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MEAT INDUSTRY MARKETING REPORTS

The Kroger Company

Harris Ranch Beef/Nob Hill Foods

Report to the California Beef Council

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Meat Industry Marketing Reports

Introduction

In late 1984 the California Beef Council awarded a research contract for the conduct of two meat industry marketing studies. The purpose of the studies are to encourage livestock producers, packers and processors, wholesalers and retailers to make essential adjustments to a changing environment: consumer attitudes and behavior toward beef; wholesaling and retailing meat operations; technologies in meat processing, packing and distribution. The marketing studies and follow-up activities are positively influencing executives and other decision-makers in meat industry firms and organizations.

The following meat industry conferences and seminars addressed an estimated 2200 producers, packers and retailers:

- Western States Meat Association Annual Convention, San Francisco.
- American Meat Institute/Food Marketing Institute Meat Marketing Conference, Houston.
- American Meat Institute Food Editors and Writers Seminar, New York.
- Food Marketing Institute Annual Convention, Chicago.
- Spartan Stores, Inc. (9th largest U.S. wholesaler), Meat Operations Seminar, Grand Rapids, Michigan.
- Livestock Industry Congress, Des Moines.
- Harris Ranch Beef Co./Nob Hill Foods Management Seminar, Gilroy, California.
- Workshop on Marketing Challenges and Opportunities, Sponsored by Western States Meat Assn., California Beef Council and Beef Industry Council, Monterey, California.
- Alberta Cattlemen's Association Industry-Wide Strategic Planning Workshop, Calgary.
- South Western Meat Packers Assn. Annual Convention, Mescalero, N.M.
- Michigan State University Beef Industry Seminar, Gaylord, Michigan.
- Colorado Cattle Feeders Assn. Annual Convention, Vail, Colorado.

In addition, the following trade publications and electronic media have reported on the results of this project:

- National Provisioner - Western States Meat Association Convention Issue, March 23, 1985.
- Supermarket Business, August 1985.

- Supermarket News - Several Issues including Special FMI Critical Issues Section, May 6, 1985.
- Livestock Industry Institute Forum.
- National Live Stock and Meat Board Reports.
- Farm Journal, July 1985.
- Meat Industry, March 1985 Issue
- Radio Interview for the Rocky Mountain Agricultural Radio Network.

Responding to the Challenges: Strategic Perspectives

Clearly, the beef industry -- producers, feeders, packers, processors and retailers -- is experiencing serious problems. Effective responses are essential. Indeed, declining consumption and industry profits are realities, and positive images toward beef are eroding. Analysis of the challenges and opportunities confronting the beef industry has resulted in the identification of several fundamental problems which the industry needs to address.*

- The Unhealthful Image of Beef: Telling the Positive Story
- Trim and Finish Levels for Greater Consumer Acceptance
- More Convenient Meat Products to Match Changing Lifestyles
- Consumers Need Information on Beef Products
- The Need for Improved Meat Packaging
- The Beef Industry is Commodity-Oriented ... Marketing is Needed
- The Variability of Beef Quality
- The High Price Image of Beef
- Beef's Cost Disadvantage
- Increase the Value of Chucks and Rounds Through Product Development
- Retailers Lack Precise Information on Meat Operations.

Strategies for response to the industry's problems need to be developed throughout the industry in a consensus building fashion. In the process of developing strategies the following perspectives should be considered:

* Please refer to the Beef Industry Council report, Beef Market/Product Development: Challenge and Opportunities. John W. Allen and Thomas R. Pierson. Copies of the report are available from the Meat Board, 444 North Michigan Avenue, Chicago, IL, 60611.

- Just as there is no single problem, there are no simple solutions. As one company president said: "If they were simple, they would have been solved long ago ... there are no easy victories, nor silver bullet solutions."
- Effective solutions will require changes in behavior and action by each and every participant in the beef industry ... including consumers.
- Some changes will be extreme, requiring even more pioneering initiatives by the beef industry leadership than ever before.
- Other changes will be gradual and evolutionary, requiring more joint efforts and greater beef industry cooperation than ever before.

The needed strategy for response has two major thrusts which must be carried out simultaneously: 1) improve products to match lifestyles, and 2) enhance images by correcting misconceptions.

The Kroger Company

The Kroger Company is one of the largest supermarket chains in the U.S. Corporate offices are located in Cincinnati, Ohio and over 1100 supermarkets are operated in 19 southern and midwestern states. About 19 percent of Kroger's total sales come from meat. In 1984 meat sales were to exceed \$2 billion.

In recent years Kroger became dissatisfied with their retail meat business, and set out to make changes covering a broad range of meat operations. These initiatives are set forth below.

- Greater Space, Merchandising and Management Commitment

Kroger's commitment to improved meat operations is indicated in a speech by William Kegler, President, to the American Meat Institute in September of 1984. In this speech he indicated that as part of Kroger's overall strategic plan they would focus on improved meat retailing since their research indicated that a significant portion of their shoppers keyed grocery store shopping to meat purchase decisions. He further said, "Changes in meat operations are happening because we set out to make them happen." Thus, top management commitment to improved meat operations was established. The following is evidence of Kroger's renewed support of meat operations under the direction of Mr. William Parker, Vice President of Meat Merchandising.

- Service Meat Counters. Research conducted by the company indicated that service meat counters can be an important factor enhancing shoppers' images of the overall meat department. It was found that an improved meat image could result in meat sales increases of 25 percent with overall store sales increasing by 10 to 15 percent. Thus Kroger recognized that a positive meat image draws customers and that these customers shop the entire store significantly improving overall performance. Service meat counters are being installed in all new and remodeled stores.

- Deli Departments. Expanded deli operations are also extremely important in establishing a quality and convenience image for the store. Creative merchandising practices have been sought to maximize deli performance. For example, to better meet shopper preferences Kroger moved from sliced to shaved meats. This simple change resulted in a 300 percent increase of deli ham, turkey breast, chicken and roast beef tonnage in just three years. It should be noted that Mr. Parker is continually urging suppliers to conduct research to reveal similar merchandising breakthroughs. Recently, the company took steps to achieve an upscale image by gradually introducing premium brands of deli meats in selected stores.
- Improved Merchandising for Processed Meats. New shelf displays of processed meats to more clearly communicate and differentiate product attributes to shoppers is a goal; for example, more clearly distinguishing dry smoked hams from water added hams. This is indicative of efforts to identify ways by which the presentation of all meats can be improved.

- New Meat Department Prototype

In Kroger's newest meat department design, more space and merchandising flair is being devoted to fresh meats. Moreover, their recent research indicates that consumers prefer single deck meat cases over multi-deck cases. The new prototype will also feature fresh meat cases located away from the walls permitting more convenient shopping of the entire case.

- Greater Emphasis on Variety

Throughout the chain, sales of lamb and veal have been greatly emphasized. Additionally, in selected markets upscale portion-controlled beef and pork cuts are being sold in substantial volume. Although sales increases of individual items are relatively small, the company believes they have a synergistic impact on total meat department and store sales.

- Higher Quality Image for Beef

Kroger has established its own brand for beef, "Grain Fed Beef," as a means to communicate to shoppers the values associated with USDA Choice grade, grain fed beef. The Grain Fed Beef program has received substantial television, newspaper and in-store advertising support. As a result, over a fifteen month period since its introduction, sales tonnage increased by about 8 percent, while industry tonnage was declining.

- Leaner Ground Beef

Under the theme, "More Beef Ground Beef," each of three ground beef products have been made 3 percent leaner. The program has been aggressively promoted by in-store labeling as well as media advertising, resulting in a 5 percent tonnage increase. The goal for this program is to create a leaner image for all beef products, as well as to provide shoppers with a better value.

- Closer Trim Specifications

In selected markets, the company is experimenting with what is termed, the "Super Trim" program which specifies a maximum of 1/4" external fat trim. Initial sales

responses have been positive, suggesting that shoppers recognize the added value of a closer trim.

- Boneless Beef

In March of 1985 a boneless beef program was established, company wide. Only 3 bone-in steak cuts remained. Advertising and promotion programs are successfully explaining to shoppers the convenience and inherent economic value of boneless beef -- "You pay no more for the edible meat." In the face of traditional industry assumptions and practice, that certain markets require the sale of bone-in products, this has been a bold and dramatic step -- and a highly successful one.

- Vacuum Packaged Mini-Subprimals of Boneless Pork

Over the past four years a number of major fresh pork suppliers have developed mini-subprimal, boneless pork programs which provide retailers with select quality, convenience and the opportunity to achieve higher levels of productivity. Approximately 80 percent of these products are cut and packaged in the supermarket backroom. At the present time, Kroger is selling 35 percent of their pork from this form, versus an industry average of less than 10 percent. Kroger anticipates continued rapid sales growth of these products.

- Case-Ready Fresh Meats

At the present time virtually all of Kroger's fresh poultry arrives at the stores in a branded "case-ready" form (chill packed), packaged, labeled and sometimes prepriced. The company also merchandises a few pork items such as branded spare ribs and tenderloins which arrive from suppliers in case-ready form. Kroger is affirmative in encouraging suppliers to market branded, case-ready fresh meats -- beef, pork, lamb and veal. In addressing meat packers and processors on case-ready meats, Mr. Kegler made this statement, "Branded beef and pork merchandising holds great promise ... it provides another opportunity to reinforce in the minds of shoppers that your products can be purchased with an absolute assurance of quality." At the 1985 AMI/FMI Meat Marketing Conference, Mr. Parker also encouraged meat companies to accelerate the development and marketing of new value-added products.

- Precooked, Fresh, Microwave-Ready Meats

In an effort to provide shoppers with high quality, convenient meat products sold in the fresh meat case, the company is experimenting in numerous stores with precooked, fresh (never frozen) microwave-ready meat products. It is believed that because these products are totally new to shoppers, they will require substantial marketing support, such as sampling, demonstration, couponing and advertising. It is likely that very high standards of eating quality will also be imperative for success, higher quality than competing frozen entrees and dinners. Once again, Kroger is encouraging processors to develop and market such products.

Conclusion

As can be seen in the initiatives described above, the Kroger company has embarked upon a wide range of positive changes in its meat operations. Indeed, management is trying to stimulate change throughout much of the meat packing and

processing industry in an effort to better serve their shoppers. It is important to note that most of these affirmative steps have been prompted and guided by consumer research. Kroger is breaking with tradition in the process of trying to build sales back up by experimenting with the new and untried. They clearly have come to recognize a critically important reality -- that shoppers and consumers are changing and that the meat industry must respond positively.

Harris Ranch Beef Co./Nob Hill Foods

This report describes the joint marketing activities of the Harris Ranch Beef Company and Nob Hill Foods. Harris Ranch Beef is an integrated California beef company, led by Mr. John Harris, President. The company operates a 100,000 head capacity feedlot, as well as a 750 head per day slaughtering and boxed beef processing plant. One particularly distinctive aspect of the company is its integration into foodservice with the Harris Ranch Restaurant, a 2,000 meal per day family restaurant on Interstate 5 between Los Angeles and San Francisco. A retail meat counter at the restaurant also gives the Harris Ranch Beef Company a sensitivity to the retailing of meat. In addition, Harris Ranch Beef is a supplier to Del Pero Mondon, an innovative Northern California meat purveyor which markets products internationally, as well as domestically.

Nob Hill Foods is a family owned, eighteen store supermarket chain which recently celebrated its 50th anniversary. Mr. Michael Bonfonte, President, leads the firm. Headquartered in Gilroy, California, the firm's marketing area includes communities south of San Francisco. Nob Hill emphasizes fresh produce and meats, and provides a high level of customer services to a broad range of consumer segments.

Principle elements of the joint marketing endeavor of these two organizations are described as follows:

- Branded Beef Program

Of Harris Ranch Beef's total output, 75 percent is marketed to major chains as unlabeled product. The remainder, Select Beef, is sold to smaller retailers and upscale restaurants throughout California, as well as outlets in Japan. Nob Hill receives Harris Ranch Select Beef in conventional boxed beef form for traditional backroom cutting and packaging. A key aspect of the Harris Ranch Beef/Nob Hill program is that each retail package bears the Harris Ranch Beef label which is applied at store level. This quote from one of Nob Hill's meat department managers describes the benefits of the brand program:

"Harris Ranch branded beef gives us an identity that enables us to relate with customers one on one. It's not just putting out a piece of meat. This is somebody's beef: Harris Ranch's. Furthermore, you don't put a label on just any kind of product. It has to be different. It has to be superior. If we're going to carry somebody's product, we've got to make it the best possible. If we're going to commit ourselves to Harris Ranch's Beef, we want to make sure that at store level we give it a uniformly close trim, and promote it so that we keep building up customer confidence."

- Sales and Distribution

The Harris Ranch Select Beef marketing program is directed by Mr. Jeff Linder, Vice President of Marketing, who with his sales team, has developed an in-depth understanding of each retail customer's needs with regard to beef quality, consistency and service. Harris Ranch Beef has 12 salesmen who oversee the selection of product for their customers. The salesmen interact frequently by phone and store visits with their respective accounts. In this tightly coordinated marketing program, Harris Ranch Beef's sales manager, Mr. Roy Urig, works very closely with Nob Hill's meat director, Mr. Al Valensuala, as well as with each of Nob Hill's meat department managers. A fleet of 45 trucks enables Harris Ranch Beef to provide direct store delivery, thus Harris Ranch Beef maintains quality control over the entire wholesaling function as well as feedlot, slaughter and processing activities.

- Beef Merchandising Support Program

The Harris Ranch Beef Company extends to its customers merchandising support in the form of a wide variety of materials -- recipes, nutritional information, and point-of-sale items. Many of these materials are provided by the California Beef Council and the Beef Industry Council of the National Live Stock and Meat Board. The company also conducts in-store cooking demonstrations and product sampling in support of its brand program -- a highly atypical approach in today's commodity oriented beef industry.

- Toll-Free Telephone Hotline

Indicative of both companies' sensitivity to consumers' needs for information on beef nutrition and preparation, a toll-free telephone hotline has been established. Nob Hill prominently displays posters with the hotline number at the meat case. Harris Ranch Beef maintains the hotline which is staffed by students from California State University at Fresno, majoring in Nutrition and Home Economics. Mr. Linder believes the hotline achieves the following:

- Responds to consumers' nutrition concerns by communicating factual information.
- Builds consumer satisfaction by suggesting convenient methods for beef preparation.
- Establishes positive consumer images of Nob Hill Foods, Harris Ranch Beef Company as well as beef as a product.
- Provides a valuable source of consumer feedback and marketing information based upon surveys of many hotline callers.

- Strong Marketing Orientation

Both organizations possess strong marketing orientations; that is, they possess an awareness of changing customers' wants and needs, and recognize the importance of achieving customer satisfaction. With respect to the Harris Ranch Beef Company, the marketing orientation is exemplified by a total beef program tailored to the specific requirements of each of their strategically targeted customers. Nob Hill Foods, for its part, demonstrates the marketing orientation in a number of ways. One important

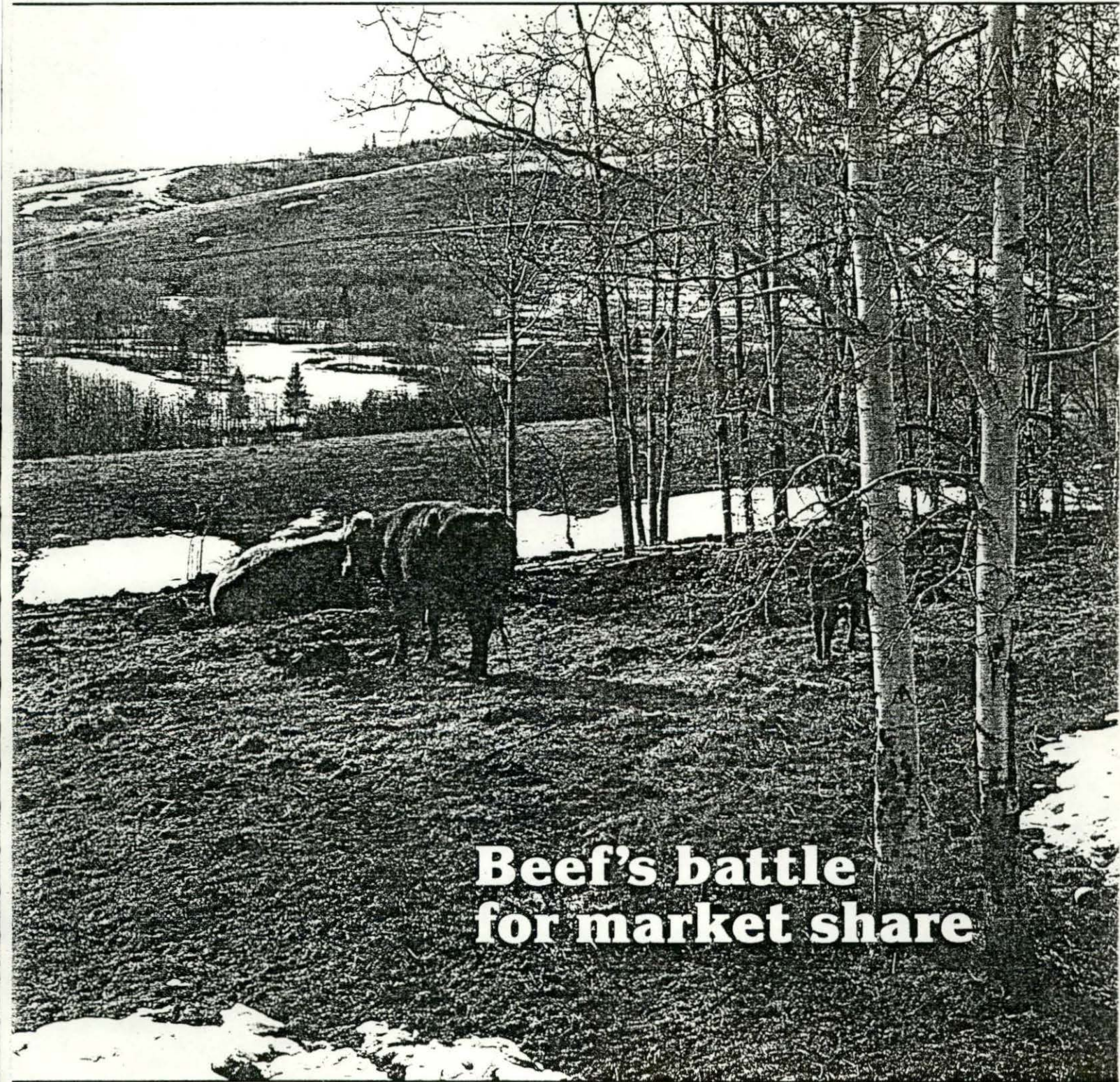
example is observed in the role of its meat department managers who are instructed to perform no backroom production activities, but instead, they are encouraged to maintain direct contact with shoppers at the meat counter and supervise backroom activities to insure shopper satisfaction.

Conclusion

It should be noted that a key reason for the effectiveness of this highly coordinated beef marketing program is the commitment by both companies to achieve mutually beneficial objectives. Success in this instance is possible because of a commonly held philosophy of business which is fostered throughout each of the firms by Mr. John Harris and Mr. Michael Bonfonte. It may be that the following similarities account for this meshing of philosophies: a primary goal of customer satisfaction, a long-term versus short-term view of business, and a participative and professional approach to management.

Cattlemen

THE BEEF MAGAZINE



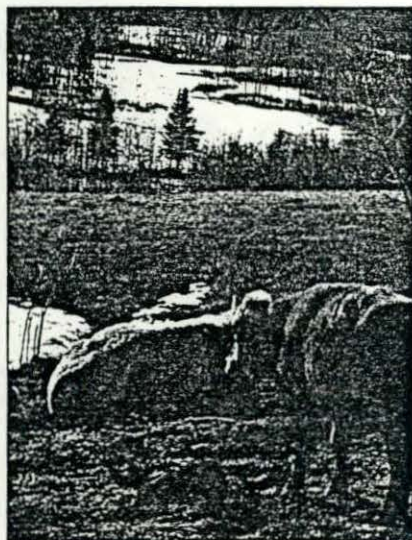
**Beef's battle
for market share**

January 1986 — \$1.00

Cattlemen

THE BEEF MAGAZINE

Market share is the key to success. Even in bad times, the managers scrutinize share of market figures to decide if their product is holding its own. Beef's share of market is shrinking and there are lots of suggestions on how to stop that trend. Our feature on page 18 gives the main thoughts of a committed group that took up this challenge late in 1985.



A lot of city people would love to be able to work in the quiet of the countryside, especially with a view as gorgeous as this mountain view that Millarville, Alta., cowman Robert Chalmers faces each day. But they might not be quite so anxious to handle the workload, especially at calving time.

And watch for next month's Calving Special, which will bring you some of the best calf-saving ideas from across the country.

COVER — Robert Chalmers' ranch at Millarville, Alta. Photo by Terry Hockaday.

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