

Farmer Driven Marketing

A primary producer's guide to increasing farm gate returns



A report for

by Matthew Neumann

2012 Nuffield Scholar

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Executive Summary

Australian farmers are amongst the most efficient farmers in the world. To gain competitive advantage in a global context, farmers must focus on whole value-chain dynamics. Producers must differentiate between supply chain dynamics, “push” type marketing and value chain “pull” relationships.

Producers must view their value chain from the consumer backwards. Identifying future customer trends and needs is a must to maximise farm returns.

Farmers who do not have an economy of scale need to investigate product differentiation and collaborative structures as a means to improve farm-gate returns. With rising input and energy costs and a current “productivity plateau” for Australian farmers, with productivity only increasing by one percent annually, producers need to focus on their end markets and creating value to the consumer (National Farmers Federation, 2013). Using the strength of collaboration through formal and informal structures allows opportunities to market produce viably in consolidated end-markets. Building and maintaining interpersonal relationships with value chain members (known as informal governance) is an integral part of ensuring profitable and long lasting successful value chain partnerships.

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Foreword

“The farmer is the only man in our economy who buys everything retail, sells everything at wholesale and pays the freight both ways.”

-John F. Kennedy.

Never in the history of Australian agriculture has this quote been so pertinent. Australian farmers are at the mercy of volatile markets, climate change, unsympathetic governments and rapidly increasing energy and input costs. With cost of production (COP) rapidly increasing as a result, farmers are struggling to remain viable in an age where market consolidation is happening on a weekly occurrence.

Being a mixed farmer Australia is not without potato farmer there are of regional factors anywhere from 7-9 limited areas for centre soil types, which all maintain stable levels From a marketing washed market: Eighty potatoes are grown in majority of our facility in Mt Barker, Coles and Woolworths.



Figure 1. Author with sons Ethan and Ryder in a paddock of potatoes. – Neumann Photo Collection.

in the Upper South-East of South its issues. As a third generation several challenges due to a number which include long rotations years, variable water quality and pivot sites, coupled with variable impinge on farmers’ ability to of annual production.

perspective we supply the fresh per cent of the nations washed South Australia. We sell the potatoes to a washing and packing South Australia, who then supplies

Two of the main issues we face daily are tight product specifications and downward pressure on growers’ returns. Aesthetic appeal is what makes a potato a premium potato. Very little notice is given to texture, taste and cooking tendencies. A premium potato last season was worth about \$600 per tonne; however the slightest blemish, imperfection or mark puts a potato into a second grade which was worth \$150 per tonne. Working on a bin average per tonne, our returns have significantly reduced over the last five years. This has inspired me to investigate my whole value chain and to look for opportunities and alternate markets for the produce we grow.

Potatoes only make up about 25% of our farming operation. We also grow prime lambs, lucerne hay and seed, coarse grains, oilseeds and small seeds for certified seed production. I did not want to limit my investigations to just the potato industry, but my aim is to look at strategies and processes that will allow all farmers to have the confidence and ability to actively take control of their value chain.

Hearing through media outlets the need for the “*Australian farmer to be more productive and efficient to remain viable*” and with the adage of “*get big or get out*” being continually mentioned, I decided to undertake a mission to examine whether there were alternatives for farmers like myself to grow and flourish.

Having been brought up to be a bulk commodity producer I was told to concentrate on yield and output and let the price take care of itself. I knew that there were farmers taking ownership of their value chain and successfully employing the paddock to plate principles within their own businesses. While many of these farmers had achieved considerable success, it is not without a substantial cost. Time, capital, and lengthy periods in which to become viable are all necessary factors to achieve whole or part of value chain control.

My Nuffield journey has taken me around the world close to three times. I have spent time in the Netherlands, Belgium, France, England, Ireland, China, the Philippines, New Zealand, the US (California, Idaho, Nevada, and Washington DC) and Canada. Every country brought something to the table, however, our GFP groups visit to California and my subsequent journey back was a particular highlight. California’s Mediterranean climate and access to fresh water via the Sierra Nevada’s snowpack enables a rich diversity of produce grown. With a population of over 37 million, the majority living between San Francisco and Los Angeles, enabled close proximity to markets and has allowed the growing movement of “buying local” to flourish (US Census Bureau, 2010).

I would like to express my gratitude to my sponsor, Rabobank, for enabling me to undertake this scholarship. In particular, I would like to thank Susan Howe, Rabobank’s National Sponsorship Manager, for her enthusiasm, warmth and encouragement and ongoing support in my travels. I sincerely look forward to being able to give a solid return on the investment that Rabobank has placed in me.

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To my parents, Eddie and Beth, a big thankyou for overseeing the operations on my farm while I was overseas. That enabled me to focus on my topic, knowing that the farm was at full production capacity. Thanks also for your support to my family while I was away. To Janine's parents, Ian and Rhonda, thanks for your support with Janine and the boys also while I was overseas.

To agribusiness consultant, Ken Solly, a big thankyou to you for your mentorship and guidance throughout my Nuffield trip. I have gained great insight from your wisdom and knowledge both in regards to farm production systems and in investing in one's self.

Thankyou to my fellow 2012 Nuffield alumni and in particular to the nine scholars I travelled with for my Global Focus Program (GFP). It has been an honour to travel with each one of you. With a diverse range of farming enterprises and views it made for an informative and rewarding experience. It has been one of the highlights of Nuffield to hear each other's visions for their industries, drive for excellence and conceptual thinking outside "the box". I am looking forward to this continuing for many years to come.

Gratitude must go to Nuffield Australia for believing in me and awarding me this opportunity to undertake further studies. This experience has been one of a kind and one not quickly forgotten. To Jim Geltch, Nuffield CEO, thank you for your tireless efforts and organisation in putting together such a great GFP and for keeping us all so well informed along the way. Also my gratitude goes to Terry Hehir, Nuffield Chairman, your words of wisdom and in passing on the legacy of Nuffield to us will never will be forgotten. Finally, a big thankyou to Rabobank Australia for continuing to sponsor Nuffield scholars annually. From a small farmer-owned cooperative formed in the Netherlands in 1898 to now having a presence in over 30 countries, Rabobank continues to support agriculture in Australia.

Abbreviations

ABB- Australian Barley Board

CEO- Chief Executive Officer

COP- Cost of Production

CSA- Community Supported Agriculture

GFP- Global Focus Program

ICA- International Co-operative Alliance

JBS- Worlds largest meat processing company

JV- Joint Venture

OC- Operating Costs

UK- United Kingdom

US- United States of America

%- percent

Objectives

The objective for this report is to equip Australian farmers to identify and look for opportunities in their product's value chain. To achieve this, farmers must look beyond their production capabilities and look at the process their commodities take to reach the consumer.

To increase returns for their commodity, farmers need to look at ways to create value for the consumer by meeting current consumer needs and to remain at the cutting edge, identify future consumer trends. Some of the points this report focuses on are:

- Distinguishing between supply chain dynamics and value chain relationships.
- Product differentiation: What does it look like?
- Understanding who is your consumer, their needs and building your value chain framework to facilitate this.
- Raising awareness of one's supply chain and identifying opportunities to create value to the consumer.
- The value of collaboration (versus competition) to successfully challenge consolidated markets.
- Strategies that allow growers to increase value of their product, and the processes which need to be employed to succeed in an Australian context.

Chapter 1: Introduction

“Agriculture is our wisest pursuit, because it will in the end contribute most to real wealth, good morals and happiness”.

-Thomas Jefferson (1793)

Agriculture in the majority of Australia’s short history has been held in very high regard. One of the first mandates when European settlement occurred in Sydney Cove in 1788 was to establish crops of grain and vegetables to feed and nourish the first settlers. Through the World Wars many farmers and graziers were exempt from compulsory military training on the grounds of the valuable task of feeding the nation and that of the soldiers overseas (National Archive of Australia). Through the early 1950’s Australia was said to be “riding on the sheep’s back” as wool exports led the way in terms of economic growth.

Today agriculture is viewed in a different light, playing second fiddle to the finite mineral wealth found under our soils. Australia’s agricultural sector, in a global context, is least supported by its government (along with New Zealand), with less than four per cent of income coming directly from government coffers (M. Keogh, 2011). Australian agriculture has a strong reliance on fossil energy which make up 10-30 per cent of total production costs. Without viable alternatives to power tractors and assistance through the production of synthetic fertilisers farmers are at the mercy of the steady rise and fluctuation of the price of oil.

Adding to the pressure of the rise of fossil fuel is the rapid increase in the price of electricity. Over the last three years electricity prices have risen by 15 per cent year on year. While for dryland farmers this consists of only two to three per cent of their operating costs (OC); for irrigation and dairy farmers this now makes up anywhere from between five and ten per cent of OC.

A large proportion of these increases are for the Renewable Energy Target (RET) to help fund and subsidise alternative energy (Sloan, Slape & Dodson, 2012). One must start to question Jefferson’s view as being somewhat idealistic in today’s economic climate.

Australian farmers are feeling a “squeeze” from rising input costs. To compound this problem further, farmers are supplying product into a consolidated market place. Australia is known as

having one of the most consolidated market places in the world in regards to the retail sector. Pundits have stated that Wesfarmers, owners of Cole's supermarkets, and Woolworths have a combined retail market share of over 80 per cent. Between 2006-11, Wesfarmers was the fastest growing retailer in the world (Domestic dominance, 2013). To add clarity to the state of consolidation, Woolworths are the 17th largest retailer on annual revenue in the world, followed closely by Coles who are 18th on the list. With a national population of just over 23 million, or 0.4 percent of the world's population (ABS, 2014), Australia is at the mercy of a retail duopoly.

Consolidation of the market place is not only felt within the grocery sector. In the lamb and mutton industry we have seen companies, such as Brazil based J.B.S., buying out independent abattoirs in regional Australia, multinational grain marketing businesses, such as Canadian business Viterra take ownership of Australian Barley Board (ABB), and the subsequent takeover of Viterra's Australian operations by Glencore. With large multinational companies buying out privately owned Australian businesses and with corporate business structures focused on maintaining and increasing profits to appease shareholders, suppliers to these companies are bearing the brunt of tighter quality parameters and lower returns.

Within this current socio-economic climate, farmers are faced with serious challenges to remain viable. There are two options open to small to medium sized farmers:

- Build an economy of scale, become a bulk commodity producer, looking to be efficient and productive through the use of innovation and technology.
- Differentiate the product through analysing customer trends and leveraging opportunities through the value chain.

This reports aim is to raise awareness of farmer driven marketing opportunities through knowing and understanding their value chain, understanding what the consumer wants, looking at structures to offset consolidation of markets, and using the power of relationships and collaboration to achieve better financial outcomes.

Chapter 2: What is a value chain?

Production based supply chains

A value chain is *“an alliance of enterprises collaborating vertically to achieve a more rewarding position in the market place”* (Bouma, Colero & Parker 2004).

Many people make an assumption that supply chains and value chains are one and the same thing. However, there are several quite distinct differences that give the value chain dynamic a marked advantage. A common analogy comparing supply chain and value chain is the “push” and “pull” principle.

Supply chain focus is on production of the product. Once that commodity has been grown or created with as little cost associated to it as possible it is then “pushed” along the supply chain. It is then up to the links further up the supply chain to absorb the commodity and push it eventually to the consumer. With supply chain dynamics it is all about cost of production and competitive pricing to move, or push, the commodity to the end user or consumer.

Frequently members of a supply chain can be left with a commodity or product that the consumer does not particularly want or too much product for the consumer to manage, as we see in seasonal or peak flushes. Examples of this include meat processors lowering the price/kg of lamb between September and November as many lambs come on the market, or in late November early December when grain prices generally fall away as grain merchants struggle for storage and harvest volumes of grain become known.

Supply chain dynamics generally involve very little or no information flow from the producer of the commodity through to the end user or consumer. Normally what information does flow through is too late to be of any benefit to the producer for that season, or this information can be manipulated to serve the best interests of the members further up the supply chain.

Supply chain members are also totally independent of one another. Each link is a business in its own right and must remain viable throughout supply cycles. The drive to continue to remain viable and increase margins can be a catalyst for significant profit-taking along the chain. For a supply chain to remain successful each member in the long term needs to remain viable.

Stakeholders further up the chain tend to have better access to real-time market information and so can more readily distort the plane of supply and demand in their favour.

Demand Driven Value Chains

As stated earlier, value chains involve concepts like alliances, collaboration, and partnerships to achieve better financial positions in the marketplace (. Michael Porter, a Professor with Harvard Business School, popularised value chain dynamics through his 1985 book *Competitive Advantage: Creating and Sustaining Superior Performance*. Where, as described previously supply chains “push” commodities to the consumer, with value chains we see a “pull” mentality from consumers demanding a product. With successful value chains we see demand for a product because it has increased value to the consumer. A great example is the diamond industry, rough unhandled diamonds, while still quite valuable, gain tremendous value after having gone through the relatively inexpensive process of diamond cutting.

Consumers will look for attributes or benefits in the food products rather than price alone. It will be essential to identify these elements and build them into the value chain for mutual benefit (Prof. David Hughes, Pers. Comm., July 2012). In today’s society consumers are faced with a huge amount of choices when they enter a supermarket. Full fat, low fat, skim, half and half, organic, bio-dynamic, soy, almond, are all choices when a consumer wants to purchase milk. Drivers for consumer choice have been the trends of healthy living, alternative lifestyles (like vegetarian and veganism) and higher standards of living. As a result of these trends, there have been tremendous growth in the creation of differentiated products. Known and referred to as Product Differentiation is one of the concepts that underpin the value chain system. The concept of Product Differentiation will be discussed in more detail later in the report.

A successful value chain is also dependant on a number of factors. Firstly, communication between the various partners of the value chain must be extensive and timely. Looking at a washed potato value chain, communication must be nearly instantaneous with regards to demands for particular varieties. As consumers are made aware of a new variety’s traits and benefits, the preceding members of the value chain must have ability to meet consumer demand. This is especially pertinent for the producers and seed producer alike.

Relationships otherwise known as Informal Governance (N. Lees, Pers. Comm., March 2013) play a huge role in the success and longevity of today's value chains. As in our everyday lives, the strength of our relationships, whether personal, business or social, have an impact on our success. The same characteristics (trust, communication, equality and transparency) as in a good marriage are necessary to facilitate good governance in value chains.

The difference between Informal Governance and Formal Governance is that the trust shown in Informal Governance allows for flexibility, timeliness and ease of movement of product up the value chain. All members of the value chain are working towards the same goal; they are reliant upon one another for this to be achieved. Their relationships are interdependent and opposed to a supply chain's members being independent of one another (Ag and Food Council, 2004). Informal Governance is in essence a mantra, subscribed to by all the members of the value chain, to ensure rapid response to information flow. This allows for a competitive advantage over other supply chains. However, this competitive advantage is only maintained while there are high levels of trust and transparency between the value chain members.

Another key benefit of marketing product through value chain dynamics is the consumer focus on value and product quality. While price is still a factor in consumers making their choice, it is overshadowed by the desire for value. The "pull" factor of a value chain, one of its key strengths, is driven by the consumer want or need of the particular product. Today's consumer is better informed than ever before (A. Fearne, Pers. Comm., March 2012). Through quick and accessible internet access, today's public can make well informed decisions regarding their purchases. This factor alone has contributed to consumers demanding more information on their packaging of products regarding food safety issues and nutrient value.

Chapter 3: Product Differentiation

As mentioned above the strength and success of the value chain system is largely based around the ability to markedly differentiate one's product. The Financial Dictionary(2013) describes product differentiation as *a source of competitive advantage that depends on producing an item that is regarded as having unique and valuable characteristics.*

The ability to differentiate your product negates the need to have to compete solely on price.

Some ways that fresh produce can be differentiated are:

- Packaging
- Variety
- Bio-dynamic
- Organic
- Free-range
- Ready to serve
- Product of home country
- Nutrient dense
- Free of pesticide
- Flavour profile
- Aesthetic appeal

Primary producers must change their outlook when it comes to looking at differentiating their product. Regularly producers look at the production end of their chain to differentiate their product. This is a natural progression as producers are working within their realms of expertise While this can be effective, for maximum reward producers need to design their value chain from the consumer backwards (O'Farrell, 2013). By focusing on meeting current and future consumer needs, producers are exposing themselves to maximum reward for effort.

In the list above some of the differentiated concepts are the result of what occurs in the paddock, which can include growing systems such as bio-dynamic, organic and free-range. There has certainly been growth in all three of these systems, with organics continuing to grow in Australia at a rate of 15 percent per year (NSW DPI, 2013). Despite this, in the vegetable and herb sectors, demand has dropped by 22 percent due to major retailing chains and larger conventional growers entering into organic production, resulting in reduced prices

(NSW DPI, 2013). Organic wool production has also been in decline as the lack of markets and value chain infrastructure has forced organic wool to be sold as conventional lines.

With the significant certification process for organics and the time it takes to reach certification, many producers are reluctant to go down that path. However, there are many opportunities and markets that do not require a change in production systems to achieve greater return. The use of packaging alone can help to set a product apart. We see with new season potatoes, opportunities to package in a way that is upmarket, easy to handle and denotes the new season potatoes as a premium product. As a loose line these potatoes would sell around \$2.50 kg but packaged in a 1.5 kg carton are retailed for \$5.99 kg. The price increase of \$1.50 kg more than makes up for the cost of filling and sourcing the carton.



Figure 2. Wilcox Potatoes at Rakaia South Island NZ, new seasons baby Perla's. Initially offered as an exclusive to one supermarket.
Photo: Courtesy Neumann Photos.

While the tonnages of new seasons potatoes sold as a percentage of all potatoes is quite low, promoting and selling a premium product, such as the one shown, gives leverage to a grower to then sell the bulk lines of prepack and loose shelf whites to the same retailer, with an option of exclusivity on the premium line of new season baby potatoes.

Within the potato industry the biggest impact in product differentiation has been new varieties that have been recently released on Australian shores. All varieties have individual traits that allow them to be marketed for a specific audience. Nadine's, a white fresh variety, was bred to keep in cool rooms for sustained periods of time without breaking down and rotting. This,

coupled with its clean skin finish, has allowed supermarkets to minimise their losses on the shelf, which contributed to up to 40 percent of their costs in procurement of stock. While these two traits have been of benefit to the supermarkets, the Nadine is renowned for performing poorly in regards to taste and texture and has been said to be a factor in the reduction of fresh potato's market share.

Kestrel is another variety that has been growing rapidly in the last five years. Being a white potato with a purple splash across it, the Kestrel's point of difference has enabled consumers to buy a white potato with the confidence that its has the cooking and sensory attributes that they are looking for.



Figure 3 Kestrel potatoes at Harris Farm Markets Photo: Neumann Collection.

The Kestrel is growing in popularity with David Harris, owner of 26 Harris Farm Markets stores in metropolitan Sydney, stating that he would like to have the Kestrel as the only white loose line in all stores. When questioned about this he stated that the consumer had the confidence in the Kestrel, because of its point of difference being the purple blush, that they would have a good experience with it every time (D. Harris, Pers. Comm., June 2012). Previously, when buying a loose white potato, they were unsure what the variety was and the taste and cooking characteristics of that potato.

Chapter 4: Who is the Consumer?

The key to establishing and maintaining a product in a value chain system is to understand the consumer. As David Ogilvy (2012), British advertising guru, stated somewhat gender biasedly “*the consumer isn’t a moron; she is your wife*”. While being a tongue in cheek comment, Ogilvy sums up the situation well. The consumer is more involved with their decision making than ever before. The reasons for this include better access to information, more choice on the supermarkets shelves, the percentage of household income spent on food declining and consumers lifestyles becoming more varied and secularised.



Figure 4. Baby potatoes packed at Branston Packers, Lincolnshire.
Photo: Neumann Collection

Understanding the demographics of the consumer is paramount in producing a successful product. In the UK, the main purchasers of potatoes are women aged between 29-44, who want to produce a meal in less than 30 minutes (M Story, Pers. Comm., July, 2013). Consumers of potatoes are confused when purchasing potatoes and 90 percent would like more help with their selection.

Historically potatoes were purchased believing they all tasted the same and the usage of the potato was defined by its size (M.Story, Pers. Comm., July 2013). The UK potato industry has been addressing these issues by marketing potatoes not by variety as much as by cooking use. In a Tesco’s super-store you will see 2 kg bags of potatoes labelled “British New Seasons Potatoes” suitable for boiling and steaming, as shown in the above in Figure 4.

Chapter 5: Trends in consumer behaviour

Aesthetics is a proxy for quality

Keeping abreast of current and future consumer trends, for a producer, takes considerable time and access to relevant market information. One trend that has been a considerable issue is that aesthetics is a proxy for quality (N Lees, Pers. Comm, March 2013). In reference to the fresh produce sector, this issue has huge ramifications on the returns and long term viability of growers.

Human nature has always tilted its choices towards what has looked appealing. One must question personal processes in selecting apples from the fresh food section of the supermarket. Even the author will look for the apple with blemish free skin, no bruising and a certain gleam. The two main supermarkets in Australia have product specifications and requirements for each produce line represented in their stores. There is little flexibility allowing for challenging growing season weather conditions or other growing season variables. Both Coles and Woolworths have a seasonal variation clause within these product specifications; however, this clause is only used and strongly promoted to the general public in extreme weather events, like the Queensland floods of two years ago.

While this trend of the products appearance denoting its quality will continue, consumers are starting to value taste and texture over appearance. As a result of this there are increasing sales at farmers markets, where freshness and confidence in the safety of the product are more desired than appearance alone.

For many producers, selling at farmers markets is an ideal way to build your brand and clientele. While many producers would view this as a niche market, many businesses have built solid economy of scale by starting out selling direct to the consumer. One great example of this is Rosemary Wastke of Poplar Bluff Organics near Calgary, Alberta, Canada (2013).



Figure 5. Farm sign entrance to Poplar Bluff Farm. –Courtesy Neumann Collection

She began to supply organic potatoes to farmers markets 15 years ago after feeling unwell eating insecticide-treated produce. As she began building relationships with chefs and restaurateurs in Calgary through the farmers markets, she realised the potential in helping chefs pick the right type of potato for the right dish. She grows 17 different varieties over 16 ha, producing in excess of 400 tonne per year. While this tonnage is comparatively small compared to the average tonnage produced by an Australian potato farmer, her returns per tonne are close to ten times that of a traditional bulk commodity producer. Her customers valued the cooking characteristics and texture over the lack of aesthetic appeal in Rosemary's potatoes.

Convenience shopping

The convenience sector is one of the fastest growing in supermarkets today. Australians are amongst the hardest working in the western world (ABS 2013). With a slight rise in dual income families in Australia the demand for ready to *heat and eat* meals is growing dramatically. In the UK, the fastest growth in new stores is in the Tesco Express, and Tesco's Onestop stores, a convenience store similar to 7/Eleven where limited product lines are sold. In Australia, the big weekly shop is dead, with on average Australians spending just 34 % of weekly food budget on a primary shopping day (Beefworld.com.au, 2013). The trend is for consumers to shop only for the following two to three days in advance, particularly for evening meal items which make up a large percentage of potato sales.

With this in mind, smaller packaging sizes are proving more popular. In the UK, Branston Foods, one of the UK's largest potato packers, pack from 20 kg hospitality/food service cartons down to prepacked four medium sized white potatoes, with the four pack of potatoes making up 40% of sales by kg packed.

In Australia during the 1980's, the side of choice in the traditional meat and three vegetables was potato at 72%; this has currently dropped to 39% with pasta, noodles and rice increasing to make 61% of all side dish purchases (Beefworld, 2013). This dramatic drop in growth can also be attributed to the time it takes to wash, peel, dice, cook and in some cases drain and mash potatoes, as opposed to the convenience of popping the pasta, noodles and rice into boiling water.

As a result of this consumers are moving towards pre-packaged *heat and serve* type meals. Branston potato packers are currently doubling their capacity to produce their prepared potato products with sales currently at nine million pounds sterling. These products are mainly sold into the Tesco Express and Tesco's Onestop stores.

An Australian business that successfully supplies Australian consumers with pre-packaged heat and eat meals is Lite'n'Easy. They produce over 200 different healthy meal choices, all designed to be nutritionally balanced. The owner and director of Lite'n'Easy, Graham Mitchell, began his business with one chef and eight staff 20 years ago. Graham searched around Australia for 18 months in the 1980's looking at business opportunities that addressed the trends of convenience and health, as he was a firm believer that Australians would have less time to produce healthy, tasty meals. The strength of Lite'n'Easy has been their ability to distribute their meals anywhere in Australia on a weekly basis, the convenience of *ready to heat and eat* meals, the wide range of meal options and the ability to lose weight following their meal guidelines. One demographic that Lite'n'Easy has had considerable success supplying is workers in the healthcare sector. With busy schedules, working different shifts and valuing healthy eating, nurses and doctors make up a significant proportion of clients. Currently, the Lite'n'Easy business is growing at a rate of 20 percent year on year (G. Mitchell, Pers. Comm. 2012).

Online shopping



Figure 6. South Korean train commuter scanning groceries with mobile phone to be delivered to his door the next day (2012)

-Photo courtesy of website www.designboom.com/technology.

Online shopping or dotcom shopping has become, along with convenience *heat and eat*, one of the fastest growing trends in today's society. Consumer polls (Global Survey of Online Grocery Shopping, 2012) have shown that 35 percent of Australians have bought groceries online in the last month and 42 percent have researched groceries' specials and prices online. However, Australia is still lagging behind the UK with 52 percent of Britons having bought groceries online in the preceding month. Supporting this trend, the Global Survey/Study of Online Shopping (2012) revealed that by the end of 2012, two thirds of Australians will own a smartphone and over half will have a tablet. This will enable consumers to seek and research information in real time.

In the US, particularly in the state of California, as mentioned earlier in the report, there has been huge growth in community supported agriculture (CSA) type online marketing platforms. With large population density around San Francisco and Los Angeles (LA) one business visited was in central San Francisco, named GoodEggs.



Figure 7. Employee of GoodEggs putting together an order. Average twelve orders collated per hour per employee. Courtesy of Neumann Photo Collection.

GoodEggs mission statement is to “*grow and sustain local food systems worldwide*”. With aggregation hubs in San Francisco, LA, Brooklyn and New Orleans, GoodEggs has a focus on supplying local, fresh, organic produce and goods to residents in these cities. Accredited producers, through an online platform, bring in produce specific to customer orders several days a week to a central aggregation hub. Here these orders are collated and packed to maintain freshness, before being home delivered or dropped off to several central customer pick-up points. The real strengths of this business is that there is little cost in capital infrastructure, the business is meeting the growing trend of buying local and safe, fresh quality food and through the online platform GoodEggs are able to leverage the story of *field to fork*.

The advantage of GoodEggs business model over that of conventional retail outlets selling groceries online is that GoodEggs replicate the emotional experience of a consumer parting with their finances to purchase a desired product. This is enabled through GoodEggs selling their producer’s story, the history of the producer’s property, the process in which the product is grown, and the blood, sweat and tears spilt to ensure the product is fresh and delivered on time, every time. This model also empowers the consumers sense of virtue; that their decision of purchase is supporting local producers and by purchasing organic produce protecting the microclimate in which it is grown.

Farmers Markets/Buying Local

Farmers markets continue to grow in popularity in Australia and in the US. Consumers see farmers markets as an opportunity to purchase farm fresh produce, with the proceeds going directly to the producer and not into multi-national profit-driven retail chains. Partnering this is the social status benefits consumers gain by sharing their farmer's market experiences and they relish the opportunity to be the next link in sharing the story of the producer's product.

The buying local trend is directly coupled to that of the farmers market scene, as was widely promoted in California, especially around San Francisco. In Australia there has been significant growth in farmers markets and buying local, however Australia's climate and landscape is not as conducive to producing the sheer variety as in the US. Just north of San Francisco, Marin County holds the second largest farmers market in the US every Sunday morning.



Figure 8. An example of the quality of potatoes and onions for sale at Marin County markets.

Photo courtesy of Neumann Collection.

The quality and range of products are outstanding with organic, biodynamic and free-range well represented. The ratio of fresh produce to ready to eat lines including fresh bakery product and hot chickens was excellent. There was a terrific range of hot and cold beverages on offer, encouraging the bystanders and customers to take their time and browse. The stallholders also suggested that their customers were much more likely to accept seasonal variation in the produce if they had a relationship with the grower. The key to success for Marin County Farmers Market was to create an ambience and experience that would attract and hold customers for a significant period of time. In conversation with the markets management it was suggested that live music would become another attraction which would create that ambience in which customers could purchase their products.

Equate this experience with that of purchasing groceries in a supermarket, where the consumer is bombarded with, in some instances, too much choice. As the trend of purchasing two to three times a week continues, consumers are pushed for time in making their selections. For consumers, farmers markets can be quite a liberating experience.

Chapter 6: Collaboration versus competition

The concept of collaboration between consumers is an intriguing one amongst Australian primary producers. Co-operative structures have been very successful. Examples such as Murray Goulburn in milk processing and marketing and Co-operative Bulk Handlers (CBH) in Western Australia focussing on grain storage, freight logistics and grain marketing demonstrate this success. In Richard Denniss’ (2012) report , the statistics show that 79 percent of people interviewed were members of co-operatives or mutuals. Examples of co-operatives and mutuals include RACV, RAA and RACQ automobile associations and credit unions amongst others. However, only 50 percent of respondents had in fact heard of the term co-operatives and only 30 percent could specifically name a co-operative business.

“A co-op is based on the value’s of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others” (International Co-operative Alliance ICA, 2012).

With this value system co-operatives are perceived as being much more trustworthy and providing better service for money than corporate business structures, as the below table indicates:

Public Perception of big Business

Public Perception	%
Corporate executives are overpaid.	92
Corporations are more interested in the welfare of shareholders than customers.	90
Corporations are too driven by profit.	90
Large shareholders have too much influence over running corporations.	88
Foreign owned corporations are less likely to support Australian communities.	85

Figure 9 Source: The Australia Institute Survey

Some of the principles of co-operatives also include:

- Voluntary/open membership
- Democratic member control
- Member economic participation
- Independence/Autonomy
- Education in Training
- Co-operation amongst Co-operatives
- Concern for local communities

Source: (Dennis, 2012)

With the principles and potential outcomes of co-operatives being at the opposite end of the spectrum to corporate business structures, there are significant tangible benefits for producers to adopt co-operative type structures to strengthen their market positions. Collaborative type approaches are not only confined to co-operatives but can also include Joint Ventures (JV).

JV's certainly play a significant role in gaining a competitive edge in marketing one's produce. One example of this was of a business in California who grew, packed and marketed potatoes to major retailing chains throughout the Western seaboard. They typically supplied Safeway, Kroger and Costco's, who all demanded twelve months supply of potatoes. Historically this business had a supply shortage in early summer and would have to buy potatoes out of the market at high prices to fill orders. To overcome this shortage, they formed a JV with a potato business further south (who had an earlier growing season) in order to establish a stable 12 months supply. An added advantage of this was they were not directly competing against one another when an overlap of supply occurred. To allow this JV to function to full effect the major retailers only dealt with the initial business in regards to communicating about price, volumes and orders.

Corporate business structures that emphasise shareholder (producer) returns, rather than reducing prices for customers, encourage competition amongst their suppliers from the way they tender out contract of supply to charging competing brands for premium shelf space. From the producer end there is an outdated mindset that they are competing against one another to produce their product efficiently and competing to supply the same markets.

However, this mindset is not an accurate reflection on the large-scale markets producers generally supply. If producers are willing to change and adopt a co-operative type mentality and be willing to be key players in information gathering for their industries, there should be sound economic outcomes for their businesses.

Chapter 7: Opportunities for farm driven marketing in an Australian context

Australian producers find themselves in a unique position when it comes to marketing dynamics. Being a geographically diverse nation with many varied growing regions, producers are faced with challenges in logistics and minimizing their freight charges. Also, with a population of just over 23 million people our domestic market can be a limiting factor in establishing new products (ABS, 2013).. Where do the opportunities lie in farmer driven marketing? Are there strategies that can be implemented to offset Australia's distance to markets and low population density?

Vertical Integration

One strategy to overcome high freight costs and long distances to markets is to vertically integrate along the value chain. This can be achieved by taking ownership in the next step of your value chain. This is generally a value-added step and quite often involves processing or refining a product to make it of higher value before it leaves a producers farm. This therefore increases the return to the producer of that product after the cost of processing has been accounted for. This in turn means that the producer is freighting a higher value product and the cost of freight per tonne is less as a percentage. The main issue in going down this path is the capital investment needed to vertically integrate a product.

In other countries visited, the government had incentive schemes for producers who can display the merits of value adding and who could justify it economically. Some of the examples included infrastructure to make top-quality compost, and paying 50 percent of the cost towards establishing an anaerobic digester. In Australia, for the average producer there are periodic grants available for vertical integration projects; producers need to employ professional grant writers to ensure they can meet the stringent requirements of the grant however. Otherwise the other option for an injection of capital investment is through venture capitalists.

An example of vertically integrating a product on farm into a concentrated high value product was found in a business in the county of Lincoln, UK called British Chlorophyll. As an offshoot of Blankney Estates, which covers 5,500 ha, British Chlorophyll makes high grade

water-based chlorophyll used in healthcare, medicinal and as a food colouring agent. They manufacture this by harvesting varieties of grass and lucerne with a forage harvester, feeding the green material through a gas fired furnace at 700 degrees Celsius to bring the moisture content from 80-90 percent to 7-8 percent. The material is then pelletised, cooled down and stored ideally for two to three months before going through a complicated procedure to draw the chlorophyll out of the pellet with the use of solvents and an undisclosed process to turn the chlorophyll from oil-based to water-based.



Figure 10. Photo showing pellets before the chlorophyll extraction (bottom) and the lighter green pellets that have had the chlorophyll removed.

Photo: Neumann Collection

British Chlorophyll also make nine lines of horse chaff and uses molasses and canola oil to increase palatability and nutrition. British Chlorophyll's ability to turn low value bulky forage into a high value easily transportable product has made it a leading edge business in the UK.

Collaborative Marketing Partnerships

Another opportunity for Australian producers to investigate is that of collaborative marketing partnerships. This is where a group of producers who have the product lines to supply direct to the consumer but, as a result of a poor economy of scale and being time poor, have to sell into traditional commodity markets at lower prices than they would receive selling direct. One of the main issues in selling at farmers markets is the time taken away from production to be at the markets actively selling the product. This quite often will tie up Saturdays and Sundays for producer putting time pressures back on the farm. An opportunity presents itself for like-minded producers to form a collaborative partnership to market their produce direct through farmer market without having to always give up their time to attend the event.

The model would operate where a small group of producers who all have products packaged for direct sale would pool finances and resources like van, tents, trestle table and signage and allow one member to attend a farmers market and sell the other members produce on their behalf. The key to this business is having a central drop-off point for produce, ideally with cool storage, and a software system that kept track of produce leaving drop-off point, sales, returns and deducting a percentage on sales to pay wages and cover other operating costs.

The strengths of this model is that all infrastructure is fully utilized, producers only have to attend the markets periodically, and having a diverse range of products at one stall increase the chance of spontaneous purchases.

Canadian Nuffield Scholar Rod Bradshaw, a mixed farmer in Alberta, Canada, has utilized this principle to maximize his returns on his carrot operation. Rod grows a variety of crops and vegetable but focuses on production of 20 ha of carrots a year. Being located between Red Deer and Calgary and in a high density population area, Rod formed a JV named Innisfail Growers with six other growers to supply produce to 20 farmers markets a month. Some of the produce that the JV supply to farmers market are tomatoes, cucumbers, potatoes, asparagus, peas, carrots, rhubarb and cut flowers. Some of the issues that Rod faces with his business are that most farmers markets require that all stall and produce sold must be by a farmer or primary producer. One of the members in Rod's JV is looking to grow her business and to fund her expansion has been able to staff considerable farmers markets.

Create a Niche Product

The third opportunity that presents itself well to the Australian agricultural landscape is creating a product that will fill a current need with the Australian consumer. To achieve this requires vision, appetite for risk and some degree of significant economic backing. The first and greatest question that must be answered is identifying an opportunity to create a product that will be “in demand” from a consumer.

Once this has been established using current and relevant consumer information trends and by employing market research businesses to confirm your position, the next step is to create a value chain from the finished product back to the production side of the business. Each step needs to be analyzed and have a costing attached to it to warrant going forward with the enterprise. This is where a significant capital injection is required not only for the initial

setting up of the business but to cover operating costs until the business is viable in its own right. There could be cause to see if there are businesses currently replicating steps of the new value chain that could be outsourced saving in large initial capital expenditure.

Once these steps are in place, promotion of the new product must be highly geared for the preceding three months, until the product is launched. All forms of social media must be utilized to gain exposure to the consumer. The challenge is to gain the consumer's trust to purchase the product the first time and then allow the value and quality within the product to ensure subsequent purchases.

If a primary producer is looking at this approach, it would be wise to look at opportunities within their realms of expertise first, as using knowledge of their specific industries will give them a potential competitive advantage.

An example of this approach is by a company located near Edmonton, Alberta, Canada called The Little Potato Company. They produce washed baby potatoes from proprietary owned seed lines that are packaged in small, eye-catching bags. They have several different varieties with different coloured flesh and skins as well as a mixture of three varieties. They have recently brought out a microwaveable heat and eat tray with a herb mix, due to consumer demand.

Business owners Jacob van der Schaaf and daughter Angela Santiago started their business after Jacob, a Dutch immigrant, was disappointed that he could not get potatoes like he did back in Holland as a boy. With his daughter they began by planting one 0.4Ha, weeding and harvesting by hand and washing the potatoes in their bathtub (www.littlepotatoco.com). Little Potato Co. were competing mainly with Russet Burbank's large potatoes that were mostly used as a processing potato. By growing and effectively marketing baby potatoes that had texture and a great flavour profile, they filled a hole in the market.

There are strategies and concepts that can overcome some of Australia's unique issues. With careful management, due diligence and a touch of entrepreneurial spirit farmer driven marketing is quite feasible to achieve better financial returns.

Chapter 8: Conclusion

The costs associated with growing a crop are not going to diminish in the immediate term. With Australian producers leading the way in water use efficiencies and from maximizing the potential from the quality of their soils, they must continue to look at opportunities to improve their profit margins. Actively marketing product allows a producer to lessen the risk associated with the quality of the product reaching the consumer and allows them real time information on what the market currently requires and what it will be looking for in the future.

Understanding the fundamentals of value chain dynamics will afford a producer, who wishes to take control of their marketing, every chance at success. To fully understand this, producers need to make the differentiation between supply chain dynamics and value chain relationships. Working on business relationships within the value chain is a key to ensuring that producers can achieve maximum benefits from their value chain. Producers need to increase their knowledge base of their target consumer and/or end user, to guarantee their product remains relevant in an ever-changing consumer environment.

With consumer trends and preferences rapidly changing and evolving, producers need to manufacture a value chain system that is fully functional yet flexible. With the trends of convenience, aesthetics as a proxy for quality, the online phenomenon and rapid growth in buying local and farmers markets, growers must make sure that their value chain does not meet only one of these criteria, but two to three.

Producers must be willing to continue to share information and work together collaboratively to achieve better financial outcomes. The old mentality of “*we are competing directly against one another*” in most instances is irrelevant and outdated and continues to ensure that the consolidation in our marketplace continues exponentially.

Farmers need to work against the spirit of apathy that abounds in Australian society. The quotes of “*we’ll cop it on the chin, again*”, and “*surely it will get better one day*” in reference to our price-taker status is not acceptable and is tantamount to injustice. Farmers have been their own worst enemy in the past, but it is up to the current group of farmers to state “*enough is enough*”.

There are opportunities for producers who want to take the next step in marketing their

products. Co-operative structure, vertical integration, pooling resources and directly meeting consumer needs are all relevant in today's market place. It is up to the farmers to act upon the statement "*necessity dictates action*" and begin to actively promote reform and change in our current agricultural climate.

Recommendations for Australian Farmers

- To understand and differentiate between supply chains and value chain dynamics.
- Identify who consumes each product and why. Consumers base their decision not only on price but on convenience and quality parameters.
- Let product differentiation be the profit driver in each business.
- Keep abreast of current consumer trends by subscribing to relevant reports.
- Look for opportunities to collaborate as opposed to operating in a solely competitive market place.
- Be proactive in seeking change in your value chain; necessity dictates action:

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Plain English Compendium Summary

Project Title:		Farmer Driven Marketing: A primary producers guide to increasing farm gate returns
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Phone:	(08) 87587227	mobile:0400 000 152
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Objectives	<p>The objectives of this report include:</p> <ul style="list-style-type: none"> • Distinguishing between supply chains and value chain dynamics. • Understanding a differentiated product. • Identifying consumer trends and thought processes. • The difference between collaborative and competitive environments • Strategies for producers to implement to increase farm gate return in an Australian context. 	
Background	<p>Producers are currently faced with higher than ever input costs to produce their crop. With the trend of consolidating end markets there is considerable pressure on growers' profit margins. For smaller, mixed farming enterprises without an economy of scale, initiatives can be implemented to increase profit margins. This report aims to look at mechanisms and strategies that producers can implement past the farm gate to increase their economic return.</p>	
Research	<p>The research for this report has taken the author to several countries including the US, Canada, New Zealand, the Philippines, China, Belgium, the Netherlands, France, UK and Ireland. The author met with value chain experts, industry leaders and farmers implementing value chain dynamics in their enterprises.</p>	
Outcomes	<p>Opportunities are available for Australian producers to increase their economic returns through implementation of farmer driven marketing strategies. Some of these strategies include product differentiation, vertical integration, informal governance relationship principles and collaborative marketing partnerships.</p>	
Implications	<p>Producers who actively desire change can see economic reform in the agricultural sector. Through collaborative partnerships and the strength of value chain dynamics, producers can counter the anti-competitive behaviour of corporate businesses.</p>	
Publications	Nil	

