

# Fresh Connections Conference

*Performance factors and strategic directions*

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McKINNA *et al*  
*Strategic Insight*  
*Global Outlook*

# Six strategic themes

1. The domestic market is the best opportunity.
2. Failure to adopt proven FMCG strategies.
3. Under investment in marketing & consumer insight.
4. Australia will struggle to be export competitive.
5. 'Trader' versus 'value-adder' or 'marketer'.
6. Increasing need to defend home markets.

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The sector is  
grossly under-  
performing in the  
domestic market



# Competition for the discretionary dollar is fierce

- Food is a discretionary purchase.
- Consumers have demonstrated a willingness to pay for products that deliver on a value proposition.
- Industry has failed to convince consumers of the value proposition.
- Industry has failed to deliver what consumers want.



# Horticulture competes with all other foods

- The closest competitor for most horticultural products is another food, not another horticultural product.
- FMCG food marketers are sophisticated, aggressive and cashed up.
- Average rate of spend on marketing in food is 7-10% of wholesale.
- Average rate of spend with horticulture is less than 1%.
- A \$10m per annum spend on marketing e.g. apples would dramatically increase category value.



# The opportunity is to lift the value of domestic sales

- Both share-of-wallet and share-of-stomach are poor.
- Models predict that category growth won't keep up with population growth.
- Suggests a steadily declining share of the food dollar.
- Doubling domestic category values within 5 years *is* realistic - a combination of volume and value.



# The first step is understanding the consumer value proposition

- Why do they choose it?
- How will they use it?
- What are quality expectations?
- Can we deliver convenience through innovation?
- Can we leverage value by branding?
- How do we educate the consumer?
- Are there new channels to market?
- How do we tell the product the story?
- How can we build food service usage?



The second step is to develop a holistic response strategy



# The industry disappoints consumers on a daily basis

*50% of consumers are disappointed on a weekly basis!*

- Disappointing eating quality; wrong varieties
- Inconsistent quality
- Immature product
- Consumers selecting the wrong varieties
- Incorrect preparation and storage by consumers
- High household wastage



# Supermarket dominance is a contributing factor



*Woolworths and Coles are strongly influencing the direction of the horticultural sector*

- Control 60% of domestic retail fruit & vegetable sales.
- Industry aligned to supermarket requirements:
  - *Varieties*
  - *Quality*
  - *Supply chains*
  - *Timing*
- Don't invest sufficiently in educating consumers.
- Kill brand development initiatives and innovation.

*Supermarkets will always defend their own interests . . . .*



# The supermarket experience is not fulfilling consumers needs



- Supermarkets range products that maximise return on shelf space:
  - *Varieties that present well on shelf and last.*
  - *Early harvest to maximise supply chain life.*
  - *Immature seasonal fruit.*
  - *Product with the best margin.*
  - *Focus on price with little investment in consumer education.*
- This is at the expense of eating quality and a positive consumer experience.
- Negative impact on repeat purchase.

*At 20% share, private label grows a category.*

*At 90% share, it drains the energy out of it.*



# The sinister side of private label

- Proprietary brands drive growth.
- Private label milks the category.
- Proprietary brands generate 15% added margin which funds:
  - *Marketing*
  - *Consumer education*
  - *Innovation*
  - *Capital to fund the next stage of growth*
- Supermarkets don't invest in the category future.
- Supermarkets copy the best ideas for private label.



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Why can't  
horticultural  
products be  
marketed like  
packaged  
food?



# The proven tools of FMCG marketing

- Consumer insight
- Delivering on the value proposition
- Differentiate or die
- Building consumer intimacy through branding
- Functional eye-catching packaging
- Consumer education
- Category management
- Driving seasonality



*The horticultural sector  
has failed to adopt the  
strategies proven by  
FMCG*



# The lack of effective brands is a major factor



- Few effective brands in the sector.
- Brands play a vital role:
  - *Provide focus for consumer value proposition.*
  - *Provide quality disciplines and framework.*
  - *Provide a self-funding marketing model.*
  - *Provide premiums to support innovation & capital investment.*
  - *Provide funding frameworks for collective marketing.*

# MLA case study



*The Australian red meat industry turned itself around by:*

- Major investment in consumer market research
- Sensory research
- MSA eating quality scheme
- Strong, single-minded, long term strategy focusing on a hand full of priority issues.
- Use the best creative agencies and are prepared to pay for it
- Well-funded marketing program
- Effective strategy management with supermarkets.

# Consumers are ignorant about horticultural products



- The majority of consumers know little about:
  - *Selection*
  - *Storage*
  - *Preparation*
  - *Seasonality*
  - *Origin*
- This results in bad experiences and ultimately reduced purchase and consumption.

# Industry needs to form close working alliances with supermarkets

*Industry needs to work with supermarkets to educate consumers*

- Consumer education needs to be driven at the point of purchase.
- Also need to implement category management plans



*Consumers judge value  
on 5 key criteria . . . .*



# Consumer Value

NUTRITION

CONVENIENCE

ENJOYMENT

INTEGRITY

VALUE

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Food companies  
readily invest in  
marketing because it  
works!



# Marketing is an investment, not a cost

- Builds consumer loyalty.
- Returns many times its investment.
- Works harder with strong brands.
- Makes the message more potent.
- Provides a long term return to those who invest.





*HAL is in the business of managing industry levies, not 'marketing'.*



# The HAL IAC system has major shortcomings



- HAL system makes it difficult to adequately fund marketing.
- Most representatives lack marketing expertise.
- Committees don't see the value in investing in marketing talent.
- Everyone is a marketing expert!
- Can't make tough decisions.
- Committees tend to be based around state factionalism.
- Most decisions are a compromise rather than the best.

*Australian horticulture is run as a set of independent industries.*

*None has sufficient resources to make step out change.*



# The HAL system consists of 40 silos

- There are around 40 industry groups.
- Most have sub \$1m budgets.
- Collective budget \$30+ million.
- Most of the mega-issues are cross category.
- Need for a holistic strategy based on category management principles.



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Australia cannot  
afford to compete  
head-to-head in  
commodities

# Factors in Australia's global competitiveness



- Scale
- Exchange rates
- Freight and logistics
- Seasonal windows
- Market alignment
- Spot trader mentality

*In most categories we are not even close to globally competitive!*

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*While Australia is cherry picking markets, our competitors are pursuing long term holistic, non-price strategies.*



# Australia needs a step out change in strategy



- Importers want long term relationships based on market alignment and are prepared to pay for it.
- Need for market specialisation.
- Need to build long term relationships with supermarkets based around holistic category management.
- Need for strategic alliances to extend supply capability e.g. global branding.

# Australia must compete on non-price factors

- Unique and protected varieties
- Value-adding
- Packaging
- Driving seasonal windows
- Building long term relationships



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Forget export  
markets, we need  
to defend the  
home turf




# Its not just about price, often imports are better



## At risk industries:

- *Pome fruits*
- *Stone fruits*
- *Citrus*
- *Grapes*
- *Vegetables*
- *Tropical fruit*
- *Flowers and amenity plants*



The situation  
sounds grim, but it  
is within your  
power to change it!

# The challenge ahead



- Flat consumption
- Declining share of food dollar domestically
- Declining export competitiveness
- Increased import threats
- Under investment in marketing
- Trading conditions *are* tough

# The Future Focus strategy is a step in the right direction



- The Future Focus 'strategy' does not go far enough.
- To be an effective strategy it needs to go in to the specifics of:
  - *What will we do?*
  - *How do we do it?*
  - *How do we fund it?*

# Critical Success Factors



# The new rules of engagement



- Continuous improvement in cost reduction
- Consumer alignment & engagement
- Product distinctiveness
- Critical mass
- Extended seasonal windows through strategic alliances
- New age supply chain models
- Effective use of branding
- Innovation and value-adding
- New age collective marketing models



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