Dancing with Dinosaurs

You'll *love* Rex!

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Adelaide Thinker in Residence

Tuesday 28 October 2008

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What's it All About?

- Big journey
- Lots of challenges
- Great opportunities
- What's happening here?
- What needs to be done?

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What will you remember?

- Food systems are dynamic, increasingly **complex** and vulnerable
- We need a **paradigm shift** – from supply chains to value chains – which means we all have to change the way we think, the way we make decisions and the way we do things
- We need to prevent our food and wine industry from suffering the same fate as the **dinosaurs**

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The Complexity of Food Systems

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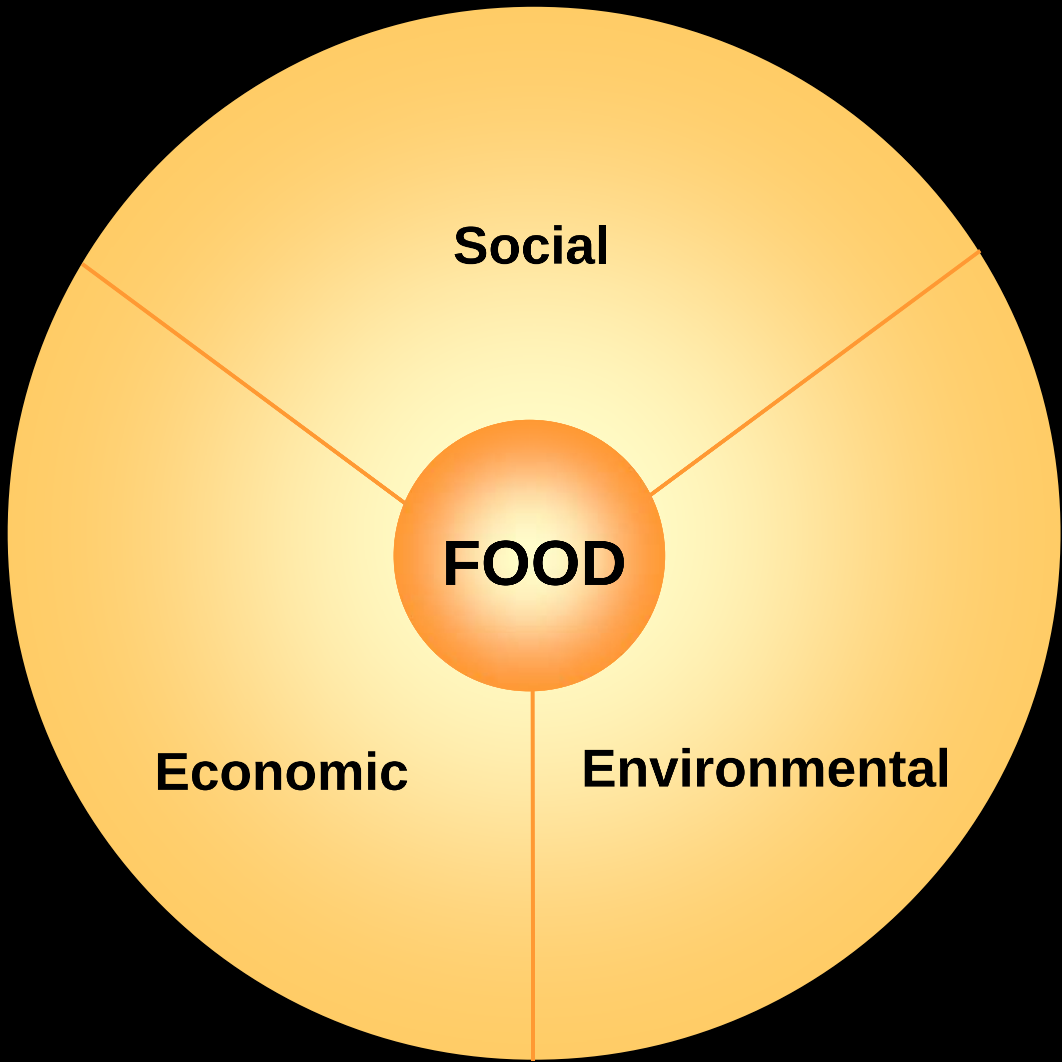

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This is a
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Please Comply
with ALL posted
Biosecurity Signs
HIGH RISK
MED RISK
LOW RISK
Help Keep Our Animals Healthy
Biosecurity
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Paying the price for excess

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Sustainable competitive advantage

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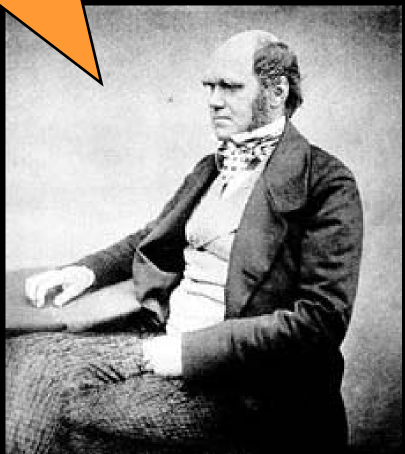
Sustainable competitive advantage

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to **change**



Charles Darwin

We only have two sources of competitive advantage:
- The ability to learn more about our shoppers faster than the competition
- The ability to turn that learning into action faster than the competition

Jack Welch

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Sustainable competitive advantage

Allocation and utilisation of resources that is hard for others to contest and even harder to replicate

- Add more value (effectiveness)
- At lower cost (efficiency)
- Faster than the competition (responsiveness)
- Responsibly
  - Environmental
  - Economic
  - Social

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The Paradigm Shift

Value Chain Thinking

Holistic

- cross-functional, multi-disciplinary
  - within and between organisations
  - difficult to do
  - hard to copy

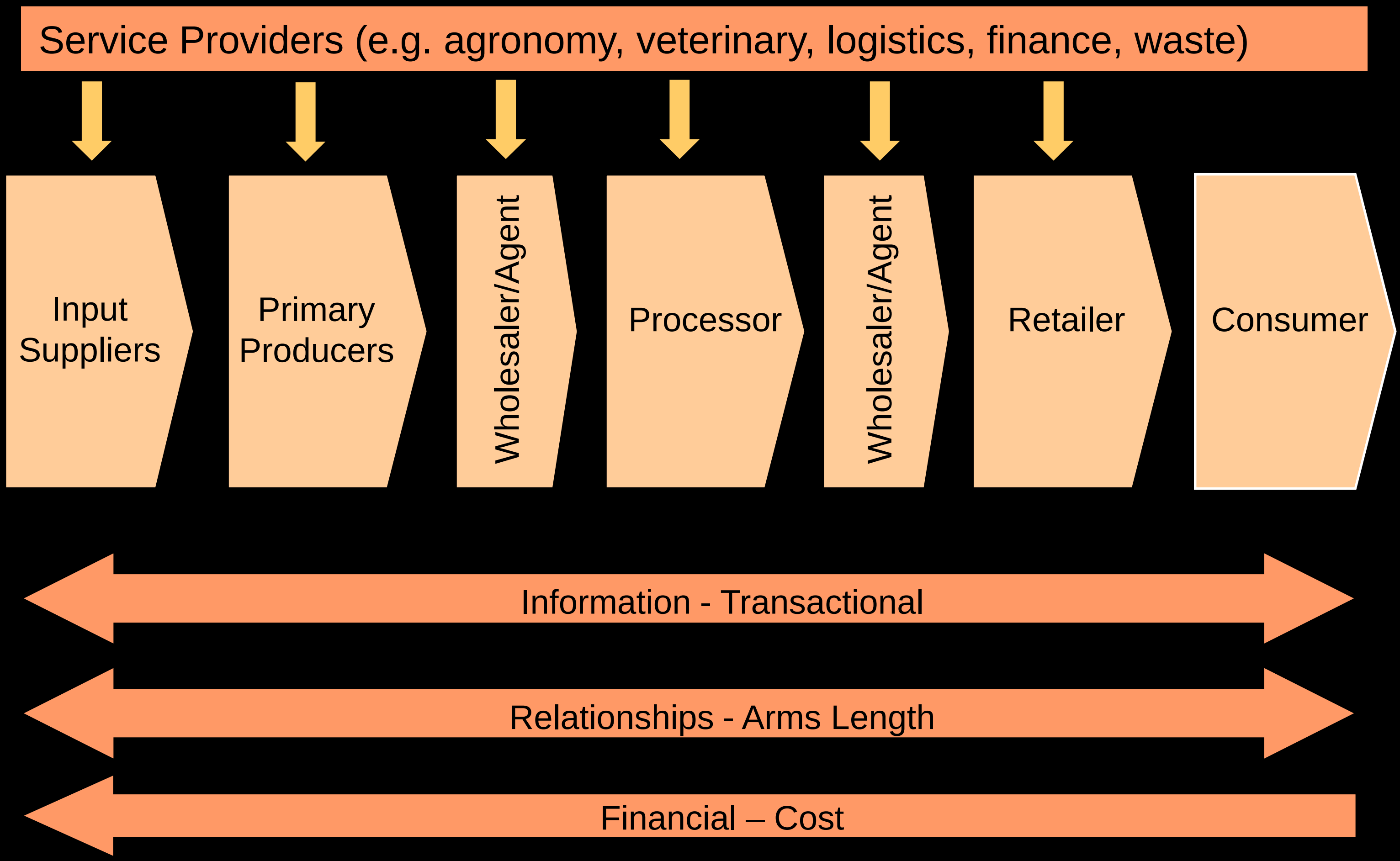
Business philosophy

- process orientation (not what but how)
  - robust
  - resilient (‘bouncebackability’)

Organisational structure

- can’t do this alone
  - horizontal collaboration
  - vertical co-ordination
  - ‘silo’ busting

Supply Chains



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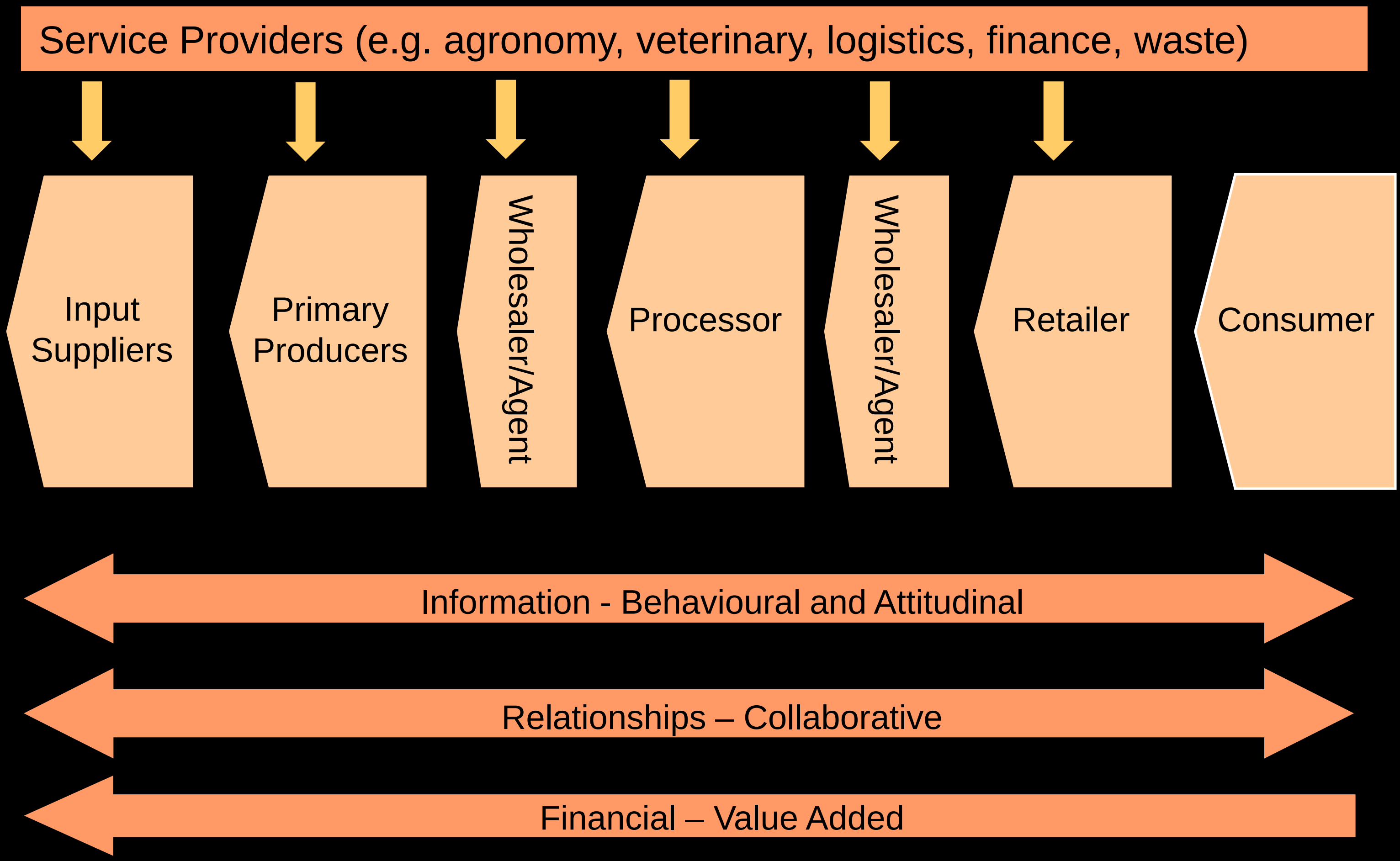
Value Chains



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Co-innovation

- Collaborative allocation and management of resources within and between businesses in the **value** chain, the purpose of which is to improve the competitiveness of the **value** chain as a whole

  – Process improvement for existing products/services beyond organisational boundaries

    - How we do it = input

  – Development of new (value added) propositions for distinct customers and targeted consumer segments

    - What we do = output

- Much easier to talk about than achieve!

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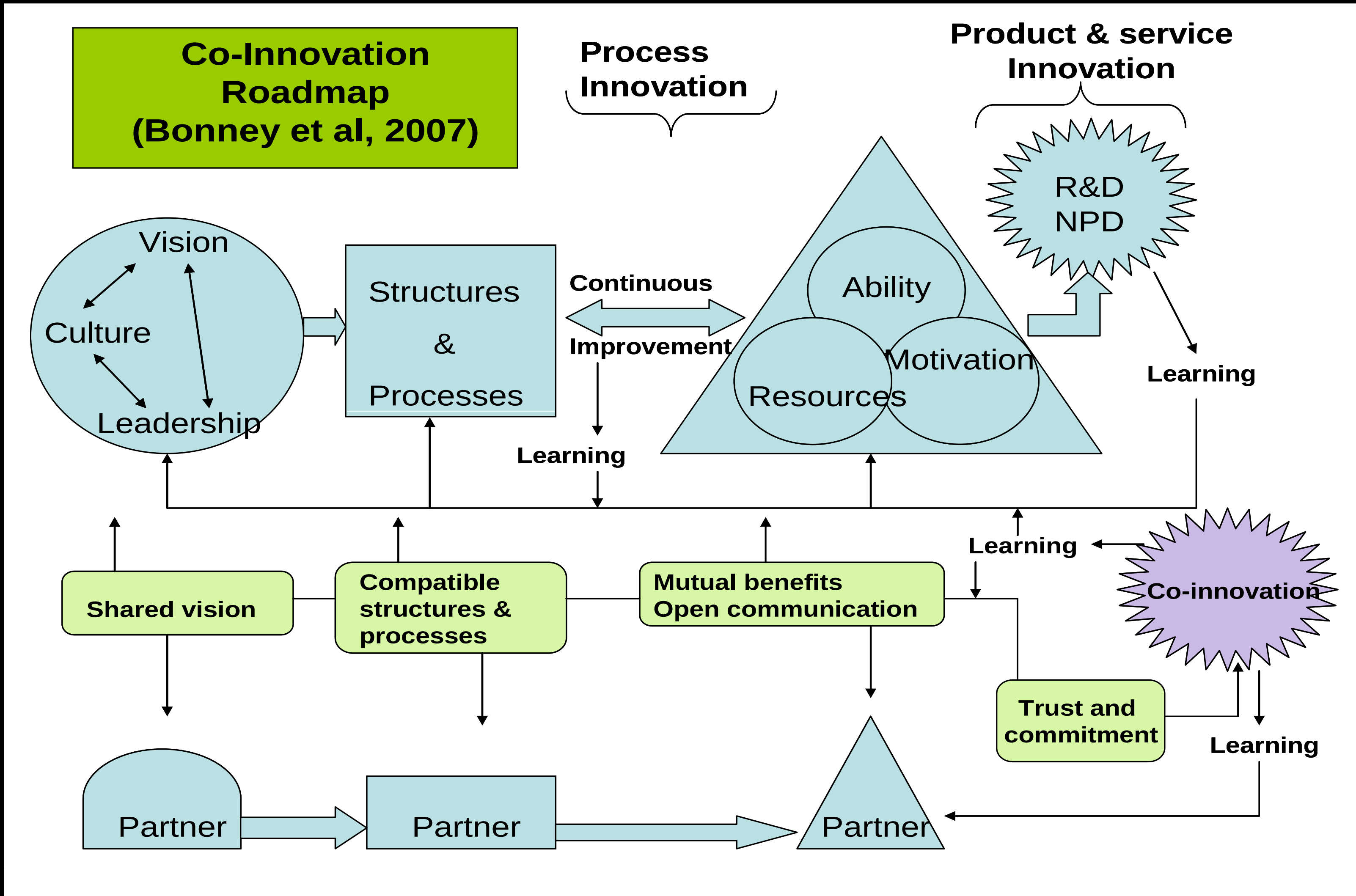
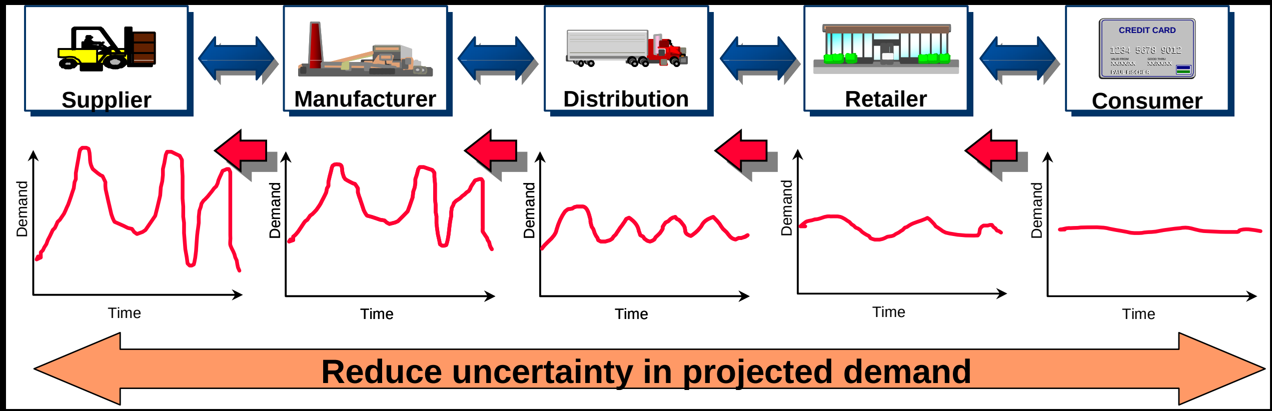


Co-Innovation Roadmap (Bonney et al, 2007)
Process Innovation
Product & service Innovation
Vision
Culture
Leadership
Structures & Processes
Continuous Improvement
Learning
Ability
Resources
Motivation
R&D NPD
Learning
Learning
Co-innovation
Shared vision
Compatible structures & processes
Mutual benefits Open communication
Trust and commitment
Learning
Partner
Partner
Partner

Key Enablers

- Strategic Alignment (Upstream & Downstream)
  - – Drives resource allocation
- Value Chain Visibility



- Collaborative Relationships
  - – Trust, commitment, inter-dependence
- Consumer Insight

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Consumer Insight

Commoditisation

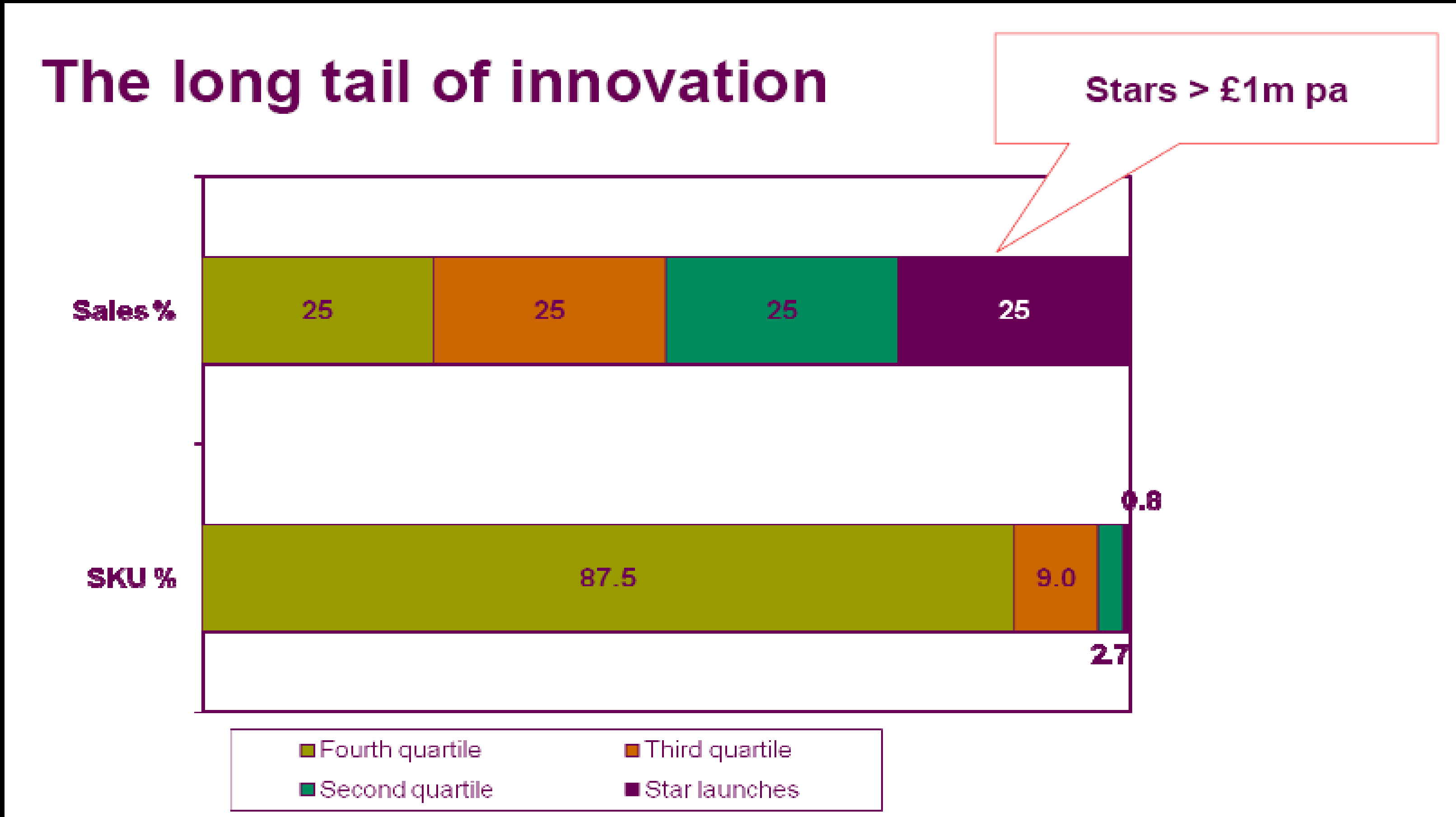
The blind are leading the blind… into the commodity trap!

Between us, marketers and retailers have trained an entire generation of shoppers to only buy on promotion. It's not that they need to, but why shouldn't they when price deals are available on key brands so often?

Future generations may well look back on this as a time of anti-marketing unless we take action now.

Jacqui Hill: Unilever Marketing Development Director

- Over 6,600 new products launched in Tesco over the last 18 months
  - Over 1,800 have been de-listed within the first year
  - Only 400 (6%) have reached weekly peak sales of £60k



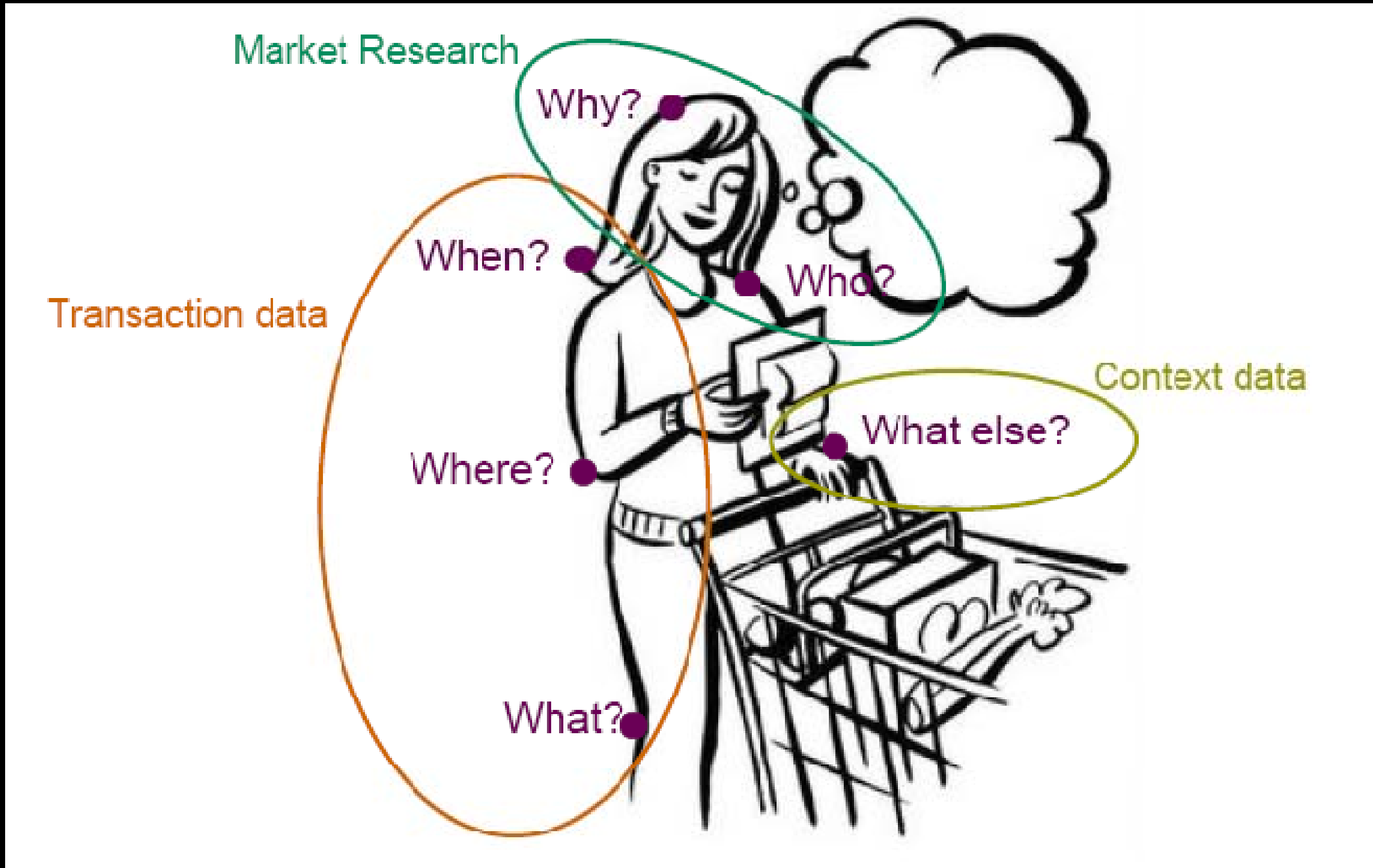
Consumer Value Proposition

Value = benefits – costs – risk

- **Value** → As perceived by consumers
  - Increasingly heterogeneous and often irrational
- **benefits** → 'Solution to my problem'
  - Meal occasion, shopping mission, final consumer
- **costs** → Financial & Opportunity Costs
  - Relative prices, time (packaging, labelling, merchandising)
- **risk** → Unfulfilled Promises
  - Supply chain integrity (availability, experience, credence)

Money is not the only currency… BUT

Joining the dots



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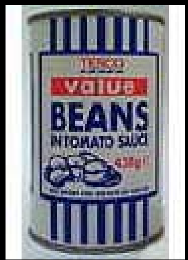
dunnhumby data

- 2yrs of weekly supermarket purchases
  - 1.2 million households
    - Representative of 40% of UK households
  - Over 30,000 food products
  - Segmented by:
    - lifestage (young adults, young families, older families, older adults, pensioners)
    - lifestyle (finer food, convenience, healthy, price sensitive, traditional)
    - geo-demographics (Cameo)
    - region (13 different advertising regions)
    - retail channel (on-line Vs in-store)
    - retail format (convenience Vs hypermarket)

Creating Lifestyle Segments

Each product is categorised using a series of dimensions (attributes)



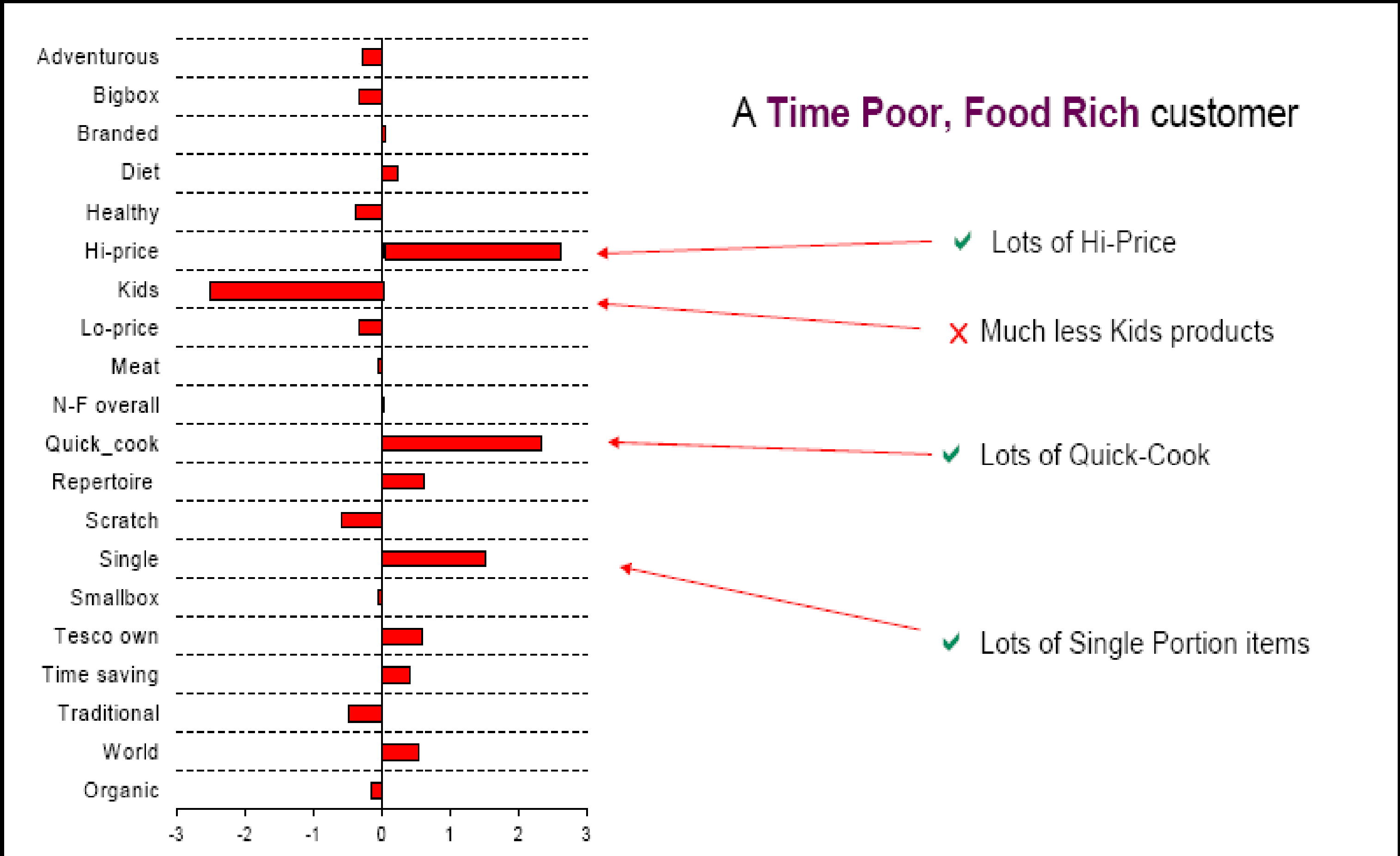
- *Low price*
- *Tesco own*
- *Value range*
- *Multipack*

- *Fresh*
- *Loose*
- *Vegetarian*
- *Adventurous*
- *Healthy*

- *Tesco own*
- *Pre-packed*
- *Convenient*

- 25,000 products (about 95% of food sales) are ‘flagged’ in this way
- Looking for the balance of key dimensions in each shopper’s basket

The DNA of a shopper



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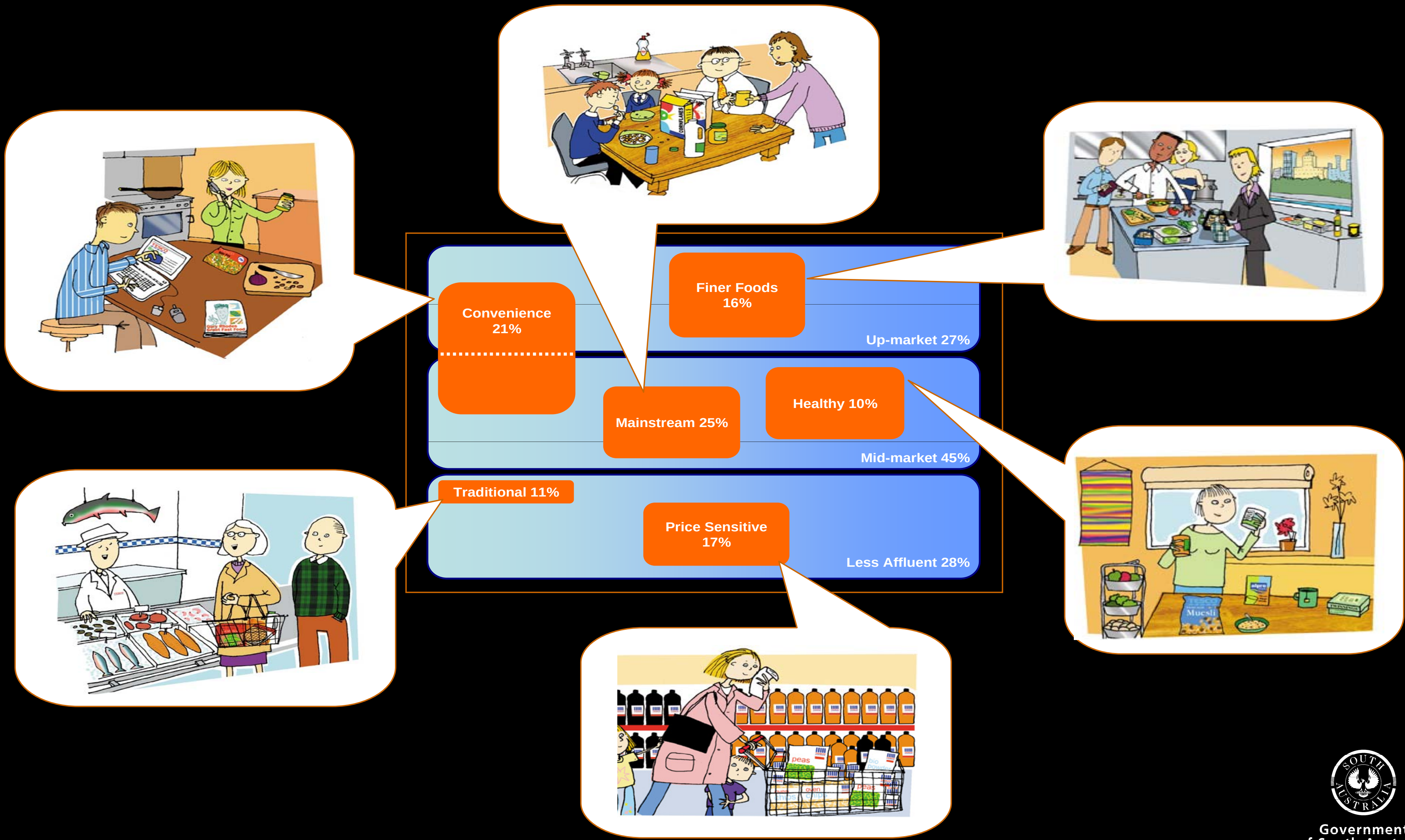
These six lifestyle segments are the language of Tesco



Finer Food Shoppers

- The most affluent customers
- Like to cook from scratch
- May buy organic foods for environmental and taste benefits
- Likely to also shop at specialist stores such as butchers, fishmongers and green grocers
- Like to eat foreign cuisine - Early adopters of exotic and exciting foods
- Buy a wide range of food
- Often older adults who have the time to enjoy cooking

Likely to buy ...

Food

Organic chicken

Fresh cut herbs

Organic exotic fruit

Goats cheese

Non-Food

Food & drink books

Ovenware

Kitchen Plastics

Likely to say ...

"I often try out new recipe ideas"

"I often cook from scratch rather than have ready meals"

How is this information used?

- Input to overall business planning
  - – Fine-tuning the business strategy in light of market information
- Input to the development of new propositions
  - – Identifying gaps in the market
  - – Identifying profiles of potential consumers
- Input to the development of a marketing plan
  - – Fine-tuning the marketing mix to support the business strategy
- Catalyst for changing relationships in the value chain
  - – Demonstrating commitment and capability
  - – Facilitating co-innovation, organisational learning, strategic alignment

Case Studies (www.foodchaincentre.com)

1. KG Fruits – raspberries (promotion)
2. Long Clawsons – blue cheese (promotions)
3. Anthony & Lucy Carroll – heritage potatoes (Market Development)
4. Coastal Grains – rapeseed oil (NPD)
5. James & Lucy Barclay – speciality beef and pork (Market Development & NPD)
6. Sunnyfields Organic – organic retail (Market Development)
7. Processed Vegetable Growers Association – Frozen Peas (Public Relations)
8. Sarah Petit - Organic vegetables (Business Planning - conversion)
9. Sue Gwilliam – Get Real (NPD)
10. Rebecca Rayner – Glebe Flour (NPD)
11. Paul Southall – Runner beans (Market Development)

Food Chain Centre
Best practice for your business

Exploring the market for speciality cooking oils and 'healthy' bread

A number of farmers who belong to Coastal Grain, a farmer-controlled grain marketing business in the North East of England, have identified two "value adding" opportunities for their produce, but have little experience of consumers and thus whether and in what form their ideas might work.

With both cereals and oilseed rape value is generally added further up the supply chain when the grain is processed in one form or another. But, farmers are just as well placed to identify new ways of adding value and in this case identified a high value rapeseed cooking oil and speciality bread with specific health attributes as potential new product opportunities.

Understanding The Consumer

Consumer Analysis

Coastal Grain were among the first group of farmers to seek insight from the data on the behaviour of 1 million shoppers provided to us by dunnhumby Ltd.

Their key questions at this stage were who would buy such products, how much would they pay and how large might the market be?

Speciality Bread

The analysis of the speciality bread market revealed a distinct lack of interest in these products amongst shoppers in the North East of England, Lancashire and Yorkshire – three regions in which the purchase index was significantly below the average for the country as a whole, see Figure 1.

Case Study

April 2005

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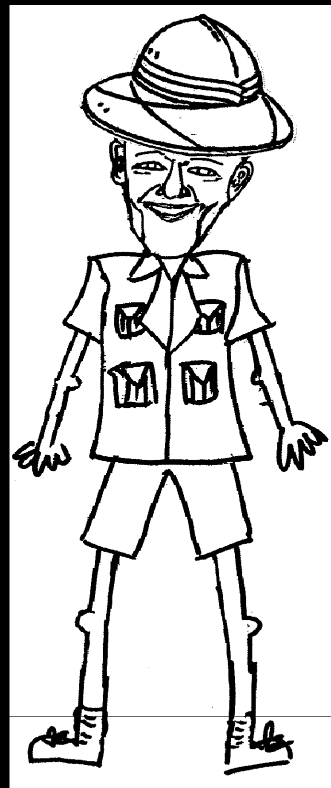
So what about the dinosaurs?

The Dinosaur Story

- 65.5 million years ago there was a large-scale mass extinction of animal and plant species
- Whatever the cause the amount of solar energy reaching the earth's surface changed and species that depended on photosynthesis declined or became extinct
- The food chain was altered. With no plants, there was no food for herbivores, with no herbivores, there was no food for carnivores, so these groups became extinct
- Those creatures that did survive did so because they had options – they could lived on dead plant and animal matter, or on the creatures that lived on dead plant and animal matter
- Adaptability was the key to survival!



Stegosaurus - Primary Producers?

• tiny head and brain

• many consider it to have been the least intelligent of all the dinosaurs

• clever design – plates running down its back served as a means of temperature control

• spikes to protect itself against meat-eaters

Triceratops – Manufacturers?

- herbivore
- lived in herds
- thought to have had sparring contests, locking horns and butting heads

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Velociraptor - Agents/Merchants/Distributors?

- ‘ swift thief ’
- carnivore
- predator
- hunted in packs

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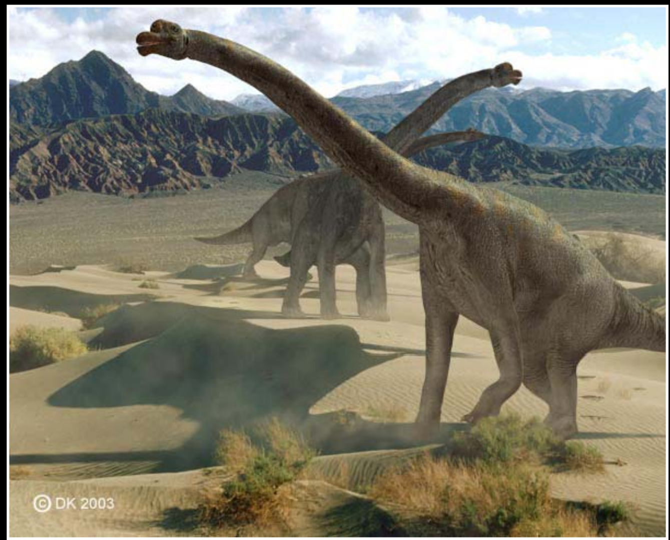

Brachiosaurus – Government?

• huge plant-eating dinosaur

• heavy and slow

• very long neck to reach the tops of trees

Pterodactyl - Consultants & Academics?

• flying reptile

• preyed upon fish and other small animals

• opportunistic – swooped on just about anything it could get

The consequences of stereotyping

- Stereotypes
  - partly what people do (reality)
  - partly how we choose to look at them (perceptions)
- Stereotypes become embedded in people's perceptions if:
  - people don't change their behaviour
  - we choose to observe them from afar or from a narrow perspective
- Perceptions drive attitudes and attitudes drive behaviour
- Change in behaviour is then thwarted by:
  - reluctance to believe in the willingness and/or capability of others to change
  - the systems and structures we create to accommodate or work around the stereotypical behaviour of 'others'
- Need to break the mould from within not wait for others to 'see the light'

The South Australian Food & Wine Industry

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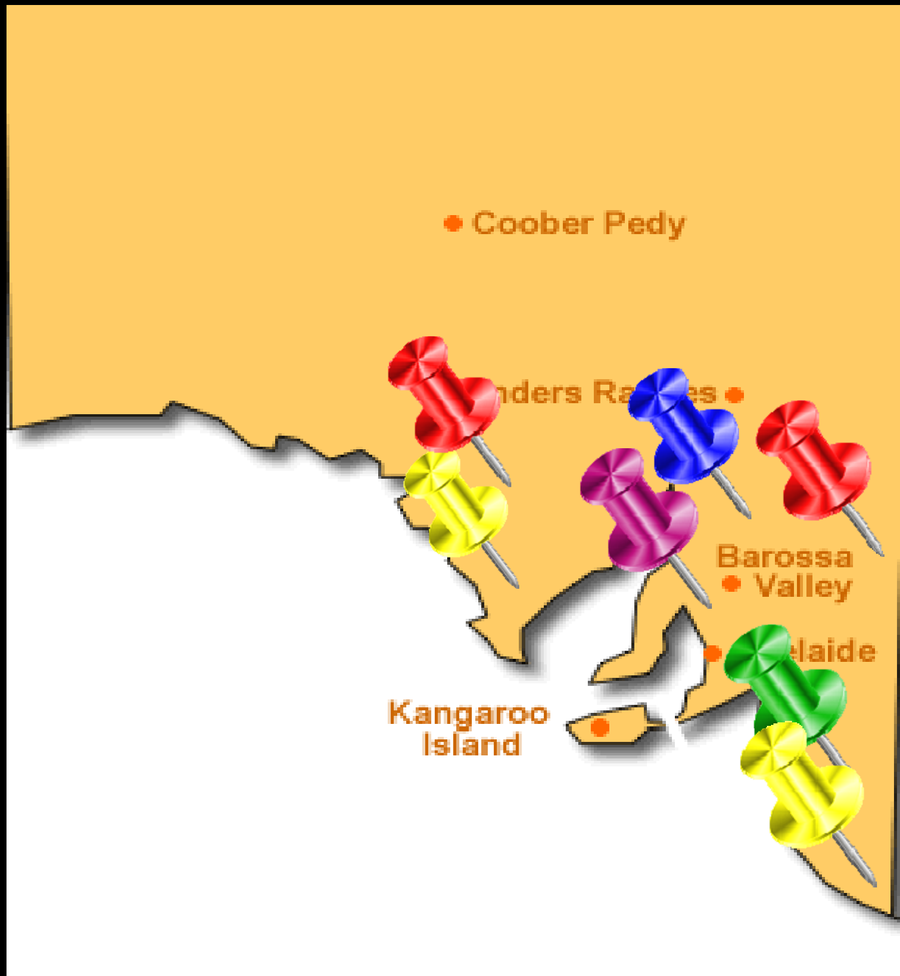
I've Been Around



Key challenges

- External
  - – Rising input costs
  - – Volatile Australian dollar
  - – Greater competition from countries that have lower input costs and suppliers who are better connected
  - – Pressures from health (obesity, alcohol) and environmental lobby groups
  - – Climate Change (drought = paradigm shift in the way water is valued)

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Key challenges

- Internal
  - – Fundamental imbalance between supply and demand (processing capacity and primary production)
  - – Tension between servicing dynamic markets with agricultural products (new and existing) that have a long lead time to market
  - – Fundamental disconnect between growers, processors, distributors, retailers and consumers (breakdown in relationships and information flows
  - – Poor understanding of customer needs (strategic alignment) and consumer wants

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Key challenges

- Decreasing profitability at **all** stages of the food/wine value chain
- Some businesses will not survive, but those that adapt will emerge
  - Stronger (necessity is the mother of invention)
  - More resilient and response to change

It can be done

- Some businesses (large and small) are well down the road and many have started the journey towards a more innovative, collaborative and consumer-focussed way of working

  - San Remo
  - ABB Grain
  - Bd Farms
  - Richard Gunner Meats
  - Kinkawooka Shellfish
  - Maggie Beer
  - Barossa Fine Foods
  - Almondco
  - Foodbank SA
  - …

Kinkawooka Shellfish

Barossa Fine Foods

Maggie Beer

<u>BUT</u>

- These are the exceptions, not the rule

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The Way Forward

- In order for the SA food and wine industry to survive and prosper, it needs to become more responsive to an increasingly dynamic and uncertain environment
    - market intelligence is critical but sorely lacking
    - businesses lack the skills, processes and organisational structures to grow **sustainably**
    - trust needs to be built at every point in the value chain
    - (co)innovation needs to be encouraged and fostered through culture change at the enterprise, sector and community levels

- **All** stakeholders need to
    - get connected
    - adapt or die!

What role for Government?

- Greater collaboration across government (states, regions departments) and between government and industry:
    - leverage of not only funds (co-investment) but also expertise
    - reduction of duplication
- Value chain analysis can be used to
    - prioritise issues (where are the ‘pinch points’)
    - identify opportunities (market development, chain improvement projects)
    - better direct R&D funding (more closely aligned with what consumers value)
- Shift the emphasis from a (reductionist) food plan to a (holistic) food policy
- Shift the focus from industry strategy to industry development

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You’re probably wondering…

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What about Rex?

Tyrannosaurus Rex –
Supermarkets?

- ‘tyrant king lizard’
- carnivore
- possible binocular vision
- active predator
- short arms which weren’t very useful, huge head that could swallow a human in one bite
- very nasty – but still died out because it couldn’t adapt!

Thank you!

Professor Andrew Fearne

Adelaide Thinker in Residence

Tuesday 28 October 2008

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