

A decorative graphic consisting of several overlapping circles and spheres. A large grey circle is in the top left. A large light purple circle is in the bottom right. Two smaller red spheres are positioned at the intersections of thin grey lines that form a larger circle. The text is centered within this larger circle.

NEW FOREST ABATTOIR FEASIBILITY

Prepared for
New Forest National Park Authority
And
New Forest Produce Ltd

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TABLE OF CONTENTS

LIST OF EXHIBITS..... iii

LIST OF ACRONYMSv

EXECUTIVE SUMMARY 1

 1.1 The marketplace for abattoir services 7

 1.2 Developing a viable business model..... 11

 1.3 The team factor: who will drive success?..... 14

 1.4 Alternatives to an abattoir 15

 1.5 Project conclusions 15

 1.6 Our definitive statement of viability 17

INTRODUCTION..... 19

 1.1 Context and objectives..... 19

 1.2 How this report is laid out 19

 1.3 Research approach..... 21

SECTION 1. WHO WANTS AN ABATTOIR? 23

 1.1 Target segment benefits and attractiveness..... 23

 1.2 How important is an abattoir to farmers in and around the New Forest 23

 1.3 Choice of abattoir 26

 1.4 Farmer satisfaction with current abattoir provision..... 27

 1.5 Location of a new abattoir 30

 1.6 Abattoir business models 31

 1.7 How important is an abattoir to survey respondents? 32

 1.8 How likely is it that farmer will use the facility? 34

 1.9 Analysis of demand for abattoir services by species..... 35

 1.10 Abattoir charges for contract (private) kill service..... 44

 1.11 What do downstream customers want? 46

 1.12 Section Summary 51

SECTION 2. HOW ATTRACTIVE ARE MARKET PROSPECTS FOR ABATTOIRS?..... 54

 2.1 Livestock numbers 54

 2.2 Trends in demand for meat 57

 2.3 The local perspective..... 59

 2.4 What are the prospects for the market for abattoirs: summary and conclusions..... 61

SECTION 3. IS THIS AN ATTRACTIVE INDUSTRY? 63

 3.1 The national perspective..... 63

 3.2 Industry attractiveness 64

 3.3 Overall evaluation of industry attractiveness 67

SECTION 4. DEVELOPING A VIABLE BUSINESS MODEL	68
4.1 Minimal viable proposition	68
4.2 Abattoir design requirements	69
4.3 Business model options	73
4.4 Cost of entry – capital costs for developing a low throughput abattoir	76
4.5 Funding the facility.....	80
4.6 Financial return	84
4.7 Overall evaluation of the business model options	88
4.8 Business structure and ownership	89
4.9 Abattoir add-ons	92
4.10 Dealing with abattoir waste.....	93
4.11 Energy efficiency	96
4.12 Water use efficiency	97
4.13 Risk assessment	97
4.14 Business model conclusions.....	104
SECTION 5. THE TEAM FACTOR: WHO WILL DRIVE SUCCESS?	107
5.1 Building a team.....	107
5.2 Conclusion and summary	111
SECTION 6. ALTERNATIVES TO AN ABATTOIR.....	112
6.1 Stock consolidation.....	112
6.2 Return logistics	112
6.3 Conclusion: alternatives to an abattoir.....	112
SECTION 7. SUMMARY AND CONCLUSIONS.....	113
7.1 Project Conclusions.....	113
7.2 Our definitive statement of viability	114
APPENDIX 1 : PLANNING PERMISSION IN THE NEW FOREST AND SURROUNDING AREAS	117
APPENDIX 2 : A SIMPLIFIED GUIDE TO THE STRUCTURAL AND EQUIPMENT REQUIREMENTS	119
APPENDIX 3 : BUSINESS MODEL OPTIONS.....	123
APPENDIX 4 : BUILDING COSTS	130
APPENDIX 5: SAFE DISPOSAL OF FALLEN STOCK	131
APPENDIX 6: A GUIDE TO ABATTOIR WASTE.....	138

LIST OF TABLES, EXHIBITS AND FIGURES

Figure 1: The five domains of attractive opportunities 20

Figure 2: Location of survey respondents 22

Figure 3: Importance of abattoir to survey respondents (n=147) 24

Figure 4: Estimated haulage costs from Brockenhurst..... 27

Figure 5: Analysis of satisfaction/dissatisfaction responses from survey respondents (n=120) – proportion of respondents identifying issue..... 28

Exhibit 1: Sample comments relating to abattoir satisfaction/dissatisfaction..... 29

Figure 6: Are other initiatives more important than developing an abattoir? 32

Exhibit 2: Open ended responses on the abattoir initiative 33

Figure 7: How likely is it that farmer will use local abattoir? 34

Figure 8: Distribution of survey species – shown with local abattoirs..... 35

Figure 9: Cumulative volumes of beef produced by survey respondents..... 36

Exhibit 3: Chain ratio forecast beef supply for local abattoir 38

Table 1: Size profile of abattoirs slaughtering sheep in England, 2011 39

Exhibit 4: Chain ratio forecast sheep supply for local abattoir 40

Figure 10: Cumulative volumes of sheep produced by survey respondents 41

Exhibit 5: Chain ratio forecast pig supply for local abattoir 42

Figure 11: Cumulative volumes of pigs produced by survey respondents 43

Table 2: Summary of estimated abattoir throughput for New Forest Abattoir 43

Table 3: Comparison of abattoir charges..... 45

Exhibit 6: Matrix of abattoirs relating to characteristics of downstream demand.....	47
Table 4: Characteristics and challenges associated with supplying meat based on interviews with stakeholders.....	49
Table 5: UK slaughtering	54
Exhibit 7: Trends in livestock production in the New Forest and surrounding area 2000-2010	56
Table 6: Quantities of meat purchased in and out of the home in the UK	57
Table 7: Food price evolution to 2010	58
Figure 12: Where shoppers expect to find fresh red meat.....	60
Figure 13: Focus on quality	61
Table 8: Red meat abattoirs by size in England, 2006 and 2011	63
Table 9: GB farm to retail beef price spreads, 2000 - 2011	65
Figure 14: Medium sized abattoirs financial performance 2009-2011	66
Exhibit 8: Abattoir closure story.....	68
Exhibit 9: Abattoir plan.....	72
Table 10: Business model assessment and estimated abattoir operating costs	74
Table 11: Income for contract kill model.....	75
Table 12: Estimated abattoir operating profit.....	76
Table 13: Estimated net returns for abattoir business models (No Grant, WACC @ 8%)	85
Table 14: Estimated net returns for abattoir business models (No Grant, WACC @ 4%)	86
Table 15: Estimated net returns for abattoir business models (No Grant, WACC @ 0%)	86

Table 16: Estimated net returns for abattoir business models (Grant aided, WACC @ 8%). 87

Table 17: Estimated net returns for abattoir business models (Grant, WACC @ 4%)..... 88

Table 18: Estimated net returns for abattoir business models (Grant aided, WACC @ 0%). 88

Table 19: Profit as a percentage of turnover - summary of business models – (Tables 13 – 18)
..... 88

Exhibit 10: Business structure..... 90

Table 20: Waste categories 94

Table 21: Illustrating impact on profits of change in income or costs 100

LIST OF ACRONYMS

BPEX – British Pig Executive

BQP – British Quality Pork

DEFRA – Department of Food and Rural Affairs

EBLEX – English Beef and Lamb Executive

EFG – Enterprise Finance Guarantee

IGD – The Institute of Grocery Distribution

LSU – Livestock Units (1 livestock unit = 1 beef animal or 5 pigs or 10 sheep)

NFDC – New Forest District Council

NFP – New Forest Producers Ltd

NFNPA – New Forest National Park Authority

NFU – National Farmers Union

WACC – Weighted Average Cost of Capital

EXECUTIVE SUMMARY

The New Forest National Park Authority (NFPA) and New Forest Produce Ltd have commissioned this review to understand the potential viability of an abattoir in the New Forest.

As a minimum, the proposed abattoir must be suitable for slaughter of cattle, sheep and pigs and incorporate a cutting room and hanging facility.

In addition, the following criteria are to be considered:

1. Removal of category 1, 2 and 3 waste from local butchers and producers
2. On site incineration of waste to produce energy for running the facility
3. Inclusion of a poultry processing unit

For the majority of producers in the New Forest, travel time to an abattoir is over an hour, which appears to be unacceptable to producers. The object of this study, is to find out if a New Forest abattoir is viable, what business models would work and who could support such a development.

1.1 The marketplace for abattoir services

Are there customers who want an abattoir to whom clear and compelling benefits can be provided at a price they are prepared to pay?

- There are two main abattoir business models in operation. Most animals are sold directly by farmers to an agent or abattoir who then process the animal and sell the meat downstream to customers. Approximately 80% of the meat produced in the UK for the retail market is sold by the major retailers (Tesco, Morrisons, ASDA etc.) which mean that they dominate what happens in the supply chain. Some producers, and third parties, have their animals killed by abattoirs so that they can sell the meat themselves. In this model, the abattoir does not buy the animal but, in effect acts as a toll processor.
- The first of these is the “buy-in” model and the second the “contract kill” model. In between these models sits a hybrid model which both buys in stock and sells meat and contract kills stock. A farmer selling stock to a “buy in” operator is interested in getting the best price for their animals. A farmers having animals processes in a contract kill facility is interested in achieving low slaughter charges. Hence, in considering the demand for an abattoir, both of these models have to be evaluated.
- Farmers selling livestock who are mostly driven by a motive to maximise the price they receive are not generally interested and may not even know where their animals are slaughtered particularly those selling via a livestock market.
- In relation to farmers using contract kill services we discovered:

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- Farmers are dissatisfied with the current length of time it takes them to deliver animals to abattoirs. This relates to both cost and animal welfare issues. The challenge to overcome is how to reduce these costs and concerns.
 - Some farmers believe that increasing the number of abattoirs would increase competition which would help to either reduce charges or increase service levels.
 - The service levels provided by existing abattoirs do not meet the requirements of all producers who direct animals to contract kill facilities. Dissatisfaction has been expressed by producers around the type, age and size of animal that can be accommodated, the days of the week slaughtering takes place and the integrity of the meat returned to farmers who utilise contract kill services (is the meat returned from the same animal sent for slaughter?). We have found that not everyone dislikes the same abattoir. Some abattoir owners express frustration that farmers have unrealistic expectations of what is possible in relation to the amount they are prepared to pay.
 - Downstream customers require abattoirs and meat processing services. The required degree of sophistication, quality assurance, product traceability, butchering and packaging varies enormously depending on the outlet. Providing this additional sophistication creates additional value which customers will pay for.

Can these benefits be provided better than existing solutions?

- Logistics savings from having an abattoir in the Forest will be determined by the distance and journey times saved. This will depend on the location of a new abattoir versus the location of alternative slaughterhouses.
- Potentially, a new abattoir could provide better service levels, accommodate all sizes and species of animal and meet the precise needs of downstream customers in terms of product quality and choice. Increasing the sophistication of an abattoir and meat processing operation and service increases capital and operating costs. These can generally only be covered by high plant throughput. In addition, existing abattoirs have an advantage over new entrants because they have established relationships with suppliers and customers and developed routines with staff and owners to operate efficiently.
- We do not have evidence that downstream customers have issues or problems that could exclusively be solved by building an abattoir in the New Forest. In the eye of the consumer the demand for local is satisfied by where the food is produced rather than processed.
- Unless the slaughtering service is economic farmers have the option of selling animals live through markets or to agents.

- Many farmers in the New Forest choose to sell animals as stores because the extra income that could be earned by keeping them to a finished (fattened) weight is outweighed by additional feed and housing costs.
- Land could easily be found to locate an abattoir but planning permission could be a significant constraint to developing an abattoir. Although not insurmountable, it could cost a significant sum to achieve planning permission. Alternatively the abattoir could be sited alongside or within an existing development. This would be more acceptable to planners but may compromise the design and make the overall development more expensive.

How large is the group who want to use an abattoir and will it increase?

- We have based our estimate of abattoir throughput on the number of animals rather than the number of users as it is this which determines the viability of an abattoir. Indeed it makes the management and operation of an abattoir easier if it has fewer suppliers. It also makes satisfying the needs of downstream customers easier if those suppliers are delivering a consistent product.
- Our estimate of throughput to a contract –kill abattoir conveniently located to serve New Forest producers is set out below:

Species	Annual Volume	Weekly Volume
Beef		
Under 36 months	940	18
Over 36 months	626	12
Sheep	1,943	37
Pigs	538	10
Livestock Units – 1 Beef = 1 Unit, 5 Pigs = 1 unit, 10 sheep = 1 unit		
Excluding cattle over 36 months	1,241	24
Including cattle over 36 months	1,867	36

- We do not believe that an abattoir in the New Forest offers particularly compelling benefits to farmers on the Isle of Wight. Any transport savings it could deliver could easily be outweighed by additional slaughter and processing charges.
- If the abattoir does not have cutting facilities the market will be restricted to contract kill, wholesalers, butchers and wholesale markets.
- Farmers are less likely to want to direct older cattle for contract kill as these are primarily used for the manufacture of burgers and other meat products. This will constrain abattoir throughput if a contract kill facility is built in the New Forest.

-
- If the abattoir is low throughput and cannot provide the convenient packing solutions demanded by large and convenience retailers the customer base will be limited to butchers, farm shops, some catering establishments and, in some cases, selling direct to the public.

Will the development of an abattoir provide other business opportunities?

- The abattoir could be used for slaughtering species other than cattle, sheep and pigs. However, this would require chilling areas separated from those used for the common agricultural species. For example it could be used for dressing game.
- The facility could be used for processing animals certified by vet as being fit for human consumption and that are killed on the farm and then transported to the slaughterhouse for processing. To meet legal requirements these animals must be processed as soon as it is practical to do so.

Is the market large enough to support different competitors?

- There is no obvious shortage of abattoir capacity in the UK. The general trend is for fewer, but larger abattoirs.
- There is adequate industry capacity to deal with the volume of stock produced in the UK which means that abattoirs compete strongly to obtain throughput to dilute overhead costs but the margin for killing stock will remain low.

What are the abattoirs likely short term growth rates?

- At current prices production of cattle will continue to increase albeit slowly.
- In the short term competition for stock will continue to maintain high prices for farmers and reduce the margin potential for abattoirs.
- Price point will continue to be extremely important to the vast majority of consumers although with the right promotional mix they are interested and prefer to buy local.
- Efficient abattoirs will continue to increase in scale as this is the most effective strategy for managing costs.
- The recent horsemeat contamination issue may increase demand for meat supplied by independent retailers. National retailers will respond by sourcing more stock direct from UK farms and increasing quality control procedures in the abattoirs they use.

What will be the long term growth rate?

- Macro trends for red meat consumption in the UK are at best stable and potentially downward. This is mainly because of cost of producing white meat is less than the cost of producing red meat and it has other perceived health and convenience benefits. As a result we do not envisage any significant increase in beef and sheep numbers in the long term. Furthermore, as the New Forest area land area is limited and the style of farming is predominantly extensive this will slow down the rate of output growth here.
- The fate of pork production in the UK will be determined by the relative competitiveness of UK producers and its main competitors in other parts of the EU. This is difficult to predict because of the specialised and concentrated nature of pig production. Even optimistic growth forecasts for national production will not yield appreciable increases in production in the New Forest area, however, because the intensity of production here currently is so low. Five UK abattoirs process over 90% of pigs produced in the UK which means they are large, specialised and efficient.

Overall evaluation of industry attractiveness

- There has been a significant decline in the number of the smallest abattoirs over the last two decades.
- There is a renaissance in second tier abattoirs killing between 1,000 and 5,000 units per annum in the last five years.
- The sector makes low profit margins and increases in meat prices are generally transmitted to farmers by way of increased selling prices. Performance is extremely variable, however, with the best performing businesses generating good returns on investment.
- The best performing businesses are geared towards strong differentiation and/or are using sophisticated marketing techniques along with advanced processing and packaging technology to add value.
- The local abattoirs serving the New Forest community are of the opinion that insufficient stock exist to justify building another abattoir in the region. Their viewpoint is supported by the local livestock auctioneers.

1.2 Developing a viable business model

Minimal viable proposition

For contract kill facility we estimate the minimal viable size of an abattoir is one killing and cutting 30 LSU per week or 1,560 LSU per year. This is the baseline throughput for the contract kill business model. For the hybrid model and the buy-in model the baseline level of throughput is 1,800 and 2,000 LSU per annum respectively.

A multi species abattoir would require lairage, killing area, dressing areas, chill areas and cutting and storage areas. In addition it would need specialised drainage, utilities, office space and space for vehicles to move around and park.

Legislation requires the attendance of a vet during the slaughtering operation.

Business model assessment

Baseline operating costs for the business models are around £178 per LSU.

We have compared contract kill, hybrid and buy in business models using a baseline throughput. Income levels are compared based on industry norms for contract kill services and the margin between buying stock and selling carcasses on a wholesale basis. The operating profit of the business models is calculated to be £72,000, £87,000 and £96,000 for the contract kill, hybrid and buy-in business models respectively.

The capital cost of developing an abattoir is estimated to be between £680,000 and £1.7m. In the financial assessment of business models two scenarios were modelled in details. A freehold business had a total capex of £1.26m and a business renting the site and building for £22,000 per annum had a capex of £680,000.

The level of return for the options evaluated as a percentage of sales after deducting the cost of capital, allowing for depreciation and rent is set out in the table below.

-> Business Model	Contract Kill		Hybrid		Buy in	
-> Buildings land owned or rented	Own	Rent	Own	Rent	Own	Rent
No Grant, 8% WACC	-22.0%	-14.9%	-5.5%	-3.5%	-2.9%	-1.9%
No Grant 4% WACC	-11.6%	-9.9%	-2.3%	-1.8%	-1.0%	-0.8%
No Grant 0% WACC	-2.8%	-5.4%	0.4%	-0.3%	0.6%	0.2%
Including Grant 8% WACC	-4.9%	-0.5%	-0.8%	0.4%	-0.4%	0.2%
Including Grant 4% WACC	2.1%	2.0%	1.4%	1.4%	0.9%	0.9%
Including Grant 0% WACC	7.8%	4.3%	3.3%	2.4%	2.2%	1.6%
Colour Coding ->	<-4%	<-2%	<0%	>0%	>2%	> 4%

Only 17 of the scenarios make a positive net return over and above the cost of capital. The contract kill with grant and a cost of capital of 4% manages to generate a profit on turnover of 2%. Renting is distinctly advantageous without grant but when grant is factored in it may be more advantageous for the business entity to own the buildings housing the abattoir.

A buy in stock business model is less likely to be economically viable than a contract kill facility. This is because it will need to compete directly against larger and potentially more efficient abattoirs to supply customers buying meat. Supplying businesses direct, be they butchers, wholesalers or food service operators, is highly competitive and businesses operate on wafer thin margins.

The contract kill model is more likely to be successful because the business will not need to find end customers, it will not need to provide working capital for stock and the contribution margin is more predictable because it does not rely on selling all parts of the animal at a price that leaves a margin.

The contract kill model will, however, be challenged by unpredictable throughput, how quickly it is able to build throughput and the ability to control costs to a level that matches the income from contract kill operations.

Although, as the Hybrid Model illustrates, the option exists for the contract kill abattoir to buy in stock to maintain throughput.

Funding the facility

Private capital seeking high returns or a safe haven for funds will not invest in the facility. It is too risky and the returns on offer are too low.

We have ruled out Venture Capital and Angel investors as sources of capital because they are looking for high returns. Farmers may invest but it is unlikely they would supply all of the capital needed.

It is not inconceivable that an investor or investors would provide equity funding for a project but it is extremely unlikely because of the low returns and risks involved. In addition, if the investment delivered other benefits such as supporting activity in the supply chain, upstream or downstream, then this could further any individual's inclination to invest.

Banks are only likely to service a small proportion of the facility.

Some of the funding gap could be filled with grant aid although the situation regarding future RDPE support for projects of this type has not yet been clarified for the next round of RDPE funding.

The capital needed to start a new abattoir could be reduced by grant aid, renting the building or site and receiving donations from groups or individuals who support social enterprise.

Business structure

A three-tier structure of landowner, facilities owner and operator divided as three separate legal entities would provide the best level of protection and incentive for the organisations or individuals involved.

Add ons

Poultry processing, anaerobic digestion and waste incineration would reduce the abattoir returns and are therefore unfeasible.

An emergency slaughter facility could be added to the offer provided by the abattoir business but it will not make a material difference to the economic viability of the abattoir.

The same conclusion can be applied to energy saving measures. They won't reduce profitability but neither will they make a material difference to the overall economic performance of the abattoir.

Risks

The main risks are financial although disease outbreaks are a perennial concern for abattoirs.

Small changes in output or cost assumptions can have a very large impact on the overall profitability of an abattoir business. Set out below is a summary of the impact of changes in throughput, sales and costs on the financial performance of the abattoir business models.

	Contract Kill		Hybrid		Buy in	
Throughput (LSU)	1560		1800		2000	
Baseline profit (£ '000s)	72		87		96	
Impact on profit in change in :	+-		+-		+-	
	5%	10%	5%	10%	5%	10%
Volume of throughput (£ '000s)	17	35	20	39	22	43
Stock Purchases (£ '000s)	0	0	44	89	99	197
Operating Costs (£000s)	14	28	15	31	17	34

NB: Baseline profit in this table is before finance, rent and depreciation

A 10% change in sales is equivalent to a reduction or increase of throughput of just 3.0 LSU per week in the contract kill business model would reduce profits by £35,000. This serves to illustrate that even relatively small changes in throughput can put an abattoir into a disastrous spiral of losses and mounting debt.

1.3 The team factor: who will drive success?

- Finding individuals to drive a project like this forward will not be easy. Identifying a person with the credentials and capability to lead a project is probably the most significant hurdle that will need to be overcome if the New Forest community wish to have a local abattoir at their disposal.
- The operator of the abattoir will need to have broad industry experience as well as business skills to deliver the business strategy. Potentially this individual could be an owner/operator and having a stake in the business. This would be a strong incentive for the individual to make it a success.
- In the course of this study we have been unable to identify potential investors. Without a willing investor and entrepreneur the project is unlikely to have the funding to get going and without an able entrepreneur and investor is not likely to be found to get the project

off the drawing board. This dilemma can only be solved by simultaneously searching for both entrepreneur and investors.

1.4 Alternatives to an abattoir

Both inbound and outbound logistics could be more efficiently coordinated and potentially help producers to reduce the cost and time taken to transport animals to an abattoir.

1.5 Project conclusions

Our approach to evaluate the sustainability of an abattoir was to determine if there is a segment of users/customers who are prepared to pay for abattoir services. Next we set out to establish if the trends in the market for these services is sustainable. In Sections 3 and 4 we determined if a viable business model for the abattoir could exist based on the level of competition. Finally we set out some initial thoughts on who might drive success, build and run an abattoir.

Section 1: Do enough people want an abattoir in the Forest?

The problem that producers face could better be described as one of high transport costs rather than a lack of abattoir facilities as the main concerns of producers are the cost and welfare implications of moving animals to slaughter. A more conveniently located abattoir is not the only solution to this problem because transport costs can be diluted by consolidating stock in larger vehicles and ensuring high utilisation of vehicle capacity. Throughput of a new abattoir will depend on the intentions of large producers and many of these will be difficult to dislodge from existing dedicated supply chains.

Based on conservative estimates of the number of customers who could be attracted to use a New Forest abattoir we have concluded the Forest and surrounding areas could support a throughput of around 30 LSU per week as a contract kill model providing it is equipped with cutting/butchering facilities.

The low throughput abattoir could provide a valuable link between producers wanting to sell local meat and consumers who want to purchase it. We do not believe that the facility would be attractive to major retailers or catering butchers requiring high volumes.

The abattoir could diversify into slaughtering other species or processing injured stock which may increase its potential viability.

Section 2: Are the market prospects for abattoir services good?

Red meat production has been in decline across the UK; this trend has been slightly reversed in the last few years. There has been a renaissance of interest in small abattoirs providing contract kill services for producers and selling direct to the public or to local retailers. This interest is fuelled by interest in local food. However, there is no shortage in abattoir capacity locally or nationally and the meat market is extremely competitive. Whilst we do not see any

obvious reasons why livestock in the Forest will decline significantly neither have we found any evidence to suggest numbers will increase.

We have concluded that the market prospects for a low throughput abattoir are positive because it would stimulate the development of local meat supply chains in an area where a high density of consumers with above average interest in local, environment and animal welfare issues live. If one of the local abattoirs currently used by New Forest producers ceased trading this would increase the viability of a new abattoir.

Section 3: Is this an attractive industry?

It is extremely difficult for abattoirs to make reasonable returns by purchasing stock, processing them and selling meat into wholesale markets. The ones which are successful have developed niche markets and achieve operating efficiency by concentrating on one species or by supplying very high volumes to major retailers. The main challenge is carcase balance so that all parts of the animal, including skin and offal, can be sold at a price that leaves a margin on the entire animal.

The industry makes low profit margins. The trend has been towards large abattoirs in order to achieve economies of scale and to supply high volumes to large retailers.

Our conclusion is that this is a very difficult industry to generate reasonable returns because of the competition from other abattoirs to secure stock to maintain plant throughput.

Section 4: Can a local abattoir compete with a viable business model?

Small abattoirs survive through developing a flexible and agile service to producers who want to market to local, rather than national, retailers or direct to the public. It is extremely difficult for abattoir owners purchasing stock to generate profits unless they enjoy consistent demand from retail or foodservice customers.

A small contract kill is more likely to be feasible than a buy in abattoir, however, it would not be able to guarantee throughput and so would need to employ flexible labour to meet fluctuations in demand. Farmers will only use the facility if it is price competitive against other abattoirs and delivers a good service to farmers.

Section 5: Is there a team to drive success?

To become successful a new abattoir will need leadership, investors and the right team to run and manage the facility. Finding individuals to drive forward the development of a local abattoir will not be easy because the incentive for an individual farmer to promote its development will not be great and finding investors to support the development will not be easy because it does not offer particularly good or low risk returns.

1.6 Our definitive statement of viability

1.6.1 Producers need for a local abattoir

For many producers, particularly larger ones who are responsible for the majority of the output in the Forest, they have existing markets they would continue to supply irrespective of the development of a new abattoir. A new abattoir would appeal to producers who currently have animals slaughtered on a contract kill basis to market direct to customers. Our conservative estimate of this volume is approximately 30 LSU per week. However, it is difficult to be precise about this figure as it is dependent on an enormous number of variables not least the service levels and costs a new abattoir could achieve.

The problem of travel time and cost of moving animals from the New Forest to remote abattoirs is the issue that concerns producers rather than any explicit need for a local abattoir. Potentially farmers could solve this problem by coordinating the movement of their animals and consolidating them onto larger vehicles.

1.6.2 Investor appetite for investing

Whilst there is potential for a facility, with apparent demand from both producers and end users to achieve throughput of 30 LSU per week we believe the set up costs will make the proposition unattractive to investors looking for a commercial return on any investment. We find little evidence that producers themselves will come forward to fund the facility although they may become more motivated to invest themselves if other sources of funding become available.

1.6.3 Availability of grants and other funding

Some small grants may be accessible now and other sources of social funding could be pursued. The position regarding RDPE priorities are unlikely to become clear until late 2014. Abattoirs have been supported in the past with RDPE funding and may continue to be so in the future. However, DEFRA will be mindful that several funded in the past ran into financial difficulties and no longer trade.

It is highly unlikely that any bank will offer unsecured loans to an abattoir without a positive trading record of accomplishment. Furthermore bank support will only support relatively low levels of gearing which means that the facility will need a high proportion of private funding.

1.6.4 Finding a site to locate an abattoir

Finding a suitable site for the facility will be difficult but this is less of a constraint to the future viability of a facility than funding for the reasons described above.

1.6.5 Finding a team to drive success

The project will need a champion or champions to galvanise investors, an abattoir operator, public bodies and many other stakeholders in order to overcome the many significant hurdles that stand in the way of delivering an operational abattoir.

1.6.6 Definitive statement based on current knowledge

We were invited to assess the viability of establishing an abattoir to serve the needs of New Forest producers.

In the next decade, unless there are major unforeseeable events, and, after considering the following:

- A lack of leadership.
- The low returns.
- The uncertainty of throughput.
- The difficulties of raising public and private funding.

<p>It is our professional opinion that the development of a New Forest abattoir is not a viable proposition.</p>
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1.6.7 What conditions would increase viability

We conclude that unless the incentives for investors or farmers to develop an abattoir business can be strengthened it is extremely unlikely that the impetus needed to get one off the ground in the Forest will emerge. The impetus could take the form of capital grant aid, public sector support, preferential rents and help to develop a network of producers and customers.

The investment hurdle can be overcome by finding local individuals and public bodies who are prepared to invest because it would deliver wider social benefits or support the economic viability of other enterprises.

Investment requirements would be reduced significantly if an existing building became available that could accommodate an abattoir. In any event renting the land and building would reduce the capital required. In this case we estimate the overall level of capital required would be around £680,000.

Grant aid could be secured to reduce the amount of capital needed.

The case for a local abattoir will strengthen if any of the abattoirs currently used by New Forest producers cease to operate.