Representative Case Studies for the

Carnarvon Growers Association Incorporated

A project to analyse supply chain issues for Carnarvon horticultural produce

Stage 2

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Promoting Carnarvon produce in existing markets, and linking with the Regional Brand.

Stage Two – Relevant Supply Chain Case Studies

Information gathering from the industry

*Development of **relevant supply chain case studies**. An investigation of different business models which have successfully integrated Primary Producers into consumer-aligned systems. The learning will deliver information covering inter-relationships between the supply chain parties, the product/service mix in the market and the capabilities required by each player, allowing CGA to design a business models which makes sense for each market and category.*

Background

The Australian Farm Institute and National Food Industry Strategy recently commissioned a report to study whether producer groups can benefit from the development of consumer aligned fresh food systems.

It looked at international case studies that covered a range of business designs with different approaches to integrating primary producers.

The main conclusion was that primary producers do benefit from supplying supermarket-aligned systems.

The case studies explored in the report investigate the inter-relationships between the three levels of competition in the market:

1. Product/service mix – visible to competitors and relatively easy to copy.
2. Capabilities to deliver the product and associated services – less visible to competitors and more difficult to copy.
3. Business design – this sets the foundation.

The following is a summary of the case studies most relevant to the Carnarvon Growers Association (CGA) and local Carnarvon fresh produce growers.

It outlines the relationship between business design, capabilities and the product/service mix offered to consumers.

Business design innovation encourages capability development and this in turn leads to a superior product for consumers.

Critical Success Factors For CGA From The Case Studies

- ➔ There is no single perfect business design.
- ➔ The key is to develop and execute a business design that makes sense for each market and category.
- ➔ Farm accreditation schemes do provide some consumer risk management, but – on the whole – they do not provide a point of retail differentiation.
- ➔ Neither retailer nor industry-driven farm accreditation schemes are central to overall branding strategies nor do they provide any competitive advantage.

Implications for Producers Participating in Supply Chains

Across all case studies, the consistent messages were:

- ➔ There is some loss of independence – where some decisions are made centrally to provide consistent supply to customers.
- ➔ Virtually all cases showed some increased costs of production.
- ➔ There is a requirement to develop new capabilities.
- ➔ There is a need for relationships to continually evolve.

Sources:

Australian Farm Institute - 'Value in Value Chains: Collaborative Business Models and Farm Accreditation Systems Examined'. Michael O'Keeffe.

Price Determination in the Australian Food Industry Prepared by Whitehall Associates

Observations of the Horticulture Supply Chain

Demand factors

Fresh fruit and vegetables are the most frequently purchased, freshest items in the shopping basket. Despite the profile given to the fresh produce industry, it is estimated at only 4.5 per cent of consumer food expenditure.

Increased spending is due to better range and availability, and increased focus on health and nutrition in food, yet per capita consumption is now flat after a period of growth.

Time-poor consumers are driving the need for more convenient products (less preparation required) and convenient shopping locations. Consumer expectations continue to rise with the growing availability of high quality alternative health and snack food offers.

There is a challenge for the fresh produce sector to retain consumer loyalty, especially amongst the young, as there is a wide array of new health, snack and other product alternatives supported by highly competitive marketing.

Supply chain management

Wholesale markets remain a major function within the chain where the majority of prices through the chain are set or directly influenced. This is despite an increasing percentage of business direct to supermarkets to support their fresh product image and customers, and to obtain greater stability of returns. This practice varies by category based on the volume of individual commodity lines and the scale and sophistication of the enterprises.

The size of the consumer markets accessed by major supermarket chains has applied pressure for coordination of facets of supply activity (for example, quality management). However, the range of buying options reduces the scope for other forms of integration between producers (such as the use of open-price supply agreements and mixing supply between direct sources and purchases off the market floor). Seasonal competition exists subject to availability – though this is less of an issue these days as crops of major lines tend to be available all year.

Main drivers of prices through the chain:

- Retail prices are influenced by the seasonal costs of supply but also by the level of spending by the consumer. The consumer is sensitive to the cost of fresh food items that go into the shopping basket.
- As with other categories, retailers seek a target margin to achieve corporate and/or business targets but also to cover losses associated with produce spoilage, clearance discounting and the labour-intensive business of putting fresh food appeal into practice with stock display replenishment and adequate turnover of bay space.
- Wholesale prices (where the grower sells produce to a wholesaler who on-sells or sells on the grower's behalf to a retailer) are generally set in the fresh wholesale market system which exists in capital cities and limited other major urban centres. The increasing practice of producers directly supplying retailers to bypass wholesale markets are nonetheless set with reference to such prices.
- Seasonal crop variations resulting from climatic change and other natural events or causes are generally the greatest single production factor to affect prices. Such variations affect:
  - higher/lower output than the normal crop;
  - smaller/larger fruit size;
  - climate/storm damage; and
  - crop disease and pest damage.
- The wholesale price setting mechanism is not set to pay the highest for best quality but to clear all product that is supplied. At times it pays low prices for high quality and vice versa.
- A major weakness in the fresh food market system is the lack of discipline that is sought by the supplier to the market and the general lack of complete information as to the supply and satisfied demand at any point in time.
- Market pricing is therefore open to manipulation by the intermediary and to a lesser extent by major buyers due to the lack of total market visibility. A major fresh food market is a place for the well informed buyer and seller in this day and age. Otherwise participants are exposed to price/return risks, regardless of product quality.
- Supply is still the largest driver of price. Markets are relatively uninformed with minimal credible forecasting data or an understanding of the volume/price relationship. This leaves much trade occurring in commodity conditions.
- More organised fresh categories which provide participants with good information as to total crop forecasts, market conditions and product availability over a season are far better at managing the risks that arise from poor information.

Fresh Horticulture – Wholesale Markets

Price setting in wholesale markets

There have been many allegations from the production sector of the horticulture industry that wholesale markets are the source of profit-taking at the expense of fresh produce suppliers.

The wholesale markets are claimed to be the best example of what is called 'the perfect market', where price discovery occurs with the fair and free exchange of information about supply and demand. The major difficulty that faces many participants supplying fresh food markets is that the state of competition in the fresh food sector requires much more skill on the part of a seller than in the past.

Modern trading conditions require not only that a producer has the obligation to ensure that the quality and presentation of their fruit is of highest possible quality but that they make themselves fully aware of the market conditions prior to the time of harvesting and packing. It is clear from the nature of the information available that it is not enough to simply read the market reports that are published daily – it requires a close relationship with the traders working on the floor of central market facilities, as well as having one or more options for the sale of fruit to the retail market.

Ongoing relevance of the markets

It is arguable also that the wholesale market system does not accurately reflect consumer demand. Markets are driven by short-term pressure to clear the fruit which is on the floor and does not respond directly to consumer demand for fresh food. This frequently creates demand aberrations (oversupplied or poor quality non-preferred apples, oranges or other perishables become in demand through short-term price discounting) which flow through into the retail product.

Wholesale markets continue to maintain a relevance to new forms of retail supply and supply chain management. It is largely against a wholesaler's interest to bypass his investment in the wholesale market structure by helping to improve the quality of the connection between supplier and retailer.

Supermarkets maintain significant facilities in wholesale markets to support procurement and distribution of many major lines of fresh fruit and vegetables while it suits their risk management in terms of cost, security of supply and quality. They will do so as long as direct supply of produce fails to provide the security of quality, volume and cost.

Fresh fruit and vegetables: Major drivers of prices and costs

The fresh fruit and fresh vegetable category is highly diverse in terms of the product groups, scale of enterprises in farm production and extent of integration that exists through the chain. The sector is strongly driven by the competition at retail level between major supermarkets and other outlets for a share of the consumer dollar.

1. Farm production factors

- Production volume is highly volatile and seasonal which has a major bearing on the volumes coming to market, resulting in large fluctuations in wholesale and retail prices.
- High perishability and limited shelf life of product requires timely access to market once crops are planted and picking time committed.
- Pressure for water-use efficiency has improved yields over time.

2. Value-chain integration

- Increasing scale efficiency and integration of growing/packing and brand marketing activities by larger growers.
- Increasing incidence of direct supply by integrated growers/packers to chain retailers, providing stable pricing in order to secure long lines of consistent quality product.
- Pressure on wholesale/agency enterprises through growth in direct supply business.
- Juice fruit availability and returns have strong bearing on returns to citrus sector.
- Increasing scale efficiency of growers and packing houses.

3. The marketing approach

- Increasing branding of product by grower/packer has impact on market access to more stable returns at retail and wholesale.
- Limited branding of fresh food at point of retail sale.
- Increased use of fresh food retail themes and systems by major chain retailers as a point of differentiation has driven strong supply and quality management disciplines back through the value chain to suppliers and logistics systems.

4. Regulation and compliance

- Increasing costs of doing business in farm enterprises to meet environmental, product integrity and food safety demands.
- A few other regulatory barriers to value-chain profitability.
- Meeting ethical and product integrity demands.

5. Trade impacts

- Export volumes are increasing in scale but based on market windows into premium fresh markets in Asian cities.
- Potentially strong impact of fruit imports in certain areas (bananas, table grapes, apples) is currently adversely affecting confidence for further investment to maintain economies of scale in production enterprises.
- Limited influence of vegetable exports on domestic market dynamics, as volumes are generally minor only.
- Limited overall influence of vegetable imports or prevailing commodity prices.

6. Technology and innovation

- Increasing capital intensity in large-scale production and in packing house efficiency is changing operating cost structures.
- Limited transparency of market prices and costs through the wholesale market sector.
- Greater investment in innovation to improve production consistency and quality, varietal performance and handling efficiencies in harvesting, grading, transport and packing.
- Innovation in minimal processing and pre-preparation of fresh fruit for more convenient end use in home and food service.

7. Retail market dynamics

- Strong competition at retail level between major chains and between chains and other forms of convenience and specialty retail.
- Competitive pressure from food service.
- Greater demand for convenience and lifestyle solutions in meals and food preparation.
- Greater preference for consistency of product availability and quality in retail presentation.

How Producers can Benefit from Supply Chain Particiaption

1. **There is a need to create value for the end consumer**

- ✓ Producers in these case studies placed strong emphasis on being part of a system that would be competitive in the long term.
- ✓ Value needs to be created for the end consumer – the only point where money enters the system.
- ✓ For most of the case studies, this meant supplying a premium segment of the market – although this does not always have to be the case.
- ✓ Producers need to study their suppliers/supermarket/retail customers in terms of their marketing and branding capabilities.
- ✓ Branding – either retailer or supplier – is an integral part of developing systems that are aligned to the end consumer.
- ✓ The brand captures the promise to the consumer.
- ✓ Systems aligned to the consumer also provide producers with consumer-relevant performance goals – there is a quality dimension to production, as well as quantity.
- ✓ There is a need to create value for consumers at low cost – efficiency is the key in low-margin, high volume food categories.
- ✓ Offering a taste, touch or visible experience for consumers can be viewed as highly valuable.

2. **There are rewards for developing new capabilities**

- ✓ Businesses/groups are rewarded for developing a bundle of capabilities that are difficult for their competitors to copy.
- ✓ Producers need to develop new skills in production, supply forecasting, recording systems etc.
- ✓ Such capabilities developed in one market, or with one customer, can be leveraged with other customers.
- ✓ Relationships between producers, suppliers and retailers need to continually evolve.

3. **Partners are important**

- ✓ Creating value is not just about vertical supply chains - developing horizontal alliances to create a network are increasingly important.
- ✓ Most producers in these case studies did not liaise directly with the retail/supermarket customers.
- ✓ This is a specific skill and there are other category managers who can work between producers and retailers to grow sales and profits.
- ✓ It is often a difficult daily task to interact with supermarket customers.
- ✓ In one case, local producers work together to supply a year-round farmers' market-type outlet where consumers can buy produce that is picked/harvested that day.

4. **Payment systems are important**

- ✓ There were increased costs of production – around 7-10 per cent – arising from participation in retailer-aligned fresh food systems.
- ✓ Producers need to monitor costs of production and ensure the payment system covers the whole crop or farm production.
- ✓ Product specifications need to balance the needs of the consumer and the reality of production systems.

5. **There are risk management benefits from retailer-driven supply chains**

- ✓ Producers in these case studies viewed supermarket accreditation schemes as a consumer risk management tool.
- ✓ Growers are less likely to be caught unaware if they are involved in schemes that generally incorporate consumer concerns about the food they eat and how it is grown.
- ✓ But farm accreditation schemes are not going to be the source of competitive advantage.
- ✓ Retailers or suppliers are better placed to invest in a brand that will differentiate a product and provide a promise to consumers.

CASE STUDIES

3M's – Suffolk, UK

Overview

- A group of five vegetable growers – mainly in their 30s - and two marketers formed in 2001.
- Crop mix – potatoes, onions, carrots, turnips.
- Crop area – the group farms about 8100ha.
- Annual production – 45,000 tonnes of new and early main crop potatoes, 30,000 tonnes of onions and 10,000 tonnes of carrots.
- The group has been able to capitalize on the growth of UK supermarkets – where the bulk of British consumers tend to buy their fresh produce – by developing a business model and capabilities to serve these supermarkets.

Business structure

- Trading company owned by two of the growers and the two key marketing staff.
- Growers charged 5% levy for marketing.
- Aim is to carry no risk and return a small surplus each year, with earnings returned to shareholders
- A separate business – with identical ownership – is used for capital expenditure items and R&D investment.
- This dual structure clearly separates marketing activities from risk-carrying activities such as capital and R&D investment.
- Business model aims to leverage the group's capabilities across a wide range of retail customers, each with a different end-consumer base, business model and needs. This enhances the capability development for 3M's

Aims

- To supply quality and identified produce to UK supermarkets, servicing them with a differentiated product/service mix – not simply being commodity producers.
- Supply is carried out through category manager suppliers – these are suppliers who work with the supermarkets to grow sales and profits.
- The group aims to be an important part of the supermarket supply chain. This does not mean it wants to deal directly with the supermarket, but it does want to be a known and a respected supplier.

Capability assessment/meeting their aims

- 3M's conducted a review of the UK supermarket chains – researching their market position, approach to dealing with suppliers and category strategies.
- It identified four major supermarkets with a balanced customer portfolio.
- The group then evaluated the companies that were key suppliers to these supermarkets – mostly on the strength of their senior and middle management and their operational and marketing excellence.
- 3M's then initiated an action plan for developing relationships with the selected supermarkets and category manager suppliers.
- During the past five years, the group's customer mix has grown to include other major supermarket chains in the UK. All of these retailers have slightly different business models that have required 3M's to develop its capability and customer evolution. The supermarkets are an active participant in the development of 3M's new capabilities.

Capability development

1. Production capability to guarantee supply.

- The focus is on serving the supermarkets.
- The group has had to develop a centralised marketing and coordination system that each individual farm business is content to work with.
- The group has had to overcome many challenges and impacts on costs and yields in becoming supermarket suppliers, rather than commodity producers.
- It continually evaluates which capabilities should be carried out by different firms along the supply chain as a means of staying competitive.

- *Example 1:* 3M's' growers noted potato yields were 8-10 per cent lower when planting and harvesting decisions were modified to provide consistent supply to supermarkets. Strategies were put in place to overcome this negative impact on yield.
- ***Example 2*** 3M's designed a production plan to fill a 10-14 day gap where it seemed impossible to grow carrots in the UK. This gap was undermining a marketing strategy by ASDA (part of the Wal-Mart Group) to offer customers British-grown carrots 52 weeks of the year.
  As primary producers 3M's understood the retailer's marketing strategy and was willing to invest in resources to support its retail customer.

2. On-farm grading to support supply to direct-to-supermarket distribution centres.

- 3M's has developed a direct to supermarket distribution centre strategy for loose potatoes with retailer Waitrose and its category manager supplier Solanum.
  - New potatoes are graded on-farm and shipped direct to Waitrose's distribution centre and then to stores.
  - Solanum continues to manage the information flows and category plans, but the product goes direct from farm to Waitrose. This generates cost savings and means increased freshness.
  - 3M's has responsibility for trading the potatoes that don't meet Waitrose specifications, which was a function traditionally carried out by a supplier such as Solanum.
- This has led to development of new capabilities – like packing and trading – by the primary producers.

3. Using farm waste to generate electricity, biofuels and fertiliser

- 3M's has been developing a new business enterprise to convert farm waste into biogas for electricity consumption, biofuels for their farm trucks and fertiliser.
- The aim is for the farm to be carbon neutral and to incorporate this into another point of product differentiation.

4. Responding to supermarket customer evolution

- The 3M's supermarket customer mix continues to shift over time and this gives the group a range of business models and processes that allows it to maximise the value of its capabilities.
- 3M's evaluates the relative profitability of customers by delivering a load to each customer on the same day on several occasions throughout the season.
  - ***Example 1:*** Morrisons is the UK's only supermarket with its own packing plant. This is a simple business model where 3M's transports its whole crop to the retailer in an efficient and simple manner that delivers strong returns to its growers.
  - ***Example 2***: Marks and Spencer is at the other end of the spectrum with a premium product range, but it too delivers high returns to 3M's growers.
    3M's has worked on achieving a 90 per cent pack-out rate (proportion of crop that meets retailer specifications) with M&S for new potatoes by ensuring all produce is packed within 12 hours of harvesting.
    This has required investigating even simple factors as truck delivery waiting times at the supplier's packing plants.
    M&S also works closely with 3M's marketing manager on a daily basis to fine-tune product specifications according to crop development and harvesting conditions. This maximizes the value of the whole crop.

5. *Farm accreditation*

- 3M's participates in many farm accreditation schemes used by its various supermarket customers.
- This leads to excessive paperwork and duplication.
- It believes a single farm accreditation scheme – such as EuropGAP – would be more cost effective.
- Some supermarkets use these schemes to shift blame and responsibility for food safety and integrity to a third party.
- 3M's believes these schemes are more about setting a higher bar for the industry average, rather than being a source of competitive advantage for growers.
- 3M's response has been to raise the bar even higher and develop new forms of differentiation at the farm level, for example the biogas and biofuels initiatives.
- The group's philosophy is that if you are operating at the industry average set by accreditation schemes, then you are not really trying to differentiate your product.

Key messages from 3M's for CGA

- ✓ Small group size for the company/business is seen as ideal – around five growers works well.
- ✓ Dealing with a range of vegetables/fruits can be highly successful.
- ✓ Dealing directly with supermarkets/retailers is not necessary – a middleman/agent, such as the system used by 3M's, can be more beneficial. The important factor is to be a known and reliable supplier in the system.
- ✓ A centralised marketing and coordination system within the group needs to be agreed upon by all members and this is best to be kept separate from production and more risky capital and R&D investment.
- ✓ Production is focused on serving the supermarkets, not the producers – to the point where the marketing team makes management decisions such as when to harvest.
- ✓ It is vital to assess future potential supermarket customers and get to know their business models.
- ✓ This involves researching their market position; approach to dealing with suppliers; and category strategies.
- ✓ Then an action plan can be developed to determine the capabilities needed to work with preferred retailers – such as on-farm grading, packing plants or transport systems.
- ✓ Logistics, such as on-farm grading need to be put in place to support supply to supermarket customers and these will vary between customers.
- ✓ Capability shifts along the supply chain are integral to responding to the needs of the chain over time – it is not all about developing closer relationships along the chain, but more about continually assessing which capabilities should be carried out by different parties in the chain so every participant remains competitive.
- ✓ There are marketing/product differentiation opportunities from innovations in production methods – such as use of biofuels.
- ✓ Development of a single farm accreditation system is seen as the best option by 3M's in the UK.

KG Fruits – Kent, UK

Overview

- ♦ Agricultural producer-owned cooperative made up of 80 berry farmers in England, Scotland and Wales.
- ♦ Annual turnover of A$450 million.
- ♦ Been in operation 35 years.
- ♦ Markets fresh berries to UK supermarkets.
- ♦ Is the single biggest supplier in the British fresh berry market.
- ♦ Crop mix - strawberries, raspberries, blueberries, blackberries and related specialty fruit such as gooseberries and red currants

Business structure

- ♦ Kentish Garden Growers Ltd (KGG) and its wholly-owned marketing company Kentish Garden Fruits (KGF) are farmer-owned.
- ♦ KGF was set up so KGG members could take ownership of the sales and marketing of their berries and capitalize on the trading relationships they were developing with principal supermarkets.
- ♦ The group has employed an external managing director and an external financial director to substantially grow the business.
- ♦ To reflect the importance of large scale producers to the group, they have a proportional say.
- ♦ Ownership in the cooperative reflects size of operation.
- ♦ Maximum ownership of the organisation held by any one person is set at 10 per cent.
- ♦ Individual growers can benefit from the increasing value of the cooperative because a proportion of profits earned by KGG is put into a reserve account owned by all members and a proportion in individual account reserves is identified with specific members – dependent on volume of business.

Aims

- To be the biggest business in the British berry market. Size is the key to industry profitability and growth.
- Investment from retained earnings is made into marketing, new variety R&D and cold chain systems to fend off competitors in a market of increasing demand for berries.

Capability assessment/meeting their aims

- Fruit is not pooled.
- Each producer's fruit is sold by the marketing arm KGF to a specific customer (usually a supermarket) and the producer receives the return that KGF can extract from each customer.
- Because returns vary, this has created subtle and healthy competition between producers based on the supermarket served.
- British supermarkets typically want to procure fruit from known producers and in many cases the fruit is transported direct from farm to the supermarket's regional distribution centre.

Capability development

1. ***Sales and marketing group***

- 60 staff in sales and marketing group.
- Responsible for developing branding and marketing plans.
- Manages the relationship with all UK supermarkets.
- Marketing and sales is a distinct capability that largely determines the competitiveness of KGF in the market.

2. ***Administration***

- Often underestimated, but group members put considerable value of administration.
- Ensures growers are paid on time.
- Ensures transparent pricing, cost and payment structures.

3. ***Strategic partnering***

- Close relationships have been developed with strategic partners Driscolls and Alconeras.
- Driscolls is the major global strawberry breeder and marketer – based in the US – and KGG has exclusive rights to market Driscoll premium variety berries grown in the UK or imported from Driscoll production sites across the world.
- Alconeras is a family-owned berry company in Spain and a major exporter of berries to the UK and other European countries in the 'shoulder seasons'.
- These partnerships have provided KGG with increased presence and power in the market, especially during out-of-season periods when the cooperative was historically weak.
- In 2007, KGF, Driscolls and Alconeras formed a European berry company called BerryGardens to integrate the commercial sales of berries of the three companies in Europe and the R&D initiatives of each partner in their respective countries.
- This company will work with producers to develop berry varieties that are disease resistant, provide good yields and are successful in the market.

4. ***Technical support for producers***

- Technical division includes a significant quality assurance resource and agronomic/technical support.
- There is a benchmarking office – encouraging producers to share production cost information.
- R&D staff focus on productivity improvements and varietal developments.

5. ***Packing***

- KGG has pack house facilities and undertakes packing procurement.

6. ***Farm Accreditation***

- Group members participate in various supermarket accreditation schemes.
- The schemes are managed by KGF technical staff.
- They are viewed as programs that underpin the KGF brand, but are not seen as a point of differentiation or marketing emphasis.

Key messages from KG Fruits for CGA:

- ✓ This case study relates to the supply of a single commodity – berries – and has most relevance for specific Carnarvon fruit or vegetable sectors/crops.
- ✓ It shows that it is possible and profitable to form a supply group owned by many growers to sell a specific crop/sector.
- ✓ In this case, ownership of the business/group reflects the size of operation – but is capped at 10 per cent.
- ✓ Input to business operations is based on scale of production – bigger growers have more say.
- ✓ It is important to invest in experienced external directors who have strong potential to manage and grow the business.
- ✓ Administration is important – it ensures growers are paid on time and that transparent pricing, cost and payment structures are in place.
- ✓ Fruit is not pooled and KGF handles sales for its individual growers to its supermarket customers – creating healthy competition within the group.
- ✓ The key to the growth of the KGF group was to set up a marketing arm to take ownership of sales and marketing and capitalise on the trading relationships being developed with supermarkets.
- ✓ The marketing body is responsible for developing brands and marketing plans and for dealing with the supermarket/retail customers.
- ✓ This case study highlights the importance of aiming high – biggest is best - don't view other producers as competitors, but embrace their production to boost the group's volumes of supply.
- ✓ It also shows that size is important – then you can play a leading role in setting prices and developing marketing strategies with the major supermarkets.
- ✓ Invest in marketing, new varieties, production R&D and better supply-chain capabilities, such as cold storage/grading systems etc.
- ✓ And it is important to offer technical support to producers.
- ✓ Seek strategic partners to help control the chain from plant breeding and propagation (look for premium varieties and distribution rights to those varieties) through to retailer.

The Little Potato Company (TLPC) – Alberta, Canada

Overview

- ♦ Specialty producer and marketer of small sized potatoes.
- ♦ Its potato product is bred to grow small, compared with traditional 'graded-out' small potatoes.
- ♦ Supplies direct to major Canadian supermarkets.
- ♦ Been in operation for seven years.
- ♦ Business turnover about A$25 million.

Business structure

- ♦ Private company structure.
- ♦ Ownership consists of the potato breeding company Solanum, the Santiago family and six local producers.
- ♦ These producers were new to potato and vegetable production but quickly developed their potato production skills with technical support from Solanum.

Aims

- ♦ TLPC has access to potato varieties that are bred to grow small, with superior flavour and texture – compared to traditional supermarket small potatoes that are graded-out of standard potato lines.
- ♦ The aim is to capitalize on this unique product through business design innovation and the relationship between business design, capability development and product/service mix.
- ♦ A TLPC branded small potato range based on colour (red and creamer potatoes) has been launched.
- ♦ A big goal is to reduce costs of doing business and a lean thinking approach has been implemented.

Capability assessment/meeting their aims

- Initial sales of the TLPC potatoes were strong in a category of produce that had been suffering from long-term decline in Canadian supermarkets.
- This attracted competition and within two seasons other suppliers launched copy products – small potatoes graded-off from their commodity lines but packaged similarly to the TLPC product.
- There was little differentiation between the products to the consumer.
- The company's challenge was to leverage off its innovative business model and differentiate its product to the end consumer and supermarket customers.

Capability development

1. Varieties and marketing.

- The company launched a new range of potatoes based on specific varieties.
- These were marketed specifically and competitors were unable to copy this because Solanum owned and developed the varieties.
- Partnering with supermarket customers and forging closer relationships was a major initiative.
- This included marketing a 'retailer branded' (home brand) range.
- In a concentrated market, having a mix of TLPC and retailer branded potatoes enables TLPC to better tailor the product/service mix for each retail customer compared to each supermarket stocking the TLPC brand only.
- Retail brands also give the retailer incentive to improve ordering and inventory management – as they own the product and its associated inventory management issues, such as wastage, that result from poor demand forecasts and ordering systems.
- Working with a range of supermarket retailers has advantages in determining costs of doing business and using skills and understanding from interactions with various supermarket customers to improve interaction with other retail customers.

2. Lean thinking in processing operations

- Lean thinking in the grading and processing plant reduced the company's supply chain costs.

3. Improved production protocols and supply forecasting

- Producers write-up production protocols to share the lessons learned with all other producers in the group.
- Improved forecasting of supply means the processing operation can be confident about the volume of product to be delivered, when it is likely to be delivered and the likely pack-out rates.
- Producer's accuracy in supply estimation has had a significant impact on processing performance and ability to meet retail orders on time.

4. Extending the supply base

- Extending the production base from Canada into the US has meant the company can ensure year-round supply and grow its business into the US supermarket sector.

Key messages from the Little Potato Company for CGA:

- ✓ This case study again focuses on a supplier of a single commodity - potatoes.
- ✓ It could be used as an example for a company/group wanting to capitalize on the marketing of new varieties of a specific crop.
- ✓ It especially highlights the success of a specialist breeder/breeding company working in conjunction with a grower group to produce and market a specific variety with superior consumer attributes, such as taste, texture and appearance.
- ✓ This case study is also relevant to other producer groups interested in differentiating their product based on the 'consumer appeal' attributes of the product.
- ✓ In this case of TLPC, marketing of specific varieties of potatoes was possible because the company owned and developed the varieties.
- ✓ This made it difficult for competitor products to match its marketing strategies for superior taste/texture.
- ✓ It also meant the company could provide specialist advice to producers to assist them to successfully grow a product they knew little about – thus ensuring volume of supply.
- ✓ Differentiating the product based on its attributes has been a big marketing success.
- ✓ Supplying supermarkets with product to develop their own 'home brand' (or retailer brand) lines can have big advantages.
- ✓ It allows the group to tailor its product/service mix for each customer.
- ✓ It also encourages better ordering inventory management from the retail customer because they own the product and its associated inventory management issues, such as wastage.
- ✓ Grading and processing need to be carried out in the most efficient and cost-effective manner to reduce supply chain costs.
- ✓ The producer group needs to provide accurate supply forecasts to ensure the processing operation has a known volume of product delivered at a known time and can determine accurate pack-out rates. This impacts on processing performance and ability to meet retail orders on time.
- ✓ Extending the supply base – by sourcing product from outside the region, this company has been able to guarantee year-round supply to its customers and grow its customer base.
- ✓ The business design that includes grower and potato breeder equity has supported the development of capabilities that is reflected in products on the retail shelf.
- ✓ Consumers are offered a product that is different from competitors and supermarket/retail customers are offered a product/service mix that is tailors to their specific needs – whether that is a 'home brand' preference or leveraging off the TLPC brand.

Sunfresh Farms, Alberta Canada.

Overview

- ♦ Sunfresh Farms is an entirely different business model – one that is not based on developing innovation partnership arrangements with supermarket customers.
- ♦ It is a produce distribution company providing on-time delivery to all local supermarkets (which consists of more than five major retailers).
- ♦ It is based in Edmonton in the Prairie province of Alberta, western Canada.
- ♦ It deals in wide variety of produce, including: melons, tomatoes, bananas, capsicums, onions, lettuce and cauliflower.
- ♦ Turnover is about A$30 million.

Business structure

- ♦ Private company with equity ownership from four local growers and the company's chief executive officer.
- ♦ Even though the four producers have significant equity in the company (more than 50 per cent), they make production decisions independent of the company about whether or not to supply any specific retail customer.
- ♦ Their produce is marketed by Sunfresh Farms the same as with other customers.
- ♦ Producers benefit from profit dividends and growth in the value of the company.

Aims

- To provide a high level of service to local supermarkets by managing the interface between supply and demand volatility in a region with long transport lead times from major production areas.
- Sunfresh Farms' business model capitalizes on the volatility in demand and supply for fresh produce.
- Managing this volatility is challenging for retailers – especially in geographically isolated cities such as Edmonton, where they have an ordering lead-time of 2-3 days.

Capability assessment/meeting their aims

- Sunfresh Farms has a wide range of local customers that take significant volumes of the lines of produce they purchase.
- The company does not want to develop close category manager-type relationships with any specific retailer because it needs to provide a supplier service to all customers.

Capability development

1. The main capability development has been in pre-packed vegetables and salads for food service customers.

- Edmonton-based companies are facing severe labour shortages due to the mining of oil sands in the region and this has led to staffing challenges.
- Quick service and family restaurant chains are finding labour shortages to be one of their major constraints to growth.
- There are obvious advantages if some of the food preparation labour requirements can be met by Sunfresh Farms.
- Sunfresh Farms provides cut produce that is ready-to-cook, which means the food outlets do not have to prepare vegetables in their own kitchens.
- Sunfresh Farms opened a processing plant and distribution centre in 2007-08.
- This has led to developments in packaged products suited to supermarkets.
- These value-added products have led to closer relationships with selected supermarkets.

2. Locally grown strategy

- Sunfresh Farms is working with regional retailer Overwaitea in 20 of its Edmonton stores on a 'locally grown' marketing strategy that is proving to be highly successful.
    - ***Example*:** there has been capability development in trialling, growing and marketing new tomato varieties with Overwaitea.
      Overwaitea has the flexibility to stock small volumes of these new tomato varieties in one or two of its stores to gauge consumer response.

Key Messages from Sunfresh Farms for GCA:
Sunfresh Farms deals in a similar range of produce to several of the main lines of fresh produce grown in Carnarvon.

- ✓ The company operates in a remote environment in Canada where there are long transport lead times from production to marketplace, which is similar to Carnarvon.
- ✓ Its structure of private grower ownership could be modelled by a group wanting to go down the path of setting up a similar specialist produce distribution company.
- ✓ Its strategy is to not align too closely with a particular supermarket customer, but to ensure it offers good service to all retailers and help them smooth out demand and supply volatility.
- ✓ It has successfully entered the market for pre-packed and cut vegetable produce to help local companies who are struggling to find labour.
- ✓ An interesting initiative is the development of a cut vegetable processing plant to supply the food service industry – to save time in kitchen preparation for restaurants - and smaller supermarket retailers.
- ✓ Its 'locally grown' marketing strategy has been successful and this reflects the direction some major Perth supermarkets are heading in WA.

Ricardoes Tomatoes and Strawberries, Port Macquarie, NSW, Australia.

Overview

- Tomato and strawberry producer and agricultural marketing company, employing 15 staff.
- Two acres of greenhouses produce 5 varieties of hydroponic strawberries and 8 varieties of tomatoes that yield one million vine-ripened tomatoes annually.
- Business promoted as environmentally friendly.
- Successfully marketing a 'pick your own' strawberry experience and on-site retail operation, preserves and farm tours that generate revenues exceeding $1 million a year.

Business structure

- Private company owned and operated by brothers Anthony and Richard Sarks.

Aims

- To build a business with multiple revenue streams to cover all bases.
- To build a regional brand for their tomatoes and strawberries.
- Set up an agri-marketing business to work with farmers to create value at various points in the chain.

Capability assessment/meeting their aims

- Initial marketing model was to put their tomatoes and strawberries on display racks at a range of non-traditional outlets, such as corner stores and service stations – wherever there was heavy traffic.
- Demand soon outstripped supply.
- Recognising a resurgence in the popularity of farmers' markets, the Sarks brothers invited other local farmers to offer their fresh produce daily through Ricardoes on-site regional produce centre. This outlet also sells Ricardoes produce and its own range of branded sauces and preserves.

Capability development

1. Boosting supply

- Selling off a portion of their land allowed the brothers to invest in 3000 square metres of hi-tech hydroponic greenhouse facilities to enable year-round production.
- State of the art computerized technology monitors the two acres of greenhouses and controls irrigation, nutrient application, humidity, temperature, light, insects and diseases.

2. On-farm marketing

- The business expanded into a pick-your-own strawberry enterprise to tap into the local trade and tourism potential of the region.
- It needed a compelling story and an activity to attract people to visit the farm.
- The strategy was to offer a 'see, touch, taste' experience.

3. On-farm café/retail outlet

- Ricardoes developed an on-site café, Café Red, which features fresh local produce and specializes in home made menu options, and the on-site regional produce centre.

4. Always look for the next opportunity/innovative marketing

- Ricardoes is now investigating a pick-your-own salad greens experience.
- In future the company may also move into free range eggs.

Key messages from this case study for CGA:

- ✓ Even small operators need to think big and continually assess their opportunities.
- ✓ Concentrate on growing the best crop/variety for the infrastructure and capabilities you have.
- ✓ But don't be afraid of using assets to invest in better infrastructure to specialize in a certain product/products and lift their quality.
- ✓ Marketing is vital.
- ✓ Consider whether you can offer an 'experience' associated with your product – it may be a 'pick-your-own' opportunity, tasting the produce through a café or buying fresh through a retail outlet on-site.
- ✓ If you can offer an on-site experience, always keep looking at new ideas that will keep visitors coming back.

CHECKLIST FOR CGA MEMBERS

	Yes	No	Maybe	Comment
1. What is the ability to satisfy the end consumer?				
Is the product consistent with current consumer trends and priorities?				
Is the product supported by a branding strategy?				
Are traceability and QA systems in place to consistently meet the brand promise?				
Can the supplier and retailer work together to market the product with a range of advertising and merchandising activities, or is there a reliance on price discounting?				
2. Supermarket customer relationships				
Does the supplier have the capability to pro-actively manage the relationship with supermarkets?				
Are there strong relationships with multiple levels in the retail customer – ie. Senior management?				
Does the chain have several supermarket customers or is there a reliance on one retailer?				
Is the supermarket willing to share retail scanning data to monitor changes in demand and buying habits to help identify innovation opportunities?				
Can consumer concern risk be managed?				
3. Balancing producer and consumer needs				
Are the production implications of participating in the supply chain well understood?				
Is the retailer willing to work with the supplier to maximise the value of the whole crop?				
Do product specifications balance the needs of consumer and producer?				
Is there flexibility to change product specifications during the season if required?				
4. Supply chain efficiency				
Do retailer ordering systems add to order volatility and processing costs?				
Are there good demand and supply forecasting systems in place?				
Are there benefits in separating product and information flow?				
How effectively is information shared along the chain?				
5. Capturing value				
Are systems in place to monitor the true costs of servicing each customer?				
Are payment systems transparent?				
Is there flexibility in the risk/reward trade-off for producers?				
Do price setting mechanisms and contracts share the upside and downside of volatile commodity market movements?				

	Yes	No	Maybe	Comment
6. Producer capabilities				
What capabilities does the producer offer the chain to justify receiving more than commodity returns?				
Is the producer accurately able to forecast supply and deliver the agreed produce on time and to specifications?				
Can the producer quickly develop new capabilities?				
Has the producer resolved the degree of risk he/she is willing to take on?				
7. Continuous improvement innovation				
Are benchmarking systems in place to help identify opportunities for performance gains?				
Are there lean thinking principles in place to continually lower processing costs?				
Are there incentives, especially in payment, to innovate and improve performance?				
8. Process and exploratory innovation				
Does the supplier explore new ways of doing business with supermarket customers and other end users?				
Is there a formal new product development plan in place?				
Are there innovation performance measures in place?				
To what degree is process innovation investigated and adopted – or is the focus just on product innovation?				
Does the retailer play an active role in the innovation process?				
9. Business design and capability development				
Does the group's business design encourage or constrain capability development?				
Is the business design different to competitors?				
Does the business design recognize and develop strategies to overcome weaknesses?				
Has the chain explored options for shifting capabilities from one firm to another?				
10. Producer groups				
What specific capabilities does the group offer above those of individual members?				
Are members prepared to accede some decision making to the group?				
Do producers understand and monitor costs of production and cost implications for their business strategy?				
Does the group have – or seek to develop – marketing, branding and supermarket relationship management capabilities?				
Has the group's governance addressed issues such as relationship between volume and decision-making rights?				
How will members benefit from an increase in the value of the organisation over time?				
Will the governance include non-producer directors?				