

Single Desks – Friend or Foe?

The next edition of Connections – a joint publication of the Agribusiness Association of Australia and the Australian Agricultural and resource Economics Society – is turning the spot light on the economics pluses and minuses of regulated marketing.

The issue of government intervention into markets is a controversial one, with passionate support for both sides of the pro and con arguments.

Papers in the next Connections edition will look at a range of single desk issues. There is bound to be some controversy, so stay tuned.

In the news.

A focus of global trade tension between Australia and the USA / EU is once again the current monopoly for control of wheat exports from Australia held by AWB Ltd.

Both the US and EU object to the current Australian wheat export arrangements, citing, among other objections, that the AWB exercises unfair market influence.

One factor in the objections would be the critical mass AWB is able to exercise in its marketing and trading operations. Clearly AWB has the ability to compete as a 'global player' in the world's wheat trade (the only Australian agri-food business that is able to do so) and other 'global players' object this to, but it is a plus for Australia.

So pressure on the current statutory arrangements regulating control of Australian wheat exports is being exerted internationally (via global trade politics) and domestically – from within the grains industry, from competitive pressures (controlling costs, shortening supply chains) and from the overall push toward deregulation.

Single desks and Value Chains.

Allen Roberts, General Manager of Agri-Chain Solutions, contributed the following article, written from a business and value chain perspective.

Commercial or voluntarily developed 'single desks', evolved in response to a particular industry 'need' (such as the retention of 'control' or a desire to better manage individual businesses), are terrific vehicles to maximise through chain productivity and enhance resources use, because the critical mass afforded a 'single desk' allows benefits to be maximised and risks to be shared.

The irony that should not be lost is that this sort of co-operation, which is a necessary for competitiveness in global markets, is often illegal domestically (falls foul of domestic competition laws) or is frowned upon by international competitors.

(For a case study into this process see Robin Johnson, **Dairy Mergers and the National Interest – Agribusiness Perspectives – Paper 45** – online at

http://www.agrifood.info/Review/Perspectives/Johnson_Dairy/Johnson_Dairy.htm)

By contrast, single desks that are mandated by regulation impose several impediments to the long term competitiveness of an industry:

- * They generate frustration for industry members who are the innovators and risk-takers that every industry needs to maximise growth, profitability, and long-term competitiveness of an industry (as a whole). It is these innovators that segment markets looking for ways to extract premiums by differentiating their parcel of goods and services delivered to customers. This market driven activity and sensitivity is most often severely compromised by a regulated single desk.

- * They "socialise" returns to an industry, the most efficient subsidising the least efficient, again compromising long-term competitiveness.

- * The regulatory bodies end up expending resources on ensuring their own survival and maintaining the status quo, or permitting only incremental change. In many industries, radical change is needed from time to time to accommodate the advances in best practise in any number of areas that are occurring around the world daily.

- * Regulatory bodies often spawn other bodies (often industry) as a means to generate an industry based response to the political pressures that can be assembled by statutory bodies.

This simply increases the waste of resources and it can become an increasing circle of 'bodies' whose role is to counter the perceived power of another body (without contributing to a net increase in the worth of the industry, the uptake of innovation or general competitiveness).

This is not to say that there is not a role for regulated single desk arrangements, particularly in an evolving industry with a potential competitive advantage that needs to be crystallised, but requires critical mass to make the strategic and marketing effort meaningful.

However, such arrangements should be clearly subject to a sunset, based on any number of factors that the individual circumstances would dictate.

Australia has seen its global competitive position in a number of industries compromised by bodies set up to ensure the industries competitiveness is protected.

For example, the wool price floor scheme was never economically sustainable, insulating the sector from valuable supply / demand messages. A basic understanding of economics should have led to the recognition that regulating ever increasing prices in an environment where there were easily available and in some circumstances functionally superior substitutes would lead to substitution taking place, with the resulting downward pressure on demand and prices.

Opponents of the AWB single desk argue that the current arrangement actually depresses returns by intervening in the supply / demand communication loop. Wheat industry sources have estimated, in a deregulated market, returns for wheat would reach true world parity, returning perhaps an extra US\$20/tonne to Australian producers.

The dairy industry, recently de-regulated, provides another salutary lesson. It demonstrated that keeping relatively inefficient segments of an industry in business compromises the profitability and competitiveness of the whole industry and adds substantially to the pain when the inevitable de-regulation based on economic sustainability emerges.

In the absence of regulations to the contrary, the dairy industries in many parts, particularly of NSW & QLD, would have rationalised themselves over a long period, substantially lessening the cost on the individual farmers, and the community as a whole.

Allen Roberts can be contacted on ar@foodandfibrechains.com

Leading exponent of value chain learning, Michael O'Keeffe (1) has contributed three white papers for publication by the Association, looking at the use of information technology in the value chain to create and extract value from current and new business relationships.

(See end of page 3 for web details of these papers).

The Perishable Food Industry: ripe for e-commerce

1. Juxtaposing the attributes of the Internet and the perishable food industry

Abstract

Leading firms in the perishable food industries are ideally positioned to exploit the unique attributes of e-commerce for competitive advantage.

The three unique attributes of the Internet are:

- Many-to-many relationships enabling network management
- Real-time information
- The economics of software and in particular the convergence of software and content.

These three attributes mesh neatly with the distinguishing characteristics of the perishable food industries, namely:

(1) Michael O'Keeffe is Managing Director, Australia and New Zealand with Agribuys Australia Pty Ltd.

O'Keeffe also serves as Adjunct Professor of Value Chain Management at the University of Queensland and is on the editorial Board of "Supply Chain Management: an International Journal", published by the Imperial College at Wye. O'Keeffe is co-editor of 'New Directions in Corporate Strategy' published by Allen and Unwin in conjunction with the Australian Graduate School of Management and Rabobank.

O'Keeffe can be contacted at michael.o@agribuys.com

(Cont)

- A large number of globally dispersed firms of disparate size
- The perishable and difficult-to-describe nature of the product
- Volatile demand and supply characteristics.

As a result of these industry characteristics, poor information leads not to high inventory costs as in most industries but to out-of-stocks and loss of top-line sales. Lost sales are usually a hidden cost, and there are significant opportunities to take advantage of improved information management.

These opportunities are available to retailers, suppliers and growers. Suppliers—those in the middle of the chain—are particularly well positioned to serve as network managers and capture the value of the new technology.

The Perishable Food Industry: ripe for e-commerce

2. Opportunities and benefits

Abstract

The Internet now means that networks will be the unit of management as well as the unit of competition. The three key characteristics of networks that need to be recognized in strategy development are:

- It's all about value creation.
- Networks consist of, and benefit from, small firms as well as large ones.
- Coordination is a value-creating activity.

Suppliers—those in the middle between retailers and growers—are particularly well positioned to serve as network managers to capture the value of the new technology. Suppliers typically form the interface between volatile demand and supply and serve as the hub in the network of large and small firms.

Successful B2B e-commerce projects occur at the interface between relationships, information and capabilities—to exploit that information and to partner to build the relationship asset.

The overall winners of B2B e-commerce will be:

- Firms that have already invested in relationships with customers and suppliers and use web-based systems to leverage the value of past investments in these intangible assets, and

Firms that use web-based systems and initiatives to enhance their relationships as an asset-building process.

The Perishable Food Industry: ripe for e-commerce

3. The quest for competitive advantage

Abstract

Companies can only sustain competitive advantage by investing in and leveraging resources that are difficult for competitors to copy. Close relationships with members of one's supply chain—which are built over time and cannot be bought—are a good example of such intangible assets.

Essentially, intangible assets create options. A close relationship with a buying organization can be seen as an intangible asset containing the option to facilitate the entry into new markets, jointly launch new products, or implement improved promotions programs.

The Internet can help bring these valuable options to fruition because it allows companies, for the first time, to manage their supply chain network as a single unit instead of as a series of discrete buyer-seller relationships.

Because of the non-standard nature of perishable food products, companies in the food industry have tended to invest in relationships with their supply chain partners over the last 20 years. Therefore, they are ideally positioned to take advantage of the power of the Internet.

These opportunities are available to retailers, suppliers and growers.

But suppliers—those in the middle of the chain—are particularly well positioned to serve as network managers and capture the value of the new technology.

Download the full versions of these papers from Agri-food Chains Online.

All 3 papers are available in Acrobat PDF format – follow the link from the home page at

<http://www.agrifood.info/ChainsNet/default.htm>