

Maintaining our share of the lamb meat pie

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Australia: http://www.nuffieldinternational.org/rep_pdf/1388651915KellyMantonPearcefinalreport.pdf

Background

The lamb and sheep meat sector in Australia is undergoing rapid change, as demonstrated by significant growth, diversification opportunities and potential returns in a number of new potential and existing lamb and sheep meat markets. Emerging markets in developing countries in particular (China, India and the Middle East) represent significant export opportunities for Australian Lamb and Sheep meat (See full length report for greater detail). This paper addresses the areas that I believe the Australian lamb and sheep meat industry needs to focus on to remain competitive and to respond to the changing market environment.

Firstly, there is a lack of clarity by the Australian lamb and sheep meat industry on how best to achieve more integrated supply chain transactions between producers and processors/retailers. Closer collaboration between sheep producers and processors should be seen as necessary to increase the competitiveness of the sheep meat supply chain, through increased trust and commitment, long term relationships and contracts. However, the seasonal and uncertain nature of lamb production and the myopic tendencies of producers and processors are seen to foster adversarial relationships between these two parties. A lack of trust is thought to exist between many producers and processors and may prohibit a long-term industry strategy from being developed. In this respect historical grievances may be limiting the ability of

some participants to move forward. These issues need to be addressed and rectified to enable closer collaboration and success in the future.

Secondly, there is a lack of understanding within the industry about what drives Australian producers selling decisions and behaviour. Currently producers are seen to be carrying out different selling behaviours and there is a desire within parts of the industry to alter or move away from certain selling practices. This is for the ostensible goal of benefiting the entire sheep meat industry through increased supply chain efficiencies and value chain performance.

Thirdly, efficient and aligned procurement through contracts is touted to lead to reduced price volatility, increased trust, less power abuse, better plant utilisation and better product marketing. However in Australia, forward contracts always seem to have a winner and a loser which has effectively made them a failure as a risk-management tool for industry. Will more intelligent longer-term supply contracts allow for a greater certainty of supply for processors and the provision of more complex incentives in terms of product attributes?

Finally and perhaps most importantly, whilst decreasing costs and increasing efficiencies and production have been the drivers of industry competitiveness in the past, there is now a need to create more value in the end product by responding to consumer trends and behaviour. The relationship between producers and processors can have a role to play here, as some consumers desire an increased connection with the production and properties of their food.

Therefore the overall question to address for this White paper submission is- how does an opportunistic, fragmented, poorly aligned industry improve its supply chain to capitalise on long-term growth opportunities in emerging markets and also amongst a consumer base demanding a differentiated product?

Recommendations

1. We need to develop proactive strategic supplier-marketing relationships into the future: establishing trust, a shared vision and quality information sharing between partners in the lamb and sheep meat supply chain

The Australian sheep industry desperately needs to continue to develop schemes that provide open communication, processing and marketing information along with an ability and encouragement to act upon that information that would allow us to understand the needs of our consumers and produce lamb as efficiently as possible. The economic benefits that could be derived from encouraging greater coordination across the Australian lamb industry appear unlimited. From the retailer/processors perspective, being able to attract and retain a greater share of the producers business will have significant positive benefits on the profitability of their enterprise and, in turn, their propensity to attract and retain retail. From the producer's perspective, a strong alliance is expected to reduce much of the risk and uncertainty currently present in their production systems. Industry benefits overall from the decreased need to dispose of lamb on markets that may not be suited to specific lamb cuts or quality, fewer dissatisfied customers and consumers, and an overall increase in the perceived quality of Australian produced lamb.

The likelihood of developing strong strategic alliances has been shown to be highly dependent on establishing trust between partners in the supply chain specifically between farmers and processors, a relationship that is desperately needed by both parties in Australia. A clear issue with the current lamb supply chain has been the poor communication and mistrust across the industry partners resulting in minimal collaboration. Developing mutual trust can stimulate increased cooperation and encourage supply chain partners to work towards maintaining the relationship and to oppose the temptation to take short term gains and further exacerbate the poor relationships in the Australian lamb supply chain. However achieving a trusting relationship requires a deliberate strategy of developing a shared vision and accumulated evidence of good feedback.

The basis for a shared vision in the future for the Australian lamb industry must be the need to align production practices with the evolving needs and behaviours of consumers. Lamb is gaining a reputation as being expensive meat and not considered an everyday purchase. Consumers are becoming ever more interested in the quality of their food and if lamb continues to remain high in price it is essential that quality is maintained. Furthermore, an important challenge for sheep producers into the future will be the moderation of demand by socio-economic factors such as human health concerns and interest in animal welfare. By the entire supply chain working together to produce an ethical and high quality lamb product, successful livestock partnerships will endure and become an essential component to the long term viability of the Australian lambs and sheep meat industry. Australia is leading the world in lamb eating quality assurance with the implementation of the Meat Standards Australia (MSA) sheep meat eating quality program. However, MSA is not just an eating quality assurance program, it also outlines scientifically justified guidelines for on farm animal welfare and meat processing to ensure optimal eating quality. So far there has been limited industry uptake of MSA by sheep processors and producers.

Achieving a high degree of cooperative behaviour for the lamb and sheep meat industry also requires supply chain participants voluntarily share operating information. Information sharing can bring together partners along the supply chain and allow them to work towards achieving decision consensus with shared goals and mission and lead to a competitive advantage and improve performance and profits. In particular, those at the top of the supply chain need to have an open, frequent and formal communication strategy. However this communication needs to be personalised, frequent and high quality in terms of being accurate, valuable and relevant, timely, up-to-date and reliable. Farmers interviewed as part of this Nuffield study wished to have confidence in their understanding of future market directions and the position of the companies they were supplying in relation to the anticipated markets. Those farmers in contractual relationships were demanding up-to-date information about the company position on supply specifications and often said they would continue to farm to specifications in exchange for reliable price information and proof of loyalty to farmers from the processors.

A specific illustration of the importance of quality feedback and information in the case of the Australian lamb and sheep meat industry, is the current system of feedback of carcass information impacting negatively on producers' ability to meet market specifications which causes a degree of mistrust of processors. Recent MLA findings suggest that 30-65% of Australian lambs are not meeting market specifications. Currently most Australian plants pay on a carcass weight and manual palpation fat score which are believed to be reflective of carcass conformation and lean meat yield and this is incorporated in the payment grid. Recent research from the Sheep CRC has indicated that manual palpation is not repeatable within scorer but also poorly reflective of lean meat yield. The use of fat score in Australia does not provide as accurate a correlation to the yield or saleable value of the carcass. This limits not only the accuracy of different payments to growers, but also the value realized from each carcass during processing. Processors need to look for tools and technologies so that lamb carcasses can be graded using consistent and accurate technology to give the best feedback to producers.

2. The future: a Lamb value chain (not a Lamb supply chain) needs to be developed by the Australian lamb and sheepmeat industry

An optimised supply chain puts focus on where the value is added to the product. By focussing on what consumers want, and working together to create a product, it is possible to increase the total value of the product and to optimise returns for producers. The key to success is that everyone in the supply chain makes a profit.

Australian lamb and sheep meat are excellent products to consider a value chain approach. China, The Middle East and India present potentially very large opportunities to value add non-premium cuts such as trim and offal. The domestic and UK/EU/US high value markets present opportunity to value add premium and non-premium cuts through refinement and packaging. The ability to produce value-added products and cuts will be integral to the lamb and sheep meat industry to maintaining value across the entire carcass, minimise wastage and missed value creation opportunities. If production volumes of lamb are to increase, as will

hopefully be the case, the issue of maintaining carcass balance to retain carcass value will undoubtedly arise. Given this observation and the importance of developing and promoting value added products to consumers, it would appear that supporting the development of such products represents an important role for industry associations and would clearly benefit the Australian lamb industry as a whole.

Future growth of the Australian lamb and sheep meat industry therefore needs to come from increased value of production rather than increased volumes. There are three potential options to improve the value added for agricultural products: better positioning of existing exports in overseas markets, value added processing, and niche production and marketing. The first of these, better positioning of existing products, builds on the changing market requirements and increasing demand for credence attributes, and requires ongoing monitoring on how market changes can be levered to enhance value add products.

Australia has a history of limited access to international markets for our lamb and sheep meat products, and this, combined with Australia's distance from markets, has probably resulted in an industry which has not exhibited a good appreciation of the importance and value of marketing credence attributes. In addition, most processors and retailers operate a very generic grading-based schedule to determine value. This approach treats our lamb product simply as a generic commodity offering limited reward to those who are attempting to tailor their production to meet market specifications, consistent quality and value adding potential. This has led to a potential lack of investment in marketing diversified products, and the acceptance of commodity prices for our output. Surmounting these difficulties will require significant cooperation from all stages of the supply chain from suppliers, processors, and marketers. Achieving these changes will require that supply chains are empowered and able to pass on information and incentives for particular production methods desired by consumers through to farmers. An example of a supply chain initiative to help grow our lamb product in the global marketplace is the MLA-Industry Collaborative Agreement (ICA) program which invests industry funds to partner with exporters to support individual brands and specific marketing

activities. ICAs will be particularly important as the Asian and Middle East markets develop and form a significant proportion of total exports into the future, reducing the dependence on traditional markets of the US and EU.

Despite operating in a commodity focused industry, Australian producers have historically been successful at meeting international market requirements for physical attributes of products, but less successful at increasing incomes by selling the distinctive attributes of our products. There is significant potential to increase the value of our agricultural produce by marketing these non-physical credence values. As discussed above, there is significant and growing demand and willingness to pay for products that meet customer's desire for quality. The lamb industry undoubtedly has an opportunity to build upon the extraordinarily high level of satisfaction that virtually all lamb consumers have for Australian lamb. Demand appears to be growing fastest at the premium end of the market with increasing consumer interest in healthy differentiated products and a progressively segmented lamb market. The overall goal must be to assure a high lamb eating quality at the right carcass specifications and in a highly demanded product form.

Developing value-added, retail-ready, ready-to-eat, or par-prepared food items will drive demand at the premium end of the market and this is an area MLA are actively working on. In today's busy world of double income households, convenience is a key factor in driving growth. Today's consumers increasingly seek value-added products or ready to cook meals in order to lessen effort in preparation and/or cooking time. Value added products command a higher price for three main reasons. Firstly, they are costlier to prepare. Secondly, they offer greater value through saving consumers' time in preparation and/or offering greater consistency and a pleasurable eating experience. Thirdly, they can be packaged and presented in ways that appeal to a more discerning experience-hungry (often 'better-off') consumer who is looking for a gourmet meat product. The chicken industry has been a leader/trend setter in value-adding meat. Value-added products from lamb are a relatively under-developed business segment.

3. The Australian lamb and sheep meat industry need to develop payment schemes to support collaboration along the supply chain

Producers differ in their choice of whether to commit to one company or not and also in their desire for active or passive involvement in selling decisions (see table 1). Procurement programs could be designed to vary in the level of commitment necessary, which would relate to the level of risk and reward. In general, marketing strategies differ in the level of commitment, but also by the level of risk and related reward that goes with it. Segmentation of procurement plans may provide producers with options that better suit their strategic orientation and values, which would assist in influencing producers' behaviour more effectively. Producers that take on higher risk must have opportunity to have extra reward. This will be a fundamental mind-shift for some in the industry through registering and accepting that not all producers deserve to be paid identical prices regardless of the level of risk and commitment undertaken.

In lamb and sheep meat supply chains in the UK and NZ, farmers saw contracts as the way of the future for several common reasons. For example, quality levels often demanded by contracts are increasingly becoming a prerequisite for global market access. Contracts are a way to guarantee killing space at the meat works and contract defined goals that could be worked towards. Those farmers working to contracts highlighted that they had to understand their production systems better as well as seeking earlier market indicators from the processor. Supplying to precise specifications usually requires additional monitoring skills (over and above other supply arrangements). Farmers were very receptive to funding arrangements that would lead ultimately to timely accessing of information, developing strategic innovations to enable contracts to flourish, exploring with the company how to satisfy a customer, looking at risk management using minimum price assumptions to plan input scenarios and developing relationships with management to foster trust around the contract. Refer to the full report which outlines alternative contract options that Australian lamb producers could consider.

Summary

The Australian lamb industry needs to continue to develop a strategic business approach or it may miss opportunities to retain long-term profitability and even market share in the face of an increasingly discerning consumer market. It therefore stands to reason that, if Australian sheep producers and meat suppliers do not develop the capabilities necessary to serve the growing international lamb market and take advantage of opportunities that exist ahead of their increasingly capable international competitors, the industry could lose a phenomenal commercial opportunity. The Australian sheep and lamb industry may therefore be at a crossroads. Failing to earnestly invest the resources and determination into capturing market opportunities may lead to the industry slipping in terms of its commercial capability compared to NZ. Following are some specific recommendations:

- The emerging markets in some developing countries, such as China, India and the Middle East, represent significant export opportunities for Australian lamb and sheep meat. The industry needs to utilise these markets as a way of value adding the entire carcass.
- Continued pressure should be placed on the Australian Government to improve trade access to China and India by reducing the tariffs currently placed on Australian lamb and make us more competitive with NZ in these markets.
- Continued access to existing markets and boosting sales in the domestic market will require an approach which repositions lamb as a versatile, value for money, everyday, healthy alternative. Ongoing consumer focus is needed to refine our lamb products to encourage more frequent purchases of lamb.
- To ensure a prosperous lamb industry into the future, industry must develop a thorough understanding of consumer expectations for lamb, along with drivers of choice, augmented with programs for producers to work effectively

with processors, retailers to supply desired lamb and lamb products to consumers.

- More formal strategic marketing arrangements along the supply chain will assist producers to meet specifications, build trust in the supply chain and also to engage with emerging markets. Specifically, greater association is needed between farmers to market our products on a commercial level, so encouraging coordinated co-operation of producers through targeted producer groups.
- To further capitalise on the growing demand better communication is needed with those higher up the chain - from customers and processors to stock agents and producers. Producers need to know what the market is demanding in order to determine what, when and how much to produce. Ongoing access to information about prices, trends in the market, and quality standards is essential to improve efficiency both on farm and in the market place.
- The industry can improve supply chain efficiency through better feedback mechanisms. Producers should be encouraging processors to look for tools and technologies that give a more accurate assessment of carcase conformation, giving access to better feedback leading to an improved end product.
- The lamb industry needs to develop better payment systems, assisting sheep producers manage their production risk, which will encourage a less seasonal production and therefore reduce the volatility of returns.