NUFFIELD FARMING SCHOLARSHIPS TRUST

Quality Beef – Is Branding an Integral Element of Marketing?

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Aims of the Study

'My whole life and everything in it is created by me, and I have now realised that I possess more power to create greater opportunities than I ever realised'.

The aim of my Nuffield Scholarship study was to remove myself from the United Kingdom agricultural industry and focus on a global perspective. This was in direct relation to the marketing, and specifically branding, of agricultural beef products marketed from major beef producing countries.

To be successful in today's agricultural industry, it is necessary to broaden our knowledge by studying a global market and distinguishing future trends that can assist future directions for our businesses to remain successful and competitive.

Initially, my strategy was to embrace the Nuffield induction week at Utrecht in the Netherlands in February 2006 with UK and Worldwide Nuffield Scholars. Following this, I intended to plan a ten-week trip on individual study later in that year. However, due to the unique opportunity to represent the Nuffield Scholarships Trust on a worldwide educational experience, I decided to capitalise on my Scholarship and prolong my travel to enhance my skills and knowledge.

Consequently, my Nuffield Farming Scholarship has not only allowed for me to seize a unique, year-long travel experience, but it has also allowed me to embrace the most remarkable full-time employment in the agricultural industry in Australia which is currently developing my career further.

My motivation for this decision centred on my passion for the agricultural industry, the excitement of meeting educated, experienced people, and the extensive knowledge I would inevitably obtain from all those I would meet. I finally recognised that I am the designer of my destiny and the author and writer of my story. The pen is in my hand and the outcome is of my choosing.

The late President J F Kennedy once said "farming is the only industry I know where farmers buy retail, sell wholesale and pay the freight both ways". I guess it was time for me to receive clarification of this and much, much more besides!

Finally, I learnt from a young age that an obedient compliant woman rarely makes history, hence why I have embraced enormous personal and professional change from my Nuffield experience!!

Foreword

Is branding an integral element of marketing? Does branding automatically value-add goods or services? What does branding represent to the consumer? All these questions required answers as I embarked on a Nuffield Farming Scholarship study across the world.

My study took me to the Netherlands, Brussels and China as part of a UK and Australian Nuffield Scholarship global focus tour, and the United States of America, Chile, Argentina and Australia on a sole journey. This travel has spanned over 18 almost consecutive months, with a purpose of answering questions on branding in the global beef sector.

Prior to my study, I was the General Manager of the Welsh Meat Company, a farmers' cooperative in Wales, representing 700 farmer-members and with a company vision of becoming the first choice for consumers and producers of red meat. The company's "Celtic Pride" brand name was launched to give members an identity in the market, plus to value-add a range of red meat products. It was a somewhat undisclosed assumption over time that our brand image represented on our products, created value and gained trust and loyalty from consumers.

I focused my Nuffield Scholarship on the beef sector because the Welsh Meat Company, in partnership with Castell Howell Foods Limited and Wynnstay Feed Manufacturers PLC, two leading agric-food businesses in Wales, had launched "Celtic Pride Premium Beef" into the Welsh foodservice market in 2003. This project relied on our brand image to perceive a consistent, quality product for consumers and was pivotal in the promotional marketing strategy. It was my belief that without our strong brand, the project would not have had the purpose, foundation and passionate motivation behind it.

I hoped that my Nuffield findings would include gaining a global insight to branded beef programs, assessing the importance of a brand image, establishing successful supply chain management techniques and understanding the global consumer principal needs when purchasing beef.

I chose to visit the United States of America, Chile, Argentina and Australia because these countries all produce a perceived quality beef and have dynamic and diverse consumers. This report analyses supply chain information sharing, trust and communication. It also offers examples of branded programs that could be employed in the UK agricultural industry to remain competitive, offer a "point of difference" and operate successfully.

The information provided in this report has been provided in good faith by the author. There is no exceptional guarantee to the completeness or accuracy of the information, but care has been taken to ensure it is concise and precise. Certain information gathered is available in the public domain, and some has been supplied by individuals as part of an opinion or judgement. All referees are listed and individuals interviewed have been approached in accordance with the Nuffield Farming Scholarships Trust. The strategic direction and potential future development areas of the author are personal beliefs.

Branding

When considering value-adding and marketing, to enhance the likelihood of success, a beef product needs a 'point of difference'. The ability to offer a product unlike any other, with consistent quality and shrewd marketing, endures incessant resources. One method of segregating from the product masses is through a process of branding.

A brand is a customer experience represented by images and ideas. Often, it refers to a symbol such as a logo a name or a slogan. A brand serves to create an association with customers because it represents information connected to a company. The term 'branding' is synonymous with relationship-building and creating loyalty.

A brand includes identifiable (or subconscious) characteristics. It can portray many qualities and emotions contained in a consumer's relationship with a product. Customers can look at branded products as an important value added aspect and brand owners can demand higher prices as a result. Where two products resemble each other on price, but one product has no associated branding (such as a generic, store-branded product), people may often select the more expensive branded product on the basis of the quality or the reputation of the brand owner.

Beef has traditionally been marketed as a generic product. Consumers cannot typically choose different beef products based on differentiated quality characteristics.

Branding beef may assist a business become more profitable if consumers are willing to pay a higher price. Developing a brand could enable a business to acquire a degree of market power that it could not attain with a generic product. Instead of simply accepting the market price, a firm may be able to price its product strategically, and perhaps extract a premium for greater perceived value. Consumers may then become less sensitive to changes in retail prices of branded beef products as loyalty is achieved.

Branding confers advantages in the market, but there are significant added costs to consider. A major cost stems from the added production and segregation requirements associated with the need for identity preservation. If a business differentiates its product on the basis of a specific quality, then an animal produced with this particular attribute must be separated from other animals throughout the entire supply chain.

Branding within a small business is essentially similar to a larger corporation. The only difference is that small businesses usually have smaller markets and have less scope than larger brands, especially with limited resources.

A branded product must deliver an identical experience for the consumer each time the product is consumed. Therefore, consistency is a key element of brand success.

There are many areas of the red meat supply chain where maintaining the consistency of a premium product can be affected, especially with beef. Maintaining product consistency is a critical area of the supply chain management process and should be continually monitored.

It would be naïve to expect to launch a branded product into the marketplace and expect instant success. Growing consumer demand takes perseverance and time. Loyalty by the consumer to a specialised product must develop with support by means of a strong promotional campaign and communications strategy.

To create a brand image and promote it accordingly would be a long-term investment that usually comes at a substantial cost. As well as a total sum of design and origination, there are costs relating to packaging, public relations, promotional activity, market orientation and operations. In addition there are costs relating to personnel and administration that must also be considered.

Celtic Pride Premium Beef supplied to Mr Carwyn Jones, Minister for Environment and Rural Affairs, Welsh Assembly Government. Pictured are the Minister, John Evans Chef; Kathryn Jones Sales Manager Castell Howell Foods; and Nicola Raymond General Manager, Welsh Meat Company

Food Trends

Globalisation

Globalisation is not a recent trend, it is a geographical development and driven by the value and affects of technology and communications. It is acknowledged that progress of Globalisation has been slower in the agri-food industry but is gathering pace as we move a variety of fresh produce with packaging technology and the demand from consumers.

Globalisation will advance the current trends in our agri-food industry which include the downward trend of agri-food prices, less profit in small scale farming through smaller margins as costs of inputs continue to rise, plus the decline of agri-food trade barriers.

In addition, as incomes rise and developed countries become increasingly affluent, growth in food products declines. Food consumption is higher for low and middle income earners. As incomes rise, growth in food consumption per capita declines. The composition of food consumed also changes with seafood, dairy, plus fruit and vegetables all increasing as income rises while there is a decline in the proportions of cereals, oils, fats sugar and eggs.

Furthermore, as the movement of people around the world escalates with affordable air-travel, there will be more exposure to alternative diets and branded products which develops new trends in food consumption.

Retailers

Strength of the retail sector has increased globally. Wall-Mart, the retailer is now the biggest employer in the United States of America. It is now recognised that the top ten global retailers are operating in between ten and thirty countries and this is growing. Six retail chains in the UK control over 80% of the food market, and in Australia two retailers, namely Woolworths and Coles currently dominate 72% of the retail food sector.

The globalisation of food retailing is an extension of the domestic mergers which have been aimed at reducing costs and leveraging procurement, innovation and knowledge.

The growing trend with these retailers is to 'own brand' products that they sell. Although retailers sell private branded products on shelves, they have a distinct advantage offering 'own brand' alternatives. By offering own generic labels, they have the ability to take margins at several points along the chain and this provides control over quality and price.

Sourcing of private branded products can have its limitations with volume and quality, especially on perishable goods such as red meat. Through own-label branding, retailers can source globally and achieve the type of consistency and fixed price contracts with larger volumes and this enables them to enhance their margins.

Retailers have also seen benefits from marketing a range of 'premium' own branded offerings in direct competition with processor brands. This is often achieved by smaller, international food processors manufacturing under strict contracts for the retailer.

Inevitably, the retailers must offer 'choice' to consumers but the focus on 'own brand' and 'premium' own brand products will strengthen with marketing and positioning control, thereby giving the primary producer less scope for independent branding and marketing.

The Consumer

Consumers across the world are becoming more affluent, sophisticated, educated and discerning. Consumers of food products drive the market and the food industry. The mass market is disappearing as consumers demand convenience, indulgence, new experiences, ethical standards and community belonging. The 'eating experience' and suitability of product is becoming as important as that product itself.

Yet, generally in developed countries, consumer expenditure on food is insensitive to changes in earnings, changing by much smaller proportions than changes in earnings. In Australia from 1988-2004, total household expenditure on food and beverages only increased by 3% in real terms. This is equivalent to a 0.2% growth annually and this summarises the complexity of launching a new branded product into the food market.

To meet the changing and ongoing expectations of consumers, it is important to understand the rationale behind them. Meat & Livestock Australia have 'five pillars of demand' which they adhere to with their beef and lamb marketing campaigns.

1. Integrity	Consumers demand beef that is safe to consume, has not harmed the environment in production and the welfare of the animals is considered at all times. The product must be what it purports to be.
2. Enjoyment	Consumers want to be guaranteed quality and enjoyment of beef each and every time they consume it. They want a product that adds value and variety to the entire eating experience.
3. Nutrition	Consumers are increasingly conscious of their health and as such want a product that will satisfy their nutritional needs and improve their wellbeing. There is improved knowledge of diet and health.
4. Convenience	Consumers want a variety of convenient meal solutions that accommodate lifestyle, income and work commitments. Consumers have a faster pace of life and there are odd modes of food purchase.
5. Value	Consumers are demanding value for money from beef. The benefits and the perceived value of the product must correlate with the price.

Source: MLA 2006

New consumers have a 'credit and debit' philosophy and are generally income rich and time poor. Consumers are travelling more and are more highly smart and cynical as the internet has offered greater knowledge of the world. New consumers are not from traditional house structures; for example only 19% of households in Australia have two parents plus children.

Consumers purchase food products on price, convenience, ease of preparation, taste, appearance, brand, shelf-life, free range / non-GM / organic and finally origin and traceability.

Supply Chain Management

It has already been stated that 'branding' can be integral to the marketing process of developing a quality beef product for the marketplace. Branding can enhance the possibility of a growth in sales as it serves to create an association with consumers through images. The image consistency of a branded product can tempt relationship building between the company and consumer and this increases the likelihood of loyalty.

However, it would be foolish to believe that branding alone can instantly score success in the marketplace. 'Supply Chain Management' is critical in the process.

Supply Chain Management is the amalgamation of strategic business processes from end consumption back through original suppliers via interlinking stages. It can include all the scientific, production, technical and related activities involved in the matching of the product to a consumer need. A strategy for planning, implementing and controlling the production, processing, manufacturing, storage, packaging, transport, in-chain and in-store quality management and finally marketing and sales are all critical to success.

One purpose of supply chain management is to improve trust and collaboration among partners to improve product visibility and overall success. There are a number of factors that can achieve a successful supply chain including:

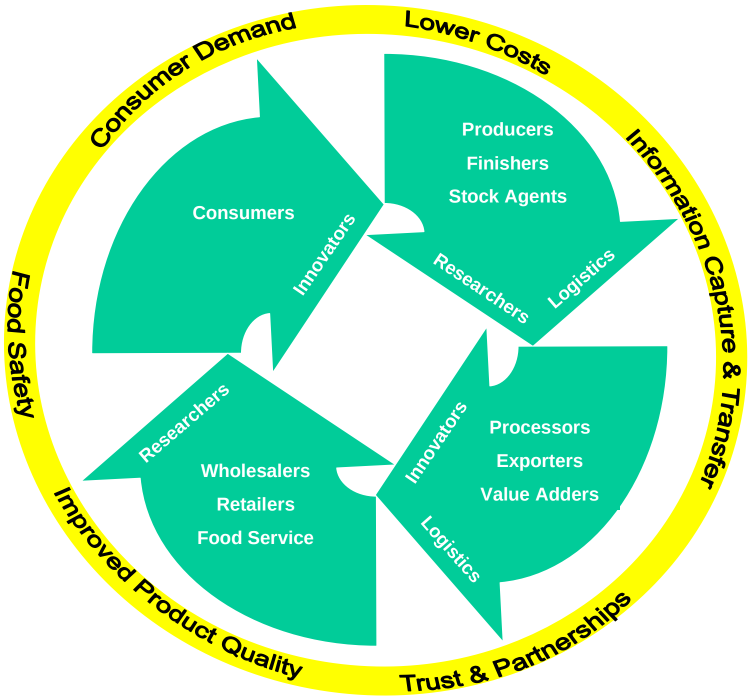
- A Strong Communication Strategy
- Information Sharing & Openness
- Aspirations to the 'true worth' of the product
- Trust
- Transparency
- Specifications
- Strict Production Protocol
- Sustainability
- Security
- Reliability by Supply Chain Partners
- Balance in Power

It is increasingly likely through improved technology communications and globalisation that many businesses will choose to focus on core ability. Consequently, there is likely to be an additional number of players within the supply chain for any given food product. Many supply chain operations are increasingly outsourced to other players that can perform activities more cost effectively. This reduces management control of logistics operations, thus reducing costs. Many supply chain partners lead to less control and a necessity to create supply chain management concepts.

Having said this, many examples of successful branded beef programs that I have witnessed around the world, have attempted to 'reduce' as many players involved in the supply chain. This lessens the critical control points and prolongs ownership for improved returns at producer level.

There are many operating stages through the red meat supply chain that originate at genetics and birth and conclude at product consumption. It is critical for product consistency, to ensure all the operating stages are managed effectively and if there is ownership through means of control, then all well and good. See below diagram 1.8, a simple model for the red meat supply chain.

Supply Chain Model for Red Meat Sector



The strongest focus of any supply chain must be on the consumers needs and this is often achieved by a recognisable chain leader who manages the marketing strategy and sales performances. Based on knowledge of the external environment and competition, a chain leader will also be experienced on consumer needs and demands. This inevitably drives supply chain success.

Improving supply chain management is increasingly achieved by cutting costs along the chain. This can often be in the form of value-adding, enhancing shelf life by means of new technology, reducing waste and improving logistics.

United States of America

Background

The beef industry in the USA is certainly on an immense scale. There are 800,000 cattle producers managing an average herd size of 42 head per holding. Fifty of the largest companies' control 240 of the biggest beef feedlots in the USA which are mostly situated in the states of Nebraska and throughout central USA and they have a 65% market share. Five major packers have an 85% of the market, and the top ten major retailers have a 65% market share of beef sales. 9% of US beef currently goes for export and Canada and Mexico are among their biggest markets, with supply to South-East Asia still suffering since their outbreak of BSE in 2003.

540,000 cattle are slaughtered every week which equates to 500 million pounds (lbs) of beef per week or 26 billion lbs (12.5 billion kg) of beef produced for 290 million diverse and hungry consumers!

55% of the beef consumed in the USA is eaten 'out of home' and 50% of all beef consumed is eaten in the form of burgers. Americans consume 30kg of beef per capita annually.

There is no set policy or guidelines on the development of branded beef programs instigated by producers or producer groups. There are a variety of 'categories' for beef in the USA, defined by the United States Department of Agriculture. These include:

1. 'Grass Fed Beef'

Grass fed beef are from cattle that have been raised on grass, green or range pasture and forage will be 80% or more of the primary energy source throughout the life of the animal. It is generally acknowledged that less than 3% of cattle in the USA would fall under this category. The USA is not nearly vast enough to sustain America's 100 million head of cattle on grassland.

The attitude by the National Cattlemens Beef Association is that there is '*no way that grass-fed beef can begin to feed the meat appetites of people in the United States, much less play a role in addressing world hunger. Grass-fed meat production might be viable in a country like New Zealand with its geographic isolation, unique climate and topography, and exceedingly small human population. But in the world as it is today, I am afraid that grass-fed beef is a food that only the wealthy elites will be able to consume in any significant quantities'. (Gregg Doud, Chief Economist NCBA, 2006)*

2. 'Natural Beef'

Natural Beef is classed as beef that does not contain any artificial ingredients or colourings and must be 'minimally processed'. It is obvious that most beef sold in the USA can sold as 'natural'.

3. 'Certified Organic Beef'

Certified Organic Beef has strict regulations and is policed stringently. Cattle must be raised separately from non-organic cattle. They must have access to pasture and be fed 100% organically grown forage and grains. Cattle must not be given hormones or antibiotics for any reason at any time. Synthetic pesticides on pastures, sewage sludge for fertilisation of feedstuffs, irradiation on beef products are all prohibited and any animals treated with antibiotics must be removed from the Organic program.

Finally, all producers adhering to the organic program must be certified through the United States Department of Agriculture Agricultural Marketing Service (AMS).

There are one hundred and fifty two certified branded beef programs in the USA, of which forty are approved by the United States Department of Agriculture. Over 70 percent of these forty branded programs use the name "Angus" within their brand name and the most recognised and prevalent of these is "Certified Angus Beef".

Case Study 1.1

'Certified Angus Beef'

Certified Angus Beef is the largest, most well known and most established branded beef in the USA, and yet there is no guaranteed traceability or producer protocol. Any beef producer can supply cattle to 'CAB' and the only statute is that the animal has to be black. Outwardly it is stated that each animal must be at least 51% Angus bred but there are seemingly no protocols in place to fully audit this.

A 'CAB' beef carcass must qualify as 'select' or above at the processing stage. To explain, there are four categories for classification and grading of beef in the USA.

PRIME is the top qualification and barely 5% of cattle in the US will achieve this;
CHOICE is classed as the highest grade on sale through retail & good foodservice outlets;
SELECT is the most popular of the classifications;
LOWEST is from predominantly bull beef and used for processing;

Certified Angus Beef (CAB) is a victim of its own success in the USA. Being one of the earlier branded programs to be launched to consumers with levels of success, it now has unclear and nonchalant legislative rules. In addition, no production protocol means that any producer group can capitalise on the established Angus name provided their animals are 51% Angus bred.

Inevitably, achieving consistent quality or traceability of CAB product is difficult and with a growing number of programs using the name 'Angus', I see no short term solution. With an increase in the number of Angus programs also equates to a dilution of the key messages and communication strategy, and a reduction of an expected premium as consumers lose their trust and loyalty to the product.

Case Study 1.2

NaturALL Steaks

NaturALL Steaks is a niche branded program in operation near David City in the State of Nebraska and managed by Dr Raymond Metzner, a chief veterinary officer. He is capitalising on the growth in demand for a naturally reared beef product and has set his own production protocol to ensure consistent grass-fed finishing.

NaturALL Steaks are 'direct marketed' through his website but he is supplying some additional niche foodservice operators in his region. This supply chain initiative has only been in operation for a few months and he was processing approximately five cattle per week as of October 2006.

The current issues that he faces are stereotypical at the introductory stages of a newly launched product. He faces issues with his local processor who finds the slaughter of five cattle exasperating and expensive. Gaining a premium from the secondary meat is proving problematic therefore carcass utilisation is nominal. In addition, Raymond is working with a limited marketing and promotional budget and this does not assist growth in sales.

However, Raymond is a passionate believer in a naturally reared and minimally processed beef, and his eagerness for capturing a loyal consumer base on a regional level should successfully develop in time. He also voiced concerns for the mass beef produced in the USA that is injected with hormones or antibiotics which he states are 'critical' for the long-term human health of the population.

NaturALL Steaks point-of-sale material

Summary

Americans increasingly demand convenience and value for money, with a surge in demand for value-added beef products. The reduction in meal preparation time is substantial and "fat & calories" are seemingly above "safety & traceability" in the minds of the consumer.

Beef's biggest competitors in the market are pork and poultry which are perceived as simpler to cook and a seemingly healthier protein option. There has been greater product innovation in value-adding, convenience and ready-meal chicken products because there are fewer cuts which does simplify product development.

USA major supermarkets sell meat products on the basis of cooking time and method as opposed to cut type. The subsequent, post-university generation of consumers (the 'Y' generation) are increasingly demanding, and beef must appeal to more diverse cultures. This generation are further removed from agriculture yet are smart and cynical as the Internet has provided them with knowledge. It remains to be seen whether these consumers will be pro-farming and support beef, as with the older, baby-boomer generation.

In relation to branding and premium product purchasing, it is acknowledged that less than ten percent of American consumers focus wholly on environmental practices, genetically modified production, organic or hormone-free beef and would be prepared to pay a premium price. Hormones purportedly administered to 95 percent of US cattle and few consumers acknowledge this. American Beef is traditionally marketed as a generic product and consumer knowledge of beef cuts is low.

The threats that exist for USA beef branded programs are the number that have no protocol or traceability and portray diluted messages. However many superb opportunities for American beef producers exist at regional levels. Hormone-free beef reared in an environmentally friendly way and the promotion and development of a healthy, convenient product for the American consumer is imperative.

CHILE

Background

Chile has a population of 15 million people, with nearly 12 million in the capital city of Santiago and its surrounding region. This results in a dominant urban setting which automatically depletes knowledge and understanding of agricultural practices. Chile has one of the most stable economies in South America and unemployment is low, yet the consumer in Chile focuses on price as s primary factor in any beef purchasing process. This is due to the abundance of beef supplied by means of Brazil, Argentina and Uruguay who all compete for the Chilean market.

Less than 8 percent of Chile's land mass is productive for agriculture, yet there are four million mostly Hereford and Angus cattle in Chile, produced in the central regions. Approximately 65% of cattle in Chile are finished via a feedlot and 35% finished on a grassland system.

Chile is a long, narrow country with the widest point from East to West only 250 miles. Their livestock industry is predominantly beef, pork and lamb and most of their beef is exported to the USA, Mexico and the European Union. The USA uses a large volume of secondary cuts from Chile. Chile is currently receiving higher prices for beef than Argentina and Brazil from the European Union as it is the only South American country that is currently classed as disease-free. In addition, international agreements are plentiful and taxes for exporting are low.

Price is the critical driver for Chilean consumers who purchasing beef. Although tenderness, flavour and juiciness of beef are also considered, it is the price point that is the primary decision maker. Chilean consumers are generally not 'nationalistic' and premium beef markets within Chile are negligible.

As with many South American countries, it is acknowledged that up to ninety per cent of Chilean consumers have ten per cent of income whilst ten per cent of consumers have ninety per cent of the national income. Having said that, the country is most certainly prospering and affluence is obvious through means of infrastructure, logistics, product and service marketing, technology transfer and industry research and development.

Chilean consumers ate 25kg of beef per capita 2005 and this trend remains stable. Beef from Brazil, Argentina and Uruguay at a lower price point has resulted in a mass market share of imported beef and this is a continuing issue for the Chilean beef industry.

Case Study 2.1

Carnes Andes Sur (Southern Andes Calf Beef)

Southern Andes Calf Beef is a 6 year-old branded beef program situated in the town of 'Parral' in the seventh region of Chile and south of Santiago.

Seventy small beef farmers have created a producer group at the foot of the Andean mountains to produce 'premium calf beef' for domestic and export markets. The average size of farms managed by these producers is between 30-40 hectares. All cows are artificially inseminated with pre-selected bulls of Angus and Hereford breeds. The calves are reared with their mothers on grassland management systems and no growth promoters or antibiotics are used.

They participate in a program of 'non-bovine exploitation' which is supervised by the Agriculture and Animal Service of Chile (SAG). This ensures that a protocol exists on traceability and animal welfare. This certification allows their participation in export marketing.

Calves are slaughtered at a live weight of 250-300kg and whilst they are between 6-10 months of age. All calves are slaughtered, processed and packaged at 'Carnes Nuble' an export approved site that currently exports beef and lamb to the USA, EU and Asia.

Currently, Carnes Andes Sur is predominantly supplied to domestic markets throughout Chilean's seventh region and into Santiago's premium foodservice establishments. They have achieved a year-around supply system, work in close partnership with Carnes Nuble Processor, and brand their product as clean, green, natural and tender.

As with many branded beef programs investment for a unique marketing strategy is a major issue for this producer group. Carnes Andes Sur is also competing for market share in a diminutive premium market in Chile. With quality, low-priced imported beef dominating their market, their ambition is to grow volumes to ensure that exporting is a continual, viable, future option.

Patti English Manager Carnes Andes Sur, Nigel Scollan and Mike Theodoro, Institute of Grassland and Environmental Research, Aberystwyth & I

Case Study 2.2

Carnes Nuble Processor, 'Pampa Verde' brand & 'Otto Kusch' – Producer

This processor, that also slaughters for Carnes Andes Sur has just launched a "Pampa Verde" (Green Prairie) brand name to capture the premium export markets in the European Union and USA.

Carnes Nuble currently slaughters and processes 60,000 cattle and 100,000 lambs annually and it would be one of only three export approved processors operating in Chile. Currently fifty per cent of their beef is exported to the European Union, mainly Germany, Spain and the United Kingdom. The remaining fifty per cent of their beef fulfils the Chilean retail and foodservice markets.

Ten per cent of the cattle that are slaughtered at Carnes Nuble are registered under a specific premium scheme or via a producer group that offers traceability, such as Carnes Andres Sur. They claim that working in partnership with these producer groups is advantageous and not expensive because it enhances producer loyalty and support.

Their aim with the 'Pampa Verde' brand is to capture the premium markets existing in the European Union and capitalise on Chile's disease-free status. They recognise that value-adding their product with a brand image, sophisticated packaging and traceability guarantees a market share. Non-compulsory cattle identification systems commenced in 2005 and this will be fully compulsory by 2008. Carnes Nuble is currently only procuring cattle that adhere to the identification system. This ensures that they fully comply with European Union regulations for electronic tagging and identification by 2008.

Otto Kusch manages a 1000 hectare farm operating over 500 Hereford beef cattle on contract for Carnes Nuble processor. Otto finishes his cattle at 16 months at a live weight of 400-500kg. He endorsed Carnes Nuble as an untarnished business that supports the Chilean beef producers. Otto benefited from greater returns from the partnership with the European Union as prices were higher than from the domestic market.

However, during 2006, the escalating costs of feed and fertiliser, costs incurred with the adherence to the cattle identification system, the introduction of a Chilean minimum wage and strength of currency has somewhat eroded his enthusiasm.

He stated that Chilean commercial trade agreements with South American countries such as Argentina and Brazil has resulted in a deluge of cheaper beef imports that has affected the Chilean domestic market. Argentina benefits from pastures that require minimal fertiliser and labour, whilst Chile maintains a greater intensive farming system. In addition, with the price of land continuing to rise at extraordinary levels, results in land taxes that equally continue to rise. This has the potential to annihilate strong farming communities.

Otto also fears that his children do not wish to adopt a farming career because the industry is seen as harsh against the pinnacles of city life and commerce.

On a positive note, Otto was enthused by the removal of world trade barriers to enable the newly developed 'Pampa Verde' brand to succeed in world markets. He is positive that his current operation can supply the best quality cattle that Carnes Nuble can provide and this prospect drives his enthusiasm.

Summary

It was soon evident in Chile that the drivers for enhanced beef quality and differentiation include enhancing consistency, convenience and a safer beef product. They also have a number of additional macro environment factors affecting their industry that include world trade negotiations, animal welfare, environmental legislation and traceability.

There are very few quality-branded beef programs in existence in Chile, yet producers such as Otto Kusch view their future beef success and sustainability on partnerships with trustworthy processors such as Carnes Nuble who export branded beef to the European Union and the USA. These markets offer diverse consumers and Chile can utilise unique promotional tools like their disease-free status plus the fertile, picturesque environment around the Andean Mountains. The challenge for Chile is to differentiate from Brazilian and Argentine commodity beef and follow Uruguay's natural production method that creates a greener image.

The Chilean beef industry remains free of disease and has a much more natural environment with less intensive systems than in most South American Countries. Chile will have a full, compulsory cattle ID system in place by 2008 which further develops exports. The export market has encouraged beef prices to rise to a sustainable level and with enhanced prices is the potential to further invest into branding programs.

Chile needs to enhance beef exports to ensure a positive future outlook for Chilean agriculture as there will continue to be colossal strength from imported beef via Argentina, Brazil and Uruguay. The challenge for Chile is to match Uruguay's developing 'natural production' and enhancing traceable, certification schemes with private brands and organic themes.

From a United Kingdom perspective, it may be Brazil, Argentina and Uruguay that are a threat to the UK commodity beef markets, but having studied in Chile I can conclude that they have enormous aspirations to target EU premium markets with emphasis on traceability, a disease free status and a stunning 'Andes Mountains' backdrop for unique brand identity.

ARGENTINA

Background

Argentine beef is indeed a brand name in itself and there are very few regional beef branded programs in existence as a result. Argentines entire lifestyle involves consuming beef, mostly at home at a famous "Asado" (barbeque). When it comes to national cuisine, beef is paramount with the average Argentine consuming over 63kg per capita annually. Suffice to say there are few vegetarians in Argentina! This provides their beef industry with a huge domestic market to fill and it is acknowledged that Argentine consumers believe that all their beef is 'premium'.

Argentina has a population of 39million with 12 million in the capital city of Buenos Aires. The percentage of population below the poverty line is 51.7% and unemployment is high. The Argentinean economy collapsed in 2001 and the devaluation of their peso significantly affected the country. Consequently, Political intervention is rife and all Argentine beef exports were banned in March 2006 in an attempt to lower the domestic price for beef to retain inflation under 10 percent. This veto was still operational when I visited in December 2006 although the 'Hilton Quota' allowed for minimal de-boned beef to be exported to the European Union under stick protocols. In addition, market access to Mexico and Chile was in operation. However, the underlying restrictions on beef exports have forced market prices of cattle to plummet and this will affect production volumes in the future.

The domestic consumer is blessed with consistent, premium beef and they continually demand young, fresh, grass-fed beef, rich in colour with white fat and tender. They will generally not purchase frozen beef but remain price sensitive and permanently demand cheap beef. Two of the major beef brands that exist in Argentina are La Lilas and Argentine Angus Beef. Unlike in the USA, Argentine Angus beef has strict protocols within the supply chain. Producers must be members of the association, they must meet strict breed specifications, age of animals, plus grading and auditing within processing plants are undertaken rigorously.

There are 54 million mostly Hereford and Angus cattle in Argentina, and over 90 percent of the beef produced in Argentina fulfils the domestic market. 70% of cattle are naturally reared and finished in the fertile Pampas region with land that is generally acknowledged as the best in the world for cattle rearing and agricultural production as growth is consistent throughout the year. This results in a low cost of production. Consequently, there are few beef feedlots on operation, accounting for less than ten per cent of finished cattle in Argentina and the average cattle herd size in Argentina is between 300-400 head. Growth hormones are prohibited in the cattle industry in Argentina.

Case Study 3.1

Garfin

Garfin is a business in Buenos Aires which operates four cattle ranches of 23,000 hectares in the Pampas region with 15,000 Black Angus cattle. Established in 2001 by an Italian landowner, he considered the purchase of land in Argentina for beef cattle production to fulfil a void in the Italian beef market. In 2006, Garfin produced 2000 tonnes of beef under the 'Hilton Quota' for mostly Italy in the European Union and all were Angus Cattle grass finished and slaughtered at eighteen months of age.

Garfin focuses on breeding genetics and technology transfer to produce the highest quality beef for export markets. Resembling many producers in Argentina, Garfin are maintaining cattle numbers at present, but are planning to increase cropping area with same land mass.

The 'Garfin' brand name has been developed to value-add with key export markets in mind. Although exports are currently restricted, there is optimism that this will change and prices will increase.

With a trader in Italy, Garfin supplies high-quality Angus beef direct to processors who continue to value-add the beef under the Garfin brand. They claim to have one hundred per cent traceability through a cattle identification scheme.

Their aim is to double their land assets and double volume sales to the mostly Italian (but also German) beef markets under the 'Garfin' premium branding. The imagery is centred on rich fertile Argentine grassland, and quality Black Angus Cattle.

They see political influences such as the restrictions on current trading operations as a threat to grow in their business, and Brazil as a major international trader successfully capturing market share with consistent quality beef. Brazil has also started to brand some product as 'South American Beef' which has been met with fury as it seemingly Having said this, Carlos sees the biggest threat to his business as 'Their own mind' as so many Argentines are conventional and disapprove of change.

Case Study 3.2

Panaldini

Paladini is a family owned and run business focuses heavily on 'quality'. I met Nello Paladini, the grandson of Don Juan Paladini, who in 1923 started to produce a line of cold meats, sausages and pork products in Argentina. Nello is currently one of eight family Directors. Paladini's is currently the leading branded product for ham and sausage production in Argentina. They operate with 2000 employees, seven distribution centres across Argentina and a fleet of articulated refrigerated trucks. They have also recently invested into some boutique retail outlets with their strong imagery, in addition to supplying most major retailers across Argentina.

In 2002, Paladini developed its beef production concept by constructing a new slaughtering and processing facility for both domestic and export market opportunities.

Paladini processed 1500 cattle per week in December 2006 and domestic premiums have been achievable following the success of the ham and salami market share and the strong brand imagery. Paladini maintains that it is a 'boutique' operation, even as a large operator, and although gaining a 'point of difference' has been more difficult with beef in Argentina, it has relied on the Paladini brand to develop its domestic beef sales.

Paladini also exports beef to the European Union, with Germany being the largest customer, followed by Italy, the United Kingdom and Spain. Four cuts are supplied to the European Union, namely Fillet, Striploin, Rump and Chuck Roll. Paladini operate in partnership with Mister Meat in Italy and the Paladini brand is marketed to Italian customers. Six million kilos of beef were exported in 2005 but due to political intervention, this volume has been reduced to two million kilos in 2006. Secondary beef cuts are supplied to Russia, Chile and South Africa. All hams and sausage production fulfils the domestic market.

Cattle are produced from farms north of Buenos Aires in the Rossario region. They are developing a 'Paladini Producer Club' with the intention of creating loyalty and they recognise that information sharing is a crucial part of this process.

As well as the threat of political intervention and disease, Nello also fears for a continued consistency of beef supply as producers shift over to grain production. As it takes two or three years for newly seeded pastures to develop, he confirms this is an ongoing threat.

Case Study 3.3

Argentine Angus Beef

Argentine Angus Beef branded packaging en route to the European Union

The most popular Argentine branded beef product exported to the European Union is Argentine Angus Beef. The Argentine Angus Association was created in 1920 and this association cannot procure, buy or sell beef. It acts to assist farmer members to gain a premium market price for quality Angus stock through auditing and marketing.

Sixty six per cent of Angus Cattle must be pure Angus bred, not fifty one per cent that it is in regulation the USA.

In 1994, Argentine Angus Beef Association commenced a selection process of Angus cattle for an Argentine Angus Premium Branded Program and this is undertaken at slaughtering. An inspector selects cattle on the basis of a grade from conformation, fat cover and marbling. No other program grades carcasses on marbling in Argentina and this is the only program in existence for Argentine Angus cattle for domestic and export purposes. Angus producers are currently receiving a three per cent premium on qualifying cattle to the Argentine Angus branded program.

There are currently three processors in Argentina that are approved to slaughter, process and package Argentine Angus beef and brand accordingly. The product is marketed to 'Jumbo' supermarkets in Argentina with vacuum packaging and clear branding and labelling. The aim of the association is to increase the share of market within the supermarket sector in Argentina and build premiums for producer members. The Association does not trade with independent butchers due to a lack of resources to audit and the potential threat of product substitution at retail level.

Summary

Argentina has suffered export restrictions implemented by the Government in 2006. This is in addition to their outbreak of Foot & Mouth Disease in 2001 which affected export trade. The most popular branded beef product exported to the European Union is Argentine Angus Beef.

The Argentine Government plans to rationalise the agricultural industry through continued intervention on export trade restrictions to assist prices for domestic advantage. The aim of Government is simply to increase Argentina's grain exports and reduce its beef exports. This is already having an impact with competition for land use for grain production. With high inflation and high unemployment, the economy continues to be unstable and there is social unrest. The current government does not generally support beef producers and so lobbying by industry is difficult. 'Political intervention' was described as the single biggest threat to the beef industry from each interviewee in Argentina and most acknowledged a lack of pro-active policies by the Government.

Argentina's beef industry will continue to produce extensive beef for the domestic market, but with the anticipation of resuming exports to the European Union under "Argentine Beef" branding, as opposed to other regional beef brands.

The Argentine consumer is evolving. Independent butchers have traditionally enjoyed over 70% of market share in the beef sector but this is reducing as the supermarkets gain momentum. There is also a shift towards dishes that include fish, poultry and pasta, as opposed to beef and breads.

Brazil is shrewdly marketing its beef into Europe under a 'South American' branding, Utilising the success of Argentine beef branding throughout the world, they can develop these diluted messages to ensure their continued market share, just when Chile and Argentina and Uruguay attempt to differentiate from commodity volumes and create niche marketing objectives!

Although the economic depression since 2001 has resulted in a lesser income spent on quality foods and consumers have been price-driven, the development of branded beef as a 'point of difference' against the vast volume of Argentine commodity beef is growing.

AUSTRALIA

Background

Australia has 28 million cattle and it produces 2 million tonnes of beef annually. Australia is the second largest beef exporter in the world behind Brazil. They export over 65% of total beef production and Japan, the USA and Korea are their biggest markets. Future factors affecting Australia's beef export trade includes the value of the Australian Dollar and a downturn in the USA foodservice sector. Export prices are also falling as the USA resumes trade with Asia following their BSE outbreak.

The total gross production of cattle and calves is current worth $A7.4 billion. 71% of total cattle production in Australia is sourced from the states of Queensland and New South Wales which is on the eastern side of the country.

The total domestic expenditure on beef is $A6.4 billion with the average Australian consuming 35.6kg beef per capita annually. With 31% of market share, beef is the number one fresh selling meat at retail level. Regarding retail market share, the two major supermarkets Woolworths and Coles have a 67.6% market share of Australian beef sales with independent butchers on 27% share.

Australians consumers eating habits are changing due to cultural influences, health considerations, prices, food substitutes and marketing. Preference to cheaper forms of protein such as chicken has grown and consumption has increased from 24kg to 34kg in fifteen years. This figure is only marginally less than their beef consumption of 36kg. Value added foods are developing with pre-prepared marinated roasts, kebabs and hamburgers increasingly popular. 37% of the total domestic beef consumption "spend" in Australia is currently made through foodservice sector and this is likely to increase.

Case Study 4.1

Coorong Angus Beef

Coorong Angus Beef would be the closest total supply chain dominance possible with a 'paddock to plate' philosophy. Mr. Richard Gunner is a primary producer in the Coorong region of South Australia and finishes Black Angus Beef Cattle. With no detailed producer protocol, his cattle are finished at a dressed weight of 200-250 kg, and are slaughtered at Dalriada Meats, a local independent processor under a weekly contract. The carcasses are transported to Richard's owner-operated processing facility where boning, processing and portion control is undertaken before internal distribution to his four owner-operated retail outlets in the greater Adelaide region. The advantage of this program over others is a full ownership of product from producer to consumer, plus an ability to manage the entire supply chain without reliance of additional parties.

His disadvantages include carcass utilisation and maintaining margins. Although the business produces 1.5 tonne of sausage and burger product weekly, Richard is still forced to sell a large proportion of secondary cuts into the commodity sector at a commodity price. The secondary cuts make up a large proportion of boneless beef from carcasses, yet he has insufficient volume to export the secondary beef profitably. In addition to this, by using his 'Coorong' region brand image, this could lessen future expansion and development opportunity as his 'geographic identity' may have limitations.

Coorong Angus Beef brand

Case Study 4.2

1824

1824 is probably the most well-established premium beef product produced in Australia. It is the beef brand of the Australian Agricultural Company which was founded in 1824. Genetics are paramount and cattle are finished on a feedlot with grains for a minimum 120 days. They adhere to the national identification system and are graded on the Meat Standards Australia Processing and Grading program.

Summary

Australians will continue to increasingly embrace the health and wellbeing philosophy, particularly the younger generation. The population is ageing and preventative health, with a focus on nutrition, will be an ever more integral part of purchasing decision. Obesity is reaching epidemic levels with over half the adult population and over 25% of children being overweight or obese. Consequently, the increasingly health conscious consumer sees beef and more specifically lamb, as high fat and cholesterol product. Chicken will enhance market share as it is lower-priced, deemed as healthier and simple to cook. Australians are also spending more time at work which means pressure increase at home. Women in the workforce have been increasing with more mothers with young children. The availability of cooking time is reduced with both parents working. Predominant evening meals in 2006 at home were spaghetti bolognaise and stir-fry.

The foodservice sector is expected to increase market share in the next few years. A customer eating out will rarely be focused on the price. The purpose of this experience is the assurance that the ambience is correct, there is enjoyment, and that the two main items – normally meat and wine – are quality assured and superior. This is synonymous whether you are in a top-class restaurant or a quick serve establishment.

There is increasing rationalisation in the red meat supply chain as a result of consumer lifestyle changes, competition from other protein sources (especially chicken), sophistication of technology, logistics and standards, and increasing government regulation for safe, nutritious product.

No further volume increase per capita is expected for red meat in Australia as a result of consumer saturation and competition from other meat sources.

Conclusion

Consumer Trends

Society increasingly demands convenience, choice, healthiness and a consistent quality red meat product. Value for money is also key although most consumers do not confess to this. In most markets, only a maximum 15% of customers are premium-quality driven. Consequently, there must be knowledge that a premium market exists for a product.

The red meat purchasing experience at a major supermarket differs against an experience for the same product in an independent retailer or open market. At a supermarket, the price-point is the pinnacle element of purchasing as they focus on price and convenience principles to enhance sales for the younger, time conscious consumer. At an independent retail butcher, the purpose centres on personal relationships, placing elements of trust in the individual butcher, coupled with a pleasurable environment in which to instil personal feels of wellbeing. At an open market, the purchase decision is based around bargaining, with the joy of a fast-paced, entertaining environment.

Independent butchers traditionally appeal to older shoppers, the baby-boomer generation who enjoy the personal interaction and place trust in their butcher to provide them with quality product. This generation is nearing retirement and in the future it is likely that these customers will eat less red meat in their diet and focus more on price with their fixed pension income.

The younger generation tends to suffer from inferior social skills than older generations due to modern technology creating non-interactive communication methods. Younger consumers feel uncomfortable with a direct contact sales approach, preferring to purchase price-marked, pre-packed, convenient meat where they can shop inconspicuously. This trend may continue to see supermarket share increase unless independent retailers increasingly develop pre-packed, value-added product ranges. As consumers become more time-poor, the demand for value-added ready-to-cook meal solutions increases.

There will continue to be a drive towards health and wellbeing by the next generation and alternative protein sources such as Chicken and Tofu will enhance market share. There is also likely to be a continued growth in the foodservice sector.

Branded Beef Programs

When considering value-adding and branding, to enhance the likelihood of success, a product needs a 'point of difference'. The ability to offer this with consistency and shrewd marketing requires significant financial resources. Branding can segregate from product masses provided there is a comprehensible, concise message for the consumer.

Within the beef supply chain there must be efficient and trustworthy processing and distribution systems and strong production and finishing systems must be adhered to. A strong branded product can be successful with successful supply chain factors including communication strategies and information sharing between partners, trust and transparency, security, plus committed partnerships.

Future Trends & Recommendations

1. Social Responsibility

Relatively affluent consumers in developed nations are increasingly concerned about the impact farming methods are having on society. In particular, this includes areas of physical environment and the greenhouse gas emissions related to the 'greenhouse effect' which is linked to global warming. The number of 'food miles' of a given product is also widely debated among affluent consumers in an age of increased social responsibility. This focus on product safety and social responsibility is likely to grow, especially as more consumers become aware of these issues through the global media channels.

Customers paying a price premium for products with a discerning message of social responsibility will continue to grow, and new branded beef programs can establish themselves within this niche with accurate messages and a unique brand positioning line.

2. Global Growth in Asia

Whereas growth of consumer spending has been focused within the US over the past two decades and impacted the global economy, the current downturn of the US housing market is likely to affect this trend. The value of the Chinese currency will continue to appreciate in the next few years and domestic demand for products and services will continue to grow. Consequently, competition for Asian markets is likely to soar, especially by US beef producer groups and processors. Some South American beef producing countries rely heavily on exports to the US market, yet with the US economy slowing, consumer spending could slow and a surplus of US beef may affect the global position.

Increased competition for European markets by South American beef producing countries may continue to intensify and may have a more adverse affect on UK markets.

3. Commoditization

This is a relatively new concept which I heard at an Australian agricultural conference, but '*commoditization*' takes place when consumers view products as essentially undifferentiated other than on the basis of price. This can be particularly true of beef unless there is a strong marketing campaign, outlining the differentials by means of a strong brand identity.

It is vital to create a level of trust and respect from consumers and using key words such as '*patriotic*', '*trustworthy*' and a '*lover of the land*' sums up images that British farmers should be marketing to their domestic consumers in the future. As a brand, you cannot buy this type of loyalty from consumers, it must be earned.

4. Shortened Supply-Chain

Some of the most successful stories of beef branding and supply chain management programs around the world come from those that have a shortened, controlled supply chains with a narrower focus. There is a good reason for this. In developed nations, the mass market for beef has become completely saturated while the consumer has become more fragmented in their income and behavioural traits.

The mass market is focused solely on price competition, which in-turn fail to provide consumers with any clear differentiation. The solution is more niche opportunities such as non-GMO, organic, environmental sustainability beef programs or the aim to sustain carbon neutral programs of production on beef producing farms. We all need to expose our point of difference, which is the un-purchasable brand trust that is thereby created.

5. Customer Experience

Finally, one way to develop loyalty and trust by consumers is by enhancing the customer experience. However the means of supply chain management at the point of sale to the consumer, the experience must be enjoyable, informative, entertaining and easy. This is regardless of whether it is a customer experience at a foodservice or retail level. In both the retail and foodservice sector, there are now world-class marketers becoming marketing powerhouses and building strong brand identity and trust amid consumers.

These businesses will be the ones with highest market share in the next decade as they understand the value of powerful marketing campaigns, use a strong positioning line with their brand identity, and focus of developing markets.

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