

Innovations in Agricultural Product Marketing - The Australian Wheat Industry's Experience

Farrer Memorial Oration, 1997

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1997 FARRER MEMORIAL ORATION

MR TREVOR J FLUGGE

'INNOVATIONS IN AGRICULTURAL PRODUCT MARKETING - THE AUSTRALIAN WHEAT INDUSTRY'S EXPERIENCE'

The Australian grain industry is of vital national importance. It is a major employer, contributes significantly to the Australian economy and has long been one of Australia's most important sources of export income.

The Australian grain industry has a history almost as long as our country. Over that time many things have changed affecting both our country and our industry. There have been dramatic changes in the way our agricultural production is marketed, particularly over the twenty five years I have been involved in the 'off-farm' activities of the industry.

I would like to direct my Oration tonight to the innovations in agriculture product marketing and the experience of the Australian wheat industry; with which I have been closely involved over the past two and a half decades.

In 1972 I was elected to my first position representing growers. I had a multitude of reasons for seeking elected office, but first and foremost in my mind was the need to be part of the effort to move the Australian wheat industry away from a regulated marketing system toward one that was efficient, flexible, commercially focussed and above all else responsive to the needs of customers, and in this way maximise the returns of Australian wheat growers.

I believed then, as I believe now, that the only way to achieve this objective was for Australia to have a totally integrated marketing system with all market participants from the wheat researchers and breeders, to growers, through to the storage, handling and transport providers, through to the marketers and through them the customers; joining together to achieve not only a critical mass for Australia in the international market place but also the control and the discipline required to respond to the changing needs of customers. In this way I believed we could maintain market access and build a premium product for which a premium price could be obtained. This was the vision I and others saw for the industry twenty five years ago.

Twenty five years ago the international marketplace was a lot less sophisticated than it is today. Customers were buying a bulk commodity rather than a differentiated product. Many countries did not have their own flour milling industries and imported flour rather than wheat. Communication networks and milling and baking technology was in its infancy.

Prior to 1974 Australian wheat marketing was based on a 'fair average quality' standard, which had been in use in Australia since the turn of the century. The United States and Canada, by contrast, classed their wheat into types, classes and grades to better meet customer requirements.

Australia essentially had an undifferentiated product, 'wheat was wheat was wheat' and Australia delivered fair average quality to our customers. In fact we had very little idea of where our wheat went, what it was used for and how it rated with our competition. Nor did we have any idea what type of wheat the marketplace wished us to grow.

This was an issue that, as someone building a viable long term farming business, concerned me greatly. I was concerned that there was no effective mechanism to provide feedback from our international customers to the grain industry here in Australia. Wheat production, marketing, and research and development were essentially taking place in isolation from each other.

By the early 1980s as I took up my appointment as President of the then Australian Wheat Growers' Federation the international competitiveness of the Australian grains industry was being threatened. We had just suffered the worst drought in our history, farm incomes plummeted, interest rates rose to record levels, wages were increasing, inflation was high and many farmers were experiencing significant cash flow problems. At the same time the US/EU export subsidy war began to severely depress Australia's export returns, leading to a contraction in our production levels.

Within the grains industry, we were creaking and straining under a system that was unable to provide the flexibility to adjust to these enormous pressures. The pressure for change was immense. However we had also built up a culture amongst growers of not challenging the status quo, so that when times did get tough we did not think to challenge and improve the way we managed our industry. Instead we looked to others - namely the Government to put things right.

But the policies of Governments of all political persuasions were also changing and they wanted to move right away from any close involvement in the day to day activities of agricultural marketing organisations. Instead the Government wanted to improve the commercial flexibility of these organisations and obtain greater accountability for them to both industry and parliament.

The pressures for change translated into a distinct challenge. For our marketing organisation - the Australian Wheat Board, the challenge amounted to: 'if you can't beat the international competition by also using subsidies to lower prices to customers, then take on a true marketing approach by fully meeting the changing needs of customers for specific wheat types, for quality, for service and for a differentiated product'. In other words develop an integrated marketing system and in this way gain a premium price for a premium product.

For the Australian grain industry the challenge amounted to changing our systems and way of doing things to improve flexibility, efficiency and commercial focus.

Over the past decade, the Australian wheat industry has not only embraced these challenges but is now on the threshold of fully meeting these challenges.

We have innovated wheat marketing in Australia. We now have a wheat marketing system that is efficient, flexible, commercially focussed and above all else responsive to the needs of customers - an integrated marketing system, which is the envy of our international competition and which delights our customers. This system does maximise the returns of

Australian wheat growers, and we have managed to build a premium product which is able to earn a premium price.

We now have a 'payment for quality' scheme which has arrested the decline in our protein levels and allowed the Australian Wheat Board to embark on a differentiated, branded marketing strategy to earn premium returns for our product. Research and development, together with smarter marketing has changed an agricultural product - wheat, from a commodity to a product that is differentiated from competitor products. In this way we have increased the demand for this product, by increasing its underlying value to our customers which in turn has led to increased returns for Australian wheat growers.

There is now an Australian brand of wheat for virtually every wheat flour use. There is an Australian brand of wheat flour for noodles, steam buns, Middle Eastern flat breads, loaf breads, cakes, snack foods and pastries. Within the brands more than fifty different wheat products are offered to customers, each targeted for specific wheat flour based end products. The Australian Wheat Board now markets to more than forty different countries but our marketing effort is tailored to meeting the needs and requirements of Australia's one hundred and twenty six individual customers.

We have met the challenge to change our systems and have innovated our marketing structures. The structure and ownership of the Australian Wheat Board is about to change. Growers will finally own their marketing organisation and a company structure will provide the Australian Wheat Board with all the commercial flexibility it requires to continue to improve its efficiency and competitiveness in the international and domestic market place.

The vision of the Australian wheat industry that I and others saw twenty five years ago has, I believe, been realised. There has been enormous innovation and success in Australian agricultural product marketing and the Australian wheat industry is testimony to that innovation.

The challenge ahead for the industry is for the vision and innovation to remain firmly focussed on meeting the business and commercial challenges that will continue to buffet the industry and not to get side tracked on the challenges of our agri-political system.