



SPIRITED VIEW

"Cheap/cheerful" is killing us



CHRISTOPH WEDER

It's amusing yet pathetic to read some of the editorials in this paper as well as the editorials of others the finger pointing and blaming going on for the dismal state of our beef industry. If you talk to the cow/calf sector they will be quick to point fingers at the feedlots for poor bids, or talk to the feedlots and it is all about the packers and packer ownership. From my perspective the disease is much deeper and broader and it is a sign of our society... "cheap and cheerful."

We talk about packer and industry consolidation, but are any of us paying attention at retailer concentration or better yet retailer consolidation. Last week I saw a stat that 80 per cent of U.S. households shop at Wal-Mart. In fact estimates are that Wal-Mart is generating an estimated five-year compounded annual growth at 12 per cent in U.S. food sales and there are no predictions of it slowing over the next five years. Now, personally I don't like to put Canadians in the same boat as Americans, but I would guess the stats for Wal-Marts in Canada would not be too much different.

The Wal-Mart's and big box stores of our world are a symbol; earn as much as you can and spend as little as possible on the day to day essentials in order to live the dream of driving a supersized mega cab pickup with a four-inch lift kit. However, in all seriousness it is a fact that every year the North American consumer spends less and less of his/her annual disposable income on food for the table. And yet if you surveyed this consumer they would be quick to complain that the price of food is still too high. So what's going on?

I say consumers are like kids, and kids are like dogs. You have a small window to train them and get it right and if you get it wrong; well there is a saying for that as well, "you can't teach an old dog new tricks." Unfortunately we are now stuck with a society of consumers convinced that food is always too expensive. The only way to generate a sale or increase consumption is to either super size it, discount it or no-name it.

I don't have the stats as to the retailer concentration in Canada, however concentrated and consolidated would be good descriptors. In the East are giants like Sobeys, Loblaws, and Metro/Dominion's. In the west it is Sobeys, Loblaws, Safeway's, Federated Coop and a splash of Jimmy Pattison and the Save on Foods banner. Yes there are independents, however, they take up a very small percentage of the market place.

Over the past five years I have had the opportunity to work and get to know many of the aforementioned companies. They all look like they have different marketing strategies, but boil them down and they are all pretty similar — turn inventory and shoot for a goal of a minimum of 35 per cent margin; at least that is the tar-

get of the meat departments. Yes 35 per cent margin on fresh meats sales! Add in the deli section and that margin approaches more like 45 to 55 per cent.

There is no doubt in my mind that there are costs to running a meat department. There are fixed overhead expenses, there is labour, there is the cost of discounted product and there are the shop lifters, but then again there are also benefits like minimum inventory, quick cash turnover and payment received as the customer walks out the door.

For shoppers, meat departments were and to some extent still are destination categories, however have you ever wondered why there is row upon row of consumable dry goods that block and intercept our journey to the meat department? They certainly did not get their by accident and

retailers make even larger margins with these products because it doesn't take a rocket scientist to stock them and their shelf life is a non-issue. The term convenience foods suits them aptly, as they are convenient for the consumer and the retailer.

They say the customer is king, and then I guess he who has the customer must be the queen. If I look at this analogy and see how far the cow/calf is from the end user, then peasants would amply define the situation.

The crux of the problem, as I see it, is several fold. First, there is no shortage of beef suppliers for retailers to buy from. Offshore or domestic there are ample choices and considering that beef is a perishable product it gives the retailer a huge leverage over packers in terms of price and terms of payment. Therefore the ability for packers

to set price and create a larger pie is extremely limited. To create a larger pie for all to feed from would require buy in from the retailer.

Will it happen? I would like to think that it could, however just like consumers, retailers are like old dogs and will never want to give up/share their margin, nor charge more for the product, simply because the No. 1 way retailers attract buyers is through sales, discounts and feature adds. Add to this problem all the convenience items that are begging for shelf space and I don't see North American retailers as a saviour to raise returns at the farmgate level any time soon. Could it change? Perhaps, if the market were shorted with beef supplies and the consumer were willing to spend more on groceries, however I don't see that happening soon either.

Where we are and how it got to where it is, did not happen overnight. Several factors shifted slowly but continually and our industry because of its structure failed to see and act on it. Add to the mix a recent rise in energy costs and a rise in our dollar and it is why we are where we are at today. To change the direction will take a lot of effort and a different way of doing business. Perhaps for as much effort as we've taken to lower costs of production and to develop new antibiotics and growth promotants, the beef industry must figure out how to retake much of our lost ground. Otherwise you better get even better at raising your beef cheap and cheerful.

Dr. Christoph E. Weder is a purebred Angus breeder in the Peace region of Alberta and also runs SVR Ranch Consulting. For additional info check out www.spiritviewranch.com

Don't get burned by lung infection and inflammation



BRD moves Fast. Resflor® moves Faster!

The fast-spreading bacteria and inflammation associated with Bovine Respiratory Disease (BRD) can lead to lung lesions, less weight gain and reduced product quality. Fight BRD and protect your bottom line with Resflor - the only dual-action treatment offering:

- The fast-acting broad spectrum antibiotic in Nuflor®
- The rapid anti-inflammatory in Banamine®
- A single SQ dose for a visibly faster recovery



SEE THE DIFFERENCE

 Intervet

All trademarks are the property of Intervet International B.V. and are protected by copyrights, trademark and other intellectual property laws. Copyright © 2009 Intervet International B.V. All rights reserved.