



Department of
Primary Industries and
Regional Development



Partnering for Customer Value case study:

OBE Organic Beef

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Business

OBE Organic Beef

Location

Channel Country of
Central Australia

Product

Organic beef





The collaboration

The OBE Organic case study profiles one of Australia's longest prevailing, farmer owned marketing collaborations. This is a story about a group of station owners in the Channel Country of Central Australia (Queensland, Northern Territory and South Australia) who in the mid 1990s were driven by shifting market forces to find a more secure

market for their organic beef and create a business model where they could increase their market power and secure a legacy for future generations of their families. It is a story about a company that turned a disadvantage, under the traditional beef paradigm, into a competitive advantage.



OBE Beef Pty Ltd (OBE) was formed during 1995 by a collaboration of 30 farming families who were naturally producing organic livestock by virtue of the fact that they were range grazing, which is a feature of the region. Once they realised that they could leverage this by formalising their organic status and marketing under a common brand, the OBE Organic journey began. Some of the OBE producers are now second and third generation cattle farmers who have continued the tradition of range feeding cattle.

OBE Organic is a wholly producer owned company, which is run on cooperative principles. The company exports certified organic, grass fed beef to markets including North America, South East Asia, the Middle East and North Asia. Around 75% of the OBE Organic production is exported. The business markets around 12,000 head of cattle per annum.

The formation of OBE Organic has allowed the producer owners of the company to extract a premium profit from their supply chain and build more stability into returns by leveraging the competitive advantage of a naturally occurring production system, which under the conventional model of meat marketing would be considered a disadvantage.

The story of OBE Organic is a story about repositioning in changed market circumstances. The fact that the small beef marketing company has survived and prospered in the notoriously volatile meat industry which is dominated by large global traders, is a testament to the vision and commitment of the founders and current shareholders. Over the years, there have been countless attempts to build collaborative meat supply chains in Australia



and OBE Organic is one of the few survivors. The issue with collaborative meat supply chains is that on any day, there is probably a better deal from somewhere for either the buyer or the seller, which tests the solidarity of the collaboration. OBE Organic has been able to successfully hold their group of likeminded farmers together with a strong brand, underpinned by a clearly stated value proposition that gives them a valuable point of difference against mainstream producers.





TABLE 1. Summary of key elements of the OBE Organic collaboration

The collaboration	OBE Organic is a producer owned marketing company that markets range fed, organic beef from the Lake Eyre basin of Central Australia, an area referred to as 'Channel Country'. OBE Organic is one of the longest standing meat marketing collaborations in Australia as it has been operating for over 25 years.
Catalyst for collaboration	A group of beef producers in the Channel Country wanted to create a sustainable future for themselves and their next generations. They recognised that market power was in the hands of the processors. At that time the Meat Standards Australia (MSA) grading system was launched. It was structured around assessing eating quality, and so predominantly favoured the attribute of 'tenderness', which effectively downgraded range fed beef. In fact, at that time, range fed beef was not eligible for MSA grading under the protocol. This industry shift prompted the group to pinpoint the naturally occurring organic production system that they had as being their strongest competitive advantage in the new MSA paradigm, and they sought out export markets where grass fed organic was actually sought after and valued.
Entity structure	OBE Organic is entirely producer owned. The entity is a company guaranteed by shares (a Pty Ltd company), however its CEO notes that it operates on " <i>cooperative principles</i> ". The company structure gives it more flexibility in business operations relative to a cooperative structure.
Governance	A five member board comprising of three producer directors, one independent director and the managing director provides governance. Directors are reappointed on a rolling basis. The company has a written corporate charter.
Business model	<p>The OBE Organic business operates as a marketing company procuring livestock and marketing organic beef on behalf of its shareholders as well as non-shareholder suppliers. The key operational functions including processing are outsourced. The livestock is purchased on an 'over the hooks' basis, meaning payment is based on carcass weight and quality as measured after processing, with pricing based on a grid matrix of attributes that are of relevance to the customer and consumer. All of the beef is certified organic, which on average attracts a premium over non organic beef. Producers receive direct quality feedback on each beast after processing.</p> <p>OBE Organic markets the beef with a built in margin to cover overhead and operating costs. It generates a small surplus to allow it to manage market fluctuations as in some seasons cattle prices are out of sync with meat prices, meaning that there is a low or negative margin that the company has to cover.</p>
Markets & channels	<p>OBE Organic has a diverse market mix including the domestic market plus multiple export markets in North America, Asia and the Middle East. The vast majority of the meat is sold to importers, distributors and foodservice businesses, although there is a growing amount being sold directly to overseas supermarkets.</p> <p>The product range includes primal cuts and trimmings. Pricing is set to incentivise customers to buy on a 'natural fall' basis. The company executes an extensive marketing program based on a push-pull marketing strategy (i.e. trade marketing to drive distribution and consumer promotion to pull through sales), although the marketing is predominantly trade oriented rather than consumer facing.</p>

Supply chain model

All of the OBE Organic beef is certified organic and is sourced from shareholders and non-shareholder suppliers in the Lake Eyre Basin of Central Australia, where the production system involves free range grazing and mustering on country that has, for the most part, never known chemical use.

The OBE Organic livestock coordinator works with station owners to schedule the mustering so that a steady flow of 260 head per week are available for processing. In most weeks, the supply comes from three to five properties. Because free range herds are not subject to controlled mating, the muster delivers a variety of beasts. The company takes mixed specifications of cattle in each load including stock at a range of ages and sexes. There is some ability to draft on farm to meet the scheduled demand, but generally there is a range of beasts shipped in each load. The cattle are processed on a service kill basis.

All OBE Organic beef is sold in a boxed primal form. As is the case with all beef, a percentage of the product produced is lower value trimmings, but OBE Organic has strong demand for their trimmings because of its leanness, grass fed characteristics and its organic status.

Financial model

The initial capitalisation for the company came when 25 years ago, the 30 original shareholders each contributed a lump sum towards purchasing shares, the amount of which was enough to establish the business. The company's ongoing operations are funded by the trading margin. Shares can be traded subject to the provisions of the share agreement.

Unlike most businesses, the performance of OBE Organic is measured by its profitability and its ability to deliver better returns for its suppliers. The fact that the business is still operating successfully after 25 years is commendable given the highly volatile nature of the Australian red meat industry.

Risks

The OBE Organic business model is relatively low risk. It is a low capital operation and the key functions are outsourced based on long term arrangements. The significant agricultural risk is borne by the suppliers. Most of the market risk is also borne by the suppliers because product is bought and sold at market rates. However, there are times when the trading margin is small or negative due to market circumstances. If this situation was to prevail over an extended period of time, it could put the company at risk.





The catalyst for collaboration

“We wanted to make (the producers) lives and their businesses flourish. That’s what we are all about.”

OBE Organic Founding Director

During the mid-1990s, cattlemen David Brook, Scott Fraser and Peter Schmidt were concerned about a sustainable future for the next generation of beef producers in the Channel Country for the following reasons:

- At that time, demand for range fed beef was declining because the processors and marketers were becoming more focused on genetics to breed carcass consistency, yield and eating quality. Controlled mating to achieve genetic consistency is difficult in large scale rangeland operations.
- The meat industry volatility made it difficult for the cattlemen to manage their businesses with large peaks and troughs in pricing driven by the cattle cycle, seasonal supply factors and declining domestic demand.
- The Channel Country’s highly variable seasonal conditions meant production and herd size was also extremely variable and processors prefer a run of more uniform beasts for processing efficiency and consistency of cut.

- The transport distance added significant cost to these producers because cattle have to travel up to 1600 kilometres to be processed.
- Because of the remoteness of these properties and the free range nature of the farming, there was a limited pool of buyers for the entire range of cattle produced in each muster.
- These cattlemen felt the need to get more control over their destiny, believing that market power favoured the processors.

In essence, the prevailing view of the founding directors of OBE Organic at that time, was that their future was in the hands of the processor and the processing industry was rapidly rationalising as large, multinational players were dominating the sector. Because of their pivotal position in the beef supply chain, the large processors were able to take advantage of the volatility and were making supernormal profits in times of low cattle prices. Being family businesses, the founding members were deeply concerned about what kind of farming future they would be handing over to the next generation.

At this time there was an increasing perception in the mainstream beef industry that range beef was of inferior eating quality, particularly its inconsistency of tenderness. At that time, the supermarkets were moving toward young, grain finished Angus cattle with some marbling, i.e. intramuscular fat distribution. Marbling enhances the tenderness and juiciness of beef. This market dynamic ultimately gave rise to the development of the Meat Standards Australia grading system in which grass fed beef was disadvantaged.



Note: at that time, range fed cattle were not eligible for MSA grading because producers were not able to meet the protocols in relation to the on-farm animal management in a range grazing environment — the eligibility has since been modified. Most of the cattle in the Channel Country are Hereford breed because they were more suited to the harsher free range conditions and at the time of OBE Organic's inception, domestic market preferences were shifting towards breeds such as Angus and specialty breeds like Wagyu.

Also around this period, the organic food movement was becoming more mainstream and organic food products were selling at a substantial premium relative to non-certified produce. The founding directors recognised that few, if any, changes would be needed for the Channel Country properties to be classified organic; it was simply a matter of going through the certification process.

The group identified that this was clearly a unique moment in time where the OBE Organic producers could turn a negative, under the conventional beef production thinking at that time, into a positive by leveraging 'organic and grass fed' as their competitive advantage, but it would require a strong branding proposition to tell their story.

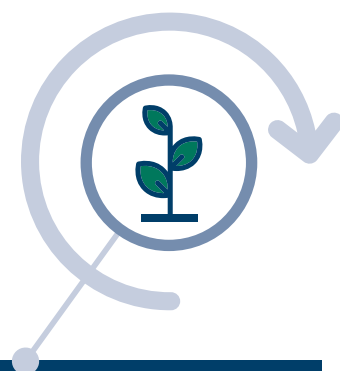
The process

The inception of OBE Organic stemmed from a facilitated workshop in Thargomindah, Queensland where around 30 cattle farmers from the district were invited to brainstorm the potential to establish an organic beef marketing company. The workshop participants scoped out what would be involved in establishing a collaboration around an



organic, grass fed marketing proposition, noting the commitment required, the likely challenges and the willingness to commit. At the end of the workshop the consultant challenged the workshop convener, Scott Fraser, in front of the whole group by saying *"You've talked all day about this. What you going to do about it now?"* Taken back at first, Scott took up the challenge, and later convened another workshop with the same producers to drill out the detail and at that point the concept of OBE Organic was born.

The formation process was driven by a committee comprising OBE's four founding shareholders with the help of an independent consultant/facilitator. Funded by a grant from the Federal Government's 'Supermarket to Asia' program to develop the foundations of the business, the group mapped out the business model and developed a business plan.





The market context



Channel Country is a 29 million hectare region in Central Australia on which the river systems Georgina, Diamantina, Barcoo, Thomson, Bulloo, Paroo and Cooper Creek plus their tributary channels run. In a good year, these systems flood following Northern Australia's wet season, with the river flows running towards Lake Eyre. As the water leaves these ephemeral channels it sustains hundreds of species of native herbs and grasses (it is believed that there are over 250 species) that provide a highly nutritious mix of feed

for cattle. To put the scale of this country into perspective, one of the shareholders operates a 3 million hectare grazing operation.

Because of the nature of the Channel Country, the production system is based on mustering free roaming cattle. There is virtually no controlled mating and no need for chemical intervention, given that there are few internal parasites and no pasture fertiliser is required because of the nutrient rich flood waters. All of the cattle supplied to OBE are certified organic, but the farming system is naturally so. The only action required to become a certified organic supplier is to go through the process of organic registration and certification, which can take as long as three years.

As well as being organic, this range beef is grass fed, which produces a naturally leaner beef with the unique taste that is increasingly being sought after, particularly in parts of Asia. In the USA, grass fed

beef is less common and so has appeal to the health conscious consumer for its lower saturated fat content. Although no health claim can be made, OBE Organic believes that the fact that the cattle graze on native grasses infuses them with natural goodness and unique flavours. Because the production system is free range and therefore without controlled mating, the herd has natural genetic diversity which OBE Organic promotes as a sustainability attribute.

Despite the market disadvantage created by the advent of MSA in Australia, the opposite dynamic was occurring in the USA. Range produced, grass fed, organic beef was becoming highly sought after, firstly because of its organic status and secondly because of its leanness and distinctive taste. In the USA, beef is mostly finished in feedlots and there was a consumer backlash about the high levels of saturated fat, the chemical use and the inhumane treatment of animals. Furthermore, the inconsistency in tenderness in dry

cooking of the grass fed beef is irrelevant to most of the customers in Asia and the Middle East, because beef is primarily prepared using wet cooking techniques such as stir fries, hot pots and curries, etc. Such cooking techniques can override issues with tenderness and in these markets, flavour is of paramount importance. Younger consumers in the Japanese market have also developed a preference for grass fed beef rather than the high marble score cuts traditional in Japanese cuisine. This is largely to do with increased health awareness about the benefits of lean meat and a flavour preference.

The biggest export market for OBE Organic is the USA where the product is used for hamburger mince and where flavour is the key determinant of eating quality and tenderness is irrelevant. The growth of gourmet burger chains throughout the USA, Middle East and Asia has underpinned demand for the OBE organic trim products in export markets particularly.



The advent of MSA changed the course of the beef industry

At the time when the OBE Organic concept was being formulated, Meat and Livestock Australia (MLA), the red meat industry peak body, introduced the Meat Standards Australia (MSA) beef grading system. This system originally focused on identifying the 'fitness for purpose' of various beef cuts, but it eventually became a system for determining the tenderness of beef in dry cooking techniques such as BBQ.

The MSA system was based on extensive consumer market research that indicated beef consumption was declining because consumers were disappointed with the inconsistency in beef eating quality, notably tenderness. At this time, the main cooking technique for beef in Australia was dry cooking (either grilled on the BBQ or roasted), where tenderness was a key driver of eating satisfaction. The algorithm underpinning the final MSA grading system discriminated against range fed beef because of its lack of consistency for dry cooking. In fact, under the original version of MSA, range fed beef was not eligible for MSA grading because of the strict production protocols, which were impossible to meet in a free range production environment. As a consequence, there was decreasing demand for range fed cattle at that time and prices were softening.





The collaborative model

OBE Organic Pty Ltd is a producer owned company limited by shares. When the company was started, 30 or so producers invested a lump sum to fund the establishment of the business. Over the years the shareholding has changed, largely because some of the founding shareholders injected additional capital to fund growth. Within the company shareholders' agreement, shares can be traded to parties approved by the board.

Guiding principles and strategy

Although OBE Organic is a Pty Ltd company, its philosophy clearly draws heavily on the ethos of the agricultural cooperative. The company's values are based around four principles:

1. Convert 'unique' into 'better'
2. Foster innovation
3. Be good
4. Think big

The company exists to ensure that there is a long term market outlet for Channel Country organic beef and to maximise returns for the producers. In line with its organic principals, OBE Organic also has a strong commitment to sustainability; it is one of the first beef

supply chains to formally introduce a sustainability protocol. To achieve this, the company has introduced the OBE Organic Flourish program to align with a United Nations sustainability initiative. OBE Organic is the only Australian beef company to sign up to the UN Global Compact on Corporate Sustainability, which is a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation. The OBE Flourish program is based on four continuous improvement platforms around environment animals, people and product.

The business model

OBE Organic is a branded beef marketing company as distinct from an operational company. Cattle are sourced from both shareholders and non-shareholders. The business buys the cattle based on a standard meat industry practice grid pricing system, which takes into account the sex, age, weight, fat cover and other relevant carcass attributes. The grids are updated regularly to reflect market price movement; prices are above the prevailing market price to secure cattle from non-shareholders.

In order to supply OBE Organic producers must be certified organic by third party auditors under the National Standard for Organic and Bio-dynamic Produce and the USDA National Organic Program (USDA NOP). There are multiple organic certifying agencies, but not all are equally recognised globally.



Essentially, there is no difference between the shareholder suppliers and the non-shareholder suppliers in terms of the supply arrangement or pricing, etc. The only differences are that non-shareholders do not receive dividends and cannot enjoy any potential capital gains in the value of the company or its brand. Non-shareholder suppliers are loyal to OBE Organic because of the transparency of the trading platform plus they have a great pride in the OBE Organic brand and the fact that the business is producer managed. They also benefit from the networking and information they receive from the group and ultimately, they can usually sell at a slight premium because of their organic status and the brand loyalty.

OBE Organic has a livestock coordinator on staff who organises the supply required to service sales each week, working with suppliers to schedule their mustering program to meet order commitments. The mustering program is organised at least one month in advance. Cattle are sourced from three to five properties each week. Managing supply to meet the weekly slaughter quota does require tight organisation and careful scheduling. The exposure to weather events is always a challenge in agriculture, but because of the vast geographic area of the Channel Country, it means that there is a great diversity in the weather patterns across the region. The tight scheduling process allows OBE Organic to plan weekly shipments from across the region. With most musters bringing in more than 2,000 head each, there is usually more stock than required once drafted, notwithstanding droughts and extreme conditions.

The cattle are processed by Stanbroke Beef, a large family owned, vertically integrated beef company, at its plant at Grantham in the Lockyer Valley on a 'service kill' basis. OBE Organic has a regular weekly slot allocated in the Stanbroke Beef processing run for 260 head. OBE Organic and Stanbroke Beef have a longstanding relationship and mutual respect and goodwill has been generated between the two businesses over the past 20 years through both parties remaining loyal to the alliance. While both organisations have benefited from the consistent and reliable trade, this goodwill has been particularly important during tough times in the industry cycles when they have been able to ride out the challenges together.

It has taken some years to build the weekly slaughter to 260 head, because when the group started organic meat was a niche market. It is now growing so quickly that sourcing enough supply to grow markets is becoming the more pressing challenge. OBE Organic's livestock coordinator is helping new suppliers through the process of transitioning to organic certification, in order to grow supply.

The transaction for the purchase of the cattle occurs following the point of slaughter. The producer organises and pays for the transportation to the abattoir and wears the risk until that point in the supply chain.

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"I know I have a good market for my cattle and I can send in a range of beasts, even those that don't quite meet the specs."

OBE Organic Producer

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"We get a lot of information back from the company especially in relation to the performance of our cattle when they are processed through the abattoir. The feedback sheet provides timely, reliable and extensive information on carcass detail that we can track back to the performance of each farm."

OBE Organic Producer

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Each weekly slaughter includes young prime, steers, cows and/or bulls of different weights and condition. Usually the weekly slaughter is divided into a number of runs to make the process more efficient. The carcasses are boned at the adjoining boning room and packed by primal cut. The product is graded by age and sex and sold on a natural fall basis, i.e. the whole beast is boxed. Trimmings from the carcasses are sold to the hamburger trade. Primal meat is then wet aged and dispatched to the customer. All meat is labelled using the standard AUS-MEAT language and is packed in OBE Organic branded cartons.

OBE Organic holds a non-processor exporter licence to allow it to export in its own account. OBE Organic has ten staff and an office in Brisbane.

Producers are paid on pack out according to the published pricing grid for each type of beast. The producers receive detailed feedback on the pack out quality of each carcass so that they can continuously improve the parameters of the stock they send to OBE Organic. This information provides an important database for producers to manage their own business performance.

OBE Organic builds in a margin to the trade to cover its costs plus provision for a small profit, which if surplus to requirements at the end of the year may be distributed as a dividend to shareholders. The harsh reality of the meat industry is that any business must be price competitive on both the buying and selling side to remain viable. The ability to make a margin depends on the juxtaposition of livestock prices and market meat prices. A positive margin is not always assured as cattle prices are

notoriously volatile — when prices are extremely high, they can reach a ceiling that the customer will not pay due to market resistance and demand then falls away as consumers and food service outlets substitute other meats.

The brand and provenance

OBE Organic's brand strategy is a critical component of the company's success. Building a strong consumer brand can be very challenging for a marketer of bulk product, especially when selling to such a range of geographically and culturally diverse markets. The buyers in each market place differing emphasis on the brand attributes, often requiring individualised packaging for each market. In much of Asia the value proposition is based on Australia's clean environment and safe food; in Japan it is 'leanness and flavour'; in the USA it is 'grass fed'; and in the Middle East it is 'Australian provenance'. The challenge for a business the size of OBE Organic is the cost of supporting consumer facing brand marketing programs across such a large and disparate market footprint.

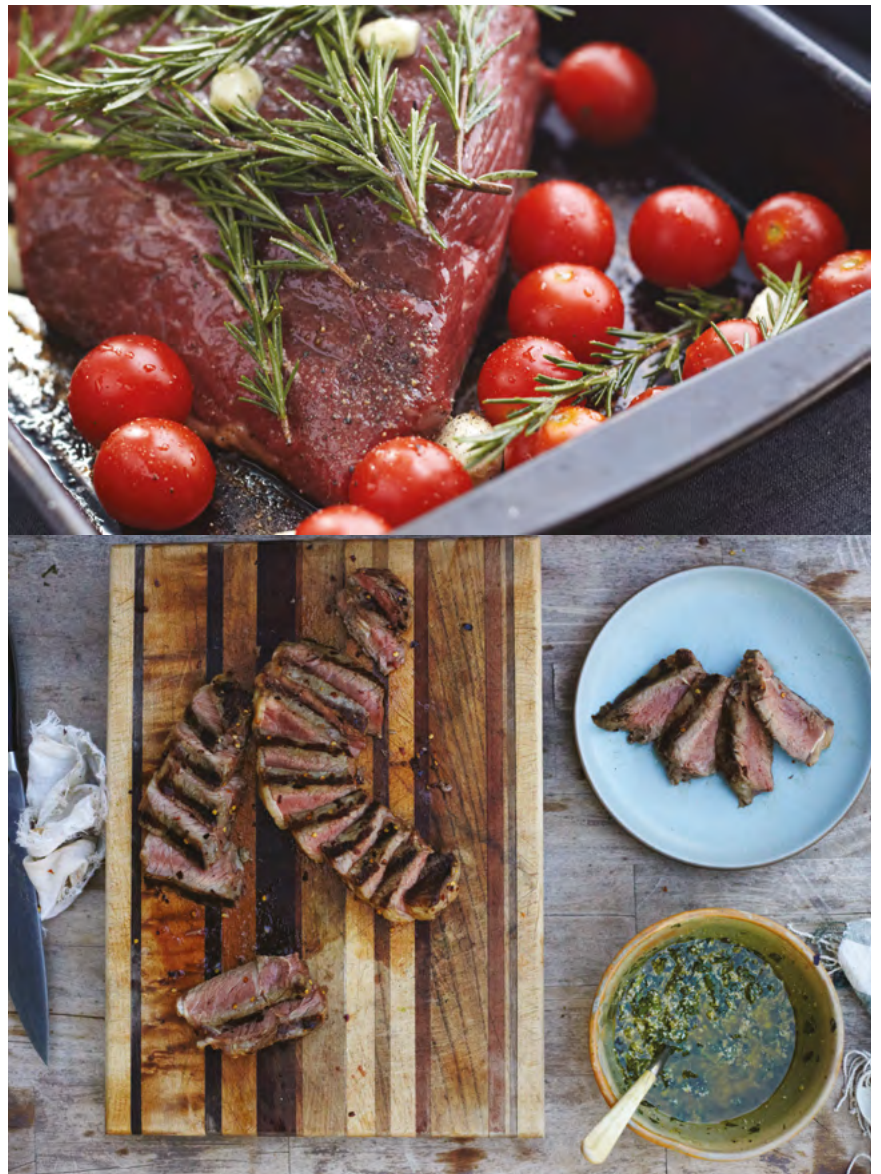
Unlike most packaged food marketers where the brand focus is on the product attributes and benefits, OBE Organic's central brand proposition is built around the provenance of the Channel Country which provides the unique environment in which their cattle are raised. Initially, the company found it difficult to promote 'the outback' as the provenance, as this was an alien concept in most export markets. The provenance message has now been very carefully crafted to support the organic proposition and emphasise the uniqueness of the region's environment.

Magnificent still imagery and video footage of the Channel Country is presented on the OBE Organic website. The marketing team has cleverly built on this landscape story by adding the story of the OBE Organic producers. The brand provenance is projected by the farmers in their own words on a number of YouTube clips and in the website stories. Emphasising the connection with the farmers who produce the product adds to the brand's authenticity. The company also leverages the producer's passion for their own product by inviting them to participate in 'meet the farmer' retailer events and in store tastings in some of the export markets. These promotions have been extremely successful and the producers enjoy the direct feedback from customers and seeing their product at the end of the supply chain.

The OBE Organic marketing team wisely recognised that it could not compete head-to-head in the traditional meat paradigm where eating enjoyment was based around tenderness. The company had to invent a new marketing paradigm. There is an old saying in marketing along the lines of *"If you can't lead a category, invent a new category that you can lead"*. OBE Organic has done just that.

Although OBE Organic has primal cuts suitable for grilling and roasting in their range, much of it is used in wet cooking styles so the prime focus is to market the unique grass fed taste, leanness and organic status of their beef.

As consumers in Asia and the Middle East become more affluent, they are increasingly interested in where their food comes from, how it is produced and about the use of chemicals, water, soil and air quality. In meat production,



how the animal is treated and the organisation's ethical credentials are also a high priority for consumers. This demand for greater animal health, transparent ethics, unique provenance and instant traceability makes the OBE Organic story very appealing to overseas consumers, not just those who buy organic food.





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OBE Organic's heartland is Australia's Lake Eyre Basin, one of the world's great free-flowing inland river systems. This is an extraordinary natural treasure covering a sixth of the continent, where rivers and creeks flood during northern Australia's 'wet season' and flow towards Lake Eyre in the centre of this huge inland drainage basin.

For millions of years countless floods have deposited rich nutrients to create vast, fertile outback floodplains — so remote they have been virtually untouched by chemicals for millions of years, and are still hundreds of kilometres from densely populated areas.

In this harsh but pristine environment, over 250 species of natural grasses, herbs and succulents grow year-round and flourish when intermittent floodwaters recede.

This is nature's perfect farm for the production of premium beef: safe, healthy, and renowned for infusing unique natural seasonal flavour into every cut of beef.

OBE Organic website

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The unique selling proposition (USP) for the OBE Organic brand is heavily focused around the following provenance factors:

- A certified organic product.
- Distinctive grass fed flavour from over 250 species of native herbs and grasses articulated as “*nature’s seasoning*”.
- Pristine grassland in the remote Channel Country.
- Triple bottom line sustainability practices.
- Free range grazing, where cattle forage freely with minimum human interaction.
- Lean, natural, appealing to the health conscious.
- A farmer owned company supporting family businesses, with the marketing material strongly featuring and profiling the families that produce the product.

The marketing

OBE Organic markets its products in Australia, Japan, Korea, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, the Middle East and the United States of America.

The OBE marketing strategy involves a dual push-pull approach, with a focus on push. Push marketing aims to generate and maintain distribution by trade marketing programs targeting importers, wholesalers, food service providers and food service outlet personnel such as proprietors, chefs and food and beverage managers. This is achieved through personal visits, participation in sponsored trade shows and trade missions.

OBE Organic engages Austrade to conduct in country research and lead generation on a fee-for-service basis, which it finds to be a cost effective way to conduct export market development, given its need to target a wide spectrum of countries on an ongoing basis.

The pull element of the marketing strategy involves promoting directly to consumers by joint marketing with supermarkets. Consumer branding is difficult for OBE Organic as it does not produce retail packaged products. Some overseas supermarkets label their retail packs with the OBE Organic brand, presumably to leverage the provenance story on the OBE Organic website. OBE Organic provides pack stickers and point of sale material to their retail customers. OBE Organic has had great success with in store demonstrations and tasting, with the farming families mingling with the customers. This ‘meet the producer’ element has a powerful impact with shoppers in overseas markets.

OBE Organic uses social media with great effect to build a relationship with consumers. Its website heavily promotes the provenance story, featuring farmer YouTube videos which strikes a strong chord with overseas consumers who have a romantic notion of regional Australia.

OBE Organic takes advantage of the MLA co-marketing program which offers matched funding for eligible export marketing activities. This levy support enables the company to augment its marketing program and cover the wide range of countries and cultural disparity.



“It took a lot of time to get the OBE Beef concept right because we wanted it to be totally transparent”

OBE Founding Member





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“Being part of this brand gives us the opportunity to tell our story in export markets.”

OBE Organic Producer

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The risk profile

The OBE Organic business model is structured to minimise risk. Much of the agricultural risk is borne by producers. The biggest category of agricultural risk in the Channel Country is weather, with droughts and floods both being a reality in recent years. However, organic beef typically sells at a premium of 10 to 15 per cent above the market price for commodity beef, providing some incentives to producers in difficult times (although this is subject to market dynamics).

From the outset, OBE Organic made the decision not to operate a processing works because of the capital involved, the complexity of operating a processing plant and the market and supply volatility. Operating an abattoir involves very large overheads, particularly for labour, which means that they must have continuous daily throughput to be profitable. In some seasons and at some times of the year, some abattoirs run with a negative operating margin and have to carry the overhead costs through the peak season. The small volumes and the seasonal volatility impacting range

grazed cattle would have made operating their own abattoir an unacceptable risk for OBE Organic. Apart from the obvious challenges of managing a processing facility, realistically a throughput of 250 head per week would be uneconomic for vertical integration into processing.

Although organic beef typically sells at a premium to commodity market prices, OBE Organic does carry an element of market risk due to the fact that at some times in the beef cycle, the beef market price gets out of sync with the cattle price, resulting in a negative margin that the company must carry in order to keep the business afloat. For this reason, the company aims to generate a sufficient surplus to carry any potential losses that may result from this cycle. In the early days, OBE Organic worked on a not-for-profit commission model, whereby it outsourced its buying and selling operations to agents and brokers on a commission basis. It soon learned that this approach was unsustainable.

The OBE Organic business model is ‘capital light’ but the organisation is exposed to fluctuations in the Australian dollar, particularly against the US dollar. If the Australian dollar rises above US 80 cents, Australian beef will start to be priced out of global markets and consumers in most countries start switching to other protein sources.

The governance

OBE Organic has four non-executive directors with the fifth director being the managing director. Three of the directors are producers and the fourth an external, skills based director. The board feels that having producer directors rather than a totally skills based board is important to provide solidarity and loyalty within their supply base. Shareholders have



more confidence that fellow producers better understand the meat business and act in the best interests of the long term sustainability of the shareholders and suppliers. Directors are elected on a rolling basis. The company's financials are presented at the AGM. The managing director proactively keeps up with best practice governance standards by attending courses and networking with other agribusinesses.

The culture

While cattle producers in the Channel Country once had a limited number of outlets for selling their stock, the very existence of OBE Organic has created a premium market for these producers and one with much global growth potential. This fact alone has stimulated loyalty to the group. However, from its inception, the OBE Organic culture has been one of transparency and inclusiveness. Both the shareholder and non-shareholder suppliers are bonded to what some of them describe as "the OBE family". While the remoteness of the Channel Country naturally builds close knit communities, there is a prevailing culture of common purpose at OBE Organic. The other factors that have fostered this strong culture and great supplier loyalty to this group appear to include:

- Participating in the events and activities of the group (innovation seminars, AGM, training events, etc.).
- The knowledge and information sharing.
- The transparent trading platform.
- The fact that OBE Organic is a producer managed operation.

- The great sense of pride in the OBE Organic brand and the organic product.

Future challenges for OBE Organic

OBE directors recognise that its business model will need to evolve because of the dynamics of the global meat industry. To this end, the organisation is continually resetting its strategic plan. The challenges it faces in the future are likely to include:

- Increasing competition in the organic beef market because the supply of organic beef is growing exponentially.
- The need to grow the supplier base to sustain the critical mass needed to underpin the marketing and maintain market share.
- Addressing the low consumer brand franchise. Although OBE Organic has been investing in some consumer facing marketing activity, the OBE Organic brand is predominantly a trade brand. In the final analysis, trade buyers are price sensitive and even loyal trade customers will switch even with a small price differential. OBE Organic has a compelling consumer value proposition but given its scale and the diversity of the markets it services, it will be difficult to resource an effective consumer brand marketing program with current volumes. Longer term the company will need to explore options for strategic alliances with supermarkets in order to build a global consumer brand.



"Everything to do with the cattle from the farm to the price the producer gets, to how it is marketed and how it is sold, is all done by the people who run the company. The producers themselves."

OBE Organic Producer





The case study learnings

“We were once worried about the future of our family businesses, but we are now getting a handsome premium for the beef that we produce.”

OBE Founding Director

Benefits of this collaboration:

- ✓ The central benefit of the OBE Organic collaboration (and the key reason it was established in the first place) is to secure the long term future of the Channel Country beef producers and their families by providing greater control over their destinies. Because of the remoteness, Channel Country cattle producers have limited options with respect to market outlets.
- ✓ The aggregated supply base enables the producers to generate economies of scale to value add their product through branding and marketing their natural advantage of being grass fed and organic. The group has turned what may have been a disadvantage in the domestic market into a competitive advantage in export markets. For the relatively small cost of going through the certification process, the product can be sold as 'certified organic', which on average achieves a 10 to 15 per cent premium over the non-certified equivalent.
- ✓ With an aggregated supply base, the producers are able to participate in a diverse range of markets covering the domestic as well as a number of export markets. This builds much more stability into the producer's individual businesses. If the company was solely dependent on the domestic market, the returns would not only be significantly lower, but also far more volatile.
- ✓ Having a clear brand proposition based on a powerful provenance story has allowed the suppliers to build customer loyalty. They would not have been able to gain such brand traction as individual businesses.
- ✓ A long term trading relationship with their processor to service kill a guaranteed, regular number of beasts per week, has been a successful alliance with the loyalty to this arrangement over many years benefiting both parties with stable and reliable trade.
- ✓ The business model is capital light and the key operating function of processing is outsourced to a strategic partner.
- ✓ The culture and sense of purpose is strong with even the non-shareholder suppliers feeling part of the OBE Organic brand story due to the transparent nature of the business model and the regular communication and engagement with producers.





Critical success factors

1. The continued success of OBE Organic stems from the vision and ongoing commitment of the founding shareholders to build a sustainable business that ensured that there was a commercial market outlet for the beef from the Channel Country for generations to come.
2. The solidarity of shareholders to supply the company exclusively ensures critical mass. At any time in the red meat industry there is always a market outlet that will pay more for the product on the day. Shareholder suppliers have remained loyal to the company on the basis that on average, they are significantly better off in that they maintain control over their destiny. The producers are prepared to take a long term view by overlooking short term price advantages elsewhere.
3. The ability to turn what would normally be classed as a disadvantage, i.e. the remoteness and the uncontrolled herd management system, into a competitive advantage of lean, flavoursome, grass fed, certified organic beef ideally suited to a number of export markets.
4. The supporting marketing strategy is able to target markets and customers that value grass fed, organic beef.
5. The capital light model ensures that the company has endured the extreme cycles of the red meat industry, which has caused countless farming collaborations to fail.

Key learnings

1. OBE Organic has expertly leveraged the competitive advantage that the Channel Country affords them, i.e. a naturally organic farming system, to build a range of sustainable export markets.
2. By taking greater control of their supply chain, these producers became one stronger 'price maker' rather than many weak 'price takers'.
3. Aggregating the supply from across the region has enabled the funding of a compelling provenance brand that will add value to all beef businesses in their community over time.
4. Increasing vertical integration can be possible without taking on all the market or financial risks of first stage processing.
5. Honouring long standing relationships and acting strategically for the long term greater good can deliver more sustainable benefits than trading for individual short term gain.

Partnering for Customer Value

The Agribusiness Food and Trade (AFT) directorate of the Department of Primary Industries and Regional Development (DPIRD) works to enable growth in the value, competitiveness and diversification of the WA agrifood sector through facilitation of value adding, investment and export for the benefit of the community.

As part of this work, Partnering for Customer Value is providing research and business intelligence on practices that lead to international competitiveness and improved export capacity. A portfolio of cross-sector case studies shows real world examples of how businesses can build strategic relationships by delivering true value to their customers.

For more information

➔ agric.wa.gov.au/p4cv

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