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SE Business
HD **Adding a sweetener to the milk and honey gives us the power to make this the land of opportunity**
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FOOD FOR THOUGHT
TOP PROCESSED FOOD EXPORTS
Meat and meat products   $7.6b
Other food and beverage preparations   $3.9b

Dairy products    $2b
Cereal preparations   $811m
Oils and fats    $670m

TOP DESTINATIONS
Japan   $2.7b
United States  $2b
China    $1.4b
Total processed
food exported  $15.7b

TOP SOURCES
New Zealand  $1.9b
United States  $1.2b
Singapore  $833m
Total processed
food imported  $10.9b

SOURCE: DFAT, 2013
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If Gary Helou could restart his career, the boss of Australia's biggest dairy company says he would still bet on food manufacturing.

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"If you gave me a blank piece of paper and asked me what sector you wanted to be in and where you wanted to be located, you would pick food and you'd pick Australia," he says. "Food, because Asia is going to require a lot of food imports in the future, and Australia because we are such a rich, green, clean, highly reputable source of great foods."

With food processing making up almost a quarter of Australia's beleaguered manufacturing sector, it has been touted as a potential bright spark, especially in contrast to the dying car-making industry.

So why does the Australian food processing landscape look so bleak?

In the past five years, exports have been stagnant, down 0.1 per cent, at about $15.9 billion.

The outlook has been so dire that, this week, the Victorian government gave a Coca-Cola Amatil subsidiary $22 million to keep its Shepparton fruit cannery afloat. The global soft-drink giant will tip in $70 million to refit the plant.

But while SPC Ardmona workers' jobs have been saved, at least for the next three years, others haven't been as fortunate

Kellogg's will axe 100 jobs this year when it shifts its factory from the NSW central coast to Thailand. Heinz adopted a similar tactic in 2000 when it shut its factory in Dandenong in favour of New Zealand.

High labour costs, high tariffs and a high Australian dollar have been cited as significant headwinds for manufacturers and processors.

But that does not deter Helou. He sees Australia as a land of opportunity and, as managing director of Murray Goulburn, he is prepared to make the most of it.

"We are high cost, but you build around that," he says. "You automate. You don't design heavy manualised operating plants.

"You still have people working in the plants but they are doing very highly value-added **business**. It's about automation, it's about cost leadership."

Last April, Murray Goulburn signed an unprecedented 10-year deal with Coles to supply daily pasteurised **milk**. This has allowed the farmer co-operative to build two factories in Sydney and Melbourne and complete upgrades in a "sector that has been stagnant and under-invested in", Helou says.

New plants and updating are crucial in competing with the world's biggest **dairy** exporter, New Zealand, which has **milk** dryers 10 times more efficient than Australia's.

Coles spokesman Robert Hadler says those companies that fail to invest in new equipment will struggle. "We have the sixth-highest labour costs in the world," he says. "Productivity in Australia has been moving backwards not forwards. But a lot of that is not to do with workers, it is to do with old and inefficient equipment in factories."

Although processors, including SPC, have battled greater competition from private labels, Helou believes branded and home products can co-exist

"Those companies that define their life around the domestic market drivers will have a very, very difficult time, in my opinion, because the scale and the growth is not only in Australia but also internationally."

But he says the key to survival isn't as simple as cutting costs and having more of an export focus.

"Unfortunately, for many Australian food processors, they tend to focus on an Australian perspective and surplus to be **sold** internationally. I think those days are well and truly gone. You need to be making products that consumers in those international markets want."

SunRice chief executive Rob Gordon agrees. In the past two years, Australia's last remaining agriculture monopoly has more than doubled investment in marketing.

Gordon, who replaced Mr Helou after he resigned from SunRice in 2011, says innovation is important in keeping food manufacturers' place on supermarket shelves and for international expansion.

He says Asia is an important emerging market, despite it being the world's biggest producer of the grain and having much lower labour costs. He says the **company** isn't aiming to compete "head-to-head" with Asian manufacturers.

"We are not about ... trying to feed the masses with a low-priced commodity," he says. "We are growing a crop in Australia.

"We are converting it in Australia by adding value to it, packing it, etc, and then we are looking to sell it as a proposition to a large population of increasingly affluent people, who value the provenance, if you like, the clean environment that we're in."

SunRice has recovered from the worst drought to hit the Riverina in 100 years, during which rice production collapsed from 1.5 **million** tonnes in 2002 to 19,297 tonnes in 2008. It has cut its debt and strengthened its balance sheet. Net profit rose 8.5 per cent to $16.3 **million** for the six months to October 13 last year compared with the same period in 2012. Revenue was 6.8 per cent higher at $554.3 **million**.

Gordon attributed the success to the **company**'s investment in new products, which were not only proving popular at home but internationally, as well. SunRice had launched a range of gourmet, premium and quinoa- and chia-blended rice.

"Our total supply chain isn't the cheapest in the world but we should have the smarts to develop enough value-add in our products that we get consumers in different markets to value it and pay us enough that we can make a good return to our growers and make a profit," he says.

Other changes SunRice has made include introducing upright resealable packs that take up less space on supermarket shelves than traditional pillow packs, as well as improving the range of semi-prepared meals and snacks.

"You have got to be first to market with something that consumers value and will pay for," he says. "As soon as you stop doing that, then you start falling back on 'how do I take cost out of the **business**' as being your only play.

"We always look to being more efficient. An amount of efficiency helps to pay for the investment in top-line development and, if you are pulling costs out as well as growing your top line, then your margins start to widen, start to improve, and, if you're selling more volume at higher margins, then you make more money."

While the Department of Agriculture, Fisheries and Forestry has forecast Australian food production will leap 77 per cent by 2050, challenges for growers and processors remain, NAB agribusiness economist Vyanne Lai says, believing the government has more of a role to play in reducing the input costs of manufacturers.

"The actual financial support going into the sector from the government is very limited," she says. "At the same time we are competing with larger producing countries that are already enjoying the economies of scale, and are getting a lot of support in terms of subsidies and price supports.

"It just means the input prices of those processing plants are higher because they have to pay a higher farm-gate price for raw materials."

But Helou is adamant the government should steer clear of financially supporting companies. "I am strongly opposed to governments bailing out companies. That's not their **business**.

"Their **business** is to provide the policy framework ... the industrial-relations environment, the free-trade-agreement environment, the framework of an environment that shapes an industry.

"We will make the investment and we will call the strategy. That's the role of **business**."

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