



BRANDED BEEF

IS IT
“What’s for Dinner?”



SOME BEEF PRODUCERS ARE BEGINNING TO ATTEMPT TO DIFFERENTIATE THEIR PRODUCTS IN ORDER TO COMMAND PRICE PREMIUMS.

WILL THE MONEY BUY IT?

BY JAYSON LUSK

Beef is an oddity in today’s grocery stores. Most consumers do not know where the product came from or how it was handled before it reached the meat case. Moreover, today’s marketplace makes it difficult or impossible to distinguish one producer’s beef from another’s. As demand for beef rises, some beef suppliers are considering ways to differentiate their product from their competitors. Beef producers, packers, and retailers who see economic potential in differentiating their product are beginning to consider alternative branding or labeling strategies. Instead of declaring, “Beef: It’s What’s for Dinner,” some beef marketers are beginning to ask, “What kind of beef do you



Certified Angus Beef® is one of the more widely recognized beef branding initiatives.

want for dinner?" Producers, packers, and retailers may decide that differentiating and branding is a profitable strategy. If so, they must also determine how to differentiate their product.

To Label or Not to Label

Beef has traditionally been marketed as a generic product. Consumers typically cannot choose different beef products based on differentiated quality characteristics. Although the USDA has a voluntary beef grading system, most consumers are not strongly aware of the various USDA quality grades, and do not understand the information transmitted through the grading system (Cox, McMullen, and Garrod, 1990).

A brand can create an identification system that allows consumers to identify meat by checking a label. A brand may help a firm (cattle producers, beef packers, or retailers) become more profitable if consumers are willing to pay a higher price for the branded beef. Successful branding requires a firm to develop a link between a consumer's eating habits and the brand. Developing a brand enables a firm to acquire a degree of market power that it could not attain with a generic product. Instead of simply accepting the market price, a firm may be able to price its product strategically, and perhaps extract a premium for greater perceived value. Consumers may then become less sensitive to changes in the retail price of branded beef products.

Branding a retail product confers advantages in the market, but there are significant added costs to consider. A major cost center stems from the added production and segregation requirements associated with the need for identity preservation. If a firm differentiates its product on the basis of a specific quality or attribute, then an animal produced with this particular attribute must be separated from other animals throughout

the entire supply chain. On the ranch or feed lot, this may not be all that difficult, particularly in smaller herds. However, in the stockyard the task is more complex. More vertically integrated producers may have an advantage in branding.

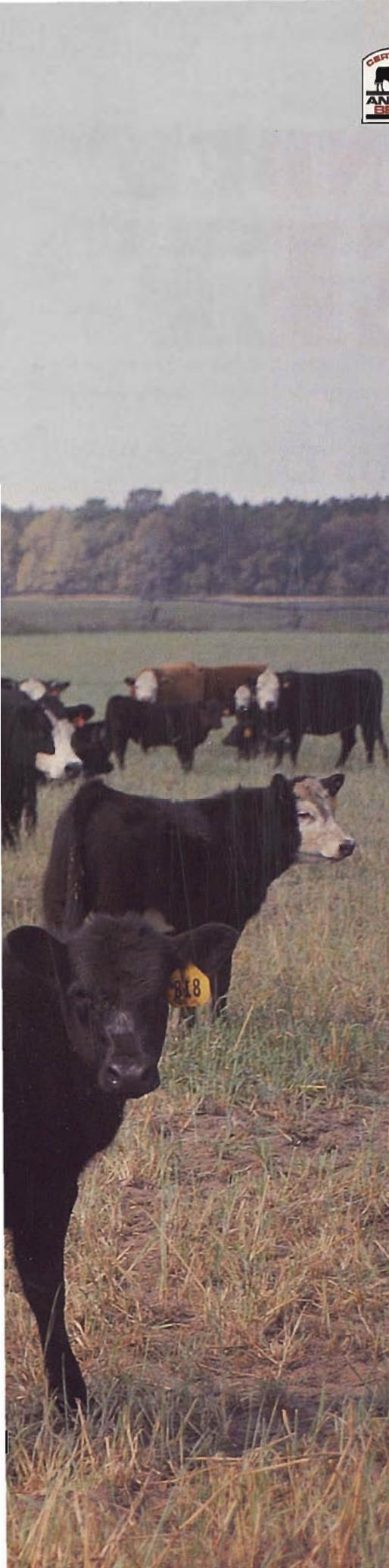
In addition, some production efficiencies may be lost if the differentiation is based on a restriction such as elimination of growth hormones in raising the animals. Furthermore, if the quality of the branded product is inconsistent, or if branding is based on an attribute of little importance to consumers, differentiation will be unsuccessful.

Whether these added costs can be overcome by the added value of branding depends on several factors. In the short run, maintaining consumer demand for the particular attribute is the most important. The consumer value of a particular attribute versus the increased costs of production varies on a case-by-case basis. The following section outlines the relative benefits and costs of a few recent branding strategies.

Try A Little Tenderness (Or Marbling, Or...)

A producer/supplier can attempt to differentiate beef in a variety of ways. The likelihood of success of a particular branding strategy depends on the costs versus the benefits of each. Some of these costs and benefits are related to easily understood attributes.

TENDERNESS. Research indicates that consumers prefer tender steaks, and tenderness is the most frequently mentioned attribute related to beef palatability. Recent technological developments allow the segregation of beef on the basis of tenderness. In a recent experiment with shoppers in several grocery stores, Lusk et al. (1999) found that 69 percent of participants in a blind taste test preferred a tender to a tough steak (Figure 1).



Several retail supermarkets sell "all-natural" products often at large premiums over their traditional counterparts.

Over half the participants indicated a willingness to pay an average premium of \$1.84 per pound to exchange a "probably tough" for a "guaranteed tender" rib eye steak. Shackelford, Wheeler, and Koochmaraic, (1999) have estimated costs of a tenderness identification system at roughly \$0.07 per pound. Although "willingness to pay" data, similar to "intention to buy," often is somewhat higher than actual recorded behavior, it appears that tenderness is a promising point of differentiation, assuming the costs of actually achieving the desired degree of tenderness is not excessive.

ANIMAL PRODUCTION PRACTICES. The recent successes of products such as Coleman's Natural Beef indicate that many consumers are concerned about growth hormones, antibiotics, and genetically modified (GM) feed used in livestock production. Estimates indicate that hormones are administered to 95 percent of all cattle fed in the United States (Kulcher, McClelland, and Offutt, 1989). Although USDA claims that these practices pose no threat to human health, many consumers are still concerned. In response to these concerns, the USDA has developed guidelines for beef labeled as "natural," "no hormones administered," "no antibiotics added," and "certified organic" (USDA).

To date, researchers have made little effort to quantify consumers' willingness to pay for beef labeled "no hormones added" or "GM free." However, in several retail supermarkets, "all-natural" products often sell at large premiums over their traditional counterparts, although it is rare to find these two beef product types in the same meat case. The difference between the increased production costs and estimated premiums for these "all-natural" products is still an unresolved issue.

SAFETY. Recent publicity of illnesses, deaths, and product recalls due to bacterial contamination in beef has heightened public attention to the safety of the meat they eat. Scientists have developed three technologies (irradiation, hot water pasteurization, and steam pasteurization),

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which either reduce or totally eliminate bacterial contamination at the beef processing plant. McIlvain (1998) found that almost 80 percent of surveyed consumers were willing to pay an average premium of \$0.32 per pound for ground beef identified as "steam pasteurized." Costs of pasteurization systems in large slaughter plants range from \$0.09 per head to \$0.30 per head, depending on the chosen level of effectiveness (McIlvain).

Although irradiation is more effective at reducing bacterial contamination than pasteurization, consumers perceive radiation as potentially harmful. Researchers have not widely studied consumer willingness to pay premiums for irradiated beef, but research suggests that some consumer segments are willing to pay a 20 percent premium for irradiated chicken (Shogren et al., 1999).

MARBLING OR FAT CONTENT. Marbling, or intramuscular fat content, is the primary determinant of quality in the USDA beef quality grading system. Some branding strategies, such as Certified Angus Beef,[®]

require that only meat graded USDA Choice can carry this certification. In blind tests, consumers consistently prefer high marbling in steaks. However, there are markets for both low- and high-marbled steaks, as indicated by the recent success of low-fat branded beef products such as Laura's Lean Beef.

Brester, Lhermite, Goodwin, and Hunt (1993) found that a unit increase in ground beef leanness (a decrease in marbling or fat content) was associated with a \$0.02 per pound premium. Sales of highly marbled steaks also command high premiums. At one point in 1999, USDA Choice boxed beef (high marbling) sold at a \$15.00/cwt. premium over USDA Select boxed beef (low marbling). Although the USDA quality grading system is an indicator of the level of marbling, consumers do not perceive it as such. Thus, branding may provide a more identifiable method of relaying important information regarding the fat content of beef to consumers.

The Survey Says...

A mail survey was recently sent to a random sample of U.S. consumers to determine how important several factors were in consumers' steak purchasing decisions. Respondents ranked the importance of six different quality attributes of a steak they might purchase. Figure 2 indicates that a brand or label was the least important among the six attributes. In other words, consumers perceive beef as a generic product and are currently unable to identify important quality characteristics.

If true, then branding is of little importance. If branding continues to be unimportant, then differentiation may prove to be unsuccessful. At this point, however, it may be that branding is viewed as unimportant because there are few well-established brands in the mar-

Figure 1. Consumer Preference for Steaks in a Blind Taste Test (227 consumers)

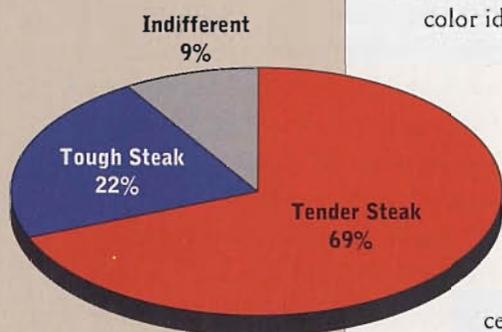
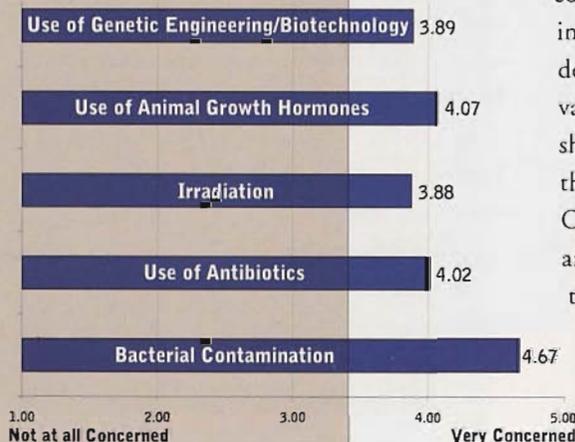


Figure 2. Relative Importance of Attributes in Steak Purchase (650 consumers)



Figure 3. Consumer Concern for Beef Safety Attributes (659 consumers)



ketplace — there are few points of reference. In contrast to brand identity, the color of a steak was ranked as its most important attribute. Perhaps marketers should invest resources in devising branding and labeling strategies based on color identification.

Will Consumers "Look For the Label?"

The question remains, should producers try to differentiate their beef, and if so, how?

Whether a labeling strategy is successful depends upon several factors.

Becoming one of the first firms to brand may have significant advantages. Typically, firms that are quick to adopt new ideas and technology receive the largest gains. Although there may be

risks involved in developing and promoting a new brand, there may also be significant benefits to being a "first mover" in this evolving market.

Choice of a particular attribute, such as "guaranteed tender" may initially be important in gaining market share and consumer acceptance. However, if the differentiated product is successful, competition will likely enter the market and may erode

much of the early profitability. As with other consumer products, in the long run the differentiated product may again become a

commodity as competition increases. A firm must try to develop brand equity by cultivating a strong positive relationship between its customers and the brands that it is providing. Once this is achieved, research and development will be important in keeping the branded product different from that of potential competitors.

Numerous avenues are open to firms interested in develop-

ing branded beef products. Products, such as "high marbled," "low fat," "guaranteed tender," "pasteurized," "hormone free," "GM free," or "irradiated" beef may all prove to be successful. Creating a name identity with one or more of these attributes will probably be an important initial strategy. However, given that a particular branded beef product can be produced in a relatively efficient and cost-effective manner, choice of which road to travel might not be as important as simply beginning the journey.

For More Information

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