THE COMPETITIVE FRAMEWORK FOR THE EU BEEF SECTOR

A DISCUSSION FOR THE NEW SCENARIO

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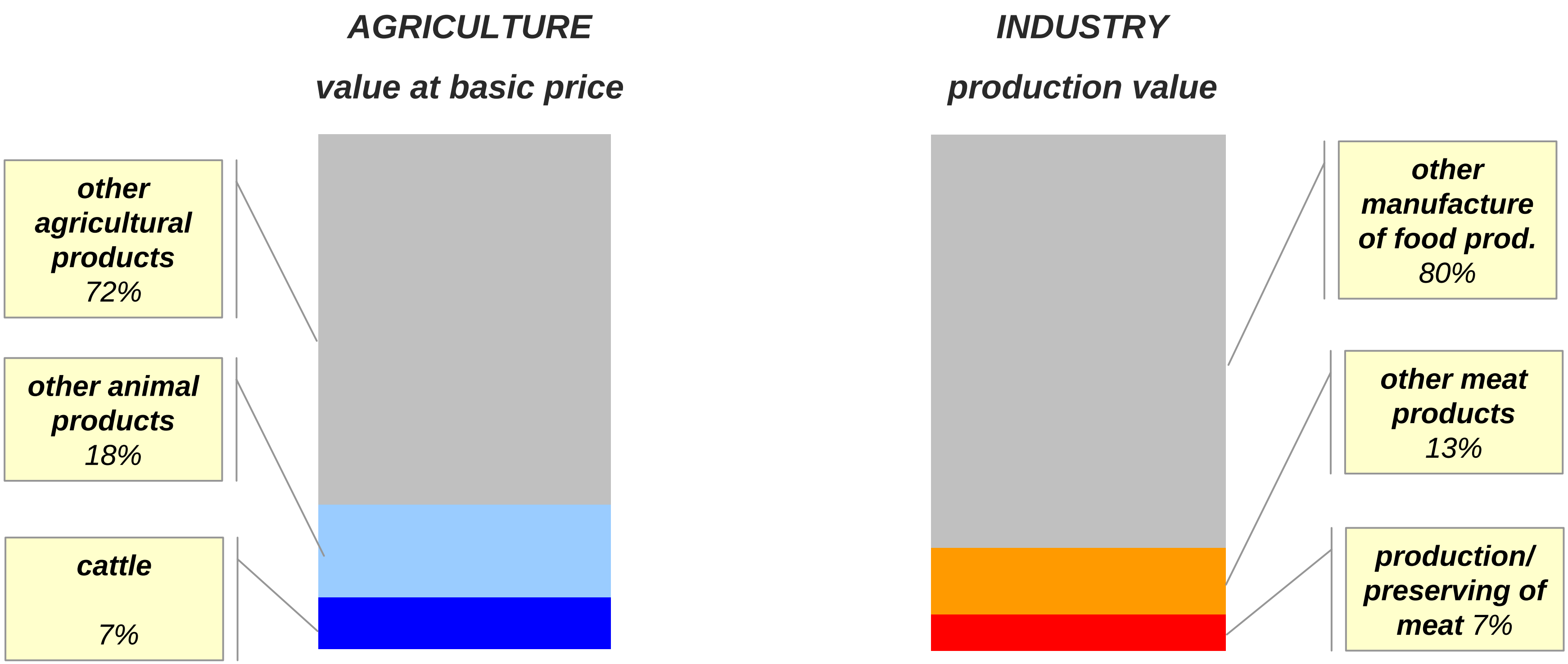
THE BEEF SECTOR in the EU ECONOMY

agriculture and industry (EU-27)



COMPETITIVE FRAMEWORK

Barriers to entry

competitive advantage of the extra EU competitors

meat import

meat export

Supplier power

farmers

•low concentration

•low differentiation

decrease of animal prices

reduction of herd

Meat industry

increase of rivalry

•slow market growth

•industry concentration

•vertical integration

•no brand identity

•low product differentiation

•supply fragmentation

•high exit barriers

power of MD

MD

Buyers power

retail

•MD concentration

•vertical integration

•brand identity

•ho.re.ca

Threat of substitutes

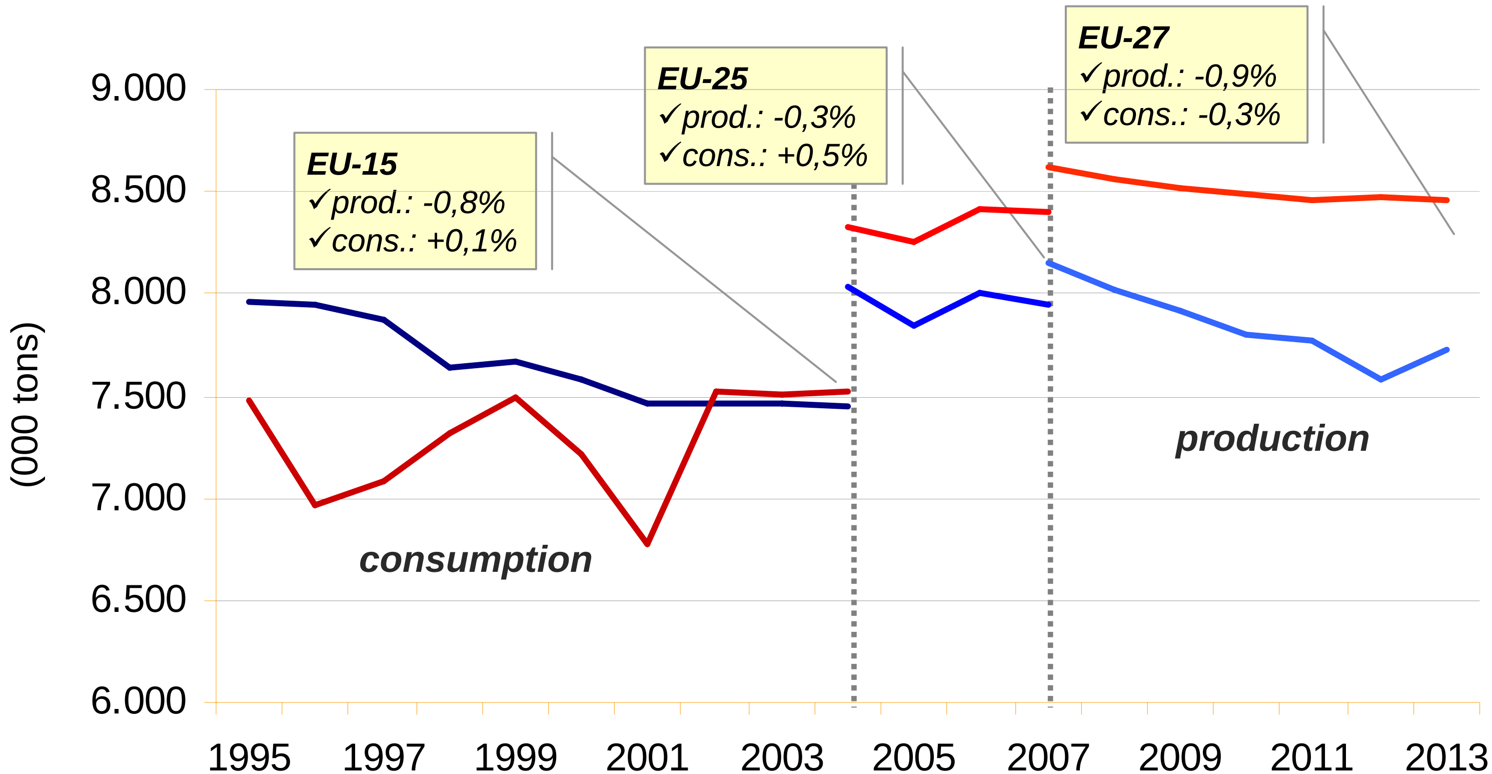
slight increase of meat demand

1

The competitive rivalry

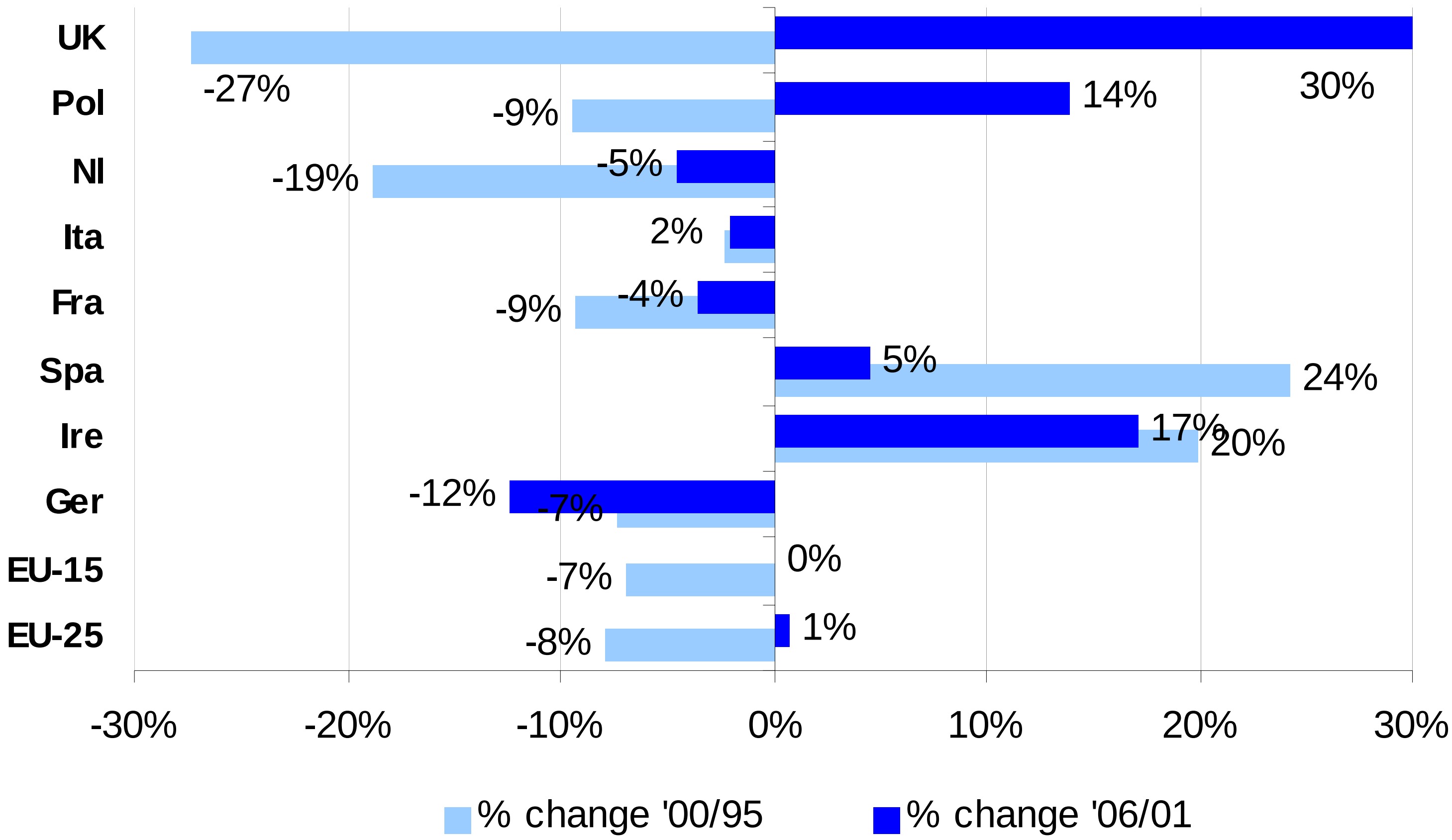
A DECLINING SECTOR

weak supply - steady demand



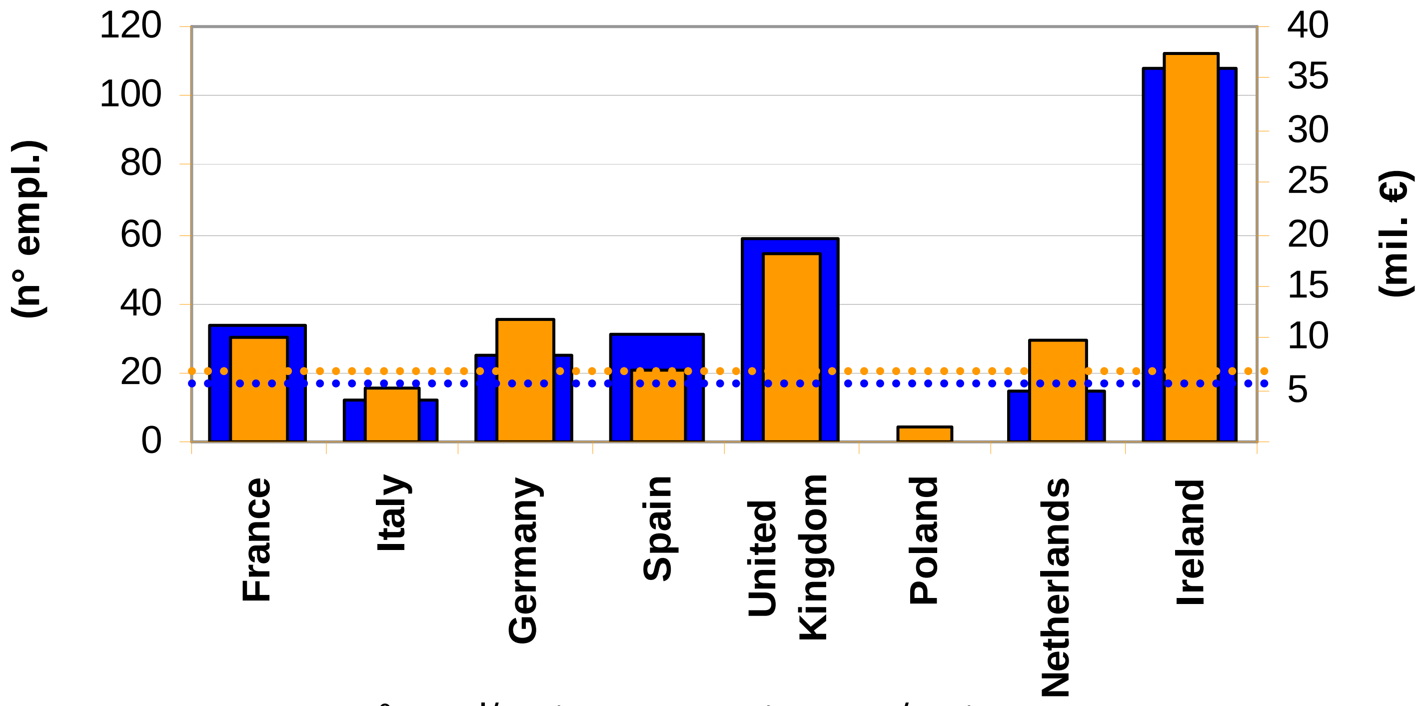
MEAT INDUSTRY

trend of slaughtering



MEAT INDUSTRY

trend of structure



MEAT INDUSTRY

principal companies in the meat industry

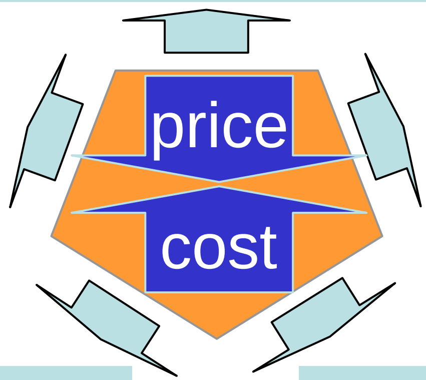
company	*country*	*turnover (mrd €)*	*EU share (%)*	*employees (n.)*	*EU share (%)*
Vion, Food group	Nl, De	7,4	11%	15.150	7%
Danish Crown group	Dk	6,5	10%	28.500	14%
Gruppo Cremonini S.p.A.	It	2,3	3%	8.000	3%
Socopa S.A.	Fr	2,0	3%	7.100	1%
Dawn Meats group Ltd	Ie, Uk	1,8	3%	2.600	1%
Grampian Country Food	Uk	2,3	3%	20.000	10%
Westfleisch Eg	De	1,4	2%	1.139	1%
Südfleisch	De	1,4	2%	3.470	2%
Swedish Meats	Se	1,1	1%	3.500	2%

MEAT INDUSTRY

relationship with the stakeholders

government
(EU/countries) sanitary safety, animal welfare, environment

shareholder/ employees *a remunerative price for capital/work*



consumers
quality and an appropriate price, ethics…

suppliers *(farmers) a remunerative price for the animals*

retail
a good price and a good service

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MEAT INDUSTRY

the strategy

the paradox: a "commodity" with an high price

cost reduction

increase of dimension

- ✓ *M&A*
- ✓ *internationalization process, …*

technology improvement (know how)

AV increase

product differentiation

- ✓ *quality and service (processed pr, …)*
- ✓ *degree of differentiation (breed, territory, …)*
- ✓ *talk about typical characteristics of the EU product (traceability, …)*

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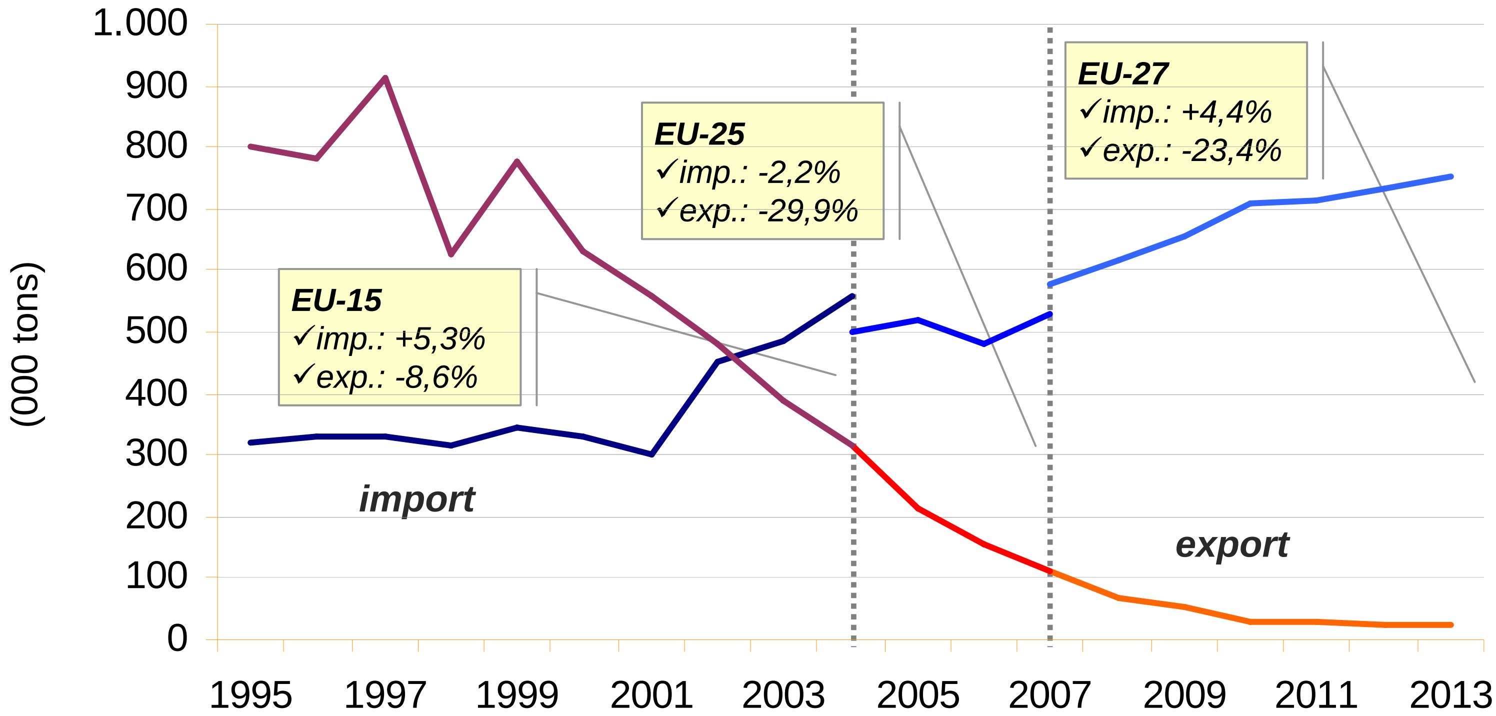
The threat of new entrants

TRADE FLOWS

2013: deficit at 700.000 tons



TRADE FLOWS

2013: deficit at 700.000 tons

fall exports

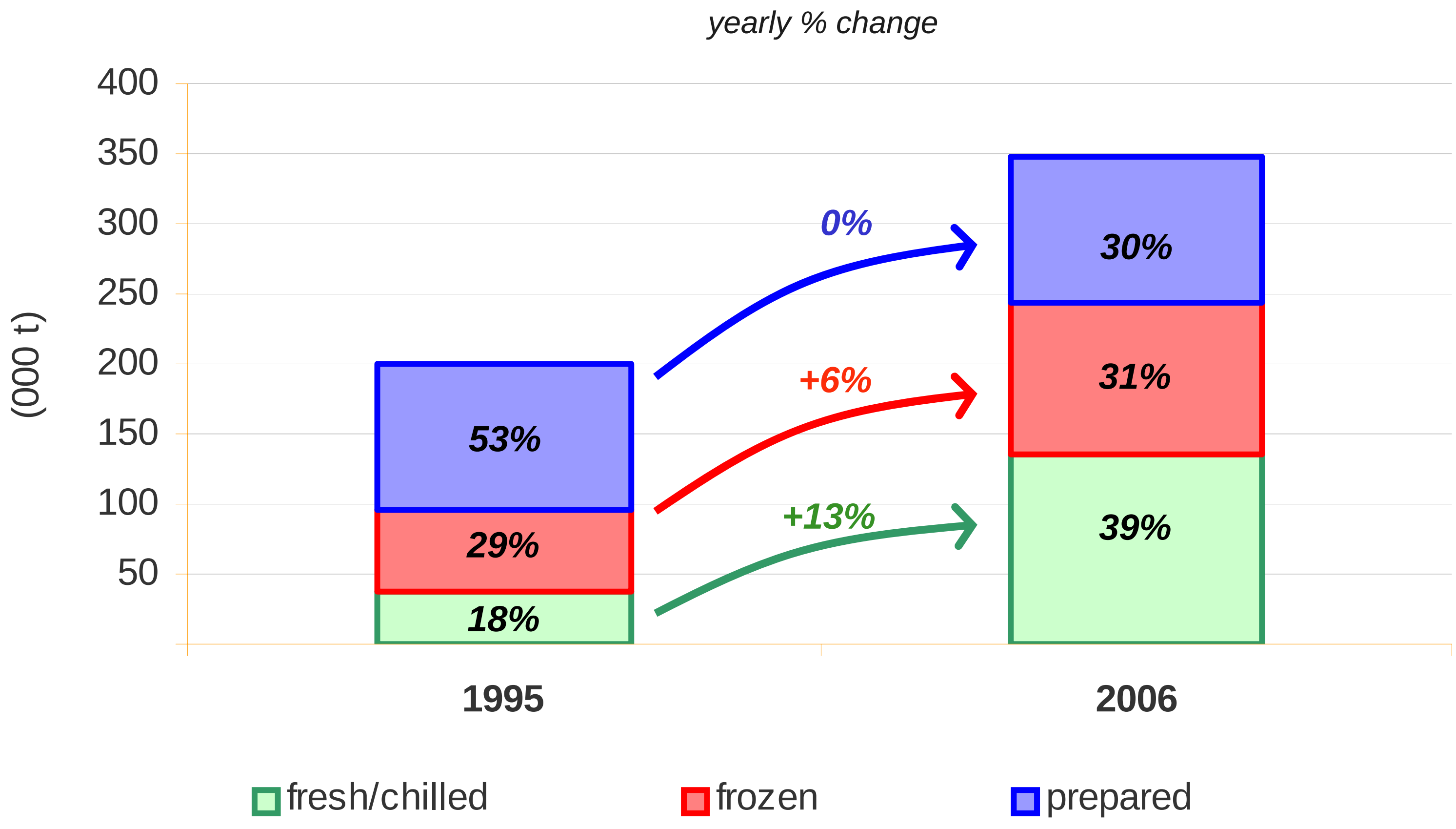
- *in the past years: strong euro, high international prices, cuts in export refunds, lower production*
- *in the next years: low domestic availability, lower competitiveness*

rise imports

- *in the past years: enlargement to EU-27, lower production and steady consumption*
- *in the next years: strong euro, higher competitiveness of Latin America low cost producers*

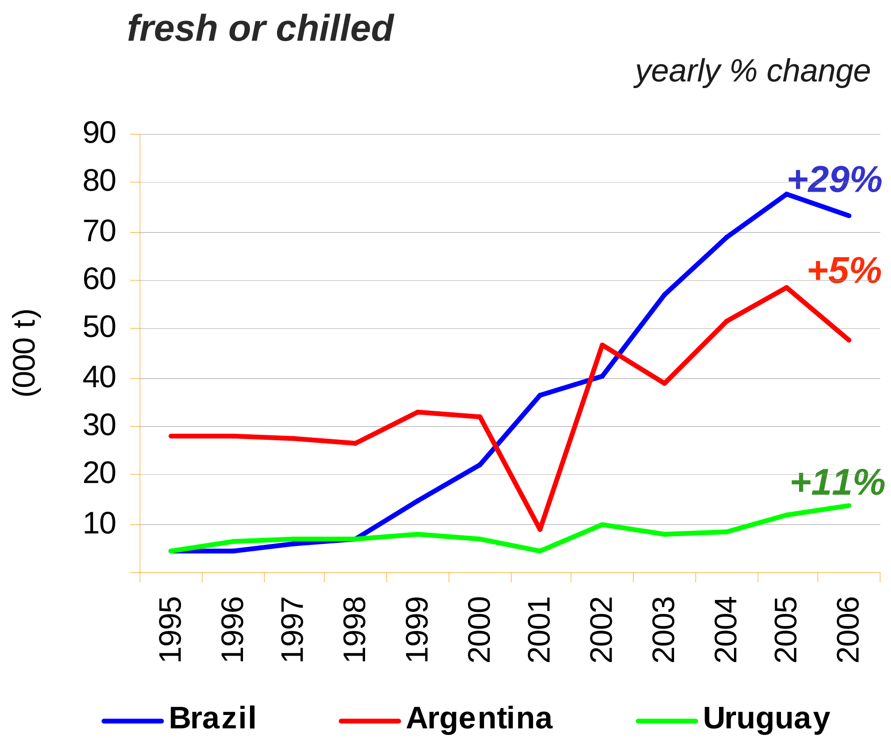
IMPORT from MERCOSUR

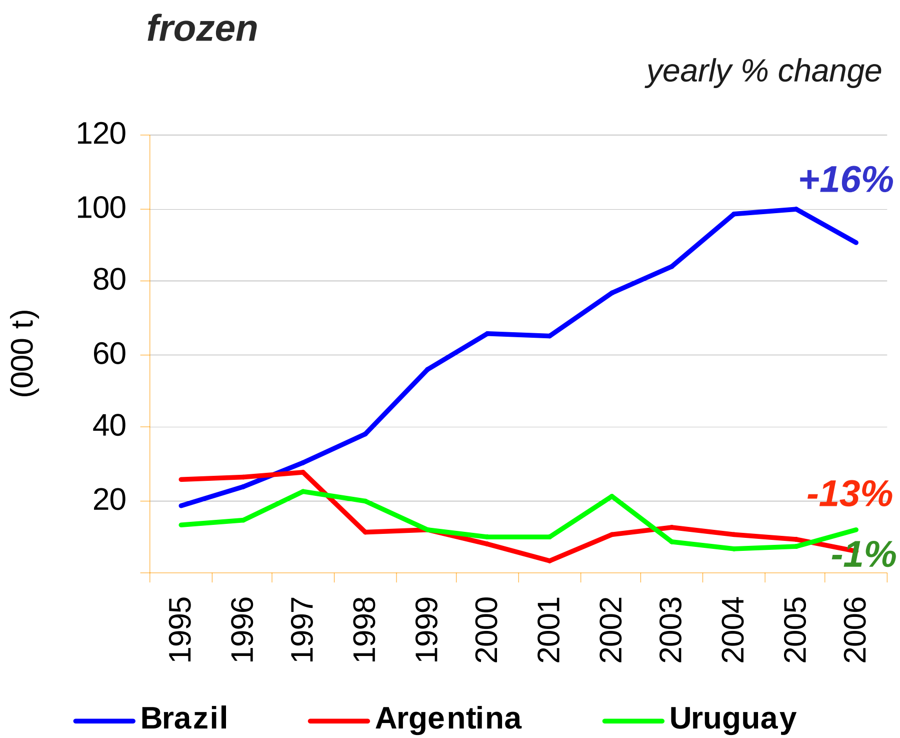
a quickly rise of export to UE



IMPORT from MERCOSUR

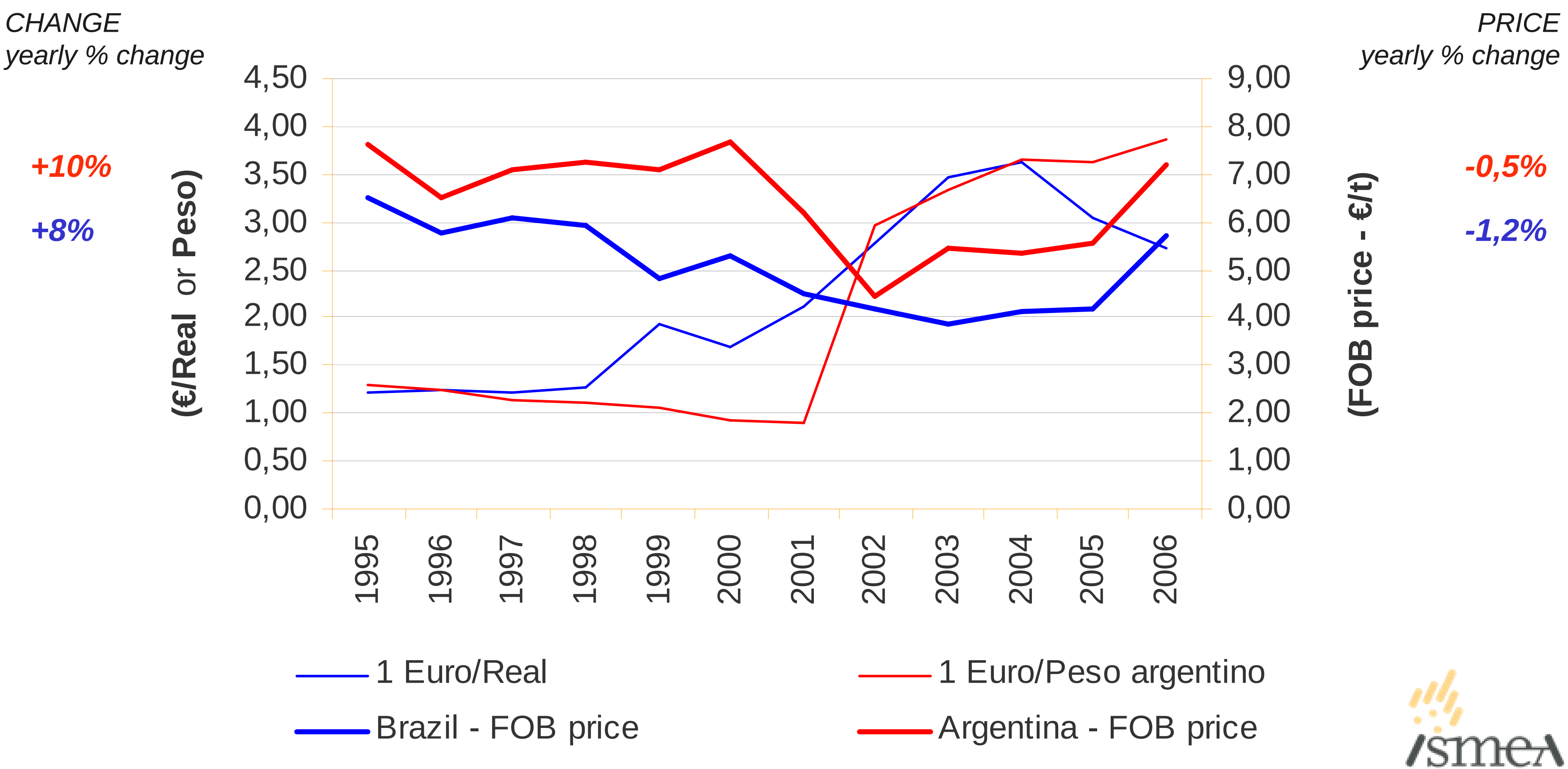
the high rise of Brazilian export





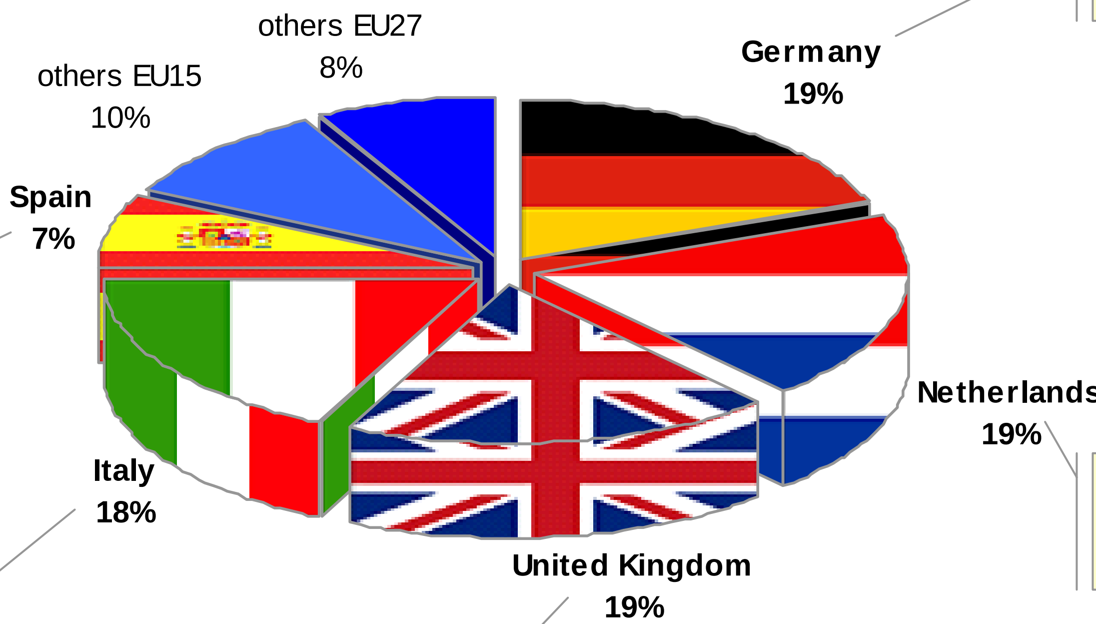
IMPORT from MERCOSUR

competitive devaluation



IMPORT from MERCOSUR

the most important purchasers



✓fresh 31%, high value cuts

✓frozen 11%
✓fresh 7%

✓fresh 23%, roast beef
✓prepared 16%

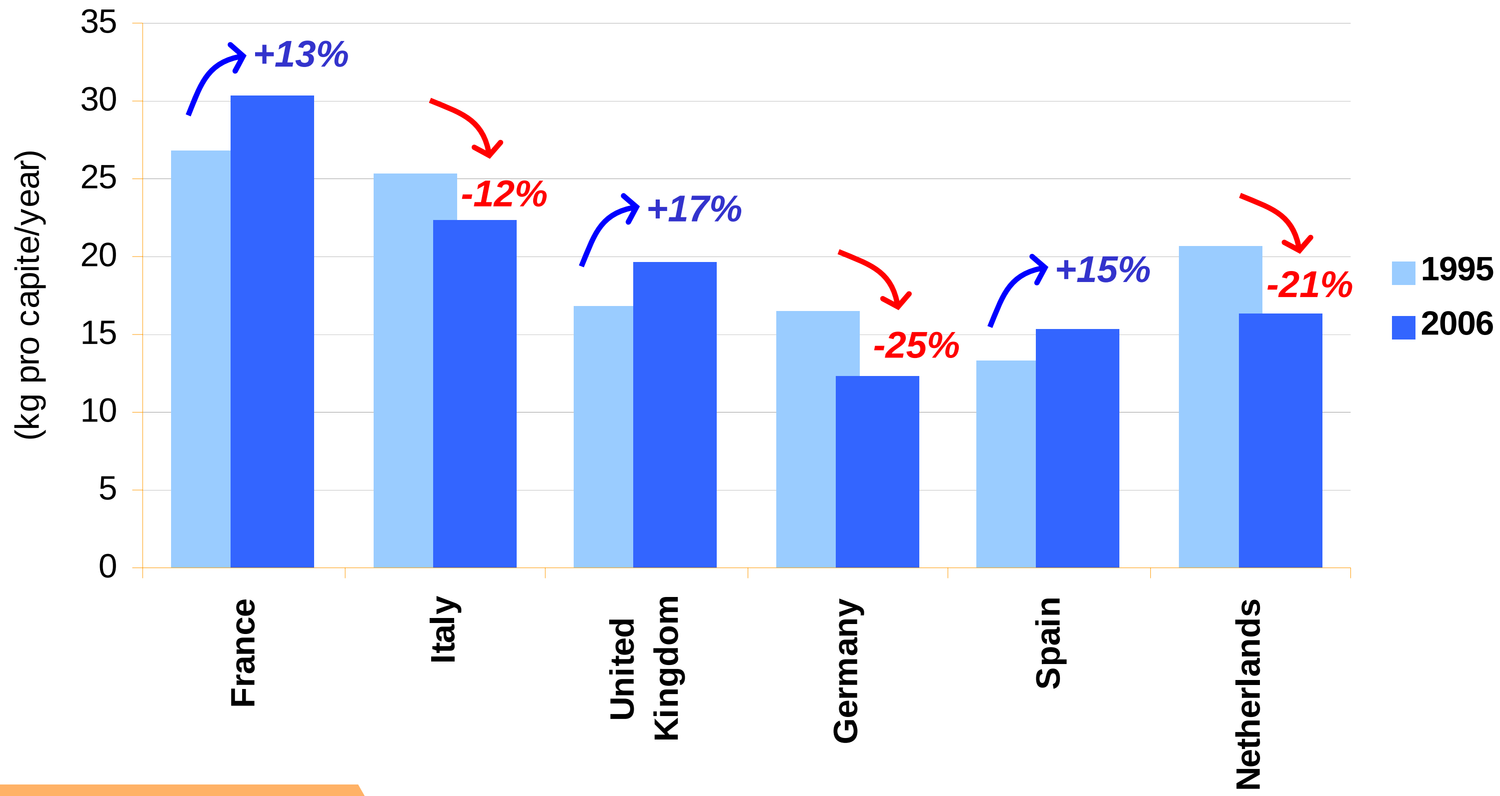
✓frozen 25%
✓fresh 15%, high value cuts

✓prepared 50%
✓fresh 13%, roast beef

3 The threat of substitute products

BEEF AND VEAL DEMAND

different trends in the countries



steady demand
in EU, but…

*increase in **Fr**, **UK**, **Es**, **Dk**, **Irl** and*
*decrease in **Ita**, **Ger**, **Nl***

TREND OF DEMAND
behavior of consumers

Usually the EU consumer is…

"curious, rational and informed, with healthy lifestyle, interested on origin and method of production of food "

innovation

local specificity

tradition and culture

…but with different consumption habits…

TREND OF DEMAND
behavior of consumers

… between countries ***(main purchase drivers)***:

- ***Ger*** > *healthy vs tasty food, price vs service* — *discount and ready dishes!*
- ***Fra*** > *increasingly consumption opportunities, fresh snacks, take away* — *R&D in ready and packed dishes!*
- ***Spa*** > *health consciousness, economic growth* — *diet food, fresh ready dishes*
- ***Nl*** > *poor cooking skills, price awareness except for new products* — *meal substitutes, packed food, new products*
- ***UK*** > *no time at cooking, price awareness except for new products* — *convenience, ready dishes*

BEEF AND VEAL DEMAND

behavior of consumers

characteristics of the beef demand:

- *fall of the meat image*
- *low nutritionally advantage in the diet*
- *importance of the animal welfare (North EU)*
- *importance of the origin labels (EU), better if local (South EU)*
- *low interest for private brand (North EU)*
- *availability to pay a higher price for the quality (EU)*

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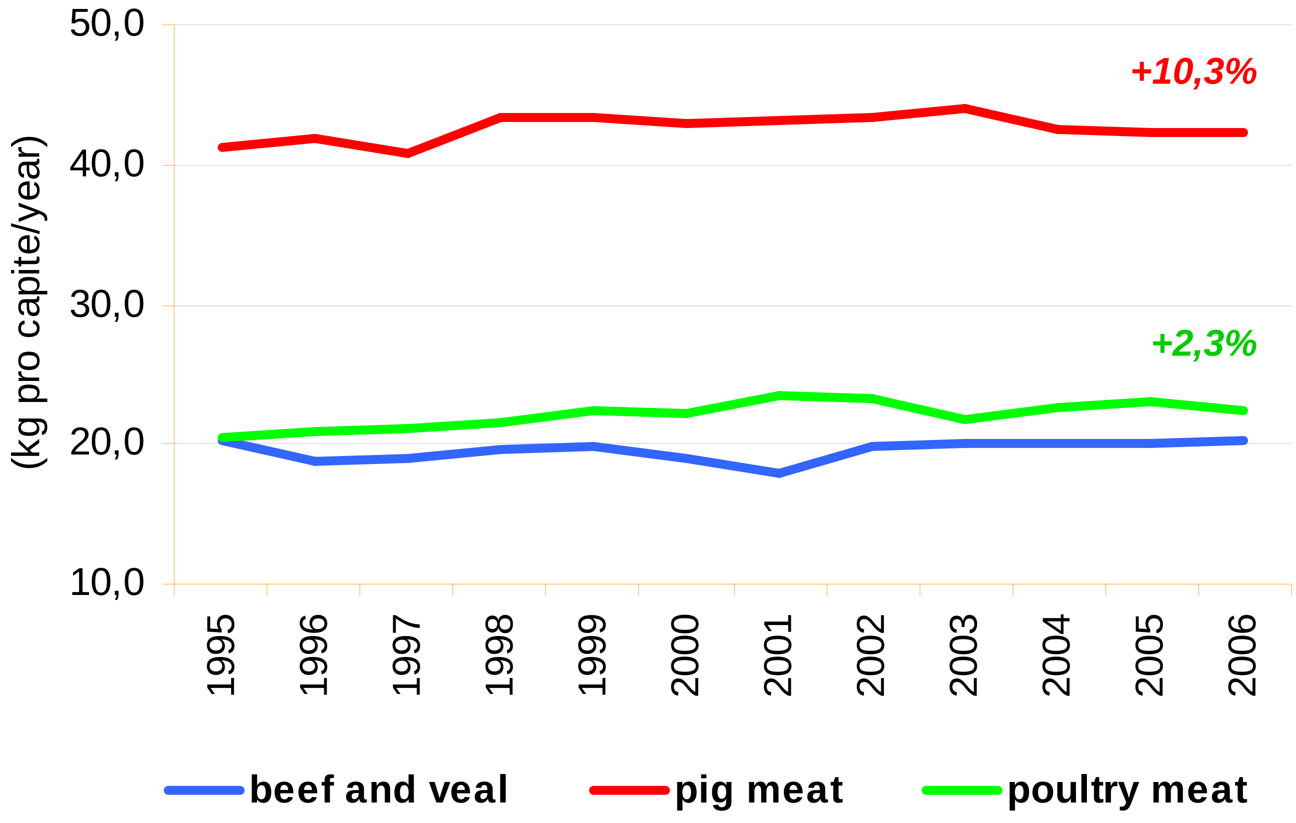
SUBSTITUTES MEAT

different trends for the other meat



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The bargaining power of suppliers

EU SUPPLIERS

the sweeping changes

CAP reform
- ✓*Agenda 2000*
- ✓*MTR*

increasing input prices

animal disease *(BSE, FMD)*

difficult for young breeder
- ✓*old farmers*
- ✓*part-time*

milk quota limits

EU enlargement

EU SUPPLIERS
the effects

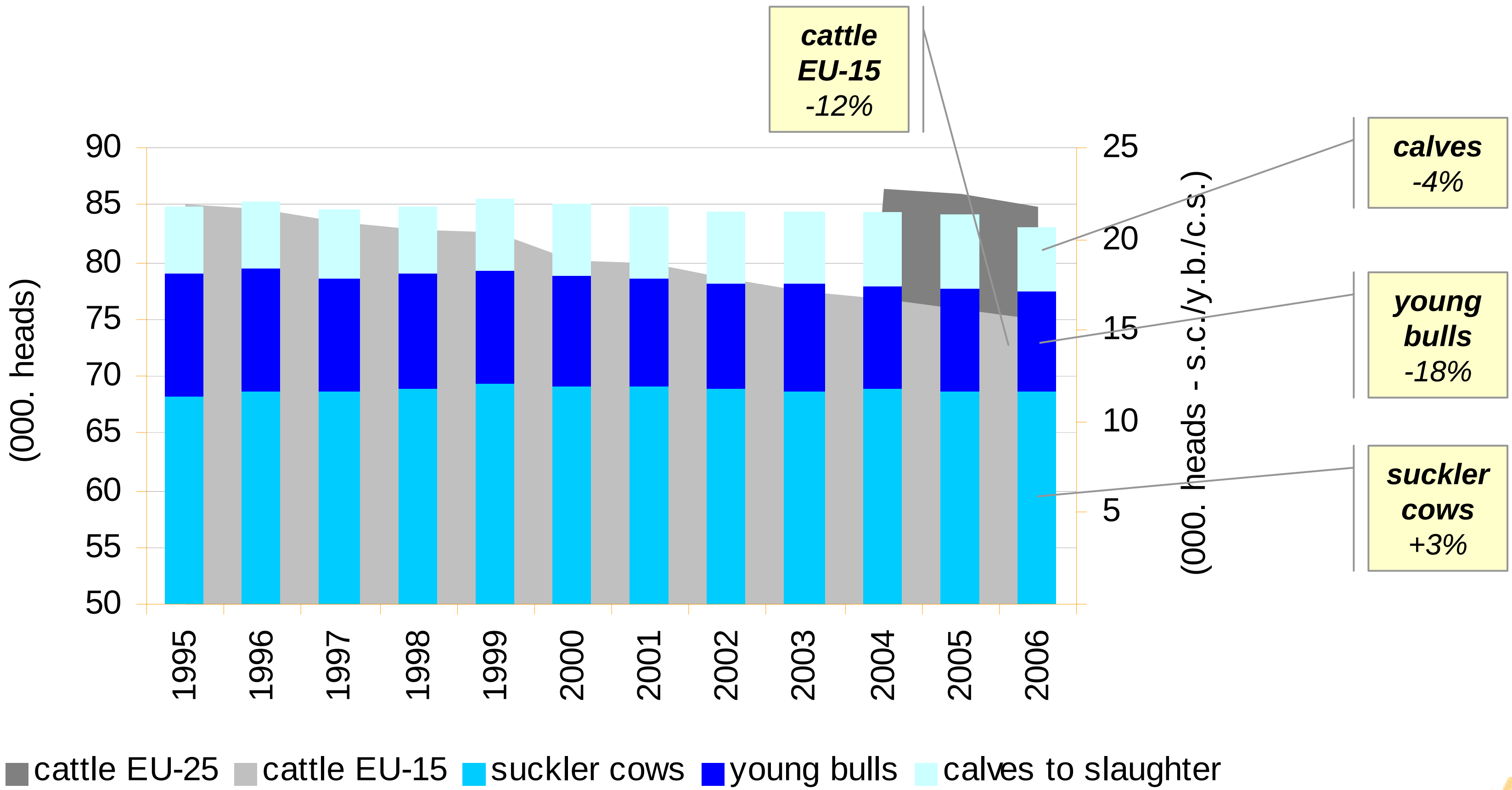
- **Livestock**: sharp declining cattle herd (cow herd)
  - ✓-11% *dairy cows* (milk quota limits)
  - ✓*-3% suckler cows* increase until 2000, decrease thereafter (Agenda 2000)

- **Holdings**: herd's concentration, because of increasing average size of holdings (especially for dairy herds) 2000-2005
  - ✓*dairy cows:* -27% n° holdings; +24,6% cows/holding
  - ✓*suckler cows:* -5% n° holdings; +2,1% cows/holding
  - ✓ *young bulls:* -14% holdings rearing bovine; +6% bovine/holding

- **Slaughtering**: increasing for adult cows and…
  - ✓prevision of decline in prime cattle slaughtering caused by the fall in calf crop from the breeding herd (impact on EU beef production)

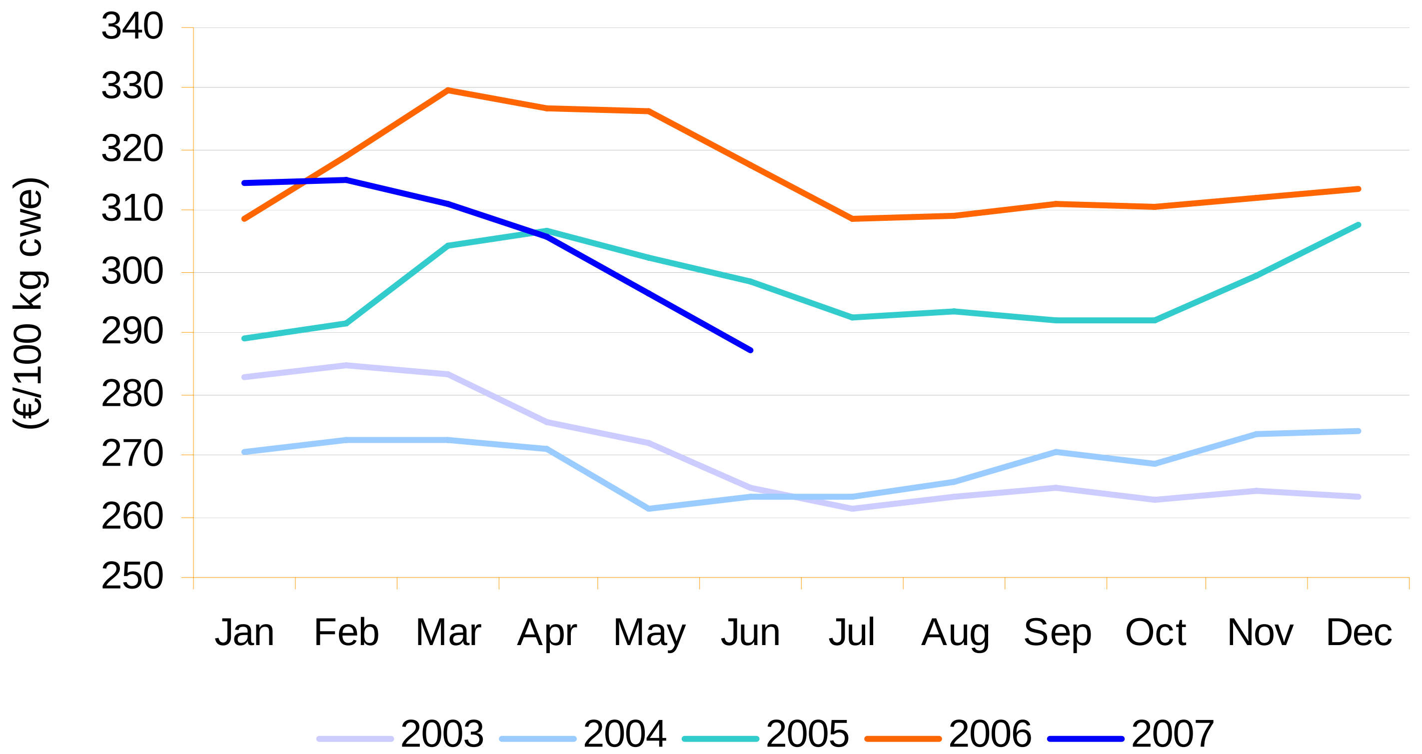
LIVESTOCK

structural decline in bovine livestock



MARKET

young bulls (AR3) – average price EU



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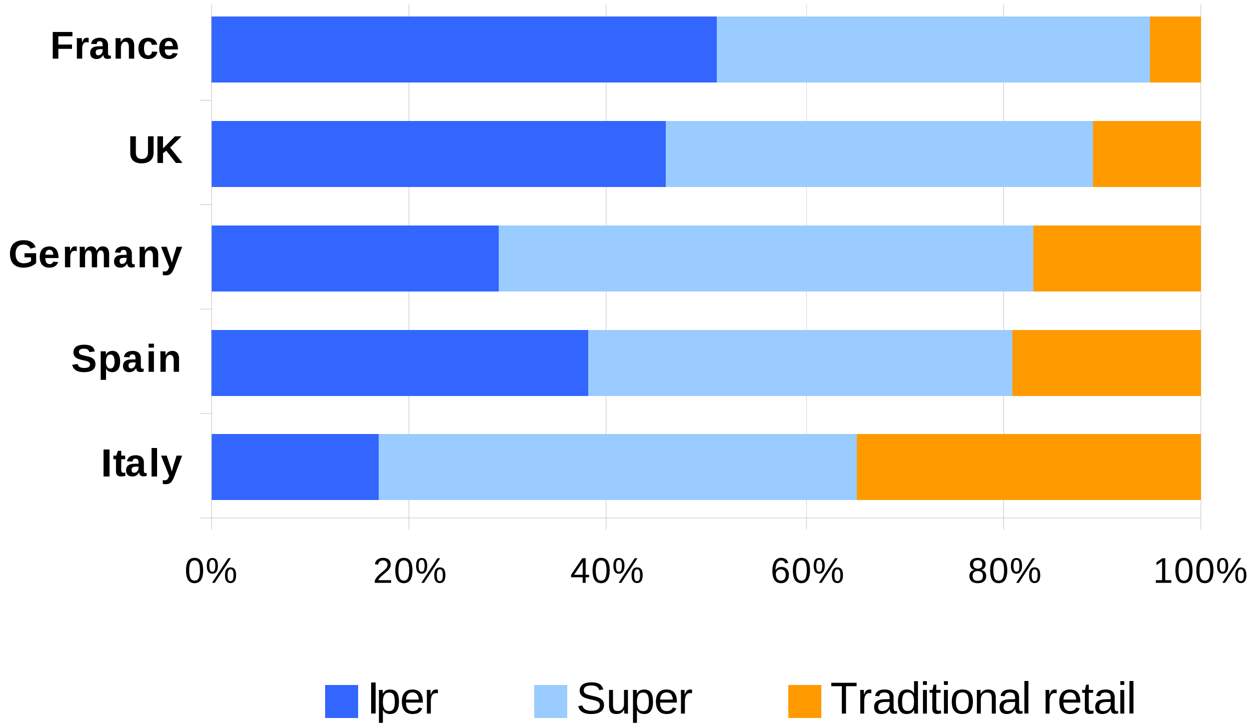
The bargaining power of customers

DISTRIBUTION

two distribution models in the UE



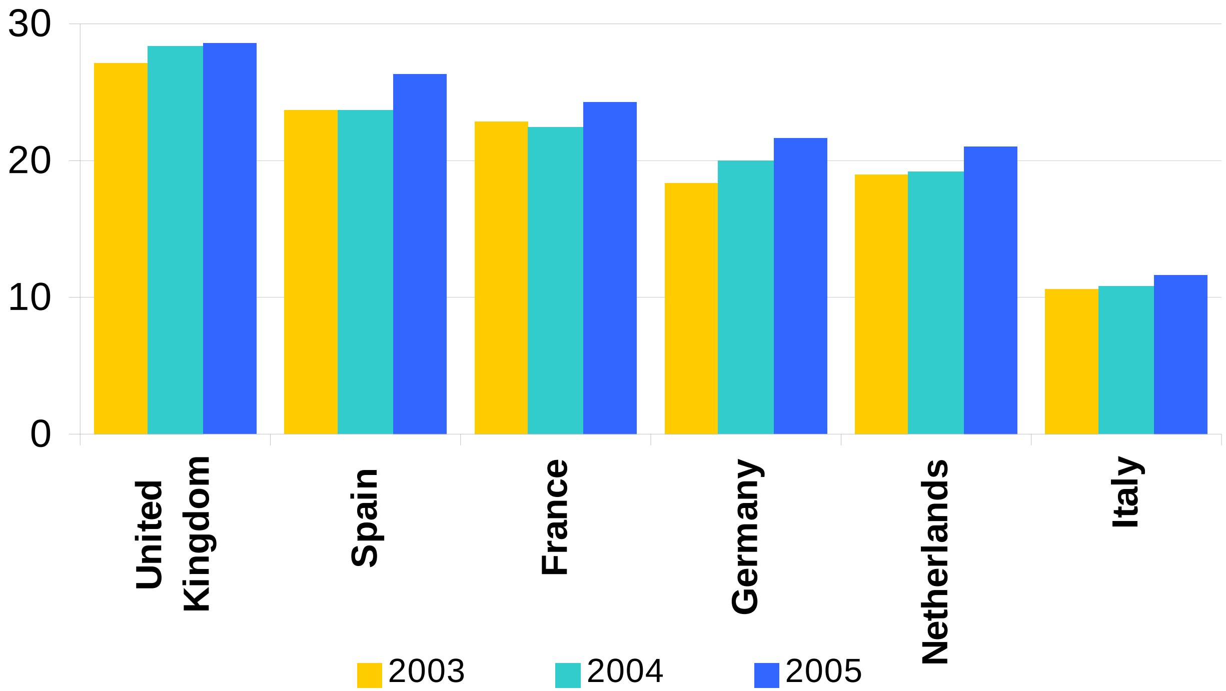
North Europe more concentrated

Mediterranean areas less concentrated

DISTRIBUTION

in competition with their suppliers

Private label share %



***concentration selling** …*
Italy, Greece,…

*…**concentration buying***
France, Germany, UK, Netherlands, Ireland, …

DISTRIBUTION - TENDENCIES

concentration buying means ...

integration backwards into the Meat Supply Chain

costs cut

high efficiency by the establishment of Distribution Center

elimination of asymmetric price transmission between wholesale and retail market

high improvement of logistic system for the fresh products information services, eliminating the stocks, optimizing the time etc...

many suppliers
small market share

few customers
large market share

High market power of retail

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DISTRIBUTION - TENDENCIES

concentration selling trough...

new key concepts:

- *adapting new format to customers' changing lifestyle for:*
  - ✓ *urban community restaurants, foodservice, prepared dishes…* ***processed meat!***
  - ✓ *and local quality, traditionality,…*
- *low prices policy* *discounts, promotions****,..***

Restriction on the beef sector

the strong dependence on extra-EU import

impact in terms of low prices, quality, logistics, origin value …

DISTRIBUTION - STRATEGY

key success factors

the food retail companies play their role in the competitive scenario by :

- *expanding the product mix offering*
- *low prices policy/promotion*
- *promoting innovation*
- *adaptation and flexibility to the local lifestyle*
- *R&S new markets, new concepts, new formats*…
- *foodservice*

…responding to the customers needs

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DISTRIBUTION - STRATEGY

how to do

….to achieve the future hard objectives:

in the competitive system

- ✓to consolidate the competitive position in the EU expanding in the Mediterranean area
- ✓to increase the market share in the EU and in the new emerging countries Asia, South America,…

in the beef supply chain

- ✓to promote the vertical integration and coordination
- ✓to reinforce their market power towards industries

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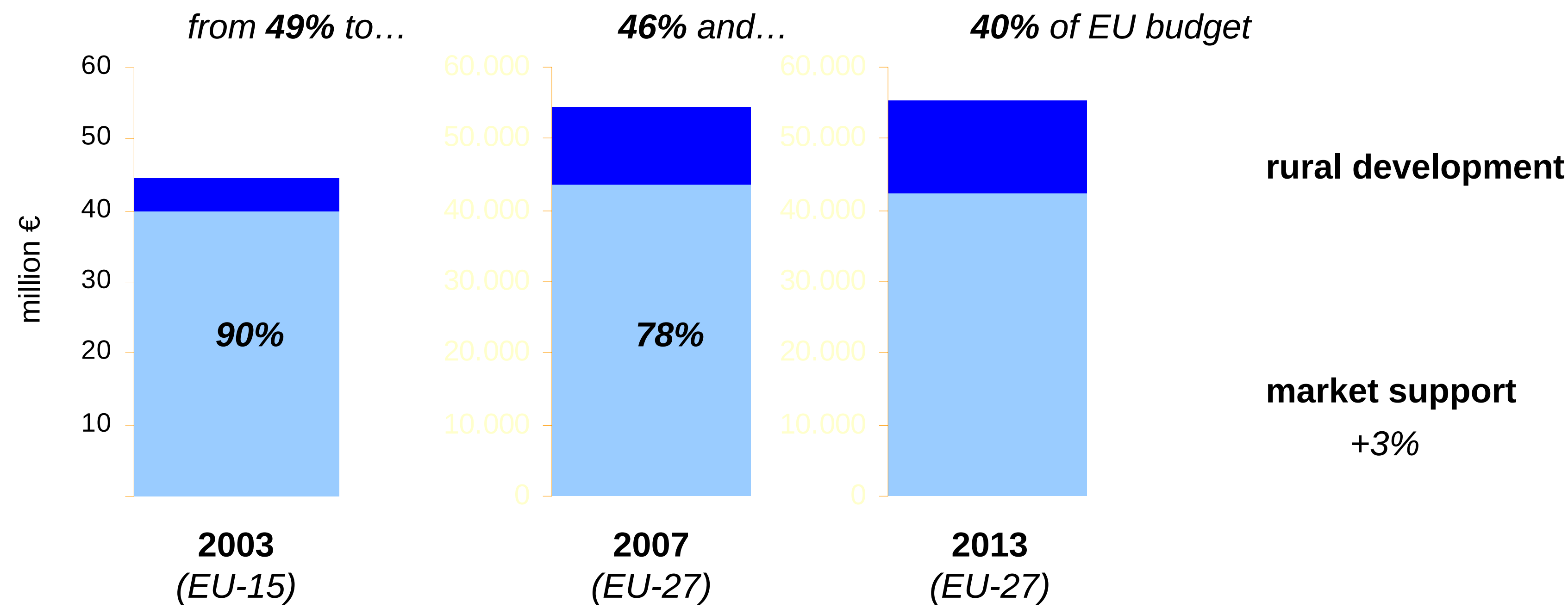
The upcoming scenario

ELEMENTS OF THE SCENARIO

financing of the CAP: prospective 2007-2013

heading 2: sustainable management and protection of natural resources: agriculture, fisheries and environment



note: reduction of the EU budget, cut for agriculture, similar market support (with 12 NSM), low gain for rural development, risk for a new review 2008/2009

ELEMENTS OF THE SCENARIO

Doha Round

reductions in trade-distorting domestic support	✓**cuts of the domestic support** **AMS, blue box, ...**
reduction of all forms of export subsidies	✓**export subsidies/credits**
market access	✓**tariff reductions** **sensitive products, ...**
least–developed Countries	✓**differential treatment** **EBA**

COMPETITIVE FRAMEWORK

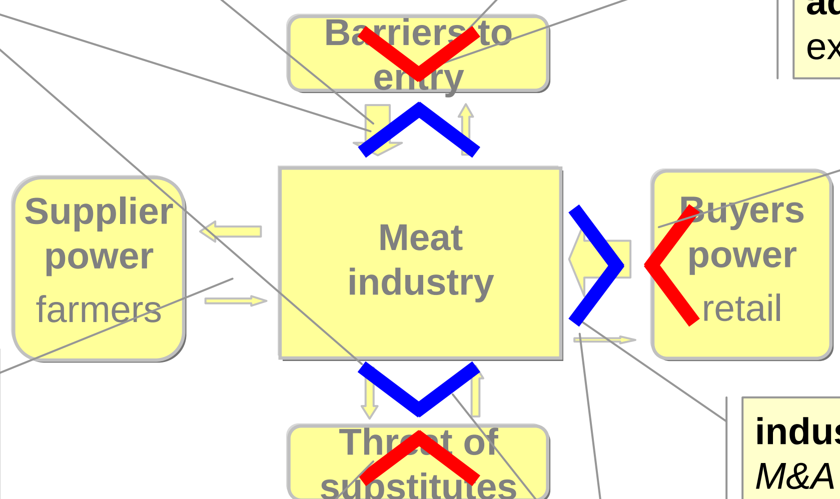
change in competitive scenario

EU policy restrictions
animal health and welfare, environment

labelling and traceability system
food safety

WTO restrictions
reduction of tariff and subsidies

competitive advantage import extra EU



increase of **retail** MD **market power**

CAP: MTR (*discretion to States in its application*), **milk quota, ...**

industry concentration
M&A and **farm restructuring**

different life stage *and* **consumer confidence**
animal diseases *BSE, FMD, ...*

certifications
process, product, environment-emas