



The WA lamb industry has significant market opportunities. SCF have taken a new approach to identifying ways a farmer-owned co-operative can capitalise on those opportunities and improve industry performance. The cooperation of value chain participants such as processors, retailers and farmers are necessary to achieve this goal.

Background

In August 2017, SCF commenced a feasibility study for a 50,000-head sheep feedlot and backgrounding facility. Early results of the study have identified opportunities to enhance lamb production performance and selling price. Sustaining this, however, relies on the chain rewarding those who are performing beyond minimal requirements. This would require collaborative effort between processors, retailers and farmers and a coordinated marketing effort to identify stable long-term domestic contracts and opportunistic long-term export opportunities.

Higher prices for a more consistent supply of high quality domestic and export lamb products, in addition to on-farm production efficiencies gained through RD&E with assistance from the co-operative, are expected to provide sufficient cumulative impact on the profitability of individual businesses, to make the co-operative feedlot enterprise viable.

Issues that impact the lamb value chain's performance:

- While livestock auctions can provide a valuable service by acting as a clearing house for many types of lamb, the combined impact of visually grading live animals and spot market pricing limits the entire chain's ability to capture value and improve performance;
- The present structure and operation of the value chain leads to inconsistency in the condition, size, quality and overall composition of lambs flowing through the system due to lack of adequate pricing signals for quality. This can severely increase processing costs and, simultaneously, limit opportunities to capture additional revenue;

- The chain is limited in its ability to target lambs to specific markets according to their composition and ability to meet specifications, which further impacts its ability to capture value;
- Operations at multiple points along the chain are managed according to transactional measures that have little correlation to consumer demands toward meats they choose to consume;
- Many producers do not adequately consider market or customer requirements when determining the flock's genetics or production systems. This is largely due to lack of price incentives or information and capabilities necessary to make informed management decisions;
- Opportunities exist, but are not realised, to capture potentially significant added value through developing more detailed insights into consumers' desires and behaviours;
- An overall lack of year-round supply severely limits market opportunities for Australian lamb;
- Inadequate promotion, branding, story-telling and traceability/ claim verification.

Together, these factors negatively impact the overall chain's efficiency and effectiveness. As a result, participants experience what, at times, are significant and unnecessary costs and, simultaneously, miss what can be enormous opportunities to capture greater value. Strategically aligning operations would provide the entire chain with the ability to deliver added value to consumers, while simultaneously increasing revenues and margins for all value chain participants.

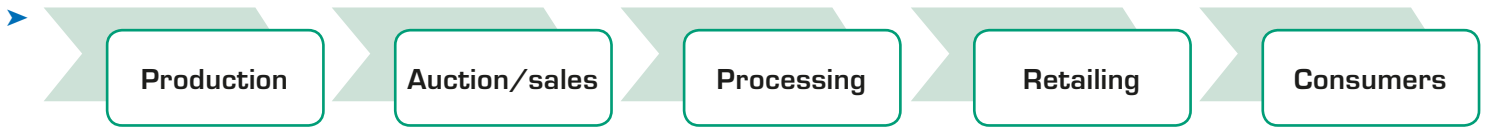


Figure 1: Operational units of lamb value chain

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Figure 1 shows that the value chain for lambs essentially operates as five distinctly different units. While overlaps occur between each of the five units, our observations suggest that many of the management processes at each unit along the chain operate in relative isolation to the others.

The combined effect of the industry producing an inconsistent product at limited and fluctuating volumes is that those producers who invest effort in producing premium lamb on a full-time commercial basis have few opportunities to capture the value they otherwise might. The same factors impact the ability of supermarket chains to establish and promote a line of quality assured branded lamb.

Chain performance and value-generating opportunities are impacted by the fact that, beyond transactional metrics such as price and weight, little connectivity currently exists along the entire chain, particularly in terms of the information that could be used to capture value from supplying fresh lamb to increasingly discerning consumers. So, while most operations are guided by cost and

volume, the attributes that influence consumers' purchase decisions extend beyond factors such as the size of cut and price per kilo.

SCF believes that there are significant opportunities for producers, processors and retailers to benefit through improved communication, forward pricing (allowing forward planning) and improved processes that could lead to year-round supply of consistent high-quality branded lamb products from our region. The difference between potential benefit and likely benefit is the gap between opportunity and the level of industry adoption. These benefits were estimated to be split equally between producer and off-farm sectors of the supply chain in most of the scenarios modelled.

There is an opportunity for the co-operative to assist producers to improve lamb quality and reduce production costs on-farm, which in-turn could lead to higher prices and encourage the industry to adopt a more customer-minded approach than many producers and other stakeholders currently follow.

Feedback to producers plays an important part in increasing efficiency and value of livestock production systems. Feedback to producers about health and quality on an individual carcass basis will help producers improve herd health and on farm production performance, as most feedback to producers is currently limited to weight and fat score. This has already been proven with significant improvements in production efficiencies in the pork and chicken industries, which to a large part, has been driven by accurate feedback.

Increasing the value of the lamb chain will require farmers, processors and retailers to work together to clearly identify new market opportunities and define clear specifications and value attributes of fresh lamb. The co-operative enterprise has a role in this by coordinating the logistics of supply, brand development and assisting producers with on-farm systems to help them to efficiently meet market specifications.

Value proposition for processors and retailers

- Benefits for processors, grain traders, agents and local businesses
- Generates more local economic activity, good for your business and the economy
- Coordinates production to better meet customer and processor specifications
- Regional brand for marketing / promotion backed up by digital traceability & QA
- Reduced transaction costs and logistics centrally controlled
- Improved communication between farmers, consumers and those in the supply chain

Our goal is to ensure prime lamb is available all year round to consistently meet both domestic and international customer specifications. To achieve this, we will form a farmer-owned co-operative enterprise that will assist producers to improve their on-farm management, co-ordinate logistics and promote regionally-branded products with full digital traceability. The coordination and management of the production and logistics side is the single biggest challenge and opportunity for producers and processors. Get this model right then the rest will fall into line.

SCF believe this is a good time for such an initiative with strong consumer demand for quality and the emergence of new technologies that ensure eating quality and traceability. The key is co-ordination of producer's efforts through the establishment of a farmers' co-operative and better price signals and communication between consumers, processors and producers. Product consistency will be vital but cannot be achieved without improved pricing mechanisms reflecting eating quality.

SCF is seeking to open discussions with processors and retailers to establish collaboration

Our rationale is that there is value to be gained for both processors and producers if the gap between what is turned off and what consumers want (in-specification) is bridged. To achieve this, producers need to be remunerated to reflect eating quality and providence to raise the region's reputation as a provider of high-quality products.



application enables full digital traceability of the history on all livestock, enabling comparisons of paddock and abattoir assessments to assist producers to improve their on-farm management and genetic stocks. This information can also be made available direct to consumers if desired.

We aim to guarantee:

Regional brand

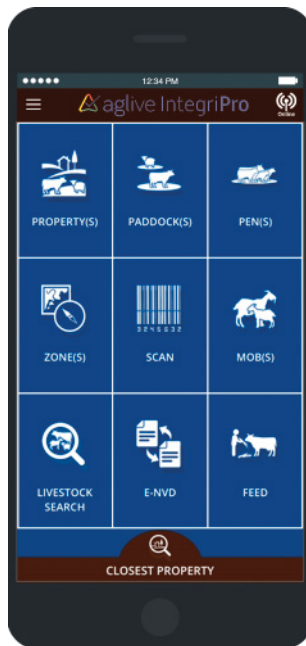
The Great Southern region of WA is a prime livestock production area and food production hub with a picturesque landscape. The area provides an excellent opportunity for marketing and promotion of clean, green, ethically produced high quality meat products.

Our brand will have a strong focus on family farming. This could include a 'virtual farm' that can be viewed by customers direct from their phone, giving customers direct communication with the food producer. It will also include full digital traceability of the product from farm to retail.

Farm stewardship (environmental and pasture and animal eating quality) will be promoted, animal and worker welfare will also be optional aspects to the scope of the regional brand.

Full digital traceability / claim verification and coordination of chain operations

Provenance marketing is more likely to achieve success when underpinned a system that validates producer authenticity. On-farm trials of a new Aglive IntegriPro traceability platform will commence on farm for both cattle and sheep in early 2018. This



We will also be able to supply producers and processors with exact weights/fat scores, averages etc. of individual loads, months and years supply. The system is automatically updated with NLIS and other quality assurance requirements in real time so that NVD's will be paperless.

This system can also be used to record information from multiple points along the chain and statistically track to identify inefficiencies, and improve quality and genetics that are suited to producing the type of lamb desired by specific market(s).

On-farm product control and technology development

We won't just use the National Vendor Declarations, we will have further MSA quality assurance guidelines and support producers on farm to better manage stock through a breeding, feeding, handling and transport. We will be seeking incremental improvements to quality along the MSA index, in addition to HACCP systems and certifications. Members will be encouraged to become MSA accredited. We will also promote the use of new technology in all aspects of livestock production and management to ensure we are up to date with latest technology developments in stock husbandry and health with an on-farm RD&E program.

Access to non-seasonal lambs

We are also intending to develop a program and an irrigated backgrounding system that can guarantee supply for longer periods throughout the year. We understand processors need lambs for 12 months of the year not just six. Over time, we aim supply lambs every month of the year, every year, to meet our processors / customers' needs.



► Logistics co-ordination

The co-operative enterprise will co-ordinate sales and transport with chosen suppliers from farm to processors matching supply with demand according to customer requirements.

To achieve our goals, the following transition activities will need to take place:

Outcome sought	Activity
Improved feedback on product quality – information real time data made available including but not limited to pricing signals	Feed-forward and feedback mechanisms create more transparency, enable new ways to market livestock. New technologies that more accurately measure red meat traits are close to commercialisation. There is considerable opportunity to increase value from existing supply chains in areas such as genetic improvement, on-farm management and better market alignment to increase productivity and product quality. This will need to be facilitated by increased data sharing between sectors to improve management decisions that align to consumer demands.
Progress towards Value Based Pricing mechanisms and assist with industry transition	Selection pressure is not optimised to consumer value – aligning the direction of on-farm selection pressure to consumer needs is critical for the red meat industry to increase value but will not occur without pricing signals. We need to match product to high value market opportunities (domestic and export) and encourage producers to lift their achievements in producing to specification. Identify cuts that are currently undervalued and position cuts to best end market outcome. Extract more value from whole carcass. Several important objective measures such as yield and eating quality are negatively correlated. Therefore, it is important that new objective measurements are developed that support industry improvement across all traits that are of value to consumers.
Improved on-farm management, processes and traceability	Extension activities to help increase understanding of new measures and the implications of associated pricing signals and strategies to align supply to increased value. RD&E also needed to focus on pasture management, genetic performance and quality assurance.
Brand design and integrity	Market MSA and other existing systems to customers, help to protect brand integrity post processing. Supporting framework including standards and system integrity to build confidence.
Forward contracts	We aim to deliver contracted lambs no matter what is happening in the physical market in relation to prices and weather conditions. We also aim to be paid on quality and yield.



For more information

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