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Supermarket power, own-labels, and manufacturer counterstrategies: international relations of cooperation and competition in the fruit canning industry

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Abstract Growing supermarket dominance and the expansion of own-label market share in Australia has put considerable pressure on agri-food manufacturers, and the recent movement of a number of manufacturing operations off-shore has attracted widespread attention. This paper examines the pursuit of an international manufacturing base by SPC Ardmona, one of Australia's major fruit and vegetable processors, with a focus on strategic alliances formed with Siam Foods in Thailand and Rhodes Food Group in South Africa/Swaziland. Strategic horizontal alliances have become increasingly important for manufacturers seeking to counter retailer dominance, yet have received little attention in the agri-food literature. The two alliances examined in this paper illustrate the profound importance of prevailing societal and institutional environments in which production networks 'touch-down', and their influence on firm-level dynamics of trust, motivation, corporate values, and strategic objectives. Horizontal alliances can offer a promising alternative to cut-throat competition and a 'race- to-the-bottom' between agri-food manufacturers. However, with own-label sourcing strategies deepening competition between geographically-

disparate manufacturers, identifying compatible alliance partners is likely to become an increasingly greater challenge.

Keywords Agri-food · Supermarket · Own-label · Food manufacturing · Strategic alliance · Canned fruit · Competition

Introduction

When Galbraith (1952) proposed the notion of 'countervailing power' in his book *American Capitalism: The Concept of Countervailing Power*, large multinational manufacturers dominated agri-food systems across the industrialised world. Galbraith argued that the emergence of large grocery retail chains in the United States was a welcome and legitimate answer to the market power of these manufacturers, and suggested that the ability for retailers to play manufacturers off against one another would ultimately benefit consumers through lower retail prices. In the six decades since *American Capitalism* was published, the balance of power has tipped decidedly in favour of the large supermarket chains, and consumers have indeed benefited from their capacity to drive down retail food prices; yet, the exercise of excessive supermarket power over their suppliers is now the focus of considerable attention and concern. As Galbraith (1993) himself points out in the introductory chapter to a 1993 reprint of *American capitalism*, "much has, indeed, changed since the 1950s" (p. ix).

An Australian supermarket sector did not emerge until the 1960s, some years behind its counterparts in the United States and United Kingdom. However, it has expanded and consolidated rapidly over its short history to become one of

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the most concentrated and saturated grocery retail sectors in the world (ACCC 2008).

A key mechanism through which supermarkets are able to exercise market power is through their own-label brands which compete directly with national brands and generate greater returns for the retailer (Burch and Goss 1999). Own-labels were again slow to develop in Australia, hampered initially by inferior quality and poor public perceptions. However, over the last decade, Coles and Woolworths have invested significantly in their own-label ranges, aggressively pursuing international sourcing opportunities which have enabled them to compete with national brands on both quality and price. The rapid growth in own-label market share in Australia over the last decade has coincided with a surge in processed food imports. This has been particularly pronounced in the processed fruits and vegetables category, with the import value of processed fruits and vegetables rising by AUD\$119 million in the year between 2009–2010 and 2010–2011 (DAFF 2011). Overall, Australia remains a net food exporter; however, a trade deficit in processed foods has been expanding for over a decade and the pressure on domestic food manufacturers has become increasingly apparent. Two of Australia's major fruit and vegetable processors recently announced the closure of manufacturing facilities and an intention to shift production off-shore to lower-cost locations. Heinz Australia closed the doors on Golden Circle's beetroot processing operation in Northgate, Queensland in May 2011 and its tomato-processing plant in Gigarre, Northern Victoria in January 2012, moving production of these goods to New Zealand. Coca Cola Amatil-owned SPC Ardmona announced that it intended to close its Moroopna fruit processing plant in the Goulburn Valley in August 2011.

Concerns over the future viability of Australia's agri-food production and processing sectors in the face of supermarket control and escalating competitive pressures in domestic and export markets are becoming increasingly vocal, and the current Australian Government has scrambled to respond. A Senate Select Committee Inquiry was held into the competitiveness and viability of Australia's food processing sector in early 2012, with the final report describing the challenges facing Australian agri-food manufacturers as a "perfect storm", and calling for a "multifaceted response, from both industry and Government" to promote Australian food and grocery products overseas (Commonwealth of Australia 2012, p. 187). In June 2012, the Victorian State Government announced a \$4.4million 'sustainability' contribution to a 3-year capital upgrade project aimed at improving efficiencies, and bolstering innovation and new product development at SPC Ardmona's Moroopna plant (saving it from closure) (State Government of Victoria 2012). Yet, the Australian Government's steadfast commitment to providing a regulatory environment that

facilitates international competitiveness is undermined by the extent of market power held by Australia's two major supermarket chains, Coles and Woolworths, over their suppliers. In August 2011, the Chief Financial Officer of Heinz Australia described the country as an 'inhospitable environment' for grocery manufacturers (Best 2011):

This is, as many of our peers have talked about, it is a very difficult environment. The reality is, with two key customers, there has become, as I mentioned, an inhospitable environment for grocery manufacturers....We've seen our margins squeezed as the pressure comes on.

This paper examines the development of an international manufacturing base by SPC Ardmona, Australia's sole remaining deciduous fruit canner, since 1999. Over the last decade, SPC Ardmona has pursued manufacturing alliances with canneries in Thailand, Spain, China, and South Africa: locations which have offered consistency of supply, lower production costs, and strategic trade advantages into international markets. The paper aims to contribute unique insights into the drivers, nature, and implications of this strategy for SPC Ardmona as well as its international partners, with a focus on two specific alliances with Siam Foods in Thailand and Rhodes Food Group in South Africa/Swaziland. The paper draws on findings from a wider global value chain/production network study conducted by the authors between July 2009 and April 2010 on the Australian, Thai, and South Africa canned fruit industries. The research involved extensive field work in all three countries, including semi-structured interviews with 78 canning fruit growers, cannery management, and industry and Government representatives. Interview data and field observations were supplemented with extensive analysis of industry and government reports on the industry.

The paper is organised into four main sections. Following a brief introduction to the strategic inter-firm alliance as a potential manufacturer counterstrategy, the history of SPC Ardmona and its evolution from grower-cooperative to transnational corporation is examined. The international alliance-building strategy pursued by this firm since 1999 is then outlined, with a focus on the relationships developed with Siam Foods in Thailand and Rhodes Food Group in South Africa/Swaziland. The paper concludes by reflecting on the insights revealed by this network into contemporary agri-food restructuring.

Strategic inter-firm alliances as a manufacturer counterstrategy

As a hybrid, or intermediate, organisational form along the 'market-hierarchy continuum' (Chaddad and Rodriquez-

Alcala 2010), a strategic alliance can broadly be defined as “any form of cooperation or coordination between two or more independent entities—not limited by ownership, control, or equity investments—with some common strategic purpose” (Mulroney and Chaddad 2005, p. 19). Strategic alliances can take a diversity of forms (from equity-based joint ventures to more informal cooperative arrangements), and can extend either vertically (i.e. between a buyer and a supplier in a chain) or horizontally (i.e. either between industry competitors, or potential competitors, at the same level in the supply chain, or across industries). However, empirical research into this area within the agri-food literature has been dominated by a focus on vertical buyer–supplier relations (Neven and Reardon 2002), with the now almost universal use of vertical strategic alliances by major international grocery retailers seeking to minimise transaction costs and maximise value-add through their supply chains studied extensively in value chain research drawing heavily on transaction cost and supply chain management theories (Cook et al. 2008; Chaddad and Rodriguez-Alcala 2010). The role of horizontal strategic alliances as increasingly important counterstrategies for agri-food manufacturers has received considerably less empirical attention in the literature (Neven and Reardon 2002; Olsen et al. 2008). The present research is therefore intended to contribute to this research gap.

Evolution of SPC Ardmona: from grower-cooperative to transnational corporation

SPC Ardmona’s origins lie in the State-sponsored establishment of a deciduous fruit growing industry in South-Eastern Australia in the early decades of the twentieth Century, facilitated by significant investments in irrigation and ‘closer’ settlement schemes in Victoria’s Goulburn Valley, the Murrumbidgee Irrigation Area in New South Wales, and the Riverland in South Australia aimed at promoting agricultural expansion and settlement of regional Australia. Supported by Government grants, a number of grower-cooperatives in these regions established canneries to supply the British market, where Australian canned fruits were in high demand and received privileged access. Successive Australian Governments supported the expansion and profitability of these canneries until the 1980’s through market entitlement mechanisms, minimum price supports in both domestic and international markets, high duties on imports, collective bargaining, State-sponsored marketing boards, and, at times, direct financial assistance (BAE 1986).

However, the canneries came up against their first major challenge when Britain joined the European Economic

Community (EEC) in 1973. The EEC’s Common Agricultural Policy (CAP) imposed high tariffs on imported canned fruits, heavily subsidised domestic fruit production, and established favourable trading conditions between member countries. The essential loss of the British market came at a time when consumer demand for canned fruits in Australia was stagnating, protectionist agricultural and manufacturing policy supports in Australia were starting to be dismantled, and lower-cost fruit producers and processors were expanding rapidly in South America and South-East Asia. The confluence of these forces triggered a prolonged period of restructuring in the Australian deciduous fruit canning industry. In the early 1970’s, five grower-cooperative deciduous fruit canneries were in operation: the Shepparton Preserving Company (established 1918), the Ardmona Fruit Producers Cooperative Company (established 1920), and the Kyabram Preserving Company (established 1922) in the Goulburn Valley of Victoria; Letona Cooperative Limited in the Murrumbidgee Irrigation Area of New South Wales (established 1914); and the Riverland Fruit Cooperative Limited in Berri, South Australia (established 1923). By 1994, just two deciduous fruit canneries remained in operation: SPC and Ardmona, and the merger of these two canneries in 2002 (forming SPC Ardmona Limited) created an essential monopsony in the processing of deciduous canning fruits in Australia.¹

Three years later, the newly-formed company was acquired by Coca Cola Amatil (CCA), the Australian-based bottler and distributor for the Coca Cola Company. Coca Cola Amatil’s acquisition of SPC Ardmona in 2005 was consistent with a wider trend in the Australian fruit and vegetable processing industry towards ownership by Australian subsidiaries of major multinationals (McCain Foods Australia and Simplot Australia are two other notable examples), and was widely seen as a strategic drive by CCA into a ‘healthier’ food and beverage portfolio at a time of stagnant growth in, and increasingly negative publicity over its core business of carbonated soft drinks. With the SPC Ardmona acquisition, Coca Cola Amatil acquired the rights to produce fruit juices and fruit-based beverages under SPC Ardmona’s Goulburn Valley brand, and indicated its intent to significantly expand SPC Ardmona’s fruit-based ready-to-eat range (Coca Cola Amatil 2004). Between the 1970s and early 2000s, SPC and Ardmona had together developed three of the most significant technological innovations in the global fruit canning industry over the last century: the technique to preserve fruit in juice as opposed to sugar syrup (developed

¹ The only other buyer of canning deciduous fruit in Australia is Golden Circle which processes very small volumes of deciduous fruits into mixed fruit salad products at its cannery in Northgate, Queensland. However, Golden Circle’s core business is in pineapple and beetroot processing.

at Ardmona in the 1970's), the technology to seal fruits in small, single-serve plastic cups as opposed to cans (developed in the 1990s, also at Ardmona), and to preserve fruits in resealable, transparent plastic fridge-packs (developed at SPC in the early 2000s). As relatively high-cost manufacturers in the global marketplace, these innovations gave the Australian canneries the critical advantage of being able to compete in the high-value market segment. However, the Coca Cola Amatil acquisition injected much needed capital into SPC Ardmona at a time when the fruit and vegetable processor was struggling with stagnant demand in its established markets. As a result SPC Ardmona has been able to pursue a renewed focus on innovation and brand development:

I think that in the categories we operate in they won't get too much development from overseas, because we'll continue to lead the category in this country, and probably in most parts of the world because we'll have the ability to invest [SPCA General Manager, Grocery]

SPC Ardmona's product and brand strategy, and its implications for consumers in particular, is explored in the other paper by Hattersley (2012) in this special issue.

While SPC Ardmona has publicly voiced a commitment to maintaining an Australian production base (Bedwell 2012), interviews with cannery management indicated that the company intends to concurrently pursue a greater operational presence internationally in the future:

We're here to see that we have a sustainable production base, or fruit base in Australia to continue to supply Australian-grown, and Australian-produced fruit. The caveat to that is that that maybe means we'll process less fruit than we have in the past, because quite clearly for us to process in Australia and sell on the global market, we aren't competitive. The reality is we probably pay the highest for our fruit anywhere in the world on a per tonne basis. And we would be a fairly efficient but high-cost producer; which is fine for Australia but more difficult when you get out of here.... So we have sites in other parts of the world where we can supply into what we would call international markets [General Manager, Grocery, SPC Ardmona]

The remainder of the paper explores the development of these international manufacturing sites.

SPC Ardmona's international manufacturing base

SPC established its first joint manufacturing venture with Siam Foods in Thailand in 1999, 3 years prior to merging

with Ardmona. From SPC's perspective, the partnership with Siam Foods offered the opportunity to sell tropical and deciduous fruit plastic snack-pack products into the North American, UK, and European markets at lower tariff-rates and at significantly lower-costs than it could achieve from its Goulburn Valley operation. However, because Siam Foods did not possess the technology or equipment to process snack-pack product lines, SPC installed its own proprietary plastic snack-pack technology into the Thai cannery and provided technical expertise and training. Over time, this relationship has gradually evolved into a strong research and development partnership, with regular face-to-face meetings between staff to exchange market intelligence and new product development ideas.

In 2004, the same year that the SPC Nature's Finest® brand was launched in the UK and European markets, the newly-formed SPC Ardmona company established a second joint venture with Columbia Foods in Caravaca, Spain. Complementing the Siam Foods alliance, SPC Ardmona installed its own multi-serve 'fridge-pack' fruit processing technology into the Columbia Foods factory. Again, SPC Ardmona brought with it pre-existing relationships with northern hemisphere supermarket chains and provided the technical expertise and training, while Columbia Foods provided the cannery infrastructure and a local supply of lower-cost fruit and labour.

Three years later, SPC Ardmona established supplier agreements with Chic Foods in China (a major supplier of multinational food brands including Del Monte, McDonalds, and Heinz Watties) and Rhodes Food Group (RFG) in South Africa. In a departure from the Siam and Columbia arrangements, both Chic Foods and RFG had pre-existing capabilities in plastic snack-pack production. Therefore, SPC Ardmona established contractual agreements with the South African and Chinese canneries for the supply of certain, labour-intensive product lines (such as dual-layered fruit-in-jellies in plastic cups) into the Australian and European markets. While SPC Ardmona eventually managed to negotiate an exclusive supplier agreement into the Australian market with Chic Foods, its relationship with Rhodes Food Group never developed further than an arms-length, ongoing contract for canned pineapple into the UK and European markets under the SPC 'Natures Finest'® label. The South African cannery had held own-label supply contracts with Australian supermarkets since 2004, when severe frost damaged the majority of the canning peach and apricot harvest in the Goulburn Valley, and prompted Coles and Woolworths to diversify their supply bases.

SPC Ardmona's former Managing Director stressed that Rhodes' relationships with the Australian retailers did not present a problem:

I had this discussion with [the CEO of RFG], when he asked me if their relationship with Woolworths was a problem, my answer was 'if it wasn't you, it would be someone else. So it doesn't worry me'.

However, representatives from both canneries demonstrated some reluctance to discuss the relationship, and SPC Ardmona's Managing Director conceded that the relationship was essentially competitive:

Commercially it's interesting, because we're competitors but we work together. People struggle with it.

Similarly, SPC Ardmona's Technology and Innovation Manager summed up the RFG arrangement as:

We have a partnership with Rhodes but they also compete with us. It's a love-hate relationship.

And SPC Ardmona's General Manager, Grocery indicated that:

We had a strategic alliance with Rhodes Food Group. We still have, but there wasn't too much benefit in it for them, and the reality is they've got a lot of fruit coming in and they want to be able to sell it anywhere. I think for them it will be about going and getting private label contracts.

According to SPC Ardmona's former Managing Director, the company's partnerships with Siam Foods and Chic Foods are undoubtedly preferable to the arms-length arrangements with RFG and Chic Foods; however, RFG's in particular had not perceived any benefit in pursuing a deeper partnership:

[In Thailand and Spain] we own the assets, we own the lines and they're in somebody else's factory. That is a preferable arrangement, absolutely. We didn't do that with Rhodes. We've talked about putting capital in. We haven't done it to-date. Rhodes aren't keen because they're not capital constrained. It's a bit different because where we did it with Thailand and with Columbia [in Spain], they don't do the products we're doing, so we had to put the lines in. Rhodes is a bit different; they already have the capability of some of the products. The relationship with Rhodes is more of a dual dependency.

Yet, SPC Ardmona has identified a unique strategic competitive advantage in each of these four alliances. Typically, this has involved the opportunity to gain preferential trade access into key markets along with lower-production costs and a reliable fruit supply, as illustrated by this comment from the General Manager of Capital Works:

Because we can't beat 'em, we'll join 'em. So we can get the subsidies and don't have to pay the tariffs and all that sort of thing.

Canned fruits produced in Thailand receive favourable access into the United States, Japan, and China, while exports from South Africa and Swaziland receive favourable tariff rates into the EU. The South African cannery also offers high-quality production capacity in pineapple canning. Deciduous fruit products processed in the Columbia Foods operation in Spain benefit from production subsidies provided under the Common Agricultural Policy. These advantages, along with generally lower input and processing costs enabled it to manufacture new, labour-intensive convenience products more competitively:

We can't manufacture these products [fruit-in-jellies] in Australia; they are poured in double layer by hand and the labour costs would be too high. [MD, SPCA]

In the face of a challenging domestic retail environment, these international operations are a welcome contribution to the company's bottom line:

[The international operations] help put money back into the coffers.... It doesn't really help us sell any more fruit from here, but it puts a few more dollars into the overall business [Goulburn Valley Field Officer, SPC Ardmona]

Nonetheless, management staff discussed the challenges involved in setting up an international operations base:

When it's all said and done, it's very difficult going into overseas countries and knowing all their taxation requirements, and food standard requirements, what labour you can employ and all that [General Manager, Capital Works]

[L]ike anything, it's difficult to manage because each situation is unique and then a long way from our core office base [General Manager, Grocery]

Therefore, SPC Ardmona management indicated that they had sought to establish partnerships with canneries, and in countries, in which they felt comfortable working:

[Y]ou've got to work with companies that can work with you, and can do the products that you want.... And our people go over there regularly to inspect what they're doing, make sure they're doing it properly.... They still make their own products as well, that's generally what you do is pick a company that's been a reliable supplier of the market [General Manager, Capital Works]

These relationships are unusual relationships. So you've actually got to enter into them with someone you can work with. [Managing Director, SPC Ardmona]

SPC Ardmona and Siam Foods: A 'unique relationship'

Thailand's fruit canning industry has grown rapidly over its relatively short four decade history. The industry is dominated by pineapple processing, which constitutes over half of Thailand's total canned food exports: 30 % as canned pineapple segments and a further 25 % as pineapple juice. In total, Thailand produces over 40 % of the global market value of canned pineapple, making it the world's largest producer and exporter within this sector. The Thai pineapple canning industry is thus strongly export-oriented, particularly into the United States, European (particularly Germany, the Netherlands, UK, and France), Japanese, and Canadian markets including a number of Thai fruit canneries who also 'remanufacture' minimally-processed deciduous fruit products which are imported from, and re-exported back into, the USA, South Africa, Australia, and Europe (USTIC 2007).² The industry is largely based on Original Equipment Manufacture (OEM) contracts for international brands.

When the majority of Thai fruit canneries were established in the 1970s it was as small- to medium-sized, family-owned operations supplied by local, independent farmers. However many of these canneries were forced to close or consolidate and partner with national and multinational agri-food conglomerates such as Dole following the Asian financial crisis of the late 1990s and Thailand's International Monetary Fund (IMF)-supported program of structural adjustment. Siam Foods was no exception. The cannery, based in Chonburi province, is now 80 %-owned by Plantheon, the agri-business arm of Thai conglomerate TCC, a company with interests in property, industrial trading, sugar, brewing, consumer products, and insurance. As explained by one of its executives, Siam Foods has pursued an increasingly international strategy under Plantheon:

With Plantheon, Siam is becoming more international in its reach, in the future we will be sourcing our products from outside Thailand; we will source internationally. Just as we sell a mix of fruits, and so let the customer try new foods, so we will sell a mix of international products and let customer try and taste new foods.

The company has also vertically-integrated into one of the largest corporate canning fruit farming operations in Thailand, with 30 % of its total fruit intake supplied by its corporate farms in 2010. While the majority of Thai pineapple production continues to be carried out by

independent, family-owned farms, such vertical integration is becoming increasingly common in the industry as processors seek to improve fruit supply reliability.

Reliant on a highly fragmented farming base and with little brand recognition in overseas markets, Thai fruit canneries have tended to value strong business relationships. Small to medium-sized canning companies have typically formed long-term relationships with Thai trading companies or food brokers, who negotiate contracts with international buyers on their behalf. Over the last decade, however, foreign supermarkets have increasingly sought to circumvent international buyers and Thai traders to establish own-label contracts directly with Thai canning companies. While still estimated to represent less than 10 % of all supply relations in the sector, the reliable income from these contracts has proven to be a survival strategy for some canning companies, although at the cost of dislodging the canning company from familiar trade relations. Australian supermarkets, for example, are perceived to be demanding to do business with.

It was in the turbulent context of financial crisis, Thailand's integration into the global marketplace, and the emergence of new supermarket relations, that a relationship between the Australian company SPC and the Thai pineapple manufacturer Siam Foods was first established in 1999. The relationship between the two companies grew to become what one Siam representative described as:

A unique relationship...created to develop new products and to support each other in business and product development.

The joint venture partnership with SPC Ardmona is highly-valued by Siam Foods executives and strongly preferred to the 'opaque' and elongated supply chains with international buyers. Siam Foods management indicated that the strength of the relationship extended beyond a limited capacity to trade materials or technology due to the familiar social contact between the company executives:

It is a strong relationship that we have had for many years. Both companies know each other well. The executives know each other very well and share the same vision.

SPC Ardmona and Rhodes Food Group: A 'mutual-dependency'

South Africa is one of the world's largest producers of deciduous fruits and a small-to-medium-sized pineapple producer. Deciduous fruit canning is concentrated in two canneries operating in the Western Cape province: Langeberg and Ashton Pty Ltd and Rhodes Food Group (RFG). A third deciduous fruit cannery, Del Monte South

² For example, US-produced peaches are sent in large tin cans to Thailand where they are re-packaged into single-serve plastic cups and exported back to the USA.

Africa, was operating in 2009 when the field work for this study was conducted; however this was acquired by RFG in July 2010. The pineapple canning sector is concentrated in a single company within the Southern African Customs Union (SACU) which comprises South Africa, Botswana, Lesotho, Namibia and Swaziland: Swaziland Fruit Cannery (Pty) Ltd, which is 100 %-owned by Rhodes Food Group. The South African canned deciduous and pineapple fruit industries are heavily export-oriented, with approximately 85 % of canned deciduous fruit production exported (Ross 2007). The South African and Australian industries have been long-standing competitors in international markets; both are export oriented southern hemisphere producers with a similar quality emphasis and a historical focus on the UK market. Similar to the Australian situation, the South African fruit canning sector underwent a sustained period of market liberalisation, deregulation and intense rationalisation throughout the 1980s and 1990s.

While Langeberg and Ashton operates entirely out of its Western Cape factory, Rhodes Food Group's pineapple and grapefruit operations are located in Swaziland's Malkerns Valley, where it produces and processes virtually all commercially-grown pineapples in Swaziland. It also sends minimally-processed deciduous fruits in bulk from its Western Cape factory to Swaziland, where they are reprocessed and assembled into plastic fruit-in-juice and fruit-in-jelly cups. These fruit cups are then exported directly from Swaziland into Australia, the UK, and mainland Europe. As a special economic zone, products manufactured in Swaziland gain duty-free market access into Europe, which has traditionally been RFG's largest export market.

Langeberg and Ashton and RFG compete heavily in both domestic and international markets; having both established themselves as international own-label and original brand manufacturers (OBM's) in international markets, while focusing on brand growth in African markets. While historically oriented towards the UK and Western European markets, both canneries are increasingly pursuing markets in Eastern Europe, the Middle East, and sub-Saharan Africa in an attempt to reduce their traditional reliance on the UK market. Both canneries are now own-label suppliers of Australian supermarket chains and, while the Australian market represents a small proportion of their export earnings, it has become a valued market. According to the CEO of Langeberg and Ashton:

Australia out of nowhere became a huge market for us. This was probably for a few reasons: the decline in the deciduous industry there, SPC focusing on value-adding with their plastic jars, and not doing own-brands.

While RFG management indicated that they were happy to fulfill an own-brand manufacture contractual agreement

with SPC Ardmona, they saw no benefit in pursuing the relationship further and indicated that the supply agreement was contingent on there being no conflict between RFG and SPC Ardmona's strategies in the future:

[SPC Ardmona] offered the business and we can do it for them easily. It's a good contract; we don't ask too many questions.... SPC are trying to build brand presence in the UK market; this is not something we have any intention of doing so there's no conflict. However if we did ever decide to look at building the Rhodes brand in the UK, then we would have to tell them that it is no longer appropriate for us to supply for them there under their label. [Anonymous representative]

Discussion

Over a period of two decades, SPC Ardmona has transformed from a union of two grower-cooperatives producing canned foods in the Goulburn Valley for established export markets into a brand and innovation-driven firm operating a transnational manufacturing base. A 'home' base in the Goulburn Valley supplies the domestic Australian market (as well as the premium Goulburn Valley brand overseas), while an expanding international manufacturing base supplies predominantly international markets. Although both SPC and Ardmona demonstrated a strong capacity for innovation historically, this focus on innovation-driven brand growth has consolidated under the leadership of Coca Cola Amatil. As SPC Ardmona's Managing Director, Vince Pinneri, recently pointed out, "What we produce will be more consumer-centric....We're no longer a canned fruit business—those are Nanna's products—we're about new technology and product lines." (Burke 2012).

At a time when many of its counterparts are becoming specialised own-label suppliers, SPC Ardmona is opting to play the field; filling own-label contracts while pursuing an ambitious brand strategy both domestically and internationally. Own-label contracts enable the cannery to utilise excess manufacturing capacity and reduce overheads, while keeping competitor's products off the shelves; however, it is in the branded market that SPC Ardmona sees the greatest opportunity for growth. As production costs in Australia rise and with the Australian dollar remaining persistently high, a series of strategic horizontal alliances with international partners have increasingly supported SPC Ardmona's ambitions to continuously bring innovation to the market through its brands. In particular, operating within and sourcing from lower-cost locations such as Thailand and China has enabled the company to bring products to the market that it would have been able to produce competitively from within Australia.

However, establishing and maintaining an international manufacturing base from Australia is not without its challenges. The two alliances explored in this paper illustrate the profound importance of prevailing societal and institutional environments in which production networks ‘touch-down’, and their influence on firm-level dynamics of trust, motivation, corporate values, and strategic objectives. In seeking out alliances with Siam Foods and Rhodes Food Group specifically, SPC Ardmona has sought to align itself with companies that are leading fruit processors in their respective home markets, but are not actively seeking to build a brand presence in international markets. Nonetheless, as pointed out by RFG executives, the dynamics of contemporary agri-food networks are constantly shifting, and the strategic objectives and priorities of any one firm can change at any time. In addition, brand and own-label manufacturers attempting to sell into the same market(s) compete with one another, albeit indirectly, for supermarket shelf space.

In many ways, the two alliances focused on in this paper could not be more different. The joint venture between SPC Ardmona and Siam Foods was established more than a decade ago, and 5 years before the Australian supermarkets began to aggressively seek out new international suppliers for their own-label canned fruit contracts. The alliance provided Siam Foods with new technology, market channels and supply chain partnerships, while SPC Ardmona has benefited from the sharing of product development ideas, and technology and market insights, and the relationship has evolved over many years into one that is viewed from both sides as collaborative and mutually-beneficial. The two companies are comparable in size, ownership structure, and corporate strategy, and the alliance ‘sits well’ with a strong culture within the Thai fruit canning industry that favours stable, enduring business relationships over short-term gains. As such, while a newly-liberalized market framework in Thailand has opened the country’s young fruit canning sector up to the international marketplace, many canneries continue to demonstrate a resistance to direct contracts with foreign supermarket chains.

SPC Ardmona and RFG, in comparison, have long competed with each other in international markets, particularly into the UK market. Both canneries have emerged from prolonged periods of industry restructuring in their home markets driven by aggressive liberalisation agendas. While on the surface, RFG’s focus on pursuing own-label contracts rather than brand presence in international markets is comparable to that of Siam Food’s, RFG had pre-existing capabilities in plastic snack –packs, and long-standing relationships with buyers in international markets. Since 2004, Rhodes Food Group has also competed indirectly with SPC Ardmona through its own-label contracts with the Australian retailers. Yet, in spite of this, SPC Ardmona sought to establish a supply agreement with RFG because

the South African cannery could provide SPC Ardmona with preferential access into the EU market for a product (canned pineapple) that could not be produced for the same quality, at the same price, anywhere else. Thus, the relationship between SPC Ardmona and RFG can be characterised as one of simultaneous competition and cooperation; a situation referred to in the business management literature as one of ‘coopetition’ (Bengtsson and Kock 2000). However, the ‘partnership’ has never developed beyond a temporary accommodation loosely held together by a mutual business respect and recognition of the short-term opportunities it provided for both firms. It appears that, in this particular case at least, competition may have won out over cooperation, with the South African cannery not listed as an ‘international partner’ on the SPC Ardmona website as of September 2012 (SPC Ardmona 2012).

This research has sought to explore the drivers behind, and nature of, the international manufacturing strategy being pursued by one of Australia’s major agri-food manufacturers as it grapples with a climate of increasing risk, competitive pressures, and uncertainty. The paper has examined a single agri-food network at a particular point in time, and caution must be given to drawing any conclusions beyond this particular network. However, the findings shed some light on the challenges and opportunities facing food manufacturers in an era of retailer dominance. In this context, strategic international alliances, such as the joint venture forged between SPC Ardmona and Siam Foods, offer manufacturers a promising alternative to cut-throat competition and a ‘race-to-the-bottom’. However, with own-label sourcing strategies deepening competition between geographically-disparate manufacturers, identifying compatible alliance partners is likely to become an increasingly greater challenge.

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