

On farm

BeefNet Final Report Summary

Beef Marketing Support Network



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Background

The Australian beef industry is becoming more cost-competitive and consumer-focused with the adoption of world's best practice in supply chain management, along with greater sharing of information within individual supply chains.

Critical to such major cultural change is the formation and advancement of professional cattle supply groups within the production sector, which forge integrated business relationships with processors and other downstream partners.

BeefNet (Beef Marketing Support Network) was initiated by the Meat Research Corporation (MRC) and, from 1 July 1998, was managed by Meat and Livestock Australia (MLA) over the next four years to support the establishment of producer groups throughout Australia, and foster a supply chain culture across the beef industry.

The specific objectives of BeefNet were to:

- improve the continuity of supply of specified product delivered by alliances to existing and potential customers;
- be representative of 500,000 cattle turned off each year from member alliances;
- identify and prioritise research needs which are common to alliance members;
- monitor and analyse the performance of the individual alliances in delivering product according to their customer specifications as appropriate; and
- encourage alliances to establish a reputation for their members as reliable and predictable suppliers of product to all customers.

The BeefNet program concluded 30 June 2002. A major external review of the five-year research and development (R&D) program was commissioned by MLA and is published as the BeefNet Final Report Summary.

The BeefNet mission was:

"To provide a self-help support network for beef marketing groups to improve viability by fostering commercial developments through consistent delivery of quality assured product".

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Methodology

As part of its objective evaluation policy for completed R&D projects, MLA commissioned an external review and final report on the BeefNet program. The report covers the period from 1 July 1998, when MLA succeeded the MRC, to completion of the program on 30 June 2002.

The BeefNet Final Report was prepared using the following methods:

Documentation

All available documents relating to BeefNet were obtained from MLA and reviewed, along with other documentation and membership information sourced from the BeefNet Committee.

MLA employees involved with BeefNet were interviewed to gather historical facts, clarify individuals' roles and responsibilities and funding expenditure of the program.

Attitudinal research

Three surveys were conducted. All responses, including unsolicited comments, were recorded.

The three surveys were:

1. **Producer survey:** This comprehensive survey was conducted with 36 BeefNet participants. Selected at random from the membership database, the individual survey respondents represented 27 BeefNet groups.
2. **Group survey:** All remaining BeefNet groups identified were telephoned to establish their operational status as at 30 June 2002. A further 39 groups were successfully contacted and questioned as to whether their group continued to operate or had ceased to operate (and when), and the main reasons.
3. **Processor survey:** Eight beef processors were asked questions derived from the Producer Survey. Four beef processors had developed a relationship with one or more BeefNet alliance groups, two had no involvement, and two had provided service kill arrangements for a BeefNet group.

Case studies

Three fully operational BeefNet alliance groups were selected by the reviewers as examples of groups having critical success factors identified by the attitudinal research. The key factors (or themes) were:

1. Group dynamics;
2. Commitment to the supply alliance; and
3. External dynamics.

A fourth case study was prepared on a BeefNet group that had exported branded beef products to Japan. Examination and producer insight into the group's experiences and challenges specific to the export market was considered most valuable.

"In the early stages of our group development, the BeefNet network provided assistance and inspiration for developing and achieving group objectives" –
Brigalow Beef Group member.

Outcomes

BeefNet was a major catalyst for the amalgamation of almost two thousand cattle producers into 73 local and regional beef marketing groups throughout Australia to pursue supply chain initiatives under a national R&D program managed by MLA.

Many of these groups have been successful in establishing horizontal and vertical supply alliances with partners in the supply chain, of which some trialled and then adopted MLA developed technologies and management systems designed to improve the eating quality of beef, cost competitiveness and quality assurance for consumers.

Advanced producer alliance groups also provided the beef industry with commercial entities by which it could attempt to pilot R&D technologies including Meat Standards Australia (MSA) beef grading, VIAscan®, value based marketing and integrated product feedback systems.

BeefNet indirectly and directly assisted alliance groups with the commercial development of various branded beef products targeted at both the domestic and export market. BeefNet groups pursued and succeeded in the establishment of nine recognised retail beef brands and a minimum of four wholesale brands as at 30 June 2002, the completion of the five-year R&D program.

These producer groups worked hard to establish their brand at the retail interface with consumers and build a strong relationship with retailers. This created an important feedback loop direct from consumers and retailers to producers, which was vital for them to meet specifications.

These information channels increased feedback on products, as well as providing enhanced integrity to underpin beef brands by incorporating schemes such as MSA beef grading and recommended eating quality contributors such as tender stretching.

Twenty-six producer groups were confirmed to be fully operational at 30 June 2002. A further 12 groups were partially operational, and 14 groups had maintained a strong communication network between members, even though they were no longer recording group sales.

Many producers regarded BeefNet as the catalyst for them to take their businesses further rather than passive selling through traditional pathways, and BeefNet reinforced the benefits of networking and participating in a supply chain.

Attitudinal research from processors confirmed supply chain

alliances were useful tools for abattoir operators to secure continuous supply of suitable, quality cattle. Processors surveyed confirmed that a regular and reliable supply of a particular cattle consignment enabled them to pursue new markets and customers with confidence.

“Maintaining ownership of product and marketing it through our own specific end-users has resulted in more feedback on the product from every sector, including the consumer” – Durong Country Beef member.

Participation

The number of beef marketing groups operating under the BeefNet banner peaked at 73 in 1999, with geographical representation in every State and Territory of Australia. A further 19 groups later joined and participated in some or many BeefNet program activities at various stages, however these producer groups did not receive any funding assistance from MLA.

The BeefNet program, through MLA, granted funding to producer groups and developed supply alliances throughout the five years of the program. Allocated as installments linked to achievement criteria, this funding was distributed for the purpose of aiding the long-term success of commercial projects and professional producer training.

The 73 groups, comprising almost 2,000 beef producers, utilised BeefNet as a structured vehicle for funding both research and the development of group marketing and supply chain initiatives and, importantly, to achieve the objectives of its members.

Membership with a producer group became an important and desirable aspect to the farm business management of many beef producers. Access to a group network provided producers with a vehicle to discuss operational, marketing and industry issues among peers within their own region and other groups around the country.

It is estimated that a maximum of 265,000 cattle were slaughtered annually under the various banners of BeefNet groups, from an estimated total of 378,000 cattle sold for slaughter each year by the 73 BeefNet groups.

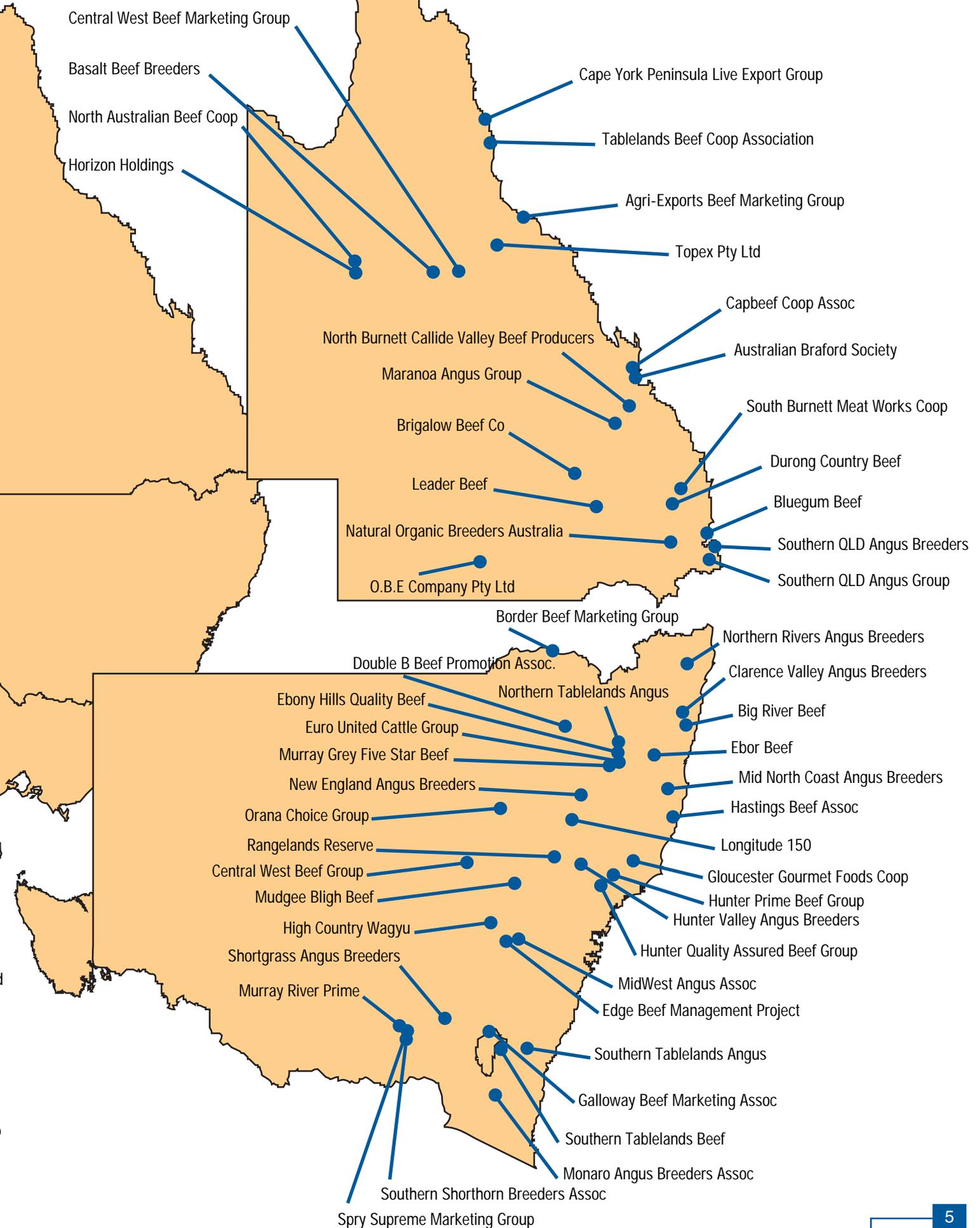
All processors that had been dealing with a producer alliance group confirmed new sales and marketing opportunities with customers had been created as a direct result of the alliance.

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Geographical location of BeefNet producer groups



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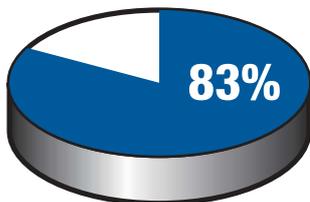
Program achievements

A major review of the program revealed BeefNet has contributed to significant cultural change within the beef industry and played an important role in building stronger supply chain networks throughout the Australian beef industry.

Attitudinal research from cattle producers who participated in the program shows BeefNet achieved its overall mission of “providing a self-help support network for beef marketing groups to improve viability by fostering commercial developments through consistent delivery of quality assured product”.

Survey feedback confirmed BeefNet producers actively identified and sought out other members (and groups) and external professionals to assist in the achievement of their own commercial and on-farm objectives.

BeefNet created a self-help network.



SOURCE: BeefNet Producer Survey, 2002

BeefNet had considerable impact on producers' management in areas related to the continuity of cattle supply to their alliance partners, the eating quality of beef and, to a lesser extent, the food safety of the beef they produced.

In fact, 58% of BeefNet producers surveyed acknowledged that they had modified the on-farm management of their beef enterprise as a direct result of their involvement by:

- altering breeding patterns and cattle turn-off times to meet supply demands of specific markets and end-users;
- reviewing the carrying capacity of their property and modifying cattle feeding regimes to increase compliance with market specifications; and,
- embracing on-farm quality assurance in response to market signals from customers seeking best practice for eating quality (MSA) and food safety.

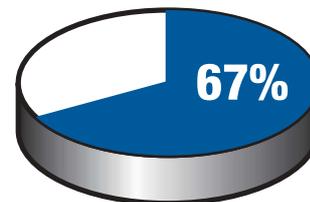
BeefNet: impact on farm management

- 58% changed on-farm management
- 27% changed breeding and turn-off times
- 21% reviewed carrying capacity, feeding regimes
- 17% embraced on-farm quality assurance

SOURCE: BeefNet Producer Survey, 2002

Other farm management practices adopted by BeefNet participants included profit comparative analyses (benchmarking), strategic grazing management, individual animal identification (NLIS) and elements of EDGEnetwork® BeefNet Product Knowledge and other workshops.

Producers who utilised this network.



No Yes

The educational benefit of BeefNet to producers was significant. Participation in supply alliance groups aiming to develop large scale, long-term commercial objectives helped many beef producers develop the extra skills necessary to be consistently competitive in the market place, strengthening both individual businesses and the beef brands created by alliances.

Unsolicited producer feedback identified the BeefNet “self-help” network, BeefNet Handbook and annual BeefNet Conference as the most valued information sources.

“Being associated with a BeefNet group and attending the annual conference taught me volumes about beef marketing” – Galloway Beef Marketing Group member.

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BeefNet also impacted on individual producers and alliance groups with regard to their personal and professional standing in the beef industry. More than half the producers surveyed provided unsolicited comment to the effect that “BeefNet has been an excellent learning opportunity in the areas of marketing, networking and benchmarking”.

These benefits were not all attributed directly to BeefNet, rather the combination of the national group network, products and services delivered by the program and the unique opportunities created by producer interaction within an alliance group. Producers surveyed attributed the following personal achievements to their participation in BeefNet:

- 88% achieved a greater understanding of beef marketing;
- 86% achieved a greater understanding of market specifications;
- 82% had greater networking opportunities with other beef producers;
- 69% increased their capability to meet specifications;
- 65% felt they had greater control over their beef enterprise;
- 57% found it had provided them with greater price stability; and,
- 36% increased farm profit.

Overall experience with BeefNet producers

- 71.4% described as ‘positive’
- 22.9% described as ‘neutral’
- 47.6% described education as “excellent”
- 16.6% described as “catalyst to move forward in business”

SOURCE: BeefNet Producer Survey, 2002

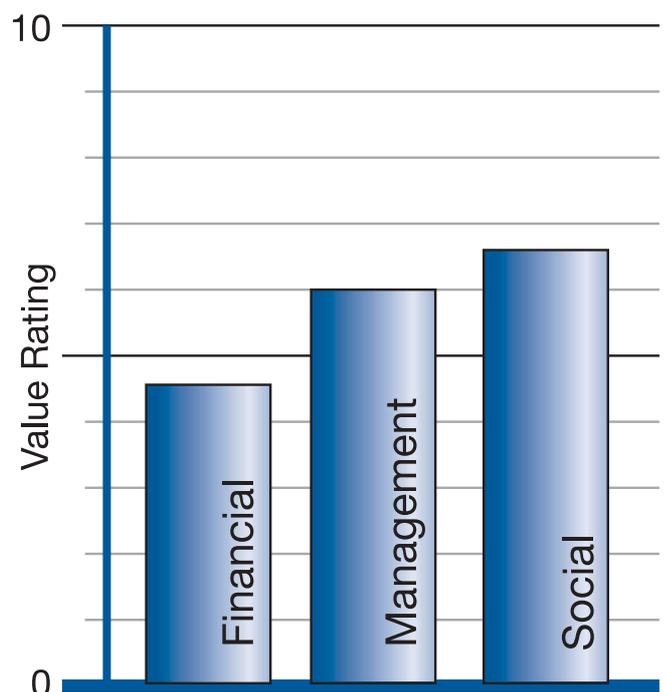
Many respondents commented that they may have missed out on these personal achievements had they not become involved with a BeefNet group.

It is important to note that while many respondents had previously indicated that higher sale prices (per kilogram) were not identified as a direct outcome of BeefNet or alliance participation, more than one-third acknowledged increased farm profit since joining the program. This is most likely to be the cumulative effect of higher compliance rates with market (grid) specifications, increased on-farm productivity and greater price stability.

Many of the BeefNet producers surveyed were unable to quantify any “direct” financial return on MLA levy investment in the program, but they had received significant social and managerial benefit.

In terms of the return on MLA levies invested, 63% of these producers valued the managerial benefit as six and higher out of 10, and 66% valued the social benefit as seven and higher out of 10.

Rating of BeefNet Program by producers.



Case Study: King Island Beef Group



BeefNet Group:
King Island Beef Group Members:
68 family-owned beef enterprises
Location:
King Island, Tasmania



Brian Crockett, King Island Beef Group Chairman, and Keith Moffat, Plant Manager at King Island Meat Company, have forged a strong business relationship based on open and honest two-way communication.

Word travels fast in confined spaces and King Island Beef Group (KIBG) has deliberately used open communication among its members to shape a shared vision of better skills, knowledge and ultimately, on-farm productivity.

Brian Crockett, KIBG chairman of three years, said building skills, lifting production and utilising profit benchmarking to cut production costs are proving far more valuable than chasing nominal price gains.

“We consider a 10 percent lift in on-farm productivity to be miles better than grabbing a few extra cents a kilogram,” said Mr Crockett.

“The important thing to do is change the things we can change. Price is one of the things we can’t do much about - except maybe a few extra cents a kilogram - but we know more about, and can do more about, lifting production.

“The key to all of this is communication – it creates opportunities and solves so many problems.”

“Before BeefNet, nobody would have thought we would be working with our processor to build and supply a beef brand, measuring our cost of production and improving productivity by learning from one another and adopting technology.

Communication and cooperation is a vital tool for improvement on King Island (population 1,750), and the 68-member KIBG is using isolation to its advantage.

“We had a dream that, of all the places in Australia, we should be able to crack the ‘them’ and ‘us’ mould of producer-processor interaction by focusing on our isolation, natural boundaries and a niche quality product,” Mr Crockett said.

“Not only is the alliance working but we are now finding some huge improvements can be made on properties. Producers on the top of the ladder, identified by benchmarking, are setting goals for those below and are then setting themselves new targets.”

“Internal communication is most important as far as we are concerned. The voice box is the greatest transmitter of information and news travels pretty quickly on the island.

“As a group we have to make this communal social structure as effective as we can and the internal dynamics of the group are certainly where our strength lies.”

Mr Crockett said the group decided early on that it would focus on production and leave marketing to the specialists.

“As a group we decided that we did not want to retain ownership of our product but, at the same time, create a level of transparency throughout the supply chain.

“We wanted to learn more about our processor sector, listen and gain an understanding of their problems and pressure and set out to fix them by working together.”

Focusing on production gains has paid dividends for KIBG but the island’s producers have also benefited from better knowledge about other sectors of the supply chain.

“The main goal of BeefNet was more about value based marketing, whereas KIBG has found huge dynamics in the horizontal alliance and, vertically, chosen to find out as much as possible and give the processor as much support as we can,” said Mr Crockett.

Mr Crockett credits MLA funding through BeefNet as a catalyst to improving his members' business performance.

"All these sorts of things would never have started without the seed funding and support from MLA. We have paid for expertise, brought skills to the island, and the group structure has also allowed us to apply for PIRDs."

KIBG member training undertaken via BeefNet included a supply chain management workshop and four training programs, which later evolved into the EDGENetwork BeefNet Product Knowledge workshop.

Other training initiatives include leading speakers, PROGRAZE®, SGS FarmWalks, field days, fertiliser and nutrition trials and tours to inspect new pasture innovations.

Quality assurance (QA) of the King Island beef industry - the island's main primary industry - and food safety have been a priority for KIBG.

"As a group one of our criteria is CATTLECARE accreditation and we claim the highest level of on-farm beef QA of any region in Australia. As many as 54 members are accredited, and the others are working towards it.

"We see food safety as an absolute priority and have positioned ourselves to a point where we can say we've got our on-farm QA to an audited standard."

Branded beef is wholesaled in cryovac packs bearing the King Island Coat of Arms, which certifies it is genuine King Island product. The brand is owned by all King Islanders with the local abattoir, trading as King Island Meat Company and owned by Tasman Group Services Pty Ltd.

The Australian-owned Tasman Group bought the King Island Meat Company abattoir at Currie, the island's major town, in 2001 from Japanese company SBA Foods.

The majority of King Island beef has been exported to Japan as chilled and frozen product, with the balance sold domestically throughout eastern Australia.

"Market growth has been gained by extra on-farm productivity achieved by producers and the increased abattoir throughput and heavier carcasses required by the processor.

"Working with a new processor means starting our communication and relationship building again but instead of taking four years we will do it in twelve months, and the meetings are going really well."

BeefNet: The benefits

Brian Crockett considered the biggest benefit of BeefNet had been the formation of the group structure.

King Island Beef Group (KIBG) provided the network for beef producers to discuss all matters of importance to them and to work together for the first time to improve commercial viability. Specific benefits are:

Improved on-farm productivity: This is estimated to be a five percent increase for the 68 members over the past three years. This has been achieved because group members are focused on the need to provide a consistent supply within set specifications. Members are keen to find new solutions from outside the group, which is now large and important enough to attract Tasmanian state agricultural experts to the Island.

A reliable price setting mechanism: Through negotiations with the Island's abattoir, all cattle prices are now based on that recorded for equivalent cattle with the National Livestock Recording Service. Previously, the local abattoir could set prices without reference to any outside influence.

Greater abattoir throughput: Before the advent of the KIBG, the King Island Meat Company had an annual kill of around 18,600 beef cattle. This has now increased to around 25,000 cattle (a 34% increase) of a heavier weight, with a higher proportion within specification. Much of this improvement in both numbers and quality is due to the group, and has resulted in more local employment and a reduced likelihood of the abattoir closing.

Increase in contentment: This has been achieved primarily through networking within KIBG, but also because of the group's achievement in forming a positive relationship with the Island's abattoir and the new confidence of the group members to seek ideas for continual improvement of their enterprises. KIBG members no longer feel they are at the mercy of the abattoir and, instead, understand that they can achieve better prices if the abattoir itself is profitable.

Case Study: Bluegum Beef Group



Bluegum Beef Group founder and Oriel Park Bluegum Meats operations and marketing manager, Ross Shannon, says without consistent product supply there is no beef brand.

Producer investment further down the supply chain into wholesaling and distribution, promises to shield the Bluegum Beef brand from suppliers succumbing to the lure of short-term, market premiums.

Bluegum Beef Group (BBG) founder Ross Shannon says without consistent product supply there is no brand. Offering alliance members a slice of the Oriel Park Bluegum Meats (OPBM) wholesale/distribution business puts some degree of the onus back on members to protect the company's long-term future.

"The most important issue is commitment from growers.

"Our price is paid on a completely transparent, carcass yield-based spreadsheet system based on the market price for each primal on that day. At various times during the past year or so the Bluegum alliance was battling to keep up with external market rates.

"In recent times, however, the market has dipped and we have been paying a premium to our suppliers."

BBG began in 1995 when some of central and western Queensland's leading beef producers were invited to the group for their ability to produce significant volumes of high quality beef and work within a collaborative entity.

The Bluegum Beef brand is produced under BeefCare, a unique ISO9002 Total Quality Management System, which includes strict production guidelines and external audits.

Eighteen of BBG's 45 producer members invested in the OPBM joint venture in December 2001, when the group formed a company and raised capital to purchase a half share of Brisbane wholesaler Oriel Park Meats.

Mr Shannon, OPBM operations and marketing manager, said BBG benefits from the new association by accessing a large captive customer base and also the where-with-all to portion cut, value add and deliver its product to meet the needs of its selective customers.

Growth has been strong with a massive 300% increase in sales of branded beef over the last year. However, this represents just 12 percent, or 6,000 of the estimated 50,000 cattle turned off annually by BBG members.

"Therefore as we continue to grow the market for our Bluegum Beef branded product we must access a growing number of these cattle," Mr Shannon said.

BBG has long held the goal to produce and distribute to four and five star hotels and restaurants, flavoursome beef of the highest quality under Bluegum Beef specifications, the best of which is underpinned by the Meat Standards Australia (MSA) eating quality assurance scheme.

A commitment to eating quality, growing value into the Bluegum Brand and developing a differentiated product that promotes the natural grassfed flavours are the main motivating factors driving the group.

Other common strategies and group objectives include: implementing quality management systems, keeping members informed of brand developments and market-driven quality demands, encouraging new members and promoting a customer-focused approach.

"When you have equity in something you feel a bit more commitment because the business investment relies on that," Mr Shannon said.

“We are now also able to promote to growers the long-term philosophy of not making the most money on every sale, but working towards the best bottom line at the end of a five-year period.”

While Bluegum Beef can compete with the market over the long term, protecting the brand’s supply against the lure of inflated cattle prices has proven challenging. Producer interest in the alliance is high when commodity prices are low but wanes when the market rises.

OPBM’s strategy is to reward producers for the eating quality of carcasses supplied and members are paid according to total yield and price of saleable meat cuts less the abattoir kill costs. Payment is calculated on the value of each specific cut on market at the time.

In order to ensure a constant supply of quality product, BBG’s supply coordinator, in liaison with Mr Shannon, organises the procurement of stock from members.

“Suppliers are not going to be paid high commodity prices on market peak, but neither will they receive the lows.

“Recently there has been a significant premium paid of up to \$60 per head to Bluegum suppliers and that’s without considering any shareholder advantage from the investment in the wholesale business.”

Communication and skills building are strong initiatives within Bluegum, and Mr Shannon supports information sharing, including new marketing initiatives and technological developments.

“Our aim was to develop a differentiated branded beef product that revolved around grassfed beef production by some of the country’s best producers. However that is difficult during droughts and seasonal downturns, so there is need for some form of paddock supplementation to maintain supply throughout the year,” he said.

“We’ve taken growers through production information workshops, implemented MSA standards in our service kill plant and met with chefs and customers to tell us what they think of the product - its been a pretty big learning curve for our members.”

OPBM is working with BBG to develop an on-line database that will integrate with the growers’ on-farm software, to transfer feedback electronically and form the basis for a group benchmarking system.

BeefNet: the benefits

Ross Shannon believes that around 15-25% of the benefits received by group members can be attributed to its involvement with BeefNet. Bluegum Beef Group (BBG) was already an active alliance when the BeefNet program started.

According to Mr Shannon, the main benefits received by BBG members through their membership are:

Cultural change: Members, who previously had little involvement with or control of their cattle once they were sold, now have a willingness to develop a relationship with and an understanding of their customers. They strive to add value through development of a brand name, and are now concerned to meet the customer’s specifications and needs. This cultural change has, in part, been generated from their group contact and educational information received from their involvement in BeefNet.

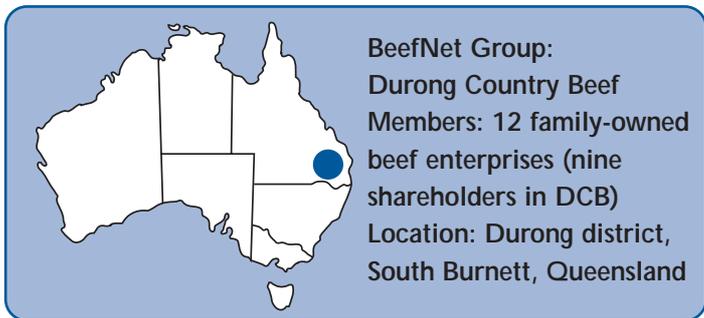
Control of their product: Many group members now retain some control of their product further down the supply chain and this gives them the opportunity to realise more returns.

Reduction of price volatility: The branded product achieves a more stable price; it sometimes fails to reach the highest prices in the market, but insulates members from really low prices, such as those experienced by producers of non-branded products.

Confidence to negotiate with other sectors: Because of their increased understanding of other sectors in the supply chain, BBG members have the confidence to approach other companies in a positive way to secure arrangements that are mutually beneficial.

Summary: While these benefits are not all quantifiable in money terms, the vitally important result has been to take the producer members out of their ‘comfort zone’ and develop positive relationships with processors, lotfeeders, wholesalers and retailers. Such relationships are now essential for producers to keep their businesses viable into the future.

Case Study: Durong Country Beef



DCB business and marketing manager, Georgie Somerset, says it is easier to increase productivity and long-term profitability by working with existing retail partners, instead of making a quick return and then sourcing new clients and rebuilding relationships.

What makes our group work is that our members have realised they have to look beyond the quick buck," said Ms Somerset. "We have since extended our goal to boosting the profitability of everybody in the supply chain."

"For supply alliances to succeed, you need to realise there are people just like yourselves at the other end and they have a whole set of priorities that may or may not be similar to yours. You need to identify and understand these priorities.

"Honesty is essential, as is recognising when you go into these arrangements that you need to learn from other partners in the chain. We have learnt to ask questions and understand their point of view."

DCB formed in 1996 as a research and development producer group with the aim of learning more about beef production, value adding and marketing, but it has matured from a "community group" into a viable small business.

"Like all small businesses, commercial decisions have been made. The past three years have been a process of bedding down systems of management, and we are now happy with these and ready to move on to the next stage," she said.

"We have learnt that while DCB Pty Ltd is a small business comparable with our own rural businesses, it is more prone to the impact of retail trends than purely commodity price trends and it fits into a longer cycle.

"The business has to have a dedicated management team which thinks as a small business, not as a community organisation. This has been a big mind set change for us."

Throughout the first half of 2002 wholesale supply was hovering around 25 carcasses a week, a level set to increase as DCB moves into an expansion phase that includes more retail butchers and developing the existing retailers' marketing skills in order to lift sales volumes.

Ms Somerset concedes there were times, when beef prices were exceptionally high, that members would have made more money selling outside the group. She says profit comparisons haven't been made, but members and co-suppliers would not continue to trade through DCB unless the system was returning a profit to them.



Durong Country Beef (DCB) producer member, Peter Seiler, "Killara", Durong, with long-time DCB retail butcher, Chris Brady, Brady's Belmont Butchery, Brisbane.

Durong Country Beef's (DCB) early goal of boosting the profits of its members through increased control down the supply chain, has matured with the knowledge that strong external relationships are the key to long-term growth of the fledgling beef brand.

“When you consider there is a 21 percent variance on domestic cattle prices in any one year, the ability of a member’s individual business to budget on forward sales and prices is much greater - and more stable - when they are involved internally in a supply chain such as ours.

“We are talking about a shift in the ownership of retail meat. Producers actually becoming involved, not just participating, and gaining an understanding of retail - without it, it just doesn’t work.”

In order to meet MSA grading requirements, particularly surrounding the mixing of mobs, intake of cattle occurs every three weeks at a common depot. DCB kills weekly through Killarney Abattoir on a service kill arrangement.

The group deals with just one wholesaler, Ipswich-based Schulz’s Wholesale Meats, and a dozen MSA licensed butchers in Brisbane, the Gold Coast and Kingaroy. DCB retailers are encouraged to visit DCB members’ properties to gain an understanding of time and care taken in production.

“Our wholesaler manages all product delivery and logistic issues such as freight, cold storage, ordering and delivery, but we also have direct relationships with our butchers,” explained Ms Somerset.

“This dovetails not just as an opportunity to get feedback on our wholesaler, but by building the knowledge base of our butchers they feel they have more of a story to link to their customers and, in return, to us, with news of consumers and what their requirements, needs and feedback are.

Ms Somerset describes Bevin Schulz of Schulz’s Wholesale Meats as integral to the success of the business.

“He’s honest and professional, and performs the logistical role that has to be done. We didn’t have the facilities, skills, and understanding or time to fulfil the role.

“The reality is we are not wholesalers and we now find we can develop a really good relationship with the butcher because the wholesaler does a professional and efficient job on meeting the butchers’ specifications.

“If the wholesaler finds out the retailer is not happy with the product for some reason, we jump on the telephone and talk to them. The most important view from our end is that we have learnt from these problems, the thing is you have to communicate - talk to people.”

BeefNet: the benefits

Georgie Somerset believes Dulong Country Beef’s (DCB) involvement with BeefNet has been a key factor to its growth and success. BeefNet was vital in the formation of the producer company, as well as securing the professional support needed for initial development and marketing of the branded product. BeefNet also provided members with access to other alliances. The main benefits are:

Financial:

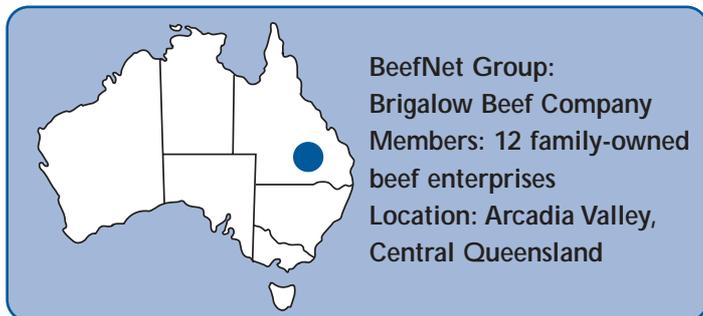
- Marginal profit increase - hard to measure as the impact on individual member’s business varies;
- More even cash flow - members receive income more frequently than previously;
- Reduced exposure to price volatility. Over the past year prices paid to members have varied no more than 10% compared to industry averages of over 20%. Members can budget more confidently.

Support: Members gain ideas and confidence through support received from other members and are proud of their group and product. DCB has also benefited from the experience and knowledge base of other groups from the BeefNet Conferences. Contact with these groups has been maintained.

More consistent production systems: Producer members now have a greater understanding of customer needs and have developed management systems to ensure greater continuity of supply to specification. About 1,250 cattle are supplied under the group’s brand annually, and despite difficult seasonal conditions, in the 2001/02 financial year 94% achieved MSA compliance.

Summary: Ms Somerset maintains financial benefits are critical to the group’s members, for without these it is unlikely the group will continue. DCB has also realised the critical importance of communication and good relations with other sectors of the supply chain as a vital element to having a viable beef business.

Case Study: Brigalow Beef Group



BBC members Don and Rita Hutton, Ivan Schmalkuche, Jeff Bell, Wendy and Murray Gibson, and Frank Burton during a trade delegation to Japan.

Their beef is considered among the best grassfed product on offer in Australia but the road to export success has been tough for Arcadia Valley producer company, Brigalow Beef Company (BBC).

BBC vice-chairman and Injune cattleman, Jeffrey Bell, says there is potential for an ideal arrangement – a solid partnership with a Japanese consumer cooperative seeking some specific primal cuts from fullsets.

However the vision has been hampered by difficult dealings with processors, customer politics, the BSE food safety scare in Japan and complex communication across language, cultural and food sector barriers.

“Despite constant setbacks the group is keen to press forward in new negotiations and promotion of the Brigalow Beef brand within Japan. It is our commitment to the concept of producing a branded product and establishing a business together that keeps our members motivated,” said BBC chief executive officer Mr Schmalkuche.

“If the rhetoric which says food safety and traceability to the supplier is paramount to the consumer - particularly now that BSE has been discovered in Japan - is followed by commercial action we will be well positioned.”

The BeefNet producer group began in 1997 with 19 families and the promise of a premium for the Jap Ox beef product they consistently turn off buffel grass pastures.

By 2002 the remaining 12 members, particularly those who have served in executive positions including Mr Bell and Mr Schmalkuche, have climbed a steep learning curve in professional and personal development.

Business planning, quality assurance and internal communication were early issues and even getting the producers trained and connected to email facilities was a big step forward.

Mr Schmalkuche said the main achievement was that the producers were committed to deliver animals on a scheduled supply date.

Mr Bell said challenges have arisen at every stage of the company’s development but the bigger vision for their branded product spurred on the group.

“We originally felt we had to escape from the commodity price trap so we started ringing around to find out what we could about beef marketing groups,” he said.

“We weren’t fazed by going into Asia to develop business relationships - fortunately we didn’t know what we didn’t know.

“It was purely our blind naivety that allowed us to go ahead and at each stage we made some progress so when a problem confronted us we’d think ‘we can’t throw away what we’ve achieved’.”

An early alliance with a processor looked promising as the group was able to meet tight specifications that allowed the processor to send two containers of Brigalow Beef a month to Japan.

There was no thought of retaining ownership of their product at this stage as the processor had found them the buyer, and Brigalow Beef did not then possess the skills, contacts or knowledge to do otherwise.

Although very useful in allowing Brigalow Beef members to learn about the Japanese market and to prove they could supply on a consistent basis, the association with the first processor came to an end with differences in philosophy.

“The processor was determined to keep us a supply group and didn’t want us to play any part in knowing, visiting or understanding the customer,” said Mr Bell.

Confidence in their product and ability to supply, however, motivated the group to continue relationship building with customers in Japan and each visit yielded new information, contacts and challenges.

The focus has been on approaching consumer cooperatives, which have a high consumer representation and are involved in second level processing and packing, distribution, retail and direct marketing.

Mr Bell said the group's claims regarding the consistency and eating quality of their branded grassfed product have been well received by consumer cooperatives, but progress towards a long-term association and the sought after premium is long and drawn-out.

A new association has developed with Australia Meat Holdings, which was content for Brigalow Beef to source markets, negotiate prices and supply particular cuts, and promote its branded product.

"Because producers are well regarded in the Japanese market we were able to meet potential customers who may not have dealt directly with processors.

"We've never tried to retain ownership of the actual product because that's a very difficult thing to achieve in terms of placing all the different cuts," said Mr Bell.

For its marketing efforts, Brigalow Beef believed it should be paid whatever profit was achieved above the commodity price of the day. Cuts sold to Japan achieved up to a 20% premium.

The problem was, however, that by breaking up a fullset the processor had to then find markets for the cuts that Brigalow Beef doesn't require. The processor rightly argued that it took a loss by selling those unused cuts from the fullset into discounted markets, explained Mr Bell.

Brigalow is currently investigating with their customers how this can be achieved.

BSE and protection of the Japanese beef industry has interrupted demand but Brigalow Beef presses on in its quest to break into the tough export market.

"We've reached a position where we haven't got the viable volumes to sustain the company but we can supply locally for a premium and that's going well.

"We're supplying a fraction of the volume we need to Japan and we're having trouble finding customers. Can we hang in there long enough to be successful? That's the issue."

BeefNet: the benefits

Jeffrey Bell believes Brigalow Beef Company's (BBC) members have benefited greatly from their association with BeefNet, even though consistent financial benefits have not yet been achieved. The company was about to become financially successful through steadily increasing sales into the Japanese market when the BSE outbreak intervened, causing a dramatic drop in forward orders.

The main benefits received by BBC members were:

A widening of outlook: As a result of the presentations and interactions with other alliance members at the annual BeefNet Conference, BBC members now have a well grounded understanding of the whole industry, including customer needs, the processing business, and the global beef market.

Skill development: BeefNet stimulated so many meetings and training sessions that BBC members complained of being "trained out", but they recognised the considerable increase in management skills they attained from these sessions. As evidence of this, 99% of cattle submitted by members each month throughout the year are within specification for the Japanese market.

Understanding of the Japanese market: BBC members have developed strong links with a Japanese beef cooperative and have exchanged visits with their Japanese customers. Mr Bell recalls the initial apprehension felt by members when the first Japanese customers visited and compares that with the present situation where there are strong friendships between the two groups.

Summary: Mr Bell believes BBC members have gained much from their involvement with BeefNet, and maintains the producer company has "all the pillars in place" to be ultimately successful in the Japanese market. He says that, if the company is successful in this, it could single handedly improve the perception of grassfed beef in Japan.

Recipes for success

Attitudinal research from BeefNet producers has identified, using their personal experience, key factors that contribute to the long-term success or breakdown of a group supply alliance and its subsequent commercial initiatives.

Commitment from members, sound group dynamics, internal communications and a strong, transparent relationship with a supply chain partner(s) that benefits all stakeholders were identified as key success factors.

The four BeefNet group case studies highlighted within this report exemplify one or more of these vital ingredients, which are usually coupled with the hard work and commitment of several individuals within a producer group.

Internal dynamics

Seventy-six percent of survey respondents nominated internal communication as a key factor. Conversely, 21% identified internal dynamics as a major contributor to the breakdown of their BeefNet group. Only three percent believed internal communication was not a critical factor.

The second important factor identified was the commitment of group members. Seventy-one percent of respondents considered strong, committed membership was crucial to alliance success. It was discovered that many alliance groups that were no longer active had experienced problems due to the lack of member commitment in relation to an agreed destination of slaughter cattle.

Often, prices at local saleyards or abattoirs were marginally higher than that on offer in a supply contract brokered by the alliance group. Many producers found it difficult to commit to the group with higher prices on offer elsewhere.

At times, this made it extremely difficult for the management of an alliance group to guarantee supply to a processor or retailer, resulting in a lack of trust from the supply chain partner and, ultimately, the collapse of a supply alliance. This situation was more likely to occur in times of high prices and strong market demand.

An important observation was the time, effort and financial input required by individuals, particularly from group directors and appointed managers of a producer group.

This is consistent with unsolicited comment that group success or failure often hinged on one or two individuals who spent considerable time, energy and cost to ensure success of group activities. Many groups can attribute their success, at least in part, to these highly motivated people.

External dynamics

Communication is an essential issue when assessing the fundamentals of a successful supply chain alliance. When questioned on the importance of communicating with stakeholders externally, 69% of producers surveyed believed external communication contributed to smooth delivery of commercial objectives.

The same proportion of producers considered involvement of a processor in commercial developments as critical to long-term success. This supports the conclusion that fostering relationships with processors revolving around clear and open communication increase the success of commercial initiatives of producer alliance groups.

Pre-disposing factors affecting agriculture such as seasonal influences, commodity prices, exchange rates and market trends were not considered as significant.

Success factors - BeefNet alliance groups

- 76% - internal communication
- 71% - commitment of individuals
- 69% - involvement of processors
- 69% - external communication
- 63% - level of MLA funding

SOURCE: BeefNet Producer Survey, 2002

Compared with producers, meat processors nominated the following factors (in order of priority) as key contributors to the success of a supply relationship with producer groups:

- Provision for improved information feedback;
- Determination of realistic, common goals from the outset;
- Flexible producers to meet new market specifications; and
- Producer understanding of processor issues on margins.

"The biggest single factor is food safety. We need to be able to provide a guarantee that what people are consuming is healthy and safe." - Export beef processor.

Producer achievements

Achieved objectives - BeefNet producers

- 100% were better informed on supply chains
- 89% increased networking opportunities with other producers
- 85% developed marketing objectives
- 84% received more consistent carcass feedback
- 66% stabilised and secured cattle sales
- 60% created avenues for higher returns

SOURCE: BeefNet Producer Survey, 2002

A significant number of producers participating in BeefNet achieved their personal objectives set at the commencement of the program. Following are these specific objectives and the respective rate of achievement by survey respondents:

Education

- 100% were better informed on beef industry supply chains.

Group workshops on carcass specifications and meat quality identified opportunities for producers beyond the farm gate. They included marketing, procurement of specific beef cuts to different end-users, eating quality assurance and value based marketing programs such as MSA beef grading and VIAscan. Workshops also introduced principles of supply chain management, some of which were later adopted by a number of BeefNet groups.

Networking

- 89% increased networking opportunities with other producers.

Producers with common goals actively sought out members from other BeefNet groups to share knowledge and gain a better understanding of issues, threats and opportunities they were experiencing.

Marketing

- 85% developed marketing objectives.

BeefNet successfully created avenues for beef producers to access professional advice in the field of marketing. Marketing objectives were developed by alliance groups for both export and domestic markets in conjunction with processors, food service outlets, wholesalers and retailers.

Carcass feedback

- 84% received more consistent carcass feedback.

Alliance groups trying to establish a beef brand at the retail level most often retained ownership and, as a result, received more carcass feedback than through traditional avenues. This feedback was enhanced when alliances consigned cattle through MSA licensed processors, using the MSA scheme as a quality benchmark.

Secure sales

- 66% stabilised and secured cattle sales.

The development of business and marketing plans created focus for groups to produce and turn-off cattle to target specifications defined by supply chain partners. The consistent supply of cattle suitable to specification bolstered producer/processor relationships and further developed supply contracts, which created a regular end point for cattle produced within an alliance group.

Higher returns

- 60% created avenues for higher returns.

Once a supply relationship had been established with a processor, alliance groups were able to more consistently meet carcass specifications set by end-users. Utilising MSA grading as a quality benchmark for product, some producers reported higher net returns for cattle sold over-the-hooks compared to saleyard prices.

“The BeefNet network has helped our group become more aware of our local marketplace and assisted in coordinating the marketing of consignments of beef” - Border Beef Group member.

Program assessment

The major external review of the program published in the BeefNet Final Report clearly demonstrated that BeefNet achieved its mission “to provide a self-help support network for beef marketing groups to improve viability by fostering commercial developments through consistent delivery of quality assured product”.

The terms of reference provided by MLA for this report included the documentation of the achievements of BeefNet against its original objectives. Based upon the documented program outcomes and attitudinal research generated on producers and processors participating in the program, the reviewers made the following conclusions about each of the original objectives of BeefNet:

Objective - Improve the continuity of supply of specified product delivered by alliances to existing and potential customers.

Outcome - “The Producer Survey and the Processor Survey showed that most or all successful alliance groups fully achieved this objective.”

Objective - Be representative of 500,000 cattle turned off each year by member alliances.

Outcome - “The reviewers’ estimate that the maximum number of cattle slaughtered each year under the various banners of BeefNet groups was 265,000.”

Objective - Identify and prioritise research needs which are common to alliance members.

Outcome - “This was done effectively, through the annual BeefNet Conference and the more advanced alliance groups that had been in operation for several years, but was less effective for new beef marketing groups.”

Objective - Monitor and analyse the performance of the individual alliances in delivering product according to their customer specifications as appropriate.

Outcome - “The provision for and subsequent qualification for Part B funding by 20 BeefNet groups (and three groups for Part C funding) demonstrated achievement of this objective. Individual alliance groups met specific carcass specifications nominated by processors.”

Objective - Encourage alliances to establish a reputation for their members as reliable and predictable suppliers of product to all customers.

Outcome - Successful alliance groups took great pride in developing a reputation as reliable suppliers of a beef to specification, reinforced by the high adoption of eating quality assurance systems (Meat Standards Australia) and the unsolicited feedback from producers and processors.

Supply Chain Management Program

Attitudinal research from producers and processors involved in BeefNet, along with identified benefits of supply alliances, overwhelmingly supports the need for both horizontal and vertical supply chain partnerships within the Australian beef industry.

As the red meat industry's leading knowledge broker of research, development and productivity solutions, MLA has responded to these outcomes with ongoing R&D investment into building industry capacity and adoption of principles in supply chain management.

On 1 July 2002, MLA initiated the Supply Chain Management R&D Program to provide a national, coordinated approach to the development of integrated R&D projects and training activities through beef, lamb and sheepmeat supply chains to achieve three major outcomes for industry:

1. Increased efficiency and lower cost of production;
2. Enhanced food safety systems (and quality assurance);
and
3. Improved product quality and responsiveness to consumers.

The new program will engage producers and participants across all sectors, both active and inactive in supply chain initiatives, as well as leading, innovative companies, individuals and organisations not currently involved in the industry.

MLA believes ongoing investment in supply chain management will provide both innovation and technologies to enhance long-term profitability and sustainability of all stakeholders with investment in the Australian red meat industry.

For more information on this new initiative contact Meat and Livestock Australia on 1800 023 100.



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