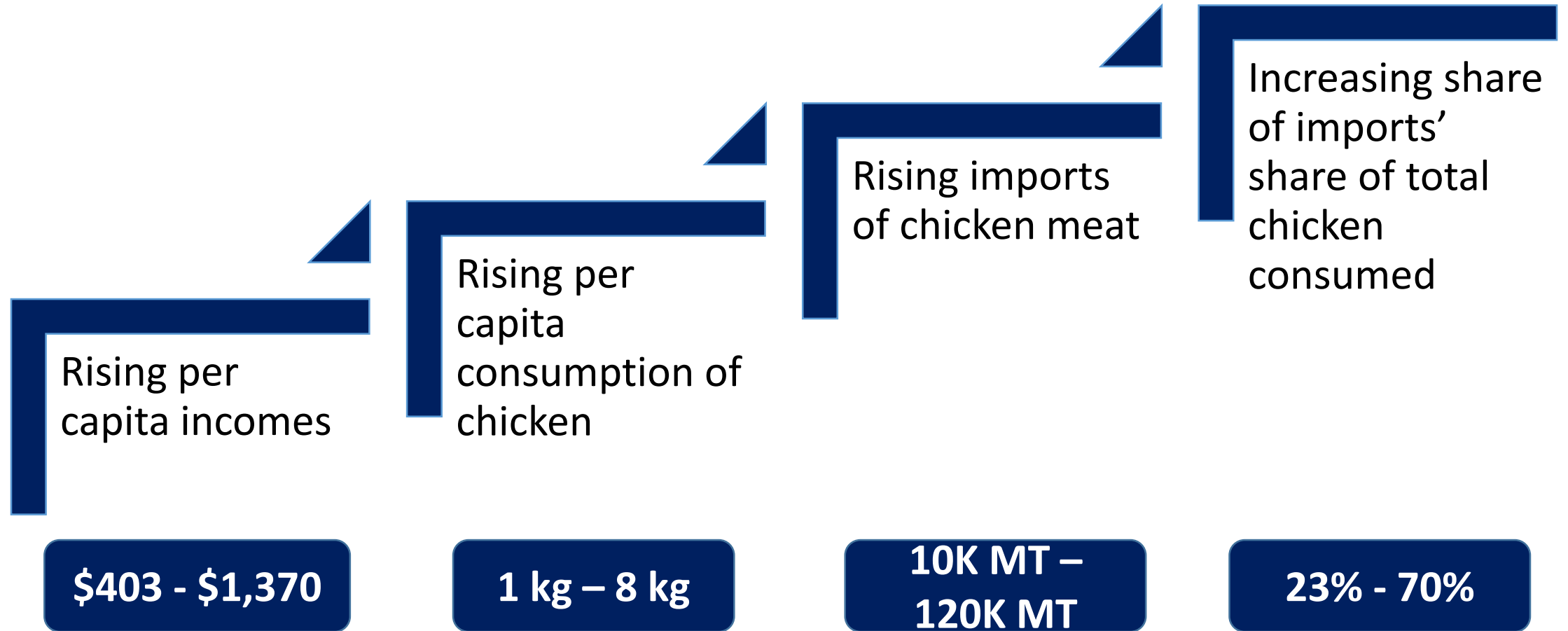


Comparing Poultry Industry Performance: Ghana, Emerging Markets and the Rest of the World

Saaka Adams, Director of Operations
USAID|METSS

Feed the Future Implementing Partner's Meeting
March 21, 2017, Labadi Beach Hotel, ACCRA

Background: 1990-2015



Industry actors see the current situation as not only a failure of the poultry industry, but also a threat

How can the Ghana Poultry Industry see this as an opportunity instead of a risk?

Assessing Structure

Consumption

Distribution

Production

Assessing Structure

Consumption

- Substitutability
- Event differentiation
- Price and value

Assessing Structure

Distribution

- 70% sell directly to consumers
- About a quarter sell to wholesalers and retailers
- Only 2% of farms sell to processors

Assessing Structure

Production

- Small farms (87% of all farms) account for 33% of production
- Large farms (5% of all farms) account for 50% of production
- Distributed across the country, with nearly half of large farms in BA

Uniqueness of the Ghana Chicken

- Birds sold at six weeks v. 6-weeks plus
 - Average price/bird = GHS35.20/GHS39.30
 - Average variable cost/bird = GHS25.00/GHS28.85
 - Average gross margin/bird = GHS9.20
- GM bird 10 weeks + = GHS9.73

Key Observations

- Live bird demand is going to decline due to increasing consumer demand for convenience
- Ghana cannot compete with old producers – US and Europe – or the emerging producers

Why do we always conclude that Ghana's poultry industry is uncompetitive?

Comparing Ghana with U.S.A, Brazil and Thailand

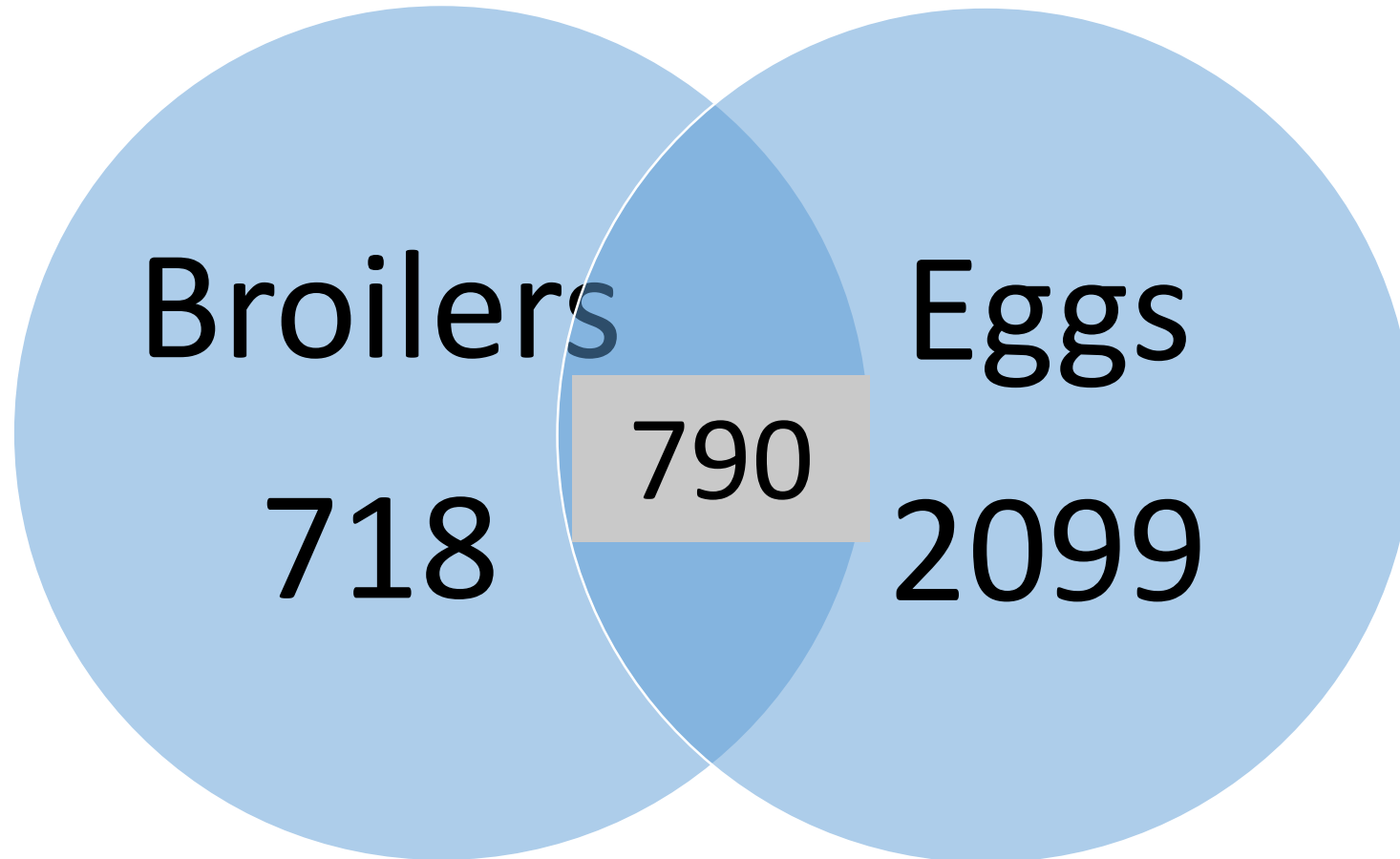
Performance is meaningless unless contextualized



Performance Indicators

- For-profit entrepreneur
 - Surplus cash
 - Shareholder value = Net Worth
- Indicators must be the same and consistently measured if they are to make sense
- The relevant indicator depends on the decision-maker and those to whom she is accountable
 - Supplementary income objective \neq profit objective

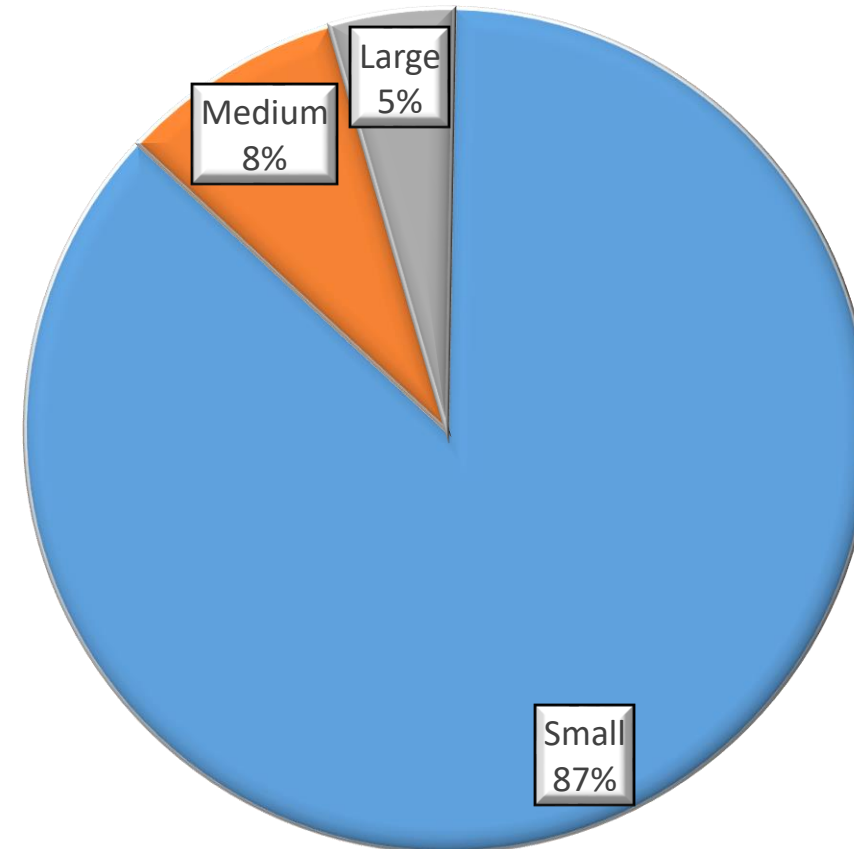
Broiler Chicken Production is Not the Dominant Enterprise



Size Distribution by Farms (N=1508)

Operate under complete
“freedom to farm”
conditions

All decisions made solely by
farmer, driven by perceived
market conditions and
available resources



Broiler Numbers by Size & Percentiles

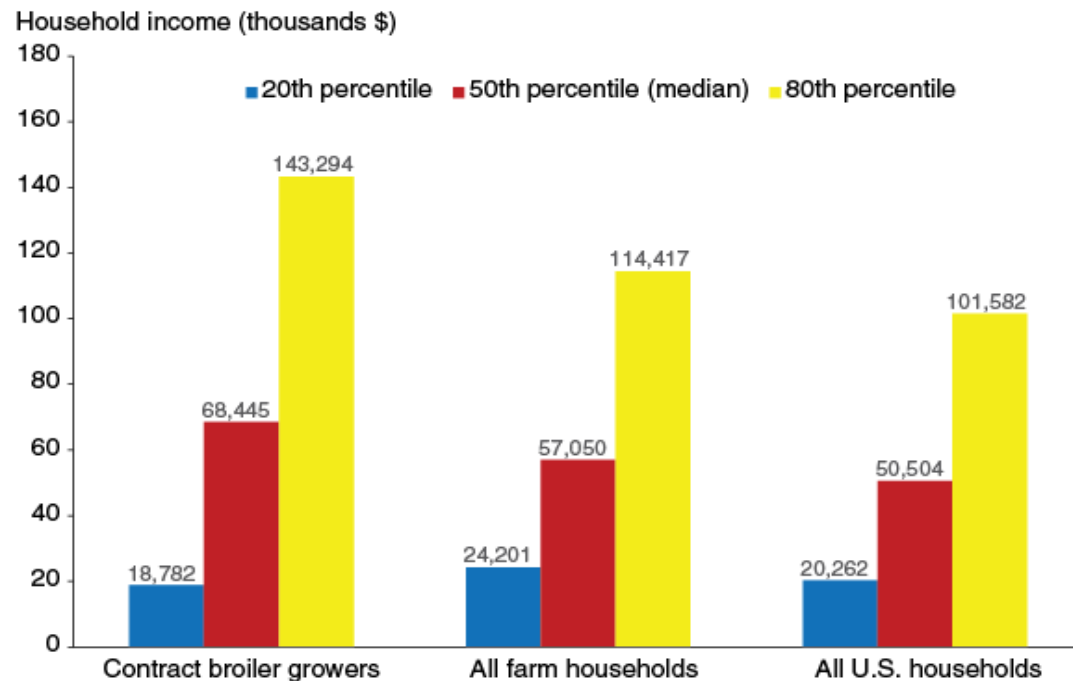
Broiler Chicken	10 th Percentile	25 th Percentile	Median	75 th Percentile	90 th Percentile	Average	N
Small	100	200	400	738	1,200	530	1,286
Medium	2,000	2,000	2,400	3,600	4,500	2,807	127
Large	6,000	7,500	9,000	16,000	30,000	14,841	71
All Farms	144	200	500	1,000	2,000	1,410	1,484

Average Performance by Farm Size (GHS/Bird)

Farm Size	Average Broiler Revenue	Average Broiler Variable Cost	Average Broiler Gross Margin
Small	35.53	27.07	8.64
Medium	33.17	22.94	10.34
Large	30.72	20.10	10.49
<i>Total</i>	<i>35.11</i>	<i>26.37</i>	<i>8.87</i>

Benchmarking Performance: US

Contract growers have higher average income, but a wider range, than other households



Sources: USDA Agricultural Resource Management Survey, 2011; U.S. Census Bureau, Current Population Reports P-60, *Income, Poverty, and Health Insurance Coverage in the United States, 2011*.

- Nearly all US broiler chicken produced under contract
 - Farmers use their barns, labor and utilities to raise day-olds provided by integrators (processors) to market weight for a fee
 - Farmers' objective is net income maximization – this is their business
 - Average US grower delivers 90,000 birds at a time
- Contracts are written by processors and are often seen as unfair to farmers
 - Rarely commits the processor to a specific number of birds per year if a long contract
 - Often flock to flock, which introduces farmers to significant risks
 - Managing these risks, farmers often contract with multiple integrators

Benchmarking Performance: Brazil

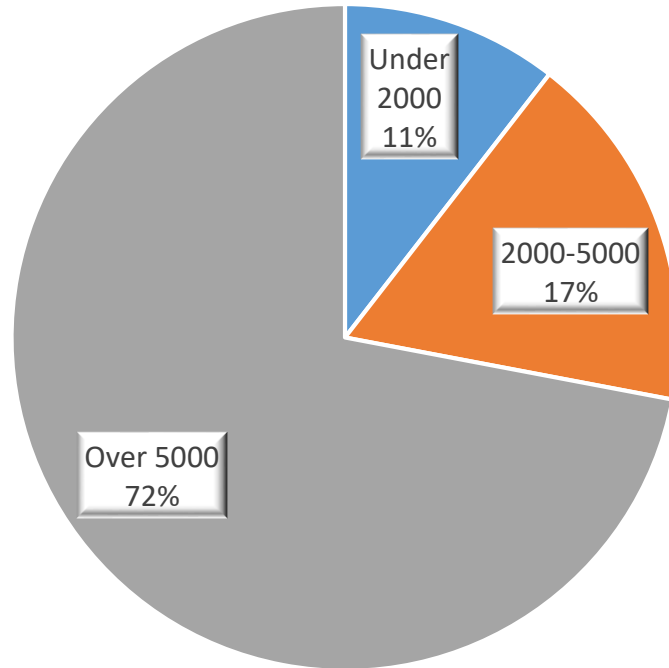
- Brazil has similar structure as the US – integrators providing all inputs and farmers providing housing and husbandry in exchange for fees based on meeting specific contract terms
 - Risks to producers very similar to those seen in the US
- Development path initiated in the 1960s after US model

Benchmarking Performance: Brazil

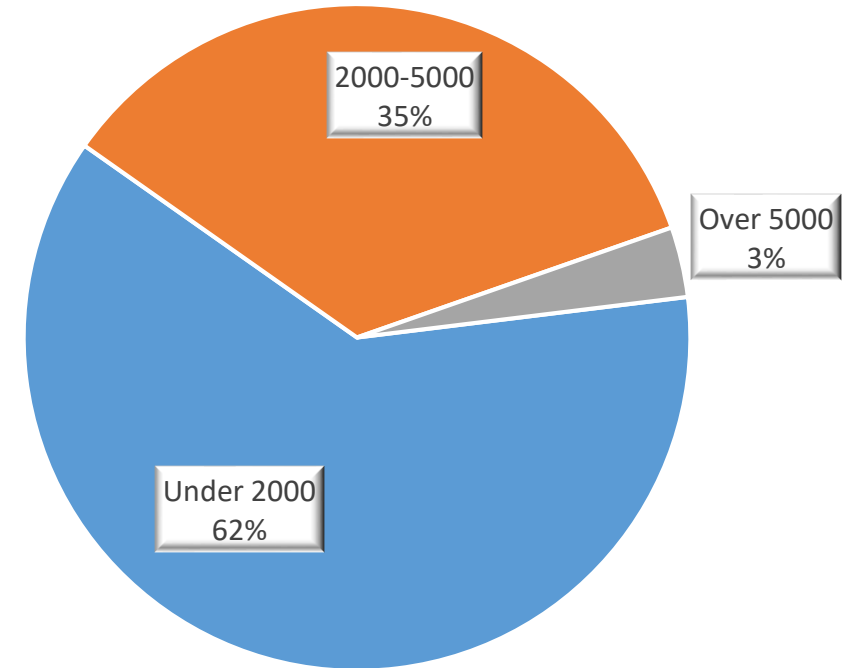
- Opening up of the Amazon to maize and soy production accelerated growth and expansion of Brazilian livestock industry, including broilers
 - Today, Brazil is #3 producer after US and China and #1 exporter
 - Size matters, with large farms (average production = 26,000) producing Gross Margin Percent of 50% compared to 16% for farms producing less than 19,000 birds

Benchmarking Performance: Thailand

Thai Broiler Farms by Birds



Ghana Broiler Farms by Birds



Benchmarking Performance: Thailand

- Thailand's vision is to be the World's Kitchen

- **Employment** Modern-day slavery in focus

- Thailand: poultry workers cry fowl amid claim they 'slept on floor next to 28,000 birds'

-

Workers at farms supplying one of Thailand's largest chicken export firms say they suffered labour abuses including 22-hour shifts and the seizure of passports



Europe and Japan (94% of total exports)

The Systems and their Performance

- US and Brazil have used and use integrator models and Thailand uses vertical integration model
- All are focused on exports to drive growth using market segmentation strategies
 - White (breast) meat in richer countries and in dark meat (legs and thighs) in less rich countries
 - The value of the breast meat covers competitive pricing losses on dark meat

The Systems and their Performance

They each had strong retail systems and processing systems already established

The fast food market – a symbol of consumer affluence – was rapidly growing

Institutional markets – schools, prisons, military, etc. – were supported by governments

The Systems and their Performance

Maize is not a staple grain in all other major broiler producing countries – US, Brazil and Thailand

- Feed use cannot compete with human use on price

The Elephant in the Room

Imported Product

Production
Cost (incl.
govt. policies)

Consumer
Preferences

Freight &
Insurance

Border
Controls

Why We Do What We Do

- What is the motivation for the 87% of Ghanaian broiler producers who produce an average of 530 birds/year?
- How different is it from that of the 5% who produce an average of nearly 15,000 birds/year?
- Income supplementation motive cannot spur growth of the poultry sector
- Unprofessionalism of the sector will continue to make it underperform

A Different Development Path

- If you are going to use high value human food to produce meat, you cannot sell it as a **commodity**
- If you know your “disadvantage”, you craft a strategy that offers you that translates those disadvantages into advantages
- If your success is built on false advantages, it will only be temporal and unsustainable

BLUE SKIES



Competitive advantage

There is a growing ethical consumer base and emerging consumer demand for products with passport

Motivating Strategy

- Redefine the industry's value proposition and transform its “weakness” into strength
 - *Ghana Chicken – taste and texture fit for the discerning palate*
- Implies conscious market segmentation that avoids **head-to-head competition**
- Focuses on creating own unique, high value, high performance market meeting **national wealth-enhancing objectives**

The Strategy – “Freedom to Farm”

- Secure *disciplined* production
- Invest in world-class processing
- Build both **domestic and international markets**
- Invest in the *brand* through research, product development and marketing

Thank You

Contact: sadams@metssghana.org

or

vincent@ksu.edu