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A case description on vertical co-ordination
in Dutch pork industry



- We create success together! -



in samenwerking met



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SturkoMeat - We create success together

1. INTRODUCTION

SturkoMeat is challenged as never before. The hog/pork market is oversupplied and former cost advantages of the Dutch pork sector disappeared. Besides, food safety and animal welfare continue to attract high levels of public interest. For SturkoMeat an efficient supply chain is essential if production of pork is to remain profitable and the company is to maintain its position as a leading slaughterer.

This case shows SturkoMeat's believe, that a supply chain approach is the only way to compete for the future. Their biggest challenges is to initiate a value added market orientated chain.

The SturkoMeat Case is one of a series of three benchmark cases on vertical co-ordination. These descriptions are part of the ACC pilot 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 the United States). The objective of the cases is to test the develop methodology for particular pork supply chain.

In a short statement, SturkoMeat is a fresh meat producer in the Netherlands which produces pork products for retail, food services and international industrial markets. The SturkoMeat chain includes the links from pork producers to retail organisations. The links work on the basis of co-operation but at the same time are separate entities (section 2).

To face the drivers forces for change as mentioned above (section 3.1) SturkoMeat takes action on the field of Chain optimisation, Chain care and Chain differentiation (section 3.2). Optimisation in costs, chain programs for quality control and the introduction of a special product line Q-liness are listed.

One biggest challenges (section 4.1) for SturkoMeat is to realise a value added market orientated organisation. To be able to respond to this goal it is important that barriers are taken away or solved. The most important barriers (section 4.2) for SturkoMeat are mutual trust among the chain players, chain orientedness and the lack of an unambiguous governmental policy.

An overview is given of Sturko Meats capability to respond to a number of driving forces for change which were identified in the overall DECANETHUS study. Finally, chain management activities as for instance 'Market Programs' and 'Integral quality Management' are presented.

2. STURKOMEAT SUPPLY CHAIN

2.1 Company profile

The company was established in 1970. SturkoMeat started as a small local slaughterer, created out of the merging of Van Kooten and Sturkenboom. Soon the company extended its slaughtering activities towards processing, whereas price competition is less severe on the cut market than on the carcass market. Currently, SturkoMeat is a well organised fresh meat producer for retail, food services and industrial markets.

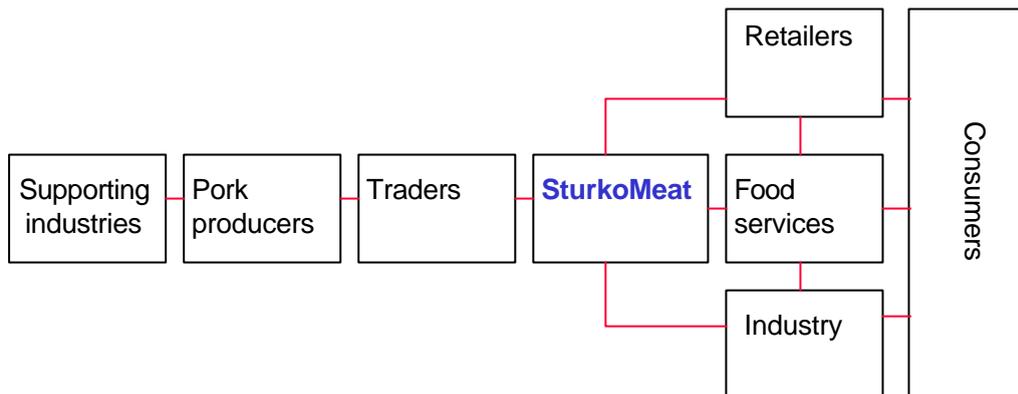
The scale of production makes it possible to offer a wide selection and guarantees customers continuity of supply.

Facts and figures (based on slaughtered pigs, 1998)	
• turnover (payment price):	<i>f</i>
1.2 mrd	
• production (x 1000 market hogs):	
3.250	
• production (x 1000 tonnes):	
285000 tons	
• market share in national slaughterings:	
20%	
• market share retail market	
30%	
• market share bacon market	
30%	
• market share fresh meat (for industry and export)	
20%	
• number of involved farmers:	
4,000	
• slaughter capacity:	70.000 pigs a week

Since the end of the 80s, SturkoMeat is the fresh meat division of Meatpoint, one of Europe's largest concerns in the meat processing sector. Partly because of this, it is possible to invest heavily in product development, innovative production, quality and distribution.

2.2 SturkoMeat Chain profile

The SturkoMeat chain includes the links from supporting industries to selling organisations. These links work on the basis of co-operation but at the same time remain separate entities. Currently, the company is heading towards a higher degree of vertical co-ordination between these links. In this section descriptions of the SturkoMeat chain links the are given, with a focus on applied co-ordination mechanisms.



Consumers - SturkoMeat has only indirect contact with consumers. Nevertheless changes in consumer demand patterns are the company's most important drivers for change. Consumers are more self-assured, making new demands on products and services and thus on the suppliers of products.

Retail - SturkoMeat purposes intensive contacts with retailers. The retail sector is a concentrated sector in both the Netherlands and Europe. In the Netherlands about 4 purchase organisations acquire 80% of the volume. They are becoming more demanding towards the meat industry, with regard to safety, quality, uniformity and reliability. SturkoMeats organises annual contract with supermarkets based on quality, volumes and logistics. Prices are set weekly. Products are distributed daily.

Foodservices - Foodservice involves the dispersion of food for consumption outside home, including support services in educational facilities and hospitals and contract catering in office buildings. The importance of food services is increasing. SturkoMeat has adapted its products and marketing to benefit the opportunities that occur in this sector.

Industry - About 20% of SturkoMeats supply is transferred to industrial partners. Competition on the industrial market is enormously. Stringent requirements with regard to product compositions (cut, fat and meat) and logistics appear more frequently. Verbal agreements on a weekly bases are the most common co-ordination mechanisms.

Export - SturkoMeat is positioned to take advantage of international markets. The company is eager to develop products that satisfy the unique taste, the appearance preferences and other product specifications of the divers foreign customers. For example, Greek claim different hams than Italians. So far, Europe is SturkoMeats main export market. The company also trades with the former Soviet Union and several Asian countries and the USA. Prices are per order.

Slaughtering - SturkoMeat is the largest private slaughtering company in the Netherlands. The company operates 4 slaughtering plants (including wholesale activities), 1 plant for bacon production and one specific for value-added products. Worth mentioning, the company produces under the quality assurance scheme IKB, HACCP, USDA and is currently participating in Kolomcertificering, a new project of leading organisations in the sector focused on responsibilities in the chain.

Traders - Hogs are sold to SturkoMeat through about 80 traders. Of which 15 of them buy 80% of the total hogs slaughtered. Most of the transfers between SturkoMeat and the hog producers are weekly based. Though, fixed agreements become more regular. Traders attain more and more a kind of intermediary status, in which they are able to translate the quality standards of SturkoMeat to pork producers

Pork producers - After the take-over of the Jansen Group in 1998, about 4000 hog producers deliver their hogs to the SturkoMeat company. Most of the transfers between SturkoMeat and the hog producers are based on verbal agreements. As mentioned above, traders work as a intermediary between SturkoMeat and the hog producers. The agreements deal with issues like the number of pigs, prices and in case of the market-program with quality. Contracts with pork producers, in the meaning of laid down arrangements are not very common in the Dutch pork industry.

Supporting industries - The Dutch *feed industry* consists of a diverse number of firms. The only restriction SturkoMeat imposes on its pork producers is that they have to buy feed from feed companies that produce under the 'Good Manufacturing Practice-Code'. The main service industries are the technology companies. SturkoMeat is willing to intensify contacts with supporting industries (feed, breeding, genetics, veterinary, logistics). Opportunities can be created by keeping each other informed about market trends and by reconciling links in the pork supply chain.

3. **Chain strategy**

3.1 **Driving forces for change**

The most important trends that can be argued as SturkoMeats driving forces for change:

- Saturated markets; pork products domestic consumption is stabilising (in volume);
- Increase of the relative cost price in the Netherlands
- Consumers become more demanding and critical;
- Economies of scale in retail and meat industries;
- The lowering of trade barriers;
- Increase in the world wide pork production.

3.2 **Impacts on the SturkoMeat Chain**

The drivers for change have their impact on the pork supply chains and in more specific, have their impact on SturkoMeat. In the Decanethus case studies we assign these impacts to three important needs for improvement of vertical co-ordination in chains: Chain differentiation, Chain optimisation and Chain care.

Chain differentiation

Operating in saturated markets, SturkoMeat has to recognise market segments on the bases of their differences. In order to take advantage of the sharply increasing demand for convenience products, SturkoMeat introduced the special product line 'Q-Linesse'. A wide range of convenience products is now available in this line.

Integral chain care

SturkoMeat experiences that consumers choices are increasingly being determined by requirements in the area of health, quality and safety. SturkoMeat keeps harping on the matter that requirements like these can not be satisfied by controlling the end product. By participating in the chain control program 'Kolomcertificering', the company is eager to define a range of responsibilities for the actors in the pork supply chain.

Chain optimisation

So far, many efficiencies have been carried through at the individual stage of the pork supply chain and so have actions that are taken to meet the drivers for change. Currently with pressures as economies of scale in retail and meat industries, the high relative cost price, the lowering of trade barriers and the increase in the world wide pork production the importance of attention for chain optimisation is tremendous. Effectiveness and efficiency in the chain have to be SturkoMeats main focus. The declining importance of the independent wholesalers can be attributed to this focus.

3.3 **SturkoMeat chain strategy**

To achieve an even more notable record, SturkoMeat distinguishes two strategies: a strategy for the industrial market and another one for operating on the consumer market. The starting point of SturkoMeats strategies, is to maintain and strengthen the current market position of the company.

Industrial market: cost - leadership

SturkoMeat serves many industrial segments. Due to increased competition in the pork market (economies of scale in retail and meat industries, the lowering of trade barriers and the increase in the world wide pork production), SturkoMeat considers a cost-leadership strategy indispensable. Applying such a strategy in combination with attention for chain optimisation, is presumed to increase competitiveness.

Consumer market: innovative products

For the consumer market, SturkoMeats chain strategy is aimed to create an expanding product range (characterised by added value) in order to satisfy the growing differentiation in consumer demands. More direct relationships with final clients and optimising the links in the supply chain are the basics for such a strategy. Differentiation through innovative products helps SturkoMeat to improve market share and increase returns. The introduction of ready-to-cook meals 'Qlinesse' is a result of this strategy.

4. **Chain management**

4.1 **Challenges**

To continue their successful commerce, SturkoMeat faces the following challenges:

1. Chain re-engineering in order to create a value added market oriented chain organisation;
2. Creation and maintaining of a 'director' role in this new chain organisation;
3. Emerging emphasis on chain assurance which is e.g. capable to meet the changing consumer demands;
4. Dealing with the decrease in demands, the concentration in the slaughtering and retail industry and the restructuring of the pork industry.

4.2 Barriers to overcome

For SturkoMeat it is essential that barriers which impede the company's development are taken away or solved. Barriers can exist within the company itself, within the SturkoMeat chain or be caused by the pork industry, it's supporting industries or the government.

Barriers	
Chain orientedness (awareness etc.)	+
Chain knowledge	0
Chain contracting forming	0
Skills and methods	+
Chain communication	+
Mutual trust	+
Willingness to invest	-
Capital to invest	-
Physical infrastructure (environment etc.)	0
Organisational infrastructure	0
Government policy (regulations etc.)	+

+ = yes, 0 more or less, - = no

Going into some of these results more briefly: SturkoMeat points out that a shift is needed in the way of thinking within the chain. The links in the chain should become more chain oriented. In other words, the SturkoMeat slogan 'We create success together' should be rooted in all the links.

It's worth mentioning that also for SturkoMeats competitors, the lack of mutual trust among the actors at various stages of the pork supply chain is the most important limiting factor for the development of consumer oriented chains. It appears to be very difficult to gain trust between linkages who traditionally distrust each other, to give way for the development of new relationships and partnership and to accept new pricing mechanisms.

Straightforwardly, SturkoMeat admits that there is a lack of time to shift focus from short term thinking towards a long term strategic thinking. With respect to government policies SturkoMeat refers to the lack of an unambiguous central governmental policy.

5. CHAIN MANAGEMENT ACTIVITIES

Only a supply chain approach with effective chain management can position SturkoMeat such, that it can observe up and down the supply chain and identify where influencing the chain can improve customer satisfaction and optimise efficiency within the chain. Some chain management activities:

Integral quality management

SturkoMeat focuses their quality management on controlling the integrated systems utilised. Responsibilities of the actors of the entire pork supply chain with regard to the

production and processing of pork meat as well as relations among actors are aimed be optimally arranged.

Market programs

In 1998 SturkoMeat introduced a bonus for hog producers with group housing. For SturkoMeat it is important to enhance group housing in order to assure sales of bacon to supermarkets in the United Kingdom and probably in time for pork deliveries to Dutch supermarkets as well. In 1998 SturkoMeat introduced an environmental and welfare programme for the fresh meat market.

Exclusive traders

SturkoMeat aims to create more intensive connections with its traders, with exclusiveness in return in order to optimally translate the quality desires of SturkoMeat to pork producers. Traders more and more are intermediaries.

Combined logistics

In order to improve the efficiency of its logistics, SturkoMeat is eager to improve the utilisation of distribution networks. For this, the company has progressive ideas for a distribution centre where the flow of different kinds of fast-moving goods can be combined. Fresh meat distribution networks can benefit from, for instance, the distribution network of dairy products.

All of these activities result in more direct relationship within the chain.

6. COMPETING FOR THE FUTURE

The number and size of international food supply chains will continue to grow over the next decade. The members of these supply chains have to deal with the question of how they can best satisfy the demands of the consumer. According to SturkoMeat the clue is to carefully listen to consumer demand and to translate these desires towards the pork producers. In this way SturkoMeat is convinced multiform opportunities can be created; if the chain bundles it's strengths.

SturkoMeat is destine to **initiate a value added market orientated chain** and moreover the company is eager to be a well qualified interlocutor for government, consumer and society to originate new perspective for the pork industry.

COLOPHON

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

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