

Examining Asian attitudes to Australian horticultural products in Hong Kong, Malaysia and Singapore¹.

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Abstract

Australian fresh fruit and vegetable exporters are not particularly good at developing and maintaining long-term relationships with customers in South East Asia. Among the importers, Australia has developed the reputation as an inconsistent and unreliable supplier. With most exporters pursuing the domestic market, the quantities, quality and price of Australian produce is too variable. The small scale nature of the industry and the lack of any real coordination makes it difficult for exporters to respond to importers immediate needs, and, in the absence of any strong reliable brand, difficult to present a cohesive, unified image in the market. With long-term relationships becoming increasingly important in the market, Australia must not only improve its image in the market, but seek to better satisfy customers requirements, for otherwise importers will pursue alternative sources of supply.

Introduction

In 1998/99, export sales of Australian fresh fruit and vegetables approached 363,700 tonnes, worth an estimated AUS\$570 million (ABS, 2000). By value, the major export markets were to Hong Kong (16%), Singapore (15%) and Malaysia (13%), where traditionally, Australia has enjoyed a position as one of the top three suppliers. However, more recently, amidst increasing global competition, Australian exporters find themselves struggling to retain market share.

In 1999, no doubt as a direct result of its reunification with mainland China and a burgeoning market, imports of fresh vegetables into Hong Kong increased by almost 45%. Correspondingly, there was an overall reduction in the value of fresh vegetable imports by 26% (Hong Kong Trade Statistics 1999). In that same year, while there was a modest reduction in the total quantity of fruit imported, intense price competition from Chinese product saw the average prices decline from HK\$13.22 per kg to HK\$12.47 per kg.

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Into Singapore, despite their close proximity to the market, vegetable producers in both Malaysia and Australia are facing increasing competition in the market from produce grown and imported from China. In just twelve months, the Chinese share of the fresh vegetable market in Singapore has increased from 15% in 1998 to exceed 21% by 1999 (Singapore Trade Statistics 1999). While the Chinese share of the fruit import market may have marginally declined from 12% to 11%, both Australia and the USA have seen their share of the Singapore fruit import market decline by 2% and 3% respectively.

Significant increases in the volume of fresh vegetables imported from both China and Thailand have seen average prices decline from M\$1.33 per kg in 1998 to M\$1.27 per kg in 1999 and Australia lose its position as the major supplier of fresh vegetables into Malaysia (World Trade Atlas 2000). China was also the major supplier of fruit to Malaysia (28%), where unfortunately, much of the expansion in fruit exports from China has been at the direct expense of imports from Australia.

Clearly unable to compete on price, Australian exporters are being forced to give much greater consideration towards finding a more sustainable means of adding value and differentiating the product in the market. Porter (1990) suggests that sustainable competitive advantage seldom arises from a nation's natural resource endowments, but rather from the capacity of its industries to innovate and upgrade. Innovation is derived from conceiving new ways to conduct activities, employ new procedures, new technologies or different inputs. Innovation shifts competitive advantage when rivals either fail to perceive the new way of competing or are unwilling or unable to respond. More recently, Hunt and Morgan (1995) suggest that sustainable competitive advantage is derived from those resources, both tangible or intangible, that the firm has at its disposal to enable it to produce more efficiently and/or more effectively, a market offering that has value for a market segment or segments. In marketing specifically, competitive advantage may be derived from an improved customer orientation and/or offering customers superior service. Parasuraman (1998) suggests that it is becoming increasingly more difficult for firms to compete effectively on the traditional marketing mix variables alone. More firms are seeking to augment their core product offer by providing superior customer service.

Customer service emphasizes the quality of the interaction between a buyer and a supplier rather than the quality of the core offer. As a result, customers evaluate service not only by its outcome (technical quality), but also by the processes associated with the exchange (functional quality) (Gronroos 1982). Quality, price and the ability to deliver are generally regarded as the most important criteria by which organizational buyers evaluate potential suppliers (Cunningham and White 1973, Lehmann and O'Shaughnessy 1974; Dempsey 1978). Where there is no difficulty in accurately specifying the exact nature of the input and there are several reliable suppliers in the market, then a buyer can simply choose that supplier who offers the lowest price from among all those who fulfill the functional requirements (Hakansson, Johanson and Wootz 1977). However, where a number of alternative suppliers have equaled one another in terms of quality, delivery and price, various attributes such as the supplier's reputation, financial position, communication and attitude towards the buyer may become decisive (Dempsey 1978).

Kotler and Armstrong (1999) suggest that suppliers who are most capable of offering quality products and services, competitive prices, reliable delivery, ethical corporate behavior and honest communication are most likely to be rewarded as preferred suppliers. However, other decision variables may include service capabilities, technical support, geographic location and performance history. Monczka, Trent and Handfield (1998) add financial capability and stability as key decision variables.

Hutt and Speh (1995) suggest that when industrial buyers purchase a product, they purchase not only a package of benefits derived from the physical product features, but also a bundle of services attached to the product. While the exact meaning of the term service varies with the nature of the product and the requirements of the buying organization, service may encompass such things as just-in-time delivery, the provision of technical assistance and support, innovations and adaptations, credit arrangements, support for special needs, or advance notice of impending price changes or shortages in delivery. Leenders and Fearon (1993) suggest that preferred suppliers take the initiative of suggesting better ways to service customers and attempt to find innovative ways of developing products and services which will allow customers to perform their activities more economically.

In an effort to improve the performance of Australian fresh fruit and vegetable exports to Hong Kong, Singapore and Malaysia, this study sought to explore importers perceptions of the Australian offer quality, how it compared to alternative suppliers and to identify key areas where Australian fresh fruit and vegetable exporters needed to improve the product quality offer.

Methodology

To obtain the desired information, intensive face-to-face interviews were conducted with importers of fresh fruit and vegetables in Hong Kong, Singapore and Malaysia.

Contact names and addresses were obtained from the offices of the Australian Trade Commission in each country. Personnel on the lists were then contacted by fax and invited to participate in the study. Appointments for interviews were organised with the help of officers from the Western Australian Trade office in Kuala Lumpur and Western Australian Education offices in Singapore and Hong Kong.

In January 2000, 28 interviews were conducted. Each interview lasted, on average, one hour. During the interviews, respondents comments were recorded in note form, and when permission had been granted, the interviews were recorded.

Respondents were probed on what they perceived to be the most positive and negatives aspects of trading with Australian suppliers of fresh fruits and vegetables, how Australian suppliers performed relative to suppliers from other countries and what Australian fresh fruit and vegetable exporters needed to do to improve their performance in the market.

The questions used during the interviews were loosely structured and open-ended. The interrogating process was kept flexible in order to probe more important issues in-depth. In this way, the study revealed rich and insightful findings which quantitative methods would not normally provide.

The data were content-analyzed using NUD*IST (Non-numerical Unstructured Data* Indexing Searching and Theorizing) as an analytical tool. Data analysis using NUD*IST involves grouping data into emergent themes so that all comments concerning a particular theme can be analysed together. In this way, what was relevant and significant was allowed to emerge from the data.

The positive aspects of buying fresh produce from Australia

The relative proximity of Australia to Singapore, Malaysia and Hong Kong and the fact that Australia was in the same time zone as all three countries was perceived to provide Australia with a significant marketing advantage over competitors such as Chile, South Africa and the US. The associated benefits of proximity to the market were perceived to include fresher produce, a cost advantage, faster turnaround time and the opportunity to respond more quickly to importer's demands.

Many Asian buyers, Singaporeans in particular, felt closer to Australia than to other more distant suppliers such as the US. In addition, most had been dealing with Australia for a long time. Many Singaporeans had various interests and investments in Australia ranging from owning a holiday home to having been educated in Australia.

Australia's location in the Southern hemisphere was also perceived to provide a significant marketing advantage. Australia was able to supply the market when producers in the US and other northern hemisphere countries were unable to do so.

Australia was perceived as being more capable of providing a wider range of fresh produce and in many instances, of providing items such as rock melons which were not readily available from alternative suppliers.

Negative aspects of buying fresh produce from Australia

The majority of respondents complained that Australian fresh fruit and vegetable exporters were not export-oriented. There was a common perception among importers that Australian exporters directed most of their attention towards satisfying the needs of the domestic market, turning only to export as a means for disposing of any surplus produce. As a result, there was a great deal of variation in both the quality of the produce received and the prices expected. Most respondents had experienced some problem with the variation in the quality of produce coming from Australia. Mixed sizes, mixed quality in the box and receiving produce that was different (smaller) than what the buyers had ordered was a common occurrence. Consequently, most importers found it necessary to inspect the produce before

distributing it to their customers. Not only did this increase the cost, but it also increased the amount of handling the produce endured.

Much of the variation in size was attributed to the small size and scale of agribusiness operations in Australia, with many respondents considering the Australian fresh produce industry to be too fragmented. There were too many small growers and too many market agents in Australia. Industry fragmentation often resulted in Australian exporters being unable to procure sufficient quantities of the produce required to meet importer's specifications. As a consequence, shipments often contained cartons with different counts. In other instances, a shipment might contain cartons from two or more different producers, each with different standards of quality and packaging. In many cases, the appearance of the carton (the colour, the brand or logo) was considered inappropriate for the export market and the variation among brands made it difficult for buyers to recognize the product in the market. More importantly, the actual dimensions, sizes, quality and strength of the carton often proved unsuitable for use in the export market.

Several respondents reported that Australian produce was more expensive than that available from alternative suppliers. While many buyers acknowledged that increasing costs of production were largely responsible for increased prices, particularly the cost of labour, given that produce from the US was often less expensive, it was abundantly clear that other factors were involved.

While the relatively cheap cost of airfreight from Australia was perceived to provide a significant marketing advantage, on the other hand, the cost of sea freight from Australia was perceived as being extremely expensive compared with the US. Further problems were often experienced with regard to unreliable shipping; product from Australia often arrived late and then, as a consequence, when the next scheduled shipment arrived, importers were caught with excess product. The various diseconomies of scale were also perceived to adversely impact upon the ability of Australian exporters to compete in the international market.

The lack of any industry cohesion among Australian exporters meant that there was no reliable brand in the market and, as a result, there was inadequate support for the product in-country. Whereas organizations such as Sunkist had established sales offices in the market, there was no such entity seen to be representing Australia. Furthermore, whereas many other countries such as the US, New Zealand and South Africa were currently increasing their expenditure on generic sales support, Australia was perceived as not doing enough. There was a perception that not only had funding from the Australian government declined, but that sales promotions were ill directed.

In particular, the "clean green" image which Australia has worked so hard to develop was received with only lukewarm support. However, in Singapore, several respondents suggested that consumers were now paying more attention to health and safety issues and in this regard, produce from Australia would be preferred over produce from the developing countries. For all but the major brands (including Sunkist), it was primarily the country of origin that was promoted. However, before a wholesaler or retailer would commit to a promotional

exercise, most respondents sought a matching commitment from either the supplier or their government. In this regard, there was a reluctance to support Australian produce in the market; the supply of produce from Australia was unreliable and inconsistent, but so also were the funds to provide the in-store sales support considered necessary.

Many buyers were very disappointed with the way they had been treated by Australian suppliers and the apparent absence of any long-term commitment or loyalty to importers and distributors who had supported their product over many years. Australian exporters were perceived as being too greedy and too eager to put their prices up to meet an increase in demand. Conversely, when times were bad, Australian suppliers were too quick to abandon their existing customers in the pursuit of higher margins.

Higher prices were not a problem for all respondents, especially those buying for the up-market supermarkets because they believed that their customers were willing to pay a premium for good quality produce. Nevertheless, high prices had resulted in a reduced demand for Australian produce. For other respondents, price competition and discounting among Australian exporters had created much price uncertainty. Importers indicated on numerous occasions that by the time they had negotiated a price and received the product from Australia, a competitor had negotiated a cheaper price. As a result, in order to sell the produce, the importer was required to reduce their margin.

Australian suppliers were often reported as not communicating sufficiently with buyers. The first problem was insufficient information being provided to the buyers by Australian exporters and the second was the exporter's failure to inform the customer in the event that an order could not be fulfilled. The kind of information buyers required depended upon whether the buyer was a supermarket or wholesale distributor. Supermarket buyers required information relating to the health benefits of the produce, whereas wholesalers required information relating to the varieties grown, their availability and the seasonality of supply.

Many respondents did not consider Australian suppliers to be sufficiently aware of the needs of the export market. Many buyers felt that Australian suppliers did not understand or appreciate what was happening in the overseas market, nor did they understand the need to meet the buyer's specific requirements.

Areas for improvement

In order for Australian fresh fruit and vegetable exporters to be more competitive in the market, importers offered a number of suggestions where they felt Australian companies might benefit. While several issues dealt with macro-economic reforms, the majority of comments related to the manner in which Australian exporters currently conduct business in the region.

The most frequently cited comment among importers and retailers was the failure of Australian fresh fruit and vegetable exporters to demonstrate any long-term commitment to the market. Others cited the need for Australian exporters to realize that South East Asia was

not one market. Each market was unique and required a different product mix. Australian exporters were urged to get closer to their customers, to be more open minded, more adaptable and more flexible. Exporters needed to better satisfy the buyers needs and understand not only their function in the supply chain, but the implications of their failure to deliver what the buyer required.

Several respondents believed that the lack of export orientation was a result of the current state of the Australian fresh fruit and vegetable industry. The industry was considered to be too small, too fragmented and too protected. In particular, several respondents spoke of the need to reduce the costs of production. Most respondents perceived that the costs of labour in Australia were too expensive. Others suggested that Australia needed to increase production. Improved market access and greater competition in the domestic market might also make export more attractive and bring the export prices back into line with what competitors were currently offering.

Several respondents spoke of the need to consolidate. Not only would it reduce the number of exporters competing in the market and the erosion of wholesale margins, but for those exporters that remained, it would result in them being able to secure larger volumes of produce, to grade and pack the produce to meet the importers specifications and to more adequately support the product in the market through much greater and more focused sales promotions. This might even include locating sales managers in the country. If consolidation resulted in less variation in the produce and a more consistent out-turn, both wholesalers and retailers indicated that they would be much more willing to actively support Australian produce in the market. Because of the larger volumes traded, consolidation might also result in the formation of some exclusive trading relationships. While a greater commitment to the market might offer Australian exporters a larger share of the market, whether or not this resulted in a higher price would ultimately depend on the market forces of supply and demand.

Many fresh fruit and vegetable buyers indicated the need for Australian suppliers to improve their current levels of communication. Buyers wanted to know more about what Australian suppliers had to sell. Furthermore, many importers asked for a more honest and open dialogue. Several indicated that whenever suppliers had demonstrated a long-term commitment, importers were more willing to share information freely and to work towards the mutual resolution of problems. However, there was no substitute for in-country experience. Several importers suggested that Australian suppliers needed to visit the market more regularly to stay in touch with the dynamics of the market. Since the quality of produce offered for sale was constantly improving, Australian exporters were often caught unaware, especially when, in the absence of any international quality standards, importers and exporters perception of product quality was often vastly different.

Discussion

In supplying the market for fresh fruit and vegetables in Hong Kong, Singapore and Malaysia, Australia was perceived to offer a number of strategic competitive advantages. However, very few of these will provide Australia with any sustainable long-term competitive advantage in the market. Australia is not the only southern hemisphere producer of fresh fruit and vegetables. Already, Australia faces intense competition from New Zealand, South Africa and Chile who each, to varying degrees, offer similar products at similar times of the year. Furthermore, despite Australia's geographic proximity to the market, Australia has thus far been unable to exploit the advantage of being a proximal supplier. Several institutional issues including the high costs of sea freight, the high costs of labour and various other structural impediments have resulted in Australia gaining a widespread reputation as an inconsistent and unreliable supplier.

At this point in time, Australia is unable to provide the quantity of product required, the range of product required, the quality of product required and there are often difficulties in providing the product at a competitive price. Unfortunately, these issues (product quality, reliability of delivery and competitive price) are the most important criteria considered in every supplier selection decision (Ellram 1990).

Traditionally, firms have sought to gain competitive advantage by purchasing goods at the lowest possible cost (Leenders and Fearon 1993). Such will include not only the product price, but also the costs of delivery, product defects and returns, price negotiation and discounts, price stability and the financial stability of the supplier. Invariably, buyers will seek to avoid unsatisfactory suppliers, for the adverse consequences arising from a poor decision often result in the buyer incurring costs far greater than the initial cost of purchase and there is the further risk of losing customer goodwill. More recently, greater numbers of firms are seeking to develop and maintain competitive advantage through establishing long-term relationships with preferred suppliers (Morgan and Hunt 1999). As more firms realize that customer retention is more cost effective than customer creation (Vavra 1995), especially in mature markets, it will become increasingly difficult for new suppliers and non-preferred suppliers to penetrate the market. Jackson (1985) describes these customers as "lost for good", where switching between suppliers often involves considerable costs and disruption. When these customers select a supplier, they generally expect the relationship to continue for an extended period of time. Customers are concerned both with the supplier's long-term capabilities and with their immediate performance. They demand competence and commitment from the supplier and are easily frightened by any indication of inadequacy (Hutt and Speh 1995). Unfortunately, since most Australian fresh fruit and vegetable exporters have adopted a short-term opportunistic approach to the market, they are not only unable to meet the needs of importers, but run the risk of excluding themselves from consideration as preferred suppliers. Unless this situation can be rectified, the Australian fresh fruit and vegetable industry runs the risk of being isolated to the extent where the only means of gaining market share is through offering highly competitive price. As a high cost producer and against increasing competition from lower cost producers such as China, such is not a viable position for sustaining long-term competitive advantage.

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