

## **TRENDS IN VALUE-ADDED MARKETING; CHALLENGES AND SIMILARITIES AMONG BRANDED BEEF PRODUCTS; IMPORTANCE OF ANIMAL WELFARE**

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All of the money we have, in the beef industry, is the sum of the amounts that domestic and international customers and consumers are willing to pay for our products. If we want more of the presently available money—personally, or in our sector—we must create more value (Value Creation), and we must seek to capture it (Value Capture). If we wish to increase the total amount of money available to the beef industry, we must convince customers and consumers to pay more for our products than they presently do.

“Value” is “an amount considered to be a suitable equivalent for something else; a fair price or return for goods or services; worth, in usefulness to the possessor; utility or merit; a quality considered worthwhile or desirable.” Before the beef industry could begin to capture “added value” it had to become “Value-Based.”

Events that provided impetus to movement from commodity-orientation in the North American beef industry include: (1) Certified Angus Beef™; “Natural” beef programs. (2) Formula-pricing (Cactus Feeders & IBP). (3) The Beef Checkoff (War On Fat; National Consumer Retail Beef Study). (4) The 1987 change in federal “passive activity rules” (tax-shelter feeding). (5) Retained ownership; in-the-beef; grade & yield; grids. (6) Ranch-To-Rail; Value-Added Calf; preconditioning. (7) BQA; National Beef Quality Audits. (8) Strategic Alliance Field Study; US Premium Beef; Harris Ranch Partnership For Quality. (9) Development of branded beef programs by major

packers. (10) BSE in North America (SAV, PVP, BEV, QSA).

In Value-Based Marketing, price differentials are based upon naturally occurring genetic variability when management practices are held constant. For example, larger-framed feeder cattle, more-muscular slaughter cattle, and higher-grading carcasses are recognized as being of greater value by buyers. In Value-Added Marketing, management practices are manipulated, brand/kind constraints are monitored, and/or records are kept/validated by cow/calf producers, cattle feeders and/or packers/processors, to assure compliance with qualification requirements—and thus, achieve greater value.

According to Cattle•Fax, in any given week, in any region of the US, there is easily a \$25 to \$30/cwt price spread on feeder calves in the same weight class; those differences are based on health, performance history and eligibility for premium or export programs. Of things that can be done to create value in feeder calves, pre-conditioning brings no new money to the industry but adds value at the cow/calf producer level (because of improved performance in the feedlot) while source & age verification does bring new money to the industry (because beef cuts can qualify for export) and adds value in every sector via “trickle-down economics.”

Wayne Purcell (Virginia Tech University) said “Producers who sell ‘cash cattle’ are residual claimants on the consumer’s dollar. As such, the producer gets what’s left after every other claimant

in the beef supply chain gets his/her piece of the pie. To claim more of the beef dollar, producers must become involved in niche marketing or beef branding.”

Bill Mies (Elanco) said “To sell cattle for increased values, producers need to provide retailers with a product that can be sold to consumers at a higher price. Creating a branded line of beef products is a way to generate higher values in the marketplace. Unless we increase the pool of money generated by sales of beef, none of us is going to get a bigger drink.”

Sweeping structural changes are transforming the US beef industry from a commodity-oriented industry dominated by small, independent producers to consumer-driven production systems in which firms and/or producers can manage product attributes from farm-to-table to generate value-added kinds and brands of beef. Daryl Tatum (Colorado State University) described distinctive features of beef “Alliances” and “Supply Chains” as follows: (1) Most feature value-based marketing agreements to provide economic incentives for production of cattle and beef carcasses that meet program specifications. (2) Many include breed specifications (based on genotype or phenotype) for program cattle in an effort to improve consistency of genetic inputs into the system. (3) Some feature branded-beef products designed to target consumer preferences for specific product attributes. (4) Many involve source verification and/or process verification and some utilize third-party verification to instill consumer confidence in product quality, consistency or safety.

In 1978, Certified Angus Beef™ and Coleman Natural Beef™ were launched; 30 years later, there are 3 USDA Quality Grades, 63 USDA Certified/Process-Verified brands and more than 100 Company Brands of beef. Certified Angus

Beef™ has been successful because there is a substantial market for beef with more taste than US Choice, but less expensive than US Prime. Chairman’s Reserve™, Sterling Silver™ and Chef’s Exclusive™ are examples of Upper Two-Thirds Choice, non-Angus programs. Forty-six of the 63 USDA Certified Beef Programs use the word “Angus” in their brand-name and require that each animal has a phenotype of “51% black hide.” Coleman Natural™, Laura’s Lean™, Harris Ranch Natural™, Maverick Natural-Lite™, Meyer Natural™, Bradley 3 Ranch Natural™, and Nolan Ryan All Natural™ brands of beef demonstrated that there are consumers who are no longer just interested in taste. A cascade of non-conventional beef brands has followed—all based on the concept of “story” beef in which the cattle are specially raised. Included are brands of ‘Natural,’ ‘Grass-Fed’ and ‘Organic’ beef.

“Brands” link the consumer to the retailer (supermarket/restaurant) but also to the supplier (producer/feeder/ packer/purveyor). And, “brands” shift responsibilities to the retailer and supplier for safety, wholesomeness, quality, palatability, consistency and how the animal was raised and handled.

Leann Saunders (IMI Global) says “A ‘true’ brand of beef has three essential elements: (a) traceability (i.e., source verification), (b) a ‘story’ (i.e., a set of value propositions) and (c) quality control (i.e., process verification). Gary Smith (Colorado State University) described the narrative used in selling “story” beef as follows: “I’m going to tell you a story about my beef. My story consists of a number of ‘value propositions’ (i.e., elements that I think are important to you). Because I do some special things, I must recover special costs of productions.” Value Propositions can involve quality, palatability, production practices, and real or perceived safety.

Safeway, Kroger and Super-Value have developed “own” brands of “Natural” and/or “Organic” beef in the last few months, but their sales of such products have been disappointing. Consumers who purchase and eat “Natural,” “Grass-Fed” or “Organic” beef want to: (a) feel connected to the source of that beef, and (b) believe that someone, some specific farmer or rancher, personally—actually—watched over and provided oversight of the raising system.

There are now new elements of “story” beef. Alan Mammoser (Conscious Choice) says these new elements are embodied in the question “Did the people who grew the cattle: (a) live nearby? (b) properly care for the animals? (c) treat farm/ranch workers fairly? (d) practice environmental stewardship? (e) operate sustainably? (f) receive a fair price for them?”

Poll after poll shows American consumers want country-of-origin labeling and that it is important to know whether food is grown or produced locally. It is also important to consumers that there is fair treatment of all farm workers, fair business practices and fair compensation for family farmers. Environmental stewardship on the farm/ranch and “green” (i.e., environmentally friendly practices) are now considered important to shoppers. And, agricultural “sustainability” (i.e., the management and conservation of natural resources for present and future generations, with minimal impact on the environment) has gained widespread consumer traction.

Of the new elements of “story” beef, proper care and handling of the animals that produced the food (i.e., animal welfare) is of greatest importance to the future of the beef industry. Consumers care about animal care, and there is an activist agenda designed to make people feel guilty about eating meat. The beef industry’s strongest arguments are: (a) the Beef Quality Assurance program’s “Code of Ethics”

regarding animal welfare, (b) National Cattlemen’s Beef Association (NCBA) “Guidelines For The Care & Handling Of Cattle,” (c) NCBA’s statement regarding the Hallmark/Westland beef recall (i.e., “As an organization representing beef producers, we expect that our animals are treated humanely when our cattle leave our farms and ranches), and (d) NCBA’s request that the “downer ban” be revised to disallow entry of non-ambulatory cattle into beef harvesting plants.

## **Conclusions**

Value-based marketing and value-added marketing are vital components of the beef industry. Branding of beef is no longer niche marketing. Animal welfare is of paramount importance to beef customers and consumers, and thus to the future of the beef industry.