

Rosmalen, 26 August 1999
AKK4265b/CB-MV/mk



*...delivering quality food in a
prosperous and sustainable environment*



Alberta Pork & The Western Hog Exchange

**A case description on vertical co-ordination
in Canadian pork industry**



in samenwerking met Agro Keten Kennis



CONTENTS

1. INTRODUCTION

2. ALBERTA PORK SUPPLY CHAIN
 - 2.1 Company profile
 - 2.2 Alberta Pork Chain profile

3. ALBERTA PORK CHAIN STRATEGY
 - 3.1 Driving forces for change
 - 3.2 Impacts on the Alberta Pork Chain
 - 3.3 Alberta Pork chain strategy

4. CHAIN MANAGEMENT
 - 4.1 Challenges
 - 4.3 Barriers
 - 4.2 Chain management activities

5. COMPETING FOR THE FUTURE

6. COLOPHON

ALBERTA PORK

“DELIVERING QUALITY FOOD IN A PROSPEROUS AND SUSTAINABLE ENVIRONMENT”

1. INTRODUCTION

Alberta is challenged as never before. Changed governmental regulations have placed the company in an open market system. Besides, markets are getting saturated and consumers are becoming more demanding with respect to food and food safety. For Alberta Pork a complete new market driven way of vertical co-ordination is needed what will lead to a reorganisation of the value chain.

This case shows Alberta Pork’s believe that a supply chain approach is the main strategy to compete for the future. Their biggest challenge is to become a value added market orientated organisation.

The Alberta Pork case is one of a series of three benchmark cases on vertical co-ordination. These descriptions are part of the Agri Chain Competence project ‘DECANETHUS’, an experimental study focused on developing a benchmark method and a first description of co-ordination mechanisms in pork supply chains in four countries (DE stands for Denmark, CA for Canada, NETH for the Netherlands and US for United States of America). The objective of the cases is to test the developed methodology for a particular pork supply chain.

In a short statement, The Alberta Pork Producers Development Corporation (now Alberta Pork) was established in 1969 as a self-sustaining, non-profit hog producer organisation. On Dec. 2, 1996, the single desk hog marketing system was shelved with the implementations of open marketing. Alberta Pork has created a marketing division – The Western Hog Exchange – which continues to purchase and sell hogs on the producers behalf, for those who choose to use its marketing services (section 2).

To face the new governmental regulations and shifts in consumer demands Alberta Pork tries to adapt a strategy of more vertical co-ordination. Initiatives to build a contract based production chain has started. Actions are taken on the field of Chain optimisation, Chain care and Chain differentiation. (section3).

One of the biggest challenges for the Alberta Pork is to realise a value added market orientated chain organisation. To be able to respond to this goal it is important that barriers are taken away or solved. The most important barriers for Alberta Pork are: the individual thinking of producers and packers, lack of knowledge about the concept of vertical co-ordination and chain management, less financial participation in the chain. Finally, chain

management activities as, for instance the way of communication and research and education programs, are presented (section 4).

2. ALBERTA PORK SUPPLY CHAIN

2.1 Company profile

The Alberta Pork Producers Development Corporation (APPDC), now Alberta Pork, was established in 1969 as a self-sustaining, non-profit hog producer organisation controlled and directed by a Board of Directors who were – and still are – elected by fellow pork producers. Its purpose from 1969 through 1996 was to market all hogs for slaughter, as a single desk seller, and to carry out programs to promote the hog/pork industry. The APPDC had the mandate and responsibility of enhancing the well being and prosperity of Alberta producers. The mission of the APPDC is *to lead in the development, growth and promotion of the Alberta pork industry.*

Initially, the Corporation developed a marketing system designed to encourage competitive bidding by buyers. The system evolved over subsequent years, as the number of buyers decreased, and to take advantage of modern technology.

On Dec. 2, 1996, the Alberta pork industry entered a new area of marketing. The single desk hog marketing system that had been utilised since 1969 was shelved with the implementation of open marketing. This means that producers are now free to sell their hogs to anyone wishing to purchase them, and that packers are free to purchase hogs from anyone selling hogs. Alberta Pork has created a marketing division – The Western Hog Exchange – which continues to purchase and sell hogs on the producers behalf for those who choose to use its marketing services¹.

Facts and figures (based on slaughtered pigs, 1996)

- turnover (payment price mln CAN\$): 300
- production (x 1000 market hogs): 1.900
- production (x1000 tonnes): 165
- market share (% national): 13 %
- three most important product market combinations:
 - all pork meatproducts for
 - Alberta market
 - other provinces Canada
 - added value products for emerging markets in Asia and Pacific
- number of involved farmers: 3.500
- slaughter capacity (weekly)
 - Flechters: 25.000
 - Maple Leafs Food: 20.000

¹ The Alberta Prok Internetpage, www.albertapork.com

Figure 1: Facts and figures Alberta Pork

2.2 Alberta Pork Chain profile

Alberta Pork

Alberta Pork has divided its activities into two distinct divisions:

- Alberta Pork;
- Western Hog Exchange (WHE).

The two divisions are related to each other closely. For the coming years the WHE has to position itself as a commercial organisation in the hog market.

Alberta Pork

Alberta Pork represents all Alberta pork producers’ universal interests to government, the packing industry, the media and other groups involved in the pork industry. Alberta Pork provides universal services which include promotion, research, education, grading, market development and ensuring the viability and betterment of the Alberta hog industry. All these universal Alberta Pork activities are funded through a \$1.00 per head levy.

The Western Hog Exchange

The Western Hog Exchange (WHE) is Alberta Pork’s marketing division that provides voluntary marketing services and represents producers as a group in the market. The marketing services include information on prices and marketing trends, transport insurance, payment security, forward contracting, special projects etc. The cost of operating the Western Hog Exchange is funded by those producers who use its marketing services.

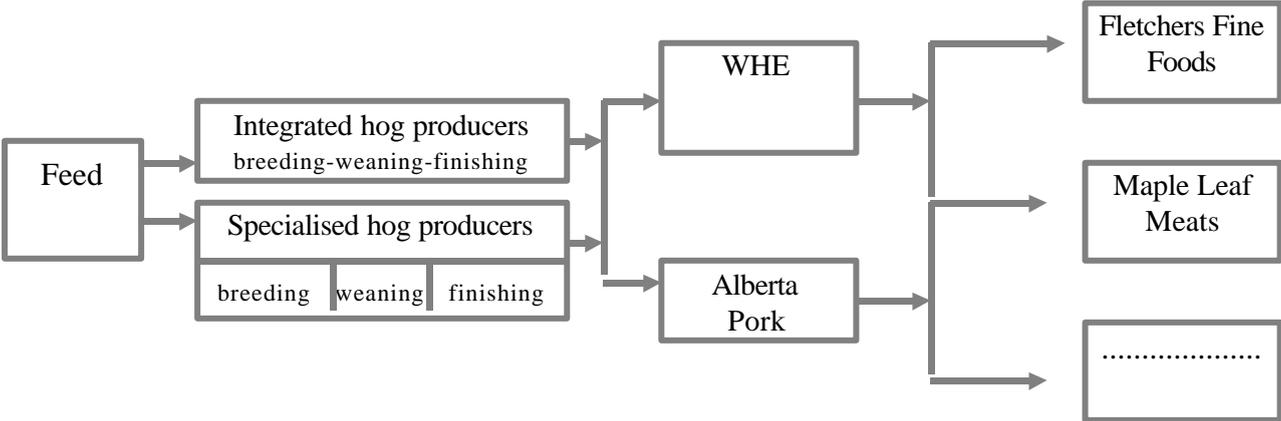


Figure 2: The Alberta Pork supply chain

Slaughterhouses and packers (processors)

Fletchers Fine Foods and Maple Leaf Meat are the only two slaughterhouses and packers in Alberta. Before 1996 all of the hogs produced in Alberta were processed by Fletchers Fine Foods and Maple Leaf Meat.

After 1996 Alberta Pork also has the possibility to sell their hogs to other processors. To create a more integrated chain Fletchers Fine food is the main partner for the vertical co-ordination strategy of WHE. Fletchers Fine Food produces fresh pork meat, added value products and exports their produce to US, Japan and Korea. Their market partners are wholesale companies for the retail market and food service.

Hog producers: breeding-weaning-finishing

In Alberta there are about 3500 hog producers. Nowadays Canadian hog farms are becoming larger and more specialised. A development can be seen of more specialisation related to the stage of production (weaner, finisher). More and more weaners have contracts with the breeding industry and the finishers. Initiatives of building a closed contract based production chain (breeding industry - weaning - finishing) have been started. Hogs are usually sold to processors directly or through various marketing agencies.

Feed industry

The Feed industry is not very well developed. This is because most producers are mixed farms and home processing is very common. This only gives room for the delivery of specialised pre-mix additives. However the major trend is more processed feed because it gives better production results. The Feed industry is independent (a few co-operatives) but is getting more and more involved in the chain / hog industry (not in marketing of live hogs). The awareness of mutual dependency is growing and the number of actions for partnership is coming up.

3. CHAIN STRATEGY

3.1 Driving forces for change

The most important trends that can be argued as Alberta Pork's driving forces for change are:

- the changed governmental regulations. In 1996 Alberta became an open market and Alberta Pork was no longer empowered as the sole marketer of hogs in Alberta;
- consumers are becoming more demanding with respect to food;
- markets are getting saturated;
- new technologies can be seen as enabling technologies playing an important role in meeting consumer demands, in optimising operations and in realising integral chain care systems.

3.2 Impacts on the Alberta Pork Chain

The drivers for change have their impact on the pork supply chain and more specific, on the Alberta Pork company. In the Decanethus case studies we assign these impacts to three categories: *Chain optimisation*, *Chain care* and *Chain differentiation*. The most important impacts can be seen on the field of Chain optimisation followed by Chain care and Chain differentiation.

Chain optimisation

To enable hog producers to stabilise a part of their income the WHE has introduced a Forward Price Hog Contracting Program. With this program the WHE allows hog producers to make a contract for future deliveries within a designated month at a predetermined price. The program is based on a forward pricing system and health programme bonus. For pricing in the contract system a formula has been developed based on the USA and Canadian market day to day prices. The formula is based on a mutual benefit for producers and packers.

To ensure grading accuracy, fairness and accountability after the privatisation of the hog grading by the Federal Government, the Alberta Pork Grading Company (APGC) was founded in April 1996. The APGC is a partnership between Fletchers Fine Foods, Maple Leaf Meat and Alberta Pork. The APGC monitors, trains and certifies packing plant grading personal.

Chain care

To meet and exceed the customer / consumer expectations Alberta Pork and their processors (Flechts and Maple Leaf Meats) developed a voluntary quality assured pork program. For sound husbandry and welfare practise a recommended 'Code of practise for the care and handling of pigs' is promoted. For manure management a 'Code of practise for the safe and economic handling of animal manure' is promoted. An important part of marketing is monitoring the quality and safety of each hog. All hogs are identified by a tattoo and can be traced back to the farm of origin.

Chain differentiation

As an answer to changes in the market the Western Hog Exchange and Fletchers Fine Foods have developed a strategic alliance. A substantial amount of hogs will go through this new system. In the new system producers will contribute money for investment in added value projects, Fletchers will share market information as input for added value projects, and staff will be shared to give a better mutual understanding.

3.3 Alberta Pork Chain strategy

Alberta Pork's goal is to be value as producers of preferred quality foods in a prosperous and sustainable environment. One of the strategic objectives is to help producers in their own operations and communities. Through investment in key research areas, more vertical co-ordination and value added and optimisation projects, producers will be competitive in the (international) market place.

4. CHAIN MANAGEMENT

4.1 Challenges

To continue their successful commerce, Alberta Pork faces the following challenges:

1. how to realise a value added market orientated chain organisation;
2. in what way should the Western Hog Exchange develop itself into a central 'directors' role in the supply chain;
3. in what way should the WHE stimulate hog producers to act more (consumer) demand orientated;
4. how should the WHE develop emerging markets;
5. Alberta Pork feels that they just started with the concept of a market driven organisation (WHE) with vertical co-ordination and in the coming years lots of changes are to be expected. Changes like:
 - further development of the marketing system of the hogs to the processors;
 - new market information systems;
 - new long term supply contracts between linkages (genetics, feed, producers, processor, packer);
 - new financial constructions between linkages and mergers;
 - new specifications for all linkages to meet the consumer and buyer demands;
 - new quality, safety and health programmes will be started.

4.2 Barriers to over come

To be able to respond to the described pressures for change it is important for the industry that barriers which impede Alberta Pork's development are taken away or solved. The following barriers can be described for the Alberta Pork.

Most producers and some packers think and act like individuals. It is difficult to gain trust between linkages that traditionally distrust each other, to give way for the development of

new relations and partnership and to accept new pricing mechanisms. New communication ways must be built in the production chain.

New management systems will lead to a higher speed of adaptation and adaptation will determine the speed of the development of the vertical chain co-ordination concept.

The open system gives the farmers more feelings of uncertainty. Although most farmers have mixed farms, what means that they are for other farm products used to the open market system, for pork it is a new phenomenon and it will take some time and a lot of communication to get the new system accepted.

The individual linkages are fully aware of the need for a change to a more market driven production. The concept of vertical co-ordination fits very well although the management does not know what this means and what the consequences will be. Pilots are needed to find out what the new way of market thinking will bring.

In the production chain little financial participation is found. Some feed mills participate financial in the increase of weaning and finishing production facilities, but this is not common. When a producer asks for a loan or credit, banks are starting to ask for contracts and the participation in the quality programmes.

4. 3 Chain Management activities

To ensure maximum customer satisfaction and high efficiency within the chain, effective chain management is of great importance. Some chain management activities are:

Communication

Alberta Pork has a magazine and newsletters (for marketing, contracts, pricing and to give information about consumer wishes). There has also been developed a new information exchange system. For marketing, forward contracting prices and producers statistics. The WHE has a Daily Market Report on the Internet. Processors can get health and slaughter information on individual hog level.

To reach consumers several actions are taken, for example a recipe hotline, commercials on the radio, newspaper advertisements, cooking demonstrations, Consumer Resource materials (frill sets, recipes and cooking books).

Research and education

Alberta Pork believes that diligent investment of producer's funds in focused strategic areas will have positive economic return. Some Research Investment Approved projects are, Industry Research Programs and Pork quality. On the other hand education is of great importance. Workshops and conferences are organised, there are Distance education opportunities, Diploma and Certificate Programs University degree programs and educational resource materials.

5. COMPETING FOR THE FUTURE

The value chain of Alberta Pork has started with a new open marketing system. This is considered as the starting point of thinking in terms of vertical co-ordination. A lot of actions to expand the new marketing chain still have to be taken. It means a complete new market driven way of vertical co-ordination and will lead to a reorganisation of the value chain.

Alberta Pork is prepared for the future and is looking forward to achieve this great challenge!

COLOPHON

This case is one of a series of four benchmark cases on vertical chain co-ordination. These case descriptions are a part of the ACC pilot project 'Decanethus'. (DE = Denmark, CA = Canada, NETH = Netherlands, US = United States of America).

We especially want to thank mr. Jack Kalisvaart, from the Alberta Pork Producers Development Corporation, for providing us with the information for making this case description.

Agri Chain Competence foundation (ACC)
ir. W. Maijers, ms. ir. J.E. Broekmans &
ing. M.G.N. Vernooij
P.O. Box 15
5240 AA Rosmalen
the Netherlands
Tel +31 73 5219250
Fax +31 73 5218260
e-mail acc@akk.nl
www.akk.nl

Rijnconsult BV
ir. H. Folkerts &
ms. ir. M.G.M. Peters
P.O. Box 9100
6880 HA Velp
the Netherlands
Tel +31 26 3848586
fax +31 26 3848588
e-mail henk.folkerts@rijnconsult.nl
www.rijnconsult.nl