



Breed Improvement Article

A Perspective from Down Under

By Sean McGrath

Recently I had a remarkable opportunity to visit Australia and participate in one of their major industry events. Beef 2003 is a triennial event that is held at Rockhampton in the state of Queensland. Rockhampton is located right on the tropic of Capricorn and is the “Beef Capital of Australia” with over 2 million head of cattle located within a 3 hour circle of the city. Queensland and the Northern Territory are marked by very large cowherds, run at very low cost on vast expanses of land. As you proceed south of this line (towards the pole) cowherds tend to become smaller in size and shift from bos Indicus crosses to bos Taurus, very similar to herds in Canada.

As part of this event, an international conference was held for the first time, titled “Strategic Savvy; Advancing Your Advantages in the Global Beef Industry”. This event was punctuated by a variety of different speakers from around the globe and contained some extremely valuable insights into how our industry functions globally and the potential domestic impacts, as well as some local level responses.

It was interesting to note several common threads as the key speakers talked about global trends in terms of market share and emerging markets.

One of the common threads globally is that for the last 30 years beef has seen demand cut in half. This is a serious concern, and much of this loss of market share has been taken over by pork and poultry. Additionally, beef now has to compete in against “meals” rather than simply other protein sources. Reduced demand means people eat less beef at the same price. We are at the stage of people eating less beef at a lower price.

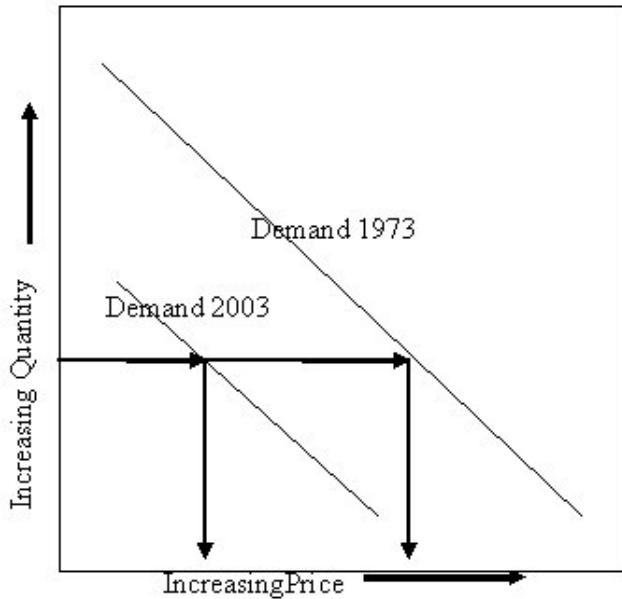


Figure 1: Example of a shift in the demand curve. You can see by following the arrows, that with a reduction in demand, we can only sell the same quantity of beef at a lower price and thus lower overall revenue.

We often don't think of the impact this has on us as farm managers and farm families. It means lower prices for the end product or reduced quantities sold, which is relayed all the way back down the chain. The global beef industry faces tremendous challenges which are affecting and will continue to affect us here at home. These challenges also provide new opportunity for those wish to participate.

Emerging markets are occurring in much of Asia, where the population continues to grow, as does their disposable income, however these markets are traditionally pork and poultry consuming nations and need to be sold on the attributes of combining beef into their diet.

The world is undergoing a major shift in terms of consolidation of buying and marketing power. The number of supermarket chains is continuing to decline, while the size of chains is continuing to increase. For example Wal Mart has emerged as a major global grocery power over the last 5 years. These grocery chains are also starting to compete with the restaurant sector by providing easy to prepare complete meal solutions. Beef is just starting to penetrate this line of product.

One speaker at the conference was Mr. Gary Johnson, the global supply chain manager for McDonald's corporation. To put some perspective on the importance of food safety and global scale, they use roughly 1.5 billion pounds of beef every year (equivalent to more than 2 million feeder cattle). That is equivalent to nearly half of our nation's entire annual beef production. In terms of food safety, a one in a million food safety issue would be equivalent to 46 problems per day.

Production is also shifting and many countries (particularly South America) are emerging giants in the world of beef production. For example, Brazil has a cowherd of 170 million head and projects being free of Foot and Mouth Disease without vaccination by 2005.

Key to the success of the industry is building long term value for consumers. The key note speaker summed it up very nicely. The current system of long, disjointed supply chains with multiple owners is easy to do, however they are not good at building long term value. Shorter

integrated value chains are much more difficult to create and operate effectively, however the end result of building long term value is much more likely to occur.

It was pointed out that BEEF is a brand, and that traditionally brands (eg: Coca Cola) will spend roughly 5% of retail revenues on retail promotion. In terms of Australian production, retail value totals nearly \$6 billion. This would equal a promotional budget of roughly \$300,000,000 if BEEF as an industry were to promote the brand. Admittedly retailers do provide a lot of promotional activity for beef as well, however the vast majority is on price discounting, rather than building brand loyalty. To take a Canadian example, farm cash receipts for cattle and calf sales were \$7.57 billion in 2002. This is not retail value, this is farm cash receipts. This would put the minimum advertising budget for beef in the neighbourhood of \$378 million dollars.

Seedstock has a tremendous role to play in enhancing global demand by helping to tailor product to meet and exceed consumer needs and expectations. Developing genetics that fit production systems, and providing unique, easy to use products are key to success in the marketplace and it is something that our competitors have done extremely well. There is tremendous opportunity in the seedstock industry for those genetics providers who can rise to meet this difficult challenge.

After listening to the range of speakers from around the globe including ranchers, government officials, supermarket buyers, exporters, meat scientists and others; one fact becomes crystal clear. The challenges facing our global beef industry are large and thankfully we are not alone in trying to meet them and turn them into a great global opportunity.

Some Interesting Links...

- www.beefaustralia.org – home site for Beef Australia Exhibitions and Conference
- www.beef.crc.org.au – Australian Beef Cooperative Research Centre website
- www.livecorp.com.au – Australian Livestock Export corporation
- www.mcdonalds.com – largest fast food chain in the world
- www.mla.com.au – Meat and Livestock Australia handles industry research, market information, etc.
- www.ncba.org – U.S. National Cattlemen's Beef Association
- www.obebeef.com.au – world class organic beef supplier (ISO certified group of producers)
- www.stanbroke.com.au – largest pastoral company in Australia (roughly 29 million acres)
- www.usmef.org – U.S. Meat Export Federation
- www.walmart.com – world's largest retailer
- www.woolworths.com.au – Woolworths Australia's largest supermarket chain