

2010

# A Sustainable Sheep Meat Industry through the Ultimate Integrated Value Chain



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for Kellogg Rural Leaders Programme

## Acknowledgements

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## 1. EXECUTIVE SUMMARY

This report was motivated by the continued unrest and perceived dysfunctional nature of the New Zealand sheep meat industry relative to its ongoing viability and sustainability. Processing overcapacity, amalgamation, single desk, change to management structures, lack of R&D, rising on farm costs, are only a few of the widely debated topics that are seen as key issues the industry needs to address to ensure a sustainable industry for the future. It is acknowledged that where we are now is not working and is not economically sustainable in its current form.

Whilst there have been a number of reports that have been written in recent years highlighting key issues with the sheep meat sector, there has been little traction as to positive movement towards resolving the issues that have been identified, and the same issues continue to arise in subsequent reports and publications.

This report takes a different approach in that it addresses how our supply chain needs to be structured if we are to effect long term sustainability into our sheep meat sector. Through an integrated sheep meat value chain we have the opportunity to deliver long term sustainability to our primary sector. In compiling how this value chain should be structured, where we are now and what our consumers want, are two key components that have been explored and are summarised as follows:

- Whilst dairying has a stronghold and continues to dominate on a return/ha basis, dry stock pastoral land still accounts for 82% of our total land use and is here to stay. We must therefore continue to explore ways of extracting maximum value sustainably from our land.
- With falling global sheep numbers in developed countries our lamb will remain sought after as long as we position it correctly. This includes the shift in focus from a low cost producer to a producer of high value, high quality protein products, in order to capture and maintain our positioning, reputation and image.
- Sheep meat revenue has doubled in the last 10 years, and remains a significant part of the ex farm gate return accounting for 50% of the gross revenue for an average pastoral farming enterprise. Lamb is already at the top of the protein chain in price. Whilst there are still gains to be made with meat, our biggest opportunity to increase ex farm gate returns from sheep lies in wool and pelts, by-products and co-products, and in other farm income streams .
- We have a strong processing sector that shows efficiency and innovation. New Zealand has a good reputation globally for high processing standards and quality of product which reflects positively on the processing sector. There is however an excess of capacity in processing facilities which sees processors competing for supply to ensure plant viability, placing the focus at the production base rather than at market end.
- With an excess of capacity producers have had little incentive to commit to contracts or long term supply programmes, instead choosing to follow weekly schedule pricing with livestock often committed to the highest bidder. Relationships are hard to establish and there is little trust or transparency with most weekly schedules based on a nett schedule, making measurement and improvement difficult for growers.

- 37% of the retail value of our lamb is absorbed within the market. This presents the biggest area of opportunity for exporters to become closer to the market end and try to capture some of this margin.

Through reflection on where we are, it becomes clear that if we are to add value to our industry, the way we currently operate must change. In order to do this, the meat industry must move to an integrated value chain concept and work in partnership and collaboration with one another. Key to this is the alignment with parallel chain partners across the primary sector such as wool and pelts, bovine and other animal species, as well as capitalising on the revenues from the balance of the carcass and working to promote and develop these products further.

Our focus must move from the production driven mindset to a customer driven approach with value integrated at every step of the chain. Transparency and like minded thinking is required by every partner starting with our producers. We must stop working in silos and take a collaborative approach for the long term benefit of all stakeholders; this will ultimately be our biggest challenge.

Costs should be cut in favour of a more direct route to end users and customers. Measurement, communication and feedback must occur to enable continuous improvement at all steps in the chain.

Focus needs to be given to emerging markets and where more value can be added to our lower value products, whilst in developed markets a joint marketing strategy is required to maintain a premium for our products and be a force with the larger retail giants.

Innovation is key to the further development of products to suit the changing demographic in international markets, but is also a key factor on farm.

To affect the move to an integrated value chain, a structured process must be adhered to, to ensure milestones are met and collaboration is achieved in the value creation process. The process road map, continuous improvement and value creation models provide concepts, and a framework for the transformation process that must evolve.

The final outcome is a model of the ultimate integrated value chain designed to incorporate the changes needed for the industry as illustrated above. This does not offer a bandaid but forms a framework from which the scope for growth and evolution of the value creation solutions are only limited by our imaginations.

Change can only occur with strong leadership and a will to change the way in which we think and behave. If we can achieve this move in mindset, actively work to affect the change, we will achieve the outcomes so desperately needed for the long term sustainability of not only our sheep meat industry but our agricultural sector and NZ Inc.



## 2. INTRODUCTION

No change will occur if we continue to do the same as what we have done before. Where our sheep meat industry is now is not the solution and is not sustainable in any form.

In order to find a solution, this report focuses on the adoption of the value chain concept that will ultimately provide the pathway for a sustainable sheep meat industry.

To transform our current business models and structures, it is important to understand where the industry is today, and where it must move to. Through the adoption of a value chain concept, what does this mean and how can it be integrated and applied, in order to provide economic and environmental sustainability to all partners throughout the chain.

In the construction of the ultimate integrated meat value chain this project will review:

- where the sheep meat industry is now
- understand the components that make up the revenue streams achievable from a carcass
- look at how the current supply chain functions
- the market trends
- the process required to achieve the ultimate integrated value chain

Armed with this overview, a framework and a process, the ultimate integrated meat value chain is then presented and described, providing a platform for a sustainable sheep meat industry in New Zealand.

The reports MAF 'Meat the Future, KPMG Agribusiness Agenda, and NZ Trade and Enterprise's publication Manufacturing+, have provided valuable background information on which the writer has formulated her views and recommendations. Working within the industry and having been involved from farm gate to market, as well as the direct contact with many individuals throughout the industry has provided insight and in-depth knowledge and experience which has assisted in shaping the strategy and viewpoints that are shared. This has helped to develop this project and formulate the ultimate integrated value chain structure that provides a framework for a sustainable industry that is here to stay.

### 3. OVERVIEW OF THE NEW ZEALAND SHEEP MEAT SECTOR

#### Key Points

- **Dairying continues to dominate returns from pastoral lands**
- **Dry stock pastoral farming land still makes up 82% of total land**

There is the inherent assumption that the NZ lamb industry will be sustainable if revenues generated per animal are competitive with alternate land use.

#### a) Alternate Land Use

**Figure 3.0** Farm profit before tax per hectare for the deer, dairy and sheep and beef sectors, 1999/00 - 2010/11 budget

Source: Ministry of Agriculture & Forestry 2010

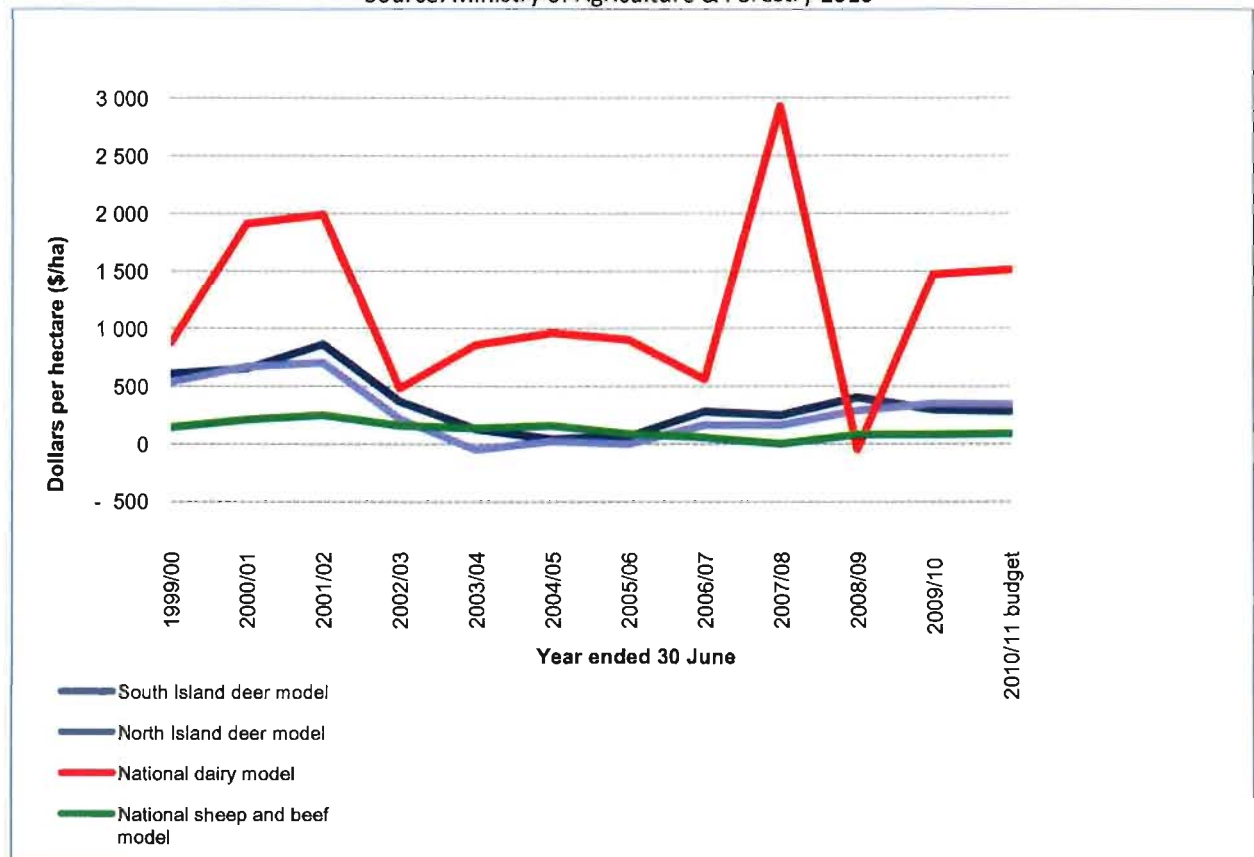
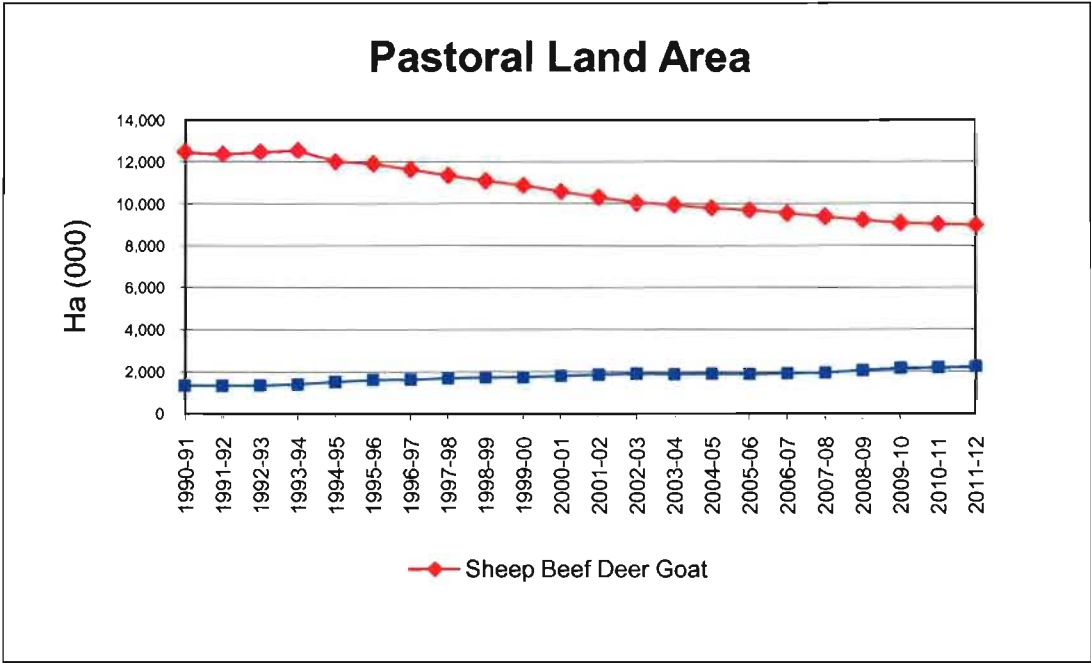


Figure 3.0 illustrates the comparative returns for sheep and beef compared to alternative land use over the past 10 years. Dairying continues to dominate, with the domino effect of lifting pastoral land values to unsustainable levels for the whole pastoral farming sector.

**b) Pastoral Land Area**

**Figure 3.1 Pastoral Land Area**

Source: Beef + Lamb New Zealand Economic Service Statistics New Zealand.



Despite the significant drop in New Zealand's lamb numbers from a peak of 70.2 million sheep in 1982/83 to 32 million in 2009/10 season, and the reduction in land use for sheep and beef from 12 million hectares in 1990/91 to 9 million hectares (Figure 3.1), sheep and beef pastoral farming still utilises 82% of the 11.2 million hectares of pastoral land in New Zealand. Even with trends into forestry for carbon trading and dairy conversions, the contour and geography of our land will always lend itself to dry stock farming and our challenge lies around ensuring this is sustainable for the stakeholders.

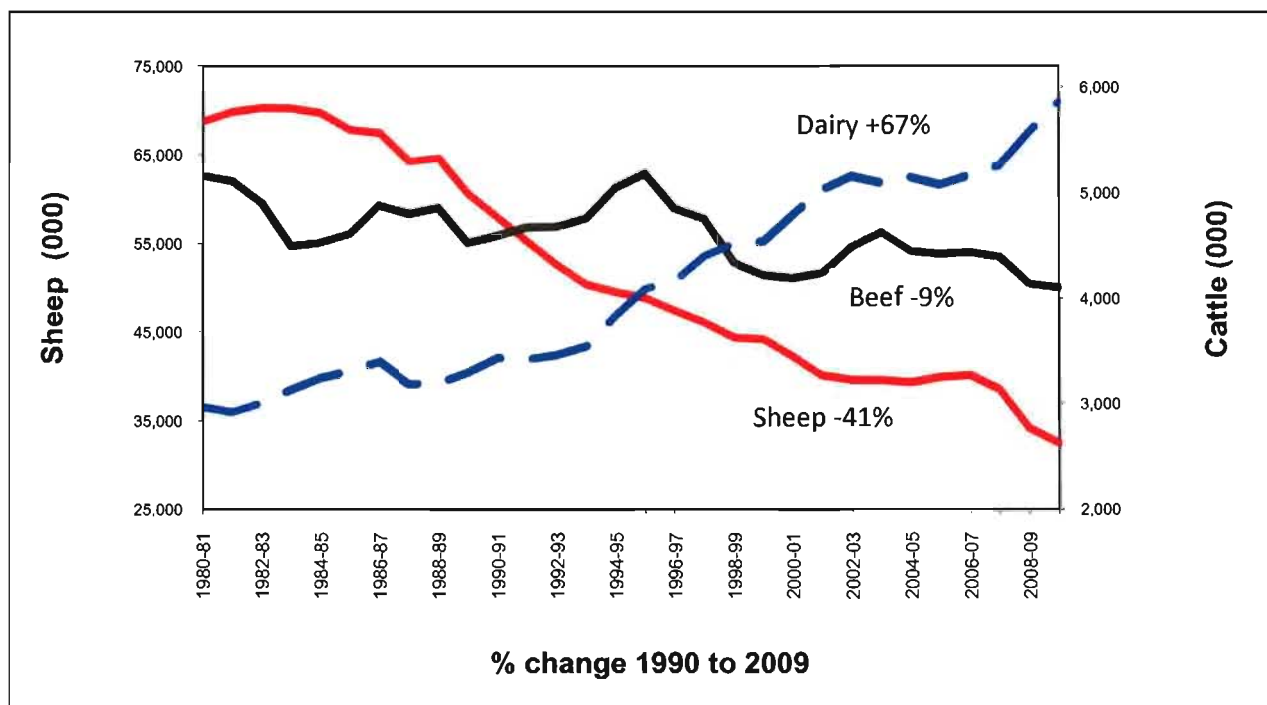
## 4. LAMB

### Key Points

- Supply is down, globally as well as NZ
- Lamb revenues have doubled but are still not sustainable
- Global prices are high
- Market resistance to high prices will see switch in proteins
- Sheep meat accounts for 50% of current pastoral farm gate return
- Wool returns weak but gaining momentum
- Other lamb product potential needs to be capitalised

### a) Livestock Numbers

**Figure 4.0 NZ Sheep and Cattle Numbers**  
Source: Beef & Lamb New Zealand Economic Service 2009

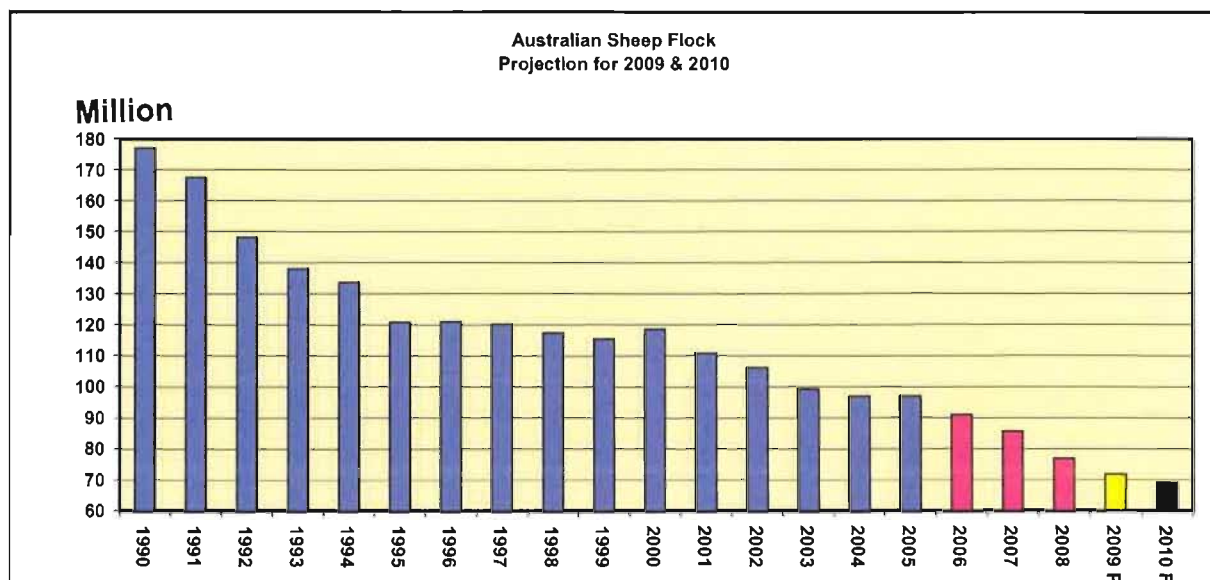


New Zealand's reducing flock size (Figure 4.0) follows an international trend which sees lamb numbers reducing globally. In Australia alone, the sheep flock has declined 100 million since 1990 (Figure 4.1). The trend in New Zealand has shown a sign of stabilising in the last 12 months, with the future outlook positive for New Zealand's reduced lamb supply in global markets.

## b) Global Sheep Production

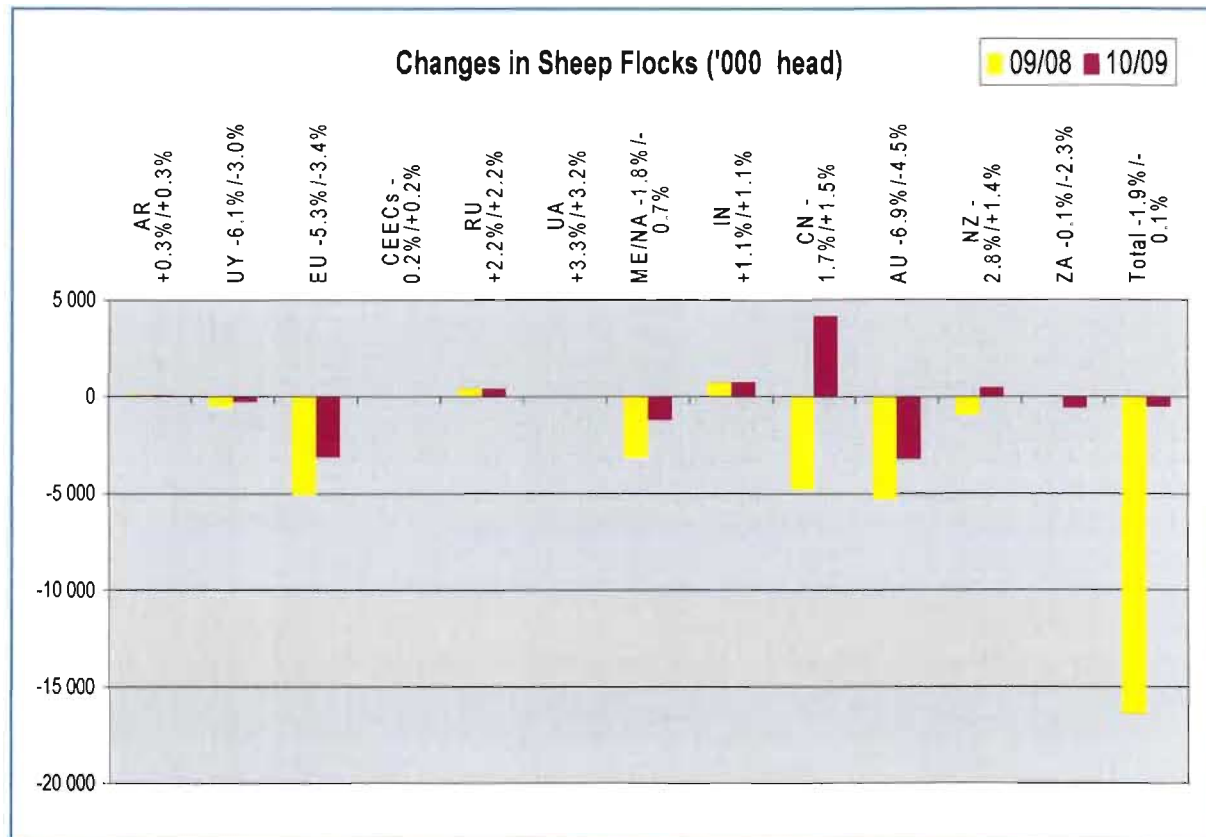
**Figure 4.1 Australian Sheep Flock**

Source: Beef & Lamb New Zealand Economic Service 2009



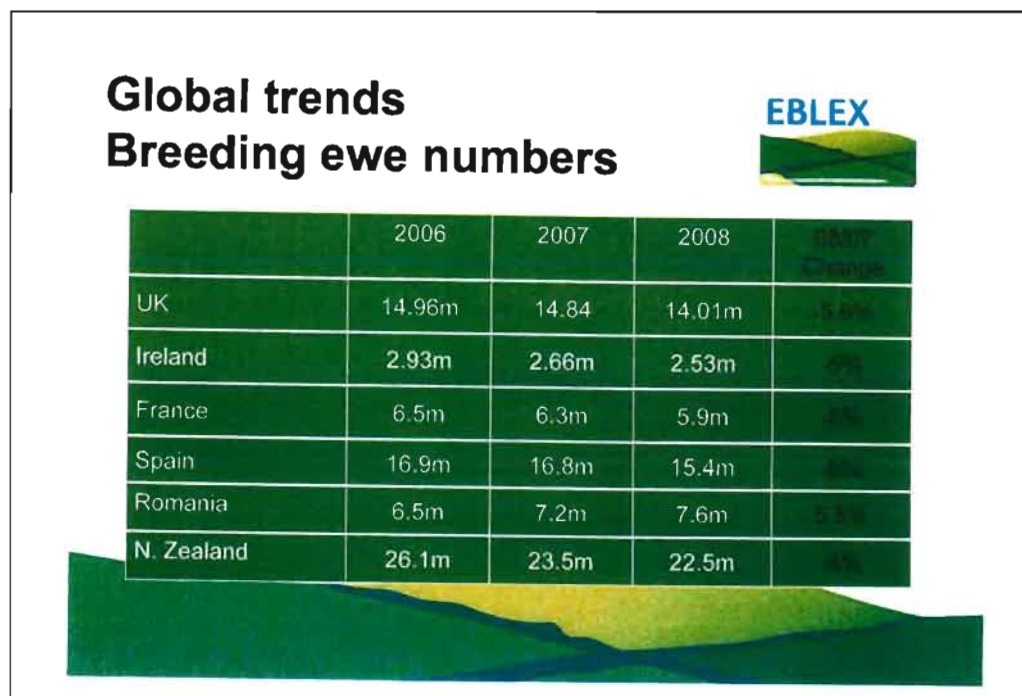
**Figure 4.2 Changes in Sheep Flocks ('000 head)**

Source: Beef & Lamb New Zealand Economic Service 2009



**Figure 4.3** Global Trends Breeding Ewe Numbers

Source: OECD FAO



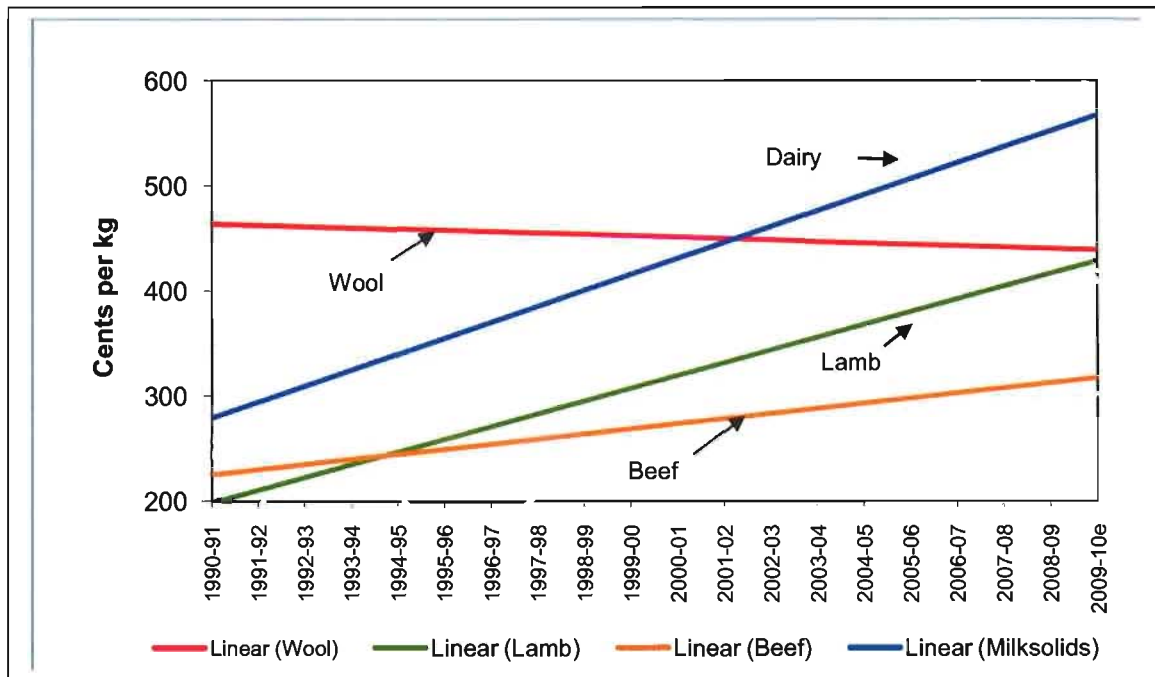
With a declining global production of quality sheep meat in developed countries as illustrated in Figure 4.2 and Figure 4.3, New Zealand is poised in a strong position to capitalise on the opportunity of producing, marketing and selling a high value, niche protein to international markets that is lacking from supply. It is recognised that we have a window of opportunity before the developing countries (Brazil, Russia, China and India) build momentum, to establish ourselves in the protein chain as a high end, niche market producer, commanding a premium from discerning markets.

*“Growth in meat production in the developing world is forecast to continue to outstrip that of the developed world over the next 10 years” (Ministry of Agriculture and Forestry, 2009, p. 52),*

**With this view in mind, where does lamb currently sit as a protein and what does it deliver in farm gate returns to our producers?**

### c) Farm Price Trends

**Figure 4.4** Wool, Lamb, Beef and Milk Solids Farm Price Trend ex Farm Gate  
Source: Beef & Lamb New Zealand Economic Service 2009



Even with the significant increase in the value of lamb since 1990, closely matching the rate of increase in dairy, the nett value is **significantly** less. With increased on farm and land appreciation costs the value for lamb has not materialised into farm surplus available for reinvestment or principal repayments. Of equal importance is the decrease in wool value reducing the total revenue per lamb to the producer.

### d) UK Retail Meat Prices

**Figure 4.5** Average UK Retail Price for Lamb Domestic and Imported  
Source: Beef & Lamb New Zealand Economic Service 2009

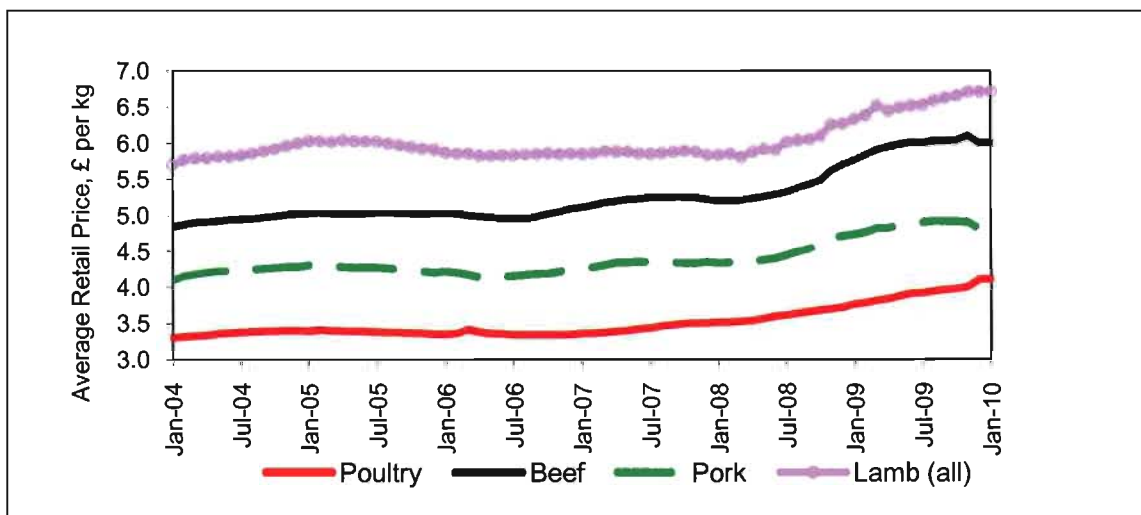
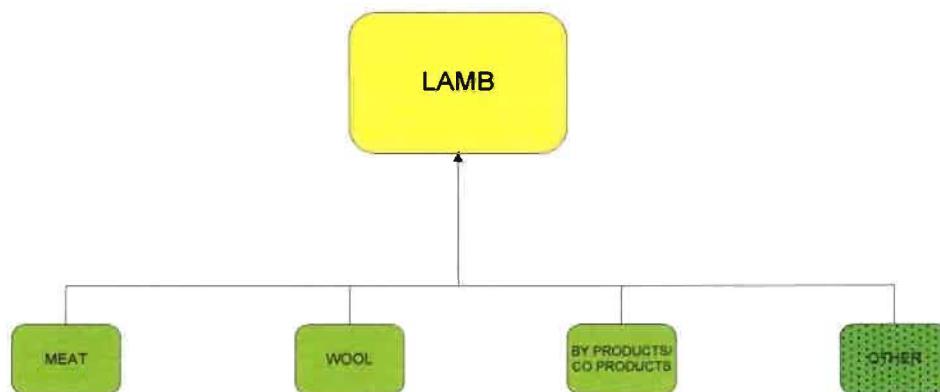


Figure 3.5 illustrates where lamb is positioned in price as a protein in International markets. Lamb continues to be a highly valued protein source that sits at the top of the protein chain and rides the fine line of resistance if prices become unsustainable to the consumer, who will eventually switch proteins if alternative choice is available.

## e) Lamb Revenue Streams

**Figure 4.6** Revenue Streams Available from Lamb



There are three major recognised revenue streams from lamb: meat, wool and by-products. There is also a fourth category named as 'other' in Figure 4.6 above, that presents the future challenge and opportunity for our industry, (eg: milk)

To improve our performance and increase revenues, it is important to understand where the revenues from the three main recognised revenue streams sit in comparison to one another.

### • Meat

Average nett farm gate returns for the last 12 months

Per Lamb		
17kg cc	\$4.92	\$ 83.69

The nett farm gate return above has been based on a gross meat schedule, plus wool and pelt, less kill fees and levies. (Appendix 1)

### • Wool

For the year ending June 2008:

- 89% of the clip was strong wool
- 4% was medium wool
- 5% was Merino or fine wool
- 2% was sold as dags



Wool revenue per stock unit after shearing costs in 2008/09 equated to \$5.15 per Stock unit (Wool Taskforce, February 2010)

In 2000/01 wool made up 14.5% of the farm revenue (before shearing expenses) from an average Sheep and Beef farming enterprise. Sheep Meat accounted for 47.7%. In 2009/10 provisional results had wool revenue at 9.4% with sheep meat at 49.8%, with dairy grazing, cropping and other picking up the income lost from wool. (Appendix 2)

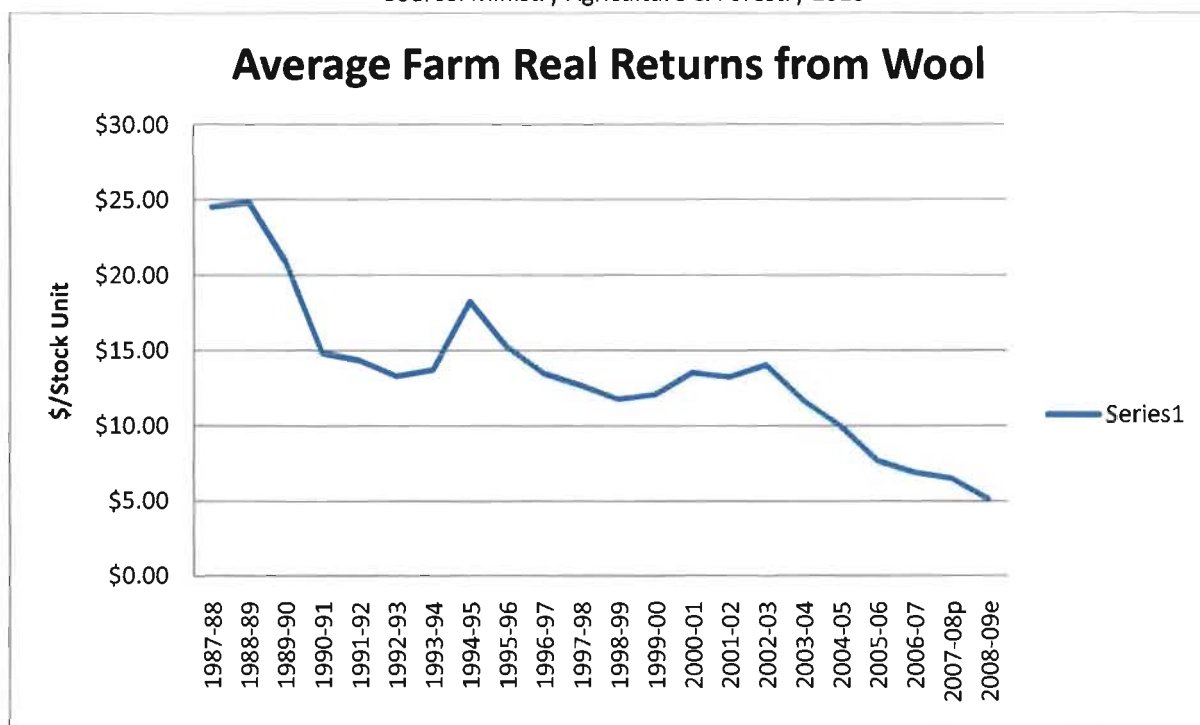
It is positive to see signs of improvement in this sector that offers future growth opportunity.

#### Wool - ex Farm gate return/stock unit

Coarse	5.15
Fine	21.79

**Figure 4.7** Average Farm Real Returns from Wool

Source: Ministry Agriculture & Forestry 2010



Merino wool correspondingly offers a much stronger return per stock unit. In the South Island High Country, fine wool returns are forecasted at \$21.79 nett per stock unit, for the 2009-10 year, however the merino meat offsets this price value with a lower return forecasted at \$25.05 per stock unit for 2009-10 year (Appendix 3).

#### • By Products/Co-Products and Other

This category includes all the products derived from livestock slaughter other than the meat. This includes pelts, offals, tallow, bones, pharmaceutical products and render products. Currently this

revenue forms part of a Company schedule and for most companies is factored into the nett schedule calculation a supplier receives ex farm gate. The level of recovery and revenue that each plant can make from these by-products is largely determined by the facility, what they are licensed for and have the capability to recover.

Based on the results taken from 5 processing plants, an average return is valued at \$10.57 per head

Per head:

	AVE
Offals	\$ 8.44
Rendering/Pet Food	\$ 2.13
Total per Head	\$ 10.57

In 1997 co-products earned the equivalent of 44% of the export value of meat. In 2005 revenue from these items had dropped to 19% and in 2009 this revenue was equivalent to 17% of the export value of meat. (NZ Beef and Lamb Economic Service, 2010)

This area presents huge opportunity for our sector for other revenue streams to be capitalised on, ie: milk, lanolin, pharmaceuticals. It is not being included or investigated in depth within this report, but is highlighted as a significant growth area for the future exemplified by the following key examples:

*“NZM will use its business model, built around the marketing of fine wool and formation market partnerships, to “amplify” farmer returns from alternative income streams in lamb and sheep meat, as well as lanolin, leather and other products”*

(Tim Cronshaw, 2010)

*“Milk production from sheep is being investigated by Alliance Group Ltd as a way of achieving new income streams for farmers” (Williams, 2010)*

## f) Summary

Revenue	Ave	
Meat ex farm gate	\$ 83.69	84.2%
Wool (Coarse ) nett ex farm gate	\$ 5.15	5.2%
By Products/Co-Products – plant revenue	\$ 10.57	10.6%
Total revenue per carcass	\$ 99.41	

There is significant data available that clearly substantiates the variable return in farm gate returns to the New Zealand pastoral sector. The previous section has highlighted only a few of the key issues that have impacted on the tenuous nature of the pastoral sector and its long term sustainability.

The summary above shows where each of the revenue streams sit in comparison to one another and as a percentage of the whole revenue derived from lamb. Natural variation will occur daily, weekly, by mob, by plant and by breed but the key relevance is how much of the current revenue meat makes up and to understand what continued growth opportunities there are in this area. The other key factor of importance is that meat is the only current measurable payment that is communicated to suppliers via contracts or a weekly schedule payment. The by-products revenue is not known to the grower as this is netted off as part of the meat value return, offsetting killing fees.

To try to nominate a breakeven ex farm gate return is not a precise calculation and will vary based on the individual circumstances pertaining to each producer including land value, debt servicing and personal drawings. The belief still remains, that current returns for many dry stock farmers are economically unsustainable therefore change must occur if we are to turn this around.

If we look at the three major revenue streams from lamb: meat, wool and by products, meat remains the largest revenue contributor. With lamb already valued at the top of the protein chain, there is question as to how much more the market can pay. There is however a real opportunity to continue to grow the return from other items such as wool, and co-products as well as milk. With wool having hit the bottom, the opportunity to get returns back to 1988-89 levels of \$24.82 should be a key focus and driver and recent positive activity in this area is encouraging. Likewise pelts and co-products offer the same opportunities to lift returns through a collaborative process similar to the path the meat industry must take.

The previous graphs have clearly illustrated pastoral farming is a core New Zealand export industry that is here to stay, therefore the need to have a sustainable structure is paramount.

To be economically sustainable, the industry must consolidate and partner in order to add value to all stakeholders. To do this, we need to understand the principles of a supply chain and where our current lamb supply chain fits, in order to effect change.

## 5. CURRENT LAMB SUPPLY CHAIN

### Key Points

- Good producers
- Seasonal nature of supply
- Limited trust/relationships
- Overcapacity in processing
- Good processing standards
- Focus is on processing efficiencies
- Limited innovation
- Most R&D driven at production end only
- Disjointed – operating in silos
- Value opportunities at supply end or in the market
- The market is too removed from producers

### a) Definition of a Supply Chain

*“The movement of materials as they flow from their source to the end customer. Supply Chain includes purchasing, manufacturing, warehousing, transportation, customer service, demand planning, supply planning and Supply Chain management. It is made up of the people, activities, information and resources involved in moving a product from its supplier to customer.”*  
([www.supplychaindefinitions.com](http://www.supplychaindefinitions.com))

Figure 5.0 Simplistic Supply Chain

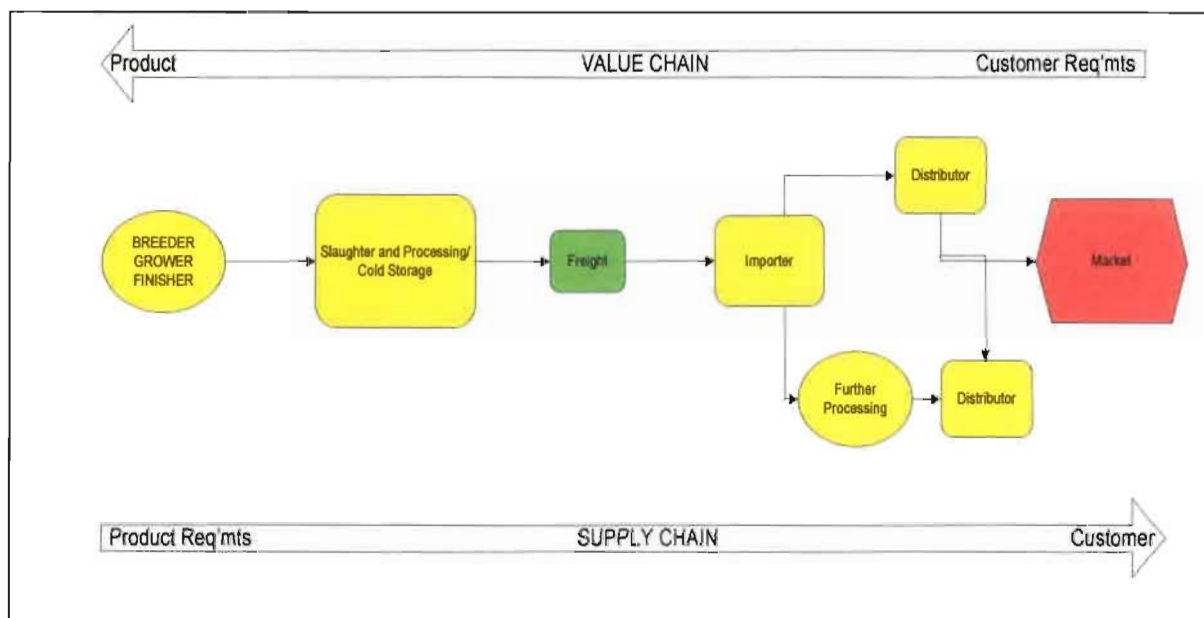


Figure 5.0 illustrates a supply chain in its simplest form. This type of supply chain is production driven with the focus on the transformation of goods from a raw material into finished goods, with associated information flows.

## b) An Overview of the Current Lamb Industry Supply Chain

Having moved past the point of a simplistic supply chain, the current lamb industry supply chain still shows significant aspects and behaviours that reflect a 'production driven' approach, with our supply behaviours following the natural supply trends, tapering off during the winter but driven by plants trying to maximise efficiencies, minimise cost and producing what is cost effective and not always considering what the customer wants, or the relationship with supply chain partners.

**Figure 5.1** Current Lamb Industry Supply Chain



It is one that operates in silos and is driven by the processing arm of the industry. In 2009 New Zealand had 36 processing plants all vying to slaughter 25 million sheep. At maximum plant capacity this would equate to 24.8 full weeks production. (Beef & Lamb New Zealand Economic Service, 2009) An over capacity of processing facilities to stock numbers has driven companies to focus on plant efficiencies in order to remain viable.



### **BREEDER/GROWER/FINISHER**

New Zealand is renowned internationally as a nation of hard working, entrepreneurial and innovative people and our rural sector make up a key part of this group. Since 1990 our farming sector has justifiably proven its resilience and drive for continuous improvement with substantial increases in on farm productivity as clearly illustrated in Figure 5.2 below.

In the quest to offset rising on farm costs and continue to improve returns past farm gate, under the current industry structure, growers can choose what company, and where to send lambs by selling to the highest bidder in the form of the weekly schedules which are published on a Sunday night by all meat companies. Agents are a common intermediary between the processing plants and the supplier, and have built strong relationships with their farmer clientele.

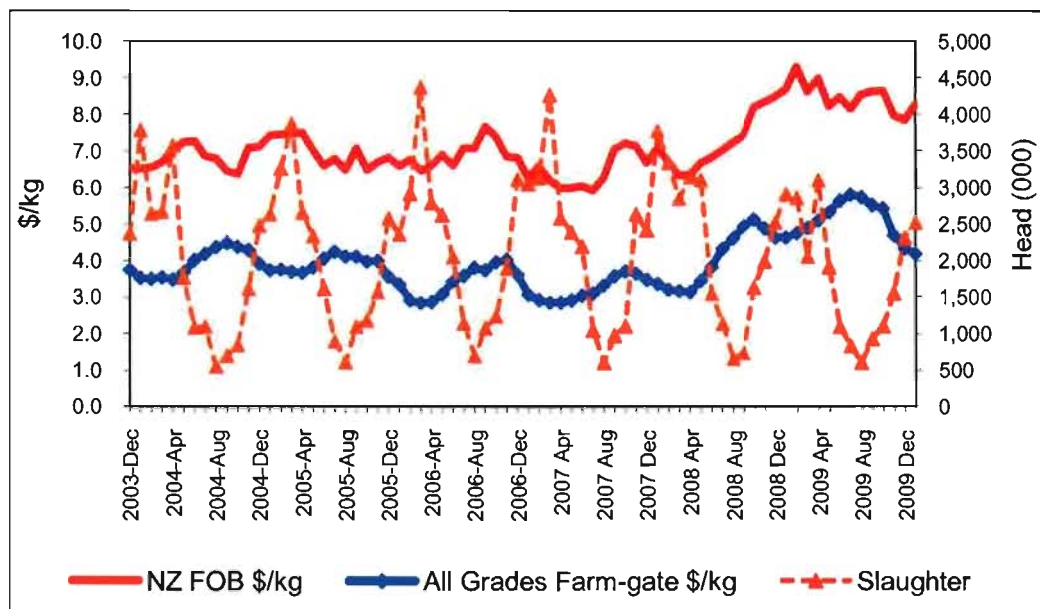
**Figure 5.2 Productivity Comparison**  
Source: Beef & Lamb New Zealand Economic Service 2009

<b>Productivity Comparison</b>			
	<b>1990-91</b>	<b>2008-09</b>	<b>← Drought Affected</b>
Lambing Percentage (ewe)	101.6	116.0	123.6% Spring 2009
Hogget lambs as % all lambs	-	2.5	
Average Lamb Wt (kg)	14.35	17.67	+23%
<b>Lamb sold kg/ewe</b>	<b>9.76</b>	<b>16.93</b>	+73%
Wool Sold kg/head	5.28	4.62	Stocks held over due to low price
Average Steer Wt (kg)	297	305	+3%
Milksolids per cow (kg)	260	323	+24%

Schedules can change weekly depending on foreign exchange, demand by the market for lamb and the availability of stock numbers. With most meat company offers, these are a net schedule (Appendix 4) with only a few known meat companies publishing a gross schedule (Appendix 5), offering better transparency of cost to the producer.

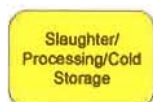
Each year schedule pricing follows a peak and trough pattern with schedules falling when lamb supply is plentiful (Figure 5.3), and peaking when lamb is difficult to supply.

**Figure 5.3 Seasonal Slaughter Patterns V NZ Farm Gate & NZ FOB Pricing**  
Source: Beef & Lamb New Zealand Economic Service 2009



Most companies do offer contracts throughout the season to secure lambs at difficult times of supply to ensure customer requirements are met, however uptake is generally poor in this area.

For many farmers once the lambs have left the farm their role in the supply chain has finished.



## **SLAUGHTER /PROCESSING/COLD STORAGE**

Slaughter and processing of lambs is carried out according to market requirements for product as well as the requirement for plants to operate profitably. Each plant will vary in size, throughput, configuration, technology and capacity to further process or for product recovery. Plants are governed by NZFSA under the Animal Products Act, as a certifying body and plants are bound by the regulatory requirements of each country to maintain export status. The majority of processors of lamb in New Zealand are also the marketers of lamb into global markets.

With an overcapacity in processing facilities in New Zealand to stock numbers available for slaughter, processing efficiencies have been a key focus for the industry to maintain viable plant operations. New Zealand has a good reputation globally for high processing standards and quality of product, which reflects positively on the processing sector of our industry.

R & D in processing over recent years has become an area that has been driven by individual sector players rather than industry as a whole. This is due to reduced industry funding available, the competitive nature of the processing sector to protect intellectual property, as well as the variation in plant configuration which requires different solutions to achieve the most profitable outcomes for individual companies.

There is a variety of processing plants throughout the country that are single species only, through to multi species plants that can process a broader range of livestock from goats and bobby calves through to larger bovine animals.

Cold Storage is a logistic function which is usually part of the slaughter and processing plant or is a separate stand alone business which requires the movement of product from processing facility to storage.

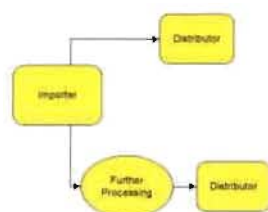


## **FREIGHT**

New Zealand's distance from its key export markets sees the role of freight as a significant component in the supply chain from a cost point of view as well as market opportunity for our chilled products, competing with local market supply in overseas countries.

Freight by sea or air are the usual means of transportation. Since September 11, 2001, further restraints have been imposed that have disadvantaged the placement of our chilled products into the marketplace, reducing the timeframe in which we have to sell these products once they arrive. This works against us in the current global environment where this lengthened time frame to market further

isolates our chilled products from that of UK or EU lamb and the drive by the consumer to support and buy local.



#### IMPORTER/WHOLESALER/DISTRIBUTOR

The roles at the market end for Importer/Wholesaler and Distributor vary dependent on the end use of the product, as well as the channels to market for lamb products.

Some of these Importers are owned by the Slaughter/Processing and Marketing Companies based in New Zealand, but many are independents.

The industry is heavily reliant on traders and middle men who have more direct contacts into markets than what individual companies may have.

Based on the returns from the current industry models, NZ Beef and Lamb show that 37% of our total lamb value is absorbed at market end. (Table 5.0 and Figure 5.4)

**Table 5.0 Export Lamb Market Shares**  
(Beef & Lamb New Zealand Economic Service, 2009)

	\$ per Head 17 kg CWE lamb					
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 YTD
NZ Farm Gate	62	54	52	57	83	76
NZ FOB	90	87	88	94	113	109
Retail Value	171	177	174	158	177	173
	% of Total Market					
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 YTD
NZ Farm Gate	36%	31%	30%	36%	47%	44%
NZ FOB	16%	18%	21%	23%	17%	19%
Retail Value	48%	51%	49%	40%	36%	37%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
	\$ / Head differences for 17 kg CWE lamb					
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 YTD
Farm to NZ FOB	27.44	32.53	36.39	36.88	29.44	33.63
NZ FOB to Retail	81.19	90.25	85.62	63.34	63.72	63.26
<b>Total</b>						
	Exchange Rates & Volumes					
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 YTD
UK	0.38	0.36	0.36	0.39	0.38	0.44
EU	0.55	0.52	0.54	0.51	0.44	0.49
US	0.70	0.65	0.72	0.76	0.59	0.73
TWI	0.59	0.55	0.59	0.61	0.50	0.60
Shipped Tonnes	420,655	436,375	448,428	437,384	397,897	411,552
Quota Utilisation (Dec Yr)	94.52	98.60	99.80	99.80	99.90	99.80



**Figure 5.4** Value Chain Revenue Distribution



### c) Summary

It is becoming clear by analysing the current industry structure, that the biggest gains are to be made at the market end, or by looking outside of meat at the other revenue streams that make up the pastoral sector income.

With our focus on sheep meat, even though it is perceived that the industry has moved to a value chain concept, the reality is that each process along the way still functions in silos, or independently. With an over capacity in processing, the focus is on efficiencies to reduce costs, as well as the continued duelling for lamb supply at farm gate. There is little trust or ongoing relationship between suppliers and processors and little understanding of where true revenues and costs lie. (nett schedules are a key example)

The market end has been left to its own devices and is too heavily influenced by independents outside of our control, thereby creating distance and disparity between us and our end users and customers.

In order to transform the current supply chain model into an integrated value chain, there needs to be a paradigm shift in the way the industry thinks and acts. 'Value Chain' alone has quite a different connotation than the practical and logistical meaning of the 'Supply Chain' concept.

First and foremost we need to understand what our customers want and what is important to them. By understanding the market end we can start to drive value back through the chain and adapt our practices and business models to deliver value to all stakeholders throughout the chain.

*'Adding value throughout the supply chain is a holistic and all encompassing strategy that infiltrates into every facet and division throughout chain. It is internal as well as external and buy in needs to come from all parties along the chain. When practiced effectively, value chain management increases revenue and profits, lowers costs and increases efficiency and productivity. Most importantly, it leads to higher levels of customer satisfaction – meaning that those customers are less likely to turn to the competition'. (Harbert, 2009, p. 14)*

## 6. THE MARKET

### Key Points

- **Consumers want more than just the product**
- **Digital media important medium**
- **Consumers want personalisation and connectivity**
- **New Zealand must focus deep and niche**
- **New Zealand is good at high value/premium**
- **Consumers want safe, healthy, sustainability**

If we take a step back to overview the current global financial crisis that has occurred, New Zealand Trade and Enterprise's report Manufacturing + (2009) accurately describes this scenario as follows:

*"The new economic reality has caused people to re-evaluate what they value and how they define value in completely different ways. In particular in United States and Europe people are re-evaluating what is important to them in their lives. There is an emerging sense that the 20<sup>th</sup> century emphasis on rampant consumerism may be abating.*

*This has a huge impact on how we shape and move our businesses forward. This places a level of urgency on understanding how value is being determined and reframed by customers and consumers. This in turn offers a real opportunity to develop an understanding of how people are renewing their lives and as a consequence create and adapt products and experiences that meet their emerging and changing needs. " (p 14)*

10 key mega trends were identified by the Manufacturing + publication as the top trends likely to influence the future for many New Zealand companies. These have been summarised into 9 trends that have a more direct relevance to the lamb industry and are important considerations to adopt into our business models. (New Zealand Trade and Enterprise (NZTE), 2009).

### a) Changing Demographics and Wealth

We have a current world population of about 6.7 billion predicted to rise to 9.5 billion by 2050. Almost all of this growth is in developing countries with the developed countries more or less static at 1.2 billion. Not only does this put increasing pressure on all aspects of physical resources and food production it is now predicted that more than a billion people do not have adequate food or fresh water. With static growth in developed countries, overall growth for our sector is going to be more likely aimed at the growing wealthy minority in developing countries such as China and India.

Alongside this trend we have an ageing population in developed countries with people living longer and having less children. With a generation of people living longer, focus is more keenly attuned to health and wellness, convenience or specialty, lending itself well to our premium lamb products.

## **b) Developing Countries**

The developing countries, Brazil, Russia, India or China ( BRIC) are predicted to be dominant powers by 2050. China and India because of the size of their populations, Russia and Brazil because of their richness in natural resources. Access to these markets through legislation or trade agreements is fundamental in opening doors to markets outside of our traditional trading partners, many of whom still operate under subsidies that assist their rural sectors to remain viable.

Alongside the opportunity to develop our markets into these countries, the growing competition from these powers as low cost producers competing for a share of the global lamb market is a threat we cannot ignore.

*“As these lower cost countries improve their reputation for safe and secure supply, New Zealand’s meat sector will face significant international competition from a greater variety of sources. Growth in meat production in the developing world is forecast to continue to outstrip that of the developed world over the next 10 years.”* (Ministry of Agriculture and Forestry, 2009, pp. 50-51)

## **c) Resource Constraints**

New Zealand is a country that is rich in natural resources. With the expansion and intensification of our rural sector, significant pressure is being placed on our natural resource base that if not managed well, will fast become unsustainable. If we use water as an example, It is a natural resource which is being increasingly identified by the rest of the world as having significant value with regards to food production (ie: virtual water). New Zealand’s agricultural sector needs to move to capitalise on this value through managing this resource sustainably.

With regards to our labour force, with an ageing population and migration of our younger workforce, we are losing valuable skilled labour both within our rural sector as well as in processing plants. The average age of New Zealand sheep and beef farmers in 2009 was 52 years old (Beef & Lamb New Zealand Economic Service, 2009).

## **d) Where to Manufacture**

Where to manufacture is becoming a question raised more often in our industry and is recognised in today’s market as a way of reducing cost, increasing quality and reducing energy. For the lamb industry with a fluctuating supply base driven by climate and season, the question of where to manufacture can mean where to produce and/or where to process. This presents at least three options

1. Manufacture in New Zealand
2. Contract manufacturing/further processing offshore in market place
3. Owing manufacturing/production assets offshore.

This could be a combination of all three, particularly when New Zealand’s strengths lie in value-added and R & D capability, albeit under-resourced at the current time. For our sheep meat industry the clean and safe image of our products lends strongly to keeping the bulk of our manufacturing and production

within New Zealand but this should not overshadow the opportunity to produce and manufacture in the market to provide a consistent year round supply of chilled product to satisfy our customers' needs.

### **e) Sustainability & Ethics**

Sustainability and ethics are becoming attributes our consumers are demanding more frequently, especially for our high value lamb products.

'There is a growing commitment among our developed world customers to make the world a better place' (New Zealand Trade and Enterprise (NZTE), 2009), and with a high value protein like lamb, we are seeing this trend becoming an intrinsic value that we must incorporate into our product image, our business strategies and company philosophies.

The types of sustainable practices would include waste minimisation, carbon emissions and sustainable farming practices maintaining our ecological system and resources.

We must not lose sight however, that price and value for money are still key drivers in food purchasing decisions, so it is finding a balance that will ultimately satisfy both ends of the spectrum which will come down to market positioning.

### **f) Source of Origin 'Provenance'**

This trend is one that is becoming increasingly important for not only our high value products but for many of New Zealand's export products. With perceived global risks of disease and bacteria our consumers are increasingly demanding to know where the product has come from and the story behind it. For our primary industry this includes animal welfare issues and whether an animal is raised humanely, which dovetails into the ethical side of our businesses. Consumers are looking for natural, antibiotic free, no growth hormones, grass fed. This presents huge opportunities for New Zealand industries to leverage off our small size and distinct uniqueness of geographical location, lifestyle, and temperate climate lending to all year round outdoor farming practices.

'Buy local' is an increasing trend that is being driven by the consumer and reflective in the advertised source of origin of meat that is appearing on supermarket shelves. Tesco's UK market and sell British Lamb, NZ Lamb, Organic British lamb and Australian Lamb, with Welsh Mountain lamb shown as their 'finest range' (Anthony Thompson).

### **g) Wellness, safety, security**

There is a growing trend in our high end consumer market to buy products that are wholesome, safe and nutritious. With an ageing population who are living longer there is more concern around the types of foods that are being eaten, are they nutritious, low fat, high protein, and safe to eat.

### **h) Connectivity & Citizen Media**

We are living in a changing world of technology and digital media that has changed forever the way we interact with customers and end-users. Ultimately this is impacting on fundamental changes within our value chains and channels to market. More and more of our products and services are becoming accessible through digital mediums such as the web, cellphones, and remote scanners. In turn this is changing the way we market our products and look to connect with our customers. Email, Facebook,

Twitter, My Space are all growing in importance as a company interaction tool direct with the end user and is adding a 'human face' to the business. It is not only the message we are relaying to our customers however, but the way they interpret our products and in turn portray and tell the story. This is a side we need to be very mindful of to ensure that the right story is portrayed by our customers. An example of this is the recent floods in Southland which resulted in significant lamb losses. This was widely televised and whilst this has an impact on our supply to the market, the images of dead or dying lambs portrayed around the world is not always perceived by our customers in the manner we intended.

It is also a medium however that if used smartly can positively grow our products – 'such is the speed of the digital media that contact with many people can occur very quickly.' (New Zealand Trade and Enterprise (NZTE), 2009)

### **i) Changing Customer and End User Preferences and Lifestyles, Participation and Experience**

As the pace and pressures of life increase, brought on by the faster rate of communication and technology, there is an increasing feeling of human isolation which is becoming more evident in our key developed markets. Premium brands are becoming less about products and more about experience and service. If our customers can connect with our products this gives them a sense of comfort and belonging. The more value and service we can wrap around a product, the greater the likely price premium.

In a global market of convenience or specialty when it comes to food, consumers want food to fit into their lifestyles and schedules. During the week food must be easy to prepare and convenient, it may not always be a healthy choice but it is functional. The weekend is when food becomes an experience and is the time when consumers want to pamper and reward themselves, this is when the consumer will have a conscience and want to feel good about the food they eat.

*'It is also widely recognised that wealthy consumers are increasingly demanding food products that help to define their image and connect with their core beliefs. This presents opportunities in terms of specialised and diversified products but also presents challenges from an increasingly diverse marketplace.'* (Ministry of Agriculture and Forestry, 2009)

### **j) Summary**

The art of value creation is to interpret the trends in innovative ways to create products and services that are likely to be increasingly valuable in the future, and in turn to address these trends and to ensure that these are incorporated into the value chain moving forward.

## 7. THE PROCESS

### Key Points

- **A successful value chain takes buy in and commitment from all participants**
- **Understanding structures and processes is key to implementing change and improvements**
- **Strategy/Key People/Relationships essential in the process**
- **Purpose, Share, Align, and Deliver with communication and measurement**

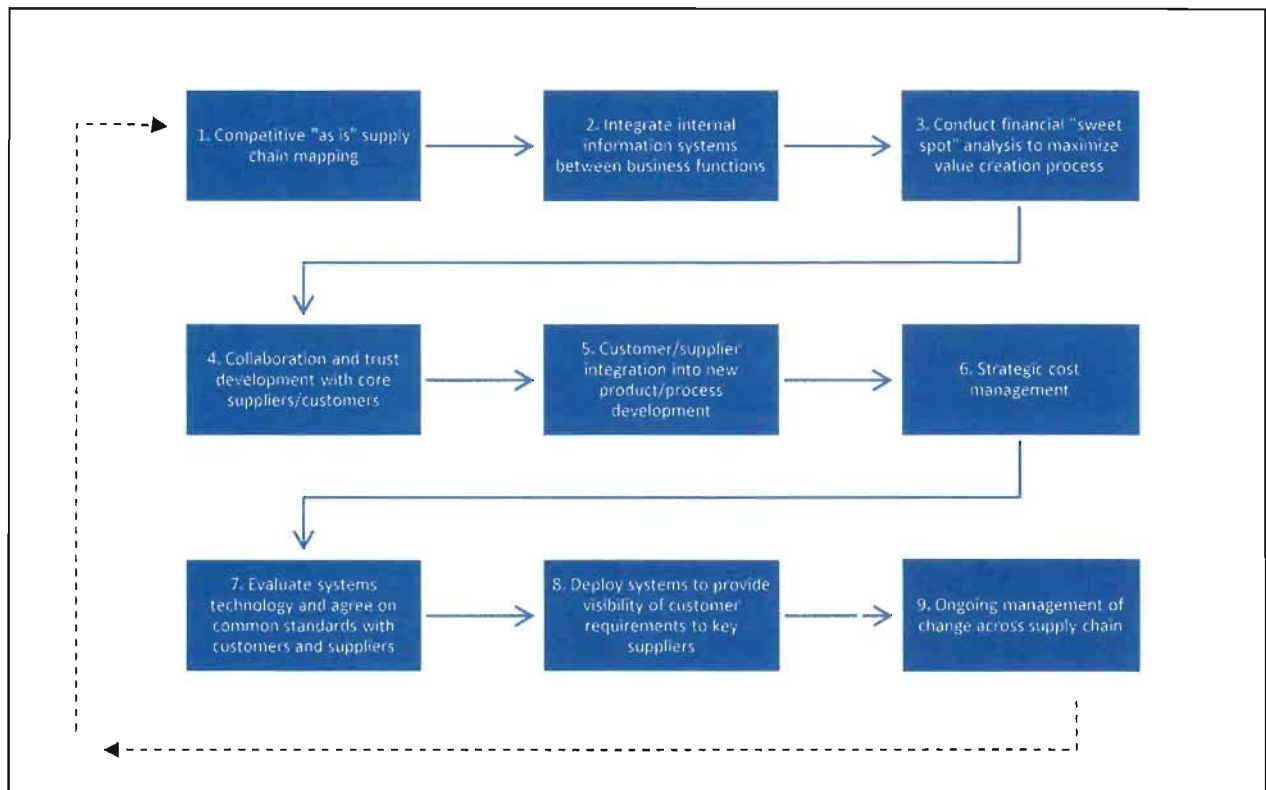
By identifying the key market trends we have a strong starting point to reshape the value chain. The next step is ensuring we have a sound process that has complete buy in and is driven strategically by strong leaders with the same purpose and outcome. Understanding where a business is now is a critical start point for effective value system creation. **(Robert B Handfield, 2002)** Buy in must come from all parties in the chain.

It is therefore important that in the quest to construct the ultimate integrated value chain, that a simple process model is followed, starting with an evaluation of the chain in its current form:

### a) Process Road Map

The following process model Figure 6.0 outlined by Handfield & Nicols (2002), “represents a series of activities and strategies that must be implemented in order to successfully create integrated value systems. Like any business model or plan, value chain structures are an evolving business tool that should be re-evaluated every 3-5 years or as required” (p. 24).

**figure 7.0 Integrated Value Chain Creation,- Process Road Map**  
Source: Handfield & Nichols 2002



The Process Road Map steps as illustrated in Figure 7.0 include:

1. Competitive “as is” Supply Chain Mapping
2. Integrate Internal Information Systems between Business Functions
3. Conduct Financial "sweet spot" Analysis to Maximize Value Creation Process.
4. Collaboration and Trust Development with Core Suppliers/customers.
5. Customer/Supplier Integration into New Product/Process Development.
6. Strategic Cost Management .
7. Evaluate Systems Technology and agree on Common Standards with Customers and Suppliers.
8. Deploy Systems to provide Visibility of Customer Requirements to Key Suppliers -.
9. Ongoing Management of Change across Supply

Without further elaboration on the individual detail of each step in the process, the road map is fundamentally an evaluation and transformation tool. “The process model represents a series of activities and strategies that must be implemented in order to successfully create integrated value systems.” (Robert B Handfield, 2002, p. 24) It can be likened to a comprehensive SWOT analysis reviewing the strengths, weaknesses, opportunities and threats of current business structures.

A similar variation was developed as an outcome of extensive research carried out by New Zealand Trade and Enterprise (2009), of successful New Zealand manufacturers, which resulted in the following set of twelve concepts and the ‘Value Creation Model’ as shown in Figure 7.1.

## b) Value Creation Model

### Concepts

#### PURPOSE

1. Creating, maintaining and evolving innovative business models
2. Building sustainable and ethical values into brand position and business operations
3. Leveraging partnerships, franchises, joint ventures and alliances.

#### SHARE

4. Innovating and co-creating solutions
5. Creating relationships with a human face
6. Creating world leading brands and designs

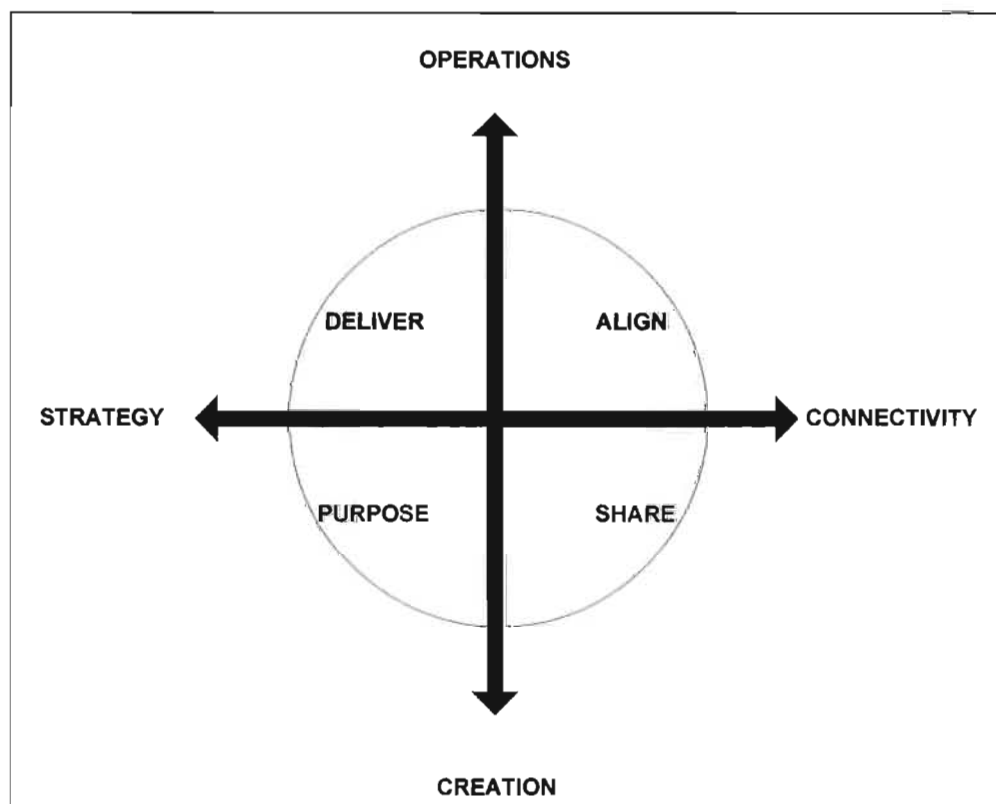
#### ALIGN

7. Leveraging the global value cycle by knowing how we can best fit.
8. Connecting with global networks to gain foresight and insight.
9. Understanding and using the unique qualities of the New Zealand business reputation and branding

#### DELIVER

10. Integrating manufactured goods with service offerings – add-on features – such as service, education, support or training
11. Delivering high standards of operational excellence in design, production and management capabilities
12. Incorporating the smart use of capital intensive manufacturing and labour

**Figure 7.1** The Value Creation Model  
(New Zealand Trade and Enterprise (NZTE), 2009)





These concepts can be categorised into four quadrants. Starting at the 'Purpose' quadrant, following an anticlockwise direction and using the 12 key concepts above the integrated value chain should:

1. Develop a creative and strategic PURPOSE and business model
  2. SHARE and co-create ideas through close connectivity with markets and customers and end-users
  3. ALIGN value through every interaction throughout the value chain
  4. Combine operational excellence with the strategic determination of product designs and manufacturing infrastructure to DELIVER products of outstanding value.
- (New Zealand Trade and Enterprise (NZTE), 2009)

There are significant similarities and synergies between what the market wants, and the value concepts that are recognised as integral in the transformation of our businesses into integrated value chains. By adapting and defining our business models to include some of these concepts, we are automatically moving to provide our customers with the value they are seeking.

These concepts by themselves, are of limited value unless the relationship between each is understood and can be entwined into the business model and function.

Four key success drivers were identified –

Strategy                      -                      Creativity                      -                      Connectivity                      -                      Operations

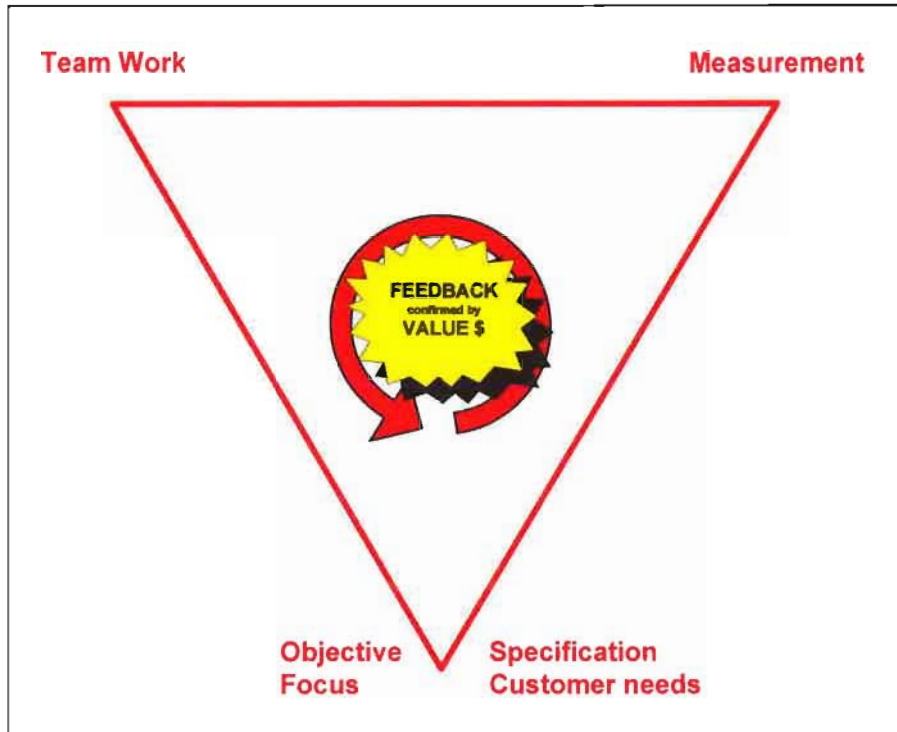
Successful value chains must exhibit a clear sense of strategic direction through being closely connected with customers and consumers. They also exhibit creativity, a 'think outside the square' mentality and a strong sense of commitment to operational excellence on the other hand. The Value creation Model axes (Figure 7.1) clearly shows how these concepts align with one another.

There is one other driving force (process) that is key to enabling a value chain transformation. This is fundamental to any sustainable enterprise – the Continuous Improvement Model. This is one that stands the test of time and relies on four basic principles, - plan, implement, evaluate and review (very clearly entwined in strategy, creativity, connectivity and operations). The key drivers for achieving continuous improvement are:

- A clear objective and focus
- Measurement and teamwork
- Feedback and communication

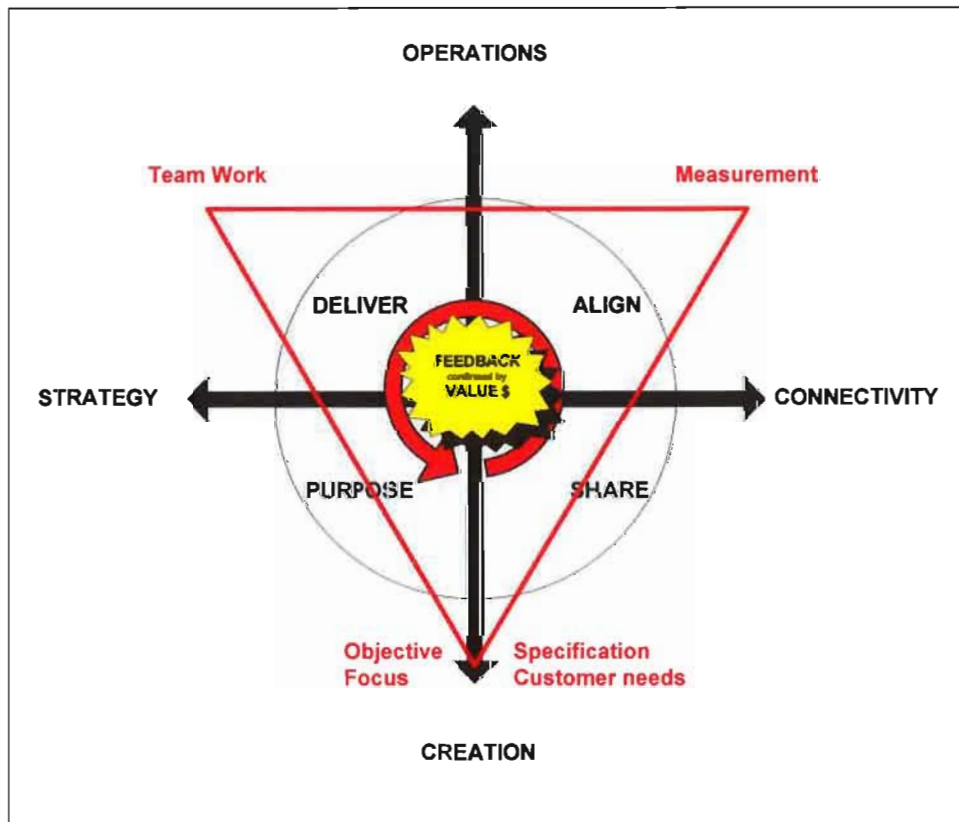
**Figure 7.2**                      The Continuous Improvement Model

**Figure 7.2** The Continuous Improvement Model



By overlaying this concept into our Value Creation Model we end up with a model that is driven by objectives, tools and measurements to ensure continuous improvement is constantly achieved throughout the value chain.

**Figure 7.3** The Integrated Continuous Improvement Value Model



It should be remembered that the move to a value chain orientation is not a onetime shift but a gradual transformation that requires not only a concise process, but tenacity, vision and drive.

#### **d) Summary**

Armed with a clear understanding of the existing industry structure, where the future direction for the sheep meat industry lies, the global trends and what the market wants, we now also have a clear understanding of the change in mindset, and the evaluation of current business structures and the process that needs to be implemented in order for a successful integrated value chain to prosper.

*"Supply chains are only as strong as the weakest link in the chain"* (Robert B Handfield, 2002, p. 77)

## 8. THE ULTIMATE VALUE CHAIN

### Key Points

- Deep Niche
- Ownership of Supply, Supply chain Management and the Market
- Reduce capacity
- Processing stand alone
- Transparency and Measurement/relationships and trust
- Investment outside Farmgate
- Leadership
- JVs/Partnerships
- Alignment with other value chains

*‘As the name implies, the primary focus in value chains is on the benefits that accrue to customers, the interdependent processes that generate value, and the resulting demand and funds flows that are created. Effective value chains generate profits.’ (Andrew Feller, Dan Shunk, & Tom Callarman, 2006)*

### a) Definition of a Value System:

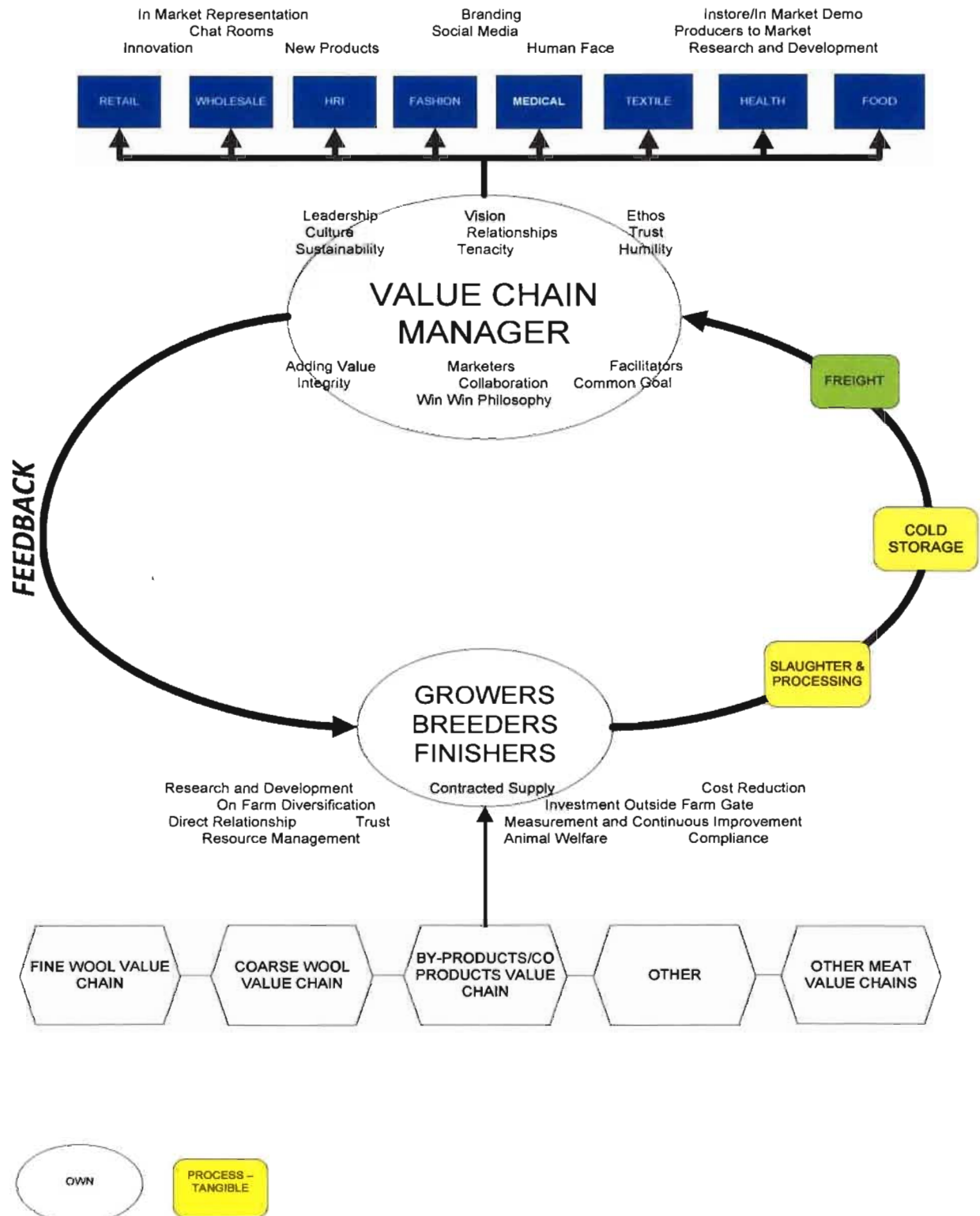
*“A connected series of organisations, resources, and knowledge streams involved in the creation and delivery of value to end customers. Value systems integrate supply chain activities, from determination of customer needs through product/service development, production/operations and distribution, including (as appropriate) first-, second-, and third-tier suppliers. The objective of value systems is to position organisations in the supply chain to achieve the highest level of customer satisfaction and value while effectively exploiting the competencies of all organisations in the supply chain.” (Robert B Handfield, 2002)*

With New Zealand’s modest size and distance from large markets, the natural strategy for any value chain is deep niche. Pertaining to lamb this is emphasised even more so through its dominance at the top of the protein chain in value.

## b) The Integrated Sheep Meat Value Chain

The potential value for the New Zealand sheep meat industry lies with the full integration of our supply with our consumers. The focus must move from our processing sector to the market and be driven back from the market to our producers to create and capture the value required to ensure long term economic sustainability.

**Figure 8.0** The Integrated Sheep Meat Value Chain





## **Value Chain Manager**

- Leadership/Vision/Common Goals
- Culture/Ethos
- Trust
- Provenance
- Brand
- Partnerships/Collaboration – on farm to end user
- Communication/Relationships
- Innovation
- In Market representation
- Human Face/direct connectivity
- Economic and Environmental Sustainability
- Efficiency through Chain

The sheep meat industry needs strong leaders that will champion and drive change throughout the chain with the ultimate goal of creating value for all of the stakeholders.

Value chains today spread way outside the realm of one company entity, therefore a key factor and starting point for any successful value chain/cycle is establishing who the value chain manager is.

The Value Chain manager will oversee and drive the concept and vision from start to finish to ensure that the chain is functional, co-ordinated, focused and in touch with each member in the chain. They have the role of ensuring that not only the process is correct, but that concepts are adopted and businesses adapted to develop an ethos, trust, culture, and strong relationships throughout the chain from producer through to end customer.

The Value Chain Manager needs to grow the relationship beginning on farm, building trust and collaboration with growers to become an integral part of the value chain. They need to bring suppliers on board through producer groups and contracted supply, transparency of farm gate returns, and encourage buy in and adoption of the same ethos and vision. Involvement with farmers into continued on farm R & D to improve production efficiencies and performance, and close communication is required to encourage suppliers to adapt farming practices to meet changing customer on-farm requirements with regards to compliance and animal welfare issues. This is a key part of the communication and relationship building that is needed if suppliers are to understand the value that they will gain through this alliance and partnership.

Value Chain Managers should have the direct relationship with suppliers, setting contracts and responsible for livestock payments.

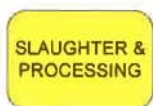
Strong relationships with killing and processing facilities is a fundamental requirement and a key driver to a successful integrated value chain. Most of our industry is currently both the processor and the

marketer. Whilst this is fundamentally not wrong, this value chain advocates that the marketing end becomes the value chain manager, ensuring the market led concept prevails.

With this view in mind, again it is the Value Chain Manager's responsibility to ensure that not only quality, standards and processing efficiencies are maintained, but that processing facilities endorse the vision, ethos and culture of the value chain with the same vested interest as that of the Value Chain Manager. Involvement in continued R & D at plant level is a key part of the joint relationship, however this should be the extent of the involvement, leaving processing facilities responsible for maintaining and driving their own profitability.

At market end the presence of the Value Chain Manager is all and encompassing. The Value Chain Manager must be able to understand and interpret customers wants and needs and can only do this from active involvement as close to the end user as possible. They must also be the link between suppliers and customers sharing the story behind our products, building the connectivity and adding the human face to our product offerings.

Communication and connection of the key parties throughout the chain, ensuring clear goals and expectations are conveyed, feedback is given and continuous improvement is achieved lies with the Value Chain Managers to deliver.



## **Slaughtering & Processing**

- Stand alone cost centres
- Capacity reduction

### **Stand Alone Cost Centres**

As alluded to above, the processing sector of the supply chain needs to operate as a separate entity or alternatively, as a separate cost centre that is completely measurable. Our industry has proven that processing and slaughtering facilities do not need to own the entire chain, and there are key examples of this in our industry today with companies such as Progressive Meats toll processing for marketing companies like Lean Meats Limited, Firstlight Foods Ltd, and Davmet Ltd, as well as Silver Fern Farms.

With processing operating as an independent cost centre, the profitability drivers move to the market and the type of processing that is carried out is driven by what the market wants, what is going to achieve the highest nett return to the producer, and what volume level is required to match this demand. By knowing the costs to process product by specification, there is a measurable element which value chain managers can use to ensure continuous improvement and increased profits are being delivered.

### **Capacity Reduction**

Until the industry has addressed the overcapacity issue, the continued focus will remain with processing, and ensuring plants are viable.

By successfully addressing overcapacity issues, a natural smoothing of schedule pricing will occur with

producer groups and contracts starting to replace the weekly schedule and the Sunday night 'ring around' that is predominant today. With security of supply to fill plants, contracts and relationships with the consumer can be pursued with confidence bridging the gap between growers and the market, and increasing value to all.

Multi-species plants have the advantage of smoothing their own capacity by moving from one species to another with the seasons. This is of added value and the preferred configuration for plants moving forward unless they can be viable with programmed year round supply driven by their customer base.



### **Growers, Breeders, Finishers**

- Contracted supply/Producer Groups
- Gross Schedules/contracts
- Cost reduction
- Direct relationships/no middle men
- On farm diversification
- Investment past farmgate
- Investment in Research & Development
- Provenance
- Economic and Resource sustainability

'New Zealand agriculture needs to discard the low cost production position once and for all, and focus on developing efficient and sustainable production models, resilient to market volatility' (KPMG New Zealand, 2009, p. 11)

### **Contracted supply**

The most direct route to the market is selling chilled product direct to retail. In order to achieve this, consistent supply 52 weeks of the year is required. Unless marketers have the confidence in the supply of their raw material, contracts and orders will not be filled. This type of uncertainty will drive the retail segment to seek alternative supply.

Contracted supply requires a change of mindset from farmers and a willingness to become an integral part of the value chain. This can only be achieved by a closer working relationship between all parties with communication, feedback and measurement key to building the trust from supply to market.

Not only must suppliers be prepared to contract supply, but adhere to the market demands with regards to physical attributes of the lamb –weight, fat measurements, as well as the growing trends in animal welfare considerations and environmental impact of their farm practices. Naturally grown attributes are key.

Advantages to suppliers through contracted supply



- Known returns
- Involvement in supply groups to known retailers maximising profits through chain
- Investment outside farmgate/ producer groups on and off shore

### **Gross schedules or contracts**

This type of schedule or contract offer farmers a much more transparent or measured means of adding value. By understanding cost breakdown of killing fees, wool and pelt payments, bonus payments for dressing standards it is much easier to determine where improvements can be made.

### **Maximising returns**

There is still money left on the table that the smart producer can capture if they choose to, and value chain managers should be working with producers to help them achieve maximum returns ex farmgate:

Several potential areas, which are by no means exhaustive include:

- Saleable yield schedules – producers paid based on the yield of cuts from the carcass rewarding farmers that are breeding quality livestock with middle and leg cuts yielding higher than the average lamb carcass. With a 1% increase over the standard yield of a carcass, producers could look to gain a further \$1.43 per carcass. (Appendix 6)
- Relationship direct with Processing Coy, Marketing Company, take out agents in lieu of passing value back to farmer and building direct relationship 50c - \$1 per carcass + trust

### **By Products/Wool and Pelts.**

The revenue from by-products, wool and pelt that are part of the animal presented for slaughter, should accrue back to the farmer as part of their ex farm gate return. Many current meat schedules do not show wool and pelt prices, these are incorporated in the nett schedule price offered.

An average return for by-products has a current value at between \$8-\$12 per carcass. Similar to the meat schedule, in order to create an open and measureable system that encourages suppliers to improve on farm performance, a by-products, wool and pelt schedule or contract should be presented as part of the supply offer. If pelts for example, could be individually identified back to suppliers and a category and value attributed to pelts on grade quality and size, then suppliers have measureable attributes on which they can work to improve pelt quality through breed, and on farm production. The same applies with wool and by products such as runners.

The venison industry produces a schedule that differentiates hinds from stags paying an extra premium for stags as a means of remuneration for the pizzle. (Appendix 7)

### **Ownership outside Farmgate**

Investment outside the farm gate is becoming an increasingly important consideration for our growers, as another form of ensuring their own economic sustainability.

Lamb as a high value protein has a discerning customer base in global markets which is not only concerned about animal welfare issues, provenance and ethics, but is increasingly pushing home the drive to 'buy local', supporting local growers and reducing the carbon footprint .

New Zealand investment in producers groups offshore starts to provide alternative solutions and pathways for NZ producers to capture offshore premiums, be part of a value chain that is recognised as a trusted and safe brand, but also satisfy an all year round market demand with not only NZ lamb but domestic lamb as well, maintaining provenance, image and integrity with the customer.

Closer to home, New Zealand's two largest meat companies are already Co-operatives, with some of the smaller companies, farmer majority owned. Farmers need to be encouraged to take part and brought closer into the value chain by means of partnerships, Co-operatives, joint ventures and shareholdings. The Value Chain Manager needs to be more transparent with information flow and build the relationship between the parties in the chain. This does not appear to exist today as well as it could.

### **Research and Development**

Value Chain Managers need to be working with suppliers to assist and offer a vehicle to initiate on farm diversification or evaluation to increase individual performance. Again the driver is a strong relationship built on trust and value to both plus a vehicle to assist with funding in this area. Alignment by the sheep meat sector with parallel chain partners and collaboration in this area would be the natural progression, as many on farm improvement opportunities will provide benefits to more than one on farm revenue sector.



### **The Market**

- **Retail – consolidation**
- **Niche – high end**
- **Innovation/New Products**
- **Brand Recognition/Direct Relationships**
- **Customer buying trends (buy local, wellness, conscience, provenance, safe)**
- **Human face, connectivity**
- **Quality, consistency, reliability not commodity**
- **Market Presence**
- **Developing Countries V Developed & product placement**

This is the key area where value must be added and captured. This area accounts for 37% of the total lamb value.

Already lamb in its raw form is becoming a protein that is too expensive for the average family to be able to eat on a regular basis. Market trends with regards to food preparation, demographic spread and lifestyles, brings about the opportunity to develop new products and prepared foods more tailored to the changing needs of our market. The opportunities for innovation are many, and we need to be able to capture this added value and pass this back through the chain to the producer.

### **Retail**

Globalisation of the retail supermarket chains that has occurred over the past 10 years has meant that there are a number of supermarket chains that have considerable market power and are large organisations. In the UK the top four supermarket retailers (Asda, Tesco, Sainsbury and Morrisons) make up 75.4% of the total market share. (Freshplaza.com, 2010). This has a key impact on us as exporters of New Zealand lamb in that the key focus for the larger scale retailers is market share and price.

In order to move forward and maintain the high value required for our lamb, we have two avenues open to us:

1. Supply in volume as a joint entity at market end (ie: NZ Inc)
2. Operate as niche players on the fringe, focused on more specialised products and offerings, catering for higher end players (Waitrose, Whole Foods)

We can ultimately do both, however the first option requires a more collaborative approach than what there is today. New Zealand's size cannot compete with the scale of these retail giants, therefore our focus must be on the following attributes:

1. New Zealand Lamb
2. Shortage of supply
3. High end, high value, single desk in targeted markets

### **Innovation/New Products**

This area will continue to offer value and potential in market and from New Zealand. With reduced lamb numbers we are starting to see an increase in average HCW of animals which in turn can offer farmers not only efficiencies with reduction in killing fees per kg, but from a market perspective, the opportunity to create new products of a size and composition that is potentially more affordable than the traditional 2kg bone in lamb leg. This offers further scope to lift our high end lamb products by developing premium products that are also more suited to the changing lifestyles of our target markets.

### **Developing Countries V Developed & Product Development opportunities**

If we look at our global demographics and wealth, we have identified a static growth pattern in developed countries, with developing countries predicted to be the dominant powers of the future.

Furthermore, by analysing what cuts go to what markets, we can break the carcass down into high end cuts (developed countries), middle value cuts (developed or developing countries) and low end cuts (developing countries) as illustrated in Table 8.0

**Table 8.0** Lamb Positioning in Global Markets

Lamb Hot Carcass Wt		19	FOB NZD Price	Tot	Markets		
	Yield				High	Mid	Low
Whole Neck	2.7%	0.513	\$ 3.40	\$ 1.74			\$ 1.74
BRT Shoulder	10.5%	1.995	\$ 10.40	\$ 20.75		\$ 20.75	
Shoulder Rack	3.7%	0.703	\$ 9.93	\$ 6.98		\$ 6.98	
Foreshank	3.4%	0.646	\$ 6.30	\$ 4.07		\$ 4.07	
Brisket	2.7%	0.513	\$ 1.75	\$ 0.90			\$ 0.90
Fr Rack	5.0%	0.95	\$ 24.64	\$ 23.41	\$ 23.41		
Shoulder Piece	2.8%	0.532	\$ 3.80	\$ 2.02			\$ 2.02
Bone In Loin	6.9%	1.311	\$ 12.18	\$ 15.97	\$ 15.97		
ABO Leg	25.7%	4.883	\$ 10.33	\$ 50.44	\$ 50.44		
Bone In Flap	12.0%	2.28	\$ 4.20	\$ 9.58			\$ 9.58
Fat	2.0%	0.38	\$ 2.00	\$ 0.76			\$ 0.76
Trim	2.0%	0.38	\$ 4.00	\$ 1.52			\$ 1.52
	79%			\$ 138.14	\$ 89.82	\$ 31.80	\$ 16.52
					65.0%	23.0%	12.0%

Figure 3.5 on Page 11, shows that lamb is already at the top of the protein chain with regards to price in our key developed markets. There is room for us to do better but this is potentially not our greatest area for improvement in market return.

The mid and lower value lamb cuts offer us the best opportunity to lift value through innovation and placement into developing markets, or lifting the middle value cuts up as a cheaper higher value option to the middle and leg cuts.

We are already seeing this trend and movement. In the past 10 months, boneless shoulders have risen in value from NZD FOB 7.55/kg to NZD FOB 10.40/kg or \$6.55 per carcass based on an average 17kg carcass. The same trend can be seen in flaps, a lower value item that is sold into developing countries. They have moved from NZD FOB 4.34/kg to 4.67/kg or 59c per carcass. Not as large a move, but none the less a trend that is providing opportunity to increase value.

### Market Presence

Ownership in this area will be in the form of physical presence in the market, and direct contact with key customers, partnerships and JVs with further processors in the marketplace



### Parallel Value Chain Partners

One of the key drivers for the future sustainability for the lamb industry is the partnering and alignment with other value chain partners that have a common link to the producer. Namely these are coarse

wool, fine wool, co-products and pelts, beef, venison and other. This list again is not exhaustive but lends itself with a natural alignment to rural based industries.

The scope to combine and use economies of scale in the market in the field of freight logistics, and offering of a food basket to customers as well as on farm environmental sustainability systems is huge and limited only by partners throughout the chain, including our customers, and the relationships we make.

As we have seen in the introduction, wool returns per stock unit have gone from a return of \$24.52 in 1987-88 to \$5.15 in 2008-09. Like the meat industry there is strong movement to find the right fix for the coarse wool sector and we are starting to see the emergence of brands and market campaigns driven by various industry players in this field. The move to an integrated value chain is also where the wool industry needs to go forming alliances with other value chain partners with the ultimate aim to move forward as a collective industry force.

There is a strong core of entrepreneurial New Zealanders that are keen to see the industry grow and thrive. Breeders such as Gordon Lucas who have been working to develop a dual purpose polled merino with a carcass and meat value is inspirational and a key example of the future potential for the industry that we must continue to nurture and grow. (Appendix 8)

Likewise what is the scope for by products returns and other products such as lanolin, sheep's milk (Appendix 9) , pelts and MDM? R & D plays a huge part in continued development in these areas.

The writers intent as covered at the start of this paper was to focus on meat only, therefore further investigation into this area was not part of the process, except to the extent that in constructing the integrated value chain, what has become evident, is that without collaboration across the industry with our parallel chain partners, economic and environmental sustainability will be harder to achieve for our primary producers, who cannot rely on the returns from meat alone.

### **c) Summary**

The Integrated Value Chain as illustrated above is a conceptual blueprint of how our value chain should look. The individual topics discussed are a starting point to further develop and evolve for continuous improvement and value creation.

Table 8.1 summaries topics already discussed, plus highlights further how value can continue to be added and examples of where this is occurring today. There are many more that could also be included that are of equal value. The ultimate challenge for the industry is to find a way of pulling these value creation solutions together into integrated value chains, and working in partnership with one another throughout the chain and with parallel chain partners. The future lies in collaboration, and we must stop working in silos driven by individual entities scrambling for market share or best price.

**Table 8.1 Value Creation Table**

Action/Integration	Value to	How	Examples
Contracted Supply	Grower	Known income	Most companies offer some forms of contracts
	Processor	Utilises plant capacity, known volumes	
	Customer	Orders can be met, quality more consistent, less claims, trust built through known source/fabrication/delivery to spec/In Market compliance	BRC accreditation
Gross Schedules/Contracts	Grower	Better Transparency of costs & measurement of performance	Progressive Meats Te Kuiti Meats
		Potential to reduce lamb costs	If lamb weights are heavier, kill fee per kg is reduced as should be a fixed fee per carcass
Headage Payments	Grower	Cut out agent, return increased to grower	Farmers qualify as owner drafters can add 50c/lamb to bottom line
Producer Groups	Grower	Better Certainty of market returns, creates a connectivity with end consumer	Firstlight Venison Producer Group/ NZ Merino
	Customer	Guarantee of supply to meet orders	
	Customer	Certainty of quality and to spec/meets customer wants and needs with regards to food safety, animal welfare, ethically grown, naturally grown	Marks and Spencer Contracts (Appendix 10)/Whole Foods Contracts and Whole Foods QA programme and certification
	All	In market demonstrations with suppliers	Lean Meats/Atkins Ranch and Firstlight Foods take farmer shareholders and producers direct to market (Appendix 11)
Relationship Building	All	Closer working relationship, no agents	
		Direct contact with value chain partners and customer	
		Improved communication with suppliers and customers through all forms of media, internet, regular newsletters, phone, face to face	
		Focus groups & Field-days with suppliers assists in bridging the gap between customer and supplier	
Saleable Yield Payment	Grower	Rewards grower based on yields & enables improvements to be made	Progressive Meats (Appendix 6)
	Customer	High quality good conformity of product	
Investment in R&D	Grower	Improves productivity and onfarm economic and resource sustainability	Sam Morrah (Appendix 10)
	Processor	Better/new products, cost reduction, automation	Automation throughout industry
	Customer	Improves consistency and quality of product, meets customer values, new products	
JV/Producer Groups offshore	Customer	Guarantees all year round consistent supply	Rissington Breedlines own three farms in the UK and have forged a supply programme with Marks and Spencer.
	Grower	Spreads supply risk/smooths supply	
	Customer	Satisfies 'buy local' ethic	

Processing and slaughter outsourced	Grower/ customer	Plant focused on efficiencies and producing to customer requirement/marketers are focused on innovation and what the customer wants	Icebreaker model has successfully achieved this through their alignment with like minded value chain partners, outsourcing the manufacturing and processing of merino, but maintaining the same ethos throughout the chain delivering the same message to the consumer
Innovation	Customer	New products	
		Offers flexibility in shipments and product offerings	
Combine functions Importer/Wholesaler/ Distributor	Exporter	Cut out middle men where possible, align with like minded in market representatives if ownership not possible	Lean Meats/Atkins Ranch example with Company based in USA
	Customer	Brings customer closer to supply base and where product originated	importing, further processing and delivering direct into Whole Foods Supermarkets
Offshore offices/direct representation	Grower/ Marketer	Capture more of in market return	
Partnerships and JV with local like minded partners	Grower/ Marketer		
Increase direct relationship with customer/ personalise	All	Builds loyalty, trust and connectivity with customer	Instore market demos with suppliers (as above)
Improve Technology Channels	All	Loyalty cards, feedback channels ie: twitter, facebook, my space, websites	Brand loyalty cards of UK retailers, enables retailers to understand buying patterns and personal buying preferences of individual customers, enables personal connectivity with end consumer
Building brand recognition and trust	All		
- addressing areas of value to customers	All		
- animal welfare, wholesome food, clean, green			
- safe, ethical, specialty			
Alignment with parallel supply chain partners	All	Sharing of knowledge/combination of resources	
	All	Offerings of a more diverse NZ basket to larger customer base	Other primary products, meat, apples, berries, seafood, dairy
	All	Offering wider customer choice at high end on smaller scale due to combined resources by value chain managers	Meat companies collaborating to offer a range of products shipped jointly to end customer
	All	Improvements in sustainability models through joint collaboration across all business functions	
	All	Reduces cost through volume discounts in areas such as freight, packaging, logistics	Meat Industry collaboration of smaller meat companies to achieve freight discounts

The key factors of importance are:

- The value chain structure that is outlined and how we must change the direction and drivers of our industry, namely the processing sector and supply base.
- The relationship building and partnership which must prevail from supplier to market to ensure ongoing longevity and success
- The leadership and direction that is required by strong value chain managers to realise the concepts, visions and goals to add economic sustainability to all sector partners
- The buy in from all parties, trust, collaboration, relationship building
- The alignment with other value chain partners
- Continuous improvement through measurement and feedback
- A presence and collaborative approach in the market
- A win, win philosophy

The integrated value chain should continue to evolve. As with visionary companies, in order to stimulate progress, processes, methods and structures will change through goal setting, culture, innovation, continuous improvement and experimentation.

It is only through value creation and working together as an integrated value chain, that value and benefits will accrue back to the stakeholders, increasing shareholder wealth and bottom line profits for further growth and re-investment. This is why suppliers must become involved outside of the farm gate as an integrated partner in the chain, and adopt a longer term philosophy rather than a short term fix driven by a monetary return ex farm gate.



## 9. CONCLUSION

How to make the sheep meat industry sustainable is not about applying a bandaid. This widely debated topic will remain in the public arena until we can gain traction and find a united pathway, that ensures our pastoral sector remains competitive and viable against alternate land use.

The purpose of this project was to provide what the writer believes is the optimum blueprint from which to build a sustainable sheep meat industry in New Zealand.

From the onset of this project through to its conclusion, there is a similar message that becomes clear with its delivery. Collaboration, leadership, trust, measurement, feedback, relationships, innovation and market-led. These are integral to the structure of a successful value chain moving forward.

In the analysis of where we are today, where we must move to and the value creation solutions that are starting to emerge, it is clear that without a sound structure, complete buy in from all partners in the chain and strong leadership to stimulate the change, no progress will be made.

As Robert B Handfield states in his book Supply Chain Redesign,

*“Supply chains are only as strong as the weakest link in the chain” (p. 77).*

The recent Primary Growth Partnership initiative, and new commercial wool brands like Just Shorn and Laneve are beginning to gain momentum, and this project has highlighted some clear examples of value occurring throughout the industry on farm as well as in market. We must continue in this vein, but be collective in our approach without stifling the individuality of our roles or fighting each other back at grass roots or at market end.

Collaboration must occur and be driven by our largest shareholders, our producers. Buy in and trust must prevail. We need strong leaders to initiate cost cutting and capacity reduction so that focus can remain with our customers. Our focus must remain deep and niche.

The future is bright as long as the process we follow is executed properly. An integrated value chain offers the opportunity for long term sustainability for our industry and for the long term benefit of all stakeholders. Let's stop talking and act.



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## Appendix

1. Yearly Meat Schedule Table
2. All Classes Sheep and Beef Farm Revenue Sources
3. South Island Hight Counrry Farm Revenue per Stock Unit
4. Nett Schedule examples
5. Gross Schedule examples
6. Saleable Yield Calculation Matrix example
7. Venison Schedule
8. Newspaper Article – R & D with fine wool meat eating breed s
9. Lean Meats Newsletter – Suppliers inmarket
10. Newspaper Article – Producer Group value
11. News paper Article – Sheep milk, alternate income stream

# Weekly Schedule Paid to Suppliers

WC

	Schedule 1			Schedule 2		
	Weight	Wool	\$/kg	Weight	Wool	\$/kg
10-Aug-09	16.9	0.42	\$5.76	21.1	0.41	\$5.85
17-Aug-09	17.3	0.36	\$5.62	21.8	0.54	\$5.67
24-Aug-09	17.6	0.67	\$5.61	21.6	0.6	\$5.67
31-Aug-09	17.5	0.77	\$5.64	22.5	0.48	\$5.65
7-Sep-09	18	0.75	\$5.56	22.2	0.9	\$5.50
14-Sep-09	17.3	0.92	\$5.49	22.3	0.54	\$5.59
21-Sep-09	17	0.18	\$5.58	22.6	0.58	\$5.65
28-Sep-09	17.3	0.4	\$5.56	21.9	0.49	\$5.63
5-Oct-09	16.6	0.18	\$5.38	22.5	0.82	\$5.47
12-Oct-09				21.2	0.95	\$5.45
19-Oct-09 New Season	18.5	0.65	\$5.68			
19-Oct-09 Old Season				21.3	0.66	\$5.30
26-Oct-09 New Season	18.6	0.87	\$5.48			
26-Oct-10 Old Season				21.1	0.84	\$5.36
2-Nov-09 New Season	16.7	0.68	\$5.20	19.3	0.71	\$5.35
2-Nov-10 Old Season				21.9	0.95	\$5.06
9-Nov-09	17.5	0.79	\$5.11	20.1	0.7	\$5.22
16-Nov-09	16.6	0.86	\$4.84	20.7	0.9	\$5.05
23-Nov-09	16.5	0.79	\$4.86	19.2	0.95	\$4.95
30-Nov-09	16.2	0.89	\$4.73	22.5	0.87	\$4.61
7-Dec-09	16.6	0.92	\$4.68	19.5	0.87	\$4.75
14-Dec-09	16.3	0.91	\$4.46	18.7	0.55	\$4.60
21-Dec-09	16.3	0.97	\$4.42	19.7	1.01	\$4.59
28-Dec-09						
4-Jan-10	16.1	0.92	\$4.39	19.6	0.83	\$4.55
11-Jan-10	16.8	0.88	\$4.29	19.1	0.84	\$4.35
18-Jan-10	16.2	1	\$4.24	19.7	0.99	\$4.40
25-Jan-10	16.7	0.8	\$4.26	19.4	0.85	\$4.41
1-Feb-10	16.8	0.5	\$4.25	19.6	0.72	\$4.40
8-Feb-10	17	0.74	\$4.43	19.7	0.74	\$4.51
15-Feb-10	17.2	0.79	\$4.37	19.9	1.05	\$4.49
22-Feb-10	16.9	0.84	\$4.50	19.3	0.69	\$4.47
1-Mar-10	17.8	0.45	\$4.57	19.7	0.46	\$4.61
8-Mar-10	17.7	0.75	\$4.60	20.5	0.55	\$4.62
15-Mar-10	17.8	0.91	\$4.63	21	0.68	\$4.65
22-Mar-10	17.8	0.94	\$4.66	20.7	0.87	\$4.68
29-Mar-10	17.6	0.44	\$4.46	20.3	0.99	\$4.58
5-Apr-10	16.7	1.29	\$4.58	20.3	0.91	\$4.53
12-Apr-10	16.6	0.96	\$4.46	21	0.84	\$4.54
19-Apr-10	17.4	0.99	\$4.47	20.8	0.97	\$4.54
26-Apr-10	17	1.19	\$4.64	20.9	0.97	\$4.66
3-May-10	16.7	1.2	\$4.70	19.9	1.08	\$4.70
10-May-10	17	1.08	\$4.70	21.2	0.84	\$4.69
17-May-10	16.7	1.17	\$4.78	20.7	1.16	\$4.79
24-May-10	16.7	1.35	\$4.97	20	1.28	\$4.96
31-May-10	18	0.81	\$4.97	20.9	0.83	\$5.03
7-Jun-10	17.8	0.87	\$5.05	21.1	0.98	\$5.13
14-Jun-10	17.9	0.9	\$5.15	20.3	0.95	\$5.14
21-Jun-10	16.2	0.85	\$5.02	20.6	0.69	\$5.19
28-Jun-10	17.3	0.76	\$5.10	19.8	0.73	\$5.16
5-Jul-10	16.5	0.72	\$5.04	20.1	0.72	\$5.16
12-Jul-10	17	1.06	\$5.15	20.6	0.84	\$5.24
19-Jul-10	16.5	0.74	\$5.20	22.1	0.72	\$5.28
26-Jul-10	17.5	0.78	\$5.23	20.2	0.82	\$5.26
2-Aug-10	17.1	0.92	\$5.22	22.2	0.64	\$5.26
9-Aug-10	17.9	0.85	\$5.33	20.1	0.62	\$5.39
16-Aug-10						
23-Aug-10						

\$4.92

\$4.99

Per Lamb

17kg cc	\$4.92	\$ 83.69
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# Beef + Lamb New Zealand Economic Service

23/10/2010

## Beef + Lamb New Zealand Economic Service

All Classes Sheep and Beef Farm Revenue Sources

30-Sep-10

Year	Wool as % Gross Revenue	Prime Lamb as % Gross Revenue	Sheep as % Gross Revenue	Sheep Ac+ Wool as % Gross Revenue	Cattle Ac % Gross Revenue	Dairy Graze % Gross Revenue	Deer + Velvet as % Gross Revenue	Goat Ac + Fibre as % Gross Revenue	Crop Ac as % Gross Revenue	Other as % Gross Revenue	Total as % Gross Revenue
1990-91	29.9	25.5	6.3	61.7	25.9		1.3	0.0	8.5	2.5	100.0
1991-92	27.9	26.5	4.2	58.6	28.7		1.4	0.0	8.5	2.8	100.0
1992-93	22.7	29.5	6.2	58.4	29.2		1.3	0.1	7.9	3.1	100.0
1993-94	20.4	29.5	10.9	60.8	28.5		1.5	0.0	6.6	2.6	100.0
1994-95	29.2	25.7	8.0	62.9	24.2	1.2	1.7	0.0	7.3	2.8	100.0
1995-96	26.4	28.4	7.1	61.9	19.9	1.7	2.6	0.0	9.7	4.2	100.0
1996-97	21.3	34.5	9.8	65.7	16.9	1.8	2.3		9.4	3.9	100.0
1997-98	20.9	32.1	9.5	62.6	19.4	2.0	1.6		10.0	4.4	100.0
1998-99	20.0	32.8	8.8	61.6	21.5	1.5	1.6		9.1	4.7	100.0
1999-00	17.4	36.5	5.7	59.6	24.7	1.5	2.0	0.0	8.2	4.1	100.0
2000-01	15.9	41.1	4.5	61.6	24.9	1.3	2.0	0.0	7.4	2.8	100.0
2001-02	14.5	39.7	8.0	62.1	25.2	1.5	1.9	0.0	6.5	2.8	100.0
2002-03	16.9	40.8	7.2	64.9	21.1	1.8	1.3		7.7	3.2	100.0
2003-04	15.9	37.4	11.9	65.1	21.6	1.6	1.1		7.4	3.2	100.0
2004-05	13.6	37.2	12.8	63.6	22.6	1.4	1.0		7.6	3.8	100.0
2005-06	13.6	33.7	13.2	60.5	24.9	2.4	1.0		8.3	2.8	100.0
2006-07	12.9	36.1	8.2	57.2	25.7	2.5	0.9		9.4	4.3	100.0
2007-08	12.3	36.7	3.9	52.9	24.8	3.2	1.5		11.8	5.8	100.0
2008-09	9.0	39.2	7.5	55.7	22.0	4.6	1.2		11.7	4.7	100.0
2009-10p	9.4	38.6	11.2	59.2	21.1	4.2	1.2		10.4	4.0	100.0
2010-11f	10.0	38.0	10.6	58.6	21.7	4.3	1.2		10.1	4.1	100.0

Source: Beef + Lamb New Zealand Economic Service

Tc Surv.Revenue.%

# Meat & Wool New Zealand Economic Service

1

## BNS.6100 Meat & Wool New Zealand - Economic Service

2-Feb-10

### Sheep and Beef Farm Survey - Per Stock Unit Analysis

#### Farm Class 1 S.I. High Country

		2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Provisional 2008-09	Forecast 2009-10
No. In Sample		25	27	24	16	19	21	21	20		
<b>Revenue Per Stock Unit</b>											
1	Wool Ac per Sheep su	43.37	31.69	39.63	31.87	29.15	25.83	29.11	32.51	30.32	29.45
2	Sheep Ac per Sheep su	15.87	18.27	17.68	20.61	27.74	19.98	21.11	13.81	26.49	25.05
3	Wool+Sheep AC per Sheep su	59.24	49.96	57.31	52.48	56.89	45.81	50.22	46.32	56.81	54.50
4	Shearing exp per Sheep su	6.01	6.36	6.38	6.54	7.06	6.58	7.00	7.14	7.57	7.76
5	Cattle Ac per Beef Cattle su	45.98	54.25	36.33	36.05	40.84	43.23	48.67	45.51	49.78	36.99
6	Deer + Velvet per Deer su	77.00	74.10	66.55	46.28	34.45	30.11	43.05	64.22	66.71	61.59
7	Goat + Fibre per Goat su	2.00	2.90	3.70	4.00	4.60	5.10	4.40	3.30	2.30	3.30
8	<b>Total Gross Revenue per su</b>	<b>58.07</b>	<b>52.77</b>	<b>54.58</b>	<b>51.32</b>	<b>54.97</b>	<b>45.90</b>	<b>51.76</b>	<b>49.90</b>	<b>57.52</b>	<b>52.83</b>
<b>Expenditure Per Stock Unit</b>											
9	Wages	4.55	4.86	5.51	4.95	4.13	5.17	6.04	6.94	7.26	7.16
10	Animal Health	2.92	3.28	3.89	2.93	3.43	2.59	2.74	2.42	2.71	2.77
11	Weed & Pest Control	1.26	1.43	1.34	1.65	1.78	0.78	1.66	1.35	1.58	1.43
12	Shearing Expenses	4.82	5.10	5.11	5.29	5.40	5.18	5.46	5.54	5.72	5.80
13	Fertiliser	4.51	4.79	4.84	4.20	4.92	3.92	4.14	5.66	5.82	4.99
14	Lime	0.27	0.13	0.25	0.24	0.43	0.13	0.19	0.43	0.52	0.34
15	Seeds	1.13	1.02	1.18	0.94	0.99	0.77	0.63	0.69	0.78	0.74
16	Vehicle Expenses	1.43	1.63	1.40	1.45	1.20	1.22	1.54	1.51	1.43	1.46
17	Fuel	1.16	1.21	1.21	1.10	1.18	1.47	1.55	1.68	1.94	1.70
18	Electricity	0.37	0.36	0.47	0.49	0.42	0.61	0.67	0.63	0.71	0.71
19	Feed & Grazing	2.16	3.08	3.16	3.25	2.53	2.05	2.87	2.45	2.64	2.55
20	Irrigation Charges								0.27	0.27	0.27
21	Cultivation & Sowing	0.77	0.62	0.99	1.04	1.22	1.25	0.86	1.25	1.04	1.17
22	Cash Crop Expenses	0.03	0.01			0.01			0.06		
23	Repairs & Maintenance	4.01	3.62	3.28	2.59	2.59	2.53	3.27	3.29	2.94	2.65
24	Cartage	0.94	0.93	0.84	0.94	1.19	0.95	0.80	0.87	0.86	0.98
25	Administration Expenses	1.59	1.54	1.65	1.54	1.66	1.45	1.61	1.40	1.60	1.67
26	<b>Total Working Expenses</b>	<b>31.89</b>	<b>33.60</b>	<b>35.11</b>	<b>32.58</b>	<b>33.09</b>	<b>30.07</b>	<b>34.03</b>	<b>36.46</b>	<b>37.79</b>	<b>36.39</b>
27	Insurance	0.76	0.66	0.73	0.69	0.56	0.62	0.67	0.74	0.78	0.68
28	ACC Levies	0.41	0.43	0.44	0.43	0.35	0.26	0.32	0.35	0.30	0.31
29	Rates	0.79	0.91	0.90	1.00	1.02	1.10	1.26	1.32	1.37	1.25
30	Managerial Salaries	0.41	0.38	0.39	0.56	0.54					
31	Interest	3.36	2.93	4.25	3.64	4.55	5.09	6.64	8.16	7.76	6.80
32	Rent	0.52	1.25	1.46	2.09	2.71	2.45	1.77	1.86	1.88	1.96
33	<b>Total Standing Charges</b>	<b>6.26</b>	<b>6.54</b>	<b>8.17</b>	<b>8.41</b>	<b>9.73</b>	<b>9.51</b>	<b>10.66</b>	<b>12.43</b>	<b>12.09</b>	<b>10.99</b>
34	<b>Total Cash Expenditure</b>	<b>38.15</b>	<b>40.15</b>	<b>43.28</b>	<b>40.99</b>	<b>42.82</b>	<b>39.58</b>	<b>44.69</b>	<b>48.89</b>	<b>49.88</b>	<b>47.38</b>
35	Depreciation	3.34	3.91	4.17	3.74	3.91	3.82	4.10	3.72	3.86	3.73
36	<b>Total Farm Expenditure</b>	<b>41.49</b>	<b>44.05</b>	<b>47.46</b>	<b>44.73</b>	<b>46.73</b>	<b>43.39</b>	<b>48.79</b>	<b>52.61</b>	<b>53.74</b>	<b>51.11</b>
37	<b>Farm Profit before Tax</b>	<b>16.58</b>	<b>8.72</b>	<b>7.13</b>	<b>6.58</b>	<b>8.24</b>	<b>2.51</b>	<b>2.98</b>	<b>-2.71</b>	<b>3.77</b>	<b>1.72</b>

For more information:

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<b>Schedule Details (E&amp;OE)</b>	
Schedule No.	1
Applicable From:	Sunday
(Amounts Cents per Kg unless otherwise stated)	

<b>Summary Schedule Changes</b>	
Lamb	Plus 10c per kg
Mutton	No change
2 Tooth	No change
Wool	No change

<b>Lamb Schedule</b> *** Please draft lambs into lines according to wool length ***											
<b>Weight</b>		<b>Y</b>		<b>P</b>		<b>T</b>		<b>F</b>		<b>C</b>	
Under 9.0kgs	<b>A</b>	425	A	-	-	-	-	-	-	-	-
9.1 - 11.5	<b>L</b>	530	YL1	530	PL1	520	TL	380	FL	350	CL
11.6 - 13.2		555	YL2	555	PL2	545	TL	415	FL	370	CL
13.3 - 14.4	<b>M</b>	580	YM1	580	PM1	570	TM1	490	FM1	460	CM
14.5 - 16.0		580	YM2	580	PM2	570	TM2	525	FM2	520	CM
16.1 - 17.0		580	YM3	580	PM3	570	505	525	FM2	520	CM
17.1 - 18.4	<b>X</b>	580	YX1	580	PX1	570	TH	525	FH	520	CH
18.5 - 21.5		580	YX2	580	PX2	570	TH	525	FH	520	CH
21.6 - 23.0		580	YX3	580	PH1	570	TH	525	FHH	520	CH
23.1 - 24.9		580	YX4	580	PH2	570	THH	525	FHH	520	CH
25.0 & 30.0		500	YX4	500	PHH	490	THHH	445	FHH	445	CH

<b>Adult Sheep Schedule</b>				
<b>Weight</b>	<b>Mutton</b>		<b>2 Tooth</b>	
Under 18.7kgs	<b>L</b>	280 ML1	280	HL1
18.8 - 20.0		340 ML2	340	HL2
20.1 - 25.0		355 ML3	355	HL3
25.1 & Over		340 ML4	340	HL4
Under 18.7kgs	<b>X</b>	280 100	280	HX1
18.8 - 20.0		350 MX2	350	HX2
20.1 - 25.0		360 MX3	360	HX3
25.1 & Over		350 MX4	350	HX4
All weights		280 MM		
All weights		315 MH	315	HH
All weights		315 MF	315	HF
20.0kg & under		275 MP	275	HP
20.1kg & over		305 MP	305	HP

<b>Wool Payment</b>	
<b>Weight</b>	<b>Lamb Sheep</b>
0.10	
0.20	
0.30	
0.40	<b>Wool Payments Withdrawn</b>
0.50	
0.60	<b>Wool now part of the meat</b>
0.70	
0.80	<b>Schedule</b>
0.90	
1.00	<b>Short Wool Premium of</b>
1.10 >	<b>\$1.50 per head</b>
	<b>.5kg &amp; &lt; applies 1/7 to 30/9</b>

<b>Deductions</b>	<b>Lamb</b>	<b>Sheep</b>	( Cents per Head )	<b>Lamb</b>	<b>Sheep</b>
Pelt Alpha	100	100			
Carcase M	500	500		Meat NZ Levy	45
Condemned	990	990		MAF Inspection	165
Colour	580	580			180

# NORTH ISLAND LIVESTOCK SCHEDULE

(Week     )

Week Commencing:    

## LAMB

Weight kg	Operating Schedule	Procurement Premium	Total Schedule Price	With Committed Supply Premium 5 cpk(If applicable)
9.1 - 13.2	3.55	0.00	3.55	3.60
13.3 - 13.9	5.50	0.00	5.50	5.55
<b>14.0 - 14.9</b>	5.60	0.00	<b>5.60</b>	5.65
<b>15.0 - 18.9</b>	5.60	0.00	<b>5.60</b>	5.65
<b>19.0 - 22.9</b>	5.60	0.00	<b>5.60</b>	5.65
23.0 - 24.9	5.00	0.00	5.00	5.05
* P, Y and T grade				
<b>Other grades</b>		<b>Additional quality presentation</b>		
C & F grades minus \$0.60		Shorn or bellied \$1.50/head		
Wool included in meat schedule				

## MUTTON

Weight and Grade	Base price
Up to 23.3 (MX1, ML1)	<b>3.10</b>
Over 23.2 (MX2, ML2)	<b>3.10</b>
MH, MP	2.75
MF, MM	2.55
<b>Deductions</b>	
Meat levy \$0.45 per hd	
Inspection fee lamb \$1.60 per head	
Inspection fee mutton \$1.75 per head	

## BEEF

Steer/Heifer		Bulls	
Weight kgs	P2 Price	Weight kgs	M2 Price
145.5 - 195.0	3.65	145.5 - 195.0	3.70
195.5 - 220.0	3.80	195.5 - 220.0	3.70
220.5 - 245.0	4.00	220.5 - 245.0	3.80
245.5 - 270.0	4.10	245.5 - 270.0	3.90
270.5 - 295.0	4.20	270.5 - 295.0	3.95
<b>295.5 - 320.0</b>	<b>4.20</b>	<b>295.5 - 320.0</b>	<b>4.00</b>
320.5 - 345.0	4.25	320.5 - 345.0	4.05
345.5 - 370.0	4.30	345.5 - 445.0	4.10
370.5 - 400.0	4.30	445.5 - 545.0	3.20
400.5 & over	4.20	545.5 & over	2.90
T & L grades minus \$0.10		TM grade minus \$0.05	
F grade minus \$0.45			
A grade minus \$0.20			
Quality Premium (pH) \$20/head			
Prime Cows		Manufacturing Cows	
Weight kg	P2	Weight kg	M Price
Up to 195.0	3.05	Up to 145.0	3.00
195.5 - 220.0	3.30	145.0 - 170.0	3.15
220.5 - 245.0	3.35	170.5 - 195.0	3.20
<b>245.5 - 270.0</b>	<b>3.40</b>	<b>195.5 - 220.0</b>	<b>3.25</b>
270.5 - 295.0	3.55	220.5 & over	3.30
295.5 & over	3.55	<b>All Beef (Except M Cow)</b>	
T grade minus \$0.10		Muscle class 1 plus \$0.05	
F grade minus \$0.45		Muscle class 3 minus \$0.05	
Deductions			
Disease levy \$11.50 per head		No tag or secondary tag only	
Meat levy \$3.80 per head		minus \$0.15kg (i.e. Tag must	
Inspection fee \$17.20 per head		have a bar code).	

## VENISON

Weight kg	AP price
35.1 - 45.0	6.50
<b>45.1 - 85.0</b>	<b>7.50</b>
85.1 - 100	6.60
100.1 & over	5.90
<b>Deductions per kg</b>	
Hinds minus \$0.10	
AF1 grade minus \$1.35	
AF2 grade minus \$2.25	
AFH grade minus \$1.77 off 100.1 & over	
PD1 grade minus \$1.10	
PD2 grade minus \$2.20	
Manuf grade minus \$3.00	
<b>Other Deductions</b>	
DINZ levy minus \$0.07 per kg	
AHB levy minus \$0.052 per kg	
Inspection fee minus \$10.75 per head	
Johnes research contribution \$1 per head	

### Changes from last week

Lamb	All grades \$0.10 Plus
Mutton	All grades \$0.10 Plus
Venison	AP grades 45.1 - 85.0kg \$0.20 Plus
Steer/Heifer	All grades \$0.20 Plus
Prime Cow	All grades \$0.10 Plus
Bulls	No change
Manuf Cow	All grades \$0.10 Plus

No Cartage Deductions  
...  
pays all cartage



			Meat c/kg
LL	12.0 to 12.9 kg	GR 3 - 15 mm	<b>484</b>
L	13.0 to 14.4 kg	GR 3 - 15 mm	<b>527</b>
M	14.5 to 18.4 kg	GR 3 - 15 mm	<b>595</b>
M2	18.5 to 20.9 kg	GR 3 - 15 mm	<b>589</b>
H	21.0 to 22.9 kg	GR 3 - 15 mm	<b>572</b>
H2	23.0 to 25.0 kg	GR 3 - 15 mm	<b>532</b>
OP	12.0 to 25.0 kg	GR 16 - 21 mm	<b>503</b>
OS	Everything else		<b>503</b>

			Meat c/kg
<b>LR</b>	17.0 to 25.0 kg	GR 4-12 mm	<b>590</b>
<b>LB</b>	16.5 to 16.9 kg	GR 4-12 mm	<b>585</b>
	25.1 to 30.0 kg	GR 4-12 mm	
	16.5 to 30.0 kg	GR 13-15 mm	
<b>LY</b>	< 16.5 kg, > 15 mm, < 4 mm GR		<b>540</b>
<b>LYH</b>	All Lambs Over 30.0 Kg		<b>250</b>

<b>Market</b>	c/kg	0
<b>Exchange</b>	c/kg	3
<b>Procurement</b>	c/kg	2
<b>Pelt Effect</b>	c/kg	0

Plus 5 c/kg  
Plus 5 c/kg

1. Meat price X hot CWT	17	X	\$5.95	\$101.15
2. Wool kg x wool price	1.0	X	\$2.92	\$2.92
3. Add pelt value				\$1.66
4. Add Contact & Completion				\$0.50
5. Deduct nett kill fees & levies				<u>\$13.31</u>
NETT VALUE PER HEAD EX FARM GATE				\$92.92
NETT VALUE PER KILOGRAM EX FARM GATE				\$5.47

		c / Kg				Mutton	
Wgt		\$ / Hd	c / Kg	\$ / Hd	c / Kg	\$ / Hd	c / Kg
12.0	LL	49.35	4.11				
13.0		60.28	4.64				
14.0		65.55	4.68				
15.0		81.02	5.40	72.77	\$4.85		
16.0		86.97	5.44	78.17	\$4.89		
17.0	OP	92.92	5.47	92.07	\$5.42	\$39.28	\$2.31
17.0		77.28	4.55	83.57	\$4.92	\$39.28	\$2.31
18.0		98.87	5.49	97.97	\$5.44	\$41.73	\$2.32
19.0		103.68	5.46	103.87	\$5.47	\$62.23	\$3.28
20.0	OP	109.57	5.48	109.77	\$5.49	\$65.63	\$3.28
20.0		92.37	4.62	99.77	\$4.99	\$46.63	\$2.33
21.0		111.89	5.33	115.67	\$5.51	\$69.03	\$3.29
22.0		117.61	5.35	121.57	\$5.53	\$72.43	\$3.29
23.0	OP	114.13	4.96	127.47	\$5.54	\$75.83	\$3.30
23.0		107.46	4.67	115.97	\$5.04	\$53.98	\$2.35
24.0		119.45	4.98	133.37	\$5.56	\$79.23	\$3.30
25.0		124.77	4.99	139.27	\$5.57	\$82.63	\$3.31
26.0	OP			143.87	\$5.53	\$86.03	\$3.31
26.0				132.17	\$5.08	\$61.33	\$2.36
27.0				149.72	\$5.55	\$92.13	\$3.41
28.0			155.57	\$5.56	\$95.63	\$3.42	
29.0			161.42	\$5.57	\$99.13	\$3.42	
30.1				67.02	\$2.23	\$90.94	\$3.02

<b>Pelt &amp; Wool Price</b>	<b>Woolly</b> (never shorn)	<b>Shorn</b>
Average Pelt Price	\$1.74	\$1.66
plus 1kg wool at	\$2.92 / kg	\$2.92
<b>1.0 Kg Pelt Price</b>	<b>\$4.66</b>	<b>\$4.58</b>

KG/HD	Adj	Value	Adj	Value
	<b>Woolly</b>		<b>Shorn</b>	
0.6	(\$1.17)	\$3.49	(\$1.17)	\$3.41
0.8	(\$0.58)	\$4.08	(\$0.58)	\$4.00
1.0	\$0.00	\$4.66	\$0.00	\$4.58
1.2	\$0.58	\$5.25	\$0.58	\$5.17
1.4	\$1.17	\$5.83	\$1.17	\$5.75

	GR (mm)	Weight	\$/Kg	Change
<b>LS</b>	All	Up to 18.0 Kg	<b>\$2.45</b>	No Change
<b>MS1</b>	3 to 16	18.1 to 26.0 kg	<b>\$3.40</b>	No Change
<b>HS1</b>	3 to 16	26.1 to 30.0 kg	<b>\$3.50</b>	No Change
<b>MS2</b>	17 to 25	18.1 to 26.0 kg	<b>\$3.30</b>	No Change
<b>HS2</b>	17 to 25	26.1 to 30.0 kg	<b>\$3.40</b>	No Change
<b>MH</b>	3 to 25	30.1 kg & over	<b>\$3.10</b>	No Change
<b>FS</b>	over 25	All Weights	<b>\$2.45</b>	No Change
<b>MM</b>	0 to 2	All Weights	<b>\$2.45</b>	No Change
<b>MP</b>	All	All weights	<b>\$2.45</b>	No Change

1. Meat price X hot CWT (kg)	\$3.40	X 22	\$74.80
2. Less MAF Inspection	\$1.92	\$/hd	\$1.92
3. Less Meat NZ Meat Levy	\$0.45	\$/hd	\$0.45

**\$72.43**

\$3.00 per lamb short wool payment. \$1.00 per lamb long wool charge. Short wool between 0.1 - 0.8 kg, front socks must be shorn. Long wool charge 1.1 kg or more. Note: Wool pull 0.9 to 1.0 kg no payment and no charge.

LAMB GRADES		GR	Meat c/kg	Changes
L1	Up to 13.0 kg	3 to 15 mm	550	Plus 15 cents
L2	13.1 kg to 14.0 kg	3 to 15 mm	600	Plus 15 cents
M	14.1 kg to 18.0 kg	3 to 15 mm	645	Plus 10 cents
H1	18.1 kg to 22.0 kg	3 to 15 mm	645	Plus 15 cents
H2	22.1 kg to 26.0 kg	3 to 15 mm	645	Plus 15 cents
OV	26.1 kg and over	3 to 15 mm		Plus \$5 per hd
	Capped at \$160.00			
F	Fat grade minus 75 cents	16 & over	All weights	
C	Cutter grade minus 50 cents	All	All weights	
Example for Fat and Cutter Grades				
17.0 kg cutter will be priced at M less 50 cents				
17.0 kg fat will be priced at M less 75 cents				

**To Calculate Net price Ex Farm Gate**

1. Meat price X Meat c/kg	\$6.45	X	20.0	\$129.00
2. Deduct Kill and Processing Fee	\$10.94		\$/ Hd	\$10.94
3. Less MAF Inspection	\$1.92		\$/ Hd	\$1.92
4. Less Meat New Zealand Meat Levy	\$0.45		\$/ Hd	\$0.45
5. Add Contact & Completion	\$0.50		\$/ Hd	\$0.50
6. Short Wool payment	\$2.50		\$/Hd	\$2.50
7. Committed lamb - weighted average	\$1.72		\$/Hd	\$1.72

**NETT VALUE PER HEAD G/O LAMB** \$120.41 602

**NETT VALUE PER HEAD EURO CHILLED LAMB** \$120.91 605

**NETT VALUE PER HEAD US CHILLED LAMB** \$123.91 620

**Lamb Note:**

Lambs must not have permanent incisors in wear.

All stock must arrive at the stated delivery times.

will continue to accept ram lambs throughout this season.

ALL lambs MUST be accompanied by a correctly filled out ASD (no less than

Version 2). All boxes must be ticked correctly with the antibiotic clause completed

Lambs coming in with an incorrect ASD will NOT be processed until a correct ASD

is on site. Faxed replacements are acceptable.

Net price ex Farm Gate					
Lamb Weight	General Option \$/head	c/kg	Mutton Weight	Mutton \$/head	Mutton c/kg
12.0	57.41	478			
13.0	62.91	484			
14.0	75.41	539			
14.1	82.36	584			
15.0	88.16	588			
16.0	94.61	591			
16.5	97.84	593	16.5	38.06	231
17.0	101.06	594	17.1	39.53	231
17.0 F	88.31	519	17.1 FS	39.53	231
17.0 C	92.56	544	19.1	62.57	328
18.0	107.51	597	19.1 MS2	60.66	318
18.5	110.74	599	19.1 FS	44.43	233
19.0	113.96	600	21.1	69.37	329
20.0	120.41	602	23.1	76.17	330
20.0 F	105.41	527	25.1	82.97	331
20.0 C	110.41	552	26.1	88.98	341
21.0	126.86	604	26.1 HS2	86.37	331
21.0 F	111.11	529	26.1 FS	61.58	236
21.0 C	116.36	554	28.1	95.98	342
22.0	133.31	606	28.1 HS2	93.17	332
23.0	139.76	608	28.1 FS	66.48	237
24.0	146.21	609	30.0	102.63	342
25.0	152.66	611	30.0 HS2	99.63	332
30.0	151.41	505	30.0 FS	71.13	237
30.1	151.41	503	30.1	90.94	302

All committed lambs with a wool pull 0.1 - 0.6 kg receive an additional payment of \$2.50 per head.

MUTTON GRADES		GR	Meat c/kg	Changes
LS	Up to 18.0 kg	3 to 25 mm	245	No change
MS1	18.1 to 26.0 kg	3 to 16 mm	340	No change
MS2	18.1 to 26.0 kg	17 to 25 mm	330	No change
HS1	26.1 to 30.0 kg	3 to 16 mm	350	No change
HS2	26.1 to 30.0 kg	17 to 25 mm	340	No change
MH	30.1 kg & over	3 to 25 mm	310	No change
MM	All weights	0 to 2 mm	245	No change
FS	All weights	Over 25 mm	245	No change
MP	All weights	All	245	No change

**To Calculate Net price Ex Farm Gate - Mutton**

1. Meat price X Meat c/kg	\$3.40	X	22.0	\$74.80
2. Less MAF Inspection	\$1.92		\$/ Hd	\$1.92
3. Less Meat New Zealand Meat Levy	\$0.45		\$/ Hd	\$0.45

**NETT VALUE PER HEAD** \$72.43

**Mutton Note:**

Condemned mutton charged \$5.50 per head

## Saleable Yield Payment

Carcass	18					
	Ex Store Value	Standard Yield	Total Value	Saleable Yield	Total Value	
BRT shoulder	\$ 10.40	9.50%	\$ 17.78	9.80%	\$ 18.35	
Shoulder Rack	\$ 9.95	3.70%	\$ 6.63	3.75%	\$ 6.72	
Whole Neck	\$ 3.30	2.79%	\$ 1.66	2.80%	\$ 1.66	
Brisket	\$ 1.75	2.50%	\$ 0.79	2.20%	\$ 0.69	
Foreshank	\$ 6.00	3.47%	\$ 3.75	3.50%	\$ 3.78	
Frenched Rack	\$ 21.50	5.00%	\$ 19.35	5.20%	\$ 20.12	
Rack Cap	\$ 3.50	2.90%	\$ 1.83	2.85%	\$ 1.80	
1 Rib Saddle	\$ 11.50	7.00%	\$ 14.49	7.20%	\$ 14.90	
ABO Leg	\$ 10.35	25.60%	\$ 47.69	25.80%	\$ 48.07	
Bone In Flap	\$ 4.40	10.50%	\$ 8.32	11.00%	\$ 8.71	
Trim	\$ 4.20	4.00%	\$ 3.02	3.00%	\$ 2.27	
Fat	\$ 2.00	2.00%	\$ 0.72	1.90%	\$ 0.68	
		78.96%	\$ 126.02		\$ 127.75	
			100%		101.4%	
	Gross Schedule	Cc Wt				
Weekly Schedule	5.80	18	\$ 104.40			
Saleable Yield Lamb	5.88	18	\$ 105.83			
	Increase		\$ 1.43	per carcass		

## DEER SCHEDULE

EFFECTIVE FROM: 27/09/2010

			PRICE PER KILOGRAM (GST Exclusive)			
GRADE			*YOUNG STAGS	*YOUNG HINDS	PRIME STAGS	PRIME HINDS
AP	Under 35.0kg	0 - 10 MM	5.40	5.30	5.10	5.00
AP	35.0 - 39.9kg	0 - 10 MM	5.90	5.80	5.40	5.30
AP	40.0 - 44.9kg	0 - 10 MM	6.90	6.80	6.50	6.40
AP	45.0 - 47.9kg	0 - 10 MM	7.90	7.80	7.60	7.50
AP	48.0 - 49.9kg	0 - 10 MM	7.90	7.80	7.60	7.50
AP	50.0 - 54.9kg	0 - 12 MM	7.90	7.80	7.60	7.50
AP	55.0 - 59.9kg	0 - 12 MM	7.90	7.80	7.60	7.50
AP	60.0 - 64.9kg	0 - 12 MM	7.90	7.80	7.60	7.50
AP	65.0 - 69.9kg	0 - 12 MM	7.90	7.80	7.60	7.50
AP	70.0 - 74.9kg	0 - 14 MM	7.90	7.80	7.60	7.50
AP	75.0 - 79.9kg	0 - 14 MM	7.90	7.80	7.40	7.30
AP	80.0 - 84.9kg	0 - 14 MM	7.40	7.30	7.20	7.10
AP	85.0 - 99.9kg	0 - 14 MM	6.50	6.40	6.50	6.40
AP	100.0 & Over	0 - 14 MM	6.00	5.90	6.00	5.90
AT	Under 49.9kg	11 - 14 MM	Trimmers paid at 85% of the Prime Purchase Price for the weight range			
AT	50.0 - 69.9kg	13 - 16 MM				
AT	70.0kg & Over	15 - 18 MM				
AF	Under 49.9kg	15 MM & Over	Overfats paid at 75% of the Prime Purchase Price for the weight range			
AF	50.0 - 69.9kg	17 MM & Over				
AF	70.0kg & Over	19 MM & Over				
AD1	Damaged Fore	All	Paid at 95% of the Prime Purchase Price for the weight range Paid at 70% of the Prime Purchase Price for the weight range Paid at 85% of the Prime Purchase Price for the weight range Paid at 60% of the Prime Purchase Price for the weight range Paid at 70% of the Prime Purchase Price for the weight range			
AD2	Damaged Middle	All				
AD3	Damaged Hind	All				
MD	Multiple Damage	All				
AS	Non Prime	All				
M	Manufacturing	All	Manufacturing paid at \$3.00/kg for all weights and grades Local Carcasses paid at \$4.00/kg for all weights and grades			
TBR	TBR Local	All				

### Notes

#### \* YOUNG - 2 YEARS AND UNDER AS AT 31ST DECEMBER

Prices stated are net per kilogram hot weight subject to MAF Inspection charges (\$12.00), DINZ Levy (\$0.07cpg) and Animal Health Levy (\$0.052cpg), Johnes Levy (\$1.00).

MAF Condemned charge of \$50 per head (\$30 per head if Condemned or Dead in Yards - DIY)

Owners Account charge of \$50 per head

Carcasses with yellow colouring, deficient muscling and dark meat will grade M

Young: No change

Prime: No change

Comment: Chilled markets and pricing stable

# New concept a winner at Merino show

by  
Rob  
Tipa



**T**HE concept of selling top South Island high country Merino rams at the annual Upper Clutha A&P Show in Wanaka last week proved a winner for the organisers, ram breeders and sellers alike, and attracted a big crowd as well.

Central Otago Merino Stud Breeders' Association chairman Jim Hore said rams had previously been sold separately at Cromwell and at Edgewater in Wanaka.

Mr Hore said most Central Otago Merino breeders attended the Wanaka show, so it was a logical step to combine the two events.

Wanaka was traditionally the

second biggest Merino show in the country and this year attracted entries from Marlborough, Tekapo, the Maniototo and Upper Clutha valley.

Robbie Gibson, of Morven Downs near Tarras, said the association tried the new concept to encourage ram breeders offering rams for sale to enter the show to boost entries, which had happened.

Ron and Sue Small's Blairrich property in the Awatere Valley entered the superline champion ram, which was later offered for sale after judging.

A large crowd created a great atmosphere and a strong bench of buyers ensured a full clearance of stock, according to PGG Wrightsons auctioneer and livestock manager John Duffy.

Prices for the 15 rams offered ranged from \$1050 to \$3600, with a reserve of \$1000 and an average of \$1970.



One of two rams that fetched the joint top price of \$3600 at the Upper Clutha A&P Show in Wanaka last week. From left are buyers John Perriam of Bendigo Station, and Willie Cook of Lochar Downs, with successful sellers Gordon Lucas and Jayne Rive of Nine Mile Estate in the Lindis Valley.

Joint top price of \$3600 went to the Jopp Family, of Moutere Station near Omakau, who sold a ram to Closeburn Station, and Gordon Lucas, of Nine Mile in the Lindis Valley, who sold a ram jointly to the Cook Family of Lochar Downs and John Perriam, of Bendigo Station.

Mr Lucas admitted to a few nerves before the auction as Nine Mile had only been registered as a stud in the last year and it was its first sale of breeding rams.

"It's taken 10 years to breed a dual purpose type of polled Merino with a carcass and meat value," Mr Lucas said.

"It's got to be a dual purpose sheep these days," he said. "Naturally, one fights against the other, the carcass against the wool. To retain the micron and

the wool cut and increase the meat value is a real challenge."

"A lot of our genetics are from Australia," Mr Lucas said. "We're importing semen from four different Australian sires and have some interesting rams on the ground now."

Nine Mile stud master Jayne Rive was delighted with the joint top price of the day "because you don't know what people are looking for in the market".

"We're working on putting soft, fine wool on a carcass, so our big focus is getting meat characteristics into a superline Merino sheep," she said.

The stud collects data on a lot of different traits that it sends to

Australia for comparison against a genetic pool of three million Merinos.

"We use Australian estimated breeding values to help us make our selections, which gives us a better comparison of where we're at against the top Merinos in Australasia," she said.

Combining the Merino ram sale with the annual Wanaka A and P show was a brilliant concept, she said.

"Most Merino growers come to the Wanaka show," she said. "It suits everyone's calendar. The crowd's here. It's brilliant."

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PGG Wrightson's auctioneer John Duffy (second from left) had a big crowd and plenty of atmosphere to work with at the Central Otago Merino Stud Breeders' annual ram sale, held for the first time in conjunction with the Wanaka A and P show.



Alextair Campbell of Earnscliffe Station near Clyde, takes a closer look at the fleece of one of 15 stud Merino rams before the auction.

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## How y'all goin'?

**Putaruru brothers Stuart and Andrew Ranger and wives Deborah and Megan recently returned from a whirlwind tour of the USA introducing New Zealand lamb to discerning consumers in the state of Texas.**

The Ranger families farm at Waotu, 11 kilometres south west of Putaruru, and supply approximately two and a half thousand lambs annually to Lean Meats.

Stuart explains that the trip to the US was made possible thanks to a couple of "very good mates" who agreed to feed-out for the two weeks the couples were away.

The Kiwi contingent flew into San Francisco, visited the Atkins Ranch cutting plant, and then it was on to Dallas.

They spent eight days doing cooking demonstrations in Whole Foods – an up-market chain of supermarkets, attracting a base of predominantly health conscious shoppers.

Deborah says it was astonishing to discover around 80% of the shoppers had never tasted New Zealand lamb.

"Anyone who had experienced lamb thought it was a very gamey flavoured meat - and they certainly didn't know how to cook it."

Attitudes quickly changed when the consumers tasted the New Zealand product – cooked medium rare with very little seasoning.

"They absolutely loved it!" Stuart says.

"After they tasted the lamb the reaction was surprise and they immediately wanted to know where they could purchase it."

The group even managed to convince a vegetarian to taste lamb.

"One woman hadn't eaten meat for 14 years and was tempted to taste some by the smell of it cooking and was amazed at how delicious it was!"

Stuart says it's vital that American butchers also receive more inspiration about how to prepare lamb.

"We were cooking boned out racks because they were easy to cook quickly, however, most of the butchers wouldn't have offered to bone the racks for shoppers because they just don't know enough about the product."

Another big advantage for New Zealand lamb is the grass-fed angle, which Stuart says must now be widely advertised to the American consumer.

"Americans see grass-fed as the next best thing to organic and it could be a really important selling tool for us – but the majority of shoppers didn't know how New Zealand lamb was farmed."

"I thoroughly enjoyed being able to talk to people about the way we farm lamb in New Zealand – they were so surprised it was all grass-fed."

The two couples had just three days off during their two-week trip, with Andrew also visiting Little Rock, Arkansas for cooking demo's and Stuart flying to Tulsa, Oklahoma.

While it certainly wasn't a holiday, they admit it was a great experience and a rare chance to travel and "talk New Zealand lamb" to the Texans.

"Most farmers put their lambs on the truck and can only guess what happens from there, so to see the entire process right through to chatting with the final consumer was so worthwhile," Deborah says.



Deborah, Stuart, Megan and Andrew



## News

# FarmIQ message gets big Waimate welcome

Around 40 farmers turned out in South Canterbury last week to learn what FarmIQ is all about and how it will improve their lamb returns. **Annette Scott** was there in Waimate to report.

If you always do what you have always done, you will always get what you have always got – that was the clear message to farmers last week who learned that change will bring them greater rewards.

The recently launched FarmIQ Systems Ltd has been doing a series of roadshows up and down the country to explain what FarmIQ is all about and how it will assist farmers to improve their returns.

Silver Fern Farms, PGG Wrightson, Landcorp Farming, and the government through the Primary Growth Partnership (PGP) initiative, are investing \$151 million over seven years in the red meat industry to create a demand driven integrated value chain for the red meat sector that will deliver the transformational change the industry urgently needs.

The seven year programme aims to turn the red meat industry's production-led approach into one that is market-led and focused on consumer needs.

"It is a case of if you don't know what you want you have little chance of achieving it," a passionate FarmIQ advocate Doug Avery told the farmers.

The Marlborough sheep and beef farmer stressed change was in farmers' hands.

"The sweetest fruits are on the outside branches, there is little opportunity hugging the trunk of the tree.

"When the going gets tough, dig in and meet the challenge.

"Nothing but nothing grows success like success itself," Avery told the farmers as he urged them to get behind FarmIQ.

Fourth generation Waipukurau sheep and beef farmer Sam Morrah told the farmers it was a case of committing to a processor and



letting them find a market.

The Marks and Spencer future of farming award winner told his story of new direction and how genetics and breeding policy had virtually increased his bottom line \$30,000 overnight.

His programme of supply to Marks and Spencer allowed the partnership to solve problems together and gave him a say in what he needed to keep producing at the end of the day.

He challenged farmers to gain a clear understanding of their land use capability and make the most of what they have got to strive for increased production in a sustainable manner, and to understand and adopt the consumer demands.

"Take the leap of faith, have confidence in someone finding you a market and we can become more competitive in our pricing. We (farmers) must be the ones to change.

## a glance:

The "Plate to Pasture" programme will, through the delivery of seven distinct but interlinked projects, develop and integrate technologies and infrastructure. The aim is to properly connect the market with the farmer at a scale and accuracy that will lead to sustainable improvements for all participants.

The seven FarmIQ projects are marketing, animal database, animal genetics, processing phenotype collection, processing improvements, n-farm technology transfer, and farm productive capacity.

"I urge you not to waste your breath in knocking what these guys (Farm IQ) are advocating," Morrah told the meeting.

"Be open and willing to change. Change is on the plate. Step up to the plate and support the initiatives and financial incentives being offered. The status quo is not working – we all know that."

Grant Howie of Silver Fern Farms told farmers there were more opportunities now than there has ever been for the red meat industry.

"We believe that establishing strong and lasting relationships with our farmers will enable us to deliver the quality and value we're passionate about.

"But it's not just the end product we're concerned with. Quality breeds, feed systems, living conditions and best possible value for farmers are just as important," Howie stressed to farmers.



Trevor Nicol

"The message is very good and very clear. We have got to adopt change to go forward. The old system is not working. This is a whole new strategy and what the industry needs, however I think it does need all meat companies on board. Yes, I will be giving it a go."



Tom Hurst

"I came as a sceptic but I am leaving positive. If it works out it gives us a lot of opportunity to improve profitability. It does need pan industry approach though to achieve full benefit. Yes, we will consider it."



Peter Evens

"I came with an open mind. This is a lot of positive stuff. FarmIQ is on the right track, we need to go with the technologies. I will go home and register for the programme. I am quite keen to get some lambs tagged and try the system."



Heather Gray

"We are keen to look at new ideas. We came from Southland up to South Canterbury two years ago and that was a challenge, this is another challenge. Something has to be done to improve the industry and I see this as proactive and worth good thought."



Ian Davis

"This is one of the most motivating meetings I have been too in a long time. I am feeling very positive. Following this line that we have been told today gives some hope for the industry. Yes, I will be registering. It needs farmers to get behind and support it now for it to gather momentum."



Mark Giles

"We have got to do something. This may not be the exact right answer but it's a start in the right direction. Someone has to make a positive move. Yes, I will probably do some (lambs) in the programme – at least make a start this season."

## Meat sector strategy submissions close 18 October

Deloitte is working on behalf of Beef + Lamb New Zealand, the Meat Industry Association, the Ministry of Agriculture and Forestry, and New Zealand Trade and Enterprise to develop the meat sector strategy.

We want to hear your views on production information, market behaviour and the perceived strengths and weaknesses of the sector.

Make your confidential online submission by following the link at [www.beeflambnz.com](http://www.beeflambnz.com)



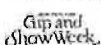
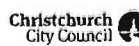
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# Alliance: Plate to Pasture not new

Alliance Group Ltd says it will look with an open mind at any invitation to join the "Plate to Pasture" red meat consortium, but says it has been doing most of the planned work on its own accord since 1997. **Alan Williams** reports.



Alliance chairman Owen Poole takes issue with talk that the meat processing industry lacks any vision or strategy, saying that Alliance had clearly produced them both in its Securing the Future publication, and had developed it successfully since then. "We think we're well advanced on this."

Marketing, and particularly the needs of the overseas customer, was at the centre of the company's philosophy, as it is for the Plate to Pasture programme due to be partly financed by the government Primary Growth Partnership (PGP) over the next seven years. The three partners, Silver Fern Farms, Landcorp and PGG Wrightson, will put in \$92m of the total \$152m funding, but want to bring in other partners.

At a meeting of shareholder suppliers in Christchurch, chief executive Grant Cuff screened a chart (right) of the company's operating model, with policy, targets, and actions all working out from the word CUSTOMER in the centre.

Poole said later that this guide would be the most comprehensive integrated model in the meat industry.

One issue for Alliance is that one of the three partners in Plate to Pasture is state-owned Landcorp, the country's biggest farmer and an important supplier to the Alliance

Alliance Model - based on strategy



processing chain. Responding to a shareholder question, Cuff said Alliance processed about half of Landcorp's sheep, but said he didn't know what the number would be in the future.

With major competitor Silver Fern the lead partner in the planned consortium company FarmIQ Systems, there could be a prospect of it garnering the Landcorp stock if Alliance stayed outside the partnership.

Landcorp's animal genetics would be a significant part of the consortium's work.

Poole said Alliance had included

genetics in its own programme. The only part of the planned Plate to Pasture system that it had not worked at was management beyond the farm gate.

He said the success of the strategy developed in 1997 had been borne out over the last five years, during which Alliance had made after tax profits of more than \$80 million, distributed \$86m back to shareholders and invested \$130m into the business.

Alliance did not have "too much information" on the PGP programme, but it would be positive if properly directed, Poole said.

## Sheep milk examined as additional earner

**Alan Williams**  
alan.williams@nzfx.com

Milk production from sheep is being investigated by Alliance Group Ltd as a way of achieving new income streams for farmers.

The concept would not suit all farmers, with three lambing cycles probably required every two years and milk and lambing flocks being run separately, but the results of work done so far were encouraging, said chairman Owen Poole.

Alliance has been looking closely at sheep milking operations in Southland, said chief executive Grant Cuff after a shareholders meeting in Christchurch on Tuesday. No details were about for numbers and timeframes of any development.

"They are impressive operations, on a scale bigger than before, but a bigger step-up would be needed if it can be developed further."

He said sheep milk was full of vitamins and nutrients and fetched high prices in world markets where it was sold.

At the meeting he and Poole gave an optimistic view for the next lamb processing season and said the meat industry was far from broken, as suggested by some recent comment.

Poole reminded about 200 supplier shareholders that this season's lamb and sheep returns for farmers had been the second best on record after the 2009 year. No shareholder got up to complain about returns and they seemed generally relaxed about their situation.

They were told that Alliance was profitable, with a very strong balance sheet and cash flows for the year ending September 30, and that they would receive pool payments and an end of year dividend, with the levels to be decided on at the October board meeting.

Cuff said market indications for next season were that farmers would receive an extra \$4 to \$5 per lamb, despite an average 15% rise in the NZ dollar against the main export currencies, the US dollar, sterling and euro. On top of this,

they could expect another \$2 to \$5 on the company's quality yield contracts.

The market outlook for the short to medium term was positive, with lower world supply in the face of steady demand in established markets and new demand in emerging markets. Indications were for a 300,000 tonne shortage of supply over the next five years.

All Alliance's lamb supply was spoken for, and this year it had sourced carcasses from Uruguay to meet demand for a long standing European customer.

Alliance also sees gains of \$10 to \$12 a head for sheep returns in the coming season, and \$20 to \$30 for cattle. The sharper rise of the dollar against euro is negative for venison returns, with a fall of \$10 to \$15 for deer.

Beef prices have not made the same gains as lamb in the last decade, so its rise is off a low base, and some farmers have switched to lamb. Cuff said that beef prices, after inflation, were effectively the same as 10 years ago.

With just 6% of the world trade, NZ supply was swamped by volumes of United States, South American, and Australian beef. NZ's pasture-fed beef also battles to compete against grain-fed beef's high customer acceptance in world markets.

While lamb prices have improved, Poole said farmer incomes needed to improve, and Alliance was seeking new income streams for them. Wool was one of these areas and was of special interest for the company. As the biggest sheep meat processor, Alliance was also one of the biggest wool exporters.

He said farmers also had the power to improve returns by working for aggregation in the processing industry, rather than "gaming" their lamb supply between companies, as many do now.

If farmers increased volumes to one farmer-owned co-operative by 30%, this would have the similar aggregate effect of a mid-size industry merger, but would not carry the same risks.



Owen Poole: Optimistic about next lamb season.

## Bank stays course on rural market

**Richard Rennie**  
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Despite internal restructuring and job realignment, the country's third largest rural lender is maintaining a "business as usual" profile in its farm market.

ASB's rural agribusiness manager Craig McBeth acknowledged the bank had undergone some changes within its management of provincial rural loan offices, but was not prepared to discuss exactly what those changes have involved.

The New Zealand Farmers Weekly understands the bank has consolidated loans from its commercial and rural sectors under one management arm in the provinces, whereas previously the two different loan types were managed by differing personnel.

"We have as many people on the ground now as we have always had. If

anything we are looking to get more into the market than where we have been for the last couple of years," he said.

McBeth said the ASB had not been alone in weathering a period that had been tough on customer-banker relations, but believed overall relationships had remained intact, largely through better communications between bankers and their farmer clients.

After a period of aggressive movement into the rural sector the last two years had seen the bank take a "wait and see" approach over how the global financial crisis played out.

McBeth has never made any secret about the fact that ASB was concerned over where bank funding would be sourced from and had held back from new loans until it was certain it could continue to provide capital lending to its existing clients.

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Appendix 11