

# Food manufacturing facing the wall

Ken Phillips

Is food manufacturing in Australia effectively looking at a dead end? Is it going the way of the clothing manufacturing industry—essentially becoming a cottage industry? Is it like car manufacturing—particularly component manufacturing—in terminal and irrecoverable decline?

Many observers of the industry think so. The IPA thinks differently.

Recently, Kraft announced it was shifting its domestic biscuit manufacturing to China. The Food and Grocery Council states that there has not been one new food manufacturing plant in Australia in the last ten years. But there have been plenty of closures.

Four years ago, when the IPA first started its work reform unit, it released a report on Australian food manufacturing called *Take Away Take Away*. The report found that food manufacturing is in massive trouble. Most industry commentators say that its troubles stem from insurmountable global competition and an excessively small domestic market which prevents economies of scale. But this is only part of the story—moaning about the pressures of globalization is too often used as an excuse for poor domestic management performance.

Global competition presents a challenge, but it also presents a much larger opportunity for the Australian food manufacturing industry.

The bigger problem in the sector is a management culture which has refused to address core operational

performance issues. The dominant problem is labour relations and the refusal or inability of managers to grasp their management responsibilities. They fail to focus total workforces on the operational needs of their businesses.

The most powerful part of IPA's 2001 report was the telling of simple stories of operational disaster leading to closure and/or non investment. Smart international investors have walked away from Australia because of bad industrial relations in the sector. Others find it easier to close up shop rather than attempt to fix industrial relations issues. The report named companies and received heavy criticism for doing so.

Powerful industry bodies slammed us. We discovered that entire sections of government departments were told to study our claims and prove us wrong. However, these responses have never surfaced.

Four years later, the sector remains just as threatened and the gloom persists.

The Kraft closure is just another in the long line of examples that continue to demonstrate the industry's peril. There are more closures to come. More investments in food plants are planned for overseas—investments that could easily have happened in Australia.

But the positive potential in Australia for food manufacturing remains the same. Australia is a food bowl with superb farmers who are fully exposed to the hard edge of international competition, are innovative and who remain highly competitive. The raw talent of



*Take Away Take-Away* was published in November 2001. It is available from the IPA. Email: [ipa@ipa.org.au](mailto:ipa@ipa.org.au)

our farmers is our biggest food-sector advantage.

Food globalization creates markets where 'niche' areas offer great potential because any one single 'niche' can require supply volumes that vastly exceed entire Australian markets. Successful niche market supply can be achieved with a solid focus on production excellence and steady, dynamic market awareness.

But our food manufacturing plants are ageing. They need replacement and/or significant upgrading. Food plant developments are now a bit like medium-sized mines requiring large-scale investment. The plants have to be big, high tech, require minimal labour to operate and must supply product to large regional or global markets.

New plants have to be built on time and on budget. But, so far, they have been killed off at this first base. The construction sector malfunctions to such a large degree that plants run grossly over time and over budget to a significant extent. Investment has frozen. Australia's construction reputation stinks among potential international investors in the food sector. They won't touch us.

Food manufacturing suffers badly from the 'branch office' problem. The big manufacturers who dominate the industry are global conglomerates.

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Head offices are overseas and Australia usually only rates in the global corporate framework as an afterthought—following North America, Europe and Asia. China, India and Latin America are overwhelmingly more significant than Australia as existing and emerging markets and production hubs. Far too often, Australian-based managers don't have the authority to take the decisions they need to, particularly if it involves reform which could raise public profile, thereby possibly damaging valuable consumer brand names. Local managers for the most part don't have career incentives to confront difficult management issues. Careers are built on maintaining production and not being associated with difficulties.

Governments of all political persuasions continue to be in denial about the sector's problems. Huge sums of taxpayers' money are thrown at puffed-up public relations propaganda directed to potential investors, who quietly snigger at us behind our backs. Many an industry representative and government bureaucrat live off international food trade-fair junkets that rarely produce export orders. In general, these exercises are self-delusional charades. A cynical view? Absolutely—but warranted.

The very real problems, however,

are the industrial relations cultures, agreements and behaviours of the worst order. It's not a worker problem. It's a management issue.

Managers in food manufacturing cannot get routine maintenance to be done on time or within budget. Communication with the workforce is literally non-existent. Managers are scared to talk directly with people on the workshop floor. If they do, their

authority is undermined by executives above them who react in a knee-jerk fashion to a knock on the door by a disgruntled shop steward. Review and renegotiation of workplace agreements resemble set-piece Shakespearean tragedies rather than movement to deliver business performance.

Fortunately, there are some significant and outstanding exceptions. The Mars/Masterfoods and Sanitarium groups come readily to mind. They are, however, outflanked by the 'problem' food companies—those that have long histories of entrenched, systemic and unaddressed problems. Far too often the 'solution' pursued involves a horse-trading in shares, brands and facilities, designed to pump up share prices temporarily to make CEOs look good. It doesn't work, and the locked-in management performance problems prevail and remain unaddressed.

Food manufacturing is a hard grind. It's a mature industry that involves daily, minute attention to every detail of production. Marketing gives the hype to encourage sales, but profit is made or lost in the ability to produce consistent, high quality, safe product on time, to cost and to deliver efficient distribution. This is a human, not a machine process. Production machines are the tools. Humans keep them oper-

ating, co-ordinate the sourcing and delivery of raw materials, maintain quality and consistency, and pray that they don't mess up and poison significant numbers of their consumers.

It's tricky and not glamorous. To make it work requires sophisticated co-ordination of, and co-operation between, all the people in the firm. If one element is out, the entire system falters. This is where industrial relations is critical in Australian food manufacturing. Our systems, process and cultures are endemically bad, thereby preventing the co-ordination and co-operation required. It might appear to be a problem 'on the shop floor', but in fact it pervades every aspect of how companies function. It intimidates CEOs into indecision. It creates dysfunction.

The IPA followed up *Take Away* with a detailed study into the food manufacturers' capacity to manage, as delivered under their company-specific industrial agreements. The *Capacity to Manage* study gave one insight into how the processes of managerial neutering come about.

But some stories show how bad can be turned into good. A couple of years ago, the massive, global food giant Simplot sold their control of the Australian icon brand Four'n Twenty pies to the minnow Victorian regional pie manufacturer, Patties Pies. Simplot had an industrial relations disaster at its Melbourne plant which stopped managerial control of the plant. The giant Simplot could not fix the problem. But the product had huge value if it could be realized. Patties could succeed where Simplot failed. They shifted production to Gippsland, resolving industrial relations problems at the same time.

The potential demonstrated by Four'n Twenty abounds throughout the sector. If applied over the long term, Australia could witness a generational shift in the scale, scope and success of food manufacturing. We should be capable of being world beaters and world exporters in this sector.