion of the gourmet food department represents an attempt to compete with speciality stores. Improved, vibrant product signage and reduced 'lounge' (display unit) heights are also creating a more open feel in-store.



Plan-o-gram of a Marks and Spencer Store in the UK of their gourmet deli department

Supplier models

Traditional

This model is the standard model throughout the world whereby the:

- grower grows the produce
- packer packs the product
- produce is sent to a wholesaler (broker, shipper-USA)
- wholesaler will sell to a Marketer (who may pre-pack or repackage the produce)
- produce is sold to a retailer
- retailer sells to the customer

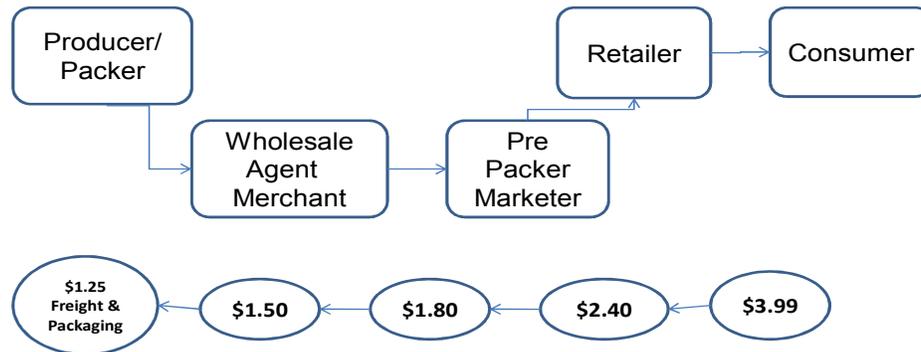
Positives:

- each independent business is a specialist operation; and
- efficiencies are driven from each business unit.

Negatives:

- long supply chain which removes the producer from the final customer;
- the grower/supplier is not in control of their own product or supply chain;
- there is a greater chance of poor communication relay from the end customer back to the grower;
- four to five margins must come out of the final sale price, leading to either a high cost or a low return to the producer.

Below is a typical traditional supply chain model that is widely used in Australia.



Vertical integration

In this model, one business has control of the whole supply chain. Traditionally the grower assumes the role of main stakeholder and controller of the supply chain process. In this capacity the grower:

- grows the product or has other suppliers supplying the product;
- packs and pre-packs to customer requirements;
- distributes directly to the retailer's distribution centre or store; while the
- retailer sells to the customer.

With retailers looking to build more efficient supply chains, in recent times a large number of wholesalers and marketers have vertically integrated by buying into, or starting their own, farms to guarantee supply for customers.

Positives:

- one business controls the whole supply chain;
- direct communication between producers and retailers;
- less margins, more efficiency;
- direct relationships within supply chains and greater understanding of supply chain issues; and
- greater focus on the end user – the consumer.

Negatives:

- some businesses lose focus on other segments of their business;
- producer, marketer and packer functions are less efficient than specialist operators; and
- external supplier relations and product quality are poorer.

Below is a model of a typical vertically integrated supply chain model –the most popular model used throughout the UK, EU and US.



Cooperatives

Under the traditional cooperative model, producers band together to sell their produce but remain individual business units. They supply their produce to a company which they belong as a shareholder for the purpose of marketing. This model allows individuals to be rewarded for any profitability and efficiencies gained in the marketing of their produce.

Positives:

- efficient production;
- good communication and strategic direction due to producers' shareholder capacity;
- specialist marketing company (cooperative) has access to more resources and expertise;
- critical mass of volume by large number of shareholders.

Negatives:

- shareholder disagreements – dysfunctional board;
- disciplined and structured shareholder agreements (no flexibility);
- potential inconsistency between producers; and
- producers may not always harvest to market orders.

Marketing companies

This model is a variation of the traditional model in which the marketing company has a relationship with the customer. These companies concentrate on relationship management, marketing products and concepts, servicing customer needs, and statistical data analysis. Products are sourced through trading with growers, brokers or wholesales. The companies may have contractual arrangements with growers for supply of specific products for set programs.

Positives:

- customer focused;
- low overhead business costs;
- expert knowledge base;
- Capacity for innovation and value creation.

Negatives:

- potential supply unreliability;
- vague supplier focus (less in tune with peaks and troughs);
- higher product cost;
- limited focus on whole industry.

Examples of global marketers

G's – an integrated marketing success story

Like many of the farming entities I visited throughout the world, G's Marketing founder Guy Shropshire started his business on 300 acres growing one product in 1952. G's is now one of the leading suppliers of fresh produce in the UK, producing more than 17 products in 2007.

With a vision to be Europe's leading privately-owned, marketing-led farming business in the own-label salads and vegetables category, major business changes were inevitable.

Nurturing a long relationship with UK retailers has given G's the advantage of having a strong supplier influence as a category champion, but to further drive retail sales and expand the fully integrated business into a 12-month supplier, Gs was compelled to look to other countries that could help the company meet demands.

Produce is now sourced from the UK and the Czech Republic in summer, and from Spain in winter to supply three major retail chains in Britain and Europe.

To initiate this project, a cooperative of 25 members was formed with an additional 20 growers contracting their services to the cooperative. Cooperative members are

spread across several growing regions in the UK with a complementary supply from Spain and South Africa.

All produce supplied through the cooperative is either marketed directly to the customer or sent to one of Gs facilities for value-adding. A marketing company owned by the family promotes all produce plus product supplied by other entities.

In its entirety, the group of farming entities is regarded as a vertically integrated company – “from paddock to plate”.

A comprehensive understanding of the whole value chain gives vertically integrated businesses the advantage of having an insight not only into consumer behaviour, but how the business can deliver desired products efficiently in a safe, wholesome, quality fresh manner that will consistently please their customers on a daily basis.

Targeting niche markets

Adding value to a category with a new program or concept may only target a small percentage of the overall market.

Measured against the UK Lifestyle Hierarchy, the ‘organic box selection’ and ‘heritage’ programs alluded to earlier in this report are only capturing 17 per cent of the market comprising the ‘Adventurous Foodie’, ‘Natural Chef’, and ‘Cooking from Scratch’ segments. Therefore the overall viability of such programs may only be short lived for several reasons: economics, changing consumer buying behaviours and consumer lifestyles, or competition. These initiatives may also draw consumers away from the category and absorb shelf space otherwise occupied by category units with a higher volume turnover or dollar return, ultimately reversing category growth.

Further, the regular transportation of traditionally smaller volumes of value-added products may increase the carbon footprint based on food miles calculated per unit.

Understandably, most of these programs instigated by retail chains internationally may produce a cost benefit to their business exclusively, little to no cost benefits for suppliers and consumers. For the whole supply chain to remain viable, it is critical that the retail chains’ business strategies reflect a realistic approach to corporate responsibility.

Category champions – strength at the top

Being a category champion for a major retailer can give suppliers immense strength. Freshlink Marketing is a company that supplies tomatoes exclusively to Sainsbury’s in the UK under private labelling. Five shareholders supply a portion of their product to Sainsbury’s but all product is directed from Freshlink, which maintains close relations with two other main tomato suppliers. This single desk structure is critical

for overall category maintenance which is based not only on the supplier relationship, but also on analysis of Sainsbury's statistical category data, an understanding of the retailer's strategic direction, and the capacity to drive the fresh produce sector towards a culture of innovation and value creation. Identifying these key characteristics earns companies like Freshlink the power and control associated with fresh produce category leadership.

US retailers under pressure to follow consumer buying trends

In North America, retailing has been particularly traditional. Growth models have been focused on rolling out more stores nationally or globally and adding more unique SKU's onto their shelves.

The increase in merchandise variety – a result of free trade expansion – has allowed US retailers to keep costs down. US consumers have traditionally been non-cultural or have had little or no alliances with their buying behaviour; they have always loved imported products and have been very slow to adapt to global retail trends. However consumers now prefer services over goods and are exposed to a range of product choices which makes retailer selection and loyalty more complex. The situation has put extreme pressure on retailers to revisit their strategies to remain competitive in this tough retail environment.

Wholefoods is a good example of a retailer that understands changing consumer buying trends, long-term sustainability and global retail trends. The company has successfully created an environment for a select customer base while maintaining environmental sustainability across its supply chain. Being selective and strategic about store location has enabled Wholefoods to service a customer base with a larger disposable income who are not price sensitive and have an ethical, sustainable and environmental conscience (the feel good customer).

RECOMMENDATIONS

- The fresh produce industry in Australia needs to further embrace Category Management and develop a more collaborative and transparent association between the supplier and the retailer. These actions add to the consumer experience and will boost total category sales.
- Achieving category management will take commitment and 'buy in' of both the supplier and the retailer but are necessary of overall business account management. Many suppliers in the fresh produce industry not only have the expertise in production but have a high level of understanding the category they are involved in, their industry and are dedicated in driving goals for the mutual benefit of both the supplier and the retailer.
- The strategic planning of category management will be critical for success. The category is often driven by price and disjointed therefore there is a need for a value chain that is transparent and collaborative between three parties – the retailer, supplier and consumer.
- Retailers and Suppliers must develop key understandings of the measure of consumer satisfaction. This must not be measured before the point of sale but must be conducted post consumption.
- Understanding the consumer must take a lead in developing category plans. Key questions must be asked:
 - How can we add value to our customer?
 - Who is our customer's customer?
 - Who is the final consumer?
 - How can we add value for the final consumer?
- Retailers and Suppliers need to have a clear understanding of the lifestyle hierarchy structure so retailers can have a clear appreciation of who their consumers are so that branded product can be accurately placed within the hierarchy structure.
- As Australia is becoming a more 'time poor' nation convenience food is increasingly important to consumers. The greatest further growth opportunity for the horticultural industry is the mixed fresh cut vegetable category. Convenience foods with still an offer of freshness and nutrition.
- With consumer attitudes and buying behaviours becoming increasingly sophisticated and with added environmental pressures, fair trade/ethical concerns, food miles and reduction in carbon footprints being placed on businesses it is imperative that we grasp any opportunity to gain a competitive advantage. We need to enable consumers to compare products based on their carbon footprint in the same way that they currently compare nutritional information and price and also allow consumers to have a local connection with product origin through concepts of buying locally. Retailers and suppliers have to commit to their corporate responsibility by working in a way that respects all stakeholders in the supply chain.

- Many retailers have put a major focus on developing their 'house'/'family' brand however, there is significant opportunity in individual branding. The advantage of 'individual' or 'multi-branding' is that products have a self image and an identity that is unique. The brand has the opportunity in telling the consumer a 'story'. With a story comes the importance of consumers perceiving branding as a value added aspect of the product as it often provides a certain characteristic of quality.
- Nurturing a long relationship with retailers will give suppliers the advantage of having a strong supplier influence as a category champion, but it will further drive retail sales and can expand the supplier into a fully integrated 12 month supplier business.
- With retailers looking to build more efficient supply chains, in recent times a large number of suppliers, wholesalers and marketers have vertically integrated their companies to guarantee consistent and 12 month supply for their customers.
- Adding value to a category with a new program or concept may only target a small percentage of the overall market and could potentially jeopardise consumers' choice within the supermarket, represent a backwards step in globalisation in relation to free trade and threaten to diminish current structures and policies in place which would affect import and export relationships in the supply chain.
- When building an e-brand we must establish a reputation for loyalty and trustworthiness to build a consumer relationship. Strengthening a brand on the internet can be achieved through 'strategic alliances, distribution partnerships and joint ventures' – similar to the relationship management process pursued with traditional key customers. Businesses must appreciate that traditional branding and e-branding require common frameworks and marketing strategies to be effective, but must be targeted to specific customer segments.

CONCLUSION

It is undeniable that these are exciting times for the Australian horticultural industry and the retailing sector in Australia. However after considerable research and discussions with suppliers and retailers to ascertain where Australia fits into the international marketing mix, I have concluded that the whole-of-supply-chain in the Australian horticultural industry is about 10 years behind its international counterparts in terms of its marketing and supply system sophistication.

In Australia, retailers control the supply chain and marketing but internationally, particularly in Europe and the US, the supply chain is increasingly using specialists with expert knowledge of produce categories within the retailing sector. The influence of external expertise on the international retail sector has paved the way for suppliers to have closer control over their category while remaining competitive and sustainable.

In comparison to Europe and the US, Australian producers also lag in their capacity to develop the correct supply mix to meet marketing requirements.

As there are so many different countries that affect purchasing behaviour in Europe, there is a greater emphasis on market and consumer research to cater for the various consumer lifestyles, demographics and cultures. European suppliers are therefore in touch with the needs of both consumers and retailers.

In Australia, suppliers provide fresh produce primarily for a domestic market but do not understand current drivers influencing why people buy, the different types of produce they buy, and at what price point they will stop buying. The Australian industry must follow the lead set down by Europe and the US, and conduct significantly more market and consumer research to facilitate greater awareness and informed decision making that will underpin a more responsive industry.

In the face of complex consumer wants and desires; global economics; advancing technologies; changing demographics; and global marketing trends, Australian suppliers and retail chains involved in the horticultural supply chain must be willing to adapt and drive the required changes.

Developing a sustainable competitive advantage: what do consumers and supermarkets want?

In the face of major environmental, sustainability, lifestyle and demographic trends, and global economy considerations, we have often put our marketing effort into what will benefit the supplier and retailer before the consumer. However we must realise that any marketing effort stops at the point-of-sale – the checkout.

If the Australian horticultural industry is to remain viable and sustainable, it must acknowledge global trends and forces, conduct market research, and develop

knowledge and expertise to continue to compete in the face of increasing retail sector and consumer demands.

It is becoming more prevalent that suppliers need to regain some control over our product and this can be largely achieved by providing retailers with the category-specific information they require to drive sales and volume at a price margin that represents consumer value for money while giving retailers a competitive advantage and suppliers a fair return relative to production and supply costs.

Going forward, retailers and suppliers must rank consumers as their number one priority, acknowledge that consumers have a higher education status, and identify and respond to their demands and needs in relation to products and the purchasing environment.

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