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MARY HAD A LITTLE LAMB – WAS THAT TOO MUCH?

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Abstract

This paper covers the medium term market opportunities for NZ lamb in the UK, West Germany and US.

These three markets could be developed to accommodate consumer ready cuts from 235,000 tonnes of lamb carcasses, an increase in value of $165 m to NZ by 1990. This could mean an increase to value to NZ farmers of about $10 per head above the schedule ruling during the April/June period of 1965.

To achieve this, the NZ lamb exporters, farmers, government departments and all participants in the meat industry must work together towards agreed goals. The provision of a high quality, convenient. good value food item, backed with first class customer service must be the primary objective.

Keywords: Market opportunities, NZ lamb exports, UK, West Germany, USA.

WHAT DOES THE MARKET WANT?

The market is not some amorphous geographic outline contained within the mapped boundaries of any particular country, but rather the various sectors within a total area that must be identified and targeted specifically. Without meaning to exclude a range of market opportunities, we intend to concentrate on the domestic purchaser for home consumption, and the “white tablecloth” restaurant in three countries, the United Kingdom, West Germany’and the United States of America.

Surveys show the domestic consumer’s meat habits moving away from a commitment to red meat, toward health issues (reduced fat intake), increased consumption of “lite” foods (fish and poultry are perceived in this category), convenience and ease or preparation. The domestic meat buyer has a concept Of meat as a fresh product, and frozen food items are usually processed convenience foods. Roast and stewed cooking techniques are losing ground to the grill and microwave.

Rack of lamb is the standard and accepted dish of “white tablecloth” restaurants, but there is interest in loin chops and leg steaks. There is also opportunity for starters and snack type lamb preparations. In most cases, frozen product is acceptable. Restaurants prefer oven-ready products and, in most cases, chef confidence and experience with lamb is limited. Service, product consistency, portion control and tenderness are generally more important than price. Brand image is less important than the service Of the supplier.

In servicing the domestic consumer market segments, the role and requirements of the meat retailer must also be satisfied. In these three countries, the growth area for meat sales is the supermarket. The meat counter manager is looking for catalogue listing, new products, good service, zero preparation and high turnover. At both restaurants and supermarkets stable pricing and supply is desirable, with promotional support at the point of sale.

As far as lamb is concerned, nearly all buyers want minimal waste, very little fat, and generally small portions compared with NZ buyers. In most cases price per unit is far more important than price per kg.

Satisfying these requirements as part of our NZ meat industry’s marketing strategy will take NZ lamb out of the commodity trade into food service marketing.

MARKET TRENDS

In order to look at market consumption trends, the volumes of classified commodities in the statistics have to be used as a starting point. Table 1 shows in gross terms what has happened over time. The figures tend to be variable between sources and even from the same source, so while there can be questions about their absolute accuracy, they are the best available.

The figures in Table 1 indicate quite different consumption situations in each of the three countries.

Table 1: Consumption - kg carcass equivalent per capita

	1970	1960
UK (MLC)		
Total Meat	77	74
Total Sheepmeat	9.6	7.0
West Germany (OECD)		
Total Meat	64	100
Total Sheepmeat	0.3	0.8
USA (OECD)		
Total Meat	111	115
Total Sheepmeat	1.2	0.6

United Kingdom

This market seems to be stabilising at about 7 kg/hd of sheepmeat consumption and domestic production of sheepmeat is being encouraged. Sheep numbers are increasing despite the fact that live sheep exports have been of the order of half a million per annum for 1983 and 1984. Breeding ewes have increased from 14.4 million to 17.3 million over the last five years, with total European Community breeding ewes going from 39.6 million to 44.5 million in the same period.

Future meat consumption predictions are always open to debate, however, they do provide a framework for the development of market strategies. One set of estimates produced at the University of Newcastle is reproduced in Table 2. It is predicted that a 9.5% drop in consumption by 1990 would lead to a corresponding drop in imports of 28% whereas a 4.8% increase in consumption will be required just to keep imports at their present volume.

Table 2: UK sheepmeat market (tonnes carcass equivalent)

	1965	1990		1995	
		LOW	High	Low	High
Consumption	420,000	360,000	430,000	350,000	440,000
Est UK Production	300,000	316,000	316,000	326,000	326,000
Est UK Exports	50,000	60,000	60,000	70,000	60,000
Imports	170,000	122,000	172,000	94,000	164,000
Imports from NZ	162.656				

Indications of this sort have been available for more than fifteen years. Significant evidence of a positive and aggressive attempt by NZ to challenge these trends is not easy to find, although there have been some changes in product form into the market.

West Germany

West Germany has had both low consumption and low production of sheep. The major traditional consumers have been residents of Turkish and Greek extraction. Unlike the UK and US markets, total red meat consumption has been increasing while poultry has been static. Lamb is becoming a fashionable alternative meat that is featured in many restaurants and more Germans are trying lamb when on holiday.

While total consumption levels are low they are increasing. The interest is definitely in lean lamb, whereas mutton or hammel, has a very low level of acceptance.

A CMA study in 1982 showed that freshness is the main criterion used when purchasing meat, closely followed by leanness and quality, while price is less important. Of the participants in the survey, 72% had a positive attitude towards meat and only 10% had a negative perception.

Sheep meat is regarded as insignificant with 51,000 t consumed in 1983, but with no anticipated marketing changes, the MLC is predicting consumption will increase to 65,000 t. We believe that this could be increased further with more advertising and greater emphasis on chilled lamb. New Zealand could capture the major share of that market growth and supply, a total of 25,000 t of lamb by 1990.

Table 3 shows that NZ is the only exporter showing market growth and we believe that NZ could dominate the lamb market. The emphasis of NZ exporters is toward the supermarket trade and consumer cuts, although frozen carcasses still accounted for 40% of our export lamb tonnage to this market in 1985.

Table 3: Sheepmeat suoolv to West Germanv ix 1000 tonnes).

	1977	1960	1963	1964
Domestic Production	30.0	29.7	26.3	27.2
Less Exports	9.0	6.6	0.5	0.7
Total Imports	26.9	29.6	23.0	19.4
Argentina	13.6	7.1	6.1	4.7
United Kingdom	9.0	13.0	3.8	2.9
New Zealand	3.7	5.6	6.6	10.2
Others	2.6	3.7	4.3	1.6
Total Consumption	49.9	52.7	50.7	45.9

(Ref: ZMP Bilanz 1964 Vieh and Fleisch)

Note: Of the imported sheepmeat, about 60% is frozen.

United States of America

Sheep numbers in the US have dropped from 33 million in 1960 to about 12.5 million in 1980. The decline appears to have halted at about 10.5 million in 1985, as prices for lamb have become very attractive for the 100,000 plus domestic sheep farmers.

About 6.1 million head are killed each year and with a mean carcass weight of 25 kg this gives 152,000 t of domestic production. Lamb imports averaged 15,000 t in the late 1970s but declined to 8,000 t in 1981, 1982 and 1983. The US has long been regarded as the lamb market of the future. Indeed DEVCO was established more than 25 years ago to develop NZ lamb sales in the US and Canadian markets. Almost all of the US lamb imports come from NZ and other supplies are minor by comparison.

In 1985, shipments of NZ lamb to the US were almost back up to the 17,000 t level, but there has been some concern expressed about the profitability of the 1985 year's trading in the US.

Lamb is one of the most expensive meats available, but it does have some health advantages compared with other red meats, and could be marketed in a similar manner to poultry. (Poultry consumption has gone from 22 kglhd to 33 kglhd in the last 15 years). Unlike West Germany, fewer than 50% of households are committed lo red meat, and 90% of consumers are exercising care about fat intake.

There are big opportunities for lamb in the supermarkets, but it can only get there if it is fresh, customer ready, and promoted. In the restaurant trade frozen lamb is generally acceptable, but again it must be convenient, ready to cook, and distributor service is a key issue. Few chefs know how to handle lamb, and it is almost unknown to "short order" cooks. By involving progressive poultry companies in repacking and distribution of chilled lamb for supermarkets, together with a concentrated effort on servicing the upmarket restaurant industry, NZ could substantially increase sales.

When the US countervailing duty can be reduced, there will be good opportunity for the NZ sheep industry to trade at more profitable levels.

In terms of market volumes, NZ could expect to export 50,000 t of lamb by 1990, of which 60% should be chilled. This would have the effect of holding US per capita consumption at 0.8 kg per year or perhaps increasing it to 0.85 kg. To do this we need to have year-round supply of product with some peaks occurring at the traditional festive periods.

Combined Market Opportunity

The projections in Table 4 indicate a lamb product tonnage of 165,000 t. However, to obtain these market figures, the product needs to be consumer ready, rather than whole carcasses. If an average yield of 70% is used, then it will require 235,000 t of carcass to produce the product equivalent. This compares with a total NZ export lamb production of 465,000 t.

Table 4: Estimated sheepmeat product tonnages 1990 (x 1000). 1965 tonnages in ( )

	Total Consumption		Total NZ Supply		NZ Lamb	
UK	380	(420)	110	(163)	90	(162)
West Germany	70	(5)	30	(14)	25	(14)
USA	195	(170)	50	(17)	50	(17)
Total	645	(640)	190	(194)	165	(193)

WHAT TYPE OF LAMB DO THESE MARKETS REQUIRE?

The preferred lamb must be lean, and large enough to provide consumer cuts - that is a weight range of 14-22 kg with a GR of less than 9 mm. Almost half of NZ's lamb would have difficulty in meeting such a specification, based on the 1984185 season's kill data. It is quite clear that if we are serious about a lamb meat industry, we need to take every step possible to produce a high quality product that the market wants. While there will need to be some continuity of supply on a year round basis, especially in the US; by far the largest volume requirements coincide with our traditional production season.

To get a lean carcass, the existing options of entire or cryptorchid male lambs, selection of sires based on leanness, and wintering of lambs are all clearly known. We also need to introduce superior genetic stock as quickly as possible, especially as breeds such as the Texel already have a high level of acceptance in our European markets.

For'farmers to have confidence in developing a lamb for the market, there needs to be a clear market signal, preferably written on a cheque form. At the end of the day there has to be a $ for all participants, but that can only happen if those responsible for selling lamb products maximise the returns from the world markets.

Table 5 projects returns and costs on a per lamb basis for two selected options. The first is a 1985 product mix into the three markets on what ought to have been realised at wholesale rates in the first half of 1986. The second shows returns from consumer cuts on the same basis (chilled and frozen product mix). In each case the effects of changes in exchange rates and NZ's inflation running at a level 10% in excess of our trading partners is illustrated.

NZ stands to gain at least $11 per lamb, (or $165 m extra per annum) by having slightly heavier, leaner lambs taken to consumer cuts, compared with the 1985 product mix into these three markets. The processing industry stands to gross more than $6 extra per lamb and farmers more than $5 per head overall, provided that inflation is kept in check and the exchange rate stays below US 54c per NZ $. Table 5

Table 5: Returns and costs per lamb in 1985 and 1990.

	$/Lamb	'Exchange Rate		10% Extra Inflation
		- 10%	+ 10%	5 Years
1995 Product mix				
Lambs at 13.3 kg				
FOB Value	29.66	32.63	26.69	29.66
Scales to FOB	4.50			
Farmgate to Scales	12.90			
Total Costs	17.40	17.40	17.40	28.02
Net Farm Meat Value	12.27	15.23	9.29	1.64
Pelt	5.20	5.70	4.70	5.20
Total Farmgate	17.47	20.93	13.99	6.84
1990 Possibility				
Lambs at 15 kg				
FOB Value	40.73	44.80	36.66	40.73
Scales to FOB	11.37			
Farmgate to Scales	12.90			
Total Costs	24.27	24.27	24.27	39.08
Net Farm Meat Value	16.46	20.53	12.39	1.65
Pelt	5.20	5.70	4.70	5.20
Offcuts Allowance	1.10	1.20	1 .00	1.10
Total Farmgate	22.76	27.43	18.09	7.95

for the 1985 product mix already shows a farmgate return that is more than $5/lamb ahead of the April-June 1985 schedule. So adoption of the 1990 scenario, with a reduced dependence on the lower priced markets for lamb, could result in a net $10 increase in farmgate realisations, and so make lean lamb a profitable farm production option. For this to happen, our meat processing companies must have the confidence and capital to invest in further cutting facilities, joint ventures in the market place for supply and distribution, and develop their capability to secure suitable lamb for this market initiative.

We believe that there are opportunities to sell all NZ's potential lamb production at a profit for all sectors, provided a co-ordinated, determined effort is made to supply the market with the right products. If that can be done, Mary and most of NZ's sheep farmers can make a profit. If not, then even a little lamb could be too much.

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