Are shorter supply chains really benefitting farmers?

Your Royal Highness, My Lords ,Ladies and Gentlemen

Thank you for inviting me to address you today on the subject of supply chains. I will endeavour to address the question and at the very least examine the different types of supply chain and how they impact on farmer's businesses.

As regards this presentation, I would like to state at the outset that any views I express today are purely my own and do not represent any of the companies of which I am currently connected. These include those shown on this slide and they extend from farming, exporting, importing, distribution, manufacturing and the marketing of meat, fresh produce and branded goods. I will however draw on examples, where relevant, from my own experience, having spent the better part of forty five years actively involved within the food industry. It is however the growers and farmers producing and supplying fresh produce , and their relationship with the multiple retail sector that I intend focussing on throughout today's presentation.

I think it prudent at first to define the meaning of the term "Supply Chain". I believe the definition is " Every company or process that relates to a product on its journey from seed to shelf" . For example, the fresh produce supply chain will encompass the companies producing the product, marketing it, delivering it and selling it to the final consumer. Our produce supply chains have the added complexity of meeting the consumers needs throughout the year, rather than just in the UK season. This means that both the northern and southern hemispheres need to be joined up so that the shoulders of the seasons are smoothly run. The shortening of the supply chain is characterised by either shortness in time or distance, the frequency of processes or the number of intermediaries between producer and consumer. That said, I believe there are two parts to the Supply Chain that require examination today in order to answer the question posed . The first part is the physical supply chain and the second part is the management of the supply chain.

I believe it is a truism that by physically reducing the number of processes in the supply chain the producer is better off. There are many examples of this and I will highlight some of the most familiar.

The Physical Links

- The delivery of produce direct from farm to retailer distribution depot
- The harvesting of fruit, salads & vegetables by mobile packing rigs
- The packing into retail packs at source, both from UK and overseas growers
- The use of retailer vehicles to backhaul from farm to depot
- The use of Cross Docking- delivery to one RDC for onward delivery internally
- Delivery to local stores or depots by farmers own transport

All these initiatives have driven down costs to the grower in terms of distribution and packing, reduced the number of times a highly perishable product is handled, speeded the time taken to bring fresh produce to the consumer in a fresher condition. Thereby giving it a longer shelf life. From the retailers perspective such examples have also made the task of traceability easier, given the fewer links in the chain. However most of these initiatives require collaboration from the multiple retailer. This not only sometimes complicates the issue, but also means that the full value of any savings are shared between producer and customer. And not always equitably! Often the opportunity to deliver direct to depot has been curtailed due to the retailers not being able to handle such direct deliveries, or being unable or unwilling to store and roll stock for more than the day of delivery. In addition some retailers have established internal departments to manage haulage and packaging supply for their producers. These have become important profit centres in their own rights at the expense of their suppliers. On balance however it would be fair to say that the shorter and more direct the chain of distribution and packing can be made, the more to the growers advantage.

However the current retail environment has not only put focus on the physical supply chain but the management of the chain. This has been driven by the rapid and recent change in consumers buying habits, which has moved to convenience and on line shopping. Away from the hypermarkets that the existing supply chains were developed for. It is this second part of the supply chain picture , namely its management, that I now wish to devote time to.

We are now familiar with the predicament that the four major retailers face. Being under attack from both the discount end of the spectrum and the costlier end of the marketplace. In addition the growth of both the convenience and dotcom sectors has put additional margin and market share pressure on the UK's leading retailers. In part, their answer to this loss of margin has been to focus on how best to manage their supply chains. They have been exploring ways of dealing directly with the producer, and taking out the service provided by the middle man. Be they exporter, importer, packer or marketer. Their roles and costs being deemed to be expendable. However I believe there is a cost to this change, both financial and physical, and some of it will inevitably fall on the producer.

In preparing this paper it occurred to me that there seems to be a correlation as regards the winners and losers when comparing the management of their supply chains. Those retailers who have expended time and expense in attempting to manage their own supply chains have lost market share. Whilst those who have not focussed on this area of their businesses have been the winners . My experience has shown that in fact the discounters and top end retailers, who have stuck loyally to their existing longer supply chains and concentrated their expertise on their ultimate consumers, have proven to be the more successful. This in no way means that those retailers have no knowledge of their supply base, in fact the contrary is the case. However the actual management of those farmers and growers has been left to others further down the chain. So the question posed is whether when retailers manage their own supply chains has the result been of benefit to their growers and farmers.

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It is best we pause a present to examine how the chain is now being managed:

Supply Chain Management Types

- Solely retailer managed

- Management by marketer/exporter/importer
- Combination of the two

I will examine each of these options individually seeking both the advantages and disadvantages from a grower's perspective and then in my conclusion attempt to make a recommendation to producers as how best to approach this new landscape of supply chain management.

Firstly supply chains solely managed by the retailer are clearly the shortest of all the options. They bring the grower, or his Producer Organisation, into direct contact with the customer. This closeness between producer and multiple can offer influence to the grower and help solve mutual problems, which don't get lost in interpretation by someone in between. This type of relationship is best suited to larger growers whose product range is not overly complex. Given the directness of the relationship, costs should be driven out of the supply chain. However in practice the ultimate savings are not always achieved due to the complications of dealing with very large retailers. The biggest challenge for a producer, who is linked exclusively to a major multiple, is that marketing and consumer data is only coming from one source. This applies to both UK as well as out of season information. Without access to information relating to the whole marketplace, a grower could be in danger of making important business decisions without the knowledge of the complete picture. These decisions relate to pricing, timing of supply, promotions and capital investment to name only four. A farmer with a direct customer representing a high proportion of his production is very dependent on that customer maintaining their volumes and paying a fair market price. In practice retailers in this position have made sure their direct growers are looked after as regards volume. However if their own business is losing market share then all suppliers will suffer, and the solely committed grower has fewer options if the market declines. As regards pricing, one has to ask whether a grower linked to one major customer is negotiating on a level playing field. In my own experience the weakest negotiators are such producers, who are afraid to say No when necessary. Personal relationships in business are also very important and in the direct buying model a grower is often faced with dealing with a new buyer each successive season. This is a pattern that rarely changes with the larger multiples and the loss of personal continuity can be a problem when each season brings its own new challenges. A grower can often be faced with inexperienced buyers who can make marketing decisions, relating to retail pricing and promotions which can be out of sync with the crop situation. Such decisions can be very costly to those involved further down the chain. Waste goes up as gluts remain unsold, and conversely artificial shortages are created when low prices or aggressive promotions wrongly coincide with a tight crop.

The second way a Supply Chain can be managed is by an intermediary , in the form of an exporter , importer, packer or marketing company. Traditionally these companies will be privately owned or a division of a publically listed business. Their presence within the supply chain will clearly add cost in the form of a margin that either the customer pays or the grower covers by way of a commission related to the value of the sales conducted. This type of relationship can suit growers of all types and sizes, but particularly those with a complex and highly perishable product range. To justify their cost the intermediary must provide extra services and investment that neither the customer nor the grower can provide themselves. In this instance this link in the chain must look in two directions at the same time to justify their position with both the producer and the customer. Let us examine some of the services that the middleman provides, which allows the farmer to focus on producing a high quality crop and the retailer to focus on their ultimate consumers:

Services for The Producer

- Marketing of the whole of the grower's crop to best advantage
- Pre-season advances, Long term loans , payment of shipping costs from overseas
- Consumer insight data relating to the whole marketplace
- Out of season use of a farmer's facilities such as packhouse and coolstores
- Back office services such as invoicing, credit control, debit note and query solutions
- Access to unique varieties and branded products owned and bred by the marketer
- Continuity of personnel and service
- An opportunity to invest in joint ventures either breeding, growing or marketing

Services for the Retailer

- Continuity of supply twelve months of the year
- Category management and store merchandising advice
- Analysis of consumer insight data
- Provision of supplier personnel as implants within their business
- Management of a world wide grower base on their behalf
- Full technical support and product traceability
- Creation of long term business plans and promotional advice
- New product and packaging development

The third way the Supply Chain is currently being managed is by a combination of the two so far mentioned. This has manifested itself in various ways. One of the larger supermarkets has set up and owns a procurement company which aims to source around 70% of the multiple's fresh produce requirements. However it gives the balance of its purchasing programme to a marketer to cover . This ensures that the difficult periods of supply and the services provided by that company can be accessed. Another major multiple has set up it's own global buying team , based in the UK with overseas technical offices. This operates directly with producers and manufacturers worldwide. It then has a parallel in-country buying team to manage the local retail arena. This has led to the use of facilitator companies in the chain, supplying either logistical or administrative services and has not precluded the use of the traditional marketer company when the product category is more complex. This solution has allowed the multiple to access buying synergies and cost savings which can be shared with the producer. A third multiple owns facilities that both stores and packs produce, leaving the producer to delivery to these units in bulk. This combined model of supply chain management is still in a fluid state and has seen complexities enter the chain. In some cases delaying decision making processes and not benefitting either the producer or the customer. It has also been less successful in taking out costs.

In conclusion it is plain to see that the physical shortening of the supply chain has been of benefit to both producers and multiples. . Though the benefits may not have been shared in equal proportion to the effort or investment needed to shorten the chain. The real challenge is whether the various forms of supply chain management are benefitting growers. This I believe depends very much on how involved the farmer is in the chain. In order to make the direct relationship work with the large multiple, the producer must be prepared to play an active role, beyond just supplying the product. This puts a new responsibility on his business and will test the robustness of it in all areas. If the grower has the resource and appetite for this role then they should be able to make it work to their advantage. If however they feel that the responsibility, effort and cost is too much and that farming is where they are best placed to concentrate their efforts, then the traditional route of an intermediary would best suit their business. Although it would appear that the multiple decides which type of supply chain management they wish to operate, the choice is still the producers as to which multiple they choose to supply, and therefore which supply chain they wish to be involved with. As I have shown there is no one set way of supplying fresh produce to the consumer. I cant see this trend ending and would suggest that in this dynamic environment further models in the supply chain will emerge. Farmers should be aware of these changes and exercise their choice of customer carefully and to their best advantage. This is the farmer's or Producer Organisation's decision alone, but I fear it is one that is not taken seriously enough, or reviewed often enough to ensure that the Supply chain works to their businesses best advantage. There are cost savings the shorter the chain but there are many challenges to achieve them.

The choice is Yours!!

Thank you for your attention.