

Competing in Asia: How well do Australian exporters measure up?

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In the four earlier papers in this series, we took a brief look at the nature of growers relationship with their preferred market agent and for those growers trading outside of the central markets, we looked at the nature of the growers relationship with retailers. In the next two papers, we're going to depart from the format a little to look at the extent to which Australian fresh fruit and vegetable exporters are able to meet the needs of importers in South East Asia.

In 1998/99, export sales of Australian fresh fruit and vegetables approached 363,700 tonnes, worth an estimated \$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 are struggling to retain market share.

In 1999, 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%. In that same year, although there was a modest reduction in the total quantity of fruit imported, intense price competition from Chinese product saw the average wholesale prices decline from HK\$13.22 per kg to HK\$12.47 per kg (Hong Kong Trade Statistics 1999).

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

Significant increases in the volume of fresh vegetables imported from both China and Thailand saw average prices in Malaysia 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 to Malaysia. China was the major supplier of fresh fruit to Malaysia (28%), where unfortunately, most of the expansion in fruit exports from China was at the direct expense of Australia (World Trade Atlas 2000).

Competitive strategies.

Clearly unable to compete on price, Australian exporters must give much greater consideration towards finding a 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 of conducting activities, employing new procedures, new technologies or different inputs. 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 greater value for a market or market segments.

In marketing specifically, competitive advantage is derived from offering customers superior service. Customer service emphasises the quality of the interaction between the buyer and a supplier rather than the quality of the core offer. As a result, customers evaluate service not only by its outcome, but also by the processes associated with the exchange (Gronroos 1982).

Quality, price and the ability to deliver are generally regarded as the most important criteria by which organisational buyers evaluate potential suppliers. 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 may simply choose that supplier who offers the lowest price from among all those who fulfill the functional requirements. 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 the most capable of offering quality products and services, competitive prices, reliable delivery, ethical corporate behavior and honest communication are more likely to be rewarded as preferred suppliers. However, other decision variables may include service capabilities, technical support, geographic location and performance history. While the exact meaning of the term service varies with the nature of the product and the requirements of the buying organisation, 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 (Hutt and Speh 1995).

What importers most liked about 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 an importer's demands for additional product or support .

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 business 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 also 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.

What importers disliked about Australia.

The majority of importers complained that Australian fresh fruit and vegetable exporters were not export-oriented. There was a common perception among importers that Australian exporters directed their attention primarily 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 prices expected.

Most importers have experienced problems with the variation in the quality of produce delivered from Australia. Mixed sizes, mixed quality in the carton and receiving produce that was smaller than what the buyer had ordered was a common occurrence. Consequently, most importers found it necessary to inspect the produce on arrival before distributing it to their customers. Not only did this increase the cost, but it also increased the amount of handling the produce endured.

Many importers considered the Australian fresh produce industry to be too fragmented; there were too many small growers and too many exporters. Industry fragmentation 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 growers, each with different standards of quality and packaging. In many cases, the dimensions, sizes, quality and strength of the carton was considered unsuitable for the export market.

Several importers 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, 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 to be too expensive compared with the US. Further problems were often experienced with regard to unreliable shipping; product from Australia often arrived too late and then, when the next scheduled shipment arrived, importers were caught with excess product.

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 organisations 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 had worked so hard to develop had little impact in the market. For all but the major brands, it was primarily the country of origin that was promoted. However, before a wholesaler or retailer would commit themselves to a promotion, most 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 as the supply of produce from Australia was unreliable and inconsistent and so 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. Australian exporters were perceived as being too greedy and too eager to put their prices up to meet an increase in demand or a shortfall in supply. Conversely, when times were bad, Australian suppliers were too quick to abandon their existing customers in the pursuit of higher margins.

However, higher prices were not a problem for all importers, especially those buying for the up-market supermarkets because they believed that their customers were willing to pay a premium for a good quality product. Nevertheless, high prices had resulted in a reduced demand for Australian produce. For other importers, price competition and discounting among Australian exporters created much price uncertainty. Several importers indicated that by the time they had negotiated a price and received the product from Australia, a competitor had negotiated a better 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 that an order could not be fulfilled. Many importers 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 understand the buyer's needs and to understand not only their function in the supply chain, but the implications of their failure to deliver what the buyer required.

Several importers 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. Others suggested that greater competition in the domestic market might force exporters to reconsider their position and to bring export prices back into line with what competitors were offering.

Others spoke of the need to consolidate. Not only would consolidation reduce the number of exporters competing in the market, but for those exporters that remained, it would result in them

being able to secure larger volumes of produce, to grade and pack 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, importers 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.

Many fresh fruit and vegetable buyers indicated the need for Australian suppliers to increase the level of communication with them. They 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 generally improving, Australian exporters were often caught unaware, especially when, in the absence of any international quality standard, importers and exporters perception of product quality was often vastly different.

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