



2010 AgriBenchmark Public Forum
Brisbane, Australia, June 25, 2010

Current Issues in Beef Value Chain Development

– Putting Consumers First –

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Industry Problem

<u>Current Problem</u>	<u>Current Solution</u>	<u>Desired Solution</u>
<ul style="list-style-type: none">•Declining beef consumption•Variable and confusing product•Declining farm profits	<p>Purchase based on:</p> <ul style="list-style-type: none">•Appearance•Price•Cut•Retailer reputation → Does not work <ul style="list-style-type: none">•“Eat More Beef”•New exciting recipes using the same old products	<ul style="list-style-type: none">•Consumer oriented marketing approach•Predictable , consistent eating experience•Simplified beef purchasing decisions

Research Objectives

- Gain a better understanding of the economic factors that advance / hinder the creation and development of customer driven value chains in the beef (meat) sector
 1. What do Australian consumers demand of quality beef products?
 2. What factors for drive beef value chain development?

Evolution of “Value Chains”

1980's

Supply chains encompass all activities associated with the flow and transformation of goods from the raw materials stage, through to the end use.



1990's

A value chain is an alliances of enterprises collaborating vertically to achieve a more rewarding position in the market.



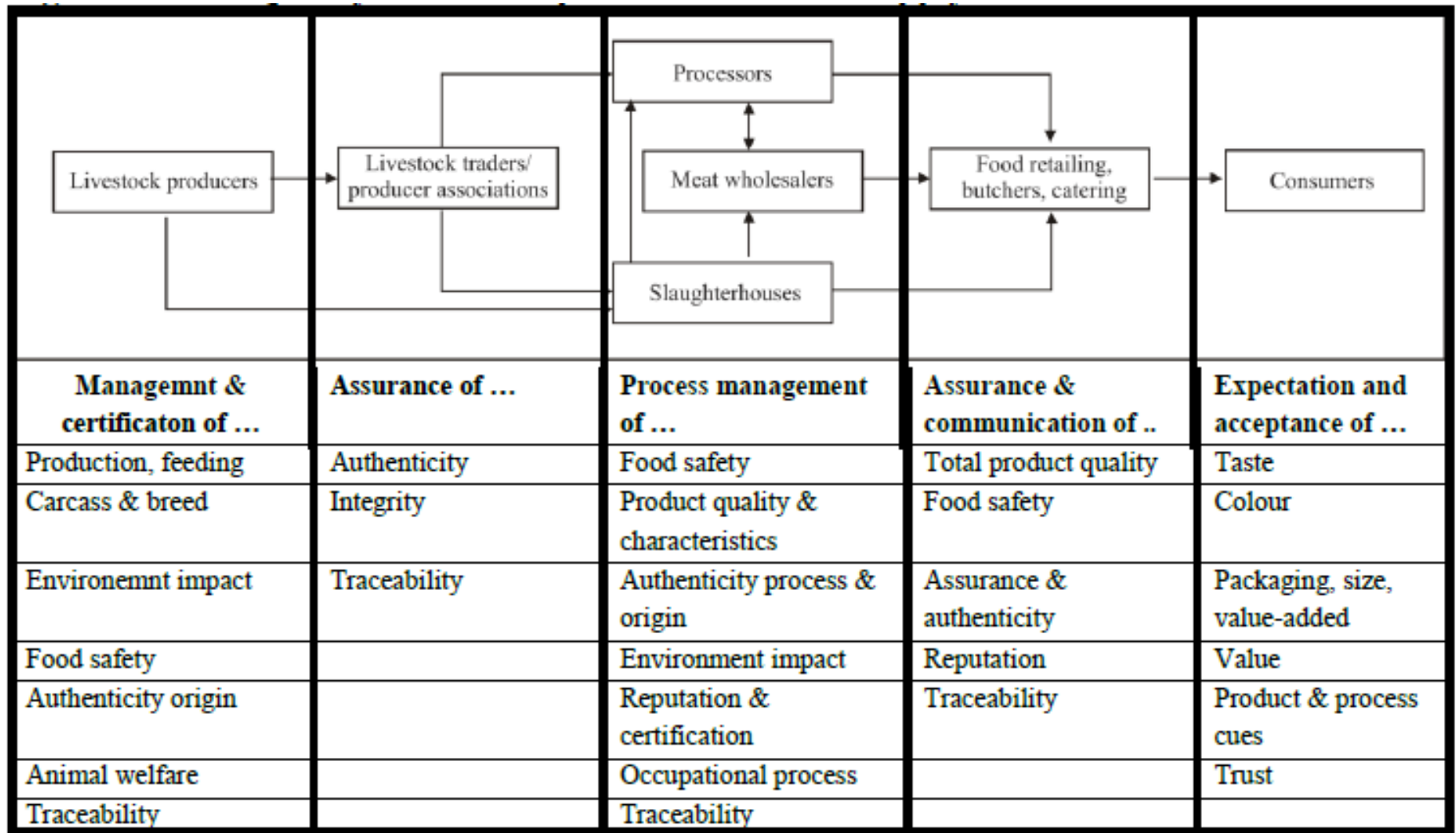
2010

Best value supply chains (BVSCs) use strategic supply chain management as a strategic weapon – compete in total value across speed, quality, cost, and flexibility.



"Value chains are not supply chains, and are not about producing a product. They are about producing an experience for the consumer"

Beef Attribute Value Chain



Consumer Expectations

- Predictable and consistent quality
 - “Searching” for product attributes
- Product differentiation and innovation that meets references of heterogeneous consumers
 - Value, Brand, Premium
- The quality signalling strategy
 - Labelling, certification, credibility

GRASS-FED BEEF

GRAIN-FED BEEF

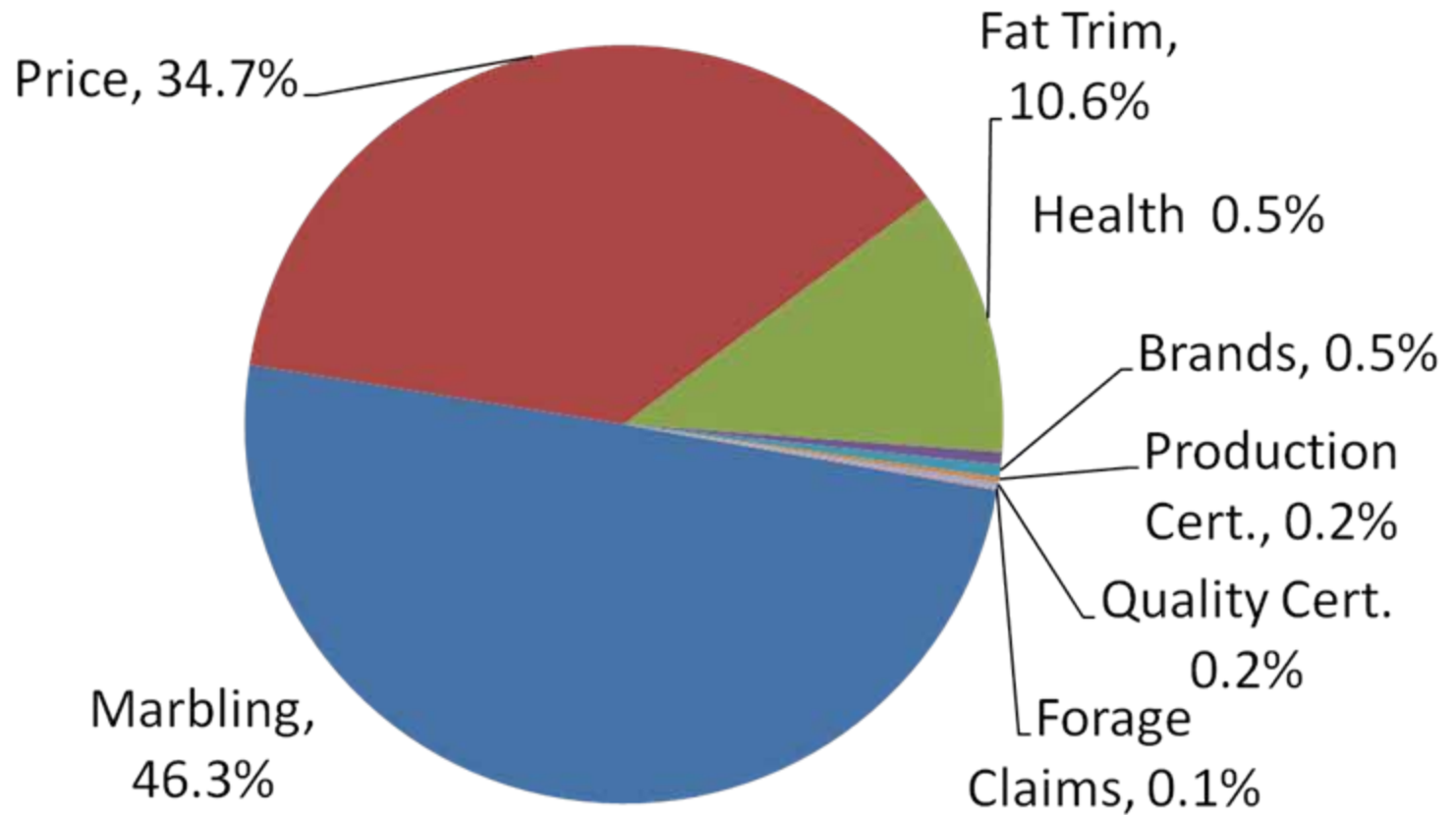
✓ ENVIRONMENTALLY SUSTAINABLE

✓ CERTIFIED HUMANE

100% HORMONE FREE
ANTIBIOTIC FREE



Importance of Beef Attributes for Australian Consumers



Umberger and Mueller (2009)



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Typical Australian Consumer Segments

- 23% Quality and Safety Concerned Families (QSCFs)
- 22% Traditionalists
- 16% Educated Branded Beef Buyers
- 12% Young, Apprehensive Skeptics
- 12% Satisfied Butcher Shop Buyers
- 9% Natural-Demanding Empty Nesters
- 7% Price Sensitive Singles

The Firm Challenge

Factors Driving Beef Value Chains

What factors shape firm's decision to engage/invest in developing value chain in the beef industry.

Results from Australian firm interviews

Factors Driving Beef Value Chains

Quality

- Platform to develop a business model around a branded product
- Brand building around product consistency

Speed

- Flexibility regarding extra steps added to production process
- Management of product differentiation. Efficiency.

Factors Driving Beef Value Chains

Cost

- Minimize technology implementation cost
 - Equipment
 - Technology

} Large Company Initial Investments (Processors)

 - Training
 - Advertising and Promotion
 - Research and Development

} Small Company Initial Investments

Cost ongoing

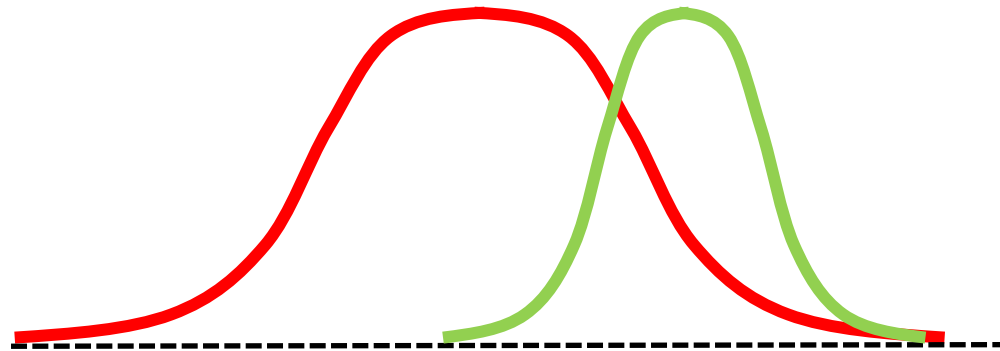
- Training & additional staffing likely to create cost pressure , risk factor



Factors Driving Beef Value Chains

Coordination & Communication

- Coordination & Communication mostly intensified
 - Mutual decision making & information exchange
 - Vertical cost and/pr profit sharing mechanism (Value Based Pay)



Conclusions & Implications

- Value chain rise and fall with understanding of heterogeneous consumer preferences
 - Which attributes does the markets value?
 - Price, marbling, other credence! Attributes (WTP)
 - Who is responsible for determining product quality?
 - Coordinated value chain approach needed (“farm to fork”)

Conclusions & Implications

- Branding & differentiated opportunities meet various firm challenges
 - Who gains (loose) from coordination/integration? (Captain?)
 - How to deal with brand & label proliferation at retail?
 - What about market power, existing contracts, other exogenous threats (e.g. climate, trade policy)

Thank you

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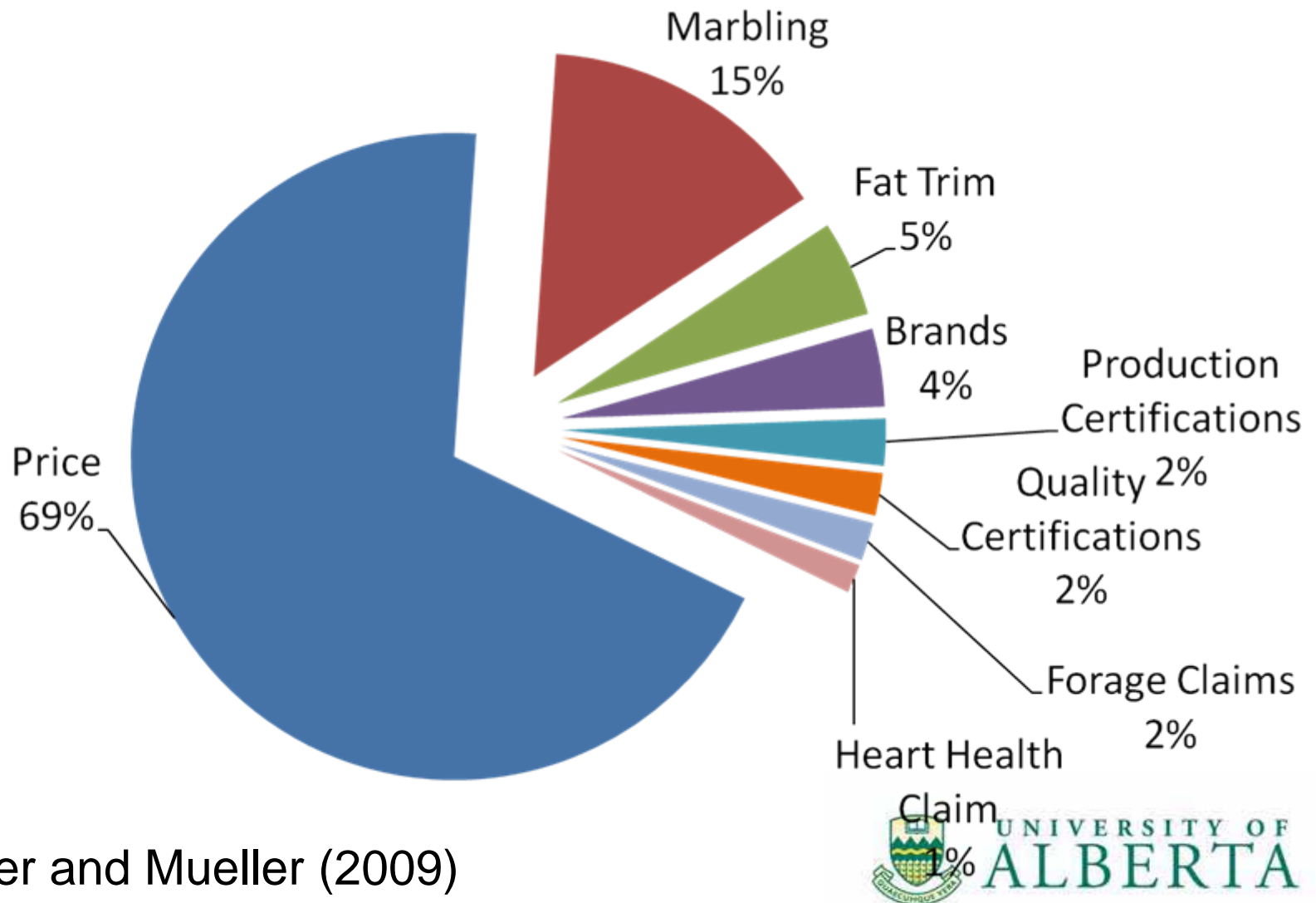
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Quality & Safety Concerned Families

- 23% - Largest share of consumers
- Middle-aged, married/domestic partnership (87%)
- 91% dependent children living at home
- Average education and incomes
- Live mostly in capital cities
- Frequent beef and chicken consumption
- Minced beef favorite
- Infrequent out-of-home beef consumption
- Typical supermarket shoppers
- *Least* satisfied with beef quality and safety



QSCF: Relative Importance of Attributes in Choice Decision



Umberger and Mueller (2009)