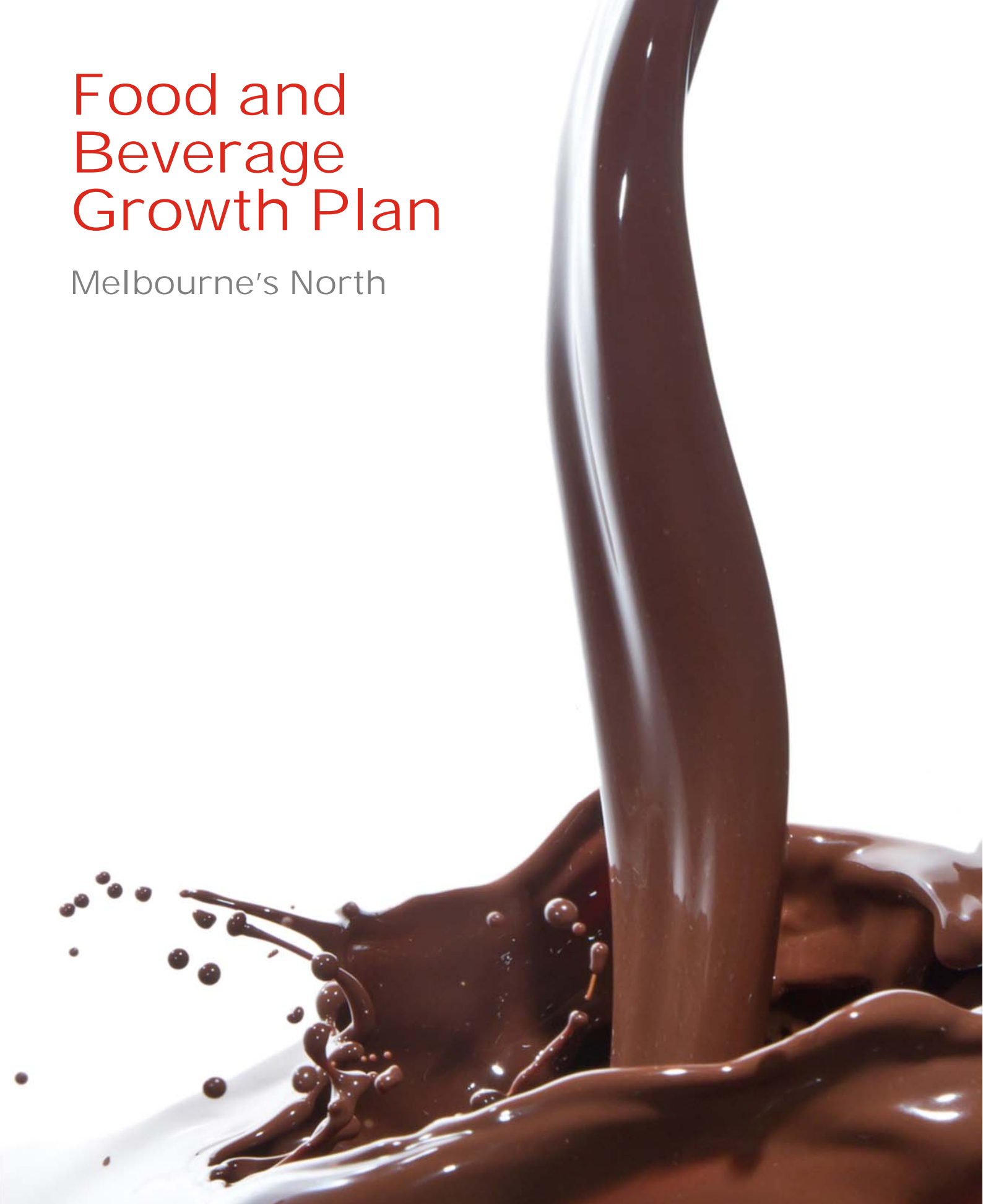


# Food and Beverage Growth Plan

Melbourne's North



## The Food and Beverage Growth Plan – Melbourne’s North

The Food and Beverage Growth Plan – Melbourne’s North has been prepared on behalf of the Northern Melbourne Regional Development Australia (RDA) Committee by McKINNA *et al.*

The report provides a detailed analysis of the food and beverage processing and distribution sector in the northern Melbourne region, covering seven local government areas. It concludes that there is a wealth of opportunity to be built on despite the many issues facing the industry and area.

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We also thank the food and beverage industry representatives who willingly gave their time and knowledge in interviews and group discussion sessions.

## Consultants

Dr David McKinna and Ms Catherine Wall from McKINNA *et al* for their work in completing the project and their interpretation of the many interviews with businesses and stakeholders. This has resulted in the authorship of a ground-breaking report with recommendations that will generate significant national, state and regional economic impacts.

## Editorial

The report was edited by Quarry Hills Consulting and Carmine Consulting.

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# Foreword

Unprecedented population growth combined with major economic and social challenges for global and local economies continue to have a significant impact on Melbourne's North. It is imperative that new opportunities for business and employment growth are identified and nurtured.

Melbourne's North is evolving from a manufacturing region towards a knowledge economy region, in which high-tech manufacturing has been retained and research hubs are being developed. Manufacturing is still a major industry and employer of residents. However, the cessation of manufacturing at the Ford plant in 2016 will have serious implications for the regional economy that cannot be underestimated.

This Food and Beverage Growth Plan project was initiated by the Northern Melbourne Regional Development Australia Committee and developed in collaboration with project partners NORTH Link, the Australian Government Department of Employment, the Victorian Government Department of State Development, Business and Innovation (Bundoora office), La Trobe University and RMIT University.

A food and beverage manufacturing hub in Melbourne's North has been identified as a significant opportunity for Victoria as the industry cluster continues to rapidly develop. From a long-term and strategic perspective there are issues such as the importance of food security, growing demand for food products in the Asia Pacific and increasing opportunities (as wealth and populations grow) for value adding to food products. Food safety is important and the ability to provide safe and uncontaminated processed foods is vital for future export opportunities.

The relocation of the Melbourne Wholesale Fruit, Vegetable and Flower Market to Epping in 2015 will add further stimulus to food and beverage manufacturing by strengthening the local supply chain and expertise.

The region's two universities have strong programs in the food science area. La Trobe University is considered the leader in pre-farm gate education programs and RMIT University is considered the pre-eminent provider of post-farm gate education programs. Melbourne Polytechnic and Kangan Institute also have courses related to the food sector.

The Australian Government's National Food Plan specifically identifies the benefits of empowering food regions and the importance of developing regional food plans. Its aim is to increase the value of food related exports from Australia by 45% and to increase food productivity by 30% by 2025.

With this report, Melbourne's North has produced a regional strategic growth plan for the food and beverage sector that identifies the areas of competitive advantage held by the region. Detailed analysis identifies the challenges and opportunities for businesses and highlights the importance of market research, strategic targeting of new markets and development of new products. The plan examines the critical success factors and actions that can grow the sector from \$2.6 billion turnover to \$5 billion over the next 10 years and create an additional 7,000 jobs in the process.

The project partners are continuing to collaborate with the food and beverage sector, all levels of government and the research and education sector to implement the report recommendations and maximise the significant growth potential identified for the food and beverage sector in Melbourne's North.



Bob McQuillen  
*Chair*  
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# Executive summary

This document presents a growth plan to develop the food and beverage processing and trading sectors in Melbourne's northern metropolitan area. The project was commissioned by the Northern Melbourne RDA Committee (NMRDA) and facilitated in partnership with NORTH Link.

The objective of this report is to profile the local food and beverage sector, pinpoint the region's areas of competitive advantage and identify opportunities to grow the industry by highlighting blockers to growth and strategies required to respond to them.

Melbourne's North comprises seven LGAs: Banyule, Darebin, Hume, Moreland, Nillumbik, Whittlesea and Yarra. The region has approximately 400 food and beverage businesses with a turnover in excess of \$1 million<sup>1</sup> that generates a gross regional product (GRP) of \$2.6 billion per annum<sup>2</sup> and a business value added (BVA)<sup>3</sup> measure of \$841 million per annum (see NIEIR report in the Appendix). It is estimated that these businesses employ 10,559 workers (see Appendix). Melbourne's North generates 13% of Victoria's gross domestic product (GDP)<sup>4</sup> and 13% of its BVA (see Appendix).

Melbourne's North leads the state in production of food categories such as Bakery, Confectionery, Dairy, Seafood and Meat. It is home to an eclectic mix of artisan businesses including boutique micro-breweries, premium chocolate makers, coffee roasters and gourmet food distribution companies as well as multinational food and beverage manufacturers such as Mission Foods, Baxters and Nestlé. The ethnic diversity of food produced is reflective of the region's multicultural heritage and part of its identity.

The defining characteristic of the food industry in Melbourne's North is that it predominantly comprises small and medium sized enterprises (SMEs). While this presents challenges, it also offers long-term economic growth potential. The diversity of the sector and its niche markets gives it a degree of protection from the fiercely competitive globalised food market. This is an important point of competitive advantage.

There is opportunity for growth, as most of the SMEs have the potential to double their business within a decade. At a time when the large corporate food companies are relocating offshore these smaller companies are growing, taking advantage of alternative channels to market besides supermarkets.

The region has a strong education and training presence, including RMIT University, La Trobe University, Melbourne Polytechnic (previously NMIT) and Kangan Institute. The relocation of RMIT's food-processing courses and 'pilot plant' to the Bundoora campus brings a highly valuable resource to the region.

---

<sup>1</sup> Explained in Section 2.5.1.

<sup>2</sup> This figure was confirmed verbally with NIEIR.

<sup>3</sup> Business value added is defined in Section 2.6.

<sup>4</sup> NIEIR, 2011, *Melbourne's North: Socio-economic overview*, p.5

Notably, the report highlights the fact that the knowledge base offered by these educational institutions is not being fully leveraged. There is a definite disconnect between the SMEs, who are not innovation-ready, and the educators, whose service offering and delivery methods are not meeting SME needs and expectations.

The report paints a picture of the current Australian food and beverage sector environment and the challenges it faces. It highlights the fact that the food industry in Australia is undergoing a difficult time, characterised by:

- domestic production being relatively flat; the Australian Food & Grocery Council (AFGC) reports a decline of 1.2% since 2010<sup>5</sup>
- declining profitability and margin pressure driven by deflationary food prices and rising production costs
- increased competition from imports
- declining exports and increasing imports
- global food companies relocating offshore
- industry consolidation and structural adjustment.

The analysis identifies the driving forces impacting on the food industry:

- a retail dynamic fuelling the growth of private label products and reducing margins
- a food service sector that is rationalising and restructuring
- the high Australian dollar
- increasing input costs, particularly labour and energy costs
- the challenges of accessing the required labour
- increased compliance requirements
- consumer frugality
- social accountability and social licence.

The report provides insight on issues specifically impacting on the performance of the food industry in Melbourne's North, most of which emanate from the fact that the sector is predominantly SMEs.

Key issues include:

- daily pressures of running a business
- lack of strategic direction and planning
- managing the issues associated with growth
- difficulties of breaking through the corporatisation ceiling
- challenge of finding profitable markets
- lack of quality market intelligence and insight that impacts on decision making
- challenges in taking advantage of the Asian opportunity
- managing the growing compliance burden
- overlap of government assistance
- disconnect between the services offered by universities and training providers relative to the needs of SMEs
- businesses under-investing in and under-valuing the importance of innovation
- impact of population growth, particularly the higher density developments in the inner suburbs.

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<sup>5</sup> Food Processing Industry Strategy Group, 2012, *Final report of the non-government members*, p.33.

The report highlights the fact that the food sector in Melbourne's North has areas of competitive advantage that can be leveraged.

These include:

- location relative to metropolitan markets and supply bases
- transport connectivity
- access to a residential workforce
- available and relatively affordable land
- Brand Melbourne's global food status and profile
- ethnic diversity and cultural richness
- access to support services
- potential contribution of universities and training providers.

The strategic analysis has identified substantial opportunities to grow the food industry within the region, principally through growth of individual businesses. This growth is forecast to be in the vicinity of industry value reaching \$5 billion, resulting in the creation of 7,000 plus new jobs.

The best opportunities for growth will come from pursuing:

- new and novel products
- new geographies
- new channels to market
- new business models

The report also identifies a number of significant growth blockers, including:

- shortage of capital
- lack of strategic direction and planning
- lack of managerial resources and sophistication
- lack of investment in new product development and innovation to improve processes and productivity
- a reluctance to engage with support services and other businesses in the sector
- lack of export readiness in some companies
- market power of supermarkets and the challenge of finding profitable alternative markets
- Australia's lack of competitiveness in global commodities and the need to create new and novel products that can command a premium
- lack of a strong industry voice and leadership.

The report outlines a strategy to take advantage of opportunities and address constraints to growth.



It comprises four stages as illustrated in the following map.

Figure 1 – Strategy map

## THE FOOD AND BEVERAGE GROWTH PLAN

### GROWTH PLAN INTENT:

To build on the competitive advantages and opportunities within the food and beverage sector in Melbourne's North to grow jobs and investment across the region

#### GROW INDUSTRY CONNECTIONS AND CAPABILITY

1.

Establish an industry-owned representative organisation to:

1. Connect the industry to share knowledge
2. Build capability to achieve business growth
3. Elevate industry professionalism
4. Develop new markets and channels
5. Leverage growing global demand.

#### DRIVE INNOVATION AND PRODUCT DIFFERENTIATION

2.

Facilitate the formation of an innovation cluster that assists industry to:

1. Develop differentiated premium products
2. Leverage new technology
3. Improve systems and processes
4. Streamline supply chains
5. Conduct research to ensure businesses are guided by market signals.

#### ADDRESS SKILLS DEVELOPMENT AND LABOUR AVAILABILITY

3.

Establish a skills cluster to:

1. Up-skill permanent staff
2. Create pathways to further education for workers
3. Create pathways to employment for students
4. Grow managerial capacity
5. Look at ways to improve access to trained casual staff.

#### POSITION MELBOURNE'S NORTH AS A FOOD AND BEVERAGE HUB

4.

Actively promote the region's food and beverage sector:

1. Develop an investment prospectus
2. Facilitate development of a processing/ warehousing precinct
3. Establish a regional trade brand
4. Strengthen industry's voice via advocacy
5. Encourage regional food tourism.

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Part

A

Overview



# Section 1 | Introduction

This report presents a strategic growth plan for the food and beverage processing and trading sectors across the northern metropolitan Melbourne area.

The development of this plan was initiated by the Northern Melbourne RDA Committee (NMRDA). In commissioning it, NMRDA correctly identified the food sector as an important part of the regional economy and a sector with great potential for growth. This research supports the assertion that the region's food industry has distinct areas of competitive advantage, which will allow it access to the forecast growth in global demand for food products.

Yet despite the scale of global opportunity widely forecast, the local industry faces many challenges that are outlined in this report and responded to in the strategic recommendations.

Broadly, the report is divided into the following parts:

Part

A

**Part A** presents the introduction, methodology, project background and scope.

Part

B

**Part B** maps out the food industry in Melbourne's North and profiles key industry sectors as well as the education sector.

Part

C

**Part C** presents a strategic situation analysis, which identifies and discusses the opportunities, challenges and performance issues that are critically impacting on the performance of the food and beverage industry in Melbourne's North.

Part

D

**Part D** outlines strategic recommendations to maximise opportunities for the region's food and beverage industry and address the blockers and challenges that are standing in the way of success.

## Project objectives

The aim of this project is to identify barriers to growth and develop a strategic plan for growing the food and beverage sector in Melbourne's North. It will position the sector to capitalise on the opportunities and address the challenges of trading in a globalised food market.

The plan maps out a practical and collaborative approach to growing the food and beverage sector by strengthening the dialogue between industry, educational institutions and government.

The project brief outlines expected outcomes from this work, which are repeated here for reference:

1. *Describe the region's food processing advantages.*
2. *Articulate the economic benefits of a food plan.*
3. *Recommend strategies for new investment and growth in the food processing industry over the next 10 years.*
4. *Assess the current strengths, weaknesses, opportunities and threats of the region's food sector.*
5. *Identify specific strategic responses.*
6. *Integrate recommendations with the national and state food plans.*
7. *Develop a prioritised action plan.*
8. *Identify opportunities to generate stronger linkages between stakeholders in the sector.*

## Project methodology

The methodology used to conduct this project is indicated in the schematic below.

### Methodology steps

#### **Stage 1: Mapping the regional food industry**

Familiarisation and briefing	1.1
Stakeholder engagement	1.2
Review of relevant documentation	1.3
Mapping	1.4

#### **Stage 2: Analysis and insight**

Core competency and competitive advantage analysis	2.1
Future scanning	2.2
Challenges and opportunity analysis	2.3
Strategic situation analysis	2.4

<b>Stage 3: Food and Beverage Growth Plan</b>	<b>3.0</b>
---	------------

The methodology included both qualitative and quantitative research as well as strategic analysis. The qualitative research in step 1.2 included three round table discussion groups with food and beverage sector operators in Hume, Whittlesea and Darebin and interviews with senior managers and proprietors of individual businesses across the region. The engagement sample size was in excess of 70 individuals.

The criteria for selection of companies was to cover a range of product categories and a diverse sample of business sizes. Participating companies were identified by recommendation from councils and from McKINNA *et al*'s own contacts.

The format for the discussion groups was an open forum with two moderators guiding the discussion topics to probe:

- general industry dynamics and market conditions
- challenges/blockers to business growth
- the role of government and industry in sector development
- export market issues
- labour issues
- innovation and R&D in reference to engagement with research and educational institutions.

Data modelling was provided by NIEIR, who extrapolated available Australian Bureau of Statistics (ABS) data sets. The NIEIR data was cross-referenced against the northern Melbourne food sector database compiled by McKINNA *et al* during the project.

In addition to consultation with industry, engagement included representation from the following stakeholder groups:

- Department of Education and Early Childhood Development
- Department of State Development, Business and Innovation
- each of the seven local government areas (LGAs) in Melbourne's North
- Enterprise Connect
- Food Innovation Australia Ltd (FIAL)
- La Trobe University
- Major Projects Victoria
- Melbourne Airport
- Melbourne Market Authority
- NMIT (now Melbourne Polytechnic)
- NORTH Link
- NMRDA
- Plenty Food Group
- RMIT University
- VECCI.

## Project scope

It is important to specify the scope of this growth plan at the outset because 'the food and beverage sector' can be broadly interpreted.

The food industry needs to be viewed as a system: a continuous supply chain from on-farm production (including inputs) through to retail or food service outlets and then on to the end consumer.

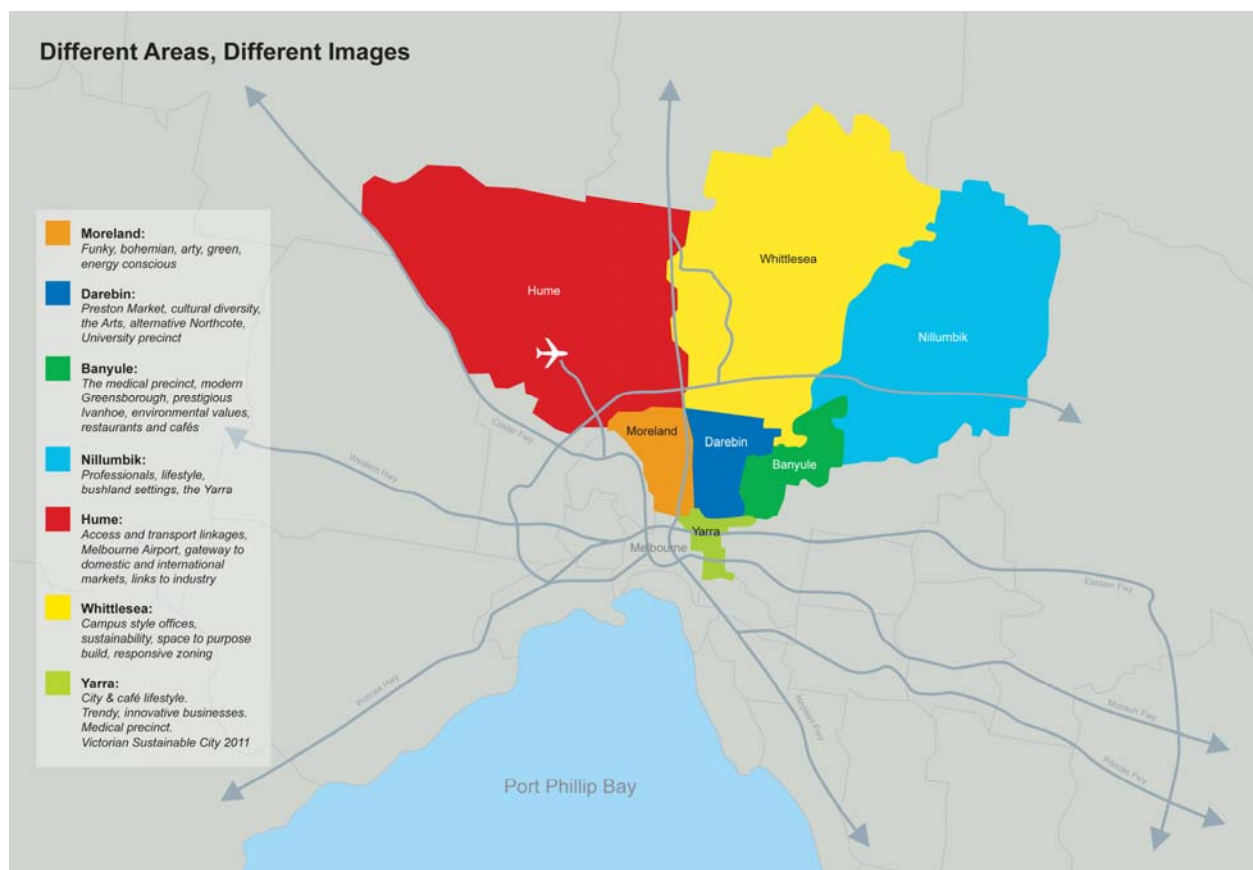
This study focuses on the processing, importing and distribution parts of the supply chain and on the businesses that are turning over more than \$1 million per annum (although the ABS data compiled by NIEIR for this report may include a number of businesses with less than \$1 million turnover).

Melbourne's North includes a large number of small and micro-businesses engaged in food processing or distribution of some kind that are not covered in this study. Also outside the scope of this study are the region's many eating establishments.

Northern Melbourne has some very significant agribusinesses where first stage value adding occurs on farm (e.g. wine making and mushroom production). These agricultural businesses, which are mostly located in the green wedge areas of the region (within Nillumbik, Hume and Whittlesea), are provided for in the growth plan where the issues they face are comparable to processing in an urban context. While there are some notable exceptions, many of the agribusinesses in the urban interface area are small land holdings and lifestyle farms with relatively few employees. Although these businesses are not the focus of this report, they are important to the study as they contribute to liveability in the region and have potential for agri-tourism.

The geographic scope of this growth plan covers the seven LGAs that comprise Melbourne's North (as indicated in the following map).

Figure 2 – Map of Melbourne's North with LGAs highlighted



Source: NMRDA 2011



Part

B

Northern Melbourne  
food and beverage  
sector mapping



## Section 2 | Overview of Melbourne's North food sector

### 2.1 | About the region

The food and beverage sector in Melbourne's North comprises an eclectic mix of processors, importers, exporters, distributors and their various service providers. The industry culture and behaviours are influenced by a diverse population that includes the artistic and cultural heartlands of Yarra, the ethnic diversity of Darebin and Moreland, the transport and industrial corridor of Hume, the geographic diversity of Whittlesea and the natural environment of Nillumbik.

It is not by chance that the region is the home of a strong food and beverage processing sector. Factors including location, services, culture and environment all come in to play.

Melbourne's North has easy access to key transport infrastructure such as ports, highways, rail and airports. Beyond the logical advantages of highway access, Melbourne Airport is significant to the local food sector because it has given rise to several businesses preparing meals for airlines or handling fresh food for airfreighting. The airport is an important hub for both inbound and outbound fresh food freight.

Melbourne's North also contains a range of service providers that support the food industry including plant and equipment suppliers, transport and logistics providers, specialist consulting services and training operators.

The region is home to prominent universities, other educational institutions and research institutes with specialisation in food including RMIT University, La Trobe University, Melbourne Polytechnic (previously NMIT) and Kangan Institute, which are profiled in more detail later.

Melbourne's North will also be the new home of the Wholesale Fruit, Vegetable and Flower Market, which is scheduled to open in 2015 in the Whittlesea suburb of Epping. The market will house wholesalers and traders as well as support services such as transport, forklift servicing, refrigeration servicing, food outlets, banks and offices.

There is a sound argument for government support of this food and beverage region because it represents a number of stable sectors with significant growth potential.

Specifically, the food and beverage industry here is poised to benefit from the growing Asian demand for premium foods, the increasing domestic popularity of specialist ethnic foods (fostered in part by a growing multicultural consumer base) and consumer trends relating to healthy and diverse eating patterns.

## 2.2 | Key stakeholders

Melbourne's North has a number of significant bodies that add weight to the region's food and beverage credentials. In addition to the many processors and other food related businesses, the agencies responsible for delivering food initiatives from all three tiers of government are present in the region as well as important food and beverage education and research institutions.

**Table 1 – Key stakeholders**

TYPE	ORGANISATION
Regional organisations	NMRDA NORTH Link Food North
Industry	Various food and beverage manufacturing and support enterprises Melbourne Airport Melbourne Wholesale Fruit, Vegetable and Flower Market
Australian Government	Food Innovation Australia Ltd (FIAL)
Victorian Government	Department of State Development, Business and Innovation (Bundoora office) Department of Environment and Primary Industries (Centre for AgriBioscience)
Local government	Plenty Food Group The 7 LGAs: <ul style="list-style-type: none"> <li>• Banyule</li> <li>• Darebin</li> <li>• Hume</li> <li>• Moreland</li> <li>• Nillumbik</li> <li>• Whittlesea</li> <li>• Yarra</li> </ul>
Educational institutions	La Trobe University RMIT University Melbourne Polytechnic (NMIT) Kangan Institute

Four of the above organisations that require further elaboration are NORTH Link, FIAL, Plenty Food Group and Food North. The education stakeholders are profiled later in the report.

### NORTH Link

NORTH Link drives a number of regional economic agendas in Melbourne's North in partnership with NMRDA, all levels of government, business and educational institutions, and is highly influential in advancing the region's food and beverage sector.

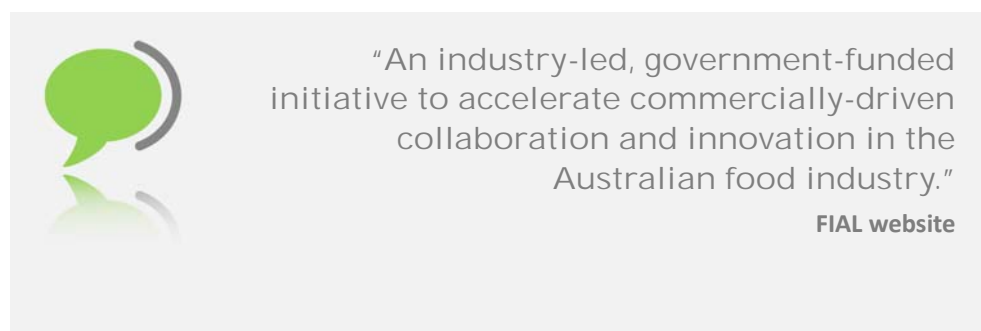
While the NORTH Link mandate embraces wider sectoral responsibilities than food and beverage, it is a major area of focus because of its importance to the region's economy (an example of this is NORTH Link's role in managing delivery of this report.)

Many food companies in the region have also directly benefited from the tailored assistance programs offered by NORTH Link through the Entrepreneurs' Infrastructure Program (formerly known as Enterprise Connect), which has introduced a culture of strategic business planning.

Importantly, one of the NORTH Link business mentoring executives has CEO level experience in food manufacturing.

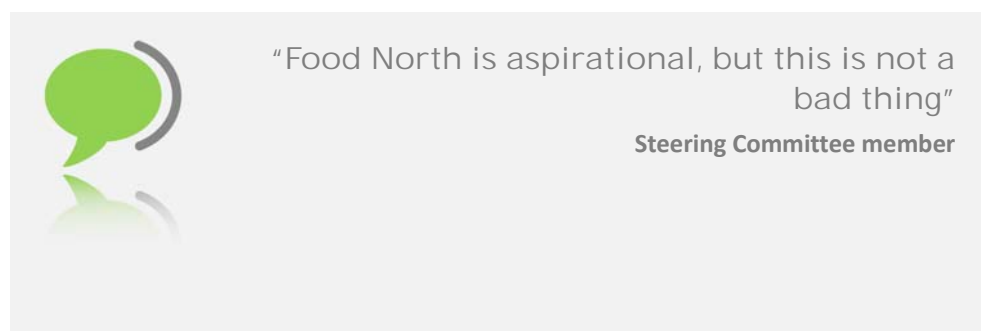
## FIAL

Food Innovation Australia Ltd (FIAL) is a national body that was established to improve the competitiveness of Australia's food industry and grow the sector. It works to create new information, tools and connections by leveraging existing information, research and other capabilities and resources across the country to enable organisations to invest, innovate and grow.



FIAL is seen as an asset to northern Melbourne's food sector in that its head office is located at La Trobe University's Technology Enterprise Centre.

## Food North



Recognising the wealth of research, education and industry activity in Melbourne's North and global threats and opportunities around food and nutrition, La Trobe University recently championed the development of a food R&D precinct which, in collaboration with RMIT University, aims to bring together all the academic and research bodies engaged in furthering the food sector in Melbourne's North.

While the Food North concept is in its infancy, a steering committee has been appointed and has commissioned a preliminary paper advancing the concept, although its role has not yet been completely clarified.

With recent federal government changes to university funding models, universities will be more dependent on industry to generate funding for research. It appears that a key intention of the Food North initiative is to improve industry engagement in a 'Silicone Valley' type approach, where physical proximity facilitates increased collaboration.

## Plenty Food Group

The Plenty Food Group is an initiative funded by the City of Whittlesea and Hume City Council in recognition of the importance of food manufacturing to their municipalities. While its original intention was to provide support to food and beverage manufacturing companies and their suppliers within these two LGAs, its reach has extended more widely across Melbourne's North.

What began as an industry cluster initiative in 2002 has evolved into the main food and beverage industry reference group in the region. Its informal membership (there are no member fees) comprises small to large local and national food and beverage manufacturers as well as education providers and relevant industry bodies from all levels of government.

The wide reach and successful track record of the Plenty Food Group belies its limited resources (there is currently only one full time employee). The persistent and dedicated efforts of its group coordinator should also be acknowledged as a key contributor to its success.

While the Plenty Food Group acts as an information resource and conduit between industry and government, its key activity is facilitating cost-effective participation for local food companies in trade shows and trade missions, which would otherwise be unaffordable for them.

The Plenty Food Group is the main network for food and beverage companies in the region and is highly valued by local industry participants.

## 2.3 | Historical perspective

The northern suburbs of Melbourne have been at the epicentre of a pioneering movement in Australia's food history, which continues to evolve. It is here that the genesis of a 'Melbournian' food culture emerged, resulting in Melbourne being acknowledged globally as a cosmopolitan food capital.

Northern Melbourne was a popular place for post-war European migrants to settle and start food businesses. Their passion for food soon infiltrated the staid Anglo food culture they discovered here in the 1950s.

These early food manufacturing businesses, which were mostly cottage industry businesses servicing ethnic delis and restaurants, have morphed into larger mainstream manufacturers within only a few generations.

More recent waves of migration have introduced other ethnic influences and flavours to local food culture beyond eastern and southern Europe, including Asian, Middle Eastern and African. These later entrants to the region have kept up the tradition of introducing new food influences by manufacturing food derived from recipes from their homelands. The result is a rich cultural tapestry of food produced in Melbourne's North for consumption both here and overseas. This includes a range of food products bought and consumed locally by migrant communities in traditional fashion, adding new flavours to the fusion food to which Australian palates are now accustomed.

Historically, Melbourne's North was one of the main Victorian manufacturing centres and a powerhouse of the state's economy. While many of the traditional manufacturing sectors are declining (mostly automotive and textile, clothing and footwear), there is still a strong and growing food and beverage processing sector.<sup>6</sup>

Artisan food businesses have increasingly become a feature of the region's landscape due to the relatively low cost of local warehouse and factory space.

Northern Melbourne is home to boutique producers of chocolate, pastries, health foods, beer, cider and other speciality products. It also has numerous importers, roasters and distributors of boutique and mainstream coffee brands.

The breadth of artisan offering augers well for the sector because this is where much of the creative thinking and innovation is born that transforms today's small players into tomorrow's corporate success stories.

## 2.4 | National and state perspective

### Australian industry data

In 2012-13, the Australian food and beverage, grocery manufacturing and fresh produce industry grew by .09% to generate a total turnover of \$114 billion. In 2013-14 this industry employed almost 300,000 people (including approximately 220,500 in the food and beverage processing sector).<sup>7</sup>

In 2012-13, the industry contributed 33.7% of all jobs in the manufacturing industry.<sup>8</sup> However, it should be noted that employment declined as a share of the Australian workforce from 3.2% in 2005 to 2.8% in 2010, a 10% decline over that period.<sup>9</sup>

Food and beverage processing contributed \$91.6 billion to the Australian economy in 2012-13, with grocery contributing \$16.2 billion and fresh produce (growers) \$6.2 billion. Almost 29% of Australia's total manufacturing value (by turnover) is related to the combined sectors. The Australian Food and Grocery Council (AFGC) estimates that the industry value-added (i.e. total value of goods minus the cost of production) for food and beverage manufacturing is \$24 billion.<sup>10</sup>

No single industry classification within the Australian and New Zealand Standard Industrial Classification (ANZSIC) codes covers all aspects of food and beverage production. For example, the primary production of food is different to the canning and processing of food, which is different to the preparation of a meal in a restaurant. As a result, the production of food is scattered across a range of different industry segments.<sup>11</sup>

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<sup>6</sup> NIEIR, 2011, *Manufacturing in Melbourne's North: Now and into the future*, p.59.

<sup>7</sup> Australian Food and Grocery Council, 2014, *State of the industry 2014*, p.2.

<sup>8</sup> Australian Food and Grocery Council, 2014, p.46.

<sup>9</sup> Australian Food and Grocery Council & Kearney, AT, 2011, *2020: Industry at a crossroads*, p.1.

<sup>10</sup> Australian Food and Grocery Council, 2014, p.2.

<sup>11</sup> SGS Economics and Planning, 2009, *Economic significance of the food sector*, p.3.

A snapshot of the Australian food and beverage industry drawn from various references reveals the following key points.

- There are 13,015 businesses across 10 ANZSIC groups.
- Small and medium sized enterprises (SMEs) comprise 98.5% of businesses.
- The food and beverage processing sector is the largest employer in the manufacturing sector.
- Most of the manufacturing employment is situated in the eastern seaboard states of Victoria, New South Wales and Queensland.<sup>12</sup>
- The food industry as a whole produces \$30.5 billion in exports and \$11.3 billion in imports.<sup>13</sup>
- The Australian food value chain generates \$172 billion per annum including:
  - \$91 billion from food and beverage manufacturing
  - \$31 billion from exports.<sup>14</sup>

## Victorian industry context

The state of Victoria is the second-largest economy in Australia, accounting for nearly a quarter of the nation's gross domestic product (GDP).<sup>15</sup>

Food production and processing contributes 10.5% of Victoria's gross state product (GSP) and food processing comprises 21% of Victoria's manufacturing industry. Around three quarters (76%) of Victoria's 3,500 food processing businesses are SMEs. And the 25 largest food processing companies account for more than half (55.4%) of food industry revenue.<sup>16</sup>

Currently, Victoria is the largest employer within the food and beverage, grocery and fresh produce industry, with 31% of all jobs located in the state. New South Wales follows with 27%.<sup>17</sup>

Victorian manufacturers produce a diverse range of food products and beverages for export: dairy (\$1.9 billion), processed meats (\$1.4 billion) and cereal crops and cereal preparations (mainly wheat – \$1.3 billion) were the three largest food export items in 2011-12.<sup>18</sup>

According to ABARES<sup>19</sup> total employment in greater Melbourne's food manufacturing sector was 30,397 (2011 Census data). The NIEIR 2014 report (see Appendix) indicates that there are 10,559 FTE workers employed in the food sector in Melbourne's North. This suggests that Melbourne's North employs approximately 35% of Melbourne's total food workforce.

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<sup>12</sup> Food Processing Industry Strategy Group, 2012, p.67.

<sup>13</sup> Department of Agriculture, Fisheries and Forestry, 2013, *Australian food statistics 2011-12*, p.2.

<sup>14</sup> Lapidge, S, 2014, *Safe and saved food CRC*. p.4.

<sup>15</sup> Victorian Government, 2013, *Securing Victoria's economy*, p.8. Available at <http://www.premier.vic.gov.au/images/stories/documents/mediareleases/2012/December/SecuringVictoriasEconomy.pdf>, accessed 20 May 2014.

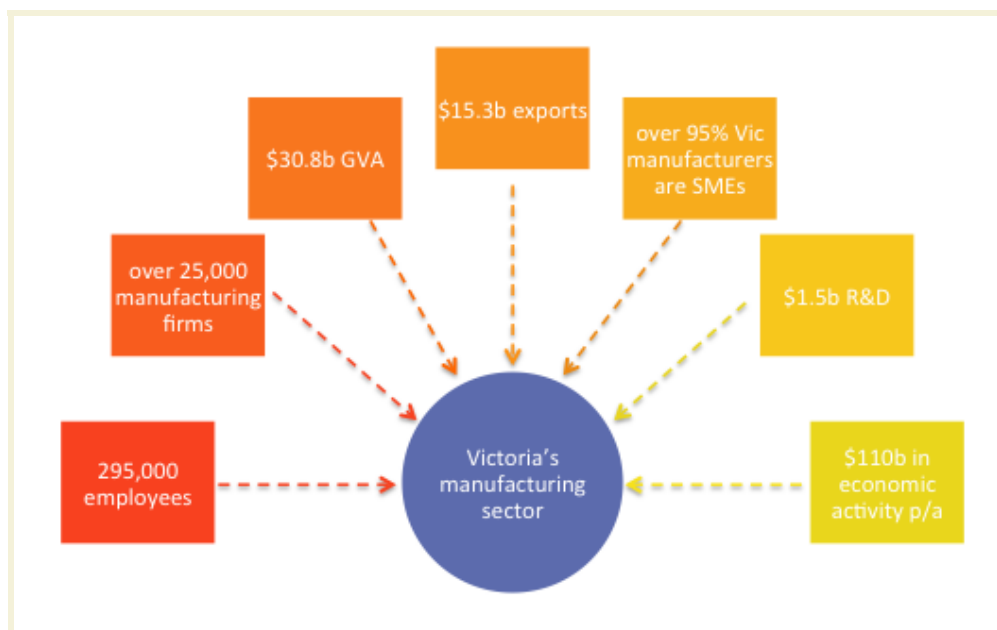
<sup>16</sup> Department of Environment and Primary Industries, 2014, *Food to Asia Action Plan*, p.8.

<sup>17</sup> Australian Food and Grocery Council, 2014, p.47.

<sup>18</sup> Department of State Development, Business and Innovation 2013, *Industry atlas of Victoria 2013*, p.76.

<sup>19</sup> ABARES, 2014, *Agricultural and fisheries in the greater Melbourne region of Victoria*, p.2.

Figure 3 – Snapshot of Victoria's manufacturing sector



Source: Deloitte 2014

## 2.5 | Industry size

### 2.5.1 Explanation of industry data

The ABS classifies food processing within the broader manufacturing sector, making it difficult to isolate meaningful measures about food and beverage production specifically.

Although ABS breaks this data down to a state level, there is little information available at LGA level, making the true economic impact of food and beverage manufacturing on the economy of Melbourne's North difficult to accurately pinpoint. The available data does indicate that the region is home to a large manufacturing base, of which food processing companies are the second largest employer.

Census data (ABS 2011) as modelled by NIEIR estimates that the food sector in Melbourne's North comprised approximately 488 businesses, which generated an estimated gross regional product (GRP) of \$2.6 billion (refer footnote 2) and a business value added (BVA) measure of \$841 million (see Appendix).

McKINNA *et al* compiled a more current local food and beverage database to inform this growth plan and to cross-check the ABS data. The McKINNA *et al* database suggests that there are approximately 378 food and beverage manufacturing and distribution businesses in the region.

The McKINNA *et al* database was constructed by amalgamating several existing database sources in the region and internet searching. It uses different industry segments to the ABS and NIEIR. The industry segments in the McKINNA *et al* database were designed for ease of use as a database resource in the future. An example of a key difference is that 'Grain Mill and Cereal Product Manufacturing' as classified by the ABS is included in the segment 'Ingredients' in the McKINNA *et al* database.



A further difference between NIEIR's ABS data and the McKINNA *et al* database is that the NIEIR database includes businesses under \$1 million turnover. This explains differences such as a much larger bakery sector figure in the NIEIR analysis, as NIEIR most likely includes small retail bakeries that manufacture bread. Further ambiguity in the ABS data arises in relation to businesses that have a head office in Melbourne's North. For example, dairy processor **Burra Foods** has a head office in the City of Yarra but all its manufacturing occurs outside the region in Gippsland. ABS data is focused on food and beverage manufacturing and does not include food businesses that are engaged in importing and distribution activity. The McKINNA *et al* database includes these businesses.

**Table 2 – NIEIR business count by industry segment: Melbourne's North**

INDUSTRY SEGMENT	TOTAL BUSINESS COUNT 2013
Meat and Meat Product Manufacturing	31
Seafood Processing	6
Dairy and Dairy Product Manufacturing	21
Fresh Fruit and Vegetable Processing	15
Oil and Fat Manufacturing	17
Grain Mill and Cereal Product Manufacturing	11
Bakery Product Manufacturing	297
Sugar and Confectionery Manufacturing	14
Other Food Product Manufacturing	40
Beverage Manufacturing	36
TOTAL	488

Source: NIEIR modelling of ABS data 2014

**Table 3 – McKINNA *et al* business count by industry segment: Melbourne's North**

INDUSTRY SEGMENT	TOTAL BUSINESS COUNT 2014
Alcoholic beverages	26
Asian foods	5
Bakery products	47
Catering companies	8
Cereal and grain manufacturing	6
Condiments	5
Confectionery	32
Convenience/processed foods	36
Dairy products	30
European foods	25
Fresh produce	17
Health/organic products	18
Ingredients	17
Meat/poultry products	36
Non-alcoholic beverages (includes coffee)	44
Other	19
Seafood	7
TOTAL	378

Source: McKINNA *et al* 2014

Due to the differences in approach to calculating the number of food and beverage business in the region, the authors are more comfortable with the statement that there are approximately 400 food and beverage manufacturing businesses in Melbourne's North because many food businesses come and go over a short life span, making the data a moving target even during stable economic times with robust data.

However, for the purposes of the analysis in this section of the report, ABS Census data as modelled by NIEIR has been used as the basis of the reporting for consistency. Where significant differences are noted between the ABS and McKINNA *et al* databases, further commentary is provided.

## 2.5.2 Melbourne's industry overview

Based on NIEIR modelling, Melbourne's North represents approximately 12% to 13% of Victoria's food sector BVA. NIEIR estimates the number of workers employed in the food sector in Melbourne's North in 2013 as 10,559 (see Appendix).

This data shows that, by dividing the GRP for food manufacturing (as estimated by NIEIR) of \$2.6 billion by the estimated number of businesses in the region (488), the average business sales turnover is calculated at \$5.3 million per annum. Being an average, this figure will be skewed by the handful of large corporate players with turnovers in the hundreds of millions of dollars.

Although there is no data to provide statistical certainty, the field research and indication by the Australian Food Processing Industry Strategy Group<sup>20</sup> on the general Australian trend indicates that the majority of the food businesses are SMEs in the \$1 million to \$5 million per annum turnover range.

### Industry clusters by LGA as identified by the McKINNA *et al* database

Hume has the greatest number of manufacturers across the board, while Banyule features the least amount of any LGA.

Hume has a strong cluster of Bakery, Convenience/processed foods and Meat processing manufacturers. Meat processing includes the manufacture of European delicacies and other smallgoods. Hume also has the largest number of beverage manufacturers, including both alcoholic and non-alcoholic.

In the category of non-alcoholic beverage producers, according to the McKINNA *et al* database, it is Moreland that leads, with over 20 coffee roasters and grinders. Many are well-known Melbourne brands such as **Genovese**, **Lavazza**, **Jasper** and **Coffee MIO**. Moreland is also home to chocolate makers such as **Ernest Hillier** and **Koko Black**, and companies making popular supermarket brands **Mountain Bread**, **Chris' Dips**, **Jalna** (yogurt), **Just Squeezed** and **Bertocchi** (smallgoods).

The McKINNA *et al* database estimates that while Nillumbik has the most wineries (over 11), with Hume a close second (8), Nillumbik has low levels across all categories except Fresh produce (where only Whittlesea matches it).

Most of Yarra's producers are either in the Bakery or Beverage categories, while for Darebin, the leaders are Beverage and Meat.

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<sup>20</sup> Food Processing Industry Strategy Group, 2012, p.25.

Dairy products are mostly concentrated in Hume, Whittlesea and Moreland respectively. Overall there are more than 30 companies creating and producing a range of products including yogurt, cheese (sheep and goat), milk, ice cream and cream. These companies include **Jalna, Alba Cheese, Donnybrook Cheese** and **Hellenic Cheese**.

Both gourmet and everyday bakery goods are included in the over 30 baked goods companies. Some of the bakers include **Heather Brae, Emu Bottom** and **Breadtop**, along with artisan makers **Dench** and **NY Bagels**.

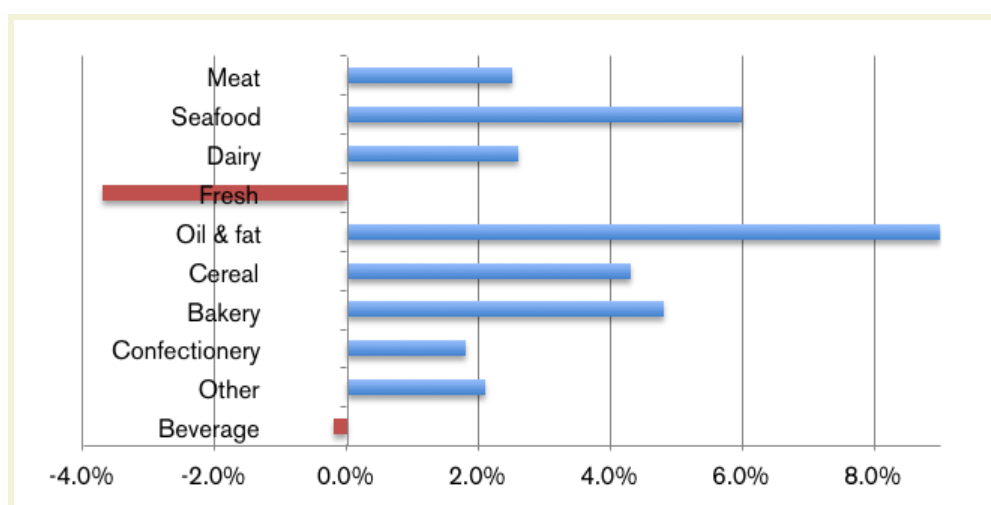
### 2.5.3 Key employment data

NIEIR data indicates that the number of people employed in the sector in Melbourne's North steadily grew from 2001 to 2013 but now appears to have peaked and is relatively flat at 10,559 (see Appendix).

As already noted, interpreting the limited available data requires some prudence. For example, the NIEIR data shows a decrease in employment numbers in the beverage sector, yet this does not appear to be an indicator of industry decline.

The anecdotal evidence is that beverage industry value has actually grown in Melbourne's North as there has been an influx of small brewers, coffee roasters and specialty juice companies over the past five years. Such employment figures may be distorted by one major employer in beverage manufacturing such as CUB making significant changes to their work processes or the incidence of a key player exiting the region, which occurred in 2013 with the loss of 123 jobs. See **Figure 4**.

**Figure 4 – Employment growth in food manufacturing (2001 to 2014)**



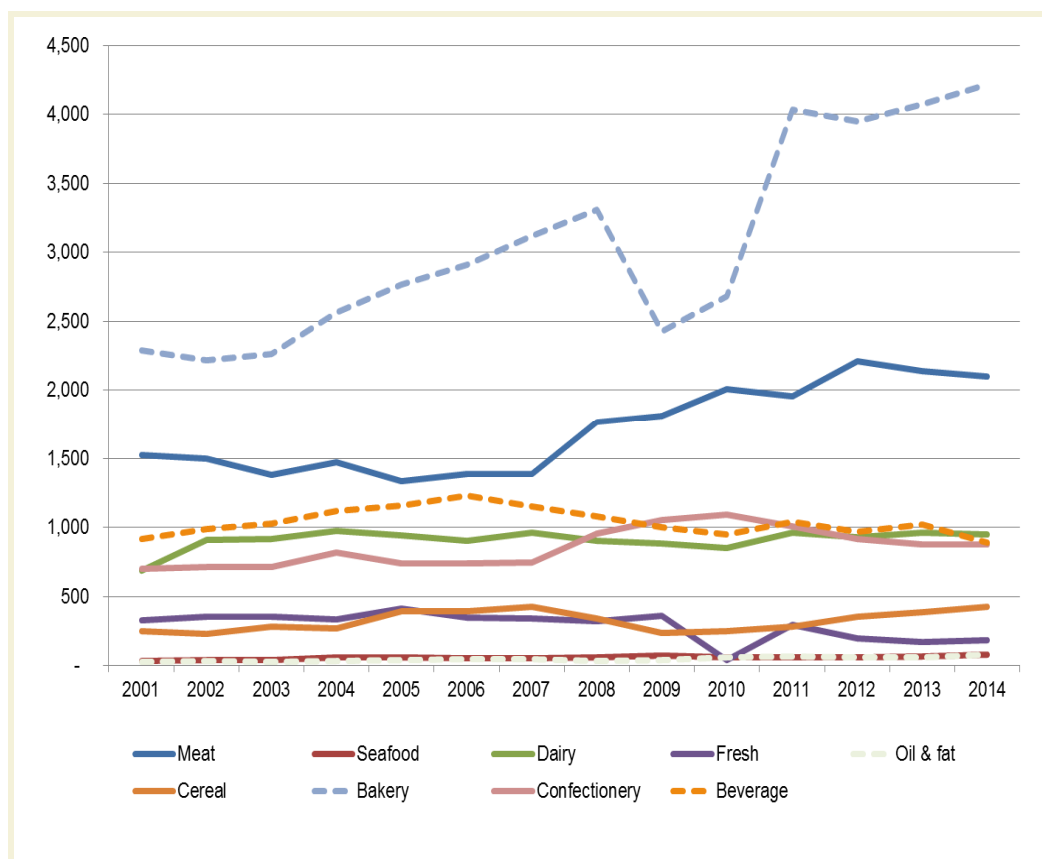
Source: NIEIR 2014

Note: Fresh refers to Fruit and Vegetable Processing

This region has experienced a trend of employment growth across most of the food categories, most notably Oil and Fat, Seafood and Bakery. It is important to note that the Oil and Fat segment is dominated by one large player that changed ownership in recent years.

The data indicates that Fruit and Vegetable has experienced a decrease in employment numbers. See **Figure 5**. The closure of a major processor may have influenced this figure or, equally, a key producer moving from direct employment to a contractor model may be reflected in the figures.

Figure 5 – Historical food manufacturing employment for Melbourne's North



Source: NIEIR 2014

Note: Fresh refers to Fruit and Vegetable Processing

Since 2001, the region has experienced an increase in overall food manufacturing employment that recently softened, although this trend was not evident across all LGAs. Whittlesea employment has experienced strong growth and Yarra has decreased due to the area becoming a highly sought-after residential suburb with factory and warehouse sites being converted into apartments.

Whittlesea will be the new home of the Melbourne Wholesale Fruit, Vegetable and Flower Market (relocation due to be finalised 2015). This offers potential to further capitalise on the Hume Highway transport corridor, so prospects for increased employment in the sector are good.

## 2.6 | LGA sector breakdown

The food processing and manufacturing sector in Melbourne's North comprises seven LGAs: Banyule, Darebin, Hume, Moreland, Nillumbik, Whittlesea and Yarra.

The LGA with the highest BVA in food and beverage manufacturing is Hume, followed by Whittlesea. Both these areas are by far the largest manufacturers when contrasted with the remaining five, although Moreland is significant (as indicated in Section 3.2) due to it having the third highest total employment figures for food and beverage manufacturing.

The other LGAs tend to have many smaller artisan, peri-urban agrifood enterprises or niche businesses that fall below \$1 million per annum turnover.

Table 4 – Food and beverage business value added (BVA) by LGA 2013

LGA	BVA FOR EACH LGA (2011-12 \$ MILLION)
Banyule	42
Darebin	68
Hume	217
Moreland	115
Nillumbik	12
Whittlesea	201
Yarra	186
<b>TOTAL</b>	<b>\$841m</b>

Source: NIEIR 2014

## Notes on business value added measure

NIEIR has calculated BVA from the best available data, which is wages and salaries plus business income in Melbourne's North. Given the fact that an unknown number of residents commute out of the region to work, and an equally unknown number commute into the region for work, this information as a substitute for gross value added (GVA) is used in the report in the absence of any other data.

Industry employment by LGA is indicated in **Table 5** below.

Table 5 – Food and beverage manufacturing employment trend by LGA

LGA	2009 FTE	2014 FTE	% CHANGE
Banyule	559	611	9.3
Darebin	917	824	-10.1
Hume	2,490	3,194	28.3
Moreland	1,497	1,465	-2.1
Nillumbik	141	201	42.6
Whittlesea	2,222	2,935	32.1
Yarra	1,482	1,331	-10.2
<b>TOTAL</b>	<b>9,308</b>	<b>10,561</b>	<b>13.5</b>

Source: NIEIR 2014

Note: Due to rounding to the nearest whole number, the 2014 total does not equal 10,559

## 2.6.1 Employment by category breakdown

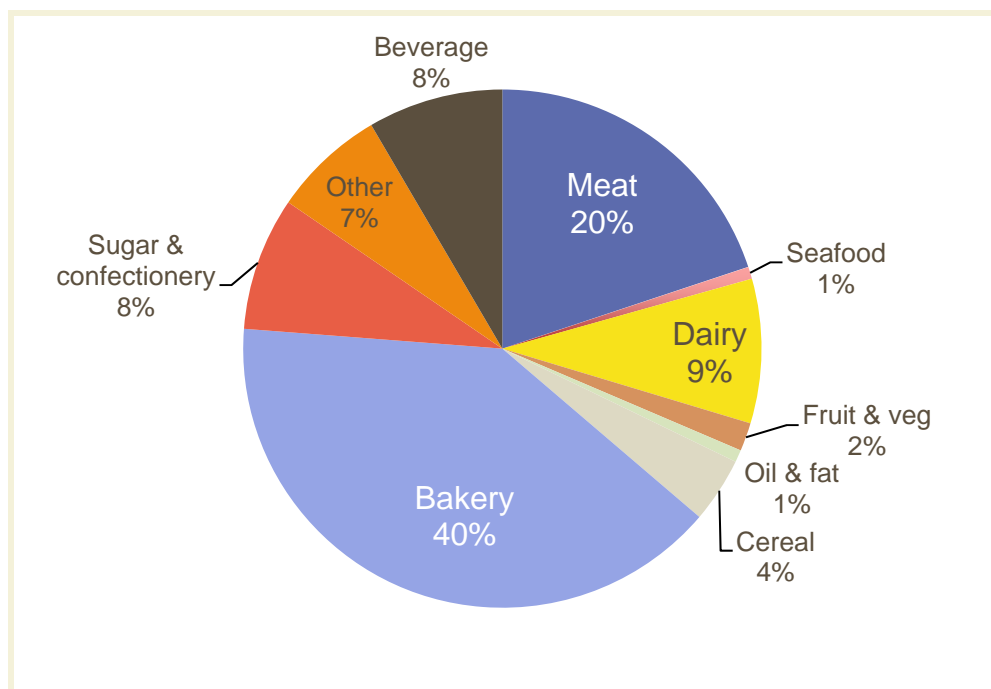
According to the NIEIR modelling, the biggest category in terms of employment numbers is Bakery, followed by Meat.

Following an analysis of the 2014 NIEIR data (**Figure 6**) it is concluded that, collectively, these categories account for 60% of total employment in the region. Bakery alone accounts for close to 40% but as already noted by the authors of this report, the ABS data used in this modelling appears to include retail bakeries because, strictly speaking, they are classed as manufacturers. The McKINNA *et al* database (which only includes businesses with a turnover estimated to be above \$1 million) notes Bakery products and Non-alcoholic beverages (see **Table 3**) as the largest categories, but with a far smaller share of employment (approximately 12% and 11% respectively).

The fastest growing segments in the NIEIR modelling in terms of employment numbers are Oil and Fat, Seafood and Bakery. Fruit and Vegetable and Beverage are shown as being in decline but as noted already, this could be attributable to increased use of technology or restructuring. In the growth categories of Oil and Fat, Seafood and Bakery, NIEIR data indicates that Melbourne's North is growing faster than the state average.

It should be noted that the employment numbers do not necessarily reflect equivalent changes in the GRP because of the growing tendency of food businesses to invest in labour-saving technology.

**Figure 6 – Employment share in Melbourne's North by industry segment 2014**



Source: NIEIR 2014

**Figure 7** shows the breakdown of employment categories for Melbourne's North and for Victoria. The strong diagonal line represents the growth trend, while each quadrant shows if a category is experiencing increasing or decreasing industry growth. So the bottom left quadrant shows Fruit and Vegetable is decreasing for both, Seafood is increasing in Melbourne's North but decreasing in Victoria, and Oil and Fat is increasing over both.

The upper right quadrant shows the leader categories (NIEIR data): Oil and Fat, Bakery, Dairy, Meat and Other Food.

Figure 7 – Place of work, annual growth (2001 to 2014)



Source: NIEIR 2014

**Table 6** presents Melbourne North’s share of employment by industry segment as defined by ABS. Melbourne’s North is significantly outperforming the state growth average in Meat, Seafood, Grain and Cereal, Bakery, and Sugar and Confectionery. The other notable point is that northern Melbourne’s employment is growing in every category except Fruit and Vegetable and Beverage.

**Table 6 – Employment trend by food and beverage industry segment in Melbourne's North**

INDUSTRY SEGMENT	2001 FTE	2014 FTE	MELB NTH ANNUAL GROWTH	VIC ANNUAL GROWTH
Meat and Meat Product Manufacturing	1,523	2,100	2.5%	0.8%
Seafood Processing	37	80	6.0%	-5.8%
Dairy and Dairy Product Manufacturing	686	952	2.6%	2.2%
Fruit and Vegetable Processing	331	186	-4.3%	-3.1%
Oil and Fat Manufacturing	26	81	9.0%	5.5%
Grain Mill and Cereal Product Manufacturing	249	429	4.3%	-2.4%
Bakery Product Manufacturing	2,288	4,220	4.8%	4.2%
Sugar and Confectionery Manufacturing	700	879	1.8%	-0.8%
Other Food Product Manufacturing	565	741	2.1%	2.7%
Beverage Manufacturing	917	891	-0.2%	1.7%
<b>TOTAL</b>	<b>7,322</b>	<b>10,559</b>		

Source: NIEIR 2014

Note: Growth rates are the annual growth rates from 2001 to 2014 for both the northern Melbourne region and for Victoria.



## Section 3 |

# Profile of the food sector in Melbourne's North

### 3.1 | Overview

This section of the report profiles each of the main food categories produced in the region. Data has come from amalgamating the various databases used across the sector into one 'master' database for Melbourne's North.

The process of identifying the 'hero' categories from within the wide range of goods produced indicates the diversity of businesses and cultures located in the region. These food businesses range from very large multinationals such as **Nestlé**, **CUB** and **Coca-Cola Amatil** down to boutique artisan companies producing specialised products for niche markets such as micro-brewery **Temple Brewing**. The region has a large number of import and distribution companies, many stemming from the heritage of European migration to the area. They include a prevalence of traders of coffee, olive oil and gourmet packaged foods.

Melbourne's North is also home to a number of agribusinesses ranging from large-scale intensive horticulture (Costa's Mushroom Exchange) through to small and lifestyle farmers. These small businesses are outside the scope of this study as, unlike artisan food and beverage manufacturers, most are unlikely to grow because of land size restrictions and other factors such as climate change affecting capacity.

A general analysis highlights the following prevalent categories, which have been used to sort the McKINNA *et al* master database compiled as part of this project:

- **Alcoholic beverages:** includes beer, wine, cider, spirits and other alcoholic drinks
- **Asian foods:** Asian inspired food and ingredients
- **Bakery:** includes milled products, cakes, pastries, biscuits, bread, cereal, pasta, baking mix and bakery products
- **Cereal/grain:** companies whose primary business is grain supply
- **Confectionery:** chocolate, boiled sweets, liquorice, jellies and jubes
- **Convenience/processed foods:** includes olives, tinned and bottled goods, potato, corn and other chips, and ready-made meals
- **Dairy products:** includes milk and milk products, yogurt, cream, ice cream, dairy desserts and cheese
- **Health/organic foods:** includes manufacturers and distributors of nuts, dried fruits and speciality health products such as gluten-free goods
- **Meat/poultry:** includes beef, poultry, cured meat and smallgoods
- **Non-alcoholic beverages:** includes juices, cordial and coffee (a large category in its own right)
- **Other:** includes ingredients such as oil, fat and syrups.

## Notes on the database categories

Some of the businesses profiled in the McKINNA *et al* master database had product ranges spanning more than one of the previous categories. In these instances, the most appropriate fit was chosen. Trading houses or importers were classified under the most appropriate food or beverage category relating to their business.

The following NIEIR economic data uses the same category names as used by the ABS, which differ from those used to classify the businesses in the McKINNA *et al* database, where categories have been named for ease of database management (see Table 2 and Table 3 for category listings used.)

## 3.2 | LGA sector snapshots

Given the relatively small geographic area of Melbourne's North, 12% of Victoria's food processing activity is significant for the region. NIEIR data shows that Melbourne's North is outperforming the state average growth rate in the majority of categories. In particular, NIEIR data points to the region as a dominant employer in the Bakery, Meat, Dairy and Confectionery categories, producing a significant proportion of the state's output.

The McKINNA *et al* database notes that Hume has the largest number of food processing businesses, with 128 identified. In Yarra, 82 businesses were identified while Moreland, Whittlesea and Darebin were in the vicinity of 40 to 50 businesses each. Banyule had around 30 food and beverage businesses identified and Nillumbik had the least number with less than 10 significant manufacturing businesses identified.

NIEIR data shows the fastest growing categories in terms of employment numbers as being Oil and Fat, Seafood and Bakery. It is significant that in all categories except Fruit and Vegetable and Beverage, Melbourne's North is growing faster than the state average. The NIEIR data could suggest that Fruit and Vegetable and Beverage are in decline, but as already noted this may not be the case.

It is important to note that employment data is only one measure of industry strength. A reduction in job numbers in some sectors can be attributed to investment in innovation and technology, which allows companies to increase their output significantly while reducing labour. Ultimately, GRP is the most indicative measure of growth but this information is not available.

### Banyule

Bakery ranks highest in number of jobs (432). The second most dominant employment sector is Sugar and Confectionery, accounting for 95 jobs.

While the Oil and Fat sector has shown recent strong growth in employment, this may be an indicator of the activity of one large employer. More investigation is needed to understand the detail behind this data.

**Table 7 – Banyule: Industry employment and 5-year trend**

<b>BANYULE</b>	<b>2009</b>	<b>2014</b>	<b>TREND %</b>
Meat and Meat Product Manufacturing	7	7	0
Seafood Processing	0	0	0
Dairy and Dairy Product Manufacturing	12	15	25
Fruit and Vegetable Processing	4	7	75
Oil and Fat Manufacturing	12	32	167
Grain Mill and Cereal Product Manufacturing	3	2	-33
Bakery Product Manufacturing	420	432	3
Sugar and Confectionery Manufacturing	86	95	11
Other Food Product Manufacturing	2	7	250
Beverage Manufacturing	13	14	8
	<b>2009</b>	<b>2013</b>	
BVA (2011-12 \$ million) <sup>21</sup>	43	42	

Source: NIEIR 2014

## Darebin

Once again, Bakery ranks highest in number of jobs (447), with Other Food (161) second most dominant. This food product manufacturing sector can include items such as European delicacies, smallgoods and specialty items, and has shown recent strong growth in employment in Darebin. This may be an indicator of further potential and more investigation is needed. It is interesting to note that, since 2001, both the Meat and Dairy sectors in Darebin have experienced a sharp employment decline.

**Table 8 – Darebin: Industry employment and 5-year trend**

<b>DAREBIN</b>	<b>2009</b>	<b>2014</b>	<b>TREND %</b>
Meat and Meat Product Manufacturing	183	80	-56
Seafood Processing	23	23	0
Dairy and Dairy Product Manufacturing	91	40	-56
Fruit and Vegetable Processing	16	6	-63
Oil and Fat Manufacturing	6	7	17
Grain Mill and Cereal Product Manufacturing	9	4	-56
Bakery Product Manufacturing	436	447	3
Sugar and Confectionery Manufacturing	32	28	-13
Other Food Product Manufacturing	82	161	96
Beverage Manufacturing	39	28	-28
	<b>2009</b>	<b>2013</b>	
BVA (2011-12 \$ million)	75	68	

Source: NIEIR 2014

<sup>21</sup> Note: 2014 data not available.

## Hume

In Hume, Bakery would appear to be a leader in employment in the overall sector with 1,562 jobs. Other growth sectors include Dairy, Grain and Cereal, Meat and Other Food. The Sugar and Confectionery sector in this LGA is declining in terms of the number of jobs.

**Table 9 – Hume: Industry employment and 5-year trend**

HUME	2009	2014	TREND %
Meat and Meat Product Manufacturing	217	311	43
Seafood Processing	0	0	0
Dairy and Dairy Product Manufacturing	219	409	87
Fruit and Vegetable Processing	159	76	-52
Oil and Fat Manufacturing	6	4	-33
Grain Mill and Cereal Product Manufacturing	32	79	147
Bakery Product Manufacturing	976	1,562	60
Sugar and Confectionery Manufacturing	711	563	-21
Other Food Product Manufacturing	104	141	36
Beverage Manufacturing	66	49	-26
	<b>2009</b>	<b>2013</b>	
BVA (2011-12 \$ million)	188	217	

Source: NIEIR 2014

## Moreland

Bakery dominates employment in Moreland with 561 jobs and a growth rate of 12% in employment numbers since 2009. The data suggests Other Food employment is growing, which is a reflection of the niche and ethnic food products made here. Dairy would appear to be in jobs decline although the sector has automated significantly over this period, so figures may not be indicative of industry health.

**Table 10 – Moreland: Industry employment and 5-year trend**

Moreland	2009	2014	Trend %
Meat and Meat Product Manufacturing	310	264	-15
Seafood Processing	0	0	0
Dairy and Dairy Product Manufacturing	349	259	-26
Fruit and Vegetable Processing	14	8	-43
Oil and Fat Manufacturing	5	21	320
Grain Mill and Cereal Product Manufacturing	58	58	0
Bakery Product Manufacturing	501	561	12
Sugar and Confectionery Manufacturing	179	166	-7
Other Food Product Manufacturing	69	118	71
Beverage Manufacturing	12	10	-17
	<b>2009</b>	<b>2013</b>	
BVA (2011-12 \$ million)	116	115	

Source: NIEIR 2014

## Nillumbik

Although categorised as a 'non-manufacturing' LGA, Nillumbik follows the previous LGA trend of Bakery dominating employment (147 jobs) and showing sector employment growth. A small but growing sector is Meat (24 jobs). Anecdotally, Nillumbik is experiencing a growth of small-scale farm gate agribusinesses (outside the scope of this study).

**Table 11 – Nillumbik: Industry employment and 5-year trend**

NILLUMBIK	2009	2014	TREND %
Meat and Meat Product Manufacturing	8	24	200
Seafood Processing	0	0	0
Dairy and Dairy Product Manufacturing	0	0	0
Fruit and Vegetable Processing	0	0	0
Oil and Fat Manufacturing	0	0	0
Grain Mill and Cereal Product Manufacturing	0	0	0
Bakery Product Manufacturing	109	147	35
Sugar and Confectionery Manufacturing	5	5	0
Other Food Product Manufacturing	2	6	200
Beverage Manufacturing	17	19	12
	2009	2013	
BVA (2011-12 \$ million)	11	12	

Source: NIEIR 2014

## Whittlesea

In this manufacturing LGA, Meat is the highest employing sector with 1,408 jobs in 2014. Other key employing sectors are Bakery (593) and Dairy (224), with the Other Food and Grain and Cereal sectors also showing strong employment growth.

**Table 12 – Whittlesea: Industry employment and 5-year trend**

WHITTLESEA	2009	2014	TREND %
Meat and Meat Product Manufacturing	1,064	1,408	32
Seafood Processing	28	21	-25
Dairy and Dairy Product Manufacturing	199	224	13
Fruit and Vegetable Processing	164	85	-48
Oil and Fat Manufacturing	6	4	-33
Grain Mill and Cereal Product Manufacturing	52	212	308
Bakery Product Manufacturing	492	593	21
Sugar and Confectionery Manufacturing	33	0	-100
Other Food Product Manufacturing	97	273	181
Beverage Manufacturing	87	115	32
	2009	2013	
BVA (2011-12 \$ million)	169	201	

Source: NIEIR 2014

## Yarra

Beverage manufacturing leads employment in Yarra's processing landscape due to the dominant presence of CUB but the number of jobs in the sector is declining, from 771 jobs in 2009 to 656 jobs in 2014. Bakery employment (478 jobs in 2014) is declining in terms of number employed, which may reflect the erosion in category value due to growth in market share by supermarket private labels.

Table 13 – Yarra: Industry employment and 5-year trend

YARRA	2009	2014	TREND %
Meat and Meat Product Manufacturing	27	5	-81
Seafood Processing	23	36	57
Dairy and Dairy Product Manufacturing	16	6	-63
Fruit and Vegetable Processing	6	5	-17
Oil and Fat Manufacturing	7	13	86
Grain Mill and Cereal Product Manufacturing	85	74	-13
Bakery Product Manufacturing	495	478	-3
Sugar and Confectionery Manufacturing	12	23	92
Other Food Product Manufacturing	40	35	-13
Beverage Manufacturing	771	656	-15
	2009	2013	
BVA (2011-12 \$ million)	185	186	

Source: NIEIR 2014

## 3.3 | Category snapshots

### 3.3.1 Bakery

According to NIEIR modelling of ABS data (which is assumed also includes retail bakeries), there are 297 bakery manufacturers in Melbourne's North. The bakeries represent a wide range of styles, from basic bread loaves sold through supermarkets to exotic biscuits, donuts, cakes and Middle Eastern speciality products. The McKINNA *et al* database has the highest number of businesses categorised as 'Bakery products' and lists 47 businesses, confirming the significance of this industry segment for Melbourne's North.

One of the most notable bakeries, **Davies Bakery**, is a fifth-generation family-owned business that has been operating for over 125 years. It sells through supermarkets and independent outlets. **Glenroy Bakery** has been operating for over 40 years and has an extensive range of breads, hot foods and pastries sold through cafés, canteens, restaurants, caterers and take-away outlets.

**HPC Bakers** is a division of food service business Hudson Pacific Corporation. Its specialist production facility in Hume manufactures high volume chilled and frozen value-added bread products for the export, retail and food service markets.

There are also several artisan and micro-businesses, advertising and selling through Facebook and local farmers' markets. These include **Dr. Marty's Crumpets**, **Egg and Spoon Cakes** and **Spanish Doughnuts**.

NIEIR reporting notes Bakery employment figures for 2014 as being 4,220 employees with a 4.8% annual growth rate since 2001. This employment growth rate is contrasted with the state annual growth of 4.2% over the same period.

Nillumbik is the lowest employer in this segment and Hume the highest, with all other LGAs in the middle range.



### BUSINESS SNAPSHOT: PONTI'S BAKERY

Ponti's Bakery started as a bakery café in Collins Street Melbourne in 1992. They moved to premises in Campbellfield in 2000 to begin exclusively baking high-quality bread products. The company invented a new type of loaf that has now become standard within sandwich catering and industry circles.

## 3.3.2. Beverages

The beverage manufacturing segment is one of the biggest in Melbourne's North in terms of number of businesses, accounting for around 36 enterprises in the NIEIR data and 70 in the McKINNA *et al* database (which also includes distributors) when alcoholic and non-alcoholic categories are combined. The beverage category has significant sub-sectors including coffee, breweries (from giant CUB through to micro-breweries), table and fortified wines (both importers and producers), spirits, other alcoholic beverages, energy and health drinks, and juice.

NIEIR employment figures for 2014 for Beverage indicate that employment in this segment in Melbourne's North is trending downwards by 0.2% annual growth rate compared to the state trend of 1.7% annual growth since 2001. As noted already, the employment decrease may not reflect business value. The NIEIR 2014 employment data lists 891 employees in the region engaged in Beverage, with 656 of these in Yarra (most likely a reflection of CUB activities) and relatively low numbers of employees in other LGAs.

### Alcoholic beverages

The 26 manufacturers and distributors of alcoholic beverages in Melbourne's North identified in the McKINNA *et al* database include vineyards in Hume (Sunbury Vignerons) and Nillumbik, and approximately seven distribution/export companies mainly located within Yarra, including iconic gourmet destinations like **King and Godfree** (Australia's oldest licensed grocer) and **Enoteca Sileno**, as well as **Australasian Wine Exporters**, **Camati** and **Longfellows**. Distributors in other LGAs include **Alepat Taylor** (Darebin), **Buller View**, (Moreland), **Flox Wine and Spirits** (Whittlesea) and **Kestrel Industries** (Banyule).

The vineyards located in this region are small, mostly family-run affairs producing a range of red and white table wines including some award-winning red wines.

A growing segment is the boutique micro-brewers such as **Moon Dog**, **Kooinda**, **Temple Brewing** and **Mountain Goat**, which have captured a young audience with their accessible websites, retail experiences, edgy branding and new and interesting brews.

Yarra is also home to iconic Australian brand **Carlton and United Breweries** owned by the **Fosters Group**, which is by far the largest beverage manufacturer in the region.

## Non-alcoholic beverages

According to the McKINNA *et al* database, Hume leads in the manufacture of non-alcoholic beverages including juice and water. Whittlesea also has several health and energy drink manufacturers, including *Koala Karma* made by relative newcomer **Anti-Energy Beverages**. A number of beverage brands are contract packed in the region by manufacturers such as **Omniblend Australia**.

Globally recognised manufacturer **Coca-Cola** is based in Nillumbik, where it bottles sparkling beverages such as *Coke*, *Fanta* and *Lift* as well as still products *Powerade*, *Pump*, *Vitamin Water* and *Fruit Box*.

A number of key players in non-alcoholic beverages are importers rather than manufacturers, particularly in tea and coffee (e.g. **Lavazza** and **Larson and Thompson**). It is presumed that much of the tea blending and packaging, even for local brands, occurs overseas. Imported coffee is value-added in Melbourne's North, with local coffee roasting occurring in large-scale operations such as **Mocopan** in Preston and smaller artisan roasters.

Melbourne's North has evolved as the base of a large number of coffee companies due to the region's Italian heritage. Many of these brands are well-known in Melbourne's cosmopolitan café scene including **Grinders**, **Mocopan**, **Genovese** and **Jasper**. Most have based their operations within the Italian heartland across Darebin and Moreland.



### BUSINESS SNAPSHOT: GENOVESE COFFEE

Founded by Alfio Genovese in 1970, Genovese Coffee in Coburg is now a major Australian roaster, grinder and distributor of coffee and coffee brewing and blending equipment. The business has diversified to offer imported espresso equipment and training in coffee making.



### BUSINESS SNAPSHOT: MONSIEUR TRUFFE

From its beginnings in 2008 at Prahran Market, Monsieur Truffe has grown to have stores and café outlets in Collingwood and East Brunswick (where they also manufacture). Using an artisanal approach, chocolate makers incorporate pure cacao to make chocolates, pastries and hot chocolate mixes, which are distributed around Melbourne.



### 3.3.3 Confectionery

Melbourne's North has a particular strength in confectionery manufacturing, ranging from large multinational **Nestlé** to heritage brands such as **Ernest Hillier** and **Chocolatier** and ultra-premium artisan producers such as **Monsieur Truffe** and **Koko Black**, who also have retail outlets in the region. According to NIEIR, in 2013 there were at least 14 companies involved with confectionery in the region. The McKINNA *et al* database lists 32 such businesses.

At its factory located in Broadford, **Nestlé** produces popular brands of confectionery such as *Kit Kat*, which is sold through supermarkets, the route trade (petrol and convenience stores, milk bars, vending machines, etc) and exported to many countries.

Some of the start-up companies are enjoying spectacular growth due to the popularity of luxury chocolates. **Koko Black**, for example, produces high-end chocolates that it sells through its own stores in Melbourne, Perth and soon New Zealand.

**Betta Foods** is a medium-sized company in Broadmeadows producing liquorice, marshmallows, ice cream cones and jellies, and successfully exporting into the USA and Canada.

**Sultan Turkish Delights**, which has been operating from its factory at Campbellfield for 20 years, produces a range of Middle Eastern treats including baklava and bird's nest pastries.

NIEIR employment figures for 2014 note 879 employees in Sugar and Confectionery, with a 1.8% employment annual growth rate since 2001. This is higher than the state annual growth rate of -0.8% for the same period. The information points to Sugar and Confectionery as being a leader in Melbourne's North.

Whittlesea has just one notable company in this sector (**The Confectionery House**). Nillumbik and Yarra employ the lowest number of workers; Banyule, Darebin and Moreland are in the middle range and, once again, Hume is the largest employer.

### 3.3.4 Dairy products

According to NIEIR analysis, in 2013 there were around 21 businesses in Melbourne's North engaged in dairy and dairy product manufacturing. The McKINNA *et al* database has identified 30 such businesses.

Again, many of these reflect the cultural background of their European migrant founders. The Greek and Italian heritage in the region is strongly represented here. While most of these businesses started out providing speciality cheeses to ethnic delis and restaurants some, such as **De Cicco Industries** (now a division of Bega Cheese), evolved into large exporters with multi-million dollar contracts supplying ingredients such as pizza cheeses to Asia. In the process of growth many of these cheese-making factories have become highly automated and have lost their artisan character.

NIEIR notes the latest employment figures in Dairy as being 952 FTE with a 2.6% employment annual growth rate since 2001. This growth rate is ahead of the state's employment annual growth in Dairy of 2.2% for the same period.

Nillumbik has no companies in this sector, while Banyule and Yarra employ a minimum of workers. Hume, Moreland and Whittlesea all have a general representation of dairy businesses.



### BUSINESS SNAPSHOT: FLORIDIA CHEESE

Floridia Cheese in Thomastown was founded by Mauro Montalto after he arrived in Melbourne in 1952. He had learnt about cheese making from his family in Sicily and named the company after his home town. Mauro started the business supplying to local cafés and delis to support his wife and three sons. Now Floridia is a national and international company producing native Mediterranean cheeses such as pecorino, ricotta and fetta.



### BUSINESS SNAPSHOT: STAR FOODS

Initially set up as a deli in Moonee Ponds Market in 1996, this business moved to a purpose-built factory in Campbellfield to focus on wholesale production servicing other delis around Melbourne. The company's hand-stuffed olives and dolamades are widely recognised for their quality. However, today their hero product is a signature Rolada range, a favourite for cheese plates and Christmas hampers.

### 3.3.5 European foods

The NIEIR/ABS analysis does not provide an indication of businesses dealing in European foods. However, the qualitative research in this project indicates that this segment is a strength in the Melbourne's North product offering. The McKINNA *et al* database notes 25 such businesses.

According to the McKINNA *et al* analysis, Hume dominates in this product category with over 13 companies dedicated to producing, importing and distributing a range of European-style products such as antipasto treats like olives and sun-dried tomatoes from **Palomba** and **Pasta Al Naturale** in Whittlesea and from **The Original Antipasto Co.**, **Riva Foods**, **Bamboleo (Baxters Foods)** and **Pronte E Fresco** in Hume.

The area is also a base for several European food distributors and importers of products such as bread, oil, smallgoods, cheeses and other ingredients. These distributors vary in size from small niche importers to major traders with national distribution such as **Enoteca Sileno** in Carlton. Others include **Conga Foods** and **Delphic Wholesalers** in Moreland, **Classica International** in Darebin and **Leonardo's Fine Foods** of Hume. This reflects the cultural history of the area, with Greek and Italian immigrants settling here in the 1950s and 1960s and setting up small to medium sized businesses. Many have grown from cottage operations or corner delis into substantial trading enterprises.

One example is the **West St Deli** in the Moreland suburb of Hadfield. It operates as both a café and deli, and has just launched its own range of provincial Italian gourmet foods called **Apennine**.

The area also has some small bespoke offerings such as **Shuki and Louisa** in Yarra, creating and selling Middle Eastern treats at farmers' markets, **Arancini Art** of Whittlesea and the **Clonakilty Black Pudding Company** in Hume.



#### BUSINESS SNAPSHOT: **GEORGE'S SMALLGOODS**

George and Olympia Paliakos established the George's Smallgoods business in Coburg in 1975 selling Greek and Cypriot delicacies. From boyhood, George had worked in the industry in his native country. Some of the company's specialities include Makedoniko, a smoked pork sausage and another with orange, Choriatico and a Cypriot style with red wine, and Karamanlidiko, a traditional smoked beef sausage from northern Greece.

### 3.3.6 Meat/poultry/seafood

According to NIEIR analysis, in 2013 there were approximately 31 Meat businesses in the region plus 6 Seafood businesses, equating to 37 fresh meat businesses in Melbourne's North<sup>22</sup>, while the McKINNA *et al* 2014 database estimates Meat/poultry and Seafood businesses combined at 43.

The region has a sizable representation of smallgoods manufacturers, due in part to the European cultural influence, with leading national brands such as **Tibaldi** (Moreland), **Primo** and **Pronto E Fresco** (Hume) in the region.

Processing businesses such as **Australian Meat Company** (Moreland), **Carol's Country Kitchen** (Yarra) and **Liberty Meat Exports** (Darebin) supply to other industries and operate a wholesale/retail arm. **Pacific Meat Sales**, **PJ Meats** (Hume) and **Southern Meat Company** (Whittlesea) are examples of traditional processors offering boning, packing and delivery. Specialist processors include **Lago Game and Gourmet** and **Mr Sausage** (Whittlesea), along with halal offerings to local and global customers by **Sultan Meats** and **Central Meat Exports** (Hume).

Also notable is the breadth of poultry processing operations, a reflection of increasing consumption of chicken per capita in Australia and convenient highway access.<sup>23</sup> Poultry companies include free-range producer **Top Hundred Acres** (Whittlesea), barn-laid producer **Greenvale's Golden Yolks** (Hume) and iconic Whittlesea-based brands **La Ionica** and **Inghams**.

<sup>22</sup> The meat industry in Melbourne tends to have a stronger presence to the west of the city near Brooklyn and Williamstown where the specialist workers live.

<sup>23</sup> Nearby poultry processing areas include Strathbogie and Loddon Mallee.

A cluster of premium fresh seafood businesses exists due to the proximity to Melbourne Airport, which enables live seafood to be freighted into Asia and reflects the area's Greek heritage. The region's access to the Footscray wholesale seafood market is another reason for the Seafood sector strength here.

The NIEIR report notes Meat employment figures in the region for 2014 as being 2,100 employees with a 2.5% annual growth rate since 2001. This growth rate is more positive than the state annual growth rate of 0.8% for the same period. Whittlesea employs the most workers in the Meat segment of the industry.

Overall, the above figures point to the combined fresh meat segments as being a leader category for Melbourne's North.

## Section 4 | Education and research dynamic

### 4.1 | Education overview

Melbourne's North is home to three tertiary institutions that offer specific agrifood related education – Melbourne Polytechnic (previously NMIT), RMIT University and La Trobe University. Kangan Institute at Broadmeadows campus also delivers hospitality and highly relevant supply chain logistics studies.

The offerings of the main institutions are not directly competing and are complementary. Together they provide an extensive range of agrifood education programs and a wide scope of research coverage. In essence, La Trobe University specialises in pre-farm gate, biotechnology and nutrition while RMIT University's expertise is post-farm gate in food science and technology and food marketing, and supply chain management. Melbourne Polytechnic covers agribusiness, 'front of house' food service and other vocational education and training (VET) hospitality skills, as well as English language competency training in agrifood contexts. Kangan Institute captures supply chain and logistics, and hospitality. Collectively, the local institutions deliver higher education, research and skills training in almost all aspects of food from 'paddock to plate'.

The range of relevant education in Melbourne's North could be a competitive advantage for the region's food sector. However, at present the knowledge, facilities and skills training opportunities do not seem to be leveraged to their fullest extent, so industry is not benefiting. The institutions acknowledge this and are attempting to address and improve industry engagement.

### 4.2 | Institution profiles

#### 4.2.1 Melbourne Polytechnic

Melbourne Polytechnic (previously NMIT) has a strong presence in Melbourne's North with three significant campuses within the region, others in the neighbouring region and a number of training centres. It offers apprenticeships, certificates, diplomas and/or degree courses across a range of study areas.

Course areas at Melbourne Polytechnic relevant to the food sector include:

- agriculture
- aquaculture
- horticulture
- meat processing
- viticulture
- cookery/patisserie/bakery
- hospitality (including training kitchens and restaurant)
- language skills pathways
- robotics and stainless steel engineering.

Melbourne Polytechnic also has capability within the existing staff skill set to offer certificate courses in food handling/processing, although it has not offered this program in recent years.

Its current activity with food companies in the region consists of delivery of in-company English and general education programs, and development of company training manuals.

### 4.2.2 Kangan Institute

At its Broadmeadows campus Kangan Institute houses a transport and logistics centre and a licensed hospitality training restaurant. Both these streams of study offer potential for Kangan Institute to engage with the region's food sector.

Supply chain and logistics is now a highly specialist discipline from which many SMEs could benefit. The commercial training kitchen at Kangan could present opportunities for food service suppliers to test new product ideas. As a training facility for future chefs, cooks and kitchen hands, food manufacturers could benefit by having the students become familiar with their products.

As mentioned later in this report, the industry centres of excellence that Kangan has in automotive and fashion at their other Melbourne campuses provide an example of how industry and educators can better engage.

Course areas at Kangan relevant to the food sector include:

- cookery
- food handling
- logistics and supply chain management
- horticulture
- hospitality
- language skills pathways.

### 4.2.3 RMIT University

RMIT University's reputation in food technology is well established and it is widely regarded as the leading institution in the field. Course areas at RMIT relevant to the sector include:

- food technology and management
- food technology and nutrition
- food science and technology
- food microbiology (food safety).

Each year, 100 people graduate from RMIT University in food science. There is a food processing plant at the city campus, which is in the process of being relocated to Bundoora campus as part of the development of a recently approved Food Innovation and Education Centre.

The funding of this innovation centre has been partially approved up to the development of Stage I. The intention is that, in addition to undergraduate and postgraduate teaching, this centre would also facilitate industry research for food and beverage processing businesses.

RMIT is establishing its Food Innovation and Education Centre at Bundoora because of the region's strong representation of processing companies. RMIT's vision is that the centre could become an ideas incubator (for SMEs in particular) to test new products or process improvements, with local companies embedding their own R&D staff in the facility to conduct research. The intention is that individual companies will be able to hire a dedicated food lab for a set period of time. RMIT indicates that the companies would retain any intellectual property (IP) they develop in collaboration with the university. The university has established an industry consultation group to further this initiative and plans are well advanced to have the Food Innovation and Education Centre up and running by mid-2015.

RMIT has capacity to offer local industry services or education in areas beyond food technology and research. For example, it can assist with areas of expertise in the supply chain such as sensory analysis research or food products marketing.

RMIT offers VET food-related programs at its city TAFE campus and can deliver in-company training, short courses and certification programs such as those for HACCP (hazard analysis and critical control points), occupational health and safety, and food safety.

#### 4.2.4 La Trobe University

La Trobe University's large campus is a strong physical presence in Melbourne's North.

The university's courses engage across the food supply chain, with agricultural programs at one end and nutritional research embracing areas such as nutraceuticals and functional foods at the other.

Course areas at La Trobe relevant to the sector include:

- agricultural science
- dietetics and nutrition
- biotechnology
- genetics
- microbiology
- hospitality.

The university has five key research focus areas nominated under its 'Future Ready' initiative that are university wide. The fields of food production or nutrition cross over into all of these five research areas in some manner:

1. Securing food, water and the environment
2. Sport, exercise and rehabilitation
3. Understanding disease
4. Building healthy communities
5. Population movement and human security.

La Trobe University has regional campuses in the key food producing areas of Shepparton, Mildura and Wodonga. The university also has a number of co-tenants that have relevance to the food sector in Melbourne's North. The Dairy Futures Cooperative Research Centre, a large-scale partnership between dairy farmers, pasture and cattle breeding companies, government and researchers has an eight-year research program running on campus.

There is collaboration with the Department of Environment and Primary Industries at the Centre for AgriBioscience. Also, large private companies such as Swisse are investing in joint research programs such as their Neutraceutical Evaluation Centre.

#### 4.2.5 Private registered training organisations

A number of private registered training organisations (RTOs) operate in the region, with some tailoring their businesses specifically to the food manufacturing sector.

The general consensus in most of the industry consultation was that private RTOs exist to exploit available government training levies to their advantage. The RTO perspective on this is that a blocker to investment in training is the attitude of businesses themselves. Some are reluctant to invest in training for fear that the employees may leave for a better offer, or that elevation to Certificate II or above qualifications would trigger an award pay rise. The issue around government training levies from the RTO viewpoint is that they are often mismatched with industry need and that industry is now conditioned to invest only when subsidies are on offer.

The distinction here needs to be made between on-the-job training and career training. Most companies indicated that they were conducting basic food handling training themselves, particularly during the induction process.

### 4.3 | Industry attitudes to education and training

The industry interviews suggest that many SME food processors do not greatly value the need for training, education or research. Even if this fundamental cultural blocker could be overcome, on a practical level 'unpacking' the VET system and understanding funding eligibility criteria is challenging for those without a dedicated human resources manager. Many interviewed were unaware of the funding opportunities to support in-company training and others were sceptical of consultants promoting access to training grants for a fee.

Businesses do not understand the higher education system either and regard universities as being too far removed from the commercial imperatives of their day-to-day operations to add much value. These issues do not alter the fact that educational institutions and industry need to work together for mutual benefit.

### 4.4 | Industry skill development need

A number of the managers interviewed in this research stated that their workforce is not growing with them as their business becomes more sophisticated. While this is a typical cultural trait in industries with many SMEs and multi-generational family businesses that have experienced rapid growth, it reflects a lack of investment in general workforce training and a missed opportunity to grow the existing skill base in the region.

There appears to be a need for training and education in general business skills, for example:

- how to run an effective meeting
- train the trainer
- coaching skills
- time management
- negotiation skills.



During the consultations for this project, there did not appear to be much investment in training in these basic disciplines of day-to-day business (which is to be expected in a sector under intense margin pressure). Nor was there any formal or informal mentoring within the industry to fill the training void. Investing in such skills from within may go a long way to elevating the shortage of skilled line supervisors and open up pathways for many migrant workers to pursue further work-related study.

## 4.5. | The education need versus the opportunity

There is a disconnect between the product offered by the local educational institutions and the market need in Melbourne's North. Ironically, the most glaring skill needs within industry are not being met by any of the institutions locally.

The industry engagement research indicates that the most immediate market need is for vocational training, particularly in Certificates I, II and III in Food Technology as well as in basic food handling skills. While both Melbourne Polytechnic and RMIT can offer the training, industry remains unaware of this. It is not part of Melbourne Polytechnic's current advertised curriculum in the region and RMIT currently only delivers these programs at the city campus.

For some SMEs with only a small staff it is difficult to justify a trainer when only one or two employees require certification at any time. Training providers also find it hard to respond to this situation. Coordination of training across the northern Melbourne food and beverage network offers cost and time-saving opportunities.

In addition to VET training in food technology, feedback from industry suggests there is also urgent need for general training in quality assurance, systems and processes, basic business and supervisory skills (i.e. new leaders or train the trainer) and supply and demand management.

# Section 5 |

## The Australian food and beverage sector

### 5.1 | Industry mood

In reviewing the food and beverage sector in Melbourne's North, it is important to provide some context from the national perspective to assess how the issues faced in the region compare to the national situation. This section outlines the current food environment in Australia, noting:

- the defining trends in the Australian food sector
- the forces that are driving change in the Australian food sector.

The findings presented are largely based on expert opinion formed over a long history in the sector and qualitative research undertaken by McKINNA *et al* throughout recent food projects. The research involved a large number of interviews with proprietors and senior executives from Australian food companies.

Food and beverage sector executives in Australia generally indicate that the current market environment is extremely challenging. International food executives (most notably the chair of Heinz worldwide) are on the record as saying that Australia is the most difficult grocery market in the world to trade in. Many of the more experienced Australian executives describe it as the most challenging in their history in the industry and some are particularly pessimistic about the future. These business pressures are the product of the confluence of a number of factors including concentrated market power among the supermarket sector, rising input costs, and a frugal consumer creating demand for private label and low-cost imported products. As a consequence, profitability for processors is low, margins extremely tight and sales relatively flat.

There are some notable exceptions. Some businesses are growing rapidly, enjoying strong profitability and optimistic about their future. These businesses tend to be boutique or artisan producers dealing in the non-supermarket market channels. The optimism is more evident in companies that are either niche market players or in industries that are not trade exposed (e.g. fresh foods).

### 5.2 | Defining trends in the Australian food sector

#### 5.2.1 Domestic production is relatively flat

Despite the fact that real food demand is forecast to grow by 3.7% in line with population growth, industry sales turnover is forecast to decline by 0.2% per annum.<sup>24</sup> This is largely due to the combination of deflationary selling prices and an increase in imported products. Rising imports have been fuelled by both the strong Australian dollar and the growth of supermarket private label products.

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<sup>24</sup> Australian Food and Grocery Council & Kearney, AT, 2011, p.2.

Food processing companies rely on steady market growth to build profitability. Growing sales enable better use of plant and equipment, minimising overheads, and this protects against the cost-price squeeze that is characteristic of the food industry. So with domestic production remaining flat, profitability tends to decline.

### 5.2.2 Declining profitability and margin pressure

In parallel with the relative flatness in sales revenues, most food processing companies have experienced an extreme profit decline. Margins are under pressure due to the combination of deflation in selling prices, substantial increases in input costs and the significant creep in trading terms required to deal with high volume customers such as supermarkets and corporate food service distributors (these forces are described in more detail later). According to an Australian Food and Grocery Council (AFGC) study by KPMG, industry earnings before interest and tax (EBIT) fell from 9.6% in 2010 to 6.9% in 2013. As a rule of thumb, an EBIT margin of 10% plus is required to attract investment.

The declining profitability of food processors is having a number of damaging consequences. To be sustainable in the longer term, food companies need to generate healthy profits to allow them to re-invest in new technology, product innovation and brand development. The reduced profitability across the Australian food industry has resulted in reduced investment in plant upgrades and product innovation, most of which will further erode the local industry's global competitiveness.

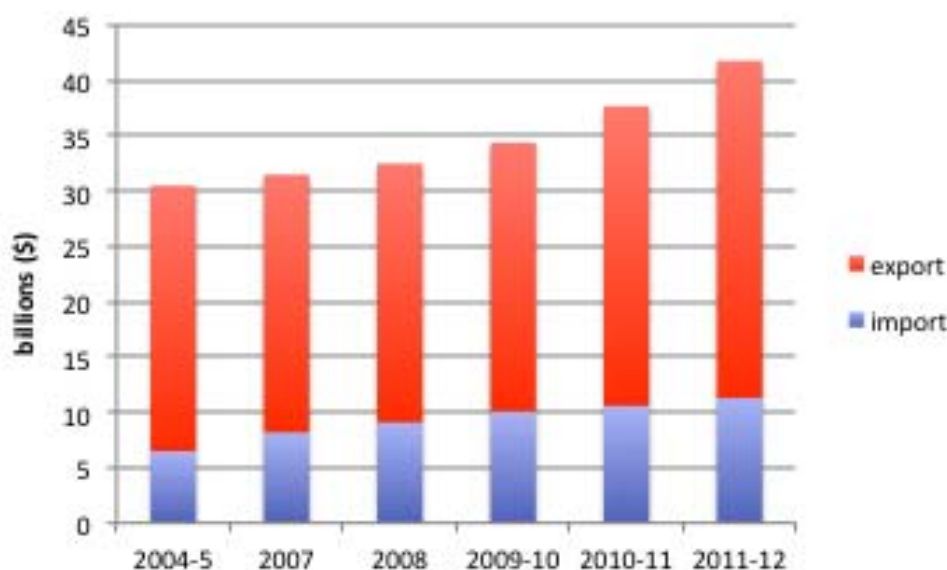
Numerous Australian food and beverage processing plants are now old, run down and relying on out-of-date technology, which compromises productivity and adds to cost.

In several cases, companies have been surviving on depreciation or making substantial losses, to the point of forcing some out of business.

### 5.2.3 Increased competition from imports

Australia has always been a net exporter of food due to strong performance in commodities. However, food imports into Australia have grown steadily in recent years as the following chart indicates.

Table 14 – Australian food imports and exports



Source: Department of Agriculture, Fisheries and Forestry 2013

The growth of imports has been due to Australia's lack of global competitiveness. The strong Australian dollar, together with the higher cost of Australian food products (largely due to the labour component), means these food products are more expensive than imports. Supermarkets in particular have taken advantage of the higher exchange rate to import more of their private label range. There has been a marked increase in imports of frozen and shelf-stable products, as these can be readily sea freighted. Manufacturers of fresh and perishable foods have had a degree of protection from import competition.

#### 5.2.4 Declining processed food exports

The other consequence of the strong Australian dollar has been the decline in net exports of processed foods. The Food Processing Industry Strategy Group notes a change of \$88 billion from exports to imports of processed foods between 2002 and 2010.<sup>25</sup> The industries most affected were processed fruit and vegetables, and alcoholic beverages. However, the AFGC predicts a 5.8% increase in imports by 2020 in its 2011 report, 2020: *Industry at a crossroads*.<sup>26</sup>

Historically, Australia has been a strong exporter of packaged food into South-East Asia but in recent years the volume has declined. This loss of export volume has further impacted on the profitability of Australian food manufacturers because the additional volume generated by exports contributes to overhead cost recovery.

#### 5.2.5 Global food companies relocating offshore

Over the past five or so years, many global food companies have closed their Australian production operations and moved manufacturing capacity offshore. Notable examples are Kraft, Heinz, McCain Foods and Nestlé. There is also increasing incidence of Australian companies having their Australian-brand products produced under contract offshore. To a large extent, this situation is due to the high cost environment for food processing in Australia, which is discussed later. It is also due to the increasing preference of multinational manufacturers to build large, highly efficient manufacturing centres of excellence that are strategically located around the world to service a global market. The economics of food processing is driving the multinational food companies to build 'mega' processing facilities that provide substantial benefits of scale and require massive investments.

Notably, most multinational companies do not see Australia as an attractive place to invest in large-scale manufacturing assets. Asia is a much more attractive location as there is growing demand and a much lower cost workforce. In fact, in some cases it is more economical to ship the commodities produced in Australia to these Asian plants for further processing and then re-export them back to Australia for sale.

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<sup>25</sup> Food Processing Industry Strategy Group, 2012, p.50.

<sup>26</sup> Australian Food and Grocery Council & Kearney, AT, 2011, p.4.

### 5.2.6 Industry consolidation and structural adjustment

Because of the factors mentioned previously, there has been an extended period of consolidation and structural adjustment in the Australian food processing sector with numerous ownership changes, mergers, acquisitions and bankruptcies. The Food Processing Industry Strategy Group stated in its 2012 report<sup>27</sup> that, although there has been a growing number of food and beverage processing businesses in operation, these have been mostly small businesses of 1-19 employees. The study noted that medium-sized businesses of 20-199 employees had recorded the most closures.

These businesses have been most severely affected by the current market dynamic because they lack the critical mass and brand power to survive in the difficult supermarket-dominated environment.

### 5.2.7 Emergence of new market channels

Although supermarkets are still the dominant channel to market in the domestic retail sector, a number of alternatives are emerging. At this stage they are still relatively minor in comparison to the 'big two' supermarkets, but they are growing rapidly and providing market opportunities for food manufacturers that are too small to supply the volume required by supermarkets.

The most prominent of these channels is online trading, with more consumers prepared to order food online and have it delivered or picked up (click and collect). New models are emerging such as Aussie Farmers Direct and The General Store, which offer a limited and usually specialist range.

Many boutique food manufacturers are now using online as their main channel to market. According to NAB Group Economics via their Business Research and Insights site,<sup>28</sup> Australia's online retail spending is continuing to grow. As of March 2014 Australians have spent \$15.25 billion, representing 6.6% of traditional retail spending. Although online still represents a minor share of food sales, it is increasing at an exponential rate and is expected to grow due to improvements in the supply chain and the population becoming more tech-competent.

Farmers and weekend markets have also grown as a significant alternative channel to market, mainly for boutique and artisan type food businesses. With the right products, it is now possible to build a multi-million dollar turnover business servicing weekend markets.

Social media has also given rise to some newer channels such as community food collectives and industry cooperative buying groups.

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<sup>27</sup> Food Processing Industry Strategy Group, 2012, p.26.

<sup>28</sup> <http://business.nab.com.au/tag/online-retail-sales-index/>, accessed 6 June 2014.

## 5.3. | Forces driving change in the Australian food sector

Many in the Australian food industry feel that they are under siege, driven by the confluence of a number of forces. Most expert commenters expect that the industry will continue to experience structural adjustment and significant change. However, it is not a totally negative scenario. There are opportunities for budding food sector entrepreneurs and businesses that are prepared to adapt to the new paradigm. The key forces of change are outlined below.

### 5.3.1 A retail dynamic that is driving the growth of private label products

One of the strongest driving forces in the food industry has been the concentration of market power by Coles and Woolworths. Together they control close to 80% of the retail food business.<sup>29</sup>

This concentration of market power has been building over many years starting when Woolworths acquired the Victorian Safeway business, followed by a chain of smaller acquisitions by both groups. The manifestation of the market power came to a head when Wesfarmers acquired Coles and embedded a new management team from the UK. Not fully understanding the higher cost structures of Australian agrifood compared to Europe, this team surmised that Australian food prices were too high. Benchmarking against the UK situation they implemented aggressive strategies, including intense price negotiations, ramping up of trading terms, rationalisation of shelf space and the replacement of proprietary brands with private label products.

As the competitive tension between the two domestic supermarkets accelerated, they used their negotiating power to substantially reduce the prices of grocery products, which has had a major impact on the profit margins of food processors. This caused a major transfer of industry value from food processors and producers to consumers and the supermarkets.

For example, McKINNA *et al* estimates that the \$1 milk price war resulted in a transfer of \$2 billion per year from farmers and dairy processors to the supermarkets and ultimately consumers.

Many observers, including Gary Dawson, CEO of AFGC, argue that this profit transfer is not sustainable and will result in the decline of the industry over time and poorer outcomes for consumers, as products are 'de-engineered' to recover margin.

The second manifestation of this shift in market power has been the increase in trading terms. 'Trading terms' are the rebates and discounts that suppliers must give to supermarkets and food service customers in order to trade with them and take advantage of their volume business. Trading terms variously include listing fees, promotional discounts, long-term incentives, warehousing fees, wastage and settlement discounts. The structure and magnitude of the trading terms vary by product category and company size but can range from 15% to 30%.

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<sup>29</sup> Retail World 2013, 47th Annual Report 2013.

According to a report by KPMG commissioned by the AFGC, 25.6% of gross sales to the major supermarkets are reduced through discounts, rebates and promotions. Despite the fall in domestic food sales, trade spend rebates, discounts and promotions actually rose by 4% between 2010 and 2013, or from 22% to 25.6%.<sup>30</sup>

The Australian Competition and Consumer Commission charges against Coles in relation to unconscionable behaviour are largely related to excessive trading terms. At the time of writing this report, the case was about to be heard in the Federal Court.

A third competitive strategy adopted by the supermarkets that is impacting on local processors is the rationalisation of product range. Reducing the range of products on offer and focusing on the high turnover lines improves the return on shelf space for supermarkets. As an example, supermarkets once offered five or six brands of tomato sauce. They now offer three, one of which would be their own private label brand.

As a result of this reduced ranging, the second and third tier brands are forced to fight for shelf space. This tension gives supermarkets another level of negotiation leverage. A critical element in the reduced ranging strategy is the increase in the amount of private label products on offer. According to *Retail World* magazine, private-label products now account for around 25% of grocery sales, which is an increase of 10% in three years.

Supermarkets have invested heavily in their private label programs, improving the quality and packaging, and spending on advertising. Effectively, private label products allow supermarkets to sell a product that is equal to or better than the branded market leader at a substantial discount, while delivering them a better profit margin.

The impact of supermarket power has not been relieved by the entry of Aldi and Costco into the Australian retail market. In fact, the arrival of these two global discount retailers has exacerbated the deflationary trend on food prices. Both the international companies have rapidly expanded their store footprints. Each has a business model that completely differs from the model used by the big two domestic chains.

Aldi offers even lower prices, which it can achieve by having lower cost real estate, a narrow range of product (which is predominantly private label), a focus on streamlining logistics and a substantially lower cost structure. Costco on the other hand has big box warehouse grocery stores, operating with a club model where they make their margin on annual membership fees from customers. A differentiating feature of Costco is that it has a strong offer of bulk and multi-packs at discounted prices that attract small business customers in particular.

The impact of the Aldi and Costco rollout on the market dynamic is that Coles and Woolworths were forced to match the very low prices of the super discounters, which has resulted in them putting even more pressure on their suppliers to cover the fact that their operating costs are higher than the two new market entrants.

Collectively the impact of supermarket power has greatly eroded the profitability of food processors and put many of them out of business.

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<sup>30</sup> Mitchell, S, 'Grocery suppliers squeezed by retailers', *Australian Financial Review*, 10 June 2014.

### 5.3.2 A food service sector that is rationalising and restructuring

The food service channel includes the provision of food to all away-from-home consumption outlets including restaurants, cafés, quick service restaurants such as fast food outlets, institutions (hospitals, prisons, mining camps, etc), airlines and more. Food service is an important channel for most food processors and many trade exclusively in this channel.

Like the retail channel, the food service sector has been very competitive, which has driven a degree of structural adjustment.

The sector was once serviced by myriad local distribution companies that specialised in a particular food type or outlet type.

Increasingly, the bigger distribution companies (including a number of multinationals) have been buying out smaller operators and creating very large distribution and food service delivery companies with buying power almost as strong as that of the supermarkets.

The turning point on sector profitability was the global financial crisis, which caused consumers to reduce their expenditure on away-from-home consumption either through dining out less often, down trading to cheaper outlets or cancelling special events. This extended period of soft demand coincided with sharp cost increases in food, electricity, real estate and notably labour. Labour costs, particularly penalty rates, have been blamed for eroding the profitability of most food service outlets.

Recent years have also seen hospitality wage changes with penalty rates applied at weekends and public holidays, coinciding with the peak demand periods when restaurants traditionally made profits. From intelligence gathered during this project, McKINNA *et al* found that many restaurants now choose not to open at weekends or public holidays because the excessive penalty rates make it unprofitable.

Apart from the signature high-end restaurants, most food service outlets report that demand remains soft and diners are still reluctant to spend up despite the economy returning to more normal conditions. As a consequence, food service outlets are experiencing difficulty in increasing their menu prices as they are facing diner resistance. This has forced them to absorb the increase in costs themselves. A compromise for many outlets is to lower their food ingredient costs to avoid putting up their menu prices. They do this either by pressuring suppliers for lower prices or down trading in terms of quality and/or quantity per serve.

Another strategy adopted by food service operators to contain rent and kitchen labour cost is to buy ready-to-serve and semi-prepared meal components, which require less preparation and have less waste. Although such meal components cost more than raw ingredients, because they require less labour input and have less waste they lower the overall plate cost.

There are segments of the food service channel that have not been affected by reduced demand. These include institutional catering for mining camps, hospitals, prisons and military.

However, these contracts are usually serviced by the large multinational catering contractors who are ruthless in negotiating low margin deals to protect their contracts by maintaining low plate costs for their clients.



### 5.3.3 The high Australian dollar

As already discussed, the strong Australian dollar has impacted on food companies by increasing the intensity of import competition while at the same time reducing export competitiveness. Australian exporters need the AUD to be in the US75-80c band to be competitive in export markets. The mining boom and uncertainty in Asian and European markets has driven the ongoing strength in the AUD. Economists suggest that it will remain relatively strong in the short to medium term.

### 5.3.4 Increased input cost

The input costs for food processing ingredients have increased at a much faster rate than inflation and certainly at a much faster rate than they can be passed on through selling prices. In particular, energy prices have increased dramatically. Feedback from food companies researched by McKINNA *et al* suggests that cost rises for power have typically been around 40% over the past three years.<sup>31</sup>

There has also been an upward trend in the cost of food ingredients. This has been heavily driven by strong commodity prices overseas and rising production costs, particularly for diesel, which is used extensively in both farming and fishing activity. Because the key ingredient commodities are traded globally, food companies must pay global prices. They are also exposed to dramatic price fluctuations such as that which occurred during the frenzied investment in biofuels or during droughts in key production areas.

Another major cost increase has been transport. This has increased due to rises of more than 10% in diesel prices and stricter driver time restrictions, which require more labour.

Food companies have great difficulty in passing on all these cost increases and have no option but to absorb and sacrifice their profit margins.

### 5.3.5 The Australian labour market

Although it varies by category, food processing is generally a labour-intensive industry and typically labour costs are the biggest recurring cost for any manufacturer. Australia's wage rates are substantially higher than those of key competitors due to the Australian standard of living and, in more recent times, the impact of the mining boom on wages of semi-skilled workers.

With a minimum wage of \$16.37 per hour plus a 24% loading for casual workers (making that over \$20.30 per hour),<sup>32</sup> Australia has one of the highest labour costs in the world.

McKINNA *et al* recently calculated that the weighted average cost of labour on a food processing floor for identical factories operated by the same multinational company, producing identical products, was \$57 in Australia, \$18 in New Zealand and \$4 per hour in China.<sup>33</sup>

The issue is not just wages but the on-cost such as superannuation, penalty rates, negotiated rostered days off, special loadings, personal leave and WorkCover. Many fresh food processing companies have 24/7 operations including seasonal peaks during holiday period, making the penalty rates particularly burdensome.

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<sup>31</sup> Food and beverage processing companies are major users of power.

<sup>32</sup> <http://www.fairwork.gov.au>, accessed 6 June 2014.

<sup>33</sup> For reasons of client confidentiality we cannot divulge the details of the company.

Apart from the cost of labour, companies interviewed for this study also indicated that they face difficulty in accessing labour with the necessary skills and willingness to work. This issue is covered in more detail in the next section.

### 5.3.6 Increased compliance requirements

Food companies report that there is increasing cost burden associated with compliance by both government and their customers. Food companies must comply with myriad government requirements relating to food safety, labelling, occupational health and safety, export accreditation and transportation regulations. The complicating factor is that these compliance requirements are managed by a number of jurisdictions with considerable overlap and duplication.

And because most companies trade across a number of different state jurisdictions, they must comply with differing rules because of the lack of harmonisation for the same accreditation standard or transport regulation. Australia's performance globally in a ranking of government compliance burdens now rates 128th in the world out of 148 countries.<sup>34</sup>

Although the burden of government compliance is onerous, food companies are finding compliance with corporate customer accreditation systems an even greater burden.

The major supermarkets and corporate food service companies demand progressively higher levels of compliance, largely as a strategy for market differentiation. Typically, customer compliance schemes involve third-party audits together with comprehensive paper trails.

This is further complicated by the fact that each client has differing compliance requirements for identical attributes, resulting in duplication of effort and added complexity. The supermarkets are unwilling to respond to industry calls to standardise their accreditation schemes, as each sees their own scheme as a point of competitive advantage.

Even relatively small food companies need a number of dedicated staff to manage the compliance obligations.

The compliance burden from the large corporate clients is a major barrier to small food companies being able to grow to the next level. They lack the resources and managerial capacity to meet these requirements.

### 5.3.7 Consumer frugality

The global financial crisis resulted in a long-term shift in consumer behaviour, which continues today even though the economy is relatively strong. The food industry at all levels of the supply chain has witnessed consumers down trading (that is, spending less on food by buying lower cost items or eating out less often or in lower cost outlets). Even coffee shops have noticed this trend. To a large extent this reflects reduced consumer confidence, which is showing up in the various consumer confidence indices.

Another contributing factor to the down trading of food expenditure is that other household costs have increased, especially electricity, petrol and general living expenses.

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<sup>34</sup> Schwab & Sala-i-Martin, 2014, *The global competitiveness report 2013-2014*, p.28.

Although it sounds odd with Australia's high standard of living, food is one of the only truly discretionary items in the household budget. While Australian consumers still consume the same calorific intake, they can do this at a lower cost by trading down.

Conveniently for Australian consumers the supermarket price wars, together with the growth of private label products, has allowed them to eat well on a significantly reduced budget without compromising their newfound tendency to be frugal.

The global financial crisis produced a notable and lingering change in the Australian value system among middle and higher socioeconomic cohorts. Conspicuous consumption is increasingly seen to be anti-social and austerity is now acceptable.

### 5.3.8 Social accountability and social licence

As a result of social media and a whole different value system within Gen Ys, food businesses are required to be socially accountable. In other words, they must now have a social licence to operate. This is particularly the case for food because of its highly emotive connotations. Today's consumers are demanding that their food comes from sustainable, environmentally responsible, ethically and morally correct sources. Food companies must now be accountable for sustainable sourcing, removing threats to endangered species, accepting responsibility for animal welfare and cruelty, or unfair trade practices from suppliers in developing countries.

Globally in developed nations, supermarkets and major food service corporations respond to these issues, not due to a deep ethical conviction but more often because of consumer demand and marketing advantages. Examples include phasing out caged eggs, banning farrowing stalls for pork, banning genetically modified foods and removing palm oil in food products.

The need for social accountability adds a further complexity to the cost of running a food business. Ingredient costs for such products are often higher and increasingly an audit trail is required. However, smaller boutique manufacturers can also use this trend as a competitive advantage.

## Section 6 | Industry challenges

This section of the report examines in more detail the issues impacting on food and beverage processing and trading companies in Melbourne's North. The general trends and underlying forces described in the previous section apply equally to companies in Melbourne's North, but there are additional local issues at play. This section includes more detail on the specific issues raised during the industry consultation for this growth plan. Consultations included interviews and round table discussion groups with over 70 individuals connected with food businesses from across the region. This consultation is supported by existing knowledge from work with the consultants' own client base in the region.

Many of the issues in the food and beverage processing sector in Melbourne's North are related to the size and stage of development of the vast majority of companies located in the region. As the earlier section of the report indicated, the region's food industry is dominated by SMEs with only a handful of what could be classed as corporate or multinational manufacturers. Consequently the focus of this section is on the issues confronting SME operations. Many of these issues also impact on corporates and multinationals, although their key concerns are much more global in nature.

Included in this section are indicative quotations in italics drawn from the consultations. These are provided to illustrate the industry mood.

### 6.1 | The daily pressures of running a food business

A common theme emerging from the consultation is that the senior managers and proprietors of processing businesses are under extreme pressure to simply run their operations on a day-to-day basis. They are under-resourced relative to the challenges they have to manage as most are performing a number of functional roles as well as providing leadership.



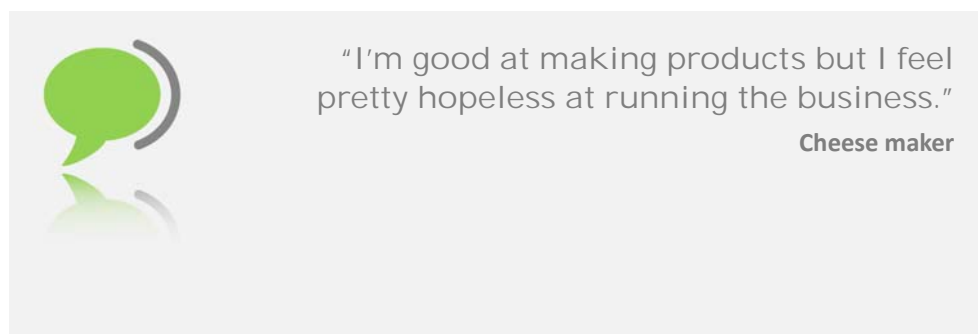
*"When I managed a multinational business I had an HR Manager, an OHS officer and a market research expert. Now I do all those things myself, as well as trying to set the strategic direction."*

**CEO, confectionery manufacturer**

The previous section presented a fiscal picture of the extreme pressure that food businesses are dealing with, mostly characterised by flat sales, tight and declining margins and increasing demands from their customers. Proprietors/managers also face further operational pressures of responding to short notice orders, staff issues, equipment failures, product quality concerns and more.

Most businesses in the region are SMEs and do not have a deep middle management structure. This means that the burden of work falls on very few, especially the proprietor or general manager. It is particularly challenging to run a business in situations where the margins are tight. Usually cash flow is unreliable and most businesses do not have the luxury of spare managerial capacity to respond to short-term problems. For many business founders, the old saying 'it's lonely at the top' rings true and there is a definite need for a sounding board or mentoring to help proprietors and managers think through tough decisions.

Unfortunately, the necessity of solving problems on a daily basis is a limiting factor in the long-term success of the business. Spending too much time 'working **in** the business rather than **on** the business' is a reality. Instead of planning opportunities to grow the business, diversify their channels to market, improve efficiency and develop new products, all the energy goes into daily survival.



## 6.2 | The lack of strategic direction

Most SMEs lack an articulated long-term strategy for growth and few have practical strategic plans to guide them. Ironically, the pressures of daily problems prevent SMEs from finding longer-term strategic solutions to prevent the problems recurring.

Consultations indicated that even some of the larger companies did not have a written strategic plan or even a long-term vision. There are some notable exceptions to this but typically the businesses operate from day to day and week to week without any articulated long-term direction.

Critical decisions are made on an ad hoc basis without any reference to a longer-term plan and without thinking through or discussing the consequences.

Because of the secretive nature of many of the businesses, strategic decisions are made without any external input or advice. Frequently business owners are making daily decisions that are actually having a negative impact on their long-term success. Commonly, efforts are going into improving something that is not sustainable.

While there appear to be a number of funding sources for assisting SMEs to make an investment in a sound strategic plan, few are aware of them and according to one LGA economic development officer interviewed, most businesses do not see the value in a strategic plan until they are forced to commission one by their bank or other funder.



“Once they go through a formal strategic planning process for the first time, there’s a great awakening and a sense of starting a new adventure.”

**Economic development officer**

If companies are to take advantage of opportunities and overcome the substantial challenges to achieving their goals, it is essential that they have a single minded strategic plan based on their core competencies and competitive advantage. These strategic plans must be written down so that other team members fully understand the strategy and are working towards the same objectives. It is the experience of the authors, after over 25 years of consulting to the sector, that most SME business managers do not understand the critical importance of such a plan and certainly do not value the investment in external advice. The danger for many is that their sole source of external advice is the family accountant, who generally is not equipped to provide strategic advice.

### 6.3 | Growing pains

A common characteristic of food businesses in northern Melbourne is that they are on a steep growth and learning curve. Many started as artisan or ‘kitchen table’ businesses, literally preparing product on a stove in the family home or restaurant, then gradually growing and expanding their business in purpose-built facilities. As the business grows it becomes more complex and challenging, often eclipsing the expertise of its owners.

Vital to growth is entering new markets and invariably, at a critical point, the business must deal with supermarkets or other large corporate accounts. This brings with it a whole new level of complexity, demanding much higher levels of operational sophistication.

Processing facilities need to be expanded and economies of scale achieved, more and more skilled staff are required and all of this needs capital, which is the greatest challenge to most. As explained previously, the proprietors are extremely time-challenged.

Also, most do not know where to go for help or advice in solving the daily challenges. Some indicated that the industry contacts they had made through the Plenty Food Group were a great source of informal advice.

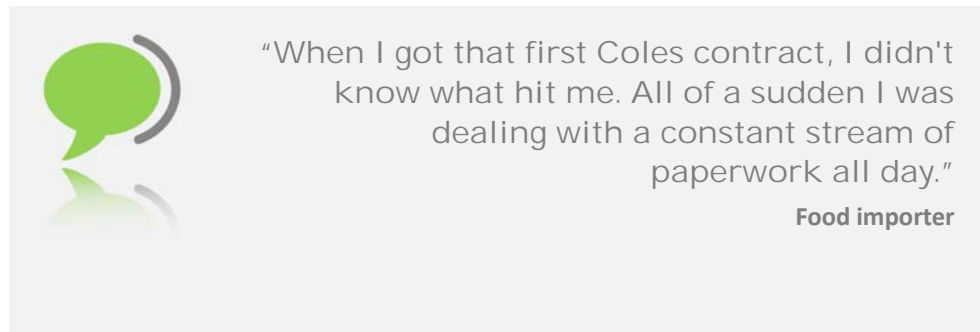


“It’s great to have a chat to the other guys on the Plenty Food Group stand when we’re working at the trade shows. I get a lot out of just hearing that we all have the same problems. It’s good to know that it’s not just me struggling with all this.”

**Marketing manager**

## 6.4 | Breaking through the corporatisation ceiling

A common situation in the northern Melbourne food sector is that businesses have grown quickly from 'a one man band' operation into multi-million dollar enterprises. At some point in the process it becomes obvious to the owner/s that the business has grown beyond their capabilities and capacity and that a more formal management structure needs to be put in place. Many founders find this transition a major challenge, as they do not always know precisely what is required, how to go about it and where to go for help.



Once food businesses reach a certain point (say \$20 million turnover), best practice is to move to a corporate structure with an independent board that includes at least two non-executive directors, formal governance processes and an appropriate management structure (e.g. finance/corporate services, supply chain, sales and marketing, business development, quality and innovation). Many businesses realise that they must make this step but struggle, not knowing where to start. Commonly, their bank or the need to bring in external directors who demand this level of structure forces the decision on them.

## 6.5 | Identifying profitable markets

A common theme found through consultations was the challenge of finding profitable growth markets. Volume growth is critical for these businesses because it is needed to maintain their income. For the reasons outlined in the previous section, most categories are experiencing eroding profit margins and a declining per-unit profit margin, so it is essential to grow volume in order to maintain current income levels. In other words, without steady volume sales growth the businesses would be in decline.

Another common issue noted in the consultation was that a number of these businesses had reached the critical business transition point in their growth where they need to deal with big corporate clients, notably the supermarkets, to secure the sales volume they require to achieve economies of scale. As was indicated, dealing with supermarkets and corporate food service clients is a double-edged sword. Although it generates volume, it usually produces reduced per unit profit margins. For SMEs there is a fine line between overhead cost recovery and overall profitability. Also as a business grows it becomes more complex to administer, which usually entails more staff.



"We didn't really have a growth plan. It just worked out this way."

**Food processor/entrepreneur**

The challenge for businesses is to balance all these considerations and identify markets with acceptable profits. Most operators find this difficult because they do not have the time and resources to do the market research or new product development work required to adapt to new markets. Once the businesses reach a certain size they tend to fall into the temptation of dealing with supermarkets, in full knowledge of the pitfalls and risks, because they feel that they do not have the resources to find alternatives such as export markets that take time, effort and risk to develop.

## 6.6 | Market intelligence

One of the reasons that SMEs have difficulty finding new market opportunities is the lack of market intelligence. Larger organisations typically buy the data they need for specific projects or subscribe to syndicated intelligence services such as Aztec, AC Nielsen, IBIS, BIS Shrapnel, Euromonitor and so on.

Access to data enables them to conduct structured market investigations and make calculated investment in new market development.

Smaller companies typically do not avail themselves of these intelligence sources either because of cost, lack of awareness or lack of managerial sophistication. Buying this type of research is too expensive for most so they tend to act on instinct instead. Even if they could afford to buy the data, most would not have the in-house analysis resources to interpret it and act on the insights. Most small companies rely on informal data sources such as what they gain from conversations with customers, suppliers, industry association newsletters, business colleagues and the media. In particular, networking events are a critically important source of market intelligence for those who value them and make time to attend.

Because many of the businesses in Melbourne's North do not belong to any formal industry association, they miss out on much of this informal knowledge transfer.

## 6.7 | Taking advantage of the Asian opportunity

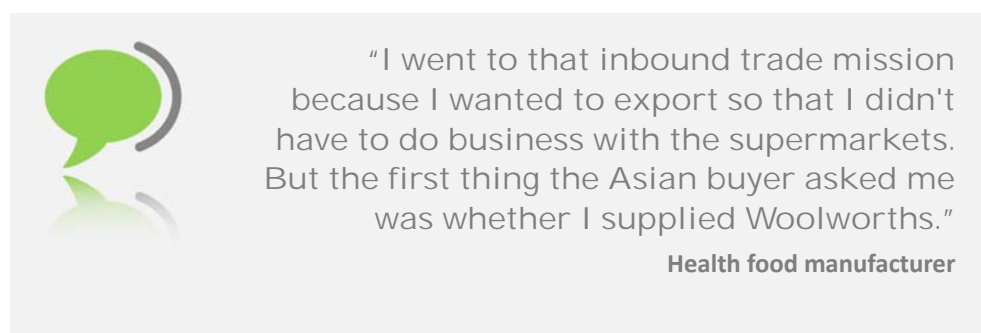
During the industry consultation for this project there was some discussion about the market opportunity in Asia, which is being driven by increasing affluence and a desire for safe, trustworthy food. The general consensus among business operators was that the Asian opportunity is a theoretical concept that is out of reach for most local food companies. Even the larger companies that had some experience in exporting to other markets indicated that most Asian markets are a challenge.



The obstacles include:

- understanding Asian taste preferences and adapting products to suit their requirements
- understanding the best channel to market, e.g. supermarket, traditional retail, food service or ingredient distributors
- understanding the whole process of doing business in Asia, taking into account the different business practices, legal systems and cultures
- finding reliable, trustworthy partners in Asia.

Participating in trade missions or trade shows is just the starting point for developing markets in Asia. Show contacts need to be followed up with much groundwork to solve the challenges outlined above. Only the very large processing companies have the resources and managerial sophistication to conduct this demanding market development work. The reality is that many, if not most, of the SMEs in the region will not be in a position to take advantage of this considerable opportunity.



## 6.8 | Labour issues

In every interview conducted as part of the engagement process, labour emerged as one of the biggest headaches for food businesses. The central issue is finding workers with the right skill set and the right attitude.

Increasingly jobs on the food factory floor, even the most basic ones, require a degree of skill and food handling knowledge. The equipment and processes employed are becoming more sophisticated, including computer-controlled technology such as robotics.

Customers supplying supermarkets and major corporate food service accounts require rigorous quality assurance and compliance schemes that involve specific procedures and precise paperwork. This requires competent language and numeracy skills. English language skills and numeracy are a particular issue in northern Melbourne because of the large number of migrants employed. More recent waves of migrants, who come from war-torn countries where their education has been disrupted, do not have even basic education levels let alone English skills.

Some businesses indicated that they employed staff who were highly qualified in a particular field in their home country (e.g. medicine or engineering) but because their qualifications are not recognised in Australia, they must take manual work. Despite their homeland education, even these workers do not have the required language or numeracy skills.

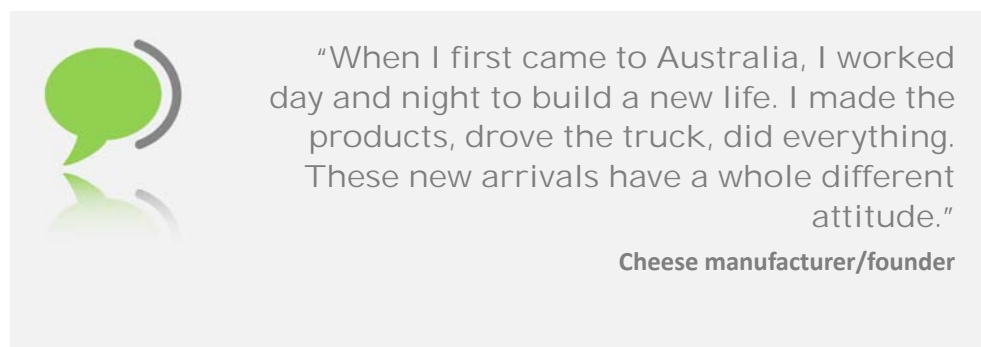
Melbourne Polytechnic offers a program that develops customised language and numeracy programs for businesses. This is successfully used by some larger businesses in the region, but feedback from trainers and interviews is that most SMEs are not willing to invest in such training.

In most cases, apart from manual labour, there is a need for a skill set specific to the category that involves either trade or academic qualifications. Many companies require workers that have training up to Certificates I, II or III.

The real shortage appears to be at line supervisor level, which is not an appealing job for a graduate and beyond the skill set of a casual worker. Businesses are reluctant to invest in this training when staff loyalty is waning.



Virtually every business interviewed indicated that finding labour with the right skill set and experience was just part of the challenge. Reliability and willingness to work is another concern. Businesses complain that this generation of workers is unreliable and that employees sometimes fail to turn up at work without notification. Because many of the founders of successful food processing businesses in Melbourne's North were themselves migrants and worked very hard to grow their business, they have certain expectations about work ethic and do not relate to this attitude.



Having unreliable staff is very disruptive in a food factory because staffing levels are kept tight. The absence of even one person can disrupt the whole production line and throw off the day's production targets.

There is something of a 'catch 22' situation about this labour issue. Businesses believe that they cannot afford to pay competitive wage levels to attract good people because of low profit margins, but it is the low wages that are a key blocker to attracting quality staff. To some extent this is a false economy, because paying a competitive wage may eliminate many reliability and other problems.

A further complication with respect to staffing in many businesses is the seasonal or variable nature of demand. Some of the food businesses report that they receive large orders at short notice that require extra shift capacity.

Having the flexibility to vary the labour supply at short notice is forcing many businesses to use casual labour, mostly through labour hire companies. Although this significantly adds to costs, it is the only practical solution.

Few of the businesses interviewed, even the relatively large ones, had much in the way of S&OP (sales and operational planning) supply and demand management systems in place to assist with managing short-term order delivery and maximising production runs.

Occupational health and safety is also a concern to the food businesses interviewed, a key issue being compliance costs in dealing with false or exaggerated claims. WorkCover insurers rate food processing as a high-risk category. The ability to outsource this risk and cost exposure makes the labour hire companies attractive to food businesses.

The larger companies interviewed tended to have less problems with labour because of their structures and processes and their ability to attract and keep quality and skilled labour. Most had either a part time or full time human resources manager.

One human resources problem that the larger companies do note is succession planning. Many struggle to replace retiring skilled and semi-skilled team members with younger people who have the necessary experience and qualifications. In particular there is a shortage of experienced line supervisors, food technologists and engineers. It is felt that these courses are not attractive to young school leavers.

Because of these issues and the high cost of labour in Australia, most food companies are reducing their casual labour force through measures such as investment in automation, particularly robotic systems. Although it seems counter-intuitive, the larger companies that have invested in labour-saving technologies report that they have not reduced their total workforce numbers. It has allowed them to be more competitive and expand production, which means they require more staff in other parts of the business. Also, labour-saving technology requires higher skill levels to operate and maintain the equipment. The adoption of technology will put progressively more pressure on businesses to upskill their workforce.

## 6.9 | The growing burden of compliance

As indicated, food businesses face increasing demands for compliance from government and clients. The issue is particularly relevant in Melbourne's North because of the large number of SMEs that are struggling with growth. Many companies have grown to the stage where they need to deal with the major supermarkets or corporate food service companies to generate the volume needed to achieve economies of scale. This brings heavy and demanding compliance requirements.

SMEs do not have the depth in middle management or the level of managerial sophistication to take on the challenges associated with compliance, which involves systems, procedures, third party audits and an extensive paper trail. Beyond these requirements, compliance often involves physical changes such as reconfiguration of factories, which entails cost.

Some supermarket compliance requires even more change such as the development of new recipes or a whole new supply base for compliant ingredients.



"It's like a revolving door. There's someone in the factory auditing us every week of the year."

**Food technologist**

A major source of frustration for manufacturers is that each customer has their own compliance framework and documentation, even though they deal with identical issues.

Many follow British Retail Consortium standards, but have their own variants of this framework. It is not uncommon for a food business to have third-party auditors in the factory every week from different companies, essentially doing the same work. This adds to cost because the third party audit process has to be paid for by the company, and because of the administrative burden associated with compliance.

The smaller companies in particular need support to understand and navigate the compliance minefield, implement the systems and frameworks, and establish the required skill sets within their team.

## 6.10 | Overlap of assistance

Since commentary about the so-called 'global food boom' began in the media, food processors noted a plethora of government and other organisations rushing to offer assistance or consult with industry. In the minds of business operators there appears to be a high degree of overlap between jurisdictions, all aiming to get into the food space. This confusion seemed particularly the case in relation to doing business in China. It was noted that even VECCI has an initiative for driving food exports to China.

There was a presumed lack of clarity from all arms of government about their roles in the food sector. This is confusing to industry. The impression is that one arm of government is not aware of what the other is doing, particularly in the case of state government, where food issues are covered within multiple departments from pre-farm gate to export. However, those who had been assisted by the Department of State Development, Business and Innovation Bundoora office were very complimentary about the efforts of that team.

The role of federal government in the food agenda is most misunderstood, with the aims of FIAL appearing unclear to most and few being able to articulate what the National Food Plan really means to them.

The view is that industry only really needs to talk to government when there is a problem and, most frequently for small businesses, the tier of government they usually want assistance from is local government. The type of assistance they expect from local government is prompt action relating to planning and local infrastructure issues. They do not expect local government to assist with export market development or to solve their human resources problems.



"Look, I just don't have time to participate in yet another talkfest. If I went to everything I was invited to by government I'd never get to work."

**Food processor**

In an apparent contradiction to this view about local government, the organisation that appeared to offer most connections for the food industry was the Plenty Food Group. Those actively involved found the networking and export advice and activities (including trade shows) particularly valuable.

Work relating to the food agenda across all tiers of government (particularly exports to China) is possibly fragmenting efforts.

Relating to this point, it became obvious during the consultation process that food businesses in Melbourne's North, even the larger and more sophisticated ones, are not taking advantage of the support available from government programs. At best the level of understanding of these programs is patchy, ranging from vague to no knowledge or interest at all.

This is not surprising given the many schemes that exist, complex eligibility conditions and the fact that policy is continuously changing. Only the very large companies have the staffing capacity to keep up with the number of support services offered.



"I took one look at the paperwork and thought it's just not worth the hassle. I'd rather pay for the gear outright and have it delivered next week."

**Managing director**

Companies that have had some experience with the schemes note the complexity of navigating the application and acquittal process and the administrative burden required to meet strict eligibility conditions.

In almost every case there are obligations for the grant recipient including matching the funds and reporting against specific KPIs, some of which are quite onerous. This has acted as a deterrent to many companies.

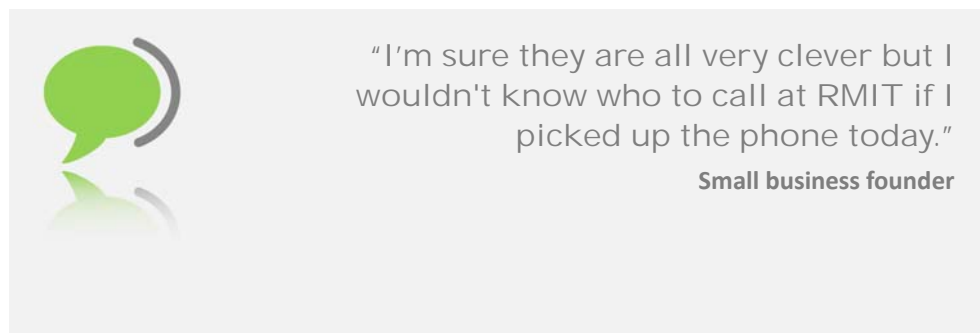
Another major blocker to participation is that businesses experience great frustration because they do not know who to contact. This issue applies to support schemes and to dealing with the various levels of government in general, including local government. Businesses report that navigating the bureaucracy is extremely frustrating, especially given the use of automated phone systems and the high turnover in government jobs.

## 6.11 | The disconnect between universities and businesses

### 6.11.1 Dissecting the disconnect

Having consulted with both education institutions and businesses during the research for this growth plan, it is apparent that there is a big disconnect between them.

Without doubt, RMIT University, La Trobe University and Melbourne Polytechnic (and potentially Kangan Institute) have a range of services that could be extremely beneficial to food businesses in the region. These organisations indicate a degree of frustration in their attempt to engage with food businesses and the low take-up of their services. While there have been instances of success in building relationships with the larger companies, success with SMEs, who could greatly benefit from their services, has been minimal.



On the other hand, the food companies do not know about these services, do not see the relevance of them, or feel that they do not have the resources to devote to significant training or development projects. It is not just the cost consideration; both staff training and R&D project work are disruptive to the daily running of a business (already stretched to the limit) and require additional resources.

Educational institutions have not researched the industry blockers to R&D investment or industry training and marketed their services in a way that responds to these issues.

### 6.11.2 The essence of the problem is a lack of understanding

The essence of the problem in relation to research is that universities are not producing the research products required by SMEs and their delivery systems are inappropriate. But on the other side, businesses do not recognise the critical importance of investing in R&D. Universities are global and big picture in their thinking.

They are trying to find solutions to tomorrow's problems, where most food companies are preoccupied with solving today's problems. From the perspective of businesses, universities do not appear to offer solutions to current problems. Effectively they are trying to solve a problem that businesses do not know they have, or do not have the resources to pay for.



“Academia functions in a parallel universe to industry.”

Food sector entrepreneur

Without doubt there is a huge opportunity for universities and businesses to work together to take advantage of the immense opportunities available to food businesses by increasing the research resource and solving many of the barriers standing in the way of success. The universities are not business-ready and the businesses are not innovation-ready. Clearly there is a need for a more collaborative approach to finding ways to bridge the chasm that exists between universities and businesses. There is no easy solution to this problem.

Even if universities developed a range of products that closely met the needs of SME food businesses, take-up would still be poor because businesses are not ready to engage. Before engagement, there needs to be a serious process of conditioning to make small business receptive to research and training.

### 6.11.3 The contentious issue of intellectual property

Another blocker to investment in research, which mostly applies to larger businesses, involves satisfying the ownership agreement of any IP developed in the process.

A central problem is that high level R&D by universities requires a large investment, has a long payback period and involves a high level of risk. Also, many researchers expect a return for their IP and ideas. However, a company could invest large amounts of money in developing a new product only to find that their major customers (i.e. Coles and Woolworths) are not prepared to range the product, or will only do so on the basis that they get it exclusively. Such an exclusive arrangement would limit sales volumes to the level where the research investment cannot be recouped.

Alternatively, the major supermarkets may apply their market power to insist that the new product be developed for their private label range where the supplier margins are lowest and a royalty payment could not be attained without making the product unaffordable to consumers. McKINNA *et al* has first-hand experience of such behaviour.

### 6.11.4 Businesses are not resourced for innovation

For the above reasons, much of a company's R&D effort goes towards low-level work to produce a new derivative of an existing product, e.g. a new flavour of what they already produce. This basic work can be done in-house, without requiring university research.



"Mate, you're looking at the R&D department right now – it's just me!"

Food processor

While the universities themselves have not been particularly effective at engaging with industry and understanding and responding to their needs, even relatively large food businesses seem to be short term in their thinking about the need to innovate. The issue for SMEs is that they are simply not 'innovation-ready' and there is no one in the organisation equipped to have technical conversations with researchers.

### 6.11.5 Students and alumni: a potential bridge-building solution

One potential solution to both this lack of capacity for R&D and shortfall in understanding about the need to innovate is to leverage internships and work experience with subsidised undergraduate and postgraduate industry placements. The numbers of internships and student industry placements in food businesses in Melbourne's North were acknowledged in the consultation as being relatively weak. Also, industry in Melbourne's North is not readily hiring graduates from these institutions as they perceive them not to be 'job ready'. Most graduates appear to start their careers in the big multi-national businesses where they gain the necessary on-the-job experience.

Institutions could also do more to engage with their alumni who are already working in food and beverage manufacturing in the region. These alumni could be important resources for effecting cultural change.

If the universities could strengthen these connections with industry, the research and training resource could be increased in businesses and cultural change on both sides of the fence may have a chance. RMIT University is already aware of this need and is reviewing its undergraduate food technology programs to include an internship in the curriculum.



## 6.12 | The impact of urban sprawl

Another particular issue for companies located in the inner suburbs of northern Melbourne is the impact of population growth and creeping urbanisation.

Historically suburbs such as Preston, Coburg, Brunswick and Thornbury were industrial areas where householders lived adjacent to the factories where they worked, and businesses were welcoming of local residents because they provided a convenient workforce.

Over the past decade these inner suburbs have become predominantly residential, due to the rampant growth of high-density housing for professional and upwardly mobile citizens who have no association, reliance or relationship with the manufacturers around them.

Together with Melbourne's population growth and accelerating traffic congestion this is causing tension, with residents becoming less tolerant of factories at their doorstep and complaining about noise, smell and heavy vehicles. The attitude is that factories compromise the quality of life in the area.

The other side of the equation is that urbanisation is creating difficulties for food companies, including congestion, difficulty of access for heavy vehicles and restrictions on working times. Also, property values have increased substantially and this impacts on rental costs and rates for businesses.

There is no apparent solution to this problem; it is hard to see how upwardly mobile residents can live harmoniously with the food industry. The only upside for industry is that the rising property values will enable them to sell out and relocate to industrial areas beyond the city fringe. This is only an advantage for businesses that own their own premises.

Part

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Strategic situation  
analysis



## Section 7 |

# Northern Melbourne's competitive advantage

Competitive advantage is defined by the features or attributes that an organisation possesses relative to its competitors. Competitive advantage is an important element in strategic planning, as organisations should be able to identify and develop the attributes they have that are better than their competitors to gain an advantage in the market.

The northern region of Melbourne has some significant and market-relevant points of competitive advantage relative to other regions of Australia.

### 1. Location

Melbourne's North is well located for food processing for the following reasons.

- It is accessible to a large and rapidly growing population base.
- Its location relative to intrastate and interstate markets is ideal as the bulk of Australia's population is located on the east coast, meaning that a large percentage of food production is shipped to northern markets. Also, many ingredients and inputs used in food processing are shipped down from northern locations. The easy access to northern highways is a significant advantage in terms of freight costs and time, which should not be underestimated.
- The wholesale market at Epping will provide a significant locational advantage for companies using or dealing in fresh fruit and vegetables.
- Its location relative to food processing areas on the south side of Melbourne is advantageous in that it is closer to supermarket distribution centres and the airport but more importantly, it avoids up to two hours of traffic time getting through Melbourne to the Hume Highway. This is significant when driver hours are restricted to get next day delivery to markets in New South Wales or Queensland in less than 14 hours.

### 2. Connectivity

The ready access to the ring road network provides a major advantage for food companies.

- **Freight and logistics cost and time efficiencies:** the northern suburbs are well-connected to the Hume, Calder and Geelong freeways. Long-haul truck drivers have strict time limits required by driving regulations. And slot times into supermarket distribution centres mean that even a one-hour time saving can have significant cost implications.
- **Attracting staff:** the Western Ring Road makes it relatively easy for people to commute long distances and easier for businesses to attract quality staff. Importantly, a workforce with years of experience in the sector is resident nearby.
- **Being close to Tullamarine Airport:** this provides freight access for exports and imports, and is a significant market for food in its own right.

- **Accessibility to the Port of Melbourne:** the Western Ring Road makes it relatively easy to ship products in and out of the Port of Melbourne.
- **Access to a residential workforce:** Melbourne's North has a large population of people who want to work in the area.

### 3. Affordability

- **Available and affordable land:** the region, and particularly the outer ring, still has large pockets of relatively cheap land that is appropriately zoned for food processing. Although the land is not the cheapest in Victoria, it is relative to other areas suitable for food processing, particularly the south-east of Melbourne.

### 4. Brand and culture

- **Brand Melbourne's global food status:** Melbourne is gaining international status as a food destination, known for the quality, diversity and affordability of its food. Tourism Victoria reports that food is increasingly becoming a destination driver for international tourists. The Melbourne provenance of food is emerging as a unique selling proposition. Including the word 'Melbourne' in a trade brand brings instant global recognition.
- **Ethnic diversity and cultural richness:** Melbourne's global reputation for food is largely a product of ethnic diversity, beginning in the post-war years with European migrants and later followed by other nationalities – notably Asian, Middle Eastern and African.
- **A food manufacturing history:** Melbourne's North has historically been and continues to be celebrated as a food stronghold. The local food culture and long history of food and beverage manufacturing in the area provide a resident workforce with a passion and interest in the subject as well as developed skill sets. This is an advantage that the region has over other parts of Melbourne.

### 5. Support services

- **Access to ancillary support services:** an important advantage of Melbourne's North to a food company is the ready availability of support services including equipment and service suppliers, packaging, transport logistics and contract labour.

## Section 8 | Melbourne's North opportunities

Despite the substantial challenges that confront the Australian food industry, prospects for the future are bright. The media is full of industry analysts talking up the food sector on the basis of the demise of the manufacturing industry plus the questionable long-term future of the mining industry. Evidence supporting the so-called 'dining boom' and likelihood of food becoming the next economic powerhouse for Australia is widely reported in documents such as the National Food Plan. To a large extent this is being driven by the expectation of a strong and sustainable demand for high quality food and beverage products from the Asian region.

More than most other regions, Melbourne's North has significant potential for growth in the food and beverage sector because the sector predominantly comprises SMEs, most of which are growing businesses in growing categories. Realistically, the region could double the size of its food and beverage economy within a decade.

### 8.1 | Opportunities for food businesses

The previous analysis highlighted the reality that Australia is a high cost producer of food and generally uncompetitive in trade-exposed commodity categories. Yet despite this disadvantage there are substantial opportunities in these areas:

1. new and novel products
2. new geographies
3. new channels-to-market
4. new business models.

Australia's reputation for safe and sustainable food also offers a point of competitive advantage.

#### 8.1.1 New and novel products

The best prospects for Australia are in products that have a point of difference for which customers are prepared to pay a premium. Capitalising on this opportunity will require investment in R&D to generate novel products with a unique selling proposition.

In particular the growth categories that provide fertile ground for new products include:

- 'free from' (i.e. allergen free) or health foods catering to the growing proportion of the population who have allergies or health concerns
- nutraceutical or functional foods that have health benefits beyond nutrition, including high levels of antioxidants or elements that reduce disease risk or promote healthy living, healthy appearance or quality of life
- natural or organic foods
- authentic ethnic foods
- processes that preserve shelf life without impacting on flavour or texture (e.g. high pressure processing)

- meal solutions, including convenience meals and pan-ready meal components
- convenience and smart packaging that adds to functionality and can be recycled
- gourmet and premium luxury foods
- value-added chilled foods
- minimally processed food products
- ready-to-eat meals
- foods for specific medical needs.

Ideally, these products need to be supported by protectable IP.

### 8.1.2 New geographic markets

The growing demand for quality, safe food from China is well documented, driven by the growing Chinese middle class and their desire to improve eating habits and quality of life. Aside from the challenges of doing business in China, this will provide excellent opportunities for businesses with the right products, trade partners and business models.

Although China takes the limelight at present, South-East Asia also offers excellent prospects for market growth. Again, this is due to a large, growing and relatively young population, rising affluence and westernisation, and with the advantage of being closer, more accessible and easier to do business in.

The traditional markets of Japan and South Korea will continue to grow, especially given the new free trade agreements. And other markets are emerging in Eastern Europe and the Middle East.

### 8.1.3 New domestic channels to market

Although supermarkets dominate the retail market there are other emerging channels to market that provide excellent opportunities, particularly for smaller companies not willing or able to deal with supermarkets.

#### 1. Private label contract packing

As indicated earlier, private label has grown exponentially over the past decade. Although the selling prices are lower, with the right business model this can be a profitable market outlet, particularly for smaller companies not wishing to invest in sales and marketing capability.

#### 2. Food service

Away from home consumption accounts for approximately 40% of food sales by volume. The considerable segmentation (i.e. variety in the types of outlets) that exists within the food service sector, in both commercial and institutional sub-sectors, provides an array of profitable niche market opportunities.

#### 3. Ingredients

At a time when food businesses are outsourcing their non-core activities, there are increasing opportunities for food companies to develop and supply ingredients with novel functional attributes.

## 4. Direct-to-consumer models

A number of profitable direct-to-consumer market channels are emerging including online selling and direct-to-home (e.g. Aussie Farmers Direct), and weekend markets. Increasingly, these are becoming more profitable outlets, particularly for smaller businesses.

### 8.1.4 New business models

There are opportunities for businesses to prosper in this challenging environment by adopting alternative business models including joint ventures, strategic alliances and joint marketing models.

Adapting an existing business model to suit changed market circumstances is possible for smaller and more agile businesses in Melbourne's North. An example of this is adapting to contract pack products for other brands or companies rather than marketing the company's own product.

## 8.2 | Opportunities for universities, and training and research organisations

There are substantial opportunities for universities, TAFE providers, other RTOs and private and public research organisations to take advantage of the expected growth in the food industry in Melbourne's North.

### 8.2.1 The innovation opportunity

Given Australia's high costs, it will be critical to compete with novel and differentiated products for which consumers are prepared to pay a premium and to incorporate new processes and systems to reduce cost and improve productivity. This will require a significant investment in R&D.

### 8.2.2 The training opportunity

There is a need for upskilling and training of the workforce at every level of the business, which will provide substantial opportunities for education and training institutions.

Based on the industry consultation, there is an apparent urgent need in the market for VET skills training. With the move to higher technology equipment and processes, together with more demanding compliance requirements, certified trained staff are in more demand. The demand for staff with Certificate I to IV in Food Technology, or courses in basic food handling skills, is prevalent. There is a degree of disillusionment in industry with private training providers that normally offer this training based on reasons already outlined.

If educational institutions are to fill this need, they must modify their engagement processes and ensure that the product they are offering is relevant to the market, particularly to SMEs.

There is currently a gap between the training products available through universities and RTOs relative to industry needs as already noted earlier in this report.

### 8.2.3 The international education opportunity

The international education market is Victoria's top export. In 2012 Victorian education exports were valued at \$4.4 billion,<sup>35</sup> which was more than red meat and dairy exports combined in the same period.

The importance of Victorian education exports is emphasised in the state government's *International Engagement Strategy* and the federal government's white paper *Australia in the Asian Century*.

Of RMIT University's food science graduates, 30% are international students. In addition, the 2015 mid-year intake also sees a substantial rise in student numbers from China through a partnership agreement with a sister university. It is widely reported that the Chinese government is under increasing social pressure to improve domestic food safety. The Chinese agricultural sector is also benefiting from central government efforts to grow regional economic development in agricultural areas and the proportion of university-educated agriculturalists is growing.

These two government directions augur well for the potential for RMIT and La Trobe to build even stronger education export markets for food related higher education.

The above factors, when viewed through the experience of McKINNA *et al*'s extensive body of qualitative in-market research in international education, support the assertion that the food sector higher education product has the potential to be of significant economic value to Melbourne's North.

Education exports are claimed to have an economic multiplier effect of 1.91 times.<sup>36</sup> Much of this would benefit the northern Melbourne economy by providing accommodation and services to international students moving into the region to study food related courses.

There are further cultural reasons to support higher education for international students in the food sector. International students highly value the opportunity for industry experience while studying in Australia. This presents the opportunity for local food companies providing internships to these students to develop networks with the students that can be further leveraged on their return home.

## 8.3 | Opportunities for the region as a whole

Apart from the flow-on and multiplier benefits that will accrue to the region from the growth of the food industry, given the competitive advantages outlined earlier, there is the opportunity to establish Melbourne's North as a state food hub attracting food businesses from other parts of Melbourne, Victoria and overseas.

### 8.3.1 Location

Melbourne's North is well positioned to attract companies that are processing commodities from northern Victoria's food bowl, particularly from the Loddon Mallee and Goulburn Murray Irrigation District. A push from governments to value-add more of these commodities domestically will benefit Melbourne's North if it can attract

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<sup>35</sup> Department of State Development, Business and Innovation, 2012, *International education strategy for Victoria 2013-2018*, p.8.

<sup>36</sup> Access Economics, 2009, *The Australian education sector and the economic contribution of international students*, p.7.



processors and value-adders to the region. The new wholesale market facility at Epping may play a part in this.

Northern Melbourne is also well positioned to promote its credentials for investment attraction. On the back of the growing demand for food from Asia, there is strong interest by overseas investors in Australian agrifood processing assets.

### 8.3.2 Promotion

To maximise its competitive advantages, the region will need to build its profile and credentials as a food hub and make itself attractive to investment by getting on the radar as a food and beverage destination.

Promotion of the region to attract business investment is only the first step. The next step is in ensuring businesses in Melbourne's North are investment-ready. Currently the many SMEs in the region that urgently require capital would not be attractive to external investors as their management systems (staff capability and accounting systems) are not as professional as they could be. Investors are looking to invest in businesses with a developed strategic plan, good brands, efficient management teams, established boards with external directors, and sound accounting and audit practices.

Promotional activities could potentially include a product showcase. Being close to Melbourne Airport, Melbourne's North is well located to host a showcase exhibition facility for promoting Melbourne's total food offering to inbound buyers or trade missions. A facility with commercial kitchen catering capacity and display areas could be a central location for local food companies to collectively and cost-effectively promote their products.

The Melbourne Wholesale Fruit, Vegetable and Flower Market could be a potential location for such a facility, given its easy access to the airport.

### 8.3.3 Food tourism

There is also an opportunity for Melbourne's North to leverage the artisan products in the region into a food tourism strategy. Tourism Victoria is already working with artisan producers in the city areas of the region to develop food and beverage experiences along the tram routes, but similar opportunities exist for farm gate experiences in the outer fringes.

The gateway through Melbourne's North to the Yarra Valley presents opportunities, with farm gate activity blossoming in the Nillumbik area. Admittedly, this is a smaller economic opportunity than growing the mainstream processing sector. But it is important in that it influences quality of life for residents, enhances the region's overall food brand and fosters community pride in local products.

## Section 9 | Sector growth blockers

Despite the substantial opportunities that exist to grow the food industry in Melbourne's North, there are a number of factors that are constraining manufacturers from reaching their full potential.

### 9.1 | Capability gaps in SMEs

Most business activity in the food sector comes from SMEs, and this is particularly the case for Melbourne's North. Although most of these businesses are experiencing growth, this is limited by constraints including the following.

#### 1. Capital

To grow to the next level, SMEs often require an injection of capital for plant and equipment plus additional working capital to cover increased staff numbers, greater inventory costs and/or complex cash flow patterns.

#### 2. Lack of strategic direction

Most SMEs lack the skill sets to recognise the importance of having a strategic plan or a willingness to invest in one.

#### 3. Lack of managerial resources

Many SMEs lack the managerial capacity to take their business to the next level of growth.

#### 4. Lack of investment in new product development and innovation

Only the larger organisations are making any substantial investment in significant game-changing innovation and new product development.

#### 5. The culture and a fear of engaging

SMEs either do not know about or are not prepared to use available support services, including networking and consultants.

#### 6. Not being export-ready

Most of the companies are probably not export-ready, lacking the required skill base and capability for successful exporting.

#### 7. Not being innovation-ready

The majority of food and beverage processors in Melbourne's North are not 'innovation-ready' or able to have an informed conversation about R&D with a researcher.

## 9.2 | Supermarket power

The impact of supermarket dominance and the duopoly power of Coles and Woolworths is constraining the growth of SMEs in Melbourne's North.

It is unlikely that the supermarket power will subside and the only real way around it is either to build a business model where dealing with supermarkets is profitable or to seek new channels to market. Both these strategies can be effective.

## 9.3 | Global competitiveness

Australia cannot compete in most categories that can be readily traded internationally and many multinational companies have moved their food and beverage production offshore. Given that it is most unlikely that Australia's cost structure will reduce relative to overseas competitors, it is important for domestic businesses to develop products that cannot be easily imported (e.g. fresh foods). Producers must develop differentiated products for which consumers are prepared to pay a premium because of the perceived value. Investment in innovation is also required to improve processes to increase productivity and reduce cost.

As already mentioned, the strengthening Australian dollar is a key contributor to the lack of global competitiveness for local producers. It has seriously curtailed exports and increased imports. In many categories businesses are increasingly forced to compete with low-cost imports, which is difficult given the Australian operational cost structure.

Because of the reasons outlined previously Australian food companies are not generating the profits required to invest in growth through new technologies, new products, differentiating brands or market development activities.

Without this re-investment of profits industry will fall further behind global benchmarks, increasing the decline in global competitiveness.

## 9.4 | Lack of a strong industry voice and industry leadership

The food and beverage sector would strongly benefit from an industry organisation based on the Food SA model. Once a government body, Food SA is now industry managed and is an example of a highly effective food and beverage processing industry representative body at a state level.

A strong industry body also becomes a point of connection for external stakeholders. At the moment, all stakeholders in Melbourne's North such as the universities, FIAL, the Department of State Development, Business and Innovation and others are contacting industry individually in an effort to build relationships, which appears to be an annoyance to industry. A strong central body that could speak on behalf of the whole regional sector would ensure efforts to assist industry are better coordinated.

## Section 10 | Case studies

### CASE STUDY 1: From artisan to global retailer

What began as a small husband and wife team making confectionery for weekend markets has become a multi-million dollar business employing over 250 staff. The company is about to open an overseas retail outlet.

A contributing factor to the success of this business is a willingness to invest in external expertise to improve quality. The owners now benchmark their product against Europe's finest confectioners. While this locally-made confectionery is priced higher than many premium imports, that has not slowed sales growth. Because the company is vertically integrated and sells much of their product in their own retail outlets, they understand their customer base very well and know there is a segment of the market that will pay for the very best. More critically, owning their own channel to market enables them to take a larger share of the total supply chain margin. There is a great pride evident within the team in producing a local product as good as Europe's finest.

In their early days, the owners of this business engaged a master confectioner from Europe to assist in recipe development and staff training. The result is premium products that have retained their local identity with a distinctly Australian feel to their packaging and flavourings, which sets them apart from imported competition.

Early investment in this external expertise reaped rewards. While the expert only stayed with the business for a short time, the knowledge has been retained within their production team through staff training, and internal systems and processes.

Key success factors:

- investment in external expertise
- vertical integration
- staff training.

### CASE STUDY 2: Gearing up to diversify markets

This food manufacturer has invested heavily in technology to achieve the economies of scale required to be competitive in new markets.

The business was once a fresh meat processor servicing restaurants and catering businesses. Without a strong brand or other point of difference, they were forced to compete on price against many competitors.

The original owner of this business could see that significant investment was required to achieve the scale, efficiency and compliance systems required to supply other channels and was willing to take on investors to achieve this. The investors also took up 'hands on' roles on the management team, ensuring commitment and buy-in. The capital raised allowed the company to move from an old non-compliant facility to a new factory with state-of-the-art machinery. This provided the economies of scale, efficiency and compliant facilities needed to seek out larger volume contracts and be able to trade at a globally competitive price.

Although much of the investment was in labour-saving technology, the employee count is actually growing as the business expands. They now employ around 80 staff and most new recruits are in higher skilled jobs such as marketing. Profits have been ploughed back into sales and marketing, with the business now producing a range of branded goods for supermarkets.

With a new factory and new production lines in place, in a few short years this company has diversified its customer base to include supermarkets, fast food chains in South-East Asia and private label contracts. This diversification has given the business additional security.

Key success factors:

- external investment
- new technologies
- stronger marketing focus.

### CASE STUDY 3: The multinational comes to Melbourne's North

A number of multinational manufacturers have chosen to invest in Melbourne's North in recent years. This has been via greenfield investments as well as through the purchase of existing businesses.

A European food business recently acquired an existing business in the region to enhance its portfolio of premium food products targeted at Asia's rising middle class. The operator cited a number of practical considerations for choosing a business based in Melbourne's North, including:

- relatively affordable land
- Western Ring Road access leading to major national highways
- proximity to airport
- proximity to supermarket distribution centres
- access to raw materials from northern Victorian agricultural areas
- available workforce.

The skilled residential workforce was also a key consideration.

### CASE STUDY 4: Making product development a priority

This family business produces a wide range of home-style gourmet biscuits, supplying cafes, caterers, airlines and major supermarkets across Australia.

Now one of Australia's leading specialty bakers, it recently moved to much larger premises and made a significant investment in new plant and equipment.

Key actions taken to facilitate growth:

- innovating, including appointing a full time person on product development
- reinvesting in the business
- continuously training staff
- finding new production efficiencies.

## CASE STUDY 5: Engaging professional advice

A beverage manufacturer identified a gap in the market and expanded the product range accordingly, leading to solid growth. They are now exporting to Asia, with an eye on the European export market.

To get the results they wanted they increased their knowledge, market intelligence and planning. They engaged a business advisor who challenged them on their business plans and ideas, and had them thinking about how to identify new markets and move forward in a different way.

Key actions taken to facilitate growth:

- expanding product range through innovation
- investing in external advice and new technologies
- diversifying product offerings
- developing a comprehensive business plan that analysed capabilities against long-term needs.

## CASE STUDY 6: Planning for business growth

When this key ingredient supplier to the food service industry moved to a new purpose-built premises, it gave them the impetus to work with a business advisor to assist with planning for business growth. Expansion during the financial crisis was challenging but it paid off, with strong growth results in just a few years.

The company is now planning to double in size over the next five years. Its strategic vision is to be an innovation leader in the food industry in products and services offered to customers.

Key actions taken to facilitate growth:

- continually innovating in products and services
- establishing a flexible, responsive and collaborative culture across all staff
- finding ways to do things better, every day
- improving all internal processes
- upgrading technology.

## Section 11 | Critical success factors

The consultation, research and analysis undertaken in this project illustrates that there are a number of factors critical to success for the food sector in Melbourne's North.

1. A cluster of successful, well-managed food and beverage businesses resident in the region.

There is a critical mass of successful businesses that are willing to work together to leverage their proximity and give the local sector a voice in government.
2. A powerful industry body that provides vision and leadership to industry.

The industry does not currently appreciate the power of collaboration and knowledge sharing, so it will require considerable leadership to rally the industry together and implement cultural change.
3. A culture of continuous improvement in product development, product quality, and systems and processes.

This involves a willingness to continually search for a better way of driving change and an understanding of the commercial imperative to do this.
4. Access to a pool of skilled, trained and motivated staff.

Continued upskilling of staff will be critical as new technology and processes are introduced.
5. Access to capital and grant funding to finance the progression of growing SMEs.

Assistance in navigating available grant funding is essential to drive greater uptake.
6. Ongoing investment in R&D and innovation.

There is need to improve processes, drive efficiency and create products that can command a premium in the market. Critical is improved engagement between universities, training providers and industry.
7. A strong commitment to pursuing alternative markets and channels.

This will require knowledge transfer from government and support from other relevant agencies to help businesses understand the best long-term channel to market and the most appropriate business model to service it.
8. Making Melbourne's North an attractive destination for the location of food businesses.

This will require a business-friendly approach from local government, provision of the appropriate infrastructure, provision of incentives, and most of all promotion of the region's credentials in food.
9. Creating a brand identity that unites the northern food and beverage sector and provides a platform on which to promote the region's food credentials.

The regional brand identity is needed at a trade level rather than consumer level to rally the industry in the first instance and then to market the region as a manufacturing hub globally.

## Section 12 |

# SWOT analysis of the food and beverage sector in Melbourne's North

### INTERNAL Strengths:

- A strong, diverse and vibrant food sector
- Location relative to markets
- Ethnic diversity and cultural heritage
- Transport connectivity – access to the ring road network and freeways
- Large resident workforce
- Available and affordable land
- 'Brand Melbourne' association
- Plenty Food Group
- Strong array of support services
- Proximity to world-class universities and research institutions
- Highly supportive state and local governments
- Melbourne Wholesale Fruit, Vegetable and Flower Market relocation

### Weaknesses:

- Limitations associated with SMEs
- High cost base relative to competing countries
- Under-investment in R&D, which is needed to improve processes and create differentiated products
- Cultural unwillingness by businesses to network, cooperate and share ideas
- Inability of educational and research institutions to effectively engage with business

### EXTERNAL Opportunities:

- To establish Melbourne's North as a recognised food hub and an ideal destination for food processing companies
- To develop a regional food 'showcase' for promotion to inbound buyers and trade missions
- To substantially grow the sector through:
  - a. lifting the capability of existing businesses
  - b. new and differentiated products produced through investment in R&D
  - c. new channels to market and reduced dependence on supermarkets
  - d. developing export markets, particularly in Asia
  - e. pursuing new business models
- To better leverage potential linkages in the region between educators, researchers and all tiers of government

### Threats:

- Further strengthening of the \$AUD
- Another downturn in the global economy
- Declining consumer confidence
- Overlap and dilution of efforts between various support agencies
- Failure to innovate to become globally competitive
- To miss the Asian 'food opportunity'



# Part D

Recommendations



## Section 13 | Recommended strategies

This section of the growth plan presents the recommended strategies to grow a sustainable food sector in Melbourne's North. Before detailing the strategies, a number of so-called 'burning issues' are noted. These burning issues have been used to form the basis of the recommended strategic response for the region's food and beverage sector and have become evident through analysis of all the previous stages of research.

### 13.1 | Burning issues

The essence of an effective strategy is to address the fundamental factors standing in the way of achieving the mission (i.e. the burning issues). The 'mission' in this case is the growth of the food and beverage sector in Melbourne's North. Reviewing the blockers, opportunities and challenges identifies the burning issues and/or threats associated with achieving the goals as outlined earlier. The following are the most critical for advancing the region's food and beverage sector.

#### 1. Capability building

There is a need for capability building activity to assist the many SME processors in the region to grow. Such activity includes networking, mentoring and management support to help them navigate the complexity that comes with business growth. As well as a need to improve management skills and business systems and processes, many require general business advice as they scale up from self-starter entrepreneurs and family businesses into corporate structures. Even some of the larger businesses in the region will require continued growth to claw back negotiating power with the powerful supermarkets and improve returns to shareholders. Capability building is also required in technical skills and knowledge to become innovation-ready.

#### 2. Industry connectivity

The lack of industry cohesiveness, communication and connections in the food and beverage sector in Melbourne's North means that many businesses operate in isolation and are not able to benefit from networking, informal mentoring, shared learnings, access to market knowledge or from a general exchange of ideas, as occurs in other industries.

#### 3. Investment in innovation

There is an imperative for food and beverage businesses to invest in innovation and R&D in the face of growing global competition and retailer market power. Only new and novel products can command the premium required to compete against imports. A key issue here is that SMEs are not innovation-ready and the offering and service delivery systems of the universities, RTOs and research institutions are mismatched to the industry need.

#### 4. Channel diversification

The rapidly growing businesses need to find new, profitable markets where they can diversify their channel to market mix in order to improve operating margins and mitigate the risk of trading in a concentrated retail market. This requires market research and analysis that is beyond the budgets and expertise of many operators.

#### 5. Skilled labour availability

There is a particular need to deal with the universal problem of labour availability and skill gaps. Most businesses indicate that this is their most concerning issue.

#### 6. Promotion of the region's food and beverage credentials

The opportunity exists to promote the region's credentials as a food and beverage processing and warehousing location to attract relocating businesses and greenfield investment in the area. This would help create a stronger critical mass of food and beverage businesses that could justify and lobby for infrastructure investment and attract services. There is also scope to develop a stronger food tourism strategy in both the inner and outer regional areas in cooperation with Tourism Victoria.

#### 7. Leveraging the global food opportunity

The forecast boom in global food demand presents a generational opportunity to grow exports of premium foods to service an increasingly sophisticated Asian middle class. The businesses in Melbourne's North are well positioned to capture this growth as they are small, agile businesses producing relatively premium products. If the 400 plus businesses in this region were to double in size on the strength of this 'food boom', the impact on the regional economy would be significant.

It would be much easier to achieve organic growth of this scale across a large number of small businesses than it would be to double the sales turnover of one major manufacturer from another sector.

#### 8. Focusing resources

Because of the large amount of publicity around the global food boom, the food and beverage sector is being swamped with various initiatives and approaches from state, federal and local government agencies, educators and others to assist. Industry is suffering 'consultation fatigue' and is finding it difficult to keep track of the various programs and policy shifts. There is a need to focus these efforts and channel communication to industry through a strong, clear central point to avoid duplication of effort and excessive organisational overlap.

There is a strong degree of overlap in the federal, state and local government action plans around food, which augurs well for a cohesive approach. Additional overlap is occurring in the delivery of these programs.

## 13.2 | Strategy map

In consideration of these issues, the strategy map below has been devised for the growth plan.

### THE FOOD AND BEVERAGE GROWTH PLAN

#### GROWTH PLAN INTENT:

To build on the competitive advantages and opportunities within the food and beverage sector in Melbourne's North to grow jobs and investment across the region

#### GROW INDUSTRY CONNECTIONS AND CAPABILITY

1.

Establish an industry-owned representative organisation to:

1. Connect the industry to share knowledge
2. Build capability to achieve business growth
3. Elevate industry professionalism
4. Develop new markets and channels
5. Leverage growing global demand.

#### DRIVE INNOVATION AND PRODUCT DIFFERENTIATION

2.

Facilitate the formation of an innovation cluster that assists industry to:

1. Develop differentiated premium products
2. Leverage new technology
3. Improve systems and processes
4. Streamline supply chains
5. Conduct research to ensure businesses are guided by market signals.

#### ADDRESS SKILLS DEVELOPMENT AND LABOUR AVAILABILITY

3.

Establish a skills cluster to:

1. Up-skill permanent staff
2. Create pathways to further education for workers
3. Create pathways to employment for students
4. Grow managerial capacity
5. Look at ways to improve access to trained casual staff.

#### POSITION MELBOURNE'S NORTH AS A FOOD AND BEVERAGE HUB

4.

Actively promote the region's food and beverage sector:

1. Develop an investment prospectus
2. Facilitate development of a processing/ warehousing precinct
3. Establish a regional trade brand
4. Strengthen industry's voice via advocacy
5. Encourage regional food tourism.

## Priorities

Establish an industry-owned representative organisation to:

1. connect the industry to share knowledge
2. build capability to achieve business growth
3. elevate industry professionalism
4. develop new markets and channels
5. leverage growing global demand.

## Actions

The key recommendation of this report is the establishment of an industry-owned organisation that will drive the overall plan and grow industry connections and capability. This organisation would provide support, capability building activities, training, networking, informal mentoring, knowledge sharing and communication, and act as an advocacy body for the food and beverage industry in Melbourne's North. The proposed structure is modelled on the successful South Australian industry organisation 'Food SA' (see case study following).

Currently there are a number of organisations providing assistance to the food industry in the region, each offering value and positive outcomes for businesses.

- Each of the **LGA**s (Banyule, Darebin, Hume, Moreland, Nillumbik, Whittlesea and Yarra) provides a range of advice and assistance to businesses in their areas, including food businesses. There is potential for LGAs to be key drivers of this new organisation.
- The **Plenty Food Group**, an initiative of the City of Whittlesea and Hume City Council, has supported businesses in those two municipalities since 2002. It offers export advice and opportunities for networking, sharing experiences, learning, reducing costs and using local resources for member businesses, and has an advocacy role.
- **NORTH Link** is a regional partnership of industry, education and government in Melbourne's North, established in 1995. As part of its business network and advocacy role, it has managed AusIndustry's Enterprise Connect program in the region over recent years, providing advice and support to 30 to 40 local food businesses with excellent results.
- The **Department of State Development, Business and Innovation** supports Victorian businesses through a wide range of programs and activities that encourage productivity improvement and expansion into new markets. Business Development Managers provide face-to-face support and act as a conduit from businesses to government.

## Proposed structure

It is proposed that an industry-owned company, limited by guarantee (i.e. not for profit) be established with consideration given to building on the work of the Plenty Food Group initiative. Advice would be sought on whether the entity should be a subsidiary of NORTH Link or an independent, stand-alone operation.

It is proposed that there be three classes of shareholders:

- **business shareholders:** individual food businesses within the region
- **LGA shareholders:** the LGAs in Melbourne's North and perhaps beyond
- **corporate members:** institutions and corporations that support industry such as universities, RTOs, banks and non-food input suppliers.

Shareholders would each pay a small annual membership fee to participate in the group and fees for activities or events.

## Services

The company would develop a portfolio of services, including:

- **Seminars and training programs:** on specialist subjects including occupational health and safety, sales and operational planning (i.e. matching supply to demand), food science, labelling, marketing, supermarket compliance, product development, human resources and industrial relations law.
- **Government grant programs:** and other funding opportunities. On a fee-for-service basis, the company could apply for and administer grants on behalf of client firms, including the reporting and acquittal process. It could also provide a shopfront to showcase government grants schemes.
- **Workshops on planning and managing business growth:** including global trends and 'big picture' environmental drivers that impact on long-term business decisions, e.g. climate change, population growth.
- **Market development:** advice on new market channels, including helping businesses decide which are most appropriate for their business model.
- **Fee-for-service case management:** helping businesses navigate local and state government bureaucracy.
- **Trade shows and missions:** with preparation and follow-up programs.
- **Mentoring:** including identifying and briefing suitable mentors.
- **Networking events:** these could be segregated for special interest groups (e.g. confectionery, SMEs, family businesses), with formats tailored to business segments (e.g. board lunches, site visits, coffee group).
- **Enterprise Connect (now Entrepreneurs' Infrastructure Program):** If the industry company was part of the structure of NORTH Link, it could contract NORTH Link's Enterprise Connect team.
- **Business register:** this would enable the industry company to refer manufacturers to one another to fill supply gaps, answer export enquiries, match buyers to manufacturers and identify businesses that could collaborate on research projects or in pitching for larger tenders.
- **Liaison:** between regional food and beverage stakeholders, e.g. the industry company could be the key contact point for organisations such as the Department of State Development, Business and Industry and FIAL on regional food and beverage issues.

## Funding

It is proposed that funding for the industry company would come from:

- seed funding from state and federal governments
- annual LGA contribution, probably based on a scale that recognises the differing size of the food and beverage sector in each municipality

- annual membership fees from businesses, based on a sliding scale and as low as possible to encourage participation; membership would be a condition of participating free or at lower cost in the organisation's activities
- fee-for-service on most products and events offered, and for contracts to deliver prescribed government services.

The development of a strong business case is required to seek funding support.



## CASE STUDY:

### FoodSA

Food SA was established in the late 1990s by PIRSA (South Australia's Department of Primary Industries and Regions) to develop the state's food industry. Food SA had strong connections with industry and political influence through the Premier's Food Council.

Food SA originally developed a state food and wine plan, which was implemented with great success. Until 2010 it was run as a department within PIRSA. In its early years it was highly successful in leveraging funding from the federal government's 'Supermarkets to Asia' program and NFIS (National Food Industry Strategy).

It drove a number of programs and projects that were particularly effective in terms of industry development and fostered a culture of collaboration and informal mentoring across the industry.

In 2010 PIRSA restructured Food SA into an industry-owned company and provided seed funding to establish and underwrite the organisation until it becomes totally self-funding. PIRSA has effectively outsourced its food industry development function to Food SA on a fee-for-service basis.

Food SA derives additional funding from annual membership fees plus a fee-for-service arrangement. It has a full time CEO and a small support team located in government offices at the Waite Institute in suburban Adelaide.

Food SA has an active program of events that includes:

- a website with a product and company database and user-friendly search capabilities to find member profiles
- a calendar of networking events
- a program of business capability-building events and toolkits
- representation in all government food related forums
- advocacy for the sector on state and national issues
- delivery of the annual food and beverage awards (Premier's Food Awards)
- participation in local and overseas trade shows (under a prominent Food SA umbrella brand)
- hosting inbound trade missions
- promotional and showcase events with major supermarket buyers
- newsletters and an active PR and media program.



## Priorities

Facilitate the formation of an innovation cluster that assists industry to:

1. develop differentiated premium products
2. leverage new technology
3. improve systems and processes
4. streamline supply chains
5. conduct research to ensure businesses are guided by market signals.

## Actions

This strategy involves formation of an innovation cluster involving universities, RTOs, research foundations, input suppliers, industry and government to facilitate collaborative product and market research that will drive new product development. It will bring the collective resources and expertise of providers in Melbourne's North under one umbrella to identify capability gaps, research and innovation needs, and find ways to assist food and beverage SMEs to become innovation-ready.

The model could also include related disciplines other than food and beverage – such as marketing, Asian studies, hospitality, organisational theory and supply chain management – all areas of expertise within the education partners.

The Food North initiative, still in its early stages, is well placed to take on the innovation cluster role. A collaboration between key stakeholders, the group involves La Trobe University, RMIT University, Northern Melbourne RDA, LGAs, the Department of State Development, Business and Innovation, NORTH Link, KPMG, Melbourne Polytechnic, FIAL and business representatives. Its aim is to increase growth, employment, productivity and competitiveness in the food and beverage sector through creating a co-location for research, providing expert advice and research, and developing practical innovations for the food industry.

It is critical that the innovation cluster's service and product offering meets the requirements and challenges facing businesses in Melbourne's North, and it will need to work closely with the industry-owned organisation (see Strategy 1).

It is recommended that a scoping study be undertaken to better understand the needs of industry and the most appropriate delivery model. Initial work would involve identifying what each provider in the region currently offers in terms of the five priorities in this strategy, and what they can potentially offer, with clarity around the benefits for food businesses. The aim would be to assemble a team of R&D and consulting expertise around capability building, innovation and new product development.

The innovation cluster would then work with the industry organisation to plan how innovation and research services could be effectively delivered. It is critical that R&D services that are pitched to SMEs be affordable, given the inability and lack of preparedness of SMEs to fund R&D activity. Logically, there would be a co-funding model. Previous attempts by universities to provide these services have failed because costs have been out of the reach of SMEs or there have been concerns about IP ownership from both parties.



Undergraduate and postgraduate internships and industry placements may also be an effective way to break down barriers between providers and businesses. This would involve students applying their knowledge and skills in specific roles within businesses, bringing in new knowledge and expertise and saving firms the significant costs involved in employing consultants or full time staff.

The industry organisation would also handle initial enquiries for services, which may include:

- access to the RMIT pilot plant and other provider facilities
- access to a commercial kitchen that could be hired at a daily rate for product/recipe development or small runs
- new product idea generation sessions
- recipe development
- problem solving think-tanks
- sensory evaluation
- specialist food technology, processing and science advice
- packaging technology advice
- market research and marketing assistance
- future scanning to identify long-term market trends.

Apart from offering research services to individual companies, there is perhaps a greater opportunity for collaborative pre-competitive category research covering areas of common interest. This could include networking, mentoring, research and supply chain strengthening.

There are several examples of collaborative research and innovation models in the Melbourne metropolitan area. The Mondelez Chocolate and Confectionery Centre of Excellence is a food R&D facility that connects enterprises, industry, education and technology, although there are competitive issues around this facility being led by a multinational corporation. The Kangan Automotive Centre for Excellence and its Centre for Fashion and Creative Industries are effective in engaging with industry and meeting its skills training requirements. The Automotive Centre achieves this mainly by providing customised courses for clients and making facilities available to run training events. The Fashion Centre allows SMEs and even larger fashion houses to run prototypes in its pilot plant.

Forming a collaborative venture between all partners to create such a centre for the food industry, and adding the RMIT University pilot plant to the mix, has the potential to greatly enhance industry engagement.

## Priorities

Establish a skills cluster to:

1. upskill permanent staff
2. create pathways to further education for workers
3. create pathways to employment for students
4. grow managerial capacity
5. look at ways to improve quick access to trained casual staff.

## Actions – skills development

It is vital to ascertain how best to meet the skills needs of food businesses in Melbourne's North. Comprehensive research must be undertaken with higher education and training providers to find out what they are delivering and what they are capable of delivering to the food industry. Industry Training Boards (such as Agrifoods Skills Australia), FIAL and other stakeholders should be consulted with regard to business intelligence they have gathered in the training area.

Working with the industry organisation, this project would also involve determining the needs of local businesses, for example type of training, style of delivery, frequency and numbers requiring training.

Considering the results of both sets of research will identify the shortfalls and gaps, providing a clearer picture of what industry requires and how best to service that need.

Food North could assist in bringing together people from different local education and training providers – higher education and public and private RTOs – who would work collaboratively to develop a delivery model that is flexible and responsive to the varying skills needs of industry.

The model would include but not be limited to:

- generic and customised training packages – both accredited and non-accredited
- language and numeracy training in a food technology context
- apprenticeships, traineeships and internships
- recruitment and career planning
- compliance training and research
- workplace practices and OHS
- VET certificate and diploma training
- career pathway education
- special interest short courses (in company or cross-company).

The result would be training that is delivered in a way that is appropriate to employers at the time. Effectively, either formally or informally, the skills cluster could become an outsourced professional development department for SMEs.

The participating partners would agree on the allocation of services and delivery model, with services charged out on a fee-for-service basis. Logically, the industry-owned company (Stage 1) could provide the front desk and clearinghouse for the service, putting businesses in touch with the appropriate parties. Government funding available for training and skill development could be leveraged to deliver this service.

Provision of scholarships, apprenticeships and internships with articulated qualification frameworks will encourage talented school leavers to pursue a career in the food industry. This approach needs to be continuous so that it builds momentum over time and results in an improved skills pool for the future.

## Actions – labour

Labour is a key factor impacting on food businesses in Melbourne’s North, and in the future it will be important to look at ways that the region can improve quick access to trained, casual staff.

The most common issues relating to labour were found to be:

- difficulties involved in employing staff with the required skill sets
- staff reliability and high turnover rates
- succession planning for supervisory staff
- recruitment services
- problems with language and numeracy skills
- managing highly variable weekly and seasonal variations
- the need for upskilling to accommodate new technologies and processes and increasing demands with respect to compliance
- bridging the wide gap between factory floor and management.

The feasibility of forming a labour and skill development cluster involving Melbourne Polytechnic, private RTOs, group training providers and labour hire companies operating in the food sector (and perhaps universities) should be assessed to develop a one-stop-shop labour service. Participants in the coalition would form a virtual company to offer the suite of services and would agree on the allocation of services and delivery model. Charges would be on a fee-for-service basis.

There is also the potential to set up a process where workers can be trained up and join a pool of skilled labour that will enable business to accommodate seasonality, peak demand periods (e.g. Christmas, Easter, Ramadan) and other variables in product demand.

## Priorities

Actively promote the region's food and beverage sector:

1. develop an investment prospectus
2. facilitate development of a processing/warehousing precinct
3. establish a regional trade brand
4. strengthen industry's voice via advocacy
5. encourage regional food tourism.

## Actions

Given that Melbourne's North has a number of areas of competitive advantage, there is an opportunity to position the region as a food hub. The following activities would form part of this strategy.

### 1. Develop an investment prospectus

It is recommended that an electronic prospectus be developed to promote the advantages that Melbourne's North has as a location for food companies. The target audience would be established food companies looking to relocate or build a new facility and overseas investors looking to establish food processing facilities in Australia.

The prospectus would outline the advantages of locating a food business in the region. A consultancy would undertake an audit of the assets, features and benefits of the region for food companies. This would then be compiled as a set of selling propositions. The prospectus should be in electronic format to provide the flexibility to update. It could also be presented as a resource toolkit that LGAs would use to assemble customised presentations for their various audiences.

When Strategy 1 is well established, it would be beneficial to conduct a marketing program that could include participation in food trade shows and advertising. This could be jointly funded by the Department of State Development, Business and Innovation, local government, NORTH Link and/or other regional stakeholders.

### 2. Facilitate development of a processing/warehousing precinct

Relevant LGAs and state government could work with property developers to develop a state-of-the-art food precinct in the outer areas of Melbourne's North. The developer would propose a plan to establish purpose-built food processing factories with a long-term rental agreement, perhaps with co-located bio-digester or co-generation plant, waste water processor, warehousing facilities and other support services such as food testing laboratories. Obviously this would be a long-term project and its feasibility would need to be determined. This precinct would be ideally suited to the site adjacent to the new Melbourne Wholesale Fruit, Vegetable and Flower Market in Epping.

### 3. Establish a regional trade brand

A critical element in the success of building the profile of the food sector in Melbourne's North will be building a unique identity for the region within the trade (i.e. not to consumers). The brand would focus on investment attraction and provide a banner identity for trade shows. The brand should include the word 'Melbourne' to leverage Melbourne's growing global reputation in food and beverage processing. It is suggested that the successful Food SA branding approach be used as a reference point.

### 4. Encourage regional food tourism

Regional branding will help to foster artisan food and micro-businesses in Melbourne's North. The micro-businesses of today may be the major manufacturers of tomorrow and food tourism will assist them to develop niche markets and grow. Food tourism is relevant in the city (micro-breweries and artisan/gourmet producers) and outer fringes (farm gate). Food tourism will enhance the liveability of Melbourne's North for local residents and confirm the validity of a food brand for the wider region by fostering community pride in locally made products.

### 5. Strengthen industry's voice via advocacy

The food sector in Melbourne's North does not currently have a strong voice due to a lack of connectivity within industry. It is proposed that a communications and advocacy plan be driven by the industry company proposed in Strategy 1. Both internal and external communication strategies are required.

Part

E

Bibliography  
Glossary of terms



# Section 14 | Bibliography & glossary of terms

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## Glossary of terms

TERM	DESCRIPTION
ABARES	Australian Bureau of Agricultural Resource Economics and Sciences
ABS	Australian Bureau of Statistics
AFGC	Australian Food & Grocery Council
Agrifood	The entire food and beverage sector from on farm to end user
Agri-tourism	Tourism focused on regional food production
ANZSIC	The Australian and New Zealand Standard Industrial Classification, developed for use in the compilation and analysis of industry statistics in Australia and New Zealand
BVA	Business value added
FIAL	Food Innovation Australia Ltd
FTE	Full time equivalent
GDP	Gross domestic product
GRP	Gross regional product
GVA	Gross value added
IP	Intellectual property
LGA	Local government area
NIEIR	National Institute of Economic and Industry Research
NMIT	Northern Melbourne Institute of TAFE, now Melbourne Polytechnic
NMRDA	Northern Melbourne Regional Development Australia Committee
pilot plant	A setting that helps students to develop practical and hands-on skills that simulates industrial production
RTO	Registered training organisation
SMEs	Small and medium sized enterprises
VET	Vocational education and training



# Appendix

NIEIR Final Report



# **The Strategic Significance of Food Processing Manufacturing in Melbourne's North**

**A report for  
NORTHERN MELBOURNE RDA/NORTHLINK**

**Prepared by the  
National Institute of Economic and Industry Research (NIEIR)**

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**June 2014**

***While the National Institute endeavours to provide reliable forecasts and believes the material is accurate it will not be liable for any claim by any party acting on such information.***

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# 1. Economic overview

The impacts of the mining boom on the broader economy and largely outside of Western Australia has not always been positive, the industry's contribution to the higher dollar impacting the competitiveness of a range of industries including manufacturing, education and service exports and tourism, the driving up of costs and wages at various points of the boom cycle increasing costs in industries like construction. There are regions also where the mining boom has left little impression.

With the pluses and minuses of the mining boom taken into account NIEIR estimates that the net benefit peaked at 4.7 per cent in 2012-113, in the following year the net benefit declined. Benefits to the states vary considerably. Western Australia benefited the most with GSP now 30 per cent higher than would have otherwise been the case if the boom had not occurred. At the other extreme Victoria suffered reduced GSP throughout the period with the reduction now around 5 per cent. New South Wales has partly offset this decline in GSP because of its coal exports. The only eastern state to benefit from the mining boom has been Queensland, but results are patchy across the state and at a much lower level than the benefit to Western Australia.

## Macroeconomic trends in Australia's cities

Melbourne's population has risen to 97 per cent of Sydney's still the most populous city but lacking room to grow. Brisbane is the third largest city (50 per cent of Sydney's population) followed by Perth (45 per cent of Sydney's population). Perth is the fastest growing city, followed by Brisbane, then Melbourne. Slow growing cities tend to have ageing populations above the average, this is the case for Adelaide. Brisbane has the highest proportion of people aged 19 years or under. In the case of Sydney retirement emigration is slowing down the ageing of the city as older people leave for other regions. In terms of ageing Perth and Melbourne reflect the national average.

Workforce growth was fastest in Perth followed by Canberra, Brisbane, Sydney and Melbourne. Adelaide declined, Workforce growth has slowed in the last in the last two years with Melbourne's rate of growth declining markedly. Similar patterns apply to employment.

Housing construction per capita was highest in Perth, followed by Melbourne, Brisbane, Adelaide, Sydney and Canberra last.

Melbourne and Adelaide were most impacted by the negative side of the mining boom. This is a concern given the impact of automotive industry closures. Because of its strong concentration of the knowledge economy Sydney has survived the negative impact of the mining boom on manufacturing more successfully than Melbourne and Adelaide. Melbourne and Sydney's infrastructure deficiencies are hindering the harvesting of the benefits of the knowledge economy and economies of agglomeration. Transport infrastructure capacity is a significant issue.

It is critically important that Victoria as a state and Melbourne and its regions address the decline in jobs forecast from the end of the automotive manufacturing industry, the main suppliers at the very least plus a significant reduction in their supply chain activity and employment plus the spinoff damage to other employment in other industries. A comparatively sudden reduction of the automotive manufacturing sector giving a shock to regions most involved in the industry and that includes Melbourne's North. Given what already exists in terms of skills and expertise in Melbourne's North and other more macroeconomic changes described here food processing manufacture seems to be the obvious development opportunity with Melbourne's North which will struggle to replace automotive employment with equivalent skilled and well paid employment.

## 2. Multipliers from food processing

In the 2014 *State of the Regions* report it is argued that the Australian balance of payments could become problematical, particularly if there is a surge of imports in industries affected by market-first policies such as the motor vehicle and chemical industries, and even worse if current expectations of earnings from mineral exports are disappointing. These circumstances can only be addressed if the exchange rate returns to a level where Australian production is reasonably competitive against suppliers overseas, particularly (given the free-trade agreements in place) the United States and Japan, and is maintained at that level to assure investors that expected returns from exporting will not be destroyed by yet another spike in the Australian dollar. Assuming that this happens, where will the necessary increase in exports come from?

A prominent suggestion is that value should be added to agricultural exports. This will require a concerted investment program with a chain of components:

- ❖ on-farm investment to ensure a supply of quality inputs;
- ❖ investment in processing facilities;
- ❖ investment in infrastructure to connect these facilities to their markets (both product transport and the flow of market information); and
- ❖ marketing, including such areas as quality assurance.

Assuming that both the opportunities and the investment funds to exploit them will be available, what will be the regional impact?

To assess such regional effects, NIEIR modelled a strictly hypothetical series of investments. It is hoped that the investments specified are more or less realistic, but the interest here is not in the investments per se. Instead it is on the inter-regional effects. The investments were specified as follows:

- ❖ they had to be located where feedstock is reliably available in quantity;
- ❖ land costs were not taken into account, since the investments are located in agricultural regions; and
- ❖ economies of scale were not taken into account, in particular the transport investments which may be required to bring in sufficient raw material for economic operation.

LGA were selected from around Australia to provide the composition for the assessment so that it would be reflect a range of possibilities, investment was set at \$15 million for public sector infrastructure plus public sector R&D support \$5 million and marketing support \$15 million. Private non-residential construction and equipment investment was set at \$25 million and private marketing at \$15 million.

These private investments of \$40 million were assumed to require a profit of \$6 million at a mark-up of 15 per cent implying (export) sales of \$40 million, assumed to be divided into profit \$6 million, wages \$14 million and input purchases \$20 million. These are by no means spectacular investments and are specified merely for the sake of argument.

After taking supply chain and multiplier effects into account and after ten years to give the affected regional economies time to adjust, the effect on Gross Regional Product was an increase of between 1 and 4 per cent in each region in which investment took place. Given that all the investments were the same size, the percentage increase depended on the Gross Regional Product of the region in which the investment was located. Overall, 51 per cent of total additional value added was captured by the regions where the investments were located.

Food processing is not particularly labour-intensive so the results for employment generation were less impressive, with the creation of 3,000 additional ongoing jobs after all had settled down, an average of less than 400 per investment or 40 per \$1 million invested. In all regions this represented an addition of less than 1 per cent to regional jobs, though the percentage additions in the actual towns where the investments were made would have been larger. The difference between the GRP effect and the job effect indicates that these would be high-productivity jobs and would pay well. Fifty-two per cent of the additional jobs were located in the region of investment. Allowing for commuting, 50 per cent of the jobs were taken by residents of the region of investment.

Provided markets can be found and nurtured, food processing has potential to increase regional incomes, and in the process to generate spinoff employment much of which is metropolitan in location. In developing value-added agricultural exports Australia could do worse than learn from New Zealand, which, deprived of the distraction of a mining boom, has quietly fostered its rural based export industries.

### 3. New Zealand – exports driving productivity

The relatively small scale of the New Zealand domestic market for goods and services has meant that both business and government have had to think, first and foremost, about exports in the search for economic growth. The small scale of its home market means that businesses have to think about exports at a far earlier stage of their life cycle than is the case for businesses domiciled in larger domestic markets. The small scale of the domestic market encourages businesses to specialise in developing niche products. These market dynamics are giving New Zealand firms an advantage, as a focus on exports is core to their existence.

New Zealand has gone about meeting the challenge of growing its export industries by developing a strategy to improve the productivity and competitiveness of its businesses to ensure these businesses can compete in international markets and bring home the benefits of access to larger markets and the resulting economies of scale. Economic circumstances and rapidly changing market conditions in the last few years have had an impact on New Zealand's international competitiveness, encouraging a new focus on improving the conditions for exporters.

The idea is about being small but thinking big; it is about building international networks and markets and about bringing back this knowledge from overseas to enhance innovation. New Zealand's goal is grow the ratio exports to GDP from 30 per cent (2012) to 40 per cent by 2025 by encouraging investment in commodity and high value technology firms. (The current Australian ratio is 21 per cent.)

Not much more than 40 years ago Europe bought half of New Zealand's exports (with a significant percentage of these exports destined for the UK) and North America accounted for another 20 per cent. Exports were dominated by the agricultural sector and New Zealand's agricultural products were highly regarded by its British customers at that time. Britain's entry into the Common Market or European Economic Community in 1973 meant drastic changes for New Zealand's exporting firms.

Today Europe purchases about 12 per cent of New Zealand's exports and North America a little less.

What has occurred over the last four or five decades is a radical transformation and diversification of New Zealand's export markets which include the Middle East, Asia, Australia and Africa.

New Zealand has been successful in growing its exports because it has understood the importance of bilateral trade agreements, building the New Zealand brand and the soft diplomacy of building networks in a diverse range of markets and cultures. It was an early adopter of these policies and ideas. New Zealand also showed strength in its marketing knowhow, stressing 'brand New Zealand' and linking its companies to the culture, attributes and geography of the nation. This works in obvious ways, particularly for agriculture. Global demand for food which is guaranteed to be healthy is rapidly growing as a by product of economic growth and increasing prosperity in Asia, particularly the rise of the new middle class in China, India and across ASEAN.

Enabling trade has been an important part of New Zealand's strategy to develop its exports. It has developed country strategies with India and China, concluded various free trade agreements with ASEAN countries, within the Trans-Pacific partnership and other regions, and has addressed border barriers to trade, taxation agreements and so on.



Primary production accounts for 55 per cent of New Zealand's exports and the sector continues to improve its productivity at a rate greater than the New Zealand economy as a whole. This trend may demonstrate how exports can drive innovation and productivity improvements, so beneficial to the home market, as a lot of hard work needs to be done by exporting businesses to maintain international competitiveness.

In its *The Global Enabling Trade Report 2014*, the World Economic Forum states:

*"Far below its neighbour New Zealand (4<sup>th</sup> position in the index), Australia ranks 23<sup>rd</sup> overall ..... Australia is penalised by a low score in the foreign market access pillar (134<sup>th</sup> out of 138) reflecting the high tariffs faced abroad by Australian exporters."*

The report also mentions the bottlenecks in Australia's ports and rail infrastructure because of the priority given to various mineral exports. The costs of shipping also drag Australia down in the Trade Enabling Index.

As for Australian agriculture, there is a general sense, documented in the *State of the Regions* reports, that opportunities for the agricultural sector and its exports have been crowded out by the mining boom. With the boom subsiding, and with limited opportunities for a quick recovery in manufacturing, it is likely that there will be a return to the established Australian emphasis on agricultural exports, especially in the light of market opportunities likely to arise in Asia.

Improved marketing is one route to higher prices and hence increased productivity; other important contributors are likely to be improved extension services (including utilisation of private advisors) and in the longer run continued investment in research and development and in infrastructure to link agriculture into the knowledge economy.

## 4. The manufacturing landscape

Compared to other industries, there are few serious problems in defining manufacturing.

Manufacturing is trade-exposed with partial exceptions. Some (though not all) mineral processing is closely allied to mining and manufacturing in regions directly engaged with agricultural activities, these receives natural protection.

At the regional level, as for Melbourne's North, manufacturing is generally an export industry. Average value added per hour worked in 2013 was roughly 80 per cent of the national average for all industries. There was a marked state pattern in productivity, which tended to be higher in Western Australia, the Northern Territory and Queensland than in the south-eastern states, especially Victoria.

Judged by the trade weighted index, the exchange rate was reasonably favourable to the development of Australian manufacturing during the 1980s and 1990s – the period when various protections and supports were withdrawn. However, since around 2004 and despite continuing balance of payments deficits the exchange rate has been significantly over-valued, reducing the competitiveness of Australian manufacturing, depressing its productivity performance and resulting in declining production.

In 2013 manufacturing, excluding food processing, accounted for 6.2 per cent of national employment. The industry was concentrated in metropolitan suburban regions, especially the following:

- ❖ Melbourne Outer North;
- ❖ Melbourne Inner South;
- ❖ Melbourne Outer East;
- ❖ Sydney Parramatta Bankstown; and
- ❖ Adelaide North.

In these regions its proportion of total employment ranged from 11 to 14 per cent.

Following the disruptions of the 1980s, employment in manufacturing was steady at national level during the land boom from 1991 to 2007. Employment in the industry shifted out of metropolitan Sydney, and to a lesser extent out of metropolitan Melbourne and Adelaide, and grew in all Queensland, Western Australian and Northern Territory regions. It was as though manufacturing was specialising in support of the incipient mining boom. However, when that boom arrived complete with over-valued exchange rate, manufacturing failed to withstand the onslaught. Employment declined by 2 per cent a year nationally, with serious effects on the national economic base and on the economic base of many regions. The decline in employment in manufacturing exceeded 5 per cent a year in the following manufacturing regions:

- ❖ Adelaide South;
- ❖ Sydney Old West;
- ❖ Adelaide North; and
- ❖ Vic Gippsland.

In these regions manufacturing contributed a noticeable economic base. Melbourne's North escaped this more drastic fate but this will no longer be the case because of the decline of the automotive manufacturing industry.

The food processing manufacturing industry in Melbourne's North will benefit from proximity to the wholesale markets, its supply chains and transport systems. Knowledge economy links are also developing. This is an important hub in the making.

Most industries are growing above the state average, with grain products, seafood products and sugar/confectionery being standouts. Their state shares have increased over time as shown in Table 1.

The plot below compares the Melbourne North growth against the state growth.

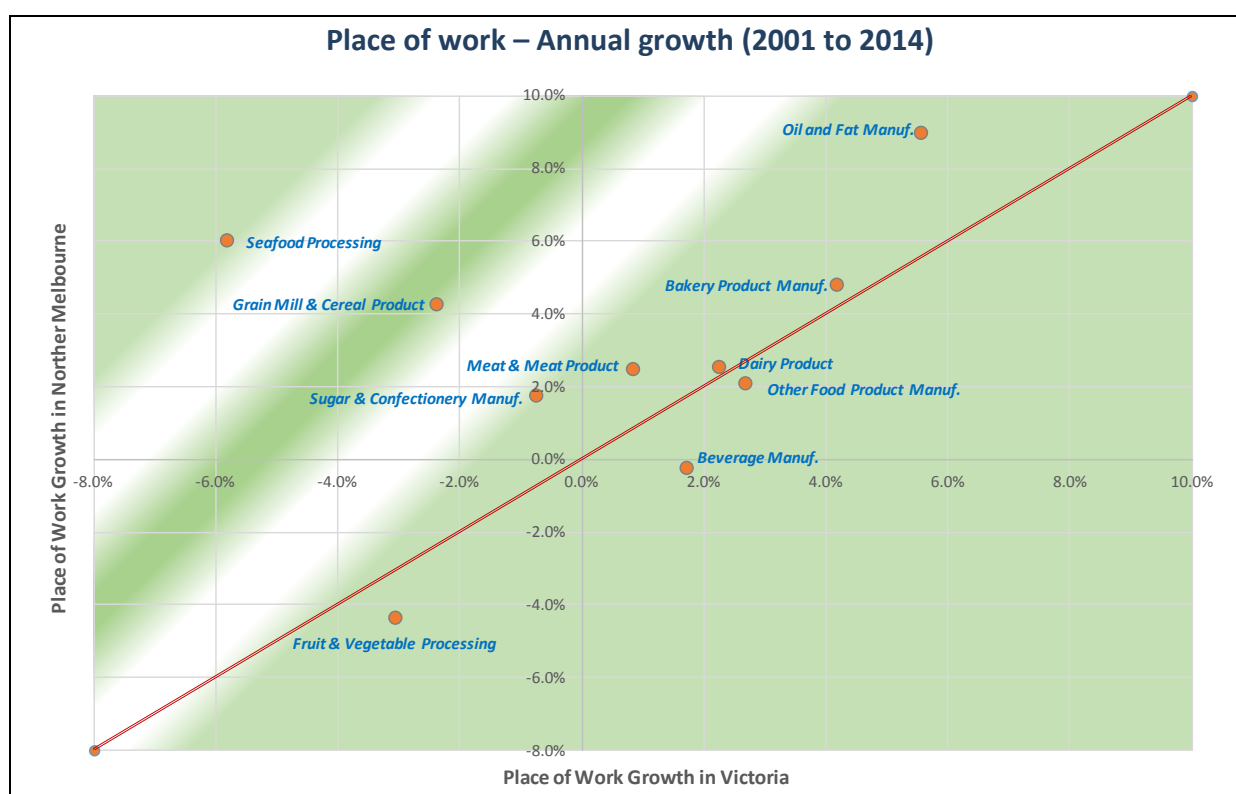


Table 1 shows employment numbers in the Food process manufacturing sector for Melbourne's North and Victoria. In Melbourne's North Bakery product manufacturing has shown relatively strong growth in employment and is the largest employer of all sectors within its grouping at 4220 jobs. There has been strong growth in the number of jobs in the still small employment sectors of Seafood processing and Oil and fat manufacturing, which along with Sugar and confectionery manufacturing and Grain mill and cereal product and Meat and meat product manufacturing, are showing higher growth rates than in the rest of the State. Fruit and Vegetable processing has declined in the number of jobs and more rapidly than the State as a whole.

Table 2 gives the Melbourne North share of employment for each Food processing and manufacturing sector compared to the state. The sector with the highest share in 2014 is the Grain mill and cereal product manufacturing at 25.2 per cent.

Table 1 Place of work employment																
															Annual growth rate	State annual growth rate
Industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		
NORTHERN MELBOURNE																
Meat and Meat Product Manufacturing	1523	1501	1380	1472	1338	1391	1391	1768	1816	2009	1958	2209	2139	2100	2.5%	0.8%
Seafood Processing	37	39	44	59	60	53	58	64	74	61	59	63	71	80	6.0%	-5.8%
Dairy Product Manufacturing	686	908	920	978	944	903	965	906	887	853	963	932	961	952	2.6%	2.2%
Fruit and Vegetable Processing	331	353	358	336	413	348	345	322	363	399	296	201	174	186	-4.3%	-3.1%
Oil and Fat Manufacturing	26	33	31	34	43	48	49	38	42	64	66	60	60	81	9.0%	5.5%
Grain Mill and Cereal Product Manufacturing	249	232	285	270	398	394	429	344	238	252	281	356	386	429	4.3%	-2.4%
Bakery Product Manufacturing	2288	2217	2264	2568	2769	2914	3121	3312	3429	3681	4035	3951	4078	4220	4.8%	4.2%
Sugar and Confectionery Manufacturing	700	716	718	822	742	743	750	954	1058	1097	1009	915	880	879	1.8%	-0.8%
Other Food Product Manufacturing	565	548	539	592	506	536	451	459	396	446	446	448	575	741	2.1%	2.7%
Beverage Manufacturing	917	991	1030	1119	1159	1229	1150	1083	1005	949	1043	973	1021	891	-0.2%	1.7%
Cigarette and Tobacco Product Manufacturing	9	9	8	5	9	8	7	3	2	2	0	0	0	0	-100.0%	0.9%
VICTORIA																
Meat and Meat Product Manufacturing	12774	12934	12245	12656	11820	12490	12450	14870	14586	14845	14016	15615	14866	14217	0.8%	
Seafood Processing	1124	1073	1087	1209	1098	905	818	767	747	535	454	465	490	515	-5.8%	
Dairy Product Manufacturing	7848	10057	10156	10553	10364	10649	11337	10838	10831	10337	11413	11447	11276	10464	2.2%	
Fruit and Vegetable Processing	3843	3860	3916	3687	4517	4434	4482	4219	4482	4645	3656	2793	2411	2562	-3.1%	
Oil and Fat Manufacturing	696	752	693	741	897	977	972	734	763	1086	1112	1054	1067	1405	5.5%	
Grain Mill and Cereal Product Manufacturing	2336	2092	2464	2336	3345	3282	3270	2439	1523	1408	1425	1703	1687	1705	-2.4%	
Bakery Product Manufacturing	13720	13141	13716	15165	16759	18262	19660	20436	20493	20840	22599	22301	22931	23330	4.2%	
Sugar and Confectionery Manufacturing	5043	4870	4937	5454	5002	5052	5013	6019	6143	5819	5278	4866	4692	4567	-0.8%	
Other Food Product Manufacturing	4218	4077	4141	4550	4179	4537	3891	3855	3253	3481	3563	3734	4735	5940	2.7%	
Beverage Manufacturing	5963	6287	6488	7015	7179	7845	7526	7561	7278	7029	8264	8126	8704	7430	1.7%	
Cigarette and Tobacco Product Manufacturing	796	804	746	604	870	847	888	652	657	761	702	839	792	892	0.9%	

Note: Growth rates are the annual growth rates from 2001 to 2014 for both the Northern Melbourne region and the State of Victoria.

Table 2 Place of work employment – Northern Melbourne percentage of total Victoria															
Industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Growth
% NORTHERN MELBOURNE															
Meat and Meat Product Manufacturing	11.9%	11.6%	11.3%	11.6%	11.3%	11.1%	11.2%	11.9%	12.5%	13.5%	14.0%	14.1%	14.4%	14.8%	–
Seafood Processing	3.3%	3.6%	4.1%	4.8%	5.5%	5.8%	7.1%	8.4%	9.9%	11.4%	13.0%	13.5%	14.4%	15.5%	–
Dairy Product Manufacturing	8.7%	9.0%	9.1%	9.3%	9.1%	8.5%	8.5%	8.4%	8.2%	8.3%	8.4%	8.1%	8.5%	9.1%	–
Fruit and Vegetable Processing	8.6%	9.1%	9.1%	9.1%	9.1%	7.8%	7.7%	7.6%	8.1%	8.6%	8.1%	7.2%	7.2%	7.2%	–
Oil and Fat Manufacturing	3.8%	4.4%	4.4%	4.7%	4.8%	4.9%	5.0%	5.1%	5.4%	5.9%	5.9%	5.7%	5.7%	5.8%	–
Grain Mill and Cereal Product Manufacturing	10.6%	11.1%	11.6%	11.5%	11.9%	12.0%	13.1%	14.1%	15.6%	17.9%	19.7%	20.9%	22.9%	25.2%	–
Bakery Product Manufacturing	16.7%	16.9%	16.5%	16.9%	16.5%	16.0%	15.9%	16.2%	16.7%	17.7%	17.9%	17.7%	17.8%	18.1%	–
Sugar and Confectionery Manufacturing	13.9%	14.7%	14.5%	15.1%	14.8%	14.7%	15.0%	15.8%	17.2%	18.8%	19.1%	18.8%	18.8%	19.3%	–
Other Food Product Manufacturing	13.4%	13.4%	13.0%	13.0%	12.1%	11.8%	11.6%	11.9%	12.2%	12.8%	12.5%	12.0%	12.1%	12.5%	–
Beverage Manufacturing	15.4%	15.8%	15.9%	16.0%	16.1%	15.7%	15.3%	14.3%	13.8%	13.5%	12.6%	12.0%	11.7%	12.0%	–
Cigarette and Tobacco Product Manufacturing	1.2%	1.2%	1.0%	0.9%	1.0%	0.9%	0.8%	0.5%	0.3%	0.2%	0.0%	0.0%	0.0%	0.0%	–

## 4.1 Local Government Area employment tables by Food processing manufacturing sector

Tables 3 to 9 show the number of jobs in each sector within the Food processing manufacturing sector for the Local Government Areas that compose the Northern Melbourne RDA.

- ❖ Banyule (Table 3) – Strengths in the overall sector are Bakery product manufacturing and Sugar and Confectionery manufacturing and these two sectors dominate employment. Outside these two sectors highest growth in the number of jobs is in Oil and fat manufacturing.
- ❖ Darebin (Table 4) – Bakery product manufacturing, 447 jobs, and Other food product manufacturing, 161 jobs, are the two dominant employment sectors. Other food product manufacturing has shown recent strong growth in employment in Darebin and this may be an indicator to further potential and needs to be investigated further. Meat and meat product manufacture and Dairy product manufacturing sectors have both had sharp declines in employment since 2001.
- ❖ Hume (Table 5) – In this manufacturing LGA, Bakery product manufacturing dominates employment in the overall sector with 1,562 jobs and the sector is growing its employment. Other growth sectors include Dairy product manufacturing, Grain and mill and cereal product manufacturing and Other food product manufacturing. The Sugar and confectionery manufacturing sector is declining in terms of the number of jobs.
- ❖ Moreland (Table 6) – Bakery product manufacturing dominates employment in the overall sector with 561 jobs and the sector is growing its employment. Other food product manufacturing is growing its employment in Moreland while Dairy product manufacturing is in long term jobs decline.
- ❖ Nillumbik (Table 7) – In this non-manufacturing LGA unsurprisingly Bakery product manufacturing dominates employment in the overall sector with 147 jobs and the sector is growing its employment. The other small sector but showing jobs growth is the Meat and meat product manufacturing sector with 24 jobs in 2014.
- ❖ Whittlesea (Table 8) – In this manufacturing LGA, Meat and meat product manufacturing is the highest employing sector in the group with 1,406 jobs in 2014. Other key employing sectors are Bakery product manufacturing, 557 jobs, and Dairy product manufacturing at 226 jobs. Other food product manufacturing and Grain mill and cereal product manufacturing sectors are showing strong employment growth.
- ❖ Yarra (Table 9) – Beverage manufacture dominates employment in the group in Yarra but the number of jobs in the sector is declining, from 755 jobs in 2013 to 656 jobs in 2014. Not surprisingly in this lifestyle rich inner suburb Bakery product manufacturing employment, at 478 jobs in 2014, is growing.

Table 3 Industry employment by LGA – Banyule (C)														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Meat and Meat Product Manufacturing	8	9	7	8	6	6	6	8	7	8	7	8	8	7
Seafood Processing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dairy Product Manufacturing	7	11	11	12	12	12	13	12	12	12	13	13	14	15
Fruit and Vegetable Processing	0	0	0	0	0	0	1	3	4	6	6	5	5	7
Oil and Fat Manufacturing	1	2	4	6	8	11	12	10	12	19	20	20	22	32
Grain Mill and Cereal Product Manufacturing	6	6	6	6	8	8	7	5	3	3	2	3	3	2
Bakery Product Manufacturing	446	444	423	461	472	472	465	450	420	427	427	406	417	432
Sugar and Confectionery Manufacturing	40	45	46	57	53	54	57	76	86	96	90	84	87	95
Other Food Product Manufacturing	1	1	2	2	2	2	2	2	2	3	3	3	5	7
Beverage Manufacturing	13	15	14	16	16	17	16	14	13	14	17	15	15	14
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table 4 Industry employment by LGA – Darebin (C)														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Meat and Meat Product Manufacturing	317	289	251	253	214	204	185	209	183	171	132	126	99	80
Seafood Processing	0	4	8	15	18	19	20	22	23	19	17	18	20	23
Dairy Product Manufacturing	140	176	169	170	155	136	131	108	91	76	70	56	48	40
Fruit and Vegetable Processing	17	17	18	17	21	17	17	15	16	16	11	7	5	6
Oil and Fat Manufacturing	7	8	7	7	9	10	9	6	6	8	7	6	5	7
Grain Mill and Cereal Product Manufacturing	25	22	26	23	35	31	28	17	9	8	7	6	5	4
Bakery Product Manufacturing	286	265	282	330	372	392	422	434	436	456	475	437	435	447
Sugar and Confectionery Manufacturing	14	14	15	20	19	20	21	28	32	34	31	27	26	28
Other Food Product Manufacturing	84	83	88	105	97	107	93	95	82	93	91	92	120	161
Beverage Manufacturing	48	50	50	54	55	57	51	45	39	36	37	31	32	28
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table 5 Industry employment by LGA – Hume (C)														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Meat and Meat Product Manufacturing	139	155	143	149	136	149	156	208	217	249	248	317	314	311
Seafood Processing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dairy Product Manufacturing	21	58	82	108	128	148	187	199	219	239	305	343	387	409
Fruit and Vegetable Processing	166	183	179	160	190	159	157	145	159	171	123	88	74	76
Oil and Fat Manufacturing	9	11	9	9	10	10	9	6	6	8	7	6	4	4
Grain Mill and Cereal Product Manufacturing	9	12	20	22	41	47	55	45	32	37	44	63	70	79
Bakery Product Manufacturing	478	502	524	584	652	721	824	903	976	1116	1324	1407	1496	1562
Sugar and Confectionery Manufacturing	525	544	537	600	536	535	531	656	711	724	661	607	579	563
Other Food Product Manufacturing	214	214	199	201	164	168	135	129	104	112	107	107	125	141
Beverage Manufacturing	53	60	66	76	76	83	77	73	66	59	60	52	56	49
Cigarette and Tobacco Product Manufacturing	9	9	8	5	9	8	7	3	2	2	0	0	0	0

Table 6 Industry employment by LGA – Moreland (C)														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Meat and Meat Product Manufacturing	310	282	256	268	233	240	237	312	310	324	285	316	283	264
Seafood Processing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dairy Product Manufacturing	352	436	431	443	410	380	395	370	349	316	326	295	279	259
Fruit and Vegetable Processing	9	9	10	10	13	11	12	12	14	16	11	8	7	8
Oil and Fat Manufacturing	0	0	0	0	0	0	2	3	5	10	12	13	14	21
Grain Mill and Cereal Product Manufacturing	86	76	94	87	134	128	127	92	58	55	54	62	59	58
Bakery Product Manufacturing	293	263	285	333	371	402	437	480	501	528	563	544	546	561
Sugar and Confectionery Manufacturing	75	71	78	98	93	97	105	149	179	194	184	165	161	166
Other Food Product Manufacturing	98	87	87	97	83	89	75	80	69	76	74	74	93	118
Beverage Manufacturing	9	9	10	10	11	11	11	12	12	11	12	12	12	10
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0



Table 7 Industry employment by LGA – Nillumbik (S)														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Meat and Meat Product Manufacturing	0	0	0	0	0	0	2	5	8	12	14	19	21	24
Seafood Processing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dairy Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fruit and Vegetable Processing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Oil and Fat Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Grain Mill and Cereal Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Bakery Product Manufacturing	107	109	101	110	111	110	108	109	109	120	125	122	133	147
Sugar and Confectionery Manufacturing	4	4	4	4	4	3	3	4	5	6	5	5	5	5
Other Food Product Manufacturing	2	3	2	3	2	2	2	2	2	2	2	3	4	6
Beverage Manufacturing	9	10	11	13	15	16	16	16	17	19	21	20	21	19
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table 8 Industry employment by LGA – Whittlesea (C)														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Meat and Meat Product Manufacturing	701	722	685	758	721	767	783	997	1064	1222	1256	1410	1406	1408
Seafood Processing	37	35	36	44	42	34	31	28	28	21	20	19	20	21
Dairy Product Manufacturing	142	196	201	217	217	207	221	198	199	197	237	215	226	224
Fruit and Vegetable Processing	138	144	150	147	187	157	155	142	164	182	140	90	79	85
Oil and Fat Manufacturing	7	9	8	8	10	10	9	6	6	8	7	5	4	4
Grain Mill and Cereal Product Manufacturing	0	0	0	0	0	15	46	54	52	71	101	140	173	212
Bakery Product Manufacturing	361	336	349	399	448	465	483	474	492	530	612	556	577	593
Sugar and Confectionery Manufacturing	42	39	38	43	37	34	31	33	33	28	20	9	1	0
Other Food Product Manufacturing	81	83	88	106	100	112	99	103	97	120	136	140	197	273
Beverage Manufacturing	61	66	66	72	75	79	77	80	87	97	122	123	131	115
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Table 9 Industry employment by LGA – Yarra (C)														
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Meat and Meat Product Manufacturing	49	45	37	37	27	25	22	29	27	23	16	14	9	5
Seafood Processing	0	0	0	0	0	0	7	15	23	21	22	26	31	36
Dairy Product Manufacturing	24	30	28	28	22	19	19	18	16	13	12	9	7	6
Fruit and Vegetable Processing	0	0	1	1	2	2	3	4	6	7	5	4	4	5
Oil and Fat Manufacturing	3	4	4	5	5	6	7	6	7	11	11	10	10	13
Grain Mill and Cereal Product Manufacturing	124	117	139	132	181	166	165	132	85	78	73	82	76	74
Bakery Product Manufacturing	317	297	300	351	343	352	382	462	495	504	511	479	473	478
Sugar and Confectionery Manufacturing	0	0	0	0	0	0	2	7	12	16	18	19	20	23
Other Food Product Manufacturing	84	77	71	78	57	55	44	48	40	39	33	29	32	35
Beverage Manufacturing	724	781	813	878	911	965	903	843	771	713	773	720	755	656
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0

## 5. Business counts

This chapter presents NIEIR's estimated business counts.

<b>Table 10 Estimated business counts for whole of region</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	34	36	36	34	42	38	31	35	36	34	31
Seafood Processing	4	4	4	5	9	7	8	7	6	5	6
Dairy Product Manufacturing	19	20	21	23	21	15	17	21	20	20	21
Fruit and Vegetable Processing	9	9	9	11	14	14	15	15	16	15	15
Oil and Fat Manufacturing	4	5	4	4	9	26	20	7	7	15	17
Grain Mill and Cereal Product Manufacturing	11	11	13	12	11	12	11	10	11	12	11
Bakery Product Manufacturing	244	285	328	351	293	296	284	291	292	289	297
Sugar and Confectionery Manufacturing	7	8	8	10	10	10	13	12	13	15	14
Other Food Product Manufacturing	38	40	43	40	35	40	38	38	39	41	40
Beverage Manufacturing	17	20	20	19	33	33	33	36	35	37	36
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

<b>Table 11 Estimated business counts – Banyule (C)</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	4	4	4	4	5	5	4	4	4	4	4
Seafood Processing	0	0	0	0	0	0	0	0	0	0	0
Dairy Product Manufacturing	1	1	1	1	1	1	1	1	1	1	1
Fruit and Vegetable Processing	0	0	0	0	0	0	0	0	0	0	0
Oil and Fat Manufacturing	0	0	0	0	2	8	6	1	1	5	6
Grain Mill and Cereal Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0
Bakery Product Manufacturing	19	23	26	28	23	24	23	23	23	23	24
Sugar and Confectionery Manufacturing	1	1	1	1	1	1	1	1	1	1	1
Other Food Product Manufacturing	3	3	3	3	2	3	3	3	3	3	3
Beverage Manufacturing	1	1	1	1	2	2	2	2	2	2	2
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

<b>Table 12      Estimated business counts – Darebin (C)</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	8	8	9	8	10	9	7	8	8	8	7
Seafood Processing	1	1	1	1	2	2	2	2	1	1	1
Dairy Product Manufacturing	3	3	3	3	3	2	3	3	3	3	3
Fruit and Vegetable Processing	1	1	1	1	1	1	1	1	1	1	1
Oil and Fat Manufacturing	1	1	1	1	2	7	4	1	1	2	2
Grain Mill and Cereal Product Manufacturing	2	2	2	2	2	2	2	2	2	2	2
Bakery Product Manufacturing	31	36	42	45	37	38	36	37	38	37	38
Sugar and Confectionery Manufacturing	1	1	1	1	1	1	1	1	1	1	1
Other Food Product Manufacturing	11	12	12	12	10	12	11	11	11	12	12
Beverage Manufacturing	3	3	3	3	6	6	6	6	6	6	6
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

<b>Table 13      Estimated business counts – Hume (C)</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	1	1	2	1	2	2	1	1	1	1	1
Seafood Processing	1	1	1	1	2	2	2	2	1	1	1
Dairy Product Manufacturing	2	2	2	3	2	2	2	2	2	2	2
Fruit and Vegetable Processing	3	3	3	3	4	4	4	4	4	4	4
Oil and Fat Manufacturing	1	2	1	1	2	7	5	1	1	2	2
Grain Mill and Cereal Product Manufacturing	3	4	4	4	3	4	4	3	4	4	4
Bakery Product Manufacturing	35	41	47	50	42	43	41	42	42	42	43
Sugar and Confectionery Manufacturing	2	2	2	2	2	2	3	3	3	3	3
Other Food Product Manufacturing	7	7	7	7	6	7	7	7	7	7	7
Beverage Manufacturing	5	6	6	6	9	10	10	10	10	10	10
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

<b>Table 14      Estimated business counts – Moreland (C)</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	6	6	6	6	7	7	5	6	6	6	5
Seafood Processing	0	0	0	0	0	0	0	0	0	0	0
Dairy Product Manufacturing	6	6	6	7	6	4	5	6	6	6	6
Fruit and Vegetable Processing	3	3	3	3	4	4	4	4	4	4	4
Oil and Fat Manufacturing	0	0	0	0	0	0	1	0	1	3	4
Grain Mill and Cereal Product Manufacturing	2	2	2	2	2	2	2	2	2	2	2
Bakery Product Manufacturing	69	81	94	101	84	85	82	84	85	84	86
Sugar and Confectionery Manufacturing	2	2	2	3	3	3	4	3	4	4	4
Other Food Product Manufacturing	9	9	10	9	8	9	9	9	9	10	9
Beverage Manufacturing	2	2	2	2	4	4	4	4	4	4	4
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

<b>Table 15      Estimated business counts – Nillumbik (S)</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0
Seafood Processing	0	0	0	0	0	0	0	0	0	0	0
Dairy Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0
Fruit and Vegetable Processing	0	0	0	0	0	0	0	0	0	0	0
Oil and Fat Manufacturing	0	0	0	0	0	0	0	0	0	0	0
Grain Mill and Cereal Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0
Bakery Product Manufacturing	11	12	12	13	10	10	9	9	8	9	9
Sugar and Confectionery Manufacturing	0	0	0	0	0	0	0	0	0	0	0
Other Food Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0
Beverage Manufacturing	2	3	3	3	5	5	5	5	5	5	5
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

<b>Table 16      Estimated business counts – Whittlesea (C)</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	5	5	5	5	6	6	5	5	5	5	5
Seafood Processing	2	2	2	2	4	3	4	3	3	2	3
Dairy Product Manufacturing	5	5	6	6	6	4	4	5	5	5	5
Fruit and Vegetable Processing	2	2	2	2	3	3	3	3	3	3	3
Oil and Fat Manufacturing	1	1	1	1	2	3	3	2	2	2	2
Grain Mill and Cereal Product Manufacturing	2	2	2	2	2	2	2	2	2	2	2
Bakery Product Manufacturing	38	45	52	56	47	47	46	47	47	46	48
Sugar and Confectionery Manufacturing	1	1	1	1	1	1	1	1	1	1	1
Other Food Product Manufacturing	6	7	7	7	6	7	6	6	6	7	7
Beverage Manufacturing	0	1	1	1	1	1	1	1	1	1	1
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

<b>Table 17      Estimated business counts – Yarra (C)</b>											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Meat and Meat Product Manufacturing	9	10	10	10	12	11	9	10	10	10	9
Seafood Processing	0	0	0	1	1	1	1	1	1	1	1
Dairy Product Manufacturing	3	3	3	3	3	2	3	3	3	3	3
Fruit and Vegetable Processing	1	1	1	2	2	2	2	2	2	2	2
Oil and Fat Manufacturing	1	1	1	1	1	2	2	1	1	1	1
Grain Mill and Cereal Product Manufacturing	2	2	2	2	2	2	2	2	2	2	2
Bakery Product Manufacturing	40	47	54	58	49	49	47	49	49	48	50
Sugar and Confectionery Manufacturing	2	2	2	3	3	3	3	3	3	4	4
Other Food Product Manufacturing	2	2	2	2	2	2	2	2	2	2	2
Beverage Manufacturing	3	4	4	4	6	7	7	7	7	7	7
Cigarette and Tobacco Product Manufacturing	0	0	0	0	0	0	0	0	0	0	0

## 6. Melbourne's North: Food processing manufacture business value added

Food manufacturing in Melbourne's North is strong in the LGAs of Hume, Whittlesea and Moreland. The industry has continued to grow in all three LGAs but particularly so in Hume and Whittlesea.

Historically Yarra has dominated the Beverage and tobacco manufacturing sector but this industry is in decline within the LGA.

**Table 18 Business value added by region (2011-12 \$million)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Banyule (C)</b>													
Food Manufacturing	37	37	36	36	35	37	35	40	41	43	40	39	40
Beverage & Tobacco Manufacturing	3	3	3	3	3	3	3	2	2	2	2	2	2
<b>Darebin (C)</b>													
Food Manufacturing	66	64	63	63	61	64	61	68	69	70	64	61	62
Beverage & Tobacco Manufacturing	12	10	11	10	13	13	10	7	6	6	6	6	6
<b>Hume (C)</b>													
Food Manufacturing	126	125	124	124	122	128	128	159	177	198	197	200	208
Beverage & Tobacco Manufacturing	16	14	16	16	21	22	17	13	11	10	10	9	9
<b>Moreland (C)</b>													
Food Manufacturing	98	96	95	95	93	97	94	109	114	121	114	111	113
Beverage & Tobacco Manufacturing	2	2	2	2	3	3	2	2	2	2	2	2	2
<b>Nilfumbik (S)</b>													
Food Manufacturing	8	7	7	7	7	7	7	8	9	10	10	10	10
Beverage & Tobacco Manufacturing	3	2	2	2	3	3	3	2	2	2	2	2	2
<b>Whittlesea (C)</b>													
Food Manufacturing	112	111	110	110	109	115	114	141	156	174	173	176	181
Beverage & Tobacco Manufacturing	15	12	14	13	17	17	14	13	13	15	19	20	20
<b>Yarra (C)</b>													
Food Manufacturing	49	49	48	49	49	51	50	59	62	66	63	62	63
Beverage & Tobacco Manufacturing	191	162	186	175	236	247	185	142	123	124	129	123	123
<b>Melbourne's North</b>													
Food Manufacturing	495	490	483	483	476	499	489	585	629	683	661	659	676
Beverage & Tobacco Manufacturing	241	204	234	220	296	309	233	181	158	163	171	165	165
<b>State</b>													
Food Manufacturing	4411	4383	4300	4267	4173	4347	4198	4846	5046	5297	4964	4866	5037
Beverage & Tobacco Manufacturing	1948	1651	1832	1672	2193	2239	1671	1322	1184	1244	1334	1320	1337

Since 2001 Food manufacturing in Melbourne's North has increased its state share from 11 per cent to 13 per cent mainly due to the growth of the industry in Hume and Whittlesea.

Since 2001 Beverage and tobacco manufacturing in Melbourne's North has maintained its state share of 11 per cent, even though there has been a significant decline in this sector in Yarra.

<b>Table 19</b>	<b>Business value added – Northern Melbourne's percentage of total State (2011-12 \$million)</b>												
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Food Manufacturing	11%	11%	11%	11%	11%	11%	12%	12%	12%	13%	13%	14%	13%
Beverage & Tobacco Manufacturing	12%	12%	13%	13%	14%	14%	14%	14%	13%	13%	13%	13%	12%

### ***Definition of value added***

Business value added is wages and salaries plus business income. Business value added excludes the gross surplus of companies, since this is difficult to allocate to any small geographic area. The measures in this table are on a residential basis, and hence represent value added by the businesses in which the residents work rather than value added by businesses located in the region. For isolated regions, business value added represents the region's capture of gross regional product. For regions in major metropolitan areas, this is not necessarily the case because of commuting.