Branding in the Red Meat Sector - A Conjoint Study from Germany

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Abstract

During the last years, low price products (e.g., private label) gain increasing market shares in the German meat market. Compared to other countries the share of branded meat from integrated production chains is very low and most fresh meat is sold unlabelled. This study analyzes the advantages of brands from an information economic perspective and emphasizes branding as an important quality assurance and signaling tool. As brand extensions offer the opportunity to introduce brands to new markets at much lower costs we examine the brand transfer from the poultry to the red meat market taking Wiesenhof, the German brand leader for chicken and poultry, as an example. We use conjoint and cluster analysis to calculate willingness to pay and market shares for different consumer segments. The results demonstrate, that branded meat reaches almost two third of market share while the low priced private label always gets the lowest proportions of consumer preferences. Given the choice, customers do not always prefer the cheapest offer but trust in branded meat even more. This market potential is actually not used to advantage. The overall total market share of meat brands lies below 5 %.

Keywords: Branding, quality signal, brand extension, meat market

Marketing challenges in the meat market

The German meat market has lately had to face severe crises and fluctuations in demand. Hardly any other branch in the food industry has had to cope with so many food scandals. BSE, MKS, salmonellae, dioxin and nitrofen have effectively lowered the consumer's trust in animal food and have reinforced the long-term trend towards lower meat consumption.[1] This is especially true for the red meat sector while the demand trend for poultry is on the whole positive. The main hypothesis of the following paper is that these differences are due to different marketing approaches, namely labelling on the one hand versus branding on the other.

In the last few years, several food quality and safety initiatives have been established to control the traceability of the meat and the fodder. With the introduction of the QS-label in Germany the whole value chain has been integrated into one certification system for the first time. The mainly production-oriented features aim at regaining and strengthening consumer trust in meat. However, the cooperative labelling approach is limited by financial restrictions and free rider effects. A successful certification label can work as a basic guarantee in the market only if it is well recognized and trusted.

On the other hand, the importance of brands as quality signals and customer relationship instruments has completely been neglected by the meat industry. Particularly in terms of safety aspects consumers often do not know whether the meat is of good or poor quality and are not willing to pay for a better quality they cannot identify. Information economic theory considers brands as suitable quality signals to bypass imperfect and asymmetric information by guaranteeing high and consistent quality standards. In the German meat market there has been only one serious attempt to establish a classical brand: Wiesenhof belonging to the Paul-Heinz-Wesjohann-group (PHW) in the poultry sector. In the red meat market, in contrast, only unbranded meat, low-priced private labels or quality production programmes are offered which mainly refer to producers' requirements and have not yet reached a high level of consumer awareness. [2]

The following study deals with the relevance of brands as quality signals and discusses the possibility of brand transfers to introduce brands in the red meat market at low costs. To analyze this procedure in particular and the potential of meat brands in general an empirical analysis has been conducted on the basis of the brand Wiesenhof. It is the German leader in the market for poultry and poultry products.

Branding in the fresh meat sector

2.1 Brands as quality signals

Access to information is an elementary condition for the functioning of markets. Indeed, manufacturers and retailers are inevitably better informed about the quality of their products than individual consumers. [3] Imperfect and asymmetric information is a typical example of market failure and may lead to problems especially in food markets. [4] Akerlof argued that poor quality will prevail over high quality products if there are no signaling instruments in the market which ensure credible information. Without any quality signaling, high quality products will not be able to achieve a price premium and will finally disappear. Markets will only offer poor standards and as a result break down. [5] Information economic research has often stressed the relevance of signals in markets with high information asymmetry in order to reduce it. From an information economic point of view, goods can be categorized according to different types of quality attributes: Search attributes whose quality can be controlled before purchase, experience attributes whose characteristics can only be determined after purchase and credence attributes which cannot be assessed either before or after purchase by consumers but only by reliable third parties (see Table 1).[6] Depending on the kind of attribute, the costs of gathering information about the quality of the product increase from search to credence attributes. Food safety can either be categorized as an experience attribute, e. g. in the case of microbiological contamination which results in illness, or as a credence attribute, e. g. in the case of country of origin. It is largely treated as a credence attribute because the appraisal of product quality is not practicable for individual consumers. [7] In food markets, where unobservable product quality has gained rising importance, reliable quality signals, such as brands, prices, warranties, therefore, are fundamental instruments in consumer marketing.

Tab. 1. Typology of Attributes and Quality Signals

Typology of Attributes	Search Attributes	Experience Attributes	Credence Attributes
Suitable Quality Signals	Packaging, Design, Appearance	Brands, Price, Reputation	Brands, Guarantees, Test Labels

Source: Description by the authors based on Nelson 1970[8] *and Darby/Karni 1973*[9]

In the following discussion, brands will be treated in greater detail as they are considered to be important drivers of food quality. Brands enhance product recognition and serve as communication instruments. As quality signals, brands are especially useful to communicate and guarantee a high level of unobservable product quality as brand producers make several investments to build brand equity, i. e. advertising, public relations, product design or packaging. These large sums of fixed costs may turn into irreversibly sunk costs in the case of a food scandal or image loss. Therefore, the producers share a vital self-interest and make great efforts to guarantee credible claims about unobservable quality. Brands take on the function of information surrogates and often are an important part of a company's capital and have to be protected from any damage. For the meat sector, brands might help to keep up high standards in food safety and, consequently, to diminish food scandals. This has empirically been proven in the German market for cold cuts, where strong brands such as Herta, Gutfried, Zimbo or Rügenwalder only faced slight declines in demand or even achieved growth rates during the BSE-crises.[10]

2.2 Wiesenhof: An example of a quality-oriented marketing strategy in the meat sector

The PHW-group in Rechterfeld, which is one of the outstanding companies in the German agricultural sector, has been dedicated to branding since the 1950s. Their traditional chicken brand Wiesenhof marks the most important business segment of the firm with an annual sales volume of 695 million €. Altogether, the PHW-group covers 48 % of German poultry production, i. e. 200 million birds per year. The company is the market leader in this segment by a wide margin and maintains a 29 % share of the market based on the national chicken consumption.[11]

As a confirmation of the quality leadership, the PHW-group is in charge of an integrated production chain for their brand Wiesenhof. The company early started on to certify their agricultural fattening units and was the first poultry producer to introduce the traceability concept in 1995. It documents the origin of each animal and includes the production steps parent herds, hatcheries, fodder mills, raising farms, slaughter-houses and processors in one company ("5-D-Quality"). All 700 contract farmers receive their young birds and the fodder exclusively from the integrated production stages. The company turned down animal protein and abandoned antibiotic feeding for production at an early stage. The fodder component, soy, is not genetically modified. An outstanding role is Wiesenhof's monitoring of salmonellae. Production of fodder in its own mills reduced the salmonellae infection to only one to two percent of cases. Moreover, all Wiesenhof chicken and other poultry have been QS-certified since October 2002.

The Wiesenhof example shows the importance of brands for the quality segment. Brands are promotors of innovations. The high marketing costs force the producers to be involved with an excellent and sustainable quality policy so as not to endanger the brand value and the economic survival of the firm.

2.3 Problems of branding in the meat market

While in many product groups of the food industry, famous brand producers have built up important standings and reach price premiums for their products, there are very few established brands in the fresh meat market. Many industry insiders even doubt that branding is possible in the red meat sector. The following aspects are often mentioned (see Table 2):

Tab. 2. Arguments from practitioners against branding in the fresh meat market

Argument	Reason
Unpacked product	Because of the predominance of sales over the counter branding is neither necessary nor possible
Natural product	The meat quality cannot be standardized adequately enough for the needs of a brand
High quality risks	Crises such as BSE affect all firms, also the brand producers
Customers as Co-producers	The lack of cooking skills of many consumers leads to disappointing taste experiences which rubs off negatively on the brand
Lack of financial power	The low rentability of the industry rules out expensive advertising campaigns

Source: Personal description based on discussions with industry experts

Although the above mentioned technical arguments present great challenges for establishing a meat brand there are several arguments for branding in this sector, such as the dynamic growth of the self-service segment, new packaging technologies and the increasing techniques to standardize meat quality by genetic engineering and fodder.[12] The high perceived buying risks with meat (see also Alvensleben 1997)[13] – in contrast to the opinion of many members of the meat industry – are an important reason for branding.

The cross reference to the co-producer role of the consumers is also not convincing since for other product groups, which also require a special level of consumer competence (e. g. coffee, tea or wine), successful brands can be found. It can be ascertained that knowledge on how to prepare certain foods is decreasing in various parts of the population, but the method of preparation has little influence on the perceived quality.[14] Furthermore, the trend towards convenience meat products will gradually reduce consumers' influence on the taste experience of a meal.

The strongest remaining argument against branding is the low financial background in the meat industry. In the introduction period of a new brand investments often account for up to 25 % of the expected annual sales.[15] In the face of these high financial barriers, it may be wiser to extend an existing label to the pork and beef sector by brand extension. The following chapter discusses the theoretical background of brand extensions.

Brand extension strategy

Brand extension, i. e. the use of established brand names to launch new products, is one of the most frequently employed branding strategies. For fast moving consumer goods, often more than 85 % of new product introductions are brand extensions.[16] Brand extensions are considered profitable because brands that are already known and recognized are generally assumed to require lower new-product introduction expenses such as advertising or promotion costs. These benefits are mainly due to the transfer of the awareness and association of the parent brand to the new product. In the long run, positive spill-over-effects from the transfer product to the parent brand are expected.[17] Risks might be seen in the possible weakening of the brand image or in badwill-effects in the case of quality problems.[18]

Nevertheless, the decision for a brand transfer is not without risk. Several studies show that the transfer potential of a brand mainly depends on three influence factors:[19]

- Strength of the parent brand: A high level of brand recognition and a positive brand image are important requirements for a successful brand transfer. The brand image should not too strongly be characterized by product specific elements, but by emotional or abstract items.[20] It is more difficult to transfer a brand which is strongly related to a special product.
- Perceived quality of the parent brand: The perceived quality of the parent brand turns out to be the most important buying reason for many consumers. It can be expected that consumers assign their quality associations from the parent brand to the transfer product to reduce their risk of mispurchase. A higher perceived quality of the parent brand therefore increases the chances for a successful brand transfer.[21]
- Perceived fit of parent brand and new product category (transfer fit): The chances for a successful brand extension increase with higher perceived fits of associations between the parent and the transfer brand. The fit may refer to product-related attributes, similar consumer situations or consumer types as well as complementary usage of parent and transfer brand.[22]

The main objective of the following analysis was to test the potential of brand transfers in the meat sector. In our survey the case of Wiesenhof served as an example of a parent brand for the red meat sector. The three success factors described above were analyzed via direct statements. Furthermore, the brand transfer potential of Wiesenhof was surveyed by the decompositional method of Conjoint Analysis. Respondents were not asked for their brand preferences directly but were asked to rank different products.[23] An advantage of the Conjoint Analysis is the indirect calculation of the willingness to pay which reduces the bias towards an overstated price sensitiveness and an understated brand awareness. Conjoint analyzes have been used for questions of brand transfer before and can be considered as suitable and valid.[24]

Survey Design

With the lack of strong brands in the red meat market an important quality signal is absent. The biggest problem against branding is the financial weakness of this segment. Nevertheless, the example Wiesenhof from the poultry market shows the potential for meat brands in Germany. As brand transfers are a cheaper option to introduce brands to a market, we analyze if the the brand Wiesenhof can be assigned to the red meat market. Our case study addresses the brand transfer from Wiesenhof poultry to the new hypothetical product Wiesenhof pork.

In January 2004, a consumer survey was conducted in retail stores of the German retailer Edeka in Lower Saxony. Edeka is the leading German retailer by food sales volume and, as generally known, a quality-oriented company. The retail group has more than 10 years experience in the management of their premium private meat label “Gutfleisch”. Therefore, the area and target group of the sample were selected with regard to the topic brand leadership in the meat market while representativeness was neglected. Altogether, 177 customers were interviewed, of which 67 % were women. Compared to the German population as a whole younger people between 20 and 30 years were overrepresented and older people over 70 years underrepresented. Also people with higher education and income as well as households with more members constituted a higher proportion than average.

In the first part of the survey a Conjoint Analysis was conducted in which the respondents were shown several meat offers which they had to rank by preference. The product attributes were systematically varied and combined to several meat products. This procedure allows the calculation of importances of the different product attributes in the buying process.[25] Furthermore, by the calculation of price equivalents the monetary value of different alternatives, in this case especially of the transfer product, can be determined. The second part of the study consisted of questions on brand recognition and image of Wiesenhof, on the quality of the mother brand and the transfer product as well as on the perceived fit of the two product groups. These results will be presented at the beginning of the next chapter.

Results of the study

5.1 Strength of the parent brand, perceived quality and transfer fit

In 2003, the advertising costs for the brand Wiesenhof accounted for almost 8 million €.[26] In our survey, the brand was indirectly recalled by 12.4 % of respondents which is the highest value achieved with meat brands followed by the quality private label Gutfleisch of the retail group Edeka (11.9 %). On the other hand, the direct brand recall is much higher (93.8 %) than that for Gutfleisch (57.6 %). Compared to fresh meat, brands are much more common in the market for cold cuts, but in this field brand the recongnition for Wiesenhof is much lower than in the meat sector.

Asked for spontaneous associations towards the brand Wiesenhof 65 % of respondents mentioned “chicken/poultry“ and 14 % meat/sausages. Positive associations like “without chemistry, untreated, good quality, from controlled production” were named by 8.5 % of those questioned and “meadow, farm, organic, from the countryside” by 3.4 %. Negative associations, such as “factory farming, hen cages or salmonellae” were mentioned by 6 % of the respondents. Finally only 4 % of respondents remembered a connection between Wiesenhof and current advertisements or sponsored TV shows. In summary, most of the respondents associated the brand with the product category poultry but not with any abstract associations. This strong focus on the product could constrain the transfer potential.

The image values for Wiesenhof on a semantic differential show positive ratings. The products are considered as pleasant, light, tasty and appetising, but not as sporty or unique. The price of Wiesenhof is perceived as middle of the market.

In a further step we asked about the quality of the parent brand and how it fits the potential new product group. More than half of the respondents (53.3 %) rated the quality of the previous Wiesenhof products as good. The similarity between Wiesenhof and the analyzed transfer product was balanced. 46.9 % of the respondents had a positive and 38.4 % a negative attitude towards a brand transfer to the meat market (μ: -0.05 on a scale from -2 to +2). The quality of the new fictitious Wiesenhof product was always rated positive (μ: 0.54).

The interim findings show a high brand awareness of Wiesenhof and positive characteristics such as high-quality, credibility and liking. A problem for the brand transfer to new product categories is the low emotional level of the brand and the strong focus on poultry. Accordingly, the transfer to new product categories is considered sceptically.

5.2 Brand value on the basis of Conjoint Analysis

The conjoint design consists of the product attributes brand, price and origin. The detailed conjoint design with all attributes and characteristics is shown in Table 3.

The choice of the three brands for the conjoint design can be ascribed to the aim of the study. The transfer potential of the quality brand Wiesenhof is analyzed in comparison to the low-priced private label Gut&Günstig. Gut&Günstig is a label which is positioned in the low price segment and not promoted in the media. Such labels constitute a suitable reference basis because of their nationwide distribution level and their low brand equity. The marketing literature has already documented this procedure.[27]

Tab. 3. Product attributes and characteristics of the Conjoint Analysis

Product attributes of pork cutlet	**Attribute characteristics**
Brand	Wiesenhof Gutfleisch Gut&Günstig
Price	4.99 € / kg 6.49 € / kg 7.99 € / kg
Guarantee of quality	Without guarantee of quality With „5-D-Guarantee of quality and origin“

Source: Consumer survey 2004

The high priced private label Gutfleisch is a good example of the efforts of large food retailers to build up meat brands. Gutfleisch was first introduced in Northern Germany before it was extended on a national level. The brand has a long tradition in the survey region and, therefore, mirrors the competition situation that a new brand on the market would face. The particular strength of the brand Wiesenhof is the well communicated guarantee of origin and traceability which accounts for the special quality image of the company in the poultry market.

By means of the statistical program SPSS the attribute characteristics were systematically combined to an orthogonal design of 9 stimulus and 2 holdout cards. These 11 picture cards had to be ranked by the respondents. The calculation of the part worth utilities took place on the basis of the additive model of Conjoint Analysis:[28]

$$y = \mu + ß_A + ß_B + ß_C \quad (1)$$

The model is defined as y = constant term which mirrors the average rank relating to all assigned (metric) rank values, A = 3 attribute characteristics, B = 3 attribute characteristics and C = 2 attribute characteristics. For the price a negative linear relationship was assigned, for the other variables a discrete one. Table 4 shows the importance of the single product attributes.

Tab. 4. Relative importance of product attributes [1]

Product attribute	Relative importance
Price	40.11
Brand	29.97
Guarantee of quality	29.92

Source: Consumer survey 2004

When buying pork most consumers rank the price as the most important criterium (40 %). The brand and the guarantee of quality each account for 30 % and are, therefore, a little less relevant. The main reason for the predominance of the price aspect could be the lack of powerful brands in the meat sector so that consumers have not developed a strong brand sensitiveness in this product category so far.

In comparison, branding and labelling seem to play a similar important role in the meat market. In a situation in which no company has invested in brand equity so far, this result demonstrates the potential signaling effect of brand management.

Detailed information about the assessment of the transfer product is shown in the following table. The part worth utilities demonstrate the preferences for the single brands and the differences in-between.

Tab. 5. Part-worth utilities of the product attribute brand [1]

Characteristics of the product attribute brand	Part-worth utilities of the attribute characteristics
Wiesenhof	-0.0584
Quality private label	0.3691
Low-priced private label	-0.3107

Source: Consumer survey 2004.

The results in the pork segment clearly show the higher preferences for the quality private label whereas the low-priced private label Gut&Günstig achieves lower rankings compared to the two quality brands.

The difference between the low-priced private label and the two quality brands can be transferred to price equivalents which reflect the brand value:[29]

$$PE = (TW_1 - TW_0) * \frac{dP}{dTW_P}$$

with:
PE: price equivalent,
TW_1: part-worth utility for brand 1,
TW_0: part-worth utility for brand 0,
dP: difference of prices,

[1] Internal validity of estimation: Pearson's R = 0.964, Kendall's Tau = 0.833; Predictive validity of estimation: Kendall's Tau = 1.0;

dTW_P: difference of part-worth utilities of prices
(2)

With the aid of these price equivalents, the consumer's willingness to pay for a special brand compared to an unknown brand c. p. can be determined.[30] In our case the low-priced private label Gut&Günstig was taken as a reference basis because of its low brand value. It is positioned in the low price sector, is not promoted by any advertising and strongly corresponds to a generic article.

Compared to the low-priced brand, the quality private label Gutfleisch has a brand value of its disposal of 76 cents (= average additional willingness to pay). Wiesenhof pork can achieve an additional willingness to pay of 28 cents and therefore clearly lags behind. Nevertheless, the willingness to pay for the quality private label Gutfleisch lags behind its effective additional charge in the store. This result shows that even regular Edeka customers do not recognize the company's private label although it is associated with large investments on the producer's side. The reason could be the lack of advertising for the private label as it is only promoted by sales promotion.

In summary, the brand equity for the existing pork brand Gutfleisch has been low so far. One important reason could be the lack of strong, competing brands. Exactly for this reason, a brand transfer to the pork market seems to be much more worthwhile than to other product categories.

5.3 Prices and market shares on the basis of Conjoint Analysis

In order to predict the share of preference that a real or hypothetical product stimulus is likely to capture in a special market scenario, simulations can be run on the basis of the preference data obtained in the Conjoint Analysis. In our scenario, only the price for Wiesenhof pork was varied while the other prices stayed fixed and referred to real market prices (quality private label with origin denomination for 6.99 € and the low-priced private label without origin denomination for 5.99 €) (see Table 6). For Wiesenhof pork the guarantee of origin was assumed to be the same as for Wiesenhof poultry products.

For the choice simulator, different specifications are possible for the simulation of consumer choices. We chose the maximum utility model which is the probability of choosing a profile as the most preferred.[31]

When estimating the market shares it is important to check whether brand preference is correlated to purchasing intensity, i. e. in the meat market a regular pork buyer could, for example, be a heavy user of private labels. In this case the market shares based on the conjoint results should be corrected by a weighting factor.[32] In our study a significant relationship between brand preferences and buying intensity could not be verified and a weighting did not have to be conducted. The following table displays the hypothetical market shares of the transfer product Wiesenhof pork at different price levels in Edeka-stores.

Tab. 6. Market shares of the pork brands in percent with varying prices of Wiesenhof

Varying price of Wiesenhof in €	Market share of Wiesenhof	Market share of Gutfleisch (6.99€)	Market share of Gut&Günstig (5.99€)
5.99	48.87	34.18	16.95
6.49	38.98	35.59	25.42
6.99	23.45	40.11	36.44
7.49	22.88	40.68	36.44

Source: Consumer survey 2004

At a starting price of 5.99 € Wiesenhof reaches the highest market share of 49 % and the low-priced private label Gut&Günstig the lowest of 17 %. Up to the price of 6.99 € the market shares of Wiesenhof show a strongly declining trend. Remarkably, it is the brand Gut&Günstig which can profit best from the losses of Wiesenhof and can better enlargen its market share than the quality private label Gutfleisch. It seems as if the Wiesenhof buyers belong to a price-sensitive group of customers. This result confirms the findings of the image analysis where Wiesenhof is recognized as traditional brand in the middle price segment. The market coverage of Gutfleisch is quite stable with a variation of ca. 6.5%.

A largely unelastic progression of market shares can be seen in the price area between 6.99 € and 7.49 €. This brand awareness is possibly connected with a high degree of quality insecurity of many consumers who infer a higher quality of those products from higher prices. Actually, 25 % of respondents show an atypical buying behaviour in raising their demand at higher prices. An analysis without these customers results in lower market shares for Wiesenhof while the low-priced private label reaches a higher level. The brand name Wiesenhof, therefore, functions as a quality signal for those consumers who are especially looking for safe products.

Conclusion

Information economic research argues that brands can act as important drivers of quality improvements in the meat sector. In comparison to generic labelling strategies, which have mainly been favoured, information economic literature emphasizes the advantages of branding strategies. Brands are characterized by high communication spendings which can be regarded as sunk costs leading to a larger degree of recognition and of self-commitment. The producers, therefore, share a personal economic interest in protecting their brand value which can be taken as a guarantee of high quality standards. Generic labels on the other hand are often characterized by small advertising spendings and a low degree of brand recognition. As the arising sunk costs from labelling are much smaller than those from branding the lower degree of self-commitment might enforce free rider behaviour and does not contribute to strengthen and improve the production chain. Brand leaders are interested in improving their quality standards and differentiate in the market by intrinsic motivation. Labelling systems on the other hand are based on extrinsic quality motivations. The producers in these systems have no incentives to produce quality that exceeds the standard level which is controlled by external certification institutions.

As can be seen from the results in our study, branded meat reaches almost two third of market share while the low priced private label always gets the lowest proportions of consumer preferences. Given the choice, customers do not always prefer the cheapest offer but trust in branded meat even more. This market potential is actually not used to advantage by the producers. The overall total market share of meat brands lies below 5 % in Germany. Agricultural policy has mainly focused on regional labelling strategies such as PDO, driven by hidden intentions to protect farmers' interests and assure subsidies. As a result this approach has led many firms in the meat industry to favour labelling strategies instead of developing their own brands. The chances of branding for the quality segment in general should not be neglected.

The German meat industry will only overcome its quality problems with new attempts to establish integrated production chains. Branding could, therefore, be a more useful and successful approach than generic labelling in the past.

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