



final report

Project Code: A.SCT.0067
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Date published: July 2013

PUBLISHED BY
Meat and Livestock Australia Limited
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NORTH SYDNEY NSW 2059

Further development of the Beef Value Optimisation project

Meat & Livestock Australia acknowledges the matching funds provided by the Australian Government and contributions from the Australian Meat Processor Corporation to support the research and development detailed in this publication.

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Executive Summary

There have been two previous contracts completed in relation to the supply chain work being undertaken in the Western Australian beef industry (A.SCT.0064 & A.SCT.0065).

The first (A.SCT.0064) was a feasibility study to determine the willingness of key participants in the Western Australian beef industry supply chain to contribute data to the Beef Value Optimisation Program (BVOP) modelling process. The majority of the key participants in the supply chain indicated a willingness to be involved in the modelling process and as such, the major recommendation from this feasibility study was to proceed with a supply chain modelling exercise.

The second (A.SCT.0065) involved the development of process methodologies for the collection of data and the resultant modelling to address Market Opportunities identified by the WA Beef Council. The outcome of this project was the successful endorsement of the BVOP's data collection and modelling processes by the WA Beef Council. In addition, the first project to be investigated using the BVOP framework (an EU market accreditation project) was successfully completed.

This project will lead to the interrogation of a further two market opportunities using the BVOP approach. The value that these projects will generate will be quantified through this process, thus providing a very clear idea of the initiatives that will have the greatest impacts on the WA beef industry.

The outcomes of the project were :

- Development of 2 market opportunities through the BVOP framework
- Finalisation of a broader project plan to guide the development of BVOP

The expected benefits of adopting this approach is a greater understanding of the following economic and WA beef supply chain considerations :

- The current economic characteristics of the W.A. beef value chain;
- The barriers to development of stable supply chains in the W.A. beef industry;
- The value that will be delivered by the various Market Opportunities identified by the W.A. Beef Council;
- How each of those Market Opportunities will overcome the previously identified barriers; and
- The prioritisation of these market opportunities so they can then be pursued by the W.A. beef industry.

The development of a value chain model will assist the W.A. beef industry to better understand the dynamics of their industry and, more importantly, understand what they can do to make positive change to improve their industry. By undertaking the development of this model in conjunction with pursuing a number of Market Opportunities, it is hoped that a model will be developed that better reflects the dynamic nature of the industry. It will also ensure that action is taken in a timely fashion to improve the functioning of the W.A. beef value chain. The approach used could also potentially be used in other parts of the Australian red meat industry to improve the functioning of the value chain.

The current project covered the work required to continue completing the Beef Value Optimisation Project. The contract will specifically cover:

- The completion of a quantified “Market Opportunity” for the northern beef market diversification project;
- The completion of a preliminary “Value Proposition” for the cull cow value improvement project;
- Assistance with the development of a broader BVOP project plan;
- Presentation of the above to the WA Beef Council.

This project will involve the further development of another two (2) BVOP projects – a northern beef market diversification and a cull cow value improvement project. It will also involve assistance with the completion of a broader project plan to guide the delivery of the BVOP over the next 2-3 years. Both of these outcomes will be presented to the WA Beef Council in February and March 2012.

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1 Background

Over the last three years, the WA Beef Industry has developed a solid and stable domestic supermarket trade however export markets have been declining. There has been significant investment in local domestic supply chain infrastructure while boxed beef exports have been declining by more than 20% and live exports by more than 50%.

The WA Beef Industry comprises approximately 2 million head of cattle evenly distributed between the southern agricultural regions and northern pastoral regions. Supply chains are largely opportunistic and not well integrated and industry response is most usually reactionary to immediate supply and demand peaks and troughs.

Additionally, there are distinctive characteristics that influence the way business is done. The relative small size of the industry has meant that it is vulnerable to market fluctuations and that it lacks the inherent robustness of a larger, more diverse and competitive beef industry. A historical lack of transparency between production and processing sectors has also resulted in a diminished understanding between these sectors that has in turn created an industry that is not underpinned by mutual respect and trust.

The *Stocktake Report* (2009) provided a detailed analysis and review of all factors influencing the variability and growth of the WA beef industry. The lack of effective industry leadership across all sectors of the supply chain was determined as a key limitation and the primary cause of the industry's lack of cohesiveness, trust, stability and ultimate profitability.

A range of interrelated supply chain interactions contribute to the long standing challenges in Western Australia. Market sensitivities and complex interactions resulting in boom and bust cycles are holding the industry in its current state and will challenge any development initiatives. These underlying forces have stalled development of capabilities required to establish stable supply chains that underpin the industry's profitability.

In an effort to address the unique and complex characteristics of the WA Beef industry the Beef Value Optimisation Program (BVOP) was developed by MLA in collaboration with the WA Beef Council and Department of Agriculture and Food Western Australia. The aim of BVOP is to provide a framework that enables the WA Beef Industry to explore and optimise realistic and profitable market and growth strategies that deliver increased value to customers and consumers.

Identifying these underlying economic, physical and environmental forces and understanding the strength of their influence on supply chain development is important in identifying the best initiatives to undertake. This is one reason why any single approach or market focus will not be sufficient to address the industry's challenges.

Rangelands cattle producers' reliance on the live export market and the recent weight and quota restrictions for the Indonesian market has further strengthened the need and appetite for the development alternative markets. This acceptance by producers that they need alternative markets together with the acknowledgement by some WA processors that they can and need to better utilise the cattle available from the region has created a climate in which transformational change in the sector may be realistic and achievable. The development of a supply chain for rangeland cattle to enter the domestic slaughter market has the potential to add stability and increased throughput for abattoirs and increased market options, value and risk management for

cattle producers. Increased volumes of rangeland beef may be the catalyst for the development of more stable export markets that will lead to a more sustainable and resilient WA Beef Industry.

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2 Project Outline

The outputs from this project include the following:

- The completion of a quantified “Market Opportunity” for the northern beef market diversification project;
- The completion of a preliminary “Value Proposition” for the cull cow value improvement project;
- Assistance with the development of a broader BVOP project plan;
- Presentation of the above to the WA Beef Council.

3 Project Objectives

This project will lead to the interrogation of a further two market opportunities using the BVOP approach. The value that these projects will generate will be quantified through this process, thus providing a very clear idea of the initiatives that will have the greatest impacts on the WA beef industry.

The objectives of the project were :

- Development of 2 market opportunities through the BVOP framework
- Finalisation of a broader project plan to guide the development of BVOP

4 Methodology

The following were the milestones of the project:

1	Presentation of updates on 2 BVOP initiatives to the WA Beef Council : <ul style="list-style-type: none"> • Northern beef market diversification • Cull cow value optimisation
2	Presentation of the following to the WA Beef Council : <ul style="list-style-type: none"> • Northern beef market diversification “Market Opportunity” properly quantified • Cull cow value optimisation preliminary “Value Proposition” finalised • Finalised BVOP project plan

5 Results, Discussion & Outcomes

Refer to Appendix 1 on the presentation of outcomes to the WA Beef Council.

6 Commercial Implications

The Western Australian beef industry is typified by poorly developed supply chains that lack collaborative trust and a common desire to maximise value for all participants in the chain. This project aims to facilitate the creation of a supply chain where clear communication and feedback leads to robust business relationships that build critical mass thereby ensuring consistent availability of product volume and quality leading to all participants receiving reasonable value for product and services. This robust supply chain will contribute to the volume of beef produced by the industry thus improving economies of scale for the processing sector which will lead to greater stability and long term sustainability of the entire industry.

The project aims to provide market diversification opportunities for rangeland beef producers who are highly dependent on a small number of live export markets. The development of these market opportunities will assist in managing the risks associated with reliance on live export and will build greater resilience.

The outcomes of this project will have application for other red meat industries throughout Australia including the WA sheep industry who have recently identified supply chain issues as being a significant issue for their sector.

7 Recommendations

Cattle production in the northern WA has become focused on the live export trade. In 2009, more than 80% of cattle turned off from the Kimberley region and 60% from the Pilbara were sold to live export markets. These figures have fallen since then but most producers would supply the

live trade if available in preference to other markets. Geographical distances to other markets, the lack of northern processing facilities, and seasonal constraints have limited the incentive to develop alternative markets and the types of cattle systems required to meet those market specifications. Subsequently the region's capability to produce livestock suitable for meat markets has not been developed to the extent that it has in similar environments in eastern Australia. The cattle industry in other areas of northern Australia is more well developed with respect to both capacity (genetics, pasture utilisation, herd management) and capability (diversified supply chain relationships, supply alternatives, pricing and supply contracts/commitments).

Further work is proposed to develop an understanding of the current capacity and capability that currently exists within the WA northern/rangeland beef industry to supply markets other than direct live export. Required changes to capacity and capability will be identified and pathways to achieve these changes developed. Supply chain confidence building will be achieved through demonstration, commercial trials, and knowledge and skills development activities. Mechanisms for feedback up and down the supply chain will be the key to developing confidence, long term commercial relationships and maximising the value to all participants.

Appendix 1 – Presentation to WA Beef Council

The following presentation was made to the WA Beef Council as an outcome of the project :

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Sanity check some options

- Kimberly options to East & South
- 25% of Pilbara to southern backgrounding
 - Increase breeder numbers
 - Disperse transport over weaners
 - Increase average sale weight/head
 - NM similar but risk spread across markets
 - Managing seasonal factors
- Domestic sea transport at 70% of road increases NM \$0.19/kg

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Northern Beef industry development

- Diversified northern markets build wider industry capability
 - Reliance on inter-sectorial communication (Backgrounding, feedlotting)
 - Supply continuity
- More stable markets
 - Reduced pastoral risk
 - Less industry shock
 - Company growth strategies more likely

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Building Capability

Value Proposition	Productivity	Quality	Resilience	Efficiency	Market Access	Customer Satisfaction	Environmental Sustainability	Other
1. Target niche (N) markets								
2. Realigning resources to meet (N) market								
3. Optimising market value for our animals								
4. Developing high value export markets								
5. Developing markets for Pilbara Cattle								
6. 1. Breeding for								
7. 2. Disease resistance								
8. 3. Disease resistance for quality markets								
9. 4. Health for animals								
10. 5. Access to feed processing								
11. 6. Logistics and transport routes								
12. 7. Market access strategies								
13. 8. Breeder skill and knowledge								
14. 9. Importance of supply								
15. 10. 10.								
16. 11. New markets for backgrounded cattle								
17. New markets for a pilot state								

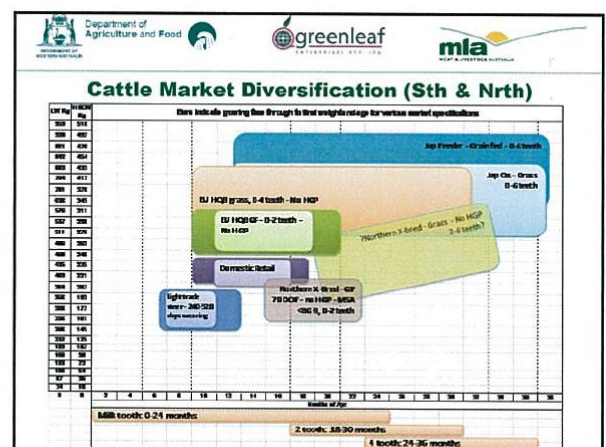
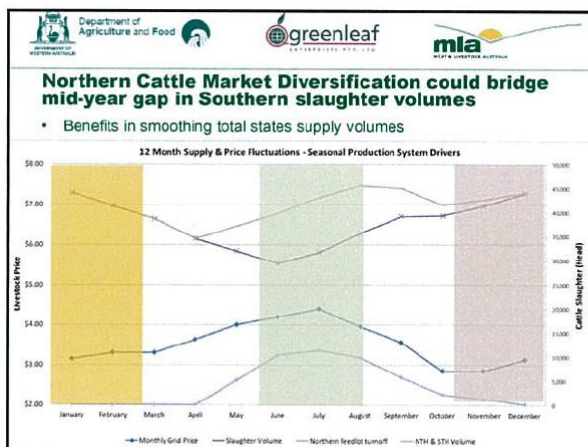
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Backgrounding Capability

• How to leverage opportunities in W.A.?

Legend:

- Highway
- Sea
- Backgrounding
- Cattle movement



Appendix 2 – Proposed next steps

The following Figure 1 summarises the key activities and methodology that will be employed to achieve the project outputs.

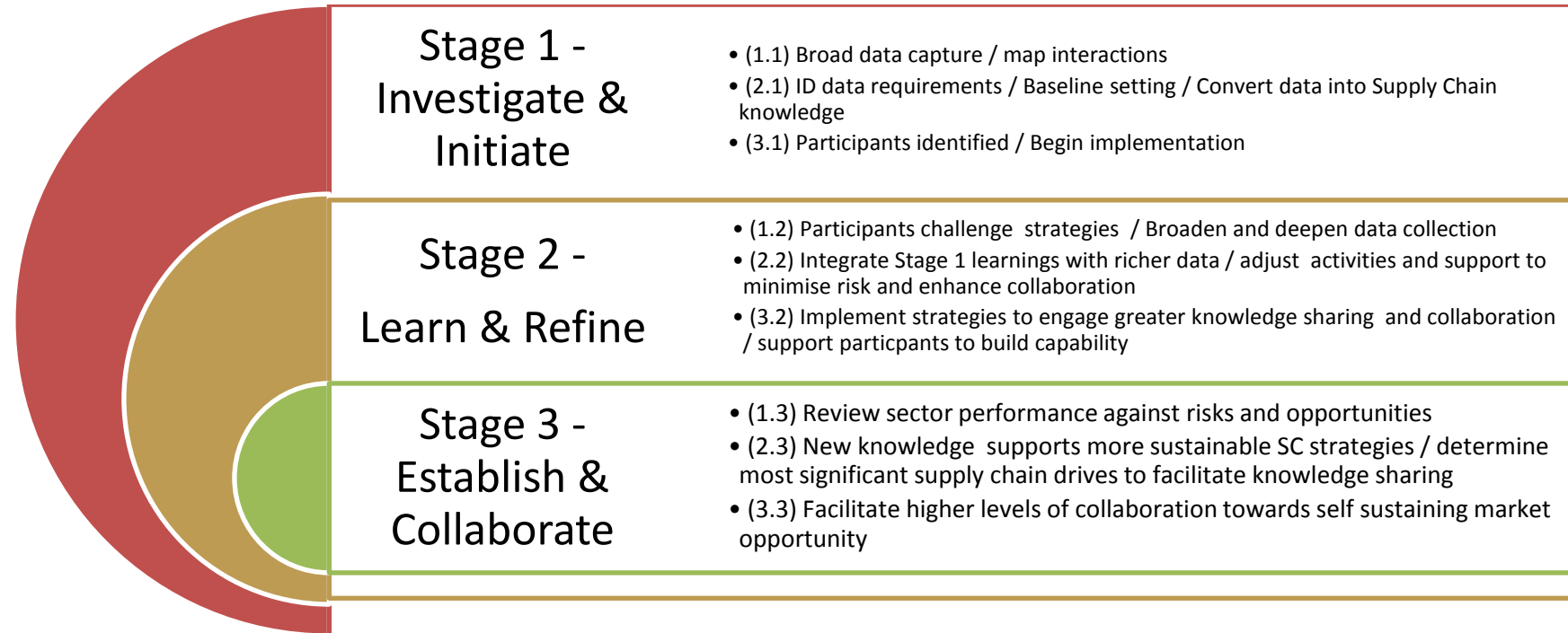


Figure 1: Cyclical BVOP development process

The BVOP process involves a cyclical investigation, learning and re-focusing process described in 3 progressive cycles in the diagram above. BVOP loosely follows an action learning process similar to the Living Labs Innovation developments in European rural communities (Schaffers H, 2007)

- Stage 1 – (Investigate and Initiate) – This stage begins the initial interface with wide groupings of members of the supply chain. Information capture begins at a high level and identifies the key themes and critical drivers that will influence supply chain development

activities. This stage enables a level of understanding required to identify the most suitable development strategies, important attributes within each sector of the chain required for success, recruit suitable and willing participants, and begin the implementation activities.

- Stage 2 – (Learn and Refine) –Market focused activities initiated in the first stage has produced a range of leanings about the supply chain participants and their relationships. A deeper understanding of the market forces, production constraints, knowledge sharing and levels of trust between supply chain members is being developed. This stage builds on the initial implementation activities. Scenarios, risk assessments and what-if analysis are used to facilitate knowledge sharing within and between supply chain sectors. Field days or other focused training is helping increase participants capability. Refinement to the Stage 1 activities is critical to continued support of the program and creation of new value. This requires collaboration from the supply chain members which begins to be encouraged.
- Stage 3 – (Establish and Collaborate) – Confidence in capability building activities in the earlier stages should be increasing as initial success is being established. Activities will stabilise initial capability building. It is hoped value as a result of trust, collaboration and knowledge sharing is being created. Further refinement to capability building will be required but with the focus on self-sustaining continuous improvement. Strategies to transition from pilot trials to build wider supply chain confidence and engagement will be developed.