

VALUE BASED MARKETING: AN OPPORTUNITY TO COMPETE FROM THE PERSPECTIVE OF A U.S. PIG FARMER

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To compete in the world food protein market for the consumer's food dollar is indeed a challenge. We operate in a truly global market with market opportunities as broad as the spectrum of the rainbow! To match product design at the production level, where I operate, to the consumer's desires there must be heavy reliance on the marketing system. The system must send clear, meaningful data about the product from what the consumer demands to the producer to enable the producer to meet this demand. The most efficient means to affect change is to closely link the payment program with the information flow. Information without economic impact is of little value. The impact on the producers' profit/loss picture is of great value.

The USA pig industry operated until about 1990 in a system which compensated producers primarily based on a live weight basis. There were few compensation systems which reflected the value of the edible meat protein in the carcass. The industry saw very little change in the lean to fat ratio of the carcass from the early 1970's to 1990. During the same time frame our European ancestors had implemented systems which paid producers for lean meat production. In 1990 the average carcass in progressive European countries was about 57% lean and in the USA the average was about 47% lean. The results of systems which compensate for the production of lean pig meat is easily documented.

For any system to be meaningful the unit of measure must be consistent and as accurate as possible. In our highly competitive, diverse, large volume USA system we have multiple systems for compensating producers of pig meat. Each slaughterer designs a system of compensation which fits its own goals. The information flow from the slaughterer to the producer is as varied as the compensation system. To further confuse the issue, producers quite often market to multiple slaughter companies. With the lack of conformity among information and compensation systems it becomes very difficult to determine what type of carcass to produce let alone to measure progress. The system, or lack thereof, has greatly impeded progress in improving the lean percentage.

The USA National Pork Producers Council (NPPC) has developed a measure called the Fat Free Lean Index (FFLI). The FFLI is designed to take existing and future carcass information systems and convert the data to a consistent form. This will allow producers to put information systems on a comparative basis. As the FFLI becomes widely accepted the progress in improving the lean percentage of the USA pig meat industry will accelerate. The index will not only be domestically applied, but will allow the USA to compare pork carcass data world wide. With this system in place the USA pig meat industry will rapidly become a world class producer of quality pork.

The USA pork industry is in a rapid consolidation mode. The size of production units is increasing at an amazing rate. We now have at least five entities that market in excess of one million animal units annually. The "small" production units are viewed as those marketing less than 50,000 head annually. To compete on a more level playing field in the marketing arena, a value based marketing system is extremely important as production consolidates. When the slaughterer pays for pig meat based on the value of the carcass, then all producers have the opportunity to compete. If the slaughterer pays on a live pricing system then the number of hogs sold in the group takes on more significance.

One area which needs to be developed and incorporated into value based marketing in the meat sector is compensation for eating quality. First the system must be developed to accurately and consistently quantify and capture such parameters. Then the system must be adaptable to the slaughter house environment and production speeds. Without this parameter included in the evaluation and payment system we run a great risk of producing lean but poor quality products.

In all sectors of business the key to success is to provide quality products that the consumer desires at a value which they are willing to pay. In no sector is this more true than in the food protein business. As we develop more alternative sources of human nutrition the more challenging it will be for the meat sector to compete for market share. The most effective means to improve the quality of the consumer product is to have a system which compensates the producer of the raw product for the value of what they have produced. Value based marketing systems are essential for the entire system to be able to compete in the world market place.