

Uncle Tobys - Sustainable Oat Production in Rural Australia



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COMPANY DESCRIPTION

Uncle Tobys, established in 1861, is a leading Australian based ready-to-eat snack and cereal business. Acquired in 2006 by Cereal Partners Worldwideⁱ and now controlled by Nestlé Australia, Uncle Tobys portfolio of products feature prominently in Australia's \$600 million dollar breakfast food market. Uncle Tobys procures approximately 30,000 tonnes of milling oatsⁱⁱ annually for the rapidly growing market.



THE OPPORTUNITY

The viability of Australian farms has been under considerable pressure over the last decade. Despite Australia 'riding on the sheep's back' since the mid-1950s, 30 per cent of farmers question the long-term viability of their businesses.ⁱⁱⁱ The future sustainability of these iconic businesses is reliant on improving farmer's return on investment – a pursuit which is knowledge intensive and requires a bidirectional connection to research.^{iv}

In the mid-1990s Uncle Tobys recognized that milling oats, as a niche crop, was fast becoming the forgotten seed of Australian cropping and required a progressive effort to prevent it completely sliding off the radar of farmers. With a portfolio containing approximately 70 per cent oat based products, Uncle Tobys was heavily exposed to risks of increased prices, declining quality or sourcing from locations distant from the factory – increasing costs by 30 per cent. Owing to the unpredictable nature of climatic conditions, obtaining a reliable supply of quality milling oats for Uncle Tobys is an inherently challenging task. Margaret Stuart, Head of Corporate Affairs & External Relations, explains, *"it isn't possible to simply buy what we need at harvest time... it requires an ongoing relationship."*

Recognizing this sourcing risk as a social and business opportunity, Uncle Tobys began developing a series of partnerships with upstream partners – including a now 18 year partnership with researchers. To ensure the continuity of its supply of high quality and affordable oats, Uncle Tobys needed to:

- Develop a grower and grain trader network capable of acting as a continuous feedback loop – simultaneously allowing the promotion of Uncle Tobys preferred oat varieties

- Cultivate a partnership with a peak research body – feeding researchers insight into the agronomic needs of growers, and the optimal sensory (taste, color and consistency) and milling characteristics required by Uncle Tobys

THE STRATEGY

With its rural factory in south-east Australia, Uncle Tobys set out to redefine its procurement strategy to be more sustainable – financially and environmentally. With a price premium of 18 per cent for milling quality oats versus livestock quality oats, a considerable synergy existed between grower returns and Uncle Tobys sourcing risk. Their approach included three key stages.

First, to understand why there had been such a significant decline in the number of farmers growing oats, Uncle Tobys engaged farmers to gain a first-hand understanding to the barriers and challenges they faced. The feedback was clear, the uncertainty of disease and drought made returns unpredictable, and the price for milling oats was lower than farmers were receiving for other grains such as wheat.

Second, building off a long standing relationship with the South Australian Research and Development Institute (SARDI), Uncle Tobys re-invigorated their relationship to address Uncle Tobys and farmers' needs to have a stronger focus on developing higher yielding, disease and drought resistant varieties of oats.

Third, they engaged local grain traders and agronomists to be a conduit between farmers and Uncle Tobys. Recognizing that there are a range of on-farm factors such as soil type and topography which can affect crop yields, Uncle Tobys initiated relationships with the local agronomists to assist farmers in planting new varieties and sharing insights to help increase quality and yields.

To reduce the risk farmers faced with standard forward contracts, Uncle Tobys also provided new contracts. In the event of drought or rain affecting the ability of the farmer to fulfil the contract, Uncle Tobys will not washout the contract. A significant feature, as farmers would otherwise face the grim prospect of paying the difference between a contract price and a skyrocketing market price if their crops failed.^v

The strategy of Uncle Tobys creates shared value in a number of ways.

- **Redefining productivity in the value chain:** Uncle Tobys meets regularly with a network of 120 individual growers and grain traders to receive feedback on the progress of oat varieties and to ensure those upstream in the procurement cycle remain relevant to the downstream. Over 100 tonnes of new oat varieties are tested in Uncle Tobys' factory prior to public release. Both aspects of commercial input ensures that new oat varieties meet the requirements of the entire supply chain – a critical step with new varieties requiring approximately 14 years of development prior to release
- **Creating local clusters:** The ongoing viability of agricultural operations in Australia is integral to the health of rural towns - declines in agriculture profit has been shown to be linked to the loss of services and increased incidences of mental health problems.^{vi} Uncle Tobys pays a premium to growers based close to their rural factory to encourage local production and keep local suppliers strong

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RESULTS – VALUE FOR BUSINESS AND SOCIETY

Uncle Tobys' unique approach to procurement has been immensely successful. Since becoming involved with SARDI three new varieties of milling oats which incorporate insight from the growers' network have reached the commercial production phase - Possum, Mitika and Yallara.

Business Results:

- The volume of oats produced within 100 kilometers of the factory has increased 500 per cent in the last six years, contributing up to 50 per cent of the total procured oats – reducing transportation costs, increasing energy efficiency and stabilizing pricing
- Varieties developed by SARDI have increased probability of reaching milling grade than earlier varieties – delivering a 30 per cent premium in price to growers
- The latest variety, Yallara, offers high milling yields, reducing milling costs, and increased resistant to disease (leaf and stem rust) which can cut yield by 40-100 per cent

Social Results:

- Varieties developed by SARDI have increased levels of β -glucan, a molecule found in Uncle Tobys oat base ready-to-eat snacks and breakfast cereals capable of disrupting the re-absorption of cholesterol^{vii}
- A long term reduction in greenhouse gas emissions has been achieved by sourcing 50 per cent of Uncle Tobys oats by volume from local farms within 100 km of the factory
- "While hard to quantify with any precision, we believe there are beneficial social and economic flow-on effects as a result of our investment in the local community", explained Margaret Stuart, Head of Corporate Affairs & External Relations

LESSONS LEARNED, CHALLENGES AND OUTLOOK

The success achieved to date could not have been achieved without a partnership approach with key stakeholders along the supply chain. The strength and quality of these relationships has been key to last over many years and enable the transfer of knowledge and insights between stakeholders to improve each step of the process from R&D to farming.

One of the biggest challenges of the program has been providing management with news worthy updates to align with reporting cycles. This is due to the long time horizon between investment in R&D and the release of a new improved oats variety, which can be as long as 15-20 years. This means there must be a long term commitment in the program in order to reap its rewards.

Not satisfied with the success achieved to date, Uncle Tobys has identified a number of additional features to help improve the performance of the program, and in particular the increase in quality and yields from local farmers such as establishing trial sites close to the milling plant to trial not only different varieties but also different farming techniques.

As a subsidiary of Nestlé, Uncle Tobys oats program is a great example of a bottom up approach to creating shared value. The program not only aligns with the global shared value strategy, which Nestle is now famous for, but it also shows the potential of shared value for both emerging and developed economies.

ⁱ A joint venture between Nestlé S.A and General Mills Inc. for the production and sale of ready-to-eat breakfast cereals outside the United States and Canada

ⁱⁱ 'Milling oats': A grade of oat deemed of suitable quality for human consumption, measured against standards for hectoliter weight, grain weight, protein, oil & screenings – contrasting oats of lesser quality suitable only for animal feed.

ⁱⁱⁱ Edwards, B., Gray, M. & Hunter, B., Social and economic impacts of drought on farm families and rural communities, Submission to the Productivity Commissions Inquiry into Government Drought Support, Australian Institute of Family Studies, pp. 18-19.

^{iv} Eadie, L. & Stone, C., 2012, Farming Smarter, Not Harder: Securing our Agricultural Economy, Centre for Policy Development, pp. 72.

^v The Economist, 2007, Dried up, washed out, fed up: An inaccurate weather forecast brings disaster for many, The Economist, Gulgambone, October 4th.

^{vi} Edwards, B., Gray, M. & Hunter, B., Social and economic impacts of drought on farm families and rural communities, Submission to the Productivity Commissions Inquiry into Government Drought Support, Australian Institute of Family Studies, pp. 8-24.

^{vii} As part of a healthy diet low in saturated fat, 3g of β -glucan each day is required to help lower cholesterol re-absorption.