Some Things Don't Change

By DAVID LEYONHJELM

Over the twenty years (this month) I have been writing my column, some things have not changed much.

A few are pretty obvious - wheat is still affected by weeds, sheep still get lice and farmers still hate to think anyone makes a profit out of them. Some are less obvious - nearly all rural merchandise is still sold to farmers via distributors, and relations between distributors and suppliers are still not a model for world peace. (Well, actually that one is pretty obvious.)

That relationship has been a frequent topic here. I have chronicled some quite significant events affecting it, the rise and fall of IAMA being an obvious example, but to some extent I am still writing about the same issues.

Without access to distribution it is very difficult for a supplier to be successful. Biblically speaking, it is easier for a camel to pass through the eye of a needle than for a new supplier to enter the kingdom of rural merchandise without distribution support.

With more suppliers lining up at fewer distributor gates, distribution access has become both more prized and more difficult to achieve.

Distributor numbers are down because of industry rationalisation. Quite a few have been bought out, the cost of establishing a new merchandise business is higher (partly driven by accreditation requirements), and there are fewer farmers to sustain a business.

Methods of gaining access have not changed much though. Start off with independent stores, pay large rebates and/or go exclusive are still the main options. A couple of years ago Norbrook flew several key Elders purchasing staff to Ireland on the company's private jet. That worked too.

Supplier numbers are up because a decade ago there was a major diversion of R&D funds into biotech, which led to a lack of new crop protection chemicals. The cost of more demanding residue and toxicity data requirements also inhibited development of livestock products.

That opened the door to an avalanche of generic competitors, significantly assisted by China and India making active ingredients at such low prices that even the R&D companies now use them. Suppliers that could once leverage their innovative new products to maintain support for their out-of-patent products found their leverage slipping away.

Retaining distribution access has also become less certain. Most suppliers (especially the chemical companies) are paying a considerably higher price for the privilege of remaining within the kingdom.

Rebates are higher (hugely in some categories) and the cost of inventory has been largely transferred to suppliers via payment terms, return of unsold stock and just-in-time ordering. That's why the rural merchandise market remains one of the few not using bar-coding, and why house brands are still out of favour.

What has clearly changed is the overall profitability of distributors, which is considerably increased. Elders' latest results, for example, show return on funds employed of 24% for network and related operations.

The professionalism of distribution staff has risen as a result of the ability to pay higher salaries. That has caused positive changes, some modelled on the major supermarkets, including improvements in store presentation, more rational pricing policies, reduced paranoia about sharing sales data with suppliers, and the establishment of purchasing departments including category managers.

Some suppliers are yet to catch up with the fact that the performance of buyers is measured by the concessions they extract from suppliers. And after all this time, some still continue to believe that negotiating with buyers results in the stores actually selling their products rather than simply putting them on the shelf.

The balance of talent is one area where change has been marked. Whereas 20 years ago it was common for suppliers to recruit good performers from distributor ranks, it is now more likely to go the other way.

Not everything has gone the distributors way though. Incitec-Pivot was on the receiving end of some rough treatment from Elders and Landmark when they bought Hi-Fert and told IPL it would be its supplier of last resort. The tables were turned when Hi-Fert's source of supply was bought by Incitec-Pivot. Now, the profits Elders and Landmark make from fertilisers are pretty much determined by how well they dance to Incitec-Pivot's tune. The other distributors are having a ball.

Suppliers are no closer to their customers than they were 20 years ago, notwithstanding modern database and communications technology. Clearly, distributor professionalism does not yet include sharing customers.

Alternative distribution models that would give suppliers direct access to farmers at lower cost have become less feasible as their current reliance on distributors has risen.

In 1992 Du Pont's embryonic agency system was abandoned because of inventory problems and a loss of nerve by senior management. The inventory problem could be easily fixed these days with modern communications and computers, but without a major new product like Glean or a leading market share like Nufarm to drive demand, even stronger nerves would be needed to set it up again.

Bribing distributors with trips, sporting tickets, social activities and conference subsidies is still with us, although perhaps not as blatantly as in 1999 when I described a personal benefits frenzy in the article "Tripping with friends". That was like turning on a light in a room full of cockroaches - it was amazing what got cancelled that year.

Also still with us is the issue of "added value", one of IAMA's pet phrases. It not only concerns distributors, who wonder how to get paid for the value they add, but also suppliers, who wonder whether distributors add any value worth paying for.

The problem of defining value in practical terms remains. To some it means identifying weeds and recommending herbicides, or testing livestock for drench resistance. To others it is simply matching a price, immediate availability or on-farm delivery. Finding an agronomist or livestock expert who can sell is no easier either.

A continuing but growing issue for both distributors and suppliers is how to tailor their product and service offer to take account of the differing size of customers. This is important because farmers are increasingly either large and highly commercial or small and influenced by lifestyle factors.

And just to round out this ramble, it still makes sense to predict that owner-operated stores will eventually out-compete the remaining two pastoral houses, Landmark and Elders, assuming groups like NRI and IHD can keep them competitive. After all, Primac, Webster, Dalgety, Wesfarmers Co-op and Roberts are all gone.

But I have been suggesting that for 20 years, and I haven't been right yet. Some things don't change.

5763