

# **Adelaide Thinkers in Residence public lecture**

## **Dancing with Dinosaurs - You'll love Rex!**

**With Professor Andrew Fearne**

**Tuesday 28 October**

*Co-presented by Adelaide Thinkers in Residence and The Bob Hawke Prime Ministerial Centre*

### **Unedited transcript**

PROFESSOR LEN PULLEN:

Good evening. Hello. Thank you very much. Good evening. My name is Professor Len Pullen, Head of the International Graduate School of Business, University of South Australia. It is my great pleasure to chair this event this evening. My first task, however, in this technological age, is to ask you to – anybody tell me? Yes, ensure your mobile phones are turned off, please, or in silent mode and thank you for that.

It is fantastic to be here this evening to listen to Professor Andrew Fearne, tonight's presenter in the extremely successful Thinkers in Residence public lecture program. Before getting under way I have two acknowledgements to make. Firstly, I would like to acknowledge we're on Kurna land and pay tribute to the Kurna people, the traditional owners of this land. Secondly, we are meeting in the Allan Scott Auditorium. I am sad to say that Mr Scott passed away today at the age of 85. The university pays tribute to his generosity in sponsoring the Hawke Building and specifically this auditorium for the benefit of our students and the public. As a leading business person in the nation's transport industry, Mr Scott achieved a great deal for South Australia and there are clear synergies between his supply vision and the topic examined this evening.

We are joined tonight by many distinguished guests. I would like to recognise, in particular, the Honourable Rory McEwen MP, Minister for Agriculture Food and Fisheries, representing the Premier. Mr Adrian Pederick MP, Shadow Minister for Agriculture, Food and Fisheries. The Honourable Dr Basil Hetzel AC Hawke, Centre Patron and Mrs Anne Hetzel. Mr David Kingberg, former Chancellor of the University of South Australia. Dr Barbour Hardy AD; Mr Vaughan Levitske, Chief Executive, Zero Waste SA; Mr Angelo Demasi, Chief Executive Officer, Adelaide Produce Markets; Mrs Anne Moroney, Chief Executive Officer Barossa and Light Regional Development Board; Mr Brian Smedley, Acting Chief Executive Officer, South Australian Wine Industry Association; Mr Chung Liu, Master Chef and South Australian business ambassador; Ms Catherine Barnett, Chair South Australian Rock Lobster Advisory Council; Mrs Laura Fell, former Chair of the Farm Bus State Planning Group and, of course, our speaker this evening, Professor Andrew Fearne who will be introduced in more detail shortly.

I would also acknowledge the partners and sponsors for Andrew's residency without whom this event would not be taking place. The partners are the Department of the Premier and Cabinet, Primary Industries and Resources SA, Department of Trade and Economic Development, Department of Health, University of Adelaide, University of South Australia, Yalumba, Constellation Wines Australia, Tarac Technologies Propriety Limited, AMCOR Australia, Barossa and Light Regional Development Board, Meat and Livestock Australia, Department of Education and Children's Services, Zero Waste

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SA, Sustainable Climate and Change Division. The sponsors are the Adelaide Produce Market and Farm Bus. Thank you, for your generous support.

This free lecture is co-presented by Adelaide Thinkers in Residence and Uni SA Bob Hawke Prime Ministerial Centre. I thank the director of Adelaide Thinkers in Residence, Brenda Kerr and director of the Hawke Centre, Elizabeth Ho for arranging this evening’s program. As your chair this evening, I am delighted to be here to participate in this important discussion on the complex relationships in South Australia’s food and wine industries. Are we heading for extinction or can we evolve for future success? Along with many else of you here this evening, I have a very keen interest in this topic as I personally enjoy, as much as I can, of South Australian bountiful high quality food and wine, with the emphasis on red wine, of course.

UniSA is delighted to have the Bob Hawke Prime Ministerial Centre involved in this lecture series as a co-presenter and key organiser. The centre promotes active citizenship through it’s public learning program and plays an important role in linking the university to the community. It is a pleasure to welcome you to the Allan Scott Auditorium which is situated in the university’s Hawke Building. Unfortunately the premier is unable to attend this evening and he sends his apologies. He is represented by the Honourable Rory McEwen, Minister for Agriculture, Food and Fisheries and I am delighted to ask the minister to introduce tonight’s speaker. The Honourable Rory McEwen.

**THE HONOURABLE RORY McEWEN:**

Thanks, Len. It is appropriate that we reflect for a minute on Allan Archibald Scott. Tonight we are talking about a thinker that we do just pause for a minute to respect the achievements of a doer, and Allan was a doer.

Today though, we’ve got a thinker and a politician, and never confuse the two but we do do a bit of lateral thinking from time to time in relation to who we might invite as a thinker and the starting point is normally a problem beyond our skills and ability and so we get someone to come and look at it from a different perspective. We know in this state that our prime objective is to create wealth, to enhance the society we live in and we know much of that wealth is created by exploiting, and that is a positive word, exploiting our natural resources but we also knew that we were creating ever less value for more endeavour. We were too much in the quadrant of volume not value. We had mapped the journey from our product to market to supply chain and we had identified many rate limiters, either within the scope of my agency or beyond my agency but within the scope of government. We knew that out of that journey we weren’t actually doing what we were wishing to do, which was actually to create wealth through value.

We also mapped extensively that journey from discovery through to adoption and adoption and we knew also that there was a gap and that we weren’t translating research into wealth creation. So we knew that there were two journeys that we were not mapping as well as we could but we used jargon. We talked about “wine to dine” and “water to waiter” and “paddock to plate” and we didn’t get far along that journey and we got lost and so we needed somebody to come and talk to us by looking through the eyes of the final consumer and looking back. We looked around the world and a professor was identified, one of whose endeavours was to actually come and explore what we were trying to do through that other journey that I talk about, the journey of creating value and through that a margin and through that rewarding people for their endeavour and obviously creating wealth.

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Tonight, collectively for one hour, not a minute longer not a – certainly not a minute longer and Andrew tells me not a minute shorter – I am looking forward with you to see how another set of eyes views us, our strengths and weakness, in terms of struggling to achieve an objective but acknowledging up front that we do have a problem and asking someone to come and think with us, not necessarily to even discover solutions, but to think with us to help us explore another journey to discover those solutions because the one thing we do know is we are or beyond the sustainable limit. Climate change notwithstanding, we are at or beyond the sustainable limit in terms of our primary production systems in this state.

We will not create more wealth unless we explore another journey. For the next hour we will share that with Andrew Fearne and beyond today we then have a collective responsibility to take his words and build it into some action because when he goes, we must then, collectively, continue to explore ways to create wealth to build that society. I am delighted to invite the professor up here.

**PROFESSOR ANDREW FEARNE:**

Thanks, Rory. And thank you all for coming. It is great to see so many familiar faces, some friendly faces and some new ones too. I have to say you’re all pretty sad. If it was me on a day light today, I think I would be walking the tow path and soaking up that wonderful Adelaide sunshine rather than listening to a pommy pig farmer’s son talk about dinosaurs and food chains. I had no choice, I had to be here. You did and I am pleased that you came nevertheless.

I want to thank the sponsors, they have already been named, and I am going to share with you this evening a journey. I have been on a journey for the last 15 years or more up and down the value chain. Grew up on a pig farm, dad was a pig farmer and around about the age of 18 or 19 failed my exams, I recognised I wasn’t going to stay on the farm, I was going to go somewhere else but at least I had enough time with dad on the farm learning lots about how to muck out pigs and how to try to make a living out of rearing pigs. For the last 15 to 20 years I have been very fortunate in my job to travel the world. I was blessed, genetically, with big ears, as you can tell – I had a hair cut today so I can show – and I listened really well so I travelled the world and I listened to people. That’s what I get actually paid to do. I try and make sense of what people do. Sometimes I make some progress. Very often I walked out of rooms with politicians, with industry folk, with small guys and big operators and I can’t work it out. I don’t know whether it’s me or whether it is them that can’t make it out.

Anyhow, I am going to share with you my journey, so I am going to reflect on what I’ve learned over 15 to 20 years of travelling up and down the value chain and I will share with you what I think are the challengers, there are lots of them, but also the fantastic opportunities I see everywhere and no less here. I am going to tell you what I think about what I’ve seen and then I’m going to give you some ideas about what needs to be done. This is the – I am almost at the end of my residency so nine months of to-ing and fro-ing, a week and a half to go, and I am still gathering intelligence. I am still getting feedback. I have a discussion paper that will soon be widely distributed amongst industry and various stakeholders and seeking feedback. So what needs to be done is a question that lots of people can still feed into.

**PROFESSOR FEARNE:**

I’ll stand over here near to the microphone. Better? Good. All right thanks. So what will you remember. You’re a motley crew. We’ve got politicians, we’ve got government officials, we’ve got industry people and we’ve got real consumers in the room and you’ll all take different things from the

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next hour of my presentation. What would I like you to remember? Well, through the rich and complex journey that I’m going to take you through I really would like you to try and focus on three key messages. I’m going to start off by sharing with you, relatively briefly, but hopefully effectively, just how increasingly complex our food systems are becoming and just how vulnerable those systems have become and because of that complexity I believe we need a fundamental change in the way that we look at things and the fundamental change that we need – this is true the world over and is no less the case here in this state, indeed in this country – is a shift from supply chains to value chains.

A paradigm shift you are going to experience, some of you for the first time, you will experience to night a paradigm shift. So if nothing else, you can go home and tell people tomorrow in the office, “Guess what, I experienced a paradigm shift last night.” Hope you enjoy it. Paradigm shifts require people to change the way they think and the way they make decisions and the way we do things. So as Rory said, when I’m gone and I leave you with some of these thoughts it is really important that people don’t just say, “That was very interesting.” If there is any sense in what I have to say then I really hope that they will do things in a different way. The third thing, that I am sure many of you will remember when we get there, are the dinosaurs but what I want you to think about is the things that we have to do to prevent the South Australian food industry following the same fate as the dinosaurs.

So the complexity of our food systems. Already I am making it simple. Increasingly these days we talk about “triple bottom line” so the complexity that I refer to I am breaking down into three simple areas: social sustainability, environmental sustainability and economic sustainability. So from various dimensions we’ve got fundamental changes. Health, economics, the credit crunch, the environment, biodiversity, food security, market access. Our food systems are becoming increasingly complex. Gone are the days when we can just produce things and ship them and get paid because increasingly the implications of that are felt way beyond the next link in the chain, our immediate community. They cross disciplinary and functional boundaries.

If you don’t believe any of that, you’ve only got to think about if we do nothing, if we just think about ourselves as consumers, as producers, as manufacturers as retailers, then the system clearly has become broke. One thing I do think, for many years now, extreme groups, let’s call them NGOs, Green Peace and the like, have been saying, “Stop behaving world the way you are. We’re destroying the planet.” Frankly, the majority of us carry on doing our thing as consumes. The environment will take care of itself. What is interesting in one thing, I believe, is the credit crunch is another system that’s broken down, is bringing the frailty of the global systems right where it matters the most. Where it hurts us the most, which is the back pocket.

What I think is, as we as individual consider and grapple with the consequences of the financial meltdown, it will help us make that transition to think more broadly about what is going on in the world and the fact that we can’t just behave as individuals so we are paying the price for excess. So that leads us to think about sustainable competitive advantage. What do I mean by that? Well, here’s a couple of quotes from two people, one of which you’ve probably heard of, Charles Darwin, who had no interest at all in food chains but was interested in how species evolve. Two interesting quotes. What did Darwin teach us? What did he learn? That it is not the strongest of the species that survive nor the most intelligent but the one most responsive to change. Darwin taught us that. The critical fundamental importance of being able to adapt, not just being smart but using your intelligence to adapt. Lots of smart people live in an age of information overload. How much of that do we actually take in and how much of that do we use to make smarter decisions?

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Then there is Jack Welch, CEO General Electric and a famous business leader. What did he tell us? He only had two sources of competitive advantage, the ability to learn more about our shoppers, consumer, faster than the competition. Finger on the pulse. Finger on the pulse. Then the ability to turn that learning into action faster than the competition. So there's a commercial view which is saying we have to know what the end consumer of our product wants and we have to be able to act faster than the competition in delivering what the consumer wants.

So in summary, as I try to simplify what I think is an incredibly complex world that I am exposed to increasingly, is that sustainable competitive advantage has four dimensions and it is about how we allocate resources. I am an economist. My fundamental disciplinary routes are economics and economics is all about the allocation of scarce resources. Nobody in the world has enough to do all the things that they would like to do and when I get really stuck sometimes – which is often actually – economics helps me out because you have to make decisions about what we're going to do today, where are we going to invest, how are we going to train, what skills we need and, indeed, which products we are going to make and which markets we're going to target.

So sustainable advantage is about allocating and using resources in a way that is hard for others to copy and there is your recipe for success. If we can add more value, be really effective, at lower cost be efficient and do that faster than the competition, responsive, without destroying the planet, that is an unbeatable offer and there are very, very, very few companies in the world that do that. Indeed, I would say, probably up until three years ago that fourth bullet point wasn't on my slides because most CEOs I presented to, indeed most governments and classes that I presented to said, "That's just wiff waff. Waffly. Soft. No one really cares about that environmental stuff."

Well, it is interesting that increasingly, now that water, for example, is not a scarce resources, companies are getting increasingly interested in the environment because now that I pay for it I can make more money, be more profitable if I use less of it. There's a link from the environment into efficiency. And now that I actually can see the consumers and customers, people like Tesco, single biggest purchaser of Australian wine in the world, now I that I can see that they actually care, demonstrably care about where stuff comes from and how it's being produced and goodness know what the amount of end-bodied energy in it, now that they care, there's a direct link to effectiveness, adding more value.

So now I can attach dollars to these things, we've got some momentum. One day organisations, like consumers, will behave more like citizens. That's a long, long way away. It's a bit like climbing Mount Everest. Most of us are packing our sandwiches as we attempt the journey up to the summit of Mount Everest. We have not got a clue what environmental sustainability means. Very occasionally we think we do, as we pack our sandwiches but it will come. It will come. It is just a matter of time and we're kidding ourselves if we think it is going to go away.

So that takes us to the paradigm shift and takes us to what I guess I'm all about, or what I've been asked to share with various stakeholders here in the South Australian food and wine industry, which is value chains and thinking about value chains. The link here is because the world is becoming increasingly complex, we need to think different and value chain thinking is about thinking holistically which means thinking across functions. So commercial companies struggle hugely when sales people are on the road, out in the world, trying to win business. They make promises that manufacturing or purchasing can't keep.

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You want sustainable wine: we can give that to you, sir. We want to win the order. You’ve got the order. They bring that order back. There’s celebration. The operations manager and the purchasing manager, “We can’t do that. We don’t know what sustainability means. We don’t measure those things.” “Go and measure them then, says the CEO. We can’t lose the account.” In the process of measuring we discover: jeepers, it’s going to cost a lot to do this. Go back and ask for some more. Sorry, the deal is done. You don’t talk to each other.

Do a lot of work for vegetable processing companies like McCains, you would have heard of those, French fries, fascinating stories. So the purchasing managers, because it is cross-functional, dysfunctionality across functions. Purchasing managers are rewarded for getting the costs down so European McCain purchasing managers marching off to Poland to sign up big contracts where there’s cheap potatoes to supply the factories so they can offer retailers and consumers, cheap French fries. Gets rewarded. Off he goes on his cruise to Barbados, wherever, celebrating the success of getting cheap potatoes into the factory. While he is away enjoying himself, of course, the factory manager is tearing his or her hair out because the machinery keeps stopping because the quality of the potatoes isn’t good enough. Happens all of the time and, of course, it happens to from a policy perspective.

So as we might be encouraging industry to increase the allocation of resources, the finished foods, to support the state plan, at the same time that the health department is trying to get people to get more fresh food, unprocessed food, fruit and vegetables and the Health Department are trying to get them to eat more fresh fruit and vegetables by telling them they are good for us and then discovering, some time later, that one of the reasons why we don’t enough fruit and vegetables in this state – you don’t across the board – is that very often it is not there when we want to find it. Very often when it is there, it doesn’t taste very good because the people in the food chain, that are making the key decisions, are encouraging us to produce bullets that will sit on the shelf for five days so they won’t waste any and then every now and again when somebody says, “I better try some fruit” they do and it is disgusting and they don’t try it again for another six months.

So if you don’t recognise how important it is to respond to what the consumer needs, you have difficulty. So within and between organisations this is very difficult to do and often it is just too hard. My answer to that is, if you don’t try, then you will miss the complexity of the challenge. You’ll get it wrong and you’ll go backwards and not forwards. If you start to think my holistically, when you open the door and get more people in the room, new solutions arise and, yes, new challenges present themselves. That’s the complex world we operate in. So rather than denying that and saying, “I’m not going to take these other things into consideration” it is critical that we open up ourselves to the skills of others and the needs of others for a more sustainable solution. So it becomes a business philosophy and it’s not about what we do, it is about how we do it.

Often people saying to me, like the minister, you know, we’ve brought you all this way, done some thinking, what should we do? I say, “Right. What you’ve got to do is start thinking in a different way” and if you start thinking in a different way and have different people around the table then the solutions will emerge. What you don’t want to be doing is telling people what the answers are because we need various stakeholders to buy into the very complex solutions that we haven’t yet found. So it is about building robust businesses. It’s about building robust policies. Robust things are strong.

There is a famous –well, not so famous actually – there was a well-known football coach soccer coach back home he has just lost his job actually – he coined this phrase “bounce back-ability.” That is when you’re two nil down at half time, the ability for your team to come back and win three two. One day he – it stuck with me. So resilience is about bounce

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back-ability. Should the taps be turned back on – I don't understand climate change. I am in conversation with people all the time that tell me drought has got nothing to do with climate change. Okay, maybe it doesn't. Should the tap come back on, the question of bounce back-ability in this state is, how do we respond? Should resources return to anything like they were in the past; I doubt it but even if they were would we revert to type and carry on doing the things that we've done before or would we bounce back and get better; win the match by not making those same mistakes.

That is what process-thinking does. It doesn't just ask for answers. Doesn't ask for others to fix our problem. It requires us to change the way we think and we can't do this by ourselves. So the argument for bringing more voices, working with others, collaborating within government across organisations is compelling. So individual – you have a state here that is basically full of small business with some exceptions. Producing some fantastic products but virtually all those businesses are doing everything themselves. Sorting out the finance. Making the products. Taking the orders. In many cases driving the van. Answering complaints. Where is there time for planning? Where is there time for more effective communication? Where is the time for thinking about growth strategy? There's ever any time. So we can never grow beyond certain points.

What that means is small business, primary producers, small food producers need to let go. They need to recognise that they can only grow their businesses by collaborating with kindred spirits. Other producers, primary producers, other food producers. Not to crush the enemy, the next link in the chain, but to do a much better job at what they do. The next point then is, of course, the vertical coordination because without profitable links at every stage in the value chain, we don't have a sustainable value chain. So vertical coordination is critical. This is all about busting silos.

We had a video with - that Ghost Buster video and it would be silo busters because what we've got to do is break down the silos between your departments. We've got to break down the silos within organisations, purchasing, operations, marketing and we've got to break down the silos within the chain because if you don't and it's busting because if you drill a hole into a silo – you know about this, you store grain in silos and stuff – it is very easy to paper it over, plaster it over. Little drills in silos don't work. You've got to bust them and that means you've got to be radical. If you just tinker about the edges, nothing changes because we patch it up, because there are too many vested interests in keeping things the way they are. So here it comes, get ready, the paradigm shift is approaching.

What we've got to move away from is a supply chain approach. When we allocate resources to do what we do and we push it towards somebody somewhere who is going to buy it, that is the customer, and eventually consume it and in supply chains like that, you tend to get information that is transactional. I sent you something. You received it. You owe me X. I might get paid one day. The relationships are very much arm's length. I've got no idea who you are. We rarely speak. Just keep the orders coming. As long as they do, I'm quite happy. I don't want to talk to you. I'm busy doing what I like doing best, my stuff.

Although we talk about value chains, you do a lot, most of the time what you're actually doing is incurring cost, adding a margin and passing it on. So it's actually a cost chain. Very often some of that cost that you create and the margin that you take, adds no value to the consumer whatsoever but as long as the orders keep coming, you don't care. As long as agents are finding shelves to put your products on, the orders go up. So we can fool ourselves that we've actually got a good product until eventually you've run out of first-time buyers and we start lose repeat sales. The orders go down and we eventually find out that we weren't actually adding any value at all.

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So the paradigm shift, get it, have that thought for you, page up, that’s where we were, that’s where we’ve got to go to. The value chain approach is one where the information that’s flowing is much richer. Behavioural of customers. What is turning the next thinker in the chain on? What do customers need to be profitable? What do customers need to come back for another order? What do customers need to stay in business long enough to grow with me? How many organisations are ever thinking about, remotely caring about, the next link in the chain? What does the consumer care about? What are their attitudes? All too difficult if I am far, far away in the chain or too difficult if those consumers are on the other world where most of your consumers are. Far too difficult. I’m not going to do that.

The relationships that you tend to have in value chains are collaborative. We talk. We sort things out. We identify opportunities. The team is aligned to win as opposed to dysfunctional and disconnected which means they are going to lose. The financial model is one of value-adding. If we understand where value is not added, we allocate less resource to it, because we’ve got to be efficient. If you’re not looking, you don’t do that so it is not sustainable.

What emerges, when you adopt a value-chain approach, as opposed to a supply-chain approach – that is pull rather than push – is that you get what we call collaborative innovation or co-innovation for short. What does that mean? It means together. Not me by myself, together. Me and other producers. Me and other links in the chain, upstream and downstream. Upstream is where the producers live. Downstream is where the consumers are. Together with other organisations, other stakeholders, we work out where to allocate resources in a way that adds value for the chain as a whole, not just for individual stakeholders in it.

This is not just about adding value, developing new products. It is recognising that large parts of your business, large parts of your food industry, are in commodities and they have been very profitable historically and for some time to come they’re going to remain commodities in commodity markets. They have to be efficient which means some of this co-innovation is finding ways of working together to take out cost because if you take out cost, you can still be more profitable. It is just a question of who gets the benefit of that cost saving. So it is how we do what we currently do but it is also how we develop new products. It is much easier for an academic like me to talk about this and to think about this than it is to do it in the real world, that’s what Rory keeps telling me, and I’m telling Rory and he says, “God, not that bloody complicated diagram again.” I’m saying to Rory, “Look, we created this picture” – which I am not going to take you through now – “working with a \$10 million turnover bag salad supplier from Tasmania.”

So if a \$10 million turnover bag salad supplier from Tasmania can work - put the significance of all of this clap trap, then I reckon most of your SMEs in this state, and larger players, who are getting it wrong to, can work it out too. If what I’ve been talking about sounds like is of remote interest, then you can read the case study which is – in which the current innovation road map is explained. So rather than me trying to take you through this complex diagram, we can read from the case study that we’ve copied for it. It can be done. We’re doing it all the time with small businesses.

The key enablers for doing co-innovation, for building sustainable value chains are the following. The first one is all about customers and customers getting lined up with their suppliers. So we call that strategic alignment. Do you know where your customers, the person that pays you for your product that you’re selling it to, do you know where they’re going? Do you know what their strategy is, because they will be different. So that’s the first point because that should drive your resource

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allocation. If our customers are following a strategy of cost leadership, we need to be efficient. If our customers over here are following a strategy of differentiation, then we need to be effective, adding value. Have we got the right people in the organisation? Are we allocating resources appropriately to manage where it is our customers are going rather than not telling anybody where we’re going and just giving them the results of that.

How foolish is that. No, how short-sighted is that. All the time the order book is full. All the time making money. We don’t have to go there until it’s too late. In other industries they’ve been doing it for some time. In any hardy industry do businesses come to this until it really, really hurts so what a good time for me to be here because as the minister says - I get the impression it is really hurting here in South Australia. The second point is what we call value chain visibility and what you’ve got here is a classical case that the academics call the bullwhip. The efficacy of that, Rory, it’s a whip there, so it’s tiny insignificant variations in what consumers actually purchase, through almost Chinese whispers, because there is no information being connected, gets translated a million miles away – could be Australia – into cosmic shifts in consumer demand.

I hear lots of people saying, “Consumers in the UK really care about the environment. Consumers in the UK really care about certification of organic schemes. We must do more of it.” It turns out that two per cent of people in the UK care a lot. 20 per cent in the UK are caring more but the masses still don’t care at all. If you’re not careful you devote huge amount of resources into gold plating certification schemes because the whole world needs it. In fact the whole world is not going to pay for it so think very carefully before you act.

So if you don’t have relationships that are collaborative, I’m not going to trust you enough to give you the information that you need to allocate your resources appropriately. Third brilliant point, you won’t get information flowing so you won’t be able to see what’s happening unless you’re closer, you have conversations, you listen and hopefully hear what it is that customers want. So that trust, commitment and being comfortable with – most companies aren’t being comfortable with me relying on you as much as you rely on me. I like to be big and powerful. I like to be in control. So giving up some of that power is uncomfortable so we tend not to and therefore you pay the price of having to employ policemen to monitor what people are doing and lawyers to rewrite contracts every year so you can cover every risk of default. When you’re into collaborative relationships, gone are the police force. Gone are the transaction costs that are related to adversarial transactional commodity trading. They’re gone because we don’t need to do that any more.

The fourth one I’m going to major on next is consumer insight. So I’ve been fortunate to spend the last four or five years working with some very, very interesting people getting their heads around some fantastic information around consumers. Why? Why is this important? I’ll let you read that quote for yourself while I take some water. So why believe me when I tell you that the blind are leading the blind here in Australia and here in this state into the commodity trap. You’re more likely to believe someone from a very powerful organisation like Unilever.

This could be the wine industry who fundamentally have grown that market through focusing on price points and promotions getting them as accurately as they possibly can and training people to expect an over-engineered bottle of wine from Australia at a rock bottom price. Well, done. Because now you’re trying to convince us that we’ve got to pay more for it because you can’t survive and most of us are thinking, why would we do that? Most of the customers that stock your wine are thinking, why are we asking consumers to pay for that over-engineered wine that we’ve got quite used to drinking? So industry isn’t as good at this as we might assume they are.

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Some additional information around how industry uses consumer information, how effective they are at keeping the finger on the pulse and responding to it. Over the last 18 months Tesco have introduced about 6500 new products. They stock about 30,000 food products, an average supermarket does. Almost a third of those were delisted within 12 months and what a fascinating figure, only 400 of them have reached sales of any significance and that could be for lots of reasons. If a new product is only stock in five stores, then you can’t sell much of it. So there’s lots behind these numbers but look at the chart at the bottom.

An SKU is a stockkeeping unit which is a product, okay. So what is fascinating here is that less than one percent – they are the stars – of new products introduced into Tesco’s in the last 18 months have contributed the same percentage of sales as the rest. Indeed, 88 per cent of those new products only contributed 25 per cent of the sales. You often assume that big business, branded manufacturers, supermarkets know it all and are very good. They don’t know anything like as much as we think they do. If we abdicate responsibility for it, what it is that consumers want, they’ll get it wrong and if they lose money they’ll pass that on as much as they can. Consumer insight around the world is nothing like as powerful as it needs to be.

So to get more successful products, to get more successful propositions, you’ve got to understand what the consumer values. Here is my – this suppose to be simply minister – this is my simplification of consumers and how they determine what they’re going to purchase and what is important here is that perceptions are critical. They’re very passionate about our products. Lots of people in this state have told me, “We are the best at producing X, Y and Z” and they will say it with quite considerable amount of passion, often banging the table and then when I ask for the evidence it all goes a bit quiet and very often, as my lieutenant will back me up, very often, at the end of some two hours and three hours of workshopping, it is actually there are some other people that are a bit better than us than we are. It is very easy to convince ourselves that we are really, really good. Doing what? Recognising that some pensioners want hard ones, some want soft ones, some want juicy ones, some want acid ones – the example I am referring there is Pink Lady from the Adelaide Hills.

So increasingly heterogeneous. They’re different. Consumers are different and more different everywhere and often behave irrationally. Think about yourselves. We’re all very different in this room but what you purchase depends on, “Where am I today? Where am I in my shopping mission? Is this for me as a snack? Is it for mid-week and the children? Is it a special occasion.” It makes a huge difference to what I select. How much time does it work out why I should pay more for product X than product Y? There is a cost associated with that. Cash and time. Then, how good is this brand, how good is this retailer at giving me the same? Will it be there? Can I believe the promises that it makes on the packaging? So the whole integrity of the value chain can become critical. Money is not the only currency.

It is true that some of your major target markets in Europe, consumers are increasingly interested in things other than price but you’ve got to be much effective at targeting them. So one of my favourite examples here is organics. Why do people grow organics? Rory was telling me this morning the whole name of the game is generating wealth. That’s what we’re in business for. Truth is, Rory, many, many, if not most organic producers of anything, are in business to do their bit to save the planet. So we’re organic because we believe in it with a passion and we’re going to get accredited from ..... Association or anywhere, to say we’re doing this for the good of the planet. Who is buying this organic food? Well, three major groups there.

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Young mothers are buying organic food because they don’t want to poison their children. Young adults are buying organic food possibly because it will make them look good. Pensioners are buying organic food because it might help them live longer. Empty nesters, kids have gone, disposable income has gone up, I’m going to treat myself, I’m buying organic food because it tastes better. Significant proportions of those three groups have no interest in the planet whatsoever. No interest in the fundamental value behind organic production, yet the organic industry simply says: We’re organic. You decide whether or not you’re going to pay that 30 per cent premium for it.

What do consumers say when you ask them about organics? We’d buy more if it was cheaper. What do retailers say to the organic producer? Get your costs down and we’ll give you more shelf space. What happens? Organic food production becomes unsustainable. How gets the blame? Supermarkets for squeezing the price. Who shares the blame? The very producers for not recognising that people who are buying their products are buying it for different reasons. If more people buy organic food and if organics are good for the environment, it doesn’t matter if they’re buying them because they think it tastes better. Communicate to them in their language. The organic industry doesn’t.

So to that, joining the dots, we have to have a much more – a much richer complete picture of the consumer. When are they buying? Where are they buying? Is it convenience stores mid-week? Is it at the weekend? Once a month? In the main supermarkets? What are they buying and why? Get inside their heads to the extent that we can. Who are they buying for? The person buying the food or the wine, typically, very often, is not the same person consuming the food or the wine and what else is in their shopping basket that can reveal so much about them? We are what we buy.

I’ve been very fortunate to spend the last five years working with a company called DunnHumby, that is 85 per cent owned by arguably one of the most successful retailers in the world, Tesco. One of the reasons why they’re successful and they’re increasing the global – don’t get hung up on the fact this is Tesco other than if it is it must be good because it is – other supermarkets are going down this very same route. So wherever you’re selling your products into retail food chains, increasingly the people you are selling those products into will be gathering this kind of data. It is an incredible resource. A 10 per cent sample of 12 million households that Tesco currently service

They can dice and slice that data into lots of ways. We call them segments. By your life-stage, a pensioner behaves very differently from a young adult yuppie. That transition from a young adult to a young family is critical in terms of what we chose to buy. Our priorities, literally overnight, change. Our lifestyle. Where we live. The kind of community that we live in. The neighbourhood. TV advertising reaches – now 13 in the UK and if you want to spend your TV money more intelligently you work out where you’re going to have the best effort –best impact and you tailor that TV advert just for them.

The Gordies in the north east might expect to respond differently to an advert for the Londers down in the south. Retail challenge, million shoppers buying on-line. Do we really think that somebody shopping on-line, at their computer, at half past 11 at night is behaving in the same way as someone going around the store at 2.30 in the afternoon with their kids and it’s 40 degrees outside and they want to be somewhere else. Of course they don’t. Do we understand that? No, we don’t. Then the format is fascinating. We’re still finding companies, major manufacturing companies, going into convenience outlets, they’re the small ones, where they might have a space for one of their products and they’ve promotional offers like, buy one get three free. One person comes in, takes the

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promotion, it’s all gone. How clever is that? Nobody thinking, “I need a different offer for that convenience shopper than I do for the mainstream shopper.”

You might be saying, “Well, isn’t that the supermarket’s job?” Supermarket stocking 30,000 products, headaches every day. Headaches, headaches, headaches. They can’t solve all the problems. Help me supplier. I’m too busy supplying, doing my thing. Which means the system isn’t working as smoothly as it should be, as it could be. What does Tesco do with this incredible data source? They don’t ask people what’s important to you because many of us that do market research know very well that what people say very often is not translated into what we do. So often people say to me, “We do our surveys. We do consumer surveys.” They tells they pay 50 per cent more for X or 20 per cent more for Y. And then, of course, when that product is launched with the ho rah rah, they rarely do. The world has changed and it’s different because when that price was offered to you at a premium, and you can’t work out why you’ve got to pay more for it anyway, and there is a promotion over here and Johnny’s screaming, it doesn’t happen. Contact situation makes a huge difference.

So they look at the attributes of the products in the basket. The basket is full of products that people have actually purchased and from those attributes they work out the DNA of the shopper. So Tesco has the DNA of 12 million households. The finger on the pulses of 12 million customers and they’ve had that finger on that pulse for over a decade which is about 10 years longer than any other retailer in the world has had their finger on that pulse. That’s why they are growing and are the biggest and expanding at the rate of knots and most of their competitors are struggling just to maintain their share.

So here is an example of the time for food rich customers, lots of high priced products, much less kids stuff, lots of quick cook, lots of single portions. What does that data get used for? It becomes the language of your single most important customer in the world and that is the language that more and more of your customers around the world are going to be using. It is the language of Tesco. Don’t talk to me about your market research. Don’t talk to me about your products. Tell me how you’re going to delight my customers, the consumers of your brands. Who are they then? What do they want?

So I haven’t got time to go through that in detail but I thought I might share with you some further insights into arguably the single most important shopper, for you, producing tiny, tiny quantities of anything in this state, why would you want to be competing in commodity markets? One per cent of the world’s citrus market and next to nothing of the world’s meat market. Why would you want to do that when you’ve got, in the case of the UK, almost one in five shoppers – one in five – there are more of these than there are people that are price sensitive and you would be thinking, what about the credit crunch?

What happened to the credit crunch is that people stopped going out to restaurants, paying three times the price for the wine, two times the price for the steak. They buy a nice bottle of wine and a nice bit of steak need they stay indoors. Retail is actually quite resilient to recession. You shouldn’t assume that everything goes down in price and value when people feel the squeeze. They just reallocate their own resources. So the finer food shopper looks like that. Talks like that and that should influence the kind of way - the way we approach them. So how is that information used by suppliers around the world? It’s not used at all, actually by very many of them, because they are disconnected, just as disconnected as many of your suppliers are in this state.

The ones that do use it to help them with their long-term business planning. So now we know, that market is declining, we won’t go there. Now we know the size of that market is quite small. We don’t

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need to invest in quite so much capacity. As an input to developing new products, where are market segments not performing? What kind of shopper might we target which would influence things like your pack size. The language that you use, the story that you tell, the resources you allocate to support it. Finetuning the marketing mix of the price, the product, distribution, the promotional plan and arguably the most important of all, which people often don't get, as the catalyst for changing the relationships.

If I invest in understanding very important customers, consumers, I am demonstrating commitment. If I can come up with some products designed just for them, I'm demonstrating my competence. They can now trust me because I'm doing my very best to help them win in the market. So it, using this information, facilitates co-innovation. I am investing for you, customer, so you help me get the right kind of products? It helps us learn as organisations that promotions don't always work. Let us recognise they work very well to get people to try things but they don't work very well at all if you're trying to grow the entire category. We can learn that if we have consumer insight and they help us to become more strategically aligned.

So I haven't got any more time to tell you about how I've been using that information with suppliers but there is a website which you can visit and on that website there are, at the moment, 11 case studies and growing and all of them, Rory, are small companies. The Nestles and the Unilevers and the Mars of the world, they buy this data. They employ smart graduates to crunch that data and tell Tesco and Carrefour and Ahold how to sell ice cream and coffee. That's their job to do that. These small companies are trying to do different things. Where shall I place my retail shop? What shall I stock? How can I reach those people? Where do they live? How much money shall I buy for that cheese plant that I want to invest in to break out of commodity milk production. It's all there on the website so you can go there if you feel so inclined.

So you must be thinking, when is he going to talk about the dinosaurs? The next five minutes is pure entertainment, you can smile and feel free to laugh if you feel so inclined. The dinosaurs. Okay. So here we are. I'm using the dinosaurs as a metaphor and a metaphor is adaptation. Now, Joanne, she hasn't seen my knees. She's been very kind with my ears but she has somehow found some nobly knees which I assure you, Joanne, I don't have. That's me. Okay. The dinosaur story, of course – I've been to North American. Sat with the Canadians trying to work out why we didn't do something sooner when we got BSC, it will never come here. We went through BSC, foot and mouth, e coli, salmonella, Listeria 15 years ago, I was there. Catastrophic events.

We haven't had a drought, you're having one of those. A bit like the dinosaurs. Perhaps confronted by some meteor hitting the planet, changing irrevocably the food chain which meant that the things that we ate to survive disappeared which means the dinosaurs did too or many of them did. So adaptability was the key to survival. So here is some stereo types that I discovered going around the world. We start off up stream with Stegosaurus. Maybe that's the way we think of primary producers. Rory was a farmer once, enough said. Tiny heads. Little brains. Spikes to protect themselves from who? The next link in the chain. Farmers know nothing and yet, in fact, every day, farmers are having to adapt to an increasingly unpredictable and challenging environment.

Arguably, despite the way we perceived them, they are the most adaptable link in the chain and yet they get stereotyped, almost universally, as the obstacle to change because they're all a bit dense and all they know is how to drive tractors and rear cattle. So then you've got manufacturers, the next link in the chain, Tryceratops. Lived in herds, dairy producers forming the association. Veggie packers.

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Meat processors. Doing our thing. What they love to do most is to lock horns. Have sparring contests and butt one against the other and invariably with the other links in the chain.

One of these days I’m going to get caught by some agent in a dark alley and they are going to do something to my kneecaps because I see the agents and the distributors, stereotypically, as the Velociraptor – remember Jurassic Park, those nasty beasts at the end trying to kill those kids. Velociraptor, Joanne tells me, she is my researcher, actually translates to “swift thief”. What do agents do? What is the role of the agent? Hunting in packs. Predators. They are rapidly dying out because the service they provide is one of blockage. Will find access to your shelf, will find shelves for your products. We will prevent you from talking to the customer. We will prevent you from getting the feedback that you need. The Velociraptor, very demonstrably, they don’t change their ways of a dying breed.

Then there is the good old Brachiosaurus. Huge plant-eating dinosaur occupying lots of space, employing lots of people. Often, head in the clouds – well, at least in the trees – or staying on the ground. Things happen every now and again that we find out about. Very long necks reaching the tops of the tree. I reckon that could be a stereotypical description of many governments – nothing like yours. Then there is Terradactyl, this is me, the academics and the consultants swooping around looking for buckets of money they can exploit to service their intellects. We’re experts in these areas. We’re going to find the next bucket of money to enable us to continue to do our research. We’ll find people that are willing to lend us their watch so that we can tell them the time and that will help us to pay the bill. So they’re a dying breed if they don’t adapt. If the courses that are being put forward from the universities, if the one-day workshops as well as the degree programs aren’t what industry needs, then what is coming out of the sausage factory, which is universities. Where are these graduates going? How are they helping us, industry, to adapt?

So we got a laugh or two there. They were some of the characters I come up against in the food chain. Now, a series point. What are the dangers of stereotyping and I am going to read this and I want you to read this very carefully with me. Stereotypes: how are they formed? They’re formed partly as a result of what we do. So they are partly true because we observe the behaviour repeatedly over time. However, stereotypes are also partly a result of how we chose to look at people and organisations so its partly to do with perceptions. If we’re not very careful stereotypes become embedded in our perceptions, irrevocably. This is what government is, bloody dinosaurs. This is what manufacturers are, dinosaurs. This is what farmers are, dinosaurs.

That is because those links in the chain, those organisations, those people don’t change their behaviour. If we chose to observe them from a long way off or from a very narrow perspective we’ve missed so much. So if we don’t try harder to look at people in different ways, if they don’t try harder to change their behaviour, these stereotypes become embedded. Now, what do we know? We know that perceptions drive attitudes and attitudes drive behaviour. So the change in behaviour that I’m saying that you need, if you are going to avoid becoming dinosaurs, will be thwarted by the reluctance to believe in the willingness or capability of these links to change. No, never change farmers. No, that’s what government does. You’ll never change the manufacturers. That is what you want to believe and that is what will happen because whatever they do, you won’t see it because you won’t look, because that is what they are.

It is also thwarted by the systems and the structures we create to work around them. Best example I have got of this, I just came back from a fantastic weekend in Tasmania, spent three years there forming my thinking around this with some great people and they’ve done a really interesting project

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on processed vegetables. Tassie Growers and Simplot through to Coles and they identified heaps of stuff. Costs to be removed. Value to be added. Gridlock. They are celebrating in Tassie this weekend, the Tasmanian Farmers and Graziers Association are celebrating, why? Because they got a 30 per cent price rise in their veggie contracts. There you are. The organisation that we created to accommodate those nasty people, Tryceratops, thanks to us, we got you a 30 per cent price rise for your vegies, hurrah.

What is happening? The date when that vegetable processing plant in New Zealand is commissioned has just been brought forward another six months to celebrate working around the reality, blind to what is actually happening because we don’t look, just focusing on us. So we need to break the mould from within. That’s about changing our behaviour. I am sick of hearing people saying it is somebody else’s fault. They’ve got to change and until they change we’ll do nothing. To break the mould, to break the stereotype, to even have a remote chance of achieving the paradigm shift, whether you believe it or not, you’ve got to change from within.

So where am I? I have been around the state. Rory has took me to Mount Gambier. I’ve been up to the Barossa, drinking lots wine, they are trying to train me how to ..... the industry .....Oxford Landing and a good one – I didn’t say that. I’ve been to the Riverland looking at citrus. I’ve been to Port Lincoln looking at prawns. Up to the Eyre Peninsula looking at lamb. I’ve been around talking to lots and lots of people. What have I spotted? You’ve got some key challenges here. Rising input costs. A volatile dollars, bad news, it’s just gone down. Why is that bad? Because you’re now exporting lots of stuff. No problem minister. What’s the man talking about? We’re conquering the world again. Completely out of control.

You just happen to be fortunate that the dollar is low so we’re conquering the world with exports and paying a fortunate for imports. Greater competition from around the world. With suppliers who are cheaper and better connected than you are. Pressures from the health lobby, eat less of this, more of that. From the alcohol lobby overseas, we’re drinking too much wine. No, buy some more. And the environmental lobby groups who are raping and pillaging our land and you want to produce more. No. Dysfunctional. Disconnected and, of course, climate change and the drought. The paradigm shift there is how we value water.

Internally, what do I observe, going around the place talking to people, listening to people, a fundamental imbalance, of course, between what you can supply, production capacity, processing capacity and demand. Tension between servicing an increasingly dynamic and complex market and our ability to get stuff there, you’re a long way away. Our ability to develop new products, it’s taking you too long. Fundamental disconnect between – it has taken us 18 months, in some cases, to get growers and processors and we still failed to get retailers in the room. Fundamentally disconnected in the chain which means there has been a breakdown. There is a breakdown in relationships and information flows and a fundamental lack of understanding of what customers need. How do we keep them happy? How do we get those repeat orders from Tesco, the Ahold, the Carrefour’s around the world and what consumers want.

What that means is, drop the exchange rate. You’ve got decreasing profitability all stages in the food and wine value chain. Everywhere you look, most people don’t, they just see, they’re not making any money. It’s all them. They’re making the money. No. There’s pressure at every point in the chain. Some businesses won’t survive but those that adapt will emerge from all of this crisis, particularly drought. Those that survive and adapt will emerge stronger and more resilient. It can be done. We writing up some case studies. Here is a list of some of the farmers that are doing this stuff so it is not

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just academic. We've got some companies doing this now. Some of them have been doing it for many, many years. The list is growing but they are the exceptions, not the rule.

What's the way forward? I think in order for this state to develop a food and wine industry that is going to survive and prosper, it needs to become much more responsive to this increasingly dynamic and uncertain environment. You need a much better – industry needs much better market intelligence, it's lacking. Businesses lack the skills, the processes and the organisational structure to grow sustainably. Far too much independence. Nothing like enough horizontal collaboration. Trust doesn't exist. We've got to help organisations build it and innovation needs to be encouraged and fostered through cultural change at the enterprise level, they're the guys and girls making decisions every day. At the sector level, how can we help you in this sector, apples, grapes, wine, citrus, lamb and at the community level. Our previous thinker and others, Jeff Morgan, have made a very strong case for innovative businesses relying on innovative communities.

So the answers to the – the solutions to the problems of drought do not lie with the food industry, with the food minister or the drought team. The solutions lie in the community. You've got to make those reasonable food groups work because they are a fundamental way of ensuring that entrepreneurial businesses in the state can survive. All state ..... need to get connected. What about the involvement of government, they're my major sponsor, I've got to say something about them. Well, I think greater collaboration across departments, across states and across regions and between government and industry means you can do more with less. You can leverage not only the funds, because you'll get co-investment, but also the expertise.

The wine industry has got its problems but many of them are just the same as the meat industry. Can you imagine getting a meat processor sitting down with a wine processor to share what, their understanding of the shopper who funnily enough buys meat at the same occasion as wine, wouldn't that be smart. Different language. Different sets. Why would you go there? A ..... implication across the state, across sectors. There's heaps of it. I didn't say. Value chain analysis – so breaking things down, and you only do this if you thought it was worth doing, can be used to prioritise issues. Where are what we call the "pinch points?" Where is it hurting. Again, it's hurting here. Don't bother going anywhere else, minister, give us more money, solve our problems. It's hurting everywhere. Where does it hurt the most and where can we remove pinch points first to enable us to survive. Identifying opportunities, market development, yes, but more importantly chain improvement products.

Government needs to help businesses get fitter. Get leaner. Get meaner. Get more responsive. Not fixing it for them. Give them the tools. Enable them to take control. Better directed R&D, More closely aligned with what consumers want. Shift the emphasis away from a very reductionist food plan: finish food, finish food, finish foods, exports, to a more holistic food policy where we embrace, with relish, the complexity of the world and our food systems. Shift the focus from industry strategy to industry development. Too much of this strategising together means industry is dependent upon you. They need to get their house in order and government needs to help them do that.

The last slide, ..... to watch. You're probably wondering, so what happened to Rex? Well, you know what happened to Rex. Rex, of course, is the stereotypical supermarket. Tyrannosaurus Rex stands for – translates at the tyrant king lizard – sounds like Tesco to me, might sound like Woolworths or Coles to me. A retailer, around the world, possible binocular vision. Go back to the Tesco Club Card, finger on the pulse of 12 million households. How binocular is that. What can they do with it? Nothing. If the stereotypical manufacturer and the stereotypical producer and the stereotypical government says: it's all your fault retailer, you're abusing your power, you're getting it all wrong. You

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are the cause of the problem when in fact poor old T-Rex is probably a key link to the solution and all the time we stereotypically push them away by accusing them of acting like this, we make it all the more difficult for them to engage. They don't engage. They defend their position. Most of the time, in other parts of the world, they do a very, very, very good job in giving consumers more choice for less. So T-Rex was very big, very powerful, brutish but like the other dinosaurs, they died because they couldn't adapt. Thank you.

**PROFESSOR PULLEN:**

I would just like to do the thank you, if you'll give me just a few moments. Thanks Professor Fearn for such an informative and thought-provoking presentation. Before you started I was a bit worried about where my next bottle of South Australian red was going to come from and in some respects I'm really not sure and quite worried, more worried than when you started. Thank you, minister, for joining us and participating in this evening's event which is an important and significant part of the Adelaide Thinker in Residence program. A program which continues to provoke real and meaningful social economic thinking to the benefit of South Australians all across the state. A transcript of this evening's presentation will be available at the Hawke Centre website shortly and further lectures in Adelaide Thinkers in Residence program will be publicised on their website and the Hawke Centre websites. These web addresses appear in flyers at the entrance to this auditorium. To our invited guests and our audience this evening, you're a very, very important part of these activities. Thank you so much for attending. Good night.

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