



Hunter coal producers operate 27 rail loading points and offer 80 blends of coal. Photo: ROB HOMER

# It's time to get on track

If Australia is to reap the full benefits of the long commodities boom, it must get its supply chains working, writes **Peter Roberts**.

**B**ack in 1993 leading company chairman Nick Greiner was asked to join the boards of Australia's biggest supermarket retailers, arch-rivals Woolworths and Coles. When he bumped into Woolworths then chief executive Roger Corbett some time later Greiner realised that accepting a role with Coles might not have been the best decision he ever made.

"Roger said to me, 'how often do you hear about supply chain issues on the Coles board'," the former NSW premier told a recent Sydney conference. "In seven years we never heard about the supply chain. Corbett told me 'it is one of the only things we ever talk about'."

The rest is history, with Woolworths' focus on an area of operations that is often seen as easy or dull allowing it to outperform its competitor.

Supply chains may seem dull but while Australia rides high on a boom in demand for minerals and agricultural commodities, many believe long-term competitiveness requires a similar industry and national focus on getting the material to its destination.

"There is still a failure to get CEOs and senior level people to understand that supply chains are fundamental to the business model," Greiner told the conference at Macquarie Graduate School of Management. "Boards worry about strategy and supply chain is seen as too nitty-gritty. But what companies need to do and what CEOs need to do is elevate it to be a strategic issue."

Australia was not able to maximise the benefits of surging demand for resources earlier this decade when common user coal export supply chains in Queensland and NSW failed to keep up. Queues of more than 70 ships formed off the port of Newcastle as mines, railways and ports struggled to meet unprecedented and unpredictable levels of demand. Producers lost more than \$300 million in demurrage or extra shipping charges in 2009 alone.

Coal magnate Ken Talbot says the risks for Australia are higher in this latest phase of the boom as new sources of supply are coming on stream stimulated by rising demand and prices. New coal export facilities in Mozambique, for example, are closer to markets in India and Brazil than Australia. And many developing countries are seeing massive aid and investment from a China keen to secure access to their resources.

"The cost of not building infrastructure in advance is huge financially and reputationally," says Talbot who made his fortune with Macarthur Coal. "The cost of new infrastructure [in Australia] will be higher than in the past. The cost curve for our industry is severely trending upwards and eroding our competitive position."

Nick Greiner was the inspired choice by much-maligned NSW politician Joe Tripodi to fix the broken and highly complex Hunter Valley coal supply chain. Harvard educated economist Greiner says he "knows nothing about supply chains".

But his presence meant the CEOs of the 14 Hunter coal producers who operate 27 rail loading points and offer 80 blends of coal actually bothered to attend talks aimed at co-operating to improve the overall efficiency

of the entire system. Greiner says the alternative was every participant in the supply chain attempting to maximise benefits for themselves.

"We were always being attacked for a lack of capacity, but the capacity [of the port] has always been greater than the coal chain," general manager of Port Waratah Coal Services Graham Davidson says. "But when you have a queue of 70 vessels and you are not loading vessels because you haven't got the coal coming down from the Hunter Valley, people blame the terminal."



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The players in the Hunter industry launched a new co-operative model on January 1 that matches movement down the coal supply chain to the arrival of ships in port. A key has been to understand the needs of different customers, who vary from those who need regular shipments to maintain continuous power generation to less predictable spot buyers. John Gattorna, author of *Living Supply Chains* and organiser of the Sydney conference pioneered the idea that not all customers are suited to the lean

supply chains perfected in the car industry.

The port of Newcastle is undergoing a \$670 million expansion to take capacity to 123 million tonnes of coal a year in 2011. Already a \$10 billion a year export industry, the port handles five ships simultaneously and actually needs a queue of 15 ships offshore to keep turning over up to 1.5 million tonnes of stockpiles every three days.

"It is a fast machine we are operating at the moment," Davidson says. "The model we have now is really simple, you would wonder

why it took us three years to get there."

But the Hunter still has a long way to go to move into the ranks of top-performing supply chains, which typically operate with half as much inventory as poorer performers.

"There is a very fundamental difference in their use of technology to enable operational visibility end to end across the supply chain," Accenture supply chain partner Zeljko Nikolic says. "The leaders heavily use dynamic planning models to quickly respond to disruptions so you stop them

propagating through the supply chain."

While the Hunter coal arrangements had to navigate scrutiny from an Australian Competition and Consumer Commission concerned not to reduce competition, it is clear that some sort of planning body is needed to co-ordinate common user systems.

"The people producing the economic value are the coal producers," Greiner says. "They see the supply chain as a means to an end. Regardless who owns it, they want to ensure there is effective capacity there at the right time and the right price."

Australia's Pilbara iron ore supply chains are rewriting the record books partly because their company specific systems are easier to manage than common user ones.

Similar issues to those seen in the Hunter Valley exist within what are highly complex grain export supply chains. Australia has 18 grain export ports, including six in South Australia, which make it difficult to get economies of scale, and there are major supply side variations caused by variability in the climate. "In grains it is not uncommon for transport costs to get to an export port to be greater than to get from the export port to an overseas destination," consultant and former AWB executive Keith McNeil says.

"Intuitively you would think that industry can get together and collaborate. But that means different things to different people."

Australia's beef cattle industry demonstrates a number of different types of supply chains to meet the needs of customers who vary from domestic supermarkets, to US hamburger makers and Japanese consumers of highly marbled beef. Australia was recently eclipsed by Brazil as the world's biggest beef exporter.

"We don't think we can differentiate on cost alone," general manager of innovation at Meat & Livestock Australia Christine Pitt says. "We are going to have to find smarter ways to deliver our products onto the market."

Australia is the only country to implant a radio frequency identification device in every animal when it is weaned so its progress can be tracked through the complex chain from breeder to grower, feedlot, processor and value-adding meat business. Cattle can spend between 30 and 300 days on a feedlot, for example with the shorter time used to produce a uniform product.

"The Australian consumer looks at meat like a can of Coca-Cola," managing director of Australian Country Choice David Foote says. "They accept things like mangoes are seasonal, but not beef or lamb. They want it to be the same 52 weeks of the year."

Australian Country Choice, one of the largest producers, sells its entire annual output of 90 million kilograms of beef and lamb to Coles. But even its supply chain must be responsive to sudden changes in demand, such as total fire bans in 2009 that caused demand to plunge for meat for barbecues.

Queensland meat processor Teys Bros found it had to develop new supply chain systems when it expanded from abattoirs into the food service business. The company now recognises three different types of customer, which it labels "collaborative", "fair deal" or "dynamic" customers.

As a commodity abattoir business it used to produce whatever it wanted and customers would "just buy it", Teys general manager of innovation Tom Maguire says. Now Teys is producing cooked and ready-to-eat meat products that require it to organise its business from the customer's viewpoint.

"We thought it would be easy because it was all just meat," Maguire says. "But it wasn't an outstanding success [at first]."