



Know-how for Horticulture™

**Development of an
industry plan for
potato growers in
South Australia**

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Kingsgrove Consulting

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PT02042

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Know-how for Horticulture™



**SOUTH AUSTRALIAN
FARMERS FEDERATION**



Horticulture Australia

Potato Growers of SA

Industry Development Fund

Final Report

June 2003



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Attachments

- Pre-workshop letter
- Post workshop letter

1. INTRODUCTION

This report has been prepared by Gerry King of Kingsgrove Consulting on behalf of the Potato Growers of South Australia under the guidance of the South Australian Potato Industry Trust. The report sets out details of the activities, research and consultation that was undertaken with potato growers, packers and other industry members in South Australia, in considering the establishment of an Industry Development Fund under the *Primary Industries Funding Schemes Act 1988*.

The document also sets out recommendations in regard to the establishment of such a fund and the outline of a business plan, which will set out strategies and management arrangements for such a fund.

The consultant would like to thank all the growers, packers and industry stakeholders who participated in the consultative process and provided valuable feedback and comments on the establishment of the proposed fund.

The consultant would also like to thank the South Australian Farmers Federation for its support and assistance in the project and Horticulture Australia Limited for its funding assistance and the provision of technical and marketing data.

2. ACTIVITIES-TO-DATE

2.1 Objectives of the Study

The Potato Growers of SA (PG of SA) in conjunction with the SA Potato Industry Trust (SAPIT) commissioned this study in December 2002. The objectives of the study were to consult with the South Australian fresh-washed potato industry to obtain the industry views on the establishment of an industry development fund.

The purpose of the fund was to raise monies to develop a range of initiatives including:

- Variety selection and evaluation
- Best practice management
- Promotional campaign with retailers
- Supply chain study

These topics had been broadly identified by the PG of SA at meetings held over a period of time.

2.2 Consultation Approach

Following initial desk research into the industry (production statistics and the consumption of fresh potatoes etc), a questionnaire was developed and mailed to growers and packers to gauge their interest regarding the establishment of a fund.

The mail out was facilitated by the SA farmers Federation using the Horticulture Australia Limited database. Because of privacy provisions, this database could not be provided to the consultant directly and consequently no telephone follow up was possible.

Response to the questionnaire was very poor with 16 replies from a total of approximately 200 mail outs. However, further investigation revealed that around half the growers contacted were supplying the processing industry and were unaffected by issues relating to the fresh-washed market

As part of the questionnaire mail out a series of regional workshops in Murray Bridge, Virginia, Pinnaroo and Penola were scheduled. These meetings were very poorly attended.

A progress meeting was convened with the steering committee and it was decided to contact growers via the packing sheds and create a database specifically for this study. A Confidentiality Agreement was developed and the packing sheds contacted to provide lists of growers. All packing sheds contacted (except one) provided contact details and a new database of growers developed.

From this database, it was apparent that there were five distinct regions where growers were located:

- Virginia
- Fleurieu Peninsula
- Murraylands
- Mallee
- Lower South East.

There were small numbers of growers located in the Riverland and also on Kangaroo Island (mainly seed growers) together with a small number of growers in the upper South East (Bordertown)

The number of growers in each region are summarised below

Region	Number of Growers
Virginia	18
Fleurieu	20
Murraylands	15
Mallee (inc B'town)	16
South East	10
Riverland, KI	6
Total	85

2.3 Regional Workshops

Regional workshops were then planned for the following areas:

- Virginia
- Mt Barker
- Mannum
- Pinnaroo
- Penola

Growers in each of the regions were initially contacted by phone to confirm their contact details and alert them to the forthcoming workshops. A letter was then sent to each grower explaining the purpose of the IDF and inviting them to the regional workshop (see copy of letter in attachments).

Growers in the Riverland and KI were also contacted by phone and information forwarded on the proposal.

Follow up calls with growers were made 2-3 days prior to each workshop to further encourage attendance.

Attendance at the workshops was much better than experienced in the first series with the exception of Penola. However, the attendees at the Penola workshop indicated that many of the growers on the database were involved primarily in growing potatoes for processing rather than the fresh market. Attendance numbers are summarised below:

Workshop	First Workshop	Second Workshop
Virginia	3	9
Murray Bridge	0	Not held
Mt Barker	Not held	6
Mannum	Not held	7
Pinnaroo	6	8
Penola	5	2
Total	14	32

There were 3 attendees at the first workshops that also attended the second round but overall, a total of 43 growers attended workshops. This represents approximately 50% of the 85 growers actively involved in fresh potato production. It should also be noted that a number of the growers who attended were also packers and typically produce very large tonnages of potatoes each year. Although individual tonnages of attendees were not recorded, in production terms attendance at the workshops represented more than 50% of the fresh potato production.

2.4 Workshop Outcomes and Feedback

Outcomes from the workshops is summarised below:

2.4.1 Need for an IDF

Attendees at all meetings recognised and acknowledged that there was need to “do something” to arrest the decline in potato consumption through active promotion and address other issues affecting grower (ie variety selection and evaluation, supply chain issues etc). It was also acknowledged and recognised that in order to achieve these changes, resources must be found and adequate funding was critical.

Thus there was broad agreement the establishment of an Industry Development Fund was desirable.

2.4.2 Amount of Contribution

There was much debate regarding the level of contribution and initial proposals suggested \$8.00 per tonne. This would generate approximately \$2.0m annually and provide sufficient resources to implement a number of important initiatives. Some attendees were concerned about applying \$8.00/tonne to “Specials” as the \$8.00 would represent a large proportion of the overall price received. Other growers suggested that the contribution be based on a % value of potatoes sold (ie an *ad valorem* basis). One attendee suggested that \$8.00/tonne would not be sufficient to conduct a national promotion campaign and the level should be set at \$16.00/tonne.

All the workshops agreed that the contribution should be sufficient enough to enable the industry to implement initiatives and act “from a position of strength” and that a minimal contribution level of \$1-\$2/tonne was not worth implementing.

2.4.3 Refund of Contributions

A major area of concern raised at the workshops was the ability of growers to obtain a refund of their contribution. There appeared to be a feeling that all contributions should be mandatory. It was however pointed out that the *Primary Industries Funding Scheme Act* could not be changed and that a number of strategies could be adopted to discourage contributors from seeking a refund. Other funding schemes have experienced similar concerns (sheep fund etc) and adopted a strategy of excluding refund claimants from the benefits. In the case of a potato fund this may result in claimants:

- Not having access to the results of any variety selection and evaluation trials (including possibly access to particular varieties that have been licensed using the industry funds)
- Using promotional funding to support existing promotional campaigns by packing sheds
- Not disseminating information or findings relating to industry best practice or supply chain studies which will help industry and grower efficiency

These tactics need to be further explored and developed and included in the Industry Business Plan (see Section 4)

2.4.4 Contribution by Industry Intermediaries

There were strong feelings expressed that all stakeholders in the industry should contribute to the fund not just growers (eg packers, merchants, wholesalers etc). It was pointed out that all the packers are growers and as such would be contributing to the fund. On the issue of merchants and wholesalers, many of these are interstate and the funding scheme jurisdiction is limited to South Australia. Moreover, the collection of the contribution needs to be simple and verifiable thus packing sheds are the logical collection point as they already collect the HAL R&D levy.

2.4.5 Training of Supermarket Staff

An issue raised in the first round of workshops concerned the low level of supermarket staff knowledge in regard to the correct storage, handling and display of fresh potatoes (including variety knowledge etc). As a result, it was proposed to develop a training program for use by retailers and this was well accepted by workshop attendees.

2.5 Post Workshop Communication

Following the completion of the workshops, a letter was sent to all growers summarising the workshop outcomes, setting out the proposition to move forward with the fund and seeking written comment (see attachments).

Five responses (representing 6% of growers) were received and these are summarised below (without identification):

1. *I agree that we need a potato industry promotion scheme and must also obtain rights to new varieties under our own control so that contributors have equal access to new varieties.*
2. *I am in favour of an \$8 contribution only if it is shared equally by other industry members –washers, packers, merchants, brokers etc as they reap the benefits if the promotion is successful. I don't believe growers should bear the total cost when others in the chain benefit!*
3. *I am not in support of this proposal for the following reasons:*

We spend almost six figures on promotion and marketing per year for the small tonnage we deliver to the eastern states markets and we "hardly touch the sides" with this amount.

Any program devised that falls short of a ten million dollar fund per annum will fail, and make it even more difficult to resurrect another proposal to assist the industry in future.

We must develop a proposition based on South Australian sales of South Australian grown potatoes and prove to the grower industry in this state that associated marketing with other people and industries in the supply chain, (who would also be required, - enticed - to contribute to a state based fund), can work and deliver real benefits to the whole industry.

There is considerable evidence already in place, produced by Horticulture Australia Ltd, and the Michael Brownley report to the Mount Gambier conference in 2002, to say that a fund of approximately 4% of the \$400m grower value of the crop (approximately \$16m) is needed per annum to turn the tide against our declining sales of potatoes. I realise that this is approximately \$30/tonne all up, but shared by many, this is the figure that we must target and seek commitments of support from other parts of industry before moving forward.

4. *We do not support the proposal as presented*
5. *I am against the proposed fund for the following reasons:*

The idea will only work fairly if the whole of Australia (or at least SA and Eastern states) are involved.

Whilst most of the washed potatoes come from SA, brushed potatoes are grown interstate and are in the supermarkets

Selection of new varieties is naturally occurring and is practised throughout the fresh market scene. The last levy introduced has done little with the seed growers and commercial growers doing the majority of development.

Industry Best Practice is a catch phrase and was part of the last levy with little results.

The reduced number of growers are generally long-term growers and in many cases have achieved a high standard of practice evolved to suit their particular needs

The slide in potato consumption is a result of the multicultural effect on society and we cannot turn the clock back. Old fashioned staple foods requiring laborious preparation are not popular with time-starved housewives

Training of supermarket staff has been worked on for many years and nothing can be said to them that hasn't been said before. Increased input in this area would not be cost effective

Potato consumption has been decreasing since World War 2.....and the long term trend will continue with production matching demand as total tonnage consumed decreases.

If the plan worked and consumption rises by 5%...production will also jump by 5% guaranteeing the same old prices are maintained. Potato acreage can rise and fall quickly to meet increased demand.

One other person made a verbal response but refused to commit their views to writing.

2.5.1 Observations on Responses

Four of the comments received appear generally in favour of the fund with qualifications in regard to the scale, scope and application of contributions.

The one objector to the fund (No 5) did not attend any of the workshops and the comments did not offer any alternative approach appearing to accept the decline in consumption as *fait accompli*.

3. RECOMMENDATIONS

3.1 Fund Establishment

It is recommended that the Potato Growers of Sa move forward with the proposal to establish the fund and approach the Minister for Agriculture, Food & Fisheries in this regard.

3.2 Establishment Process

It is understood that following assessment by officers of Primary Industries and Resources SA into the aims and objectives of the proposed fund and the consultation process, a business plan needs to be prepared. This business plan sets out in detail how the scheme will operate and how the funds will be used to advance the industry.

A list of topics to be addressed by the business plan is set out below

3.3 Business Plan Outline

Key issues to be addressed by the business plan should include:

3.3.1 *Strategic Intent*

- Overall objectives and desired outcomes of the fund
- Fit of proposed fund activities with industry strategic plan or objectives
- Key Performance Indicators

3.3.2 *Fund Management Structure*

- Election of board of management
- Role and responsibility of board
- Election timeframes and processes
- Secretariat arrangements
- Reporting processes

3.3.3 *Application of Funds*

- Process for board initiated projects
- Process for externally initiated projects
- Project guidelines
- Project application procedures
- Project assessment procedures
- Project success measurement

3.3.4 *Funding Budget*

- Budget forecasts
- Financial management processes
- Financial reporting procedures

3.3.5 *Risk Management - Fund and Projects*

- Identification of risks
- Management strategies

3.3.6 Identified Projects

- Variety evaluation and selection
- Promotional campaign
- Supply chain management
- Industry best practice

The plan should involve input from industry stakeholders and result in well-developed clear strategies and processes.

ATTACHMENTS

- **Pre-workshop letter to growers and industry stakeholders**
- **Post workshop letter**

Potato Sales Down by 26%

Potato Growers of SA want to establish an Industry Development Fund to help return potatoes to the top of household shopping lists and regain their status as Australia's staple carbohydrate. Recent research shows expenditure on potatoes, as a part of household budgets, has declined markedly over the last 15-20 years (by about half). The table below details the decline in household expenditure dedicated to potatoes.

SA Potato Industry Overview

- **Fresh potatoes decline as a % of household budget**

Household Expenditure on Carbohydrate Food				
	Fresh Potatoes	Pasta	Rice	Total
1984	\$0.81	\$0.19	\$0.13	\$1.13
	72%	17%	11%	
1998-99	\$1.17	\$0.97	\$0.42	\$2.56
	46%	38%	16%	

Source ABS Household Expenditure (excludes potato chips)

Unless the industry takes action to promote fresh potatoes, potato sales will continue to decline while pasta and rice rise as the preferred source of carbohydrates.

The Industry Development Fund will be dedicated to SA Growers and managed by grower representatives. The focus of the fund will be to promote fresh, washed potatoes – **NATIONALLY.**

South Australia has the advantage of dominating the supply of fresh, washed potatoes and the promotional campaign will focus on increasing consumer awareness about the convenience and nutrition of washed potatoes.

A variety of projects will be supported by the fund, including:

- Promotion of washed SA Potatoes
- Variety evaluation
- Problem solving and industry development

A detailed promotional campaign is yet to be developed, but in broad terms it is proposed to use magazines, radio and point of sale materials to lift awareness and consumption.

In addition, because supermarkets account for 85% of sales, it is proposed to allocate funds to developing a training program for supermarket staff in the areas of storage, handling and display of washed potatoes. An allocation of approximately \$1.5m-\$2.5m per annum, would ensure the success of this program. Based on an average annual volume of 250,000 tonnes of fresh washed potatoes, this will cost approximately \$8.00 per tonne.

To some, this may appear costly, but the cost of doing nothing will be even higher - reduced consumption, reduced prices and increasing costs – serious consequences for SA's growers. The projects supported by this fund are expected to increase demand by around 5%, with an average farm gate value of \$120m pa that equates to the generation of **\$6m in additional income** to this state.

Importantly, the development fund has a provision for growers who do not support it to have their contribution refunded.

The key fact is that this fund will be owned and operated by SA growers.

This is one of the most important proposals facing South Australia's potato growers and for the fund to be established, there must be demonstrated industry support. You are invited to a meeting to discuss the issues:

Date
Time
Venue

If you wish to discuss this further, please call me on 8268 1066 or 0412 805

Gerry King



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Advertising Works

Mushroom Growers spend **\$3.0m pa** on magazine, point of sale and other advertising media. Consumption of mushrooms has grown by 10% pa for the last 10 years and 5%-7.5% growth is forecasted for next three years (*AMGA Annual Report 2002*).



WESTERN POTATOES

Western Australia potato growers spend \$1.0m annually in WA and have increased consumption by 5% pa
(www.westernpotatoes.com.au)



UK growers fund a multimillion-pound campaign with competitions, special offers and "spud week" programs etc.

www.potato.org.au

SA Growers get lowest prices for fresh potatoes

State	Tonnes	Value (\$m)#	Average \$/tonne*
NSW	165,381	\$74.3	\$449
QLD	117,710	\$47.7	\$400
TAS	355,512	\$78.8	\$222*
VIC	351,912	\$140.3	\$398
WA	87,107	\$35.4	\$406
SA	335,500	\$128.4	\$383

Source: ABS agricultural Census 2000-01

Farm Gate value

* Mainly processed potatoes

The program must be well-funded:

For a promotional campaign to work effectively it must be well funded. \$2.0m will provide sufficient funds to support existing advertising by packing sheds and retailers.

Typical expenditure includes:

Magazines (Family Circle, New Idea etc)	\$ 750,000
Radio Advertising	\$ 500,000
Point of Sale/In store	\$ 350,000
Competitions, specials etc	\$ 250,000
Program Management	\$ 150,000
TOTAL	\$2,000,000

If the industry does not take steps to arrest the decline in demand, fresh-washed potatoes will become irrelevant and be overtaken by pasta, rice and processed potatoes.



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Re: Industry Development Fund Proposal

I am writing to you in regard to the proposed establishment of an Industry Development Fund (IDF) to advance and develop the South Australian fresh-washed potato industry.

You will be aware from earlier correspondence that there have been a number of meetings held around the regions (Virginia, Mt Barker, Mannum, Pinnaroo and Penola) to discuss the issues associated with the fund and I am now writing to you in regard to the next steps.

Growers who attended those meetings clearly indicated they believe the SA Potato industry must become more proactive and that both human and financial resources will be required to deliver desired outcomes.

In this regard, it is proposed to establish an IDF to undertake a number of tasks including:

- New variety selection
- Promotion of fresh-washed potatoes in retail markets
- Identification of industry best practices
- Supply chain arrangements and terms of trade issues.

This is not an exhaustive list and monies can be allocated from the fund to address new issues as they arise. Importantly, the fund will be managed and controlled by SA potato growers for the benefit of the industry.

Attendees at the meetings all agreed that the establishment of an IDF would be beneficial in enabling the industry to grow and importantly, exercise some control of the key factors affecting the industry.

Some discussion was held in regard to a number of issues including:

- The amount to be collected on a per tonne basis (\$8.00per tonne)
- The 'opt-out' provision (which allows growers to reclaim their contribution without penalty)
- Options to have other industry members (eg packers, merchants, brokers) contribute.

These issues were debated and discussed as part of the consultative process and will be addressed in more detail when a business plan is prepared (required by PIRSA as part of the IDF establishment process).

It is now time to move forward with the proposal and the next step is to prepare a business concept and submission that meets the needs of the industry stakeholders and satisfies the requirements of the Minister for Primary Industries who has responsibility for seeing proper process and consultation occurs in this matter.



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Your input to this process is most welcome and if you did not attend one of the workshops and wish to make your views known, you must write to me before **Friday 6 June**. I have attached a prepaid addressed envelope for this purpose. You may also fax me on 8268 8922

If I do not hear from you by then, I will assume that you are in broad agreement with this initiative and will prepare the concept document for industry consideration and subsequent submission to the Minister.

If you wish to discuss this proposal please contact me on the numbers shown below.

Yours faithfully

Gerry King
Principal



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