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From farm to fork: logistics, transport, infrastructure

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Paper prepared for presentation at the “The Supermarket Revolution In Food: Good, bad or ugly for the world’s farmers, consumers and retailers?” conference conducted by the Crawford Fund for International Agricultural Research, Parliament House, Canberra, Australia, 14-16 August 2011

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Abstract



In Thailand, as in other markets, the supermarket 'revolution' is seen as a 'two-edged sword'. On the one hand, it can lower food prices for consumers and create opportunities for farmers and processors to gain access to quality-differentiated food markets and raise incomes. On the other hand, it can create challenges for small retailers, farmers, and processors who are not equipped to meet the new competition from, and requirements of, supermarkets. Retailing in Thailand has come a long way in only a couple of decades, with new companies entering the market, such as the large European companies Tesco, Carrefour (until recently) and Big C (Casino Group). The number of convenience stores has also grown, with 7-Eleven (6000 stores) run by CP Group (CP ALL) and to a lesser extent Family Mart from Taiwan.

Along with these modern trade retailers, third party logistics (3PL) service providers such as Linfox, DHL, CEVA Logistics and others have also entered Thailand. They have used their international experience to improve standards, speed of service and value of service, helping retailers offer more fresh produce and a wider variety of items at a lower delivered cost.

In the 1980s, Thailand already had transport infrastructure in the form of an arterial road system, and that infrastructure was continually improved during the nineties even in the aftermath of the financial crisis of 1997. This has resulted in the road network being one of the best within ASEAN.

Developing-country governments can put in place a number of policies to help both modern and traditional retailers. For example, in Vietnam, even though the country was accepted into the World Trade Organization with all its market-levelling requirements, international 3PL companies are allowed to operate only as a junior partner in a joint venture with a local company or companies. They cannot operate as a wholly-owned foreign enterprise as yet. Therefore they are not willing to invest heavily in assets until they have control of the company, and this in turn gives the local industry time to develop, ready for the time when the 3PL providers can have a controlling interest and thus be competitive.

Charoen Pokphand Group (Thailand) started as a small seed shop in 1921. It is now Thailand's largest multi-conglomerate, with annual turnover of 30 billion US dollars in 2010. CP Foods (CPF), the food part of the Charoen Pokphand Group, started in 1978, consolidating all the company's agri-businesses. In 2010, CPF had an annual turnover of 6.3 billion US dollars.

CP Foods is Asia's largest agriculture and aquaculture company with full vertical integration. We handle just over 100,000 units of chicken per day;

50,000 of duck per day; and 25,000 units of swine per week. In our aquaculture operations, the quantities are: farmed prawns ('Vannamei', *Litopenaeus vannamei*) 100,000 tonnes per year; fish ('Tabtim', *Tilapia* sp., and 'Basa', *Pangasius bocourti*) 4000 and 100,000 tonnes per year. At present, CP Foods is the largest animal feed company in the world, and the world's largest farmed prawn business.

We have 250,000 staff worldwide, and 80,000 within CP Foods. There are 20 overseas branches, with the Australian office the 20th to open — it was registered early in August 2011. This office exists to source products out of Australia. We are coming here to buy, not to sell. Australians will be interested to know that CP is Australia's largest single customer for wheat.

In Thailand, CP group owns 6000 '7-Eleven' stores. Also, CP owns 80 stores of Lotus in China — there will be 200 stores in the next year and half. CP Group also owns 700 CP Freshmart stores, our own retail outlets in Thailand, expected to number 1000 by the end of 2011.

Big is good?

In researching some background for this talk, I came across an interesting speech that I think expresses the heart of this conference, especially the commercial side of the topic such as is represented by CP Group. It is a speech by Sir Terry Leahy, former CEO of Tesco, given in 2004 (Leahy 2004).

Sir Terry set out a paradox — that supermarkets are seen as both improving and threatening the quality of life in UK — and then he expanded on the reasons for those impressions and responded to them.

On the good side, he pointed out, supermarkets lower prices (enabling even the relatively poor to buy healthy food), raise standards, increase choice, simplify life for people and save them time, create jobs, support and build-up British agriculture and production with suppliers across the British Isles, and attract shoppers to regional towns where there are supermarkets.

The negative comments people make about supermarkets, he said, relate to their competitive power relative to smaller shops, the extra traffic and parking areas around stores, and a perception that supermarkets lead people towards obesity. Sir Terry's arguments in response were that "Winning is good, it is what you do with it that matters", and that the big supermarket retailers need to build partnerships with all their stakeholders — customers, suppliers, those in governance and local communities — based on trust, and to aim for balance and to treat others as they would like to be treated themselves.

Retailing in modern Thailand

Before modern retailing came into Thailand, goods used to be exchanged via bargaining, usually in the little shops of middlemen (*cho huay* in Thai). Then some localities became recognised as shopping areas, and in the 1950s modern-style shopping centres began opening in Bangkok. This was the beginning of fixed prices being offered. Gradually, customers became used to this new style of pricing, which gave them more choice and outlets.

CP Group launched 7-Eleven in 1989, and it was so successful that there are 6000 stores today. In 1990 the retailer Makro entered the market. Makro is a bulk, 'big-box', business from the Netherlands. It also teamed up with 7-Eleven.

In 1991 CP opened its Lotus brand, which quickly became a joint venture with Tesco of UK. Then in 1998 Tesco took over Lotus, after the Asian crisis (which we call the 'Tom Yum Kung' crisis: Thailand started it all off). By the year 2000, Bangkok had luxury malls where the focus was on branding. Today the Thai market is part of the global model, and customers expect sophisticated retailing.

Thailand's top retailers are 7-Eleven, Tesco, Tops and Big C (which includes Carrefour). To give you an idea of the popularity of the 7-Eleven stores, one store I know well had a turnover of 30,000 dollars in its first day of opening and now averages 45,000 dollars a day — so it is not a small market.

Tesco has split its 797 Thai stores into hypermarkets (93), supermarkets (90) and Value stores (34) and Express stores (580). Tops, a supermarket chain operating in Thailand since 1996, has 244 stores that include 54 supermarkets, 4 food halls and 150 delicatessens; the 144 stores run by Big C (including Carrefour) include hypermarkets. (Big C, the casino group, took over Carrefour when Carrefour decided to go to the bigger markets in India and China.)

That may sound like a very large number of stores altogether, but there are over 70 million people in Thailand. Further, if you have ever been to Bangkok, or heard about Bangkok, you know that traffic is terrible. It makes sense to have centres within each neighbourhood, so that within about a kilometre radius you can get to a centre where there may be a Tops or a Tesco Express.

Supermarket influence on the marketplace

Supermarkets influence the marketplace in various ways. One example is fixed pricing. Thailand has always had a bargaining market, and even now there is still an element of bargaining in the marketplace; I think a lot of people from Australia love going shopping in Thailand because of that element. However, fixed pricing has been a success, and for food it is more convenient.

Obviously fixed pricing has allowed prices to be reduced: retailers bought in volume, and that drove down costs such as for logistics and cold storage, so prices have become more affordable. As an example, when I started with CP back in 2000, chicken-breast prices then were \$5 per kilo and even before that it was \$10 per kilo. Now, chicken breasts in Thailand are \$2.50 per kilo. There are several reasons for the fall in prices, but bulk buying is one factor, especially domestically.

Product offering is another aspect of the market influenced by supermarkets. If you go into any Tesco in Thailand or even a 7-Eleven, you will see many imported products as well as products that are Thai-manufactured. One example is Snowy Mountain Water, which is produced in Australia: it is selling extremely well in our 7-Elevens, even though the water is 30 baht compared to 10 baht per kilo for Thai water. Thai people understand that value for money is not all about cheap products. We certainly like spending money on food.

International third party logistics companies have followed the big European retailers into Thailand: Linfox and Toll are recent additions. These companies have implemented systems that take advantage of Thailand's good road system (except in the Bangkok traffic), and they have led to a dramatic reduction in logistics-related costs and to quicker turnaround times.

Supermarkets have had an effect on consolidation. Like any other Asian national marketplace, Thailand once had thousands of markets in the country. Farmers only needed to supply the local village. When supermarkets entered the system, farmers and food manufacturers either had to grow rapidly to support so many large retail bases, or they had to consolidate, with companies such as CP.

Thailand has many co-operative farms with CP. Think of a prawn farm: CP supplies the feed and the juveniles, the farmer runs the farm; CP buys back all the mature prawns for our production facilities. These farms give us the volume, and also security because all the inputs are provided by CP, and production is fully vertically integrated. The system means that local farms continue to be sustainable and part of the larger picture. It is much harder for individual farms to work with the retailers like that.

Food standards in Thailand have risen because of supermarkets. Since 1999, global food standards have been increasingly adopted in Thailand. Thai companies such as CP and many others take pride in certification, traceability and being green. Retailers, especially companies such as Tesco and METRO, have helped in implementing the food standards. The food standards have also helped us improve our efficiency. Many people think that when you implement food standards it is going to slow up production. In fact, food standards help efficiency.

Supermarket evolution drives change

CP has evolved with the supermarket revolution. We started off with a feed mill, as I said earlier, and that feed mill is still going to this day. Then CP moved into value-added protein, and now we are producing meals: we sell 500 tonnes a month of ready-to-eat meals.

Over the past 20 years, access to larger markets and better distribution channels have driven down overhead costs through an increase in sales and production runs. Distribution has improved and logistics have become an increasingly important part of our portfolio, to the extent that we now own our own logistics firm, because we understand the importance of logistics costs. It means we can supply products fresh to market.

We have implemented world food standards such as the British Retail Consortium standard, and UK retailer audits, and many other ISO standards. Aside from improving the safety of our processes and products, this has led to improved efficiencies. World food standards also have given us access to other retailers and markets around the world, such as your retailers here in Australia.

In these ways, CP Foods has changed from being production-based to applying market-based strategies. For us within our industries, whether poultry or prawns, we now focus around 40% on exporting.

Also, the revolution has meant CP has learnt about product development, and that product innovation and diversity are keys to sustainability.

The supermarket revolution has shown CP that one country is not a big enough market. Suppliers in the global village are running a high risk if they focus their efforts on one country only. The approach adopted by CP now is continental rather than global.

For the past 2 years I have been sourcing products from Australia. I have learnt that Australia has more to offer if you focus on what a market like Thailand needs rather than what Australia has available. Examples are avocado and half-shell mussels: CPF has moved from buying 500 tonnes for importing into Thailand per year to 2000 tonnes last year, just in the last 2 years.

Further, it is not enough to be an 'OEM' (original equipment manufacturer), which produces under somebody else's brand: retailers quickly move to their own brand in the search for higher margins. We have realised that being an OEM is important but we need to build our own brand as well, so that people get to know about CP Foods and the CP brand.

For example, in the proteins that we farm ourselves we have become fully vertically integrated so as to take full advantage of food safety regulations and standards. That also means we do not have to rely too much on third parties. We take control up and downstream of our products, starting with feed supplied by CP, through farm breeders and hatcheries, to our own processing. From farming 1000 chickens per day 30 years ago, we now farm 1.1 million chickens a day. One farmer looks after 50,000 birds.

CPF has also moved 'downstream'. Apart from owning our own retail stores we also own our own chicken kiosks or stalls, called '5 Star Chicken', to bring our product to markets. You may see them around Thailand and other parts of Asia.

For CP Foods, the vision is to be the 'Kitchen of the world', and not only based on the proteins the company already owns. The reason for CP now being here in Australia is that CPF wants to work with Australian proteins, milk powders, grains — these are outside of our current portfolio. We are bringing our expertise to bear on potential exports and, we hope, starting mutually beneficial joint ventures together.

Figure 1a (top diagram overleaf) shows a previous structure in Thailand which many businesses, not only CP, used to use. It shows CP's main raw materials — chicken, prawns, pork and eggs — but they are in four separate lots of integration. For each material CP used to have different distribution channels, different sales and marketing teams; it was fragmented, it was inefficient; there was no 'brand focus' — in fact every factory had a brand. The brand was more like a tag than anything else.

Over the last 20 years, or really in the last 10 years, CP has adopted a new structure. In the lower diagram overleaf (Figure 1b) you see that all the raw material comes under one distribution centre, and one sales and marketing team. This structure has a more independent focus: it is customer focused and binds all production channels so they function coherently.

Figure 1. (a) (top) Domestic market previous structure;
(b) (below) Domestic market new structure

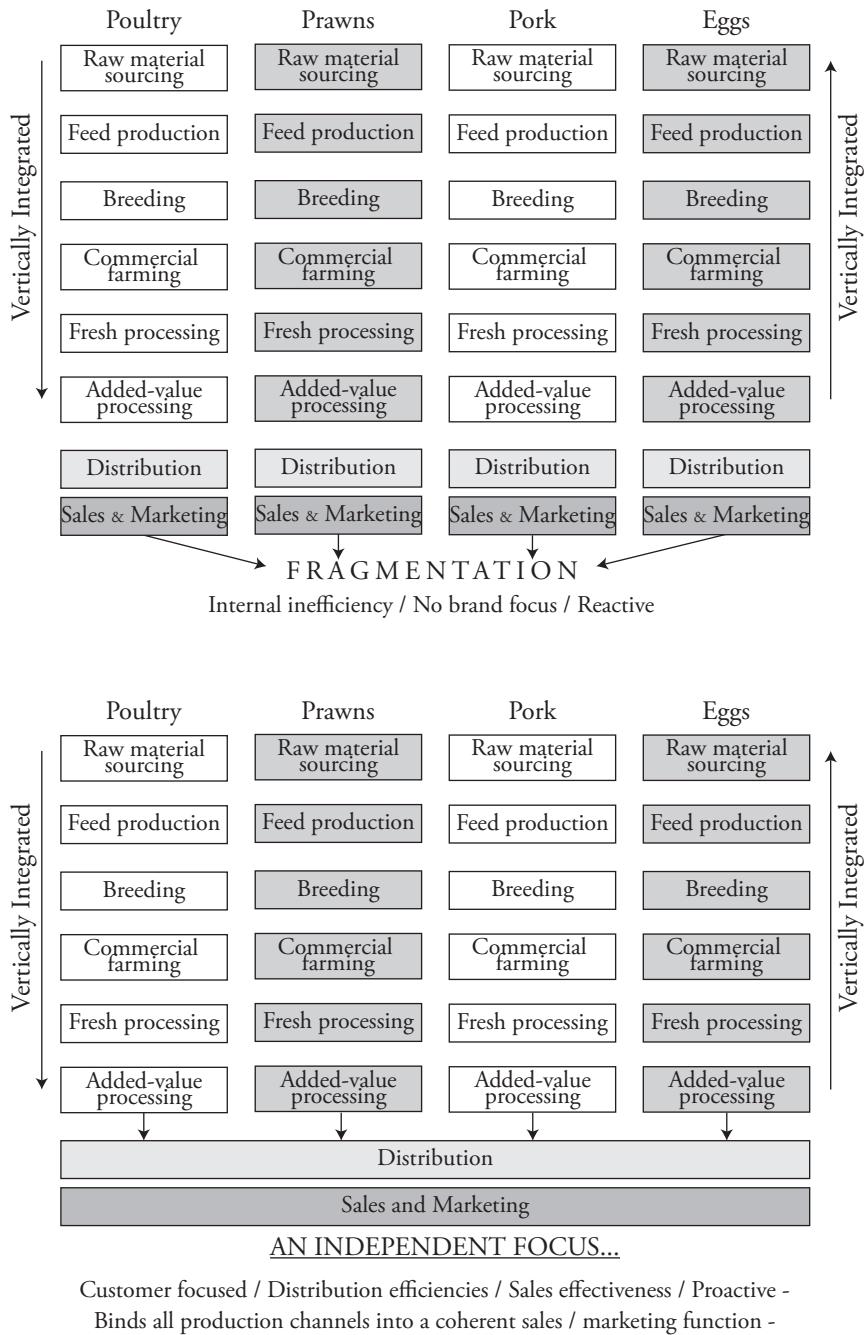
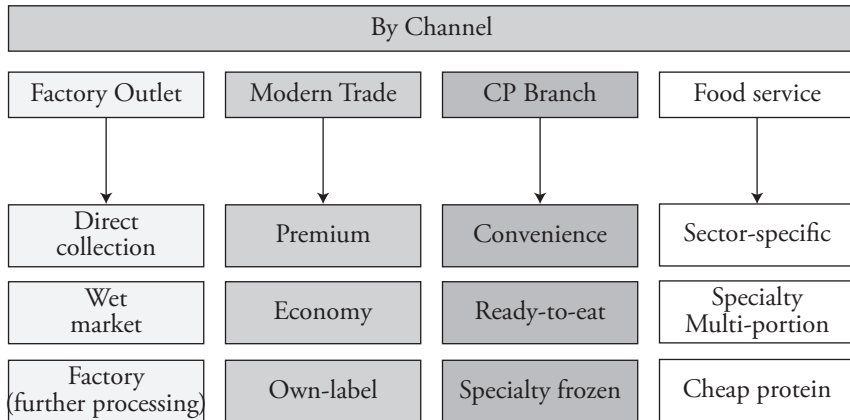


Figure 2. Branding of products by channel improves profit and customer loyalty



Focus brands by channel = Profit and customer loyalty

Figure 2 shows how CP Foods has moved away from being only an OEM manufacturer. In Thailand, many OEM manufacturers have a factory outlet, whether it is for food or for clothes, and you can buy right outside the factory. That is still an important part of our business, but we also engage in Modern trade retailing, with premium and economy products as well as our own label. The CP Branch column in the figure refers to CPF's branches, such as in Australia; and there is also CP's Food service, which is sector specific, specialising in multi-portion production and some cheap proteins.

Conclusion

CP Group has been in food production and retailing for 90 years, and has evolved and expanded hugely in that time in parallel with other developments in food marketing in Thailand. We now manage every aspect of the food journey, from farms to millions of forks, guaranteeing that CP food is a good-quality product, not just in Thailand but in other parts of Asia as well. We want to increase the share of Australian-produced proteins we include in this process.

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