

The Retail Meat Industry Challenge

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Introduction and Purpose

The purpose of this paper is to outline the opportunities available to the Canadian retail grocery industry with regard to meat and poultry. The fresh meat and poultry department is one of the largest and fastest growing areas of the grocery store. At the same time, its potential as a point of differentiation and as a merchandising flagship for the retailer remains largely untapped. Furthermore, for the meat and poultry sectors to move forward to higher levels of customer satisfaction and value, the industry requires that the retail sector take a leadership role.

It needs to be noted that from a technological and attitudinal perspective, industry processors and producers are now more ready to move forward with retailers than at any time in the past. It is hoped that this paper will help to make retailers aware of the untapped potential and to encourage the rest of the industry to be prepared to move forward with their retail partners.

Building Blocks to Success

The food industry is built on trust. The trust is divided into two key components: trust in the safety of the food and trust in the value of the products. Food safety is easy to understand. Consumers expect that the products that they buy from a store will be safe to eat. The trust in value is more subtle. Value is comprised of two factors: quality and price. In the meat and poultry industry, quality can be further subdivided into the following six components:

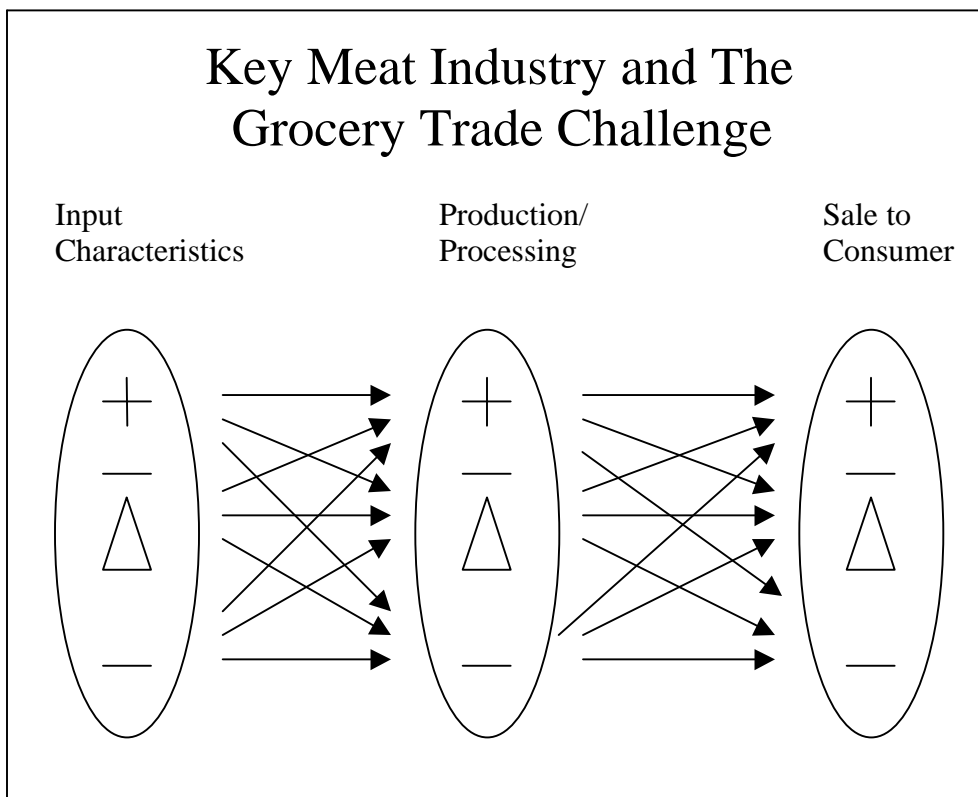
1. Convenience
2. Taste
3. Consistency
4. Tenderness
5. Nutritious
6. Perception

The consumer has an understanding of the value equation. They know that they will pay more for a loin cut than for a hip cut. At the same time they expect that the quality difference will provide them with the value they expect from each. The lack of trust in value occurs when the quality does not correspond with the price. If a retailer, processor or producer breaks the trust in safety or value, the results can be devastating to the business. Retailers are arguably more vulnerable than their partners in the chain because they are the point of contact with consumers.

Conversely, the retailer, processor or producer that consistently delivers value to consumers is at a strong competitive advantage.

The only way the meat industry can provide value to consumers is to consistently deliver the six noted quality parameters at a competitive price. This does not mean there is no room or market for lower quality cuts or cuts from lower grade animals. It just means that the quality-price relationship has to be consistent. One of the barriers to the delivery of value has been in the lack of consistency between the quality-price relationship. A blurring of market signals between industry participants has caused this.

The following diagram illustrates the three basic segments of the meat and poultry industry: the raw production input, the feeding and processing sectors, and the merchandising sector. A key problem is a lack of pricing structure based on quality and value to the consumer. Lower quality inputs are often priced at the average with higher quality inputs. The same effort at process and refinement are applied to inputs that have very different sales potential. Lower quality product is often merchandised in higher value venues. The end result is dissatisfied consumers and producers that have little incentive to produce to meet the value requirements of those same consumers.



Progress Has Been Impressive

While the industry does face those challenges, the fact is that during the last few years, the meat and poultry industry have been examples of success in the food industry. The last three years have been the first time in the last 20 years that the demand for beef, chicken, and pork have all risen or at least remained steady at the same time. Typically, prior to 1998, declining pork and beef demand and increasing chicken demand would characterize the meat and poultry industry.

During the last few years, beef and pork have reversed their declining demand fortunes, while the demand for chicken has continued to increase.

Improved demand is more than an obscure economic concept. Improved demand means stronger sales volumes and profits. For example, AC Nielsen recently reported that 52-week sales of the Canadian meat case totaled \$4.53 billion. That is an increase in dollar sales of 7%, while volume was up 2%. The dollars are greatly outpacing the tonnage, which is always a goal. But it is more than just sales increases that are impressive. The fact is that meat is moving out of the meat case at very strong prices. Meat case margins are very strong, due to the fact that the meat departments of Canadian grocery stores are a good news story because of demand! The meat case is a highlight of the grocery industry.

In addition, leading grocery chains in Canada and the United States have determined that not only is the meat case a winner, but that the meat case can make the entire store and chain a winner. Some leading retailers have researched the fact that consumers shop their stores because of the meat case. They have determined that if there is a strong meat purchase in the consumer's shopping cart, chances are that there is going to be multiples of other purchases as well. In other words if there is meat in the purchase, then total purchase is going to be much greater than if there is no meat in the purchase.

Successful Meat Cases

The point to be made here is that effort in the meat case is effort well spent. It is effort that pays dividends to grocers and by default to the entire industry. So where is the meat case of the future going and what will it look like? To answer that it is necessary to look at the characteristics of current successful meat cases. That will provide an indication of where the entire industry will eventually be going.

First of all, the self-serve part of the meat department will be characterized by the following:

- Branded products will proliferate or dominate the case. Brands will be national and private label.
- All product will be case ready
- There will be a proliferation of "fresh" product that is prepared to some extent (cooked, seasoned, marinated...)
- The meat case will be more segmented based on quality and end use

Just as importantly, more and more retailers are seeing or will see the pay-off in offering full service sections for the meat department. These full service sections will offer consumers extra effort in the form of in-store preparation and processing (in-store vacuum tumblers). These full service sections will also offer expert advice, as well as sales effort. The bottom line is that retail meat sales and merchandising effort will burgeon. Successful meat cases will be full of value-added offerings focused on convenience and ready to eat. Retailers will "brand the meat case," with their own merchandising and strategic vision. In short, retailers will become expert meat merchandisers.

At the same time, retailers are downloading more and more responsibilities and functions back to processors and packers. Inventory and case management as well as packaging and merchandising are increasingly being pushed back to packers and processors. Concerns

regarding the responsibility for product safety and labor requirements have fostered and forced this change. In addition, industry leader Wal-Mart is also aggressively pushing these changes. The fact is that when Wal-Mart starts something, the other competitors will follow. The meat case is being treated as a category much like a packaged good. The category and the processor must prove their value and carry their weight or risk being de-listed.

This progressive evolution of the meat case is coinciding with changes at the packing and processing level. During the last twenty years, packers have fought the decline in demand by trying to stay cost competitive. They built bigger plants and reduced overall costs. During the last several years, however, the competitive differentiation based on costs has diminished. Packers have sought other ways to differentiate themselves and they have chosen quality, branding, and service. Meat packers in the past were the penultimate commodity marketers. Today these former commodity marketers now have staff on hand with “Brand Manager” titles.

The key point is that progress has been made in a relatively short time. Furthermore, this progress has resulted in clear and conspicuous gains in terms of both sales and profit, particularly for the retailer.

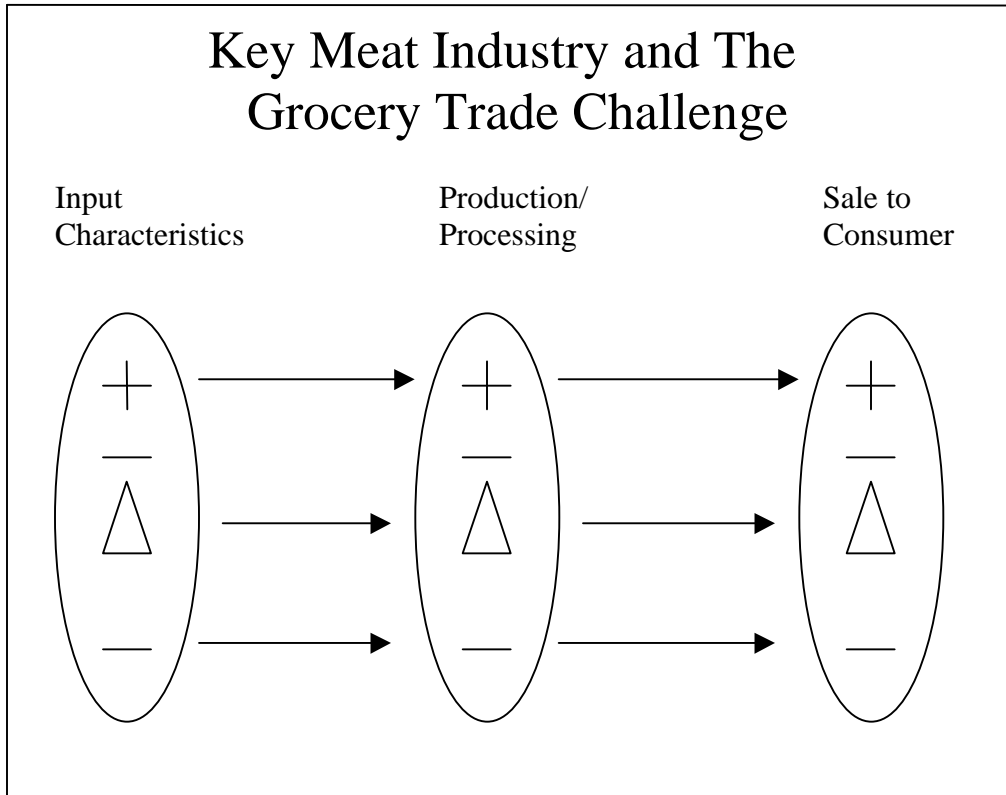
Taking the Next Step

This does not mean, however, that the battle for the consumer has been won. It also does not mean that the industry is even close to reaching its potential. All it means is that there are examples of success, which mean that the effort can and will be rewarded.

In order to move forward however, the Canadian retail industry is going to have to take a leadership role. In that regard there are three challenges that retailers need to take:

1. Determine how important the meat department is to the company, not just in terms of sales and margins but also in terms of traffic, complementary sales, and overall image.
2. Determine how much it could be worth to the company to have an excellent meat department.
3. Determine what it would take to make the department excellent.

If retailers decided that the meat department is worth the extra effort to become excellent, then the issue of the value equation needs to be more adequately addressed by the industry. The only way the value equation can be adequately addressed is to start by clearing the blurred pricing signals that exist in the industry. All the merchandising effort in the world will be misplaced if consumers are not receiving value for the meat they purchase. The mixed-up diagram at the beginning of this note, which represents current pricing confusion, needs to be replaced with the following diagram.



The following are the necessary conditions that are needed to clear up the blurred signals:

1. There is a greater need for vertical coordination, strategic alliances, and partnerships in the industry.
2. There is also a need for technological advances in screening meat for quality attributes.
3. Technological advances are also needed for traceback for the purposes of safety and pricing.
4. There is also a need for an attitudinal change in the industry to move towards a consumer value focus.

The message to retailers is: Leaders in the packing and producer sectors already possess each of the four points noted above. They are just waiting for their retailer partners to move forward with them.

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