



Distribution Project Plan - Part B

White Paper

The question put by the Northern Rivers Foodlinks project is how will we ensure our communities are sustainable in the future if there are shocks to our food distribution system caused by the dual impacts of climate change and peak oil?

A number of distribution projects were established as part of the Northern Rivers Foodlinks project to explore and investigate the distribution of local fresh fruit and vegetables to local consumers. Whilst it was not the goal of the project to try to change or influence the national system, it did attempt to identify the key opportunities and barriers to establishing local food distribution systems within the Northern Rivers, whilst still operating within the national context.

It appears, that in the absence of a complete breakdown in the current distribution system or legislation that prescribes a change, there is unlikely to be significant change to the distribution systems in the short term – regionally or otherwise.

This white paper explores what action can be taken to better prepare our communities to be more sustainable and resilient, whatever the eventual changes or distributions to our existing distribution system?

The key learning from the projects is a focus on the **distribution** of products is **irrelevant** if the **supply** of the products is **not available and reliable**.

This white paper is intended to provide individuals or organisations that are considering issues or initiatives relating to the distribution of locally grown fresh fruit and vegetables to local consumers. It provides an overview of the current distribution system, and learnings from the projects conducted as part of the Northern Rivers Foodlinks project.

The report makes recommendations on what could be done today, if we wish to begin preparing for an uncertain future, and it identifies several issues that would benefit from additional research.

Prepared by: Murray Richardson
14 Ross Lane Tintenbar, NSW, 2478
Email: murray@lfc.com.au

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Glossary of terms

The following terms are used within the paper.

Grower - growers of the fruit and vegetables

Retailer – full service supermarkets, small independently owned supermarkets, and specialty retailers

Customer – they are the buyers of fruit and vegetables from the wholesale markets or growers

Consumer – the ultimate consumer of the product

Wholesaler or Merchant (Wholesalers)– the consolidators of fruit and vegetables who buy directly from Growers and sell to the customers

Distributor – the company or person who delivers fruit and vegetables to the point of sale

Marketing Group – group of Growers who pool their fruit together to market it more efficiently

Packing Shed – location where fruit is graded and packed prior to shipment

Market – the entire enterprise, encompassing all the activities and participants

Wholesale Market – the major metropolitan wholesale markets where product is shipped by growers and buyers congregate on a daily basis

Food Service – the restaurant, hotel, venues, cafes, quick service restaurants

Produce – fruit and vegetables

1. Introduction

As part of the Northern Rivers Foodlinks project, \$160,000 was invested into projects covering the distribution of local products to local outlets. This report looks at three of these projects, House With No Steps (HWNS), Fruitos Fruit and Vegetable Wholesalers (Fruitos) and the NSW Citrus Growers Association (CGA). The other projects, covering farmers markets and a virtual market place (myfood northern rivers), were not considered as part of this white paper.

The results of the selected distribution projects have reinforced the entrenched nature of the current market structures and the difficulty in changing the focus of the individuals currently involved without there being some system wide crisis or legislated change.

There have been some encouraging developments, however several of the initial objectives proved difficult to achieve and so were modified or abandoned. A summary of the key outcomes is:

- Two of the projects had issues in sourcing a sufficient quantity and variety of local produce. Without produce to sell, the question of how to best distribute it becomes irrelevant. Establishing the supply of quality and quantity became a key focus for the projects, one being successful and the other choosing to abandon their plans. The third project was managed by a growers co-operative who had access to their own product.
- Both growers and customers/consumers are price sensitive. Customers/Consumers believe local product should be at or about the same price as the same product from other regions. This was a consistent theme across all three projects. During the project period, there were significant price differences between the various state wholesale markets. These differences cause growers and their marketing groups to ship products to other markets/regions achieve their better prices if they are not available locally.
- The larger supermarkets and metropolitan wholesale markets have well structured centralised systems that are difficult to change in the short term.
- It is likely there has been an increase in total emissions generated in the attempt to have locally grown product transported locally. This is likely to be the case while ever the existing system is retained. The duplication of systems in the short term will add to the total kilometers travelled and there will be a corresponding loss of efficiency within the current system.
- The local market for local food is limited in size and is currently well serviced. Farmers markets and direct supply by growers or their marketing groups is satisfying current demand. The balance of the market is being well serviced each day. The CGA had to extend their target market to include the Gold Coast to achieve their objective.
- Two of the projects had considerable success in securing distribution into the hospitality or food service sector. The foodservice market (restaurants, cafes, hotels, pubs, licensed clubs etc) is predisposed to supporting local product and the barriers to change in this segment appear low. While the balance of the customer base should not be neglected, the opportunity for change has not been demonstrated in this project, in the trial timeframe.

The distribution of local products to local consumers is possible however there are significant barriers to change for a large percentage of the market. Whilst the potential for growth of local products to local consumers markets may seem significant, the market today is relatively small. The fresh fruit and vegetable industry is a large, complex and is a highly competitive commodity based business. The system is a national system driven by the supply and demand of product. See Appendix 1 for more detail explanation of the current system.

The market is dominated by large retailers and the metropolitan wholesale markets. As a commodity based business, where product differentiation is very difficult and expensive, control of the supply of product from growers and the efficiency of supply chains and distribution arrangements to get product delivered to customers is a key competitive advantage.

The market is large and complex, with more than 300 types and varieties of product produced on more than 5,000 farms being delivered to more than 83,000 outlets nationally, most of which are based in the large metropolitan markets. Historically the wholesale market system has proven to be the most efficient system to manage this complexity. The large retailers have their own supply chains which by-pass the wholesale markets in each state. The wholesale markets

are located in the large metropolitan areas because this is the only place where it is possible to access the large number of buyers needed each day to purchase the perishable product on offer.

Australia should be considered as one national market for the sale and distribution of fruit and vegetables. This market is driven by both consumer demand and the supply of product each day. There are two distinct segments within this market. One is designed to service the major retailers; the other is the wholesale market system that services all other customers. The growers and their marketing groups, wholesalers, the major retailers and the consumers, all shape the operation of this system.

Growers are generally price takers in the supply chain and have a limited capacity to set or establish the price they are paid. As a result, growers will move their product to the best available price to maximise their return. This may involve shipping product interstate. HWNS, as the local marketing group, initiated these transfers during the project.

It is always the case that growers supply a variety of grades of product. The market system is ideally suited to breaking each crop down into its various grades and finding buyers for each grade of product in a timely fashion. Growers develop relationships with wholesalers in a number of wholesale markets. These wholesalers generally take the entire crop. The wholesalers rely on the supply of the premium product and take the balance of the crop to support the grower. There is a level of pressure from wholesalers, through price or other means, to protect this supply, including the stipulation that the grower supplies their entire crop or none at all.

Growers, who are not contracted to the major retailers, may sell directly to small retailers and other end users to improve their financial return. The choice to service customers directly puts growers in direct competition with wholesalers and other distribution networks. This occurred with avocados during the project with HWNS and lettuce during the Fruitos project and negatively impacted their attempts to establish a sustainable localised distribution system.

Wholesalers are the main operators within the metropolitan wholesale markets. Wholesalers provide the conduit through which buyers and sellers meet. Having secure supply is a key competitive advantage for a wholesaler. By establishing, maintaining and managing relationships with growers, wholesalers can guarantee supply to buyers on a daily basis. The importance of maintaining these buyer relationships is a significant barrier to change and is a key element in keeping the metropolitan markets strong. The offering of guarantees of payment, guaranteed prices and price premiums are used from time to time to secure supply. These act as a significant barrier to change.

The major retailers are the primary outlets for fruit and vegetables in Australia representing about 55% of sales (see page 16). The fresh produce section is a critical component of the retailer's customer offering and is an important contributor to their overall profitability. The major retailers buy from a variety of sources. Most of their volume is sourced from exclusively contracted growers who supply the retailers distribution centres directly. This product bypasses the central wholesale markets. Retailers pay a premium price for their contracted product to ensure the quantity and quality of produce supplied meets their specifications.

While it is generally understood that the availability of fruit and vegetables is influenced by seasonality, the current supply and distribution system has developed a way of ensuring the majority of products are available all year round. To ensure the right range of product is available, fruit and vegetables move across the country every day from the various growing regions. The consumer's expectation that most products will be available each day is a major barrier to change. The year round availability of fruit and vegetables is reinforced to consumers on an ongoing basis. Changing this entrenched behaviour while the major Retailers continue to supply product all year round is probably not possible.

From the projects conducted, our knowledge of the market, and from the conduct of the participants in the industry today, we can see that year round, consistent **supply** of product is the **critical issue**, **not** just the **distribution**. In the immediate future, the focus of any work should be on securing the supply of product and reinforcing of the message about the importance of supporting local producers, not the distribution systems or infrastructure that delivers the product.

2. Northern Rivers FoodLinks Distribution Project overviews

This section looks at the three projects as part of the Northern Rivers Foodlinks project and highlights the outcomes and key learning's from each project.

House With No Steps (HWNS)

HWNS operates a packing shed and marketing group based in Alstonville. HWNS attempted to establish an intra-region distribution model through the utilisation of its existing infrastructure and established logistics relationships. The project sought to develop relationships with high volume retail customers, mitigating the export and re-importation of local food into major Retailers.

Expectations:

- The original expectation was that there would be a volume of produce available locally which could be consolidated and shipped to the likes of Coles, Woolworths and Supa IGA stores.
- In addition to the work with the major Retailers, it was thought there was an opportunity to work with Fruitos to supply the same product to the local food service sector.

Outcomes and Learnings:

- After some initial work, gaining access to additional types and varieties of produce was more difficult than originally estimated because of limited supply. A poor growing season in general added to this issue however there was a real lack of understanding of what product was available or could be produced in the local region.
- Dealing with the major retailers proved to be difficult. Apart from having no assurance of product to supply, there was an expectation that any product would travel through the current distribution system and comply with their product specifications. Woolworths required produce to be ripened (avocados/bananas) and delivered to their specifications and timeframes into their distribution centre every two days. HWNS facilities could not provide this service directly.
- There is an expectation among growers that the purchaser of their product will take the entire crop as happens today in the wholesale markets. This would have placed an unacceptable financial burden on HWNS that they were not prepared to accept.
- Local retailers are very price sensitive. If they can get fruit and vegetables to their door cheaper than the local option, they will. This could be from a central market, or from independent local growers. During the project period HWNS established a relationship with a local independent IGA supermarket for the supply of avocados. A local grower then approached the same store, undercut the HWNS price and began supplying direct.
- HWNS operate a marketing group for growers. As a marketer, HWNS is continually focused on maximising grower returns and will sell to the highest available price. During the project period, the price for avocados in Brisbane was as low as \$8 - \$10 per tray. At the same time, the same product was achieving \$16 - \$18 per tray in Melbourne after freight. The available fruit was sent to Melbourne. Price differences between wholesale markets are common and will compromise the local model. The retailer's expectation of price is based on their closest wholesale market; locally this is Brisbane. The Brisbane price was not acceptable to HWNS and so fruit was sent to Melbourne.
- The small volume and limited range of locally grown and available produce made it inefficient to distribute to local stores.
- Some success was achieved supplying local produce to the smaller local IGA stores, Farmer Charlies, Pirlo's Fruit Barns and a relationship was established with Fruitos. The link to the Fruitos distribution system is new and is developing well. This could provide distribution opportunities in the future.
- During the project period, one retailer chose to source all its avocados from New Zealand, removing any chance for Australian or locally grown product to be on sale. This decision was in response to its breach of country of origin labeling laws.

Fruitos Fruit and Vegetable Wholesalers (Fruitos)

Fruitos is a local Distributor whose business is focused on the food service market. 83.8% of their business is wholesale (restaurants, cafes, clubs, pubs), 7.8% is to retail outlets and 8.4% is to domestic home delivery. Fruitos sought to establish an intra-region distribution model for local food into their existing customer base of commercial establishments, retail outlets and domestic fruit and vegetable customers.

Expectations:

- The original expectation was that Fruitos would use House With No Steps (HWNS) facilities as a hub at which farmers would drop produce off and Fruitos would then on-sell to their customers.
- The original expectation was that there would be a volume of produce available locally which could be consolidated through HWNS and shipped to Fruitos existing customer base.

Outcomes and Learnings:

- After several discussions with HWNS & other members of the steering committee, it was agreed that the best way to roll out the intra-region distribution project was to use Fruitos as the agent through which would buy & sell the local produce direct from the farmer, except avocados which they would buy from HWNS, and handle the whole transaction independent of HWNS.
- The original information about what volume of fruit and vegetables was available was not reliable. After contacting a list of 180 listed potential growers, it was established that only 10 were potential suppliers of fresh produce. The balance were meat, seafood and value-added products. Many were also already supplying directly to retailers and food services.
- A marketing campaign was established to attract growers. A database of 41 qualified growers has contacted Fruitos as a result of the campaign. These growers are of a medium to large size and are capable of supplying the volume needed by the business, subject to being able to agree to a price.
- There is an interest amongst local food service outlets and local retailers to source local fruit and vegetables provided the cost of the local product is competitive with other imported product.
- It is common for both Fruitos and the grower to be unable to negotiate an agreed price. Fruitos have found that what is paid in the Brisbane markets is significantly cheaper than what the growers are getting after agent & transport fees at markets in Melbourne, Adelaide & Sydney. This will remain a problem while price differences between wholesale markets exist.
- One of Fruitos local lettuce suppliers was also selling direct to food service customers, undercutting the Fruitos wholesale price in direct competition to them.
- Fruitos wholesale customers (restaurants, clubs, cafes etc) do not believe having local produce is a reason for people to choose their venue however it is believed it will enhance their experience once there. The availability of local fruit and vegetables may be a reason for a wholesale customer to choose to stay with Fruitos however Fruitos believe it is unlikely to help them grow their wholesale customer base.
- It is important to differentiate between "food miles" and kilometres. A food mile attempts to determine the green house gas emissions from the transport of food. While the kilometres travelled are an important component of this calculation, it does not follow that a reduction in kilometres travelled will reduce green house gas emissions. This was particularly apparent with the following examples from the Fruitos project:
 - a. *"On average, the food that is now being bought by us on a weekly basis from the northern rivers region instead of other regions around Australia is travelling a total of 740km per month compared to 18,592km when we were sourcing these lines from other market hubs. (Attachment 2)".* Whilst this comment is correct for a specific item of food, it fails to acknowledge that the number of loads travelling from Brisbane each day was unchanged (for other product that still had to come from the central market). It follows that the emissions from Brisbane remain relatively unchanged and the local transport emissions should be added to this.
 - b. The calculation of food miles is dependent on the efficiency of the vehicles used. It follows that unless the vehicle Fruitos use to transport produce from Brisbane each

day improves its efficiency, that leg of the transport will be less efficient, again potentially adding to green house gas emissions.

To determine the true impact of and any cost or savings in the Fruitos distribution project, a full end to end analysis of the emissions could be conducted comparing the existing system, any revised system, taking a full account of any system overlap.

-Fruitos established a poster "Northern Rivers Produce", to identify those stores supporting locally grow produce within their customer base.

The NSW North Coast Citrus Growers Association (CGA)

The NSW North Coast Citrus Growers Association (CGA) is an established grower's co-operative comprising of six farms that specialise in Tahitian Limes and other citrus varieties. The CGA has an exclusive contract to supply a major supermarket group with 100,000 kg's of premium limes at a national level. In addition, they have supply arrangements with a number of larger wholesalers and retailers to clear the balance of their crop. Every year however, an equivalent quantity of second grade fruit is not harvested, as it has not been economical to pick and distribute through established markets. This edible fruit is therefore wasted directly as a consequence of inadequate distribution channels.

Expectations

- The principal objective was to create a vertically integrated business supplying local customers with locally grown food, which would be processed and distributed using the CGAs existing infrastructure.
- It is the aim of the Association to build on the customer list that has been established during the life of this project and to take full advantage of the distribution mechanism created.

Outcomes and Learnings:

- Over the course of the project, a weekly distribution system has been established to service hospitality customers between Lismore and SE QLD. This service delivers approximately 450 kg of fruit each Friday to approximately 35 local businesses.
- It has been determined that local purchasers of fresh produce will tend to favour local producers over interstate wholesalers/suppliers if the unit cost is the same.
- The establishment of a single focus distribution system dependent on the delivery of one product, limes, made it difficult to compete with consolidated loads of fruit and vegetables from existing distributors. The product range was expanded to include lemons and other citrus lines. It is the Association's expectation that there will be opportunities to cross sell additional fresh produce lines grown by other farmers in the region, as well as value-added products.
- The local market had limited potential and so sales outside the project region became important. Additional customers were recruited between Lismore and the Gold Coast.
- Potential customers displayed a level of loyalty to their existing suppliers and did not want to change or complicate their business.
- Environmental benefits have been demonstrated through a reduction of organic waste to landfill, the recycling of cartons each week and a reduction in green house gas emissions of 74kgs of carbon dioxide each week. Whilst this comment is correct for a specific item of food, it fails to acknowledge if the previous suppliers have stopped servicing the area or the customers. If this is not the case the CCA distribution system will be generating additional emissions and the saving may be overstated.
- Returns to CGA's growers have improved with an average increase in sales revenue of \$1.39 to \$1.73 p/kg of fruit sales having been achieved. The significant improvement in the volume and price of 2nd grade product sold has resulted in better returns for the CGA members.
- CGA established a brand, "Farm Food Direct", to market their proposition. The expansion of the customer offer in September to include all fresh produce lines fits within this branding.

2. Recommendations

Continued effort should go to ensuring local supply is available within the current system. Some things that could be implemented immediately include:

Understanding the supply and demand of produce available

1. Create a detailed understanding of the type and volume of product currently grown by region. This information should be made publicly available. In both the HWNS project and the Fruitos project, there were incorrect assumptions made about the available supply of fruit and vegetables. If local demand is in any way to be satisfied by local supply in the future, establishing consistent supply within the existing market structure should be a priority.
2. As an extension to point 1, an understanding of the potential to supply product within any given region and the resources available and/or required to do so, will be vital to determine if any given region is capable of sustaining all or part of its supply requirements in the future.
3. Planning for the supply of produce required in the future should be based on sound information. Building an understanding of the consumer demand for product for any given region is critical to ensuring we understand what is needed and that we have the capacity to supply the product required directly, or to find sustainable alternative points of supply, should they be required.

Building local food programs

4. Expansion of programs that encourage the sale or consumption of locally grown product in local outlets. This will help build awareness and will provide a sustainable market for local produce to local outlets as an alternative to the central wholesale markets, today. Some examples of this include:
 - i. Source Identification – during the Northern Rivers Foodlinks project, a successful Source Identification project was developed by Regional Development Australia – Northern Rivers (RDA). The objective of the Source Identification program was to enhance community food knowledge and healthy lifestyles by increasing access to and awareness of fresh local food.
 - ii. Northern Rivers Food Brand - A brand to identify food produced and manufactured in the Northern Rivers Region has been developed by Northern Rivers Food. This can be used by producers and manufacturers in a variety of marketing and media activities, including using the brand on product labelling and is a tool to support the implementation of the Source Identification Strategy. Northern Rivers Food is a proactive membership based group established to facilitate the growth and development of the Northern Rivers food industry. Using this brand, Northern Rivers Foods can be consistently identified by consumers whether purchased in restaurants, at farmers markets, in food retail outlets or supermarkets. RDA was instrumental in the development of this industry network.
 - iii. Hospitality or Food Service outlets – During the Fruitos and CGA projects, both successfully sold locally grown produce into hospitality or food service outlets. Facilitating the development of relationships to service this sector will work to establish markets for locally grown produce and this sector of the market has shown a willingness to support the Source Identification initiatives.

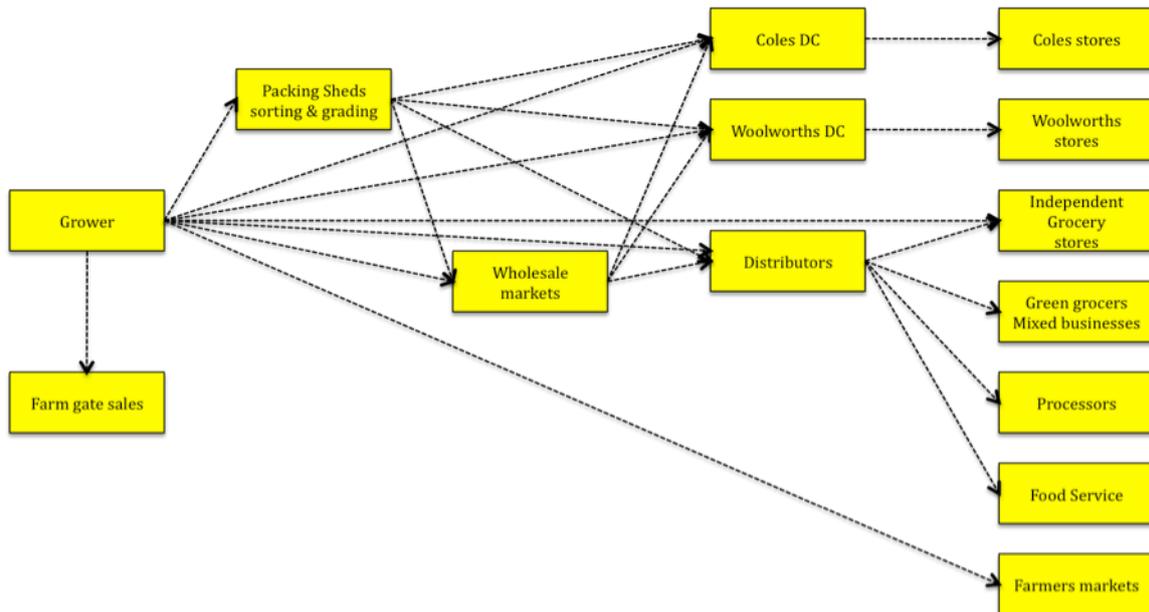
Issue to consider

5. Whilst ever the local supply of certain types of produce is greater than demand, retaining access to metropolitan wholesale markets will be important to grower profitability. In the immediate future it may be possible to improve the efficiency of these local growers through a focus on local infrastructure such as roads and bridges. Improvements that add to the sustainability of the supply system, which will be of value if the centralised supply is not available, should be a priority.
6. The price of food was a key concern for customers and consumers across the projects.
 - a. If the goal is to have a resilient and affordable supply of fresh produce in the future, future investments and industry programs should specifically target the improvement of supplier productivity as a priority. Issues such as road, water and land use restrictions should be considered.
 - b. It may not be possible to establish a local supply of product for local consumption in all regions at an affordable cost. If any alternate supply model has a significant impact on the cost of food, consideration should be given to alternatives to local supply. We should not assume that one supply model would suit every region or make every region more sustainable in the future.
7. Food Miles is an issue that has shaped much of the food supply debate in recent years. While the concept resonates well with consumers who are interested in where their food comes from, the concept has been widely discredited locally and internationally and should be viewed with caution. An example of this can be found in "Issues in Food Mile and Carbon Labelling, ABARE Research Report 09.18 December 2009".

4. Appendices

Appendix a - Overview of the Current System

Fresh fruit and vegetable distribution in Australia operates through a sophisticated national system. There are many participants performing a variety of tasks across the system. The system operates daily and is designed to cater for the perishable nature of the items it manages each day. There are more than 300 types and varieties of product produced on more than 5,000 farms being delivered to more than 83,000 outlets nationally (FOODmap 2007, freshmarkets.com)



This diagram is representative of the majority of domestic transactions within the industry. There may be other transactions for specific products. The combination of supply and distribution arrangements will vary in each region. Produce is exported to other countries on a regular basis. These transactions are not shown on this diagram. There is an alternate map of the supply chain available in the appendix.

The fresh fruit and vegetable distribution system is a national system. There are a number of major growing regions and a number of major wholesale markets, primarily located in the major metropolitan cities. On a daily basis, fresh fruit and vegetable moves around these markets. The wholesale market system determines the prices for fresh fruit and vegetables each day. The market system provides the meeting place for buyers and sellers and is the distribution centre for fruit and vegetable, ensuring that the large volumes of fruit and vegetable from around the country are broken down, sold, consolidated with other products and shipped to the point of consumption each day.

The major retailers source the majority of their product direct from growers and by-pass the wholesale markets. The large number of buyers represented at the wholesale markets each day are purchasing for smaller outlets. Having a large volume of buyers is critical to the success of the wholesale market and is the reason they are located in metropolitan centres.

The central wholesale markets are recognised as the lowest cost way to source fruit and vegetables. There is a cost to source and receive deliveries from separate supply sources. On a daily basis the central markets provide a large range of fruit and vegetables in one location so buyers can source what they need. To source product outside this system can only be done with higher cost in the form of buyer and seller time, plus separate logistics and distribution costs.

On a daily basis outside of the major festive seasons e.g. Christmas and Easter, the demand for fruit and vegetables is relatively stable. By contrast, the supply of produce changes with the seasons and in many instances the supply is sourced from a number of regions across the year. As a result, a large variety of produce crosses the country from different points on a daily basis, is broken down, consolidated and shipped to the point of consumption.

While in some instances produce may travel back toward its point of production from the central distribution points, these loads will be consolidated with a variety of other products which may or may not have not been grown close to the point of consumption.



The centralised distribution system is critical to grower profitability and sustainability. The major growing regions have limited local markets. Access to the major metropolitan markets is critical to grower profitability and sustainability.

In addition to the demand and supply pressures which move fruit and vegetable around the country, there are a number of regional pest control/disease management measures which also influence the supply and suitability of fruit and vegetable to move around the country.

The following section provides some insight into the position of each of the participants in the supply chain. It touches on their capacity to influence the supply chain, their interest in local food and their appetite for the financial risk associated with any system change.

Growers

Growers, as their name implies are the primary producer of the fresh fruit and vegetables traded within the markets. Growers are located across the country and produce a variety of products. There are more than 5,000 growing enterprises across the country.

Growers are generally price takers in the supply chain and have a limited capacity to set or establish the price they are paid. As a result, growers seek to differentiate themselves in a variety of ways including product quality, seasonal availability or by being organic. It is always the case that growers supply a variety of grades of product. This is a natural occurrence with each crop. The market system is ideally suited to breaking each crop down into its various grades and finding buyers for each grade of product.

A grower's capacity to influence or control the supply chain is largely driven by their capacity to influence supply. Growers will move their volume to the best available price to maximise their return.

Growers have an interest in the supply of local food to local markets however this is generally driven by their desire to improve their financial return. Growers who choose to service local customers directly are generally smaller in size. The choice to service customers directly puts growers in direct competition with other distribution networks.

There is limited interest in taking a marketing risk from the grower's perspective. The grower takes all the agricultural risk and so has a limited appetite for any additional risk. Growers develop relationships with wholesalers who generally take their entire crop. The wholesalers rely on this supply and take the entire crop to support the grower. There is a level of pressure from wholesalers, through price or other means, to protect this supply.

Packing Sheds and Marketing Groups

Generally based in regional areas, packing sheds are common across the industry. They are service providers. Typically they sort and grade fruit and vegetables, package it ready for market and act as a central collection point for transport to take product to the metropolitan wholesale markets. Packing sheds are a primary source of product grading within the supply chain. They grade the product they receive into its various "grades" and make it ready for market.

It is common for growers to form marketing groups to assist with the marketing of their product. Many of these groups form in and around packing sheds. These groups focus on the selling of combined quantities of produce and on achieving the best possible price for the produce. This combined selling strategy increases the customer base available. As an example, marketing groups may have supply arrangements and trading terms with major supermarkets that individual growers do not.

The capacity of these marketing groups to influence the supply chain is generally limited however by providing a single point of supply for a larger volume of product, they attempt to achieve a better price outcome for their members. Marketing groups will move product significant distances to achieve the best return for their members.

Like growers, marketing groups have an interest in the supply of local food to local markets however this is generally driven by their desire to improve the financial return for their suppliers.

There is limited interest in taking a marketing risk from the marketing groups perspective for the reasons outlined in the growers section.

Wholesalers

Wholesalers and Merchants (Wholesalers) are the main operators within the major metropolitan wholesale markets. Wholesalers provide the conduit through which buyers and sellers meet. The buyers congregate at the major metropolitan markets. By establishing and maintaining relationships with a number of growers and a number buyers, Wholesalers assist growers to break down their off farm volume into its various grades and sell the volume in a timely fashion.

Wholesalers make their profit by buying produce from growers and selling it for a higher price or by taking a percentage of the price they achieve on the sale of the produce. In return for this, they guarantee to sell the entire load on the growers behalf and to pay the grower in a timely fashion.

Because of their access to the buyers, wholesalers are able to secure markets for volumes of produce. This capacity to clear the product they purchase off growers, particularly perishable product, allows them to influence some control over growers.

Some wholesalers have exclusive marketing right to produce and exclusive supply arrangements with retailers. This enables them to have more influence over the buyers and growers however it is always limited to their capacity to supply.

The guarantee of payment is a significant barrier to change. Given many growers are regionally based and have a limited capacity to get to the metropolitan markets, the security of payment is an important part of the grower/wholesaler relationship. Wholesalers will guarantee prices from time to time to secure supply.

Given the majority of wholesalers are based in the metropolitan markets, they have no interest in seeing volume being diverted away from their control. Wholesalers work very hard to protect their supply arrangements through price and other means.

It could be argued that wholesalers take no risk and have little interest in taking on any additional risk. In most instances a wholesaler will take delivery of produce, sell the produce at the best possible price and remit the proceeds, less any fees, to the grower.

Distributors

Distributors typically purchase a large variety of fruit and vegetables from the central wholesale markets, break it up into specific orders for their customers and deliver the product to retailers and food service outlets. Distributors generally buy from a variety of wholesalers and may purchase some local products.

Distributors have a limited capacity to influence the supply chain. They typically buy from a variety of sources they keep their costs down. The daily nature of their businesses provides a regular and reliable outlet for growers and wholesalers.

Distributors are driven by their customers needs and motivations. They may seek to differentiate their business by supplying locally sourced fruit and vegetables if they can gain a competitive advantage, if there is sufficient continuous demand and if there is a financial benefit to doing so.

Distributors, as both buyers and sellers of fruit and vegetables, will seek to minimise any risk within their business while satisfying their customers requirements.

Retailers

Retailers are the primary outlets for fruit and vegetables in Australia. There are a variety of outlet types from major full service retail supermarkets to small specialty retailers. The fresh produce section of most retailers is critical to their customer offering. Fruit and vegetables carries a high gross margin and is an important contributor to their overall profitability. Some detail on the percentage of business by retailer type is included in the appendix.

The major retailers buy from a variety of sources. Most of their volume is sourced from selected contracted growers who supply the retailers distribution centres directly. This product bypasses the central wholesale markets. The retailers pay a premium price for their contracted product. These suppliers will supply a quality and quantity of produce to the retailers specifications.

Retailers influence the supply chain in a number of ways:

- Volume buyers – as the main volume buyers in the supply chain, retailers set the prices they pay for produce. Given that the fresh fruit and vegetable section is a major revenue and profit contributor, retailers are also keen to ensure they have reliable supply and pay accordingly.
- Quality specifications – many retailers establish very specific product specifications for the product they buy. This specification is agreed with the grower. All retailers use some level of product specifications with their suppliers. These specifications are a key point of the retailer's customer proposition and a limiter to change. The specifications are uniform nationally.
- Purchasing environment – the major retailers make it easy for the majority of Australians to shop. The environments they present are clean, well stocked, well located and provide a

convenient shopping experience. Increasingly today the larger retailers are also encouraging internet shopping with free delivery. Shopping applications on “iphone” type devices are a key part of this relationship to customers.

–Supply chain arrangements – the major retail outlets have very defined supply arrangements in place. They purchase directly from growers and by-pass the central markets. Smaller local outlets are more independent and can source produce from a variety of suppliers if they choose. The following are examples of some of the arrangements in place:

- Supa IGA – must purchase 95% of their requirement through Metcash, the largest supplier of wholesale groceries in Australia;
- Coles supply all their stores through central distribution centres;
- Woolworths supply the majority of their fresh fruit and vegetables through central distribution centres;
- It may be possible to supply directly to store for both Coles and Woolworths if the supplier has a “supplier number”. These numbers are issued from the national office.

Retailers are very aware of their customers needs and motivations. The primary objective of any retailer is to satisfy their customers demand and in turn, their own profitability. If there is a demand for local produce that cannot be satisfied with the same product from another source. retailers will consciously source local produce.

While there is an interest in sourcing local fruit and vegetables to meet demand, retailers have an expectation that these products will compliment their existing supply arrangements and not add any unnecessary complication or cost to their business.

While the following grant program is not focused on local food, it is a demonstration that the major retailers are aware of their responsibility to promote a more sustainable future relationship with their suppliers and that they are actively pursuing initiatives to reduce their carbon emissions.



Food Service Customers

Food service customers covers the majority of outlets servicing the ready to eat food sectors. Examples of these types of outlets are restaurants, fast food restaurants, cafes, and coffee shops. Typically food service outlets are critically focused on customer service. If a customer enters their outlet they seek to satisfy that customer absolutely. This drives repeat business.

A food service customer has little influence over the grower in most instances however they have significant influence over their distributor. A combination of service and cost generally influences their buying decision. In a market where it is relatively easy to switch between suppliers, price and reliable supply are critical.

There is a growing interest in the provision of local food to their customers. Regional cuisine is a fashionable part of the tourism market. Some outlets may use the provision of locally sourced foods as a way of differentiating their offer.

In a very tight cost environment, the importance of controlling costs is critical. There is limited interest in taking local produce if there is any added cost.

Appendix b - Bibliography

- International Competitiveness of the Australian vegetable Production Sector, ABARE eReport 06.5, April 2006;
- Australian Department of Agriculture, Fisheries and Forestry FOODmap a Comparative Analysis of Australian food distribution channels, 2007;
- Issues in Food Mile and Carbon Labelling, ABARE Research Report 09.18 December 2009;
- Northern Rivers Food Resilience Roundtable, July 2009;
- An investigation into the workings of small scale food hubs, Sustain (the alliance for better food and farming) and the University of Glamorgan, UK.
- Fruitos Final Report 2nd November 2011
- Northern Rivers Food Links Consumer Survey, conducted by Jetty Research June 2010;
- www.freshmarkets.com.au;
- Source Identification Strategy: November 2010 to June 2011

Appendix c - About the Author

Murray Richardson is a resident of Tintenbar in northern NSW. Since graduating from university with a Bachelor of Economics in 1985, Murray has work exclusively in the food and food related industries for a number of Australian and International organisations.

From a branded food background, Murray has developed a significant understanding of the supply chains used for food in Australia having worked as the general manager or Chief Executive Officer of a number of small to medium businesses since 1997. From 2001 to 2004, as the CEO of Fresh Chain Limited, the Melbourne Market Authority (MMA) of Victoria and the fresh fruit and vegetable industry invested about \$20 million over 5 years, Murray developed a detailed understanding of the fresh fruit and vegetable industry, its participants and their motivations.

Murray is actively involved in the food industry today with businesses in sauces and condiments, cattle financing, dairy production and packaging.

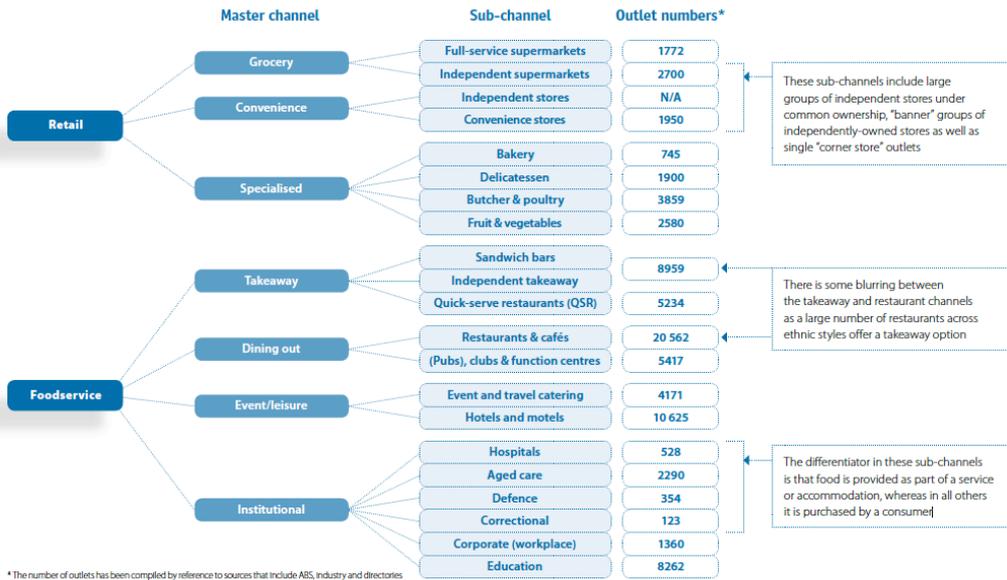
Appendix d - Alternative views of food distribution in Australia, FOODmap 2007

Food distribution channels

section 3 Overview

The classification of distribution channels used in this report recognises important distinctions between a number of sub-channels of retail and foodservice segments of the market.

Figure 9 Structure of food distribution channels used in this analysis



Fresh fruit and vegetables

section 4 Mapping food categories

Overview

This category includes fruit and vegetables sold fresh to consumers at retail, or to foodservice establishments for use in meal preparation. There is concentration at retail, with FSS retailers commanding an estimated 55 per cent share of sales, but there is also considerable strength in the specialty fresh food retail channel, which has been capturing share.

Fresh food wholesalers in central market facilities play a significant role in pricing and distributing product into retail and foodservice channels. Direct sourcing arrangements by FSS retailers account for a significant share of the channel's intake.

The tightening of quality specifications into the FSS channel over time has left a substantial volume of quality product available to specialty fresh food retailers. This has helped specialists capture market share from the FSS channel.

Key features of channels to market

- FSS have a major lead with convenience and dominate retail share with 65 per cent, but are exposed to challenges of 24-hour operation
- Specialist retailers have increased share by competing on value quality
- "Category managers" to FSS have major "gatekeeper" roles in the chain

Dominant drivers of value

- Balance of supply and demand throughout seasons
- Primary volume lines of staple fruit and vegetable

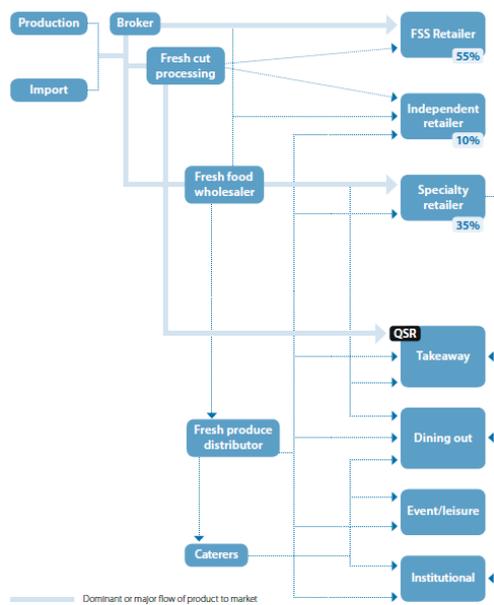
Major trends and dynamics

- Cost-competition from imported produce
- Competition from snack foods to provide more convenient fruit "fix"
- Climatic change impacting supply lines

Figure 50 Fresh fruit & vegetable value chain assessments



Figure 51 Fresh fruit & vegetables category map



Horticulture

Fruit and vegetables

In overall terms, the industry is supplied with locally produced product. This has driven local producers to be largely oriented to producing for the fresh domestic markets. Potatoes and tomatoes dominate processing volumes. Lower cost imports are a modest five per cent of local production but continue to take share from local product in the processing sector.

Table 9 Fruit and vegetable market mix in 2005

Key industry statistics—2004/05 (000 tonnes)				
	Australian Production	Domestic fresh	Processed	Export
Fruit	1750	1085	394	271
Vegetables	3094	1585	1334	175
Total	4844	2670	1728	446

Source: Data supplied by Horticulture Australia Limited

Figure 40 Fruit and vegetable products channel overview

