

Welcome to [ASK] - Always Seeking Knowledge! No 26 - November 21, 2006
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1. Quick [ASK]

A new model does exist, but so far it has not been used in an agricultural supply chain. Instead of farmers fighting between themselves in a race to the bottom of the price range, this model says, "let's have the supply chains battle it out". It works because the one who screws up the supply chain pays the price, not the one at the end of the chain - ie the farmer.

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2. Welcome and announcements

Welcome to the November 2006 issue of [ASK]. This issue will be short and sweet. It covers a subject I do not often address - Marketing. I hope you enjoy it

REMINDER: Next Tuesday's (November 28, 2006) Teleconference (Monday 27th in the USA and Canada) features Michael Kiely talking about Carbon Credits and Carbon Trading. Click here <http://www.the-farm-business-gym.com/teleconferences.html> to book in.

You might like to listen to this first:

<http://PlayAudio-234.com/play.asp?m=360493&f=ATGJIQ&ps=6&p=1>

CLIMATE CHANGE IN GENERAL

From time to time people in my database are writing and getting good articles published. Sometimes they are making the bullets for professional writers. The recent Paul Sheehan article I circulated was a case in point. As the discussion warms up I will probably steer you more often in the direction of some of these articles, and will encourage you to write letters etc. For the first time there is a serious underswell that things not only can be done but must be done. I expect the fallout from the Stern Report in England a couple of weeks ago will be quite significant. Certainly my blog site <http://www.the-farm-business-gym.com/farm-business-blog.html> will carry some articles on the subject. I don't know much about blogs yet. I'll let you know if something is important!

3. Other people's activities coming up

KLR Marketing

On Thursday, November 30 I will be guest speaker on a KLR Telebridge. Check their website shortly for details <http://www.klrmktg.com.au/> The details should be up later this week.

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4. Pig in a poke

I have been thinking about agricultural 'supply chains' recently - the flow of products from the farm to the consumer. I have undertaken a small task for a group of farmers who are being squeezed in two directions. The group originally came together because of a common interest in producing high quality pigs and pork products. They run a lot of pigs! Most are also grain producers, and in reality, many years ago these people moved into pigs to add value to their grain. In our language, at some stage they assessed that a new pig enterprise was the most appropriate way to strengthen the "Marketing link" in the chain of production of their grain enterprise.

Now they have a new problem. The high price of grain is eating into the profitability of the pig enterprise. In fact, they are gaining on the swings and losing on the roundabouts - if they eat their own grain production they forgo net revenue to the business, because the pigs are running at a loss.

HOW TO FIX IT:

You can be sure that the "Product Conversion" link in the pig enterprise chain of production is pretty sound - each farmer in the group produces high weight gains and enjoys high survival rates etc. This suggests that the Marketing Link might be weakest in the pig enterprise.

Now here's a difficult problem they face: The price they receive for their pigs is limited by the import parity price of pig meat from Canada, USA etc.

HERE ARE THE TWO SIDES OF THEIR DILEMMA:

[A] In order to make a profit a pig producer must hold or REDUCE his costs of production (and as feed costs are more than 50% of total variable costs), a pig producers needs to avoid the risk of RISING international commodity prices

On the other hand and at the same time:

[B] In order to make a profit a pig producer must hold or INCREASE the sale price of his pigs, so a pig producers needs to avoid the risk of FALLING international commodity prices

IN SHORT:

Right now the entire industry has a clear, undeniable structural flaw. Under the existing rules, they are damned, whatever they do.

THE ANSWER

Doing production better won't solve the structural problem! The answer lies in supply chain restructuring. Everybody in the chain will need to play by a clever set of new rules. They will need to change the battle-ground. "Cheapest prices are just the beginning" is the slogan of one supermarket. Who do you think gives away the most money in order for that outcome to happen under the current rules??

The new model exists and works in many other industries. So far it has not been used in an agricultural supply chain. In this model, instead of farmers fighting themselves in a spiral race to the lowest price, the model says, "Let's have entire supply chains work together in a radical new way."

When you think about it, screw-ups in the supply chain can happen for only two reasons - either someone in the chain IS doing something they should not be doing, or somebody is NOT doing something they should be doing! Either way, in this model that is the person who pays for an error - not the farmer at the end of the line!

So how do price signals feed up and down the line? There should only ever be one price signal that matters: there is never a true "sale" within the chain until a consumer purchases the product. Up until that point all that occurs is product transfer. If the supermarket's meat cabinet's are filling up, it means the consumer is not buying fast enough. Marketing is then the Weak Link within the entire supply chain. The supermarket is responsible for fixing that, and if they don't fix it, they pay the cost of not doing what they should be doing. It's not the farmer's responsibility and it should not be his cost!

If stocks build up ANYWHERE ELSE in the supply chain, then the Weak Link of the entire supply chain is Product Conversion. Wherever a build up of inventory occurs is where you find the person who must pay - both up and down the chain - for the damage they do to the entire chain. If it is the farmer or a farmer group, they must fix it. If it is the processor then he is responsible.

On the other hand, if stocks in the supermarket fall, the Weak Link in the entire chain is the Resource Link, and the farmer must respond by producing more before he causes damage to the entire chain. If he does cause damage, he must pay for it.

This model is called TOC - Theory of Constraints, and it has revolutionised companies around the world who were on the brink of collapse. It can change agriculture as well. Will it be easy? No way! Is there enough trust within the supply chain at the moment to allow it to work? No, none at all! Is it necessary to change? You betcha!

You can be sure that the first supply chain that adopts this model will take the game. They will eat their competitors if they offer service so that the customers fight each other to buy on the basis of relationship, not price. When you think about it, do you know any housewives (or catering managers for that matter) who stand in front of the meat cabinet saying, "I know the price of pork dropped in New York last night. This meat is now too expensive!" People might say they buy on price but they actually buy on relationship.

In the meantime, spare a moment to think about those pigs, and their farmer owners who are now caught in a fatal structural conflict. Expect to see either an industry taken out completely over the next few years, or one that is completely restructured.

And guess what? To change an industry only takes a decision! In the end, everything comes back to a decision.

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5. Update your Diary

BOOK NOW FOR: Teleconferences scheduled in the next little while. They are each 'no-charge' and feature outstanding speakers from within our movement.

Nov 28 - Michael Kiely addressing the opportunities for graziers through Carbon Trading
12:00 noon EST, 2:00pm NZ, 9:00 am WA, 6:00pm on 27th RMT (USA)

More details and Book at
<http://www.the-farm-business-gym.com/teleconferences.html>

Dec 19 - Mark Gardner addressing family succession issues from a holistic viewpoint
8:00 am EST, 10:00 am NZ, 5:00 am WA (6:00 if the referendum gets up), 2:00 pm on 18th RMT (USA)

More details and Book at
<http://www.the-farm-business-gym.com/teleconferences.html>

Coming up

Jan 30th Grahame Rees and Rod Knight (KLR Marketing) talk about the opportunities provided by
high quality livestock market intelligence

You can download the audio of previous Teleconferences from the Gym site. Go to www.the-farm-business-gym.com/sound-tracks.html and select the link for any of the stored files.

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6. Books and Materials you can use

"Holistic Management Handbook"
Butterfield, Bingham and Savory
ISBN 1-55963-885-0

A complete new version of the Handbook. Six years in production, this book contains the latest Aides, and a raft of new examples. It is right up to date with the current level of knowledge about managing holistically.

You will appreciate the wit of Sam Bingham, the vision of Allan Savory, and the clarity of expression that Jody Butterfield brings to this excellent book. There is now no excuse. All the practical steps are laid out in an easy to use manner

By the way:

Most books we recommend are available at The Book Connection in Dubbo, NSW
Ph: 02 6882 3311 Fax: 02 6882 3311 or email orders@bookconnection.com.au

(Also ask David Pankhurst about their Mail Order Catalogue - it is terrific)

or

Scorpio Books in Christchurch, NZ

Ph: 03 379 2882 Fax: 03 379 2886 or email scorpbk@ihug.co.nz

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7. Quotes that mean something

Choice, not chance, determines destiny.

-- Anonymous

"You have to say no to the old ways before you can begin to find the new yes you need."

-- Betty Friedan

"Don't get to the situation where you are knowingly subsidising the profits of someone else".

-- Pita Alexander

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This publication is intended as information and not advice. You should test any ideas contained herein towards your own holistic goal.

Regards, and keep well

Bruce Ward