

Are growers getting a fair return?



BY BRYN EDWARDS
BUILDING BUSINESS
CAPABILITY PROJECT
LEAD, VEGETABLESWA

Are you getting a fair return? This is a question so often raised by growers and discussed at length, with many differing views and perspectives.

In this article, vegetablesWA building business capability project lead, Bryn Edwards, looked at this often-contentious question and using publicly available data, provides a data-driven analysis and commentary on the return on investment to vegetable growers.

The driver behind this analysis is to increase the understanding of the market dynamics that growers operate in and, most importantly, taking steps towards addressing the perceived imbalance that exists in this environment.

The analysis is specific to WA and covers 15 vegetable lines.

What imbalance?

When observing the environment of the vegetable industry, it is generally marked with increasing complexity, competition and a rapid pace of execution and change.

Over time, suppliers, supermarket chains, market agents and financial institutions have all advanced their business management practices, adopted supportive technologies, and have access to increasing levels of detailed information and data that is too often not matched by the grower.

This places the majority of individual horticulture business owners at a significant disadvantage.

This analysis and commentary were undertaken to introduce growers, across the vegetable industry, to sources of data and metrics that can begin to support them to make better quality, data-driven profitability decisions.

Understanding the sources and analysis

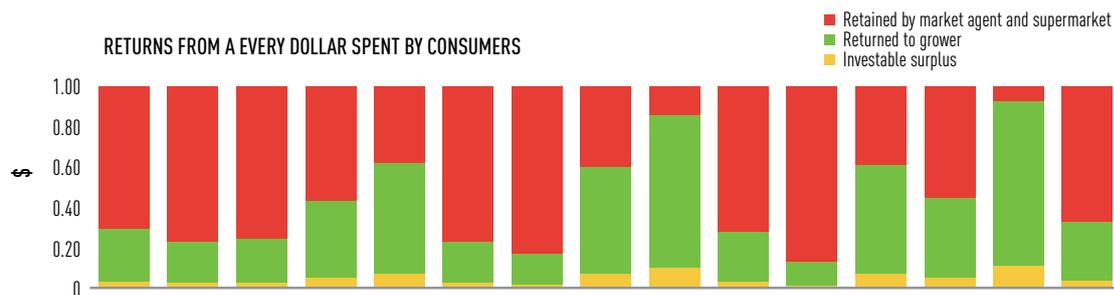
The analysis draws on three data sources:

- 1 The Harvest To Home website, funded by Hort Innovation, that features the Nielsen Homescan data that provides consumer purchasing behaviour.
- 2 The Market West pricing reports that are available on their website.
- 3 The three-year averages produced from the 2017–20 Vegetables Financial and Production Benchmarking Project.

The analysis is specific to Western Australia (WA) and covers 15 vegetable lines (representing 68 per cent of WA production) during FY2019–20.

The Homescan data provides the total annual spend, and the total annual volume purchased per WA household, from supermarket chains.





	Beetroot	Broccoli	Cabbage	Capsicums	Carrots	Cauliflower	Celery	Cucumbers	Eggfruit	Leeks	Lettuce	Onions	Pumpkin	Sweet potato	Zucchini	
Annual household purchases (\$)	10.61	38.60	12.12	38.82	19.11	23.33	17.13	35.75	10.12	8.55	24.62	25.26	20.74	26.70	16.64	
Annual household purchases (kg)	1.7	6.5	3.6	5.4	14.1	2.9	2.9	8.7	3.5	1.2	3.2	13.2	7.9	11.7	3.3	
Average consumer (\$/kg)	6.24	5.94	3.37	7.19	1.36	8.04	5.91	4.11	2.89	7.13	7.69	1.91	2.63	2.28	5.04	
Average market (\$/kg)	1.87	1.38	0.84	3.14	0.85	1.86	1.03	2.49	2.49	2.00	1.03	1.18	1.18	2.13	1.67	
Return from \$1 consumer spend to grower (\$)	Returned to grower	0.30	0.23	0.25	0.44	0.63	0.23	0.17	0.61	0.86	0.28	0.13	0.62	0.45	0.93	0.33
	Operating costs	0.22	0.17	0.18	0.31	0.45	0.17	0.13	0.44	0.62	0.20	0.10	0.44	0.32	0.67	0.24
	Operating profit	0.08	0.07	0.07	0.12	0.18	0.06	0.05	0.17	0.24	0.08	0.04	0.17	0.13	0.26	0.09
	Investable surplus	0.04	0.03	0.03	0.05	0.08	0.03	0.02	0.07	0.10	0.03	0.02	0.07	0.05	0.11	0.04

FIGURE 1. PRICE ANALYSIS SUMMARY FOR THE FINANCIAL YEAR 2019–20.

From this, the average price per kilogram for each vegetable line, paid by the consumer for the FY2019–20, can easily be calculated and is presented in Figure 1.

The Market West website provides the average market price per vegetable, for each unit of sale, during each month of FY2019–20 (it should be noted that this data is more reliable since the automation of data collection).

It takes some sorting and calculating but, with focused analysis, the average market price per kilogram (kg) across FY2019–20 can be calculated and is present in Figure 1.

Taking the two average prices per kg (consumer and market) for each vegetable line — what quickly emerges is the level of return that the grower gets from every \$1 spent by the consumer and the level that is retained elsewhere (e.g. market agents, supermarkets).

Taking a step further and applying the vegetablesWA financial benchmarked three-year averages — particularly in relation to Operating Efficiency¹ — the analysis revealed the amount retained by the grower from the \$1 consumer spend, how much typically is spent on operating costs, the level of operating profit and investible surplus.

The useful way to take this information on board is to look at the trends and the bigger picture, in relation to the overall question of fair returns, rather than hanging on the specific detail of potential profitability of one specific vegetable line over another.

Key observations

- For 10 of the 15 vegetable lines, less than 50c spent by the consumer is returned to the grower.
- For 13 of the 15 vegetable lines, the grower retains less than 10c in terms of investible income from every \$1 spent by the consumer.

Final reflections

Having taken the time to share the sources and the analysis above, it is now a straightforward task for any grower to calculate their own level of return and investible surplus, specific to their own business during FY 2019–20, in relation to the amount spent by the consumer.

Whether you choose to go that step further (which is recommended) or stay with the analysis in this article, hopefully answering the question ‘Am I getting a fair return?’ is becoming clearer.

If the answers is no, the next question is: What can be done, both individually and collectively, to address this?

For 10 of the 15 vegetable lines, <50c spent by the consumer is returned to the grower.



MORE INFORMATION ►

Contact vegetablesWA building business capability project lead, Bryn Edwards on 0417 409 821 or bryn.edwards@vegetableswa.com.au

For vegetablesWA benchmarking data and information, reports, videos and presentations, visit vegetableswa.com.au/benchmarking/



¹ Operating efficiency = operating costs divided by vegetable income