PT98022
Potato Export Market Development

R J Sully and R Cadman
Department of Natural Resources and Environment

HAL

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PT98022

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Level 1
50 Carrington Street
Sydney NSW 2000
Telephone: (02) 8295 2300
Fax: (02) 8295 2399
E-Mail: horticulture@horticulture.com.au

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Authors: R J Sully & R Cadman
Department of Natural Resources & Environment
Agriculture Victoria
Knoxfield

HRDC

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Media Summary

Australian Potato Export Opportunities: Bonanza a Myth

The perceived massive export market opportunities for Australian potatoes in Asia will not be realised unless the Australian industry can address some major issues according to a study just completed for the Australian Potato Industry Council and Horticulture Australia.

Russell Sully led the Potato Export Market Development project from the Institute for Horticultural Development at Knoxfield, Victoria. The two year study was to look at the potential in export markets and what the Australian Potato Industry needed to do to improve its export performance.

Dr David McKinna, a leading marketing strategy consultant, has prepared two reports, which look at the industry and markets and outline the way forward.

Australia is unlikely to be able to compete at the bottom end of the market because of cheap imports from the USA, and Holland and the emerging threat from China and Indonesia. These first two countries, because of the sheer size of their industries and cyclical nature of production, can land product at half the landed price of Australian product.

Potentially, there is an opportunity to build the premium markets in Hong Kong, Singapore and Malaysia through product differentiation, marketing and promotion. However, the industry is neither well enough organised nor has the critical mass at present to be able to capture this opportunity.

Some of the main issues which need to be addressed include reducing cost of production, overcoming the major disadvantage in Australian freight rates (which account for up to 15% of landed price of the product), developing more efficient packaging systems and improving quality and consistency.

From a broader industry perspective, there need to be stronger synergies between the domestic and export markets to offset the current advantage held by the USA and Holland. They have critical mass and are able to move product freely between domestic and export markets.

At present the Australian industry has no coordinated capability for gathering market intelligence or supporting a marketing and promotion campaign for potatoes on either domestic or export markets. The industry needs to address this deficiency if it is going to develop the domestic and export markets to their potential.

Technical Summary: Potato Export Market Development

This project was developed to address the limitation to the Australian potato industry improving its export performance, which were outlined by CIE (1997).
There were also perceived massive opportunities for export of fresh, processed, seed and fresh for processing potatoes from Australia into Asian markets.

CIE (1997) identified the limitations as the high cost of production due to lack of scale and insufficient commitment to export by traders, who also lacked scale to support effective marketing and promotion.

David McKinna et al conducted the project in two stages using desk research and extensive consultation with key industry players both in Australia and in Asian markets.

The main findings of the research are that Australia will have difficultly competing at the bottom end of the budget market in Asia with Holland and USA in the short term and with China in the medium term. The scale of the industry in these countries, and the synergies between the domestic and export markets means that they have the ability to land product at much cheaper prices than Australia.

There are opportunities in the premium market, which total about 14,000t, in Singapore, Malaysia and Hong Kong, with smaller spasmodic trade into PNG, Mauritius and Fiji. However, because of Australia's cost structures and inconsistent quality, it is likely that Australia's share will be in the order of 7,000t in these markets.

The main issues which need to be addressed include reducing the cost structure through higher-yielding varieties, development of efficient supply chain clusters, reduction in freight rates, differentiating product based upon fitness for purpose, labelling and supply protocols and branding supported by marketing and promotion.

One of the main opportunities in the medium to long term is in the development of elite seed production technology and establishment of off-shore facilities in key markets, linked to variety development with highly attractive performance factors in terms of cooking and processing characteristics.

The key recommendation are:
APIC and Horticulture Australia Limited (HAL) to continue to facilitate discussion and debate on the merits of establishing an industry organisation capable of supporting coordinated market intelligence, market development and promotion activities.

APIC, DNRE and HAL to support the development high-yielding varieties with strong market acceptance attributes based around fitness for purpose.

Develop elite seed production technology.

APIC and HAL to support the development and implement a best practice through a "Product Quality Pathway System", which supports product differentiation around fitness for purpose and is linked to a marketing and promotion campaign.

Introduction

While in the past the Australian potato industry has had primarily a domestic focus, there is predicted be massive opportunities for expansion into Asian markets for: seed, fresh, fresh for processing and processed potato products and germplasm from Australia. Significant opportunities also exist for related technology and agribusiness services (ACM 1997).

Australia in 1997 was exporting in excess of $21 million worth of potato products annually. With world trade likely to reach 10 million tones or 4 per cent of global production within a few years, the opportunities to expand exports are significant.

A study by the Centre for International Economics (CIE 1997) identified that inadequate scale and slow adoption of "best practice" was a major impediment to export growth and international competitiveness in the Australian potato sector. The report went on to highlight "...... that partly due to high costs there was insufficient investment and commitment to international marketing opportunities in processed product. There was also insufficient commitment by traders to export fresh product due to their lack of scale. They are too small to set up forward contracts."

The key strategic initiative identified by CIE (1997) was to: encourage growers, processors and marketers to form strategic alliances to increase their scale of operation with an aim of increasing farm and processing productivity by 20 per cent and demand in excess of 20 per cent by 2002.

CIE (1997) also recommended the encouragement of larger scale production and more focused marketing, with the aim of increasing fresh demand by 25 per cent and processed demand by 5 per cent by 2002.

Currently, there is no mechanism for nationally coordinated marketing and promotion by the Australian potato industry overseas. Independent Australian exporters are operating in isolation and frequently in competition with each other for the same customers. This leads to a lack of focus and an inability to present a coordinated position to prospective customers. Additionally, the industry has no ability to gather market intelligence, monitor and identify market trends and prepare coordinated and well-resourced marketing, promotion and technical responses to emerging opportunities.

Currently, Australian potato exporters have insufficient scale to support the marketing, promotion and technical service activities required to compete with exports from the Holland and USA.

In 1996, Australia lost market access to Sri Lanka due to poor outturn of potatoes. This highlighted the lack of a mechanism to develop and implement protocols, standards and quality management systems vital to protecting our reputation as a reliable, quality exporter. The industry also lacks a mechanism to successfully mount coordinated programs aimed at improving market access and promotion in specific markets.

The project was formulated to examine the export potential and in particular, identify the key performance issues and critical success factors with regard to developing an export market for potatoes. The opportunities for the Australian potato industry in export markets were seen as massive.

The first stage of the project, conducted by McKinna et al (1999), concluded that whilst there was potential to build the volume, the returns for export were modest.

The major payoff from exporting came from improvements in overall productivity and with savings relating to economies of scale, and that potential could be maximised by building exports as an adjunct to a strong domestic business, rather than a sole export business per se.

That first stage report then went on to identify and discuss a number of potential strategies that the industry could adopt. These are discussed later and contained in the full report from Stage 1, Potato Export Market Development: A supply chain approach to drive the industry (Stage 1) David McKinna et al July (1999).

After discussion with the Australian Potato Industry Council (APIC) and the project steering committee, the second stage of the project was commissioned and aimed at further developing the strategic recommendations.

The intention of the second stage was to put forward a business plan that produced a strategic direction for the industry.

The starting point for this stage was a workshop with representatives of the potato industry. After a detailed discussion of the findings from Stage 1, the general consensus from the workshop was that it would be difficult to mount an industry-wide export initiative based around the seven programs recommended in the initial report. It would be best to pursue these initiatives as case studies with individual companies that could then form models of "best practice" for the industry.

Based on this advice, the project took a new direction, with a proposal for live export demonstration projects with individual companies based around the strategic initiatives identified in Stage 1.

The consultant then liaised with a number of companies, which were pursuing various export opportunities.

For reasons of commercial confidentiality, the names of the companies, the markets or project areas cannot be divulged. In two of the case studies, projects didn't proceed for various reasons, mostly to do with the lack of market viability.

In the process of researching these projects, the consultant has collated a large amount of information, which has enabled them to shed light on the broader area of the export potential of potatoes from Australia and the implications for the industry at large.

In collaboration with the project manager, HRDC and the consultant, we came to the conclusion that the study could add best value by providing a commercial assessment of the true potential of exports, the opportunities, constraining factors and strategic recommendations. In this sense it is a critical assessment of the future role of export markets for the Australian industry.

Materials & Methods

Project Management:

- A project steering committee was established to help guide the project managers with implementation of the project.
- A project brief for stage one was prepared and expressions of interest sought.
- The project managers, in collaboration with the steering committee, then selected the successful consultant, McKinna et al, who was then given a more detailed briefing.

- A list of key players was prepared and refined by the steering committee for use by the consultant.
- The draft report from stage 1 was discussed with the steering committee and key industry representatives before completion.
- Reports were regularly provided directly to APIC and the wider industry through "Eyes On Potatoes".
- At the end of Stage 1 discussions were held about the project direction and a project brief for Stage 2 was prepared and expression of interest sought.
- The project managers, in collaboration with the steering committee, selected the successful consultant, who was again McKinna et al.
- Regular progress discussions were held with the consultant through the project and joint visits to some key player were also made.
- At the beginning of Stage 2 a second industry workshop was held to discuss the findings from Stage 1 and to discuss the future direction.

Project methodology:

The consultant essentially used a comprehensive program of desk research and numerous discussions with contacts that are involved in various aspects of the potato industry both within Australia and in Asia.

A wide range of previous studies and reports were made available to the consultant to add to the body of knowledge brought to this project.

Results

Note: only a summary of the results and findings are contained in this final report. The full details are available in the full reports by McKinna et al from Stage 1 Potato Export Market Development: A supply chain drive approach (July 1999) and Stage 2 Australian Potato Export Opportunities – Bonanza a Myth (Feb 2001).

Stage 1:

There are opportunities to expand the Australian potato industry through the combination of domestic and export activity. The prime objective of the project was to identify strategies to expand exports of potatoes from Australia. The report concludes that whilst there is excellent potential for potato exports, primarily in the Asian region, the export sector needs to developing in unison with the domestic market. Returns from potato exports are modest but they have the potential to greatly improve overall return because they generate scale economies, which greatly improve profitability of both domestic and export crops.

There is excellent potential to grow the value of the domestic market through a combination of increasing per capita consumption and increasing the value through product differentiation and promotional strategies.

World trade in potatoes is growing rapidly, particularly in SE Asian region. There are considerable opportunities to service the largest fresh markets of Malaysia, Singapore and Hong Kong, as well as export higher margin fresh potatoes to tourism-based hospitality industries.

There are also opportunities to export fresh potatoes for further processing to Korea and Indonesia and to export semi-processed/processed potatoes (eg. fries and crisping) to Japan. There are joint venture, window and spot marketing opportunities in seed potatoes to Korea, Malaysia, Thailand, Philippines, Sri Lanka and Vietnam.

Australia has on-farm cost disadvantages, mainly related to economies of scale. Export market development requires a combination of critical mass and a long term commitment, critical mass in the sense of having the volume, continuity of supply and all the resources that go with it to mount an effective marketing strategy.

The Australian potato industry should be involved in activities such as the identification of market opportunities, participation in trade shows and exports, trial shipments, market intelligence, establishment of market access protocols and freight regulation.

Seven industry strategies to develop export markets have been recommended. These are explained in detail in the report "Potato Export Market Development: A supply chain approach to drive the industry (Stage 1) McKinna et al July 1999"

In summary they are:

- Industry clusters
- Voluntary Uniform Product Description & Labelling/Quality Assurance System
- Promotion
- Export Market Development
- Market Intelligence
- Market access
- Freight Negotiations

McKinna et al (1999) concluded that an important initiative is the Voluntary Uniform Product Description & Labelling/Quality Assurance System. This describes potatoes according to their suitability for end use and is linked to HACCP-based quality assurance programs. The advantages include a universal trading language, growing consumer confidence and a vehicle for industry cooperation and funding. This is considered to be pivotal as all the other programs can "hang off" this initiative.

Discussions with the domestic retail sector demonstrated that there was strong support in the development of the concept of a "Precision Product Quality Pathway System".

The future of the Australian potato industry will be greatly influenced by whether an effective strategic alliance can be established. This alliance will play a pivotal role in the success of a coordinated long- term national marketing and development program.

These finding were reported to APIC and a response sought about its role in implementing these recommendations. Unfortunately, APIC does not have the resources to play any significant role in progressing them other than through the research and development program, which has significant limitations.

Stage 2:

In this stage McKinna et al (2001) makes the following conclusions.

Realistically, the only long-term markets of any substance for ware potatoes are in Singapore, Malaysia and Hong Kong. There is some trade going to Mauritius, PNG and Fiji, but volume is small and spasmodic. There will always be short-term spot market opportunities.

Realistically the maximum size of the premium segments across these countries is 14,500 tonnes (Singapore 10,000 tonnes and Malaysia 3,000 tonnes). However, Australia shares this segment with New Zealand, which outperforms Australia in terms of price and quality. Realistically, with Australia's quality levels and cost structures, it could only be expected to get half this quantity, ie 7,000 tonnes.

It is difficult to see how total exports of ware potatoes can even get to about 10,000 tonnes per year unless there are unforseen circumstances such as crop shortfalls in major producing countries.

Australia will never be able to compete at the bottom budget end of the market because of cheap imports from USA and Holland, together with the expansion in Asian countries, notably China and Indonesia. Even at this present time when the Australian dollar is at an all-time low relative to the US dollar, the USA can still land product at a lower price. Part of the problem is that the Asian currencies tend to be far more closely aligned with the US dollar rather than the Australian dollar.

Even with substantial improvements in efficiency due to new, higher-yielding varieties and large plantings (economies of scale), Australia will never be able to compete with products selling as low as half the landed price of Australian product. Because of the sheer size of the Dutch and USA markets and the cyclical nature of supply and demand, they will always be willing to sell potatoes at very low prices.

The cyclical nature of the markets also has the upside of providing ad hoc opportunities for Australia. However, these are not sufficiently predictable to be the basis of long-term plans.

Potentially, there is an opportunity to build the premium markets in Hong Kong, Singapore and Malaysia through product differentiation, marketing and promotion. However, Australia needs to be realistic about the extent which it can grow the market. Consumption levels of potatoes in Asia are low by Australian standards and the premium segment is confined to up-scale supermarkets and food service outlets. These offer growth prospects.

Ware Potatoes: Overall, it is concluded that Australia will have difficulty competing in the medium to longer term in the ware market, except for the premium niche market that it currently occupies in Singapore, Malaysia and Hong Kong, along with small volumes into market such as Mauritius, PNG, etc.

Processing: The demand for French fries will continue to grow rapidly in Asia, driven by the rapid escalation of fast food outlets. However, for Australia to get a share of this growth it will need to become far more efficient.

Australia's trade in crisping potatoes, which is currently set at around 150,000 tonnes per year, is likely to continue to grow modestly for a few more years. In the long-term, however, it is likely that China, Indonesia and Thailand will start to take some of this market if their quality improves: given their substantially lower production costs and location advantage.

Expanded crisp production in Australia for exports will never be big because of freight cost for a bulky product, together with far lower production cost in Asian countries, where the emerging markets are.

Australia is likely to have a medium-term position as a supplier of crisping potatoes into South Korea, Malaysia, Thailand and Indonesia.

Seed: Australia's best prospects for export are seed and seed-related technologies. Demand for seed from Indonesia, Thailand and perhaps, in the longer term, China will continue to grow, fuelled by the rapid expansion of production in these countries to service growing demand, particularly for processed potatoes. These countries will never be able to grow their own field seed because of disease problems.

It is likely that Australian companies will develop minituber facilities in Asia, which will reduce the tonnage of seed potato exports but increase the dollar revenue.

Discussion

In the final analysis it will be up to individual organisations to implement whatever strategy they see as appropriate for their business and market segment.

At the outset of the project it was envisaged that there were opportunities and benefits for collaboration across the industry. This would help achieve coordinated marketing and promotion, along with economies of scale in marketing and promotion which existing exporters do not have. This would allow the industry to compete more effectively with the larger players from the Holland and USA.

However, what has become clear throughout the project is that the industry does not have a body, association or organisation with the resources to provide the leadership and support for a number of activities which are required for development of the export market at this stage. For example, there is not a potato industry organisation or structure in places similar to that in the wine, meat, grain and dairy industries. While this remains the case the future development of the Australian industry in a global market will be hamstrung and have difficulty competing with the major global players such as USA Netherlands, China and even smaller players such as New Zealand.

It is also fair to say that the existing players involved in the export and domestic markets are not prepared for or don't see benefits from, collaboration between supply chains.

The outcomes anticipated from the project relied very much on the industry being willing to form strategic alliances to increase scale, achieve coordinated marketing and promotion and establish export protocols or standards to ensure that it became recognised as a reliable quality supplier.

In the absence of industry players being prepared to form alliances across supply chains, it has not been possible to achieve these outcomes through this approach. However, through the development of National Seed Certification Standards and a Potatoes Product Description Language, the key tools for improving the quality and consistency of potato exports are available to the industry.

McKinna et al (1999) and McKinna et al (2001) have identified a number of general strategies, which need to be addressed for development of the Australian potato industry in both domestic and export markets.

Cost reduction A constant theme to run through the body of this report is that Australia is not cost competitive vis a vis the USA, Holland, China and Indonesia in ware potatoes. It is unlikely that it will ever be competitive on a head to head basis with these countries. However, if Australia can reduce the cost disadvantage margin, it will be able to expand the size of the niche markets in which it operates by lowering the price differential.

The benchmarking study indicates that in the case of USA and Holland, their core advantage is driven by economies of scale together with higher-yielding varieties. The previous report suggested that the formation of industry clusters would deliver cost savings flowing on from scale economies.

Some Australian companies are now starting to achieve this clustering effect through supply chain management. This report serves to reaffirm this strategy and encourage others to do the same.

Freight Costs This report also highlights the fact that Australia has a significant freight cost disadvantage vis a vis its competitors in the Northern Hemisphere.

However, in addition, this research has identified the fact that there are substantial differences between the freight costs paid by various Australian exporters to the same destination. Without divulging commercial in-confidence information provided to us, we have learned that there is close to $1,000 per container difference in the freight rates being paid by Australian horticultural exporters. Those on a lower rate have large numbers of containers and a more regular trade, and are usually dealing across a number of commodities. Small volumes and ad hoc exporters are paying a substantial penalty, up to $70 per tonne.

What this highlights is that industry-wide freight negotiation or even collaboration between exporters has the potential to substantially reduce costs, in some cases sufficient to make Australia competitive against the USA.

Potentially, the cost savings from freight are greater than what can be achieved through improved production efficiencies.

Ware Potatoes

Product differentiation Because of the cost disadvantage, Australia can only export to Asian markets by servicing the premium market segments with specialised products. Whilst the mainstream commodity market is low-priced, variable quality, yellow-fleshed potatoes, most of the Australian sales are in small chat and gourmet potatoes, as well as special varieties such as Pink Eye and red skinned varieties.

In market circumstances where a supplier can't compete head-to-head on price, the only way to survive is to differentiate the product and compete on non-price factors. The USA has very successfully done this with its Russet Burbank, which is strongly positioned to the point that it virtually covers all the baking categories. There are various ways to differentiate potatoes, including having unique and registered varieties, size ranges, packaging, type and fitness for purpose labelling. It is really up to the individual exporter as to how they differentiate their product.

Branding Branding is a potentially very powerful marketing tool and can be recognised for the success of Sunkist, Delmonte, Chiquita, Washington apples and Idaho potatoes.

Again, the limiting factor for the potato industry in branding is the inability to achieve critical mass in terms of having the volume to create a market presence or support a brand development-marketing program.

Some exporters have achieved the critical mass by pulling together a number of horticultural products together under one brand. Another alternative is an industry brand. However, from the workshop held at the early stage of this project, it would seem that the likelihood of gaining widespread industry support to fund a brand development program is slim.

All this report can do is flag this as an issue and highlight the fact that the lack of a market development program is a constraint in the development of the Asian market.

Processing

There is little light that the document can shed in terms of strategies for the processing industry. Large, well-resourced, multinational companies that have highly-developed global strategies in place dominate the processing sector. Perhaps there is a role for the industry to fund and manage programs to identify high-performing varieties, which will lift Australia's competitiveness.

Seed

The technologies in seed potato production are advancing at a rapid rate, being led by Australian companies such as Technico, Southern Choice and Wrightson. The Institute is supporting these companies for Horticultural Development at Knoxfield and Toolangi in the area of R & D and tissue culture, which is enabling Australia to be at the leading edge. The main point that this report can make is that the seed industry offers the best export prospects for Australian potato exports.

Consequently, from an industry perspective this is where the emphasis should be. Given the rapid escalation of technologies, it is likely that the real opportunities are in setting up offshore operations to produce seed and service for the local producer, which is already happening. If this is the case it will mean that Australia is exporting technologies and expertise rather than potatoes per se, meaning that there will be limited opportunities for seed growers.

Given the global trend toward supply chain management and the control of intellectual property, perhaps the key players in the seed industry should be looking at an upstream operation. This has been successfully done in other industries.

For example, one scenario is to produce a variety with some highly attractive performance factors, be it in terms of cooking or processing characteristics, etc. As is the case now the industry would control this through licensing agreements. There is, however, the opportunity to go further by having the product contract-grown or grown by licensees.

The next level down the value chain would then be to undertake a broad-based marketing program for registered varieties of ware potatoes grown from the exclusive seed varieties. Under this scenario the licensing fees would fund the marketing and brand development program. There are plenty of models where this has been successfully done. It is probably something that one of the seed technology companies may pursue rather than being an industry initiative.

Technology Transfer

Workshop 1 with project reference group (July 1999) to discuss findings and recommendation from Stage 1 of the project.

Participants made the following key conclusions:

1. That the recommendation concerning the establishment of a 'voluntary uniform product description and labelling system' should be the key issue pursued (in Stage 2 of the project) and that the main focus of this work be on the domestic market. It was felt that issues such as cluster development would be a natural outcome of the establishment of a 'uniform labelling system'.
2. Research should be pursued as part of the 'labelling system' that establishes preferred harvest dates based on comprehensive cooking trials of all varieties (fresh and processed) from different regions of Australia.
3. That increased funds be sought from HRDC, Supermarkets to Asia, processors, wholesale distributors and retailers to develop the 'system'.
4. The first stage of this work would be to develop a commercial business plan (within 3 months) for levering support and participation from key commercial players.
5. Some results on the 'uniform description system' would be available through preliminary commercial trials by October 1999, with the project being completed within 24 months.
6. In seeking industry approval to move to an extended Stage 2 development,. national endorsement of the project would be needed from APIC and from Department of Agriculture from around Australia.

Phone Conference with State Research & Development organisation to discuss outcomes and recommendations from Stage 1.

APIC report back and discussion on progress in Stage 1.

Workshop 2 with project reference group (February 2000) to discuss recommendations from Stage 1 and approach to their implementation during Stage 2,

Following much discussion and debate of Stage 1 recommendations, the meeting generally agreed that Stage 2 of the project should progress as follows:

1. That in the absence of clear directions on Stage 2 of the project from the grower/supplier side of the industry, the project should concentrate on working with a small number of pro-active commercial trading companies.
2. That 2 to 3 separate mini-business plans are developed as case studies of the commercial application of the Voluntary Uniform Product Description Labelling System (Recommendation 3). The business plans would be developed to apply to the supply and marketing activities of 3 separate Australian export company operations in Hong Kong (fresh retail), Singapore/Malaysia (fresh retail) and Japan (semi-processed for fresh and processing).
3. The pursuit of Recommendation 1 (production clusters) would not be directly expanded because each one of the proposed case study companies already have instituted their own cluster supply arrangements throughout south eastern Australia.
4. It was generally felt that the remaining Stage 1 recommendations (3 to 7), although vitally important to the development of potato export arrangements out of Australia, are already being addressed by a number of public/industry bodies.

However, each one of these recommendations would none the less be considered when putting together each of these case study business plans.

5. That each business plan would be made available to all of the industry as examples of how the development of a Voluntary Uniform Product Description Labelling System could be used to enhance and build long-term buyer confidence in export marketing operations.
6. David Gregory, Super Markets to Asia, (STA), felt that the proposed Stage 2 of the project had all the attributes for receiving Super Markets to Asia funding support.

Three export companies whose operations broadly satisfy many of the criteria described in Stage 1 recommendations for successful potato export marketing operations have volunteered their companies' operations to be included as case studies for Stage 2.

David McKinna et al Pty Ltd (project consultant) has agreed to prepare a discussion paper on how Stage 2 can be undertaken, based on the above recommendations of the Reference Group.

Publications & Media

Sully R. J. and Cadman R. (2000) A supply chain approach to potato market development. *Potato Australia.* Vol. 11: 54

Sully R. J. (2000) Market driven research and development for the new millennium *Potatoes 2000: Linking research to practice.* Conference Proceedings July 2000

Sully R. J. (1999) Potato market growth: A strategy to realise the potential. *Potato Australia* Vol 10: 50

Sully R. J. (June 1999) Market development. Fresh News

Sully R. J. (1999) Export market development. Eyes On Potatoes

Sully R. J. (2000) Potato market development: Opportunities through alliances. Eyes On Potatoes

Sully R. J. (2000) A Supply Chain Approach to Potato Export Market Development. Eyes on Potatoes

Distribution of 50 copies of report from Stage 1.

Recommendations

1. Initiate a broad-based industry form to discuss the project findings and recommendations and the implications for the development of the Australian industry.

Facilitate further wider debate and discussion about the need for and merits of an industry organisation to provide leadership and support for export market development.

2. Focus on developing elite seed production technology, which can be licensed overseas.

3. Precision System: Focus on developing potato varieties and management practices, which will increase commercial potato productivity and improve quality. The "Product Quality Pathway System" advocated by McKinna et al (1999) deserves further investigation as it provides an opportunity to increase profitability and improve quality. It would draw together existing knowledge and best practice and provide a framework for identification of R&D priorities. It would also drive the adoption of R&D outcomes more directly towards solving key industry, profitability and market issues.

4. The industry needs to strongly focus on improving its competitiveness and reducing cost at home on the domestic market, before it can be competitive in export markets.

5. Horticulture Australia should examine the feasibility of it playing a strong role in export market development by facilitating the implementation of McKinna et al (2001) key strategies:

- Formation of industry clusters
- Voluntary Uniform Product Description & Labelling/Quality Assurance System
- Promotion
- Export market development
- Market intelligence
- Market access
- Freight negotiations

6. There needs to be a concerted effort aimed at reducing the cost of export freight. This may be through development of new freight systems and products and/or through freight negotiations.

Acknowledgments

We wish to acknowledge and thank the steering committee for their very valuable contributions at key stages of the project: Malcolm Kentish, Ross Sheppard, David Hunt-Sharman and Phil Lalor.

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Last but not least we wish to acknowledge the patience with which David McKinna et al have conducted the research and prepared the reports for this project which will help the industry chart its strategy in potato domestic and export market development.

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Centre for International Economics (CIE) (1997) Priorities for DNRE horticulture strategic planning. Report prepared for DNRE.

McKinna et al (1999) Potato Export Market development: A supply chian approach to drive the industry (Stage 1).

McKinna et al (2001) Australian Potato Export Opportunities: Bonanza a Myth (Stage 2).

Appendix

Below are copies of some of the news items prepared for this project

Potato Market Growth: A strategy to realise the potential

By Russell Sully
Industry Manager Potatoes, Agriculture Victoria, Knoxfield

The Australian Potato industry has opportunities for expansion through a combination of domestic and exports market activity. A key to domestic expansion is stimulation through product differentiation based around fitness for use and promotional activity.

However, there are substantial barriers to export growth and returns are generally modest relative to the domestic market. These relatively low returns on export raise the question of whether the capital, land and particularly scarce water resources are used to best advantage with potatoes or whether other crops with a more attractive appeal.

The Potato Export Market Development project being conducted by Dr David McKinna et al and managed by Russell Sully has come up with a range of important findings so far. This project is funded through the HRDC levy system with support from Department of Natural Resources and Environment Victoria.

The study has revealed the very close integration between the domestic fresh, processing and export markets within our major competitors: Netherlands, USA and Canada. This allows them to achieve economies of scale critical mass and a degree of cross subsidization.

It is now essential to grow for specific markets and to match growing areas and scheduling to meet market opportunities and to improve competitiveness.

Strategies to develop export markets

Industry clusters based around growing areas linked to supply chain management and marketing programs can help achieve critical mass and economies of scale in production, packaging, marketing and distribution for processing, fresh domestic and export.

Voluntary Uniform Product Description and Labeling Systems/QA
It is desirable that there be a uniform product description, labeling and quality management system that would provide a trading language and product integrity mechanism covering all potato markets. The meat industry has discovered that this type of system can give the industry a huge competitive advantage in the export market. One of the key features would be labeling around variety, growing area, fitness for purpose/use with protocols to ensure reliability of product quality and performance.

This system would form the basis for a highly targeted promotion program built around trademarks and branded products.

Promotion

There is strong evidence that the consumer would respond to promotion and marketing activities. The best results will be achieved through brand and product specific marketing where the value of the individual products can be promoted rather than generic promotion like eat more potatoes.

The product description system outlined above would provide the vehicle on which to base a promotional program.

Export Market Development
The industry could become involved in market development activities including:

- Identification of market opportunities
- Participation in trade shows
- Trial shipments
- Market intelligence
- Market access protocols
- Freight regulation

Some of the larger exporters are involved in these activities to some degree at present and may not welcome the prospect of sharing the benefit with other participants and yet in some areas there are big gains to be made collectively.

Market Intelligence

An essential element of any successful exports operation in comprehensive, timely, accurate market intelligence. There are opportunities for the industry to establish a network, which provides the industry with weekly reports from all major markets.

Market Access

There is a need for work to be done on establishing protocols to open up markets, which are not accessible because of pest or diseases, such as Japan and Taiwan. An industry coordinated approach would probably be more effective that individual effort. Ie. potato markets access committee.

Freight Negotiations

There are some potential gains from a consolidated approach to freight negotiations and consolidation of container loads covering different vegetable and fruit products.

The next step is for detailed discussion with some of the key industry player in lead up to a workshop with the aim of identify areas for collaboration and cooperation to grow the domestic and export markets.

Market Development

By Russell Sully
Manger Industry Development,
Agriculture Victoria,
Knoxfield

A project being conducted with HRDC funding support to develop potato export markets has again confirmed the large opportunities for development of export markets and also the domestic markets through greater collaboration between all sectors of the industry.

In particular, it recommended establishment of ***"A Voluntary Uniform Product Description and Labeling System/QA"*** that would provide a trading; language and product integrity mechanism covering all potato markets.

This would allow product description based around variety, growing area, fitness for purpose/use eg. mashing, backing, roasting etc and ensures that the product consistently performed up to expectation. This would need to be supported by a code of practice to ensure that all steps were taken along the production marketing chain to meet consumer satisfaction.

This type of system would then underpin highly targeted marketing and promotion based on branded products that consistently performed. Once it was in place for the domestic market it would give the Australian industry a major competitive advantage on export markets.

The project has also identified opportunities for the sectors of the industry to work together towards the development of production cluster of 15,000t or more capacity in each production region, which would achieve scale and critical mass. Key features of these clusters would be production grown to a program linked to a particular market outlet and underpinned by QA scheme, formation of strategic alliances with marketer/exporter, equipment sharing on contract harvesting/planting, grading and packing and secure seed supply.

Other areas for collaboration include: promotion, gathering market intelligence, and freight negotiation, market access, establishment of export protocols, support of trade missions and shows.

These ideas will be discussed with various segments of the industry over the next few months.

Export Market Development Project

By Russell Sully, Ralph Cadman
Agriculture Victoria
Knoxfield

A project being conducted with HRDC funding support to develop potato export markets, has again confirmed the large opportunities for development of export markets and also the domestic markets through greater collaboration between all sectors of the industry.

In particular, it recommended establishment of ***"A Voluntary Uniform Product Description and Labeling System/QA"(Product Quality Pathways)*** that would provide a trading; language and product integrity mechanism covering all potato markets.

This would allow product description based around variety, growing area, fitness for purpose/use e.g. mashing, baking, roasting etc and ensures that the product consistently performed up to expectation. This would need to be supported by a code of practice to ensure that all steps were taken along the production marketing chain to meet consumer satisfaction.

This type of system would then underpin highly targeted marketing and promotion based on branded products that consistently performed. Once it was in place for the domestic market it would give the Australian industry a major competitive advantage on export markets.

The project has also identified opportunities for the sectors of the industry to work together towards the development of production cluster of 15,000t or more capacity in each production region, gathering market intelligence, freight negotiation, market access, establishment of export protocols, support of trade missions and shows.

The next step will be aimed at establishing a mechanism to achieve greater coordination over the export market development activities and for development of the Product Pathways system.

Establishing an Australian Potato Export Council type organisation is what appears to be required to develop the export markets more effectively.

How this works, be funded and developed in collaboration with APIC and the Australian Horticultural Corporation will need to be explored.

These ideas will be discussed with various segments of the industry over the next few months.

Potato Market Development: opportunities through alliances

By Russell Sully, Ralph Cadman
Agriculture Victoria
Knoxfield

A project being conducted with support from APIC and HRDC funding support to develop potato export markets. It has again confirmed the large opportunities for development of domestic and export markets through greater collaboration between all sectors of the industry.

Achieving greater integration between the domestic and export markets production and marketing systems will achieve efficiencies and consistency of quality.

Specifically the project has identified opportunities for the sectors of the industry to work together towards the development of production cluster of 15,000t or more capacity in each production region, gathering market intelligence, freight negotiation, market access, establishment of export protocols, support of trade missions and shows.

This will require the formation of some kind of entity which can effectively coordinate and represent the interests of the industry such as the way the Wine and Brady Corporation does for Wine, Flowers Export Council of Australia dose or the Australian Fresh Fruit Company dose for apples.

The report has also recommended the establishment of ***"A Voluntary Uniform Product Description and Labeling System/QA"(Product Quality Pathways)*** that would provide a trading; language and product integrity mechanism covering all potato markets.

This would allow product description based around variety, growing area, fitness for purpose/use e.g. mashing, baking, roasting etc and ensures that the product consistently performed up to expectation. This would need to be supported by a code of practice to ensure that all steps were taken along the production marketing chain to meet consumer satisfaction.

This type of system would then underpin highly targeted marketing and promotion based on branded products that consistently performed. Once it was in place for the domestic market it would give the Australian industry a major competitive advantage on export markets.

The next step will establish a business plan for the development and implementation of these strategies.

A Supply Chain Approach to Potato Export Market Development

By Russell Sully & Ralph Cadman
Department of Natural Resources & Environment,
Institute for Horticultural Development
Knoxfield

Summary
In the past the Australian potato industry has been domestically focused and yet there are now significant opportunities for export of seed, fresh, fresh for processing and processed potatoes.

A study by the Centre for international Economics identified that inadequate scale and slow adoption of best practice was a major impediment to export growth and international competitiveness. The marketing chain was fragmented with insufficient commitment to export and they lacked scale.

This project is aimed at the following outcomes:
- developing strategic alliances among all sectors of the industry, to increase scale of operation and improve quality, service and competitiveness in export markets

- establishing a mechanism which builds on existing structures to support coordinated marketing and promotion of Australian potatoes on export markets

- establish export protocols or quality standards and a mechanism for maintaining quality, to ensure that the industry maintains its reputation as reliable quality suppliers of potatoes

The benefit to industry will be:
Improved competitiveness on domestic and export markets
Increased demand for potatoes through growth in exports
Improved reliability of quality
Increased value of potatoes for domestic and export markets

Progress towards meeting outcomes of the project

A study has been conducted by David McKinna et al, who found seven key platforms, which would help boost, potato, export:
- There are substantial opportunities for export growth and increased value of potatoes on domestic markets through improved quality management and branding associated with fitness for purpose **(Voluntary Uniform Product Description Labelling System)**
- Formation of regional production clusters can help achieve economies of scale
- There is scope for increased demand and price through promotion of branded reliable quality product
- There are benefits from coordinated export market development including: identification of market opportunities, participation in trade shows, trail shipments, market intelligence, market access protocols & freight regulation

- Improved market intelligence
- A strategic coordinated approach to market access
- Collective freight negotiation

These strategies have been discussed with a wide range of industry participants who agree that these platforms need to be progressed through real case studies based around pro-active commercial trading companies. This is necessary due to the absence of clear direction from the grower/supplier side of the industry.

In particular the Voluntary Uniform Product Description Labelling System is seen as central to development of export and domestic markets. This will facilitate the development of integrated supply clusters, which will ultimately help implement the other platforms for market development.

A meeting with the project reference group in February this year concluded, that the best way forward was through the conduct of case studies in partnership with organisations to put together a business plan leading to the implementation of an export program.

These two case studies will be used to develop export markets, establish an industry brand and demonstrate the principles to be used across the industry.

This approach will produce some information, which is commercial in confidence, but there will also be information generated which is available widely across the industry.

The advantages of this approach are:
1.These are real world projects which, if they succeed, will produce on-going exports in a very short time frame.
2. They provide an opportunity to demonstrate the seven strategic platforms in a real world situation.
3. Supermarkets to Asia have indicated willingness in principal to support the implementation stages of the project.

HRDC: PT98022 Potato export market development