FEDERATED FARMERS OF NEW ZEALAND

Meat Industry Options

A Discussion Paper

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THE UNIQUE CHARACTERISTICS

of the meat industry, as summed up by Anita Busby,
Editor of the *Meat Producer* from 1987-89.

"Meat industry people don't need to take advice or listen to new ideas. They already have the answers. They strangle new thoughts at conception. If that fails, they discredit the source. If you haven't been in the meat industry for years, you don't know what you are talking about. If you have, you're washed up…

Presenting any new view on restructuring for the meat industry is akin to holding a loaded gun at your head. There will be a clamour to pull the trigger. You pull it yourself, then blame the Meat Board! Someone will always bring a bigger gun to the party and it is likely to go off when least expected."

Quote from 'Meat Acts: The New Zealand Meat Industry 1972-1997'
by Mick Calder and Janet Tyson p.206

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EXECUTIVE SUMMARY

The Context

This paper is intended as a discussion document for the members of Federated Farmers. Its aim is to stimulate informed debate with regards to the New Zealand Red Meat Industry.

The Red Meat Industry is a key contributor to the New Zealand economy and has evolved significantly since the 1980s. It has shifted from being a subsidy driven volume based production sector selling frozen carcasses, to being focused on production efficiencies and product quality and selling value added, chilled cuts of meat. However, the lack of profitability at both the production and processing levels has created much uncertainty about the future of the industry.

The current situation in the meat industry is fragmented, with many participants including: suppliers, procurers, processors, exporters, marketers, distributors, customers and consumers. The structure and behaviour of participants in the industry has allowed for competition at multiple levels of the supply chain and a lack of investment along the whole value chain. Processing overcapacity is another issue which continues to plague the industry. New Zealand is internationally regarded for producing consistent, high quality meat, however with a large proportion of meat being sold using business to business branding rather than consumer branding, this limits the ability to attract a premium for the product.

Some of the important concepts explored include the differences between commodity and value added customer types. It also looks at the different types of cooperatives and some of the common problems associated with them. Along with three different market orientations: product leadership, focused on innovation and speed to market, customer intimacy, based on economies of scope and establishing customer loyalty as these organisations focus on the lifetime value of a customer, and operational excellence which focuses on economies of scale.

The options presented in this paper are split into three key sections: behaviour, processor and marketing focused options. It explores a range of alternatives and some of the key points to be considered with regards to each.

Behaviour Focused Option

Looks at supplier behaviour and the relationships they have with processors and marketing companies. It explores the role stock agents could have in adding value, the impact of variation between the committed and spot market price and how behaviour change could shift focus from procurement to the market. As well as ensuring suppliers values and the values of the company they supply are aligned and both are working towards the same end goal.

Processor Focused Options

Merging the cooperatives. The points to consider regarding this are: the variation in supply patterns between sheep and beef and dairy, differences in product form, the market type targeted (commodity or value added), ownership structure and control, variation in cooperative investment levels and the share structure of the cooperatives.

Tradable processing rights (TPR) involves the allocation of processing rights based on current market share. Companies could then sell their rights, but as a result of doing so would have to destroy the associated capacity. This would assist with the process of rationalisation, however the proposed allocation scheme may not reward the pursuit of a value added strategy. It is hoped this option would help shift focus from procurement to the market.

- Toll processors can specialise in processing for other parties, allowing processing to be separated from marketing and allowing each to focus on their core business, avoiding the pitfall of trying to be all things to all people. Strong customer relationships are an important element. Toll processing allows the processor to focus on efficiency while marketers focus on supplier and customer relationships, suitable for a value added market type. Vertical integration form the market end can also be considered with this strategy.
- Given the losses that have been sustained, one company collapsing is an alternative that can't be ignored. If this were to happen and a company were to end up in liquidation then assets could potentially be cherry picked by the remaining companies, however overseas ownership by the likes of JBS is another very real option. In this scenario the desired industry scale might be achieved however farmer control would almost certainly be lost.
- Introducing a system such as that used in Uruguay to increase the transparency in the industry could help to improve coordination, collaboration and in market behaviour. It could also assist in making sure focus remains on generating additional value and demonstrating where that value is being added.

Marketing Focused Options

- Establishing a single desk seller, could help achieve critical mass, improve investment in market development and R&D. However it would also require significant legislation changes, and may remove some of the positive benefits of competition in the market for stimulating growth.
- Co-opetition market engagement involves companies collaborating in some markets while they compete in others. This has been successfully done by the NZ Lamb Cooperative and in the Avocado industry. It allows scale and critical mass in market, rather than a monopoly which is regarded as anti-competitive. You can also be selective about how and where you use it, targeting markets which require significant investment and development.
- Having multiple marketing companies which have an emphasis on strong producer and consumer relationships. This would allow them to maintain a strong market focus, while maintaining the advantages that come from competition in market. However, these are reliant on toll processors to be successful.
- A Trans-Tasman marketing effort where Australia and New Zealand unite in the ANZAC spirit to achieve greater scale, and improve investment in R&D and market development. We can also learn from each other having followed different market strategies over the years. This strategy could also be used in selected markets where substantial development was required.
- The Northern and Southern Hemispheres could be aligned to match the seasonality of each hemisphere with each supplying product for six months of the year. This could have large impacts on production and the processing industry. There is also risk around product quality and branding.

It is now up to you to decide what you want the industry to look like in 5, 10 and 20 years time? What type of product do you want to be selling? Are you competing with the guy down the road or is the real competition the producers in Argentina? The decision is yours. If you believe it is time for a change, we encourage you to select a company who shares your view of the world and has a strategy to match, and support them. Commit your supply to them, communicate with them and work together to achieve your shared vision for the industry.

1. BACKGROUND

1.1 Introduction

The red meat industry is a key contributor to the New Zealand economy, being the second largest export category valued at $5.16 billion in 2012 (1). With the government's stated objective to double exports by 2025 (2) the meat industry has an increasingly important role to play going forward. However, a lack of long term profitability at both the production and processing levels sees the industry in turbulent waters and facing an uncertain future.

There has been much discussion surrounding the future of the Red Meat industry, highlighted by the number of reports written on the subject over the past decade. One of the more extensive reports was the Red Meat Sector Strategy (RMSS) from 2011. The RMSS called for informed, aligned, behavioural change, in order to achieve coordinated in-market behaviour, efficient and aligned procurement, and sector best practice (3).

The substantial losses sustained by many of the meat companies during the 2011/2012 season and the subsequent low prices of the 2012/2013 season, has brought new intensity to the red meat industry debate over the past year. Much of the recent discussion surrounding industry change has been stimulated by the emergence of a new farmer lead group called Meat Industry Excellence (MIE). MIE held a series of farmer meetings around the country during April and May 2013. These meetings have highlighted the mood for change amongst farmers, with the widespread feeling that the current industry model is unsustainable.

"since the 1980's the industry has evolved from a subsidy driven, volume based production sector, to one that is more focused around production efficiencies and product quality"

This paper is intended to inform the members of Federated Farmers what is happening in the red meat industry and outline some of the potential options for the industry in order to stimulate debate and allow members to make informed decisions.

1.2 Evolution of the NZ Meat Industry

The New Zealand Red Meat Industry has evolved significantly since the first shipment of frozen carcasses was sent in 1882. Traditionally the industry was commodity based, and driven by supply rather than demand. However, since the 1980's the industry has evolved from a subsidy driven, volume based production sector, to one that is more focused around production efficiencies and product quality, is market-oriented, and operating in a market economy (4; 5; 6)

Some other key evolutions include:

- Ownership of the processing industry has shifted from being predominantly foreign owned up until the 1970's to now being primarily domestically owned (7).
- Subsides introduced in 1978 were removed in 1984 (8) leading to a focus on quality rather than volume.
- A Quality of Product Acknowledgement Agreement was adopted in 1988 which addressed quality and tenderness issues for meat. It replaced the minimum quality standards that had been in place in the meat processing industry (4).
- Product form has evolved from frozen carcasses to a range of both chilled and frozen and bone-in and boneless cuts of meat (6).

- The shift from frozen to chilled product has brought about challenges regarding continuity of supply in a seasonal biological system.
- The advent of controlled atmosphere packaging has enabled chilled meat to be safely stored for up to sixteen weeks. Allowing chilled product to be shipped by sea, using the travel time as part of the natural aging process and still having several weeks of shelf life upon arrival.
- The customers being served have evolved from meat wholesalers to butchers and supermarkets (6).
- Increased hygiene and inspection requirements have led to plant upgrades (9).
- The end consumer has also evolved towards smaller families and two working parents, making convenience more important and increasing demand for smaller cuts.

Further processing has shifted from being a fringe activity in the early 1980's to being seen as an economically viable option. This was assisted by the de-licensing of the processing industry in 1981 and the introduction of the Meat Board's Lamb Carcass Purchase Agreement for Further Processing (LCPAFFP) which was in place from 1982-1984 (9; 6).

The Meat Board has had a constantly evolving role as the meat industry progressed. They have maintained relationships with producers, processors, and exporters in order to continue to meet the evolving needs of the international markets and domestic industry. At different times the Board has been in charge of marketing product, managing price supports, pricing, promotion, and research (4).

1.3 The Current Situation

The current model in the red meat industry is fragmented and involves many businesses at each stage of the supply chain (outlined in section 1.4). Supply chain participants often operate individually allowing them to develop their own relationships both vertically and horizontally. However, it also means they often behave in an uncoordinated manner, and there is a lack of transparent information and communication between the sector's participants. This results in an inability to achieve scale, or coordinate activities in the manner necessary to take advantage of opportunities, and maximise returns to the sector. There is also an inherent lack of trust in the sector. Furthermore, participants can often end up competing against one another both for the procurement of stock and again in the international market place (6). This further hinders the quest for a vertically integrated value chain and resulting in a lack of trust between farmers and processing companies (10).

The current industry structure and the behaviour of participants in the red meat industry appears to have led to under-investment in the development of the overall value chain. The low profitability and capital constraints, particularly in processing have led to a lower proportion of investment in product development, branding and promotion (11; 10). This is because the current model in the meat industry relies on early adopters to invest in research and development. These businesses must shoulder the risk but can then also reap the rewards. As a result, investment in R&D has been low. Few people have been prepared to make the investment in an industry where there is competition at so many levels you quickly find any advantages have been duplicated by your competitors.

The New Zealand meat industry has evolved to the point where it is internationally regarded as producing consistent, high quality meat. However, the majority of the meat sold from NZ is under business to business branding, rather than using consumer branding

Overcapacity in the processing industry is an issue which has plagued the meat industry since the 1980's. While plant rationalisation has occurred, and there have been a number of mergers over the past three decades, it is still an issue which is described as being at the root of the industry's problems today. Processing capacity ties up large amounts of capital and has high overhead costs. So having excess capacity, fuels the procurement competition, as companies try to secure sufficient supply to continue operating their plants efficiently. This can distort the market signals which farmers receive.

The New Zealand meat industry has evolved to the point where it is internationally regarded as producing consistent, high quality meat. However, the majority of the meat sold from NZ is under business to business branding, rather than using consumer branding (12). This limits its value overseas and the ability to attract a premium, as the credence attributes which differentiate it are not necessarily able to be portrayed to the customer. This is particularly evident when it is sold to intermediaries for further processing, used in food service or sold under home brands in retail (11). Although country of origin branding has opened up markets and achieved strong customer recognition, it has only created price premiums for a small percentage of products, in the high quality premium product category in some markets. A large proportion of exported product is sold at or below the average domestic retail price (4).

1.4 Supply Chain Participants

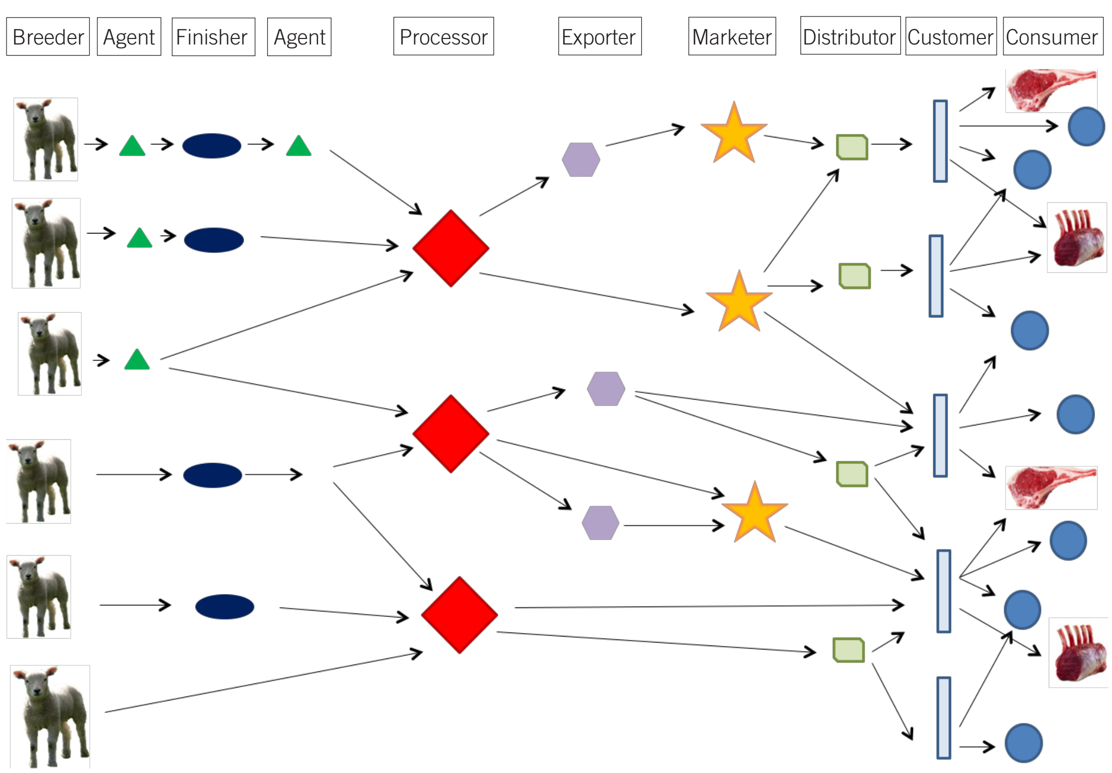
Supply and Value Chains

A supply chain is the pathway through which products move to get from production to the final consumer. A value chain is where all elements of the supply chain work collaboratively to add value to the product at each stage of the chain, in order to deliver a product that is tailored to customer's requirements and is valued by the end consumer.

Product Flow in the New Zealand Red Meat Industry

As can be seen in Figure 1 below, there are many different pathways for product to reach the final consumer within the current meat industry structure. The role of each participant will be explored further below.

Figure 1 Product Flow in the New Zealand Red Meat Industry



Suppliers

Suppliers include both breeding and finishing farmers, and provide the foundation for the value chain. Breeders are responsible for the production of each season's lamb crop. Come weaning, depending on land class, climatic conditions and feed supply, breeders may:

- Retain lambs on farm and assume the role of a finishing farmer
- Sell or share farm store lambs to a finishing farmer who brings them up to killable weights
- Sell lambs which have reached killable weights directly to a processor

Sales can occur either through contracts or on the spot market. The spot market is where the best price is taken on the day with no prior commitment. The act of determining the spot market price is often referred to as the 'Sunday night auction' where a farmer or stock agent will ring around multiple companies to determine who will offer them the best price for the stock over the coming week.

Breeding and finishing farmers may have direct relationships amongst themselves and/or with processing companies, or transactions may occur through a third party such as a stock agent.

Procurer

The procurer can be an individual or a company, commonly referred to as a stock agent. They facilitate the movement of stock between farmers and to the processing companies. They may be aligned to one or more processing company. They often have strong relationships with farmers; understand them, their farming systems and their stock. They can often be the primary contact point for farmers seeking price and market information.

Processor

Processors are responsible for the disassembly of the livestock to create multiple forms of meat products. The industry is currently dominated by four large processors, which each operate multiple plants of various scales throughout New Zealand. Two are farmer owned cooperatives: Silver Fern Farms (SFF) and Alliance Group Incorporated (Alliance) which have a 52.7% market share (13). The other major players are AFFCO which is privately owned by the Talley family and ANZCO Group (ANZCO) which has 73% Japanese ownership (14). There are also a number of smaller processors, many of who only operate one or two plants and often specialise either in operating a single chain or single species plants.

As of 2012 there are 29 meat processors operating 66 processing plants in New Zealand (15; 16). Some exclusively process meat, while others operate as processors and exporters.

Exporters

Exporters provide the link from New Zealand to our international markets. As of September 30th 2012 there are 209 registered exporters (17). Some of these exporters process meat themselves but many are exclusively exporters.

Marketers

Marketing has a critical role to play in the value chain for the meat industry. Much of the marketing capability in the red meat industry currently sits within the processing sector as a result of the changes which occurred in the 1980's. Findings in the RMSS suggested that the marketing teams are often very small, that there has been very little investment in marketing or market development activities by the processor/marketers, and that they share some common customers in key markets (3). There are also some marketing companies who secure the supply of livestock and have it toll processed by a third party.

Distributors

Distributors provide the link from the exporter or marketer to a large network of customers in our international markets. They can provide essential local knowledge and connections.

Customers

Customers can be manufacturers, retail outlets or the food service industry. Each type of customer has different needs, consumers and therefore product requirements. Manufacturers typically look to further process product and therefore seek low value cuts which are made into other food products such as meat pies. Retailers such as supermarkets may be interested in case ready meat from the processor and marketer, either labelled or unlabelled; or they may further process product in store using their own packaging, branding and labels. The food service industry is typically made up of restaurants. They are interested in the high value cuts, and consistency of product is the main priority.

Consumers

The consumers are the final link in the chain. They are the individuals who purchase and consume the meat, be it through food service channels or retail outlets. The value chain is focused on delivering to consumers requirements because their willingness to pay determines the true value of the product.

As you can see in Figure1 there are a number of different pathways that product can take from farm to market, and a large number of industry participants. This provides numerous opportunities for competition throughout the supply chain. As was pointed out in the RMSS the industry cannot afford to simultaneously compete at two points in the supply chain: procurement and sales (3). This behaviour is destructive to the objective of becoming vertically integrated. It is further compounded by the fact that because NZ producers are so good at what they do there is almost no ‘bad product’. So from the market perspective, you can afford to play them off against one another, as you will still end up with a quality product (12).

1.5 Important Concepts

1.5.1 Customer Types

The red meat industry delivers to two distinct market and customer types: commodity and value added. Each requires a different approach and can be better served by different business models (6).

COMMODITIES

Commodities are products which can be bought and sold and for which the attributes of the same product don’t differ between competitors. Commodity markets are throughput driven so achieving economies of scale is important. Because commodities are not differentiated a competitive market approach is required, which is often better suited to larger businesses. It is the commodity market in which the NZ meat industry was established (6).

VALUE ADDED

Products delivered to a value added market are differentiated, meaning that one or more of the products attributes are different from those of their competitors. These products have been part of a value chain where at each stage the product is developed in order to deliver a product which is tailored to the needs of the end consumer. These markets require a market driven and collaborative marketing approach. This can better suited to smaller businesses, as it requires innovation, flexibility and strong relationships with both niche customers and suppliers (6).

1.5.2 Business Models

It is important to understand the difference between business models and ownership structures. Business models cover the logic of how a business operates and what drives decision making whereas ownership structures cover the type of legal entity a business operates as.

Understanding a business model can be complicated but the nine building blocks provided by the Business Model Canvas (18) provide a great platform to understand the logic of how a business operates and what its key drivers are.

The building blocks are:

- customer segments
- value proposition
- channels
- customer relationships
- revenue streams
- key resources
- key activities
- key partnerships
- cost structure

More detail on each of these building blocks is provided in Appendix A

What innovations occur within a business model will be determined by which building blocks are at the core of driving the business model. There are three drivers that are the most relevant to the red meat industry

- Resource driven business model innovations are those which originate from an organisations existing infrastructure, in the case of the red meat industry the key driver will be processing plants
- Offer driven business model innovations are driven by the desire to create new value propositions.
- Customer driven business model innovations are based around customer needs, facilitated access or increased convenience (18).

1.5.3 Ownership Structures

If any significant structural changes were to be made in the meat industry then the ownership structure will be a major consideration. It is therefore important to understand the different options available.

COOPERATIVES

Cooperatives are unique structures and have served the agriculture industry well over the years. NZ.Co-ops define a cooperative as: an enterprise, freely established, that is owned and controlled by a group of legal persons for the purpose of equitably providing themselves with mutual benefits arising from the activities of the enterprise, and not primarily from investment in it (19). However, cooperatives are not simply a one size fits all. There are six different types of cooperatives identified by Chaddad and Cook, based on the ownership rights of members (20). These include:

- Traditional cooperatives
- Proportional investment cooperatives
- Member investor cooperatives
- New generation cooperatives
- Cooperatives with capital seeking alliances
- Investor share cooperatives

There are a number of issues that can arise from cooperatives that impact on the way the cooperative operates and the benefits members receive. Some of these are addressed by the different ownership structures while others are not so it is important to consider the potential problems and the influence they may have when deciding on an ownership structure. Problems can include but are not limited to:

- External and internal free rider problem
- Horizon problem
- Portfolio problem
- Control or agency problem
- Influence cost problem
- Redemption risk

Please see Appendix B for more detail on the six types of cooperatives and the potential problems.

COMPANIES

With cooperatives playing such an important role in the NZ agriculture industry, it is important not to lose sight of the role a producer owned company could play. They share many of the same elements of farmer control and distribution of benefits as a cooperative but it is a potentially more flexible structure. Traditional investor owned companies, either privately owned or publicly listed are another viable option for the industry. They have also played an important role in the industry to date and will continue to do so going forward.

1.5.4 Market Orientation

Market orientation is important as in today's competitive market as no company can succeed by trying to be all things to all people (21). To become a market leader, they must choose one area in which to excel, while maintaining industry standard in the other areas.

PRODUCT LEADERSHIP

Product leadership is a market orientation centred around speed. The key activities include product development and market exploration and they must have sufficient flexibility to be able to adjust in their fast paced, ever changing marketplace (21).

CUSTOMER INTIMACY

The customer intimacy market orientation is all about building bonds with customers and focusing on delivering exactly what that customer wants, not necessarily what the whole market wants. Customer loyalty is the greatest asset of a customer intimate firm. Economies of scope are important to ensure that once the relationship is developed, as great a portion of the wallet as possible is captured. Hollow delivery systems where some capabilities are contracted are not unusual in a customer intimate firm. This is because the firm's value lies in their knowledge and how they can coordinate expertise, rather than in what they own (21).

OPERATIONAL EXCELLENCE

Operationally excellent firms are focused around economies of scale. Formula is key, as actions must be repeatable time and time again, and analysis plays an important role in the business. All processes and services are optimised and streamlined to minimise cost and hassle. This can include searching for ways to minimise overhead costs, eliminating intermediate production steps, reducing transaction costs and optimising processes across functional and organisational boundaries. Operationally excellent companies aim to focus on a narrow product line to create economies of scale and avoid variety and the additional costs associated with it. Operationally excellent firms will also try to ensure a constant volume of business to keep assets continually working. They will try to find new ways to use existing assets since the biggest threat is assets which turn into liabilities (21).

(Please see Appendix C for more detail on the diferent types of market orientation)

The concept of market orientation and not trying to be all things to all people is one supported by BRR (Brian Richards) one of New Zealand's best brand strategy companies. They are responsible for assisting some of NZs more iconic Agricultural brands including: Cervena venison, Icebreaker, Wools of New Zealand, Zeque Merino, and ENZA's Jazz and Envy apples. BRR strives to identify a unique brand positioning for their clients, while developing a single minded proposition and focus for the company. In order to avoid the pitfall of trying to be all things to all people, particularly when you are trying to grow your brand (22).

2. BEHAVIOUR FOCUSED OPTION

2.1 Supplier Behaviour

2.1.1 Overview

One of the key messages from the RMSS was the need for informed, aligned, behavioural change. One of the core strategies which supports this is the need for efficient and aligned procurement (competition offshore rather than at the farm gate, fair and sustainable farmer returns and transparency of information) (3). Behavioural change, and how to strengthen the relationships between farmer suppliers and the company they supply, be it a processor or a marketer has been widely discussed across the industry (23; 24; 25; 12; 26; 11; 13; 27). It was encompassed in two of MIE's six objectives and has been touted as one of the ways farmers can make a significant difference to the industry (26).

Fostering closer relationships between farmers, processors and marketers can have multiple benefits. Improved communication between the parties can assist with the flow of information throughout the chain. If farmers are communicating with the processing company they supply, they can provide indications of what volumes of stock they are likely to supply for the coming season and the times when this is able to be supplied. As the season progresses any changes are able to be communicated. This can help ease some of the pressure around companies chasing procurement and allows more informed long term investment planning to occur (24; 25). Having a closer relationship with the processor also means that information from the market is more likely to reach producers. This helps producers to gain a clearer understanding of what is going on in the market, and working with the processors and the marketers to produce a product that the market desires.

2.1.2 Points to Consider

STOCK AGENTS

When looking at the procurement relationships that currently exist, the role of the stock agent is one that must be carefully evaluated. They often have intimate knowledge of the farmers system and know when each farmer is likely to be buying and selling stock. There is the potential for them to add immense value, with regards to the coordination of stock movement and the optimisation of the farming systems. However, the traditional procurement model is reliant on keeping the producer at arms-length from the processors so that the stock agent is the source of information for the producer rather than that information coming straight from the company (24).

Ideally, stock agents would be working exclusively for one company. They would be creating value by helping to foster the relationship between breeders, finishers and processing companies. They would coordinate procurement of prime stock for the processing company and would align breeders and finishers to help optimise each farming system and create more surety around supply (24; 23). However, until these changes are made there is a risk the stock agent will remain a cost centre, fuelling procurement tension in the supply chain, rather than being a link that adds value as part of an integrated value chain (27).

COMMITTED PRICE VERSUS SPOT MARKET PRICE

If there is to be an increase in the volume of stock that are formally committed or contracted to processors in advance, then there must be an implicit agreement that stock which is committed receives a higher price than stock purchased on the spot market. Farmers and processors must also understand that a commitment is a legal commitment and this should be formalised (28). A commitment doesn't have to be a fixed price or fixed specification contract. The important aspect is the communication throughout the season about what you will be able to provide, when and to what specifications, allowing processing companies to plan processing and marketing. With the goal to eliminate some of the inherent distrust farmers have in the processing companies (28).

The *important aspect is the communication throughout the season … allowing processing companies to plan processing and marketing.*

A guarantee that the price a committed supplier receives would be higher than that price received on the spot market would help to marginalise the spot market and eliminate the 'Sunday night auction', which currently creates much of the uncertainty around procurement. Having stock agents aligned to only one company would also assist with easing procurement tension. The success of this needs be centred around transparency and trust and all parties must believe in it (27).

ALIGNED VALUES

If you are going to commit your supply to one company, then how you select this company is very important. Have a look at the philosophies of the company you are going to supply and what they are trying to achieve, do you agree with them? Are you both working towards the same end goal? (25) Because, if the goal on your farm is to be producing a high quality, traceable products with links to the final consumer and you are supplying a company who is focused on processing large volumes of product at the cheapest possible price, then this is likely to lead to some tensions.

When it comes to a company executing their vision, getting stakeholder buy in can be of great assistance. For instance the CMP Waitrose producer groups, where customers come on farm and farmers go to market. This allows for better understanding, transparency and communication channels. If you understand what the other party wants, the reasoning behind this and the challenges they face, you have a greater chance of delivering it and therefore extracting a premium. Another example is the mind set shift that has occurred amongst Firstlight Venison producers. They used to see themselves as producing an animal for slaughter. However, after buying into a shared vision and maintaining ownership through to the end consumer, they now see themselves as producing premium cuts of venison for the dinner plate (25).

SHIFT FOCUS FROM PROCUREMENT TO MARKET

If producers were to communicate with processing companies and commit supply, so that processing companies had a reasonable indication of the volumes and timing of livestock, this could help shift the focus of the processing company. It would allow processing companies to shift some of the energy and investment that is currently going into securing procurement towards market development, and securing markets and higher prices for those committed suppliers. It has been observed for some time that production and procurement investment take priority over marketing in many companies. Some of this can be attributed to the extensive production experience of the senior managers and directors but the limited marketing experience (29). A market focus will also be assisted by producers understanding and engaging with the end market. Along with maintaining the consumer, not the customer as the final partner (27).

3. PROCESSOR FOCUSED OPTIONS

3.1 Cooperative Merger

3.1.1 Overview

One of the ideas most frequently circulated over the past six months is to bring together the two farmer owned cooperatives, Silver Fern Farms and Alliance. This would create one farmer owned cooperative with 52.7% of the sheepmeat and 39% of the beef market share based on recent figures (13). It is hoped that this would help to reduce farm gate competition for lambs, rationalise capacity and create a united front for international exporting and marketing. Much of the inspiration for this model comes from the success of Fonterra in the dairy industry and the hope that a combined cooperative could achieve 80% of the market share for lambs.

Mergers are not new in the meat industry. The most recent merger involving the cooperatives was the acquisition of Richmond by PPCS, before rebranding as Silver Fern Farms. The idea of merging the two cooperatives to make one large cooperative is also not a new one, and is not dis-similar to the merger of PPCS (now Silver Fern Farms) and Alliance that was mooted in 2007 and was the subject of a PricewaterhouseCoopers (PwC) report, or the Alliance 'Mega-merger' proposal of 2008.

3.1.2 Points to Consider

If Fonterra is to be used as a base model for the meat industry, there are a few fundamental differences between the meat and dairy industries that need to be taken into consideration.

SUPPLY PATTERNS

Dairy cows are milked everyday (during the season) and being a perishable product, milk must be collected from the farm every day. This results in a much smoother pattern of supply than the one experienced in the meat industry, where each lamb, ewe and cattle beast is only slaughtered once and the timing of this can be heavily influenced by climatic conditions and feed supply. Dairy farmers have a greater vested interest in what happens to the product beyond the farm gate as they need to ensure their milk is collected every day. The control provided by the cooperative structure helps to ensure this occurs.

PRODUCT FORM

The meat industry revolves around a disassembly process in which every carcass is different and must be broken down into parts usable by the consumer. In contrast, the product form of milk has changed significantly by the time it reaches the end consumer. The milk supplied goes through a technical chemical and engineering process, in which it is broken down into its different components and either dried, pasteurised or turned into another product before reaching consumers.

MARKET TYPE

As outlined in section 1.5, trading in commodity markets and value added markets are better supported by different business models. 70% of Fonterra's revenue comes from standard and premium ingredients. Much of this is made up of whole and skim milk powder or ingredients made from milk powder. Milk powder is regarded as a commodity product and therefore the Fonterra business model is structured with the focus around achieving economies of scale. The origins of the meat industry are also in commodity products. However, with the shift that has occurred to further processing in New Zealand and the desire for a premium market positioning. This is shifting the meat industry from targeting a commodity market to targeting a value added market. If the shift to a value added market remains the goal, is a business model designed for commodities to achieve economies of scale the correct model?

It has been suggested that the smaller NZ meat companies are more profitable and the bigger companies are the weakest when it comes to market pricing, as they have more product to move. This is contrary to the belief that with scale comes bargaining power. Perhaps it is important to look past just market power and also consider niches, product quality, customer service and relationships.

It has been stated that we are seeking a value added model where NZ lamb is positioned as a premium product and returns which reflect this. However, it will not be possible to have 100% of production sold in this way. For one, having a grass based, biological system, our production is at the mercy of the environment. Therefore, there needs to be some flexibility in the system as a risk management strategy and all of the production can't be committed into tightly defined market contracts. The other limitation is that there will always be farmers who want to continue farming the way they always have and aren't prepared to adapt and meet market demands. As a result, there will always be a place for those companies trading in the commodity market and focused purely on efficiency and operating at the lowest possible cost.

OWNERSHIP STRUCTURE AND CONTROL

This option involves bringing together two farmer owned cooperatives to create one large farmer owned cooperative. One of the key elements of a cooperative (outlined in section 1.5 and Appendix B) is that they are owned and controlled by the members. The ability to remain farmer controlled comes down to ensuring governance and management are accountable. There have been questions raised over how much control of the meat cooperatives farmers feel they currently have. This is particularly relevant when you compare the level of control dairy and kiwifruit producers feel over their respective cooperatives. Dairy farmers and kiwifruit growers have absolutely no hesitation in reminding their board and management who the shareholders are (12). The present model in the meat industry focuses on throughput, forcing decisions that don't align with long term viability of shareholders (27). This behaviour is a long way removed from the cooperative mind-set that everything is done for the best interest of the farmer members (12).

The farmer's role as both shareholders and suppliers can create tensions with regard to how earnings are distributed. As suppliers, farmers receive a farm-gate price for stock supplied to the company. As shareholders, they are entitled to dividend payments from profits made by the company. This creates a tension between where the emphasis on returns is placed. Currently it is on the farm gate returns, as for the farmer, this is their primary source of income. However, if high prices are paid at the farm gate then this erodes potential profit, reducing the chance of a dividend being received. More importantly it also reduces the available funds to invest in R&D and marketing, which erodes the intention of the vertically integrated organization and the hope to improve returns in market.

COOPERATIVE INVESTMENT LEVELS

In the meat industry, both farmers and processors have been known to behave opportunistically. The opportunistic behaviour of sheep and beef farmers towards the cooperatives which they own, might be influenced to some degree by the relative level of investment they have in the cooperative (which historically had been capped at $10,000) compared to the level of investment they have in their own farms (multi-million dollar business'). This results in farmers who are more focused on maximising the return of their own farming business than that of a meat company and are therefore willing to behave opportunistically in order to secure the highest farm gate price (6).

This is in contrast to the dairy industry where a farmer may have more invested in Fonterra shares than in their herd. Based on average figures for a 200ha, 500 cow dairy farm, cows would make up 14% of the total investment and Fonterra shares 17% (30). Because of this high level of investment, there is a much greater commitment amongst dairy farmers to the success of Fonterra than there is amongst sheep and beef farmers to the success of either Silver Fern Farms or Alliance. Particularly as some sheep and beef farmers are not at all interested in what happens to the product beyond the farm gate. Improving supplier relationships has been one of the key strategies in the NZ red meat processing industry in an effort to increase efficiency in the production and processing stages of the supply chain and enhance product innovation and quality (5).

COOPERATIVES SHARE STRUCTURE

Both SFF and Alliance are cooperatives by definition in that their supply is from members and they are governed by farmer directors, however that is where many of the similarities end. SFF is what is known as an investor share cooperative and under this structure, shares are freely tradable and you do not have to be a supplier to be a shareholder. There is an 'unlisted' exchange through which anyone can purchase shares (31). Alliance is still more aligned with a traditional cooperative. This difference in share structure adds one more element of complexity into what would already be an incredibly complicated merger.

LEGISLATION

If a merger to were to succeed and grow to the point that the cooperative controlled close to 80% of the meat industry, as is the case in the Dairy industry, then legislation would likely play an important role. The Commerce Act 1986 would be relevant, as gathering that level of market share would result in reduced competition. For meat sold domestically reduced competition for retail meat would be of great interest to the Commerce Commission and politicians, just as fresh milk has been. Having a monopoly buyer could also restrict competition in terms of supply with the potential unintended consequence to reduce the farm gate price. Legislation surrounding how the price is set would be an important element in avoiding these issues.

3.2 Tradable Processing Rights (TPR)

3.2.1 Overview

Another option which has received considerable 'air time' over the past six months is that of Tradable Processing Rights (TPR). This was initially proposed in 1985 to the Meat Industry Council by Pappas, Carter, Evans and Koop (32). Mike Petersen brought the idea back to the surface and proposed it as a short term solution, lasting no more than 5 years to help rationalise capacity in the industry (13).

Tradable rights would be allocated based on the processors current market share, using a similar process to that used by the Meat Board to allocate the EU quota. Once the allocation was completed this would act as a quota for the volume of meat a company was able to process in a season. If a company wanted to process more than its allocated share they would have to purchase processing rights from another company. If a company were to sell their processing rights this is a one time sale and they would then have to destroy that capacity. The aim of this is to minimise the exit costs and therefore encourage plant rationalisation.

3.2.2 Points to Consider

RATIONALISATION

The aim of TPR was to rationalise processing capacity in the industry and allowing the industry to shift towards being market led. The issues facing the processing industry have evolved somewhat since TPR was proposed to the Meat Industry Council in 1985. At that time the high costs of processing were destroying the industry. The processing industry has made significant gains and improved efficiency, in turn lowering the marginal cost of processing. However, the fixed costs in the processing industry are still incredibly high and there are procurement battles between the companies in order to secure a share of the livestock supply to keep plants operating efficiently. Addressing the additional capacity in the industry is something that must be done, however the level of over capacity that currently exists remains very unclear. Planning of any rationalisation would have to consider the location of plants to ensure farmers weren't left without supply options, as well as ensuring sufficient over capacity remained to cope with the extreme climatic events such as last summer's widespread drought. Rationalisation would also need to occur in a way that it didn't give farmers the impression that there was no faith in the industry. Some companies have already carried out plant rationalisations and to them, a scheme where you were assisted with the exit costs by the revenue from selling your tradable processing rights could be seen as unfair, as they had to shoulder the full cost when they undertook rationalisation.

ALLOCATION

The processing rights allocation system based on a proportion of current market share could be seen as rewarding previous bad behaviour, just as the current EU quota allocation system does. This is because the systems are calculated based on volume over the hooks rather than by product value. Therefore there is no incentive (in terms of a reward of additional quota) for companies to pursue the value added strategy which is widely touted as being the preferred strategy, and capturing that additional value in NZ for the benefit of our economy.

This allocation system also allows stronger players to take up volumes from weaker players. When this was initially proposed, the meat industry was one with little innovation or variation in killing charges, so this would have been suitable. Now there are much higher levels of innovation and greater variations in efficiency between plants. In order for this strategy to achieve the desired shift to a market led system, allocation would need to be based on something other than throughput. Given the current industry structure, there would be winners and losers from this strategy, rather than it being a win, win.

PROCUREMENT AND MARKET FOCUS

The issue with excess capacity today is no longer just about too much cost, but also too much procurement competition. The allocation of processing rights sets a fixed number of livestock that are able to be processed for the season. This means that more accurate supply contracts are able to be set up and processing can be more closely aligned with marketing needs. Supply contracts can help to foster the relationship between the farmers and meat companies and be a catalyst for the behaviour change outlined in section 2.1. It could also act as a circuit breaker in the procurement battles and reduce the tendency of processors to raise prices above market values in order to keep plants full. Additional focus could then be shifted from procurement battles to being focused on the market and customer needs. Having a market led rather than procurement led system would help to achieve the defensible positions in market segments, price signals that reflect market values and a reduced pipeline between farm and market that were identified as being the key elements in achieving price realization in the 1985 report (32). However, a quota type system alone may not be enough to achieve the mind set shift that is necessary.

3.3 Toll Processors

3.3.1 Overview

Toll processing is an arrangement where a company with specialised equipment processes raw material for another company. This allows companies to specialise in what they are good at, focus on their core business and avoid the pitfall of trying to be all things to all people. It can also assist in providing companies with access to facilities that they may otherwise be unable to access, helping to reduce unnecessary overcapacity. It is not dissimilar to what the 'open door policy' in the 1964 Meat Act (9) was trying to achieve.

The goal for toll processing in the meat industry would be to separate processing and marketing to allow each party to focus on executing their role. For the processors, this would be, being efficient processors of meat. For the marketers, this would be developing strong relationships with suppliers, customers and consumers. This separation of roles is not uncommon for business' with a customer intimacy market orientation (21). It is known as a hollow delivery system and allows companies to contract activities, rather than owning all of its capabilities. It works because the value of a customer intimate company lies in their knowledge and how they can coordinate expertise to deliver solutions to their customers rather than in what they own (21).

This allows companies to specialise in what they are good at, focus on their core business and avoid the pitfall of trying to be all things to all people

The toll processing model has been present in the NZ meat industry at different times. With the Meat Board responsible for marketing until the 1980's, many of the meat companies exclusively processed meat. The de-licensing of the industry in 1981 was a real turning point for processing innovation and the shift from exporting frozen carcasses to chilled cuts. Companies also began to see the potential to increase returns through value addition, so they shifted away from the toll processing model and began exporting and marketing their product themselves (9; 33).

3.3.2 Points to Consider

CUSTOMER RELATIONSHIPS

Having strong relationships with the customers for whom they are processing meat, will be a critical element for success. It is important that you understand each other's objectives and are working towards the same end goal. Operating as a toll processor for a company with strong links to market and established customers and contracts can provide a lot of stability to the business. If you know you have a certain number of livestock coming in each week, it assists with planning and allows focus to remain on efficiency of processing rather than procurement of stock. Trust is important in these relationships as the customer needs to be able to rely on you to process the agreed amount of stock at the specified time, to the required standards and that when things get busy you won't turn your back on them.

The strength of the relationship between the processor and the marketing company has been a downfall of this model in the past. One example is Fortex, when they were using toll processors, there was no incentive for the processing companies to meet the stringent quality requirements of Fortex's market-driven operation (33). When they placed an order for a carcass to be cut in a particular way, they also handed their competitors, important market intelligence. As processers began to shift towards consumer-driven products themselves, this made Fortex increasingly vulnerable (33). To the point where Fortex decided they needed to control all of their operations: stock procurement, slaughtering, processing, and marketing (33). This triggered the shift from them being a consumer focused marketing company with strong supplier relationships, to a company torn between being market focused and running its plant efficiently.

There is a balance to find between the stability provided by strong customers and the throughput they provide, and the risk associated with having one key customer. It is important to maintain a balanced portfolio of customers to minimise this risk, as well as having mechanisms in place to keep both parties honest.

MARKET TYPE

As outlined previously market focused, value added strategies require a different business model than a commodity strategy. What a toll processing model would allow is the separation of two key parts in the business model, processing and marketing. The marketing company could remain market focused with an emphasis on strong relationships and market development (outlined in section 4.3), while the toll processor can remain focused on being an efficient processor of meat. In a quest for efficiency, a toll processor can benefit from economies of scale and other elements common with the model for the commodity market. This could also lead to certain plants specialising in a certain area and investing in the required technology, then encouraging co-operation amongst the processors.

VERTICAL INTEGRATION FROM THE MARKET

Discussion around vertical integration tends to be from the perspective of producers investing beyond the farm gate in the whole value chain. What about taking collaboration to another level in this capital constrained industry and also have key customers invest back down the chain? These are the key customers that we want to work with to deliver the products the final consumer wants, so why not work even closer together and co-invest, maybe even strengthen the flow of information in the process?

The best example of this type of model I have seen is a North American company called Vantage Foods. They are a toll processor, producing case ready meat for a series of retailers under long term supply agreements. Vantage Foods are focused on helping their retail partners achieve superior meat department performance by delivering premium quality, fresh meats in stock 24/7 with uncompromised food safety and bottom line competitive advantage. At no point do Vantage Foods ever own the meat. They simply process it on behalf of their customers. In some instances they don't even own the plants they operate, they are owned by their key retail partners and other key stakeholders including the US government. For the externally owned plants, Vantage Foods is paid a management fee for processing along with a proportion of any gains that are made through efficiency gains. Because improvements to Vantage Foods' bottom line are driven by how efficiently they operate, efficiency is the primary focus of the organisation and they are able to put all of their energy into improving processing efficiency and are not distracted by buying or selling meat. The close relationship Vantage Foods has with their retail partners ensures they can both continue to work towards maximising the benefits of the partnership and achieving their goals.

True to the market orientation of operational excellence, analysis is at the heart of the operation. Analysis is done on the cost per Kg, Kg per hour, volume, production, yields and giveaways and line management costs. All analysis is charted by the week, month and year and compared to the previous year, five year average and the target. This information is shared with employees to provide feedback on how they are tracking and as a form of motivation. It is all part of the belief in the greater goal and every individual is continually searching for ways to improve the efficiency of every line.

3.4 One Company Collapses

3.4.1 Overview

With the major meat companies recording aggregate losses of $200 million last year, and further losses projected when the next set of results comes out. There is widespread concern about the level of profitability in the industry. If this level of performance were to continue it is likely that one of the major participants in the processing industry could collapse. If this were to happen, there are a number of potential scenarios that could unfold with a range of implications.

3.4.2 Points to Consider

LIQUIDATION

If one of the major processing companies were to go into liquidation, the assets would become available for sale. The sale process would be managed by a receiver who's responsibility is to get the best possible price in order to repay creditors and extract anything that may be remaining for the shareholders. If a company were to go into liquidation it could be a good opportunity to address overcapacity in the industry. There could be the opportunity for the remaining industry players to cherry pick those assets which would add value to their business. However, given the receiver's role in trying to secure the highest possible price and the relatively weak balance sheets of many current industry participants, a more likely scenario could be for an overseas buyer to come in and acquire the company giving them a significant foothold in the NZ red meat industry.

JBS

JBS, a Brazilian company, is the worlds' largest meat company. They are the largest processor of beef globally and the third largest processor of lamb. They have become a major global processor of beef, pork, poultry and lamb through acquisitions. JBS has stated its strategy is to "strategically diversify its production and distribution units, reaffirming its global presence in the main meat producing countries" (34)

In 2008, JBS entered the Australian meat industry with the acquisition of Australian Meat Holdings and now just five years later they are the largest meat packer in Australia with eleven meat processing plants and six feedlots. In Australia, JBS have recently launched their Great Southern programme, for both beef and lamb. It is an on farm quality assurance programme independently audited by AsureQuality (the same group who audit 90% of NZ sheep farmers) (35). So far, JBS have 650 sheepmeat and beef producers who are eligible to supply product in to the programme (36). JBS have targeted this programme at specific, very large customers in different countries, in some cases under exclusivity arrangements. Each customer must have a passion for marketing farm-assured product (36).

JBS have successfully entered the US and Australian markets and become big players. What is stopping them from doing the same in NZ? They could bring with them the economies of scale and efficiencies, as well as the institutional knowledge and customers they have developed from their role as the world's largest meat company and their operations in Brazil, the USA, and Australia. At least one of our major NZ meat processor/exporters has a strategy very closely aligned to the one JBS is currently rolling out in Australia. Wouldn't a big NZ sheepmeat processor be a tidy acquisition for a company with deep pockets and a strategy to reaffirm its global presence in the main meat producing countries? Considering JBS is only the third largest lamb processor globally, but is the leader in most other protein categories. Surely NZ Lamb, widely regarded as a world leader, would be pretty high on the shopping list and a welcome addition to their global meat portfolio?

FARMER CONTROL

If JBS were to buy out a NZ meat company, they have the capability of bringing to the NZ industry all the things that have been being discussed as desirable: economies of scale, efficiencies, a direct route to market, large stable customers, bargaining power in market and scale to invest in R&D and market development. The one thing that would be missing is NZ farmer ownership and control of the value chain. Given JBS has a strategy based around low cost production (true to the commodity model and market orientation of operational excellence) it would be safe to predict that they will pay just enough of a premium to retain supply and gain control of the market (keeping in mind how price sensitive NZ farmers have demonstrated they are when fighting for survival). Given a few seasons of procurement premiums, you could well see consolidation in the industry, but it would be unlikely to be farmer owned and may not even be controlled by NZ interests. This would be a far cry from the cooperative values of acting in the best interests of farmer members and securing the best possible price for those members.

OVERSEAS OWNERSHIP

If a foreign company was to come in and establish an ownership stake in the NZ meat industry, it may cause some heated debate, but it would also not be a first for the New Zealand meat industry. ANZCO, one of the current big four players, has 73% Japanese ownership and until the 1970's the industry was predominantly British owned. Any overseas buyer would also have to meet the requirements of the Overseas Investment Act 2005.

3.5 Transparency of Information

3.5.1 Overview

With an inherent mistrust in the industry both between producers and processors and also amongst processing companies, the quest for co-ordination has always been a challenge. Stories seem to be constantly told about unfavourable behaviour in market, be it undercutting or product dumping, the truth of which only those involved will know. However, what these stories do highlight is the need for transparency across the industry if we are ever going to work together domestically or in the international market place.

There has been talk of memorandums of understanding, co-ordinated marketing efforts and mergers amongst other things, all of which aim to lead to improved collaboration. Another possible first step towards a more united industry approach would be to improve the information systems and transparency of information throughout the industry.

Uruguay is regarded as having the best meat information systems in the world and are proud of being the only country capable of monitoring its entire supply chain, in addition to being able to demonstrate its certified production processes (37). The system is run by INAC (Instituto National de Carnes or The National Meat Institute). INAC was created to provide precise up-to-date information about industrial and trading activities of the national meat chain (37). INAC release general statistics on slaughter numbers, weights and yields for each class of livestock, as well as price and export statistics. Companies must also declare the export value, volume and destination of each cut in each container and this information is released to all registered exporters a month after export. Another of INAC's essential duties is to promote co-ordination mechanisms among the links of the meat chain to find business alternatives that add value to products. It is with this purpose that INAC publishes the average value generated after the industrial process by a standard Uruguayan steer (37).

3.5.2 Points to Consider

FEASIBILITY IN NZ

The meat industry in Uruguay has many similarities to the meat industry in New Zealand. They are both export orientated and needing to meet the requirements of a large number of markets. Uruguay exports 80% of its production to nearly 100 countries (37). In both countries there are significant amounts of excess processing capacity and a large number of small players in the processing industry. In Uruguay there are no large cooperatives. In Uruguay there is a lot of national pride associated with the quality of the products it produces. Their advanced information systems have been developed to provide traceability and transparency and are an important element in achieving this consistently high level of quality.

There are two levels of reporting carried out by INAC: the general industry statistics which are made publically available and then a set of processor and exporter specific statistics which are only available to registered exporters. Much of the information released in the public reports in Uruguay is not dissimilar to that published by Beef + Lamb NZ's economic service. A lot of the export information used in Uruguay's system is already collected in NZ by MPI as part of the companies export declarations. To develop the more detailed level of processors information would not require starting at square one. It would however require legislation and an enhancement of our current information systems.

TRANSPARENCY

The information systems and resulting transparency in the processing and exporting industry in Uruguay makes them a very cohesive group of exporters for markets to trade with. It also results in them putting forward a very united front in the market place allowing them to capitalise on country of origin branding. This has enabled them to grow their export volumes and meet the standards for more markets then many of their South American neighbours who don't have the same information systems in place. The transparency in the processing sector in Uruguay has also been driven by the need to provide a better service to livestock farmers to keep them producing livestock, as many were switching to cropping due to the volatility of pricing. Developing information systems to provide transparency amongst processors and exporters could assist in achieving co-operation in the NZ meat industry. A standard such as that in place for the average value generated after the industrial process by a standard Uruguayan steer could also help ensure the focus in NZ remains on generating additional value.

BENCHMARKING

Benchmarking forms an integral part of top producers businesses as they strive to improve production and produce the highest quality product for consumers. Top producers readily share information with one another through field days and discussion groups, so they can learn off each other and advance the industry. Yet in the same industry there doesn't seem to be the same willingness to collaborate and share information by participants further up the chain. Maybe legislation requiring transparency and the sharing of information amongst processors and exporters would assist their benchmarking and help the industry to move forward with a united vision and approach?

Please Note: This option was added following the Meat and Fibre Council meeting and therefore has not been discussed by the full Meat and Fibre Council.

4. MARKETING FOCUSED OPTIONS

4.1 Single Desk Seller

4.1.1 Overview

Wanting a single desk seller for New Zealand meat products in the international market follows many of the same arguments as wanting one large cooperative processor and marketer. It is based around New Zealand being a small country and in the scheme of world trade, a small player. Rather than competing against one another in the international market place and seeing our neighbour as our competition, we should band together with one voice. For example, when Zespri was formed it shifted the kiwifruit growers focus from winning at the farm gate, to winning in the market. They accepted that it wasn't really the grower down the road they wanted to compete with it was the grower in Chile (12). It is this same mind set shift that needs to occur in the red meat industry.

4.1.2 Points to Consider

CRITICAL MASS

Having all New Zealand red meat sold through a single desk seller would eliminate price positioning between NZ companies in international markets. It would also provide critical mass which assists in developing leverage and bargaining power in market. For example, Zespri's co-ordinated marketing effort provides it with sufficient critical mass to make it 16 times larger than the next biggest kiwifruit seller in the international marketplace. This provides stability with regards to pricing and promotion. It allows Zespri to sell all its fruit at the same price, which is higher than that of kiwifruit from other countries (12).

MARKET DEVELOPMENT AND R&D

Having a coordinated marketing effort with critical mass allows for a more aligned approach to market development and product R&D. It provides a stable platform from which long term market strategies can be based. This would be in contrast to the current situation in the meat industry where there is so much focus at the farm gate and on procurement it is taking the emphasis away from the market. A coordinated effort allows just one brand to be used which embodies all the values. It also means that the level of investment in marketing for that brand can be more in line with that for fast moving consumer goods companies rather than commodity products, something both Firstlight Venison (with the support of Deer Industry NZ), Zespri and Fonterra have proved can be successful (12; 25). A coordinated effort also provides more meaningful investment in R&D to support differentiation strategies and justify a higher price. Being a coordinated effort removes the risk that the findings from your investment will be picked up by a competitor, something which is currently limiting the rate of investment in R&D.

This option will not be favoured by those that have invested in R&D and developing their own brands and markets as they would not want to give up any advantage that it had provided them. There is also a risk for them of losing their niche positioning in the market.

LEGISLATION

Although there are a lot of benefits that can be gained from all working together under a single umbrella in the international market place, it is in effect creating a monopoly and would require government legislation. Establishing monopolies is regarded as anti-competitive behaviour which is not acceptable under WTO rules. It also has the potential to be at odds with a number of our free trade agreements and could require some intensive diplomatic overtures to our trading partners, if not renegotiation of some of our trade agreements. The Commerce Act 1986 is also very relevant. If the competition for meat sold domestically was to reduce, this would be of interest to the Commerce Commission and the politicians as has been the case for fresh milk. In any instance this option would require significant government involvement.

COMPETITION IN MARKET CAN STIMULATE GROWTH

One aspect that a shift from having many competing sellers to a single seller could impact, is the level of product awareness. Competition in the marketplace can have benefits in terms of market reach. This is particularly relevant for niche products, where you are only trying to target a select market segment. If you have a number of very passionate sales people all telling the NZ Meat story, spreading the net a little bit wider and searching for new opportunities. Provided they are not competing directly against one another and have differentiated products this competition can help to increase product awareness and market reach. In turn this can help to grow the whole pie, so that everyone gets a bigger slice, rather than just stealing market share off one another (29). If a single seller was selected the importance of strong local relationships must not be overlooked.

4.2 Co-opetition Market Engagement

4.2.1 Overview

Co-opetition is where companies who would usually be competitors collaborate on certain products or in certain markets to achieve benefits that would usually be associated with just having a single seller in the market. These include developing economies of scale to allow large customers and more channels to be served, minimising direct competition between companies from New Zealand and the sharing of resources for mutual benefit. It was one of the suggestions from the RMSS (3). Activities in a co-opetition model could include: lists of co-ordinated products, framework for market development, logistics management capability, framework for in market joint ventures, sector brand and marketing programme and online sales capability for customers.

The co-opetition model could just be used in selected markets such as: large emerging markets where a lot of investment is required; in markets where currently the only point of difference is price; or in markets where demand is too great for one supplier to fill. The model allows companies to collaborate in these markets while continuing to compete in the markets where they already have an established point of difference (24).

The New Zealand Lamb Cooperative (initially the Meat Export Development Company and then the NZ Lamb Co (North America) Ltd.) provides a great example of what can be achieved with this type of model. It is a consortium of the four largest processors in New Zealand and they have exclusive rights to sell New Zealand Lamb in the USA and Canada. It was formed as the result of legislation when in 1960 the Meat Board introduced the Lamb Market Diversification Scheme (9; 6). This scheme was designed to shift some of the reliance away from the UK which was our largest market. Keith Woodford recently observed the success of this programme in positioning lamb at a premium price in Canada where consumer ready pack of New Zealand lamb were selling for Canadian $17.60/kg, while Canadian beef was $12.40/kg and Canadian pork was $6.37/kg (28).

Cervena Venison is another example of how collaborative marketing can work. Cervena is a co- brand with multiple companies supplying into the programme and the Cervena brand providing the quality assurance sitting alongside the individual company’s brand eg. Silver Fern Farms Cervena or Firstlight Cervena (38).

4.2.2 Points to Consider

A co-opetition model has many of the same benefits as a single desk seller, outlined in section 4.1 including: the gathering of critical mass to create scale in market, as well as pooling resources with regards to investment in market development and R&D. It also eliminates the need for legislation changes to cope with anti-competitive behaviour, a pitfall of the single desk seller model. However, getting it off the ground would require a strong mandate.

There are plenty of benefits to be gained from a co-opetition model (as outlined previously) and the fact that companies can still compete where they have a well established point of difference, makes it a more attractive option. However, co-ordination in market in an industry that has competition so deeply engrained in it will be a challenge. There is also the potential risk that companies use information gained from collaborating with a company in one market, to compete against them in another.

4.3 Multiple Marketing Companies

4.3.1 Overview

Another option is to have a series of marketing companies which are independent of a processor. These companies could operate using a model similar to that used by Firstlightfoods (Wagyu and Vension) or Niman Ranch in the US. The emphasis of these companies is establishing strong relationships with producers, customers (distributors, retailers, food service) and end consumers. A deep understanding of the key stakeholders and the challenges they face is critical. Transparency and trust form the foundation of the model, as it is all about working together to achieve common goals and supporting each other when there are issues. Everyone needs to be in it for the long haul. Some of the functions undertaken outside of marketing include providing a vehicle for market development, logistics, research and coordination of supply.

4.3.2 Points to Consider

MARKET FOCUS

Being purely a marketing company and not a combined processor/marketer allows the company to remain totally market focused. There would be no capital tied up in expensive processing facilities, with high overheads, causing their focus to shift from a market driven business model to a resource driven one. Strong relationships with all parties, as are commonplace in firms with a customer intimacy market orientation (outlined in section 1.5 and appendix C), would be essential to the success of this option. Relationships with the customers and final consumer are critical as meeting their needs at the core of the value proposition and is the driver of the business. Relationships with the producers are important because as consumers have become more sophisticated, their demands for consistency and reliability of product, as well as knowledge on food safety, animal welfare standards and information on how and where their food was produced have continued to increase (6). In order for the story of production to reach the consumer the producer must be committed and believe in what is trying to be achieved. For many producers this may require a mind set shift similar to that experienced by Firstlight Venison producers who have gone from seeing themselves as producing an animal for slaughter, with no interest beyond the farm gate, to seeing themselves as producers of premium cuts of venison for the dinner plate with ownership all the way to the final consumer (25). A strong relationship with a toll processor is the final key relationship necessary for the success of this strategy.

TOLL PROCESSING

An essential element in the success of this model is a having a reliable toll processor (outlined in section 3.3) who will process product to the quality and the specifications required, at the time it is required. There is currently a limited number of toll processors in the New Zealand industry and this has been the downfall of a number of companies that have tried to follow this approach in the past. The outsourcing of such a critical activity is not uncommon for firms following a customer intimacy market orientation. For these firms the value of what they deliver to their customers lies in their knowledge and ability to coordinate expertise, rather than in what they own (21). It is sometimes referred to as a hollow delivery system.

COMPETITION IN MARKET

As has been outlined previously, having competition in the marketplace can be advantageous in terms of stimulating product category growth, product awareness and interest. It is particularly beneficial if companies selling NZ meat are not competing directly in the same market for the same customers and are differentiated by something other than price. This model allows each marketing company to develop their own niche, relationships, and experience (must be tested) and credence (based on trusted brands, quality assurance and third party certification) attributes, in order to achieve product premiums. However, competition doesn't allow the synergies in the form of combined investment in market development and R&D to be gained in the same way as a co-ordinated approach does.

4.4 Trans Tasman Marketing Effort

4.4.1 Overview

Another marketing approach could be to unite in the ANZAC spirit and develop a TransTasman marketing effort with Australia. NZ is the world's largest exporter of sheepmeat, shipping 346,997 tonnes in 2012 and Australia is the world's second largest exporter shipping 295,314 tonnes of sheepmeat in 2012 (39). Together, we could be a more dominate force in the global sheepmeat trade, sourcing large volumes in order to deliver into the big channels. However, in terms of world production even combined, we are still only dealing with a small amount of product.

New Zealand has a much larger quota to the EU, with an annual allowance of 228,254 tonnes/year, while Australia's quota allowance is only 19,186 tonnes/year. As a result New Zealand has had a much stronger reliance on the EU market, while Australia has invested in developing other markets such as Japan and Korea (39). As a result NZ and Australia have different skills and experiences when it comes to market development, so if they were to band together, there is the potential for a lot of synergies.

The volume and value of our exports to both the EU and North America have been falling (EU down in volume 23,000 tonnes or 16% and the US down in volume 25.8% and value 15.7%) and growth has come from the North Asian markets (North Asia grew at 17%, mainly from China) (39). Our understanding of these markets and ability to increase the value of products going in there will be increasingly important going forward. So, working with Australia who has more experience in these markets could be advantageous as we both seek to increase our presence.

An initiative of this nature would not be a new concept as New Zealand and Australia already collaborate for marketing along with the US in the Tri Nations Lamb Group. This was established in 2003 to increase overall demand for lamb with its focus on raising awareness amongst Americans of the health benefits of eating lamb regardless of its country of origin (4). NZ and Australia also collaborate regarding trade and challenges facing production through the Five Nations Beef Alliance along with Canada, US and Mexico (40). However, implementing this concept on a large commercial scale would be a major shift.

4.4.2 Points to Consider

R&D AND MARKET DEVELOPMENT

One of the biggest benefits of a Trans Tasman collaborated marketing effort is the ability to pool resources for R&D and market development. The benefits are along the lines of those outlined for a single desk seller or from co-opetition, but on an even more significant scale. Combining with Australia for market development, R&D and marketing allows for the sharing of knowledge, expertise and investment. It allows us to not only learn from one another's experiences over time, but a greater pool of resources also increases the chances of a meaningful discovery, and successful market development. Such a united effort should also remove any likely duplication of effort, particularly in the R&D space

CRITICAL MASS

A combined NZ and Australian marketing effort would not only provide pooled resources for investment it would also achieve significant critical mass in world trade. With NZ and Australia being the two largest traders of sheepmeat in the world, entering a market as a united front has the potential to create significant bargaining power.

MARKET SELECTION

While the benefits from the combined investment in R&D has the potential to benefit us in every market, an integrated marketing strategy is unlikely to be preferred as a blanket approach to all markets. This is because each country has already invested so much over the years in establishing both their country of origin brand and the brands of individual companies. Therefore, as is the case with the co-opetition option it would be a strategy best used in those markets that are in need of development, where significant gains could be made, as was the case when we formed the Tri Nations Lamb group to develop the US market. Another variation to consider would be to co-ordinate marketing efforts in terms of R&D, product awareness and market development, but still keep NZ and Australian lamb separated and position them in complimentary channels, so that previous good work with country of origin branding is not undone, but they can work together to grow the whole pie.

4.5 Align Northern and Southern Hemispheres

4.5.1 Overview

The seasonality of production due to New Zealand's grass based system and the influence of climatic conditions has always been an issue when it comes to supplying international markets with chilled meat products year round. One advantage New Zealand does have is that the majority of our key markets are in the Northern Hemisphere, so our peak period of supply is when their producers find it hardest to supply. One way of coping with seasonality is to partner with producers and processors in the Northern hemisphere and each supply the market for 6 months when that countries conditions are the most favourable.

4.5.2 Points to Consider

PROCESSING PLANTS

This strategy would result in plants in each hemisphere only operating for 6 months of the year. This would eliminate the struggles of trying to run plants efficiently in the off season as all the plants would be shut down. This would have massive implications for the labour force. One way of coping would be to have a transient labour force who alternated between working 6 months in the southern hemisphere and 6 months in the northern hemisphere. There is also a huge amount of capital tided up in plants to have them sitting unused for 6 months. As well as a large amount of flexibility lost from the system if livestock are only able to be processed for 6 months of the year.

QUALITY AND BRANDING

Partnering with the northern hemisphere and distributing through the same channels under the same brands can come with huge brand risks. It means we would have no control over the product for 6 months of the year and therefore couldn’t guarantee product quality. By partnering with the northern hemisphere you also loose the ability to use the New Zealand brand and all the benefits that come with it. It is a strategy Zespri has followed by supporting growers in Italy. Zespri has had varying degrees of success with this strategy, but it has allowed them to extend the length of time that they could have Zespri kiwifruit on the shelf around the world, and avoid having to re-establish its market position and shelf space each season.

PRODUCTION

With processing only occurring over 6 months of the year and markets only being supplied with NZ product for 6 months of the year, it would eliminate the need for produces to produce product out of season. No longer requiring producers to push the production boundaries to attract the out of season supply premiums that are available, could help to reduce some of the environmental and animal welfare concerns that can result from out of season production.

5. CONCLUSIONS

With a range of potential options now presented, it is up to you to form your own opinion. As we all know, we are dealing with a very complex value chain with many elements to consider. The questions are which elements are most important to you and where are you prepared to compromise?

What do you want the industry to look like in five, ten and twenty years time?

Do you still want to be competing with one another trying to get ten cents per Kg more than your neighbour? Are you ready for a mind-set shift and prepared to work together to compete with the other 94% of sheep meat production in the world? Instead of getting ten cents more than your neighbour you could get a dollar more per Kg than the farmer in Argentina?

Do you want to be a commodity producer receiving commodity prices or do you want to be delivering value added products and receiving a premium for them?

Are we ready to stop just tinkering around the performance gap, achieving production and efficiency gains in the search for value creation? Has the time come to finally take hold of the opportunity gap, revitalise the industry, create and capture value in this ever changing market place?

If you believe it is time for a change, we encourage you to first look at your own business and what you are doing. Decide what is important to you and where you want to be going forward.
Select a company who shares your view of the world, that has a strategy you believe will help to get the industry to where you want to see it in twenty years. Where possible align yourself with this company, commit your supply, communicate with them and support the company.
It doesn’t matter if they are a big or a small company. If the strategy is right and you are all prepared to work together to achieve your shared vision for the industry, market forces should assist in allowing the company to grow or rationalise to the appropriate size, based on the level of support they recieve.
Farmers control all of the supply of livestock into the industry and therefore have a powerful choice in their ability to vote with their feet. Actions speak louder than words, so consider how your behaviour influences the vision you have for the industry in twenty years.

6. DISCUSSION COMMENTARY

Meat & Fibre Council

The draft *Meat Industry Options Paper* was discussed in closed session at the Meat and Fibre Council meeting in November 2013.

The most common theme to come out of the discussion related to farmer behaviour. This included the importance of farmers understanding what is important to them and what they value in their own businesses. Without understanding what they value, fitting into a bigger industry vision would be difficult. This was also reflected in the desire for farmer control and the need for farmers to take control of their destiny. Farmers can demonstrate their power and use their choice to give the industry some direction by voting with their feet (supply of livestock). Greater collaboration was also desired, supported by improved trust and transparency in the industry. It is hoped this would lead to a longer term vision and a shift away from the short term thinking and 'last man standing' mentality that currently exists.

The more favoured options were: supplier behaviour, co-opetition market engagement and aligning Northern and Southern hemispheres. However, greater hemisphere alignment was only favoured if it was based on complimentary channels and working together to ensure product positioning was maintained, rather than a strict six month supply arrangement.

The options which gained the least support were: tradable processing rights, a single desk seller and one company collapsing. If a company was to collapse which was farmer owned this would remove even more farmer control from the industry as the receivers would decide the future and there was likely to be no farmer input.

Toll processing was seen as having some potential.

Please note the option transparency of information outlined in section 3.5 was a late addition to the paper and therefore has not yet been discussed by the full Meat and Fibre Council.

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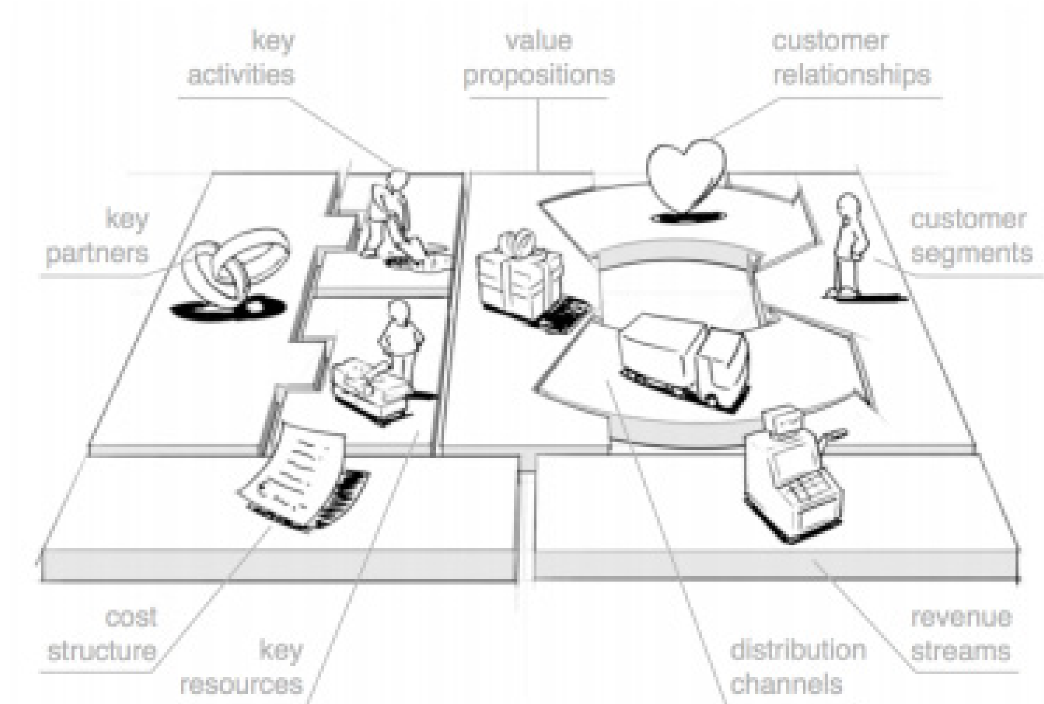
APPENDIX A: A BUSINESS MODEL

Model Elements

Osterwalder and Pigneur's business model canvas consists of nine building blocks which cover: customers, offer, infrastructure and financial viability. The nine building blocks included in the business model canvas are: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structure (18).

Figure 2: Business Model Building Blocks



Customer segments

Different groups of people or organisations an enterprise aims to reach and serve. Segments that may be targeted include: the mass market, a niche market, a segmented market, a diversified market or a multi-sided market. The customer is at the heart of every business model.

Value propositions

Consider the bundle of products and services that create value for a specific customer segment. This is the benefit the customer will get from consuming the product and how it will provide a solution to their perceived needs. It may be made up of any combination of price, performance, selection, convenience or other attributes identified as being important. Some examples of value propositions included: newness, performance, customization, 'getting the job done', design, brand or status, price, cost reduction, risk reduction, accessibility, convenience and usability

Channels

How a company communicates with and reaches its identified customer segments to deliver a value proposition. They can be direct or indirect.

Customer relationships

Types of relationships a company establishes with specific customer segments

Revenue streams

Different ways a company generates revenue from each customer segment eg. charging usage, subscription fee, leasing or licensing or advertising revenue.

Key resources

The most important assets required to make a business model work and create, deliver and capture value. They may be physical, intellectual, human or financial.

Key activities

The most important things a company must do to make its business model work and create, deliver and capture value. Can include production, problem solving and networks

Key partnerships

The network of suppliers and partners that make the business model work. There are four different types of partnerships: Strategic alliances between non-competitors, co-opetition: strategic partnerships between competitors, joint ventures to develop new businesses and buyer-supplier relationships to assure reliable supplies

Cost structure

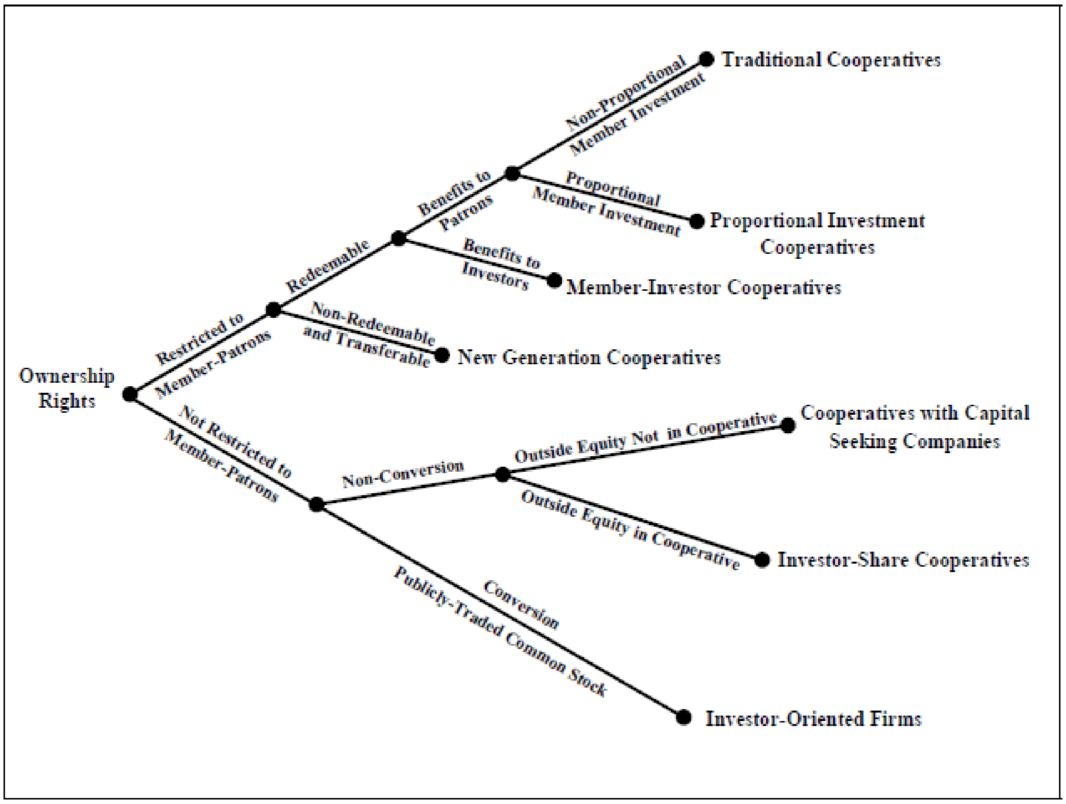
All the costs incurred to operate a business model. The two most common structures are cost driven business models and value driven business models.

APPENDIX B: COOPERATIVE STRUCTURES

The NZ.Co-ops definition of a cooperative is: an enterprise, freely established, that is owned and controlled by a group of legal persons for the purpose of equitably providing themselves with mutual benefits arising from the activities of the enterprise, and not primarily from investment in it (19).

However, cooperatives are not simply a one size fits all. Chaddad and Cook have identified six different types of cooperatives based on the ownership rights of members. These are depicted in Figure 3 below and then further explained.

Figure 3: Alternative Cooperative Models: An Ownership Rights Perspective (20)



TRADITIONAL COOPERATIVES

In a traditional cooperative: ownership rights are restricted to member patrons; shares are redeemable, non-transferable and non-appreciable (dollar in dollar out) and you get one vote per member. All members have the same level of shareholding and the benefits are distributed in proportion to their patronage (20). This is the model Farmlands operates under.

PROPORTIONAL INVESTMENT COOPERATIVE

A proportional investment cooperative has all the same traits as a traditional cooperative except instead of all members having the same level of shareholding as seen in the traditional cooperative, members are required to buy shares in proportion with your patronage. This eliminates what is known as the internal free rider problem, which arises when benefits are distributed in proportion to patronage but investment is not in proportion (20).

MEMBER-INVESTOR COOPERATIVE

In a member investor cooperative ownership rights are restricted to member-patrons, they are non-transferable, and redeemable. The cooperative distributes net earnings in proportion to member shareholdings in addition to patronage. This is done either through the distribution of dividends on members shares and/or through the appreciability of cooperative shares. The appreciability of shares helps to provide more incentive for members to invest in the cooperative. However this can create divergence in the cooperative with regard to how profits are returned with member patrons and member investors holding contrasting views. The member investor model can be implemented by participation units, capital units or in the case of Fonterra Cooperative Group, redeemable preference shares (20).

NEW GENERATION COOPERATIVE

In a new generation cooperative ownership rights are still restricted to member patrons. These rights are non-redeemable, but they are tradable amongst eligible members. Allowing the transfer of equity shares helps to provide liquidity and can allow the appreciation of capital value through a secondary market valuation. Members must make up an upfront investment in delivery rights, which is in proportion to their patronage (20). This can provide a barrier to new member entry but it ensures a more permanent source of equity capital and removes redemption risk for the cooperative.

COOPERATIVES WITH CAPITAL SEEKING ALLIANCES

In a cooperative with capital seeking entities ownership rights are not restricted to member patrons. Investors can acquire ownership rights in a separate legal entity that is partly or wholly owned by the cooperative. This outside capital is not directly introduced to the cooperative but is accessed either through trust companies, strategic alliances or subsidiaries (20).

INVESTOR SHARE COOPERATIVES

An investor share cooperative can have multiple classes of equity shares. The traditional cooperative ownerships rights are still held by member patrons, while the cooperative can also acquire non-member equity capital through the issue of a separate class of shares. The investor shares may include different ownership rights in terms of returns, risk bearing, control, redemability, and transferability. This can result in a divergence of interest between shareholders. Investor shares can include preferred stock, non-voting common stock and participation certificates (20). This is the cooperative model used by Silver Fern Farms.

COMMON COOPERATIVE PROBLEMS

Cooperatives are unique structures and have served the agriculture industry well over the years. However, there are a number of problems that can arise from cooperatives that impact on the way the cooperative operates and the benefits members receive. It is important to consider these and the influence they may have when deciding on a preferred ownership structure.

Free rider problem

This can occur both internally and externally. Internally when investment is not in proportion to patronage and benefits, or externally when non-member patrons qualify for the benefits provided to members, eg low cost or high prices. This is often a result of the cooperative creating competition in what would otherwise be a non competitive industry.

Horizon problem

When members can't trade shares at market value therefore they have little incentive to invest to generate future returns for the cooperative as they cannot realise the capital gain on this investment.

Portfolio problem

Members cannot transact equity shares freely, so can't diversify risk. This is particularly apparent in agriculture cooperatives where most benefit is returned through farm gate price. As if a cooperative is having a bad year the farmer can get hit twice, first in the lack of return on their equity shares and then again with a low farm gate price.

Control problem

Also known as the agency problem, results when the management and shareholders interests are not aligned. It is difficult for members to monitor managers' performance based on share price, when shares are not tradable, a common tool in some listed companies. Nor can a cooperative align management and shareholder interests with the use of tradable shares as a part of remuneration. The influence shareholders have over management and directors can also be further eroded by the large number of relatively small shareholders. So unless a voting block with sufficient scale is established the mandate from shareholders in a cooperative is much less encumbered than in a privately owned firm (7). The ability of shareholders to influence management is also strongly dependent on the level of information available to them. The Securities Act (Cooperative Companies) Exemption Notice 2002 which requires the registration of only a shortened "evergreen" prospectus. Has created a potential information gap between what is required to be provided to shareholders in an investor owned firm and that needing to be supplied in a cooperative, could further hinder farmer shareholders ability to monitor management (7).

Influence cost problem

This results form having equal voting power and discourages members who are motivated and able to further invest from doing so, as that investment would not give them a greater proportion of voting rights and therefore no additional control in future direction.

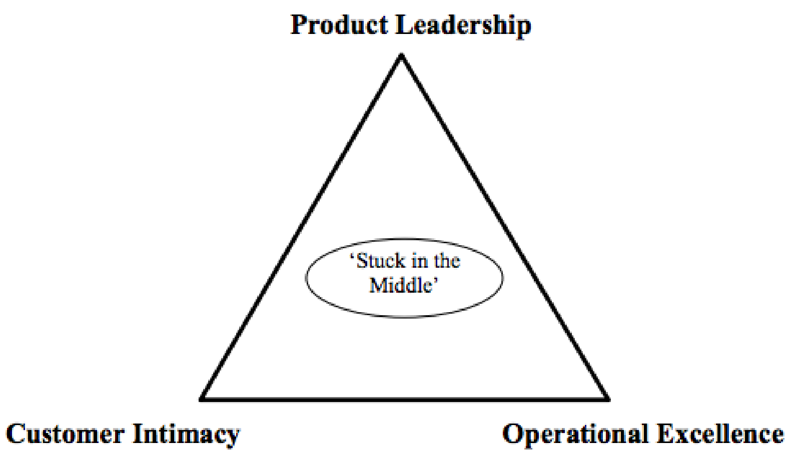
Redemption problem

When shares aren't tradable and a member has a large investment they are seeing little return on they may decided to leave the cooperative. If a member wants to leave and redeem their shares, the cooperative will have to have a significant amount of capital set aside in order to redeem those shares. This is a major challenge facing cooperatives and one that has received plenty of air time over the past few years as it was a driving force behind Fonterra's TAF (trading amongst farmers) initiative.

APPENDIX C: MARKET ORIENTATION

Market orientation is important as in today's competitive market no company can succeed by trying to be all things to all people (21). They may be able to stay in the game but they will not have shifted past competence to reach excellence and become a market leader (21). Instead they must focus on delivering one value discipline to a level of excellence that puts their competitors to shame, while maintaining industry standard in the other disciplines (21). This choice of value discipline defines what a company does and therefore what it is, from its competencies to its culture (21).

Figure 4: Value Triangle (41)



A companies value proposition is the implicit promise a company makes to deliver a particular combination of values, be it price, quality, performance, selection or convenience (21). The operating model is a combination of core processes including: operating processes, management systems, business structures and culture that combine to allow the company to create superior value at a profit in their selected discipline (21). The value disciplines of operational excellence, product leadership and customer intimacy are three desirable ways in which companies can combine operating models and value propositions to be the best in their market (21). These will each be explored in greater depth

PRODUCT LEADERSHIP

The value discipline of product leadership is not about price, it is about product performance and providing customers products which redefine state of the art. Speed is the key feature of this market orientation, which helps them to stay ahead of their competitors.

The core processes of a company executing product leadership are invention, product development and market exploration (21). Because of this product leadership companies often have a business structure that is loosely knit, ad-hoc and ever changing. This allows them to adjust to the entrepreneurial initiatives and redirections that that come with working in unexplored territory (21).

A clear picture of the goal is shared by everyone in the organisation and helps to guide them. In order to get the innovation required to remain market leaders structure and process play an important role.

CUSTOMER INTIMACY

The value discipline of customer intimacy is about selling the customer a total solution, not just a product or a service (21). Customer intimate companies build bonds with the customers and focus on delivering what that specific customer wants not necessarily what the market wants (21). Customer loyalty is a customer intimate companies greatest asset, therefore they consider the lifetime value of the customer, not just the profit or loss on a few transactions.

Economies of scope are important in a customer intimate company. This is because building relationships with customers requires significant investment. It is therefore important to focus on capturing as large a portion of the wallet as possible. This is achieved by having a large range of products and services and focusing on delivering customised offerings that provide solutions to the customers problems (21) (42) (41).

It is not uncommon for customer intimate companies to have what Treacy and Wiersema refer to as hollow delivery systems. This is where a company will contract rather than own some of its capabilities (21). This works because the value of a customer intimate company lies in their knowledge and how they can coordinate expertise to deliver solutions to their customers rather than in what they own.

OPERATIONAL EXCELLENCE

Operationally excellent firms may not deliver the product at the lowest price, but they are industry leaders in cost and convenience when the time taken and accuracy of the transaction is also considered (21). The value proposition for an operationally excellent firm is low price and hassle-free service (21). They are targeting the middle of the market where demand is high and customers are more concerned with price than variety as operationally excellent firms are driven by economies of scale (42) (21).

Formula is key, not only is there a significant amount of analysis that is conducted within operationally excellent firms but there actions must be repeatable time and time again. All processes and services are optimised and streamlined to minimise cost and hassle. This can include searching for ways to minimise overhead costs, eliminating intermediate production steps, reducing transaction costs and optimising processes across functional and organisational boundaries. Operationally excellent companies aim to focus on a narrow product line to create economies of scale and avoid variety and the additional costs associated with it (21).

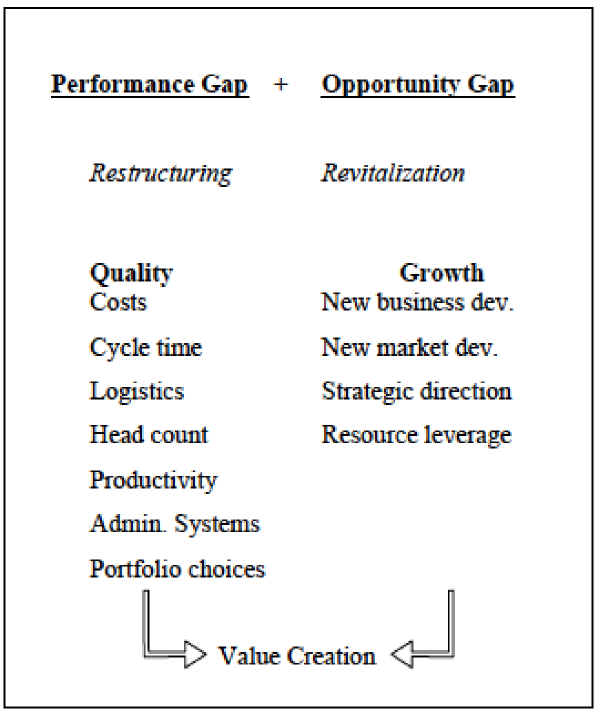
To exploit the advantage gained from the value discipline of operational excellence then growth is essential. There are three ways Treacy and Wiersema suggest this can be done: 1) ensure a constant, steady volume of business to keep assets continually working; 2) find new ways to use existing assets since the biggest threat is assets which turn into liabilities and 3) replicate the formula in other markets (21).

APPENDIX D: PERFORMANCE & OPPORTUNITY GAP

Change is a constant in the agriculture industry and the evolution of the NZ meat industry is no exception (43). However change and innovation required is no longer just about increasing efficiency. It now also must consider how a company creates and captures value in an ever changing market place.

Value creation as depicted in Figure 2 below can be seen as having two aspects: the performance gap and the opportunity gap. The performance gap focuses on optimizing performance through operating efficiencies. It is focused around the efficient management of quality, costs, cycle time, logistics, productivity and systems in the hope it will lead to greater profitability (44). However improving on your existing activities alone is not enough, particularly with the ever changing market environment. Focus must also be directed towards the opportunity gap, which is about exploiting opportunities for new product, market, or business development (44). The agriculture sector historically has been very good at exploiting the performance gap, demonstrated by the on-going production gains that have been achieved. However, they seem to have struggled to exploit the opportunity gap in the same way. This may require a shift in energy towards a different strategic intent which requires a different set of skills, resources and capabilities (45).

Figure 5: The Performance and Opportunity Gap



A co-ordinated value chain carries attribute information downstream so that value is signalled to customers and compensation is returned upstream.

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