

CRYSTAL EGG COMPANY

Authorised Agent
Victorian Egg
Marketing Board



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WJB:gp:CEG
June 21, 1991

Mr. & Mrs. K. Fitzgibbon,
Post Office,
STRATHFIELDSAYE, Vic. 3551

Dear Mr. & Mrs. Fitzgibbon,

re: Price Change Monday June 24, 1991

Further to my letter of June 14, we advise there will be a further price change in the shell/pulp/spot ratio for eggs delivered to Crystal for grading. The change in price has been brought about by a consensus of Bendigo producers that production is far in excess of that which is required to service our share of the retail market, and have therefore agreed to decrease production by approx. 15% across the board so as to eliminate the spot/pulp element from the producer payment structure. The new ratios and prices are outlined in the following table:


	<u>SHELL</u>		<u>PULP</u>		<u>SPOT PULP</u>		<u>PRODUCER</u>
	<u>%</u>	<u>Rate</u>	<u>%</u>	<u>Rate</u>	<u>%</u>	<u>Rate</u>	<u>TOTAL</u>
67	85	1.66	15	.816	0	.286	1.533
61	90	1.41	10	.744	0	.260	1.343
55	90	1.33	10	.672	0	.235	1.264
49	70	.84	30	.600	0	.210	.768
43	50	.73	50	.370	0	.185	.550

Therefore, in order to implement this new structure, it will be necessary to decrease the number of dozens received at Crystal for grading. We have analysed receival data for the past 16 pay periods and, applying the criteria agreed to by producers, you will be paid the above prices on the first 2880 dozen of your production, and the balance at spot pulp if this price can be achieved on disposal.

We enclose for your information a summary of the latest developments in the Melbourne Centralised Invoicing Market, together with a fax which was sent to the Licensing Committee regarding producers' concern at the level of overproduction in the State.

Should you have any queries in relation to any of the above, please contact me.

Yours sincerely,


W. J. BOSCHETTI
Assistant General Manager

CRYSTAL FOOD COMPANY
 Vice President
 Marketing Dept.

June 21, 1991
 WJB:gp:CEG
 FAX: (054) 41 3615

Mr. & Mrs. K. Fitzdipdon,
 Post Office,
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PRODUCER	SPOT PULP		PULP		SHELL	
	Rate	#	Rate	#	Rate	#
TOTAL						
1.233	.280	0	.810	15	1.00	85
1.343	.260	0	.744	10	1.41	90
1.264	.335	0	.672	10	1.33	90
.708	.210	0	.600	30	.84	70
.550	.185	0	.370	50	.73	50

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Yours sincerely,

W. J. BOSCHETTI
 Assistant General Manager

BRIEF HISTORY

The Victorian egg market was divided into two parts, namely the Centralised Invoiced trolley supermarket section, and the retail box section. Crystal had a fair share of the former, and not much of the latter. The box market in Melbourne has been under tremendous pressure over the past six months. Discounting has been intense, and those producers who had to sell a large proportion of their eggs to distributors, or to independent supermarkets, came under intense pressure on price. Discounts were high, and prices as low as \$12 per carton (80¢ per dozen) have been heard of.

One producer (Salvatore) decided to opt out of the Centralised Invoicing System and sell his own eggs, in his own brand, at discounts lower than the 6% offered by the Board. He offered deals to several of our supermarket customers and some agreed to go with him. We countered by offering an increased discount to some of these independents. We have had one success so far, and one failure. Basically the attitude of some supermarket owners is they are prepared to give Salvatore a go.

We have retained our supply to all Woolworths, Safeway, Coles, Bilo and Franklins stores. The losses have been to Jewells and some independents. The former group constituted two thirds of our trolley market, and the latter about 25%. Bendigo and country makes up the difference.

Because of all the discounting in Melbourne, distributors are now buying from farms and not from the Board. Because the Board is not selling as much, they are not buying as much from us. This means that a greater percentage than before of our eggs now has to go into the pulp market. It is therefore essential that we re-establish our Melbourne market, although this will be very difficult in the short term. I am confident in the medium term we will get some or most of it back, but not all of it.

Bendigo Production

For several months now, our intake has been well over 105,000 dozen per week, and up as high as 115,000 dozen eggs per week. Under normal circumstances, with the sales volume which we enjoyed before, an intake of around 90-95,000 dozen per week is all we needed to adequately service this market. With the loss of sales mentioned above, we naturally need less eggs, as too many are now forced into pulp.

The industry discussed the need to lower quota, and one suggestion was that a 10% cut might be operable from August 1. I emphasise this was only a suggestion. The industry needs to consider whether it wants to slightly undersupply the market and receive a good price for all its production, and risk not being able to satisfy all demand. This has happened once before, and one chain had to bring in eggs from interstate. The suggestion was made if this happened a second time, that supermarket chain would make permanent arrangements for a guaranteed interstate supply. The consensus of most of the big producers and the Board members present at the meeting therefore is to keep production slightly above sales. This means there will be continued pressure on price by those producers who are holding the surplus at any point in time.

What are we doing about it?

Currently we have to see everyone who sells our eggs. We have been to three major independent supermarket owners with mixed success as outlined above. We propose to visit Jewells and a meeting has been set up. It is just possible that Jewells don't want to buy from the Board and would be happy to buy from Crystal Egg under some new centralised one-invoice system. If we could win the supply to all metropolitan Jewells' stores, this would solve many of our short term problems. Crystal Egg can offer discounted eggs (no name), Farm Pride eggs, Free Range eggs, Barn eggs (soon) and Googgs. Not too many other suppliers can offer the full range. Having said that, some supermarkets don't want the full range. We do have much to offer a store, especially if they don't want to deal with the Board.

The Board Advertising Campaign

Soon, in July, the Board will be launching its advertising campaign promoting Farm Pride. We have seen the presentation by the advertising agency and consider it is excellent. It attempts to convey the message that there is a difference in eggs,

and Farm Pride is the premium brand. The generic, or no-name, brands will be made available as well, at somewhat of a discount. The Board is offering 6% for these, and the store gets to keep the whole 6%. A large proportion of the 6% offered on Farm Pride must go to advertising by the store.

At the recent Australian Egg Industry Conference, the manager of the largest egg producer co-operative in Britain spoke. He emphasised how imperative it was that producers do not fragment. Fragmentation had occurred in England, and it has taken them over ten years to get it all together again. They now have one basic egg producer co-operative as the supplier, and they sell a premium brand and any number of house brands which are cheaper, the ratio of sales being 80% to 20% respectively. This is where we will finish up, although the ratios could be slightly different.

Price Difference with New South Wales

No matter what we do, the Victorian industry will always have a problem if the prices here into supermarkets are much higher than in New South Wales. Clearly they still are at the moment. The meeting last week agreed that the Board should closely monitor New South Wales prices, and keep Victorian prices 15¢-20¢ a dozen higher and no more. In this way, there will be no great incentive to bring eggs into Victoria as the costs of doing so will exceed the price difference. To achieve this at current price levels, 67 gram eggs need to be reduced and 49 gram eggs need to be increased in price. This should happen anyway, as 67's are in surplus and 49's are in short supply. Many farmers have force moulted their hens and this is producing the glut of large eggs, about 20% of the market. We sell about 12-14% of our sales in 67 gram.

Assistance for Discounters

One of the franchisees suggested that a fund be set up to assist those fighting this discount battle. The Board is not able to do this under the Act, and it cannot collect moneys for the purpose. It was agreed in principle that something should be done, and nobody opposed such a contribution. If ever the levy is made, we would be a nett receiver of funds, not a contributor. Because of the difficulties of not being able to use the Board, a paper is to be developed suggesting ways it might be organised.

It was also agreed that for the franchise system on Farm Pride to continue to hold its premium position in the industry, no franchisee can offer Farm Pride eggs to any store outside its franchise area without some arbitration procedure. Whilst this is restrictive, it will do much to preserve the viability of the industry.

Conclusion:

- (1) The Bendigo industry has been largely an observer of the price cutting in the box egg market so far this year.
- (2) The pressures which developed in that market forced one major player to break ranks and undercut the price to a lot of independent supermarkets using trolleys.
- (3) He took 20% of our trolley market.
- (4) Victoria has lost 10% of the Centralised Invoicing business to interstaters (Dudley) and Salvatore and Wagner.
- (5) More brands, but basically two, will enter the market. Farm Pride is to be the premium industry brand and will be heavily advertised as such. The second no-name or house brand will be cheaper, and could take up to 20% of the total market, if U.K. trends apply here.
- (6) Crystal has been active in trying to get back the stores lost, and has had some successes to date. It is still trying to regain our losses.
- (7) Short term returns to producers will fall, and therefore consideration should be given to flock size reductions. A quota cut could be forthcoming on August 1, or even sooner.

CRYSTAL INDUSTRIES
FAX TRANSMISSION SHEET

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FAX TO : Mr. Robin Keedle, Secretary
Egg Industry Licensing Committee
FAX NO. : DD03
FROM : Richard Guy
DATE : June 20, 1991
No. of Pages: Two
Including this page

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Dear Robin,

Last night, Crystal Egg Co. held a meeting with the senior producers and Executive members of the Commercial Egg Producers' Association to discuss egg supply and demand. It is at the request of Mr. Ron Robins, President of the CEPA, that we convey the details of our meeting to your Committee. We have noted that the production of eggs by producers supplying this grading floor has increased markedly since Easter, reflecting the seasonal autumn peak. Our intake graph shows a similar trend to that which was observed last September when the spring surplus developed.

You will recall we were forced to ask our producers for a 20% cut in farm size to trim egg production and bring it closer to our sales demand. This was an extremely unpopular decision, and it was felt at the time this was the responsibility of the Licensing Committee. Bendigo producers were alarmed that they were taking a cut when no-one else was asked to.

I am sure you will recall my comments and those of Mr. Neil Robins, a Bendigo egg producer, at the Board Annual Meeting last year, when we suggested quite strongly that the Licensing Committee were too late with their quota cut. I have to say that our industry in Bendigo believes you have got it wrong again.

Our production levels have gone back to around 110-115,000 dozen per week, and we need to trim this back to around 95,000 dozen eggs per week. Last night, our producers reluctantly agreed to a cut in production of 15% to bring it closer in line with demand. This means their flock size will probably have to reduce by up to 20%, reflecting the lower rate of lay of older hens. Today and tomorrow we will be writing to all our producers advising them of this, and that this will commence next week. Should a producer decide not to cut his flock, then we will be forced to pay only spot pulp price (around 30¢ per dozen) for any eggs over the new limit.

I have to say that after the meeting at the Board last week, I thought the message was pretty clear from producers that there were too many eggs in the Victorian market and a cut had to occur - and the sooner the better. Most of the debate seemed to be whether it should be 7% or 10%. Some suggested even more than 10%.

I have to tell you when we learned that the Licensing Committee had decided this week that no cut in hen quota was to be made at this time, we were shocked. I am sure you and Mr. Drew realise this. It seems a pity the other members of the Committee don't fully appreciate the oversupply situation. I would be pleased if you could convey this to your Committee at your earliest convenience. Bendigo will be cutting around 20% of hens from next Monday.

Yours sincerely,

RICHARD A. GUY
Managing Director