

VALUE BASED TRADING DRIVING A SUSTAINABLE BEEF INDUSTRY

Dr Rod Polkinghorne, OAM Birkenwood Pty Ltd – Specialists in Beef Eating Quality Systems, Research & Management

A CONSUMER FOCUS



<u>ALL</u> industry revenue comes from the consumer!
<u>They determine value</u>

DISSEMBLY VS ASSEMBLY REVERSE MANUFACTURING





Many prices, Many products



One price, One product

VALUE IS THE SUM OF THE MEALS DELIVERED

COOKING STYLE							
	Grill	Roast	Slow Cook	Stir Fry	Shabu Shabu	Yakiniku	
Fredicted	Brand A++	Brand A++					
	Brand A+	Brand A+					
MSA	Brand A	Brand A					
Underpinning attributes delivered by branding							

EQ grading provides mechanism to align individual 'Parts' price with meal performance

VBM – A STRATEGY FOR THE FUTURE

From *commodity* trading of meat to trading beef products based on *eating quality & provenance*





- to realise more value from each carcase
- to stimulate improvement in cattle supplied
- to build producer relationships & brand compliance
- Basis for a sustainable industry



WHAT CREATES CARCASE VALUE

Key Drivers

- Weight of Saleable Product YIELD
- Sale Value of Meat Sold EQ Based Brands



WHAT CREATES CARCASE VALUE

Supplementary

- Supply pattern and volume
- Reliable all weather supply
- Tight adherence to specifications
- Hide & co-product quality

VBM – PAYMENT ON THE BASIS OF ACTUAL WEIGHT & QUALITY



Provenance $= \mathbf{\epsilon} \mathbf{x}$

Co Products $= \mathbf{C} \mathbf{X}$ Supply pattern $= \mathbf{C} \mathbf{X}$ Market eligibility $= \mathbf{C} \mathbf{X}$

TRUE VALUE = $\mathbf{\mathbf{\varepsilon}}\mathbf{x}$

VALUE EQUATION -CALCULATION INPUTS

Eating Quality EQ Prediction Models

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cut	muscle	GRL	RST	SFR	TSL	YAK	SSB	SCT
spinalis	SPN081	84	74	83	79	85		
tenderloin	TDR034	85		79				
tenderloin	TDR062	79	78	81	75	71	67	
tenderloin	TDG062	80						
cube roll	CUB045	73	73	73	73	74		
striploin	STA045	74	75	76	73	76	67	
striploin	STP045	69	69	72	68	70	62	
oyster blade	OYSo36	66	63	69	70	70		
blade	BLD095			46	51			
blade	BLD096	59	63	65	65	67	53	65
chucktender	CTR085		54	57	62			65
rump	RMP131	63	72	71	74	69	61	67
rump	RMP231	66	75	74	73	77		
rump	RMP005	68	73	76	77	79		
rump	RMP032			75	77			
rump	RMP087		63	68	68			66
knuckle	KNU066	56	69	64	68	66		57
knuckle	KNU098			64	69			67
knuckle	KNU099	46	57	54	61	57		62
knuckle	KNU100			70	74	72		65
outside flat	OUT005	52	51	55	65	66	52	67
outside flat	OUT029			69	76			70
eve round	EYE075	52	55	53	55	57		56
topside	TOP001	52		63	65	70		62
topside	TOP033	46		62	68	68		69
topside	TOP073	47	55	55	65	65	57	64
chuck	CHK068			51	56			68
chuck	CHK074	63	60	65	70	62		75
chuck	CHK078	58	61	62	65	61	48	73
chuck	CHK081			64	67	63		78
chuck	CHK082			55	59			
thin-flank	TFL051			66				66
thin-flank	TFL052			75	67			72
thin-flank	TFL064			69	66			68
rib-blade	RI B041			53				_
brisket	BRI 056			46	60	56		63
brisket	BRI 057			44	51	51		67
shin	FOshin							68
shin	HOshin							72
intercostal	INT037			60				

X

Yield

- Liveweight ?
- Carcase weight ?
- EUROP grid ?
- Retail yield ?
- Lean meat yield

Averages Hide a Wide Range in Value – VBM relays actual value



Most Processor costs are FIXED per head BETTER cattle = HIGHER Net Return

VALUE DISTRIBUTION



YIELD DISTRIBUTION



ANIMAL & MOB VARIATION



Every mob is different but each has a wide distribution

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VALUE VERSUS ACTUAL PAYMENT (\$/KG)

	VBM	
Min	-\$2.04	Underpayment
5%	-\$1.08	
Q1	-\$0.40	
Mean	\$0.00	
Q3	\$0.51	
95%	\$0.87	
Max	\$1.59	Overpayment

An actual 611 head example

THE KEY IS ACCURATE AND RELEVANT FEEDBACK LINKING CONSUMER VALUE

- What is the true value of each animal?
- What is creating the value difference?
- How can I identify the good and the bad?
- How can I instigate continuous improvement?
- Clear price signals will drive dramatic change.

DAIRY IS A VALID EXAMPLE

DAIRY is a valid example:

Production Per Cow <u>1980</u> <u>2012</u> <u>2848</u> <u>5891</u> <u>1itres</u>

WHY? Producers have reacted to clear payment signals

- A dairy farm could not survive with a 1980 herd!
- The same genetic & management tools work in beef & dairy!

WIN WIN for Processors & Farmers



- Knowledge is power accurate feedback relays value
- Value based payment stimulates action
- Producer action moves the curve
- A high value animal costs the same to breed, feed & process
- Additional revenue can be shared by participants

VALUE BASED TRADING

- EQ prediction model for **consumer value** combined with new technologies for **yield** measurement = VBM
- **Consumer value** reflected in branding strategies and pricing
- Delivers **ACCURATE** market signals
- Drives alignment between consumer, product, processor and farm supplier

Efficient consumer focused supply chain = A Sustainable Industry