Part B

Strategic situation analysis

Section

11

Strategic analysis

11.1 Opportunities

The market potential for native foods is virtually unlimited. There is the potential to create a completely new ethnic food category just as has occurred with Chinese, Asian, Italian, Middle Eastern, Greek, etc.

The best estimates currently value the industry at around $30 million. With a focussed strategy, there is no reason why the industry could not reach a value of $100 million within five years and triple that in ten years. Of course, these are totally hypothetical market estimates that do not take into account production capacity and, particularly, the supply of raw material.

Merely through better co-ordination of market supply through linkages it should be possible to double the industry within three years through more effective utilisation of currently available materials. Much of the product available through bush harvesting is currently not reaching the market because of a lack of an effective supply chain.

In our view, whilst there are some successful companies operating within the industry, as an industry we feel that it is operating at a sub-commercial level, at this point in time.

Once the industry reaches a certain critical mass, it will take off and achieve sustainable levels of growth. Our best estimate is that the industry would need to triple its market size before it reaches this take off stage, which is probably three to five years away.

The potential for the native food industry lies in the fact that it is suited to a number of commercial segments. These segments are listed below and discussed in detail in the following section.

- Food service
- Retail and retail products
- Export
- Concentrates and essences
- Functional foods and natural medicines
- Culinary tourism
- Native food gardens.

In turn, this potential flows onto an increase in employment within the native food industry. The areas for potential employment growth are discussed in detail in the following section.

11.1.1 Food service

The food service sector is very important for the development of a new category. Consumers experiment with new foods and tastes when they eat out and over time they become commonly used household ingredients.

It's only 20 years ago that the only pasta mainstream Australians knew was spaghetti but now there are over 100 styles of pasta on the supermarket shelves. Virtually every new food category first emerged in food service before becoming retail foods.

From this research, it is clear that there is a lot of interest in native ingredients from chefs and food service operators. The potential for growth in the food service sector is high. There are four factors limiting the growth of the food service sector:

- Lack of knowledge about how to cook or prepare
- Lack of access to reliable supplies
- Cost
- Food safety.

These factors are interrelated.

If there were more plentiful supplies more readily available, chefs would learn how to use them. Restaurants tend to work on weekly, monthly or even quarterly menus. Chefs are only prepared to put an item on the menu when they are certain that they can get a regular supply of a satisfactory product for an extended period of time. Indeed the restaurants that regularly serve native food have close direct contact with suppliers. The lack of a distribution channel for native food is a major constraint to greater food service usage.

Cost is also an issue. Food service operators try to strictly control their food costs. In most outlets, the food costs are less than a quarter of the menu price. Native food ingredients tend to be expensive even though they are only used in small quantities and only the more upmarket outlets can afford to put them on the menu.

Food safety is also an issue. Chefs need to be confident that the ingredients they use are totally safe. Because of the unfamiliarity with native foods some are likely to be concerned about whether the item may be contaminated or have items with poisonous elements or components that may cause allergies.

In the first instance, the best opportunities with food service are likely to be in upmarket restaurants and five star hotels, particularly those in areas populated with tourists and overseas visitors.

Most of all, there needs to be a major education and information program for native foods with the food service industry to inform chefs of native foods' availability and how they can use them.

The industry also needs to work with the TAFE colleges offering hospitality programs to inform up and coming chefs.

11.1.2 Retail

Relative to its potential, native foods have barely started as a retail category.

The only retail activity of significance is the initiative by Coles, the *Taste Australia Program*, which is stocking 40 lines in around 100 stores. At the time of writing this report, sales were reported to be $10,000 per week or around $.5 m per year. To put this into perspective, the following are values of retail segments of some international foods:

- Asian - $46 m
- Indian - $21 m
- Mexican - $64.3 m[39]

Given the virtually limitless nature of product categories, values of this magnitude are quite conservative for the native food category.

Apart from Coles, some specialist and gourmet outlets are selling some product although volumes are very small. At this stage in its development, the native food industry is suffering from the lack of critical mass. There is insufficient product to sustain a mass marketing program.

Supermarkets are driven by volume. Average margins on packaged grocery items are low; sometimes less than 1%. Profitability is therefore driven by turnover. Supermarkets need to have a minimum stock turn[40] of 10 per year with many products in the 30's. As a rule of thumb, supermarkets look for a turnover of one case of produce per week per store to keep mainstream products on shelves. Supermarkets strictly monitor sales by

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[39] Australian Grocery Industry Marketing Guide 2000.
[40] Stock turn is the number of times the normal inventory of product turns over per year.

reviewing weekly scanning data. Products that do not achieve their performance budgets are delisted.
It would appear that Coles have been willing to relax its normal commercial threshold parameters for native food in an attempt to gauge consumer interest in the category and to develop the market.

Based purely on commercial judgement, a turnover of $10,000 per week across 40 SKU[41]s across 100 plus stores in total is not a viable economic proposition for Coles. It is therefore a matter of how long Coles is prepared to support the project. Coles have already indicated that it is likely to reduce the range down to the 10 best performing SKUs.

The problem really gets down to volume. If the major supermarket chains actively promote native foods, sales would dramatically increase but the stock would soon run out. It is our view, whilst we congratulate Coles' gesture, we believe that it could be counterproductive to the industry's long-term development.

In our view, it would be far better to limit the number of outlets to prime prospective areas and actively promote the product in these areas. At this stage of the industry's development, the efforts would be better suited to specialty gourmet food outlets, supermarket stores which have a high gourmet and specialty business (in affluent areas of big cities) and tourist outlets.

Retail product range

The scope for packaged retail product is limited only by the availability of sufficient volume of product to sustain economical production runs.

[41] Every different product, including pack size, product features, etc, is a seperate SKU (Stock Keeping Unit). Eg. A 600ml bottle of Coke is a separate SKU to a 1L bottle of Coke.

To date the retail products have been largely confined to:

- Cook in and simmer sauces
- Herbs and spices
- Jams and spreads
- Liquors

The defining characteristics of native ingredients are their unique flavours. Because of shortage of volume, it will be many years before native foods will be the dominant ingredient. Native foods can be applied to many products:

- Bastings for meat and fish
- Marinades
- Salsas
- Dips
- Ice-creams
- Yoghurts
- Snack foods
- Essences and concentrates
- Oils
- Flours, pancakes and cake mixes
- Baked product
- Savour spreads.

These products require a minimum in terms of product development work. In most cases it is purely a matter of adding a processed version of the native food as an ingredient. It is more a matter of recipe development than product development.

11.1.3 Export

As with many Australian products, there is often a bigger market for the product outside of Australia. Australian native food products are of particular interest to those countries that have a positive attitude towards Australia. Following the success of the Olympics, Australia has a strong positive position in the minds of many countries. Australia is the flavour of the year in many places. There appears to be a substantial market for Australian native food products in the UK.

This business is likely to grow exponentially. Apart from retail, there are excellent prospects to promote native food in the various Australian theme outlets that are opening up around the world. For example, there is a chain of *"Outback"* restaurants (soon to be coming to Adelaide) featuring *"Aussie food"* and there is an Australian restaurant in the Intercontinental Hotel in Seoul, South Korea. There are also various shops that feature Australian icon products (Vegemite, etc.).

By developing relationships with these types of outlets, it would be relatively easy to build markets for native foods through food service and retail packaged goods.

A limiting factor for packaged goods is the issue of production cost, freight and duty. Relative to Asia, Australia has a much higher production cost, mainly due to labour. Added to this, in most markets, there is a duty on processed product, which adds to cost as does freight.

For these reasons, as many companies have found, it is often better to export concentrated raw ingredients and have the product contract packed at, or closer to, the market.

11.1.4 Functional food and natural medicines

Over the past decade there has been much interest in functional foods by food marketers. Functional foods are those that have some specific health or therapeutic properties such as cholesterol lowering or reducing risk to cancer, cardiovascular and heart disease and so on. Food processors have been actively promoting functional food by adding functional ingredients to give the product a point of difference or a marketing edge.

The functional food market is currently growing at a rapid rate and it could grow to account for 50% of food retail turnover in developed economies.[42] There is an opportunity for Australian native food to be added to current products to add flavour and functionality. Functional foods generally receive a premium price.

For thousands of years the Indigenous community has possessed extensive knowledge of the functional, therapeutic and medicinal properties of native foods. Consequently there is a huge potential to capitalise on this. For example the Australian icon *"Vicks"* is derived from native flora.

[42] 'New pharmaceutical, nutraceutical and industrial products,' RIRDC November 2000.

There are several species of Australia native plants that have high functional or nutraceutical benefits. The following table highlights the benefits of selected native foods.

Native Food	Nutraceutical action
Aniseed myrtle	Phytoestrogenic, stimulant
Australian peppermint	Essential oils, stomachic
Cheesefruit	Anti-asthmatic, tonic
Forestberry herb	Possible anti-carcinogen
Kakadu plum	Anti-oxidant (world's highest fruit source of vitamin C), folates
Lemon myrtle	Tonic, anti-microbial, anti-inflammatory
Mountain pepper (leaf) & pepperberry (fruit)	Polygodiol (anti-arthritic), rubefacient
Sundry fruits, eg. Lemon aspen, wild limes	Flavonoids, vitamin C, folates, organic acids
Wattleseed	Slow release carbohydrate, low GI, factor K induction, warming
Wild rosella	Anthocyanins (anti-oxidants), smooth muscle relaxant, restorative, tonic

Source: Vic Cherikoff
Note: The above are based upon the action of particular constituents of which the native Australian ingredients are particularly rich

Notwithstanding the potential, there are some issues that need to be addressed.

The first is the sensitivity regarding the intellectual property held by the Indigenous community regarding functional properties of native plants. This knowledge and wisdom is a key part of the Indigenous culture and is handed down from generation to generation. The issue of fair remuneration must be considered in this debate.

Secondly, there are significant restrictions on the claims that can be made about functional foods and medicines. The restrictions on claims vary from country to country, with Australia having among the strictest regulations in the world. There is an opportunity to make stronger claims of the benefits of a particular product in other countries, such as Japan.

In Australia, the Therapeutic Goods Administration (TGA) regulate the industry. Therapeutic goods must be listed with the Australian Register of Therapeutic Goods by the TGA.

There are three levels of TGA listed products – low, medium and high level products. The level gained by a particular product is determined by the strength of the supporting evidence. The level gained by a particular product also determines the level of claims that can be made about a particular product, ie high-level claims, such as prevents heart disease, must have the strongest levels of scientific support.

The TGA accept two forms of supporting evidence – scientific evidence and traditional use evidence. Scientific evidence includes studies such as controlled clinical trials, etc. Traditional use evidence is based on the use of a product by three or more generations. It should be noted that traditional use evidence must also be augmented with scientific evidence.

Products supported by traditional use evidence can only achieve low or medium listing status. Therefore, the strongest claims that can be made are for example, health enhancement or reduction of risk of a particular disease or disorder.

There may be an opportunity for Indigenous communities to register products on the basis of traditional use. However, these claims must still be supported with a level of scientific evidence.

A TGA representative stated that no Indigenous traditional use claims have been successful to date. This has been due to a lack of supporting evidence. The TGA must have confidence in the active ingredient and also the other ingredients within the product, eg, plant species.

Another particular issue with native foods is, even if scientific claims could be supported, whether the functional properties can be consistently delivered.

The potential problem with native food is that because they are naturally grown, the functional specifications could vary depending on the seasons or growing conditions. This could be overcome by controlling growing conditions and rigorous testing.

A major research project would be required to develop a functional food program. Scientists would need to work in partnership with the Indigenous community to identify suitable functional foods or natural medicines. These would then need to be validated as a foundation for the development of a program to commercialise the category.

Falling short of being able to make scientifically supported claims, there is an excellent marketing opportunity based around the mystique and interest that the whole community holds for Indigenous culture. Just as there is a massive Chinese medicine market that relies on folklore and tradition without scientific support, the same could be developed for the Indigenous community. The issue is whether they would want to be involved in such a program and, if so, how.

11.1.5 Concentrates and essences

Given that the first distinguishing feature of native foods is their unique flavours, there is an opportunity to market them as flavour concentrates and essences. We understand that Cherikoff has built a solid business using native herbs and spices. There is no reason why this could not be extended to a whole range of products including leaves and seeds, concentrated oils, juices, essences etc. In fact there is a question as to whether this might be a better way to develop the industry in its early stage. Rather than producing formulated products as is currently occurring, it might be better for the industry to focus on producing concentrates and leaving this up to commercial food operators to integrate the flavours into their products.

The advantage of this is that it would allow the industry to develop more quickly because it would allow it to tap into established mainstream food companies. Rather than attempting to compete with a mainstream partner or manufacturer, for example, it is probably far better for the industry to have the manufacturer market the product.

The other advantage is that it overcomes the problems with cost competitiveness, freight and duty costs.

Again the limiting factor with this is likely to be the volume of material available.

11.1.6 Culinary tourism

There is an excellent opportunity to develop culinary tourism based around native foods.

To some extent this is already happening in an informal or ad-hoc way; for example with *Red Ochre* restaurants being popular with overseas tourists.

The potential of a culinary tourism industry based around Native Foods has not really been touched. There is a huge opportunity to link Native Foods with Indigenous culture. For example, there could be a “Dreamtime food trail” where tourists were treated to the legend of the Dreamtime and the stories and experience the food just as there is a Gippsland delicatessen trail. As well as experiencing the food, they could have the stories told about the food, and its attributes or benefits. This could be linked to Indigenous galleries and shops selling Indigenous artefacts.

Apart from establishing strong business opportunities in their own right, culinary tourism activity would also be a strong promotional device. Tourists, having experienced the native food in tourist locations, would develop a taste for it and be keen to continue to purchase it when they returned home either through local retail outlets or e-commerce. This could be an excellent way, for example, to promote functional native foods.

Obviously the Dreamtime culinary tourism initiative would have to be run and controlled by the Indigenous community.

11.1.7 Native food gardens

To our knowledge there is at least one Indigenous group that has considered establishing a native garden, and that is Geraldine Anderson of the Adnyamathanha community in Aberfoyle Park in South Australia. The proposal is to establish a garden in Adelaide where native plants are grown and people can visit the garden to see these plants and experience the stories and culture surrounding the plants and taste the food.

This would be a wonderful way to increase awareness for native foods that would aid the development of the commercial industry. Lack of funding is the primary reason why this proposal has not come to fruition.

11.1.8 Employment prospects

The native food industry offers excellent prospects for employment generation. If is difficult to put an accurate estimate on the figure; the following is a conservative judgement on the issue.

In 1997, a RIRDC report[43] estimated the industry employed 500 full-time and further 500 part-time.

Conservatively, we estimate that the figure could easily double by 2010.

Breeding and Nursery

As indicated, we believe that the industry will be based around commercial orchards and gardens. Furthermore, in order to get consistent yield and quality much of the production will come from mono-clonal material either from grafting or tissue culture. Conservatively, we believe that by 2010 there will be 100 additional FTE jobs available in the nursery industry to support native food.

Growing and Wild Harvest

In our view, it is conservative that an additional 1000 FTE positions will be generated in the growing and wild harvest area.

The added bonus is that these jobs will be based in remote and rural areas, where there are typically very poor employment prospects. Furthermore, these will be suited to Indigenous people. In many cases the native produce will provide a supplementary source of income to traditional family operations, thereby improving the viability of family farms, many of which are marginal propositions at present.

[43] 'Improving access to bushfood production and marketing information,' RIRDC November 1999.

Supply Chain
As the industry develops it will require a structured supply chain. Initially, this will involve dry, shelf stable lines, but as the fresh component of the industry develops a cold perishable cold chain link will be required.

Our conservative estimate is that a further 100 FTE jobs could be created in the supply chain.

Processing and Value adding
The biggest area of job creation will be in the area of processing and value adding. Because of the value of the product and the relatively small production runs they will be generally quite labour intense. It is a conservative estimate that a further 800 FTE jobs will be created in the processing and value adding sector.

Total
Based on these conservative estimates we believe that an additional 2000 FTE jobs will be created by 2010.

Given South Australia's leadership in the industry, it is conceivable that 1000 of these jobs will be created in South Australia.

11.2 Factors driving the industry

There are five key drivers of the Australian native food industry:

1. The Australian consumers' passion for food
2. The developed world's fascination with Australia
3. The popularity of functional foods
4. The massive growth in culinary tourism
5. The quest for agricultural diversification and environmental sustainability.

11.2.1 The Australian consumers passion for food

Australian consumers are continually demonstrating their passion for food.

In excess of 40% of the food dollar is spent away from home and the food service sector is continuing to grow in double figure levels.

A recent survey published in the *Melbourne Age* indicated that Australian consumers are spending more on food and holidays and less on cars and furniture. Rather than fill their wardrobes with latest fashions, consumers would rather experience the latest food fad. They have demonstrated their keenness to learn about foods and seek out information. Cooking classes are booming and cookbooks are one of the best selling categories. A demonstration of this is the growth in sophisticated, premium priced olive oils.

Considering Australia's population, we have a remarkably sophisticated food sector. To a large extent this has been driven by Australia’s ethnic and cultural diversity. At last count there was over 40 styles of ethnic cuisine. Not only is there great diversity, but the quality is excellent; equal to that being offered in the countries of origin.

Australians, particularly the more affluent cohorts, are passionate about food and are highly experimental. Italian, Greek and Asian food is now passe. Consumers are now looking for the next novelty. For example, Middle Eastern food is the latest fad. Leading edge restaurants are continually experimenting with their menu to offer their diners something new and interesting.

Consumers are seeking out new and unique flavours and are prepared to pay premium prices for unique products. This has fuelled the growth of gourmet food outlets.

Australian consumers have demonstrated their keenness to embrace new products.

With effective marketing there is no doubt that consumers will enthusiastically embrace native foods. The main reason they have not already done so is that it has minimal visibility.

11.2.2 The developing world fascination with Australia

There is a growing fascination of Australia in overseas countries, particularly in North America and Europe. This has been building for a number of years with *"Crocodile Dundee"* and the *"put another prawn on the barbie"* Tourist Commission's advertising.

Nature travel shows such as *Troy Dann, the Crocodile Man* and the *Bush Tucker Man* have a strong following on television. Last year this interest built even more with the Olympics, which has made Australia the most popular choice for people wishing to travel overseas. The low Australian dollar makes visiting here even more attractive.

This probably explains to some extent why sales of Australian native foods are so strong in the UK.

11.2.3 The massive growth in culinary tourism

Another major driver of native foods in Australia is the growing interest in culinary tourism. Increasingly, Australians are spending their leisure time visiting culinary locations. These are primarily in wine areas, which increasingly have capitalised on this by the effective marketing of local food.

Regional promotional groups have successfully cross-promoted local foods which has attracted tourists. This has resulted in the establishment of accommodation facilities such as bed and breakfasts.

The tourists are looking for a total experience taking in the scenery and activities on offer and experiencing the local food and wine.

There is great potential to do the same with native foods, particularly through the establishment of culinary tourism packages based around Indigenous culture.

11.2.4 The popularity of functional foods

Another driving factor for native food is the keen interest by consumers in functional foods; foods with specific health benefits.

Most of the mainstream food manufacturers have launched functional versions of their food and the functional versions of products are generally experiencing faster growth than the standard lines.

The Indigenous community possesses a large amount of knowledge and information about the functional properties of native foods.

This could be readily leveraged to develop a market program based around functional foods.

11.2.5 The quest for agricultural development and environmental sustainability

There is also an important driver on the supply side, which is the quest by agriculturalists/horticulturalists to diversify their operations.

To a large extent for commercial operators this is driven by the pursuit of improved returns as those from mature industries are becoming less attractive.

There are also many hobby farmers who are looking for a cash crop, partly to get a return and partly because of an interest. Indeed much, if not the majority of commercially produced native food, is currently coming off sub-commercial operations.

With early retirement and redundancy packages there are an increasing number of relatively young people moving to the country to buy a few acres for an interest and to support their income. These types of operators are well suited with native foods, which are labour intensive.

Another related driver is that of environmental sustainability and crop diversity. Increasingly, agriculturalists, and particularly hobby farmers, are becoming increasingly concerned about environmental sustainability and are planting crops and adopting productions practices that deliver on these areas. The massive growth of farm forestry is a sign of this.

Native foods deliver well on these attributes because they are part of a natural eco-system with minimal need for chemicals, fertilization, etc. Mostly, they are also low users of water.

11.3 Constraining factors

Unfortunately there are many factors constraining the development of the Australian native food industry. Broadly speaking these divide into supply and commercial issues. Collectively these are contributing to the inability to achieve critical mass.

11.3.1 Critical mass

The biggest single issue for native foods at this point in time is the inability to achieve critical mass. Native industries need to achieve a certain critical mass level before they reach take-off point and become self-sustaining. At this point, the native food industry is well below a critical mass level for commercial sustainability. There is simply not sufficient production for the industry to support the investment and effort needed to reach the next stage of development. Presently, most of the constraints are on the supply side.

At an industry level, the lack of critical mass manifests itself at a number of levels.

1. **Insufficient volume of material to sustain low cost, commercial production runs**

   Processors cannot get sufficient material on a reliable basis to deliver economical production runs and to justify investment in more efficient equipment. The economies of scale for the food processing industry are massive. To be competitive, food processors need their plants to be operating continuously with long production runs of a particular line.

   At present most of the processed native food product is being either co-packed or pre-packed in high labour intensive small volume runs. The foods are being produced in kitchens rather than plants, on a small batch-by-batch basis, where costs are high.

2. Critical mass in terms of distribution

A key issue with food product is distribution. Consumers need to be able to get ready access to it. Again there needs to be a certain critical mass to sustain adequate distribution. As a general rule, supermarkets will not stock products that do not achieve certain minimum weekly turnover levels.

As was mentioned earlier, supermarkets work on a minimum turnover of one carton per SKU per week. Furthermore, as a general rule, they need to achieve this as an average across all stores.

Coles preparedness to stock a range of native foods is not purely based on commercial criteria; the company feels inclined to support the industry. It will be necessary for Coles to continue this interest to maintain distribution as, based purely on commercial terms, it will certain lose distribution.

Even with Coles supermarket there is still a critical mass issue. If Coles decided to promote the product on a large scale the industry would have great difficulty maintaining supplies. A one week in-store sales promotion would clean out a year's supply of product. If shelves become empty because of *"out of stock"* it is generally allocated to other products.

3. The volume to mount a marketing program

New or novel products need a strong marketing program to achieve consumer awareness, trial and repeat purchase. Marketing is required to establish the category and to tell the story. Even a low cost marketing program built around public relations, on-pack promotions, product samples, etc., still requires a substantial budget. None of the current companies, either individually or even collectively, have the volume to support a visible marketing program. In our experience a minimum budget of $1 million would be required to mount even the most basic marketing program. At present this is well outside of the reach of the industry.

As was indicated earlier, once the industry achieves critical mass, it will take off. The problem is that unless the industry can get to critical mass, there is a very real danger that the industry will struggle and be relegated to the status of a sub-commercial cottage industry.

4. The critical mass to sustain an effective supply chain

One of the big constraints for the native food industry at present is the absence of a well structured and efficient supply chain. We understand that at present much of the raw material potentially available does not reach the market because the growers/collectors cannot find a satisfactory market or simply cannot get the product to markets. Furthermore, much of the product that does get to market does so through highly inefficient means; producers deliver to the processors or customers in small volumes in their own vehicle, which is clearly totally uneconomical.

With a consolidated approach it would be possible to increase production tenfold through wild harvest. There are many Indigenous communities keen to develop their native food projects but are constrained by the lack of market outlets.

If the industry is to succeed, there needs to be a well structured supply chain covering the collection, packing and delivery of the product. As volumes reach a certain level, this will occur naturally but at present there is insufficient volume to support such a supply chain.

As volume grows there will also need to be closer co-ordination to ensure that there is a steady flow of product.

To a large extent, the lack of critical mass is due to shortage of suppliers of raw materials

11.3.2 Issues contributing to the lack of supply of raw material

There are a number of factors contributing to the shortage of supply of raw material; the key ones are:

1. Genetic material
2. Insufficient understanding of growing practices
3. Lack of co-ordinated bush collection, particularly across the Indigenous communities
4. Pricing issues.

1. Genetic material

In commercial agriculture much of the gains in terms of yields and product fitness for purpose have come from genetic developments. Through selection and cross breeding, there have been massive gains. For example, with potato there has been a tenfold increase in yield in 20 years purely from breeding programs.

Apart from the work in native citrus, there has been very little work done in genetics. At present, yields from native food are relatively low and highly variable. Some types or varieties yield better than others with only a rudimentary understanding of why this occurs. There will need to be a significant investment in research into genetics and breeding to improve not only the yield, but equally the consistency and fitness for purpose.

2. Growing practices

As for genetics, the level of understanding of growing practices is still at a very primitive stage. Compared to commercial agriculture, very little is known about growing practices, soil requirements, fertiliser, cultivation, pruning, etc. In researching this project we have come across native specie orchards where some trees are flourishing and others dying with no apparent explanation. Potentially, some of the basis for this knowledge exists within Indigenous communities relating to the gathering. This knowledge needs to be documented and translated for application in commercial plantings.

3. Lack of co-ordination among wild harvest operators

At present, the vast majority of production of native foods is coming from wild harvest operations, most of which are being conducted by Indigenous communities. From our research many of these communities have made a serious attempt at development of native food operations but their efforts have been frustrated by difficulties in getting their product to market or finding a suitable market at all.

Much of the problem stems from the absence of a co-ordinated supply chain linkage; an issue which has already been discussed. It would seem to us that to a large extent this could be easily overcome through better networking and co-ordination.

4. Pricing issues

A significant issue that is constraining supply, is the fact that the prices being received are insufficiently attractive to justify the effort.

Native food harvesting is extremely labour intensive, which adds substantially to the costs. The prices currently being received are not high enough to justify the effort. Processors, on the other hand, are constrained in what they can pay because they need to be price competitive on the shelf.

The pricing issues needs to be approached on two fronts. On one front, work is needed to reduce costs of production to improve profitability. Perhaps the greatest scope for more efficient production can come from mechanical harvesting. Furthermore, increasing yield through genetics and improved growing practices will reduce unit cost of production.

The pricing issue also needs to be addressed on the processor side. Processors need to get a premium price for their product so that they can afford to pay higher prices for raw material.

At present, most of the processed product is competing head on with lower priced, mainstream product. For example, the cook-in sauces compete head on with commercial produced, mass marketed product, e.g. *Chicken Tonight*. These mass marketed products are produced in volumes with low priced ingredients. Native foods will never be able to compete at these price points. To compete native foods need to be positioned as a unique gourmet category, which can sustain a much higher price.

Quite apart from the pricing issue is the problem of getting paid for the product. During the process of researching this project we heard several anecdotes of producers / wild harvesters were not being paid or waiting an inordinate amount of time to be paid. The manufacturers / processors have also indicated that they in turn have experienced difficultly in getting their money from their customers. Unfortunately, there is no answer to this. To a large extent it is a reflection of the stage of development of the industry. To a large extent the native food industry is still a cottage industry. As the industry grows it will involve larger, more financially secure companies who are reliable payers. For example, supermarkets pay strictly in 30 days or even in seven days, with settlement terms.

11.4 Marketing issues

There are a number of marketing issues that are impacting on the industry and as such could be classified as constraints to the industry development.

The main issue with respect to marketing is related to branding and again this is linked back to the issue of critical mass.

The two brandings issues are:

1. The large number of brands relative to the size of the category.
2. Lack of clarity in the category's market positioning.

Another significant marketing issue relates to the distribution channels that native foods are sold through.

11.4.1 The large number of brands relative to the size of the category

Another dimension of the critical mass issue is the large number of brands for a relatively small category.

Between the four significant processors there are ten brands covering around 60 SKUs. With this many brands covering a small category, it will be impossible for them to get any brand presence or loyalty. Ideally, at this stage it would be better to form one brand, which would raise the profile and the brand awareness and allow for a consolidation of marketing efforts

It is understandable that the individual processors would want to run with their own brands. However, in doing so they must recognise that they are at a major disadvantage and will struggle to achieve any level of brand presence and all of the advantages that go with it.

But quite apart from this, some of the companies have more than one brand without the volume of marketing resources to support their brands in the market place.

At this stage in its development, the industry can justify at the most two brands. To achieve this would involve a degree of rationalisation, which is really up to the individual companies. Because of the fragmentation amongst the brands none of them have the consumer profile they need to gain market presence.

One compromise is for the marketers to start an industry umbrella brand or endorsement brand, such as *'Made in Australia'* or the *'Woolmark'* logo, which would serve to link the various brands logically.

11.4.2 Lack of clarity in the category's market positioning

A continuation of the branding issue is the lack of clarity in the market positioning of the native food industry as reflected in the way that the brands are projected in the market place.

To be successful in marketing a category or brand it must be clearly understood by the market and, particularly, where it fits in the market. It needs to have a unique positioning which differentiates it in the market place.

There are a number of possible market positionings for native foods including:

1. The unique tastes and flavours of Australia
2. Wild Australian bush food
3. Australiana
4. Indigenous food.

The optimum positioning can only really be determined with market research, which is beyond the scope of this project.

Our concern is that in its present execution the branding / market positioning strategies of the four major companies seems to be confused.

At present most of the products are positioned so as to compete head on with mainstream, mass produced food. They are positioned to look like an alternative simmer sauce, cooking oils, jam, etc. There is little in the branding to project the uniqueness of the product or its native origins. Consequently consumers will judge it alongside the mass produced products, which denies it the opportunity to benefit from the uniqueness of the product. Also, with this positioning, retailers will be inclined to stock them in the mainstream category sections, eg. cook-in sauces, where they stand little chance of success.

In head to head competition against mass produced equivalents, the native food will always come off second best. Because of the relative scarcity of the product and the higher cost of production, native foods must be positioned at the premium end of the market.

Unique tasting products with a rich and interesting story behind them naturally fit into a premium niche market, e.g. premium olive oils, cheese, truffles, etc.

Quite apart from this natural premium niche positioning, native foods need to be premium priced to make the industry economical. Native foods will always have a higher ingredient cost by virtue of the high labour cost, lower yields and generally high cost of getting to market. Native food production therefore must sell at a premium price so that processors can pay sufficiently high *"farm gate"* prices to attract sufficient volumes of the raw material.

It does not make marketing or commercial sense to position Quandong jam up against *Monbulk*, simmer sauces against *Chicken Tonight.*

The industry needs to reach a consensus on an appropriate marketing positioning for the category.

It is conceivable that there could be two separate category positionings, which is probably sensible at this stage; one based on an positioning linked to culture, dreamtime stories, etc., and another based around the unique tastes of Australia. The disadvantage of this approach is that it fragments in the sense of critical mass.

11.4.3 Distribution

Another marketing issue that relates to the previous one of market positioning is the most desirable type of distribution for native food.

In our view, it is too early in the native foods industry evolution to be in supermarkets. Most new categories start off in speciality outlets until they build up their consumer following and volume to justify supermarket distribution. For example, most speciality ethnic foods such as Chinese, Vietnamese, Thai, Russian, etc., tend to be confined to speciality outlets.

There are a number of advantages of this. Firstly, the relatively low stock turn of items can justify their shelf space in speciality outlets because the categories are consolidated in one area and turnover is sufficiently high to justify the shelf space. These types of outlets attract shoppers particularly interested in these types of food, therefore turnover is high.

The second reason is that these speciality products can support far higher prices. Shoppers in these types of outlets are prepared to pay a premium for these special or unique products.

Thirdly, speciality outlets can provide the service and offer advice as staff tend to be trained and experienced and have the time to talk to their customers. They can sell the product and provide information about it.

Fourthly, by being concentrated in a small number of outlets, it is possible to support cost effective in-store marketing and merchandising programs.

Fifthly, these speciality outlets would have a big food service clientele. Chefs often shop at these stores for special ingredients.

In our view, native foods at this stage are much better off being distributed through speciality gourmet food outlets such as *Simon Johnson, Jones the Grocer, The Vital Ingredient, David Jones Food Hall* and *Food Chain*, etc.

By all means, when they become established, native foods can justify supermarket distribution.

11.5 Product integrity

As with any food product there is always the issue of product integrity.

There are a number of different dimensions to product integrity for native foods, the key ones being:

1. The consistency and quality of the product, taste, etc.
2. Compliance with food safety, product labelling, health warnings, etc.
3. Authenticity and trust in labelling; consumers are increasingly questioning claims about the origins of food.

The integrity issues are potentially greater for the native food industry than other food sectors. There are a few issues here. One is that, with the majority of supply at this time coming from wild harvest, there are more likely to be variations in product quality, levels of active ingredients, etc. There are also likely to be concerns about the reliability of post harvest handling techniques.

A third issue is the authenticity of the product. Consumers and, to a lesser extent, retailers are likely to be a little suspicious about native status of product, particularly when there are claimed links to culture.

The problem for the native food industry is its high level of fragmentation. The wild harvesting and commercial cultivating is being conducted by many different groups. Furthermore there is no recognised quality assurance or truth in labelling systems.

11.6 The multiplicity of categories

A potential problem with native food is its diversity. Native foods cover fresh fruit and vegetables, seeds, leaves, herbs, spices and oils.

The spanning of categories results in further fragmentation, which again impacts on critical mass issues.

If all of the products were in one category it would be far simpler to mount an effective marketing program based around a cohesive theme and homogeneous market positioning.

Of particular importance is the differentiation between dry and fresh products because of the need for a totally different distribution channels. This is a particular issue with native citrus. In our view, whilst native citrus has application for processed foods, it probably has greater potential in terms of escalating value in markets as premium fresh produce. There is no reason why Native Citrus wouldn't be a high volume niche market category within the citrus category in the same way as Cumquat, Tangelo, etc.

This may also apply for other products such as Kakadu Plums, Quandongs and Warrigal Greens. However, to do this involves two separate supply chains and all of the complexities and disciplines that go with running two parallel supply chains. For example, there currently needs to be a completely different quality assurance system and, potentially, a totally different branding and marketing program.

In many ways, there needs to be a dual development strategy, one stream for dry grocery products and a second for fresh.

11.7 Intellectual property

There are a number of potential issues relating to intellectual property of native foods that will need to be dealt with as the industry develops.

The first issue is to consider what steps Australia can take to protect its native species. Other industries have suffered great losses in potential earnings because the issue was not adequately dealt with early on in the piece, e.g. Macadamias and various species of native flowers. With native flowers, operators in California, South and Central America and Israel have successfully reproduced native species from tissue culture and used them to their commercial advantage to the extent that they have killed the market for Australian exports.

Plant Variety Rights (PVR) or Plant Breeding Rights (PBR) protection exists but in practice the protection it offers is far from perfect. The problems are that it is costly to get effective protection in key market countries, the difficulty in effectively policing and bringing to account offenders and the fact that some countries are not signatories to PVR treaties.

Another issue is whether PVR regulations apply. Our understanding on the issue, subject to legal clarification, is that naturally occurring species cannot be registered. There needs to be significant variation from the naturally occurring species. We understand that the CSIRO have successfully protected native citrus but these have been developed through sophisticated breeding programs that have produced plants with unique characteristics that differentiate them from the normal species.

The problem for the mainstream industry based on wild harvest is that the species cannot be registered. To the extent that the industry became commercially successful, there is a significant risk that the industry could be exploited by opportunists, either in Australia or overseas. In the extreme this could result in overseas operators cultivating our species from tissue culture and competing with us in international markets. In the short to medium term the risk of this occurring is low but it could become an issue later.

Many operators in other industries have successfully protected their intellectual property without PVR through branding programs. Under this scenario, no attempt is made to protect the species or protect the species of product formula but rather the brand.

This can be done at an individual organisation or industry level. Brands can be registered through trademarks, etc., and defended in commercial law. For example, McDonalds does not have trade mark protection for Big Macs; their intellectual property is with the brand name Big Mac. However, as a protective device this is only as good as the power of the brand. The protection comes from the fact that a large body of consumers prefer the brand over others because of some real or perceived benefit or point of difference or they have trust in it.

To do this requires a substantial investment in developing the brand. None of the brands currently existent in the industry have anywhere near the level of consumer awareness required; nor are they likely to achieve this in the near future.

The second set of issues with respect to intellectual property relates to involvement. There is no doubt that the community possesses a bank of intellectual property at several levels including:

- What species are edible
- The functional or nutritional value of various species
- Selection, management and harvesting practices.

- Preparation and cooking
- Stories and culture linked to the native species.

The key strategic issue here is whether, and to what extent, the community is prepared to share this information and under what conditions and equity arrangements.

A practical issue is the mechanics for protecting this intellectual property, which is far beyond our expertise. From a lay point of view, there are some question marks over whether this knowledge could get patent protection without actually registered trademarks. If this is the case, the only recourse is to enter into a licensing arrangement with operators further down the supply chain, largely processors and retailers. This would probably need to be linked to a branding delivery.

11.8 Picking winners

One of the big issues for the native food industry is deciding on what products to market. There are literally thousands of native species that are edible; the issue is which ones have the potential. To date the industry has been based around 14 or so species:

- Bush tomato
- Quandong
- Muntries
- Riberry
- Acacia
- Lemon Aspen
- Mountain pepper
- Kakadu plum
- Illawarra plum
- Native Citrus
- Lemon Myrtle
- Native Currant
- Warrigal Greens
- Native Raspberries

These were the ones chosen by the original players as having the most potential. There are probably many others that have good or better potential.

In our view, more work is needed to assess which products to market. The assessment needs to be based around two basic decision rules:

1. Can the product be successfully produced under commercial growing conditions in sufficient volume on a reliable basis?
2. Is there a market for the product based around a high level of consumer appeal and a unique selling point?

The native food industry is in its infancy and there is a lot of research and development work required, particularly on the growing side. It is important, given the severely limited resources, that money is invested behind species that have the best potential as this type of work is costly and time consuming.

The starting point for this should therefore be a systematic assessment of species and their commercial potential. To date the selection process has been rather ad hoc. We would feel a lot more comfortable if there was a more systematic process of selection co-ordinated by a panel of people with specialist expertise.

11.9 At this point in the industry's evolution should it be selling ingredients or food?

A point which was raised earlier, and has great strategic significance, is whether at this stage in the industry's development should it be marketing ingredients or food.
The differentiating selling point of most of the native food products is their unique flavour and taste. This raises the issue of, given the limited resources, whether the industry would be better off marketing flavours, essences and additives as ingredients for food manufacturers rather than finished products.

If the industry was marketing flavours and essences it could sell the product in powder, liquid or dry form or as graded raw material which a mainstream food processor would use in their product.

In marketing the emphasis would be on working with these companies to develop new products.

The advantage of this approach is that the mainstream food companies have the resources, expertise and distribution channels to successfully market these products. Under this scenario the industry is likely to develop far more quickly.

The industry players for their part would concentrate on producing high value unique flavours.

Under the current scenario we have very small companies competing head to head with highly sophisticated, well resourced, international companies who dominate their categories. There is, therefore, a strong argument to sell raw ingredients to them and assist them in product development and let them do the marketing.

However, if the industry did decide to go down this path it would need to put in place branding strategies and continue to ensure that the industry wasn't exploited and obtains a fair return.

11.10 Research and development

The native food industry needs a large amount of investment in research and development. The industry is in its infancy with so much that needs to be learned.

Based on our research, we feel that there are three basic areas where more work needs to be done.

1. **Agricultural practice, genetics, growing practices, orchard and garden management, harvesting, post harvest handling, etc.**
   The focus of this research needs to be on growing volume, reducing production costs, improving quality and consistency and overall product integrity.

2. **The identification of species with commercial potential**
   From our research, there are over 5,000 native species that are edible or have functional or therapeutic properties.

   Whilst we are in no way questioning the judgement of those who have selected the current set which are being commercialised, we believe that more detailed work needs to be done.

   There needs to be a sorting process based around three basic sets of criteria.
   - i) Whether it can be successfully grown
   - ii) Whether it can be effectively and economically processed or value-added
   - iii) Whether there is an adequate market for the product at prices that will return a profit.

3. **Product development**
   There is a need for more work in product development to identify product and processing formulas.

   This work needs to be conducted and done conjointly because of the vital interrelations between the three stages.

There needs to be some process of collaboration between the key stakeholder groups.

Whilst the native food industry probably does not qualify for a CRC, collaboration principles of CRCs have application here.

11.11 The need to integrate the native animal food

This report focuses on native plant species. However, there is some argument to integrate native animal food into the total category.

There are two levels of argument here. The first is the ability to create a total native eating experience. The success of the likes of Red Ochre restaurants is based around a total menu such as kangaroo with quandong chilli glaze, polenta and bok choy, Barramundi with desert limes and papaya salsa, etc[44]. Including animal food will greatly enhance the marketability of the food service sector.

The other advantage of integrating animal food is that it will greatly enhance critical mass. The native animal industry including kangaroo, emu and native seafood already has a value far greater than that of the native plants. There are many opportunities for cross-promotion and other marketing synergies that can be tapped.

The other point is that, because it is further down the development curve, it has established distribution and marketing channels which would greatly benefit the plant based native food industry.

Obviously, there are significant differences between the two categories, one being principally fresh or frozen and the other dry or shelf stable.

However, there are excellent opportunities for shared marketing, branding and so forth.

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[44] Red Ochre menu

11.12 The need to integrate indigenous and non- indigenous activities

It is essential for the long-term success of the industry that the activities of the indigenous and non- indigenous communities are seamlessly integrated.

At present, to some extent they are developing as separate streams. The indigenous activities tend to be community based wild harvesting and natural orchard activities, while the non-indigenous activities are moving more towards cultivated orchards. It is our view that for the native food industry to develop it needs to move towards commercial orchards or market garden production. Wild harvest production is too unreliable, both in terms of yield, annual production and quality to be suitable for commercial processing industry.

If the communities are to be key players in the native food industry it is essential that they develop commercial production operations.

There is obviously somewhat of chicken and egg situation here. Before they are willing to invest in commercial production they would need an assurance that there are reliable markets for the produce.

The logical thing here is to consider ways of fostering and wherever possible to establish strategic alliances between the indigenous communities and the processors. However, research to date has not shown any examples of major success in this area of strategic alliances.

One promising example of a potentially successful model is being developed by Mike and Gail Quaimby of Reedy Creek in South Australia in association with Indigenous Communities at:

- Laraplinta (NT)
- Hidden Valley (NT)

- Intjartnama (NT)
- Manunka (Walkers Flat SA)
- Tangglun Piltengi Yunit (TPY) Aboriginal Corporation (Murray Bridge SA)
- Narungga Progress Association (Maitland SA).

Section

12

Critical success factors

12.1 Critical success factors

The previous stage of strategic analyses have lead us to identify the following critical success factors that need to be covered off in the development of the strategy

1. **A coordinated industry**
   A coordinated industry approach is needed to ensure the long-term growth and sustainability of the Australian native food industry.

2. **Achievement of critical mass**
   The industry must achieve critical mass in production, distribution and marketing. Critical mass will allow each member of the supply chain to operate profitably and it will ensure long-term growth.

3. **Developed supply chain infrastructure**
   The industry must develop a strong supply chain infrastructure to provide an efficient framework for getting product to market.

4. **A cohesive and sustainable market positioning**
   The native food industry is suffering from the fact that its products lack a cohesive market positioning that takes advantage of its uniqueness and differentiates it from the mainstream products. If the industry is to achieve critical mass it must have a unified market positioning.

5. **Market-driven product development**
The industry needs to be market driven and develop products with the end-user in mind. Customer preferences need to be measured and understood so that products are tailored to suit their needs.

6. **An integrated development of agricultural productions**
Much work is needed on improving the yield, productivity and efficiency of the growing side of the industry. An integrated approach is required covering genetics, agronomy, orchard management, harvesting and post handling of product.

7. **Equitable involvement of the communities**
The communities have a large amount of intellectual property that needs to be accessed for the industry to realise its true potential. Indigenous communities are keen to foster partnerships with value adders to share in the economic gain and share their considerable intellectual property in a meaningful way.

8. **Product quality and integrity**
Food safety is becoming a critical issue for the food industry. There must be systems in place to improve and guarantee product quality, integrity and authenticity.

9. **A well-funded and co-ordinated marketing and market development**
The industry needs a co-ordinated and adequate marketing and market development program to position the category, raise awareness for it and educate consumers, both retail and food service.

No one individual operator is large enough to do this alone, the industry needs to work in unison.