

Future proofing your beef business

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Abstract

For the New Zealand (NZ) beef farmer, deciding on a business direction, developing and successfully implementing a strategy is critical for future success. Gathering information on future trends and issues is an important part of the process to ensure appropriate capabilities and contingencies are developed. The aim of this paper is to examine some of the future trends and issues for the NZ beef industry through to 2010, this is done through the use of SWOT and PEST analysis. Secondly the paper suggests potential competencies farmers will need to develop to successfully survive in 2010.

Keywords: beef industry, beef farmers, business competencies, future trends, PEST analysis, SWOT analysis

Introduction

“Cheshire Puss”, she [Alice] began . . . “would you tell me, please, which way I ought to go from here?” “That depends a good deal on where you want to get to,” said that Cat. (Lewis Carroll). For the New Zealand (NZ) beef farmer deciding on a business direction, developing and successfully implementing a strategy for future success or simply survival, is critical. Gathering information on future trends and issues is an important part of the process to ensure appropriate capabilities and contingencies are developed. The aim of this paper is to examine some of the future trends and issues for the NZ beef industry through to 2010, this is done through the use of two planning tools. Secondly the implications of the trends and potential competencies required to successfully survive in 2010 are identified.

Techniques

There are many techniques used to develop competitive business strategies; Porter’s Five Forces (Porter 1979), the SWOT model (Andrews 1980), core competency, strategic architecture and industry foresight (Hamal & Prahalad 1994), Value chains and strategic cost analysis (Porter 1985), Generic Competitive Strategies (Porter 1980) to name a few.

The techniques used here to examine the beef industry through to 2010, are: SWOT; the analysis of strengths, weaknesses, opportunities and threats. This incorporates PEST analysis, that is, the Political,

Economic, Social and Technological influences that will impact on the beef industry. These influences are related to each other and finally to the individual beef business. The details outlined in this paper are a combination of research and the author’s observations over ten years in industry consultancy, research investment, and information transfer.

Strengths

So what are the strengths of the NZ beef industry? In asking this we need to focus on those strengths that provide a potential competitive advantage, that is, the potential for more profitability than competitors. NZ’s farmers are a key strength. Observations of, and discussions with farmers and consultants in the UK, Europe, Australia, and the US, has identified the unique commitment that NZ farmers have to consistently improving performance particularly around grass harvesting. NZ farmers respond rapidly to market requirements by applying knowledge and technologies successfully. Some of this has been forced upon the industry by past economic reforms but nonetheless it is a significant strength.

Second is the ability to generate beef finishing progeny at low cost via the dairy industry. Annually about 1.8 million calves are reared from 1.5 million beef cows wintered (Meat & Wool Economic Service 2001 & Meat and Wool Innovation Ltd (MWI) Economic Service, 2002). A 10 year calving percentage is 126%, driven by 1.5 million beef cows generating 1.3 million calves annually (87%) plus an average of 580000 calves retained for rearing from the dairy industry. The British do this as well but their market is more prime driven, not well served by existing dairy genetics.

Thirdly New Zealand’s food safety record is second to none. For example BSE outbreaks have occurred in Europe, Asia, and South America. To date New Zealand has not had a significant food safety issue. Closely connected is our animal health status, also considered unique. NZ’s relative remoteness and good food safety systems have kept the country clean to date.

While farmers, Friesians, food safety and animal health are considered strengths, many will suggest the ability to produce lean manufacturing beef, and the ability to produce relatively cheap grass-fed beef

as strengths. Firstly there are U.S. manufacturers able to cost effectively provide this product. Secondly there is a question mark over NZ's cheap grass-fed advantage. The author was unable to source any analysis that suggested cheaper production. Analysis of Brazil's grass-fed beef production shows that they are 15% cheaper than the Australians (Peck 2002) and just scratching the surface of their potential, Rabobank (2003) suggest that South America (possibly) has the lowest cost of production for all beef producing countries.

However it is a combination of all these factors that makes NZ competitive. The best farmers in the world, and highly flexible, combined with safe reasonably low cost, reasonably niche, lean product. The key question is will it be enough in 2010?

Weaknesses

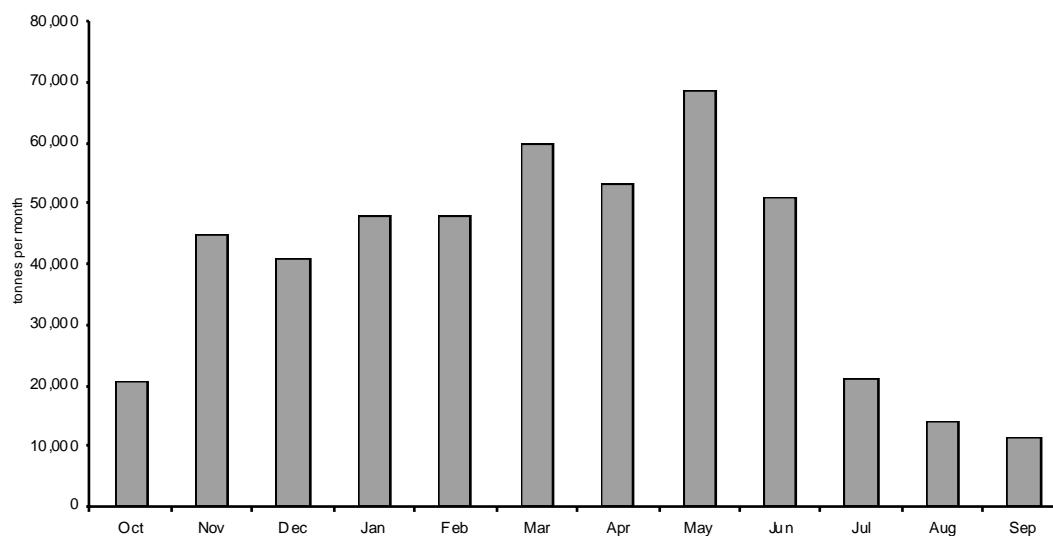
The industry also has weaknesses. Firstly is the lack of detailed knowledge farmers have about their businesses. Few farmers know: how much grass is grown annually, what it costs to grow it i.e. cents per kg dry matter (kgDM) or more accurately cents per megajoule of metabolisable energy (MJME), how much is harvested, the feed conversion ratio of grass to liveweight, and the cents returned per kgDM consumed. Most competitors, whether beef, alternative proteins such as chicken and pork, or the grain and vegetable industry all know their costs, when they're making or losing money, and at what rate. Good information for both tactical and strategic decision making is a real industry weakness.

This paucity of information occurs outside the farm gate too with only very general feedback received on the suitability of our animals for the markets they ultimately end up in. While in the US and Australia the desirable product characteristics are identified in payment schedules there is no such information in NZ, which makes genetic selection decisions difficult. It also makes it difficult to influence dairy industry generated genetics. Any extra value earned from superior beef genetics in dairy herds is difficult to determine. Much of this is due to; a throughput driven, low profitability, processing industry. While good for farmers short-term, there will ultimately be a cost long-term. So a second weakness is the structure of the processing industry, more throughput driven than market driven.

Another weakness is the seasonal nature of beef supply (Figure 1), driven by the pasture growth curve. While this is sensible for farmers it is not helpful to customers who want a consistent supply of consistent product, all year round. This is particularly an issue with chilled product and a reason why Australia and the USA out compete NZ in many cases.

A fourth key weakness is the industry's obsession with land ownership. To be fair the business of owning land has been a good one for farmers, achieving acceptable capital gains, most of the time. It continues to look positive especially with foreign investment interest, well-off city dwellers desire to find a more tranquil way of life, and the odd farmer obsessed with not letting the other two get the neighbour's property. However the relative focus on the land business has

Figure 1 NZ export beef (bone-in) – tonnes by month 1999-2001.



Source: MWI Economic Service & MAF, 2002.

reduced emphasis on the beef business, and often constrained investment in business productivity items such as fertiliser, fencing, and water. The average farm value is over \$1.5 million and equity is close to 80%, and return on capital has fluctuated between 1-4% (MWI Economic Service 2002). This raises the issue of looking at other options apart from land ownership such as leasing. Having said that, the author is involved in a family farming business and reluctant to let farm ownership go, it may be part of NZ culture.

Consider the average farm business; a high capital value, little knowledge about the production and cost structure of that business, an inconsistent supplier of product, which receives unclear market signals, to drive future investment. Does this sound like an attractive business to own?

Future external environment

Having carried out an internal analysis the next step is to examine the external environment, that is the opportunities and threats facing the industry. A PEST approach is taken, identifying future Political, economic, social and technological trends expected to influence the beef business. The lines between political, economic and social trends overlap, but the key impacts are identified

From a political perspective one can look both internally (within NZ) and internationally. Internally, the power base has shifted from the rural community and "issue" lobby groups strongly influence policy makers, issue appeasement is a strategy often used to retain power. The Resource Management Act (RMA) and Kyoto protocol are probably the two most influential issues faced internally and will require accurate information to justify current management practices. Externally the largest impact is likely to be World Trade Organisation (WTO) Doha round. Assessment of likely outcomes, (Centre of International Economics 2003) suggest a small upside for New Zealand. This is on top of our current quotas and growing worldwide beef demand. The fact remains however that many lucrative markets for NZ beef are restricted by quotas and high tariffs and are likely to remain so beyond the next WTO round.

Another threat, or possible opportunity is the increasingly volatile global economy. The two major markets of North America and Asia both appear to have some upside over the next seven years, New Zealand's economy too appears stable, with the exchange rate now reaching a value that commentators think is reasonable. However not many economists are talking about 2010, so expect the unexpected.

One of the greatest economic threats comes from bio-security. A recent analysis carried out by the Reserve Bank of New Zealand and Treasury (2003) estimates the impact of an FMD outbreak on New Zealand's economy to be \$10 billion over two years. The risk is heightened from increasing people movement across the globe. Tourism is New Zealand's and the world's (USDA 2001) biggest industry, so the risk will not go away.

Pressures from society on the industry will increase. The New Zealand population is increasingly urban, not educated on rural realities but with high expectations of environmental management and food production issues. The external customers are the same, focussed firstly on food safety, but also the production systems, preferring natural food (Armata 1998), but not willing to pay much more, this slightly increases the competitiveness of grass-fed beef. The customer will also be increasingly ethnically and generationally diverse, more educated, time poor, money rich, brand not product focussed (Kay 2001; Lukovitz 2002; IDDBA 1998), looking to balance health and lifestyle, wanting it to taste good but deliver their health and nutritional requirements (FfrST 2003), and food producers will need proof behind their label claims. NZ is well placed to deliver some of these, but not all. Developing alliances with companies/manufacturers/retailers with strong brands that can build on our unique characteristics is important.

Another issue is the people that are required for industry. NZ's population is increasingly urban. Population growth is low and is predominantly from immigration, Pacific Island and Maori within NZ. The Maori population holds the most hope for providing the skilled resources needed, they are already connected with the land both spiritually and physically and their landholdings have large potential for productivity improvement. The brightest and best are needed for the future, but the industry is poorly perceived, and the competition is fierce.

Technology will bring some exciting opportunities. By 2010 a number of currently cost prohibitive technologies will be cost effective. Internet access will be excellent, most business transactions will be electronic, individual animal identification will be common, (maybe even mandatory), animal metabolism sensor technology will be available, with Global Positioning Systems (GPS) being readily used. With any luck the first functioning satellite pasture assessment technology will be feeding straight into the feed budget on the home PC. This technology used well, will

significantly increase the consistency and accuracy of our farm systems.

While biotechnology in its various forms has tremendous potential, its impacts will only start to be felt by 2010. Much of the initial use will be gene markers and while this will improve on current selection methods, a greater knowledge of the impact of genes on key traits will take longer. While transgenics may allow greater control, social acceptance will not allow widespread use at that stage. Reproductive technologies and sexed semen, should be close to commercial viability!!!!

So how do all these factors interact what might farmers do? Firstly our farmers are world class, efficient, grass-fed, safe beef producers, well placed to take advantage of a growing beef world market with upside trade opportunities. But along with these opportunities come extra demands of environmental sustainability, traceability and the integrity and consistency of production systems, and the integrity of brands. Currently NZ does not have any significant brands, and the detailed knowledge of production systems is poor. Though bio-secure the current advantage is always threatened. However, the right focus, and the right technology will provide better environmental and production information.

There are five key things that farmers need to do to prepare themselves:

- Understand the cost and productive structure of the business, what the costs and returns per MJME are.
- Understand the major bio-security risks and ensure as individuals, the industry and governmental custodians are accountable and prepared.
- Choose carefully the company supplied, and where possible connect with one connected with recognised consumer brands.
- Technology will play a large part in overcoming weaknesses, and satisfying customers, be aware of what's available and ensure that staff are capable of using it.
- To get the right staff, the industry must be appealing. Where individuals have influence they must ensure that an attractive industry is portrayed.

Last but not least NZ farmers are unique and considered the best in the world, the only real competitive advantage the beef industry has. NZ has limited land and limited capital. There is an exciting opportunity for New Zealand farmers to be; consultants, operations managers, grass growing and grazing consultants to grass-fed beef producers the world over. How does working with 165 million cattle (Peck 2002) in Brazil and taking \$10 a head for expert advice sound? It's worth thinking about!

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