

STRATEGIC POSITIONING OF THE NAMIBIAN RED MEAT INDUSTRY BY 2005

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Red meat is international business and meat companies in Namibia are global role players. Poultry consumption increased at the expense of beef primarily because of consistency and pricing, while larger beef and sheep meat suppliers are making inroads in the growth markets of the world. Ultimately, to be successful, companies must carve out a clear position for themselves, in the light of competition, and must exploit their competitive advantages to the full. A study was commissioned to determine the strategic success factors, approaches and options of the major beef and sheep meat exporting industries of the world for extrapolation on Namibia. The most common business strategy involves cost orientation, although a differentiated focus strategy with innovative and branded products targeted into niche markets is clearly needed for Namibian businesses. Developments in traceability, quality control, branding, added-value and consistency should satisfy the concerns consumers have over health and safety issues and assure repurchases of Namibian meat products.

INTRODUCTION

The international red meat industry has not yet matched the performance of the pork and poultry industries, which responded more rapidly to consumers' lifestyle changes and attitudes (New Zealand Meat Board, 1998) in terms of food safety, product quality, convenience and price competitiveness. Red meat producers, processors and marketers are currently witnessing fierce competition for a share of the end-consumer's food budget against other protein sources such as pork, poultry, fish, cheese and cereals. In addition, producers, processors and marketers anticipate intensified competition from alternative suppliers of beef (South America) and sheep meat (Australasia) in the world.

The red meat industry of Namibia renders an important contribution of 80% to the Agricultural sector's Gross Domestic Product, which in turn contributes on average 10% to the Gross Domestic Product of Namibia. Namibia's fragile natural resource base and harsh climatic conditions allow for few agricultural diversification activities other than the production of livestock. The meat industry is heavily export orientated with 85% of the annual cattle and small stock production being exported. Approximately 45% of Namibia's cattle

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production, mainly weaners, are exported to South African feedlots, while 40%, mainly B-grade steers and heifers (18 to 42 months) are slaughtered locally, for beef exports to South Africa, European Union and elsewhere (Strydom & Müseler, 1998). The Namibian export product mix constitutes weaners, chilled and frozen beef cuts, lamb and goats and to a lesser extent breeding stock, sheep and processed meats. However, Namibia, with an average production of 80 000 tons of beef and 19 000 tons of lamb, falls severely short of the quantities produced and exported by Australia (1,1 million tons of beef and cattle) and New Zealand (383 000 tons of sheep meat and small stock), the major beef and sheep meat exporters in the world (IMS-GIRA, 1998).

A strategic response is needed if beef and sheep meat from Namibia is to compete within an increasingly dynamic meat environment. A desktop research study was commissioned to overview the global protein market, to evaluate the New Zealand Meat Producers Board (1993) Strategic Plan 1993-2000, Australian Department of Primary Industries and Energy (1996) Australian Meat and Livestock Reform for the Future, Meat and Livestock Commission (1996) Corporate Plan 1996 - 1999, Meat Industry Council (1996) Meat Industry Strategic Plan to the year 2001 for the Australian Meat and Livestock Industry, New Zealand Red Meat Industry (1998) Strategic Direction: Towards 2006 and Strategic and Business Plan for the New Zealand Meat Board (1998b) for strategic success factors facing the industry and provide for recommendations on strategic options and directions to position the Namibian red meat producers, processors, and marketers with a competitive edge by 2005.

GLOBAL PROTEIN MARKET

The Organisation for Economic Co-operation and Development (OECD) outlook analysis for 2003 projected OECD meat exports to increase by two percent annually, while OECD meat consumption is expected to rise by just under 1,5% per year (Viatte, 1998). Global beef and veal production in 1996 was calculated at 53,5 million tons and worth US\$ 165 billion (Rabobank International, 1998), meaning that for the first time it was exceeded by poultry and is the world's third most consumed meat after the leader, pork (Meat International, 1998). Promar International (1997) anticipates poultry's share of the three (poultry, beef and pork) meats' total to rise from 29% in 1996 to 33% in 2007, an equivalent of about nine million metric tons. The share of beef in total meat consumption in the OECD (Japan excluded) area is projected to fall to 27 %, down from 30 % in 1996 and 32 % in 1990 (Viatte, 1998).

Sheep meat production, at five percent of world meat production, is small in comparison with the other three main types (IMS-GIRA, 1998). Since 1994 global sheep meat production has decreased nearly two percent, mainly as a result of decreasing sheep numbers in New Zealand (-16%), Eastern Europe (-25%), United Kingdom (-4,5%), France (-9,2%) and Spain (-8,2%). The OECD Agricultural Outlook 1997-2001 is not predicting an increase in *per capita* sheep meat consumption *per se*, but forecasts an increase in overall consumption levels for all meat types including sheep meats (Poole, 1997).

STRATEGIC SUCCESS FACTORS

Namibian producers, processors and marketers competing in the global beef and sheep meat industry, have to accept an increasingly competitive international food marketplace. To gain sustainable competitive advantage and be financially successful, all businesses must be competent at doing and must concentrate on achieving successfully the global meat industry's key success factors (Thompson & Strickland, 1996).

Market development

Market development entails developing a trade preference for Namibian red meat that allows positioning it as a premium product attracting premium prices in the consumer markets of the world. Consumer preferences and lifestyles are continuously changing. Consumers are becoming more sophisticated in their decision-making, increasingly concerned about food safety, environmental integrity, and the wholesomeness of the food they buy. Consumer lifestyles place greater emphasis on taste and consistency, convenience, value for money, versatility and health factors. To improve Namibia's position as preferred supplier of red meat and meat products in target markets that attract premium prices, businesses must develop a greater understanding of consumer needs and changing preferences and anticipate and respond to consumer concerns of safety, health and quality well in advance. Namibian businesses can meet customer needs by being at the forefront in areas such as product traceability, scientifically sound animal welfare and environmental sustainability, which provide customer confidence in Namibian products. By aggressively conducting appropriate trade advertising and promotion in selected niche markets, awareness will be created to increase consumer demand and confidence in Namibian products.

Market access

International trade liberalisation will allow Namibian businesses access to an increasing number of markets. However, expanded access does not guarantee increased market share. As new opportunities unfold, meat export companies will become more and more competitive and just as determined to compete. In nearly every market of the world, meat has to hurdle to gain entry against tariff and non-tariff barriers (import quotas, subsidies, import levies and duties and a plethora of unnecessary health, veterinary, consumer safety and packaging regulations). Businesses must provide strong support for Government moves to establish favourable trade arrangements, to ensure optimum access to target markets, to increase international trade liberalisation and to ensure that no additional internal regulatory or legislative barriers are being placed on local red meat exporting businesses. Sound science must endorse the basis for sanitary and phytosanitary requirement and regulations must minimise compliance costs and provide scope for individual supplier's competitive advantage.

Consumer behaviour

Consumer perceptions. Consumer interest in food safety, nutritional quality, environmental protection and animal welfare issues will increase. However, consumer perceptions thereof are also likely to be of increasing significance. This trend is closely aligned with dominant socio-economic patterns in an information age which is shaped by images and perceptions (Spies, 1997). Interest groups have strong lobbying action and opportunity to present unbalanced adverse views of particular industries unless adequate research has been done to enable a quick and credible response. The meat industry needs to be proactive in promoting Namibia's image and reassuring consumers of the safety and quality of Namibian meat, care for animal welfare, product traceability and the use of environmentally sound production systems.

Food safety. Food safety is of paramount concern to consumers and is expected to strengthen significantly. The recent *E. Coli* O157-H7 outbreaks in the USA, Japan and Scotland, and the BSE scare in Europe and Asia, highlight the importance of food safety issues and the ease with which a level of consumer trust can be destroyed. Exporters must proactively promote and ensure consumers confidence in the quality and integrity of Namibian products. This will require a considerable investment in information/communication systems and associated technologies. The industry will achieve competitive advantage and mitigate risk of loss of

markets and consumer faith by developing and implementing product labelling, traceability and quality assurance (HACCP) systems at production, processing and marketing level.

Product quality. Quality relates to the inherent characteristics of the product (colour, flavour, tenderness and nutritional value) as well as the added-value characteristics (compliance to specification, convenience and consistency). The industry will achieve competitive advantage through superior quality by producing food products which meet the stringent requirements of the modern consumer. International quality measures such as ISO9002, quality assurance systems and on-farm assurance programs must be put in place and everyone in the chain from pasture to plate must adhere to it. An accurate description, branding and labelling system which provides correct information to consumers may, by enhancing consumer confidence in the product, both improve per capita consumption and attract a price premium. Companies need to stress continuously the quality, health and safety of Namibian meat products in advertising, packaging and news media in key international markets.

Environmental practices. The public are increasingly concerned that food production, processing and marketing are undertaken in an environmentally sensitive manner. By underpinning Namibia's natural production reputation, with environmentally sustainable practices, that are based on well-articulated and high quality scientific research, exporters can exploit Namibia's reputation with confidence to achieve competitive advantage. The modern consumer expects that meat producers, processors and marketers comply with stringent environmental standards for meat production, processing, packaging and storage. Meeting independent and internationally accepted standards will become a minimum requirement, perhaps mandatory, for access to some markets in future. An industry approach is required to determine which practices adhere to those standards, or must be modified to do so, or which can be exceeded with benefit.

Animal welfare. Stricter animal welfare standards are expected in response to greater scrutiny by the consumer and welfare lobby groups. This will tend to draw attention to "free range" systems, as well as reproductive technologies such as live embryo transfers, and transportation methods. Transport of livestock over long distances is both expensive and detrimental in terms of stress factors. The industry will minimise consumer concerns over animal welfare by developing and implementing Codes of Practice to minimise animal stress and promote the importance of animal welfare on product quality.

Research and development

The meat industry needs to recognise the importance of research and development in attaining competitive advantage. It is recognised that in order to be competitive, businesses must invest heavily and it will only be possible when local production is internationally highly competitive (Spies, 1997) under an equitable trade regime. Future expansion of livestock production will only come from technological innovation and intensification of production systems. Namibia has relative advantage in disease control, processing costs and farm management. A challenge is to maintain it. While the industry cannot match the huge levels of research and development funds spent by some competitors, it cannot ignore the ongoing need to invest strategically in this important area. To ensure that the industry has access to international quality research of strategic value, the industry needs to fund a significant amount of industry research, establish preferred relationships with research organisations, ensure that researchers have access to updated market information and place significant priority on ensuring that technological learning and knowledge application is optimised at all points of the production, processing and marketing chain.

Production efficiency

Efficiency gains, throughout the production chain will be essential for Namibia's food industries to remain competitive in the international market. The research, development (or acquisition from overseas) and transfer of innovative technologies to achieve these gains, will play a significant part in lifting the performance of producers, processors and marketers. The industry will maximise returns through improved production, processing and marketing efficiencies by promoting benchmarking of Namibia's performance against the performance of competitors. In doing so, Strydom & Muiseler (1997) stressed the importance of Namibia increasing calving percentage, herd off-take, especially from communal areas and carcass quality. Improving efficiency will result from introducing biotechnology options for animal production, utilising focused research and development for improved genetic and production technology, and transferring on-farm research and technology to farmers through researchers and extension specialists linkages. Producer, processor and marketer alliances should also increase efficiency of genetic stock improvement and should allow for better quality control, traceability and feedback with respect to feeding regimes, leading to a product that can be guaranteed as safe and of consistent quality (Rabobank International, 1998).

Education and Training

The meat industry's success depends on the skills and knowledge of its people. Education and training activities must be updated and continually evolve around the industry's needs up to and beyond 2005. The meat industry must identify the need for specific information and training, set priorities and provide resources to effectively improve the skills and knowledge of people involved. The needs of different sectors of the meat industry will require different responses from livestock farmers, industry leaders, general public and industry service providers. It is important that industry leaders and decision-makers continuously improve their skills and knowledge. Through better skills and knowledge will come more efficient and effective businesses, which in turn will make the meat industry more competitive and profitable at all levels.

Information and technology

Market information provides a gateway to global market opportunities, leading to better informed on-farm management decisions and better informed business decisions. The degree of sophistication of any industry can be measured by the amount of information available on the particular industry. Companies will not invest or expand if basic supply and market information are lacking, as risks become greater (Willemse, 1998). Industries with extensive operations require integrated information processing in order to be effective. Indeed, businesses need to recognise that as tools for marketing, production and distribution, superior information systems will improve strategic response to dynamic markets.

Improved communication within the industry will be essential if the industry is to deliver significant improvements for the benefit of all stakeholders. The industry participants will develop appropriate mechanisms for more effective communication among industry stakeholders and other interested parties. Because companies are now more exposed to market forces, their need for strategic information about markets, production processes and technological renewal will increase significantly (Vink, 1998).

STRATEGIC APPROACHES

Achieving competitive advantage in slow-growth industries usually requires pursuing one of three strategic approaches (Thompson & Strickland, 1996). The precise choice taken by any specific company will however depend upon

its individual strengths and weaknesses and its perception of opportunities and threats.

Cost dominance. The most common business strategy is to work diligently and persistently to become a lower cost producer, processor or marketer. Price is always an important tool to gain market share, especially as beef and lamb are mainly being sold as a commodity and are relatively high priced compared to other meat types. To compete on price, cost efficiency is essential, while quality and hygienic standards can be regarded as basic requirements, not distinctly competitive advantages. Economies of scale and better capacity utilisation play an important part in reducing costs. Captive supply arrangements and contracts create alliances which decrease uncertainty for both producer and abattoir, while closer contacts with customers like retailers and food service companies, without any party having the dominant role, will remain essential to reduce processing costs and increase margins (Rabobank International, 1998).

Market segmentation. Namibian meat companies need to focus on identifying, creating and exploiting the growing segments within the global beef and sheep meat markets. It is a strategic option whereby companies seek out completely new markets or market segments and is open to companies based in the major exporting regions of Australasia and the Americas, who benefit from rising demand in Asia (Rabobank International, 1998). However, a consistent supply (in volume and quality terms) needs to be guaranteed. Processing companies will be forced into a situation when to meet market requirements and extract the best prices, they need to establish strategic alliances with producers with long term contracting arrangements by which a more even and predictable supply of product can be delivered to the most important trading and distributing companies.

Differentiation. The most viable option for Namibian companies is differentiating Namibian meat products on the basis of enhanced quality attributes and frequent product innovation. To position Namibia's meat products, as products of choice that command premium prices and assure repurchasing, competitive advantage can be attained upon factors other than costs. Namibian companies can draw on existing strengths of natural and sustainable production, humane animal welfare practices, high animal health standards, relatively efficient production, processing and marketing systems, internationally competitive meat processing technology and high standards of quality and food safety management.

STRATEGIC OPTIONS

Although harvesting, consolidation, selling or closing down are obvious end-game strategies for uncommitted businesses in slow-growing industries, it is not practical in the case of Namibia. Namibian red meat producers, processors and marketers needs a strategy aimed at building a competitive advantage of its own and can consider the following, although not exhaustive options.

Market penetration. It is generally accepted that attempting to gain market share in existing markets with existing beef products, attract the ferocity of fierce competition in mature beef markets. Although, marketing programs can play a role in this by differentiating beef and lamb products from one another through the use of labelled quality assurance schemes and consistent quality, the commodity route is unsustainable (Rabobank International , 1998).

Product development. Further added-value processing of beef (Rabobank International, 1998) and lamb are crucial to hold ground against the competitive position that pork and poultry have due to their superior product consistency and pricing. In addition, world trends indicate movement away from selling livestock, carcasses and even selling cuts and to the selling of value-added convenience meals. To achieve competitive advantage, product innovation that meets or realigns consumer expectations needs to be effectively developed in timely response to consumer needs. As slaughtering moves closer to the supply sources, careful consideration needs to be given to supply/demand requirements of value-added products. Investment in further processing can mitigate the increasing power of retail squeezing margins. Even packaging can add value to meat products by being convenient, attractive, resealable, microwavable, storable, transportable and re-usable (Promar International, 1997).

Diversification. Diversification, whether involving vertical integration or horizontal integration to other markets is becoming an immediate necessity. Focus will be placed on specific customer groups and distribution channels. The food-service sector in particular is gaining in importance with fast-food chains imposing strict conditions and seeking preferred supplier relationships. Diversification markets for beef remains Southern Africa, albeit a different segment (value-adding cuts), the European Union and Africa (to discount quarantine requirements), while the pre-eminent market for sheep and goat meat will be Southern Africa, the European Union (given supply fundamentals being forecast) and Africa.

CONCLUSIONS

While the Namibian red meat industry is Africa's largest exporter, will face stiff competition from alternative suppliers of red meat and other proteins. These suppliers already have significant advantages, such as government subsidised promotion budgets, well established feedlot industries, better brand recognition, and successful generic promotion campaigns, the ability to supply relatively large volumes of specific cuts, and a more established market presence. Namibian businesses will be compelled to compete with advanced livestock technology, added-value, product quality, pricing and consistency (Promar International, 1997). Namibia has little choice, but to respond to changing consumer demands more effectively and efficiently than competitors.

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