

**Nic Lees**

## The potential for red meat value chains

*The New Zealand government has an ambitious aim by 2025 to raise total exports to 40 per cent of gross domestic product and double the value of primary exports. They have stated that this will involve developing stronger relationships with New Zealand exporters and supporting them to add value from existing markets by supply chain integration, brand promotion and protection. New Zealand red meat exports play an important role in this as they represent 11 per cent of total exports.*

There is limited scope for increasing the volume of red meat production in New Zealand due to land and environmental constraints, which means that adding value to these exports is the only alternative. A significant proportion of this country's red meat is still exported as a commodity and fails to achieve a premium for the attributes of its New Zealand origin. Changing this will require a coordinated effort from government, exporters and producers.

Market access and promotion of the New Zealand brand story can create opportunities for exporters, but capitalising on these initiatives requires companies to develop capability and a strategy to market and deliver

these products to demanding international consumers. These consumers are demanding greater variety and quality in the food they eat. They need a consistent year-round supply of high quality safe food. They also want food which aligns with their own personal values, including attributes such as environmental sustainability, animal welfare and fair trade, as well as local and organic production.

To provide this it is necessary to have farmer suppliers who can produce the right quality of product when the market requires and who are committed to long-term supply relationships. Without this type of integrated value chain this country will fail to break out





**Producing the right quality for the market**

of its reliance on agricultural commodities. Research has focused on several New Zealand exporters and their suppliers who have developed relationships with high-end retail customers and have a strategy in place to add value to their products. Consistently meeting consumer demand is difficult within the constraints of New Zealand's pasture-based agricultural production systems, as volume and specifications are dependent on the climate.

### Overcoming constraints

It is also difficult when the relationships between suppliers and their processing and marketing companies are dominated by short-term spot market relationships. Research therefore needs to focus on how to help more New Zealand firms and their suppliers to overcome these constraints and participate in integrated value chains.

This research project involved semi-structured interviews with suppliers from three New Zealand agri-food exporting companies between May 2012 and October 2013. The companies selected all have a focused differentiation strategy. The products exported included beef, lamb and venison and their main markets were in the European Union, North America, Asia and the Middle East. The suppliers were required to meet high product specifications in terms of timing of delivery, food safety,

traceability, environmental sustainability, animal welfare and product quality.

The producers were asked what they valued in their supply relationships and the benefits they had received. They were also questioned about the disadvantages of belonging to the supply relationship. The research aimed to identify –

- The characteristics of long-term successful supplier, processor and retailer partnerships in agri-food supply
- The characteristics of the participants and how long-term partnerships created value from cooperation
- What allowed long-term cooperation to occur as opposed to short-term opportunistic behaviour.

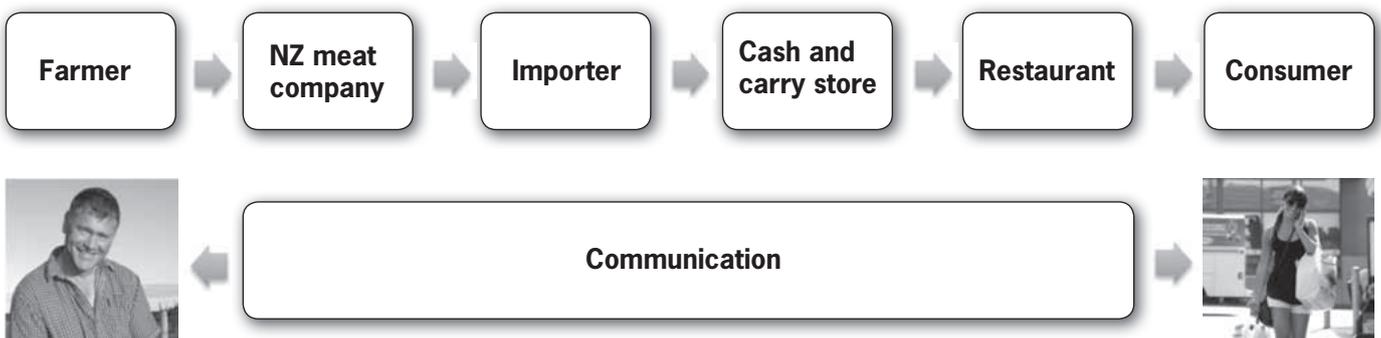
An important characteristic of these supply chains was the significant amount of trust between all the participants, from the farmers through to the retail customers. Related to this was a high level of openness and transparency which allowed customer requirements to be communicated along the supply chain to producers. The product attributes were communicated down the supply chain to consumers.

This meant a better match of supply and demand as farmers could adapt the timing of their supply and product specifications to consumer demand. Conversely, the New Zealand story and product attributes, such as animal welfare, food safety and environmental sustainability could also be communicated to consumers.

### Exporter characteristics

The New Zealand exporters established trust partnerships by investing in human resources to develop these relationships. These companies all had marketing staff who worked with customers to understand their requirements and communicated this to their producers. They also had staff who worked closely with suppliers to help them understand the market requirements and supported them in adapting their production systems to meet these customers' needs. These integrated value chains need high quality relationships for the customer and supplier.

Another characteristic of these companies was that they were often more recently established and tended to be smaller than some other exporters. Larger companies tended to rely on scale as a competitive advantage and therefore found it difficult to customise their products to



**Long-term relationships with high levels of trust allow information to flow both ways**



**Spot market transactions**

meet specific market requirements. Selling large quantities meant they often needed to sacrifice value for volume. They also have sales and distribution relationships which encouraged volume rather than value.

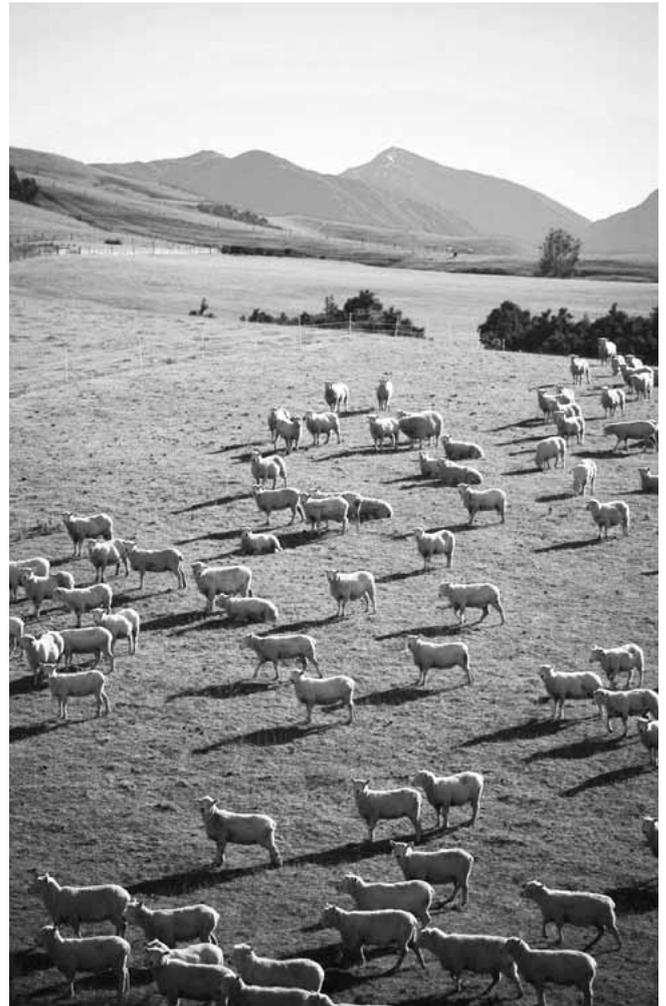
Smaller companies were able to exploit narrower market niches and were more adaptable to customers' requirements. They could not compete on scale so needed to focus on value creation to be profitable. Newer companies have often adopted innovative strategies and have less cultural baggage, allowing them to take advantage of emerging opportunities. However, their lack of scale can be a significant disadvantage as they have few resources to invest in marketing programmes and research and development.

### Supplier characteristics

The suppliers identified in this research looked for added-value supply chains as they recognised that they created greater value from their existing farm resources. These suppliers had specific human resources in terms of high levels of farm management capability and quality physical farm resources. This meant they had a greater ability to produce higher-specification products which had less flexible requirements.

This was evident when interviewing less committed suppliers, as the most common problem they mentioned was the reduced flexibility in delivery timing and quality that these supply chains required. This was most significant for suppliers who had farms where summer rainfall was unreliable and soils had little water storage without irrigation.

Combined with these resources was a high level of motivation and ability to innovate. They described themselves as progressive farmers, and had a strong desire to develop and grow their farm business. This did not always mean physical expansion, but was often about positioning their business to adapt to future changes. As a result, they were hungry for information and



**High quality farm resources**

knowledge which would allow them to improve their farm performance. They had a long-term perspective and wanted to ensure their business was able to adapt to future challenges and changes in the industry.

They were also motivated by setting both short and long-term aims. The suppliers obtained a great deal of satisfaction from achieving them and improving performance. They also had a strong focus on producing high-quality products and also got satisfaction from this. Many expressed that they were committed to producing high-quality products and would do this regardless of the premium received.

The suppliers had good relationship skills, which allowed them to work cooperatively with other suppliers and the companies they supplied. They were committed to working with other suppliers and other parts of the supply chain. They had learned the benefits of working together to create value. They were also customer and market-focused. Knowing who the customer was gave them a sense of satisfaction and also the assurance that they were adapting their farm system to customer demand, reducing their perceived risk. Customer connection provided them with the personal satisfaction of knowing their efforts to produce a high-quality product were appreciated and valued.



## Conclusions and discussion

The research showed that it is possible for New Zealand to develop differentiated value chains with committed long-term relationships. However, this requires a specific set of resources and capabilities not common in the red meat sector. There is currently significantly more investment in staff resources at the procurement end of the supply chain than offshore in marketing and customer relationships.

New Zealand's geographic distance from European markets and cultural distance from Asian markets creates barriers for exporting firms in getting close to customers and building long-term relationships. It has been difficult for agri-food exporters to access support and funding for market research, market testing, market development or sales promotion activities. The Ministry for Primary Industries' Primary Growth Partnership has taken on some market development responsibility, but there is a need for a coordinated government agency method which looks at the whole value chain and the constraints to increasing the value of our existing commodity exports.

The New Zealand red meat industry needs a diversity of strategies for suppliers and exporters. However, the current industry model is heavily weighted towards commodity supply chains. There is therefore a need to specifically support those companies and their suppliers as they are developing higher-value strategies. There are significant barriers for companies attempting to build long-term relationships and higher value differentiated supply chains.

There is a role for government to help these businesses, as there are significant spill-over benefits to the industry and New Zealand economy. It is often smaller innovative companies who have value-added strategies. The government can help overcome their lack of resources and scale by co-funding research and development investments and market development programmes. They can also provide expertise and training to these companies in specific areas where they lack knowledge and resources. Encouraging networking and collaboration between like-minded businesses can also help maximise the resources of these companies.

The government should support diversity in the structure of export industries to encourage innovation and entrepreneurship. The New Zealand red meat industry needs a balance between larger companies with scale and resources, and smaller businesses which are more

adaptable and able to exploit smaller high value market niches. Individual producers and exporters will choose different models within the continuum between spot markets and integrated supply chains. This will be based on their perception of the way they can maximise the value of their existing resources and capabilities.

## Recommendations

Companies should be encouraged to see their suppliers as partners and move beyond procurement relationships to supply management and technical support roles. Helping processing companies understand supplier needs and how to improve supplier relationships is just as important as helping suppliers' understanding and meeting customer needs.

The government should support the programmes which improve farmer management capability, as this will improve the performance of these supply chains and provide a greater pool of suppliers capable of supplying these more demanding specifications. A good example of this is the Red Meat Profit Partnership. New Zealand farm management research has traditionally focused on maximising farm efficiency and reducing costs rather than improving the quality of the product to meet specific customer requirements. More research should be focused on producing animals to particular market specifications within the constraints of our pasture-based production systems.

The government can encourage motivation by supporting and promoting companies and farmers who are successfully getting high value products to discerning international customers. Many farmers have little awareness of customer demands or opportunities in the market, therefore promoting knowledge and awareness of market needs and supply chain opportunities is important.

The capability can be developed by providing resources to improve the physical resources of farms by investment in irrigation systems, improved pasture species and alternative forage crops. Providing investment in research and development, along with developing farmer knowledge specifically targeted at the specifications of these value chains, will allow more farmers to be able to commit to supplying these high value customers.

*Nic Lees is a Senior Lecturer in Agribusiness Management and Director of the Agribusiness and Food Marketing programme at Lincoln University.*