



Dollars & Sense

► by Vern Pierce, beef economist, University of Missouri-Columbia

Why there is money left on the table

Watch the customers in your favorite grocery on your next visit, and observe how they select the particular products they buy. They might start down the breakfast aisle. Notice that they go right to the brand of cereal they like. However, they don't just choose one box of cereal. It's one box for Mom, another for Dad and still another for the kids.

Off to the beverage aisle. The story is the same. Mom and Dad each like one type of soda, and the kids get their favorite. Even in the dairy section you will see them zero in on "their" brands of products.

One for each

The same is true as you follow the family throughout the store.

The companies that process and package food and put their brand names on each package understand the type of consumer they are targeting. The breakfast cereal people, for example, know a teenage boy will like something that is crunchy and sugary. They have that type of profile for each member of the family.

The young man will come back each time for the same branded product because he knows that he likes the taste and that it always will be just as he expects. He will be loyal.

Beef consumers

Now spend some time watching the people walk by the meat cooler. Pay particular attention to those in the generic beef section. Watch as they scratch their chins trying to sort through what looks good. Notice, I said what *looks* good.

In the commodity beef section of the store, consumers still must make their choices based on their understanding of the various beef cuts, the differences among the U.S. Department of Agriculture (USDA) quality grades and which one is their particular favorite. Notice the difference in the way they shop. Their confusion is visible.

As you know, there have been many changes in the beef industry recently. The movement to branded products is nothing more than our marketing people's catching up with the cereal and soda people. Consumers are brand-loyal if you can develop and deliver a quality, consistent product.

Consistent inputs

Back to the breakfast cereal. Now that those people have the young man in their hip

pocket, they have one large challenge ahead of them. They must put the same-tasting cereal in that box each and every time, or he will run to the next brand almost without blinking.

In order to supply a consistent retail product, the producers have the added challenge of finding suppliers of all the ingredients that will supply those inputs with the consistency that allows the manufacturers to produce a consistent product for their targeted consumers. They might set up alliances, relationship marketing plans, cooperatives or whatever.

They understand that they need to be as particular about where and from whom they buy their cereal ingredients as the young man is about choosing his branded product. In fact, they will pay a premium to their ingredient suppliers in order to ensure a consistent supply for their customers. That consistent supply allows them to retain as a customer the young man who keeps coming back for more of the same cereal.

Partnerships

Therein lies the money that is left on the table for you as our beef industry transitions to a branded product line. We have seen an explosion of branded products hit the retail shelf in the last few years. Even the major commodity beef companies are establishing alliances with the major retailers.

Wal-Mart's new branded, modified-atmosphere packaging of all the retail meats in its SuperCenters with the Thomas E. Wilson and Wal-Mart Angus Beef brands is a result of an alliance with IBP Inc. Wal-Mart is the nation's largest retail grocery chain. It opened its 1,000th SuperCenter in August and has plans to open one every other day for the next five years. It moves more than 100 semitrailer loads of beef every day. That is the

story of an organization that is interested in having satisfied consumers.

Safeway, with 1,700 stores in North America, has developed a partnership with Future Beef Operations LLC to supply all the beef to its stores in a few years. They are building an entire coordinated system back to the seedstock operators to help supply a consistent, quality product. The point here is that our system is moving fast, and there are a lot of partners out there who can help you deliver a better product while maintaining your independence.

Aligned for the future

Moving back to our trip through the grocery store, now look at the difference in price between the commodity beef that you see and some of the branded beef products that are already in the stores. You quickly will notice that there is a price difference — often a large one.

Yes, the people who process, market, advertise and package those products will keep some of that, and they should. However, they are also aware that developing a chain of suppliers to deliver consistent-quality product will require them to pass some of that money down to the chain.

That is different than the generic system because, if the processors couldn't make a deal with one producer, they would just go down the line and find another. The new concept requires them to recognize the value of a relationship with the producers.

The value lies in the need to keep consumers pleased with the brand they choose. There will be as many different types of branded products as there are different types of consumers with different tastes. Remember the cereal aisle? If they can do that with corn and rice, imagine what we can do with beef.

The money for beef producers lies in their ability to seek out partners in the new system — partners who understand the value of a relationship and of providing data back to the decision makers. You will see a growing number of new players in the near future as partners in the value-added movement.

Watch for evidence of a changing approach from your veterinarian, your farm-input suppliers, lenders and livestock market operators. Align yourself with those with whom you have worked in the past and those who see the value of relationship marketing like you do.

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