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# Agribusiness - Research & Publishing Update

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## Publishing / Research Update.

The Association has added 3 new research papers to its ever expanding research database, their abstracts and some observations on the research are outlined below.

The three papers added this year provide some very interesting finding on –

- The ways in which farmers perceive the benefits of on farm QA.
- A timely and comprehensive look at the growth of the dairy and meat processing sectors.
- The development of an effective business alliance between a supermarket, an intermediary and the farm level, an alliance that drives efficiency gains across the whole value chain.

When the Agribusiness Online site security is put in place by the end of the 1<sup>st</sup> quarter this year this valuable knowledge base will be restricted to members and subscribers only. Members who renew their subscriptions for 2003 will be allocated access to the site, prior to the security being put in place.

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Agribusiness Review – Vol 11 2003 – Paper 1 <http://www.agrifood.info/Review/2003v11/index.htm>

## Quality Assurance Certification and Implementation: Growers' Costs and Perceived Benefits

Ross Kingwell -Senior Adviser, WA Department of Agriculture and Visiting senior lecturer, University of Western Australia

### Abstract

This study reports findings from a mail survey of Western Australian broadacre farmers participating in quality assurance (QA) accreditation. A 50 percent response rate generated a sample size of 78 usable replies. The average farm in the survey spent \$13,470 gaining QA accreditation, upgrading facilities and implementing the QA system. Most of these costs were set-up costs incurred in the first year of QA training. Almost half of all farmers in the survey considered QA accreditation and implementation to be value for money. A further 39 per cent were unsure of its value. Only 13 per cent of respondents felt it was not a worthwhile investment. Most respondents agreed that there were benefits, apart from price premia, in applying a QA system and 84 per cent of growers viewed QA accreditation as the start of greater regulation of grain production.

Even if no price premium was available for QA grain, 39% of respondents indicated they still believed QA to be worthwhile. However, this same group of farmers also indicated that if the premium for QA grain was less than \$8.90 per tonne they would begin to question the value of implementing the QA system on their farm. Overall, farmers in the survey suggested an average premium of \$12.30 per tonne was required to prevent them questioning the merits of QA.

A simple investment model suggested that to exactly offset the cost of QA accreditation and implementation a price premium of \$11.70 per tonne was required. This premium was very close the price premium of \$12.30 per tonne identified by growers as being required before they would doubt the worth of adopting a QA system.

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### Comment.

Several interesting points were raised in this paper, not the least of which is the observation by the growers surveyed that QA programs have become to be regarded as primarily a market access tool, rather than a means by which premium prices would be obtained.

Early promoters of QA programs across the grains, oilseeds, horticulture and livestock sectors continually referred to price premiums that would naturally flow from the implementation of on farm QA. This paper clearly indicates that those early 'selling points' were essentially smoke and mirrors.

In the example cited, the differential between premiums earned and cost of QA implementation was close to \$3.00 (negative) and close to \$3.50 below the surveyed farmers expectations.

The farmers surveyed thought little of the impact on their business operation, such as increasing on farm efficiency, better management, etc. Those surveyed presumably couldn't identify any efficiency gains within this business that would repay their investment in QA, possibly because QA actually *increased* administration costs. Presumably these costs are to be recouped via the market access the QA program confers.

The bottom line message from this research is that QA program are expensive to develop and implement and that expectations of premium returns (at least in the industry surveyed) are not, currently, being met.

Perhaps the situation as it now stands is a sort of market Catch-22 – while there is a philosophical desire to implement QA programs in advance of some of the factors that are going to cause their widespread adoption in the future, the market (because the causal factors such as food safety, GM varieties, etc are not yet 'market forces') is not willing to recognise / reward those who have adopted QA until the market forces come into play.

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Agribusiness Review – Vol 11 2003 – Paper 2 <http://www.agrifood.info/Review/2003v11/index.htm>

### **An analysis of the growth of the Australian dairy and meat processing sectors**

Nilufar Jahan - Senior Research Officer, Perry Smith and Gill Rodriguez - Senior Economists, ABARE.

#### **Abstract**

The dairy and meat processing sectors are significant contributors to the Australian economy. It generates employment and export earnings. For example, processed dairy and meat products accounted for 35 per cent of total food exports in 2000. Hence, the growth of the dairy and meat processing sectors is an important issue for Australia.

The dairy and meat processing sectors grew annually by 1.47 and 0.37 per cent respectively from 1980 to 1998. A third of the growth in the dairy processing sector arose from productivity gains.

Research expenditures, programs such as work place reforms and changes in the exchange rate significantly influenced the productivity changes in the dairy and meat processing sectors.

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#### **Comment.**

This paper provides a synopsis of the growth in the meat and dairy processing sectors over a period of about 20 years. One of the most interesting findings of the research presented in this paper is the role that research and development has in increasing sector productivity and the way R&D impacts on returns for capital invested.

This paper indicates that the sector that had and applied the most research and development – dairy processing – had a growth rate over the period of the study 4 time higher than the sector that had not employed the outcomes from R&D to the same extent – meat processing.

Jahan et al provide further proof of the value of industries investing in the development and adoption of technologies to increase efficiency. This paper provides clear evidence that investment in R&D does pay dividends and that sectors for fail to make this investment do get penalised.

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Agribusiness Perspectives – Paper 55 <http://www.agrifood.info/Review/Perspectives/index.asp>

### **Franklins Ltd: The development of value chain relationships in a fresh produce category**

Anthony J. Dunne, Reader in Agribusiness, The University of Queensland, Gatton, Queensland and Michael O'Keeffe, (at the time of writing the National Manager Fresh Produce at Franklins)

#### **Abstract**

This case describes the opportunities and dilemmas faced by managers of agribusiness firms as they contemplate forming a strategic alliance in a fresh produce category. It challenges each of the managers to evaluate their own 'readiness to partner' and to define their expectations of their prospective partners.

The case highlights that the success of strategy alliances is closely linked to how complementary the firms are in terms of culture strategy and structure. Although Franklins supermarkets no longer exist in Australia, the principles of supply chain partnerships outlined in this case are still valid. In 2002, The Mulgowie Farming Company was named Woolworths Supply of the Year

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#### **Comment**

This case study come on the heels of the announcement in December last year of the abovementioned award and provides an interesting insight into the way in which organisations and ultimately industry sectors change.

Interestingly, the main thrust of the changes that are chronicled in this paper are related to the attitudes and philosophies of individuals, rather than the requirements for major structural or infrastructure change. What is discussed is the implementation of ideas, the dawning of realisations (eg. yes there are better ways of doing business) – possibly even the gaining of enlightenment!

The paper also remarks on the dramatic changes that have taken place in the fresh produce sector over the last decade, particularly over the last 5 years. Central markets no longer play the pivotal role they did 10 years ago. Fresh produce has grown to become an important profit centre for supermarket chains and they have grown to now dominate fresh produce retailing.

One of the most important points to be drawn out of this case study is the observation that the traditional business structure where one party is dominant and another is subservient has to be overturned to build a successful cooperative alliance.

Basically, one party has to concede its position of power in favour of transparency and interdependency. This is where the role of people in business comes into play (after all, business is a human activity) and it's the individuals in key positions that have to be open to change, not the 'organisations'.

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All these papers can be accessed online at <http://www.agrifood.info/Review/2003v11/index.htm> and <http://www.agrifood.info/Review/Perspectives/index.asp>

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