LEARNING FROM THE BRITISH BEEF INDUSTRY

Research Findings

July 2011

In conjunction with Ontario Cattlemen's Association, the **Value Chain Management Centre** facilitated a visit to the British beef industry. The purpose of the visit was to provide senior industry representatives with the opportunity to view first-hand the strategic approaches that innovative leaders of the UK industry are taking to improve the production and marketing of beef.

A series of factors, including food safety incidents such as BSE, continuing changes in subsidy payments, and industry consolidation, are driving changes in how British beef is produced, processed and marketed. While the British beef industry is different to Ontario's industry in a number of ways, it also shares many similarities. The similarities include a large number of small fragmented producers, a consolidated retail and processing sector, and how inconsistencies in quality are impacting the industry's success. These similarities mean than the changes that are afoot in Britain provide considerable learning opportunities for Ontario's beef industry.

How the British and Canadian beef sectors differ include the fact that much of the UK beef sector is focused on cross breeding dairy cows with beef breeds, British beef is generally less marbled, and that there is less focus on international markets.

The greatest challenge facing the UK beef industry is inconsistency in the composition of finished animals. Stemming largely from a fragmented base of 63,000 producers, this inconsistency creates unnecessary costs that must be passed onto consumers. It also negatively impacts the quality of beef, and the value consumers attribute to beef versus alternative meats.

These factors lead to a greater price differential existing between beef compared to chicken and beef than would otherwise exist, and an inability to justify higher prices by showing itself as able to provide a consistently superior eating experience compared to chicken and pork.

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Benefitting from strategic alignment

The primary purpose of the visit was to learn how participants from along British beef value chains are benefiting from strategically aligning their operations with market demands, and how they are achieving this. It also sought to identify factors that determine the success of value chain initiatives. The overall findings included the fact that producer-driven initiatives often have the greatest chance of succeeding. This is because processor and retailer-led initiatives commonly focus on price ahead of other factors. This leads to producers feeling discouraged and uncommitted. That said, retail and processor-led initiatives can be equally successful, the determining factors being those that are not hampered by a lack of knowledge and understanding of agriculture, and that the retailers or processors are following marketing strategies designed to encourage consumers to make purchasing decisions that do not focus on price ahead of other factors.

While producer-led initiatives are said to have the greatest chance of succeeding, their development is reliant on the existence of progressive, professionally-minded farmers who possess a market-focused attitude. This is something which EU subsidies have discouraged from occurring. Instead, high subsidies (often totaling over CAD$200 per head) have encouraged most producers to focus their resources on managing access to subsidies rather than managing their farm. The same factors have not encouraged producers to seek ways to more effectively produce animals whose meat appeals to increasingly discerning consumers. The primary factor motivating farmers to identify how they can readily connect with the consumer market, through establishing closer business relationships with other members of the value chain, are the changes that are occurring in the EU subsidy system. In fact, it is highly likely that these changes will continue to occur with further reforms expected to the EU's Common Agricultural Policy (CAP) going forward.

Traceability

Another important point highlighted during the visit was that while traceability is at the forefront of industry concerns, it is not viewed as a stand-alone practice. Instead, the practice of traceability is viewed as an outcome of monitoring performance. This perspective, that traceability automatically flows from having processes in place for sharing information and monitoring then improving performance, was repeatedly revealed throughout the visit by people situated along the entire value chain.

On traceability it should be noted that each UK cow has its own "passport" that shows:

- the date of birth of the cow;
- birth farm; and
- and all movements of the cow from birth to slaughter.

VALUE CHAIN INITIATIVES

Two chain-length initiatives were visited in the UK. The first was Stabilizer Cattle Company / Beef Improvement Group Limited. The second was Blade Farming. While the initiatives utilize different breeds, source stock, and pricing models, they share a number of important traits. These include an unswerving focus on targeting a specific market(s), having defined roles and responsibilities for each link in the chain, and reducing inconsistency in the final product through implementing Standard Operating Procedures (SOPs). Much like the manufacturing industry, these factors help ensure that the initiatives are able to simultaneously reduce costs and increase revenue at all stages of the value chain through utilizing their resources more effectively than would otherwise be possible.

They are also similar in having proactively placed themselves in a position where they were able to take advantage of market opportunities. As stated by Richard Fuller, who has played a lead role in developing the Stabilizer Cattle Company: "When speaking from a position of strength, you can make faster progress". With the majority of UK producers described as not being market orientated, the key factors found to be critical to the success of value chain initiatives are:

- Utilizing similar genetics;
- Following similar feeding and production practices;
- Ensuring both genetics and production practices result in beef which appeals to target segment(s) of the consumer population; and
- Perhaps most importantly, involving only those producers who possess attitudes suited to working together.

One particular point of interest is that the majority of the cows that were seen in the UK are not fed a grain-based diet. For the most part, in addition to grass, hay or silage, they are fed by-products from the brewing industry or ethanol industry, or vegetable waste.

<u>Stabilizer Cattle Company (SCC) / Beef Improvement Group Limited (BIG)</u>

Richard Fuller and his colleagues believe that the development of the UK beef industry has been hampered by two overriding factors: a proliferation of inefficient breeds and production systems, which largely resulted from EU subsidies; and not producing good tasting beef. With beef being priced higher than its main competitors – chicken and pork, beef has not been able to offer the quality and consistency required to motivate consumers to pay premiums. Consequently, 50% of UK beef is sold as mince (hamburger).

The purpose of SCC is to provide producers with the ability to produce high quality beef profitably. It was developed initially with assistance from the Meat Animal Research Centre, Nebraska, and enabled through an Agricultural Development Grant from DEFRA (UK equivalent of AAFC). BIG was established as a method of capturing value through researching the overall performance of the cattle and meat produced by SCC genetics and production systems.

Working in conjunction with Richard is Ursula Taylor, BIG's Supply Chain Manager. Ursula has responsibility for marketing finished animals bred from SCC genetics by developing strategic alliances with processors, retailers and foodservice operators. This initiative has enabled the involved producers to capture greater competitive advantage than would otherwise by possible. Without this marketing arm, SCC/BIG would not have been able to establish a strategic alliance with the UK's fourth largest retailer, Wm Morrison Supermarkets plc (Morrisons) – who are seeking ways to address the current inconsistency in the eating quality of UK beef.

Beyond any premiums which may be captured from processors looking to source higher quality, more consistent cattle, or consumers looking to purchase tastier beef, SCC research suggests that its genetics enable producers to reduce their production costs by £223 (GBP) per cow. This is said to be the highest pre-farm gate profit for finished cattle produced in the UK. Among other factors, this level of performance has been achieved through improving feed conversion, and reducing veterinary and medical costs. SCC stated that their two greatest challenges to date have been resistance from breed societies, and farmers who either do not know what to measure to assess performance or do not have a mindset of measuring performance to identify opportunities to adapt current management practices.

Blade Farming

blade farming South West Ltd

The Blade Farming model works on the concept that the cattle are of such consistent quality that they are affectively pre-sold to retail customers (that include Tesco's, one of the world's largest retailers) or foodservice customers (that include McDonald's) prior to conception. Carcass balance is achieved by the hindquarters being supplied to retail, the forequarters being supplied to McDonald's and the fillets being supplied to restaurants.

Focused on producing cattle that reflect market requirements, the system has received numerous innovation awards. Improvements in the consistency of beef quality have largely been enabled through the introduction of a risk management and forward contracting program. The program focuses on ensuring that everyone benefits from the entire chain being focused on producing beef which meets customers' requirements and appeals to consumers. This involves producing carcasses which, in conjunction with post-harvest practices (e.g. maturation, packaging, presentation and promotion), enables the most suitable beef to be correctly positioned to the specific segment to which it is being marketed. That consistency leads to higher returns and lower costs than the chain would otherwise experience. Consistency in eating quality is further enabled through the group actively working with the Meat Science Department at Bristol University to identify genetic markers that determine an animal's disposition to produce tender meat.

Blade Farming Cattle

Richard Phelps and Louise Tudor describing the Blade Farming model to Curtis Royal, Dan Darling, and other members of the Canadian group

Targeting a finished animal with a carcass weight of 275 kg, the initiative shows that a direct correlation does not necessarily exist between margin and price. Established by a processor in conjunction with McDonald's, the ultimate aim of the Blade Farming system is to achieve consistency in quality, leading to reduced costs and increased revenue for all along the value chain. It also enables the abattoir to supply quality meat to customers – often at lower costs than those associated with the commodity market where quality can be highly inconsistent. This means that the processor does not need to pay the highest prices for cattle and is assured a constant volume of supply of consistent quality cattle (and is thus able to maximize capacity and consistently utilize its labour efficiently); while producers are assured the highest possible margins. The chain's operation is coordinated by a dedicated manager, who constantly monitors logistics, animal and producer performance, herd health and feed inventories.

Phil Hadley from EBLEX, an industry development body who works closely with Blade Farming, says that whether a farmer buys into the concept of working closer and more strategically with the rest of the chain depends on their attitude and how they approach the overall concept of managing risk. The chain sources the majority of calves from dairy producers, for whom most calves are a by-product. The chain starts with the processor offering specific semen straws to dairy farmers. The semen is from Angus bulls that have been chosen from research showing that, when crossed with pure Holstein cows, they produce calves with the carcass composition that suits the target market.

So long as the resulting calves meet required health specifications, they are bought at a pre-agreed price at the age of 14 days. The calves are then raised by 'weaners' though to 12 weeks of age. The pre-agreed returns are calculated on margin per calf unit, not price. The calves then go to a finisher, who establishes a pre-agreed price or a 'share the pain' agreement with the processor ahead of accepting the cattle. The finished cattle are raised to approximately 15 months, at which time they are slaughtered by Southern Counties Fresh Foods. The weaner producer that the group met stated: "Joining Blade Farming was the best financial decision I have made in 30+ years". The financial arrangements allow him to budget on making £35 (GBP) per calf, and ensure that the majority of his barns are fully stocked 90% of the time. The calves are delivered and collected in entire lots (in numbers which fill an entire truck every time). This reduces mortality by allowing a one-week window in which the barns are completely disinfected before being re-stocked.

The calves then go to a finisher, who is again able to budget on the margin they will make per head. Blade guarantees a floor price of £2.95 (GBP)/kg dead weight. If the market price goes above or below that level, a "share the gain/share the pain" agreement comes into play. This stipulation is written into the contract for the producer and Blade Farming. This means that producers do not miss out completely when prices rise. It also means that the processor does not have to pay full price in a hot market, particularly as it guarantees producers a profitable margin for all their animals – regardless of fluctuations in market price. Costs of production are stabilized through Blade Farming purchasing feed (milk and dry pellets) for the entire program, the formulation for which has itself been developed in conjunction with meat scientists and nutritionists. The RMW Food Group Ltd does not set guaranteed prices with customers (retailers and food service).

PROCESSING

Almost all cattle, lambs and hogs slaughtered in the UK are graded according to EU classifications (known in the industry as the ‘Euro Grid’). The downside of the EU grading system is that it does not comprise a process of rewarding payment according to yield; it assesses only grade and weight. Unlike in Canada, the “Euro Grid” does not take into account marbling as a quality factor.

The group visited Woodheads abattoir in Spalding, which slaughters cattle and hogs. Owned by Morrisons (see section under ‘retailers’), the plant is actively working with suppliers to develop a grading system that will enable it to more successfully encourage producers to produce beef that exhibits a superior and more consistent eating quality compared to beef produced by the present system. Annually, Morrisons processes approximately 170,000 cattle, 700,000 lambs and 1 million hogs.

As the majority of UK consumers are discouraged by marbling above 3-4%, producers are encouraged to produce cattle with a maximum weight of 440kg. Above this weight, producers are penalized. The plant has found that paying premiums (around 15 pence per kg above market prices) enables it to produce beef that exhibits a more consistent higher quality than the wider industry. It also encourages producers to focus greater effort into supplying more consistent cattle, which reduces Woodheads’ processing costs.

RETAILERS

The UK retail environment is highly competitive and trends ahead of Canada in the level of sophistication applied to developing, sourcing, distributing and merchandizing products, many of which are targeted at specific segments of the population. Combined with the due-diligence requirements placed on them by the 1991 Food Safety Act (which effectively considers retailers to be guilty of not showing sufficient due diligence if a food safety incident occurs, unless they can prove otherwise), this competitive environment has motivated retailers to work closely with suppliers to reduce costs, increase quality, and improve their category management capabilities. For these reasons, the UK retail market offers a valuable learning opportunity to retailers and suppliers alike.

Britain has five major retailers (Tesco, ASDA, Sainsbury’s, Morrisons and The Cooperative). Smaller retailers, such as Waitrose and Marks & Spencer, tend to focus on specific markets. While the visitors toured a number of retail stores, two retailers in particular were studied and visited: ASDA and Morrisons. ASDA is a subsidiary of Wal-Mart. It is widely renowned as being one of the first UK retailers to work closely with preferred growers to identify methods to reduce costs and better target specific consumer segments. Morrisons is unique in being vertically integrated. The company operates hog, lamb and beef slaughtering plants, along with packing and processing facilities, and is the second largest fresh food producer in the UK.

ASDA – Chris Brown (VP of Ethical Sourcing)

ASDA is the second largest grocery retailer in the UK. Chris Brown has been at the forefront of developing strategic relationships between retailers and producers, for mutual benefit, for over a decade. Starting with Marks and Spencer (M&S), Chris' role was to enable M&S to achieve things which other retailers could not; since joining ASDA, he has played a leading role in developing partnerships with groups of preferred milk, lamb and pork producers.

Purchased by Wal-Mart in 1999, ASDA has restructured its operations to reflect a changing consumer population. Consumers take 10 seconds or less to choose a product, so it is vital that producers, the processor(s) and the retailer work together to ensure that the value proposition of the final product meets the quality versus price expectations of the target consumer. ASDA achieves this through offering three levels of products to consumers: Good, Better, Best. 'Better' and 'Best' products attempt to establish a non-price orientated relationship with consumers through romanticizing British food. Chris compared this more targeted approach to the unsophisticated 'Spray and Pray' marketing techniques that retailers previously used. The term 'Spray and Pray' refers to the traditional practice of constantly offering a large number of widely ranging price-orientated promotions to consumers, in the hope that they would enable the retailer to capture market share through encouraging foot-fall into their stores versus those of competitors.

The latest efforts by ASDA include developing a Beef Advisory Committee, comprised largely of producers, and a supply chain initiative to supply Wagu beef to selected ASDA stores. ASDA also offers a service whereby it utilizes its buying power to source farmers' inputs at more competitive prices than farmers could if purchasing as an individual producer. In an effort to help increase the skills and capabilities of workers entering the beef industry, ASDA was instrumental in establishing the "Cattleman's Academy" in conjunction with Askham Bryan College. The purpose of the scheme is to give 16 to 24-year-olds the opportunity to enhance their learning opportunities through working directly with recognized leaders in livestock production; particularly producers who have established a close working relationship with ASDA or other supermarkets.

Morrisons

Morrisons is the UK's fourth largest retail chain. It sells a higher percentage of fresh food than any other UK retailer. It is also unique in that 90% of the beef it produces is cut and wrapped in store, and it is vertically integrated (see 'processor' section above). A typical Morrisons store – which ranges in size from ~13,000ft^2 to ~49,000ft^2 - stocks 26,000 food items.

Its supply chain is flexible and highly effective, allowing delivery to store within 24 hours of ordering. Morrisons is utilizing lessons learned in the North American beef industry to develop ways to produce and market beef that offers consumers a consistently high quality eating experience.

Meat Department in Morrisons' Spalding Store

In an effort to establish more effective and consumer-focused beef value chains, Morrisons is developing innovations in two particular areas of its operations. The first, a bottom up approach, began in mid-2010 with a strategic alliance between Morrisons and SCC/BIG (see section under 'value chain initiatives'). Morrisons is working with SCC/BIG to tighten up its production specifications in-line with consumers' expectations of quality. It is also considering the possibility of a joint branding program, where the producer base is able to consistently supply a sufficient number of cattle suited to the program. The second initiative being developed by Morrisons is a grading system that directly rewards producers for the meat attributes that are valued by Morrisons' target market.

INDUSTRY ORGANIZATIONS

Developments in the UK beef industry have been partly enabled by strategic support given to producers and other members of the chain by two industry groups in particular. These are the National Farmers Union *(no connection to the Canadian NFU)* and EBLEX.

National Farmers Union (NFU)

Headquartered at Stoneleigh Park, Warwickshire, NFU provides the largest farming voice for UK agriculture. Financed by member subscriptions, which are voluntary, and income from the range of professional services provided by its staff of over 500, NFU has strategically positioned itself as the champion of UK farmers and growers.

Through its network of regional and international offices, NFU works closely with the British Government and European Parliament, as well as sectoral organizations representing members from along the entire value chain. An example of NFU's efforts in liaising with government and industry include its input into shaping the soon to be established office of the 'Groceries Code Adjudicator'. With the purpose of ensuring supermarkets do not unfairly exploit farmers and other suppliers, the 'Adjudicator' will monitor and enforce the Grocery Supply Code of Practice, which was introduced by the previous Government in February 2010.

The range of services that NFU provides to members runs from one-on-one business advice and broader information on market opportunities to personal/commercial insurance and legal advice. To ensure it is effectively reacting to changing industry and market dynamics, the NFU has a beef specialist and a committee of beef producers. To ensure effective connection with down-stream elements of the value chain, not just the production sector, the NFU also has a dedicated 'Food Chain' Unit. This unit collects and conveys news and information on downstream issues to farmers and input suppliers, providing them with greater opportunity to make informed management decisions. To provide producers with detailed information on market trends and research developments, NFU works closely with the Agricultural and Horticultural Development Board (AHDB). EBLEX (described below) is the arm of the AHDB which provides services to the UK beef and lamb sector.

EBLEX

EBLEX is a non-departmental public body. This means that it works closely with government, though is not part of the government and therefore operates independently. EBLEX is funded through mandatory levies paid on beef and lamb at the point of slaughter. 75% of the levy of £4.57 per beef animal is paid by producers. The remaining 25% is paid by processors.

The focus of EBLEX's operations extends along the entire value chain, from supporting the development of improved genetics and production systems to market research and promotions. It also provides up to date information on environmental factors, such as weather and or health related issues. Given the continual evolution of the consumer market, EBLEX invests heavily in consumer research, the results of which are shared with producers and the wider industry through reports and other media. The importance of the market research and reports is emphasized by the fact that most retail meat buyers are not meat experts. Therefore, both retail buyers and processors often consult EBLEX for information on overall market performance and consumer trends.

In addition to market research, EBLEX also provides producers with tools they can use to improve the profitability of their business. Known as the "Better Returns Program", the purpose of the program is to encourage beef and sheep producers to evaluate their businesses to identify opportunities to reduce costs, lessen their impact on the environment and improve animal performance. Delivered through free workshops and one-on-one interaction with producers, the program is separated into five elements: Breeding; Selection for Slaughter; Health and Fertility; Nutrition and Forage; and Systems and Costings. This program has become increasingly popular as changes have occurred in the EU's subsidy program.

CONCLUSION

The visit highlighted what can be achieved when stakeholders from along the entire value chain focus their attention and resources on collaborating to achieve something that would otherwise be almost impossible to achieve. The initiatives visited prove that motivating producers to adopt standard operating procedures, in conjunction with higher quality genetics, can lead to the production of beef whose attributes reflect consumers' expectations of value and eating quality. Taking this approach can enable producers and the rest of the chain to reduce costs and increase profits, and is therefore an effective way of addressing challenges that have hampered the UK beef industry's development. The visit also provided valuable insights into processes and practices that the Canadian industry could use to improve its competitiveness.