



Australian Government

Department of Industry and Science

Business

**MAPPING CAPABILITY &
CONNECTIONS**

To Investigate and Improve
Supplier Capabilities Servicing the
Red Meat Industry in South
Australia's Limestone Coast

Department of Industry & Science

September 2015

About this report

This report documents the analysis, findings and recommendations of a "Mapping Capabilities and Connections" project conducted in the Limestone Coast region of South Australia by the Department of Industry and Science through a partnership with the Limestone Coast Red Meat Cluster (auspiced by the Naracoorte Lucindale Council) and PIRSA. Twenty-nine participants took part in the project which focussed specifically on the red meat sector. A detailed participant overview is included at Appendix 1.

The objectives of the project are to assist a range of Small and Medium Enterprises (SMEs) in the regional red meat production and processing supply chain to improve supplier capability, improve value chain participation, adopt innovation, improve management capability, and increase the engagement of SMEs in regional, national and international value chains.

Mapping Capabilities and Connections has been developed to assist participating SMEs to:

- understand their supply chains, linkages and processes
- identify opportunities to improve processes, efficiency, and productivity across the supply chain
- identify opportunities for skills development, improved linkages, and to apply continuous improvement
- identifying opportunity to introduce innovation and the adoption of technology to improve systems and processes
- build capability to enable greater local content in national and global supply chains
- understand compliance issues or barriers

Acknowledgements

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- increase collaboration, knowledge transfer and R&D between suppliers, supply chain partners, the research sector and government

The Department of Industry and Science Entrepreneurs' Infrastructure Programme provides firms with access to:

- business management skills for small and medium enterprises including global supply chain engagement services
- support for businesses to collaborate with the research sector to re-engineer business operations and develop new ideas with commercial potential
- commercialisation advice and brokering services for businesses to gain access to private sector capital, and
- support for businesses to help them access specialist expertise, such as progressing the commercialisation of new ideas

Subject to meeting eligibility requirements and/or succeeding in competitive merit based selection processes, firms may also be eligible to access support programs. These include the Entrepreneurs' Programme, Industry Skills Fund, Foundation Skills, the R&D Tax Incentive, the Cooperative Research Centres, the Industry Growth Fund, and other Department of Industry and Science programmes and services.

This project is a collaborative venture between industry, regional development agencies (i.e. local government, RDA etc.), state government and the Commonwealth's Department of Industry and Science. Activities to assist regional suppliers improve capability and to engage with buyers of food and beverage outputs will include activity led by each of the collaborative partners in the project.

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Executive Summary

The Limestone Coast is one of Australia's prime red meat production regions. Land is valuable and closely held while access to water is generally reliable. Consequently various agricultural pursuits compete for land use including beef cattle, lamb and wool production, cropping, dairy and forestry.

Regional red meat producers are often mixed farms producing cattle, prime lambs, wool and cropping. The mix that farmers produce sometimes shifting with commodity prices from time to time.

Suppliers to red meat producers in the Limestone Coast vary from small and medium farm supplies and services providers such as small transport operators and veterinarians through to major national animal health, farms supply and stock agency conglomerates. On the processing side of the red meat value chain, there is some, but limited, evidence of red meat producers managing their product from paddock to plate via contract slaughtering services. Those producers that have achieved vertical integration have done so by differentiating their product via premiumisation and self-marketing. More typically though, meat processing is the domain of large meat processing operations with significant, and in some instances multiple, capital investment in meat processing plants. While there are some smaller meat processing works that remain in the region, the dominant processors are large corporatised entities. These corporate meat processors are increasingly sourcing red meat animals direct from farm, competing with traditional public auction at sale yards as the preferred sales channel for red meat animals.

The Limestone Coast red meat sector is commoditised and often producers operate in price taker mode. Failed rains across south eastern Australia in 2014 led to a feed shortage, and in particular, high premium lamb prices during the 2014-15 season. Processors observed shortages of red meat outside traditional season and commented on the Limestone Coast having typically lower than optimal stocking rates in their opinion.

The high capital investment required to farm in the south east of South Australia requires farming operations to look closely at intensive output, modern farming method, and innovative on farm business models. Particularly so when farming operations have large barriers to moving down the value chain due to the massive cost in running meat processing operations, the difficulty in differentiating red meat product in the eyes of consumers, and the limited access to contract kill services.

Farm management and skills emerged as a key theme identified in the region for focus. Farms are businesses like any other, but the requirements around regulation and compliance, linked with cost pressures and capital outlay mean that farmers have to be better managers than at any other time in Australian agricultural history. Participants noted the pressure placed on farmers due to the time and cost requirements involved in running modern farming operations.

The red meat sector is somewhat divided, particularly between the producers and processors. Improved communication, increased feedback on consumer and processor preferences, and co-operative research in production techniques and pricing mechanisms loom as areas for renewed and continued focus. Collaboration at the regional producer level to look at education and training, business model development, improved production techniques, and opportunities for value adding are areas where combined focus can deliver dividends. Collaboration across the value chain incorporating producers, product and services suppliers, agents, sales yards, transport and logistics providers, and processors is the ultimate goal so that all participants in the value chain can grow the output of the sector in which they share common interest rather than competing for a larger slice of a static or smaller pie.

Findings

Skills shortages were identified in a variety of fields, in particular:

- finance, management and administration
- farm and agronomy skills
- mechanical skills, and
- sales and marketing skills

Succession issues were identified in a number of positions within Participant firms, in particular:

- owner / farmers

Impediments to Growth:

Key impediments to growth fell under six key themes:

- skills shortages
- access to capital
- operating costs
- compliance / regulation/policy
- market and economic conditions
- input availability (red meat animals)

Supply chain interaction and value chain participation in the regional red meat supply chains:

- supply chains are quite connected but not built on particularly strong relationships
- supply chains are typified by large buyers which own the down-stream wholesale and /or retail customer relationships
- very few locally-based firms involved in red food production activities have achieved any real vertically integration by moving along the value chain through value adding activities
- firms seeking to increase value chain participation by vertical integration face significant barriers to entry in capital costs, market intelligence and access, ability to achieve product differentiation, and compliance costs

Management systems in Participant firms:

- management indicators pointed to variability in the sophistication of applied management systems. This spread was evidenced in most firm size categories when analysed by turnover
- many firms were small in size and uptake of management practices and business systems was often based on an “as needs” or “as proven” basis

Sales, marketing and business development:

Channels to market

- the number of channels to market used by Participants is relatively narrow. While this can present a definite vulnerability as channels to market change rapidly, the red meat industry remains quite traditional as it is still dominated by large corporate processors and retailers. Public auctions, however, (traditionally a very strong channel to market) are much less dominant than in previous eras. Cost pressures (e.g. freight, agent commission, transit guarantees, yarding fees, etc.) motivate primary producers to assess new, direct sales methods.
- e-commerce is poorly developed as a channel to market

Business development

- Participants have huge investment in single roles within their firms for significant percentages of turnover. “Key person risk” is a definite vulnerability within the regional red meat supply chain, which is a factor this sector has in common with many Australian firms and sectors, particularly in regional Australia. Turnover of key staff could make sustainability of certain firms uncertain. Succession of these key people is also an issue.
 - 67 per cent of aggregate sales from Participant firms were attributed to the Chief Executive / Owner / General Manager or equivalent.
 - for 48% of Participants the Chief Executive or equivalent was responsible for more than 70 per cent of sales
 - for 41 per cent of the Participant firms, the Chief Executive or equivalent was responsible for 100 per cent of sales

New activities to drive profitability

The key new activities that Participants nominated would be most likely to drive profitability in their businesses fell under four key themes.

Business development / marketing

- new market exploitation
- regional and individual brand recognition

Applied research

- research into supply and production impediments

Innovation

- improved practices, techniques
- increased production

Relationship management

- improved end user relationships
- improved feedback loops

Collaboration

- regional collaboration and alliances with other businesses and institutions

Limitations to the growth of the regional red meat industry

The limitations to growth for the Limestone Coast red meat industry identified by Participants fall into a number of broad categories including:

- low return on investment combined with the opportunity cost of employing the capital elsewhere
- scarcity of livestock for processing and breeding, particularly out of season
- succession of farmers and under-utilisation of arable land
- low innovation uptake
- skills shortages
- price sensitivity and blurry price signals
- spasmodic feedback and market information
- difficulty in differentiating regional product quality / brand
- regulation and compliance
- government investment
- market structure and limited market access

- industry fragmentation
- spiraling input costs (e.g. freight)
- weather and seasonality

Growth opportunities for the regional red meat industry

Opportunities to grow the Limestone Coast red meat industry identified by Participants, likewise, fall into a number of broad categories including:

- regional marketing / branding of red meat
- improved farming practices / systems
- export
- processor expansion, competition and capital improvement
- improved consistency of red meat production
- collaboration
- industry assistance
- new farming models
- niche offerings
- improved genetics
- changes to the red meat industry to reward premium product rather than use a grid system
- improved information sharing
- generational change and primary producer succession

Recommendations

- **Education and training**

Farm businesses and non-farm agriculture businesses are increasingly required to actively manage, assess and implement business inputs and factors including:

- alternative funding vehicles
- compliance and regulatory regimes
- complex agronomy and genetics
- contract and forward sales options
- self-marketing, and
- comparative analysis of logistics, business models, and pricing

All the while managing and monitoring costs, expenditure, and revenue to remain viable.

Participants identified skills shortages, particularly in the areas of:

- finance, management and administration
- farm and agronomy skills
- mechanical skills, and
- sales and marketing skills

Validation of these finding through simple survey and co-ordination of regionally delivered training options for regional red meat related business managers that address identified and emerging skills shortages can leverage off funding available under programs such as the Industry Skills Fund.

Financial management skills and book-keeping around compliance monitoring appear to be increasingly required in the sector.

- **Business models for future farming**

Many business models aimed at increasing pasture utilisation are worthy of consideration by regional red meat producers. Intensive farming methods that improve the leverage on capital tied up in acreage and that increase stocking rates are means to reinforcing the business case for farming operations. Examples include:

- collaborative farming joint ventures that utilise either formalised models (e.g. <http://www.collaborativefarmingaustralia.com>) or negotiated solutions between multiple parties
- season extension farming models that endeavour to establish a competitive advantage by addressing supply issues experienced by red meat processors by, in turn, providing animals more evenly across peak and off peak seasons.

This may include utilisation of large scale shedding to protect stock during unseasonal weather and for finishing and / or feed-pad / feed lot operations

- external farm management to support ageing farmers still on the land and to enable them to remain so
 - corporate farming investment. Large scale corporate investment in farming is increasingly evident across Australia, often facilitated by foreign direct investment. These investments offer an alternative on-farm career path for regional residents and often target regional partners in developing the corporate farming enterprise
 - niche or premiumisation of red meat production. Examples of farming operations that establish a market differentiation enabling those operations to vertically integrate are evident across Australia and the region. Case studies of how farming operations have analysed a market opportunity, developed a direct supply relationship, managed the production – processing – delivery supply chain challenges, and met customer expectations would provide valuable insights
- **Suppliers of choice to maximise value**

Suppliers of red meat animals that;

- deliver animals that meet or exceed the specifications of processors
 - deliver animals on either side of peak red meat production
 - deliver large consistent quantities of red meat animals
 - are early adopters of desired technologies, production methods, and genetics;
- have the attributes that would be likely to become “Suppliers of choice” to the red meat processing sector.

It is also these suppliers that will likely be able to extract a premium for product and/or forward supply contracts.

- **Regional collaboration (growing the pie)**

The red meat industry in the region is highly commoditised. Relationships are not overly strong, although customers and suppliers have many connections in common due to high concentration in processing capacity and farm product supply providers.

Consequently sellers of red meat animals are highly portable and will change customers and suppliers readily. Processors appear to be making efforts to strengthen connections with consistently high quality red meat animal suppliers, with growers taking advantage of the cost and predictability benefits of direct supply.

Improved relationships, collaboration and a functional feedback loop across the supply chain (and within various components of the supply chain) would provide opportunities for establishing common areas of interest for improved practice and productivity.

- **Applied research**

Collaboration with research entities and engagement with subject matter experts are proven means of providing both regionally specific and relevant empirical evidence on ways to address supply and production impediments or achieve step change through innovation.

Targeted research and / or into:

- improved production and pasture utilisation
- livestock traceability through the value chain
- improved genetics
- business models for modern farming
- improved feedback loop
- season extension methods and breed suitability, and
- end user analysis to establish a more effective feedback method from plate back to paddock

Section 1

Industry Overview

The Limestone Coast is economically reliant on agriculture and forestry. The region is widely renowned for its superior soil quality, climatic conditions and access to reliable water.

In late 2014, the Limestone Coast Red Meat Cluster together with the Australian and South Australian Governments agreed to collaboratively undertake a project to investigate the supply chain of the regional red meat production and processing sector.

To better understand the environment in which local firms involved in the regional red meat sector operate, Participants were asked a number of questions relating to products and services supplied, industries supplied to and where, as well as the nature of key customers and suppliers.

The main categories of products and services supplied by Participants were as follows:

- lamb and sheep production (15.6 per cent)
- processed red meat (10.5 per cent in aggregate – multiple varieties)
- transport storage and logistics (10.3 per cent)
- cattle production (9.7 per cent)
- cropping and feed production (6.0 per cent)
- retail red meat (5.4 per cent)

The mix between lamb/sheep, cattle and cropping/feed production represents the “mixed farm” nature of many of the primary production operations interviewed. On occasion primary producers had changed focus from cattle to lamb production in recent years. The high level of transport participants reflects the commodity nature of red meat as a product and the integral role transport, storage and logistics plays in the supply chain.

Transport costs are also one of the key decision driver for primary producers in deciding which channel to market to adopt (i.e. direct sale to processors and major retailers or public auction). Figure 1 shows the overall breakdown of primary products and services supplied by Participants.

Figure 1: Primary products and services

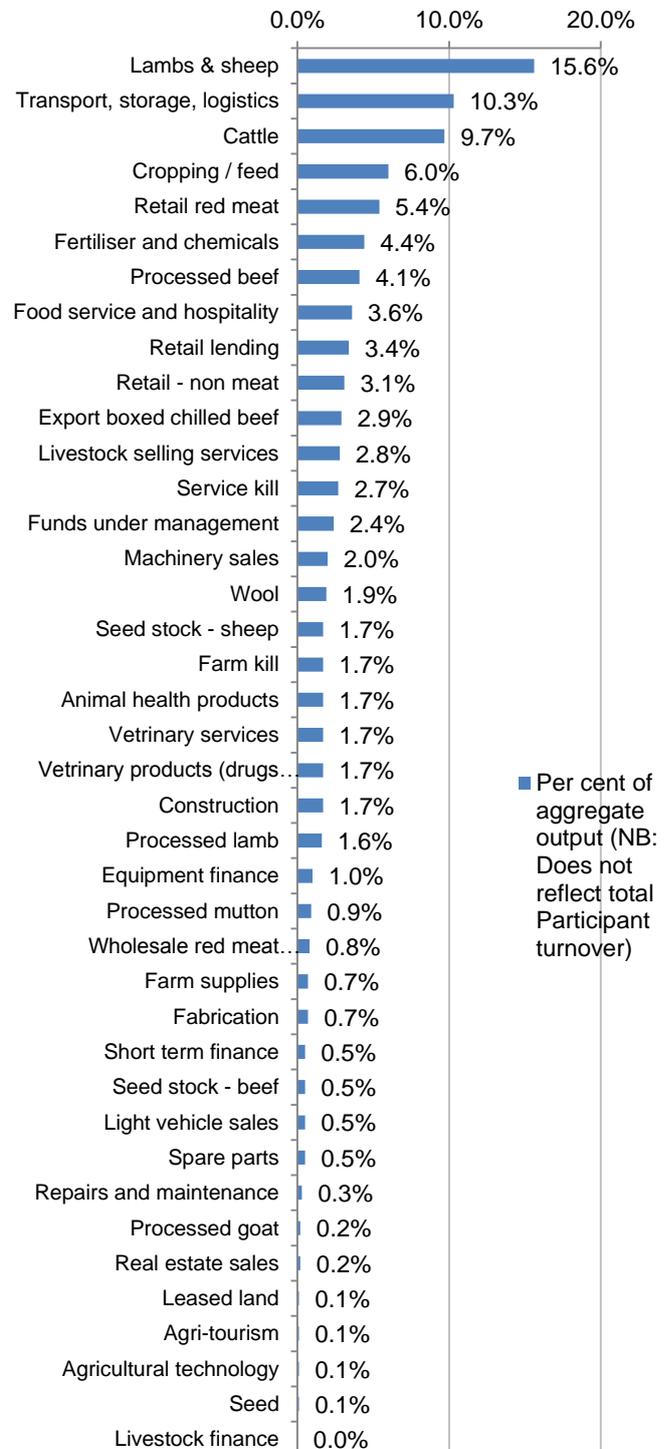
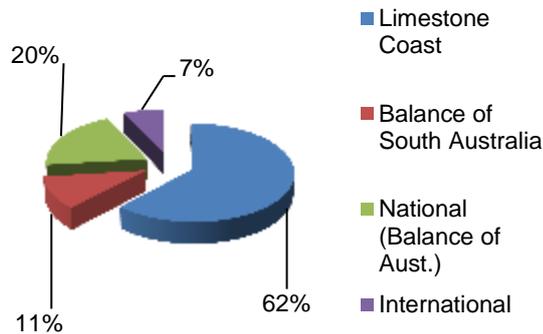


Figure 2: Distribution of products and services by region



Participants' sales of outputs and purchases of inputs by location were largely similar (Figures 2 and 3). Sales of outputs were largely to buyers in Australia. The exception being vertically integrated niche or premium producers and large processors. Supplies were sourced solely from Australian suppliers

Figure 3: Procurement of supplies and inputs by region

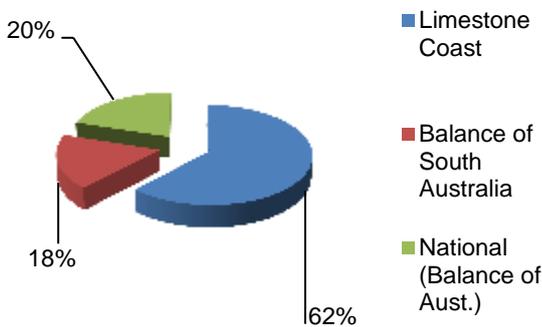
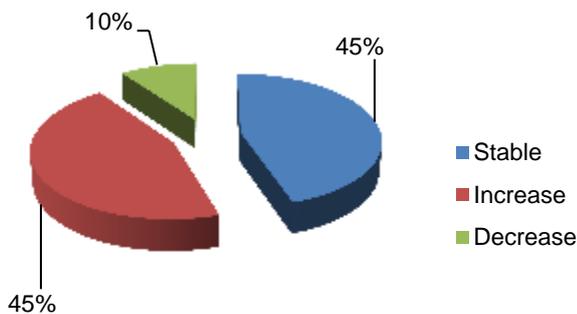
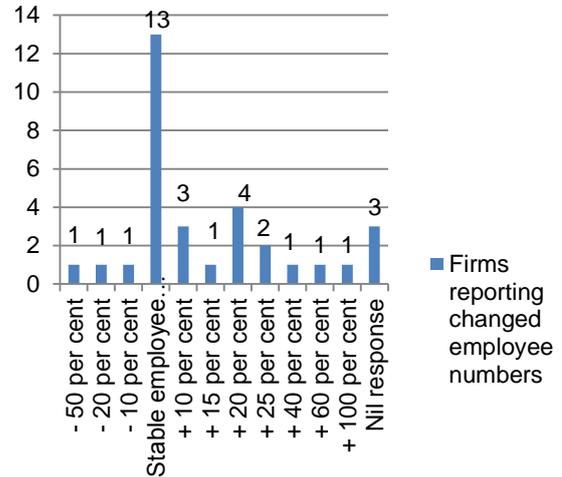


Figure 4: Employment trend (over last three years)



90 per cent of Participants reported growth or stability in employee numbers in the last three years. As efficiency measures often result in decreased employee numbers and improved productive output, these figures indicate relatively strong performance of the Limestone Coast red meat sector (Figure 4).

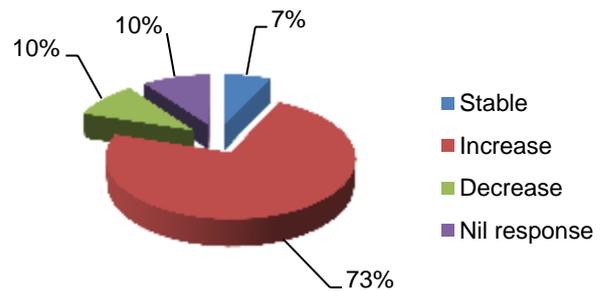
Figure 5: Distribution of change in employee numbers (over last three years)



The distribution of Participant's reporting changes in employee numbers in the last three years in Figure 5 emphasises the findings under Figure 4.

41 per cent of Participants reported employee growth in excess of 20 per cent over the last three years.

Figure 6: Turnover trend (over last three years)



73 per cent of Participants reported increased turnover in the last three years (Figure 6).

Employee numbers and turnover are only two performance indicators. Assumptions concerning individual firms from these indicators in isolation of an holistic review is not considered valid.

Section 2

Supply Chain Connections and Value Chain Activity

To better understand the supply chain linkages, Participants were asked to identify their top five customers and top five suppliers. Additionally they were asked to identify the product/service they supplied, to whom, how it was used, what was supplied to them and by whom, where the customers and suppliers were located, the length of relationships (in years), and how important to the Participating company each customer/supplier relationship was on a scale from one to 10.

Collecting this data enables the connectivity and strength of relationship of the customers and suppliers in the relative supply chains to be assessed, critical areas of supply identified, value chain activity to be identified, and lastly to provide cross referencing information to analyse issues like supply provenance.

This data has been presented in a number of ways on the following pages to illustrate the depth of relationships, the specialisations being serviced, the importance of relationships and the value chain activity being pursued.

Supply chain connections - Customers

By and large the customers identified by multiple Participants were large retailers, or vertically integrated meat processors. Some of these were also Participants (See Figure 7).

This result speaks to the commoditisation of the red meat value chain and “pull” nature of the market. The term ‘Market Pull’, refers to the need/requirement for a new product or a solution to a problem, which comes from the market place¹. In a market pull environment, elements like specification, requirements, design, and often price are set by customers. In this environment the position that businesses can practically occupy in the value chain can be limited by access to capital and other business growth impediments.

¹http://www.technologystudent.com/prdeds1/revca_rdttec1.html

So while the customer connections are notable, the key identified customers have a great deal of market power. In total ten customers were identified by more than one of the 29 Participants. One customer was identified as “Top five” by eight Participants, two by seven Participants, one by five Participants, one by four, two by three, and three by two Participants.

The customer relationships in the supply chain are relatively strong but customers are also seen as relatively substitutable compared to other supply chains investigated. Percentages of customers identified as vital to the on-going operations of the Participants in the supply chain was 55 per cent.

Supply chain connections - Suppliers

Suppliers identified by multiple Participants supplied largely substitutable products. Farm supplies, electricity, tyres, fuel, meat and livestock, finance and stock sales were all products and services identified by multiple Participants.

Supplier traits such as reliability and strong relationships were identified as drivers for sustained supplier relationships.

In total (including Participants and non-participants) 14 suppliers were nominated as “Top five” suppliers by multiple Participants. One supplier was identified as “Top five” by six Participants, two by three Participants, and eleven by two (Figure 8).

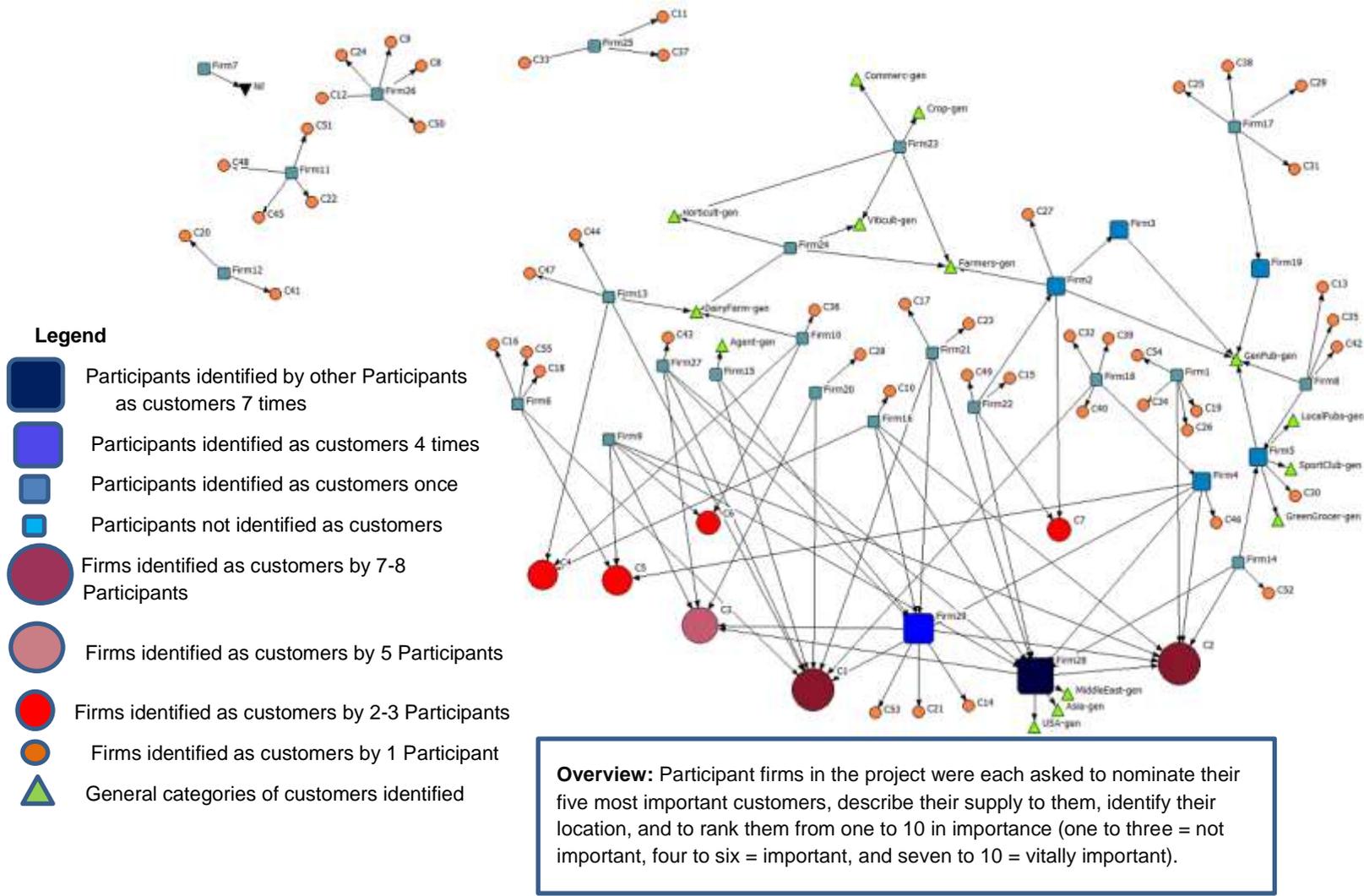
Only 39 per cent of suppliers and supplier categories were rated as vital to Participants’ operations. This is low compared to similar studies.

Cluster activity

While there is some cluster activity evident in the Limestone Coast red meat sector, it is not overly strong. Cluster activity is typified by more than an agglomeration of co-located businesses pursuing participation in the same value chain. Rather it tends to exhibit the evolution of symbiotic and mutually beneficial and highly valued relationships between like-minded firms and institutions working together and adding value through commercial interaction.

Collaboration is the key driver of clusters and industry clusters vary. The existence of cluster activity does not mean firms cannot perform better than they presently do, that they are not under pressure, or that performance cannot be improved with targeted assistance.

Figure 7: Customer connections map – Limestone Coast red meat sector

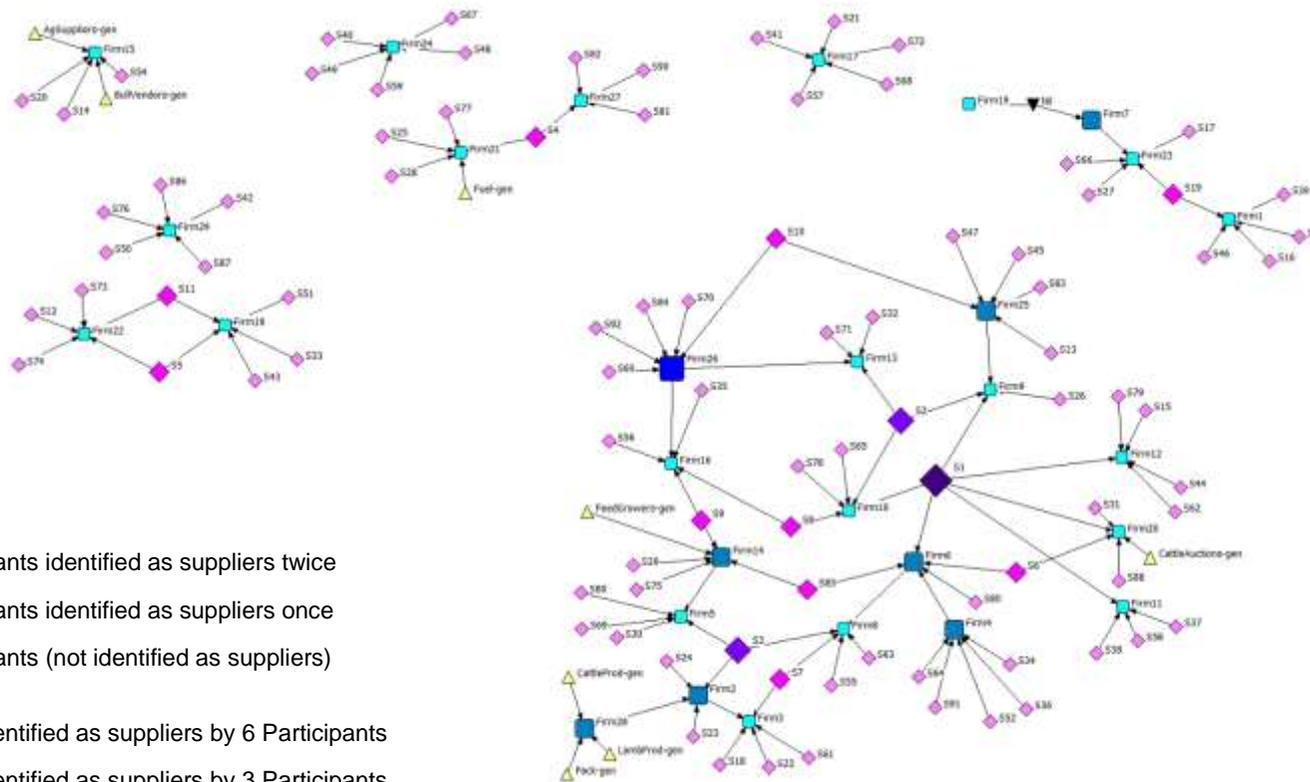


Analysis

The customer connection within the Limestone Coast red meat supply chain is quite strong. Many have customers in common and some Participants are central customers to multiple other Participants.

- 120 ties in total were identified between the 29 Participants active in the red meat supply chain and their nominated “Top five” customers. These ties represented linkages to 96 unique customers and 13 general customer categories
- Five Participants were nominated by other Participant(s) as one of their “Top five” customers
- These nine Participant customers were nominated 14 times in total
- In total (including Participants and non-participants) 10 customers were nominated as “Top five” customers by multiple Participants
- In total one customer was identified as “Top five” by eight Participants, two by seven Participants, one by five Participants, one by four, two by three, and three by two Participants
- 55 per cent of customers and customer categories were rated as vital to Participants’ operations

Figure 8: Supplier connections map – Limestone Coast red meat sector



Legend

-  Participants identified as suppliers twice
-  Participants identified as suppliers once
-  Participants (not identified as suppliers)
-  Firms identified as suppliers by 6 Participants
-  Firms identified as suppliers by 3 Participants
-  Firms identified as suppliers by 2 Participants
-  Firms identified as suppliers by 1 Participant
-  General categories of suppliers identified

Overview: Participant firms in the project were each asked to nominate their five most important suppliers, describe their supply to them, identify their location, and to rank them from one to 10 in importance (one to three = not important, four to six = important, and seven to 10 = vitally important).

Analysis

The supplier connection within the red meat sector in the Limestone Coast is not overly strong.

- 130 ties in total were identified between the 29 Participants active in the Limestone Coast red meat supply chain and their nominated “Top five” suppliers. These ties represented linkages to 100 unique suppliers and eight general category of supply
- Eight Participants were nominated by other Participants as one of their “Top five” suppliers
- These eight Participant suppliers were nominated nine times in total
- In total (including Participants and non-participants) 14 suppliers were nominated as “Top five” suppliers by multiple Participants
- In total one supplier was identified as “Top five” by six Participants, two by three Participants, and eleven by two
- 39 per cent of suppliers and supplier categories were rated as vital to Participants’ operations

Value chain activity

A way of looking at a “value chain” is the string of value creating activities and business capabilities that firms can derive a margin from when jointly delivering a product or service to market. This value creation can be generated from internal or external capabilities and activities, while the activities can be delivered by a group of businesses anywhere from product or service inception, through production and delivery to market, and then on to after sales service.

The value chain approach contrasts with more traditional supply chain approaches by focusing on customer requirements, delivering products and services to meet identified needs and building relationships based on mutual value. Efficiencies and competitiveness are driven out of creating value delivered through collaborative relationships rather than simply cost reduction. The value chain approach utilises lean principles to deliver value to participants across the whole market structure. The increasing competitiveness of global markets is leading many firms to adopt value chain approaches to deliver innovation for competitiveness. It’s more about growing the whole pie, rather than increasing a single entity’s slice of the existing pie.

Figure 9 illustrates a segmentation of the Limestone Coast red meat value chain structure. Support activities are means by which firms can drive increases to operational margins. These are undertaken when conducting primary activities central to the value-adding process of creating and taking the end product or service to market.

Value chain performance is not measured by how many parts of the value chain a firm participates in, but the margin it extracts from the value chain. The margin(s) a firm makes can be from one or more parts of the value chain or from supporting activities and the relative efficiency of the delivery of those supporting activities. Often this value is shared with other firms based on efficiency, complementarity and relationships.

When firms have moved along the value chain and are conducting multiple primary activities as part of their sector participation, the firm has vertically integrated.

Red meat value chain

In the Limestone Coast red meat value chain there are a number of types of firms including but not limited to:

- red meat producers
- large corporates with a large scale capital investment in growing, processing, marketing

and distributing red meat nationally and internationally

- large corporates retailing red meat that also purchase animals from producers and process and butcher red meat via third parties and / or directly
- large corporates providing products and services to red meat producers
- small to medium firms processing red meat
- small to medium firms providing services to red meat producers
- small to medium firms providing services to red meat processors
- small to medium retailers of red meat
- small to medium food service firms purchasing red meat

In Figure 9, firms are represented by dots of different size and colour in line with the range of turnover reported by firms. These dots are located either within a specialisation within the value chain, or along a black line representing activity in multiple parts of the value chain. The black lines have black dots that signify which activities firms located on the black lines are involved in. Firms not on a black line are involved in a single specialised value chain activity.

Vertical integration

Red meat differs from many other sectors as the vertically integrated firms that are active in multiple parts of the value chain are typically large corporate entities. Where small to medium firms in the red meat value chain have successfully vertically integrated it has generally been as a result of:

- successfully finding a niche market
- successfully marketing of premium product
- provision of support services, or
- successful operation of existing well-established capital infrastructure

Vertical integration to in the red meat sector has high barriers to entry. The capital cost to develop, maintain, and operate a meat processing plant is very significant. The connections into the market both from the primary production to the wholesale distribution and retail ends of the value chain, can and often do, take years to develop. Regulation and compliance is stringent. International market penetration is vital to success.

These barriers to entry impose large sunk capital costs and on-going operational costs on processors and major distributors / retailers that can include fulfilling

existing contracts when prices are high. Consequently some processors protect their sunk cost by only processing red meat owned by the corporate entity.

The costs, relationship management, and management and compliance complexity pose barriers to entry for smaller entities looking to vertically integrate or value-add through avenues such as self-marketing etc.

To increase value chain participation or not?

It should be noted, that participation in multiple parts of the value chain (i.e. vertical integration) is not a certain means of increasing margin or profitability.

Management capability, market knowledge, buyer and supplier relationships, capital equipment, technology, skills of staff, and a myriad other factors are essential to effectively extract margins or even increase turnover through diversified value chain activity.

In contrast to vertical integration, specialisation is often used by firms (think large farm supply corporations for example) to extract a higher margin for products and services. It sometimes just makes more sense not to do something and to concentrate on core business.

Business diversification to drive growth can take many forms, for example:

- new regional/national markets
- new international markets
- new product/service type
- entry to new sector
- entry to new sub sector
- diversified value chain participation

Value chain diversification should be seen as a “horses for courses” approach.

Businesses looking to increase or improve their value chain participation should:

- carefully consider internal firm level capabilities – “*Can we do this well?*”, “*What do we need to do this well?*”, “*Why us?*”
- assess the risk profile of the business and risk appetite of the key people within the business - “*What if....?*”, “*Can we afford the capital investment/bank guarantees etc.?*”, “*How long before we make a profit on this activity?*”
- consider various diversification options and assess the best method of diversification based on the firm’s situation – “*What else is there?*”- “*What suits us best?*”
- access market intelligence on the chosen opportunity – “*Who wants this?*”, “*Why do they want this?*”, “*Who else is in the game?*”, “*Why us?*”, “*What is the life span of this opportunity?*”
- develop a considered strategy complete with timelines/milestones, resource allocations,

information and capability gaps, and proposed solutions - “*How?*”, “*When?*”, “*How much?*”, “*By who?*”, “*What else/Who else do I need?*”

- leverage networks, mentors in developing strategies - “*How can I learn more quickly?*”, “*Have I considered everything?*”, “*Who else has done this?*”, “*What pitfalls do I need to avoid?*”
- seek outside assistance if required – “*Is there government support?*”, “*Can we join forces with another / other business(s)?*”, “*Is there specialised consulting support required?*”, “*Does someone want to buy in to the opportunity so I can share the risk?*”

Improving performance within firm specialisation

Improved core business operations, improved asset utilisation, and business model re-development are often means used by firms to improve profitability within existing firm-level specialisation.

In fact evidence suggests that firms, particularly primary producers, need to become “good” before they become “big”.

Every enterprise in a value chain from primary production through processing / manufacture to retail and after sales service is still a supplier to the end customer. They are also all still businesses and have to be business-like.

Business performance and management capability is key to profitability, sustainability, and attracting external capital. It is also a lever to mitigate firm-level risk, and in turn, owner / manager stress.

Where evidence suggests management capability is lacking, education and managerial development is the first step to improved performance.

External assessments of;

- business structures
- asset utilisation
- market opportunities
- customer needs
- technology application, and
- appropriateness of business model;

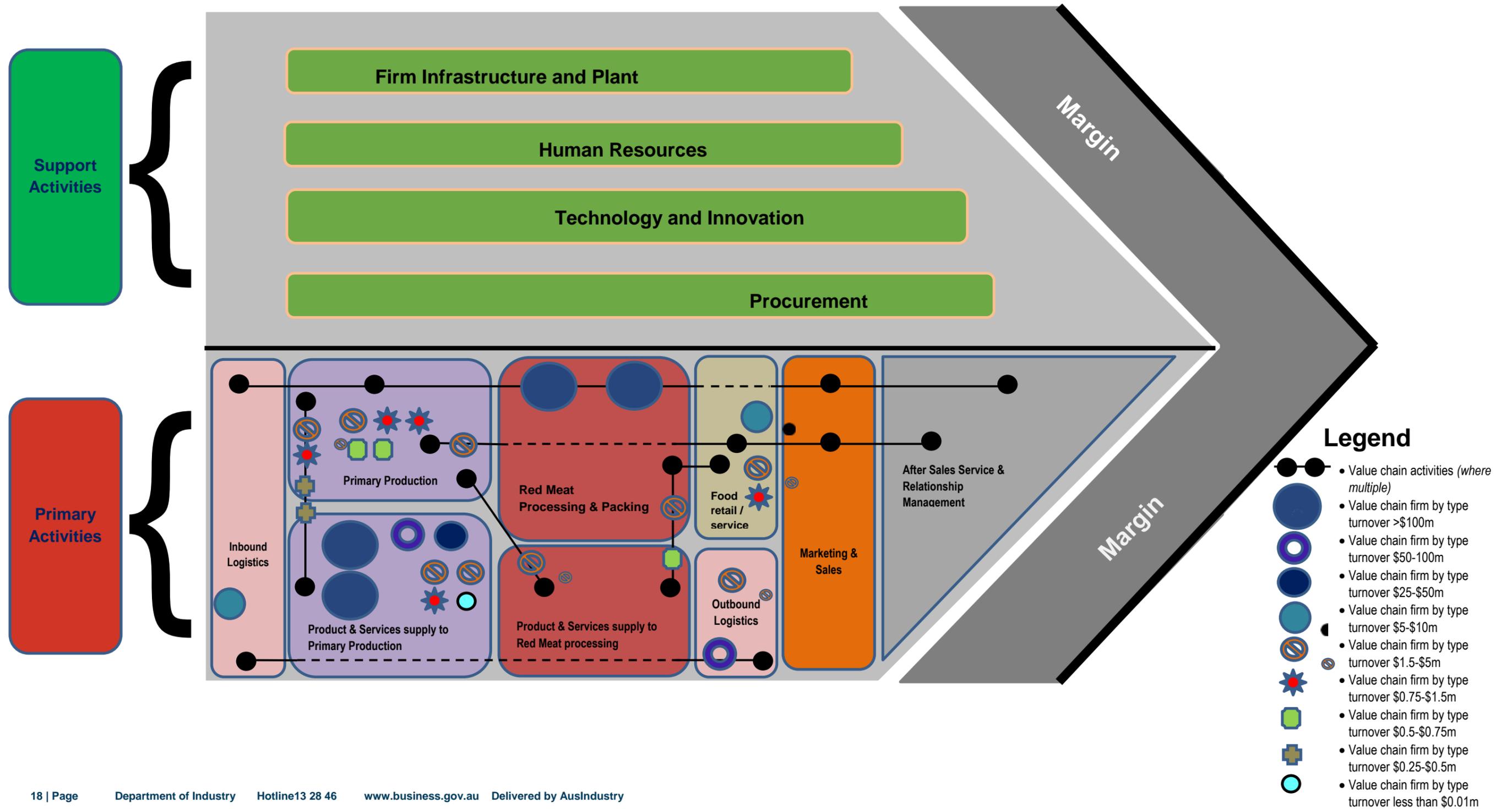
enable firms to prioritise improvement measures to drive growth and capability within specialisations.

Providing customers with what they require, at the quality they require, in required quantities, with a high level of consistency in both quality and availability, over an extended season are all means to become a red meat supplier of choice.

Suppliers of choice in many value chains often lock in forward contracts and negotiate premium process for products and services.

Figure 9: Value chain participation diagram

Limestone Coast Red Meat Value Chain



Improving customer relationships

Participants were asked to suggest how their relationships with their customers could be improved. This information was categorised by activity type. The main areas identified by Participants for attention were:

- communications (including sharing information) (45 per cent)
- planning and scheduling (28 per cent)
- joint strategies - (Incl. aggregated procurement) (25 per cent)
- contract issues (14 per cent)
- technology development (14 per cent)
- process innovations (36 per cent)
- skills / training (10 per cent)
- marketing (10 per cent)

It should be noted that there is significant overlap between activities, e.g. planning & scheduling and sharing information/communications.

The main themes emerging included:

- feedback from processors down the supply chain regarding animal quality, customer feedback, genetics, and forward projection etc. to optimize mutual two-way communication outcomes
- better visibility of demand planning / forecasting / client needs / marketing activity
- building stronger supply chain alliances with customers and suppliers (increased collaboration)
- better use of technology and data to optimise productivity and profitability
- improved knowledge of modern techniques and product applications
- improved efficiency of operation

Improving supplier relationships

Participants were asked to suggest how their relationships with their suppliers could be improved. This information was categorised by activity type.

The main areas identified by Participants for attention were:

- improved inventory holding / supply time frame (10 per cent)
- feedback and communications (7 per cent)
- market research and innovation (7 per cent)

The main themes emerging included:

- suppliers carrying stock/inventory and advising of shortages/delays
- suppliers could keep Participants up to date with information about equipment solutions, or

opportunities etc. in a proactive manner. Have to chase them

- undertake research
- address on-farm productivity through agronomy, genetics, carrying capacity, and season extension

Section 3

Business and Management Systems

Participants were asked a series of questions concerning the management approach taken to common management themes.

In answering the question Participants were asked to select the descriptions under each theme that *most* resembled the approach to managing the issue adopted by the business.

The results were arrayed against the total sample and a series of subsets based on aggregated turnover ranges.

No answer is necessarily right or wrong. Firms must adopt the best management approach to their circumstances.

Primarily, Participants approach change, training and recruitment on an “as needs” or “proven to work” basis. Strategy is largely managed through annual review of strategy while continual improvement is widely driven by management with staff involvement (noting many Participants are micro and small businesses – See Appendix 1). Some collaboration though, is evident through industry event attendance, networking and commercial alliances.

The results reflect the often small employee base of Participants, however there remains a relative spread of approaches adopted by firms of all sizes in the sample. Some large firms adopt relatively simple business approaches while other smaller firms have adopted more sophisticated management practice.

Figure 10: Management indicators

Management indicators by category	Per cent response
Strategy	
We internally develop and review strategy on an as needs basis	33%
We internally develop and review our strategy annually or other regular (less than yearly)	44%
We internally develop and review our strategy with external assistance as required on an annual or other regular (less than yearly) (might include Government advisers and consultants)	22%
Productivity and continuous improvement	
In our business - productivity monitoring is driven by management	48%
In our business - staff and management are actively involved in identifying productivity improvements	26%
In our business - we use a programmed (systemised), regular productivity review process involving staff and management	15%
In our business we use external experts to support a programmed, regular productivity review process involving staff and management	11%

Management indicators by category (cont.)	Per cent response
Innovation of products and processes	
New products and processes are adopted when proven to work in our industry	37%
New products and processes are sought out for implementation on an as needs basis	26%
New products and processes are sought out and adapted for implementation as part of an on-going process	30%
New products and processes are sought out, adapted, internally developed, or bespoke designed for implementation as part of an on-going process	7%
Partnering and networks	
We are occasional attendees at industry networks	30%
We actively seek out industry networks and forums	48%
We are only interested in commercial alliances/partnerships	7%
We actively seek out commercial alliances/partnerships as well as industry, government and university networks and forums	15%
Human resources	
Staff are recruited when shortages are identified or turnover occurs	63%
We have an good working knowledge of the skills required in our industry and we recruit and up-train to ensure we have those skills on hand such as when crucial skills turnover occurs	26%
We have a skills matrix developed in line with our growth strategy. We recruit and up-train to the matrix and/or when crucial skills turnover occurs	11%
Training	
We train people on how to do their job or as required by change (e.g. staff turnover / new equipment)	41%
We have a training plan we implement annually based on new starters needs, individual training plans and business needs	37%
Our training plan is linked to strategy and is implemented annually and includes individual training plans	15%
Our training plan is linked to strategy and skills gaps. It is implemented on an on-going basis and includes what the firm needs at the time and staff individual training plans	7%

Section 4

Growth: Impediments and Opportunities

Participants were asked a series of questions regarding business development responsibilities, channels to market, activities likely to generate new business, and impediments to growth.

Participants were asked to identify which channels to market the business used as a percentage of turnover.

Figure 11: Sales channels

Sales channels used as a percentage of turnover (aggregated)	Per cent
Direct channels	
Direct sales to user / manufacturer	65%
Direct sales to retailer / reseller	3%
Direct e-Commerce	0%
Indirect channels	
Wholesaler	1%
Public auction	8%
Processor / Aggregator	9%
Distributor / Agent	9%
Third party e-Commerce	0%
Export grain re-seller	1%
Export seed re-seller	1%

Unsurprisingly in a highly commoditised supply chain like red meat, direct sale to user / manufacturer is the dominant channel to market.

Public auction representing eight per cent of sales reflects the changing nature of red meat animal sales with major retailers and processors directly purchasing from both primary producer and product and services suppliers.

Participants were asked to identify which roles within or external to the firm were responsible for sales as a percentage of turnover.

Participants have huge investment in single roles within their firms for significant percentages of turnover. "Key person risk" and succession risk of key people is a definite vulnerability within the Limestone coast red meat supply chain.

Figure 12: Roles responsible for sales

Role within business responsible for the majority of new business?	Per cent
Owner / Manager / Chief executive	67%
Operations manager (or similar)	7%
Sales representative staff (internal)	17%
Sales agent (external)	5%
Partner	1%

n=27

- 67 per cent of aggregate sales from Participant firms were attributed to the Chief Executive / Owner / General Manager or equivalent.
- for 48% of Participants the Chief Executive or equivalent was responsible for more than 70 per cent of sales
- for 41 per cent the Chief Executive or equivalent was responsible for 100 per cent of sales

New activities driving profitability

Participants were asked to select the Top three types of activities most likely to drive profitability benefits to their firm from a provided list. The table below includes all responses attracting at least one "Ranked 1" response".

Figure 13: New activities driving profitability

"Top 3" - New activities most likely to deliver profitability benefits to businesses	Ranked 1	Total Responses
Regional brand recognition	5	8
Production quality improvements	5	5
Improved end user relationships	4	6
Applied innovation in production techniques	3	12
Individual brand recognition	2	8
Aggregation of products/services with other regional businesses	2	2
New market and market diversification activities	1	7
Increased land holding	1	2
Strategic commercial alliances with other regional businesses and institutions	1	1
Research solutions for supply and production impediments	1	1

The main themes which activities to drive profitability benefits to Participants fell under:

- new market exploitation
- regional and individual brand recognition
- research into supply and production impediments
- improved practices, techniques
- increased production
- improved end user relationships
- regional collaboration and alliances with other businesses and institutions

Other common theme identified in MCC projects are access to capital for expansion purposes and managing rising overheads.

Figure 14: Impediments to growth

Participants were asked to nominate the Top three impediments to growing their red meat related business ventures.

Impediments to business growth	Responses
Cost of land / capital risk appetite / cost and access to capital	34 per cent
Access to skilled / motivated staff / HR issues	24 per cent
Competition / margin squeeze	21 per cent
Environmental conditions / failed rains / climate change / seasonality	17 per cent
Management time resource	14 per cent
Regulation and inflexible legislation	14 per cent
Management skills	10 per cent
Farmer and business confidence	10 per cent
Costs of doing business (including labour)	10 per cent
Availability and cost of land	7 per cent
Freight costs	7 per cent
National stock levels	7 per cent

Key impediments to growth fell under six key themes:

- skills shortages
- access to capital
- operating costs
- compliance / regulation/policy
- market and economic conditions
- input availability

Skills shortages are a common theme identified in undertaking MCC projects across Australia. Particular types of skills are anticipated to become increasingly scarce in the future according to Participants. Many of these skills are essential for plant design, repair, maintenance and management. Team management and business management were also strongly identified as skills shortages.

Section 5

Industry and Regional considerations

A number of the issues raised during this project pose challenges for regional co-ordination of responses, delivery or services and the development of industry collaboration.

Skills

Figure 15: Skills avenues used by Participants

Participants were asked what were the Top three skills support avenues utilised by the business.

"Top three" Sources used for training	Responses
TAFE	11
Registered training providers	8
In house / HQ / on the job	8
Meat & Livestock Australia	4
Industry associations	3
Tours / conferences / industry forums	3
Suppliers	3
Universities / Institutes	3
Peers / exchange programs	3
McKillop Group	2
Finance providers / professionals	2
Professional advice	2
Marcus Oldham College	1
Birchip Cropping Group	1
Grassland Society	1
Australian Veterinary Society	1
PIRSA / SARDI	1
Business SA	1
Leadership Management Australia	1
Industry focus groups	1

While participants are heavy users of TAFE, registered training organisations, in house training and industry bodies - the pressing issue for Participant firms is skills shortages.

Participants were asked which skills were currently missing or deficient. They identified a present shortage of skills in:

- finance, management and administration
- farm and agronomy skills
- mechanical skills, and
- sales and marketing skills

These skills and other skills in short supply are vital to managing primary production, service and product supply, and major processing and retail businesses in the red meat supply chain.

Skills shortage issues are not unique to the Limestone Coast. Other MCC projects conducted in other parts of Australia and in other supply chains have identified similar themes. The advent of the Australian Government's Industry Skills Fund is an avenue to address skills shortages where identified growth opportunities exist. Funding to assist businesses of any size is available to fund both accredited and non-accredited training within eligibility guidelines.

Limitations to the growth of the regional red meat industry

The limitations to growth for the Limestone Coast red meat industry identified by Participants fall into a number of broad categories including:

- low return on investment combined with the opportunity cost of employing the capital elsewhere
- scarcity of livestock particularly out of season
- succession of farmers and utilization of arable land
- low innovation uptake
- skills shortages
- price sensitivity and blurry price signals
- spasmodic feedback and market information
- difficulty in differentiating regional product quality / brand
- regulation and compliance
- government investment
- market structure and limited market access
- industry fragmentation
- spiraling input costs (e.g. freight)
- weather and seasonality

Growth opportunities for the regional red meat industry

Opportunities to grow the Limestone Coast red meat industry identified by Participants, likewise, fall into a number of broad categories including:

- regional marketing / branding of red meat
- improved farming practices / systems
- export
- processor expansion, competition and capital improvement
- improved consistency of red meat production
- collaboration
- industry assistance
- new farming models
- niche offerings
- improved genetic s
- changes to the red meat industry to reward premium product rather than use a grid system
- improved information sharing
- generational change and primary producer succession

Spare capacity

Participants were asked whether they had any spare capacity in terms of plant, capacity, capability, labour, floor space, or storage.

Figure 16: Spare capacity

Spare capacity type	Responses
Crop planting and harvest / plant and machinery	4
Abattoir processing	2
Farm management	2
Agronomy services	1
Freight services - capacity is their product	1
Shed space	1
Livestock market days	1
Nil responses	17

Meat processors identified capacity for further meat processing in the region. Certain primary producers (primarily younger producers) nominated capacity to take on further farm management, contract harvesting and machinery operations on behalf of other farmers.

Products and services would like to source locally

Participants were asked whether there were any items of supply currently sourced from outside the region, that

they thought could be realistically produced or supplied in the region.

Relatively few items of supply were identified . See Figure17.

Figure 17: Products preferably sourced locally

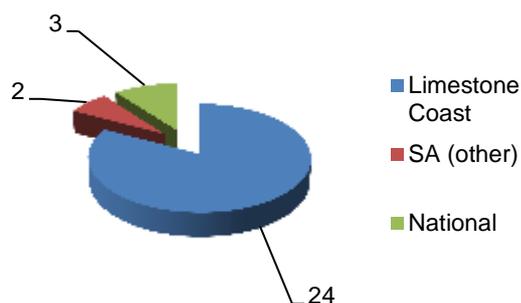
Product or service you would like to source in the Limestone Coast	Driver or reason for sourcing locally
Labour	Skilled fabrication and construction staff
Compost	Freighting distance
Trailer manufacturer (crates)	By buying local, improved responsiveness
Meat processing / private kill	Teys don't kill others' stock
Nil response = 23	

Appendix 1

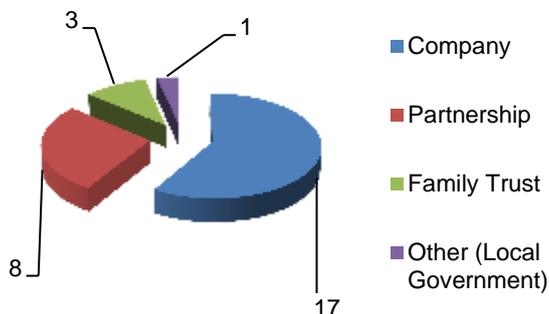
Participant Overview

Office location

The red meat supply chain of the Limestone Coast is significantly regionalised with 24 Participants (83 per cent) of all Participating firms headquartered in the region and 90 per cent in SA.

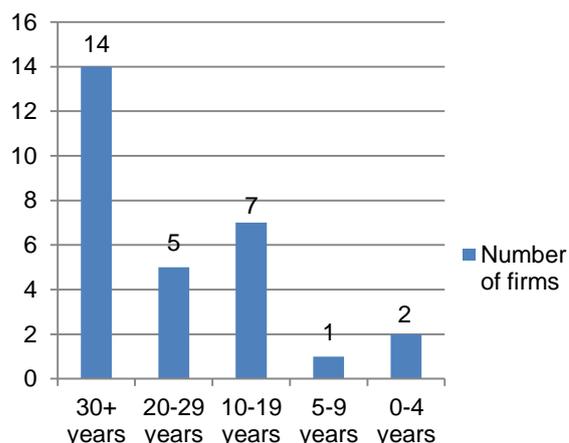


Entity structure



59 per cent of firms operated a company structure. 28 per cent of Participants operated partnerships. Some firms had associated trusts.

Firm age



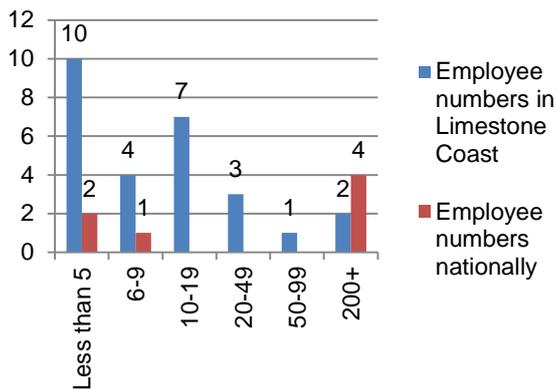
According to the ABS, the mean length of ownership of Australia's non-exporting SMEs is 14.0 years and the age of exporting firms is 15.3 years (based on a sample of 14 industries). A separate measure for manufacturing firms found that the mean age of non-exporters was 13.1 and exporters 17.2 years.²

The average age (37 years) of firms and median age (27 years) of firms interviewed is substantially above the national mean for similar sized firms, whether they are manufacturers or not, and whether they export or not. 14 of the 29 (48 per cent) Participant firms are over 30 years old.

² Australian Bureau of Statistics (Jan 2010) Report 1350.0; Australian Economic Indicators, Business Characteristics of Small and Medium-Sized Australian Exporters (Feature Article).

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/1350.0Feature+Article2Jan+2010>

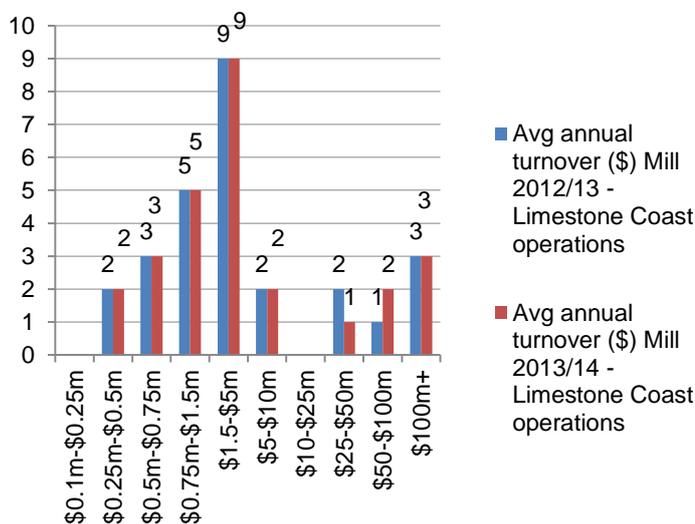
Employees



- 90 per cent of Participants (26 firms) were small or micro businesses employing less than 20 people
- 34 per cent of Participants (10 firms) were micro businesses employing five or less people
- Seven per cent of Participants (two firms) employed more than 100 people in the region

Turnover

Regional operations



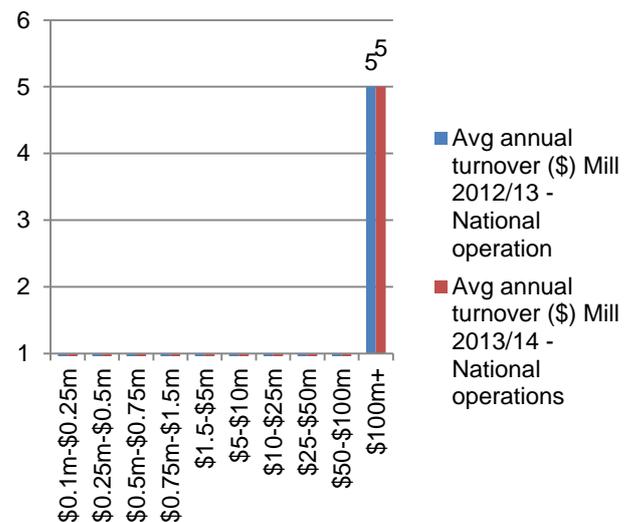
While some increase or decrease in firm turnover from financial year to financial year is normal, often this is not substantial enough to move from one range to

another. This was mostly the case in the Limestone Coast

- Relatively few firms moved up and down a turnover category. Those that did nominate movement from range to range over the two financial years noted increased production, movements in commodity prices or completed projects.

Firms with national operations were generally large corporate meat processors or large corporate product and service providers.

National operations



Appendix 2

Mapping Capabilities and Connections Methodology

Mapping Capabilities and Connections (MCC) is an assessment tool developed by the Department of Industry and Science in partnership with Deakin University, Geelong. It involves in-depth interviews with business owners/managers to obtain an understanding of the business environment in which they operate, and mapping customer and supplier relationships that are important to the firms' operations. Understanding these connections/relationships and the business environment can help identify opportunities for firm growth and assist with economic development in the region.

Sample Selection

An agreement was reached between the Limestone Coast Red Meat Industry Cluster and Department of Industry and Science to partner in the delivery of this project. This partnership was brokered through an existing relationship between PIRSA and the Department of Industry. The Limestone Coast Red Meat Industry Cluster identified the Participants to be interviewed.

The Limestone Coast Red Meat Industry Cluster staff, working with assistance from staff from the Department of Industry and Science, then sought interest from a number of firms operating in the region. In all, 29 firms participated.

Interviews were conducted between February and April 2015 with business owners or senior representatives from each of the organisations.

The interviews were based on an interview guide developed by the Department of Industry and Science. A copy of the interview guide is available separately.

The interview guide sought information from Participants about:

- history/evolution of the business in the region
- the business's characteristics – capability, employment, turnover and primary sources of income
- supply chain linkages with key suppliers, locations, length and importance of relationships
- supply of products and services
- growth and development opportunities, as well as impediments to growth
- value chain participation of firms

It is important to recognise that personal views can be transitory and quite dependent on situation and context (in this case, each interview lasted approximately one and a half hours) which means that the results of the study need to be interpreted with care.

Interpretation of Supply Chain Maps

Based on the information supplied, network analysis was used to map relationships and identify common linkages between firms. In order to create customer/supplier/competitor relationship maps that would show important inter-relationships, participating firms were asked to nominate their five most important customers/suppliers/competitors and to rate their importance to the business on a scale from one (not important) to 10 (vital). Some firms nominated less than five for these categories, while others nominated categories of customers and suppliers because repeat customers do not occur often.

Appendix 3

About Entrepreneurs' Programme

What is the Entrepreneurs' Programme?

The Entrepreneurs' Programme is the Australian Government's flagship initiative for business competitiveness and productivity at the firm level. It forms part of the Australian Government's new industry policy outlined in the Industry Innovation and Competitiveness Agenda. This Agenda is a business-focused element of the Australian Government's broader Economic Action Strategy and brings together and builds upon other economic reforms to make the most of Australia's strengths and business opportunities.

The Programme uses quality facilitators and advisers, drawn from industry, to ensure businesses get the advice and support they need to improve their competitiveness and productivity.

The primary focus is on providing access to the best advice and networks to solve their problems rather than focusing on financial assistance.

The Programme replaces a multitude of competing small grants and entitlements with a new streamlined approach to government support delivered by AusIndustry's new Single Business Service Initiative.

Practical support for businesses, researchers and entrepreneurs includes: advice from people with relevant private sector experience, co-funded grants to commercialise new products, processes and services, funding to take advantage of growth opportunities, and connection and collaboration opportunities.

Where can I find out more about the Entrepreneurs' Programme?

Further information on the Entrepreneurs' Programme is available at www.business.gov.au or call **13 28 46**