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SUPPLY CHAIN MANAGEMENT IN THE PRIME LAMB INDUSTRY TENDER PLUS®: A SUCCESS STORY

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Abstract

Traditionally fresh food industries have lagged behind other consumer goods in their approach to marketing and integration, and generally, are resigned to being commodity traders. Retailers' worldwide have increased their dominance within the fresh food industry. Clairs (2001) argued that within 10 years, 5-10 retail chains would dominate global food retailing. In Australia the three big supermarket chains and their subsidiaries had 40% of the retail grocery market in 1970 yet by 1998-99 their share had moved to 80% (AFFA and ABARE 2000). In the UK, four retailers account for two thirds of all grocery sales (Fearne & Hughes 1999). The Australian prime lamb industry is rapidly growing, especially in the export arena and has companies rising to the challenge of the domination of market place by retail chains.

This paper looks in depth at one such company, Tender Plus. It profiles the relationships within the supply chain, and the success factors, which has provided Tender Plus with the impetus to increase sales to Japan by 15% a year. The key factor is a paradigm shift from a price orientated domain, to that of a relationship orientated one. This is achieved through the commercial factors of quality and consistency of supply, and the people factors of trust, honesty, loyalty and open communication. A combination of these factors, and continuous learning, is cementing the future of Tender Plus, in a marketplace where the power of multi-national conglomerates is increasing.

Background

The meat industry, including beef, pig, mutton, poultry and lamb is extremely important to the Australian economy, providing 20% of the total value of agricultural exports (ABARE 2001a). Beef and veal hold the biggest export share, ranking in the top 10 of primary industry exports. It was valued at \$4007 million, in 2000-01, which represented a 22%

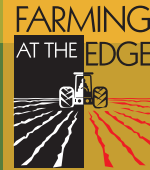
increase from 1993-94 (ABARE 2001a). Traditionally a net exported product with an estimated 35% of production used domestically in 2002 (MLA 2003), beef and veal production systems are exposed to the challenges of an international environment and a competitive structure. Lamb is the second ranked export meat, and the one growing most rapidly. Traditionally a domestic orientated industry, with 85% used nationally in 1990, lamb exports now represent 34% of the Australian lamb production (MLA 2003). Worth \$504 million in 2000-01 lamb export values and volumes have increased an estimated 268% and 218% respectively since 1993-94 (ABARE 2001a).

Over the past decade the destination and growth of lamb exports has changed considerably. Exports to the United States have increased 237% from 10.6 kt in 1993 to 25.2 kt in 2000 (ABARE 2001a). South Africa has lifted its imports of lamb from very low levels in 1993 to 12.3kt in 2000 (ABARE 2001a). In spite of low quota's relative to competitors, lamb exported the European Union (EU), has increased by 250% between 1993 and 2000 to 12.5 kt. Japan, while not a high volume lamb importer, has grown in export value in recent years to become a significant market for value added product. Between 1997 and 2001, bone in chilled lamb exports to Japan increased 180%, while bone out chilled lamb increased 198% (MLA 2002).

Globalisation has been a key to change in the agrifood industry in Australia. Rapid acceleration in global food product has come about by the removal of many past barriers to communication, transport, capital services and goods, and huge technological advances in transport, financial services, telecommunication and computer science (AFFA 2002). Encompassed in this is the consumer demanding food tailored to individual needs and lifestyle. This is impacting on food quality, convenience, health expectations, choice and consistency. For example of the 24,000 packaged products presently on Australian supermarket shelves, 74% are new within the last 5 years (AFFA 2002).

Globalisation has also brought about a change in the role of retailers. Clairs (2001) cited a USA survey, which estimated that in 1998, 39% of consumers shopped regularly at discount retailers. However by 2000, this figure had moved to 55%. This increasing degree of concentration at the retail level has raised the spectre of increasing retail power. With increasing globalisation, this trend to retailer concentration is not likely to be just short-term. In fact, Clairs (2001) argued that, within 10 years, 5-10 retail chains would dominate global food retailing. Presently in the UK, 5 retailer chains (Tesco, Sainsbury, Asda, Morrison and Safeway) account for more than 80% of all grocery sales (Anon 2003). The trend to retailer concentration is also happening in Australia. The major supermarket chains Coles, Woolworths and their subsidiaries had 40% (AFFA and ABARE 2000) of the retail grocery market in 1970. By 2000-01 this figure had moved to 63% (ABARE 2002). Global retailers' dominance is continuing with amalgamation between major retailers. Recent mergers between Wal-Mart and Asda, and Carrefour and Promodes have strengthened their hold on the world-retailing sector. These 2 retailers, now operate in more than 30 countries, have in excess of 13,500 stores with sales of 273,335

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million Euro (A\$488,098 million) in 2000/01. This compares with Woolworths, Coles and BiLo with 1175 stores and with sales of just 6% of Wal-Wart & Carrefour at 16,968 million Euro (A\$ 30,300 million) (AFFA 2002).

With Woolworths and Coles controlling over 60% (AFFA 2002) of all food retail sales in Australia their impact on meat sales is undeniable. Beef retail sales in supermarkets rose from 20% in 1988 to 40% in 1998 (AFFA/ ABARE 2000). Butchers have felt the impact of the supermarket, along with many other small businesses finding it difficult to compete. Burch & Goss (1999) believe that the vast increase in purchasing and distribution capacities by supermarkets gives them the power to determine what they stock, and the conditions of sale. This has occurred due to the reverse of the traditional manufacturer push of products to the consumers "pull" of selected items.

Despite the competitiveness of supermarkets in Australia, one meat company is presently consolidating in the domestic lamb arena with sales increasing 175% in the last decade. They have increased their lamb product lines by 20% in the last decade and continually position themselves for new markets and clientele. This company has used the development and maintenance of supplier and buyer relationships along with communication, innovation and education to give them an edge. This company is Tender Plus.

Tender Plus

Tender Plus is a specialist manufacturer of beef, lamb, veal, pork, game, fancy meats and smallgoods situated on the Gold Coast. It provides customised portion-ready meats for major hotel chains, restaurants and airlines. It had its beginnings in the humble surroundings of an old sausage factory at Burleigh Heads in 1986 with 5-8 butchers, and presently has a staff of 177 and this is growing. Present expansions will increase the output by an additional 10%, improve quality assurance, enhance transport efficiency and double their chiller storage. Tender Plus is dedicated to high quality product and has advanced quality-assurance programs in all areas of its work. This has been an integral factor in the company receiving three Queensland Agribusiness's of the year and three "Supreme Exporter to Japan" awards since 1990. The success of the company lies in the passion of a few, the conviction of all its members to develop lasting relationships and its dedication to quality and customers needs (Vaina 2003).

Tender Plus has both a domestic and export focus with a 350% increase in its annual turnover in the last decade. The export focus of the company has dramatically increased in the last decade from 17% in 1992 to 40% in 2002. The company projects, that this will increase further in the next 5 years. Tender Plus believes the development and maintenance of relationships, is the key to an expanding export sector. They opened offices in Japan in 1990, Korea in 1997 and China in 1998. Having the offices in these countries provide a personal touch and assists the development of relationships along the supply chain. Along with this is the need for continuous improvement with over 120 different lamb

cuts presently exported to the Pacific basin countries of Japan, Korea, South East Asia, Papua New Guinea and other Pacific Island destinations, USA and Canada. This is an increase on 20% on the number of cuts in 1992 (Vaina 2003).

Lamb is currently 26% of Tender Plus sales but is continually developing in both the domestic and export arena. In the past decade export destinations for lamb have almost doubled and domestic sales have increased 175% in the same period (1992-2002). This trend is projected to continue over the next 5-year period as supplies improve and relationships develop (Vaina 2003).

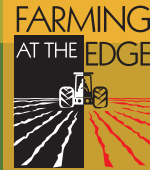
An area of continual concern however has been the difficulty in securing a continuous supply of suitable lamb. Wide variations in the consistency and price of lamb along with a difficulty competing with supermarkets and major processors (due to the relatively small size of Tender Plus) necessitated a change in their supply strategy. During mid 2000, an opportunity existed to obtain 240 lambs assessed to the specifications stipulated by Tender Plus, from a producer group in the New England District. The producer group had been looking for a change in their lamb production and marketing operations and with the assistance of the NSW Agriculture Product Development Officer (PDO)²⁴ a supply relationship with Tender Plus was established. Within a short period of time the producer group was responsible for the total supply of lambs required by Tender Plus on a weekly basis and other lamb producer groups were approached to join the alliance. The opportunity to receive feedback on their lamb product, price stability and an additional market outlet, which promised long term stability, attracted many of the producers, involved. From an initial kill of less than 600 lambs weekly Tender Plus is currently sourcing 1500 lambs weekly in an effort to meet growing domestic and export demand. Numbers required are expected to rise after the drought and with refurbishment of the Gold Coast plant to around 3000 weekly.

The suppliers of lamb in the Tender Plus alliance have some unique characteristics when compared to the specialist²⁵ prime lamb producer in Australia. ABARE (2001b.) found that the top 25% of specialist lamb producers were on average 54.8 years old, sold 1770 lambs annually, 33% of producers used measurement to determine market specifications and lamb sales represented less than 20% of their total farm income. However, the TenderPlus lamb supplier was on average 50.4 years old, sold in excess of 2000 lambs annually which represented greater than 50% of their total farm income and all those interviewed used measurement to determine market specifications (Johnson 2002). The Tender Plus lamb supplier nominated factors such as having industry dedicated personnel, quality of the product, building trust and loyalty as the reasons for the alliances success (Johnson 2002).

²⁴ PDO's role is the formation of alliance-marketing groups and the facilitation of value-based marketing. It is to ensure that there are better market signals throughout the supply chain.

²⁵ Defined as farms having greater than 200 ewes & receive 20% cash receipts from lamb sales(ABARE 2001b)

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To maintain an understanding and commitment to the newly developed alliance, the Product Development Officer (PDO) felt that *“no matter how many saleyards they attend and looked over the fence,”* the producers needed to understand the entire process from the processor to the product preparation. The PDO, in conjunction with Tender Plus, organised tours of the processing plant and the Tender Plus operation. The producer tours have been a major success factor in the development of the relationship. They provide a reinforcement of goodwill, cement a relationship and provide a concrete understanding of the needs of the lamb portioning. In addition to these outcomes, they also provide education in lamb preparation and the type of quality control essential in a company involved in the export market (Johnson 2002).

Education of members within the supply chain has been a major outcome and change agent of this relationship, however this was not predetermined at the outset. Due to the feedback producers received about their lamb, they were able to increase the compliance rate to the specifications, increasing both returns for them and Tender Plus. Forward contracts allowed the supplier to plan their business better and the tours revealed the use of and the customer needs for their product. This change has been paramount in the paradigm shift that has occurred. Without the paradigm shift Lendrum (2000) believes a partnership relationship cannot develop. The majority of producers have moved from an environment which is price oriented to a more sustainable business oriented one. Long term budgeting, risk management and creating relationships have become the keys to the producer’s future. Tender Plus has moved from price orientation to concentrating on the needs of their suppliers and customers and the creation of relationships (Johnson 2002).

Tender Plus’s emphasis on people allows for the flexibility necessary in a volatile lamb industry. The people and personalities within Tender Plus provide the basis for the high level of trust, honesty and commitment in the relationship. Trust is seen as the key to this relationship. Tender Plus endeavours to maintain transparency in operation so that no doubt or suspicions can arise. Social events and visits are undertaken with the producers and clients in the supply chain to further cement the trust, and open communication channels exist, allowing for any problems to be sorted out.

Due to continuous interaction with their international customers Tender Plus is constantly developing new products. This innovation has been a key to new markets and increasing demand throughout the Southeast Asian countries. Jagersma (2003) believes innovation is central to business growth, yet presently an under exploited path to success. The international retailers, are also given similar tours of the facilities. The tours expose the supply chain to scrutiny by the international retailers and all areas of supply, quality assurance and business are exposed. The tours have proved to be very beneficial, for the international customers and Tender Plus with cementing of relationships and exports continually on the rise, (Johnson 2002).

Owing to the nature of the business, the quality of the product is crucial. A leaner lamb is faster and easier to bone into the various cuts. With a reduction in external carcass fat, the boning is not as labour intensive hence more efficient.

Receiving the lamb over the hook reduces the bruising and stress on the end product and allows trace back for quality assurance. The use of the price grid rewards those producers who can get the majority of the lambs within the set specification. This feedback, which is price related, gives clear signals for the development of management strategies to achieve the target specifications set by Tender Plus (Johnson 2002).

Conclusion

The “personal touch” given to suppliers and buyers by Tender Plus has given them an edge in a very competitive market. Supermarkets have been trapped in transactional relationships where there is straight purchase, with no negotiation or little contact with others. Tender Plus has been able to develop partnering relationships where factors of mutual trust, interdependence, open communication and dependability to satisfy customers needs are paramount (Lendrum 2000).

A combination of factors has enabled Tender Plus to develop the strategies for a successful partnering relationship in the lamb industry. This relationship has been the instigator of their success. It has not however just been achieved by the initiation of the partnering relationship; it has taken much commitment and dedication to maintain the relationship. The tours given to the suppliers and buyers have been instrumental in strengthening the relationship. Attention to detail, the education of all participants to the supply chain activities and openness has developed the trust necessary to maintain the relationship and achieve the paradigm shift.

Many small companies have found difficulty in not only competing but expanding in this era of retail dominance. Supermarkets are seeking fewer but bigger suppliers (Fearne & Hughes 1999) to provide their needs as a technique to be more efficient. Another technique used by supermarkets to increase their retail share is “own” branding of products. In some locations this has meant an increase of the profit margin along with the strengthening of the retailers image as a supplier of quality products at better prices (Burch & Goss 1999).

Tender Plus has not only competed with, but is expanding market share in this supermarket dominated era. It has taken some of the philosophy of supermarkets on board with their “own” branding of all products securing a quality image. Tender Plus along with the quality image, is delivering what is ordered and utilising relationships to instill trust, commitment and dedication giving the company a personal touch. Jagersma (2003) study of innovative companies found that there are 10 steps to success. The last 5 of these steps epitomise Tender Plus. These are the development of commercialisation skills; focus on the customer; a team approach; becoming obsessed and finally to develop a passion for change.

Tender Plus has been able to compete and survive in the supermarket era through the commercial factors of quality and consistency of supply, and the people factors of trust, honesty, loyalty and open communication. The combination of

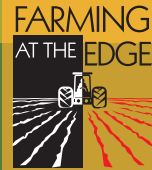
these factors, and continuous learning and innovation, is cementing the future of Tender Plus, in a marketplace where the power of multi-national conglomerates is increasing.

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MLA 2003 Industry Projections . Meat and Livestock Australia, Sydney.

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