



SUPPLY AND PROCUREMENT PROJECT

Final Project Report – Summary



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FOREWORD

Supply and Procurement

When the Red Meat Profit Partnership (RMPP) was established two linked projects were included to research red meat sector livestock procurement and transport activities because of the widely-held view that some current practises could be made more efficient.

RMPP used UMR Research to survey farmer views. About two thirds felt that current industry arrangements were appropriate despite acknowledging that some level of inefficiency exists. The remaining one third of farmers felt that change was needed.

RMPP engaged Deloitte to gather and analyse industry-wide livestock movement data with the aim of calculating the size of potential efficiency gains. They used NAIT data for cattle movements and modelled sheep movements in the absence of NAIT sheep data. In short, no meaningful conclusions could be drawn because of the inadequacy of the available livestock movement data.

Deloitte also tried to assess the cost of different livestock procurement practices, ranging from farmers drafting their own stock and dealing directly with meat processors through to the use of agents and livestock aggregators.

While some cost data such as sale yard fees and agent commissions were available, there was an overall lack of transparency of actual costs. In the absence of data, modelling of the marketplace was undertaken. Despite best endeavours to quantify costs and benefits, no meaningful conclusion could be drawn because the differing practises used by both farmers and processors have valid commercial justification.

For these reasons RMPP has stopped any further work. Also, RMPP did not do any work to establish an electronic livestock trading system as this had already been progressed by commercial entities in the sector.

RMPP notes that some meat processors provide farmers with full transparency of transport and procurement costs. This enables farmers to think about how they could make savings if they are so motivated. RMPP recommends that all meat processors follow this approach to enable and encourage commercially robust decision making through the red meat sector.

Malcolm Bailey
Chair of RMPP

REPORT SUMMARY

Outline

This report was commissioned by B+LNZ to:

- Summarise research that was completed in late 2015 by UMR Research (UMR) to understand farmer attitudes towards livestock supply arrangements
- Summarise research that was completed by Deloitte in 2016 to understand supply arrangements for sheep and cattle and alternative options to optimise these, and
- Add analysis of Sheep and Beef Farm Survey data for 2015-16

The goal of this work is to deliver value to farmers and other stakeholders in the industry by:

1. Sharing the research findings of the original project
2. Providing an overview of the aggregate costs of existing “supply and procurement” processes
3. Calculating these at a farm level to provide indicative estimates of the costs for individual farmers
4. Providing examples of the market-led mechanisms currently in place, which farmers (and other supply chain operators) could use to reduce cost in the supply chain

The original research by UMR and Deloitte provided a cross-section snapshot of farmer attitudes and perceptions at a point in time rather than providing trend information about how things have changed, although some insights into trends were provided by the survey questions.

Conclusions

This project cannot determine absolutely the costs and savings in the industry nor can it make recommendations for every participant in the market, because each participant’s circumstances are different.

However, it provides some examples of costs and savings at industry and farm level. We encourage farmers to benchmark their operations against the figures in this report to get an indication of what savings they might achieve, but farmers should make their own assessments taking into account the unique characteristics of, and objectives for, their operation, or obtain professional advice, or both.

Farmer research by UMR

There were some inconclusive views on some subjects and quite polarised views on others.

A strong recurring theme in the research was that while several practices in the meat industry may appear inefficient on the surface, they have evolved in New Zealand’s market economy to fit the needs of a complex and dynamic industry.

The research responses from farmers indicated that farmers:

- Overwhelmingly want to be able to access processing space “on demand”
- Consider transport operators the most efficient channel to processors
- Consider online buying and selling platforms to be least efficient
- Support contracts conceptually ... but not to the same extent in practice, and
- Are loyal to their meat company, with loyalty overwhelmingly driven by wanting access to processing space when they require it

Online sales and booking platforms are in their infancy, with more than twice as many farmers saying they were comfortable with the concept of online mechanisms as were actually using them.¹

Livestock procurement is one part of the value chain, and what may appear efficient for the procurement processes (i.e. the means of selling and transporting livestock from farm-to-processor or farm-to-farm, whether that involves intermediaries or not) may result in inefficiencies in other parts of the chain.

Analysis by Deloitte of Livestock Movements

Beef cattle

Following analysis of available NAIT (National Animal Identification and Tracing) data for cattle movements, Deloitte concluded that there is a substantial opportunity to reduce cost in the supply chain, although there were good reasons for large travel distances and the use of intermediaries.

The results suggested that current costs in the value chain for beef cattle can be nearly halved from the present level of around \$225m.

Sheep

The analysis of sheep movements was more limited, and it was not possible to calculate transport costs from the available data. Nevertheless, Deloitte estimated some considerable savings could be achieved through substitution of traditional trading mechanisms that are used for sale yard transactions by other mechanisms.

For example, reducing commissions on store sales from 6%, which is the standard rate typically charged on sale yard transactions at present, to 2.5% would result in the transaction costs of “sale yard” transactions falling by more than 20%.

Deloitte stressed that actual savings would be less than these amounts because of the nature of competitive markets means some of the savings may already be being achieved by individual farmers and because the behaviours of individual farmers may not be those considered perfectly rational in a simple financial sense.

Nevertheless, the magnitude of the savings relative to the total costs suggests that either:

- The industry has been incredibly inefficient (and no-one has really noticed), or
- The potential savings are nowhere near realistic

Sheep and Beef Farm Survey – Livestock Transaction Analysis by B+LNZ Economic Service

Overview

The lamb analysis estimates that in the 2015-16 farming year:

- There were around 145,000 transactions involving lambs going to processors
- The vast majority (approximately 133,000 transactions or over 90% of the total) were direct to processor, and
- This is reflected in the number of livestock that went direct to processors (estimated at 18.8m or 90% of the lambs processed)

The analysis of cattle showed that:

- Commercial sheep and beef farms provide 49% of the total cattle slaughter
- Small holdings provide 9%, and
- Dairy farms provide 43%

¹Recall that the research by UMR was conducted in late 2015, and attitudes may have changed since

Combined savings for farm-to-slaughter stock

- The Combined [financial] Saving per farm from farmers drafting their own livestock for processors is estimated to average \$1,800 per farm at the sector level in 2015-16. It ranges from:
 - \$2,100 per farm on average for North Island Hill Country farms – Farm Class 4 – which is the most populous Farm Class with over 4,000 farms, to
 - \$1,200 per farm on average for Farm Class 8 farms – South Island Mixed Finishing farms – that have considerable interests in cropping
- This is the maximum, assuming:
 - Drafting fees of 50 cents per head for lambs and sheep, and \$8 per head for cattle, which available information shows is being paid by some processors
 - That no farmer is presently receiving such benefits (although some are, but how many is confidential due to commercial arrangements), and
 - That 100% of farmers do their own drafting – to meat company specifications – and thus do not pay others for the service
- There would be no savings in transport costs on the basis that the livestock would still take the same routes to processing plants
- Meat processors would schedule transport from the farm to their elected processing plant

Combined savings for store stock

- The Combined [financial] Saving per farm from using online systems for buying and selling store livestock that offer lower cost than traditional systems, is estimated to average \$3,800 per farm at the sector level in 2015-16 and ranges from:
 - \$10,400 per farm on average for farms in the most extensive Farm Class – Class 1 – South Island High Country (which has the largest farms by size); to
 - \$600 per farm on average for Farm Class 8 farms – South Island Mixed Finishing farms that have considerable interests in cropping

Total potential savings for farm-to-slaughter and store stock combined

- Combining the two, i.e. the Combined [financial] Saving per farm from all farmers drafting their own livestock for processors and all farmers using online systems for buying and selling livestock, is estimated to average \$5,600 per farm. It ranges from:
 - \$12,300 per farm for farms in Farm Class – Class 1 – South Island High Country, to
 - \$5,900 per farm for Farm Class 4 farms – North Island Hill Country, which is the most populous Farm Class, and
 - \$1,800 per farm for Farm Class 8 farms – South Island Mixed Finishing farms – that have considerable interests in cropping
- The Combined [financial] Saving per Stock Unit at open is estimated to average \$1.40 per SU at the sector level in 2015-16. It ranges from:
 - \$1.70 per SU on average for North Island Intensive Finishing farms – Farm Class 5, to
 - \$0.70 per SU on average for Farm Class 8 farms – South Island Mixed Finishing farms

These and other results are outlined in Table 1 on page 7 of this summary.

Examples are also outlined in the case studies on pages 8-13 of this summary.

What might be the savings on a per-kg basis?

Assuming a lamb of 35kg live weight, 43% yield and a schedule price of \$6 per kg carcase weight, these charges amounts to \$8.40 per head, which is equivalent to 24 cents per kg live weight or about 55 cents per kg carcase weight.

Similarly, the charges for a prime steer weighing 535kg live weight, yielding 56% at a schedule price of 540 cents per kg carcase weight would amount to \$115 per head, which is equivalent to 21 cents per kg live weight or about 38 cents per kg carcase weight.

Recommendations

- Farmers should:
 - Review their livestock supply systems
 - Understand the costs and potential savings
 - Critically assess whether their livestock selling system still suits their needs, and
 - Consider what, if anything, should be changed in their businesses
- Processors should maintain, and preferably strive to improve, their communication with farmers about their procurement processes

Table 1: Summary of potential savings [from using alternative mechanisms]

| Farm class | Commercial sheep and beef farms | Lamb | | | Sheep | | |
|-----------------------------|---------------------------------|--------------------|-------------------|-------------------------------|--------------------|-------------------|-------------------------------|
| | | Sales farm-to-sitr | Sales store stock | Farm-to-sitr plus store stock | Sales farm-to-sitr | Sales store stock | Farm-to-sitr plus store stock |
| | Estimated no | \$ per farm | \$ per farm | \$ per farm | \$ per farm | \$ per farm | \$ per farm |
| 1. S.I. High country | 215 | \$900 | \$5,100 | \$6,000 | \$400 | \$1,600 | \$2,000 |
| 2. S.I. Hill country | 810 | \$1,000 | \$4,000 | \$5,000 | \$200 | \$600 | \$800 |
| 3. N.I. Hard hill country | 1,065 | \$800 | \$2,600 | \$3,400 | \$200 | \$1,300 | \$1,500 |
| 4. N.I. Hill country | 3,640 | \$700 | \$1,300 | \$2,000 | \$100 | \$500 | \$600 |
| 5. N.I. Intensive finishing | 1,275 | \$700 | \$300 | \$1,000 | \$100 | \$300 | \$400 |
| 6. S.I. Finishing breeding | 2,505 | \$1,000 | \$900 | \$1,900 | \$200 | \$300 | \$500 |
| 7. S.I. Intensive finishing | 1,290 | \$1,000 | \$400 | \$1,400 | \$200 | \$100 | \$300 |
| 8. S.I. Mixed finishing | 495 | \$1,000 | \$100 | \$1,100 | \$0 | \$200 | \$200 |
| 9. All Classes NZ | 11,295 | \$800 | \$1,300 | \$2,100 | \$200 | \$500 | \$700 |

| Farm class | Commercial sheep and beef farms | Beef cattle | | | Total | | |
|-----------------------------|---------------------------------|--------------------|-------------------|-------------------------------|--------------------|-------------------|-------------------------------|
| | | Sales farm-to-sitr | Sales store stock | Farm-to-sitr plus store stock | Sales farm-to-sitr | Sales store stock | Farm-to-sitr plus store stock |
| | Estimated no | \$ per farm | \$ per farm | \$ per farm | \$ per farm | \$ per farm | \$ per farm |
| 1. S.I. High country | 215 | \$600 | \$3,700 | \$4,300 | \$1,900 | \$10,400 | \$12,300 |
| 2. S.I. Hill country | 810 | \$700 | \$2,900 | \$3,600 | \$1,900 | \$7,500 | \$9,400 |
| 3. N.I. Hard hill country | 1,065 | \$900 | \$3,700 | \$4,600 | \$1,900 | \$7,600 | \$9,500 |
| 4. N.I. Hill country | 3,640 | \$900 | \$2,400 | \$3,300 | \$1,700 | \$4,200 | \$5,900 |
| 5. N.I. Intensive finishing | 1,275 | \$1,300 | \$2,100 | \$3,400 | \$2,100 | \$2,700 | \$4,800 |
| 6. S.I. Finishing breeding | 2,505 | \$500 | \$900 | \$1,400 | \$1,700 | \$2,100 | \$3,800 |
| 7. S.I. Intensive finishing | 1,290 | \$200 | \$300 | \$500 | \$1,400 | \$800 | \$2,200 |
| 8. S.I. Mixed finishing | 495 | \$200 | \$300 | \$500 | \$1,200 | \$600 | \$1,800 |
| 9. All Classes NZ | 11,295 | \$800 | \$2,000 | \$2,800 | \$1,800 | \$3,800 | \$5,600 |

| Farm class | Commercial sheep and beef farms | Total | | | | | | |
|-----------------------------|---------------------------------|----------------|---------------|-------------------------------|-------------------------------|---------------------|-------------------------------|-------------------------------|
| | | Effective area | Stocking rate | Farm-to-sitr plus store stock | Farm-to-sitr plus store stock | Lamb and sheep only | Farm-to-sitr plus store stock | Farm-to-sitr plus store stock |
| | Estimated no | ha | SU at open | \$ per ha | \$ per SU | % of total | \$m | % |
| 1. S.I. High country | 215 | 7,532 | 10,216 | 1.60 | 1.20 | 65% | 2.6 | 4% |
| 2. S.I. Hill country | 810 | 1,534 | 6,419 | 6.10 | 1.50 | 62% | 7.6 | 12% |
| 3. N.I. Hard hill country | 1,065 | 766 | 6,277 | 12.40 | 1.50 | 52% | 10.1 | 16% |
| 4. N.I. Hill country | 3,640 | 409 | 3,746 | 14.40 | 1.60 | 44% | 21.5 | 34% |
| 5. N.I. Intensive finishing | 1,275 | 278 | 2,780 | 17.30 | 1.70 | 29% | 6.1 | 10% |
| 6. S.I. Finishing breeding | 2,505 | 436 | 3,198 | 8.70 | 1.20 | 63% | 9.5 | 15% |
| 7. S.I. Intensive finishing | 1,290 | 222 | 2,410 | 9.90 | 0.90 | 77% | 2.8 | 4% |
| 8. S.I. Mixed finishing | 495 | 449 | 2,655 | 4.00 | 0.70 | 72% | 0.9 | 1% |
| 9. All Classes NZ | 11,295 | 631 | 3,868 | 8.90 | 1.40 | 50% | 63.3 | 100% |

At farm level, the figures are rounded to nearest \$100, so totals may not add due to rounding

At per ha and per SU level, the figures are rounded to the nearest 10 cents, so totals may not add due to rounding

Assuming savings of 6% minus 2.5% = 3.5 percentage points on store stock transactions and rebates of \$0.50 per head for lambs/sheep and \$8 per head for cattle

Source: Beef + Lamb New Zealand Economic Service

Case study one

Scenario

Brian and Charlotte Murphy farm 4,000 breeding ewes and are usually able to finish all their 5,000 lambs from weaning through until April before the ram goes out. They have always kept 1,000 of their own replacement hoggets, which are not mated, but Brian and Charlotte are considering moving to a simpler farm system of buying in hogget replacements. They have always sold their lambs through an independent stock agent who always comes out to draft lambs for sale. They have only met their meat processing company rep a couple of times in the past, but the company has a new rep in the area, and he is keen for them to supply the company direct with him doing the lamb drafting. The company has also introduced a policy of the farmer paying the headage, rather than the company.

The stock agent is identifying potential suppliers of good, well grown hoggets with genetics suitable for Brian and Charlotte to use, although they have not made up their mind yet. The stock agent also helped them sell a few store lambs through the sale yards several years ago when they got caught out by a drought in February.

When lambs are sold finished, they generally go to the processor, but they have sometimes sent prime lambs to the sale yards because their stock agent said, “they’d get a better price there”. The Murphys felt they did get a higher price, but not sure how better off they were once they paid all the costs. Last year they sold 500 finished lambs through the sale yards.

What are the Murphy’s options?

The Murphy’s transaction costs for their finished lambs last season are described in the first two marketing channels below, with 4,500 lambs sold to the processor via their stock agent and 500 lambs sold at the sale yards. An alternative is included where all 5,000 lambs are sold direct to the processor.

| Marketing channel | | Per head | Total |
|---------------------------|---------------------|--|------------------|
| Processor via stock agent | Income | 18kg CWT x \$6.50/kg | for 4,500 lambs |
| | Total income | \$117/hd | \$526,500 |
| | Less costs | \$1.50/hd commission | \$6,750 |
| | | B+LNZ levy of \$0.70/hd | \$3,150 |
| | | Meat inspection levy of \$0.60/hd | \$2,700 |
| | Total costs | \$2.80/hd | \$12,600 |
| | Net income | \$114.20/hd | \$513,900 |
| Sale yards | Income | 42kg LWT x \$2.80/kg (equiv to 18kg CWT) | for 500 lambs |
| | Total income | \$117.60/hd | \$58,800 |
| | Less costs | 5% commission/hd = \$5.88/hd | |
| | | Yard fee \$0.50/hd | |
| | | Transport \$2.10/hd | |
| | Total costs | \$8.48/hd | \$4,240 |
| | Net income | \$109.12/hd | \$54,560 |
| Processor direct | Income | 18kg CWT x \$6.50/kg | for 5,000 lambs |
| | Total income | \$117/hd | \$585,000 |
| | Less costs | B+LNZ levy of \$0.70/hd | \$3,500 |
| | | Meat inspection levy of \$0.60/hd | \$3,000 |
| | Total costs | \$1.30/hd | \$6,500 |
| Net income | \$115.70/hd | \$578,500 | |

Note: prices are illustrative only

Finished lambs to processor via stock agent

The Murphy's currently sell most of their lambs to a processor via their stock agent. In this scenario, the total costs associated are \$2.80/hd or \$12,600 across the 4,500 animals that they sold via this channel last year. One component of these costs was the headage payment incurred from their stock agent of \$1.50/hd which equated to 1.3% of their gross income/hd. This would equate to the equivalent of 65 additional lambs being sold if they went direct with all their lambs through the meat company's rep rather than using their stock agent.

The net price if sold to the processor via a stock agent = \$114.20/lamb.

Finished lambs via sale yards

They also sold 500 lambs through the sale yards last year. There are some savings by not sending lambs direct to processing. These include the B+LNZ levy and any meat inspection levy (not charged by all companies). However, the costs incurred via the sale yards would include commission, yard fees and transport totalling \$8.48/hd.

The net price if sold via the sale yards = \$109.12/lamb.

Finished lambs direct to processor

If the Murphy's were to consider the option of selling direct to the processor through the company rep, the total costs per head would equate to \$1.30/hd which includes the B+LNZ levy of \$0.70/head and any meat inspection levy (charged by some processors, but not all). This inspection levy is typically around \$0.60/lamb.

They would not incur any commission/headage costs associated with their other two marketing options or the yard fees and transport costs associated with selling at the sale yards.

The net price if sold directly to the processor is $18\text{kg} \times \$6.50/\text{kg} - \$0.70 - \$0.60 = \$115.70/\text{lamb}$.

Comparisons of lamb sale options

There are several alternatives for the Murphy's for selling their lambs. The breakeven prices are calculated below. This is the price that would be required to provide the same net return as selling direct to the processor.

| Marketing channel | Compared with... (on a \$/hd basis for 18kg lamb) | | |
|---------------------------|---|------------|------------------|
| | Processor via stock agent | Sale yards | Processor direct |
| Processor via stock agent | - | \$5.08 | -\$1.50 |
| Sale yards | -\$5.08 | - | -\$6.58 |
| Processor direct | \$1.50 | \$6.58 | - |

| Marketing channel | Compared with... (on a \$/kg CWT basis) | | |
|---------------------------|---|------------|------------------|
| | Processor via stock agent | Sale yards | Processor direct |
| Processor via stock agent | - | \$0.28 | -\$0.08 |
| Sale yards | -\$0.28 | - | -\$0.37 |
| Processor direct | \$0.08 | \$0.37 | - |

These comparisons show that the sale of their lambs direct to the processor is their lowest cost option. To break even with this option of direct to the processor:

- The sale yards price offered would be required to be \$0.37/kg CWT higher (or approximately \$0.16/kg LWT)
- The stock agent price offered if going through them to the processor would be required to be \$0.08/kg CWT higher

If the Murphy's didn't want to go direct and wanted to remain with their stock agent for all their finished/prime stock, the option of selling through the sale yards rather than to the processor would need to generate \$0.28/kg CWT (or approximately \$0.12/kg LWT) to break even and cover the associated costs.

Other considerations

Other than price received, there are a number of other considerations for farmers when deciding the most appropriate channel to market livestock. In the case of the Murphy's, these are summarised below.

Benefits of selling direct through the meat company rep:

- Direct communication with the company, which may lead to programme/customer contract opportunities
- Opportunity to become quality assurance accredited to verify good on-farm practices and to be rewarded accordingly
- Receive feedback on the quality of livestock supplied (while no feedback is received for animals sold through the sale yards)
- Can receive the very best price the company can offer, with no deductions
- Can provide an outlet for store lambs through meat company rep and supplier network
- Likely preferential access to space for both lambs and ewes over non-direct suppliers

Benefits of selling through the stock agent:

- Relationship with the stock agent means they will readily sell store lambs through yards if required (although agents will still work with farmers who supply their finished animals direct to processors)
- Relationship with the stock agent means they will readily help source ewe hoggets in the future
- Can readily work with more than one meat company, providing flexibility and ability to shop around with access to many potential buyers (although supplying direct to a processor does not preclude from supplying more than one company)
- Any invisible quality issues such as a few over fats or cutters do not get penalised if sold through the sale yards

Case study two

Scenario

Sam and Jenny Smith farm 500 prime steers each year. All their replacement cattle for growing and finishing are purchased through the sale yards, although sometimes they purchase a couple of lines of cattle through on-farm sales, via their stock agent. They have always sold their steers through their stock agent who comes out to see them in late summer/autumn once the heaviest cattle are over 580kg. They draft the steers a couple of times through February to April and book them into the local sale yards because “that way everybody gets to compete for their stock, so we get the best price possible on the day”. Nothing leaves the farm under 570kg. They have had a couple of meat processing company reps visit them recently and each of the reps is keen for the Smiths to supply their company direct, because they have the type of cattle they want for a specific market.

Following these meat company rep visits, the Smiths are not sure how much better off they actually are by selling through the sale yards once they paid all the costs (transport, yard fees and commission), even though they have negotiated a lower rate of 3% commission with their stock agent, but it used to be 5%. Their stock agent has said he can sell direct to any meat company, but believes they are better off in the yards because everybody is there to buy.

What are the Smith’s options?

| Marketing channel | | Per head | Total |
|---------------------------|---------------------|---|------------------|
| Processor via stock agent | Income | 313kg CWT x \$5.65/kg | for 500 steers |
| | Total income | \$1,768.45 | 884,225 |
| | Less costs | \$15/hd commission | \$7,500 |
| | | B+LNZ levy of \$5.20/hd | \$2,600 |
| | | Meat inspection levy of \$14/hd | \$7,000 |
| | | NAIT levy of \$0.50/hd | \$250 |
| | | Slaughter levy (varies between processors) of \$6.30/hd | \$3,150 |
| | Total costs | \$41.00/hd | \$20,500 |
| Net income | \$1,727 | \$863,725 | |
| Sale yards | Income | 590kg LWT x \$3.00/kg | for 500 steers |
| | Total income | \$1,770 | \$885,000 |
| | Less costs | 3% commission/hd = \$53.10 | \$26,550 |
| | | Yard fee \$5.00/hd | \$2,500 |
| | | Transport \$35/hd | \$17,500 |
| | Total costs | \$93.10/hd | \$46,550 |
| Net income | \$1,677 | \$838,450 | |
| Processor direct | Income | 313kg CWT x \$5.65/kg | for 500 steers |
| | Total income | \$1,768.45 | \$884,225 |
| | Less costs | B+LNZ levy of \$5.20/hd | \$2,600 |
| | | Meat inspection levy of \$14/hd | \$7,000 |
| | | NAIT levy of \$0.50/hd | \$250 |
| | | Slaughter levy (varies between processors) of \$6.30/hd | \$3,150 |
| | Total costs | \$26.00/hd | \$13,000 |
| Net income | \$1,742 | \$871,225 | |

Note: prices are illustrative only

Selling via a stock agent at sale yards

The Smiths currently sell their 500 steers via a stock agent at the sale yards. In this scenario, the total cost associated with selling prime stock via a stock agent at sale yards, is \$93.10 per head or \$46,550 across 500 animals. The costs are 3.7% of the gross income.

Sold to processor via stock agent

An alternative option for the Smiths is to sell their steers to a processing company via their stock agent. In this scenario the processing company has introduced a policy of the farmer paying the headage, rather than the company.

Selling to a processor, regardless of being direct or through a stock agent, does incur some costs. These equate to \$26.00/head. All processors are paying the cost of livestock transport. In this scenario, the total cost associated with selling prime stock to a processor via a stock agent, is \$41.00/head or \$20,500 across 500 animals. The costs are 2.3% of the gross income.

Sold to processor direct

When selling direct to a processing company, the Smiths would incur no headage fees and the company would pay for the transport costs. In this scenario, the total cost associated with selling prime stock direct to a processor, is \$26.00/head or \$13,000 across 500 animals. The costs are 1.5% of the gross income.

Recovering costs

The below tables illustrate the difference in margins between marketing channels on a \$/head and \$/kg CWT basis. The comparisons are between the marketing channels in the left-hand column and the corresponding options on the right. For example, selling stock to a processor via a stock agent is \$50.55/hd better off than selling through the sale yards. The sale yard price needs to be \$0.16 c/kg CWT higher than the price that could be received from sending stock via an agent to a processor.

| Marketing channel | Compared with... (on a \$/hd basis for 313kg steer) | | |
|---------------------------|---|------------|------------------|
| | Processor via stock agent | Sale yards | Processor direct |
| Processor via stock agent | - | \$50.55 | -\$15.00 |
| Sale yards | -\$50.55 | - | -\$65.55 |
| Processor direct | \$15.00 | \$65.55 | - |

| Marketing channel | Compared with... (on a \$/kg CWT basis) | | |
|---------------------------|---|------------|------------------|
| | Processor via stock agent | Sale yards | Processor direct |
| Processor via stock agent | - | \$0.16 | -\$0.05 |
| Sale yards | -\$0.16 | - | -\$0.21 |
| Processor direct | \$0.05 | \$0.21 | - |

Their stock agent would need to generate a price of \$0.05/kg carcass weight higher than if sold direct to a processor via their company rep to cover the additional cost of their headage. For the Smiths to recover their costs of selling through the sale yards instead of direct through a meat company stock rep, the stock agent would need to generate \$0.21/kg carcass weight higher than that offered by the meat company.

Other considerations

Other than price received, there are a number of other considerations for farmers when deciding the most appropriate channel to market livestock. In the case of the Smiths, these are summarised below.

Benefits of selling direct through the meat company rep:

- Direct communication with the company, which will likely lead to programme/customer opportunities and pricing will reflect the true quality of the cattle supplied. The company may also enrol the Smiths in a farm quality assurance programme like New Zealand Farm Assurance Programme to verify their good on-farm practices.
- Feedback on the quality of the cattle so that the Smiths can improve their meat quality and can also target store cattle from breeders most likely to meet quality characteristics for the future
- Potential to supply under quality-based price contracts that would reward them for hitting specific quality criteria
- Can receive the very best price the company can offer, with no deductions
- Provide preferential access to space for steers over non-direct suppliers

Benefits of selling through the stock agent:

- Trusted advisor, especially around drafting the cattle for condition
- Trusted advisor with a large network of potential store cattle sellers for when they want to buy replacement calves
- Does not need to work with one meat company, providing flexibility and ability to shop around with access to many potential buyers and possibly increase the price
- Any invisible quality issues such as meat colour or high pH do not get penalised
- Can sell through the sale yards which provides a price discovery/best price on the day opportunity

