

Producer Groups



Showing the benefits for Sheep, Beef and Deer

Farmers.

By David Morgan

Acknowledgements

I would like to thank my wife Janet and children Eleanor, Brychan and Amelia for their understanding and patience while I was attending the Kellogg Course, and also to my staff for keeping the farm business going while I was away. I would also like to thank the facilitators and the participants for their interaction on this course.

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Producer group / clubs

In this paper I intend to explore the concept of establishing Producer Groups.

I see the establishment of such groups as a way of establishing a better link with processors and exporters and a way of establishing a premium for the groups produce

It is my opinion that Producer groups only really suit dedicated farmers striving for high performance out of their business

An essential element of the "Producer Group" concept would be that this group of farmers strive for improvement and are not afraid of being benchmarked against their peers.

Benchmarking amongst a group who were interested in being a member of such a group is critical, because it gives them the ability to use the benchmarking exercise as a tool to help gauge their production and profitability.

The strategy of the producer group would be to set a culture of competition, high standards and mutual learning and motivation to be at the fore front of farming.

New Zealand agricultural production systems are really one big producer group as attendance by a lot of farmers at discussion groups, field days and farm visits are usually attended by most farmers in individual sectors within agriculture.

However, these activities are generally generic and run by industry employees, consultants or peak lobby groups. These activities tend to inform

participants on trends, new technology and current production leading production practice. They are designed as a shotgun industry good vehicle for delivery of industry good information they do little to challenge, question and change behaviour for the individual. In some cases leading farmers get their information played back to them for the benefit of all suppliers

It is my belief that in the short term the use of smaller groups of suppliers within the larger meat companies could be a great tool for producing high quality safe food for the market at better rates of return per kilo than is currently available.

The Problem

In recent times we hear lots of quotes of disgruntled farmers saying we only produce enough food for '20 million people' what is the problem, we could be charging more, why aren't we getting more, this marketing company is no good, that processor is no good, they are dumping, they are under selling etcetera, etcetera.

It is quite frustrating listening to some of these comments on times. I feel that some guys need to take a good look at themselves and their industry. Yes we are very proud producers and see ourselves as occupying a niche market, but so too do Welsh lamb, Welsh beef, Scottish beef, Cornish lamb. These groups of people and producers are all seeking the same niche markets as we are. When farm gate returns are good the moaning stops... However, good farm gate returns for red meats especially is cyclical. When returns fall

participants blame the dollar, overcapacity in the market and the continued ease of entry into marketing product off shore.

Well what are we prepared to do about it?.

Given all the things that we can't control we need to think seriously about the things that we can control. We need to be one step ahead of all those who compete with us (including friends and neighbours) and set up elite producer groups.

I have seen this work especially well with lamb. A good example of this this is ANZCO Foods with the Waitrose lamb group.

It helps Waitrose keep a premium product on the shelf for twelve months of the year. The payoff for Waitrose is a consistent flow and quality of product from a known group of suppliers. It means the supply chain is auditable which allows traceability to the food source. It is the not unique but reliable "pasture to plate model"

There are around 120 suppliers in this producer group in New Zealand and a few more in Wales. They work alongside each other to supply Waitrose with a premium high specification lamb twelve months of the year.

Later in this project I will prove how successful this has been for me personally over the last 10 years. Membership of the group has provided me with a schedule of required supply which has then equated to a premium for meeting the specifications and grades for the lamb supplied to Waitrose.

I personally would like to pass on my knowledge so that t people to have a better understanding of the operation and the positive approach that producer groups can have on a livestock based businesses.

We have a fantastic story to tell in New Zealand. I believe that producer groups are a great way to start the ball rolling.

I can only see in years to come if we can get the supply model right that the whole of New Zealand becomes a producer group producing quality safe food for a discerning

Consumers worldwide

How to

AA step by step approach will be required. Gaining a premium within certain parts of the world at the moment with the economic downturn is difficult.

An effort needs to be made to target new markets but not at the expense of traditional market just because we have a couple of bad years of returns from them.

Diversification into new and emerging markets needs to be undertaken in ain a structured manner.

Using a strategy of establishing producer groups will be beneficial to the long term economic development of the participant's farms.

Producer groups working closely with manufacturers and buyers will provide an increase in value for all. Meat companies can use the groups to provide product that is fit for purpose and the producer group will be able to remove the seasonality from supply for them.

Further down the line specific product development for the end users requirements can be developed. Integrating producer groups into the supply chain is the only way to add any more value.

Suppliers are the only ones who can provide a reactive flexibility to meet market demands in the short term.

Supplier Selection

Supplier selection is often word of mouth between farms and existing groups, for example, a farm discussion group or at field days.

However a more practical way to select farmers for Supplier groups is to target those with “Skin in the Game”, they have the most to gain and lose. Not all of these types however suit a good supplier group because in a well set up group individuals would add something to the group and help members learn by adding their story...

The farmer could be a winner of different competitions and awards, a good example of this would be the Environmental awards, which highlights not only good farming practice but the supplier understands consumer demands,

which in turn helps the meat company promote good farming practices and can be used in telling the marketing story.

Not all producers are the same, so this will not suit every supplier.



Vs.



Most farmers want to back, a forward thinking company because they are producing top quality products. Qualifying to be a member of a producer group that supplies these companies becomes beneficial to the individual because they can see that the efforts that they make supplying product to the company are producing leading edge products that are valued by customers.

Producers groups are a way of meeting consumer demand adding value and providing opportunity for the group and its members to move up the value chain within their supply category.

Secure Income

An example of how good producer groups can help secure is by way of forward contracts or fixing price for livestock.

It seems to me that this would be a more professional approach to our livestock sector.

We hear a lot of talk about Fonterra and how the dairy farmers are happy to be in their type of supply structure that that they operate. Especially understanding what price they are going to receive.

This is how I see the producer group working with a fixed seasonal price structure beef, sheep and venison producers.

Producer groups would have a set forward price structure possibly a Schedule Plus cents per kilo.

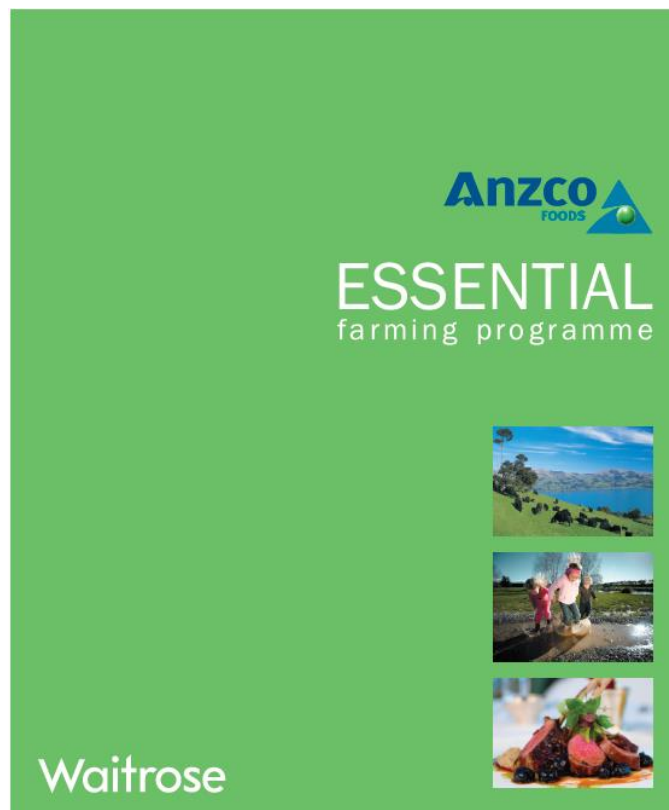
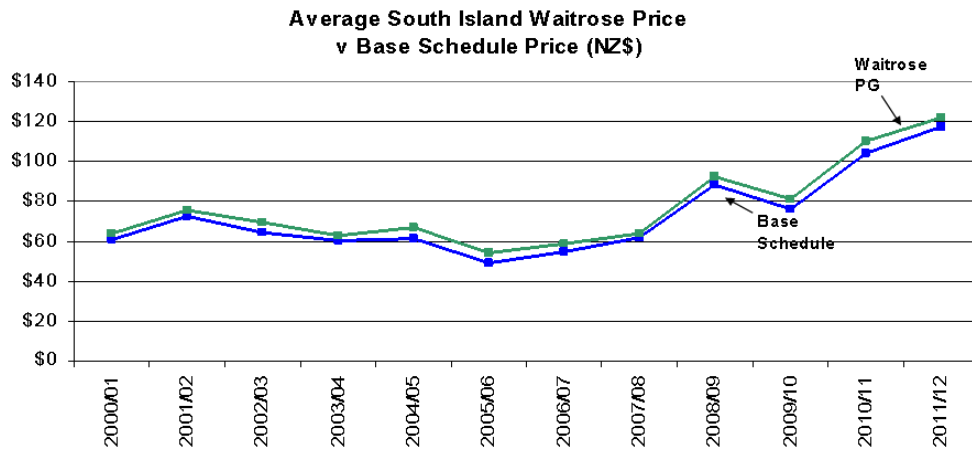
The group could then be locked into price advantages for timing of supply and meeting specification for any range of criteria for the different markets.

A good example is the move by CMP suppliers to control Ph in the animals before slaughter. The CMP group have developed handling methods that reduce stress in their stock to very low levels. The resultant products have a low Ph and a taste and tenderness advantage.

Further spin offs are that stock are handled in a quite manner which allows the product gains but is also a marketable fact for promotion.

The rationale towards my positive approach to the producers groups has been my association with such a group over the last 10 years.

Below is a graph showing the past 10 years benefit of being a part of the Waitrose supply group.



ANZCO Bull producer group

Another example of a good producer group is the bull beef producer group for ANZCO. The Bulls supplied through this arrangement are targeted as a premium niche ingredient which ends up being a beef burger for McDonalds Food chain.

In the economic global downturn more people globally have traded down when into fast food when eating out.

However, while McDonalds wouldn't like it being said that people have traded down to them when choosing food, the effect on their business is impressive.

McDonalds 67 million people per day visiting their businesses worldwide, this which equates to around 1% of the global population.

McDonalds demand for ingredients s has a pretty staggering effect on food production worldwide.

In 118 countries 1.4 million tonnes potatoes are produced for French fries per year and 880,000 tonnes of beef is used in their patties per year.

McDonalds is a well organised and well run highly successful operation.

The potential for growth and expansion is huge. Therefore the potential for growth in supply of Bulls to the ANZCO contracts is huge.





Bull beef for the McDonalds contracts is sought after. Our beef being grass feed helps the beef patty stick together better. The beef from New Zealand is ground in to mince as an additive to feedlot sourced beef in the US.

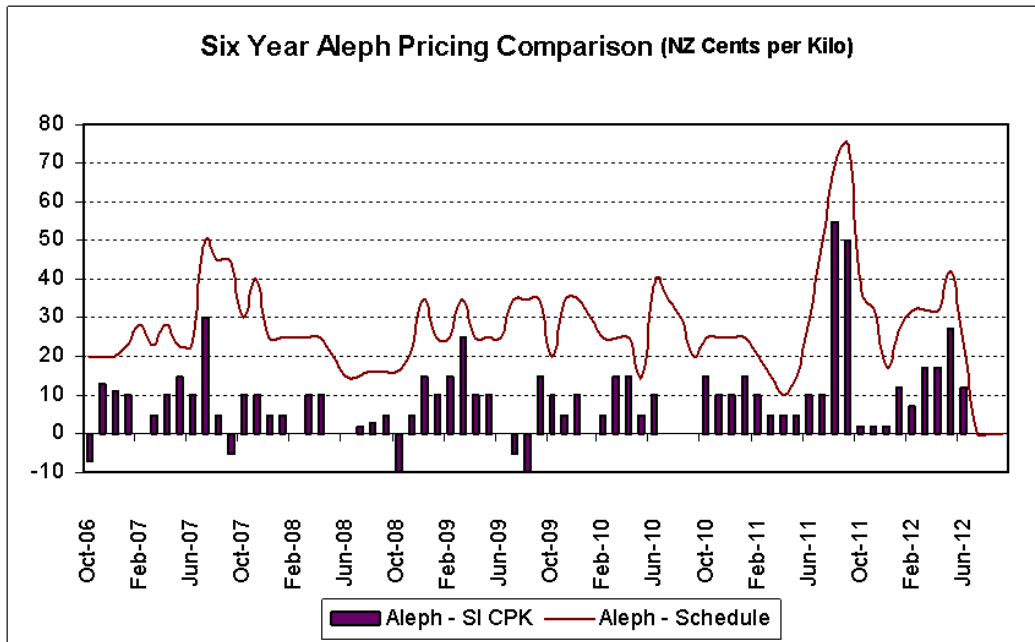
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By David Morgan

Bull Beef contract In many cases this done based on a schedule price plus a bonus.

For example:

Today's South Island schedule is \$3.90 / Kg plus.

Using a 285 kg average carcass weight plus your 20 cent premium, this equates to \$57.00 / head bonus.



Supplier Development

Supplier development, this will most likely be based on the benchmarking done, tying in with the kill sheet information and looking at areas of improvement.

Development is easy if you are rewarded. The producer group will develop pathways for such a process and introduce services to increase producer's management ability, which in turn, leads to better production and meets the product specifications for each market.

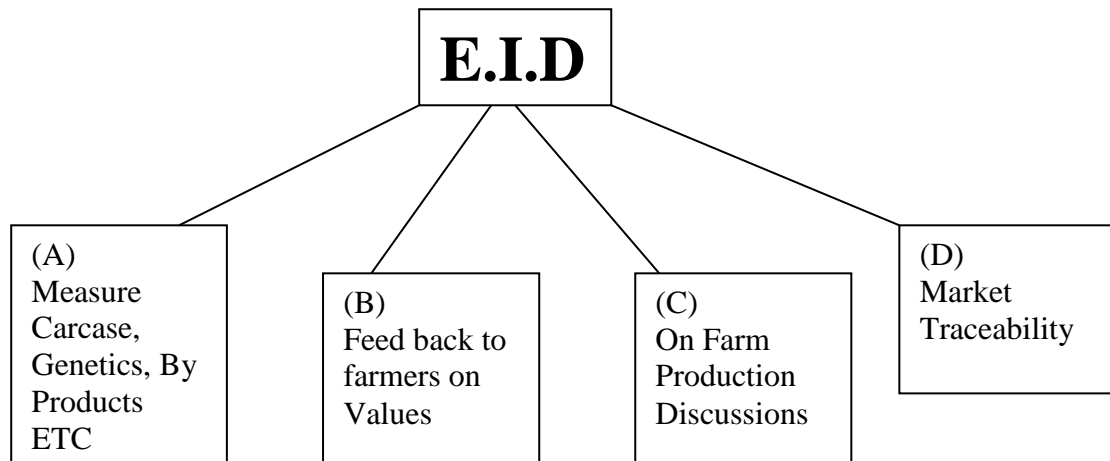
A well run producer group should result in the following.

- Good/best practice farm management.
- A sense of belonging.
- High level of commitment (both parties).
- Top performance. (Know what 'rank' you are, in turn increasing rate of improvement).
- Good relationships and relationship skills.
- Trust and transparency
- Communication
- Sustainable business.
- Reduced uncertainty will lower the business risk for both parties.
 - QA risk, supply risk, market risk, performance risk, logistics risk, predictability of supply - (can see beef supply further out due to known live weight).

Positive use of E.I.D which is a great asset to all producer groups.

Max the value of Our Production Unit

Finished Products – Lamb, Beef & Venison



Next step – Training to use information to impanation

Future measurements –

1. Age/Class of stock

2. Meat yield – carcase confirmation By Products / Co products
Shoulder / middle – leg yields
3. Meat quality – tenderness measure
 - PH
 - Bruising
4. Industry standard grading
5. Health status
6. Number of animals, accurate forecast on farm
7. Clostridia threat!! Where is research on this at the moment?

Summary

The Building of Strong Producer Groups

- Livestock purchased by contract – allows for accurate long term planning
- Guaranteed killing space in line with contracted commitments
- Benchmarking reports for comparison with peers and own historical performance
- Producer Group days bringing the customers to the producers
- Market place visits taking the producers to the customers
- Learning workshops for innovation and continuous improvement
- Committees involving producers drive developments and direction

Producer Group Management

- Focus primarily on adding value to programmes and further cementing producer relationships

- Communication to build producer confidence in the companies they deal with
- Knowledge exchange to assist producers improve performance
- QA systems development to protect and create customer access opportunities
- Feedback and benchmarking to drive producer performance, supporting practice change initiatives

Producer Group Strategies

- Focus on creating sustainable competitive advantage in relationships between processors and producers
- Producer Groups will come up with strategic initiatives such as
- Communication – building greater understanding by all participants along the value chain
- Farm production story and supporting it with evidence
- Pricing and contracting – achieving stability and flexibility to manage risk
- Ensuring security of supply

References:

- Anzco Foods
- David Morgan personal experience