

Making More Profit with Value Chains – The Sunterra Experience

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Sunterra Farms operates cropland, and cattle and pig production facilities. The Sunterra organization also includes Trochu Meat Processors and Sunterra retail stores in Calgary and Edmonton. I will speak primarily to the pig production division and its linkages to down stream marketing.

▪ Brief History

The Sunterra Farms Pig Division has its roots in the small family farm operation that my Mother and Father started as their own in the 1950s. In 1970, we formed Pig Improvement (Canada) Ltd. and concentrated on delivering additional value in breeding stock primarily to customers across Canada and some into the United States. In 1990 we purchased a small, provincially inspected pork and beef packing plant, Trochu Meat Processors in Trochu Alberta. We also opened a retail store in downtown Calgary.

▪ Present Operations

Today, we no longer are involved in the marketing of breeding stock and have shifted our focus as much as we have been able, to increased animal production in Alberta, and toward increasing our retail business. We now crop approximately 13,000 acres of land, have beef feedlot capacity totaling about 45,000 head in 3 locations and about 7500 sows in farms ranging from 100 sows to our last investment in a 4000 sow multi-site system. Trochu Meat Processors is now a Federally inspected pork plant and also works in a Joint Venture with Canada West Foods out of Innisfail. We have customers in Western Canada, the United States and Mexico as well as Japan. At the retail level, we operate 6 locations in Calgary and Edmonton.

▪ **Experience**

Our experience with the "Pork Value Chain" has always been with the focus on differentiating our product from the general commodity pork market, and to deliver superior value to our customers wherever we can. We have the advantage of being able to start with the planning from the genetics of the animals forward, and to manage the production and processing links in a way that can be complementary to the overall bottom line. We work hard to deliver what our customers want rather than to plan our own path and then expect to simply sell what we have produced.

▪ **Discipline**

We have learned that we have to be disciplined in our decisions. We don't assume that because we are able to work internally with more links in the pork chain that we automatically have an advantage over a more segmented system. Indeed, there is the risk of ending up with one or more links being less efficient than the competition and as a result one link becomes reliant on another link's strength to survive. Obviously this can become unhealthy for the whole chain.

▪ **Competitive Links**

We believe that each link in the chain should be competitive with the rest of the industry, or in the event that extra investment is being made in the production or processing of the product, that the customer is willing to pay for that investment in the final price of the product. Of course, in the case where there is extra investment, the relationship with the customer over the long term becomes increasingly important. Reliance on a single customer carries greater risk when going down this path and we have worked to avoid this.

▪ **Evolution of the Market**

We believe that there is going to continue to be a progression toward increased differentiation of products for consumers.

We believe that this differentiation will take place on a wide variety of fronts, from an increased ability to trace animals and pork, to production practices, to uniqueness of product character or process. We also believe that although margins for the early deliverers of this product will be strong, over time the

pricing differential will reduce as the general standard improves and the differences perceived by the consumer become less pronounced.

There are many opportunities for production chains to respond to markets for differentiated products today.

▪ **The Market Challenge**

The challenge is to develop a value chain with solid long term relationships that will continue over time as the market forces shrink the differentiated product price premium compared to that paid for the general commodity product.

The advantage of a value chain, whether owned or closely aligned, is the reduction in the number of times that the consumer's desires are translated by different vested interest parties and also the communication of the answers back to the consumer. We have found that the key to good long-term relationships with our customers is to try to make sure that both parties have a clear understanding of both ends of the business.

▪ **The Social Challenge**

The greatest challenge faced today, by North American and especially Alberta's livestock producers, is the substantial resistance to change and modernization of agriculture. Although consumers vote with their dollars by flocking to the SuperStores, Costcos, HomeDepots and SportCheks, the reported public perception with respect to farming is different. It seems that farmers should not get bigger. We should not change the methods of production to utilize new management systems or technology. We should recognize "animal's rights" and of course, everyone has a valid opinion on "the environment". Who would have ever believed that while the media spends a disproportionate amount of time focusing on the positive attributes and the marketing of "organic" products that, at the same time, using manure as fertilizer is seen by the public as a threat to the environment?

To some degree, we are facing the same challenge as an industry that individual value chains face in dealing with their long-term customers. Both ends of the equation need to understand the other better. The food production and marketing chain needs to clearly understand and provide for the different market segments consumers want and consumers need to better understand that placing restrictions on the direction of the production and marketing system will cost more money at the grocery check-out.

The opportunity we have through improving the production to consumer linkages is the ability to respond to legitimate market opportunities. However, both ends must clearly understand what is wanted, what is necessary and what it will cost.

The challenge will be to keep the objective in front of us, which provides for the pursuit of these different market opportunities. Too often "social" programs are put in place to protect what is perceived to be a way of life or a certain character of product. Too often these social programs are driven as a broad requirement and not based on genuine consumer desires and demand. The market place is the best and final determinant of the merit and scope of these different consumer demands. Our objective should be to communicate, facilitate and then let the market arbitrate.

▪ **Conclusion**

In summary, there is no one model of value chain that will be right for everyone any more than there is only one consumer or one producer.

Indeed, it is much better for there to be diversity in demand and in approaches to respond to this demand. The bottom line is that we must know our respective business and its strengths very well and be willing and able to communicate this to our potential customers and partners. Out of understanding will come the strength to build successful relationships with whatever customers we work with, whether they are the next link in a coordinated chain or all the way through to the final consumer of our product.