Les caractéristiques de chaînes de valeur réussies comparativement à ce qui se produit dans une industrie plus large*

(Characteristics of Successful Lamb Value Chains versus Traditional Business Approaches)

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Many producers fear that developing close relationships with processors and retailers will leave them vulnerable to exploitation. However, the opposite is true. Developing close business relationships with processors and retailers can provide producers with significant financial benefits.

VALUE CHAINS

Value chain is one of the most commented upon though least understood terms in agriculture today. Value chains operate at the business level and encompass the entire route from inputs required to produce live lambs (e.g. genetics, fertilizer, human resources, transport, etc..), and processing, through to the delivery of a final cut of lamb to the place of purchase by a retail or foodservice customer before its eventual consumption. An industry would, therefore, be comprised of chains, each supplying products to the end market. The stronger the chains are that operate in an industry, the stronger an industry will be and the more likelihood there will be for the industry to successfully adapt to changing competitive pressures.

An example of how individual chains lead to a stronger industry able to compete effectively against international competitors already exists in the international lamb industry. Britain provides a classic case in point. Since the 1980s the UK lamb industry has regained market share from New Zealand imports. It has also overcome immense challenges, such as BSE in 1997 and the two incidences of Foot and Mouth Disease (FMD) – 2001 and 2007. A major reason for the strength and resilience of Britain's lamb industry stems from the competitiveness of the chains that operate within that industry, and their ability to adapt to changing consumer demands, as well as other competitive pressures. A sample of chains operating in the UK lamb industry includes Welsh Assured Quality Lamb (supplied to Waitrose), Tenderlean Lamb (supplied to Sainsbury's), and Bernhard Matthews Lamb (supplied to Tesco). Canada does not currently have any value chain initiatives in lamb on this scale.

VALUE CHAIN MANAGEMENT (VCM)

Many attempts have been made to describe what differentiates a supply chain from a value chain. In taking a dualistic (black and white) approach to arguing that a supply chain and value chain are two very different entities, commentators miss three simple though obvious facts:

1. What lies at the heart of differentiation between a supply chain and a value chain is how the two systems are managed. It is not that the two systems' physical structures are markedly different.

2. As with any managerial practice, the ability to manage a chain has to be learnt and is, therefore, an ongoing process. The more mature the chain, the more sophisticated its operations are likely to be compared to those in place when it was first developed.

3. The third is that almost every function (i.e. logistics, selling, buying, processing, marketing, etc.) that occurs in a supply chain also occurs in a value chain. Their operations will, however, be managed very differently.

Attempts to make a stark differentiation between supply chains and value chains fail to recognize that management is the key differentiator. The most obvious differences that occur in how supply chains versus value chains are managed include the following:

- Supply chain management focuses mostly on increasing the efficiency of current operations, such as minimizing transportation or production costs in isolation of other factors.
    - Its core focus is on reducing costs while retaining the systems and processes that are already in place.

- Value chain management on the other hand comes from the standpoint of basing management decisions on whether an operation creates value from consumers' perspectives.
    - Its core focus is on developing the systems (resources, infrastructure, processes and relationships) necessary to satisfy or exceed consumers' expectations.
    - Cost reduction is an outcome of this approach, as are superior quality and competitiveness.
    - A good analogy for comparing the sustainability of the two approaches is to consider the fortunes of General Motors (which followed the supply chain approach to management) versus Toyota (which followed the value chain approach to management).

THE TRADITIONAL VS. THE VCM APPROACH TO PRODUCING AND MARKETING LAMB

Lamb is a complex disassembly industry. Commencing with the production of an entire animal, which is then deconstructed according to the demands of various markets, red meat production takes a form opposite to most other industries. If any activity occurring at one level of the chain

is undertaken without sufficient regard to others occurring along the route from field to fork, it can negatively impact practices occurring elsewhere in the overall production of a lamb consumed through retail and foodservice. In taking a VCM approach to business, companies automatically place greater attention on minimizing unnecessary and/or repetitious practices that have a financial cost, and expand opportunities to capture greater value by improving the lamb they are supplying from consumers' perspective.

Traditionally, sheep and lambs have been sold for slaughter through either livestock dealers or as lots at an auction. Lambs would be purchased on a live weight basis, likely transported directly to the abattoir, and slaughtered almost immediately. The carcasses, generally after 24-48 hours hanging in a chilling room, would be sold as whole or half carcasses to a wholesale, retail or foodservice outlet. Lamb sold through retailers (butchers, independent grocers and supermarkets) would be prepared on the premises by cutting the carcass for purchase as fresh meat, or as value-added products such as sausages after further processing in-store.

While this route from production to consumer is relatively simple, the negative impacts that multiple handling, mixing of live animal carcasses or cuts, and differing practices have on end quality and consumers' perceptions of value can be significant. Results include lost opportunities to create and capture value through failing to optimize marketing arrangements according to the differing demands of specific consumer segments. Inefficiencies from variation in product limit the opportunity to improve economies of scale. As well, only limited opportunities exist to reduce costs and improve the effectiveness of operations occurring along the entire chain, from breeding through to consumption. This means that the entire chain misses opportunities to better meet consumer demands through investing resources at more appropriate points along the chain, as well as further value-creation opportunities, due to product inconsistency leading to consumer dissatisfaction. Together, these factors ultimately lessen the overall enthusiasm that consumers feel toward lamb.

Another reason for inconsistency in end product and a high cost structure of traditional supply mechanisms commences from the moment lambs are graded. The subjective assessment of live lambs at auction will always lead to greater inconsistency in end product than if objectively assessing lamb carcasses on the rail. It also limits opportunity to communicate market signals to producers. Communicating market signals to producers encourages them to take a more market-oriented approach to lamb production. This provides producers with the opportunity to reduce costs and increase returns, often simultaneously.

Reducing costs through lessening inconsistency, and attaining production methods able to secure added value from the marketplace, are fundamental tenets behind the value chain evolution occurring in the agricultural and agri-food industry.

The application of VCM techniques requires the involved companies to adopt certain principles. These include a need to consider the route from farm to consumer to be one interlinked process. The most important is that true value can only be captured by meeting the demands and expectations of consumers located within a certain target market. Companies situated along the entire chain must then work in partnership to achieve common goals through the formation of a value chain, from which they can each benefit.

THE EVOLUTION OF VALUE CHAIN MANAGEMENT AS A BUSINESS APPROACH

Value chains are not an end in themselves. They represent a business model that members can use to obtain greater levels of competitiveness than when working as a series of individuals. As with any model, it evolves over time, and the specific purpose behind the adoption of VCM techniques has changed over the last two decades. The initial focus of VCM was on achieving economies of scale to reduce transactional costs between business units and enable a more effective investment of resources through sharing transaction-related information between companies situated along the chain. More so lately, the focus of VCM has expanded to encompass methods to further reduce costs through more subtle approaches:

- Improving processes to achieve greater consistency of quality
- Attaining specific quality attributes related to target markets
- Successfully capturing and retaining value from the marketplace
- Strengthening relationships between and within companies situated along the chain to facilitate the sharing of proprietary information
- Leveraging the capabilities of participants in order to act upon that information more successfully than competitors

While value chains encompass the entire route from breeding through to consumers, the relationships that exist between the companies involved at any stage in the process are not necessarily replicated along the entire chain. For instance, retailers may not be considered a formal partner of a chain. Rather, they may be viewed as the target of the chain's overall operations. The degree to which a retailer is considered a formal part of the chain will depend upon the structure around which the chain operates. It also depends on factors such as the strategic objectives of the companies involved, the number of members that belong to the chain and the number of customers they serve. Some chains follow a collaborative business model. Others follow a more cooperative or coordinated approach.

The terms collaborative, cooperative and coordinated relate to the extent of information shared between the chain members, the level to which a company's operations are dedicated to meeting the needs of one customer or supplier, the extent to which the members jointly invest in infrastructure or the development of business capabilities, and the level of strategic planning and information sharing that takes place between the involved companies, including producers.

An example of a collaborative value chain is one led by Livestock Marketing Limited, based in Wales. It works collaboratively with a retailer, Waitrose, a primary processor, Randall Parker Foods, and a secondary processor, Dalehead. Waitrose is the sole retail customer of Livestock Marketing lamb. Dalehead is the sole tray-packed lamb supplier to Waitrose. Livestock Marketing has an integral relationship with 450 producers. This approach brings significant opportunities to all. It also brings risks through each having a high proportion of business tied up in one arrangement, and the need to maintain constructive relationships with partners in order to continually improve competitiveness compared to wider industry improvements. The potential for losing its current place as the sole supplier of lamb is what motivates Livestock Marketing and its business partners to continually improve the effectiveness and efficiency of operations. In fact, the level of sophistication with which Livestock Marketing and its partners manage the value chain did not occur overnight.

LIVESTOCK MARKETING: AN EXEMPLARY LAMB VALUE CHAIN

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

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

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

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

2. Farmers and farming cooperatives did not speak the same language as their supermarket customers and, therefore, could not communicate effectively.

3. While farmer cooperatives were good at producing livestock, they lacked the business acumen needed to take opportunities forward and did not adequately understand the needs of their retailer customers, particularly supermarket chains.

4. Farmers often had good ideas but did not share those ideas with their peers – resulting in fewer benefits than could be attained when working together to supply a particular market. This also led to inconsistency, which further reduced the value of their lamb in the consumer market.

DEVELOPING A VALUE CHAIN

"There has to be trust between all parties. It is very important and it's a key to the success of the scheme." Philip Morgan, CEO, Livestock Marketing

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

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

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

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

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

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

"We're all working as one big group to produce and to (achieve) better quality at the end of the day." John Price, Lamb Producer, Aberystwyth

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

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

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

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

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

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

BENEFITS

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

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