

DECREASING COSTS AND INCREASING REVENUE:

Through trust, feedback, and
attention to detail.

Livestock Marketing

Waitrose



BACKGROUND

Wanting a change in lifestyle following a successful career in retail, Philip Morgan purchased a sheep farm in Wales. As Philip's familiarity with the livestock industry grew, he realised that the production and marketing system followed by lamb producers could be greatly enhanced. In particular, they lacked market focus and, therefore, the ability to create and capture value. In an effort to assist producers in capturing greater returns from the market, a farm assured quality system was introduced in 1992, whereby Welsh farmers could verify how their products had been produced.

Given his retail expertise, Philip had been asked to sit on the Committee that oversaw the initiative. However, he soon viewed this as a production rather than marketing initiative, which lacked the ability to translate farmers' efforts into increased revenue. Philip was soon proved correct, and was asked to show how the farm quality assured program could be transformed into a more effective marketing initiative.

Four things concerned Philip about current farming practices and, to his mind, would need to be addressed for any marketing initiative to succeed:

- 1] He was sure farmers needed to cooperate more effectively than they currently were. While many cooperatives had been initiated, they often had not performed well and their members did not work well together.



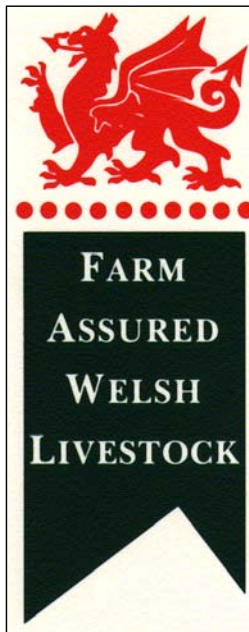
L-R: Philip Morgan, Minister of Rural Affairs, Welsh Assembly Government, Elin Jones and Jon Morgan

- 2] Farmers and farming cooperatives did not speak the same language as their supermarket customers and, therefore, could not communicate effectively.
- 3] While farmer cooperatives were good at producing livestock, they lacked the business acumen needed to take opportunities forward and did not adequately understand the needs of their retailer customers, particularly supermarket chains.
- 4] Farmers often had good ideas but did not share those ideas with their peers – resulting in fewer benefits than could be attained when working together to supply a particular market. This also led to inconsistency, which further reduced the value of their lamb in the consumer market.

DEVELOPING A CHAIN

With his retail experience, Philip saw an opportunity for farmers to benefit financially through working collaboratively. Success, Philip believed, would rely on the development of a well-coordinated group of like-minded producers who were dedicated to supplying lamb through an equitable, though strongly governed, network. Anyone who was unable to contribute, or proved insufficiently committed to the initiative would be let go.

Philip felt these factors could be combined to produce an environment which would encourage participants along the chain to commit to a marketing arrangement, one that would provide them with greater financial benefits than the traditional supply model. **Open, proactive communication along the chain, sharing production, processing and market information, along with an ability to act upon that information, would allow the chain as a whole to continually adjust to satisfy market requirements.**



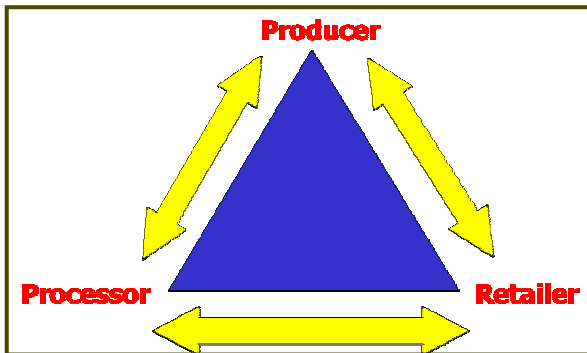


Richard Sadler, at the time Head Buyer for Waitrose, agreed to Philip's proposal to pilot a scheme supplying farm-assured Welsh lamb during the season which stretched from late spring through to early winter. The remainder of the year, supply would come from a New Zealand processor that coordinates a similar group of producers. In conjunction with Waitrose and Dalehead Foods, the secondary processor involved in both supply streams, the groups continue to work together, managing the crossover between seasons. The two groups (Welsh and New Zealand producers) do not compete with each another. Working together benefits both groups through the ability to effectively and efficiently supply Waitrose with consistently high quality lamb 52 weeks a year.



Both schemes have matured in number and sophistication, and producers from the Livestock Marketing and New Zealand groups regularly visit each other to share insights into innovative production and marketing methods. This leads to a strong team approach, and the open sharing of information – from which everyone benefits through finding new ways to reduce costs and/or increase revenue.

In planning his initiative, Philip stuck to a firm belief that **keeping the chain as short as possible would be beneficial to all parties and would increase the chance of success.** He led what became a tri-party approach involving the producers, a secondary processor (Dalehead Foods), and the retailer (Waitrose). Facilitated by Livestock Marketing, the system cut out the need for any agent or middleman activities, including auctions. This resulted in a greater ability to actively monitor and share detailed information on the performance of the overall chain, as well as individual members. It also enabled greater accountability to be enforced throughout the entire chain.



Tri-party system developed by Philip Morgan



While primary processing remains a contract kill service, Randall Parker Foods (RPF) has also become an integral member of the chain. RPF provides producers with extensive information on individual lamb grades and performance. Less regularly, RPF provides a health status report that enables producers to further improve production efficiencies. The value of this information is illustrated by the fact that the number of lambs hitting the 'sweet spot', for which producers receive higher premiums, has continued to increase over the 14 years the scheme has existed. While all UK retailers have similar lamb specifications, the industry average for lambs meeting these specifications is 56 percent, while producers in the Livestock Marketing scheme commonly average a hit rate that can exceed 85 percent of supply.



Dalehead Foods

Another important stage of development involved identifying innovative, like-minded producers. Philip organized a meeting attended by 30 interested producers. 24 producers expressed an interest in working with Philip, and 20 of them remain part of the Livestock Marketing scheme. John Price, one of those original 20 producers, says that while most producers did not expect Philip's idea to get off the ground because it was so different to their traditional approach, it has evolved into a "brilliant business".



Ahead of each season, Livestock Marketing and Dalehead meet with Waitrose to produce a schedule for the coming season, based on historical and expected demand. Livestock Marketing then identifies the number of lambs that each producer expects to have available each week and gains a commitment from each for a that number. Once the season is underway, supply and demand are monitored on a rolling basis, as well as producers' actual supply compared to commitment. Variations between expected demand and available supply are factored into Waitrose's promotional plans. Dalehead also monitors these numbers, maintaining the carcass balance and satisfying both retail and foodservice demand.

“There has to be trust between all parties. It is very important and it’s a key to the success of the scheme.”

***Philip Morgan, CEO,
Livestock Marketing***

At the end of the season, the farmer receive extensive reports on their lambs’ performance, in terms of overall supply versus target quality and financial breakdown, against the group average. This provides farmers with the ability to make informed management decisions across their entire enterprise.

Livestock Marketing continues to flourish. The initiative has expanded greatly and more than 450 producers now supply Waitrose with Welsh, British, and organic lamb. There are no membership fees or legally binding contracts. **Integrity, open communication, loyalty, and strong governance at all levels of the chain have resulted in a level of trust that underpins the success of the initiative.**



Welsh Livestock Marketing producers visiting David Morrow’s farm in New Zealand: 2003

Farmers in the group have access to privileged information on sales and marketing, which retailers would historically not have provided. Conversely, information from within the group is used to foster continued consumer interest in their lambs. **“At the end of the day, it all comes down to communication,”** states Tracy Deakins, Procurement Manager, Livestock Marketing. To build good working relationships, Tracy spends time with new producers, discussing all aspects of their processes – types of farming, the systems they have in place, their flocks and their expectations. This involves meeting them in the plant and the abattoir, in order that they gain a greater understanding of the whole system.



“ We’re all working as one big group to produce and to (achieve) better quality at the end of the day.”

John Price, Lamb Producer, Aberystwyth



Consumer purchasing lamb at Waitrose

Waitrose proved its commitment to the scheme, borne from producers' commitment to quality and consistency, when it continued to pay prices well above the norm through the collapse of the open market for lamb due to BSE in 1996 and, more recently, the Foot and Mouth outbreaks of 2001 and 2007.

BENEFITS

Jon Morgan, Managing Director of Livestock Marketing, states that by working with a retailer who values long term relationships, the producers benefit from having security for their outlet. He says the formula is simple and it works. Despite having 30 different types of lamb across the group, information provided to producers enables them to produce highly consistent lamb. It also allows them to improve efficiencies and increase revenue in ways that producers who are not part of such a scheme could not do. This combination of decreased costs and increased revenue translates into significantly improved profitability.

The additional revenue generated is essentially a reward for their following a system that provides processors and Waitrose with opportunities to increase margins. Processors save by not having to dispose of poor quality product. Consistency enables better coordination of the chain, which minimizes the need for costly inventory, reduces waste, and enables better utilization of the entire carcass. Waitrose, with approximately 200 retail stores, benefits from the ability to guarantee consumers a constant supply of consistent quality lamb, and it manages both distribution and merchandizing with precision; consequently its market share has expanded at twice the industry average.

A **LIVESTOCK MARKETING** case study is included in the Value Chain Management Centre's DVD 3 Disc Set, which features interviews with participants of eleven successful value chains.

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