

OUTLOOK 2006

CHALLENGES AND OPPORTUNITIES FOR AUSTRALIA'S FOOD INDUSTRY

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Introduction

If you base your opinions on what you hear and read in the media then it's highly likely you'd think Australia's food and beverage industry is not in very good shape. What tends to be reported is that there is crisis on the horizon, whether it's Tasmanian potato growers with their backs to the wall or Kraft factory workers facing redundancy because biscuit manufacturing is being moved offshore to China.

These stories signal that our food and beverage industry will continue to face tough challenges, but for every negative story there is an equally positive one. The reality is that globalisation has affected global food dynamics through increased movement of food, the international spread of food and beverage manufacturers and retailers and the westernisation of international consumers.

The movement of food and produce has been enhanced by improvements in sea, air and land logistics and communication technologies. International businesses are restructuring and expanding their operations along global lines. And we are seeing a rapid expansion of major food and grocery retailers into international markets.

The question then is, 'Will Australia be a significant player in the global food and beverage market?'

It's a question we've asked almost 200 food industry leaders around the country as part of the process to 'refresh' the National Food Industry Strategy, and the response has been sobering.

Background

But first, to give you some background, the National Food Industry Strategy was developed by the food industry and Federal Government and commenced in 2002. It is a blueprint for increased investment in innovation, export growth and improved productivity, efficiency and skills in the Australian food industry. Programs under the \$114 million Strategy are delivered by an industry led company, NFIS Ltd and the Department of Agriculture, Fisheries and Forestry.

The Strategy is overseen by the National Food Industry Council, which is chaired by the Minister for Agriculture, Fisheries and Forestry, Peter McGauran.

Significant progress has been made in implementing the Strategy. Two food centres of excellence have been established to work with industry, one in functional foods in Wollongong and one in food safety and integrity in Hobart. Through Food Innovation Grants NFIS Ltd has invested some \$42 million across 50 food companies in 60 company based innovation projects, with a total investment of \$97 million in the commercialisation of innovation.

Food export market demonstration projects including a retail platform in Singapore and an efficient food service chain into Dubai have been established. Similar projects are underway in the retail sector in the UK and India.

Almost 60 food businesses and their chain partners have received funding for innovative approaches to food chain management, involving a total of more than 500 companies. Additionally, a set of professional resources and tools have been developed which are at the leading edge of food value chain thinking, through engagement of global best practice in supply chain management.

Initiatives have been developed to pursue a range of human capital problems facing the food and beverage industry. A Food Business Management course has been developed at Monash University designed by food business executives for people in food businesses. A range of other strategies have been implemented to achieve a long term increase the number of young people interested in a career in the food industry and to support the skills development of existing workers.

With the first stage of the Strategy due to finish next year, over the last 6 months NFIS Ltd has been in the process of updating the Strategy and identifying the challenges industry must address if we are to be a player in the global food industry in the long term.

Industry leaders from around the country have told us there is an even more critical need for a national strategy for the food industry than there was five years ago. As well as all the challenges from globalisation articulated then, that are occurring at an even more rapid rate than was anticipated, they are finding:

- strong (and very successful) market positioning manoeuvres from some of our traditional rivals in key markets;
- the entry of new players such as Brazil, Chile, China, India and former eastern European countries in some of our traditional markets;
- some loss of competitiveness at the primary production end in some sectors in Australia; and
- ownership changes impacting on the export activities of some major companies in the food industry in Australia.

As mentioned earlier, industry's forecast of its probable future if things continue unchanged is sobering. The consensus was that if we continue on the same track, the Australian food industry will have a smaller value-adding sector that is largely domestically oriented with limited incentives to develop innovative, branded products for the Australian market.

Further, low margins will lead to little new investment in the technological changes needed to drive down costs, and large scale processing will leave Australia. Finally, continued fragmentation and lack of collaboration in the industry will limit the export competitiveness of smaller companies through lack of scale and reliable supply.

It's easy to focus on the negatives – the real challenge is to come up with solutions to improve the competitiveness of the Australian food industry.

Objective

The overriding objective that has emerged from the process of industry consultation has been that as an industry we must **'create sustainable competitive advantage through innovation along the value chain.'**

The process has identified that we need to build international competitiveness, solve common issues across industry sectors and get a better return for our collective investment.

Targeted Outcomes

The first targeted outcome is '**sustained engagement in international markets**'. Its primary objectives are:

- increased access (both tariff and non-tariff) for Australian food products in targeted international markets;
- increased engagement and investment in international markets (in market development, logistics and even production and processing);
- *to achieve increased internationalisation of the Australian food industry (including growth in the number of Australian owned multinational food companies).*

The second targeted outcome that provides the necessary foundation for internationalisation is '**a competitive production base**' created through finding innovative solutions to:

- lowering costs and differentiating products and services;
- *to ensure a sustainable domestic production base of food producers and processors in Australia.*

In order to ensure that we have internationally competitive food producers, we must also have internationally competitive systems that support producers.

This leads to the third targeted outcome which is an '**internationally competitive regulatory environment**' in which industry leaders would like to see:

- a whole-of-chain approach to food regulations that is consistent across jurisdictions;
- *which delivers sensible compliance costs for food businesses.*

In particular in this area the whole issue of food labelling in this country needs a complete overhaul so that it is consistent with global trends.

The fourth targeted outcome industry leaders are seeking is a '**smart innovation system**' designed for Australian conditions with funds for investing in innovation. The objective is to create a 'strong alliance between food companies, R&D providers, and education and training providers' to deliver:

- greater access to business-driven R&D; and
- greater access to education and training (*to achieve increased investment in innovative solutions*).

The Programs

With these key outcomes in mind, the next task is to develop a range of initiatives to achieve these outcomes. It is proposed these initiatives be delivered by industry and government, working together under the banner of 'Food Australia'.

Market Development

A market development initiative would build on the platform models created in Singapore and Dubai, and the ones being developed in India and the UK. The objective is to leverage collaborative investment from governments and food businesses to enter markets and to promote a portfolio of products under the 'Food Australia' banner.

There needs to be more in-depth **market intelligence** to understand consumer preferences, competitor strengths and weaknesses and the current perception of Australia and Australian food in targeted markets.

Work is needed too improve the **supply chain capability** of food producers in Australia who participate in the platform models.

Expanded technical market access services in targeted markets are also required, extending the services currently provided by DAFF.

Innovation

We need **business-driven R&D providers** to work with the food industry to create a 'common language' and purpose across the scientists and food industry managers. We need to adjust the focus away from the needs of the science and R&D bodies to get greater focus on the food industry's needs for commercialisation of R&D.

We need to work with groups of companies and rural research and development corporations to facilitate **collaborative research projects**.

Smart Systems

Proposals for 'smart systems' are mainly in the 'idea stage'. There has been good industry support for the ideas; and we will be working with our partners and interested industry leaders to develop the business cases for investment in them as part of a national strategy for the food industry.

There is considerable industry support for a '**Centre of Excellence in Food Chain Innovation**'. Some of the elements to be developed as part of the Centre might include adapting international expertise in '**lean thinking**' to the cost challenges facing the food industry in Australia and developing cost-competitive and innovative **packaging** and **cold chain management** solutions.

There is also interest in a **Centre of Excellence in Food Processing** which would adapt the engineering excellence developed through other manufacturing industries to the particular cost challenges faced by the food industry. This means developing intelligent manufacturing systems and developing solutions to waste management and conversion – which are major challenges for food and beverage companies.

One of the pressing priorities for food companies is having both a skilled and unskilled labour supply. To address the need for skilled labour a **national program of food and education training** options needs to be developed. Preliminary work is underway to create a consortium of universities and training providers keen to invest in developing and delivering a range of education and training programs (workshops to degree programs) under the banner of **international agrifood business management**.

Food businesses have identified difficulties in **accessing capital** for financing expansion and to fund innovation. NFIS Ltd is working with capital financing experts and Commonwealth and State government agencies to respond to this need.

Competitive Regulatory System

The final initiative relates to the need to ensure a **competitive regulatory system** across all jurisdictions. This initiative needs to be undertaken by governments, both State and Federal.

Conclusions

Clearly the food industry is doing well in certain areas, but it does have issues of scale, distance and rising input costs in adding value.

In a very broad sense the food industry has traditionally been either a bulk player

that's done exceptionally well in certain commodity lines or it has been a niche player in certain products in certain markets. The challenge is to find a way of addressing the issue of adding value without adding excessive costs.

There is no doubt that we do have a global competitive advantage in certain sectors and certain industries. There are industries like dairy, meat and grains where the inherent cost of production is world competitive and we've done exceptionally well as long as we haven't added too much value.

We've got to stop thinking just at the process value-added end and think about our partnerships in agriculture, with farmers, right along the whole value chain. It's absolutely vital - and we've been getting this feedback from industry consultations - that we work together with a 'Team Australia' approach.

This means building on the successes of the initial National Food Industry Strategy, developed some five years ago, and embarking on a long term food and beverage industry strategy with the full support of industry and governments.

Just to reiterate, the overriding objective that has come from our industry consultations has been that as an industry we must **'create sustainable competitive advantage through innovation along the value chain'**.

What we need to do is explore the opportunities to create both technological and management innovation right along the value chain and look at how we can move the niche players and the big successful bulk commodity players much closer together.

We invite all participants in the food value chain to join us. Only by working together and learning from and with each other will we be successful.