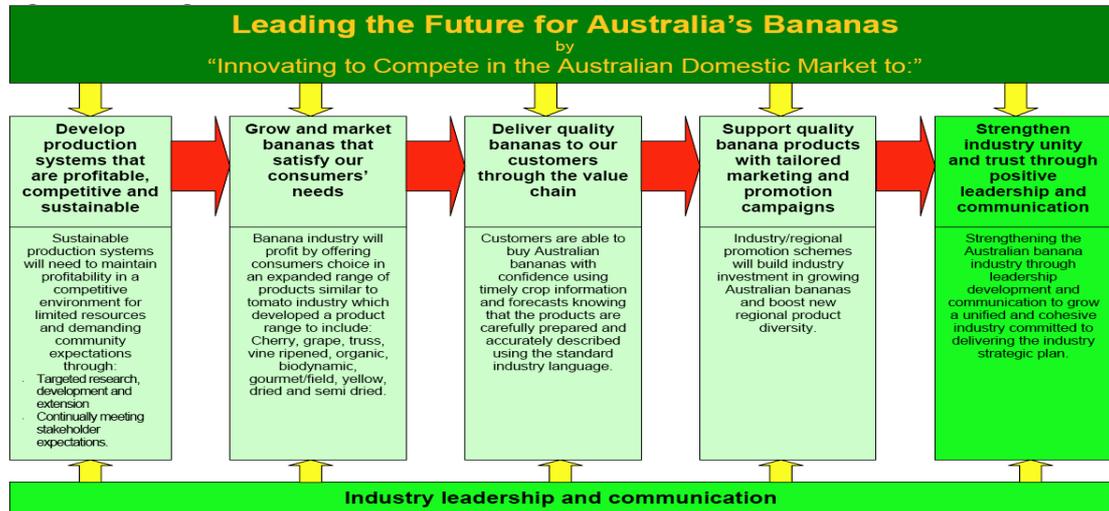


TOWARDS AN AUSTRALIAN BANANA INDUSTRY STRATEGIC PLAN - USING THE 2008 TAKING STOCK AND SETTING DIRECTIONS PROJECT AS A SPRINGBOARD

In September 2007, the Australian Banana Growers Council (ABGC) and Australian Government Department of Agriculture, Fisheries and Forestry (DAFF) initiated an Industry Stocktake project to help assess future directions for the Australian banana industry (AgEconPlus 2008). The stocktake identified a number of key strategic directions for the industry and proposed strategies based on the following priorities:



Source: AgEconPlus 2008

To come up with these priorities, here's what the project concluded:

Consumers, Marketing and Promotion

Without customers and Australian banana consumers, there is no industry. The bottom line for any production industry is selling product above cost of production. Currently the banana industry is, in dollar terms, Australia's largest horticultural industry and production is likely to increase. The problem is that Australians are already comparatively high consumers of bananas and if the industry was to increase production or if other sources of bananas become available, the supply of Australian bananas could very easily outstrip domestic demand. At current demand, this would result in either unsold bananas or bananas sold at a price below the profit margin required to maintain viable growers and a thriving industry along the value chain.

The taking stock and setting directions report (TSSD) outlined two key strategic directions to overcome these risks.

- *Grow and market bananas that satisfy consumers' needs*
- *Support quality banana products with tailored marketing and promotion campaigns*

These two strategic directions were considered of importance because:

- Consumer focus based on great eating satisfaction (quality) appears to be a lower priority than otherwise should be the case for the industry. The primary focus appears to be more on production.
- Although growth in production is forecast to coincide with population growth (1.3% pa), it has surpassed this. If this trend continues additional consumers must be found, either domestically or internationally. Either way, a concerted marketing and promotion effort is required.
- The Australian banana industry currently relies on the domestic market for more than 95% of its sales. Industry consultation reveals there is little opportunity for exports of Australian bananas for the foreseeable future. This is an area rich for exploration and collaboration in the development of the strategic plan.
- Production is overwhelmingly dominated (95%) by the Cavendish variety. Australian consumers surveyed in 2007 felt that there was not enough choice in terms of size nor ripeness of fruit. This issue has its root causes down the supply chain.
- Little branding and product differentiation is undertaken and there is scope for more banana varieties.
- For the enormity of the possible import risk, a response strategy as part of the 'strategic directions mix' is considered vital. The strategy would need to focus on a meaningful point of difference (backed with Intellectual Property protection) for Australian production.

Discussion Questions (Consumers)

1. How do we get the whole value chain to pay more attention to customers and their eating satisfaction?
2. What do we do well in marketing and promotion and what can we do better?
3. Where and what are the main opportunities for the export of bananas and value added products in future?

Competitiveness

Attention to production systems has been important to industry in the past and has been its dominant focus. This issue needs refocus and should be thought more in terms of 'competitiveness'. This means individual growers and the industry as a whole asking questions like:

- *With whom are we competing?*
- *Who are we likely to compete with in the future? and*
- *Are we competitive with these groups?*

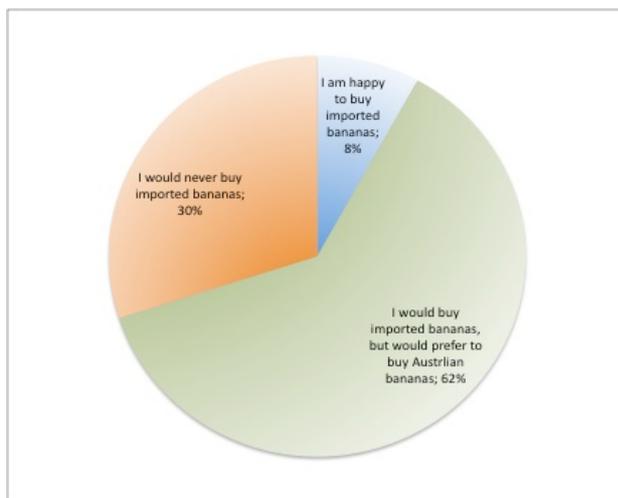
The TSSD report outlined two key strategic directions regarding competitiveness.

- *Develop production systems that are profitable, competitive and sustainable*
- *Deliver quality bananas to our customers through the value chain.*

These two strategic directions were considered of importance because:

Competition

- The industry considers import competition its biggest commercial risk. Biosecurity Australia's final import risk analysis on Philippines bananas, expected in late 2008 and during the preparation of the industry's strategic plan for next five years, is of immediate concern. What would be the industry's strategy for the next five years if the final ruling by Biosecurity Australia was not in the ABGC's favour?
- With imports held at bay through well argued and concerted industry effort to highlight the pest and disease risks, competition within the industry only involves other domestic food and 'healthy' snack products. This is a high-risk position if all else fails and the industry is forced to face import competition. Surveys indicate that 70% of Australian banana consumers would buy imported bananas.
- Industry consultation suggests that Ecuador is likely to lodge an import application in the short to medium term. Ecuador may currently have lower disease and pest prevalence than the Philippines and a higher quality product.
- Australian cost of production is not competitive with the major banana exporters. Labour costs alone are between ten and fifteen times those of potential competitors. It could be argued that Australian bananas have a considerably lower carbon footprint, but this would need a domestic market, including retail sector, that values environmental attributes.
- Negative external factors, at least in the medium term, include forecast rises in input costs, climate change, world trade volumes and prices (volumes are expected to increase with negative implications for world price) and exporters targeting Australian markets with a range of snacking fruits and processed 'convenient' snack foods, in competition with bananas.



Source: Bread & Butter Research and Planning 2007 (2007)

Production

- The geographical concentration of the Australian industry in the Northern Qld tropics means it is vulnerable to a single cyclone event, the occurrence and severity of which are predicted to increase.
- Industry profitability for sub tropical producers in south east Queensland and New South Wales is particularly problematic. The TSSD project suggests subtropical producers will struggle to remain profitable with current technology, marketing and business management systems. Cost of production increases are not being offset with scale or productivity gains.
- The Western Australian banana industry plays an important role in the geographic diversification of the overall industry and is innovative in its value added product activities.
- Entry into the industry is relatively easy compared to other agricultural industries and this can lead to overproduction. Surplus production capacity 'keeps a lid' on industry profitability.
- Inadequately resourced or poorly skilled producers may generate lower quality fruit, affecting the overall image of Australian bananas.
- The organic industry has not achieved critical mass in the past, but offers opportunities to meet a growing consumer base.

Benchmarking, monitoring and quality assurance

- In comparison to other industries, the banana industry lacks tools to measure comparative enterprise performance or to measure the impact of management decisions/options, such as in plantations and pack-houses, on returns.
- Generally, growers see limited value in benchmarking. Outside observers believe international benchmarking, including import parity price analysis, is essential if the industry is to compete in the long-term. International benchmarking, however, is difficult given labour cost disparities, and these would need to be taken into account.

- Monitoring and comparing environmental performance places the industry in a good position to demonstrate its clean and green credentials, minimise the environmental regulatory spotlight and help open certain export markets.
- The issue of quality has been more focussed on ensuring continuity of supply to the specifications of retailers. These specifications are not always the same as consumers would specify as being important, such as taste. The high number of consumers suggesting they would purchase imported bananas suggests that it is important the consumer be won by meeting their needs and wants and not only retailers specifications.
- Objective measurements for taste at the point of production and harvest do not exist and could be an issue for R&D to address.

Human Capital

- Availability of skilled labour is a major constraint for the industry. 79% of FNQ growers find it difficult to source and retain suitable field and packing labour. Most banana businesses experience high staff turnover.
- Hand in hand with this problem are issues concerning the supply of housing for labour and the Occupational Health and Safety challenges associated with plantation tasks.
- For medium to larger growers, skills are also lacking in the field of supervision and business management. Growers/business owners themselves acknowledge the need to improve their business skills, but are limited by time and opportunity.
- Succession planning at enterprise and industry levels requires greater attention.
- Mechanisation has some considerable way to go if industry is to effectively deal with labour issues such as OH&S, labour management and labour supply.

The Environment

- The intensive nature and coastal zone location of the industry make its presence highly visible to communities and environmental agencies, including catchment management organisations. Its impact on soils, rivers and marine resources, most notably the Great Barrier Reef World Heritage Area, are significant environmental issues to be addressed. Opportunities exist to further build on good relationships with coastal catchment management authorities and to demonstrate the good work being undertaken by the industry.
- The role of agriculture in a carbon emissions trading scheme is yet to be determined. Policy consideration for agriculture's involvement will be completed by 2013, although agriculture is not expected to be incorporated before 2015. Industry participation in the carbon debate is essential as ultimately the profitability of the industry, either positively or negatively, will be affected.

Quarantine

- While the industry has attacked quarantine issues with vigour, current plant protection/disease control approaches are fragmented. A large number of banana diseases not present in Australia have the potential to impact on the production levels and viability of many growers and result in an upheaval in management practice that many growers are not prepared for. There is a need for improved collaboration to deliver plant-health outcomes at the national level.

Innovation

- The banana industry has a comprehensive R&D strategy, but this is not in tune with emerging issues or longer-term ones. A short-term project based R&D culture has developed due to the uncertainty of funding and lack of strategic planning.
- R&D expenditure as a percentage of gross value of production has fallen but will be rectified with the national levy. Industry is 'living off' the success of its historical investments and achievements.
- The banana research base is aging and not regenerating. A more certain investment base and an agreed long-term programme of research will assist with this issue. Rebuilding and resourcing the critical mass of R&D expertise at strategic locations is critical to providing relevant training and staff development opportunities.
- Nationally, extension infrastructure is perceived to be in decline. Growers need to see value in paying for advice if the private sector extension model is to be alternative.
- R&D and additional public resources to deal with industry biosecurity issues are required.

Risk management

- The vulnerability of the industry to major upheaval, either due to natural disaster or to import competition is significant. The biggest risk to industry is not facing up to import risks.

Discussion Questions (Competitiveness)

4. What proportion of the R&D budget should be dedicated to production versus social and environmental issues?
5. Where is the industry prepared to develop production strategies significantly different to those of the past?
6. Where should R&D focus on social and environmental issues?

Leadership, Information collection and Communication

A strong industry is one that embraces diversity yet is united, involves good relationships, engagement and trust, has transparent decision making systems and a sound knowledge base, and is good at communicating along the value chain. All of this can hinge on strong leadership. For this reason, the TSSD report outlined the following key strategic direction regarding leadership, information collection and communication.

- *Strengthen industry unity and trust through positive leadership and communication.*

This strategic direction was considered of importance because:

- Industry culture is seen as 'competitive and fragmented', although there is a strong desire for change. Areas requiring attention include building trusted relationships along the value chain, adopting a consumer focus and confronting risk management issues.
- There is room for increased collaboration across the value chain, especially involving the retail sector. The industry must build trust and maintain it.
- While industry stakeholders report an ongoing reluctance to share information, industry customers (retailers and wholesalers) place a high priority on improved supply forecasting.
- The average age of growers is, like in most other agricultural industries, increasing. Leadership training is required to develop future industry leaders with a focus on industry strategic planning, corporate governance and media skills.
- Corporate ownership and management structures are increasing, although these face similar issues such as labour shortages.
- Significant policy issues face the industry. Import competition will not result in a marginal industry 'shock' but a fundamental 'blast' that will see the majority of an unprepared industry disappear. Other policy issues include labour availability and retention, accommodation, land-use planning, environmental performance, carbon budgeting and industry OH&S.
- Industry-wide risk management plans are needed for potential post import access (commercial perspective), exotic pest/disease outbreak (national perspective), cyclones (industry planning) and long-term climate variability and change (industry planning).

Discussion Questions (Leadership)

7. Do growers want a strategic plan for the whole of industry or just for growers?
8. What works well across the different sectors of industry and what could be done better?
9. How do we get trust and collaborative behaviour working down the value chain?

How to respond to the elephant in the room

To date, the strategic directions of the banana industry have been predicated on the understanding that the industry's sophisticated campaign against the threat of imports will succeed. Industry strategies have been, and continue to be, uncompromisingly directed towards protecting 'import-free' status. Any strategy that prepares industry for change, even if the strategy does not advocate the change or even advocates against the change, is viewed as weak. Worse, it is sometimes viewed as the impetus to allow the change to occur.

That is the fundamental challenge for the 2009-2014 strategic plan of the Australian Banana industry.

Discussion Question (the big issue)

10. Is the industry willing to embrace contingencies to ensure its viability if the Import Risk Analysis (IRA) of Philippine bananas (or a possible future IRA in respect to Ecuador) does not go in favour of the Australian banana industry?

The Australian Banana Industry does not currently have an operational whole-of-industry strategic plan. Consistent with a number of horticultural industries associated with Horticulture Australia Limited (HAL), a new plan has been called for on the basis that:

- in July 2008 a national banana levy, managed by HAL, was implemented;
- the current banana strategic plan was developed in 2002 and is now well out of date;
- a robust, well developed strategic plan is an essential foundation for an effective investment program of industry R&D and marketing levies;
- over the next five years, HAL is likely to oversee about \$25 million in banana R&D, plant health and marketing projects;
- in 2007-08, the Taking Stock and Setting Directions (TSSD) project provided a thorough analysis of the industry and provided a sound basis for a new strategic plan.

The preparation of the plan will be overseen by a 25 member planning group comprising banana industry representatives and a project management team. Kiri-ganai Research has been appointed to assist the group prepare the plan. It will involve substantial industry consultation and is due for completion by mid March 2009.

Further information about the plan or the planning process can be obtained from the project management team:

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