Case Studies in Export Market Development – A Value Chain Perspective

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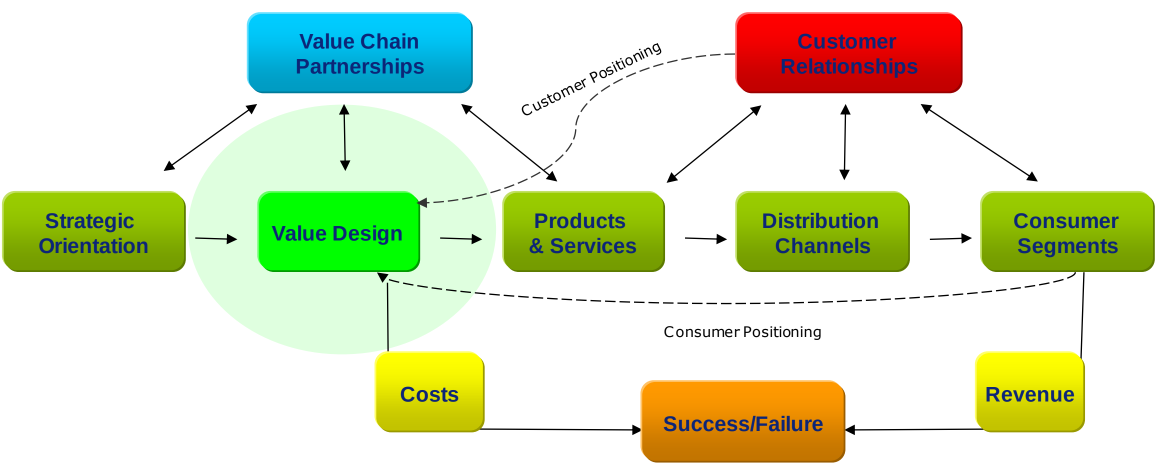
Introduction

Developing sustainable export markets is a major challenge for the majority of businesses, large and small, in every sector, the world over. The agri-food industry is no exception, with commodity producers and branded manufacturers struggling to differentiate themselves in global markets and make themselves relevant to consumers about whom they know very little and to whom their proposition all too often remain hidden or misunderstood. The challenge of export market development in the agri-food sector is made all the more difficult due to the fragmentation of primary production, making it seemingly impossible for farmers to target export markets by themselves, and the lack of trust that pervades the agri-food sector, making it difficult for market intelligence to proliferate supply chains and guide the allocation of resources.

These three case studies are designed to help would-be, fledgling or established exporting businesses allocate their scarce resources more effectively, by identifying the critical success factors and lessons learned from businesses of contrasting scale operating at different stages of export market development. At one extreme there is Zespri, the world's largest exporter of Kiwi fruit with a turnover in excess of NZD1blln and a structure that resembles that of a branded Fast Moving Consumer Goods (FMCG) producer. At the other extreme there is Dingley Dell, a family-owned pig farming business in Suffolk, England, with a turnover of less than £1mlln and an organisational structure that resembles a start-up. In the middle there is Manbulloo, a medium-sized mango business in Queensland, with structures and processes that are rapidly evolving to support their ambitions plans for growth.

The lens through which these case studies have been explored is a value chain development framework, based on the business generation model proposed by Osterwalder & Pigneur (2010).



The focus is on value design, differentiated for distinct customer and consumer segments in distinct distribution channels requiring distinct value propositions (products and services) delivered via collaborative relationships that facilitate the flow of information that is essential for efficient and effective resource allocation (Fearne, 2009). The collaborative allocation of resources in the pursuit of sustainable (long term, profitable) market development is not a simple process and requires a focused and deeply involved management of the interactions with a select set of key (value chain) partners. The management and utilization of relationships with these customers are core competences that have a critical impact on business performance (Bocconcelli et al., 2018).

Failure to effectively identify and categorise key customers - analysing specific needs, customizing value-adding solutions, developing competencies necessary to realize and deliver the solutions - can result in suppliers finding themselves over-stretched, seeking to satisfy their customers for little or no return on investment.

The risks associated with the development of export markets are generally far greater than those associated with domestic markets and the payback on investment - of time, effort and financial resources - is often less predictable, more variable and realised over an extended time period. Consequently, strategic orientation is a critical and over-arching success factor and two strategic orientations - market orientation and learning orientation – are particularly important in this context.

Market orientation is defined as “the organisation culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for the buyers and thus, continuous superior performance for the business.” (Narver & Slater, 1990). It has a central role in management and marketing strategies and consists of three behavioural components - customer orientation, competitor orientation, and inter-functional coordination - that emphasize the understanding of customers and markets and allow companies to create superior value for target customers. For small and medium sized enterprises (SMEs) market orientation presents a means to compete with larger firms in the search for differentiation, facilitating flexible planning and supporting innovation. Moreover, firms exhibiting a higher degree of market orientation exhibit more aggressive, externally focused, long-term strategic priorities than less market-oriented firms (Hooley et al., 2000).

Learning Orientation is defined as ”a cultural aspect that emphasises the process of improving insights, knowledge and understanding to enhance organisational performance and customer value” (Nasution et al., 2011). Firms with a strong learning orientation develop or acquire new knowledge in order to respond to internal and external stimuli that lead to changes in behaviour which enhance organisational effectiveness. They are also more likely to be endowed with resources that are valuable and rare and combine them in ways that are hard for competitors to imitate, generating synergies that enable firms to achieve competitive advantage in the long term (Assdinia et al, 2019)

A temporal perspective is also important in the context of export market development, as distinct from exporting, which takes a considerable amount of time. Long-term orientation is defined as “the tendency to prioritize the long-range implications and impact of decisions and actions that come to fruition after an extended time period” (Lumpkin et al., 2010). Research has shown that long-term orientation is associated with significant performance advantage (Hoffmann et al., 2016) and particularly in small family firms (Miller et al, 2008)

In the context of export market development, the presence of a strong market and learning orientation is important for four reasons:

- First, strategic orientation drives resource allocation, so firms with a strong market orientation are more likely to seek an understanding of consumer and customer needs, invest in consumer and market research and prioritise the sharing of the insights gained within the organisation (across functional boundaries) and along the value chain with like-minded partners.
- Second, market orientated firms are more likely to invest in the technology, people, processes and relationships necessary to deliver the differentiation that is required in specific markets, without which sustainable (long term, profitable) growth is impossible.
- Third, strategic orientation has a significant influence on a firm's willingness and ability to build and maintain collaborative relationships with (key) stakeholders in the value chain. Firms that have a strong market orientation are more likely to prioritise long term market development and adopt a collaborative approach to relationship management than firms with a strong sales orientation, who are more likely to prioritise short term revenue growth and adopt an opportunistic approach to relationship management.
- Fourth, the added complexity of generating new business in markets that may have little in common with a firm's domestic market means that failures are inevitable and likely to outnumber (if not outweigh) the successes, at least in the early stages of market development. This means a strong learning orientation is important, to encourage innovation but accelerate the absorption of lessons learned. Passion and persistence are important features common to most successful businesses but 'blind faith' can lead to disastrous results. A desire for knowledge and ability to learn is associated with evidence-based decision-making, which is more aligned with a business seeking sustainable (long-term, profitable) market development than one seeking to maximise (short term) revenue growth and minimise investment in time, effort and financial resources.

Organisational structures, business processes and decision-making styles vary considerably between firms and it could be argued that large organisational models are not relevant to SMEs (Welsh et al, 1981). The very size of small businesses creates a condition referred to as 'resource poverty' that distinguishes them from their larger counterparts and requires different business approaches. The SME business approach tends to be much more informal, reactive and opportunistic than larger firms. This can result in a lack of formal planning processes and decision-making based on intuition and instinct rather than hard market data (Donnelly et al, 2015) and often influenced by the dominant presence of owner/managers (Reijonen, 2010). On the other hand, SMEs have the advantage of being more nimble and responsive to market demands than larger firms. Moreover, SMEs often have more direct contact with their customers which can allow them to develop more personal and informal relationships with their customers (Hernández-Linares et al. 2018).

Recognising that different businesses operate in different market environments, have different resource endowments and compete in different ways, the fact remains that even the largest businesses have insufficient resources to do all the things they would like to do, as well as they would like to do them.

Strategic management is, fundamentally, concerned with resource allocation – what firms do, how they do it and why. The purpose of these case studies is the identification of critical success factors for the successful development of export markets are not contingent upon scale. The striking similarities in the approach taken to the development of export markets will hopefully serve as important lessons from which other (would-be, fledgling or established) exporting businesses can learn.

The specific export market development journey of each company is described and the key insights and lessons learned are identified with reference to the analytical framework, paying particular attention to strategic orientation, products and services, distribution channels, customer and consumer segmentation and relationship management. .

Case Study No.2: Manbulloo – Pioneering the development of export markets for Australian mangoes

Australia is a niche player in the global market for mangoes, accounting for 0.2% of global production and 0.6% of volumes traded. However, the investment in new varieties and new orchards over the last decade has resulted in significant growth in production and fuelled interest in the development of export markets, which currently account for less than 10% of production.

Manbulloo is one of Australia's most successful mango producers. The original orchard was established in 1982, and the family owned company now has seven farms spanning the Queensland and Northern Territory regions of Northern Australia. It is the largest grower of Australia's favourite mango variety, Kensington Pride, which constitutes 80% of its production.

Unlike its competitors and other successful fresh produce businesses, Manbulloo has chosen not to invest in the development of new (proprietary) varieties, preferring to focus on doing a better job than anyone else with what they already have – growing the best tasting varieties in locations that deliver top quality fruit throughout the season. Their strategic focus on quality management – in their orchards and in the supply chain – has paid dividends in the domestic market, in which they are one of the largest mango suppliers to Coles (a major supermarket), as well as their burgeoning export business, through their subsidiary company, Mango Road.

Their journey has not been without its challenges and, in reality, has only just begun. When Marie Piccone signed the contract on the three mango farms the business acquired in 2005 she could not have anticipated the amazing journey of highs and lows, victories and losses and, above all, hard work that she was about to embark on. Marie attributes Manbulloo's growth and success over the past 12 years to the passion and dedication of her team, which boasts world-class knowledge, training and experience in mango growing, harvesting, export and supply chain management. The team's hard work and success has been recognised with numerous accolades over the years and Marie herself was awarded the Telstra Australian Business Women's Entrepreneur Award in 2015.

"It has been (and continues to be) an incredible journey. There are not many people who understand how to grow and handle Kensington Pride. Collectively, we have over 120 years of experience and we have spent a great deal of time training people in how to ripen them and putting quality systems in place. All of our consumer research tells us that the two things that consumers value the most are eating quality and ripeness. That gives us a strong belief in our future because we know we can deliver that, anywhere in the world, provided we can find the right partners." Marie Piccone, Founder & CEO, Manbulloo

Laying the foundations for export market development

Most successful export stories begin with a strong foundation in the domestic market. Manbulloo's story is no exception. Marie and her fellow investors grasped the opportunity that presented itself in 2005, to purchase three properties, all of which required significant input into rejuvenating the orchards. One orchard was located in Katherine, Northern Territory, an early season district, and the other two in the Burdekin district, North Queensland. The Manbulloo brand had suffered due to poor management of the orchards by the previous owner. Improving productivity and fruit quality was the focus of attention and further investment for the first 5 years, in the belief that there was ample and unmet demand for Kensington Pride, if the quality was right.

At the same time as the orchards began to deliver significant quantities of consistently good quality mangoes, Coles (Australia's second largest supermarket) began their resurgence in the wake of significant growth by their major competitor, Woolworths. The turnaround by Coles was, in part, due to the influx of retail buyers and category managers from the UK, who recognised the strategic role of the fresh produce category and changed the way Coles approached the sourcing of fresh produce, preferring to develop relationships directly with growers and cutting out the wholesale distributors.

This presented a significant challenge for Manbulloo and one that was not without risk, to extract themselves from existing relationships with wholesale distributors whilst developing a collaborative relationship with Coles. Marie made the strategic decision to focus on Coles rather than 'play the field' and the investment she had made in improving productivity and fruit quality began to pay dividends. Manbulloo was able to provide Coles with exactly what they needed – a point of difference (first to market with a significant quantity of Australia's favourite variety), an unrivalled level of consistency in the quality of the product and a willingness to invest in a collaborative relationship that was entirely aligned with Coles' strategy for growth.

Marie and her team spent the following 7 years developing their relationship with Coles, which they now believe is a strategic one. They took ownership of the supply chain from the orchard to the retail distribution centre (RDC), resulting in greater consistency of quality and greater transparency in the commercial relationship with Coles.

"We have developed the product specifications with Coles and spent a lot of investment in trying to get the product right. We have gone from a traditional situation in which up to 30% of mangoes were rejected on delivery to 1% rejections from our orchards in Katherine." Scott Ledger, Quality Manager, Manbulloo

They now have annual meetings in June/July, to agree a joint strategy for the season, which is fine-tuned as information becomes available about the availability of the crop. At an operational level the logistics manager at Manbulloo works closely with their opposite number in Coles to determine weekly forecasts of availability and the best allocation of fruit across the Coles estate.

Manbulloo has secured an 8-year supply contract with Coles and markets the Manbulloo brand exclusively through Coles supermarkets. In the Northern Territory, Coles have moved from sourcing from 40-50 growers to 3-5, of which Manbulloo is the major supplier of Kensington Pride. In 2017-18 Manbulloo invested in planting an additional 22,000 trees on the Katherine farm, for which Coles provided financial support through its Nurture program. Manbulloo's commitment to the development of their relationship with Coles was acknowledged publicly in 2015, when they received the supplier of the year award for Coles best brand in-store execution.

"Manbulloo is committed to collaborating with Coles and their vision is to be a significant part of the best mango retail offer in Australia. They are absolutely focused on delivering top quality mangoes to our customers," John Durkan, Managing Director, Coles.

<u>Manbulloo's journey towards sustainable export market development</u>

Prior to the establishment of their relationship with Coles, Manbulloo was exporting small and variable quantities of fruit through wholesale distributors, in much the same way as they were previously supplying the domestic market. Consequently, they had very little knowledge of where their mangoes were going, how they were perceived overseas or how much consumers were willing to pay for them. Manbulloo contributed very little to the marketing of their fruit and received little – information or margin – in return.

However, as the quality and quantity of fruit from the orchards began to increase so did Marie's interest in developing the opportunities for export. Marie was optimistic about the emerging relationship with Coles but she also knew that to rely totally on a single customer in one (domestic) market was a) not without significant risk and b) would eventually constrain the ability of the business to grow.

Marie began travelling the world, gaining insights into the global market for mangoes and learning how consumer preferences and buying behaviour varied from one country to another. She repeatedly came in contact-with people who were selling Manbulloo mangoes and, in the process, discovered the prices for which Manbulloo mangoes were selling, which suggested that someone was making a significant margin but it wasn't Manbulloo! Consequently, in 2009 Marie set up Mango Road, a wholly owned subsidiary of Manbulloo, and employed her own export marketing manager.

The speed with which the relationship with Coles developed meant that exports continued to receive inadequate attention. Consequently, the export manager was little more than an in-house trader and after two years exports had grown to 400t but were spread very thinly across 11 countries and 20 customers, resulting in very little profit for Mango Road.

It was around this time that Manbulloo's journey into export market development took a significant change in direction, as a result of their involvement in two projects led by the Queensland Department of Agriculture and Fisheries (DAF), which provided valuable insights into the critical success factors for export market development and paved the way for their strategic investment in a Vapour Heat Treatment (VHT) plant.

The first project was focused on China and was undertaken to launch DAF's Asian Markets Horticulture Initiative in 2007. The second project from 2008-11 was part of DAF's Global Markets Initiative and extended the export market horizon to other Asian and global markets.

For several years the Australian Mango Industry Association (AMIA) had lobbied the Australian Government to support the penetration of new export markets by negotiating export protocols with countries that required protection against fruit fly. The first of these was completed with China in 2005. However, for the following two years not a single application for export registration was submitted. One of the main reasons was the requirement for fruit exported under the protocol to be subjected to VHT, which added cost and complexity. There were only two VHT plants operating at the time. One facility, located in Far North Queensland, was owned by a Japanese company with limited capacity and an exclusive interest in fruit exports to Japan. The other facility located near Darwin was also focussed on Japan but was struggling to gain support from growers. Private investment in another VHT plant for Australian mangoes was unlikely for as long as the Chinese Government continued to allow the illegal importation of fruit through the grey trade.

The negotiation of the protocol was a signal from the Chinese government of their intent to close down the grey market, which would have had serious implications for the volatility of domestic market if alternative (legal) distribution channels into China were not established. DAF wanted to address what they saw as a lack of strategic investment by the mango industry given the significant investment they had made in mango R&D. New varieties, such as Calypso offered the potential to expand production but would only be sustainable if there was a significant growth in demand. Other varieties, such as R2E2, were developed for their larger size and colourful skin, believed to be particularly important in Asian markets.

Thus, in 2007 DAF invited mango producers and exporters to invest ($6,000 per business) in the first of a number of projects, designed to identify the opportunities for export market development and generate learnings to help businesses overcome the barriers to success. Six businesses signed up to the first China project, which involved the shipment of consignments through the Japanese-owned VHT plant, to which DAF negotiated access for participating firms. The project did little to establish new routes into the Chinese market but highlighted the significant challenges of penetrating, let alone developing, markets with export protocols. With little sign of the 'grey' market closing, commercial interest in the development of the (legal) Chinese export market vanished and DAF replaced the Asian Markets Horticulture Initiative with the Global Markets Initiative, to include markets with no export protocols.

This was a fork in the road for Manbulloo. Other mango businesses chose what Scott Ledger, Manbulloo's quality manager, described as the 'easy option' of exporting to non-protocol markets or through the illegal channel to mainland China. After leasing the Darwin VHT facility for one season, Manbulloo invested $2.4 million in building a VHT plant in 2009 at Giru near Townsville in North Queensland.

"Anyone can export mangoes to Singapore or Hong Kong. They can buy them at the shed door or the markets. Even though we had supply we could not compete with the 'phone

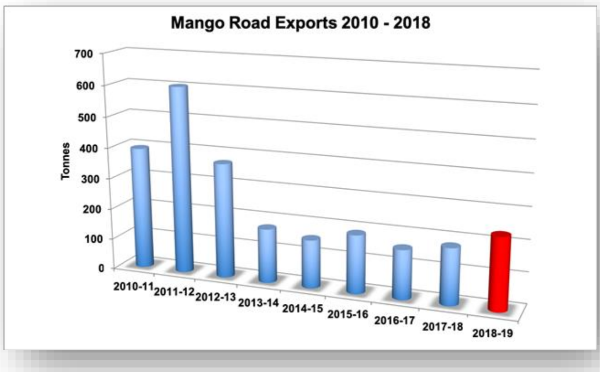
jockeys'. The supply chain is extremely fragmented so quality is extremely variable and the buyers in those markets are just so sensitive to prices. The Chinese importers overcome the quality issue by pre-sorting the mangoes before they sell them to retailers. They make a good profit because of the high margins but the return to the grower is not sustainable." Scott Ledger, Quality Manager, Manbulloo

The decision to invest in the VHT plant demonstrated Manbulloo's commitment to the development of their export business and was driven by a preference to get closer to their customers and consumers and work directly with importers rather than through the traditional wholesale distributors, through which the majority of fresh produce exports continued to enter China illegally and the only entry barrier was the price. It would be another decade before another VHT plant dedicated to mangoes would be opened in Queensland, by one of Manbulloo's competitors.

The failure of DAF's efforts to gain momentum for the development of the Chinese export market did not deter them from exploring opportunities elsewhere. In 2010 they led a collaborative value chain management (VCM) project in the UK, as part of the Global Markets Initiative, in partnership with Manbulloo, who had a fledgling relationship with a UK fruit importer and the Centre for Value Chain Research at the University of Kent. The project was designed to explore UK consumer attitudes and preferences towards mangoes and the opportunities for displacing lower cost (and lower quality) fruit from South America. Consignments of Kensington Pride-and Honeygold were trialled in-store and fruit quality was assessed along the value chain. The results highlighted the importance of two key factors – taste and ripeness. The former is determined by genetics and the latter relies on the competence and capacity of the value chain, whose job it is to preserve the quality of the fruit for as long as possible post-harvest.

The VCM project was another significant step in Manbullloo's export market development journey, not because it opened up a new market – UK consumers loved the mangoes but the retail market proved much more price sensitive than expected - but because it exposed Marie and Scott to the principles of VCM. This helped them to understand why they were having so much trouble and gave them an alternative business model on which to base the growth of their export business.

"We went through this incredible journey of discovery, learning about the management of the value chain. The project showed us what we needed to do and how to analyse information in order to identify the key elements we needed to put in place to achieve success. It gave us a picture of what we could be. That's when we started to look more critically and analyse our export business" Scott Ledger, Quality Manager, Manbulloo



In 2012/13 export volumes fell sharply not by accident but by design, as Marie decided to re-assess their export markets in a different way using other metrics in addition to revenue.

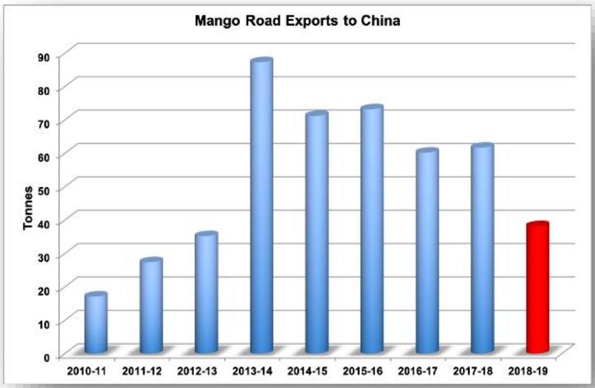
To assist her with the task Marie developed a customer analysis tool (Table 2) that incorporated the three key elements of VCM (strategic alignment, information sharing and collaborative relationships) to assess the opportunities for sustainable growth in the various markets they were supplying and the strengths/weaknesses of their value chain partners.

Table 2: Manbulloo's Customer Analysis Matrix

Assessment Criteria	**Description**	**Rating Scale**
Return to packhouse	Additional return to packhouse compared to domestic market less additional on-costs	1=\$0, 2=\$3, 3=\$6, 4=\$9 5=\$12 or more
Market dynamics	Competition from other Australia exporters, importers & other countries	1 (strong) to 5 (weak)
Growth potential	1. Potential for growth of total market for Australian mangoes. 2. Potential for customer to grow share of targeted segments revealed by consumer research. 3. Relationships with retailers	1 (weak) to 5 (strong)
Effectiveness	1. Knowledge of and facilities for handling mangoes (storage, ripening, pre-packing) 2. Commitment to learning 3. Willingness to invest in improvement	1 (low) to 5 (high)
Efficiency	1. Operational efficiency (costs, wastage) 2. Willingness to improve efficiency 3. Opportunity for co-innovation	1 (low) to 5 (high)
Information flow	Open/transparent, timely, reliable, truthful, accurate, useful, easily understood, dealing with customer complaints, forecasting	1 (poor) to 5 (excellent)
Relationships	1. Strategic alignment - shared vision and culture, jointly developed and agreed strategy/goals/objectives, compatible structures and processes, commitment to continuous improvement 2. Trust and commitment - long-term orientation, joint performance assessment, joint investment, behaviour (honouring commitments, sharing risks, problem solving) 3. Power (fairness, abuse, imbalance) 4. Dependency (importance of customer/chain to Mango Road, availability of alternative customers) 5. Conflict and resolution (history of problems, difficulty of resolutions)	1 (weak) to 5 (strong)
Business strength	Financially secure, trading terms, prompt payment	1 (weak) to 5 (strong)
Total Score		

"We rated all of our customers, not just on profitability but on the potential for growth, the stability of the market, the technical ability of our partners and the nature of our relationship with them. We came to the conclusion that nobody was adding value. It was all opportunistic, nobody really knew what was going on with the consumer, communication was long and unwieldy, everyone was transactional and there were lots of inefficiencies" Marie Piccone, Founder & CEO, Manbulloo

The detailed analysis of their markets and customers provided Manbulloo with the objective insight they needed to identify key customers and key markets to build a more sustainable export market business. Marie took a strategic decision to pull back from the open markets and wholesale distribution and focus on markets and consumer segments that required a lot more effort and particularly the ones that required a quarantine protocol, for which their investment in the VHT plant gave them a distinct competitive advantage.



Manbulloo had grown its exports to China on the back of the pilot project with DAF but their success was short-lived and China is no longer the strategic priority it was. There was a good high-end retail sector in China in which consumers were willing to pay $20-22 for an Australian mango. Manbulloo had the quality and was able to meet the requirements of the import protocol but Chinese retailers proved to be fickly when it came to price and the importers were unable to change their behaviour.

"China is very different from other markets due to the illegal grey trade. No matter how much the retailers love our mangoes they can't resist the temptation of a cheaper product. Our analysis has showed that we are receiving 24% of the value generated, whilst the retailers are taking 66% of the value. This is our 11th year in China. We've had lots of interesting learnings and worked with many importers–but the margins are simply not there." Scott Ledger, Quality Manager, Manbulloo

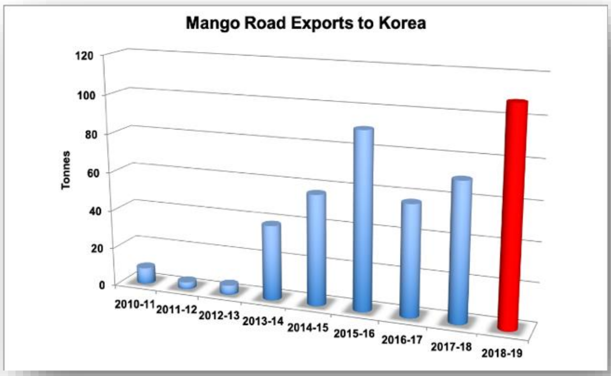
Manbulloo continues to export to China but volumes have declined as their attention has switched to other markets, in which the opportunity for sustainable development was perceived to be greater. Chief amongst these are South Korea, USA and Canada, the returns from which are significantly greater and less volatile than China (Table 2).

Table 2 – Indicative returns from export markets

Market	Average Price (China = 100)	Packaging & Distribution Costs (China=100)	Return to Packhouse	
			Planned (China = 100)	Actual (% of Expected)
China	100	100	100	73
Korea	100	105	94	100
Canada	84	68	103	85
US	100	94	101	116

Leading the way to South Korea

Manbulloo's strongest export market is South Korea, which they started supplying in 2010/11, as a participant in DAF's Global Markets Initiative and at the start of the free trade agreement negotiated by the Australian Government.



They were introduced to a number of customers and supplied three in the first year. Teething problems with the new VHT plant resulted in limited volumes being sent for the first three years. However, one of the customers retained their interest and have become Manbulloo's strongest value chain.

Jinwon Trading Co. is a Korean family business that has grown substantially over time. They are a large importer of bananas and have their own ripening facilities. They started importing mangoes over a decade ago, exploiting the opportunity to build demand and gain market share through importing mangoes from Thailand. Their interest in Australian mangoes stemmed from the perceived quality of the fruit and the potential to fill a gap in the supply calendar. They have good relationships with the major retailers and wanted to establish themselves as the 'go to' supplier of Australian mangoes in South Korea. Their two major customers are Costco (a US retailer) and Homeplus (formerly owned by Tesco), neither of which are high-end supermarkets (the share of which is very small in Korea) but who have high quality expectations and exacting specifications.

Manbulloo's relationship with Jinwon, now entering its tenth year, is starting to resemble the relationship Manbulloo have nurtured with Coles. They have annual planning and review meetings to develop and reflect on the program for each season and Manbulloo invests in the promotions to raise awareness and establish a significant customer base for Australian mangoes.

"Korea is a rock solid market and Jinwon is a rock solid customer. It wasn't luck. We started dealing with a couple of importers but it became obvious very quickly that Jinwon were different – as honest as the day is long, they deliver good and bad news and stick with their suppliers through good times and adversity. They don't hide anything, they share information and they share the losses as well as the profit. We have had our challenges but there has never been any disputes, only constructive dialogue." Marie Piccone, Founder & CEO, Manbulloo

The R2E2 variety, of which Manbulloo is the exclusive supplier to South Korea, is much larger in size than the other Australian varieties, which makes it particularly appealing to Korean consumers and provides an opportunity for all parties (producer, importer and retailer) to gain benefits.

Jinwon has made particular progress with Costco, for whom they developed a clamshell pack to take taking three R2E2 mangoes that sells for a premium price of AUD$26, compared with a pack of four (Nam Doc Mai) mangoes from Thailand that sell for AUD$20.

The marketing and promotional programme that Jinwon develops and delivers with the targeted retailers, in partnership with Manbulloo and AMIA, comprises in-store sampling, feature articles in popular food magazines, recipe development by Hyun-hak Kim (a famous Korean cook and food stylist), mango recipes on social media (facebook and Instagram) and power blogger websites

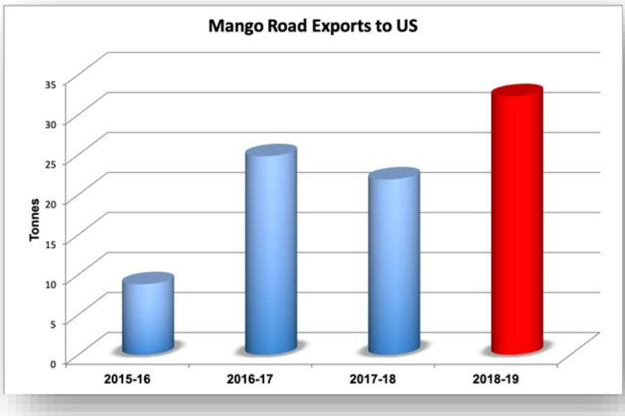
The strength of Manbulloo's relationship with Jinwon has also enabled them to develop and test a range of innovations designed to drive down supply chain costs. For example, the original protocol stipulated that individual boxes had to be protected with netting for fruit fly security during transport from the VHT facility to Seoul. This resulted in a labour-intensive process which Manbulloo, in partnership with Jinwon, replaced with a pallet netting solution.

In 2018 Manbulloo shipped its largest volume (over 100t) to South Korea and the market for Australian mangoes looks set for sustained growth, with Jinwon keen to extend the range of varieties, as more retailers express their interest and more suppliers invest in the necessary VHT facilities. Under the free trade agreement, the import tariff has decrease 3% each year from 30% in 2014 and will become 0% in January 2023. This will boost margins and encourage sustained investment in market development.

It is still early days but Manbulloo's pioneering entry and development of the South Korean market, with support from DAF and AMIA, appears to be paying dividends, for Manbulloo and the Australian mango industry as a whole.

Overcoming the barriers to the US market

The US market is the latest to attract the attention of DAF, AMIA and the Australian Government. Australian mangoes have been exported to the US for the last 4 years, following a decade of public sector investment in R&D and phytosanitary processes to support the negotiation an export protocol for the US.



AMIA lobbied the Australian Government to negotiate with the USDA for an export protocol with irradiation as the disinfestation treatment for fruit fly. With only 2 VHT plants in Australia, the industry sought a low cost treatment that would kill fruit fly and other pests without impacting on quality.

In 2004, the USDA agreed to a 3 year Pilot Audit Program for irradiation and certification of mango shipments. The audit program replaced the normal inspection process where a USDA officer was present in country to supervise every irradiation treatment. Under the Operational Work Plan, the Australian Government provided the inspection services and a USDA officer visited Australia 1-2 times to audit the work plan.

AMIA managed the process for marketing and distribution to ensure the pilot program was successful and the lessons learned were shared. Two US importers were invited by AMIA to participate in the pilot, both of whom were based on the West Coast in Los Angeles. Australian mango producers and exporters who wanted to participate in the pilot program had to join an AMIA export working group and contribute to the costs of the auditing and inspection system. At the outset four exporters signed up, including Manbulloo.

DAF had conducted research on irradiation, in preparation for the export protocol that was established for New Zealand in 1999. Further research identified the impact of the irradiation dose on fruit quality and ripening – the higher the dose, the greater the impact.

One trial shipment was exported to Los Angeles in January 2015 and the first commercial shipments followed next season. Manbulloo exported the Kensington Pride and R2E2 varieties while the other participants exported the Calypso, Honeygold and Keitt varieties. The protocol is demanding – the orchard and packhouse have to be registered, pest monitoring has to be completed every week from flowering, cartons have to be correctly labelled and traceability maintained, and the pallet must be netted for transport from the packhouse to the irradiation facility. The discipline required is way beyond what is required for the domestic market. With Manbulloo's experience in China and Korea, they were not daunted by the challenge, which proved too great for one exporter who pulled out of the pilot after the second year.

In the first season of supply, Marie chose to partner with a well established family business who boasted a strong social media marketing programme, their own kitchen and an impressive public image. Their business strategy was based on variety of offer, so they were constantly looking for new products, searching the world for opportunities to be first to market. Marie believed that the ability to reach out and engage with consumers was an important ingredient for success in the US, given the lack of awareness of Australian mangoes amongst US consumers. The importer visited Manbulloo and together they spent a considerable amount of time planning for the season ahead.

Conscious of the risks to fruit quality and keen to capture the learnings from the pilot, Scott accompanied the first shipment to track the fruit in the supply chain, find out how it was being handled and provide training where necessary to maintain the fruit quality. He also visited retail customers to explain the distinctive characteristics of the Kensington Pride and R2E2 varieties and offer Manbulloo's support in building demand.

In addition to a number of high-end retailers targeted in Los Angeles, the importer decided to target two supermarket chains outside California - Central Markets with 12 stores in Texas and Wegmans with 90 stores on the East Coast. Scott expressed his concerns about transporting mangoes by road over 3 days to Texas and 5 days to New York in mixed loads where the temperature would be well below the chilling point for mangoes. His warning was not heeded.

The first shipment of R2E2 mangoes arrived in excellent condition and the mangoes were merchandised professionally in the LA stores and exceeded all expectations. Follow-up shipments of Kensington Pride were distributed to the retailers in Texas and the East Coast as well as Los Angeles (Wegmans used them as part of a new store opening!) Merchandising was excellent and the flavour 'blew away' both consumers and retailers.

However, when Scott inspected the fruit on display in Texas and along the East Coast, he could see evidence of chilling injury. The only solution would be to load a full trailer with mangoes at the right temperature, which was not feasible given the small volumes being shipped at this time. The importer ignored the warning and losses occurred with subsequent shipments.

Losses continued in the second season of supply and there were protracted discussions about sharing the losses. The importer would not acknowledge that the losses were due to their distribution strategy and handling of the product in the US. Manbulloo had entered into the trial in good faith but there was no formal (contractual) agreement in place and the relationship fell apart.

Manbulloo had faced similar challenges in the past and had invested too much to walk away. They saw the opportunity from the outstanding results in Los Angeles, and when Giumarra, the second of the two approved importers, approached Manbulloo to supply their retail customers who had expressed an interest in Kensington Pride and R2E2 mangoes, the process of building a relationship was resumed.

In the third season, Manbulloo's first with Giumarra, the sales in LA were excellent but Giumarra also attempted to send fruit to Texas and suffered losses. However, this time Marie had negotiated a written supply agreement on a commission basis. Manbulloo's return was based on the price negotiated with the retailers by Giumarra less their marketing and distribution costs and a commission. The losses were shared, in the spirit of collaboration and in acknowledgement that both parties were testing new ground and mistakes were inevitable.

The AMIA review revealed similar problems had been experienced by the other exporters, which drove Scott to re-visit the research that had been conducted by DAF in support of the protocol negotiation. It showed increasing levels of skin damage for dose rates above the protocol requirement of 300Gy. Monitoring of pallets during irradiation found that the dose rate ranged from 400Gy in the middle of the pallet to 800Gy on the outside. The impact of irradiation of hard unripe mangoes at these high levels is twofold – increased severity of skin defects and inhibition of skin de-greening during ripening.

The research showed that the impact of irradiation could be minimised by pre-ripening the fruit before treatment. However, this presented a different challenge, to transport the pre-ripened mangoes to LA with sufficient shelf-life remaining. Manbulloo and Giumarra agreed to focus on retailers in LA to ensure distribution time in country was minimised.

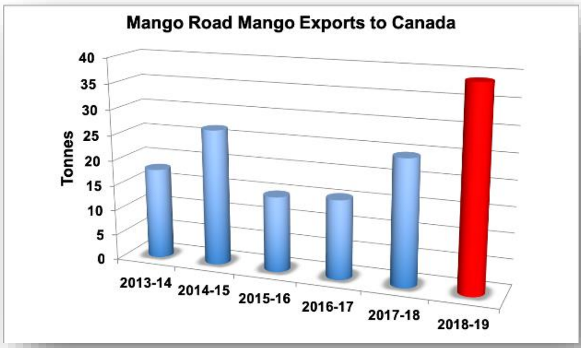
Giumarra focussed their efforts on recruiting new (high-end) retailers, including Gelsons, who previously had a policy of not stocking irradiated fruit. The 2018 season saw the largest volumes exported to the USA by Manbulloo with minimal issues associated with fruit quality.

Success is not guaranteed but Manbulloo see the potential and are willing to commit resources for the long term growth of exports to the US. They realise the need to invest time and effort with value chain partners to manage fruit quality, for the benefit of everyone in the value chain. All they need is like-minded partners.

"We are only two years into a relationship with Giumarra but they are a very similar company. We started with a competitor but it was clear after the first season, that they wanted to isolate growers without any communication and had the view that we had nothing to offer but the product. It's a process of appraisal and sometimes you get it wrong. The best thing we ever did was to walk away from the first importer. We think we have found the right partner in Giumarra". Marie Piccone, Founder & CEO, Manbulloo".

<u>Canada – the exception that proves the rule</u>

The success that Manbulloo has had in Korea and the US was due, in part, to their decision almost a decade ago to focus on fewer, more strategic markets and stick to their VCM principles – looking for collaborative partners with a shared vision and willingness to exchange information and co-innovate for mutual advantage.



However, whilst Korea is the standout market and Jinwon the standout partner, they have not been the fastest growing. Exports to Canada have grown steadily for the last three years and by 58% in 2018/19.

Manbulloo's experience in Canada is distinctly different than their experience in Korea and the USA but serves to highlight two things. Firstly, developing direct relationships with overseas retailers is fraught with difficulties when you are a niche supplier with limited (seasonal) availability, even when the retailer comes looking for you. Secondly, opportunities will always present themselves to companies with a genuine Unique Selling Proposition (USP) – something that other suppliers fail or struggle to achieve. In Manbulloo's case that is top quality mangoes that fill a distinct window in the calendar and a commitment to customer service that is rare in international commodity markets.

Manbulloo started exporting fruit to Canada in 2013, when they were approached by~~,~~ one of Canada's largest food retailers. The retailer wanted to develop a range of mangoes with superior eating quality and identified Kensington Pride as one of handful of varieties grown in different parts of the world that would enable them to offer superior tasting fruit all year round. Given the success that Manbulloo was having with their direct relationship with Coles they decided to try replicating the model.

The retailer nominated an importer to receive, ripen and distribute Manbulloo's mangoes into their network of distribution centres. Mango Road negotiated the commercial arrangements with the retailer and the importer fulfilled the same function as the Australian ripeners, who ripen and prepare orders for delivery to Coles distribution centres.

In the first year all went well, albeit with small volumes and Manbulloo were keen to build on a successful start and increase the volume. However, the retailer showed no interest in co-investing to build demand through promotions and in-store sampling. Manbulloo recognised the signs – a lack of commitment and willingness to co-invest to build the business – and after three years decided to stop supplying, despite all the positive feedback they received from the retailer and their consumers about the eating quality of the fruit.

"It became clear that we were simply not significant enough for them to invest in us. Marie and I travelled to Canada to meet with them in advance of the 2015/16 season and they gave us 30 mins!" Scott Ledger, Quality Manager, Manbulloo

Co-incidentally, at the same time as Marie decided to stop supplying direct to the large retailer she was approached by E-Fresh Food, an innovative start-up based in Vancouver supplying premium fruits from around the world direct to consumers, the majority of whom were Chinese households with a passion for and familiarity with tropical fruit.

This was a market for which the R2E2 variety was suited and Manbulloo were able to transfer all the learnings from Korea and China to the E-Fresh Food supply chain. The first year went well and volumes have increased significantly, as E-Fresh Food has expanded their reach into Toronto and San Francisco, targeting the Chinese ex-pat community and Chinese supermarkets.

Canada is a non-protocol market, open to anyone and everyone. So, when the market for R2E2s in China crashes, as it does with the ebb and flow of the grey market, and the domestic price tumbles, there will be traders looking for homes for fruit that is surplus to domestic requirements. The hope is that the work Manbulloo has put in with E-Fresh Food, which has helped them to command a premium and deliver outstanding quality, will make it difficult for E-Fresh Food to switch suppliers or seek to reduce the price.

The signs are good, as the 2018/19 season resulted in record sales in Canada, aided by Manbulloo's offer to reduce the price during a period of sustained over-supply of R2E2 mangoes in November 2018. At the end of the season, for the first time ever, Manbulloo received a bonus from a customer, with E-Fresh Food offering to pay more than the agreed price for two shipments when the market price was low. E-Fresh Food rewarded Manbulloo for their goodwill, which helped them to be competitive and enabled them to perform better than expected.

E-Fresh Food was successful in obtaining approval from AMIA to import Australian mangoes into San Francisco for the 2018-19 season, targeting the Chinese ex-pat communities in the West Coast of the US. Manbulloo were unable to supply due to other commitments but will look to build on their relationship next season. Manbulloo also introduced E-Fresh Food to Giumarra, who have customers in Canada but no facilities. The hope is that Giamarra and E-Fresh Food will collaborate to help grow the mainstream Canadian market, which Manbulloo's previous experience suggests is ripe for development.

Key Insights and Lessons Learned

Manbulloo's story of export market development has all the elements of the value chain development framework, from their foundational (domestic market) relationship with Coles to their fledgling relationship with E-Fresh Foods in Canada.

The story begins with strategic orientation and the degree to which Manbulloo's significant investment of time, effort and capital in product and service quality has been driven by a strong marketing, learning and long-term orientation and a culture that embraces continuous improvement, within and between organisations.

"Export is a really complex, difficult journey. We do it for risk management, we do it because we believe there are some sustainable export markets that we should be in and we do it because it pays to be a global citizen. There is so much innovation going on around the

world, so it pays not to be parochial. We learn so much that benefits all of our customers and consumers just by being out there. It keeps us innovative, keeps us on the edge". Marie Piccone, Founder & CEO, Manbulloo

Their willingness and ability to innovate creates a strong sense of resilience which is essential in commodity markets. Their strong learning orientation leaves them open to new ideas but hungry for insight and evidence before committing resources.

Manbulloo is in transition from a small business to a medium-sized business and has inevitably suffered growing pains. The challenge of developing export markets at the same time as satisfying the demands of Coles has stretched the business to its limits. The rationalisation of the export business – reducing the number of markets and customers targeted – was a brave but critical decision that provided much-needed focus for the targeted allocation of resources and the development of a profitable export business.

"Profitability matters but the ability to grow profitability in the longer term is more important. The goal is to work with our partners to build demand that we are able to meet. We don't want to build demand for our competitors. When you start building demand you have got to be ready to fullfill that demand and you also have to be ready for the journey of innovation that comes with it. You have to look at ways to become more efficient and more effective". Marie Piccone, Founder & CEO, Manbulloo

The transition has also required Manbulloo to invest considerable time and effort in the systematisation of their internal structures and processes, doing more and better with the resources they have and developing those resources over time – acquiring new assets, which in Manbullo's case has meant the purchase of additional farms and the recruitment of people with skills and competences that complement the profound knowledge and experience of Marie and Scott. This is particularly important with respect to their export business, in which the diversity of customer requirements and export protocols demand scrupulous attention to detail.

"You can't just rely on people to work things out when the workload escalates and the number and complexity of the tasks increases exponentially. So much of our experience and expertise and know-how is locked up in the heads of key individuals. Making that accessible to everyone and introducing standardised processes across all of our packhouses has been a real challenge and remains a priority for me" Karl Gygar, Supply Chain Manager, Manbulloo

The development of collaborative relationships are one of the fundamental enablers for the success that Manbulloo has had in Korea and, more recently, in the USA and Canada. The failure to find the right partners is also a fundamental reason for their 'failure' in other markets, particularly China. The key point here is that it is no less difficult to develop collaborative relationships in export markets than it is to earn sustainable returns from simply trading. The difference is that whereas trading is a gamble – you win some you lose some – the development of collaborative relationships is a strategy – without them sustainable business development is impossible.

Many (if not most) businesses give up on collaboration prematurely, having invested some time, some effort and even some cash without what they perceive is just reward. The success that Manbulloo had with Coles gave them the confidence to consider exporting in a very different way (direct to importers) than they were exporting before (trading surpluses through export distributors). They recognise that they will never be important enough or have sufficient resources to build relationships directly with retailers overseas, so they rely on the relationships their value chain partners have with their retail customers and support them with fruit of the finest quality and a level of service that is second to none, regardless of what is happening to domestic market prices.

"Everyone is happy to supply the export market when the domestic is depressed. Even through our years of incredible growth with Coles we hung in those export markets because they needed to see us as a reliable, trusted supplier. Right now exports are only a small percentage of our overall sales but the plan is to grow our exports substantially, whilst maintaining our growth with Coles" Marie Piccone, Founder & CEO, Manbulloo

For any business the ability to segment their customers and consumers is important, but for a small business with limited resources it is a critical success factor. The development of her own segmentation tool – the customer analysis matrix – is testimony to Marie's preference for evidence-based decision-making and her openness to new ideas. She and Scott embraced the principles of value chain management, to which they were exposed as part of DAF's Global Market initiatives and embedded them in the business strategy and its decision-making processes.

Serendipity, plays a part in most (if not all) successful businesses but, more often than not, rewards those most willing to challenge the status quo, most open to new ideas, most willing to take risks and most determined to succeed.

The benefit of being the first – to adopt new thinking and invest in new technology or capability – is open to debate. Others might benefit more, faster and at lower cost from the lessons learned by Manbulloo, the bulk of which have been openly shared with the Australian mango industry. However, what is less debatable is the critical role that Manbulloo, a pioneer within an inherently conservative, insular and risk averse industry, has played in highlighting the critical success factors for the development of a sustainable business and sustainable export markets in the face of fierce competition.

The story cannot end without acknowledgement of the important role of government in Manbulloo's story thus far and their likely role in the longer term development of the export market for Australian mangoes. The Australian Government led the way in negotiating free trade agreements with China and Korea and export protocols for all the major export markets seeking protection from fruit fly. The Queensland Government has played their part also, making substantial investments in R&D, often with little interest from an industry focussed fundamentally inwards – on the domestic market and volume growth, with little thought of where that growth might come from or how it might be sustained.

In Manbulloo, DAF found a willing partner at every turn, without whom they would have almost certainly struggled to establish, let alone maintain, the momentum or the investment they knew was necessary to enable the industry to reach its full potential. Whether this happens remains to be seen but the signs are promising and the foundations have been laid.

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