Agricultural Competitiveness White Paper Submission - IP540
Mondelez International
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Submission to the Australian Government's Agricultural Competitiveness Issues Paper

Mondelēz International
(formerly Kraft Foods / Cadbury)

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About our company

Mondelēz International, formerly Kraft Foods / Cadbury, is the maker of Australia's most iconic food brands including Cadbury Dairy Milk, Vegemite, Philadelphia Cream Cheese and Kraft Peanut Butter.

Our brands have been part of the Australian landscape for over 125 years and can be found in 98.5 per cent of households. We operate five manufacturing sites, including the local production of Vegemite in Port Melbourne and the Cadbury Dairy Milk factory that has been operating in Claremont, Tasmania for more than 90 years. 90 per cent of our products for the local market are made in one of our six manufacturing sites located in Australia and New Zealand, and we are significant buyers of Australian dairy, sugar and peanuts.

We are also Australia's largest food innovator and have recently developed the Food Innovation Centre at Ringwood Melbourne, to further both our own, and approximately 60 SMEs' access to Asian growth aspirations. We have spent over five years grappling with the food and agricultural supply chain challenges in the Australian market which in part have led to the Innovation Centre design.

In 2013, we contributed $AUS3.5 billion to the local economy, and we employee 3000 Australians directly and over 2000 Australians indirectly, across the nation.

We commend the Government for seeking ideas to create a brighter future for Australia's agricultural sector, and wish to address three issues identified in the Agricultural Competitiveness Issues Paper:

Response

We will have a particular focus on three areas:

Issue 2	Means of improving market returns at the farm gate through an aligned country branding strategy for Australian foods.
Issue 3	Access to finance, farm debt levels and debt sustainability.
Issue 4	The competitiveness of the Australian agriculture sector and its relationship to food and fibre processing and related value chains, including achieving fair returns, and the impact of removal and red tape.

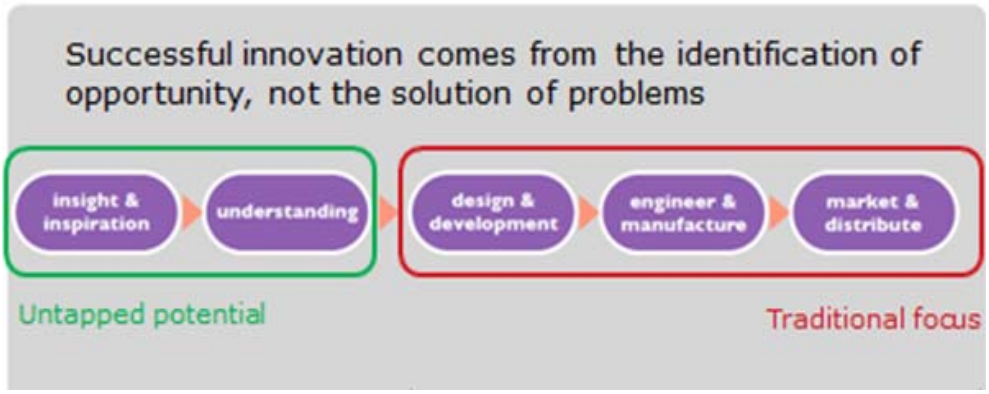
Focus 1: Means of improving market returns at the farm gate through an aligned country branding strategy for Australian foods.

Agricultural competiveness is a function of five macro variables:

1. Farmgate productivity
2. Supply chain efficiency
3. Reformulation capability
4. Access to key markets
5. Extraction of a premium price

The multiplier of these variables is **brand**, as this alone has the greatest gross profit motivator of all supply chain elements.

The challenge is that much of the farm to market supply chain has been biased towards a traditional approach to innovation, as demonstrated in the following model:



As a nation we have not developed great export food or agricultural brands, nor have we understood the importance of brands in improving market returns at the farmgate level. One has to look no further than New Zealand to see success in this field at play.

Australia runs a very real risk of exporting agricultural raw materials to Asia and importing finished products from these very same countries (ie. canned salmon and tuna).

It would be easy to suggest that both success in agricultural and indeed the premise of this review has little to do with branded food processes and more to do with agricultural raw materials and the farmer base.

We would counter this with live examples of branded success flowing back through the supply chain to assist long term farm gate prices. Multi-generation dairy (VIS/TAS), nut (QLD) and wheat farmers (WA/NSW) in our supply chain support this view.

From a farmer's perspective, brands are often dismissed as embellishment through marketing, opportunistic, or even wizardry; however successful brands with longevity generally:

Elements of successful brands

1. Command higher gross margins than generic brands.
2. Invest in insights to know their consumer, customer and new markets, to ensure they can command higher gross margins.
3. Expected to have superior taste and quality profiles over competitors which requires supply consistency.
4. Invest in a consistent manufacturing and raw material supply chain. This in turn is supported by higher labor rates, preference on quality and often provenance.
5. Farmers within these supply chains often have direct relationships with manufactures, are not subject to commodity pricing vagaries and receive collaborative support in productivity and allied sustainability initiatives.

Developing an aligned country branding strategy for Australian foods

Country of origin labels are nothing new to Australians; whilst consumers decry that they want to purchase Australian Made they rarely pay a price premium (>5%) for goods *(Kraft Foods Consumer Sentiment Survey, 2009*). When these purchasing behaviours are analysed, it is also clear that those above 50 years of age share a much stronger 'Made in Australia' affinity than younger generations.

The reasons for this incongruity, that is, wanting Australian made but not willing to pay for it, can be attributed to the following:

> *Many consumers particularly those under 35 have a culture of foreign made goods (particularly goods for China). These goods including, food products, haven't caused (to date) any overt health or material moral consequence. Therefore, many consumers assume that all imported materials are created on equal terms to their Australian counterparts – quality, raw material sourcing, food standards, packaging et al*.

At the same time we are also seeing the rise of provenance and the conscious consumer.

> *In general terms the closer a product is to the farmgate (raw/untreated/pure), the more consumers want to know where is has come from, its quality attributes and how it's been treated. In turn, they are more willing to pay a premium for quality and exclusivity (premium proteins). Inversely, the more processed a product (ie packed noodles or pasta), the more unwilling they are to question provenance or pay a premium.*
>
> *There is also the rise of conscious consumer who similarly to provenance consumer attributes, want to know that materials have been sourced sustainably, that the people growing harvesting and processing the materials have been adequately supported that the supply chain model is fair and just.*

As detailed in Appendix A, consumers living in origins where food safety, product fraud, adverse labour and environment conditions are apparent on a daily basis, are much more likely to question provenance and pay a premium for quality and safety.

The Asian consumer is fast becoming the most label-conscious in the world with distinct trends:

- They have an Eastern philosophy, and are driven by premium, quality and sustainability cues.
- They are most willing to spend more on products from socially responsible companies (from perceived leading countries such as India, Philippines, Thailand and Indonesia).
- Growing awareness of health issues, digital lifestyles and increases in income levels are impacting decisions. And over the next five years, environmental sustainability will become more pertinent in purchasing and consumption behaviour.

This reality must drive how we develop an aligned country branding strategy for Australian foods. As detailed in Figure 1, country brands, like corporate brands, have a formula and structure of success drivers.

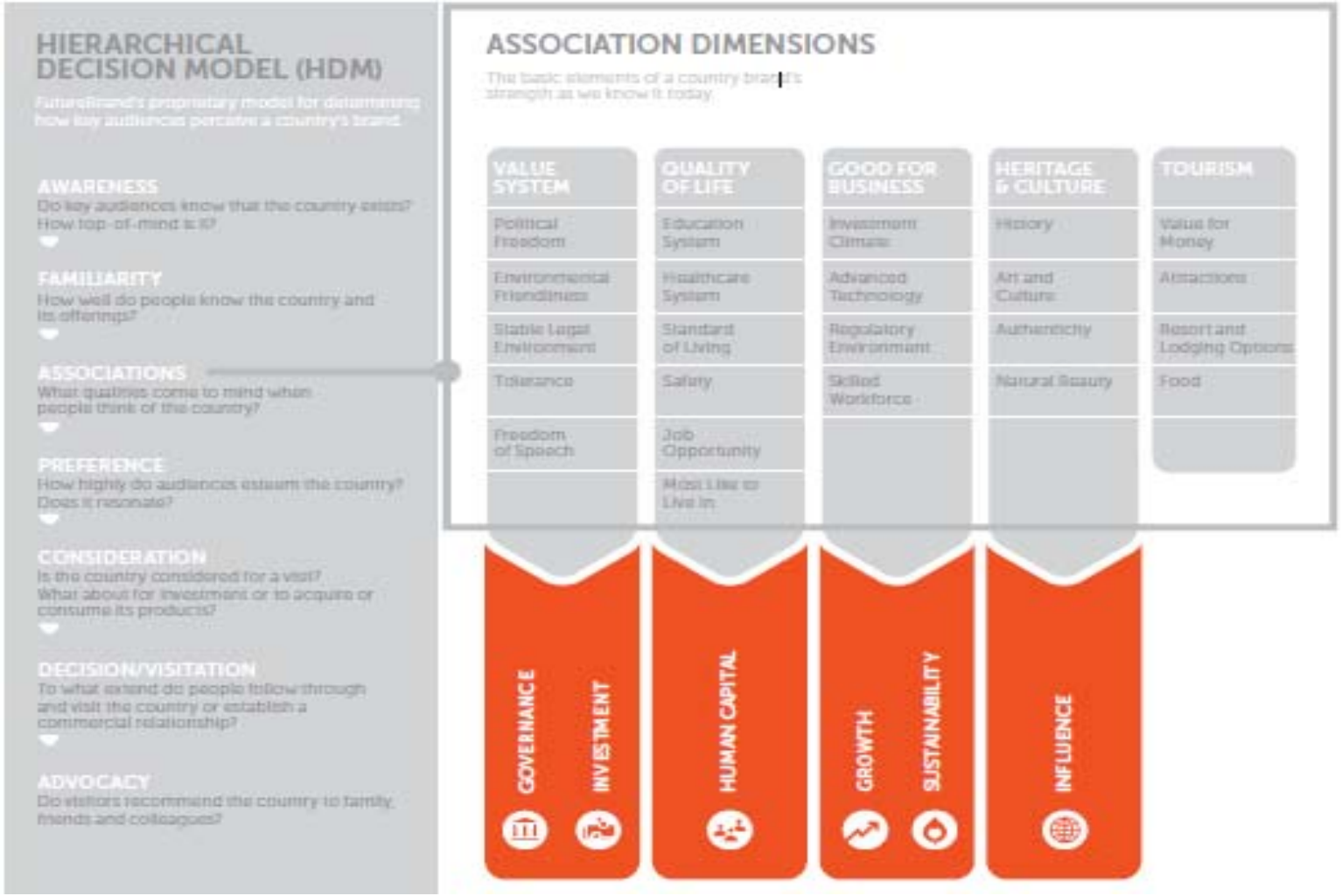
With respect to Australian food and agriculture, we need a nationally aligned strategy with all state, territory, local areas and provincial areas aligned. As with all brand strategies, we must start with a clear identification of our target customers and we must be specific around which Asian countries will be our focus). Within these target countries, we must identity cohorts of potential consumers or current consumers and align brand messaging. Currently, we have many mixed messages and approaches including from different Australia states and the Federal Government, competing for the same audience with different messaging during trade missions and in-country programs.

A hierarchy of messaging is needed. Based on our successful food exports, and detailed Chinese and Indonesian consumer research, a message model can be as follows:

Brand Australia message model

Master message Australia	**Trust, discover and tantalise your senses (our story)**
Rational underpinnings	**Supply assurance, traceability, innovation, pure**
Identification and promotion of our provenances	**Unique, non-compete, the chapters within an aligned story**

Figure 1: Country brand hierarchy model *(source Future Brand 2013)*



The construction of Australia's brand will become shorthand for a type of style, quality and sensory experience. Products and their provenance don't just speak for themselves – when done well, they ladder up and speak for our country and reinforce the masterbrand.

Most branded food and agricultural success comes from a proven formula, where collaboration and focus are underpinning drivers.

There is significant appetite for Australian food manufacturers to access Asia however national assets and government programs are not aligned, and significant pathway gaps need to be addressed and must close before we reap substantial export growth and economic returns.

The following outlines a summary of a specifically devised formula, and while some is being conducted by the Mondelez International Food Innovation Centre, significant in-roads are required. See full model Appendix 1.

Accessing a Pathway to Asia

FRONT END INSIGHTS & DEDICATED INNOVATION INFRASTRUCTURE

- Talent development
- Collaboration and open innovation
- Deep understanding of consumer insights

MARKET CAPABILITY ASSESSMENT & ENABLING TECHNOLOGY

- Product testing (brand ethnology)
- Consumer sampling and live 'in-market' immersion
- Very rapid prototyping (3D printers, virtual stores, consumer sensorium)

PRODUCT TESTING & COMMERCIAL TRIALS CAPABILITY

- Commercial concept testing
- Packaging capability and design
- Supply to market analysis
- Commercial scale product trial
- Final commercial assessment

SUPPLY CHAIN TESTING & NEW TO MARKET TECHNOLOGY

- Product delivery, packaging and pallet sustainability
- Delivery methodology (e-commerce, clustered SME supply chains, preclearance capabilities)
- Big data analysis and share insights with industry

Focus 2: Access to finance, farm debt levels and debt sustainability

A fundamental requirement for Australia to meet Asian demand is for there to be economic sustainability, by creating a profitable farming and food processing industry. Currently there is an expectation by consumers to enjoy cheap food, while simultaneously there has been an inexorable rise in the cost of producing that food. This has been backed by Australia's inherit lack of confidence in the future of food production in the nation.

Despite internal woes, foreign investors are becoming increasingly interested in farming and processing investing, whilst domestic capital continues to shun such investment. However, it is unclear if this is due to a lack of investment capacity or a lack of intent.

To date, policies have often been short-term and research focused, and a long-term vision (development to Asia policies) have been lacking. The question now is, *'how do we engender an environment in which both farmers and food processors can be profitable?'*

An economically sustainable farm and food industry requires investment, more so given the expected increase in demand from the Asian Century. Investment in innovation is critical if Australia is to evolve up the value chain and escape the commodity trap.

International capital is already interested in farm and food production investment but has had mixed success. The challenge now is to also encourage domestic investment ell. How we do this, is the fundamental question.

An example of one such potential instrument is a tax effective agri-food infrastructure investment bonds. Modelled on Federal Infrastructure bonds, these bonds would be issued with a return at below current market rates but with Commonwealth guarantee.

Immigrants under the Federal Significant Investor Visa (SIV) status, which grants permanent residency to those willing to invest $5 million in approved Australian assets, would be able to satisfy this investment requirement through purchase of the agri-food infrastructure bonds.

The proceeds of these investments would be on-lent to approved infrastructure investments in the agri-food sector, including irrigation infrastructure, dams, roads, water treatment facilities and other productive assets. However, the SIV has had limited take-up therefore more must be done to fuel interest and economic benefits from this program.

Once the asset class of agri-food infrastructure bonds is established, other potential investors could be encouraged to participate in funding agri-food infrastructure. For example superannuation funds and the Future Fund to substantially increase the funds invested.

As a part of the above program or even in isolation, the Future Fund should be directed to allocate a proportion of its 90 billion investments into Australian food and agricultural systems; if our own Future Fund isn't motivated to support food and agriculture then why would anyone else? Based on personal communication with a Future Fund Board member, it appears that less than eight per cent of the fund is allocated to an Australian food and agriculture asset class.

The third area of stimulus is to balance Australia's high labour cost environment by accelerated depreciation for new manufacturing investments in food and agriculture.

These allowances could motivate Australian manufacturers to invest in best-in-class manufacturing capability and other productivity-enhancing technologies so we can produce premium brands to profitably service the growing Asian middle class.

We face the mixed winds of (potential) progress currency devaluation - presenting Asian markets with more competitive food prices; but at the same time increasing the cost of capital (much of which is European and North American sourced).

Focus 3: The competitiveness of the Australian agriculture sector and its relationship to food and fibre processing and related value chains, including achieving fair returns through the development of brands, and the removal of regulation and red tape.

Fundamentally, the vision must identify the different farming and food production models, and food policy strategies. It must also take into account the models and strategies adopted by Australia's successful competitors in international markets.

As an example, much of Southern Australia can operate as a premium or artisanal food producer equal in attributes to New Zealand – *the delicatessen for Asia*.

Whilst not mutually exclusive, Northern Australia can compete with its broad-acre Northern and South American peers and be a high volume, high quality food bowl to Asia. The vision must also address factors inhibiting the realisation of current policies and plans affecting farming and food production.

We have seen the visionary work completed by the coalition on aspiration for Northern Australia; we must now see a similar southern Australian farming vision.

For a Northern Australia Food Bowl - focus should be placed on new infrastructure (ports) and upgraded rail and distribution systems. Investment could be motivated through tax incentives (reduced corporate tax rate and reduced FIRD threshold above the Tropic of Capricorn). Inversely southern premium farm systems need insights, assistance with product development, new market development and brand capability.

There is no doubt that such a model will create controversy, however without it, we run the risk of homogenising our offer and confusing the Asian consumer and diminishing provenance premiums and ultimate farm gate returns.

On a regulatory and red tape front, there are a myriad of regulations providing a large regulatory burden on farming covering: farm and business structures; agriculture, sustainability, land, water use and climate change; animals and livestock; labour, transport, marketing, storage, OHS, biosecurity, plus others.

While regulations have an important role, the value of some are arguable. For example, regulatory in food nutrition labelling are of great significance to the industry at a processor level, however costs needs to be absorbed from the supply chain, impacting all participants across the chain.

This high number of regulations provides a complex operating environment, distracting from innovation, growth and opportunity.

Appendix 1


INSIGHT TO MARKET EXECUTION
ANZ's largest food research and development centre is located at Ringwood Victoria and is designed to support approximately 40-50 SMEs for open innovation and collaboration. However further opportunities/interventions are required as the centre is delivering just 60 per cent of a pathway to Asia solution. Therefore, collaboration has either commenced or is needed with the support of five identified support partners to deliver the following pathway capabilities:
A
FRONT END INSIGHTS AND DEDICATED INNOVATION INFRASTRUCTURE
Recruit the best talent, plan and build best in class collaboration capability and a bespoke facility for industry engagement. Focus on deeply understanding the Asian consumer identifying and collaborating on open innovation projects, and identifying new opportunities – target country, target consumer, method to market.
1. Collaboration culture and facility
2. SME, MNE, supply chain engagement cluster
3. Asian foresight capability
4. Asian insights capability
5. Research right-to-win areas including artisanal brand analysis
6. Collective conscious on Asian consumers and market opportunities
B
MARKET CAPABILITY ASSESSMENT AND ENABLING TECHNOLOGY
Develop the tools that enables product testing (brand ethnology), consumer sampling and live 'in-market' immersion, very rapid prototyping via industry leading design capability. (3D printers, virtual stores, consumer sensorium, consumer sampling).
7. Sensorium mapping – Initial
8. 3D prototype idea testing
9. Virtual store, shelf and purchase testing
10. Lab trial sample
11. Asian cohort consumer panel – virtual and in-house using findings from 8-10
12. Price point mapping
C
PRODUCT TESTING AND COMMERCIAL TRIALS CAPABILITY
Commercial testing of the concept; packaging capability and design, supply to market analysis, commercial scale product trial and final commercial assessment.
13. Packaging development and testing
14. Supply to market analysis
15. Commercial scale trial – five pilot plants required for the food sector:
• Confectionery
• Meats
• Cereals and grains
• Dairy and Beverages
16. Commercial viability assessment
D
SUPPLY CHAIN TESTING AND NEW TO MARKET TECHNOLOGY
Identify and use the best industry leading tools to test product delivery, packaging and pallet sustainability, delivery methodology (e-commerce, clustered SME supply chains, pre-clearance capabilities). Convert big data from the centre into a virtuous feedback loop defining what works, what is in demand and what needs redesigning.
17. Supply chain integrity testing – packaging and pallet
18. Delivery enablers
• B2B e-commerce
• Monitoring
• Clustered SME supply chain
• Pre-customs clearance
19. Embed consumer feedback systems including sensor and scan technology
20. Consumer insights feedback to A
EMBEDDED CENTRE KNOWLEDGE INTO A REVITALISTED FOOD CURRICULUM
Develop future food industry technical talent through the masters in food innovation and food packaging in partnership with higher education, better understand the Asian market and consumer needs via two research hubs to inform better inform new product, packaging and supply chain into Asia development.
• Food innovators • Asian marketing • Supply chain