

THE WEEKLY Link

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Agri-food supply chain management from farm to fork

Supply chain management has certainly been one of the hottest topics in agribusiness management circles in recent years. But, what is its relevance to agribusinesses and farmers?

During the Asia Fruit Congress held in Bangkok last week, the challenges of establishing an effective agribusiness supply chain were discussed. Despite reducing tariffs on imports, the rapid growth of supermarkets and hypermarkets and increasing consumer demand for fresh products with greater variety, low cost, greater safety (pesticide-free), relatively little progress has been made to help farmers both locally and overseas adapt to the new regulations and realities of supplying fresh fruit and vegetables to large retailers in new and expanding markets.

As with any management concept, supply chain management (SCM) means different things to different people. To most, SCM is all about logistical efficiency and efficient transport handling and storage of physical products through the various stages of production and distribution to the end consumer.

In adapting to the new supply chain initiatives of retailers, farmers are still experiencing considerable difficulties. Developing an effective agri-supply chain, however, is a complex task. The issues include:

- ♦ Difficulty meeting quality standards and stringent delivery standards;
- ♦ Post-harvest perishability, limited infrastructure and handling problems;
- ♦ Minimal cold chain infrastructure for smaller picking and order quantities;
- ♦ Ensuring produce has minimal pesticide residue levels;
- ♦ Longer-term contracts being placed by retailers requiring off season supply;
- ♦ Retailers working with fewer suppliers, which squeezes out smaller farmers;
- ♦ Maintaining continuity of supply throughout a season;
- ♦ Adhering to planting schedules advised by retailers, and;
- ♦ On site (quality and safety) inspections by retail procurement staff.

Additional problems farmers face in dealing with large retailers include:

- ♦ Forward contracting to limit spot pricing

and off-season incentives;

- ♦ Cost-squeezing amid increasing expectations and renegotiation of prices;
- ♦ Unwillingness to extend traditional trading loans with long-payment terms;
- ♦ Exclusion of small farming groups in overall planning;
- ♦ Promotional price compliance and service penalties.

To minimise these problems, knowledge of good practices needs to be shared among all those involved, from farmers, packing houses, agents, shippers, wholesalers, food processing companies, distributors and retailers — and especially government regulators.

This knowledge needs to include improved product design and packaging, understanding of market preferences, food legislation, optimal growing schedules, post-harvest handling and storage, safety issues (such as minimising chemical and pesticide residues to levels below agreed standards), cold chain management, consumer preferences, distribution logistics and integration. An effective supply chain is one that facilitates the sharing of all these forms of knowledge.

With more than 200 outlets across Thailand, large modern retailers continue to stimulate demand, particularly for fresh produce and processed foods. The hypermarkets, such as Carrefour and Tesco Lotus, along with supermarket operators such as Tops, Villa, The Mall and Foodland, are the biggest challengers to traditional grocers and wet markets. These retailers have also been responsible for introducing world-class fresh food and agri-supply chain technology and infrastructure to the region. The Tops Best in Fresh project is now an international business school case study.

New highly specialised Thai fresh food processing companies such as World Fresh, KC Fresh and Fresh Partners are also recognised as world leaders in high quality fresh product handling, health and safety, and cold chain integrity. Collectively as an industry, they have pioneered the successful introduction of efficient processing and delivery of fresh Thai produce to both local markets and throughout the world. With excellent capabilities for hand-

ling the international airfreight of perishables, operators such as British Airways lead in the rapid and efficient global distribution of Thai fresh produce.

International Third Party Logistics (3PL) companies (such as Linfox) have also revolutionised the transport, storage and delivery of chilled and frozen products to these large retailers with purposely designed vehicles and facilities, as well as highly experienced international staff with cold chain competencies able to manage total services contracts.

The threats to the market share and introduction of cold chain efficiencies have forced traditional grocers to no longer accept performance levels in distribution that they may have considered adequate in the past.

Additionally, most retailers have downsized their back rooms and food processing areas, requiring fresh distribution centres (DCs) to make more and smaller shipments, many as floor-ready pallets on a just-in-time basis. And because replenishment is based on what is sold daily, every order is unique. This requires retailers to have excellent sources of supply from produce growers available to meet both seasonal and weekly demand fluctuations.

In a strategic sense, the adoption of SCM in the agri-food sector requires all parties, from farmers through to the retail fresh produce buyers, to re-evaluate their business relationships.

This re-evaluation usually involves a shift in focus from an adversarial to a co-operative relationship. As a result, the competitive focus shifts from that of one between firms within one supply chain to that of different supply chains that service a common market segment.

Next week we will discuss the challenges facing the international food chain.

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Weekly Link is co-ordinated by Barry Elliott and Kanute Niruntasukkarut, as an interactive forum for industry professionals. Comments and feedback are welcome at bjelliott@alumni.uwaterloo.ca kanuten@ccint.net