

## TASTE THE DIFFERENCE:

The memory of poor quality lasts longer than the memory of the price paid.

To remain competitive in a rapidly changing industry, Perfection Fresh Australia (PFA) needed to redefine its strategies and business organization. That meant working with producers (farmers) and input suppliers to find new ways of dealing with retail and foodservice customers who were also grappling with ways to differentiate themselves to appeal to increasingly discerning consumers.



*(left to right: John, Michael, Tony & Vince Simonetta)*

An observer of international industry trends occurring in sectors other than fresh produce, CEO, Michael Simonetta, identified that **significant benefits could be achieved through developing strategic relationships with customers and suppliers.** While a difficult strategy to follow, Michael believed that adopting such an approach would enable PFA to **capture greater value for themselves and their business partners.**

Believing that the internal capabilities of PFA and its business partners would be the most important determinant of success in a rapidly changing industry, PFA began to focus its resources on encouraging participants to view themselves as part of one interlinked process.



*A commodity is only a commodity as long as you think of it as a commodity.*

*Innovation in process and procedure, as well as product, would be the cornerstone of PFA's future success.*

PFA and its business partners would comprise a value chain stretching from primary production to consumption by consumers; **with success relying on everyone consciously working together more closely, and exchanging information more freely, than in the past.**

As the organizations steadily exchanged more information, they began to understand each other more intimately. They began to see that many of the challenges they had faced had been created by the system in which they had operated for so long. If they were able to redefine the system, PFA and its business partners could address factors that had previously been considered unsolvable and had led to feelings of animosity and distrust.

While PFA had purposely redefined its business model, unintentionally it had shown that once people change their view of the system in which they operate, they view other things differently too, including that a commodity is only a commodity as long as you think of it as a commodity, and that new opportunities arise from no longer viewing a product as a commodity that has little intrinsic value.

No longer considering products such as cauliflower, lettuce and broccoli as mere commodities provided the PFA chain with opportunities to capture added value from the products, and the processes used to produce, deliver and market those products to consumers. Looking at other industries, PFA realized that financial value could be created from the processes involved in procuring, handling and marketing products throughout the chain. Innovation in process and procedure, as well as product, would be the cornerstone of PFA's future success.

*Innovation and strength would be encouraged through the establishment of a relatively flat organization, resulting in greater communication between functional departments.*

Achieving this new approach, where people and behaviour would be integral to success, would require a governance system that was sufficiently rigid to keep the company's entire operations on the same strategic path, though sufficiently flexible to motivate the people involved to challenge each other to continually improve as a team. Learning how to do the right things would translate into financial strength. Innovation and strength would be encouraged through the establishment of a relatively flat organization, resulting in greater communication between functional departments.

In operations and logistics, PFA developed what is essentially a two-fold approach. Larger corporate retail and foodservice customers would be supplied directly through specialized logistical facilities. Smaller customers would be supplied through market stands or warehouses, where deliveries could be aggregated to improve economies.



**Specialized Logistical Facilities**



**Corporate Retail / Foodservice**

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**Market Stands / Warehouses**



**Smaller Customers**

*Facilitation of information would be used as a catalyst for motivating innovation according to market demands.*

As PFA developed more specialized products, this approach also heightened customer 'switching costs', making them more likely to use PFA as their sole produce supplier. PFA would no longer be an arbitrator that survived by controlling information within the food chain. It would strategically embed itself in the value chain by facilitating, not preventing, information exchange. Facilitation of information would be used as a catalyst for motivating innovation according to market demands.

*"Because you're not competing against anyone, you help each other more ... By being involved with Perfection (Fresh) and the other farmers, and knowing that the other farmer can't grow any more than (Perfection) want you to grow, you feel obliged to help (each other)." – Tim Linnan, Horticulture Producer, Gatton, Queensland*



## **BENEFITS**

Focusing on developing closer long-term relationships with customers and suppliers has ultimately led to a reduction in financial uncertainties, not least by enhancing transparency throughout the chain and enabling businesses, from farmers through to customers, to plan and manage their businesses more effectively. Greater information sharing along the chain enables more appropriate allocation of resources for exploiting commercial opportunities. For example, the product development process is structured around requirements identified by PFA's marketing team, through discussions with its extensive customer base. The ability to gauge a product's likelihood of commercial success earlier in the development process enables PFA and its business partners to invest resources more effectively. So much so that several plant breeding companies have aligned themselves with PFA.

Treating products with greater care and attention has reduced costs below those usually associated with a commodity trading approach. Greater attention to maintaining quality by improving processes throughout the value chain has increased margins and profitability. Suppliers benefit financially through better prices. Working collaboratively with other growers has provided insights that have allowed them to save costs and better manage their own operations. Consumers benefit by not having to pay higher prices for consistent quality produce, which indirectly provides added competitive advantage. Everyone is a winner.





Two products in particular have become the hallmarks of PFA's success: The Original™ grape tomato and Broccolini®. The products have enabled PFA to increase financial performance through a number of avenues including expansion of traditional markets, opening doors to new markets, and securing added validity and recognition among increasingly discerning consumers.



The most successful in terms of market share and financial performance is The Original™ grape tomato. A multi-million dollar crop that has averaged 48 percent annual growth for the last four years, Perfection's The Original™ grape tomato won the coveted 2003 SIAL D'Or prize for the World's Best New Fruit & Vegetable Product.



Similar to other PFA initiatives, The Original™ grape tomato (OGT) project succeeded through the existence of a value chain partnership, involving seed companies, producers, and retailers. The following organizations were chosen by PFA for their production and management acumen and willingness to operate as a coordinated group: seed companies, De Ruiter, who bred the chosen variety, and Rijk Zwaan, who distributed the seeds and provided agronomic support; Withcott Seedlings, who ensured that producers received strong virulent seedlings and the ideal age of planting; producer, Tim Linnan; and retailer, Woolworths, who supported the initiative from the outset and continue to be the preferred retail customer.

***“There are growers that like to focus on filling boxes up and selling boxes of tomatoes, and there are others that like to sell tomatoes in boxes.” - Steven Roberts, Rijk Zwaan, Seed Distributor, in reference to the OGT initiative.***

For PFA, replicating lessons learnt from the OGT initiative across its entire operations has enabled the company to establish closer more effective links with more than 2,000 producers and significantly reduce costs across its entire business.



Many producers are also attaining far greater levels of profitability than previously. Retailers and foodservice operators are also benefiting, as are the seed companies, many of which have developed new successful value chain alliances with PFA for other products as well as with other companies. PFA has successfully launched more than 35 products using the exact same approach.

## PERFECTION FRESH AUSTRALIA

Formed in 1978, Perfection Fresh Australia (PFA) is a family owned company headquartered in Sydney, Australia. Competing on price against 150 other commodity traders situated within the Sydney wholesale market, market share had come at a cost. By 1992, PFA was close to bankruptcy. Fifteen years later **PFA has expanded at an average of 12.8 percent annually into a 100+ million dollar national company with operations in Sydney, Melbourne, Brisbane, Bundaberg and Perth.** It also operates seasonal offices in the Northern Territories, has financial interests in greenhouses and mango plantations, and operates produce packing facilities in Queensland, New South Wales and Western Australia.

While PFA's target market has not changed radically since its establishment in 1978, the manner in which it supplies those markets has. Consolidation in retail has resulted in a smaller number of more sophisticated, demanding customers, corporate and independent alike. PFA also supplies foodservice operators that range in size from independent restaurants and conference/leisure centres through to national Quick Service Restaurants (QSRs), including McDonald's and TriCon (KFC, Taco-Bell, Pizza Hut). It also exports to retail and foodservice customers located in South East Asia, Europe, and the United States.

A **PERFECTION FRESH** case study interview is included in the Value Chain Management Centre's DVD 3 Disc Set, which features interviews with participants of eleven successful value chains.

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