

TRENDS IN AUSTRALIAN FRESH MILK SUPPLY CHAINS*

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The completion of the dairy industry deregulation process in June 2000 is transforming the fresh milk and fresh milk products supply chains in Australia. This transformation is set in an environment where markets are getting more complex and competitive, consumers more discerning and conscious about food safety and public policy is more focused on environment related issues. Supply chains are becoming more integrated, and innovation in product, process and supply chains is revolutionising the way products are being produced, distributed and marketed (Fearne & David 1999).

This paper is based on research which, following supply chain management literature, identifies the success strategies in the dairy industry supply chains in Australia. The enquiry seeks to understand the nature and shape of supply chains and the exchange relationship between supply and value chains. The fieldwork for the research involved semi-structured interviews at middle to senior management level in the retail, processing, production and input market of the dairy industry supply chains. The data was managed and analysed using software NVivo ver. 2.0, which assists in identifying major themes and relationships between concepts in data.

Six key factors that have driven the transformation of the dairy industry in recent years are: 1. Deregulation, 2. Supermarket strategies, 3. Food safety and supply chain integration, 4. Innovation, 5. Environmental sustainability and 6. Rationalization of supply base.

Post farmgate deregulation opened up significant areas of opportunity for retailers in terms of increasing their margins in the fresh dairy produce category. A more discerning and food safety aware customer is a major factor behind increasing supply chain integration. Supermarkets have drawn their 'Food Standards' which detail 'Good Manufacturing Process' with provision for quality audits. All of the major supermarkets now require fresh produce to come from suppliers who comply with the food standards code and good manufacturing practices (Retail World 2003). In a highly competitive market such as fresh milk and fresh milk products, characterised by oversupply and a commodity orientation, innovation is the only long-term source of competitive advantage.

Changing public perception and government policy on environment sustainability has resulted in consideration of environment in all stages of the supply chain. There is increasing implementation of environmental reporting standards by dairy-food businesses through the supply chain. Supermarkets are concentrating on minimisation of waste, recycling efforts, reduction of energy consumption. Processors are designing environmentally friendly, recyclable packaging. Milk producers are under increasing scrutiny on water and land use efficiency and animal welfare.

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The above developments in the business environment are seeing a continuation of the consolidation wave in the milk production and processing sectors. The need to gain market power, to profit from economies of scale, to gain a hold in new markets, to develop strong brands and to access new technology drives the consolidation process.

Fearne, A & David, H 1999, 'Success factors in the fresh produce supply chain: insights from the UK', *Supply Chain Management*, vol. 4, no. 3, pp. 120-8.

Retail World 2003, 'National strategy focuses on food safety', *Retail World*, vol. 56, no. 1, p. 18.

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