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THE IMPACT OF GLOBAL AND LOCAL COMPETITIVE FACTORS ON SMALL-TO-MEDIUM ENTERPRISES IN THE AUSTRALIAN BAKING INDUSTRY

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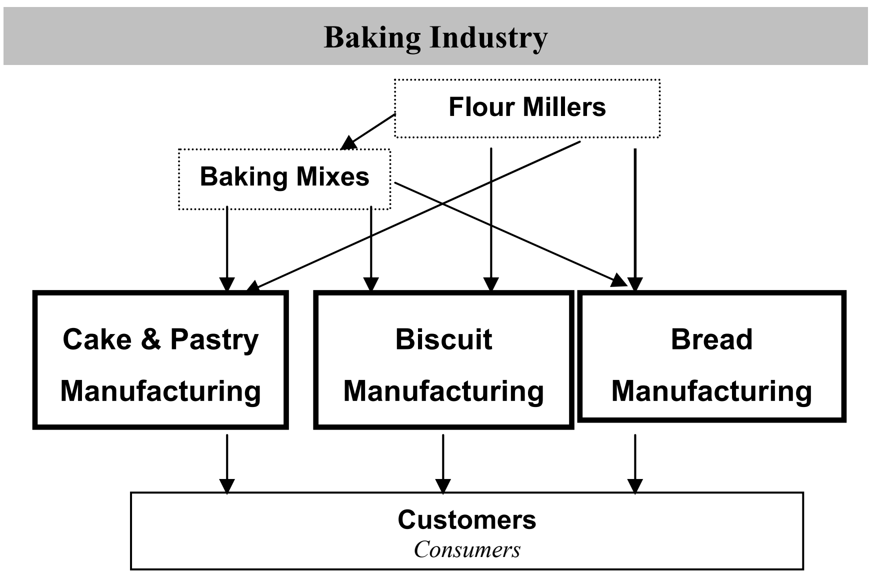
INTRODUCTION

The purpose of this paper is to examine the impact of current competitive factors affecting Australian small-to-medium enterprise (SME) bakeries and to present some key research-based survival strategies for the SMEs to adopt. Over the past few years the Australian grain industry, which underpins the baking industry, has been in the process of rapid consolidation, with varying degrees of vertical integration towards a small number of major players. These mainly multinational companies, with interests and establishments throughout Australia, are experiencing a period of intense competition for industry dominance, with impacts spreading through the remainder of the supply chain. Similar patterns have also occurred in the flour industry and related food industry and the baking industry. Australian baking SMEs have subsequently decreased significantly in number over the past decade (Department of Agriculture, Fisheries and Forestry, Australia, 2003) due to their market share being taken over by larger, more commercial enterprises. In the local scenario of baking industry SMEs producing mainly fresh bread, cakes and pastries and focussing almost solely on the domestic market, continuance of traditional practices for long-term survival is challenged.

The Australian baking industry comprises bread, cakes and pastry, and biscuit manufacturing (Department of Agriculture, Fisheries and Forestry, Australia, 2003). Baking SME companies of less than 100 employees are scattered throughout this sector, with bread baking SMEs having traditionally fewest employees. Wheat flour and commercially produced baking mix are the most common ingredients used in commercial baking (see Figure 1).

Figure 1: The Major Australian Baking Industry Supply Chain Channels (Sohal & Perry, 2004)



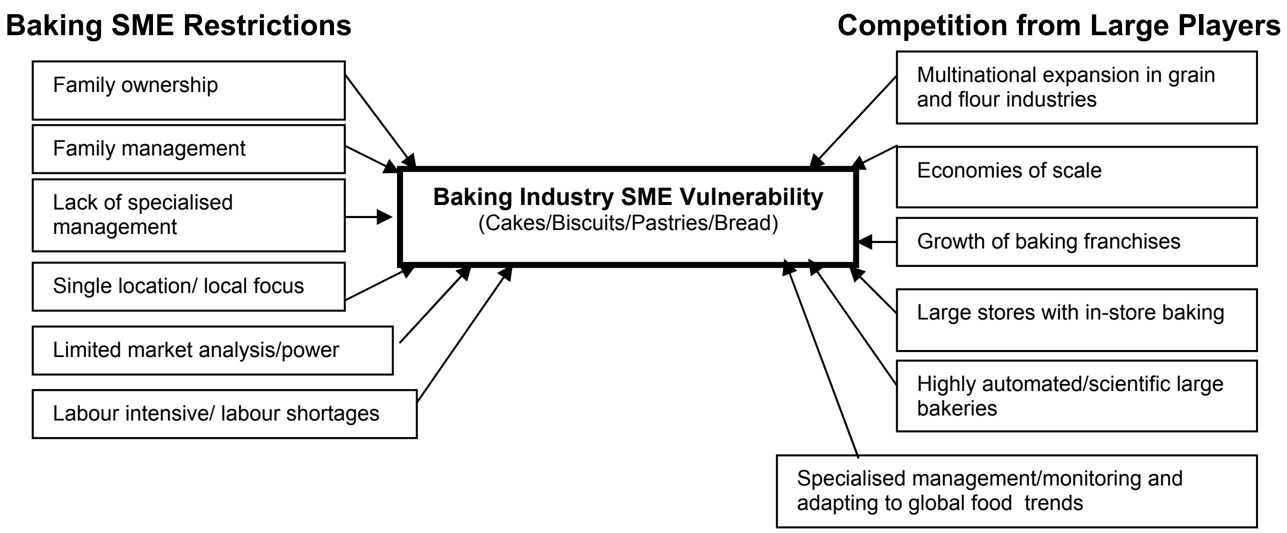
The Australian baking industry is complex and is fundamentally a mixture of high industry concentration at the corporate level with a range of highly fragmented small to medium sized enterprises in all three main product sectors. (Department of Agriculture, Fisheries and Forestry, Australia, 2003). The baking industry is particularly important to the local economy in that it supplies a high proportion of domestic bread demand. Due to the highly perishable nature of the typically soft Australian bread that is sold to a relatively large local customer base and the distance of Australia from bread-consuming countries, most bread-based trade is focussed on the domestic market, rather than on export. This is also the case, to a lesser degree, with cakes and pastries. Biscuit baking, as the least perishable baking product category, has a small amount of export trade (Food Victoria, 2004).

The particular research issues addressed in this paper concern firstly the impact of global and local industry trends on Australain baking SMEs and secondly key survival strategies that the baking SMEs need to implement. The ensuing sections examine current literature findings on the impact of global trends and domestic market factors on Australian SME bakery competitiveness in the context of large baking company expansion, discuss the empirical findings on factors affecting the Australian baking industry and SME's in particular (Sohal & Perry, 2004) and present a model providing baking SME survival strategies from the cumulative findings.

LITERATURE REVIEW

Global trends affecting the Australian baking industry include multinational expansion in the cereal and flour industry, moves towards healthy food, imports of substitute and complementary packaged products, large retail stores having in-store baking facilities, franchises taking over traditional small baker's role and supply chain issues such as reliability of supply and quality ingredients (Sohal & Perry, 2004). Globalisation has clearly impacted on the Australian baking industry, with multinational expansion and supply chain alliance positioning towards increased vertical integration and greater market consolidation, in a core group of major players. For these large players supplying major retail and fast-food outlets, imperative competitive requirements include: the application of scientific methods, strict standards with little deviation, advanced manufacturing technologies and increased automation (refer to Figure 2). Labour requirements are being continually reduced as a consequence of increased reliance on automated processes, yet at the same time there is a need by small bakeries for more skilled labour willing to work night shifts. The baking SMEs reflect the multinational-influenced national scenario whereby the conditions and context of business have changed out of all proportion (Alam, Brown & Johnston, 2003). As with the bakers, small and medium enterprises in Australia are seriously threatened by processes of structural change and intensifying competition. There are five principal reasons for their vulnerability (see Figure 2). These are: firstly that ownership of small businesses is restricted to a small number of individuals who are often related by ties of friendship or family; secondly that small businesses are often managed by owners, or part-owners, rather than by professional managers; thirdly that small businesses have rudimentary management structures, with few specialised management functions; fourthly that most firms operate in one location only; and fifthly that they tend to have limited market power (Productivity Commission, 1999).

Figure 2: Factors Contributing to Vulnerability of Baking Industry SMEs



These firms tend to be less aware of environmental externalities and of legislation that affects their activities. As a result of these features regional exporting firms find it difficult to internationalise their business. The overall Australian SME findings (Alam & Porter, 2003) are similarly reflected in the issues and trends found within the baking industry sectors in the cereal products supply chain (Sohal & Perry, 2004) and include: the prevalence of large competitor companies, labour shortages, a changing consumer demand for healthier foods and government legislation concerning cleanliness, food safety and Occupational Health and Safety (OHS) that in turn require plant upgrading and associated prohibitive expense.

The literature on SMEs provides further insights on the competitive adjustment process for baking SMEs. Key competitive themes include: the entry mode decision (Anderson & Gatignon, 1986); alliances or long-term contracting (Hennart & Park, 1993); eclectic business arrangements (Dunning 1980); leveraging on their capabilities (Nicholson & Maitland, 1998); and knowledge and economies of scope (Hennart & Park, 1993 and Welch & Welch 1996). The business entry-mode decision stands at the centre of SME sustainability. Anderson & Gatignon (1986) suggested that the choice of particular mode of entry was related to the degree of control available and the costs of the particular resources involved that were in turn connected with risks and uncertainty. The product-diversification-based approach explains how business can improve performance by pursuing different modes of market entry for geographical dispersion. Businesses need to have intangible assets such as technological know-how, brand names, economies of scope, understanding of investment opportunities and lower factor costs to ensure high level of profitability.

Small to medium businesses do not always need to pursue the traditional internationalisation approach to compete internationally. Hennart (1991) suggested that internationalisation could be widened by incorporating a range of intermediate forms of involvement such as alliances and long-term contracting. Dunning's (1980) 'Eclectic Theory' explains how ownership, location and internalisation processes might play a critical role in business success. SMEs should have competencies in terms of understanding the changing consumer behaviour and market information so that they might acquire transaction specific tangible and intangible assets. Markets sometimes fail to correctly value firm specific advantages of businesses. In that circumstance businesses could use organisational capability to go international to appropriate the benefits from firm specific tangible and intangible assets either through licensing, franchising or strategic alliances (Nicholson & Maitland, 1998). Knowledge, experience, ability to use economies of scope and location are significant factors for businesses choosing different market entry choices and forms (Hennart & Park 1993 and Welch & Welch, 1996). As experience and knowledge increase, culturally distant markets may become attractive to small business (Fillis, 2004). Wider market specific knowledge can help businesses to skip the sequential process of stages of business cycle (Millington & Bayliss, 1990).

According to the Productivity Commission (2002) SMEs generally are faced with pressures to reduce production costs, increase productivity and become more knowledge-intensive. Reorganising work processes into effective value creating operations can help businesses to streamline operations, shorten lead-time, lower costs and raise quality (Hyer & Wemmerlöv, 2002). Survival of small and medium bakeries depends on how they as value adding units engage in a series of transformation functions in a cost effective way. Internal capabilities can be used as factors to reduce transaction costs. It is important in a 'knowledge-intensive and alliance-based' global economy as the market itself can not undertake the transformation functions (Dunning, 2003).

Porter's (1998) theory of competitive advantage suggested that location factor conditions can provide competitive edge to businesses. Peteraf (1993) further stated that a resource-based approach provides an analytical framework to examine business capability because it focuses on firms competing on the basis of capabilities and resources. Nicholson & Maitland (1998) suggested how capabilities could be created in a competitive external environment and used as a platform for future growth. The literature hence strongly suggests that building and leveraging firm-specific capability may assist baking SMEs to discover new market segments, establish collaborative partnerships with large competitors and use various location specific factor conditions to their advantage. Industry association and government experts have also suggested that learning through other examples or case studies of SME successes in globally oriented or new business arrangements can facilitate similar business forays.

RESEARCH METHOD

The baking SME findings presented in this paper are drawn from a wider study into the status of supply chain networks and practices in Australian cereal products industry supply chain (Sohal & Perry, 2004). The data collection process of the cereal products supply chain study entailed discussions with industry leaders, site observations and company interviews augmented by secondary-source industry statistics, industry and government publications, collations of historical data, and industry and academic papers. Assisted by numerous Victorian government representatives, industry organisations and industry players, the researchers examined the various Victorian cereal food products supply chains through a range of relevant contexts. These included inter-company relationships, logistical effectiveness and efficiencies, manufacturing factors, export challenges, sector issues, infrastructure issues and, importantly, supply chain success factors.

Interviews were held with senior managers across the supply chain from February to July 2003. The managers interviewed represented the sectors of bread (small and large-scale), flour, baking mix, biscuits, cakes, pastry, stockfeed, pasta and snack-food manufacturing. The grains processed by the companies included wheat (soft and hard varieties), oats, barley, maize, rye, ancient grains and organic grains. Thirty-five industry-wide interviews were conducted, 15 of which were in-depth, through semi-structured questions aiming to ascertain the state of the operating business environment, the competitiveness of current practices, inter-company relationships and obstacles to be overcome. To comply with the interviewees' requests for confidentiality of information aggregate findings only are presented. Qualitative data was collated and interview transcripts were entered into NVivo2 (a computer software package that enables qualitative analysis) to assist with categorisation of data and data analysis.

FINDINGS

It is clear from the cereal products study that there has been a marked decrease in the number of small baking operations within the current competitive environment of national franchise expansion and supermarket in-house baking. The small independent local bakery has all but disappeared. There has, however, been a growth in boutique bread baking with new markets developing in specialty and exotic breads as well as health associated bread products. The boutique product varies considerably because of the variability in cereal ingredients from small-scale niche-product farmers located in a growing region.

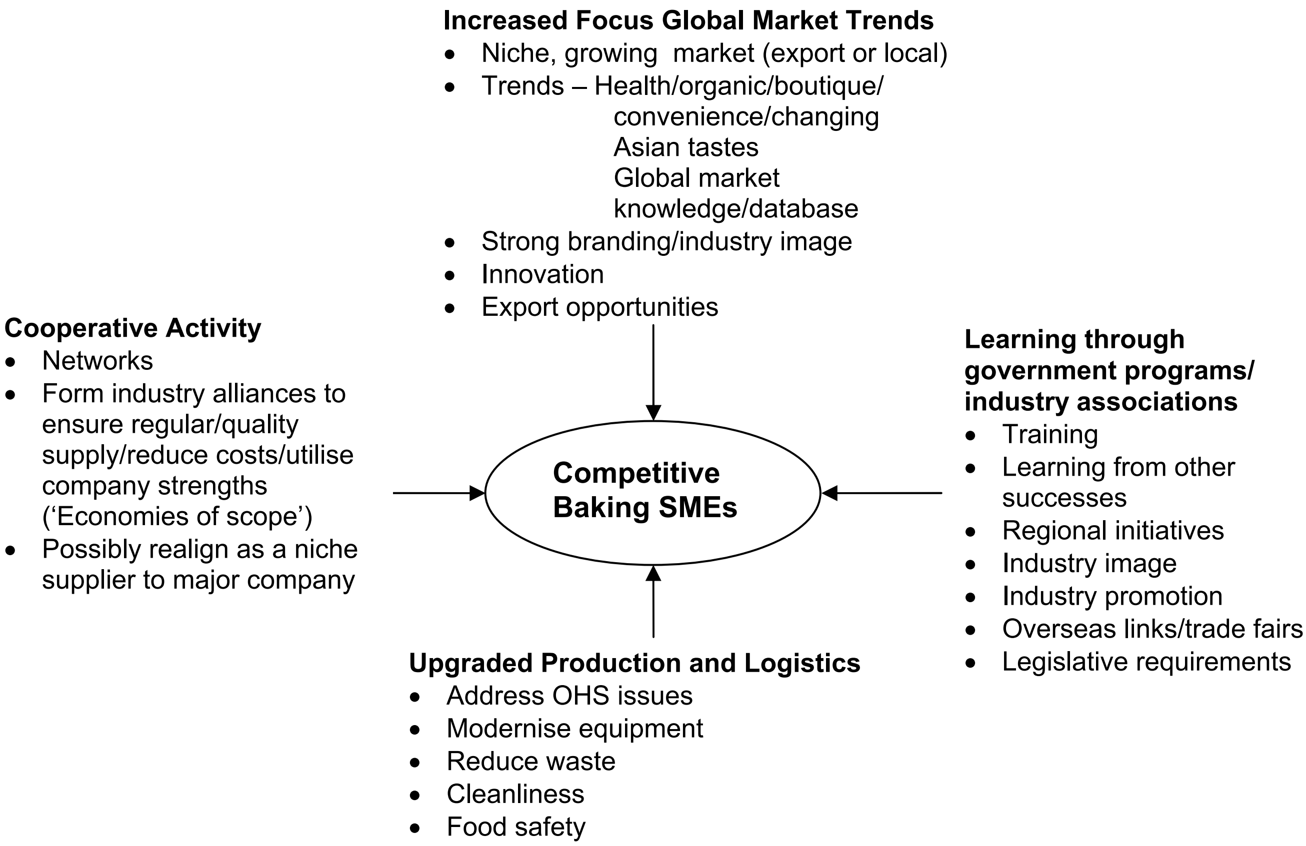
SME bakers interviewed in the cereal products supply chain study pointed out a number of issues adversely affecting the competitiveness of their enterprises. For example, some specific concerns raised by the SME bread bakers included: the sector being dominated by two large highly automated companies that were in turn closely linked to the two major supermarkets and intense competition from national baking franchises and supermarket in-store baking for domestic market share; job losses in traditional small bakeries; difficulties in attracting young staff for baking work and hours with shifts tending to start after midnight; the labour intensity and comparatively low level of value-added per employee in baking industry compared to flour milling and cereal food manufacturing; expensive freight costs of non-local ingredients; a shift in consumer market to more healthy and wholesome breads; and difficulties in attracting and recruiting skilled workers. A cake baker reported a need for increased food-handling cleanliness throughout the small baking establishments and greater networking to improve market intelligence; and a biscuit baker reported that the demand for biscuits was decreasing due to the consumption trend toward healthier foods.

The biscuit maker also stated that much of the equipment in the plant was outmoded but the cost of upgrading was prohibitive.

From an overview of the baking industry findings and the related SME literature, it is evident that in order for Australian baking industry SMEs to survive and thrive, they need generally to implement four sets of strategic behaviours. The first strategic behaviour is to develop a broader global market perspective (Alam, Brown & Johnston, 2003; Hennart & Park, 1993; Millington & Bayliss, 1990; and Welch & Welch, 1996), the second is to participate in cooperative alliances (Boekholt & Thuriaux, 1999), the third is to become more involved in government and industry support programs (Anderson & Svensson, 1994) and the fourth is to invest in upgrading production and logistics sytems (Hyer & Wemmerlöv, 2002) (see Figure 3 for a model of the range of identified strategic competitive requirements).

Concerning cooperative activity, thriving SMEs are tending to develop strategic alliances with large competing firms to survive and are also innovating through adding features to suit new niche markets. Small to medium businesses do not always need to pursue the traditional internationalisation approach to compete internationally. Hennart (1991) purported that internationalisation could be widened by incorporating a range of intermediate forms of involvement such as alliances and long-term contracting.

Figure 3: Survival Strategies for Australian Baking SMEs



In terms of SME involvement in government/industry support programs, networking, innovation and industry partnerships have been a part of government and industry initiatives to reform the Australian economy since the 1980s. The policy model adopted in Australia has primarily been aimed at improving the competitiveness of SMEs through programs designed to increase collaboration between firms in a variety of business functions such as logistics, market research, quality management, distribution and exchange of know how (Boekholt & Thuriaux, 1999).

Anderson & Svensson (1994) argued that firms with organisation and technological skills were better positioned to pursue various entry modes to expand business opportunities home and abroad.

CONCLUSIONS

The research findings clearly indicate that small bakeries will need to enhance their market knowledge and range of innovative developments, such as catering to niche markets, in order to pursue market penetration. There is a need to for small baking companies to craft alternative strategies to reposition themselves in the increasing international, integrating market where new knowledge, service quality differentiated products and improved labour productivity can provide a competitive edge for their survival. With a mature domestic industry the need to grow exports is increasing. In the light of increasing domestic market share being captured by the major baking companies, the survival of Australian baking industry SMEs will require concerted company and sector learning, networking, upgrading and interaction to lift its image and adapt to competitive challenges.

Company survival will primarily require the adoption of a global market focus, whereby even changing demands in the domestic scene are viewed within a wider context informed by global market knowledge. It will also require the baking SMEs to engage more in industry networking and fluid alliances for mutual support, becoming more active participants in government support programs, industry associations and training programs, and will further require ongoing maintenance of high production standards. Due to competition from franchises and supermarket in-store bakeries and changing international food trends such as catering to health requirements, a shift in SME bakery thinking is called for, away from supplying traditional products in a declining market to exploring how to become part of the bigger, globally-influenced trading scenario.

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