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BEEF VALUE CHAINS
and their applicability to the
MANITOBA AGRI-FOOD SECTOR

FINAL REPORT

Submitted by
Toma & Bouma Management Consultants

December 2002



**Agriculture and
Agri-Food Canada** **Agriculture et
Agroalimentaire Canada**



Manitoba Rural Adaptation Council Inc.
FACILITATING AGRICULTURAL INNOVATION AND SUSTAINABILITY

VALUE CHAIN FINAL REPORT

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December 16, 2002

Mr. Bob Hoffman
Executive Director
Manitoba Rural Adaptation Council
802 – 294 Portage Ave.
Winnipeg, MB
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Re: Beef Value Chains and their applicability to the Manitoba Agri-Food Sector

Dear Mr. Hoffman:

We are very pleased to submit our final report entitled: Beef Value Chains and their applicability to the Manitoba Agri-Food Sector.

The report clearly illustrates that a number of new and emerging value chains are reshaping the beef and livestock industries around the world. Five examples are presented in detail. These are:

1. **Atlantic Beef Tender Classic** – an example of a regional approach
2. **Ranchers Renaissance** – an example of a new organization model combining ranchers, feedlots and a large-scale packer.
3. **Highland Premium Alberta Beef Alliance** – a feedlot led initiative with opportunities for cow calf producers to participate as members.
4. **Cargill Branded Programs** – a range of marketing options available to any producer based on carcass specifications.
5. **Peter's Farm** – an excellent example of information driven value chain designed to meet ethical concerns.

The Manitoba beef production sector is an important and growing industry. It is our sincere hope that the five value chains discussed in detail within this report will stimulate developments and create opportunities for beef producers in the province.

Finally, we wish to thank you once again for this opportunity to work on your behalf.

Sincerely yours,

Jerry Bouma
Project Manager

EXECUTIVE SUMMARY

INTRODUCTION – The Manitoba Rural Adaptation Council (MRAC) contracted Toma & Bouma Management Consultants to prepare a ‘buffet’ of strategic alliances or value chains that have relevance for the Manitoba beef industry. The primary purpose of this body of knowledge is to provide the industry an overview of such developments as well as insight as to how similar types of alliances might be appropriate for the province.

APPROACH – The study comprised three parts: (1) an assessment of the Manitoba beef industry; (2) the identification and description of a broad ‘buffet’ of value chains from around the world – a total of 16 were studied; and (3) the in-depth study of four value chains that have the greatest relevance for the Manitoba beef industry.

OVERVIEW OF FINDINGS

The Manitoba beef industry assessment identified the following dimensions:

Strengths – a cost competitive industry with excellent supplies of forages and grains; centrally located to three markets in North America; a high quality and diverse genetic base capable of supply a variety of markets and product requirements.

Weaknesses – the lack of production knowledge (and confidence) to ‘finish’ cattle within the context of a decidedly crop oriented farming sector; inadequate sources of financing; lack of a local processing sector; small market size; the lack of consistency regarding the numbers and quality of cattle; the lack of industry and market development skills and the lack of government support.

Opportunities – the ability to direct cattle to one of several markets (Eastern Canada, USA, and Western Canada); strategic alliances with established feedlots in Alberta or the US; develop a unique grass fed or natural product; ability to supply cattle to one of several current brand programs (Sterling Silver, Certified Angus Beef).

Factors to be Addressed – most significantly: *overcome the mindset that Manitoba is not suited to finish cattle!* Also address the need to develop production skills and the need to develop larger numbers of consistent cattle.

Overall, it is viewed that Manitoba beef producers would be receptive to considering value chain relationships, if the benefits are clear and the ability to participate is not unduly onerous.

VALUE CHAINS SELECTED FOR DETAILED REVIEW

The buffet of value chains reviewed within Phase 1 of the study, coupled with the industry assessment, provided the basis to study four specific alliances in detail. These are presented as follows:

Value Chain	Rationale for Selection	Relevance to Manitoba
Atlantic Tender Beef Classic	A regional program with a single retailer that has gained considerable success in Atlantic Canada.	Regional opportunities may exist for Manitoba particularly in the natural or 'grass fed' areas.
Ranchers Renaissance	Unique organizational structure designed to capture and distribute 'added value' to where it is being generated	The organizational model is relevant for any group of producers seeking to create critical mass, coordinate actions and share benefits.
Highland Premium Alberta Beef	New alliance with 72 cow-calf members with several marketing options. Manitoba producers able to join.	Example of a new alliance that provides detailed carcass and performance information. Also enables participants to deal with a set of preferred suppliers and have a choice of marketing options.
Certified Angus Beef	Established program operating in Canada and USA. Open to all producers.	Opportunity for all producers with 'black' cattle to participate. Must be able to achieve Canada AAA with modest/moderate marbling.
Sterling Silver	Cargill program launched in 1997. Open to all producers.	Opportunity for any producer producing Canada AAA cattle with modest/moderate marbling to participate.
Canadian Certified Angus	Recently launched Canadian program. Open to producers of Angus cattle.	Opportunity for Manitoba Angus producers producing Canada AAA cattle to participate.
Peter' s Farm	Dutch based veal production chain that turned a problem into an 'opportunity.'	Example of information driven initiative designed to address public concerns and misconceptions head on.

KEY LESSONS LEARNED – each value chain offers a rich body of experience that provide a basis for Manitoba beef producers to consider similar opportunities. Several key 'lessons learned' prevail: (1) vision and leadership is key – the success of any chain is dependent upon strong leadership from a key individual or individuals; (2) chain development takes time – considerable planning and learning on the job is essential. Furthermore, results don't take place overnight. (3) Expect the nature and focus of the chain to change as it develops – conditions change and partners may change expect this and be prepared for it; (4) better prices are not necessarily a first accomplishment – rather most chains focus on producing a higher proportion of product that meet specifications – thereby reducing the hidden cost of sub-performing product. This in turn provides a basis from which improved pricing arrangement can be negotiated.

CONCLUSIONS – Value chains are increasingly common throughout the livestock and beef industry around the world. There is a very strong interest in the development of branded meat products that can be supported by certified production and processing protocols that are subject to audit. The Manitoba beef industry would be well served to learn more and encourage value chain formation. A number of different forms and opportunities can be expected to arise. Initial support and the provision of expertise will facilitate this development.

1.0 Introduction:

The Manitoba Rural Adaptation Council requested the services of a professional consulting group to identify and assess a range of value chain opportunities for the province's beef industry. This assessment addresses the following elements:

- Identify and present a 'buffet' or inventory of value chain options that may have applicability to the Manitoba beef industry.
- Identify the types of value chains that offer the greatest relevance and opportunity.
- Detail a 'go forward' strategy – a plan that outlines the possibilities as well as the risks and critical success factors for the Manitoba beef industry specific to value chain formation.

2.0 Study Objectives

The overriding objective of the Beef Value Chain Study is to provide industry participants with a "Buffet" of value chain options that might be applied within the Manitoba beef industry. This buffet must be sufficiently 'appetizing' to achieve two results:

- Bring potential chain players to the 'table'. This will require a body of information and analysis that provides both relevance and outlines opportunity.
- Provide a blueprint outlining where the best opportunities lie and how the process of value chain formation process can begin.

To this end, the value chain study addresses three sub-objectives that are implicit to the overriding objective:

Objective 1:

Assess the characteristics, opportunities and dynamics of the Manitoba beef industry specific to value chains and value chain opportunities.

Objective 2:

Identify a range of value chain 'cases' both within beef industries as well as other agri-food sectors that are relevant to the Manitoba market.

Objective 3:

Detail the types of value chains, the relevant features and the associated opportunities that have the greatest potential for the Manitoba beef industry.

Purpose of this Report

This is a final report that addresses the third objective of this study – namely the identification of relevant value chains and the associated opportunities that have the greatest potential for Manitoba. The following value chains are presented in the form of detailed case studies:

1. The Atlantic Tender Beef Classic program
2. Ranchers Renaissance
3. Highland Premium Alberta Beef Alliance
4. The Cargill Program, which includes three brands: Certified Angus Beef, Sterling Silver and Certified Canadian Angus Beef.
5. Peter's Farm.

Objectives 1 and 2 were addressed in the Interim Report presented to MRAC in September 2002. Copies of the interim report, which outlines a total of sixteen different value chains, are available upon request.

3.0 CASE STUDIES

3.1 Atlantic Tender Beef Classic

1. Overview

The *Atlantic Tender Beef Classic* program is an excellent example of a regional value chain supplying to its own local market. Specifically the chain sources beef from producers in the Atlantic Provinces (New Brunswick, Nova Scotia, PEI and Newfoundland) and markets exclusively to Atlantic Co-op grocery stores. Qualified producers who abide by a quality based production program produce the beef. The program specifies dietary requirements including the inclusion of Vitamin E, which is supplied by a custom vitamin-mineral product. Carcasses must also meet weight, marbling and lean yield specifications.

Producer's benefit by having a guaranteed market for their product, and a price premium of one cent/pound on carcass weight. They are further compensated for the cost of Vitamin E that is a required part of the animal's diet. The retailer benefits from having a branded product that is available only in their stores and is in high demand by consumers. Currently 18,000 to 20,000 cattle are marketed annually through program, and demand exceeds supply.

2. Background to the Chain

In the 1990's, two major Atlantic grocery retailers switched to featuring western Canadian beef in their meat counter, rather than Atlantic-produced beef. Costco led the way for this change with an Alberta AAA product. The Loblaws chain was quick to follow. In both cases, the retailers wanted a single supplier to provide all of their beef requirements. The supply and the quality in the Maritimes were simply not adequate for this demand.

Subsequent to these developments, Co-op Atlantic - the third major retailer in the region, quickly realized that it was beginning to lose ground in the fresh beef retail market. In response to the competitive situation, it began to look for a private beef brand for their stores.

At the same time, leaders within the Maritime beef industry were coming to grips with the realization that the regional beef industry faced a potentially 'dire' future. Cattle numbers were in decline; slaughter numbers were decreasing; and the long-term viability of regional packers was in serious question. In response, PEI¹ and in particular the PEI Cattlemen's Association was focused on their own provincial situation. With the help of the PEI provincial department of agriculture, they took the lead to form a Maritime initiative. This led to the formation in 1997, of the Maritime Beef Industry Development Group comprising representatives from three provincial cattlemen organizations, three provincial departments of agriculture, three packing plants, the Grocery Products Marketing Council, and the Beef Information Centre (BIC).

¹ PEI is the largest cattle-feeding province in the Atlantic regions and accounts for approximately 75 percent of the cattle on feed. Beef production and the utilization of forage is an important enterprise in PEI – forage is part of the potato production crop rotation program.

The Group's development mandate led to the exploration of numerous studies and opportunities and accordingly, a preferred option – namely a focus to develop position within the regional food service market. This decision led to a request for development dollars from Agriculture and Agri-food Canada who in turn suggested that the Group confer with a well recognized meat industry consultant – Mr. Paul MacInnes – formerly with Canada Packers.

Upon assessing the situation, MacInnes quickly concluded that the food service strategy simply would not work. His conclusion was based on the experience that this market only demands 20 to 30 percent of the entire carcass. Thus the major proportion of production would remain unsold and require an alternative market. He advised the pursuit of a more 'economic approach' – a strategy that could effectively utilize the entire animal. A full-fledged retail brand program appeared to be the best approach.

With the leadership of MacInnes, the following sequence of events transpired:

- **Definition of the core strategy** – specifically the pursuit of a program that provides economic incentive for the producer, the packer and most importantly, is valued by the buying customer. This dynamic is fundamental since each party must see a reason to participate. Furthermore the program needs to be structured in such a manner that it is not easily copied or supplanted by a competitor.
- **Commissioning of market research** – (Note: MacInnes stressed strongly that market research and understanding consumer attitudes and values is imperative). The market research centered on customers, where they shopped and their meat buying behavior. With these lines of inquiry, the findings illustrated that interest in a regional brand of beef found little resonance with customers of several retailers – however, it was highly valued among the Co-op Atlantic customer. Note: this finding is significant and should not be presumed to be applicable to other markets without careful research. For example, the research showed that the Sobeys' shopper in the Atlantic region has a much lower interest in a local beef brand. According to MacInnes, this is also the case with the Toronto shopper and much of the southern Ontario market – the primary reason why the Ontario Corn Fed program is not having success.
- **A search for a retail partner** – it was quickly determined that the Maritime beef production sector did not have sufficient capacity to supply two major retailers – Sobeys' and Loblaws. This left Co-op Atlantic. Interestingly the President of Co-op had a marketing background and an interest in the possibility, given the chain's desire to offer a branded fresh beef product. Of course, the market research findings strengthened the business case substantially. Nevertheless the Meat Manager was totally opposed to the idea since a regional brand approach would represent a total change in how the meat counter was being managed.
- **A search for the appropriate processing 'partner'** – three packers was part of the initial Maritime Beef Industry Development Group. However, one packer emerged as the best candidate for the chain. This was Hub Packer's located in Moncton, N.B, to extent that it had the greatest capacity to deal with the expected supply of cattle. Hub had just

lost a considerable piece of business when Loblaws, Sobey's and IGA built their own distribution infrastructure that sourced beef from Western Canada.

- **Designing a complete system and a detailed plan.** MacInnes left no detail to chance and developed a comprehensive program that included:
 - Procurement requirements and projected volumes.
 - A marketing program developed with the full input and financial support of the retailer.
 - Standard operating procedures for both producers and the packer.
 - An incentive program that rewarded every participant.
 - Training programs for retail staff.
 - Cooking instructions and recipe information targeted for consumers.

The planning and development stages took more than 2 years. Atlantic Tender Beef Classic was launched in March 2000 in 104 Co-op Atlantic stores.

Chain Objectives:

The program has the following objectives:

- To develop Atlantic Tender Beef Classic as the premier product produced in Atlantic Canada
- To maximize returns to all alliance partners including producers.
- To communicate with beef producers and to inform them of the latest developments.
- To develop quality control standards including production protocols for producers, processor and retailer.
- To increase the supply of beef products that meets the brand specifications by working with producers.

3. The Chain Partners:

The chain partners include:

- 240 producers producing approximately 350 head of cattle per week.
- The processor – this was originally Hub Packers in Moncton, New Brunswick but is currently Better Beef in Guelph, Ontario. Since the inception of the chain, Hub Packers was sold to Maple Leaf Foods who subsequently made a decision to transform the plant into an exclusive hog-killing operation. The last cattle were slaughtered on July 29, 2002. (This challenge posed by this situation is discussed in more detail in Section 8).
- Co-op Atlantic– with 104 stores in Atlantic Canada.

The chain also includes two service providers:

- Co-op Feeds located in Moncton, N.B., Co-op Truro and Co-op Minas Feed Mill – both in Nova Scotia. There is also a representative on Prince Edward Island. The company supplies the required vitamin-mineral product as well as nutrition services.
- Provincial departments of agriculture (all three provinces) – extension services are available to producers for information about the program as well as to sign up interested producers and provide production advice.

4. Chain Management

The overall management of the chain is provided by Atlantic Branded Beef Management Inc. (ABBM) – a not for profit corporation comprised of a six person management committee which includes:

- Dean Baglole, Chair and Vice-President of PEI Cattlemen’s Association
- Mary Stewart – representing N.S. Cattlemen’s Association
- Shane Murphy – Specialist Services Supervisor, PEI Department of Agriculture
- Carl Cradlemire - NB Cattle Agency
- Norma Babineau, Business Manager, Agriculture Division – Co-op Atlantic
- Eric Baxter – Meat Manager – Co-op Atlantic

Atlantic Branded Beef Management Inc. has just recently hired a Brand Manager – Ms. Joan Perrin. Ms. Perrin is responsible for managing the program and specifically developing effective communications programs for the brand by working with Co-op Atlantic and producers. Prior to this position, Ms. Perrin spent 16 years working with Canadian Cattlemen’s Beef Information Centre.

According to Perrin: “ABBM is funded on a shoestring budget.” Several organizations contribute including Co-op Atlantic and the three provincial cattle organizations. ABBM has also been a recipient of CARDF funds.

5. The Program

Any cattleman producing finished beef cattle and resident in Atlantic Canada is eligible to participate in the Atlantic Tender Beef Classic program. A summary of the program follows:

Enrolment Procedures

- Contact a Co-op Feed Sales Representative located in all three Maritime provinces; or
- The local Agricultural Representative at the provincial department of agriculture office.

Co-op Atlantic feed sales representatives enroll producers in the program and complete the required paperwork (the Enrollment form). This is not a particularly onerous process but it provides the opportunity to clearly convey what is required as well as determine the expected numbers and timing of cattle to be marketed – the Producer’s Marketing Program. In addition,

existing management practices are reviewed and the necessary changes to comply with the program are highlighted.

In summary the following records are required:

- Feed used with amounts or percentage of inclusion in diet
- Mineral feeding program
- Start weights and finish weights
- Project marketings on a monthly basis.

Production Requirements:

- Cattle must be fed Co-op Atlantic's premix or supplement to ensure that each animal receives a daily minimum of 500 IU of Vitamin E².
- Feeding program to consist of 33% grain (minimum) during the last 90 days of the finishing period. In potato growing regions, rations are to be limited to 40% or less of potato or potato by-product; 20 percent forage (minimum).
- Producers agree that cattle will not be fed onions, onion by-product or smoked fish during the last 90 days prior to slaughter.
- Producers are required to keep records of feeds used including either the amounts fed or the percentages used, mineral feeding program, incoming weights and outgoing weights.
- Producers are also asked to forecast the number of cattle to be marketed on a monthly basis.

Note: Producers subscribed to the program are subject to random audits to ensure that required levels of Vitamin E are being fed

Carcass Requirements:

- 600-850 pounds carcass weight
- Canada AA or AAA marbling or higher
- Yield 1 (59% or better) or Yield 2 (54% - 58% lean yield).

Note: The information system and the flows of information is limited and done manually. Producers receive copies of the 'kill sheet' from the packer which includes the numbers of cattle shipped; weights, grade and yield for each individual carcass; the number of cattle qualifying for the program, the base prices and the premiums to be paid.

Pricing Arrangements:

The current pricing arrangement is based on the following formula:

- Ontario carcass price (as reported by the Ontario Cattlemen's Association) less 8 cents per pound. The price is adjusted weekly and is determined on the basis of the previous Thursday reported market price.

² Vitamin E increases meat shelf life by reducing the rate of oxidation.

In addition:

- Co-op Atlantic pays a 1-cent/pound carcass weight premium on cattle meeting specifications. Note – this amount was noted separately on the producer statement issued by the original packer. It is currently being paid direct to the producer by Co-op Atlantic.
- \$3.00/head for Vitamin E is paid on cattle meeting specifications to cover the added feeding costs.

It will be observed that producers are being paid a very modest premium for qualifying cattle. This must be understood within the context of the previous situation when prices paid for cattle were even less favorable than the current Ontario based formula. The issue of pricing has been a sensitive one for Maritime producers. The local packing industry has had a history of being less than transparent or what is considered fair. Thus a considerable degree of mistrust has built up over time.

Price discovery continues to be an issue and the program is undertaking to establish a new price grid. There are concerns about the appropriateness of the Ontario price information. This is an increasingly challenging issue due to the lack of transparency since more and more cattle are sold direct from producer to packer.

6. Communications and Information Dissemination

Communications is recognized as an important issue and one of the primary reasons for the formation of ABBM and the recent hiring of the Brand Manager. It became apparent that the lack of systematic and regular communication was becoming a concern. For example, there were many misconceptions among producers about pricing, the need to follow protocols and more recently with the closing of the regional packer - the very future of the program.

Special attention is being paid to ensure that producers understand:

- The pricing formula – this continues to be linked to the Ontario price but many people thought it had changed.
- Vitamin E requirements – why this is necessary.
- Updates on program developments.

A newsletter entitled 'The Cutting Edge' was introduced in February 2002. Six issues have been issued since its introduction.

7. The Marketing Strategy

Atlantic Tender Beef Classic is the exclusive property of Co-op Atlantic. The marketing strategy is straightforward: a locally produced branded beef product for the local market. The brand appeals to a customer type that has a strong disposition to local/regional products and businesses.

Currently consideration is being given to develop a food service line of products. This will be a necessary component in a new strategy that proposes to build a dedicated plant (see next section). The food service strategy is necessary to utilize a larger proportion of the carcass.

Consumer surveys show that the demand for locally produced beef continues to outweigh supply.

8. A Major and Unexpected Challenge Facing the Chain

The recent purchase of Hub Packers by Maple Leaf Foods and the subsequent decision by the company to establish a specialized hog processing plant has left the Atlantic Tender Beef Classic Program in an extremely challenging position. No other plant exists in the Maritime to provide the necessary processing requirements. Thus the chain has been forced to ship cattle to Guelph, Ontario to be processed. Maple Leaf made the announcement on June 12, 2002. The last cattle were processed on August 2, 2002.

Clearly the loss of the regional processor is placing considerable strain on the chain. Cattle must now be shipped approximately 1,500 kilometers to the west and the processed product must be returned to the region. It is estimated that the combined cost of transportation plus shrink is anywhere from \$75 to \$100 per head. Further, the relationship with the Guelph packer is 'distant' in both literal and figurative terms. Producers are not comfortable with the prices being received but have no recourse whatsoever.

The situation has spurred Atlantic Branded Beef Management Inc. (ABBM) to examine the feasibility of constructing a new facility within the Maritimes. To this end, the Mallot Creek Group – a specialized consulting group with expertise in red meat processing was contracted to examine the feasibility of this proposition. By August 30th, the firm presented four options for consideration plus a list of critical success factors. The four options are:

1. Lease the current Hub Packers beef kill and cut facilities.
2. Build a new 'Greenfield' facility.
3. Purchase Garden Province Meats and refurbish it to create an efficient branded beef processing plant.
4. Establish a co-packing relationship with an established processor in either Quebec or Ontario.

The new 'Greenfield' facility option at an estimated cost of \$15 million is emerging as the preferred course of action. Specific to this option, Mallot Creek identified a number of critical success factors including:

- A new generation co-op structure with a signed up member supply of 500 head per week. A plan to sell 26,000 ‘hooks’ at a one-time price of \$60 is being proposed.
- A financial package that provides a secure balance between equity and debt
- A 50/50 partnership between Co-op Atlantic and the new ABBM cooperative.
- An equitable pricing grid that will ensure long-term viability for both the facility and the producers.

On October 22, 2002, it was announced that the new processing plant would be located in Prince Edward Island. It will be jointly owned by the beef producer group (Atlantic Beef Producers Co-operative Ltd) and Co-op Atlantic. A detailed financial and business plan is now being developed and reviewed. A final go/no go decision will be made in February 2003. The co-operative, which is now under consideration, has three classes of shares:

- Class “C” shares which entitle membership for \$100, which gives a producer the right to participate in the co-operative.
- Class “A” shares, which are called ‘hooks’ – based on a one-time cost of \$60 per ‘hook.’ A total of 26,000 hooks will be available (this translates into 500 head per week).
- Class “B” shares – to be developed for cow-calf producer who are intending to supply calves to feedlots. The structure and price of these shares have not been finalized and will be determined once the plant is built.

9. Summary of Achievements to Date

The major accomplishment of this chain is the revitalization of the beef industry in the Atlantic region. Arguably, without the success of the ATBC program, beef production could well be a disappearing enterprise. Clearly the program has given the industry a goal, a plan and a basis from which to pursue the investment initiative – namely the establishment of a dedicated plant. Had the program not been successfully implemented, those very considerations would not be taking place today.

The program is further illustrative of the co-operation that is possible between a motivated retailer and producer group. Clearly, this precipitated the inception of the value chain and is responsible for its success.

Another significant achievement has been the development of a producer focus towards performance and the achievement of the quality specifications required by the program. Producers have had to pay more attention to details - learn to sort their cattle by weight, assemble bigger lots, forecast deliveries for the coming year and keep production records. This has changed the way they normally did business.

Other highlights include:

- **Increased retail sales** – it is estimated that a 40 percent increase in volume has been achieved since the program was introduced in 2000. Co-op Atlantic reports that 2002 volumes to date have risen 19% since last year. Perhaps most significant, is the reversal of the declining beef sales trend that was in place prior to the program being introduced.

- **Improved retail margin and product mix** – fewer products being sold ‘on special.’ By implication, this means that more product is being sold as ‘feature’ – hence higher margin to the retailer. .
- **Winner of the Canadian Council of Grocery Distributors** – ATBC won the best new product in a perishable category (awarded on May 26, 2002). The products in this category are judged on several factors including innovation, packaging, design, labeling, pricing, taste, value, quality and overall benefits to the consumer.
- **Improved performance at the farm level** - for each of the three years the percentage of cattle that met the ATBC specs has remained consistent at 69% to 70%. However the reasons why cattle do not qualify for the program has changed – see following table.

An Analysis of Non-Qualifying Carcasses: 2000 to 2002.

Year	2000	2001	2002
Reasons for not Qualifying			
• Overweight	33	23	45
• Yield 3 (53 % or less)	15	30	21
• Grade A	30	20	13
• Other Grades	10	14	11
• Underweight	11	12	10

Base: The 30 percent of cattle not qualifying for the ATBC program for the month of March – 2000 to 2002.

The statistic illustrates that:

- Fewer cattle are falling into the Grade A category. By implication more cattle are making the AA and AAA grade.
- Overweight cattle are the major infraction. This is clearly a concern and something that can be easily remedied should producers weigh their cattle more carefully and market on a timely basis. Note: Further inquiry on this issue indicated that in many cases, the packer delayed the receipt of cattle – and the overweight cattle were not the fault of the producer.

We understand that if all the cattle marketed met the program requirements, the Co-op Atlantic would have sufficient product to meet the demand.

10. Challenges

The biggest challenge facing the Atlantic Tender Beef Classic program is the ‘packer’ situation described in the previous section.

Other challenges include:

- Designing a more effective price reward system.
- Increasing the number of cattle that qualify for the program.

- Competition from other retailers and their beef program. This keeps the retail prices in check and limits the margins that can be earned.
- Maintaining and sticking to quality standards. When the program commenced, the target carcass weight range was 550 to 750 pounds. There was considerable pressure to increase the upper end of this range and therefore increase the number of cattle that could qualify for the program. This was resisted until the assurance of quality was established. Recently the size range has been increased to 850 pounds. Even so, almost one-half of the non-qualifying animals marketed in the program continue to be overweight.

11. Lessons Learned/Relevance for Manitoba

The Atlantic Tender Beef Classic provides a number of valuable lessons for Manitoba and any other region considering a regional program. These lessons are presented as follows:

1. **Design a program that has clear benefits for all parties involved.** In this case the overriding benefit of the program has been the stability (and the renewed hope) it has provided for the Maritime beef industry and perhaps the opportunity to grow. Without such a program, the beef industry may have disappeared entirely. Within the chain, producers were offered a market for their cattle, the packer was assured supply of cattle and the retailer achieved its objective of having a unique, branded product that is valued by its customers. Each party had a clear stake in the success of the chain.

It must be strongly emphasized that any regional program must be built on the basis of clear and definitive market research. The Atlantic Tender Beef Classic works for Atlantic Canada **and** it works for Co-op Atlantic. Both elements are essential to its success. The very same program with another retailer in Atlantic Canada may not have been successful.

Furthermore, it is important that the program be self-sustaining in financial terms. Establishing and supporting a brand product requires considerable resources particularly at the retail level to cover marketing, promotion, consumer testing, research etc. These programs and costs are best borne by a motivated retailer. Producers are often quick to conclude that they as a group should own the brand. However, most fail since they do not understand retailing nor do they ensure that the retailer has a clear stake and ownership in the success of the product.

2. **Insure quality standards and compliance** – it is critical that each player understand the importance of meeting customer expectations and in turn meeting standards. For example, the beef packing industry has a history of mixing sub-standard products with products that meet standard³. This was a practice that had to be overcome. Further, it was tempting to expand carcass weight allowances at the outset in order to have more cattle qualify for the program. However, this would have comprised quality and increased the risk of creating dissatisfied customers particularly as the brand was being introduced.

³ This is one of those 'dirty secrets' and has created a lot of problems over the years.

3. **Resist short-term thinking** – further to previous point, the most important objective is the ability of the program to deliver a product that customers enjoy and want to purchase again. Therefore it is very important that the necessary systems, procedures and checks are put in place to ensure this will occur. Considerable effort went into planning, training and supporting the program before it was introduced.
4. **Understand each alliance partner and their motivation** - the ATBC program has been successful as a result of key motivating factors on the part of each chain player:
 - A retailer who wanted a branded product to compete in the marketplace
 - A processor who needed an assured supply of cattle to slaughter given that a significant portion of ‘his’ business had disappeared.
 - A producer group who needed a stable outlet and a measure of price assurance to market their cattle.
5. **Practice the art of what is possible** – this point was made by Paul MacInnes and refers to the situation where each participant needs to ‘stretch’ and do things differently than previously. Change is essential but not to the point where the system “breaks.” A key dynamic is getting every party to understand their own role and what they need to change – not to point fingers at another party and say, “I’m OK but they need to do this!”
6. **Third party management is important.** – this follows the previous point. It is very difficult for a party with a vested interest to convince another party what needs to be done. Thus a skilled project manager that is deemed neutral is much better able to discuss issues and facilitate change.
7. **Building a successful program takes time** – the genesis of a new development approach began in 1997. It took three years before actual product arrived on the retail shelf. The time delay is further demonstrative of the planning and activities that must be implemented before visible change takes place.
8. **Expect and plan for the unexpected** – the ATBC has unwittingly become a study in ‘challenge management’. The unexpected change in the status of the local processor has introduced a huge challenge for the initiative. However, the early success of the program, the commitment of the players and a compelling vision are providing the basis to explore a full range of options. Without these ingredients, the initiative would not likely succeed.

3.2 Ranchers Renaissance

1. Overview

Ranchers Renaissance (RR) is an excellent example of a ‘total business’ or organizational model that formed to address the many challenges facing beef industry. These challenges are well known and include:

- Declining per capita consumption since 1976 while other meats such as poultry have increased steadily throughout the same period.
- Declining retail prices and diminishing margins to processors, feedlots and cow-calf producers.
- Customer dissatisfaction. For example, in 1991, the Beef Quality Audit⁴ measured that 25 percent (or 1 out of every 4 steaks) suffered from palatability problems.
- Lack of recognized ‘brands’ – fresh beef has been traditionally sold as a commodity and thus has no perceived ‘value proposition’ as defined by consumers.

The ‘Renaissance’ is a closed (or new generation) cooperative whose members include cow-calf producers, feedlots, a major U.S. packer (Excel) with the specific objective to create and capture increased value from the marketing and production of beef. The model is unique to the extent that it has established a separate corporate entity designed to capture the total proceeds of production and marketing activities. Subsequently formulae and arrangements are made (and constantly being re-designed) to fairly distribute the benefits to each participant in accordance to where the value is being captured and/or created.

2. Background to the Chain

Renaissance was formed in 1997 when the beef industry was in crisis: volatile beef prices were at a cyclical low; the Hudson Hamburger crisis has just occurred (e. coil outbreak at Burger King); producers were concerned with packer consolidation; the consumption of beef continued to decline. The future for beef and for beef producers was far from bright.

Several cow-calf producers and feedlot operators came together to informally discuss their concerns. One of the leaders – Rob Brown, from Texas and a highly respected rancher, explained his frustration with selling on the ‘average’ and the entire beef production system that was built on the basis of one sector trying to outguess and/or take advantage of another sector. In the meantime, customer preferences or concerns continue to be overlooked and ignored.

This led the group to engage in further discussions with several processors that subsequently led to the selection of Excel as the processor partner. Subsequently the group commenced with the formation of a ‘coordinating’ structure that would be capable of delivering a high proportion of high quality carcasses as defined by the value based marketing grid established by Excel.

⁴ Conducted by the National Cattlemen Beef Association, USA.
Beef Value Chains – Final Report
Toma & Bouma Management Consultants

Chain Objectives:

The Renaissance mission is to create:

“ A customer focused integrated beef production system with profits derived from increased efficiency and consistent high quality finished products”

with the following objectives:

- Use customer information to produce quality cattle that met the needs of the end-customer and capture a better margin in doing so.
- Source verify cattle from birth to retail.
- Lower costs by eliminating middlemen and working together to capture efficiencies.
- Share the value added created among the participants.

To quote the RR website:

“ The cooperative – created by cattlemen – has established an integrated beef production system based on partnerships with ranchers, stockers, feeders, a processor and a retail end user. This alliance is real and actively seeking cattlemen ready to commit to a customer focused beef production system.”

The goal of the beef value chain is to produce consistently tender beef products for the consumer.

3. The Chain Partners

The Renaissance is a not-for-profit ‘closed’ cooperative comprised of two types of members:

- **Class Members** – each paying a one-time membership fee (\$25,000) and a commitment to supply a minimum of 1,500 cattle each year. A total of 23 members – 15 cow-calf producers; 7 feedlots and 1 packer (Excel). Each A-Class member has a seat on the board of directors.
- **Class B Members** – each paying a one-time membership fee (\$2,500) and commitment to supply a minimum of 150 head per year. B-Class members do not have any voting privileges.

In addition the chain has a preferred supplier relationship with Kroger – a major U.S retailer and a major customer of Excel. The retailer now features the chain’s branded product – Cattleman’s Collection⁵ at over 175 Kroger stores in southern USA as well as being the dominant brand in more than 120 King Soopers and City Market stores in the Colorado region.

⁵ Cattleman’s Collection is a trademark of Kroger Corporation.

All totalled, the Co-op members own or manage upwards of 120,000 cows. The feedlots range in size from 12,000 head to 45,000 head. Each member contributes \$10 per head to RR for each animal sold within the system. This pays for operating costs.

4. Chain Organization

The cooperative is governed by a board of directors (23 members with 1 representative from each A-Class member). The board elects a five person executive committee comprised of:

- Two ranchers/cow-calf producers
- Two feedlot operators
- The Packer – one member.

The executive committee oversees the strategy and operations of Renaissance and make recommendations to the board. The current chair is Mr. Gary Teague, with Teague Diversified Inc. – a progressive feedlot operator located in Ft. Morgan, Colorado.

The Renaissance operates a small administrative office with the following staff:

- **Chief executive officer** (CEO) – Mr. John Butler, whose role is to support the executive committee, the board, manages special initiatives and takes responsibility for the day-to-day operations. Mr. Butler was formerly employed with the National Cattlemen’s Beef Association and has an extensive background in the beef industry.
- **Accounts Manager** – Ranchers Renaissance handles all the financial transactions and ‘settles’ all the funds with the sale and processing of an average of 5,000 head of cattle per week (in excess of \$5 million). The accounts manager manages this.
- **Data Base Manager** – responsible for all data base activities, which includes the collection of carcass information, production records and the development of management reports for individual members.

5. Developing the Business Model

A major challenge facing Ranchers Renaissance has been the development of an appropriate value based or benefit-sharing model.

At the outset, Renaissance developed a cost based pricing model. This approach was chosen since it was thought to give each participant a clear cost target as well as encourage all members to work together to maximize the cooperative’s overall surplus rather than just their individual surplus.

The basic premise of this cost based model requires that:

- Each link of the chain to sell to the next link at cost (no transaction fees).
- The ‘cost’ would be determined on the basis of calculated long-term averages. For example, the calf cost table was based on 10 years of historical data using CattleFax data.
- Feed yardage costs were based on a per head per day using CattleFax data. The cost of feed was directly paid by the owner of the cattle to the member feedlot.
- Upon the sale of the end-product and the reimbursement to Excel at ‘cost’, the system gains or losses to the cooperative were shared as follows: packer - 30%; feedlot - 15% and cow-calf - 55%.

The whole system was predicated on the ability of the cooperative by means of the processor (Excel) to sell beef products at a premium. The more cattle that achieve ‘grade’ (USDA Select or Choice) - the greater the premium – the greater the ‘surplus over cost.’ Conversely, the lack of a premium meant little or no surplus.

After two years, it became increasingly apparent that the cost based model was not sufficiently flexible to respond to rapidly changing market prices and price swings. Specifically, the long term cost average approach was problematic on two fronts:

1. If the long-term cost (and in turn the price paid) for calves is too low relative to the prevailing market price, ranchers were reluctant to sell cattle to Renaissance. Thus a supply problem was emerging. For example, if producers entered only the minimum numbers necessary to be part of the cooperative, the Renaissance would fall far short of the 120,000 head required to meet demand requirements.
2. If the long-term cost (and in turn the price paid) for calves is too high relative to the prevailing market price, Renaissance was overpaying and in effect generating losses that had to be covered by the members.

During the 1998 to 1999 period, the cost base formula was above the depressed cash market price. Furthermore, Renaissance was not yet generating an end product premium over the cash price for the majority of its cattle. As a result, the cooperative began to experience sizable losses. While the processor picked up 30 percent of the losses, the balance had to be recouped by the producer members. Overall, the losses created considerable tensions throughout the entire alliance to the point that its very future was in doubt.

Consequently, the Renaissance undertook steps to develop a benefit-sharing program⁶ that now involves a weekly pricing mechanism closely aligned with market conditions. The approach was developed with considerable analysis and study including input from a Harvard Business School team. It is constructed as follows:

- Weekly pricing for calves that includes a premium for conditioning as well as premiums for quality standards.
- A feeder program based on price-out (market price) less price-in (calf price) plus the cost of feed. The Renaissance is currently working to fine tune a feeder risk-sharing program since

⁶ The exact details of how benefits are shared remain confidential.

the feedlot sector is the most volatile segment and is the least likely link to actually make a positive margin. Premiums are paid on carcasses that grade Low Choice/ High Select or better (a marbling score of 50 or better on High Select).

- A value added capture program in the sale of meat products – defined as the added value that is captured over and above the average boxed meat price.

The captured value is subsequently shared among the participants. Overall, the new benefit sharing program is based on transparency – the weekly pricing system coupled with the boxed meat prices is completely open and members can easily compare price information with competitive alternatives. To quote Jim McAdams, manager of Spade Ranches at Lubbock, Texas:

“ We put our faith in receiving our profits from the end product and faith in our partners to produce that product, and faith in the fact that we’ll come up with a fair method of sharing the profits of that product.”

6. Quality Standards

Ranchers Renaissance’s objective is to produce a tender fresh meat product that is sought by consumers. To this end, RR had developed a 24-point quality control system throughout the production and processing chain. A sample of the quality requirements include attention to:

- **Genetics** - cattle genetics must be at least 50 percent English breeding and no more than 50 percent continental. Brahman influence must be less than 25 percent and less than 3 inches of hump height.
- **Preconditioning** – all calves are preconditioned for a period of 45 days during which they are weaned, bunk broke, vaccinated and grown to a minimum of 450 pounds.
- **Disease Management** - cattle can only be treated and injected for sickness - once. Only subcutaneous or neck intramuscular injections are permitted. Any re-treatment automatically eliminates an animal from the program.
- **Source verified and Record Management** – all animals are source and process⁷ verified. Information captured along the production chain is shared with all production partners. Note: Emerge Interaction provides a fully integrated information system providing carcass data on an individual animal basis – a Florida based company.
- **Tenderness measure** – using the Sheer Force method, the measure must be 8 pounds or less, applied to statistically random sample of carcasses.

Renaissance works to ensure that members produce quality cattle. To this end, carcass information is reviewed and feedlots that perform well are encouraged to continue. Conversely, if a feedlot is noted to under perform, the CEO will meet with the operation and determine what actions need to be taken to improve performance

⁷ Ability to verify all processes and treatments that have been applied to an animal.

7. The Marketing Strategy

The Renaissance mission to create “a customer-focused, integrated beef production system with profits derived from increased efficiency and consistent high quality finished products.” To this end, the organization strives to:

- Use customer information to produce quality cattle that meet the needs of the end customer (and capture better margins in doing so).
- Source verify cattle from birth to retail.
- Lower costs by eliminating middlemen and unnecessary transaction costs.
- Share the value created among the participants.

The primary focus of the initiative is to market cattle by means of the Excel value based marketing arrangement including. These products include the following:

- Certified Angus Beef Program – cattle must be 50% black coat and score Choice grade with modest to moderate marbling.
- Sterling Silver – same as above but restricted to 50% black coat.
- Ranchers Registry – Choice and upper quality Select cattle with slight to modest marbling.
- Cattleman’s Collection – same as Ranchers Registry but exclusive to the Kroger chain.
- Harris Teeter Rancher – a program introduced in October 2002 with a regional supermarket.

In addition two new niche market programs are being developed – one is a high-end quality beef market and the other is a grass fed all natural product. The Chairman, Gary Teague is the leader in both these initiatives that are designed to develop direct to consumer marketing arrangements particularly in small but specialized opportunities.

8. Summary of Achievements to Date

In 2001, Ranchers Renaissance marketed nearly 100,000 cattle. For the most part, the members are satisfied with the operating structure and premiums generated by the value based market program. The major achievements include:

- The establishment of a preferred relationship with a major US retailer – Kroger⁸
- Success on the part of the retailer. Kroger reports a 10 percent increase in the volume of meat it is marketing. Consumer surveys within the Colorado market confirm a movement of customers away from two major competitors (Safeway and Albertson) to Kroger due to the promotion of Cattleman’s Collection brand.
- Increases in shelf space dedicated to Cattleman’ Collection – anecdotal evidence suggests that Kroger has continually increased the proportion of shelf space dedicated to this brand while reducing the space dedicated to other brands
- Increased brand recognition and brand loyalty – as measured by consumer surveys.

⁸ Ranchers Renaissance is one of three suppliers to Kroger for its Cattleman's Collection product line. The retailer required the two additional sources to meet the demand requirements.

- Request from the retailer asking for products with specific value traits.
- Improved returns to producers – note these are difficult to quantify in detail and the reader should note that windfall gains are not being experienced. Rather the RR members are experiencing improved prices and reduced price swings than was the case in the commodity market. Butler states:

“ This is not a silver bullet – there are additional expenses – but over the long term, the returns are positive”.

- Currently 91% of RR cattle qualify for at least one of the premium branded programs – 65 percent quality for Cattleman’s Collection.

9. Continuing Challenges

RR’s major challenge revolved around the need to address the original cost based model. This was leading the entire organization into financial difficulty. A new market based model has been adapted and this is continually being reviewed to ensure its ability to respond to market conditions and reward performance.

Another challenge facing RR is the lack of a unique brand specific to the organization. RR continues to supply products to Excel who in turn owns the right to the Rancher’s Registry brand and to Cattlemen’s Collection – the brand owned by Kroger. In both cases, RR is the principal supplier but Excel relies on two other sources of cattle to meet the demand requirements.

The lack of an RR owned brand is a source of frustration among some of the RR members who feel that the value capture potential back to the producers is constrained. However, RR members have also come to realize how difficult it is to develop and support a branded product. Clearly any brand that is targeted toward a major retailer requires critical mass – namely a steady supply of large volumes of cattle, and a major processing facility. Thus a decision to develop a unique brand versus being a supplier to established brands is a difficult one. In this regard, the industry is well aware of the Future Beef⁹ story that experienced major financial problems in trying to develop a fully integrated ‘pasture-to-plate’ program.

Finally, and perhaps most importantly, the supply arrangement with Kroger is a continuing challenge. Kroger (as well as all U.S. Supermarkets) is presently very preoccupied with the entry of Walmart into the food business. Consequently, the focus on price is paramount and accordingly, Kroger is putting pressure on Ranchers Renaissance and Excel for lower prices. To quote John Butler:

“Kroger talks quality but they act on price!”

⁹ Future Beef was an attempt by a group of beef producers working with Safeway to produce and process a branded beef program. The program included a plan to establish a dedicated processing facility but ended in bankruptcy before it even began.

The price pressure has stimulated RR to seek out additional markets. To this end, they have just begun a supply arrangement with a Harris Teeter – a regional supermarket located in the U.S South East. The launch featuring “Harris Teeter Rancher – Verified Tender” – includes 143 stores. This regional continues to maintain the in-store butcher who is able to speak specifically about the product and respond to customer inquiries.

The earlier success of the Harris Teeter program coupled with the continued price pressure experienced from Kroger, is causing RR to re-evaluate its marketing strategy. Clearly a regional chain supply strategy may prove more favourable than dealing with a national firm intent of competing against the Walmart low-price strategy.

10. Lessons Learned/Relevance for Manitoba

Ranchers Renaissance offers these lessons:

- **The importance and value of leadership** – Ranchers Renaissance is the product of a determined group of producers who were convinced and committed that there is a ‘better way’ to produce and market cattle. Several key individuals continue to lead and drive this vision.
- **A passionate commitment to the vision** – this is paramount and integral to involvement with RR. Prospective producers must be committed to the long-term vision before they are considered for membership. This passion and commitment enabled the group to deal with some very difficult issues – particularly the need to address the cost based model at a time when the organization was experiencing considerable losses.
- **A systems approach** – RR is an example of a total system that is built on long-term commitment toward the achievement of long-term goals.
- **Willingness to adapt and change** – the original cost based model, while sound in theory proved to be impractical within the context of rapidly changing market conditions and prices. Clearly RR recognized this problem and dealt with this issue by developing a benefit-sharing model that is more flexible and responsive. However, without vision and commitment, this would not have occurred and the chain could have easily fallen apart – particularly at a time when spot prices for cattle were much more favorable than the calculated average prices based on historical costs. The need to adapt continues. RR is currently evaluating its market strategy and may begin to focus on supplying regional chains that are less preoccupied with price and more committed to quality.
- **Build capability first** – it took years before RR was in a position to supply a major retailer with a branded product. Within this 5-year period, it took 2 years to build the cooperative, and another 3 years to build and test the production and processing protocols that could deliver a quality assured product and then be in a position to entertain a supply relationship with a major retailer. To quote the CEO – John Butler:

“ Too many alliances get ahead of themselves – you have to test your system and be able to deliver what you promise. Otherwise you end up worse off!”

- **An organizational model that lends itself to different situations.** While the RR model itself encompasses the total system from cow-calf production to retailer, it is built on the premise of building/organizing critical mass and improving performance based on market information. This same premise can be applied to Manitoba at either a segment level or a total system level. The segment options could include:
 - A group of cow-calf producers organizing to produce larger lots of uniform calves to be sold to backgrounders or finishing feedlots.
 - A group of backgrounders organizing to produce larger lots of stocker cattle to be sold to finishing feedlots.
 - The combination of the above.

In all cases, clear leadership and vision must prevail. Any cooperative effort will subsequently need to develop a clear set of goals, agreed to production protocols, an information system and a benefit sharing mechanism. The RR experience can serve to guide how such cooperative efforts might be structured.

3.3 The Highland Premium Alberta Beef Alliance

1. Overview

The Highland Premium Alberta Beef Alliance is an example of a visionary feedlot operation with the objective to “add value” to both its customers **and** its suppliers. Specific to the latter objective, the alliance is structured to offer added value to the cow-calf producers delivering and/or selling calves and stockers to the feedlot.

Furthermore, the Highland Alliance is in the process of developing a branded fresh meat product, developing niche market opportunities and in turn providing detailed performance and carcass quality information to cow-calf producers who choose to become members of the alliance. In addition, Highland has established a number of ‘preferred supplier’ arrangements with feed companies, animal health suppliers, financial institutions and genetic suppliers that offer special services and discounts to the entire chain.

The chain continues to emerge and develop. It remains early stage since a clear brand product position has not yet been established in the marketplace. Nevertheless, the Highland Alliance is an example of a feedlot led chain that offers a range of opportunities and benefits to cow-calf producers.

2. Background to the Chain

Two Alberta based firms initiated the Highland Premium Alberta Beef Alliance:

- **Highland Feeders Inc.** - a major Alberta cattle feeding operation located in Vegreville; and
- **Alberta Beef Packing Inc.** operating as XL Foods - an Alberta based meat processor with plants located in Edmonton, Calgary and Moose Jaw.

The value chain itself is the result of vision and leadership from two individuals:

- **Mr. Bernie Kotelko**, founder and co-owner of Highland Feeders; and
- **Mr. Brian Nilsson** – President of Alberta Beef Packing.

These two leaders recognized that the market for beef products is in a state of change. On the demand side, consumers are seeking a high quality consistent experience that is quality controlled and assured to be safe. On the supply side, producers throughout the production chain from the cow-calf operator right through to the finishing feedlot, are seeking additional and better information specific to the performance of their cattle so they in turn can produce and manage a more consistent product. Meanwhile the processor – in this case Alberta Beef Packing - is seeking to establish itself as a reputable and reliable supplier in the marketplace

These dynamics led Mr. Kotelko and Mr. Nilsson to conclude that long-term competitiveness in the beef industry requires better linkages and flows of information from the consumer back to the

processor. Thus it was recognized that the formation of a beef value chain would be better able to meet the tastes and needs of the consumer.

Significantly in 1996, the Province of Alberta specifically identified value chains and their formation as a critical process in the development of the value-added agri-food sector. To this end, the Agriculture and Food Council established the Value Chain Initiative in 1999 as a facilitation program. A series of workshops and seminars held to promote the initiative caught the attention of Page Stuart, Director of Research, and Highland Feeders.

The provincial focus on value chains motivated Highland and Alberta Beef Packing to team up and prepare a business plan specific to the formation of the Highland Premium Alberta Beef Alliance. With the assistance of Alberta Agriculture Food & Rural Development, this plan to establish a pilot project was completed in March 2000. A CARDF application was subsequently prepared for the Agriculture and Food Council that was approved in June of the same year.

Chain Objectives:

The overriding objectives of the Highland chain are to:

- Connect the key links in the supply chain namely cow calf producers, Highland Feeders (the feedlot); Alberta Beef Packing Inc. (the processor) and selected retailers.
- Develop information system linkages that enable the capture and flow of information from each link of the chain as well as to each link of the chain.
- Identify key market segments to develop a market position for the branded product(s).
- Develop and implement production protocols specific to the demands of targeted market segments.

The project was originally structured to develop in two phases:

Phase 1: Build Effective Information and Analysis System – this is the first and most critical phase to the extent that it provides the foundation from which all product differentiation and marketing support can develop. Furthermore, the information system provides the basis for improved and more effective production decisions. This was the primary focus of the CARDF application – the pilot project.

Phase 2: Develop Additional Niche Market Opportunities – ultimately the most important long-term objective. The CARD application addressed the initial stages of the market development.

3. The Chain Partners:

The partners in the Highland Premium Alberta Beef Alliance include:

Alberta Beef Packing Inc. ¹⁰	Co-initiator: A beef slaughter house and meat processor comprising Edmonton Meat Packers and XL Foods.
Highland Feeders:	The Chain Initiator and a major Alberta beef feedlot located in Northeastern Alberta.
Cow Calf Producers:	Seventy-two cow calf producers are actively participating in the alliance. This has grown from 21 producers in 2000. Under the program 4,930 beef cattle are currently registered. Most of the producers are Alberta based, however a number are located in Saskatchewan.

An important feature of the Highland Chain is the number of ‘Alliance Associates’ who provide services to chain members as part of a ‘group offering.’ The associates include:

- **Feedlot Health Management Systems** – a specialized animal health service provider.
- **Landmark Feeds and Unifeed** – suppliers of nutrition and feed supply services. Landmark Feeds provides feed products and services to the feedlot; Unifeed provides services and feed to cow-calf producers.
- **Norwest Labs** – full range provider of agricultural and horticultural testing services for materials such as soil, tissue, compost, feed and water.
- **Vetrpharm** – supplier of animal health products including a Controlled Internal Drug Release system.
- **Boehringer Ingelheim** – supplier of animal health products including vaccines.
- **Alta Genetics Inc.** – provider of beef genetics.
- **ABS Global** – also a supplier of beef genetics.
- **Computeraid Professional Services** – specialty software service provider. This firm was contracted to build the information system that links the processor with the feedlot and in turn with the cow-calf producer.
- **Techweavers** – an information system provider able to offer preferred rates on computer and related equipment.
- **Bank of Montreal** – financial services provider who are able to offer chain members a set of services and rates that are more competitive than to an individual customer.

¹⁰ Alberta Beef Packing Inc. is the parent company for the following companies: Edmonton Meat Packers, XL Beef and XL Foods. It should also be noted that the Highland Chain extends beyond Alberta Beef Packing to retail and food service customers. One such customer is Retail Ready Foods Inc. – a Mississauga based food distributor that specializes in the development and marketing of branded meat products. The chain relationship has not yet developed to include an information linkage.

4. Chain Organization

A Steering Group directs the Highland Alliance. It is comprised as follows:

- Alberta Beef Packing – two representatives - Brian Nilsson, President and Bruce Smith, Vice President, Corporate Development
- Highland Feeders – two representatives – Bernie Kotelko, President and Page Stuart, Director of Research
- Cow-calf producers – typically two representatives
- ComputerAid – one representative who directed the overall development of the information system
- Agriculture & Food Council – two representatives working with the Value Chain Initiative.

Typically, the Steering Group meets quarterly to review progress, deal with issues and to set priorities.

In addition, the chain used the services of a professional Project Manager during the pilot project stage. This individual developed the original business plan, chaired the meetings and ensured that actions decided by the Steering Committee were followed up and completed as per the business plan.

It is also significant to note that Highland Feeders is one of very few feedlots that have a Research Director on staff. This person is Ms. Page Stuart who has contributed enormously in the planning and establishment of the chain. Without this input, the chain would not be where it is today.

The total budget for the pilot project was \$223,000. The two initiating partners carried Fifty percent of the costs; the CARDF grant carried the remaining fifty percent. The major expenses included: information system development -\$71,000; computer and data collection hardware - \$55,000; market development - \$40,000 and project management - \$25,000.

Each cow calf producer pays a nominal fee of \$5 per head for each animal registered in the Alliance. This entitles the producer to obtain production and carcass performance information on an individual animal basis.

5. The Information System

The major objective of the value chain project was to develop an effective and efficient information transfer system from the processor back to the feedlot and ultimately the cow-calf producer. A brief overview of the system and its components follow. The process begins with the registration of the incoming animals to the feedlot by either the cow-calf producer and/or the feedlot manager upon entry – see Attachment 1 for a sample set of registration forms.

Sample reports that are available to each chain member subsequent to the animals being processed are presented in Attachment 2. The reader will also note that actual reports can be

viewed on the Highland Feeders website (www.highlandbeef.com - select 'Value Chain' and select 'Member Update'). Access to individual reports remains private – however, the interested parties are invited to contact Page Stuart at Highland Feeders who will make arrangements to review the system.

Sequentially the information system captures the following:

1. **Upon Arrival to the Feedlot** – date of birth, weight and health history. Each animal is assigned an ear tag (and number) and receives an electronic EID tag for the purpose of retrieving carcass data, and then assigned to a lot.
2. **Upon Departure from the Feedlot** – weight, days on feed, date shipped.
3. **Upon Processing at the Plant** – live weight, carcass weight, percent yield.

The reports generated by the system include:

1. **The Production Report** – a listing of starting weights, days on feed (DOF) final weights, average daily gain (ADG) and rank order by ADG efficiency.
2. **The Carcass Report** – a listing of live weights, carcass weights, yield (percentage); grade, base price, net price, and premium or discount per carcass.
3. **The Revenue Report** – a listing of processing and carcass data with final total revenue for each carcass.

The reports enable the producer to analyze the performance of individual cattle as well as 'lots' of cattle. An added 'graphing' feature is also available. Producers are able to:

- Analyze carcass performance by head. Each producer can evaluate the performance of an individual 'lot' of cattle in comparison to all the cattle being marketed by the alliance (minimum, maximum and average).
- Analyze carcass performance by weight whereby the individual can evaluate the performance of the lot in question on the basis of weights.

6. Communications and Information Dissemination

The Highland Premium Alberta Beef Alliance is strongly committed to maintaining good channels of communications among its members. To do so, the Alliance:

- Meets at least two times per year as a group to discuss updates, developments and respond to questions and inquiries. The last such meeting took place on June 18, 2002 in Vegreville and was attended by more than 60 people.
- Issues a quarterly newsletter.
- Maintains a Website that provides both general information as well as enabling private member access (see www.highlandbeef.com).

7. The Marketing Strategy

The original plan of the Alliance was to develop a niche market for high quality hormone free beef in Europe. This plan was formulated in 1999. The rationale for this decision was threefold:

- The ability of the chain to supply a fully traceable high quality hormone beef product into this market.
- The position of a marketing partner - namely Canadian Beef Export Co. In 1998 and 1999, this company was experiencing a growing demand for beef products in such markets as Spain, Italy, Belgium and the United Kingdom.
- The price premium characteristic of the European market at the time.

Since the project outset in 1999 however, the market conditions for beef in Europe changed drastically. The most significant factors impacting the strategy were:

1. The dramatic decline of the Euro relative to the US and Canadian dollar. Within two years, the Euro declined almost 25 percent making the Highland product substantially more expensive than the case previously.
2. The loss of market position by the marketing partner. By late 2000, Canadian Beef Export Co. was virtually at a stand still in the European market. Furthermore, the company was having great difficulty procuring product at previously committed price levels which was now well below market.
3. The disappearance of the price premium. European prices had become much closer to North American prices - hence making it very difficult to compete once freight and handling costs are added.

Consequently, the Alliance has made a decision to focus on the development of the domestic market comprising several marketing options:

- The development of a branded product – Spring Creek – Premium Alberta Beef. To this end, logo design and supporting promotional material has been developed.
- The certification of Highland Feeders as '*Free Farmed*'- a designation by the American Humane Association. The Free-Farmed Certificate Program (FFCP) is a voluntary program that provides assurance that animals are reared and handled in humane conditions. The program is audited by Farm Animal Services (FAS), an affiliate of the American Humane Society. Highland Feeders is the livestock production operation in Canada that has achieved this status and is entitled to use the *Free Farmed* logo on all company literature.
- Test marketing of natural beef with Smith & Wollensky – a high end New York restaurant. The initial test, conducted in the spring of 2001, proved very successful¹¹. However a long-term supplier arrangement has not been established due to the major disruption that occurred on September 11th, 2001. As well, the

¹¹ Refer to article in the Edmonton Journal: 'Alberta Beef A Smash In New York' – May 9, 2001.
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broker handling the account has had difficulty finding markets for all the carcass cuts.

- The establishment of a Value Based Marketing program with Cargill Foods. This relationship between Highland Feeders and Cargill is available to all cow-calf alliance members. As one of Cargill's largest supplier of cattle, Highland Feeders qualifies for a grid pricing program that rewards premium carcasses which in turn are used to supply several premium programs including Sterling Silver, Canadian Certified Angus, Certified Angus Beef and Prime. Premiums per head can reach as high as \$180 over base price.
- Developing a supplier relationship with Whole Foods. This is under current review. Whole Foods is a US based specialty foods retailer that opened its first store in downtown Toronto in May 2002. Currently, this store is sourcing natural beef products from the U.S. Negotiations are ongoing with XL Foods on behalf of the Highland Alliance.
- Possible relationships with a Japanese buyer and another organic/natural food broker in Eastern Canada (both are XL Food customers).

Overall, the marketing program has been active in pursuing numerous opportunities for beef being produced by the Highland Alliance. However, the original objective of having a branded product listed with a retailer within the time frame of this project has not yet occurred. This is only a matter of time and negotiations to this end are taking place currently.

What is most important and perhaps the most significant achievement of the Alliance is the development of a complete 'platform' that is now in place to provide a variety of products including a natural product, a branded product and products for the supply of already established premium brand programs. All products can be fully supported with production protocols, trace back and the full provision of performance information to all members of the chain. For example, Highland is now in a position to become the largest supplier of a natural beef product in Canada – a position that is very difficult to establish and a position that will be very difficult to compete with.

8. Summary of Achievements to Date

The achievements of the Highland project are summarized as follows:

- The development and implementation of an effective information system from the packer to the cow-calf producer. Now for the first time, cow-calf producers can actually view and begin to analyze performance beyond the traditional weight and average daily gain measures. This information and subsequently the development of an information database will enable producers to evaluate genetic lines and production methods more effectively.
- The establishment of standard production protocols that enable the production (and source verification) of natural beef – a product that is produced with no hormones (implants) and a minimum (or no) antibiotics. Further, the standardization of protocols is an effective way to reduce incoming costs to the feedlot – if the feedlot knows how the animals have been treated, duplication and/or unnecessary treatments can be eliminated.

- The ability to supply and generate a range of production, carcass and revenue reports either by fax, mail or via the web site.
- Considerable growth in the number of cow-calf participants in the alliance. At the outset of the project, 21 cow calf producers were members; currently there are over 72 members who have registered a total of 4,930 cattle on the program.
- The development and provision of an extensive number of alliance partners who are supplying services to chain partners. In effect, this is contributing to the reduction of the production cost base.
- The achievement and certification of '*Free Farmed*' status.
- Successful market tests with specialty outlets as Smith and Wollensky. Also the Alliance is in final negotiations with a high-end natural/organic retail chain in Ontario.
- The provision of several marketing options for clients and cow-calf partners.

9. Setbacks

The Highland Alliance has not been without challenge or setbacks. Most notable are the following:

- The changing market and the length of time it has taken to develop a branded product. As noted in the Marketing Strategy (see section 7), the original intent was to develop a position in the European market. This has not occurred due to rather dramatic changes in relative price levels and currency values.
- A change in the choice of the Information Systems supplier. The original business plan was built on the based of a plan to utilize a US based system supplier who had established a Canadian office. However, as time passed, it was increasingly apparent that this supplier was unable to deliver what was promised. Thus the Steering Committee had to make a difficult choice of ending a relationship that was over one year old and seek out a new supplier. The choice of ComputerAid however has proven to be a good one.

10. Lessons Learned/Relevance for Manitoba

The Highland Alliance offers these lessons:

1. **Vision and leadership are critical** to chain formation. In the case, the vision of Bernie Kotelko and his desire to add value to both the feedlot and to cow-calf supplier/partners has been instrumental in developing the chain and moving it forward.
2. **Financial incentives** are key contributing factors to success. In this regard, the Highland Alliance has been beneficiary of resources from Alberta Agriculture to fund the development of the original business plan; the CARDF program to fund the development of the pilot project; and two willing partners – namely Highland Feeders and Alberta Beef Packing committed to providing the necessary funds to make the project a reality.
3. A **structured management** process was put in place. The project has been guided by a detailed and well prepared business plan, the use of a professional project manager and a

value chain partner with management staff committed to the project. Each of these ingredients has contributed to the success of the project.

4. **Be prepared for and expect changes to occur.** The Highland Alliance is a classic example of significant change that can (and is likely to) occur during the formation stage. In this case, markets changed dramatically and an initial supplier/partner was unable to deliver what was required for the project.
5. Most importantly, the Highland Alliance is an example for the Manitoba in two key areas:
 - It serves as a **model for feedlots** who themselves are considering the implementation of value added strategies in their own right.
 - It offers an **actual opportunity for Manitoba cow-calf producers** to join the Highland Alliance itself. Currently Alliance cow-calf members are located in Alberta and Saskatchewan. However, the Highland Alliance is open to new members from Manitoba.
6. **Finally, chain formation and the realization of benefits take time.** Highland Feeders with Alberta Beef Packing initiated the process in 1999. It has taken over 3 years to build the system and to be in a position currently to seriously pursue market development. Until recently, the chain had no capacity to supply since the full traceback system was not yet in operation. In effect, the last three years have been spent building the infrastructure to compete more effectively. While several marketing options are available (such as the Cargill option), the results and the benefits are yet to be realized.

3.4 Cargill Branded Programs:

1. Overview:

Cargill Foods is one of world's largest meat processors. The company is well known in Canada being the first to construct a modern single story processing high volume plant in Canada. Construction commenced in 1989 and since that time Cargill has been a major player in the Canadian beef industry.

Over the past 8 years, Cargill has committed resources to establish, develop and supply branded meat products. This follows the company strategy to develop value added programs – further to the realization that customer satisfaction **and** profitability was very much tied to its ability to supply high value fresh beef products.

Cargill's experience in the value added branded markets began when it became a licensed supplier of **Certified Angus Beef (CAB)** – a program developed and owned by the American Aberdeen Angus Association. Subsequently, Cargill supplies an array of products including:

- Sterling Silver – Cargill's own branded 'premium' product line
- Northridge Farm – also a Cargill product but targeted to the more cost conscious customer.
- Rancher's Registry – a U.S. based program developed in concert with Ranchers Renaissance.
- Certified Canadian Angus Beef – a program owned by the Canadian Angus Association.

Three programs are discussed in detail in this case. These are: Certified Angus Beef, Sterling Silver and Canadian Certified Angus.

2. Beef Grades

Knowledge of Canadian and U.S. beef grading systems provide important context to understanding Cargill's approach in the brand beef market. In general terms, four major grades define the market for consumer beef in Canada. These are:

- **Canada Prime** – must have slightly abundant marbling.
- **Canada AAA** – must have small marbling or higher.
- **Canada AA**- must have at least slight marbling but less than small.
- **Canada A** – must have at least trace marbling but less than slight.

This system reflects the changes made in 1997 to correspond with the USDA grading system (see Table 1) (also referred to a grade equivalency).

There are also several additional grades – namely B, D and E – these however are generally applied to cows that are targeted for hamburger and processed meats.

Table 1: A Comparison of US Grades with Canadian Grades

Canadian Grade	United States
Canada Prime	USDA Prime
Canada AAA	USDA Choice
Canada AA	USDA Select
Canada A	USDA Standard

The distribution of carcasses by grade is presented in Table 2. The data which presents all slaughter in Canada for 2000 (nearly 3 million head) and Year to Date information for 2002 (over 2.3 million head) illustrates that a very small proportion of cattle fall into the Prime Category – less than 1 percent¹². Canada AAA accounts for approximately 50 percent while the remaining 50 percent fall in the Canada AA grade category.

Table 2: Cattle Performance in Canada by Grade

Grade	2000	2002 YTD
	% in Each Grade	% in Each Grade
Canada Prime	.89	.58
Canada AAA	44.6	50.7
Canada AA	49.8	46.4
Canada A	4.7	2.3

Source: Canada Beef Grading Agency

Gradations within Grade Categories:

The Canada Prime and AAA (USDA Prime and Choice) grades (particularly the AAA grade) are considered by the meat industry to be a wide and in effect a generous range. There is a considerable difference in the marbling quality from the minimum requirement to the most generous allowance. As a consequence, the packing industry has applied further marbling ‘categories’ or divisions to both the Canada Prime and Canada AAA, which are defined by a marbling score. The divisions are:

Canada Prime Grade:

- Slightly abundant
- Moderately abundant
- Abundant

Canada AAA:

- Moderate
- Modest
- Small

Each of these divisions has 100 degrees of gradation determined by marbling score (see Table 3).

¹²Approximately 2 percent of all carcasses in the U.S. grade in the USDA Prime category.

Table 3: Gradations of the Grade Categories by Marbling Score

Grade	Marbling Score
Canada Prime	Abundant (1-100) Moderately Abundant (1-100) Slightly Abundant (1-100)
Canada AAA	Moderate (1-100) Modest (1-100) Small (1-100)
Canada AA	Slight (1-100)
Canada A	Trace (1-100)

The greatest variation occurs in the Canada AAA category to the extent that nearly 50 percent of all carcasses fall into it this category. This is the supply base from which most of the branded products are sourced.

3. The Cargill Program

The Cargill program begins at the kill line and is termed by some industry personnel as a ‘cooler sort’ program. Any and all cattle are eligible for consideration for one of several branded products by means of a sorting process. Some products require additional production and phenotypic protocols; however the general categorization by brand occurs in the manner illustrated in Table 4.

Table 4: Brand Beef Products Correlated by Grade & Marbling

Grade	Marbling	Branded Product
Canada Prime	All categories	Prime
Canada AAA	Moderate Modest	Certified Angus Beef (0+) Sterling Silver (0+)
Canada AAA	Small	Northridge Farms (30 +) Canadian Certified Angus (0+) Ranchers Registry
Canada AA	Slight	Ranchers Registry
Canada A	Trace	-

In descending order of quality, the following selection and sorting process occurs:

1. **Canada Prime** – the most difficult category to achieve. This grade of product is marketed as such to the high end food service market
2. **Certified Angus Beef** – must grade Canada AAA and marble modest or better. In addition the animal must have a black hair coat of 50% or more.
3. **Sterling Silver** – identical to CAB, but without the black hair coat restriction.
4. **Northridge Farms** – must grade Canada AAA and marble 30 + (on the gradation scale).
5. **Canadian Certified Angus** – must grade Canada AAA with the minimum of marbling; be certified to have a minimum of 50 % Angus breed.
6. **Ranchers Registry** – must grade Canada AA (or USDA Select) or better.

The seasonal distribution of carcasses by grade and marbling category is presented in Table 5. It can be noted that the first two categories – namely Canada Prime and Canada AAA with moderate or modest marbling, occur relatively infrequently and with a high degree of variability. Thus such products as Sterling Silver and Certified Angus Beef draw from a relatively small proportion of carcasses – a range of 8% to 15%. Similarly the Canada AAA category with small marbling, ranges from a low of 23% of carcasses to a high of 62%.

Table 5: Seasonal Distribution of Carcasses by Grade and Marbling Categories

Grade	Marbling	Seasonal Range (Low to High)
Canada Prime	All categories	1% to 3%
Canada AAA	Moderate Modest	8% to 15%
Canada AAA	Small	25% to 62%
Canada AA	Slight	23% to 54%
Canada A	Trace	5%

Source: Cargill Foods – based on general estimates.

Price premiums based on grade and degree of marbling are presented in Table 6. Two important points prevail in the interpretation of the premium:

1. They apply only if a minimum of 42% of the cattle marketed in the particular ‘lot’ achieve Canada AAA grade or higher. Typically feedlots market ‘lots’ of cattle ranging in size from 40 head to 300 head. Thus the 40 head lot requires a minimum of 17 head to grade AAA or better; the 300 head lot requires 126 head to qualify.
2. Premiums vary throughout the season – hence the range of \$5 to \$15 per cwt. During certain months (typically the fall), the numbers of Grade AAA cattle are abundant and may account for 70 percent of the total kill; however during the late winter/early spring months – the levels may fall as low as 40%. Meanwhile, retail and food service demand remains relatively constant – thus the fluctuating supply and demand dynamic.

Table 6: Range of Premiums Paid on Carcasses by Grade and Marbling Categories

Grade	Marbling	Seasonal Range (Low to High)
Canada Prime	All categories	AAA premium + \$9 per cwt Total: \$14-\$24 per cwt.
Canada AAA	Moderate Modest	AAA premium + \$6 per cwt Total: \$11-\$21 per cwt
Canada AAA	Small	Total: \$5-\$15 per cwt
Canada AA	Slight	Base Price
Canada A	Trace	Discounts apply

Notes:

1. Base Price – Canada AA with Y2 (yield of 54 to 59%).
2. Premiums fluctuate depending upon seasonal supply and demand.

3. All lots marketed must achieve a minimum percentage of 42% of carcasses that grade Canada AAA before any premiums are paid.

In summary the following premiums apply: (1) Grade AAA - \$5-\$15 per cwt, depending upon seasonal conditions; (2) an additional \$6 per cwt – if marbling scores modest or moderate. Any carcass that achieves the Canada Prime grade qualifies for the \$9 per cwt over the base Canada AAA premium.

Applied to an 850 pound carcass, the following premium ranges may apply:

- Canada Prime - \$119 to \$204 per head.
- Canada AAA (modest to moderate marbling) - \$93.50 to \$178.50 per head.
- Canada AAA premium (small marbling) - \$42.50 to \$127.50 per head.

Animals are discounted if overweight and below Canada AA grade. For example, a 950 pound carcass with Canada A (and an Y3 yield) would experience a discount of \$246. Thus it is possible for two animals in any one lot with a similar appearance (albeit one would be the heavier) to differ by more than over \$400 in value.

Cargill has developed an extensive weight-price grid. Actual premiums are negotiated on individual basis with large feedlot suppliers on a confidential basis. The extent of these premiums are dependent upon the history of supply – Cargill has extensive knowledge of each of its large customers and what they can expect in terms of carcass quality, volumes and seasonal variation.

4. The Certified Angus Beef Program

The Certified Angus Beef Program (CAB) is unquestionably the ‘grandfather’ of branded beef programs and the bell weather against all other programs is measured. The program was launched in 1978 by the Aberdeen Angus Association (AAA), in response to the USDA broadening (lowering) of standards for Choice and Prime grades in 1976. As continental breeds were becoming more popular, with their superior gaining and lean meat characteristics, grading standards were changed to allow more of Continental carcasses to make top grades.

Angus breeders believed that the overall quality of beef was on the decline as the trend moved to leaner albeit less tasty beef. Initially, the introduction was a simply a breed association initiative with the objective to improve Angus producers’ returns for what they themselves believed to be a superior product. CAB remains affiliated with the Black Angus breed association.

Simply positioned as “Beef: tasty, tender all the time” the CAB program is essentially a kill and cooler line sort program with the following requirements:

- 50% or more black hair coat.
- Canada AAA – modest or moderate marbling.
- Maturity – between 9 and 30 months of age.
- Yield 1 or 2.

- No hump over 2 inches (eliminates the notoriously inconsistent cattle of Brahman influence).
- No evidence of internal hemorrhage.
- No dark cutting characteristics (result of bruising).

The program is directed and managed by Certified Angus Beef, LLC a not for profit corporation under the control of the American Aberdeen Angus Association. It has nine-member board – five from the AAA. Its primary function is to market, promote and facilitate the enhancement of the CAB product and does so by means of licensing agreements. To this end, CAB has a large network in US and Canada comprising breeders, cow-calf producers as well as approximately 68 licensed feedlots (in the commitment to Quality program), 29 US based packers, 3 Canadian packers¹³, distributors, 3500 restaurants and 4000 retail stores. In addition an estimated 30,000 restaurants buy the label but do not sell it as a branded product (since they are not licensed).

Worldwide, about 500 million lbs of beef are sold with the CAB brand. The vast majority of sales (85%) are in the USA. The largest share of international sales occurs in Canada (See Table 7).

Table 7: Overview of CAB Statistics

	2000 Total	2001 Total.	% Increase	% of Total	2002 Projected
Retail	299.0 million lbs.	274.9 million lbs.	(8.3)%	51.2%	297 million lbs.
Foodservice	162.4 million lbs.	165.9 million lbs.	2.9%	30.9%	180 million lbs.
International	82.7 million lbs.	86.4 million lbs.	4.1%	16.1%	93 million lbs.
Misc.	10.9 million lbs.	10.3 million lbs.	(6.4)%	1.8%	10 million lbs.
Grand Total	555.0 million lbs.	537 million lbs.	(3.2)%	100%	580 million lbs.
Head of Cattle					
Identified	10.5 million head	10.9 million head	3.4%	NA	11.0 million head
Certified	1.92 million head	2.0 million head	3.2%	NA	2.0 million head
Accepted	18.3%	18.3%	NA	NA	18.5%
Lbs./Hd.	288	277	(3.8)%	NA	285
Value-added*	8.5 million lbs.	9.3 million lbs.	9.8%	NA	11.3 million lbs.

CAB has recently undertaken steps to integrate the program ‘upstream’ including:

- The introduction of the Feedlot Licensing Program (FLP) in 1999.
- Developing an information system and the provision of services to link carcass data back to feedlots and cow-calf producers.
- Introducing a three-part Quality Program – product safety assurance, feeding and management practices, data collection and storage.

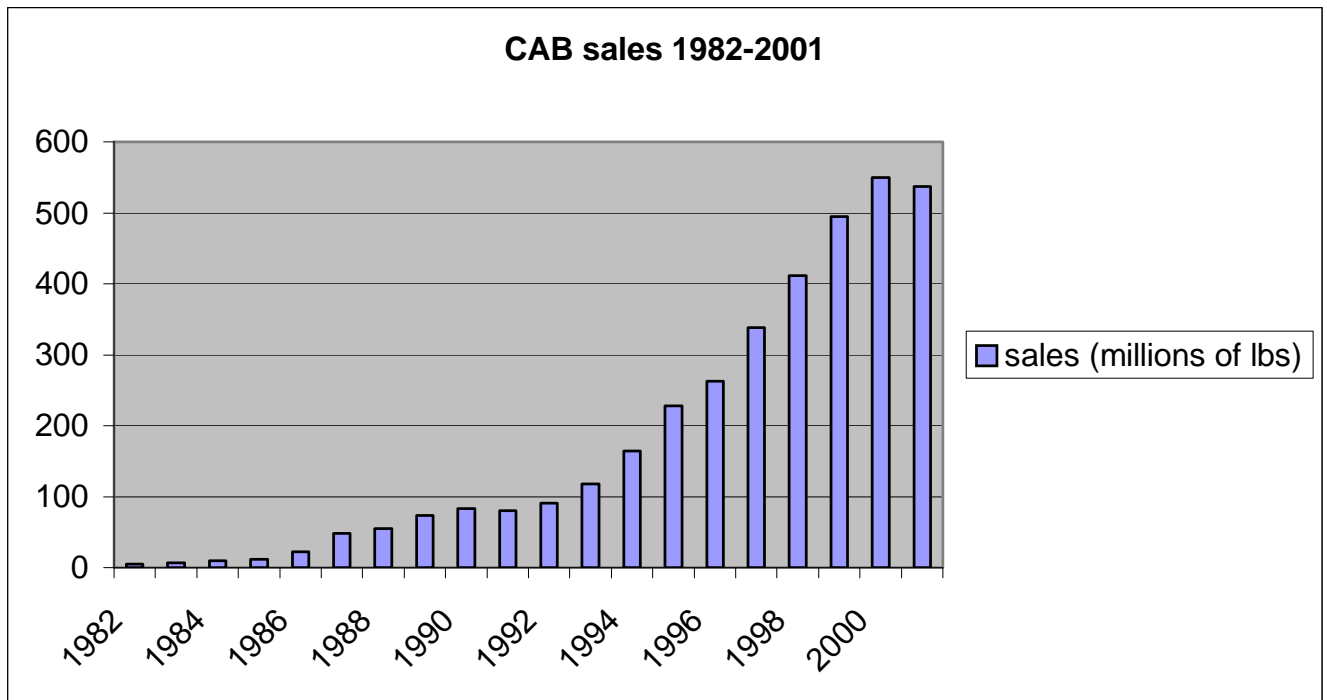
Approximately one-half of qualified cattle that are processed under the CAB program originate from licensed feedlots – mostly located in Kansas and Nebraska. It is the objective of the program to source all program cattle from licensed feedlots – thus adding a further quality dimension to the product.

¹³ Canadian packers include Cargill Foods, IBP and Better Beef in Guelph.

The history of product sales (see Chart 1) illustrates that it took almost 15 years for the program to gain momentum. The 100 million pound per year sales mark was achieved for the first time in 1994. Subsequently, product sales increased five fold in less than 8 years. However, 2001 is the first year when annual sales experienced a decline (down to 537 million pounds from a 2000 year high of 555 million pounds). This may be a purely circumstantial setback, but it may also be indicative of the increased competition created by newly introduced branded products. Overall, CAB estimates that licensed packers have paid out \$US 25 million in direct premiums in 2001 – this translates to \$US 13 per head or about \$2 per cwt. - a rather modest amount and may be a reason why producers are beginning to direct cattle to other programs.

CAB’s strategic response is to enhance quality requirements by means of animal identification and the licensing of feedlots. However its greatest attribute – namely the flexibility to accept any animal of any genetic background excepting for the black coat requirement, may become the ‘Achilles heal’. In effect, this has left the competitive door ‘wide open. Competition from other Angus programs may prove formidable should the required level of resources be applied. Nevertheless, CAB is a clear demonstration of the effectiveness of a long-term brand strategy.

Chart 1: History of CAB Sales from 1978 to 2001



5. The Sterling Silver Program

Cargill's Sterling Silver program was precipitated by the success of CAB. As a licensed packer for CAB, Cargill realized that it was receiving little benefit and made the decision in 1993 to develop its own branded meat product. Hence the birth of Sterling Silver – introduced by Excel Corporation (Cargill's U.S. meat processing company) in the U.S. The Canadian introduction occurred in 1997.

The specifications for Sterling Silver are identical to CAB without the restrictive phenotypic requirement (50% or more black coat). Thus any animal of any genetic background can qualify for the program.

The product is aged a minimum of 14 days before it is sold. Several customers/distributors actually age the product a full 21 days.

Sterling Silver was initially targeted to the high-end food service market (white table cloth restaurants). Within Canada, two distributors exclusively handle the product to serve these markets. The product experienced a major retail market breakthrough in 2000. Two chains now carry the product: (1) Sobey's in eastern Canada – the product is available in over 30 corporate stores and approximately 69 Garden IGA stores; and (2) Thrifty's in British Columbia – a regional chain with 18 stores – mostly on Vancouver Island.

Cargill has recently launched a 'Make Life Taste Better' campaign to strengthen the positioning and presence of the Sterling Silver program. New Point of Sale (POS) materials are being introduced. Cargill works closely with its retail customers to create a strong and appealing 'Sterling Silver Premium Meats' counter.

Specific to the Sterling Silver program, Cargill's major challenge is the supply of quality carcasses. Only between 8% and 15% of all cattle meet the product's grade requirements. To ensure a consistent supply for its customers Cargill can only plan a program that is built on the 8% supply factor. To go beyond this minimum percentage, runs the risk of shorting supply and the risk of poor product quality, brand erosion and customer dissatisfaction.

The pending Country of Origin Labeling (COL) requirement poses another challenge for Canadian based Sterling Silver product moving to the U.S. However, Cargill/Excel is focusing on further developing the food service market since it is exempt from COL regulations.

6. Certified Canadian Angus Beef

Certified Canadian Angus Beef (CCAB) is the Canadian Angus Association's response to deliver a value added branded beef program. The program introduced in 1999, is predicated on:

- The success of CAB and other premium branded programs in the U.S.
- The failure of an earlier established Canadian Angus Beef program to develop any market momentum.
- The opportunity to feature and develop a truly Canadian Angus beef program.

Its objectives are to:

- To identify cattle that are at least 50% Angus origin.
- Increase value and use of Angus seedstock.
- Provide new marketing opportunities.
- Facilitate information exchange.

The specifications for the program are:

- Any qualifying animal must be 50% Angus breed
- Be traceable using a dedicated green tag¹⁴ supplied by the Canadian Angus Association.
- Grade Canada AAA or better.
- Processed by a licensed packer¹⁵ (Cargill Foods).

September 2001 marked the introduction of CCAB beef to the market. The focus of the program is on the food-service segment. The program has a dedicated Market Development Officer – Mr. Tony Maciocia – located in Montreal. His primary responsibility is to create awareness of the program develop new food service customers and work with the distributors (9 in total – 2 in Alberta; 1 in Manitoba; 2 in Ontario; 1 in Quebec; and 2 in the U.S.).

The program has experienced enormous success in a very short period of time. First month sales (October 2001) approached 100,000 pounds. Within three months (December 2001) monthly sales rose to more than 400,000 pounds. Currently, sales are averaging over 500,000 pounds per month – the major limitation is supply.

The Canadian Angus Association actively promotes program involvement. To this end, a dedicated field man works with producers as well as attending industry events and auction markets. To be involved in the program, producers need only to do the following:

- Own Angus seed stock (it is necessary via the Breed Registry to confirm that progeny destined for the CCAB program are 50% Angus).
- Order tags from the Canadian Angus Association – this is the ‘green tag’ referred to as the Canadian Angus Certification Program (CACP). Tags typically cost between \$1.34 to \$1.66 – depending upon the type of tag purchased).
- Tag calves with the CACP tag.
- Ensure calves and/or cattle are tagged when marketed.
- Market feeder cattle via a variety of methods including feature auction sales¹⁶ or finished cattle to Cargill Foods.

Currently, the Canadian Angus Association does not have a formal information system capable of transferring carcass data back to the cow-calf producer in place. This is a high priority.

¹⁴ Tags are National ID compliant and can be sourced from either Allflex or Reyflex.

¹⁵ The licensing arrangement funds the CCAB program. Details are confidential.

¹⁶ Several auction markets are organizing and promoting feature Angus sales. A total of 80 such sales took place in 2002.

Another priority is the attraction of a retail partner. Again, the supply of qualifying cattle is the major limitation to advancing this priority in the near future.

7. Relevance to Manitoba

The Cargill program provides an immediate opportunity for Manitoba beef producers to participate in a 'value chain' arrangement. There are a variety of options. These are listed in order of least restrictive to most restrictive:

Feeders:

- Target cattle to quality for the Sterling Silver program (no breed or colour restrictions).
- Target 'black' cattle to qualify for the CAB program.
- Target Angus qualified cattle for the CCAB program.

Cow-Calf Producers:

- Produce calves for direct sale to, or retained ownership with feeders that are targeting the Sterling Silver program.
- Produce 'black' calves for direct sale to or retained ownership with feeders that are targeting the CAB program.
- Produce 50 percent Angus cattle and tag with CCAB tags.
- Sell Angus qualified cattle at feature Angus sales.
- Produce Angus qualified cattle for direct sale to or retained ownership with feeders that are in turn targeting the CCAB.
- Organize cow-calf producer consortia to supply larger lots of calves to any or all of the above alternatives.

3.5 Peter's Farm

1. Overview

Peter's Farm – a branded veal product based in the Netherlands, is an excellent example of meeting a product image challenge head on. Public perceptions regarding the 'moral' acceptability of veal production were on the rise. Impressions such:

- Crowded 'factory-farm' conditions;
- Little or no lighting (reared in darkness);
- Diets that bear little resemblance to what is 'natural' for the calf;
- The lonely calf crying for its mother;

Were impacting the demand for and the social acceptability of eating veal.

Alpuro – a Dutch based veal production company decided to address these concerns. Instead of ignoring the concerns or worse still – hoping they would go away, Alpuro decided to employ a veal production strategy that directly affronted the very misconceptions that were serving to undermine the product category. To this end, Alpuro repositioned veal using the platform of Peter's Farm – a high quality product produced on family farms and using the best and most progressive production methods in a totally transparent manner. Using a combination of leading edge communication methods including open houses, children's programs and Internet videoing technology, Peter's Farm has successfully achieved a level of acceptability and market growth that serves as a model for growth.

2. Background to the Chain

Veal and how it is produced has been the subject of increasing public criticism. There is a common perception that calves are reared in overcrowded, inhumane and dark conditions – what is considered a necessary part of the process to produce the white tender meat.

The Alpuro Group – the Dutch based production chain recognized its increasing vulnerability in the shadow of these concerns. Veal production is an important enterprise in the Netherlands – the country is home to more than 2 million dairy cows – 50% of the annual calf production is bull calves that have little or no value other than for veal. An estimated 700,000 calves are reared annually for this purpose. Thus a stable and valued veal market is vital to the overall dairy industry.

The strategy and the vision for Peter's Farm originated with Mr. Peter Boeve – founder of the Alpuro Group. He was instrumental in repositioning veal as a high quality, assured food product produced on the following statement¹⁷ that is communicated directly to consumers:

¹⁷ Statement of principle as per Peter's Farm website and corporate communications.
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Toma & Bouma Management Consultants

High animal welfare and the freedom for the calves result in the high quality and delicious taste of the Peters Farm veal. Maximum Food Safety is guaranteed and the openness of Peter's Farm offers you traceability of the products back to the farm. No wonder that Peters Farm veal is the first choice for more and more people!

Delicious veal as you like it!

Peter's Farm

The 'Principle' in Veal

3. The Strategy

The Peter's Farm strategy embraces five norms: Quality, Animal Welfare, Open Information, Traceability and Security.

Quality – Superior quality tasty veal is the program imperative. To this end, Peter's Farm has invited the review of Euro-Toques – a panel of international chefs. The inspection committee of this organization has held several taste-tests and compared these to individually housed veal. To quote:

“ In matters of taste, tenderness and succulence, Peters' Farm veal was found to be superior.”

Peter's Farm has received a similar affirmation of superior quality from an independent scientific research institution – the CSO (Dutch Centre for Taste Research).

Animal Welfare – Calves reared under the Peter's Farm program are housed in group pens. This differs from other systems wherein which calves are kept in confined single units. By comparison, the Peter's Farm calf has the freedom to choose for himself when and how much they wish to walk, stand, lie down, play or sleep. Note: Wageningen Agricultural University - the major agricultural research institution in the Netherlands confirms that the Peter's Farm system is much friendlier in terms of animal welfare than other systems¹⁸.

Open Information – the interactive Website is central to the strategy. Viewers are able to 'experience' Peter's Farm, review the family farm, their background and even see live pictures of calves at the actual farm. Live pictures in the stables of a Peter's Farm are taken every 10 minutes, daily between 9.30 am and 15.00 pm. Furthermore, the program promotes an extensive series of open houses. Customers and interested parties are encouraged to view the list of more than 40 farms and visit the one nearest to them. Clearly a strong emphasis is made to feature the family and to 'personalize' the production process.

¹⁸ Peter's Farm customers are encouraged to source and review the actual research paper – available on the University web site.

Traceability – customers are able to use the Farmcode on the product label, access the Peter’s Farm web site and actually visit the farm from which the product originates.

Security – customer’s are assured that a comprehensive set of production and processing protocols are in place to supply a quality assured product every time.

In addition, Peter’s Farm offers customers an impressive choice of recipes (more than 50) and advice on maintaining quality once the product is purchased. Another interesting innovation that is clearly aimed at influencing the ‘young’ consumer is the *Peter’s Farm Kids* program. Children are invited to play several games such as the Labyrinth or colour the Coloursketch. Incentives and prizes are offered to capture attention and educate children. Children in the company of their parents and school groups are encouraged to participate in open house visits.

4. History of the Program

The Alpuro Group is long established veal production group with 270 employees and sourcing from 550 farms. It accounts for 25 percent of Dutch veal production and holds a market share in Europe of approximately 6 percent. Overall the Netherlands exports 90 percent of its veal production, mainly to more than 40 countries although Germany, France and Italy are the major destinations. The Netherlands produces 20 percent of European veal.

The Peter’s Farm program was first introduced in 1996 on the Lokhorst farm in the province of Gederland. The initial objective was to develop the capacity for 7,000 calves targeted at the high-end hotel and catering industry. In September 2001, the chain started deliveries to Waitrose - the English supermarket. At the beginning of 2002, it gained access to Albert Heijn, the biggest retailer in the Netherlands (700 stores), supplying both under its own brand and under private label.

Alpuro’s objective is to have 23,000 Peter’s Farm calves under contract by 2003, with a slaughtering capacity of 800 per week (600 in January 2001). Currently the slaughterhouse of the Alpuro Group, named ESA, slaughters 5000 calves a week for the total group.

The concept was designed to meet the demand for a more transparent production with more quality control and attention for animal welfare. The discussion in Europe on veal crates and feed, which is deficient in iron, increased the consumer awareness on the welfare of calves. Furthermore the never-ending series of food scandals and crises (MKZ, BSE and lately the MPA hormone) made consumers more demanding on food safety. The brand Peter’s Farm is a registered trademark (<http://www.petersfarm.com>). Research institutes and animal welfare organisations support the concept of the chain.

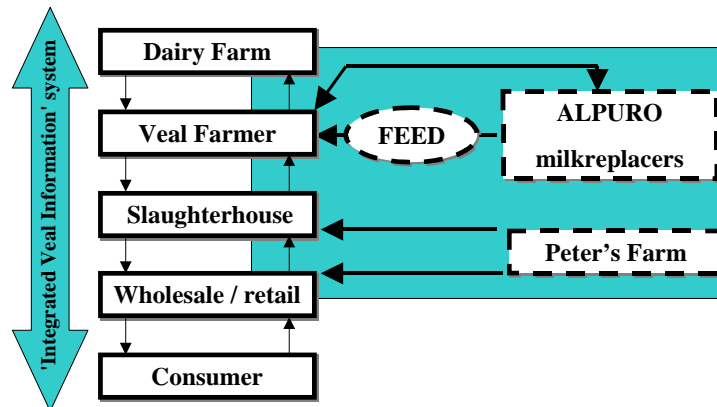
5. The Chain Partners:

The Alpuro Group is an integrated group of companies, which forms a total chain for veal production. The company was founded in 1963 as a feed mill producing milk replacers for the veal industry and vertical integrated both up- and downstream. The Alpuro group now:

- Purchases the calves.
- Produces the feed (from milk powder).
- Establishes contracts with 550 veal farmers (market risk) including 42 Peter's Farm operations.
- Provides production advice to farmers as required.
- Processes and markets the meat (Melkwit Kalfsvlees®).
- Manages and monitors the system.

The chain partners are illustrated in the figure below.

Figure 1: Schematic of the Peter's Farm Value Chain



6. Information Systems

The Peter's Farm initiative, which incorporates over 40 veal farmers, a feed manufacturer, a slaughterhouse, and a distribution partner, are all connected via an Internet platform. The system is designed to exchange any extensive range of logistics and quality related information. Within the complete supply chain each piece of meat, feed, medicine use etc. can be traced backwards and forwards.

The information system is being extended to incorporate the original supplies of the calves – namely the commercial dairy farms when the calves were originally born. Thus the parents of all calves will be included as part of the tracing system.

In addition, Peter's Farm farmers are supported with a full range of information pertaining to the optimization of farm management; for example, new regulations, training programs, nutrition facts, and animal disease management. The 'Integrated Veal Information' system has different authorization levels for different stakeholders, including retail and consumers. This system and

the integrated business complex give Alpuro more control of the chain. Because of that retailers and restaurants can fulfill their quality and safety guarantees.



7. The Marketing Strategy

The basis of the marketing strategy lies in the Peter's Farm Principle; a combination of norms guaranteed in the production of Peter's Farm® veal:

- Animal Welfare: Peter's Farm calves live in large herds with a lot of freedom.
- Traceability: the guarantee that veal products sold in original Peter's Farm packaging originate from calves raised according to the Peter's Farm Principle on a Peter's Farm.
- Quality and safety: every stage in the production of Peter's Farm® veal is fully ISO 9002 and 'PVE/IKB' (supply chain quality) and GMP certified. This means that independent organisations continuously monitor the production and through this Alpuro guarantees the product's safety and quality.
- Open information: each actor or consumer can trace the veal product back to the farm via the Internet and a unique product code. Furthermore, one can visit the individual farmers on the web and check out the stables. Daily between 10:00 and 16:30 a web cam takes a new photo every ten minutes on a Peter's Farm and automatically sends it to the Internet (see example). Here the consumer can also find information from the farm where the meat originates.

8. Summary of Achievements to Date

The company has accomplished the implementation of a unique marketing concept. In this regard, it has become a supplier of leading retailers in both the Netherlands and the United Kingdom. The results in the sector as a whole are moderate to the extent that the veal market is a declining market.

Threat to the concept is an ongoing discussion on animal welfare, also including the question if

people should eat young animals, frequently returning crises in the European meat sector and a trend to eat less meat.

In the beginning the concept had known drawbacks specific to mortality rates, the biting of tails by the animals and sucking. Technical results are at this moment just under the sector's average. (Note: animals reared in individual pens do not have the biting and sucking problems).

9. Relevance for Manitoba

The Peter's farm case can be an example for Manitoba in several ways:

1. It is an example on how a link in the chain can strengthen its position by developing a **platform for information collection and exchange** throughout the chain. In this case, Peter's Farm adopted a set of highly 'animal welfare friendly' production practices and a strategy of total transparency. The results are twofold: (1) a product of superior quality; and (2) a production system that has gained public acceptability.
2. Peter's Farm is an example of **vertical integration and coordination**. All production is geared to market. Farmers are provided contracts, which are tied to customer demand. Further a total program is put in place to manage nutrition, health, food safety and product quality.
3. Peter's Farm has taken an approach to product branding built on **information and transparency stressing food safety, quality and animal welfare**. Clearly this strategy has added value to the product in an industry that is faced by increasing distrust by consumers. The case shows how an industry can meet the growing awareness of consumers on animal welfare and the industries responsibility on the issue.
4. Finally, the case is an example of how an industry can build a **link between the consumer and the primary producer** as part of its marketing strategy.

4.0 Implications for Manitoba

Value chains are increasingly common within the livestock and beef industry around the world. For example, the case studies illustrate that there is a very strong interest in the development of branded meat products that can be supported by certified production and processing protocols that are subject to audit. It is also clear that considerable work is required before a successful brand can be realized.

The chain cases offer a rich body of experience that provides guidance for planning and consideration. Several key 'lessons learned' prevail:

- (1) **Vision and leadership is key** – the success of any chain is dependent upon strong leadership from a key individual, individuals within industry and/or industry within an organization.
- (2) **Chain development takes time** – considerable planning is required and learning on the job is essential. Furthermore, the risks of mistakes or oversights can be significantly reduced through the use or acquisition of experienced leadership. Furthermore, results don't take place overnight.
- (3) **Expect the nature and focus of the chain to change as it develops** – conditions change and partners may change. Be prepared to expect these. In most cases, unforeseen events or circumstances arise. The ability to deal with and address change is imperative.
- (4) **The importance of planning** – developing a clear plan which may include detailed market research is a critical factor in assessing the opportunities for any strategic alliance or value chain. The process of planning provides two benefits: first – the plan itself; and second – the process through which perspective partners learn about each other and their ability to work together. The planning process is an important 'test period' through which perspective chain partners learn how to work together, build trust and development the necessary commitment to continue.
- (5) **Improved prices/returns** are not necessarily a first accomplishment – rather most chains focus on producing a higher proportion of product that meets specifications. In effect, this serves to reduce the hidden cost of sub-performing product. As the relationship develops, a much stronger base is in place to address the issue of pricing and shared returns

The Manitoba beef industry would be well served to learn more and encourage value chain formation. A number of different forms and opportunities can be expected to arise. For example there are a range of possibilities including:

- The formation of cow-calf consortia.
- The formation of backgrounding consortia.
- Developing strategic alliances with existing feedlots and/or packers.
- Regional and/or niche opportunities.

Initial support from organizations such as MRAC and the provision of expertise will help facilitate these developments.

Finally, it cannot be stressed enough that value chain development is conceptually simple but operationally difficult. It requires a clear vision, patience, and an abiding commitment to do things a different manner. Business success for the individual firm is already a considerable challenge – particularly in primary agriculture. Business success for a collaboration of firms who have historically dealt at arms length and at times within an atmosphere of mistrust is exceedingly challenging. Thus the need for a structured approach with a careful sequencing of steps and progress is paramount.

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December 2002