THOMPSONS

FEEDING INNOVATION

6th November 2012

Contact Ref: 90521475

For the Attention of Stella McArdle
Clerk, Committee for Agriculture and Rural Development
Room 244
Parliament Buildings
Ballymiscaw
Stormont
Belfast BT4 3XX

Dear Ms McArdle

RE FARMING CRISIS

I refer to your letter of 24th October 2012 regarding the above and note your request for information regarding "..the business model used in your organisation for processing and how this model fluctuates in relation to rising costs, market prices and other fluctuations."

I enclose memorandum as per your request.

Yours sincerely

Declan Billington
CEO – John Thompson and Sons Limited

John Thompson and Sons Limited

Submission of Information to the Committee for Agriculture and Rural Development

Date: 6th November 2012

1. Background

1.1 John Thompson and Sons Limited is one of Northern Ireland's oldest companies and have been supplying animal feed to the farming community for over 130 years. The business employs 165 staff and operates from two production sites, one in York Road, Belfast (supplying feed for Ruminant and Poultry and one at Knockmore, Lisburn (the former ABN feedmill) supplying mainly Pig and Turkey feed. It is planned to relocate production from the Knockmore site to York Road by the end of next year in order to reduce costs.

1.2 The York Road mill is a highly automated production facility with two mills on one site, a multi species mill supporting the Northern Ireland market place for a range of products, and a Bio secure mill dedicated to supplying a proportion of Moypark's requirements with feed processed to the exacting quality standards of Moypark.

1.3 DARD statistics indicate the size of the Compound Animal Feed market in Northern Ireland is over 2m tonnes. It is worth noting that in the pig sector, over 50% of pig feed is "home mixed" and therefore the total value of feed materials supplied is understated by this amount.

2. Company Business model

2.1 The company runs a number of business models, tailored to suit the differing needs of customers:

- **Poultry**

  As toll manufacturer for a number of large poultry accounts**,** we provide advice and guidance on commodity markets but allow our customers to take the purchasing decisions on commodities for the months ahead. This gives them the ability to match their purchasing price risk to their sales price, control their nutritional requirements and provides them with a hedging mechanism under their own control. They carry the full risk/opportunities in commodity price movements.

- **Pig**

  Again for a small number of large accounts, and for a consortium of pig businesses who have formed their own group, we have a similar arrangement for the purchase of pig feed. Again this allows producers to negotiate sales price ahead and lock in their feed costs to assure a certain margin over the same period.

  The balance of the pig customer base buy off a pricelist for a range of products offered. The business model operated for Retail Sales is discussed under the Ruminant section in more detail.

- **Ruminant**

  The Ruminant Feed market is broken into three channels of supply to farm:
    - Buying Groups
    - Merchants
    - Retail

    - **Buying Groups**

    Twice a year, (winter and summer diets) Producers belonging to buying Groups come together to tender their combined tonnage to particular specifications. Compound Feed businesses then bid for the tonnage, with the lowest cost bid being the winner. Costs are then locked for the period of the tender bid (usually all winter, or all summer though more recently some have chosen to tender only to Christmas in the hope they might access a fall in commodity prices in the new year).

    It is the policy of the company to purchase the raw materials necessary to guarantee the fixed price, over the period of the tender, thus buying Groups and the company lock in their feed costs for a number of months ahead for this business segment

    - **Merchant/ Retail**

    In the Retail Channel (direct to farm) and Merchant Channel, for all species, the policy of the company is to seek to use its buying knowledge to build, over time the lowest price feed-materials cost set to underpin its price lists (issued in normal times twice per year, Circa October and May). The aim of the business model here is two- fold,
    - to have locked in the majority of costs 3 months ahead, so as to be able to stand over pricing;
    - to grow business on the back of offering lower costs than our competitors based on effective forward buying.

    Given the variability that might exist in volumes of feed demanded (due to weather etc.) and commodity price volatility the far out months in a winter/ summer price list, have much less material purchased in order to provide opportunities, if commodity prices fall further, to access lower costs. This may result in changes to price lists more frequently than planned.

3. Working Capital impact of commodity increases.

3.1 Over the last 3 years we have seen substantial increases in the cost of commodities, and whilst our buying on our own account, and the forward buying of key customers in control of their own material buying, has deferred the rise in commodities, nevertheless costs continue to rise. We are aware that farm gate prices have not kept track of commodity price increases and see this on a daily basis through our sales team, who work closely with our customer base.

3.2 In addition to the concern around the crisis on farm over profitability we also have a major concern over an impending cash crisis, as whilst we have tried to stand over our traditional credit terms, the amount of money required to be advanced in credit will, by the end of this winter, risen by circa £110 per tonne over that which was advanced over the same period three years ago. Our financial resources are not limitless and are therefore monitoring very carefully our credit terms to ensure we do not exceed our banking facilities this winter.

Conclusion

Ultimately the farming crisis can only be overcome if farmers are able to recover commodity price increases in their farm gate pricing of produce. Any delay in getting cost recovery will quite rapidly place them in financial difficulties with a knock on effect on their supplier. It is essential that both funding and pricing available to the farmer rises in line with commodity price increases if farms and the Feed Trade are to weather this commodity storm.