



**For** several years the concept of value-based marketing has served as the topic of nearly countless speeches and printed articles. It's a lofty goal to which all segments of the beef industry do aspire. But what does it mean?

Definitions of value-based marketing can be as diverse as the personalities responding to the question. Different industry segments attach different meaning. Deep down inside, however, each hopes that it means more money.

Nebraska cattle feeder Logan McClelland offers a definition that might be acceptable. He says value-based marketing is a sys-

tem that establishes a range of prices based upon the quality of the product.

"Value-based marketing should recognize differences in quality and eliminate surprises," adds McClelland, who is past president of the Nebraska Cattlemen's Association. "That should work for feeder cattle, fed cattle or retail product. We're not there yet. We're not even close. Before we can get there, each segment needs to learn more about the value of its product."

McClelland believes that folks all along the beef production chain want to provide a product the consumer will readily buy.

# Value-Based Marketing

## *are we getting closer?*

BY TROY SMITH

That consumer is often frustrated by the lack of consistency found in the meat case. The packer is more than a little frustrated when he doesn't realize more profit from closely-trimmed boxes of beef, than for commodity boxes.

"And cattle feeders get a little frustrated by trying to satisfy the packer," McClelland says. "The feeder and the cow-calf man both want to produce the right kind, but we're still a little unsure about what the 'right kind' is. Too often we see poor quality cattle bring too much while superior quality cattle don't bring enough. But if we start at the retail level to establish value by pricing according to quality, it should work right back up the chain."

In the May issue, Ohio seedstock producer Henry Bergfeld reminded *Angus Journal* readers that producers are presently rewarded for-pounds rather than quality. The Summitcrest Farms manager noted that purebred and commercial breeders have had a hard time hearing the consumer's cry for consistent quality beef.

"We need to find out what the consumer's preferences are, then work backward," says Bergfeld.

Determination of consumer preference occurs at the retail meat case. The retailer responds and communicates demand signals back through the marketing chain. Under a new method of analyzing meat sales, the signals should become more clear.

Ken Johnson says value-based meat marketing is an important element of an overall value-based marketing system. As vice president of meat science for the National Live Stock and Meat Board, Johnson is involved with implementing a program that gives retailers accurate measurements of specific product sold and price received.

"This is an important step in evaluating price-value relationship," explains Johnson, "and changes the approach of retail meat sales from gross margin percentage to a profit objective basis."

With funding from beef checkoff dollars, the Meat Board and Texas A&M University developed the Computer Assisted Retail Decision Support (CARDS) system. CARDS software helps retailers measure every cost associated with getting a cut of meat to the case. Also included are labor costs often overlooked previously.

"Retailers may have purchased one-inch trim product because it was less expensive, but never figured costs of waste and labor associated with back-room trimming," says Johnson. "Using CARDS, the retailer may find the closer-trimmed primals or sub primals are more profitable even though the initial price per pound might be higher. In reality the closer-trimmed products have higher yields and lower in-house labor costs. So the retailer can still price his product competitively, maintaining a profit while delivering greater value to the consumer. And increased customer satisfaction means increased sales."

CARDS data lets retailers determine the product mix that customers prefer, and set prices on a profit objective because cost of production and thus true value is known. Recognizing the value of closer-trimmed product should influence purchases from the packer. The packer should have an incentive to seek animals with high yielding, superior quality carcasses. Producers, in turn, should realize an economic incentive to raise animals that yield lean carcasses, says Johnson.

To get the message to more retailers, the Meat Board will open its Meat Marketing Technology Center in September. Conducted in association with the University of Chicago, classes will instruct meat retail professionals in the use of CARDS technology and strategies of value-based pricing. The center will offer ongoing education and consultation programs.

Beef Industry Council Chairman Ray Larsen applauds the new educational program for beef retailers. He calls it particularly timely now that packers are more interested in moving closely trimmed product. In addition, the Maple Park, Ill., cattle feeder is sure the program will ultimately encourage more of his colleagues to market their cattle on the basis of carcass merit.

"Packers are changing their way of looking at things," says Larsen: "Excel even introduced some of their customers to the CARDS system and this method of discovering value. I believe the concept will work its way back up through the beef marketing chain. It's happening in the feedlots. Producers and feeders want carcass data to determine the true value of their product. They can't get all the data when they sell cattle live, so I think we'll see more and more turn to selling in the beef."

If the Meat Board's retailer education program spells progress in the quest for value-based marketing, some obstacles still remain. Some say insistence, particularly among Southern Plains feeders, upon selling "live" and requiring packers to bid one price on the entire show list is a major stumbling block.

Logan McClelland says another is the absence of an accurate price discovery and reporting system for the

marketing of fed cattle. He wonders how the industry can get away from buying and selling on averages when the USDA's price reporting service offers averages but doesn't reveal the extremes.

Unavailable from any source are the numbers and prices associated cattle marketed via forward contract or formula agreement. This spring's contra-seasonal break in cash fed cattle prices stirred up concern about captive supply (contract and formula cattle humped with packer owned cattle) and its influence on cash prices. As this is written the Nebraska Cattlemen, Texas Cattle Feeders and Kansas Livestock Association have announced plans to survey cattle feeders to determine numbers of cattle sold by contract/formula versus the cash market.

Ironically, contract and formula sales represent ventures into the realm of value-based pricing. Despite the fact that carcass merit is factored into the pricing formula, the cash market remains the basis for these deals made in secret. So, if captive supply serves to undermine cash, isn't it chipping away at its own foundation?

The more than adequate supply of cattle doesn't make the shift to value-based marketing come any easier but does illustrate why it is so needed. The value-based meat marketing system shows promise for pushing the concept backward through the chain. Still, progress will likely be slow and tedious.

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