

How to change a traditional commodity business  
towards a high end premium supplier?

Marten Dijkstra  
Nuffield Scholar 2017



Brief

“Nuffield Scholarship program”



**Rabobank**

# How to change a traditional commodity business towards a high end premium supplier?

## *A Nuffield Farming Scholarship brief*

<b>Scholar:</b>	Marten Dijkstra
<b>Sponsor:</b>	Rabobank International
<b>Question:</b>	“How to change a traditional commodity business towards a high- end premium supplier?”. The shift from quantity to quality.
<b>Countries:</b>	Austria, France, Ireland, Germany, United Kingdom, Chile, USA, Canada, Italy, the Netherlands.
<b>Insights:</b>	<ul style="list-style-type: none"><li>• A global front runner in being a low cost producer</li><li>• Ensure quality above quantity to increase revenue</li><li>• Create a unique product which adds value</li><li>• Know your consumers</li><li>• The consumer is always right</li><li>• Ensure that YOU as a family business are represented within all parties that influence your business.</li><li>• To increase revenue its essential to differentiate your business.</li></ul>

### **Introduction**

My name is Marten Dijkstra. I am married to Linda and together we have three children. We live in a small village Aldeboarn in the province of Friesland.

As an organic dairy farmer my company owns 70 cows and 53 hectares of grassland (clay on peat). Next to my passion for farming I am an active member of the ANLB meadow bird management collective. The ANLB organisation rewarded me with the as “Meadow bird farmer of the year 2017”. To increase my presence and be part of the farmer community within the region I am board member of the agricultural cooperative “It Lege Midden”. Next to being a farmer I am also political active for the VVD and member of parliament of the province of Fryslan since 2019.

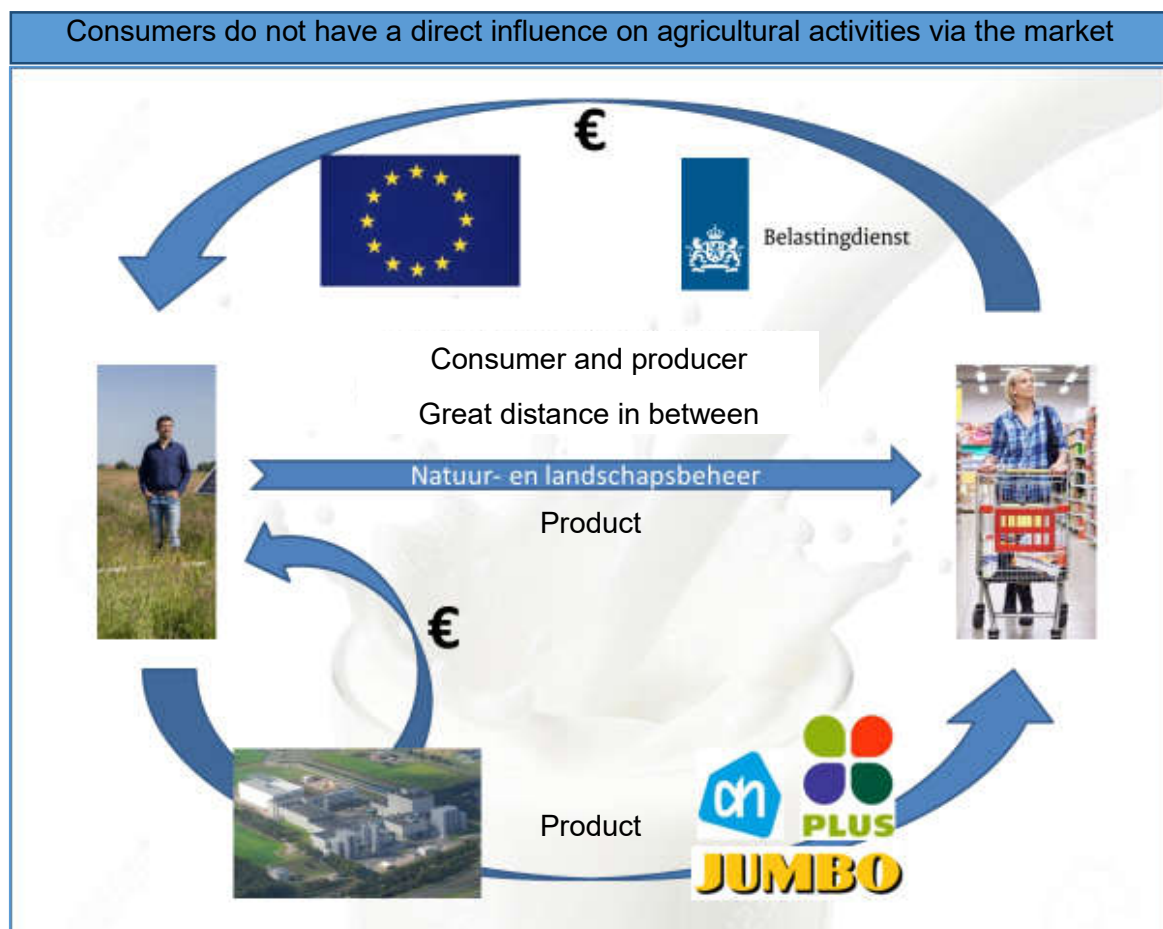
## Background study

95% of the milk produced by Dutch farmers ends up as a commodity (export) product. This leads to a position of the dairy farmer where there is no way to demand more money for his uniformly produced milk. In addition, there is a surplus on the global dairy market rather than a shortage. As a result, increasing production is not a solution as this will cause a substantial decrease of the milk price.

Due to the abundance of agricultural products within the Netherlands and the strict regulation from the government in the field of food safety, a difference of opinion has arisen between producers and consumer. Urbanization has further strengthened the distance between the farmer and consumer e.g. most children used to come to the farm once in a while, nowadays this is rare. Because of this development there is less and less appreciation for food, this is supported by the fact that in a Dutch household 1/3 of the food is thrown away.

This leaves the farmer within a climate where society raises questions about biodiversity, energy transition, climate change and animal welfare. Which leads to a situation where he has to work longer hours, to comply with legislation and earns less.

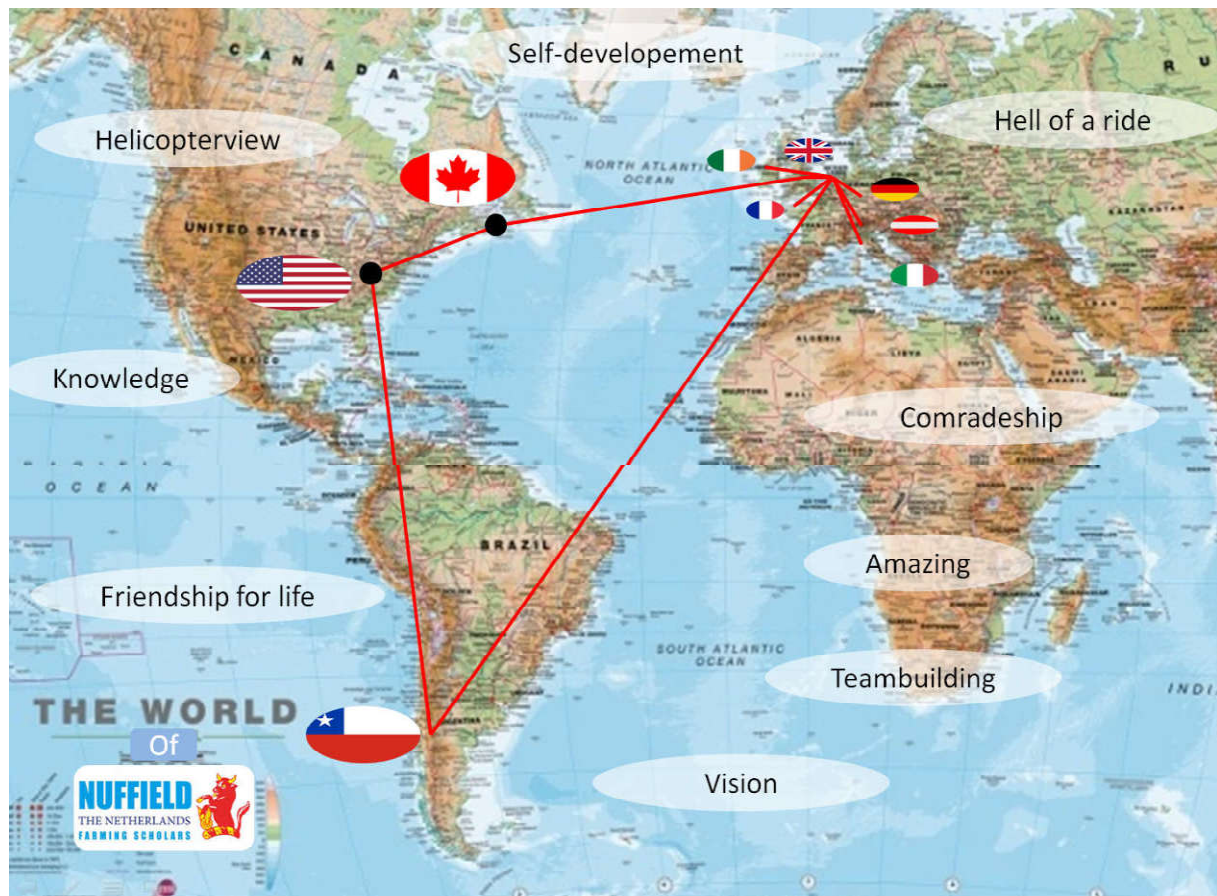
During my study focus has been on the position of the dairy farmer within the value chain.



*How to change a traditional commodity business towards a high- end premium supplier?  
“The shift from quantity to quality”.*

Question above has brought me to a wonderful series of countries. The Nuffield network has proved to be of great value in gaining global insights.

Bird's eye view with key experience words of my journey



The trip started in March 2017 with a flight to Chile. This was the starting point of the Global Focus Program Chile, organized by Nuffield Australia. With 9 international colleagues, we visited 6 different countries within a period of 6 weeks. The local Nuffield network had put together a various travel schedule. This included visits to local government, political parties, businesses, consumer organizations and most importantly farmers. Although people didn't know each other before our journey, I experienced an unbelievable group dynamic.

The group, coming from different countries and cultural backgrounds allowed me to get different perspectives and insights. While visiting a small dairy farmer in Kentucky I was very positive, however the Australian colleagues were less enthusiastic. My background in being a small organic dairy farmer versus the large farms in Australia, thus niche products versus commodities supports this.

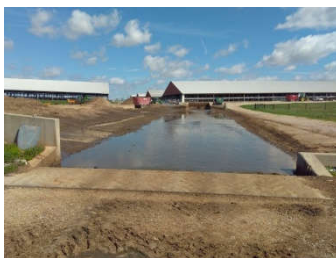




Dairy farm  
660 dairy cows  
Low cost  
Chile

Low cost  
vs  
Added value

Winery Montes Alpha  
Local wines  
Exclusive, low quantities  
Chile



Robey's Farm,  
2500 dairy cows  
Self-sufficient  
Cost price winner  
Kentucky, USA

Low cost  
Vs  
Added value

Chaney dairy barn  
70 dairy cows  
Ice cream, guided tours,  
restaurant  
Kentucky, USA



## **Conclusion**

How to change a traditional commodity business towards a high end premium supplier?

### **1. A diverse business model has a positive effect on the operating result and the continuity of the company.**

To structurally improve the position of the farmer its essential that value is already added on the farm instead of further down the chain. This provides the entrepreneur with a good understanding to determine the price of his product. Currently the value is added further down the value chain. Broadening the business model and/or chain integration gives the entrepreneur a bigger fundament to generate a steady income.

### **2. The government plays a key role to improve the position of the farmer.**

After the II WW legislation and policies were created in the 50's to ensure we would never suffer from hunger again. The expansion of the global agricultural has had an incredible positive impact on the battle against hunger.

Today within the current market there is no mechanism in place to compensate farmers for investments e.g. in biodiversity and/or quality of farmer land. In addition, laws and regulations are fully segmented, rules for nitrogen, phosphate, environment, hygiene, climate, etc. The purpose of why rules and regulations have been created is completely lost as an overall vision is lacking. This leads to a discouragement within the industry to innovate in new technologies and/or new business models.

### **3. Increasing scale makes a (family) business vulnerable and dependent.**

A business model is only successful if there is demand for a product. This is an underexposed point worldwide. When creating a long-term budget, in general focus is on how to scale and to reduce cost price. However question is not raised whether there is a need for additional product on the market. The dependence on suppliers becomes increasingly higher as a company expands. After all, investments have been made, there is a large shed, the land has been acquired and long-term financing is a fact of life.

Continuity is endangered as the company grows. Succession becomes more problematic due to the fact that the son or daughter has to borrow millions to take over the business. At the moment just before takeover, more and more young farmers are dropping out.

It is also increasingly common for land to be sold to a wealthy party from outside the agricultural sector, for example to free up money for the construction of a stable. The land is then leased back with a lease construction. Also here, dependence of other parties is increased.

## *Recommendations*

### *1. Agricultural entrepreneurs*

To scale business it's not to make means to an end. In other words, it is about the income that is generated with the business. The numbers shouldn't matter, what you have at the end of the month is the only thing that matters. In addition, work pleasure and time for the family are an underexposed theme. The larger the company, dependence increases of external input. The staff does not put in the same hours as the entrepreneur. So in the evening and weekends the company is in all its size the responsibility of the owner. The same applies to all risks.

Try not to see the company as a production machine, but as an integral part of a society. After all, the company is not an island that lies somewhere in an ocean. If society comes to certain laws and regulations via democracy, so be it. That's reality. If you want to exert influence on legislation and policies, you must organize with fellow entrepreneurs from your region. This regional aspect is especially important as it ensures a strong lobby.

In general the core business needs diversification to ensure a sustainable business model. Via diversification the farmer can realize ownership within the chain. This will lead to less dependency on third parties and increase revenue. Diversification can also mean that the focus shifts from quantity to quality. Adding quality to the product increases the market value.

### *2. Consumers - Citizens*

Without farmers, a country will lose an important economic factor and their landscape. As from a consumer perspective the choice between a holiday three times a year or increasingly pay more for food should be an easy one.

The food prices of the past 50 years, do not include all cost. This has led citizens to experience, e.g. landscape pain, loss of biodiversity and no longer meadow birds in the field.

Now these effects are mainly adjusted by the government through subsidies and fiscal policy. If you charge all of these hidden costs directly in the food price the consumer will have an instrument to control the method of production. In addition, income taxes can be reduced because there are less implementation costs.

### *3. Government*

We need to watch out for new legislation and the "one size fit's all" solutions. It must be prevented that Dutch agriculture falls into the same trap as historically happened with Mansholt. One leading business model that is promoted by government, suppliers, advisors and financiers has proven not to work. This has led to an erosion of the financial health of agricultural entrepreneurs. Create a long term vision. A maximum of 2 cows per hectare, can be an example for dairy farms. Every entrepreneur will understand and it can be explained to the citizens.

### What am I going to do differently?

After a search for economically and ecologically sustainable ways to add value, a successful switch to become an organic dairy farmer followed in 2016. Now it is time to take the next step and make my business model more sustainable. During research for my Nuffield Farming Scholarship, I have become familiar with the hay milk concept. This concept is a good way for farmers who are unable to grow their income, especially in the Alpine countries.

Milk produced from fresh grass and hay has a substantially different composition than milk produced from silage grass. This creates a unique taste for which the consumer is willing to pay a higher price, that is the expectation. In collaboration with various parties, we will conduct research into the composition of hay milk. This should lead to a scientifically substantiated health claim for hay milk.

To generate a plus on the current milk price, it is important to deliver hay milk directly too e.g. healthcare institutions. Currently there is no specific demand for hay milk via the retail market.

Thanks to the inspiring Nuffield path, I am convinced that I am on the right track and made the right choices. My gratitude goes out to all of my sponsors, the Dutch Nuffield board (including my supervisors), and all those Nuffield Scholars throughout the world who have inspired me.

### Haymilkfarm in Austria

