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The Australian Rangeland Society

WHY ARE CHAINS IMPORTANT?

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ABSTRACT

Businesses operating in our rangelands are subject to a wide range of pressures, both external (such as globalisation, information technology, sustainability, power of consumers/retailers, etc) and internal (such as the small size of businesses, isolation from major markets, a rising indigenous population requiring sustainable forms of employment). How businesses react to these challenges determines whether these pressures will lead to opportunities or threats to the business.

Modern chain theory has highlighted the need for business to shift its focus from a supply to demand focus. In addition, there is need to develop strong relationships along chains where the benefits as well as the risks associated with product supply are shared. But all these factors play out differently in rangelands, because of their special environmental, social and cultural characteristics. This paper will highlight how regional and remote businesses can use this new complex environment to develop and/or maintain sustainable and viable businesses. The new emphasis will be on finding products that the market wants and developing strong supply chain relationships, marketing and supply partnerships.

SO WHY ARE CHAINS IMPORTANT?

The term chain can refer to network, supply, demand and value chains which all have a particular meaning but have as their basis the pathway through which a series of inputs are transformed into products that end-consumers desire. This is generally seen as a linear process in which the inputs from one stage in the chain are transformed into a product that forms an input in the next stage of the chain or in fact the final product (McGregor 2002). Chains operate in an environment that is influenced not only by the attributes of the businesses involved in the chain but also by the range of external influences impacting on the chain. These may range from influences such as weather and trade policy over which individual businesses have little control through to internal policies relating to ethics, animal welfare, social justice and the environment.

There is no doubt that a major external influence on our food supply chains over the past ten years has been globalisation, a concept that the food industry has embraced, or been embraced by depending on how you look at it. The ever-changing socio-economic and demographic trends and the plethora of food quality scares internationally mean that the food industry has to be able to react quickly to global changes which often bring with them opportunities. As an example the recent bird flu scare in Asia meant that Western Australian egg producers suddenly had the opportunity to develop an export market which wasn't previously available to them. The BSE and foot and mouth incidents experienced in the UK and elsewhere have opened new markets for Australian beef but more subtly have presented Australian beef producers with a new market – organic beef. In general globalisation has meant that our food supply chains have lengthened and broadened to include new market opportunities that had not been thought of previously. The significant changes that we have also experienced in information and transport technology mean that food markets are now truly global and this applies to fresh as well as processed products. For instance fresh pork carcasses and ice cream are now flown daily from Western Australia to Singapore.

Globalisation has opened up many opportunities for Australian food and related businesses but there is also a need to recognise the discipline and changed business structure that this brings. In the early 1990s the focus in supply chains was one of producing goods and pushing them along the chain. Partners in supply chains were selected on their levels of technical excellence, their ability to meet service targets and of course the price of the goods supplied. Relationships were very much transactional. The major shift in the later part of the 20th century and the early 21st century has been to maintain these requirements but add to these stronger relationships and whole-of-chain and customer-focused components such as having a strategic orientation, through chain innovation, offering some exclusivity to supply and the sharing of profitability along the chain.

Another major outcome has been a shift by major international retailers to dealing with fewer, larger suppliers. This means there is a role, and need, for consolidators in our supply chains, and this role increasingly is being met by supplier owned and operated businesses. Consolidation poses problems in the rangelands due to the dispersed nature of our production units but the significant improvements in information and communications technology mean that many barriers associated with the tyranny of distance have been reduced considerably. If Wal-Mart can source fresh food on a daily basis from all around the world then we should be able to aggregate supply within the rangelands of Australia.

However the biggest change we are seeing in chain management is the concept of chain competing against chain. This obviously causes problems for many Australian suppliers who have had a strong tradition of competition between businesses but to be competitive in the international markets in particular, companies need to cooperate more. The new catch cry is *"to compete locally but cooperate globally"*. The underlying principal in chain versus chain competition is that relationships within a chain then become very important. The traditional transactional-based focus that relied on contracts has been widened to include new concepts involving networks and relationships. In their purest sense the supply chains openly share information up and down the chain in an environment of complete trust (Batt 2003). In many cases the model adopted involves the complete openness of financial books along the chain and the sharing of profits.

Trust has long been an important component in any business relationship but is the critical element in this new environment. With it there is an environment in which there is an open exchange of ideas and emotions, clear goal setting and problem identification and a wider search for new markets and enhancing existing market share (Achrol 1997). These factors combine to deliver greater satisfaction for businesses in the chain and higher levels of motivation to implement joint decisions made by chain players. When high levels of trust exist, businesses can focus on the core business of the chain in an environment of less perceived risk and not be continually looking for alternative business relationships (Moorman *et al.* 1993), thereby reducing the transaction costs associated with exchanges within the chain (Ganesan 1994, Doney and Cannon 1997). In many instances partners who are committed to the relationship and trust one another will be prepared to make short-term sacrifices to realise longer-term benefits and also embark on relationship-specific investments that are specific to that transaction.

Obviously the development of such close relationship along a chain can result in high levels of dependency between partners in the chain. This can be both a positive and negative factor. As noted above if the process is working on an equal footing and no single partner exerts power over the chain, then dependence and relation-specific investment will help to reduce transaction costs. However, in a situation where one partner can exert power or a chain partner is more susceptible to the power and influence of another, then a situation arises where the more powerful partner may be in a position to demand more favourable terms of trade.

However, in the end the key to any successful chain or business is that it has identified a market(s) for its product. This may seem a basic requirement but it is often a step that many start-up businesses in regional areas neglect because they have been long conditioned by the belief that we can produce product and the market will be take the product. The days of supply driven markets are long gone. Markets are now clearly consumer and value driven.

RECOGNISING A MARKET OR HAVING A MARKET FOCUS

Markets vary in their levels of consumer sophistication and food supply chain efficiency (see Table 1). Levels of consumer sophistication range from those markets where consumers are actively seeking information on the provenance of the product and, in many cases, markets in which food at the top end of the market has largely become a fashion item in much the same way as clothes. At the other end, consumers are highly focused on price with factors such as nutritional quality and food safety playing a part in the purchase decision. Crossing over with this is the level of efficiency in the food supply chain. These range from the highly sophisticated supply chains of Europe and the US through to the fragmented chains found in the developing world.

Table 1. Australian agricultural exports by destination (adapted from Lojo 2003; data source, www.dfat.gov.au/trade)

Consumer Sophistication	Food Supply Chain Efficiency	*Country*	Share of Exports ($ m.)	Share of Exports (%)
High – *Active Decision Making* Brands, but actively seeking documented information on social and environmental concerns	*High* ✓ Supply chain integration ✓ Retailers directly influence production ✓ Protocol control and contract growing	USA	2,890	11.9
		UK	971	4.0
		New Zealand	826	3.4
		Canada	550	2.3
		Saudi Arabia	547	2.3
		UAE	325	1.3
		Germany	239	1.0
	Medium ✓ Supply chain bottlenecks ✓ Large distributors control ✓ Protectionist regulations ✓ Protocol control and contract farming	Japan	4,806	19.8
		Korea	1,012	4.2
Medium – *Less active decision making* Brands, but largely perceived quality, and health and nutritional values		Malaysia	967	4.0
		Hong Kong	886	3.6
		Taiwan	741	3.0
		Singapore	583	2.4
		Egypt	545	2.2
		Thailand	337	1.4
Low – *Price-driven decision making* Brands but affordability, basic concerns on safety and nutritional values	*Low* ✓ Fragmented supply chain ✓ Multi-layer of intermediaries ✓ Retailer remote from production base	Indonesia	1,005	4.1
		Philippines	696	2.9
		China	689	2.8
Mixed		Other	5,585	23.4
		Total	**24,300**	**100.0**

NB. Sorted according to share of exports

This generalised classification of markets, although useful, fails to pick up the complex web of demographic and consumer trends/needs embedded in each grouping. For instance if we look more closely at the markets which are categorised as having high levels of consumer sophistication and efficient supply chains (countries such as Japan and the nations of Europe and North America) we see some quite worrying signs in terms of their demographics. Like Australia, the birth rates in these countries are insufficient to reproduce themselves; younger people are no longer able to support a growing population of older non-working people with the consequence that they cut back at the other end of the spectrum by having fewer or no children. Only the US is producing sufficient births (2.4 per woman) to barely maintain the current population. In southern Europe (Greece, Italy[1], Portugal and Spain) the birth rate hovers at around 1. In Germany and Japan[2] the rate is around 1.5. In this

[1] The official forecast of the EU is for a drop in Italy's population from around 60 million currently, to fewer than 40 million in 50 years time and to below 20 million in 100 years.

[2] Statisticians for the Japanese government predict a drop in their country's population from the present 125 million to 55 million within the 21st century.

group of nine countries, which currently account for just under 50% of Australia's share of exports, the population is either in decline or at best maintaining itself, which means there are going to be a declining number of mouths that need feeding in the future. Australian suppliers will therefore either have to shift their emphasis to markets which are currently less sophisticated with supply chains which are less well defined but where the population is growing if they want growth through volume or be more strategic in gaining market share in existing markets and get growth through focusing on higher yielding market segments. I believe many of the opportunities for the rangelands are in focusing on the higher yielding segments but, as always, there will be specific lower-value, volume-focused markets such as live export that will provide opportunities. A note of caution however, in the case of the live export trade is that there are significant clouds on the horizon that in the end may see the cessation of the trade.

What are the current consumer needs/trends in those markets that currently exhibit high or growing levels of consumer sophistication? The major factors driving the food and beverage markets in these countries are quality, taste, convenience, health and indulgence. I haven't got time in this short paper to explore this thoroughly but I will discuss trends that will link with the two industry speakers in this session. It is also important to note that while food retail volumes remain fairly static in these markets, the value of sales has increased at rates of around 3-4% as a result of strong consumer buying of premium and specialty foods. Some of the trends of interest are:

The first is that consumers are becoming more sophisticated in their food purchasing with a consequential rise in purchases of gourmet specialty foods to *"... spice up everyday meals, rather than just using basic ingredients"* (Mintel 2004). This is also closely linked with the fact that the younger generation have lower levels of culinary skill compared to the older-aged groups and are therefore demanding higher quality and different ready meals and through travel, have become more adventurous with their tastes. The dimensions of these markets are huge with Mintel noting that this has translated into increased sales of specialty foods of over 20% between 2001 and 2003 with a market now valued at US$23 billion. These same trends have been observed to have an impact in the food seasoning and cooking sauces markets. Although the US seasonings and spices market, which is worth US$2.2 billion, has been described as mature with little growth (Mintel 2004) there are growth opportunities in exotic flavours and ingredients that are authentic with traceability of the ingredients provenance. The Australian rangelands contain many as yet unexploited (in market terms) exotic flavours and products that could be developed. These market segments could first be test marketed and refined in collaboration with tourist hotels in desert areas. The Northern Territory has also proven recently that companion marketing of products in the US and other markets can be a successful way of increasing market share especially in the high valued restaurant end of the market. The real key here will be to ensure that the provenance of the product is in no way compromised and that significant importance is placed on implementing systems that ensure traceability all through the supply chain.

The second major trend is an increasing demand for food products that people can eat on the move. This is especially the case in Europe where commuting times are longer and commuters are spending the time travelling to eat, drink or groom. This is known as *'on-the-move consumption'*, a category that now makes up 43% of the European snacks category[3]. A related trend is that less time in now devoted to cooking and eating meals despite the *'slow food'* movement. It is interesting to note that the time taken for food preparation and cooking at home has decreased from 2.5 hours in 1934 to an estimate of around 8 minutes in 2010. A recent report noted that even in France, that bastion of gastronomic excellence, the average time spent eating at a table had decreased from 1 hour and 22 minutes in 1977 to only 38 minutes in 2002. This suggests that there are openings for our food suppliers to either developing products that focus on supply to the food service sector and/or develop strong relationships in chains that manufacture ready meals. This might be as a component such as the flavours or the base ingredient in say kangaroo or organic-beef jerky.

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[3] It is interesting to note that transport activity that generates most on-the-move consumption is walking which accounts for 24.1% of all activity but contributes 39.9% of the sales. So much for walk for fitness!

The organic food market was seen until recently as a niche market which catered for a select few but that perception has changed as consumers become more health conscious, more concerned for the environment and aware of the dangers associated with the production, processing and consumption of food (Mintel 2003a, RocSearch Ltd 2004, Packaged Facts 2003). The global organic food market is now dominated by the US and European markets but countries like Japan and Canada are showing growth. There was a period of rapid growth in the organic market in the latter part of the 1990s up until the end of 2001 but a recent report (Mintel 2003a) suggests that fewer customers are now buying organic products than in 2001. While growth has slowed committed buyers are now buying a wider range of products. An area of optimism for the rangelands is that the continuing scares about BSE are fuelling rapid growth in the organic meat market in Japan, US and Canada. The potential for our rangelands to produce a wider range of organic products is huge and as noted above there are considerable opportunities for development of new markets through companion marketing of say beef with other bush food products or even non-food items such as Indigenous art.

Another focus has been on the increase in demand for food products that have a functional food component. The increasing literature which links diet to many chronic diseases is encouraging consumers to look for products that prevent and treat disease and/or improve body functions (Leatherhead Food RA 2004). Mintel (2003b) has noted that '*wellness*' is the new standard from a consumer perspective. This manifests itself in the high-intensity sweeteners that allow companies to offer low-calorie foods and drinks, or herbs which when included in products provide proven energy boosts. Some recent Australian examples are Omega-3 milk and nutrient-enhanced cereals. The search is now on for novel food ingredients that confer favourable health functions. The potential in our rangelands is huge. Indigenous people have long known the functional benefits of a large number of rangeland flora and fauna. The key to developments in this area will be that that traditional knowledge is valued and returns a dividend to its owners as it is used in the new food supply chains. This is not a trivial matter and one that requires high quality research and the development of imaginative business structures,

Finally, a recent report (Lintott 2003) has noted that "... *the contemporary food trends such as organic vitamin-fortification or functionality are not yet prevalent in the meat snacks category*", There has been no reported instance of a meat snack that claims to be organic and enriched – it appears that being organic on its own is no longer enough. Perhaps this is an opportunity for the Australian rangelands.

CONCLUSIONS

Alexander Graham Bell once stated *"sometimes we stare so long at a door that is closing, that we see too late the one that is open"*, Opportunity is defined as a set of circumstances providing a chance or possibility, a stroke of good fortune that presents itself and can either be grasped or lost. Circumstances, positive and negative, are constantly around us waiting to be capitalised and when seized, opportunities will surface.

Take the experience of Edward Lowe back in the 1940s. He was in the business of producing a clay-based material that would soak up oil and grease spills. One day a neighbour asked to use the compound for her cat. It didn't track all over the house and besides that, it looked good. Favourable circumstances presented themselves and Lowe realised he was on to something. He began selling the compound to pet shops and went on to supply 40% of a $400 million cat litter market.

The point of this example is that there are no limits to our opportunities. Most of us see only a minute portion of what is possible. We create opportunities by seeing the possibilities and having the perseverance and determination to act upon them. Opportunity and perseverance are the engines of successful people and businesses as illustrated by the two case studies in this session. Those living in and making a living from our rangelands need to consider its opportunities and identify those "*strategic elephants*" which might prevent it from seizing them.

There is no doubt that the world is changing and that market opportunities will wax and wain with the ever-increasing complexity of today's economic, social, political and environmental constraints. In order to compete in this complexity, modern agribusiness participants need to be persistent and to keep an open mind to the identification and capture of opportunities, not only in easier times but in times of seemingly insurmountable odds. Firms need to move away from linear solutions to problem solving and to adopt a holistic approach that encompasses the whole supply chain and the social and physical environment in which the chain operates.

An Asian saying advises, "*When fate throws a dagger at you, there are only two ways to catch it, either by the blade or by the handle*".

Which way are you going to catch it?

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