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## **Australian Pork Limited**

### Three-Year Performance Review

### Producer Communication Summary

June 2011



**International Standards Certifications**

Lic: **QAC/R61/0760**

## Disclaimer

The information contained in this document has been gained from anecdotal evidence and research. It has been prepared in good faith and is based on a review of numerous APL and Commonwealth Government documents, interviews with stakeholders including APL directors and management, DAFF staff and the results of surveys and interviews with Australian pork producers and industry representatives. Neither SED Consulting nor its servants, consultants, agents or staff shall be responsible in any way whatsoever to any person in respect to the report, including errors or omissions therein, however caused.

## Producer communication summary

### Overview

Australian Pork Limited (APL) is the service provider for the Australian pork industry undertaking marketing, research and development, policy, and communication programs on behalf of producers, the Commonwealth Government and industry.

A recent independent review of the performance of APL has concluded that APL is a very well run company. It manages its investments rigorously and there is considerable evidence that benefits have accrued to stakeholders as a result.

While the review has found that APL has met its requirements under the Commonwealth Government's statutory funding agreement (SFA) it is apparent that APL is continuously seeking to further improve its processes and the delivery of benefits to its direct investors; levy payers (pork producers) and Australian tax payers (via Commonwealth Government funding for research and development).

Notwithstanding the above positive points, the review has also identified areas where APL may further improve its performance.

APL is a complex organisation, operating in a difficult environment and seeking to cover a number of key activities with relatively limited financial and human resources. As a result of this complexity and the degree of detail it employs in its planning, its selection of projects to invest in, and its evaluation of such investments, it does not always simplify its communication back to stakeholders. As a result, it is suggested that the performance of APL is not always well understood by all of its stakeholders, particularly smaller pork producers. Attention to distilling the outcomes of this complex 'machine' into a series of simple, readily-understood costs and benefits that can be easily communicated to stakeholders will benefit the organisation going forward.

### Why the independent review?

Under its agreement with the Commonwealth Government, APL is required to commission an independent review of its performance to assess the effectiveness and efficiency of the company in

carrying out its obligations to stakeholders, including levy payers, members and Government. Such reviews are required every three (3) years.

The review examined the period July 2007 to December 2010. It sought to provide a practical assessment of the company and to identify areas which may assist APL to further improve its performance.

### **Review methodology**

The methodology for the review comprised:

1. A comprehensive review of relevant APL documents and reports.
2. An online survey of stakeholders (largely pork producers).
3. Face-to-face or telephone interviews with approximately numerous stakeholders including APL directors and staff, delegates, other pig producers, Government officers and others.
4. Analysis and preparation of a draft and final report.

A copy of the Final report is available on the APL website [www.australianpork.com.au](http://www.australianpork.com.au)

### **The company**

APL is unique among the rural industry service bodies. It is a producer-owned company that serves as an industry R&D corporation, marketing body and policy / peak body for Australian pig producers. No other levy-funded industry body incorporates the recognised peak body function.

As at 30 June 2010, APL employed 31 full-time staff and 10 part-time staff, although this number has reduced more recently due to budgetary pressures. For the financial year ended June 30, 2010, APL expenditure approximated \$17 million.

APL funding comes from a levy paid by pig producers (\$2.525 per pig slaughtered) that is allocated in prescribed amounts to marketing and R&D, along with matching Government funding for eligible R&D expenditure to a maximum of 0.5% of gross value of production of pigmeat.

The levy has not increased since 1994, meaning that the value of the APL revenue stream has declined by about 33% in real terms since that time. The impact of a reducing budget on APL's capacity to achieve its goals in an increasingly complex business environment should not be underestimated.

### **The industry**

During the review period, the Australian pork industry underwent significant restructure.

- In 2008/09 an unprecedented level of competition from imports from Canada, the US and Denmark and high producer input costs due to drought saw pigmeat production slump.

- Annual pig slaughter numbers have steadily increased since late 2009, although they remain well below the levels reached prior to the collapse in 2008.
- The re-focusing of the Australian pigmeat industry on the domestic fresh pork market consumption has helped stabilise the industry but has also exposed it more directly to competition from substitute meats and foods.
- Similar to most other livestock sectors, changing social attitudes to animal welfare has also impacted the pork industry as evidenced by the decision in November 2010 to phase out sow stalls.

### APLs corporate governance

Key findings from the review in relation to APLs corporate governance included:

- The Board structure of five producer directors and four specialist directors meets the criteria set out in the company's constitution and the SFA and is broadly consistent with the ASX Corporate Governance Principles and Recommendations (2010).
- The Board's performance has been assessed by an independent consultant and the results have been positive.
- The relationship between the Chair, Board, CEO and staff is sound with regular interaction.
- There is no suggestion of any breach of conflict of interest principles by the APL Board and it has in place appropriate systems and controls in this regard.
- The process for allocating expenditure by APL as either 'R&D' or 'non-R&D' is very carefully managed and transparent (although this needs ongoing effort).
- APL's financial report is independently audited and it manages its exposure to key financial risks and follows a prudent reserves policies.
- APL staff appears dedicated, motivated and professional in their conduct. However, like all participants in the pork industry (and agriculture generally) they are under pressure to do more with less.

### Planning and reporting

The performance review found that APL has generally met the **strategic planning** requirements of the SFA.

- The previous 2005/10 strategic plan, whilst good, had several flaws, but the 2010/15 strategic plan is a vast improvement.

- Nevertheless the review has identified some areas which could be improved, mainly in relation to some Key Performance Indicators (KPIs), clarification of linkages to Government rural R&D priorities and clarification of elements of the budget.

The review also found that APL has met the **operating planning** requirements of the SFA.

- Annual operating plans (AOPs) are the most consistently impressive documents produced, contain a significant level of detail and clearly link back to APL's strategies and performance indicators.
- However, elements of AOPs could be further improved by refining some KPIs and further clarifying some budget items.

The review found that the **annual reports** prepared over the planning period met the requirements of the SFA and of Corporations Law.

- All of the annual reports examined are comprehensive documents. If anything, they are overly detailed and not sufficiently targeted at levy payers, making an assessment of 'value for money' more difficult,
- Additionally clarifying the linkage between AOPs and annual reports should be a continued focus for APL.

### **Liaison with stakeholders**

The elected delegates act as a means of two-way communication between the APL Board, management and members. It appears an effective process.

APL uses a number of vehicles to directly communicate with its member base and other stakeholders, including the monthly Pork It Up newsletter, press releases, post, fax and e-mail.

APL's communication with levy payers appears to be well regarded; however, there is a clear sentiment among some levy payers that smaller producers are not listened to. There are several factors involved in this sentiment which APL recognises and is continuing to address.

As the costs involved in regular face-to-face contact between staff and producers makes such a proposition difficult, APL must continually focus on simplifying its message and expanding its database of pork producers so as to more directly communicate with a far broader segment than that afforded by its current membership listing. It is noted that the listing of producers which has resulted from the PigPass program (and which has recently become available to APL for communication purposes) should assist in that regard.

## Delivery of benefits to stakeholders

The review examined whether there is existing evidence that (i) APL is undertaking sufficient and robust evaluation of its activities and (ii) this evaluation is demonstrating APL's delivery of positive outcomes for its stakeholders.

It is apparent that APL has and continues to increase its efforts in objectively evaluating and reporting on how its activities benefit stakeholders. To this end APL uses a variety of internal and independent external processes including benefit/cost analyses, market research and surveys. However, the reporting of the outcomes of such evaluations is often too complex to allow easy assessment. As a result, stakeholders are often unclear as to the benefit APL is providing.

However, the review has concluded that APL is overall adding positive value to the industry and the broader community. Some examples include:

- Assessment of the impact of pork advertising shows a return of approximately \$3 to producers for every \$1 spent.
- Benefit/cost analyses (\$s returned to producers for \$s invested by APL) showed a return of 3 to 1 for two new products (pork mince and MI pork) and 6 to 1 for APL's technology transfer programs;
- Benefit/cost ratios for four randomly selected R&D projects were estimated at 9 to 1; 8 to 1; 1.1 to 1; and 43 to 1
- APL's effective management of the H1N1 issue;
- The level of increase in the percentage of consumers rating pork as low in fat; and
- The increased awareness of the Australian pork logo.

## Conclusions and recommendations

While the review has found that APL has met its SFA requirements, is a very well run company and is providing benefits to its stakeholders, the following specific recommendations for the improvement of APL's performance were made:

1. APL should consider reducing the number of Board committees so as to reduce the overall impact of their operation on staff and Board resources.
2. Future strategic plans should explicitly cover the Government's R&D priorities and a broad resource allocation across research, marketing and other activities. Key performance indicators should also be refined
3. Future AOPs may benefit from some minor alteration to structure and definitions, especially in relation to budget allocation.

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4. APL should review and refine its reporting to stakeholders (for example, in annual reports and general stakeholder communication) to simply and succinctly demonstrate achievements by the organisation so that easier identification of value delivered can be made.
  5. APL should place continued emphasis on independent evaluation studies of its projects – both in assessing where to invest and evaluating the outcomes of those investments.