

The Market for Pasture Based Livestock Products

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Animals in the Food System Conference
Kellogg Biological Station
Hickory Corners, Michigan
November 2-4, 2004

C.S. Mott Group for Sustainable Food Systems
Michigan State University
312 Natural Resources Building
East Lansing, MI 48824-1222

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Abstract

There are only two ways to be profitable in the marketplace: be a low cost producer or offer product attributes consumers are willing to pay a premium for. Low cost production is a farm management issue. Consumers are looking for safe, cheap and nutritious food. As affluence improves, taste and convenience become more important. Meat is consumed by all but 3% of the population, at an average of a half pound per day per person, and the trend is increased consumption. As people continue to have less “free” time in their day, the demand for prepared or pre-prepared products is increasing. Health is a major consumer issue, with an increasing demand for leaner cuts of meat. 51% of red meat buyers try to purchase lower fat, organic or hormone free milk products and 67% prefer buying meat from a recognized brand name. Organic food is another major consumer trend which is still developing in the meat industry. If you take pasture raised meat and add convenience, health and single serve, you are adding attributes that consumers want and are willing to pay a price for. Farmers need to produce new supply chains to the consumers, by either being their own direct marketer or by forming alliances. The Michigan State University Product Center for Agriculture and Natural Resources is designed to help people explore their idea, product or innovation and determine whether or not it is viable. The web site address is www.aec.msu.edu/product/.

Editors Note:

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There are Only Two Ways to Be Profitable in the Long Run

- Be the low cost producer
- Offer product attributes that consumers are willing to pay a premium for

In the long run there are only two ways to be profitable. The first is to be the low cost producer. The second is to offer product attributes that consumers are willing to pay a premium for. So you can either undercut the competition by being the low cost producer or you can offer something which allows you to obtain a price premium. We talk quite a bit about sustainability; the phrase for the most part has implied environmental sustainability or social sustainability. I will spend some time talking about economic sustainability. Not that the other

two aren't extremely important, it's just that I am more familiar with economic sustainability than with the other two.

Low cost production. We are going to spend a lot of time talking about production issues. Low cost production is primarily a farm management question. I am not going to spend a lot of time talking about it. My hunch is, and there has been some discussion to the contrary, as a general rule pasture fed production is not necessarily the low cost method of production. Corn prices, and other feed grain prices, tend to be quite low in the United States compared to other countries. However, it's generally conceded that New Zealand has the lowest cost dairy production in the whole world. That's primarily a pasture based system. Depending on how you do it, it may very well be the case that if you use the proper management techniques and things like that that you will be the low cost producer.

Low Cost Production

- Primarily a technical issue
- Not the general rule in U.S. production
- However, pasture based production is cost effective in New Zealand

Attributes Consumers are Looking For

- Hierarchy of consumer wants
- Based on Maslow
- From David Hughes: Imperial College, London

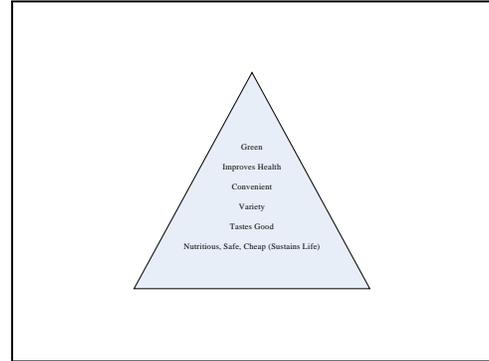
Very quickly, I just want to let you know that this slide sets up the next slide, which illustrates the hierarchy of consumer wants and preferences. Somebody asked about wellness. Wellness shows up here in two places. First is the bottom one: nutritious, safe and cheap (basically sustains life). The idea here is "If I eat this, I won't die. I won't get hepatitis A, I won't get BSE, and I won't get any number of pathogens or what not that will kill me." As affluence improves, taste becomes more important, variety becomes more important,

convenience becomes more important.

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I want to talk here about improved wellness, improved health. This is one step beyond “This is going to kill me,” and becomes “This is actually going to make me healthier.” There has been some discussion about the various product characteristics, lower fat, fat composition, and things like that which means that by eating this product I would actually improve my health and life. It would actually make me healthier. One aspect of food consumption is that if given the choice between dying young and fat, or old and thin, most people would choose to die old and thin. So if you can develop products which have the attributes that improve your ability to die old, thin and healthy, that is going to improve your market.



The last thing here is green. These are the social and environmental characteristics that were discussed earlier with the “True Naturals”. It’s not necessarily a big market, but the people in this area tend to be those who are the “Cultural Creatives” that were previously mentioned, and have disposable income. They are the ones that are probably the most willing to pay the highest price premium.

Meat: Something Almost Everyone Eats

- 90 percent of those surveyed have eaten beef, 84 percent pork, and 96 percent poultry (Mintel)
- Only 3 percent of society are vegetarians

Both my grandfathers raised cattle, and I was so happy to see this. For all the talk about vegetarianism, people want to eat meat products. Only 3% of society is pure vegetarian, so that is good news. Here’s some more good news: not only do people eat meat, they eat quite a bit of it, a half pound per day. If you think about using the 2002 figure, 184.4 lbs. of meat per year, that’s eight ounces per day in various forms. That’s half a pound. That’s good news too.

The other good news is that, because of the Atkins diet this long term downward trend in per capita beef consumption seems to have turned around. As a result of its price advantage, per capita consumption of chicken is up. For pork, the “other white meat” ad campaign seems to have been very successful. Its per capita consumption is up as well. Turkey is up slightly, though not a lot. Lamb brings up the rear on the chart.

Meat is Something Almost Everyone Eats

Per Capita Meat Consumption 1997-2002 (lbs.)						
Product	1997	1998	1999	2000	2001	2002
Beef	62.7	63.6	64.4	64.5	62.9	64.5
Chicken	49.5	49.8	52.9	53.2	53.9	56.8
Pork	44.8	48.2	49.4	47.7	46.7	48.2
Turkey	13.6	13.9	13.8	13.7	13.7	14.0
Lamb	0.9	0.9	0.9	0.9	0.9	0.9
Total	172	176.4	181.4	180	178.1	184.4

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Major Consumer Trends: Time

- On average cooking skills are declining, the need for easy to prepare or pre-prepared products is great
- 71 percent of respondents agree that there is not enough time to get everything done
- Only 38 percent of households with children ate their main meal together in 2001 (50 percent in 1980)

Another big group of consumers that we have been talking about is the “Overwhelmed” group. This is another big issue. People don’t have as much time as they used to. As a result, cooking skills are declining; the need for easy to prepare or pre-prepared products is great. Mintel, which does consumer studies, asked the question “Do you think you have enough time in the day?” It’s one of those leading questions where everyone knows the answer. 71% said no. This is what I thought was interesting. Only 38% of

households with children ate their main meal together. If you have kids, you probably know this is as well as anybody. Once they get to be ten or eleven, maybe a little bit younger nowadays, they are going off to ballet or soccer or piano class. They are just as scheduled as you are. So that’s going to drive two things. One is the need to make food easy to prepare and convenient, and second, to have food products that are in single serve or two person containers.

As I mentioned, health is a major consumer issue, a major consumer trend. This is what we in the Product Center are calling the demand driver of wellness. The beef and pork industries are producing leaner cuts, they are trimming the fat. Low carb diets seem to be increasing the demand for animal protein. Here is another interesting survey result from Mintel: 51% of red meat buyers try to purchase lower fat, organic or hormone free milk products, and 67% prefer buying meat from a recognized brand name. Just because a product is organic or natural does not necessarily mean that it is not ConAgra, Tyson or somebody like that. The major firms are well aware of this trend.

Major Consumer Trends: Health

- Beef and Pork industries producing leaner cuts, or trimming the fat
- Low carb diets increasing the demand for animal protein
- Mintel survey: 51 percent of red meat buyers try to purchase lower-fat, organic, or hormone-free milk products. 67 percent prefer buying red meat from a recognized brand name

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Major Consumer Trends: Organic

- Organic food is quickly becoming mainstream
- Primary consumer interest is health, not environment
- Organic dairy sales increased by 47.6 percent from 2002 to 2004 and is more than a \$750 million industry
- Organic meat industry increased by 266.7 percent from 2002 to 2004 and is a \$121 million industry

Another major consumer trend is organic food. As of right now the primary consumer interest is health, not the environment. The organic people are very worried about that because some nutritionists have done the studies which indicate that people are paying a premium for something that may not be all that much better, if better at all, than conventionally produced foods. But still it's an exploding industry. It's pretty mature in fruits and vegetables, but it's still very much developing in meat products. The organic dairy industry is now a \$750 million industry.

That is the equivalent to dairy farm receipts in the state of Michigan, which is the sixth or seventh largest dairy state in the country. So that gives you some idea of the current size of the organic milk industry. The organic meat industry is lagging behind because it has been more difficult to get organic certification. Organic meat production has increased 266% from 2002 to 2004.

The industry response to these trends. Brand names are the standard for poultry, all but the standard now in pork products, and becoming increasingly common in beef. As previously discussed industry consolidation continues. Here we talked about health and convenience. If you can take these two demand drivers, and put both in a single product, there is a market for it. There is potential. The idea is to ladder product attributes.

Industry Response

- Brand names are the standard for poultry and pork products and are becoming increasingly common for beef
- Industry consolidation continues (Tyson purchase of IBP)
- Healthy convenience foods
- Major food processors now involved in organics
- Retailers increased offerings of organic products

Being Healthy is Not Enough

- Taste, price and convenience also play a role.
- The driving factor in U.S. food purchases is convenience
- Movement towards meal solutions

Perhaps being pasture raised isn't enough. If you take pasture raised plus convenience plus health plus single serve, you start adding additional product attributes that people want and are willing to pay a price for. I think the single biggest driving factor in U.S. food purchases is convenience. The bar charts show that price is important but it's not the be all and end all. It ranked third or fourth in importance in most of our studies. People are price conscious but for a lot of people, time is more

valuable than money. If you can produce something that reduces blood pressure, obesity and saves meal preparation time you are creating a valuable product.

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Somebody asked, "If there is all this demand why aren't there more natural food stores? Why does everyone go to Wal-Mart?" I think one problem is that there are these consumers over here and producers over there: how do you link them together? How do you get food from the farmer who's willing to produce it to the consumer who is willing to buy it? I think the answer to that question is that you need to produce your own supply chains, or to work with others to create supply chains. Farmers must either be their own direct marketers or form alliances with others or be willing to do a multitude of tasks (distribution, processing, etc.) themselves.

Implication: You Need to Create Your Own Supply Chain

- Producers also have to be marketers, form alliances or be willing to do a multitude of tasks themselves (i.e. distribution, processing, etc.)
- Restaurants are a potential market
- Potential for having some level of control over price (price premiums)
- Farmers Markets have potential

The scenario that I am outlining here is that farmers have the opportunity to earn a price premium. That's the good news. The bad news is that farmers may have to do more than just be producers. In order to capture this value, farmers are going to have to undertake activities they are not accustomed to doing. Traditionally, producers just loaded the animals up on the truck and waved good-bye. They may have to do something in addition to that. Restaurants are a potential market. They have a tendency to be very price sensitive. But if you offer something that they can turn around and sell to the consumer for a higher price then you have a potential. Another potential is farmers' markets.

The MSU Product Center for Agriculture and Natural Resources is designed to help entrepreneurs, people with ideas, explore their idea, product or innovation, and see whether or not it is viable. The primary initial contact is with agriculture innovation counselors, which are primarily MSU Extension people. They help you fill out an initial concept definition and give your idea some more thought. The web site address is www.aec.msu.edu/product/. If you do have market and product ideas that you want to pursue, again it could be anything. It could be a new form of packaging. It could be a new way of distributing things, any number of things, any number of concepts we are willing to investigate with you.

Product Center

- Helps potential entrepreneurs interested in pursuing options
- We have counselors located throughout the state
- For more information visit our website <http://www.aec.msu.edu/product/>