



Strategic Plan

2013'14

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POTATOES SOUTH AUSTRALIA INCORPORATED STRATEGIC PLAN

Executive Summary

Potatoes South Australia Incorporated is the peak 'whole of chain' body representing all sectors of the potato industry. The development of this Strategic Plan is essential for the organisation's long term viability. This viability is dependent upon the relevance, timeliness and quality of the services the organisation provides to the industry it serves and the achievement of financial independence.

This first strategic plan will put the building blocks in place to guide the industry towards the future achievement of the goals of sustainability, profitability and competitiveness. Overall, the organisation must strive to unite a currently fragmented industry across all sectors and geographic locations, minimise duplication of services at a state and national level and set the benchmark for industry association outcomes for all stakeholders. It will be the conduit between the industry and state and federal policy makers.

On 27 March 2013, the Board of Potatoes South Australia endorsed this plan, confirming its appropriateness across all sectors and its current overall relevance.

Industry ownership of this plan through extensive consultation is critical to its successful implementation.

Introduction

Potatoes South Australia Incorporated is a whole of value chain, representative, not-for-profit body for the South Australian potato industry and is currently supported by the South Australian Potato Industry Trust (SAPIT) formalised under a Deed Agreement. The Trust Deed Agreement provides specific guidelines for management of funds in accordance with the SAPIT Strategic Plan.

This funding arrangement officially expires in late 2013 and a funding model for both the sustainability of the organisation as a self-sufficient not-for-profit entity and for the long term economic growth of the industry and its stakeholders has been developed. This strategic plan is closely aligned with the funding plan and is wholly dependent upon its successful implementation.

The strategic plans of relevant state and federal industry bodies have been well researched and salient points incorporated into this document. They include the following:

- SAPIT Strategic Plan 1999-2004;
- Australian Fresh Potato Industry Strategic Plan 2006-2011;
- Australian Processing Potato Industry Strategic Plan 2006-2011;
- Vegvision 2020; and
- AUSVEG Australian Vegetable Industry Strategic Investment Plan 2012-2017.

Consultation within the potato industry, SAPIT trustees, other agriculture/food associations and government has also assisted in determining the shape of this draft plan.

Strategic Plan development and implementation is also a mandatory milestone requirement under the South Australian Potato Industry Trust (SAPIT) Deed Agreement.

Background

Potatoes South Australia Incorporated was registered on 22 March 2011 following extensive stakeholder consultation and recognition of wide stakeholder support. The scoping study report of 2010 concluded the following:

“There is a strong case for the establishment of a representative state peak potato industry body in South Australia to provide an effective pathway for input by SA potato levy payers to AUSVEG and to the respective Fresh and Processing Potato Industry Advisory Committees which advise Horticulture Australia on the expenditure of industry levies.”

Potatoes South Australia Incorporated is the peak industry association for the potato industry's value chain and is the voice for all seed producers, growers, fresh market, packers, processors, marketers, exporters, wholesalers, retailers, and other service providers in the chain to the consumer.

Representing the state's largest horticultural sector, Potatoes South Australia is currently supported by a Board of Management comprising six members covering the seed, processing and fresh markets and all relevant geographic locations. They are strategic leaders in their sectors and have the capacity to engage at the highest political levels. This is a major benefit for the industry.

The current Board members are:

- Gary O'Neill, (Deputy Chair) General Manager, Farms, The Mitolo Group
- Ross Trimboli, GTS Farms
- Andrew Widdison, Chair, South East Potato Growers Association (SEPGA)
- James Wandel, Kangaroo Island Irrigated Seed Potato Growers
- Paul White, General Manager, Zerella Fresh
- Richard Haynes, Commercial Manager, Virginia Farm Produce

Due to substantial vertical integration and amalgamation in the industry, the organisation's focus is not restricted by state borders and it seeks to unify the industry both at a state and national level as appropriate, for the betterment of its stakeholders.

Until now, the South Australian potato industry has not had formal representation for the past twenty-five years. The association commenced operation in February 2012 and was established to make a difference for the entire industry.

This is the first strategic plan of the organisation.

Industry Snapshot

Nationally, potatoes are by far the largest horticultural crop, in both volume and contribution to GDP, accounting for 20% of total vegetable production and worth in excess of \$1/2 billion annually. In 2011'12, 1.25 million tonnes were produced (HAL, Potato Industry Annual Report, 2011'12).

South Australia produces approximately 338,000 tonnes of fresh and processing potatoes annually, which represents 30% of Australia's total production with farm gate value of \$208 million (DAFF, Levies Revenue Service 2011'12). Potato products are the largest single horticulture contributor to gross food revenue, providing over \$412 million (17%) to state horticulture revenue in 2010'11 (PIRSA Scorecard 2010'11).

There are 11,900 hectares (ABS, 2010'11) currently under production in South Australia. This includes 620 hectares currently under seed production (VICSPA Annual Report 2011'12).

At the time of writing, approximately seventy stakeholders in the seed, fresh and processing sectors have been identified. Other stakeholders in addition to levy-payers include research providers, packers, exporters, wholesalers and agents, input suppliers (agronomy, logistics, pharmaceuticals, financial services, irrigation and machinery), retailers, food service suppliers and consumers.

The fresh market is dominated by seven major vertically integrated companies, supplying 80% of the country's fresh washed product, most of which is exported to the eastern states. The main growing regions are the Riverland, Mallee and Northern Adelaide Plains.

The processing sector contributes approximately 100,000 tonnes annually which is 25% of total potato production. Approximately 23% of processing potatoes grown in South Australia are used for crisp production (98% is processed domestically at Pepsico (Smiths)) and the balance of 77% is used for French fry production (predominantly processed domestically at Safries/McCain Foods Ltd (Australia), Penola and McCain Foods Ltd (Australia), Ballarat, Victoria). The main growing regions are the Limestone Coast and Southern Murraylands.

There is a growing seed market, with South Australia currently contributing 22,000 tonnes (30%) to national production. South Australia has the *only* active fully-accredited seed supply chain in Australia. The main growing regions are Kangaroo Island, the Mallee and the Limestone Coast.

The export of fresh potatoes (small/cocktails) is limited to the Middle East and South East Asia and fresh potatoes for processing are exported to South Korea, Thailand and Indonesia. Seed potatoes are also exported to South East Asia. Exports currently represent only 2% of production value. A current project, initiated by PIRSA, is progressing potential niche exports to Fujian Province, PR China.

Current Industry Landscape

After a decade of strong industry growth, which has positioned South Australia as the premier potato growing state, the industry is now facing many challenges which have the potential to undermine future growth.

The critical issues are:

- Growing costs have risen at an average of 3% per annum with packing costs having increased nearly 5% per annum in the last ten years;
- There is also a declining price trend with some variability;
- Profit margins are declining due to falling prices and rising input costs;
- A considerable number of mostly smaller growers and processors are leaving the industry with many others under financial pressure;
- The national industry is losing its competitiveness due to high labour costs, high input costs, the high cost of compliance and regulation, the relatively small scale of many

operations, the slow uptake of technology, high shipping costs and consistently high exchange rates;

- There is a general rationalisation of the sector with fewer growers and greater corporatisation along the entire value chain;
- Industry potato breeding projects are no longer considered a priority and will not be funded by HAL in 2013/14 despite a recognised critical need to increase productivity through the use of better performing varieties;
- There is a lack of cohesion and unity across sectors and between stakeholders exacerbated by state regulations (particularly biosecurity);
- There is generally poor communication between state potato industry bodies;
- There has been limited progress with value-adding;
- Most consumers have been conditioned, primarily by the supermarkets, to purchase on price not value;
- Despite potatoes representing the largest horticulture contribution to gross food revenue (>\$440 million) there is no national dedicated potato industry association covering all sectors and geographical locations with the capacity to service the domestic industry in a global economy;
- There is no national potato industry promotional levy in place;
- There is a limited focus on future industry and market development programs;
- There is no national dedicated seed potato certification authority;
- The value and benefits of certified seed to the commercial grower have not been sufficiently promoted to the wider industry (disease management, biosecurity, variety integrity, risk management);
- There is currently poor attraction and retention of skilled workers including professionals resulting in increasing skills shortages;
- The workforce is dominated by an ageing population (average age exceeds 50 years);
- Poor marketing of the agricultural and horticultural sectors is resulting in little interest by young people to enter the sector or participate in succession planning;
- There is a lack of communication and collaboration in the value chain;
- Food producers are under-valued by the general public and governments;
- Increasing volumes of processed imports from lower cost production countries including New Zealand, Canada and Europe (The Netherlands and Belgium) are eroding Australia's market share in the crisping and French fry sectors. Cheap, unhealthy imported food is selling well (McKinna, 2005);

- Potential biosecurity breaches from imported product threatens the quality competitive advantage that our industry enjoys;
- There is a lack of product marketing that can entice the consumer to pay more for perceived quality;
- There is inadequate extension of research and development (R&D) outcomes to growers and the wider industry;
- There is a general lack of understanding of the investment benefits of the National Potato Levy into R&D projects by Horticulture Australia Limited (HAL);
- Much of the research being undertaken for the industry is not driven by the ideas of the end-users and levy payers;
- The duopolistic pressure from supermarkets is forcing growers to become lower price-takers and supply specified varieties on demand all year round;
- There is a lack of control of the supermarket chains to remove anti-competitive practices and to improve market access for local suppliers;
- Processing costs for potatoes in Australia are the highest cost in the world (McKinna et al, 2010) and unless costs are significantly reduced, the processing sector is under threat;
- The introduction of complex global contracts in the processing sector are providing little security for the grower;
- Overall potato consumption is declining, particularly in the competitive fresh market;
- There is a threat of supermarkets holding PBRs for varieties;
- There is confusion and a lack of consumer education and awareness, particularly at point of sale, concerning the health benefits of potatoes. The potato is generally falsely perceived as a fattening unhealthy food
- There has not been a dedicated potato market-led promotional campaign in South Australia or nationally for at least twenty-five years;
- There has been little documented consumer research to understand how to satisfy consumer needs;
- The potato is perceived as a staple, boring, unsophisticated food, but is affordable and eaten by most consumers globally;
- The potato is competing with pasta and rice; and
- There is no strategy for stimulating and meeting consumer preferences for Australian products in domestic and global markets.

Specifically in the fresh market, the critical issues are:

- South Australia contributes approximately 80% to the fresh washed sector which is largely exported nationally to an over-supplied competitive market;
- Historically there has been a lack of differentiation between varieties with the potato being viewed as a commodity;
- There is generally poor marketing of specific individual varietal qualities at point of sale. The majority of potato shelving displays in retail outlets are dull and unimaginative and fail to cultivate an emotional factor;
- The export market is under-developed, currently representing only 2% of production and limited to SE Asia, South Korea and the Middle East;
- Fresh potatoes will become irrelevant in the product mix and will be overtaken by processed potatoes, pasta and rice if the industry does not take steps to arrest the decline in consumer demand;
- Demand is decreasing from a consumption rate per capita of 63 kilograms in 1996 to 55 kilograms in 2002 with continued declines being reported;
- Generally, there is market oversupply resulting in greatly reduced prices in most supply periods;
- Demand for fresh retail in South Australian and interstate markets is unlikely to grow significantly without product innovation and promotion; and
- There has been a decade of supermarket demand for clean, polished, evenly shaped potatoes with a long shelf-life, irrespective of taste.

Purpose

The existence of these unaddressed and critical issues for the industry formed the basis for the establishment of Potatoes South Australia Incorporated; a unified voice representing the interests of the potato value chain.

Adopting a strategic approach through a formal plan will assist the industry in meeting these challenges.

Long Term Vision

“To be a whole-of-value chain, financially-independent, relevant and highly effective representative organisation focused on growing demand, competitiveness, sustainability and profitably for all stakeholders in the South Australian potato industry.”

Mission - reason for existence

Potatoes South Australia Incorporated will be the peak industry association and the voice for the South Australian potato ‘whole of industry’ value chain. It will represent all stakeholders

from the seed grower to the consumer and will be a major contributor to the long term sustainability, profitability and competitiveness of individual enterprises and the industry through the identification of issues, needs and recommendations, and action undertaken in response to those needs and recommendations.

It will set the benchmark for an industry association at a state and national level. It will be the conduit between the industry and government resulting in effective and responsive strategies in support of industry development requirements.

Relevant Strategic Plans

The South Australian Potato Industry Trust Strategic Plan 1999-2004 identified two priorities for the South Australian Potato industry as follows:

1. To develop a national fresh market potato promotions program; and
2. To establish a South Australian Industry Peak Body to represent the interests of the potato industry across all sectors.

The plan also identified the following six strategic goals:

1. Market Opportunities-achieve national and international recognition for South Australia's pristine potatoes through promotion;
2. Industry Structure-promote a cohesive and networked industry structure;
3. Adoption of Technology-maintain a competitive advantage through the uptake of technical, market, consumer information to ensure a viable industry;
4. Improving Quality-continually improve consistent quality and food safety;
5. Maintain Biosecurity-minimise loss of market access and the impact of pests and diseases; and
6. Efficient Utilisation of Natural Resources-minimise long term degradation of soil and water.

Whilst this is the guiding plan for the organisation, a number of relevant industry plans also align with this Strategic Plan and need to be considered in relation to relevant actions. These plans are:

- **Australian Fresh Potato Industry Strategic Plan 2006-2011**

The plan identifies the following four strategic goals:

1. Improve consumer demand for Australian fresh potatoes;
2. Improve industry competitiveness;
3. Improve industry communication and information systems; and
4. Improve leadership and management capability.

- **Australian Processing Potato Industry Strategic Plan 2006-2011**

The plan identifies the following strategic goals:

1. Improve consumer demand for Australian processed potatoes;
2. Improve industry competitiveness;

3. Improve industry communication and information systems; and
4. Improve leadership and management capability.

- **AUSVEG Australian Vegetable Industry Strategic Investment Plan 2012-2017**

The plan identifies the following five strategic goals:

1. Increase industry innovation across all sectors;
2. Increase industry competitiveness, particularly in the processing sector;
3. Encourage greater adoption of practical research findings;
4. Enhance understanding of the market for fresh potatoes; and
5. Develop an effective communication strategy to advance the cause of the industry.

- **Vegvision 2020**

The plan identifies the following five strategic goals:

1. Deliver to changing consumer preferences and increasing demand;
2. Enhance market recognition for Australian quality, safety, reliable supply and innovation in products and services;
3. Establish internationally competitive Australian vegetable supply chains;
4. Advance industry data and information systems to meet future needs; and
5. Develop visionary leadership and change management capabilities.

Year One Strategies

For this short term plan, there are two fundamental strategies or key drivers as follows:

1. **The organisation achieves financial self-sufficiency by end 2013 by successfully implementing a relevant and appropriate funding plan (see Funding Plan); and**
2. **The organisation establishes a unified cohesive industry structure with a strong membership base which represents the 'whole of industry' value chain.**

Both strategies are supported by a series of actions which are outlined below. The strategies are not mutually exclusive.

Strategy 1

The organisation achieves financial self-sufficiency

Actions

1. Develop a funding plan with industry recommending the introduction of a simple, low-cost levy which is fair and equitable across all sectors to cover operational activity in the first financial year commencing on 1 July 2013;
2. Market this funding plan to the industry, particularly to the major washing/packing facilities to achieve maximum acceptance, ownership and implementation;

3. Develop other funding streams through customised service provision to stakeholders. This may include the delivery of industry-relevant and required training attached to a Registered Training Organisation (RTO);
4. Collaboratively develop industry-relevant R&D grant proposals for maximum funding outcomes;
5. Provide best practice services to all stakeholders encouraging wider cross-border membership/levy payment from all sectors;
6. Develop membership and customised corporate sponsorship proposals and market to industry stakeholders; and
7. Seek transfer of residual SAPIT levy monies and interest to Potatoes South Australia Incorporated for the long term through the establishment of a continually improving, relevant, efficient representative industry body.

Strategy 2

The organisation establishes a unified cohesive industry structure with a strong membership base which represents the ‘whole of industry’ value chain

Actions

1. Represent all stakeholders and sectors along the value chain and be the voice for a united industry;
2. Provide robust and substantiated advice to the industry;
3. Provide leadership and capacity to facilitate and complement industry coordination;
4. Enhance positive communication, collaboration, networking and information-sharing between stakeholders in the value chain;
5. Exceed stakeholder expectations in terms of service delivery and set the benchmark for a peak industry body;
6. Develop a comprehensive communication package focusing on a ‘smart’ responsive web presence tailored to stakeholder needs;
7. Regularly meet with policy makers, industry champions, industry experts and value chain stakeholders to discover and drive issues; and
8. Collaborate with research bodies to share information, prioritise research needs, identify funding opportunities and extend research results to the industry.

Implementation

This plan must be discussed with and comprehensively communicated to industry and other stakeholders. The industry must embrace it to enable its implementation.

Following successful achievement of both Year 1 Strategies and reporting obligations as required under the SAPIT Deed Agreement, the organisation will chart a course to prioritise and meet the longer term challenges.

Specifically, the strategic goals of improving consumer demand for fresh potatoes and improving industry competitiveness must be priorities in the organisation's subsequent strategic planning.

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