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THE MARKETING OF RED MEAT IN THE REPUBLIC OF SOUTH AFRICA

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Meat Board

1. INTRODUCTION

The subject, marketing of agricultural products, is invariably of interest to a larger audience than in the case of the marketing of most other products. There are numerous reasons for this, many of which revolve around two basic aspects. Firstly the subject presents a good example of the controversy of statutory interference versus free enterprise. Secondly, because every individual is a consumer of agricultural products, the marketing thereof also contains elements of social responsibility.

This paper is not intended to cover the entire subject of meat marketing or even of red meat marketing with all its practical, academic, social and political implications but merely to consider some aspects of the statutory marketing scheme of the Meat Board, specifically with a view to identifying the objectives of the scheme and historically evaluating the scheme in terms of achievement of objectives.

Because of the limitations imposed by a paper of this nature, no attempt is made here to formulate alternative strategies. In the first instance, however, consideration will be given to those characteristics of the industry which may justify deviation from the idealistic concept of free enterprise.

2. CHARACTERISTICS OF THE INDUSTRY

In spite of numerous qualifications and variations, the interrelationship between supply, price and demand must be accepted as basic to any marketing concept. This economic law is not at issue. What is at issue is the extent to which the variables in the supply-price-demand equation must be left to the forces of a free enterprise economy.

If an objective of market management is to avoid risk and ensure a balance in the supply-price-demand equation, one can imagine certain conditions that would result in stability if left to free enterprise forces. It is equally possible, however, to imagine a set of conditions under which free enterprise forces would result in too high a risk and instability.

Conditions under which free enterprise forces may be allowed to operate freely are when:

- Both consumers and producers have complete freedom and flexibility of choice (hence equal bargaining power).
- The elasticity of demand is high.
- All the elements in the system are fully informed.
- The production cycle is short or when the system can be buffered effectively with physical stocks or sufficient reserve funds.

Very few of these conditions apply to the agricultural industry, and the red meat industry (more particularly the beef industry) deviates substantially from these ideal conditions.

Firstly, the producer has very little flexibility and freedom in deciding on his output. Inflexibility is caused by the farmer's dependence on unpredictable inputs in the form of climatic factors. Without overdramatising conditions, it would be fair to say that in the greater part of the Republic farming constitutes a gamble with the weather. Apart from this, the farmer, and more especially the beef farmer, has little freedom in varying production because of a long production cycle. Once he has committed himself to a decision, results are only obtained after a minimum of three years, by which time market conditions are bound to be different from those anticipated.

Consequently farmers cannot readily vary production to meet demand. In fact, the immediate effect of a decision to increase production is decreased production (since more females that are normally marketed are retained for breeding purposes), and the immediate effect of a decision to decrease production is increased production (since more females are marketed instead of being retained for breeding purposes).

Secondly, the demand for food, and hence for meat, is fairly stable in the short term due to satiation in developed communities and chronic poverty in other communities. This means that only modest shortages or surpluses give rise to large price fluctuations.

Thirdly, a large number of small sellers are unable to bargain effectively with a small number of large buyers, which means that the primary producer cannot individually negotiate the best price and in fact can be subjected to price manipulations.

Fourthly, it is not possible at this stage of technological development to keep buffer stocks of fresh meat to counter short-term price fluctuations. The reason of course is that fresh meat is perishable and must be sold within days of slaughter. Meat can be kept for extended periods in frozen form but the nature of the product is changed and the perceived quality lowered when frozen.

The result of these forces is that meat prices, if left entirely to the mechanisms of the free market, will fluctuate widely in the short term as well as seasonally and cyclically, with obvious effects on farm income and the process of production planning.

Furthermore, other environmental forces seriously affect the profitability of red meat production.

In spite of limited natural resources, production has been increasing consistently but the stage was reached where low-cost natural resources were fully utilised and further increases could only be accomplished with high cost imputs. As a result, production costs have risen rapidly, especially since 1973.

On the other hand, rising consumerism and even the human rights philosophy have resulted in the "cheap food policy" which acts as a constraint on price increases. This phenomenon is of course given further impetus during periods of economic austerity.

The above characteristics of the industry and the environmental forces (or similar ones) have given rise to general acceptance of the fact that the marketing of agricultural products cannot be left entirely to the free market mechanism and that a degree of governmental intervention is necessary. Britain initiated the establishment in 1931 of marketing boards and the Republic followed suit in 1937 with the Marketing Act which was consolidated in 1968 and which has resulted in 22 control boards regulating the marketing of all major agricultural products.

3. THE MARKETING OF RED MEAT

Against the background outlined above, the meat marketing scheme evolved through various phases to the current scheme. The historical development is common knowledge and will not be repeated here. The present scheme is identified, however, described in terms of procedures and evaluated in terms of achievement of objective. For purposes of evaluation it is necessary first to identify the objectives of the marketing scheme.

3.1 OBJECTIVES

The Marketing Act specifies the objectives of controlled marketing as price stabilisation and narrowing of the producer-consumer price gap. The 1976 Commission of Inquiry states further that the purpose of price stabilisation and narrowing of the price gap is to improve the productivity (efficiency) of the farming, marketing, manufacturing and distribution industries for the general benefit of the producer and consumer communities. This statement of objectives will not stand critical analysis, however, because price stabilisation and narrowing of the price gap will not necessarily lead to increased production and marketing efficiency. Hence price stabilisation constitutes a separate element in the statement of objective which by inference must contribute to better production planning for sustained and balanced industry growth in a competitive environment. The history of controlled meat marketing has taught, however, that total price stability, that is a fixed price scheme, is not feasible because a certain degree of price variation is required to regulate livestock supplies to the market.

Narrowing of the producer-consumer price gap does not necessarily result in increased marketing efficiency. In fact, it could retard market development since consumers are increasingly demanding service built into their products, which of necessity increases the cost of marketing and widens the producer-consumer price gap.

Considering these factors, the objectives of the Board can be stated as being:

Balanced industry growth to ensure at least maintenance of market share of red meat through -

- reduction of producer price uncertainty over the short and long term to the extent required for effective production planning and supply control;
- support or development of mechanisms that would increase production and marketing efficiency.

The question now arises as to the procedures the Board employs to achieve these objectives.

3.2 PROCEDURES OF THE MEAT MARKETING SCHEME

The Board exercises its control functions only in the nine controlled areas comprising the main consumer areas of Pretoria, Witwatersrand, Bloemfontein, Kimberley, Cape Town, Port Elizabeth, East London, Durban and Pietermaritzburg.

For these areas the Board annually fixes minimum prices which operate at compulsory auctions according to weight and grade. Carcases which do not realise the minimum price are bought in by the Board. However, no constraints are placed on the upper limits of price fluctuations.

The philosophy of the floor price is to guarantee producers at least a reasonable return and for the past number of years the Board has endeavoured (although not always successfully) to equate floor prices with production cost.

Supplies to these controlled markets are regulated if, under conditions of surplus, the markets are supplied in excess of requirements at the floor price and beyond the Board's capacity to buy in surplus supplies.

In order to protect the auction and ensure a proper price forming process, all beef and mutton carcases marketed in controlled areas must be sold by public auction. For the same reasons, but also to protect abattoir facilities created at high cost, meat may not be introduced into controlled markets. All trade factors are registered with the Board and in order to prevent overtrading, registrations are granted on a restrictive basis.

Apart from the above control functions, the

Board also has certain influencing functions. Thus it stimulates the demand for meat by way of media advertising, promotions and consumer as well as butcher education, while at the same time inducing producers to produce more meat, and specifically more high quality meat, through the floor price policy and by way of technical guidance and research.

3.3 EVALUATION

The objectives of the Board and in general the processes employed in pursuing these objectives having been identified, it is now possible to evaluate the strategy of the Meat Board in terms of the extent to which objectives are in fact achieved. Because of space constraints, mainly beef is considered.

Since industry growth in a competitive environment presupposes profitability, and since the Board equates floor prices with production costs, industry profitability is evaluated first. Secondly, industry growth is considered, then price fluctuations and finally production and marketing efficiency.

3.1.1 Profitability

Profitability is a function of price and costs. Indicies of meat prices expressed as percentages of the index of all farming requisites provide an indication of trends in profitability of meat production. According to this pork production during the period 1959 to 1977 showed no long-term upward or downward trend in profitability although it exhibited a definite cyclical pattern.

Mutton production maintained a more or less constant to slightly rising profitability up to 1971, whereafter profitability rose sharply to 1974 and then dropped, though not quite to the 1971 level.

Beef manifested an upward trend from 1960 to 1968, a slight decline from 1968 to 1971, a significant increase from 1971 to 1974 and a precipitous drop from 1974 to 1977 to reach in that year about the same relative profitability as during 1966.

However, the cost figures used do not include marketing costs for the account of the producer. A comparison of net producer prices (after marketing costs) with calculated production costs provides a better indication of actual profitability of beef production. From this it appears that producers experienced economic prosperity for a brief period of three years and that since 1974 unfavourable trends in prices and costs reflect a loss for the average producer after 1976.

3.3.2 Growth

In discussing growth, it is necessary firstly to establish norms for the rate of growth and also for the composition of growth in terms of qualities or grades. Again, only beef is discussed.

In order to maintain market share, growth in beef production must equal population growth plus per capita growth in real GDP. Currently the rate of human population growth is 2,8 % per year and over the past 30 years, real GDP per head has increased at a rate of 1,9 % per annum, hence the demand increased at 4,7 % per year, which is the historical norm against which production growth must be measured. Over the past 20 years the annual average growth rate in beef production was 2,3 %. Growth was marked by various phases, however. From 1957 to 1964 growth was 4 %; from 1963 to 1968 -5 % and from 1968 to 1977 4,5 %. Production growth therefore did not meet the norm over the entire period but in fact did approach the criterion of 4,7 % over the past nine years.

Considering composition of growth, Lombard (1977) estimated that the market requires 22 % good quality meat (super and prime grades), 50 % average quality (grades 1 and 2) and 28 % poor or manufacturing quality (grades 3 and 4).

It appears that growth in good quality has exceeded the criterion at the expense of manufacturing quality.

3.3.3 Price fluctuations

The problem of evaluating price fluctuation lies in establishing a norm which would reflect the minimum variation compatible with good production planning while not interfering with the supply function of price variation. Lombard (1977) approached the problem from a statistical angle and established the norm as the narrowest normal price distribution curve without skewness. From the analysis of beef prices at the Witwatersrand during the period 24 May to 30 November 1976, it was concluded that daily price variation should be curbed within a range represented by a coefficient of variation of 3 % - 5 % in order to comply with the norm.

Only certain grades complied with the norm while the price variations in other grades, notably the lower grades, were excessively large.

Upon analysing another sample of price curves, namely for the latter part of 1976, it is apparent that daily price fluctuations were excessively large for all grades.

An analysis of seasonal price fluctuations in relation to supply suggests that seasonally, supplies are not regulated by price fluctuations and that supplies either fluctuate widely with a stable price or that price fluctuations are merely a reflection of natural supply fluctuations.

3.3.4 Production efficiency

Efficiency expressed as thousand tons of carcase meat per million head of stock reveals no clear trend for beef. In fact, if results before 1963 are ignored, a cyclical pattern without a definite trend emerges. The possible reasons for this cyclical pattern in production efficiency have not been researched but the conclusion for present purposes is clear, namely that efficiency, as measured by total production in terms of the national herd, has not increased. However, efficiency in terms of quality produced, has increased substantially.

3.3.5 Marketing efficiency

If production constraints do not apply, the best criterion of marketing efficiency is market share and growth of market share. The fact that beef and mutton lost their share of the market whereas pigmeat managed to retain its share of the animal food protein market cannot be ascribed to marketing inefficiency but rather to production constraints.

Since the industry is concerned with marketing costs for the producer and with the producer-consumer price gap, these indications of marketing efficiency are analysed.

If we look at the marketing costs for the account of the producer it is evident that whereas the producer received 90 % of the gross value of his animal in 1970, he received only 84 % in 1977. During the first six months of 1978 the percentage net realisation decreased further to 80 %. Railage, agents' commission and abattoir fees are the main components of marketing costs while railage and abattoir fees also contributed largely towards increased costs. Of these items, the Board has a measure of control only in respect of agents' commission.

Considering the producer-consumer price gap it is clear that the gap remained more or less constant up to 1972 but has widened dramatically since 1974. Therefore, while producers could not succeed in negotiating significantly higher prices, the trade succeeded in doing so.

3.3.6 Conclusions

In evaluating marketing strategy in terms of achievement of objective, one can arrive at the following conclusions.

Firstly, although a target growth of 4,7 % for beef could not be achieved over the long term, it was approached over the past nine years (at 4,5 %) and was in fact exceeded substantially (at 90 % per year) between 1974 and 1977. There are definite indications that this can be ascribed to the Meat Board's floor price policy of encouraging production of high quality meat, although the 1972 to 1975 period of high profitability as well as the above average climatic conditions must have contributed substantially.

Since it cannot be demonstrated that increased efficiency contributed significantly to this increased production, whatever measures the Board applied in this regard were unsuccessful. In fact, this state of affairs is a serious charge not only against the Board but against the Department of Agriculture which accepts responsibility for production promotion, and against all the providers of products and services who lay claim to greater efficiency. However, the Board can claim success in achieving greater efficiency in terms of the quality of beef produced. The floor price policy can therefore be justified as an element of marketing procedures prescribed by the Board even though it was only partially successful in promoting growth and efficiency and successful only to a limited extent in reducing price uncertainty. Marketing strategists would therefore not want to abandon the policy but rather to improve it in order to reduce its shortcomings.

Secondly, very little progress can be demonstrated in terms of marketing efficiency because the Board has very few control functions in the final marketing phase and because the marketing concept and market management have not figured prominently in the Board's philosophy and policies. The one control mechanism used to increase marketing efficiency, namely restrictive registration of elements in the trade, cannot be defended in terms of economic marketing norms even though it is justified on such grounds.

In general, one must therefore conclude that the current statutory marketing strategy is only partially successful and that adjustments are required. However, time and space do not permit of the formulation of a new marketing strategy in the present context.