Australian Government
Department of Agriculture, Fisheries and Forestry

RETAILworks

Australian Tropical Fruit Industry



Future Directions June 2005

as part of the Industry Partnership Programme

Introduction

Purpose

The purpose of this document is to summarise the outcomes from a workshop held in Brisbane on the 30th June 2005. The workshop was attended by (insert names of attending members) steering committee members and made decisions on future strategic options. This document has been compiled to confirm these decisions to those that attended and capture the input of these that did not attend.

Background

During the first half of 2005, the Tropical Fruit Industry was provided with the opportunity to invest in industry development through the Industry Partnership Programme. This investment by industry was focused in four key priority areas:

1. Consumers and Markets;
2. Organisational Capacity;
3. Information and Networks; and
4. Benchmarking.

Much of the investment, particularly in key priority areas 1 and 4, was focused on research so that industry could make informed and strategic decisions regarding future direction.

Future Directions Workshop – June 30th Brisbane

RETAILworks facilitated a workshop with members of the Tropical Fruit Industry Partnership Project Steering Committee. The purpose of this workshop was to consolidate the findings of research undertaken as part of the project into a plan for the future of the industry.

To create this plan, workshop participants:

- discussed findings of Project R&D;
- made decisions regarding appropriate future directions; and
- ranked strategic industry development options.

Key issues discussed at the workshop included:

1. the scope of a "Tropical Fruit Category" and natural synergies of various sectors;
2. domestic market consumer research findings;
3. export market research findings and opportunities;
4. domestic market growth opportunities;
5. results and implications of the benchmarking study; and
6. available resources for further tropical fruit industry development.

As illustrated in Figure 1, the workshop was designed to allow discussions in these areas to lead to decisions regarding development/improvement options and priorities for the future.

Front cover left-hand picture of Barry Hartley, lychee grower near Mareeba.
Photo courtesy of RIRDC (30 Australian Champions, RIRDC publication # 00/141)

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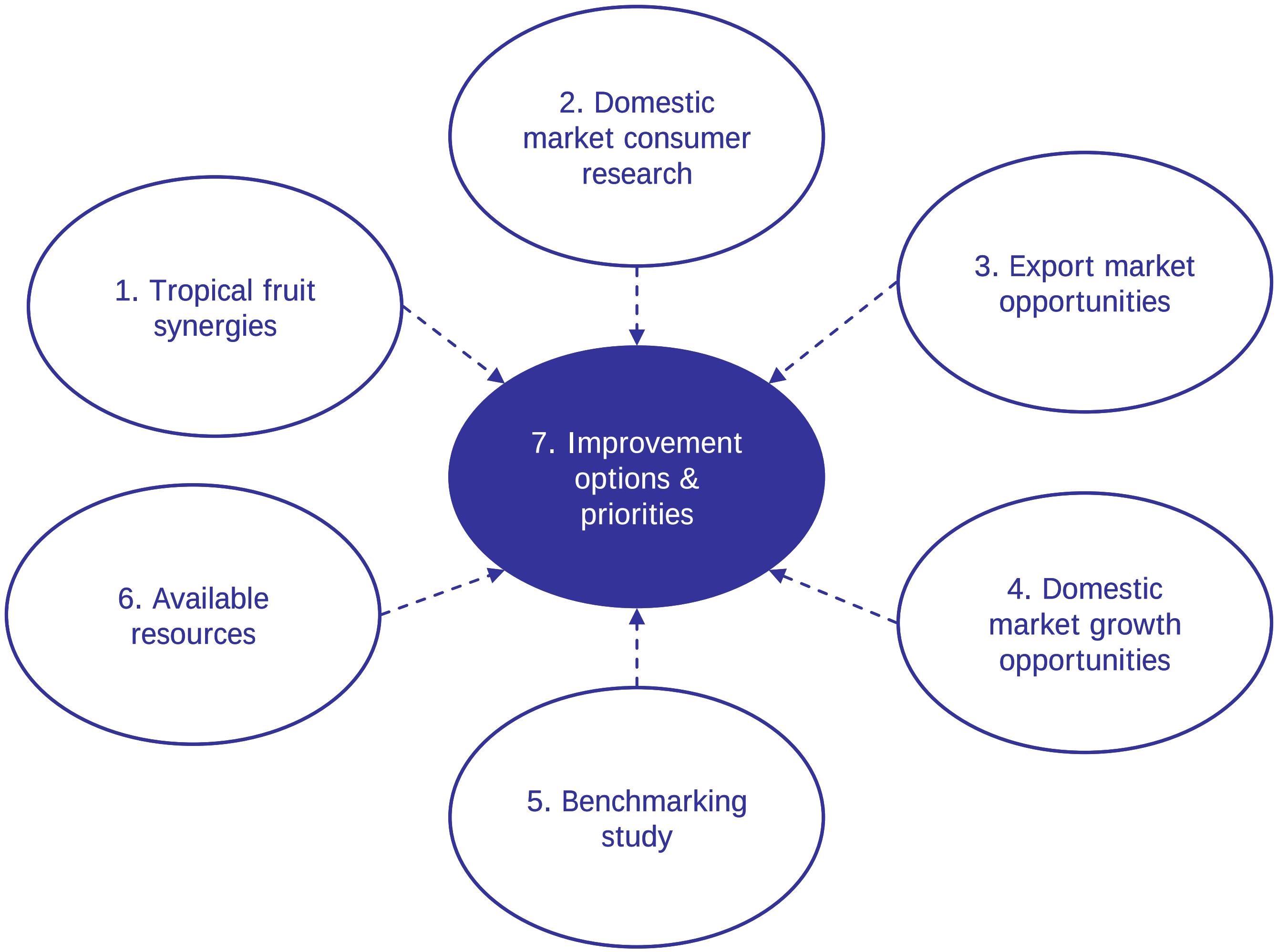
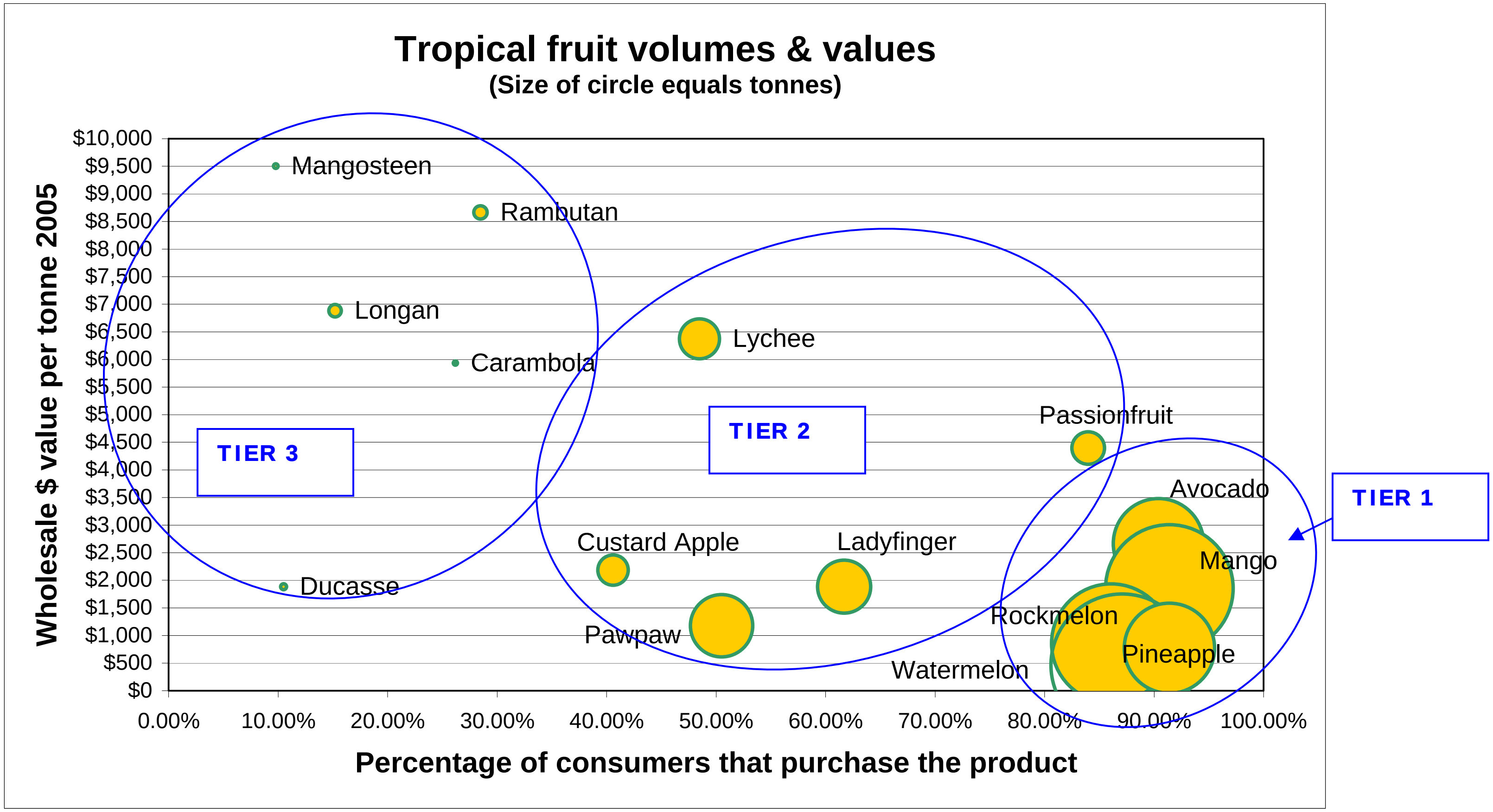
Figure 1. Future Directions Workshop Design



1. Tropical Fruit Synergies

Which industries/products have a "natural fit"?	***Decisions***
♦ Discussions were based on: ⇒ the work conducted to date within the Industry Partnership Project, ⇒ a graph (shown in Figure 2), which plotted the tropical fruits by their market penetration, volume of production and wholesale selling price, ⇒ the advantages that can be captured by working together. ♦ The graph shows three clusters of industries, in different situations and stages of development. These situations invited the following structure: 1. **Tier 1** 80-90% participation and volumes that have earned market support (avocado, mango, pineapple, watermelon, rockmelon); 2. **Tier 2** 40-80% participation and volumes are increasing and close to a viable scale (custard apple, pawpaw, ladyfinger, passionfruit, lychee); 3. **Tier 3** 9-30% participation and low volumes that are yet to earn market support (rambutan, ducasse, longan, mangosteen, carambola).	♦ The 3 Tier structure is an effective way to group and manage the development requirements of the various tropical fruits. ♦ An opportunity exists for cooperation and collaboration between Tier 3 products. These producers and their supply chains are emerging and face many common challenges and opportunities. ♦ As Tier 1 & 2 products have increased volume and market penetration their challenges and opportunities are more disparate. And whilst collaboration in some areas can achieve gains, the opportunities for this are reduced. ♦ Tier 1 products want to operate on their own and will do so effectively. ♦ There is some scope for synergies in selected aspects of what all industries do, i.e. QA, Packaging, IT, R&D, etc.

Figure 2. Tropical Fruit volumes and values



The graph shows that Tropical Fruit Industries are naturally grouped according to their domestic market penetration, and value and volume of production.

Wholesale prices based on annual average price at Brisbane Market
Pineapple volume reflects fresh component only – not processing

Is there value in presenting a "tropical fruit category" to consumers?	***Decisions***
♦ Research commissioned has returned conflicting views regarding the value of presenting a "tropical fruit category" at the consumer interface. ♦ The domestic market consumer research suggests that consumers would welcome category promotion. However, this data must be taken into context, as measuring intentions is known to overestimate future purchase behaviour. In particular, the question structure "would you buy more if it was promoted as a category" leading to a positive response. Furthermore, the description of the category was implied as all tropical fruits, from high volume regularly purchased products to fringe low volume lines. This confuses the validity of the response. ♦ The analysis by RETAILworks suggested that; ♦ Producers and supply chain stakeholders might have a view of a tropical fruit category, but this does not mean it can be conveyed to consumers. ♦ The detail of the promoting the category needs to be defined. Particularly, the extent to which tropical fruits can be coordinated at the retail consumer interface. ♦ Globally there are precedents for specific health benefits being associated with certain tropical fruit. These benefits have higher scope for consumers' interest compared to a generic message about tropical fruit. With limited resources both options are unlikely.	♦ Tier 1 products are at a different stage with established brands/names and positioning in the domestic marketplace. These products will dominate any combined advertising they are included in. ♦ The strongest opportunity for category promotion is through combining selected tier 2 and tier 3 products that require exposure and volume growth and do not have strong potential to be associated with a specific health benefit.

Will stakeholders & customers in the supply chain support "a category"?	***Decisions***
♦ While the value of presenting a tropical fruit category to the consumer is unclear, all of the market research reports commissioned reported the need for increased efficiency and coordination of tropical fruit supply chains. ♦ Stakeholders along the supply chain are likely to support increased alignment of the supply chain for some products. Particularly if it can enable improved product quality, consistency and forecasting for lower volume products. ♦ The potential for supply chain synergies are extensive and include; harvest labour, post-harvest handling, packing operations, wholesale distributors, storage & transport, market research, IT systems and R&D.	♦ Collaboration and consolidation of the supply chain for Tier 3 industries can deliver benefits and is a critical growth platform. ♦ Some collaboration may be beneficial for Tier 2 industries. ♦ As Tier 1 products represent fast moving consumer goods, workshop participants acknowledged that the supply chains for Tier 1 products are vastly different to Tier 2 and Tier 3. Tier 1 products are viewed as significant enough segments to not require or want high levels of consolidation between industries.

2. Domestic Consumer Research Findings

Deborah Wilson Consulting

How can we target consumers?	***Decisions***
♦ Dominant consumer profile: women, aged 40 – 55, no school aged children, white collar, above average income, purchasing at least some of the time at the green grocer. ♦ Older consumers (55 and over) are strong buyers but there are gaps in participation from under 40s who are the future consumers. ♦ Gaps in participation by families with school aged children. ♦ Many consumers are unaware of how to select, prepare, and/or eat Tier 3 product (and to some extent Tier 2). ♦ Many consumers have not even heard of Tier 3 products. ♦ Price is a significant barrier to increased purchase and most tier 2 & 3 products are at available at prices well above the average fresh fruit retail price of approx $3.00 per kg.	♦ Consumer research provides rich data on which to base segmentation schema. This data can be provided to the Tier 1 industries for their individual interpretation and use. ♦ As older consumers are the strongest segment they can be targeted to encourage increased consumption. ♦ The gap in consumption by younger Australians and households with children needs addressing. ♦ Some basic consumer education is necessary for Tier 3 product. ♦ If packaging is introduced for some products this provides a means of communication with consumers. ♦ Market growth is a priority for tier 2 & 3 products.

How can we best distribute tropical fruit?	***Decisions***
♦ The green grocer is an important channel for tropical fruit – particularly with Tier 2 and Tier 3 fruit. ♦ Green grocers have high patronage from professionals and retirees. These consumers are often seeking the "experience" of shopping at the green grocer or in the case of retirees, are "time-rich". ♦ Supermarkets are a self-service environment and cater to the time-poor. They hold the dominant market share of the high volume fruit products. However, there are not seen as experts and are not as good as fruiterers at introducing new products. ♦ Supermarkets are not generating the volume sales and stockturn required for all Tier 2 and 3 products to be viable contributors. ♦ Many consumers are attracted to the experience of shopping at the green grocer. This consumer behaviour, combined with the skill of the green grocer in handling tropical fruit, makes it possible to distribution of tropical fruit through this channel in a loose form.	♦ The supermarket environment must be catered for by tropical fruit industries. A key component of this is to reduce the handling risk associated with tropical fruit. This can be achieved through pre-packaging fruit. ♦ The greengrocer is more capable and credible at introducing new products to consumers. Therefore consumer education green grocers can rely on the skills of the greengrocer. ♦ Consumer education through supermarkets will need to be self serve. ♦ Creating an "entry-level" product form for new consumers can reduce price barriers. This can be done through pre-packing fruit with a set price – similar to the pack size (IE 250g) and model used by the strawberry industry.

3. Export Market Findings

CDI Pinnacle Management

Do we have opportunities?	***Decisions***

♦ Competition levels are high and increasing.
♦ Our reputation and supply history is a weakness.
♦ Our competitive advantages are limited.
♦ **Priority opportunity** markets limited but clear:
  ♦ Japan for mango, rambutan and mangosteen;
  ♦ New Zealand for mango, lychee, melon and avocado;
  ♦ Middle East for lychee; and
  ♦ Korea for lychee.
  ♦ These markets represent opportunities for market growth and new market development.
	♦ Opportunities to develop and grow the identified **priority opportunity** export markets should be perused as a means to ease pressure in the domestic market.
	♦ Lychees are unique in export potential and further export market development and growth for this industry should be supported.
	♦ The results of the export market research indicated that, due to limited opportunities, domestic market improvement is the priority.
	♦ If export development support is to be provided it has to be targeted and this investment shared with the enterprises involved.
	♦ The detailed research findings can be made available to those who wish to explore and develop export markets.

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How can we develop/grow export markets?	***Decisions***
♦ The supply chain of Australian Tropical Fruits needs significant improvement for new market development and growth. ♦ Export market development requires commitment, improved supply chains and a capacity to build and nurture relationships. ♦ Year-round supply in some markets may increase demand and complement supply from Australia. ♦ "Brand Australia" can be a support strategy but likely to be ineffective as the only reason to buy. ♦ Government assistant is available to help new exporters into export markets. This is at both State and Federal Government Levels.	♦ Synergies exist between some products for development/growth of export markets. Such industries should work together on common issues such as market access, supply chain relationships, transport, and promotion. ♦ Global partnering should be explored by industries to increase export market demand. ♦ Industries and enterprises involved in the Tropical Fruit Industry Partnership Project should look beyond this programme for assistance and resources in export market development/growth. ♦ Export market development/growth should be based on enterprise contribution.

4. Domestic Market Growth Opportunities

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Do we have opportunities for domestic market growth?	***Decisions***
♦ Domestic market growth is needed, as export opportunities are limited. ♦ Not every industry or enterprise has opportunities for growth. There is a need to "pick winners" and back them with considerable resources. ♦ Level of competition is increasing and looming import pressure will increase it to new levels.	♦ Use the three tiers approach to determine priorities and manage development. ♦ Growth of the domestic market is a priority – particularly for fruits with no or unsustainable export market opportunities.

How do we increase the domestic market consumption?	***Decisions***
♦ Supply chain improvement is paramount to future growth. In particular improvements that will lead to consistent product quality, information flow along the chain and supply management with credible forecasting. ♦ Taste testing stimulates new consumers to purchase. ♦ Foodservice is an under serviced market with many different channels. Foodservice can be a catalyst for product introduction to consumers that can translate into increased retail sales through product trial by new consumers. ♦ Public relations the most cost-effective way to communicate with consumers, particularly communicating the specific benefits of the different products.	♦ Supply chain improvements were the first step to increasing domestic market penetration and increasing consumption amongst current consumers. ♦ Foodservice warrants a greater development focus for tropical fruit industries. Industry must facilitate the entry of tropical fruits into the food service category. ♦ A defined public relations agenda should be coordinated to communicate with consumers.

Do different channels buy differently?	***Decisions***
♦ Green grocers, supermarkets and foodservice outlets will welcome products and supply in the form that suites them. Retailers want a product they can trade. Food service is buying a product that is typically an ingredient in a production process. ♦ Growth will be captured enabled by meeting their needs and weaknesses and in some instances they will need to be lead to the most suitable and viable option. ♦ Some in market presence is required to service and develop these different segments. ♦	♦ All supply chains will benefit from the basics of consistency, promised quality, common packaging, common IT and supply to forecast. This could be achieved through the dissemination of business tools including product grade specifications. This is the platform that must be in place before growth can be sustainable. ♦ A wholesale agent/distributor for tropical fruit, with market development as well as servicing capabilities, is a critical part of the supply chain in each market.

What is the best way to package & promote our product?	***Decisions***
♦ Different product solutions will suite different channels. ♦ Promotion starts with improvement supply chain alignment. This is the more powerful than any other promotional option.	♦ Improve the supply chain as previously stated. ♦ Greengrocers have the capacity to handle loose products. ♦ Supermarkets are more likely to be suited to prepacked product in entry-level portion sizes. This packaging has potential for on pack promotional information.

5. Benchmarking

RCS

What did the benchmarking reveal?	***Decisions***
♦ Economies of scale are needed for profitability. ♦ Top 20% of growers are doing well – achieving the best prices. ♦ Many participants in the Tier 3 industries are unaware of: ♦ Production Costs and drivers ♦ How to be more efficient ♦ Negative gross margins ♦ Optimise supply chain/market window supply ♦ Need for niche market development ♦ Main Australian costs of production are harvesting (labour and packing costs) and these are likely to increase ♦ Australian production is small for most fruits ♦ Overseas production is cheaper (labour) ♦ Southern hemisphere competition can out compete Australia in export markets	♦ Supply chain improvements are necessary. ♦ Australian industries are under threat from imports in certain supply windows (especially for non-seasonal fruit) and this must be acknowledge and addressed by industries. ♦ Market development is essential ♦ Industries must cooperate and collaborate where appropriate. ♦ Industries must work to manage supply to decrease instability in the market.

6. Available resources for Industry Development

What resources are available?	***Decisions***
♦ A number of funding sources is potentially available. They include extensions of the IPP program, plus a combination of industry funded and enterprise funded options that can satisfy the criteria for other government programs. (I.E. NIDP, NFIS, Regional Processing, Austrade etc) ♦ Industry will need to raise levy income to gain access to government funds that typically match up to 50% of the industry contribution.	♦ Future funding needs to consider more than just extensions of the IPP. These other programs can provide leverage. ♦ Parts of the tropical fruit industry expressed interest in applying for Action Partnership funding through the IPP. It needs to be determined whether Tropical Fruit Action Partnerships are directed at an enterprise level or industry level. ♦ Funding priorities based on improvement potential and industry ROI are required.

What are we doing and what resources is the best fit?	***Decisions on what resources are most appropriate***
♦ What is best done at the enterprise level, industry level, and supply chain level ♦ Different sectors share common goals going forward (i.e. market access) which can these be captured in development synergies.	♦ Commercial improvements must be led by individual enterprises, as commercial activity is not possible for industry bodies. ♦ The Tropical Fruit group of industries share many common goals going forward, particularly in relation to threat of imports, labour supply, market access, supply chain improvement, market development. There are some synergies in managing the development activity to achieve these goals.

7. Improvement Options and Priorities

Based on the Workshop discussion topics and decisions made the following 11 industry improvement options were developed:

	Improvement Option
1	Ongoing across industry collaboration on areas of common development and organisation (i.e. R&D, Packaging, IT Standards, Industry Levy etc)
2	Stimulate demand and therefore market growth for Tier 2 & 3 products.
3	Development of the Food Service market, which will include research to define the appropriate food service target markets and flow on activity to stimulate market entry pilots and trials.
4	Select, appoint and endorse a wholesale agent/distributor for tier 2 and 3 tropical fruit in each major market. Ensuring that those selected have the required mix of development and servicing capabilities for all distribution channels.
5	Disseminating business tools that will support the development agenda. This will include utilising information technology, web-based portals, QA system etc to enhance enterprise/industry performance.
6	Provide targeted export development support for enterprises who have potential and capacity to invest. This could take the form of support base funding for trade shows, market research and or seed capital to prepare applications to apply to other export development programs. The guiding principle, in these programs are that the enterprises involved are providing 50% of the total development funds, and no more than half of that enterprise contribution is in kind.
7	Explore and define pre-packed options for all Tier 2 and 3 products. Working to a criteria of; ⇒ Decreasing the unit buying price ⇒ Maintaining/improving product quality ⇒ Tailoring the quantity to the consumers desired portion size ⇒ Facilitating supermarket acceptance by reducing wastage, ensuring product ID with on pack ID (barcoding/PLU no) and attracting new consumers on-pack brand/use & storage information.
8	Provide a package of retail support for green grocers to encourage correct handling and market development. This will include selected POS information/promotion for consumers (i.e. recipes, samples, storage instructions). This material will be distributed through the nominated wholesale agent.
9	Develop and implement product grade and cool-chain specifications. The goal being to effectively and consistently delivering promised quality to distributors and consumers
10	Promote use of IT in the supply chain. Firstly to capture the cost efficiency of paperless electronic trading and secondly to capture the data required for aggregated industry use. This will enable forecasting and provide means to simplify trading term relationships with wholesalers and retailers.
11	Provide supply chain development support, by providing seed funding to prepare applications for appropriate programs. These application would come from group of enterprises who have or will form a Tropical fruit supply chain, are committed to improvement and are willing to invest in the sort of development activity.

Following the development of the 11 industry improvement options, workshop participants ranked the list according to:

1. **Low difficulty** – participants ranked how difficult the improvement option would be to carry out and complete.

The level of difficulty was placed on a scale from 1 to 10 – **1 being highest difficulty and 10 being lowest difficulty.**

2. **High benefits** - participants ranked the potential benefit that would be received within 2 years from successfully completing the improvement option.

The level of benefits was placed on a scale from 1 to 10 - **1 being lowest benefits and 10 being highest benefits.**

3. **Enabler** - participants ranked the potential of successful completion of the improvement option to be an enabler for industry improvement.

The enabler score was placed on a scale from 1 to 10 - **1 being low enabler to 10 being high enabler.**

The process of ranking the priority of the 11 industry improvement options according to the three criteria listed above was conducted using an Industry Improvement Grid. Options could achieve the highest score of 30 (a score of 10 for each criteria) or lowest of 0 (a score of 0 for each criteria)

The results of the priority developed are displayed in this grid in figure 3.

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Figure 3. Industry Priority Grid

		Tier 3				***Tier 2***				***Tier 1***			
	Initiatives	**Low Difficulty**	**High Benefits**	**Enabler**	**Score**	**Low Difficulty**	**High Benefits**	**Enabler**	**Score**	**Low Difficulty**	**High Benefits**	**Enabler**	**Score**
1	ongoing across industry collaboration	8	8	9	**25**	6	7	6	**19**	7	2	2	**11**
2	Growth of tier 2 & 3	5	9	9	**23**	6	9	9	**24**	n/a	n/a	n/a	**0**
3	food service	4	8	7	**19**	4	8	7	**19**	5	8	8	**21**
4	specialist wholesale agents	5	8	8	**21**	3	4	4	**11**	5	7	8	**20**
5	dissemination & uptake of business tools	4	6	7	**17**	7	7	7	**21**	2	6	7	**15**
6	enable export development based on enterprise contribution	8	7	5	**20**	8	7	5	**20**	8	6	6	**20**
7	pre-packed options & accommodate supermarkets with POS barcoding & on-pack communication	8	8	8	**24**	8	8	8	**24**	3	5	5	**13**
8	package of retail support for green grocers - POS, Samples, Recipes	7	8	7	**22**	7	8	7	**22**	4	8	8	**20**
9	grade specs/cool chain	5	9.5	9	**23.5**	5	9.5	9	**23.5**	4	5	8	**17**
10	promote use of IT for supply chain data	4	6	9	**19**	7	7	7	**21**	2	6	7	**15**
11	Supply chain project support	8	7	5	**20**	7	7	5	**19**	8	6	5	**19**

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Workshop Conclusions & Recommendations

The workshop was an appropriate means to bring together Tropical Fruit Industry leaders to discuss the findings of the research undertaken as part of the Industry Partnership Project.

The process was important to draw together the findings of the commissioned research into a single picture for the Tropical Fruit Industry Partnership Project.

Key issues and decisions of the workshop included:

1. the scope of a "Tropical Fruit Category" and natural synergies of various sectors
   - ⇒ Industries can be logically clustered into 3 groups
   - ⇒ Whilst most opportunity for synergy exists within clusters, there remains some opportunity across clusters
2. domestic market consumer research findings
   - ⇒ Young consumer market needs developing
   - ⇒ Green grocers and supermarkets should be catered for differently – product & packaging
3. export market research findings and opportunities
   - ⇒ Only niche opportunities exist for export market development/growth
   - ⇒ Domestic market growth is the priority
4. domestic market growth opportunities;
   - ⇒ Supply chain improvements are first priority
   - ⇒ Foodservice development is priority
   - ⇒ Specialist wholesaler should be appointed
5. results and implications of the benchmarking study
   - ⇒ Supply chain improvements necessary
   - ⇒ Industries must work to manage supply and decrease market instability
6. available resources for further tropical fruit industry development
   - ⇒ Industry funds may be leveraged with government funding from various sources
   - ⇒ Future funding may be directed at the enterprise level to encourage supply chain improvements
7. improvement options and priorities
   - ⇒ 11 improvement options were developed to guide future industry directions.

   - ⇒ Highest priority options for Tier 1 industries were:
     - Ongoing across industry collaboration
     - Explore/define pre-packed options

   - ⇒ Highest priority options for Tier 2 industries were:
     - Growth of tier 2 & tier 3 products
     - Explore/define pre-packed options

   - ⇒ Highest priority options for Tier 3 industries were:
     - Define foodservice target market and stimulate pilots
     - Appoint specialist wholesale agents

The document will now be used to present the results of the workshop to the Tropical Fruit Industry Partnership Project Steering Committee. The Steering Committee will be charged with the responsibility to ratify the improvement options and priorities developed and present these as future directions to broader industry at Tropical Fruit Industry Partnership Project Review Seminar in Cairns, July 13, 2005.