



A Market Lead Strategy

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Leadership Programme**

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Introduction

Throughout the long history of the New Zealand sheep meat industry, farmers have been encouraged to focus their attention on maximising the production potential of their operations. This has arguably resulted in the establishment of a largely production driven processing industry.

In the case of the two farmer owned co-operatives, the focus by farmer shareholders has been on having sufficient capacity to provide a timely and cost effective service at peak periods, with little or no regard for the consumer.

Change driven primarily by the globalisation of markets, rapid advances in technology, and the demand for greater accountability from end consumers, is thrusting farmers into a highly competitive global environment. Increasingly, successful primary producers that want to realise the full potential of their operations will need to consider the role that marketing can play in their business operations, rather than solely relying on production efficiency (Dunn 1999).

Production efficiency tends to lead a producer to competition based on maintaining cost leadership. While an increased focus on marketing often leads to competitive product differentiation (Porter 1980 1985). Of these two strategies, a common view is that competition based on differentiation is more sustainable and preferable in the long term, to competition based on cost leadership (Barney 1996).

Problem

While the New Zealand sheep meat industry has been able to maintain relative profitability through continued production improvements and a reduction of costs, the increasing level of competition from cheaper sources of protein makes it difficult to see a sustainable future based on a production focussed model.

As agricultural markets continue to become more competitive, progressive New Zealand primary producers will need to turn their attention away from production focussed operating models and competition based on cost leadership, in favour of greater differentiation and attention to the role of marketing.

Objective

Explore the potential to move the farmer owned co-operatives from a production based model to a competition based model through:

1. The establishment of a separate marketing company that's sole focus is consumer driven.
2. The development of a brand that encapsulates the values of our product and resonates with our target market.

Literature Review

Marketing basics

“The process by which a firm profitably meets the needs of an identified consumer or consumer group better than its competitors” (Dunne 1999). This encompasses a set of activities that includes:

- The identification of markets and market segments in which the firm wishes to compete.
- The precise determination of consumers’ needs in those markets.
- The choice of the right combination of product, price, promotion, and distribution channel (the marketing mix) that will competitively meet the needs of consumers in the chosen market segment.

The implementation, monitoring, and if necessary, the modification of the marketing mix in response to consumer and competitor behaviour.

Marketing Strategies

The manner in which a company markets its products is intricately and inextricably linked to its strategic direction.

Strategic theory based on the work of Porter (1980, 1985) teaches that companies can compete and derive competitive advantage from one of two broad generic strategies: cost leadership, or product differentiation. Cost leadership is often associated with the production of commodity type products, and based on a specific set of resources. Conversely, product differentiation involves a unique product or set of attributes that can ideally be protected from duplication (Barney 1996).

Competitive advantage is the basis of effective marketing strategy. Firms use competitive advantage as a starting point for marketing activities, and then strengthen and secure their advantage through marketing activities. For competitive advantage based on differentiation, this will require significant investment in advanced marketing activities while for cost leadership, it is likely that less advanced marketing activities will be required (Capon and Hulbert 2001).

Market Orientation

Marketing is often viewed as a business function but Drucker argues that marketing is not merely a function of a business, but a total philosophical orientation.

“To know what a business is, we have to start with its purpose, there is only one valid definition of business purpose: to create a customer. Marketing is so basic that it cannot be considered a separate function within the business it is central to the entire business. It is the whole business seen from the customer’s point of view. Concern and responsibility for marketing must therefore, permeate all areas of the enterprise (P.Drucker 1973).”

Thus, it is held that assuming a marketing orientation, rather than a production orientation is a superior strategic direction. Marketing orientation can be seen by management ensuring that business activity is demand led and not production driven (Haines 1999).

Characteristics of Production orientated versus Market orientated

Production Orientated

- Marketing means disposing of what has been produced.
- Management focus in on production.
- Products are produced to satisfy own standards regardless of customer requirements.
- Market research and planning non-existent.
- Price tends to be cost based, with value and competitive considerations largely ignored.
- Cost reduction efforts dominate and may sacrifice product quality and customer service.
- Instead of adapting to customer needs other buyers are sort for the same products.

Market Orientated

- Focus on market place, customers, competitors and distribution.
- Monitoring the market is a routine part of business.
- Change is recognised as inevitable and manageable.
- Management is committed to strategic business and marketing planning and creative production planning.
- The emphasis is on profit not just volume, with profit and growth kept in balance.

(Haines 1999)

Market Analysis/Environmental Scanning:

Environmental scanning is the process by which a firm observes, analyses, and takes into account the happenings and changes in its operating environment. This includes the actions of competitors, changes in customers, shifts in major economic parameters etc. Ideally following analysis any necessary changes are made to its operations and marketing functions. Capon & Hulbert 2001 describe environmental scanning as a major responsibility of marketers and a key aspect of identifying new opportunities. Haines 1999 suggests successful businesses are those that are able to effectively scan their environment for change and make operational adjustments. He also says good environmental scanning is likely to help a firm reduce uncertainty and deal with change as well as capitalise on unexpected opportunities.

To fully appreciate the role of environmental scanning and analysis in marketing, it is important to define and understand what is meant by the term operating environment. Miller 1998 divides a companies' operating environment into two broad areas, general and competitive. Miller states that the general environment consists of six components:

- Demographics
- Socio cultural trends
- Political/Legal
- Macro economics
- Technology
- Globalisation

In Miller's view the competitive environment is best summed up by Porter's five forces model (1980) which divides the competitive environment into five areas or threats:

- New Entrants
- Buyers
- Suppliers
- Substitutes
- Rivalry

Regardless of the specific technique used in identifying a companies' operating environment, the task of environmental scanning is the same, to detect and analyse changes and events that may impact on the business (Miller 1998). Capon and Hulbert 2001 suggest that environmental scanning and understanding is an important aspect of marketing and firm survivability, and that new ideas and opportunities as well as hazards can be identified through this process.

Defining and watching for changes in the competition is a particularly important part of environmental scanning. Levitt (1960) warns companies often suffer from marketing and competition myopia, and fail to accurately recognise their competition. The key to dealing with competition is to accurately define and understand what industry a company competes in. Hollensen 2003 offers five levels of competition in an industry:

- Brand competition
- Product type competition
- Product class competition
- Core benefit competition
- Budget competition

According to Hollensen, companies need to not only recognise their competition but also investigate it, if they want to remain competitive.

Value Chains

Depending on the product and situation a supply chain can be long and complex or short and straight forward. Traditionally, product movement down agricultural supply chains has been characterised by anonymous, and often adversarial, transactions with little information flow. However changes to the business environment has lead to the development of more supply chain management and co-ordinated value chains (Dunn 2002).

Supply chain management is a process that allows vertical integration ultimately increasing market orientation and improving total economic returns to all members.

Traditional vs. Value chain Relationships

(Bouma 2000 in Hobbs, Cooney, and Fulton 2000)

	Traditional	Value Chain
Information Sharing	Little or none	Extensive
Primary Focus	Cost/price	Value/quality
Orientation	Commodity	Differentiated Product
Power Relationship	Supply push	Demand pull
Organisational Structure	Independence	Interdependence
Philosophy	Self optimisation	Chain optimisation

Relationships are key' in the maintenance and development of value chains .To this end, the concept of relationship marketing has become integrally linked to value chain management.

Morris, Brunyee and Page (1998) define relationship marketing as “A strategic orientation by both buyer and seller organisations which represents a commitment to long-term mutual beneficial collaboration.”

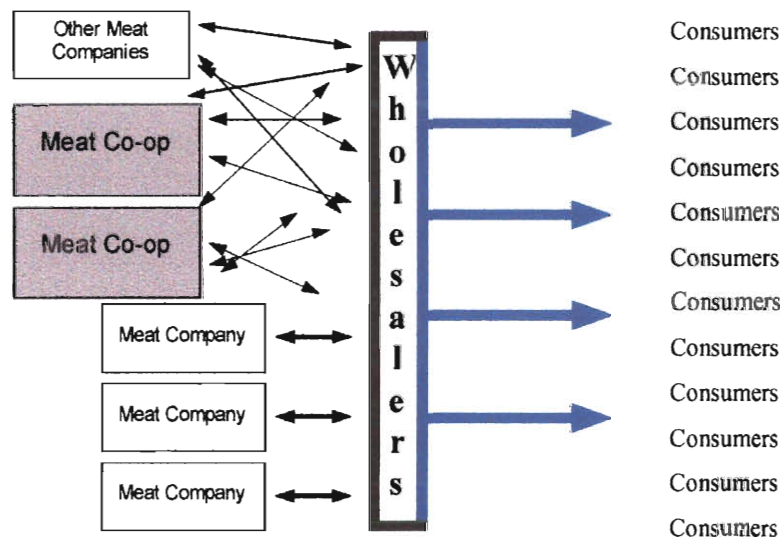
Commitment and trust encourages companies to resist short-term actions in favour of long term commitments, to work co-operatively to preserve their mutual investments and engage in potentially high risk actions in the absence of opportunistic behaviour by their partners.

Current Industry Situation

The two farmer co-operatives are the major players in the New Zealand lamb trade with around 60% market share and around 40% of the world cross border trade. The rest of the industry is made up of two large commercial companies and a number of smaller niche players.

The co-operatives are largely structured to process large volumes of stock at peak times, thus providing a service to share holder suppliers, with their predominant focus on obtaining processing efficiency to achieve profits. This is becoming increasingly difficult in an industry with over capacity and uncommitted supply (see empty core market prevails). Generally this leads to destructive behaviour, characterised by capital being wasted in the procurement of stock to maintain plant efficiencies, and a lack of capital being available for market development. As well as capital being driven into the wrong areas, with an uncommitted supply base there is little control over quality, specifications and timing of product entering the market. This was graphically demonstrated last spring, when in an effort to obtain early season production through procurement premiums, the European market was flooded causing significant downward pressure on prices.

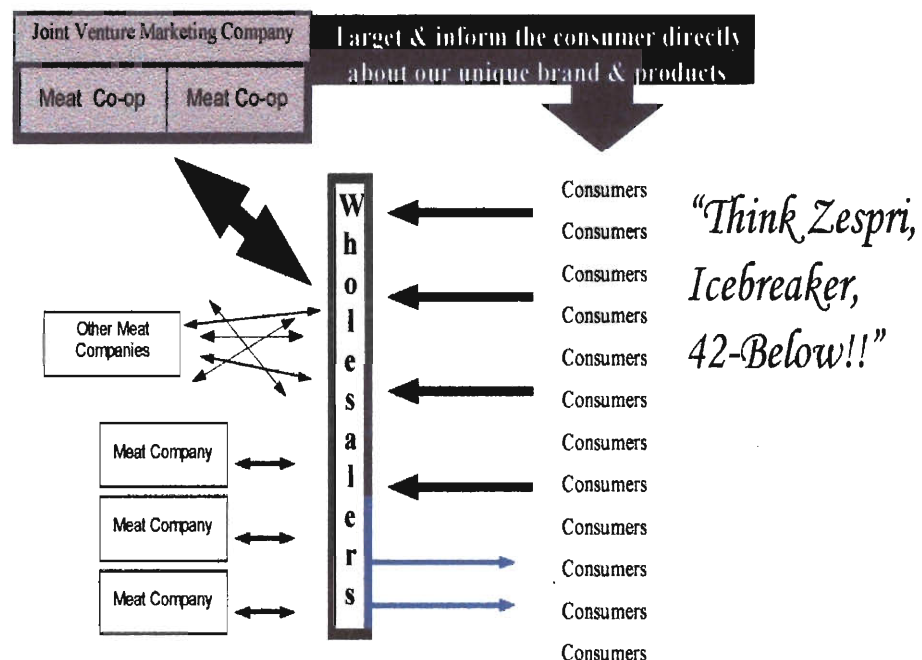
Current Marketing of NZ Lamb



Shows heavy reliance on NZ Meat & Wool for generic promotion of Lamb. Wholesalers/ Supermarkets dictate what NZ Lamb goes onto their shelves

The diagram, Current Marketing of New Zealand Lamb (page 10) illustrates how the two co-operatives function in the market at present, with wholesalers effectively acting as a barrier between consumers and producers. This model displays all the characteristics of a traditional product chain relationship, with a supply push mentality, a commodity product and profits being achieved on production efficiencies and cost savings. There is little or no information flow from the consumer back to the producer, due to the wholesaler being the only interface with the consumer.

Idea of how our co-op's could work together



Under this model we communicate directly with the consumer informing them about our lamb products. They then can make informed buying decisions.

Note: *Product design would be tailored to what our consumers really want.*

Under the proposed model, the marketing company through direct market investment would have a relationship with the consumer. The move from a commodity type product into branded and differentiated products, with a focus on quality, would create a demand pull relationship in the market place. This model removes the power wholesalers now have by creating a structure of interdependence between producers and consumers.

Many of the smaller players in the industry do have contracted supply and can guarantee quality, specification and timing of product entering the market, with the added advantage of not requiring large assets to process volume at peak periods. This is one of the fundamental drivers at work with the present co-operative structure. To make profits, plant efficiencies must be achieved through stock procurement premiums on the shoulders of the season at the expense of market investment. With this primary focus on throughput, the two co-operatives find themselves in a situation where a tight control over quality, specification and volume entering the market is difficult. Under these conditions cost/price ratio's and commodity disposal drive marketing decisions.

Current Market Situation

Currently New Zealand makes up 75% of the world cross border lamb trade, putting us in a position of strength to influence price, so what's gone wrong?

"It's the same old conundrum if a European lamb buyer sees a Kiwi coming towards him with an open order book he's pleased because he knows he'll get a world beating product imbued with cleanness and greenness. But if he see's two Kiwi lamb sellers coming at him he rubs his hands with glee because he knows he'll be able to play one off against the other and get the same fine product at a hefty discount. **This year he had 17 to choose from**" (Hugh Delacy)

This situation can work in our favour, but only when the market is short and we are able to ratchet prices up, as was evident post BSE and foot and mouth outbreaks in the United Kingdom. However when the market is over supplied the reverse applies and without strategic coordination the market will literally free fall, being unable to establish a floor price.

"The market this spring was the worst I have seen, surpassing the situation when Fortex collapsed. With Europe awash with chilled product wholesale prices were in free fall" Graham Cooney Blue Sky meat exporter.

Competition in the market place amongst New Zealand meat companies means the buyers are effectively setting the wholesale price. In the 2006 season, United Kingdom and European wholesalers saw an opportunity to increase their margins, as a result of New Zealand companies processing an extra 1.8 million lambs before Christmas, thus oversupplying the market. This large early kill was brought about by attractive procurement premiums being offered to producers, in an effort by the co-operatives and other players to attract supply. While the initial procurement price was driven by a company with a contract to supply a market, because the co-operatives have little or no contracted supply the only way to maintain processing through put, was to match this price. The result, full plants, high plant efficiency achieved, complete over supply of the market causing a crash in the wholesale price.

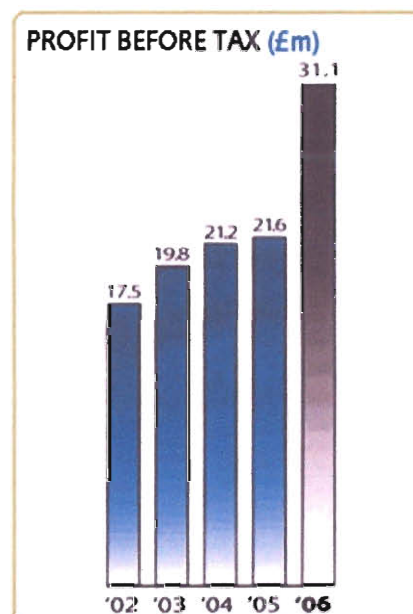
In this situation even the small players with a market orientated business are adversely affected, as the commodity wholesale price under pins higher value product prices.

CRANSWICK plc

UK Meat Traders

When the meat companies talk about a weakening in the price of lamb they are referring to the price the supermarkets or wholesalers will pay

Effectively the supermarkets have enjoyed bigger margins

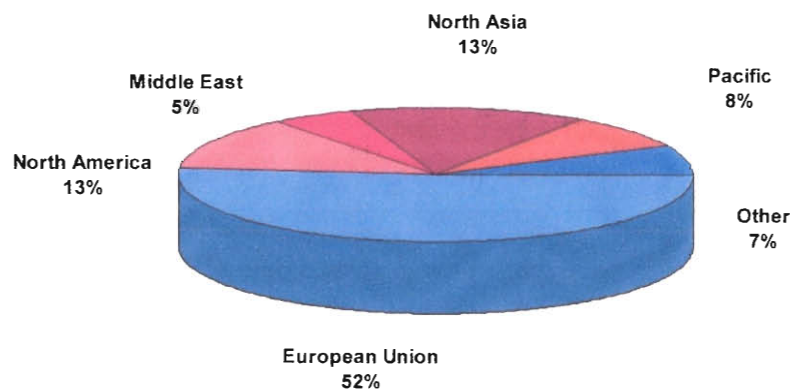


Another important point to consider in regards to our market situation is that currently 52% of our lamb goes into the European market. This market is controlled by quota, of which New Zealand has an allocation of 227,000 tons guaranteed. The size of New Zealand's quota recognises it's historical reliance and contribution to supply lamb to the United Kingdom. This quota was given to the New Zealand people and is administered by the New Zealand Meat Board on their behalf.

Quota allocation is given to individual companies based on a three year rolling average of production, this has effectively added to the competitive situation between exporters. In a bid to maintain or increase their share of quota entitlement, companies have tended to become volume traders not value sellers.

NZ Lamb Export Markets 2005-06

(June Year, Shipped Tonnes)



Source: Meat & Wool New Zealand - Economic Service
New Zealand Meat Board

New Zealand's lamb meat industry flaws are two-fold:

1. High competition on shore for stock, due to over capacity and uncommitted supply.
2. High competition in the market place to maintain market/quota share.

Empty Core Market Prevails

Abstract: Journal of the Academy of Business and Economics by Vedapuri Raqhaven, Jayathi Raqhaven (March 2005).

In this paper regarding the United States airline industry which was de-regulated in 1978 and is now highly competitive, a case is made based on core theory, that under certain demand and cost conditions more competition can actually lead to harmful consequences.

Monopolies and cartels which are considered inefficient models for the allocation of resources in many other industries can actually be beneficial in the case of the airline industry in bringing about an efficient equilibrium.

It is the unrestricted ability to contract and re-contract among buyers and sellers within an industry that is a necessary condition for an empty core market to exist. It is this unrestricted ability to contract (uncommitted supply base) that allows price to be bid down to non-profitable levels. Further these discussions imply the necessity of excess capacity. To the extent that one or more processors have excess operating capacity, attracting additional suppliers/customers by lowering the price, provided such price is above the marginal cost, this creates additional profit (or reduces operating loss) for the individual producer.

	Company "A"	Company "B"
• Market Share Lambs	8 million – 45%	8 million – 45%
• Gross Margin	\$10.00	\$10.00
• Company Profit	10 million	10 million
COMPANY "A" INCREASES PROCUREMENT MARKET SHARE BY 5%, OR 1 MILLION LAMBS, BY TAKING THEM FROM COMPANY "B"		
• New Market Share	9 million – 50%	7 million – 40%
	Gain to Company "A"	Loss to Company "B"
	1 million @ \$10.00	1 million @ \$10.00
	= \$10 million	= (\$10 million) loss
	+ Throughput efficiencies	+ Throughput inefficiencies
	on 9 million @50c/head	on 7 million @ 50c/head
	= \$4.5 million	= (\$3.5 million) loss
• New Profit	10m + 10m + 4.5m = \$24.5 million	10m – 10m – 3.5m = (\$3.5 million) loss

Vision

“The international market place is the crucial area for solving the industries problems rather than the areas of livestock procurement or restructuring. Getting it right there will create an environment where by desirable improvement will flow on through the structure of the industry, right back to the farm gate.”

(David Firth New Zealand Meat Board and Sir David Beattie Meat Planning Council 1991.)

Sixteen years on and it would seem little has changed in our industry suffice to say that the sentiments expressed remain true today.

Over the years we have seen companies come and go but we have not been able to shift away from what is materially an industry focused on production. I believe right now we have an opportunity to shift a significant segment of our industry (the farmer owned co-operatives) away from being a primarily production based service model towards a market orientated sales model.

To create this shift would require the establishment of a stand -alone sales/marketing company. We must as an industry create wealth by growing the size of the cake this can only be achieved by creating more sales or sales revenue from the international market place. Failure to invest in innovative marketing and differentiation will consign our industry to maintaining its unhealthy focus on production, directly leading to low growth and issues regarding the distribution of profit from what will be an industry in decline.

In a recent report commissioned by the English Beef and Lamb Executive an analysis of retail meat demand confirmed much of what many in the livestock industry have believed for some time – that the relationship between retail price and sales volume is more complex than commonly thought. As a result some supply chains are already taking a fresh look at these issues.

The report backed earlier EBLEX research showing that consumers view lamb as more than just “meat”, and that differentiation does work, with the result that consumers are willing to pay more. (Food chain 1 June 2007)

**Beef is a commodity product, Venison is a superior product,
Lamb is a unique product.**

Strategy

The key strategy is the establishment of a sales and marketing company to jointly market and differentiate product solely for the benefit of the Primary Producers Cooperative Society (PPCS) and Alliance (AGL) under a brand that encapsulates the values of our product and resonates with our target market.

This company's primary focus would be to supply products of the highest quality and value to the world's most affluent and discerning consumers, it would not be involved in the commodity market. It would require a management team that was highly motivated, highly entrepreneurial, highly independent and well re-numerated based on performance.

Key areas that it would participate in are –

- Identifying markets and market segments that were appropriate for it to be involved in.
- The precise determination of those consumer needs.
- The right choice and combination of product, price, promotion and distribution that will meet those consumers' expectations.
- Establishment of a strong brand with a unique point of difference in the market place.

Based on the market information obtained the required product would then be sourced by way of contracts (with tight specifications) from both AGL and PPCS. This company would only be active at the premium end of the market, ie chilled, specialised cuts and high quality ready-made meals, leaving the frozen and commodity end of the market with the existing marketing teams at both AGL and PPCS.

To build a premium brand in the eyes of the target consumer group will be expensive (35% re-investment) and could easily be compromised if it was also associated with budget competition products.

By this strategy of separating marketing and processing we can create two autonomous entities, allowing the marketing company to be driven by the consumers it is supplying, not by the need to create production efficiencies. Under this strategy of separation a clear picture of return on investment can be obtained on the different aspects of the total business and better investment decisions can be made.

Farmer Survey

In order to gauge farmers opinions of the current situation facing the meat industry, but more particularly both AGL and PPCS I conducted a random phone survey of sixty farmers from Otago and Southland who are currently shareholders in either of the two co-operatives.

The aim of this survey was to –

1. Establish whether farmers believed our co-operatives current marketing practices were sustainable.
2. Identify whether shareholders would support the concept of a marketing company to jointly market AGL and PPCS lamb.
3. Identify whether famers would be prepared to commit their own capital to help in the establishment of this company.

<u>Results</u>		
Questions	Yes	No
Are our co-operatives current marketing practices sustainable	6	54
Would you support the concept of a marketing company selling product jointly on behalf of AGL and PPCS	50	10
Would you provide capital to establish this company	36	24

To the first question regarding current marketing practices employed by our two co-operatives 90% believed these to be unsustainable in the long term, and there was a general consensus that real market failure was occurring. To the second question 83% of those questioned supported the concept of a separate marketing company being formed to market lamb on behalf of both AGL and PPCS and again those questioned expressed a desire for more focus to be placed on marketing not processing.

However when it came to the question of backing the venture financially those in favour dropped from 83% to 60%. Those in favour of supporting the marketing company financially truly believed more market investment was required and believed if they didn't invest it wouldn't happen. They were also more inclined to invest in this model as it guaranteed investment in the market place where in the past shareholder investment has generally been used in the processing and procurement side of the industry. The group opposed to investing financially still believed a marketing company was required but clearly it was someone else's responsibility.

The clear message from the survey was that nearly all farmers believed the two co-operatives were under performing in the market place, with a large majority supporting a move to a separate marketing company and over half saying they would financially invest in that model.

Process

A new sales and marketing company is proposed to be established under the name “Ora” with its head office based in Christchurch.

“Ora” (Māori) means: well- alive-healthy (life) encapsulates the essence of our product and our target markets aspirations, as well as linking our product to our indigenous heritage.

PPCS and AGL would jointly provide 51% of the new company’s capital with the remaining 49% being obtained by a share float on the capital markets. This would ensure that the company remained in farmers control but allowed it to raise capital on the merits of its business case not on current farming profitability.

Ora would require some further processing and packaging capabilities to allow product research and development to occur. As there is currently a misalignment in processing capacity it would be envisaged that one of the surplus plants be reconfigured and placed into the new company as part of the co-operatives capital investment, however the majority of the investment would be in personal predominately employed off shore.

Some of these possibilities in marketing and product development require a substantial need for capital beyond the resources of the farmer shareholder base, this structure which allows for private investment ensures the new company has sufficient capital to grow and achieve its potential. Having liquidity and free exchange of shares would ensure a higher share price for the company and farmer’s equity would be a reflection of market reality, not accountant’s imaginations.

Structure

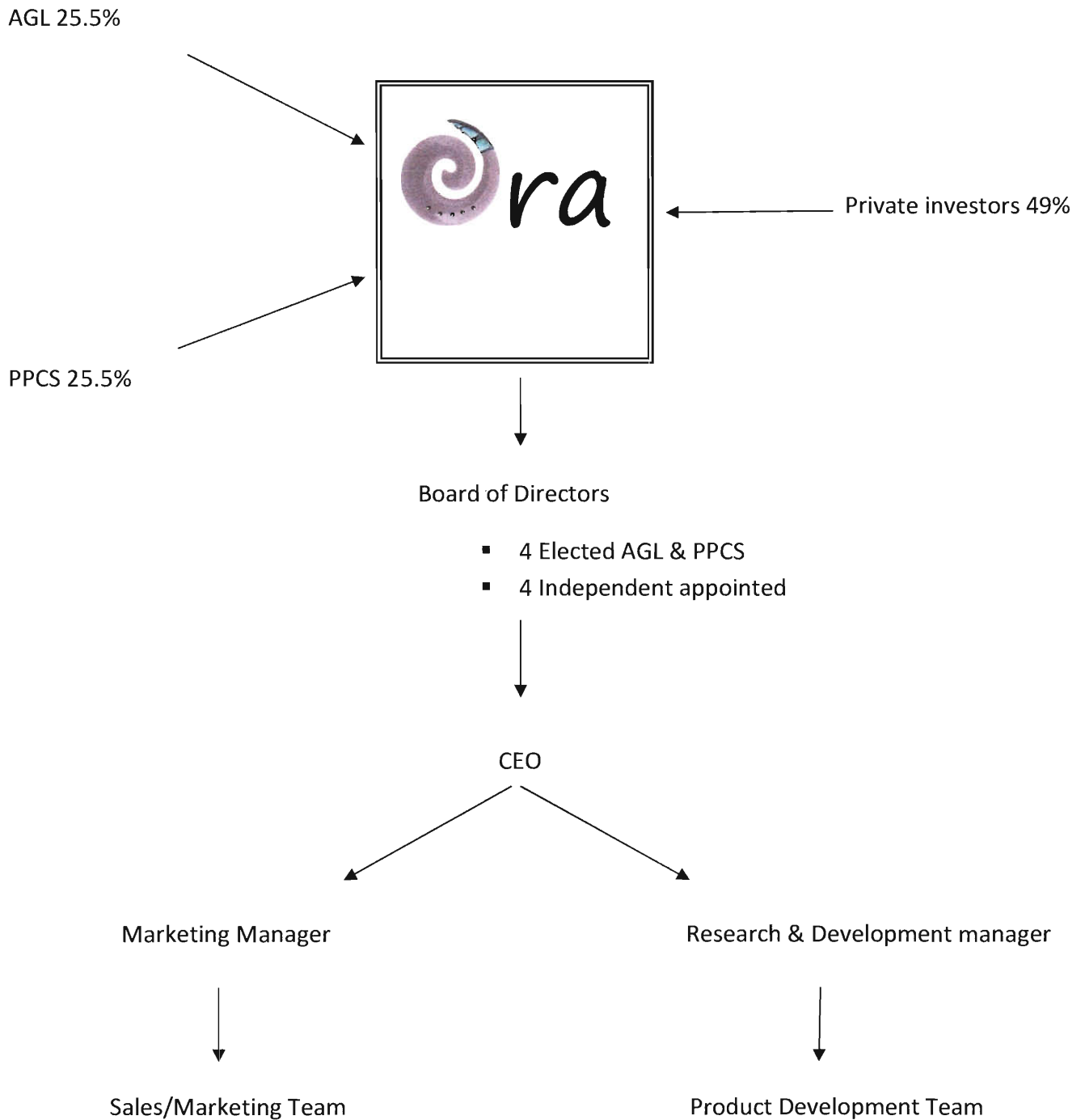
Governance

The new company would be independent of both AGL and PPCS and would therefore have an independent board to ensure its strategic direction was not compromised. The boards composition would consist of two directors from AGL and two from PPCS, a further four independent directors would be appointed based on their experience in global sales/marketing and finance. The chairman of the board would be chosen from one of the four elected board members to reflect the majority share that both co-operatives had in the company.

Management

- Chief executive officer
 - Development of supply chain management and co-ordinated value chain.
 - Strategic business and marketing planning.
 - Implementation of board's strategic direction.
 - Focus on profit not volume
- Marketing Manager
 - Co- ordinate and direct sales team
 - Focus on market place, customers, competitors and distribution.
- Research and Development Manager
 - Product and packaging development.
 - New process and cutting developments ie robotics.

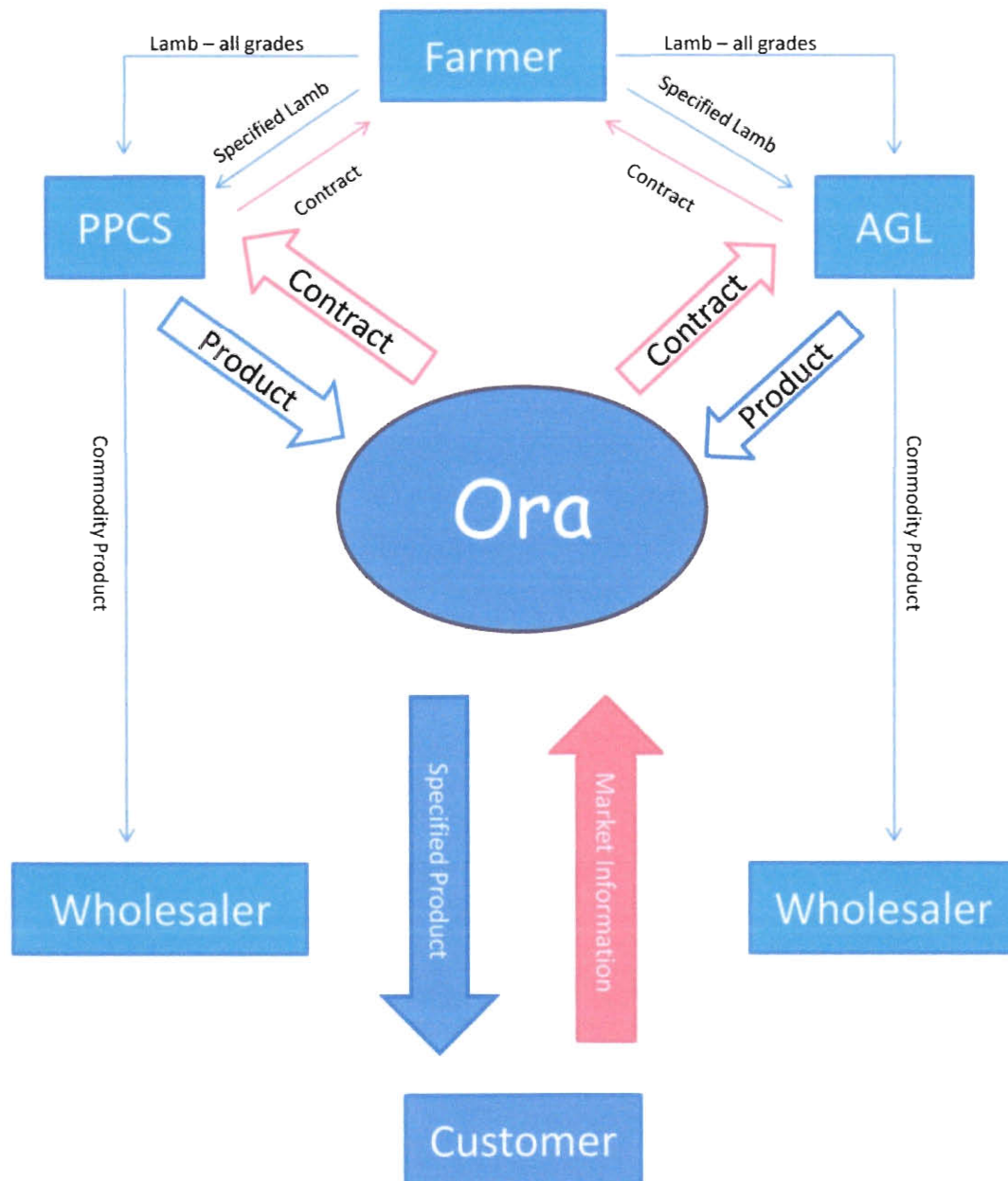
Ora Structure



Ora's Role

- Identify the market and market segments it would participate in.
- Precisely determine the consumer needs within those segments.
- Achieve the right combination of product, price, promotion and distribution to meet the needs of the identified market segment.
- Establish a clear point of difference in the identified market segment to achieve a marketing advantage.
- Formulate tightly specified contracts for both AGL and PPCS to supply product on time to specification.
- Ensure product development and new technologies keep pace with target consumers and competitors changing behaviour.
- Ensure that the information flow from consumer to farmer supplier is uninterrupted and clear.
- Ensure contracts to supply the target consumer extend right through the value chain to the farmer suppliers and that this trail can be audited.

Ora integrated Value Chain



Ora's Target Market

When it comes to making decisions on what sort of food a family eats, women tend to be the key decision makers. It is for this reason the brand would be exclusively targeted at affluent women, with sufficient disposable income for the buying decisions to be made on factors other than just price.

The company's focus within this market would be concentrated into three key segments:

1. Affluent women with young families
(A culture of healthy eating begins here.)
2. Affluent women who are health conscious
(This market segment is growing rapidly as women look to complement exercise programs with healthy diets.)
3. Affluent women who are environmentally aware
(In this segment having a great product is not enough, it must be seen to be sustainably produced.)

Consumer needs

Affluent Women with young family

- Convenient, easy to prepare meals
- Nutritious and healthy
- Great taste

Affluent Women who are health conscious

- Low fat
- Nutritious and healthy
- High protein

Affluent Women who are environmentally aware

- Sustainably produced
- Nutritious and healthy
- Low Carbon footprint

For Ora to best meet the needs of these three discerning market segments, the brand would be based solely around premium chilled product, specialised cuts which are innovatively packaged and are easy to prepare.

Point of Difference

The quality of our lamb is unsurpassed New Zealand is renowned for producing high quality, highly nutritious and great tasting lamb.

The Ora brand would epitomise these attributes with some clear points of difference that would enable it to gain traction in the identified market segment:

1. Ora would be available only in a chilled form, with new and innovative products designed to specifically meet the needs of the end consumer.
2. Ora, would be a farmer owned company, vertically linked from the consumer right back to the farmer suppliers. "When customers buy Ora products they're actually buying from the farmers who produced it."
3. All Ora products sold, would contain information available to customers detailing the farm of origin, breed type and the producers personal guarantee.
4. The knowledge that all Ora products would have originated from farms that have signed up to Ora's comprehensive farm sustainability and animal welfare program. This program would require contracted farmers to undergo an annual audit of their farming system to ensure that they are meeting Ora's requirements concerning optimal animal health and welfare , as well as employing systems and technology that reduce the impact on the environment while improving long term sustainability.
5. Ora would be strongly customer focused with an extensive research and development program to ensure product development met consumer's needs.

Ora's Relationships

Ora's principle relationship inside the value chain would be with the customers identified within the defined market segment. This relationship and the information received would lead to the formation of contracts between Ora, the co-operative processors and farmer suppliers to ensure that customer's expectations were met.

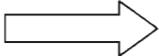
This structure would allow both co-operatives to have an investment in a company with a strong customer focus in a defined market segment. Both co-operatives under this model would still be active in other areas of the market, namely frozen commodity products, lower value cuts and by products, where brand differentiation is less important to increasing value compared to scale of business. Under this model high value cuts can be maximised through a co-ordinated focused marketing effort, over supplying or weak selling in low value commodity markets is less damaging to overall returns than when this occurs in high value market segments.

Ora would control all the co-operatives chilled product entering the defined market segment, (60-70% of the chilled trade) giving it an ability to co-ordinate marketing and help maintain price. Ora's point of difference and vertical integration from consumer to farmer supplier through specific contracts would allow Ora to create an opportunity for demand pull relationships to exist between its products and the consumer.

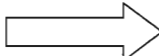
Contracts

Ora's key strength to its business model revolves around maintaining specific contracts that are driven by market expectations, not production or processing fundamentals. By ensuring Ora's the significant player in the identified market segment, it is in a position to ensure product supply and demand are kept in balance, thus maintaining a price premium. As relationships strengthen and customers are rewarded with superior products, which consistently meet demand, brand strength and product differentiation leads to price premiums over other products.

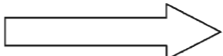
Products unsuitable or volume beyond what the market segment will stand would be allocated through an existing commodity channel, so as to maintain price and quality in the identified market segment.

Customer  Ora Marketing

- Specific chilled product
- Promotion
- Packaging
- Price
- Timing of delivery

Ora Marketing  Ora product development

- Specific cuts
- Specific yield
- Specific tenderness
- Specific packaging

Ora product development  AGL & PPCS

- Minimum yield
- Minimum tenderness
- Specific chilled product

AGL & PPCS  Farmer Supplier

- Specific lamb ie weight, yield
- Time of delivery
- Certified animal welfare/health
- Sustainable farming practices

Information Flow

Under this model there would be a clear flow of information from consumer to farmer by way of contracts at all levels. There would also be an information flow from farmer to consumer using individual farm/farmer details on the products supplied. This would create a situation of buy-in from both ends of the value chain, consumers would get a sense of knowing where and how their food was produced, (very important in this market segment) while farmers would feel part of the value chain.

Ora would further enhance buy-in by initiating regular correspondence re market information and provide scheduled supplier meetings, as well Ora would support committed farmer suppliers who wished to visit overseas markets, talk directly with customers and witness marketing efforts.

Summary

There are some significant issues that currently face both of the farmer co-operatives, and it would be an over simplification to only suggest that they were under performing in areas of marketing. Both our farmer co-operatives were primarily set up by farmers to guarantee they had adequate capacity to process their stock in a timely fashion. Because of this underlying reason for existence, both co-operatives have ended up with a number of large assets that require large volumes of stock through-put to make profits. This then has created a through-put mentality to create profit, rather than a market lead strategy.

The inevitable result of a strategy based around large volume through-put is a resulting wide range in the specification and quality of lambs processed. Both co-operatives are in the unenviable position of being unable to tighten required specifications as they cannot guarantee this would not lead to a loss of supply, and subsequent risk to long term viability.

Under this scenario there are only weak linkages between the market place, processor and farmer. The processor's primary focus is to secure enough stock to achieve plant efficiencies, the range of lambs secured often has more to do with conditions on farm than market realities. This situation can ultimately lead to premium markets being over supplied with product, or worse, over supplied with inferior product, as companies try to create cash-flow to fuel their stock procurement programs.

The Ora business model proposes to turn the current arrangement upside-down, its primary focus would begin with the consumer within the identified market segment. The primary driver in the Ora model would be to see that the market segment was supplied with the specific product required to meet demand on time, and in sufficient quantity to maintain a price premium over the competition.

Ora's primary responsibility would be on maintaining and growing this market segment, it would not be concerned with plant efficiencies or volume sales. These areas would still be the responsibility of the two co-operatives, who would ensure surplus and inferior product was sold in a form and market that did not detract from Ora's premium brand image.

If we are serious about increasing returns to co-operative shareholders we must move our industry away from one focused on processing to becoming one that is market orientated. By creating a new company with sufficient resources, dedicated to marketing only premium products, we can shift some of our co-operatives focus from trying to be all things to all people, where supplier's returns are averaged, into a company that is fully consumer focused and where excellence is not only demanded but rewarded.

In conclusion, the point to be made in regard to our two large traditional co-operatives is that any past success was in spite of their corporate structure. The potential wealth from exploiting our place in the sun with a change in direction is unrealised.

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